

January 2016

Dear Sir/Madam,

National Infrastructure Commission: Call for Inputs

FSB welcomes the opportunity to respond to the above named consultation.

The FSB is the UK's leading business organisation. It exists to protect and promote the interests of the self-employed and all those who run their own business. The FSB is non-party political, and with around 200,000 members, it is also the largest organisation representing small and medium sized businesses in the UK.

Small and medium-sized businesses make up 99.9 per cent of all businesses in the UK, and make a huge contribution to the UK economy. They account for 47 per cent of private sector turnover and employ 60 per cent of the private sector workforce.

Transport infrastructure is vitally important to small businesses across the country. Small business owners in the North, London and across the UK report a range of challenges they face which are hindering the economic development of their business. If the National Infrastructure Commission is able to improve the planning and delivery of major infrastructure projects, small businesses will have greater opportunities to expand and compete internationally.

We trust that you will find our comments helpful and that they will be taken into consideration.

Yours sincerely,



Mike Cherry, Policy Director, AIMMM FRSA

FSB

FSB response to the National Infrastructure Commission: Call For Inputs

January 2016

The evidence submitted to this call for inputs is primarily based on surveys carried out on a survey panel of our members. The FSB Big Voice survey panel is made up of nearly 6000 small business owners, who are regularly surveyed on a range of different policy issues. This survey panel is broadly representative of the wider small business community. Surveys are administered by an independent research agency which is a signatory of the Market Research Society's Code of Conduct.

FSB also receives views from our members via a federated regional structure which allows small business owners across the country to raise areas of concern to them at a national level. For the purposes of responding to this call for inputs, we spoke to representatives of the FSB in regions across the North and in London, in order to ensure we accurately represented the views of small business owners.

CONNECTING NORTHERN CITIES

1. To what extent are weaknesses in transport connectivity holding back northern city regions (specifically in terms of jobs, enterprise creation and growth, and housing)?

Improving the transport connections in the North is a top priority for FSB. Weakness in transport connectivity is holding back growth among small businesses in northern city regions.

The agglomeration benefits which firms in London and the South East derive from a generally strong transport infrastructure are not delivered for smaller businesses across the North. This makes it increasingly difficult for smaller businesses in the North to compete. Without further investment in transport infrastructure to bring Northern regions together, it will remain challenging for smaller businesses to develop in the North.

The APPG on Small Businesses – supported by FSB – published a report into the drivers of productivity in March 2015. This inquiry took evidence from a range of different stakeholders, finding that a lack of transport connectivity hindered productivity levels in different regions.¹

We would highlight the wide discrepancies in per capita infrastructure spending between the North and other regions of the UK which have been found by IPPR North.² This points to a broader issue with historic levels of under-investment in northern infrastructure having left the region relatively underdeveloped and with poor intra-regional connectivity.

Small business owners have also pointed to a lack of transport infrastructure as holding back their ability to connect with suppliers, customers and employees, particularly in rural areas. The declining quality of public transport and generally poor upkeep of the minor road network

¹ APPG on Small Businesses Report on Productivity: Available at http://www.millionplus.ac.uk/documents/All_Party_Parliamentary_Small_Business_Group_Productivity_and_Small_Firms_productivity_report.PDF

² IPPR North, Transformational Infrastructure for the North, August 2014

has meant that rural small businesses can struggle to compete against national and international competitors which have access to superior transport networks.

We would therefore urge the Commission to not just focus on urban and city to city transport infrastructure, but also to consider travel to work routes between cities and the rural hinterlands where many small businesses, their customers and their employees are based.

2. What cost-effective infrastructure investments in city-to-city connectivity could address these weaknesses? We are interested in all modes of transport.

In a recent survey, FSB asked small business owners what modes of transport were of importance to their business. The results were as follows:

Table One: How important are the following modes of transport to your business?³

	Car	Van	Lorry	Bus	Train	Walking	Cycling
Important	93%	64%	49%	32%	33%	39%	22%
Unimportant	2%	12%	20%	27%	28%	24%	32%

We also asked how important road access was to their business, and how important the public transport network was to their business.

Table Two: How important is the road network / public transport access to your business?⁴

	Road network	Public transport
Important	88%	36%
Unimportant	3%	30%

It is clear that the vast majority of small businesses still rely heavily on the road network for their cars, vans and lorries. This is reflected in the high importance attributed to both the road network and for private car, van and lorry use.

However, public transport is important to a significant percentage of small business owners, where over a third still place value on access to public transport. Close on half of businesses in urban areas (48%) were likely to view public transport as being important, reflecting the benefits that a well functioning urban public transport network can provide.

³ FSB Big Voice survey, Rural Transport, September 2015. Base 1352 responses

⁴ FSB Big Voice survey, Rural Transport, September 2015. Base 1352 responses

For reference, and outside the scope of this section of the call for inputs, 65 per cent of London based businesses value the public transport network, providing further evidence that where public transport works, it provides an important service for small businesses.

Investment in the road network is therefore the most important priority for small business owners. This should not simply reflect investment in the Strategic Road Network or city to city links, but should also include the minor roads which form a key part of the door to door journey for small business owners, their suppliers and their employees.

We also note that many inter-city rail connections continue to rely on old rolling stock and carriages which can hinder capacity. Making additional investment in upgrading the rolling stock used on these routes could be more effective in increasing capacity than making larger scale investments in new or upgraded routes.

3. Which city-to-city corridor(s) should be the priority for early phases of investment?

FSB has argued in previous submissions to the Chancellor that a new tunnelled, trans-Pennine road route between Manchester and Sheffield would provide an important new city-to-city corridor in the North.

Many small businesses are not however based in cities, and do not necessarily place high value on access to city-to-city corridors. Instead, they look to the transport network to connect rural and semi-urban areas to city and town centres.

There is widespread concern among small businesses that new devolution deals will primarily benefit cities rather than the rural hinterland. It is important that existing, and future, devolution deals include mechanisms to ensure that the needs of rural areas are also addressed.

Small business owners in the North East also raised concerns that the 'Northern Powerhouse' will be primarily focussed on the Manchester-Leeds corridor. In their view, this would be a mistake as much-needed investment in the North East, including around Newcastle, would be missed. East to West connectivity across transport modes is as important to increase agglomeration benefits as connections through to London are.

As a federated organisation, FSB has not taken a position on specific infrastructure projects or city to city corridors, as small business owners across the North have told us that the general state of poor transport infrastructure is hindering the growth and economic potential of their business.

4. What are the key international connectivity needs likely to be in the next 20-30 years in the north of England (with a focus on ports and airports)? What is the most effective way to meet these needs, and what constraints on delivery are anticipated?

The top priority for FSB in terms of international connectivity is to improve runway capacity in the South East. We recognise that this is a decision which has been specifically excluded

from the remit of the National Infrastructure Commission. Setting aside the question of overall aviation system capacity, it is clear that more should be done outside the South East to improve international connectivity.

Whilst aviation is a lower priority for small businesses compared to the road and rail network, some small businesses do see it as important. FSB asked small business owners about how important air travel was to their business in a 2013 survey.⁵

This survey found that 27 per cent of small businesses placed at least some importance on aviation for their businesses. This importance could reflect the importance of access to freight opportunities, but could also reflect the value that some sectors, such as the tourism industry, place on aviation access. Other small business owners, especially those who export, will also often need to fly in order to meet with potential or existing clients and suppliers. Therefore continued improvements to regional airports and the destinations they serve is important.

A key issue which has repeatedly been raised is delivering improvements to surface access connectivity to airports. For small business owners, the time taken to complete a door-to-door journey is critical. This means the length of time taken to access any given airport is given weight when deciding on which airport to travel from. Business owners were especially critical of the poor surface access to Leeds-Bradford airport, which was viewed as a particular impediment in choosing to fly from there. Drop off charges at this airport are also expensive, which increases the cost of flying from this airport. The Commission should look to prioritise improvements to surface access to regional airports across the North as a key way to incentivise further export growth.

Digital infrastructure plays a key role in developing international connectivity

Digital connectivity does not appear to be within the scope of the Commission at the current time. We view this as a mistake, as digital connectivity is now critical to allowing small businesses to trade overseas. FSB has published extensive research looking at the benefits of digital connectivity, along with the barriers stopping small businesses from doing more online.^{6,7} Ofcom have echoed our findings that a lack of digital infrastructure is a key barrier stopping small businesses from making full advantage of the benefits offered by using digital tools.

As a consequence, we believe the Commission should consider investigating the provision of digital infrastructure, particularly to small businesses, as a future priority.

5. What form of governance would most effectively deliver transformative infrastructure in the north, how should this be funded and by whom, including appropriate local contributions?

⁵ FSB The Voice of Small Business survey panel, Infrastructure Survey, April 2013

⁶ FSB, Reassured, optimised, transformed: driving digital demand, September 2015

⁷ FSB, The Fourth Utility, July 2014

One concern which has been raised following the creation of Transport for the North and the National Infrastructure Commission is the precise breakdown of roles and responsibilities for planning and delivering transport infrastructure in the North. The role of local councils, LEPs and combined authorities also may need clearer definition following these changes.

The failure of the Government to follow the recommendations of the Davies Commission on airport capacity raises broader issues about the effectiveness of a Commission-led model to deliver transformative infrastructure. If the Government is under no obligation to follow the recommendations of the National Infrastructure Commission, we are concerned that future Governments will simply erect barriers to avoid making a definitive judgement on any recommendations from this body. Without some form of safeguard such as a legal obligation to respond to recommendations within a certain timeframe we are unsure that the Commission will be effective.

Small business owners would like clarity over which body is best placed to address specific areas of concern aside from which body will be responsible for the delivery of transport infrastructure.

FSB has been generally supportive of the new devolution deals which are being created, and views the creation of strong combined authorities with the power and accountability to deliver local priorities as an important and welcome change.

However, one challenge for these new authorities will be the varying levels of power which has been devolved to them. For instance, in the transport space, some combined authorities have power over buses in their area, whereas others do not. As combined authorities proliferate, there is a risk that effective planning across regions may be hindered as different combined authorities have different powers to address different issues. This was viewed as a particular problem in the North East, where the lines of accountability and authority between national Government, combined authorities and Transport for the North were viewed as unclear.

A second challenge facing combined authorities is that stronger, more effective combined authorities will be better placed to compete for funding streams. While this makes sense from an accountability perspective, business owners are concerned that their region may miss out on investment opportunities if their combined authority consistently fails to put in competitive bids for funding. Regions or rural communities outside of combined authority areas similarly may be disadvantaged when competing for limited investment opportunities.

At the same time, we recognise that if a combined authority is able to make a strong case for investment in transport infrastructure in a particular region, this suggests they may be better positioned to effectively manage the delivery of infrastructure. The National Infrastructure Commission should play a role in ensuring that new projects are effectively prioritised to provide the greatest economic benefit to the country.

LONDON'S TRANSPORT INFRASTRUCTURE

1. What are the major economic and social challenges facing London and its commuter hinterland over the next two to three decades?

FSB have published a London manifesto ahead of the 2016 Mayoral Election which sets out our policy priorities for the next London mayor.⁸ This manifesto highlights some of the challenges which small businesses in London are currently facing with regards to transport infrastructure.

Commercial and residential rents are increasing the pressure on the transport network

As commercial rents increase across London, we are concerned that small businesses will increasingly be priced out of prime locations, particularly those in central London. This will affect the ability of small businesses to access the economic benefits offered by being based in London.

Recent FSB surveys have also shown that there is considerable concern among small business owners about the cost of housing in the capital. 22 per cent of small businesses said that the cost of housing had negatively impacted their business over the past four years; 13 per cent said high housing costs had impacted their ability to retain staff and 7 per cent said it had affected their level of productivity.

Permitted developments rights, which have been encouraging the change in use for commercial buildings to residential properties will only serve to exacerbate the issue.

Assuming that house prices continue to push Londoners further away from the main areas of employment, small businesses will rely even more heavily on a robust, effective and integrated transport system to carry commuters to their places of work.

Capacity on London public transport is also becoming a constraint on growth opportunities

As London's population increases, capacity on the London transport network will similarly become increasingly constrained. This again will have a detrimental effect on the ability of small business employees to travel to and from work.

Public transport is very important to London-based small businesses, as this is a key way for customers, suppliers and employees to access business premises. Owing to London's dense public transport system, small business owners were significantly more likely to view public transport as more important to their business compared to business owners in the rest of the country.

⁸ FSB London manifesto, November 2015. A available at [HTTP://WWW.FSB.ORG.UK/DOCS/DEFAULT-SOURCE/FSB-ORG-UK/FSB_A4_LONDON_MAYOR_MANIFESTO.PDF?SFVRSN=0](http://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb_A4_LONDON_MAYOR_MANIFESTO.PDF?SFVRSN=0)

Table Three: How important is public transport to your business?

	London	UK
Important	65%	36%
Unimportant	17%	30%

44 per cent of small business owners in London viewed public transport access as 'very important' to their business, compared to just 14 per cent of small business owners nationwide.

Small business owners with businesses in London raised different issues when asked to select three top issues affecting their use of the road network when compared to business owners in other parts of the country.

Table Four: What are the top issues in the road network affecting your business? (three selected from list)

	London	UK
Congestion on local roads	63%	45%
Parking availability	35%	22%
Congestion on motorways	30%	26%

Congestion and a lack of parking were therefore viewed as the two main issues affecting London based small businesses. These results are significantly different to the views expressed by small businesses based in other areas of the country, who were more likely to view potholes and frequent road works as the most significant issues.

2. What are the strategic options for future investment in large-scale transport infrastructure improvements in London - on road, rail and underground - including, but not limited to Crossrail 2?

- **How should they be prioritised, taking account of their response to London's strategic transport challenges, including their impact on capacity, reliability, journey times and connectivity to jobs?**
- **What might their potential impact be on employment, productivity and housing supply in London and the southeast?**

The successful delivery of Crossrail 2 represents the main priority for FSB in terms of improving London transport. Funding for this project should primarily come from the private sector. Where public financing is necessary in the form of Business Rates Supplements, we

would like thresholds, similar to those put in place for the Crossrail I project, in order to exempt the smallest businesses from paying a supplementary charge.

More generally, FSB believes that the ability to raise business rates to pay for infrastructure projects should be contingent on the support of the wider small business community. A similar process to the adopted within the Business Rates Supplements Act 2009 should be considered for infrastructure financing.

For further information

Will Black
[content redacted]
Federation of Small Businesses
2 Catherine Place, London SW1E 6HF