



FSB Wales

October 2010

**Paper for the Enterprise and Learning Committee, the National Assembly for Wales:
Scrutiny of the implementation of the Welsh Government's Economic Renewal Programme**

Introduction

1. The Federation of Small Businesses (FSB) is the UK's largest business organisation which represents the interests of over 215,000 members across the UK, more than 10,000 of which are located in Wales. The FSB's membership is diverse and is therefore a sound reflection of the SMEs which make up 99% of business stock in Wales. We welcome the opportunity to submit evidence to this committee, as we feel that as the vast majority of businesses in Wales are SMEs, it is important for the views of this sector to be strongly represented.
2. The FSB-ICM 'Voice of Small Business' Annual Survey published this year provides a picture of the typical business in Wales:
3. The majority of members in Wales conduct trade within close proximity of their business. Three-fifths (60%) of annual sales are with customers in their local area while a quarter (25%) are with customers in another part of their region. Over a quarter (28%) of annual sales are with customers in the rest of the UK. Irrespective of the location of the sales, 11 per cent of members' trade is from e-commerce.
4. Welsh members' businesses are most likely to be based in the retailing and construction/building sectors followed by business services, hospitality industry and manufacturing. The type of business Welsh members are involved in varies according to whether they are based in an urban or rural location. While retailing is spread evenly across the country, there is a greater incidence of business services, manufacturing, health/social work and personal services among urban members. In contrast, rural members are more likely to work in the hospitality, agriculture/fishing and leisure/ sports industries.
5. Members in Wales, on average, have owned or co-owned their main business for 15.7 years, considerably higher than the UK figure (14.4 years). Rural members in Wales have owned their business longer than those in urban areas (17.1 years compared to 14.3 years). Over two-fifths (44%) of Welsh based FSB members' main businesses are classified as limited companies and a third (34%) of members are sole traders/sole proprietors. While a fifth (18%) are constituted as a partnership, limited liability partnerships account for only one in a hundred.
6. The private sector has accounted for seven in ten (71%) members' sales during the last 12 months. Two in five (41%) members state that their business has recently supplied goods and/or services to the public sector: local authorities (35%) and schools/universities/colleges (23%) are the most likely destinations followed by the National Health Service (12%).

7. As befits an organisation that represents small business owners and the self-employed, the mean turnover for FSB members' main business in the last financial year is approximately £458,000. The UK mean is £525,000. At the extremes, a fifth turned over less than £50,000 while seven per cent turned over more than £1 million.
8. The average workforce of FSB members in Wales currently stands at 8.72, greater than the mean number across the UK (7.35), but lower than the number compared with 12 months ago (10.14). More saliently, while UK members expect some recovery over the year to come, members in Wales expect to employ fewer staff in 12 months time (average workforce of 7.72 compared to 8.72 currently).

The Economic Renewal Programme (ERP)

9. The Federation of Small Businesses feels that there is a disconnect between the initial consultation paper for the Economic Renewal Programme (ERP) and the announcements, for example at no point did we realise that such a complete overhaul was intended, such as announcements sweeping away with established names such as International Business Wales as well as internal structures within the Welsh Assembly Government. We therefore hope that the detailed implementation of the announcements within the Economic Renewal Programme will be consulted on with business to make sure that the targeted approach is pointing in the right direction.
10. We are not sure why such radical changes are needed, as far as we were concerned the Department of Economy & Transport was the best at engaging early and working with business, and wasn't broken and in need of fixing in the first place. However we do respect the right of Government to make tough decisions in difficult times, and we hope that the open and honest dialogue we have will continue. In turn we hope that the Welsh Assembly Government will respect us and value the crucial information that we hold on Welsh business.
11. Our members felt that the engagement during the meetings with businesses during the Economic Renewal Consultation period was not genuine, and felt that uncomfortable leading questions were pitched at them regarding choosing between whether they'd prefer investment in infrastructure or direct business support, however businesses feel this simplifies the issue as careful balance is required depending on circumstances. We have asked our members what they truly feel about the Flexible Support for Business (FS4B) service now that it has had more time to embed, in a survey during August 2010, members answered that; 45% were aware of the service and 6 in ten who had used the service rate it as good. This compares to a survey in 2006 where only 12% were satisfied with the service received from Government funded business support.
12. We hope these types of statistics will be taken into consideration by the Government, as we feel that the announcements of the ERP have been hastily implemented, and have left vital gaps in support and finance availability at a precarious time. The FSB would like to stress that we do not mean business support to mean financial support alone, advice and practical support, such as up skilling or networking are often vital, in particular to those businesses which are home-based or looking to grow.
13. We are concerned that in the main the six sectors, chosen upon the advise of the Ministerial Advisory Group which has no small business representatives that we are aware of, have not been chosen in a consultation process and will on the whole reflect larger companies. The sector panels therefore need to ensure that small enterprises are embedded throughout their thinking and we would encourage each sector panel to undertake specific research into the potential and opportunities for small companies in

particular. This is vitally important as implementing successfully ERP plans regarding supply chains will depend on the panels understanding the majority of businesses in Wales, not just working with 'anchor' companies. If we are to achieve a truly sustainable Wales then the economy cannot simply depend on smaller companies feeding off of regionally significant 'anchor' companies, as these would need to be propped up if they were to fail or otherwise leave a large gap for those smaller companies potentially chained to them.

14. We feel that the consequences of the ERP could affect implementation of a number of key policy areas, for example the Green Jobs Strategy names FS4B as a delivery mechanism. The Manufacturing Forum, in spite of being named as safe in ERP, would potentially need the Fora that have been involved in preparing the Manufacturing Strategy as key delivery mechanisms, by using their established networks. How will this work in parallel to the Advanced Materials and Manufacturing sector panel, and not duplicate the work?
15. For us there is still a lot of practical detail to be thought through regarding the ERP, ensuring that gaps which have appeared are filled where needed, and avoiding duplication. We would also wish to work with the Government to ensure that significant pieces of work, such as the Business Safety Wales Project, still have a way to be implemented in spite of restrictions on finance.
16. On the whole we feel that the ERP announcements raised more questions than it answered, therefore our member's initial response were a series of questions rather than comments, as it was felt that there was not enough detail to do anything but cause concern. Our initial response from members was as follows:
 - The consultation document did not ask for specific policy questions regarding the re-organisation of the DE&T (Department of Economy and Transport). The ERP answers questions that were simply not asked in the consultation process.
 - For such big changes within the department, why wasn't there an on-going dialogue with the major players? One consultation response is not enough for such a major restructure. The business community did not expect such changes, and this is poor engagement. Quality not quantity of consultation is the key.
 - The ERP as it stands now should be going out to consultation. There is no formal way to respond, and no period of consultation. Such major change, such as scrapping FS4B, IBW, SIF, should go out to consultation.
 - Where was the consultation when choosing the sectors? Where was the engagement with the wider business community when choosing the sectors which will benefit from the ERP?
 - Does the wider business community support the new strategy?
 - Where are the details so we can debate the document and reply?
 - Is there a detailed list of what will and won't be changed in DE&T?

Engagement

17. We have noted above the lack of detail concerning announcements that we did not expect, however it is worth noting what the FSB initially expected from the original consultation. For us we felt that the questions appeared to be at a high level, and therefore we were looking at issues such as implementation of the Business Scheme, improving engagement through strengthening Business Partnership Council, or perhaps initiating a Social Partnership structure. If structures were being reviewed two main topics for us would be to look at coordination of not just internal WAG departments, which we do feel needed strengthening, but also improving implementation of National policies at a

Local Authority level, as well as reviewing short term budgets, especially in the light of infrastructure improvements. Long term projects need long term budgets, so that they can last beyond a single Assembly term.

18. At its launch, the ERP was heavily promoted as a 'whole-government' approach to economic development. This was in response to previous FSB assertions that major business issues – such as planning, waste, business rates and skills – were outside of the remit of DE&T, and that these issues were being decided by different Welsh Assembly Government departments in isolation from an overall economic development strategy. Indeed, Lesley Griffiths AM, Deputy Minister for Skills, Innovation and Science, spoke at the ERP launch. However, we still have no indication as to how this 'whole-government approach' will work in practice, and such an approach still appears as far away as ever. For example, DCELLS has just begun finalising its delivery mechanisms for its Work-Based Learning programme - a huge slice of its multi-million pound budget - but without any consultation with the FSB on the particular training needs of small businesses and their preferred methods of training delivery.

19. Although some of these issues are briefly mentioned, and the comments very much welcomed, at the end of the 'Economic Renewal: a new direction' it is completely outweighed by unexpected major announcements. For us this is a significant part of the ERP and would hope that a true partnership approach is created based on the feedback we have given:
 - We would like to know when the evaluation of the implementation and impact of the Business Scheme, noted in paragraph 43 of the Business Scheme and required under the Government of Wales Act 2006, will be prepared. We note that the terms of reference of the statutory report will be set by Welsh Ministers in consultation with the social partners and we would be pleased to know when that consultation process will start.
 - Now that the immediate economic crisis has passed, the FSB feels that there is a need to reinvigorate the BPC to ensure that issues that are important for sustainable economic growth in Wales, and which are primarily for discussion between business and the Welsh Assembly Government can be addressed comprehensively within that forum. In these difficult economic times it is critical that government and business analyze the issues that face business in Wales in an objective fashion that can help provide solutions that will benefit business and the communities in Wales of which business forms a part. The BPC is a much more appropriate place for this process to happen than at large set-piece economic summits.
 - There is however scope to incorporate best practice from the economic summits into the BPC. BPC needs to be a joint working group between WAG and the business sector, with regular attendance by all Ministers as outlined in the Business Scheme, as and when required depending on the matters being raised. There needs to be continuity from meeting to meeting, with regular updates to BPC on how matters are being taken forward, with a particular emphasis on actions and outcomes. The FSB would like to see the future dates of BPC set out some time in advance so that meetings can be planned for in a proper fashion.

- The Welsh Assembly Government needs to forward plan more effectively and provide better notice for forthcoming Welsh Assembly Government consultations and other engagement processes so that business organisations can plan engagement with the Welsh Assembly Government in a strategic rather than reactive way. The Welsh Assembly Government should be cognizant of the demands placed on business by its consultation processes and the similar demands placed on business by the activities of the National Assembly for Wales.

Conclusion

20. The FSB felt that the steps needed to be taken were as follows:

- The DE&T need to map what has changed in the department and what they intend to replace it with. We have no idea what is being lost or put in its place.
- They also need a further round of consultation with stakeholders to see their reaction to the ERP. Some things the business community might be in agreement about, but in others they definitely are not. This ERP document needs to go out for further consultation.
- DE&T need to thoroughly explain how help for SMEs will change and how much help they will gain / lose as a result of the ERP. SMEs need to be embedded throughout the Sector Panels and the ERP more generally.
- The effects of ERP need to be monitored, and the WAG flexible enough to adapt the approach taken, in response to the fast changing growth economy which it hopes to initiate.

21. On the whole members felt that DE&T are making larger companies the driver in Wales when they only account for less than 1% of businesses here, as the perceived new approach from WAG is to support big business and hope they drag indigenous Welsh businesses with them. The FSB feels that to take support away SMEs is counterproductive and a regressive approach to the Welsh economy.

22. We look forward to continuing this dialogue with the Welsh Assembly Government, and hope to engage fully with the Department for Economy and Transport to ensure small business are embedded throughout the implementation of the new structures. We welcome sustainable development as a central organising principle, and look forward to structures which allow business to play a role in achieving this in partnership with the Welsh Assembly.

23. We hope that these comments will prove of use to the consultation process on this issue. If you require clarification or additional information, please do not hesitate to contact FSB Policy Manager Non Rhys, non.rhys@fsb.org.uk or FSB Policy Officer Nia Davies, nia.davies@fsb.org.uk.