

23 February 2022

Address / Via Email to: NIA2.CfE_Responses@nic.gov.uk

Call for Evidence: Second National Infrastructure Assessment: Baseline Report

Dear Sir or Madam,

The Federation of Small Businesses (FSB) is a non-profit making, grassroots and non-party political business organisation that represents 160,000 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, micro businesses and the self-employed.

Good infrastructure, whether it is roads, railways or broadband, is essential for small businesses.

Yet, businesses growth is hampered by insufficient infrastructure. Shortcomings, such as the lack of investment in public transport or the slow rollout of gigabit capable broadband, have negative economic impacts on businesses, the regions they operate in, and the UK as a whole.

For example, before to the COVID pandemic, FSB research found that 41 per cent of small businesses reported that their broadband is often unreliable and almost half (47%) of small businesses said that they experience unreliable mobile data connectivity.¹

Meanwhile, the pandemic accelerated the digital transition by several years, forcing businesses to adapt to e-commerce and shift to working from home.² However, the UK Government's current target of reaching at least 85 per cent coverage of gigabit capable broadband by 2025 and full coverage by 2030 is too late for businesses that need better connectivity now.

¹ FSB, New Horizons: How small firms are navigating the COVID-19 crisis, May 2020, <https://www.fsb.org.uk/resource-report/new-horizons.html>

² FSB, CBI, Which?, GigaTAG Final Report, May 2021, available here: <https://www.fsb.org.uk/resources-page/gigatag-final-report-pdf.html>

The Baseline Report correctly identified the core challenges the UK will have to address in the coming three decades.

In particular, reducing carbon emissions is a task that will impact all areas of the economy and society and is linked to all core challenges put forward by the Commission.

However, reaching net zero by 2050 will not be possible without an empowered and supported small business community.

While small businesses are keen to reduce carbon emissions and become more sustainable, they will need support and the right set of incentives.

A clear majority (56%) of small businesses believe that the planet is facing a climate crisis. However, only a third (36%) have a formal plan in place to combat climate change within their business.³

Therefore, we urge the Commission to include recommendations that support small businesses in their transition to reach net zero and allow them to be part of the solution that paves the way to net zero.

Setting out long-term infrastructure targets should be considered in the context of the economic hardship small businesses continue to experience due to the pandemic.

Yours sincerely,

Paul Wilson

Paul Wilson, Policy Director
Federation of Small Businesses

³ FSB, Accelerating Progress: Empowering small businesses on the journey to net zero, November 2021, <https://www.fsb.org.uk/resource-report/accelerating-progress.html>

**FSB response to the Call for Evidence:
Second National Infrastructure Assessment –
Baseline report**

February 2022

1. Introduction

Question 1: Do the nine challenges identified by the Commission cover the most pressing issues that economic infrastructure will face over the next 30 years? If not, what other challenges should the Commission consider?

We agree that the nine challenges identified by the Commission cover the most pressing issues the UK's economic infrastructure will face over the next three decades.

However, we would like to add that in addition to investments into urban and interurban infrastructure, the Commission needs to recognise the importance of investing in infrastructure in rural parts of the country.

The number of small businesses per capita is higher in rural areas⁴. In addition, last mile logistics for small businesses are primarily on the local road network. The productivity, profitability, and growth of rural small businesses are often held back by their region's lack of infrastructure investments.

In addition, one-third of businesses (32%) considered the public transport network important to their business before the pandemic.⁵ Nevertheless, services in rural parts of the country are less frequent and reliable than in urban areas.

We recommend that, in addition to investments in the strategic network (such as motorways), more investment in the smaller and more intricate secondary and local road network as well as public transport should be made available.

Furthermore, transport decarbonisation will play a vital role in the transition to net zero. This includes the shift to zero emission vehicles (ZEVs).

However, only 9 per cent of small businesses expect to have switched some or all of their vehicles to a ZEV by 2030. In addition to the lack of available and affordable technology, over a third (35%) of small firms highlight the lack of charge points as a reason for not switching to a ZEV.⁶ That percentage increases to 43 per cent in rural parts of the country.⁷

The Commission's recommendations need to address the infrastructure that will be needed to deliver net zero in rural parts of the country. Access to reliable and more frequent public transport and public EV chargepoints, including rapid chargepoints, will be crucial to help the Government's ambition to reach net zero in the next three decades.

⁴ Department for Environment, Food & Rural Affairs, Statistical Digest of Rural England, March 2021, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/984879/Businesses_March_2021_final_with_cover_page.pdf

⁵ FSB, Going the Extra Mile: Connecting Businesses and rural communities, May 2016, available here: <https://www.fsb.org.uk/resources-page/going-the-extra-mile.html>

⁶ FSB, Accelerating Progress: Empowering small businesses on the journey to net zero, November 2021, <https://www.fsb.org.uk/resource-report/accelerating-progress.html>

⁷ FSB, Accelerating Progress: Empowering small businesses on the journey to net zero, November 2021, <https://www.fsb.org.uk/resource-report/accelerating-progress.html>

Question 2: What changes to funding policy help address the Commission's nine challenges and what evidence is there to support this? Your response can cover any number of the Commission's challenges.

We believe that several changes to funding policy will help address the Commission's nine challenges.

Funding for local transport

FSB repeatedly advocated that local transport systems must receive more resources.

There are more registered businesses per head of population in predominately rural areas of the UK.⁸ However, 55 per cent of the transport budget was spent on Network Rail, 15 per cent was spent on Highway England (now National Highways), and only 24 per cent were allocated to local roads and local public transport in 2019.⁹

FSB recognises that funding for local government has come under severe pressure during the pandemic. Nevertheless, local authorities will require more funding from the central government to support local transport. Furthermore, we recommend that the money is ring-fenced for maintaining and improving transport services.

Transition to net zero

Small businesses make up 99% of the business population and will be a crucial part of the transition to net zero.

However, recent FSB research revealed that lack of funding, savings or capital is a major barrier to making investments, for example in microgeneration or an EV.¹⁰

The lack of funding should also be read in context of the economic hardship small businesses continue to experience due to the pandemic.

Over the pandemic the number of small businesses declined from 5.9 to 5.5 million businesses, with many still facing economic hardship due to the pandemic.

In addition to the colossal economic burden businesses shouldered during the pandemic, FSB's latest Small Business Index (SBI) revealed that over three-quarters of small businesses are reporting a rise in costs, with half (49%) of those surveyed flagging input costs as the primary driver of higher outgoings, followed by fuel (46%) and utilities (45%)¹¹.

⁸ Department for Environment, Food & Rural Affairs, Statistical Digest of Rural England, March 2021, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/984879/Businesses_March_2021_final_with_cover_page.pdf

⁹ Department for Transport, Transport Statistics: Great Britain 2019, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/870647/tsgb-2019.pdf

¹⁰ FSB, Accelerating Progress: Empowering small businesses on the journey to net zero, November 2021, <https://www.fsb.org.uk/resource-report/accelerating-progress.html>

¹¹ FSB, FSB Voice of Small Business Index, Quarter 4, 2021, <https://www.fsb.org.uk/resources-page/400-000-small-firms-threatened-by-late-payment-as-costs-surge-new-study-finds.html>

In addition, 2 out of 5 businesses said that they are struggling with debt.¹²

Rising costs hamper growth and investment, for example, in microgeneration or insulation needed to future proof their businesses as part of the transition to net zero.

In “Accelerating Progress: Empowering small businesses on the journey to net zero”, we proposed a number of solutions that will enable businesses to make the necessary investments:

- **The UK Government should issue £5,000 vouchers for businesses to spend on qualifying environmental products and services under a Help To Green initiative.** This would be in a similar vein to vouchers issued via the Help To Grow Digital scheme. The voucher could, for example, be used to fund an audit to measure a firm’s carbon footprint with relevant advice on how to reduce greenhouse gas emissions, or to enable firms to replace equipment and materials to become more energy-efficient.
- **UK Government should utilise its new powers, having left the EU, and alter (lower) the capital requirements banks must adhere to when lending to businesses for green improvements.** Currently, the capital requirements set out under Basel III and implemented under EU Regulation 575/2013, on prudential requirements for credit institutions and investment firms, act as a brake on banks releasing funds in the form of loans to small businesses looking to invest in green technologies and improvements. Current margins can be too low, and risk profiles too high. Reviewing these requirements is not something that would have been possible as a member of the EU; however, the impact of lowering these requirements in respect of green investments should be considered now that the UK has left the EU.

2. Reaching net zero

Challenge 2: Decarbonising electricity generation

Question 8: What are the greatest risks to security of supply in a decarbonised power system that meets government ambition for 2035 and what solutions exist to mitigate these risks?

The energy price crisis demonstrates how much the UK relies on gas as an energy source. While the role of renewable energy resources is increasing, 37.4 per cent of electricity is still generated by gas.¹³

To reach net zero by 2050, the UK Government has recognised that it needs to scale up the deployment of renewable electricity generation. In the Energy White Paper, published in November 2020, the UK Government, for example, highlighted that the electricity network is becoming more decentralised and proposed steps to decarbonise the grid, including an acceleration of the rollout of more heat pumps.

¹² FSB, Small Business Index, Quarter 2, 2021, <https://www.fsb.org.uk/resource-report/sbi-q2-2021.html>

¹³ National Grid, Great Britains monthly electricity stats, January 2022, <https://www.nationalgrideso.com/electricity-explained/electricity-and-me/great-britains-monthly-electricity-stats>

A small but significant minority (18%) of small businesses say they generate their energy.¹⁴ Solar panels are the most frequently chosen type of microgeneration by small firms with 79 per cent of small businesses stating that they have invested in microgeneration chose solar panels, followed by heat pumps (26%).¹⁵

However, as previously highlighted, small businesses struggle to invest in microgeneration due to a lack of capital. Better and targeted incentives can provide the right incentives to small businesses, including the Help to Green scheme proposed in our report “Accelerating Progress: Empowering small businesses on the journey to net zero”:

- **The UK Government should issue £5,000 vouchers for businesses to spend on qualifying environmental products and services under a Help To Green initiative.** This would be in a similar vein to vouchers issued via the Help To Grow Digital scheme. The voucher could, for example, be used to fund an audit to measure a firm’s carbon footprint with relevant advice on how to reduce greenhouse gas emissions, or to enable firms to replace equipment and materials to become more energy-efficient.

Challenge 3: Heat transition and energy efficiency

Question 9: What evidence do you have on the barriers to converting the existing gas grid to hydrogen, installing heat pumps in different types of properties, or rolling out low carbon heat networks? What are the potential solutions to these barriers?

Question 10: What evidence do you have of the barriers and potential solutions to deploying energy efficiency in the English building stock?

By 2028, the UK Government wants to increase the installation rate of hydronic heat pumps to 600,000 per year.¹⁶ We believe that small businesses should be at the forefront of the transition to net zero, including retrofitting homes with heat pumps.

Businesses have already demonstrated that they are keen to be part of the transition to net zero. However, small businesses currently lack the necessary skills to install heat pumps.

We therefore recommend that:

- **In England, the UK Government should expand the scope of the lifetime skills guarantee to support green skills.** Currently the guarantee is only available to those who do not have a Level 3 qualification. Allowing those who do have a Level 3 qualification to retrain in new, green skills will help improve employment as well as

¹⁴ FSB, Accelerating Progress: Empowering small businesses on the journey to net zero, November 2021, <https://www.fsb.org.uk/resource-report/accelerating-progress.html>

¹⁵ FSB, Accelerating Progress: Empowering small businesses on the journey to net zero, November 2021, <https://www.fsb.org.uk/resource-report/accelerating-progress.html>

¹⁶ HM Government, Heat and Buildings Strategy, October 2021, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1036227/E02666137_CP_388_Heat_and_Buildings_Elay.pdf

environmental outcomes. Skills boot camps could also be used to retrain people in green skills, if they are rolled out widely enough across the country

3. Climate resilience and the environment

Challenge 7: Waste and the circular economy

Question 14: What are the barriers to and solutions for expanding recycling capacity, both now and in the future to deliver environmental and net zero targets?

According to the Ellen McArthur Foundation, moving to renewable energy can only address 55 per cent of global greenhouse gas emissions. Small businesses recognise that waste reduction and resourcefulness are equally important. In addition to recycling, small businesses therefore have already taken steps to limit the use of products and materials that cannot be recycled (such as hard plastics and food waste).

For example, half of small firms say they have taken steps beyond recycling to eliminate additional waste; 57 per cent of small firms in the accommodation and food sector say they have done so. Nearly half (47%) of small firms say they have taken steps to avoid plastic products if an alternative is available.

However, businesses have also highlighted that the cost of recycling is currently too high. This is particularly a burden for businesses with waste comparable to domestic household waste.

We therefore recommend that:

- **Local authorities (in England, Wales and Northern Ireland) should incorporate small business waste collection services into their domestic collection services with the costs for these waste collection services included in business rate charges.** This would only apply to businesses currently under the Small Business Multiplier, so as not to be used by larger businesses which generate far more waste and could not be incorporated into the domestic schedule.
- **Small businesses should have access to refuse and recycling centres operated by councils – building on a permit system that operates for tradespeople in some local authorities.** Currently, these facilities are only available to individual residents, but by expanding access to small businesses and sole traders, it would boost the incentive to recycle.

4. Levelling up

Challenge 8: Urban mobility and congestion

Question 16: What evidence is there of the effectiveness in reducing congestion of different approaches to demand management used in cities around the world, including, but not limited to, congestion charging, and what are the different approaches used to build public consensus for such measures?

FSB recognises that for cities that are impacted by high levels of congestion and air pollution; solutions must be found.

It is undeniable that poor quality of the air in cities is harmful to our health.

In addition, 45 per cent of all small businesses identified congestion on local roads as a concern. This increased to 57 per cent among urban businesses. Congestion can cause significant disruption, delay and frustration to small business owners.

However, Clean Air Zones (CAZs) and other air quality policies are creating restrictions and additional costs for businesses operating within their boundaries.

Furthermore, 70 per cent of small businesses on the high street say that enhancing parking availability would make one of the biggest differences to their high street. As high streets across the UK are on the path to recovery, ensuring that consumer footfall recovers as well will be critical.

While small businesses clearly have an important responsibility and role to play in reducing air pollution, the pathways to achieving this must be affordable, achievable and proportionate.

Previous FSB research demonstrated that small businesses place substantial importance on their use of cars, vans or lorries. 93 per cent of small businesses said that the car was an important mode of transport to their businesses, followed by the van (58%) and lorry (45%).¹⁷

Switching to a zero emission vehicle would help reduce pollution levels. Although electric vehicles are becoming more common domestically, only 9 per cent of small businesses say they have or will have switched to all or some of their fleet to zero emission vehicles by 2030.¹⁸

This is primarily due to the lack of affordable zero emission vehicles (46%) and slow rollout of EV charging infrastructure (35%).

To facilitate the rollout of zero emission vehicles that will help improve air quality in cities we propose the following financial incentives:

- **The Plug-in Car Grant should be extended and funded beyond March 2023, to give small businesses confidence in planning their transition to zero emission vehicles until 2030.** The adequacy of the grants for small vans (currently £3,000) and large vans (currently £6,000) should be kept under review.
- **Introduce a scrappage scheme where diesel commercial vehicles can be recycled in exchange for grants towards cleaner hybrids and zero emission vehicles.** This would pay businesses £2,000 which could then only be used to purchase a zero emission vehicle for the business.

¹⁷ FSB, Going the Extra Mile: Connecting Businesses and rural communities, May 2016, available here: <https://www.fsb.org.uk/resources-page/going-the-extra-mile.html>

¹⁸ FSB, Accelerating Progress: Empowering small businesses on the journey to net zero, November 2021, <https://www.fsb.org.uk/resource-report/accelerating-progress.html>

- **Governments across the UK should ensure that businesses operating in and around Clean Air Zones or Low Emission Zones receive their charges back in form of grants for the purchase of a zero emission vehicle.** The drive to zero emission vehicles may result in a two-tier society, with those that have made the switch exempt from clean air charges, while those who cannot afford the switch still paying penalties. Funds generated by Clean Air Zones should be packaged into grants available for businesses operating in and around Clean Air Zones towards the purchase of zero emission vehicles.

Offering the public transport alternative

In addition to switching to zero emission vehicles, businesses can reduce their carbon footprint by using public transport. Travelling, for example, by train has several conveniences. It allows business owners and staff to work while traveling and offers congestion-free travel.

According to recent FSB research, one in eight (12%) businesses use more public transport or encourage their staff and customers to do so. However, many small businesses continue to rely on vehicles for their business transportation because public transport is either inefficient or unavailable (as highlighted by 36% of businesses). Services need to be more frequent, reliable and affordable to encourage more small business owners to travel by rail or bus.

For further information

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