



Arbenigwyr mewn Busnes
Experts in Business

FSB Wales response to the Finance Committee

The Future of EU Funding

May 2018



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About FSB Wales

FSB Wales is the authoritative voice of businesses in Wales, with around 10,000 members. It campaigns for a better social, political and economic environment in which to work and do business. With a strong grassroots structure, a Wales policy unit and dedicated Welsh staff to deal with Welsh institutions, media and politicians, FSB Wales makes its members' voices heard at the heart of the decision-making process.

Introduction

As we move forward in the Brexit negotiations it is vital that the interests of Wales 250,000 smaller businesses are front and centre throughout the negotiations and beyond. This is true of the needs of the UK as a whole, and also the specific needs of Welsh businesses within the UK.

As part of our work on Brexit, FSB has published four UK-wide reports covering the key aspects of Brexit and beyond for small businesses and the self-employed. These areas were access to markets, skills and labour, EU funding and what next, and finally the future of EU regulations in the UK post-Brexit¹. FSB Wales has also produced a paper drawing together these themes in a Welsh context.

Within the National Assembly, the engagement of the committees with the Welsh business community has been encouraging. Work produced so far on the broad implications of Brexit², the future of Welsh ports³, and on regional funding⁴ has been a high-quality contribution to the ongoing debate.

Volume of future funding in Wales

Wales currently receives about £680million a year in EU funding⁵ this is effectively a significant boost to the public purse in Wales, and such funding has been used for a number of schemes that are intended to support businesses in Wales or undertake economic development activity in Wales.

It is strongly our view that maintaining this volume of funding is essential, as it underpins so much of the activity that Welsh Government (and other agencies) undertake to support SMEs in Wales, from business support, to apprenticeships, access to finance and wider economic development and regeneration schemes.

For instance, our research⁶ shows that just under a quarter (22.9%) of Welsh SMEs have received support from European funding streams, primarily signposted through "Business Wales" or wider skills and business support.

¹ Our four reports are titled "Keep Trade Easy", "A Skilful Exit", "Reformed Business Funding" and "Regulation Returned" and are available here: <https://www.fsb.org.uk/standing-up-for-you/policy-issues/european-union/brexit>

² National Assembly for Wales (2017) Implications for Wales of leaving the European Union

³ National Assembly for Wales (2017) Inquiry into the implications of Brexit for Welsh ports

⁴ National Assembly for Wales (2017) Inquiry into the future of regional policy – what next for Wales?

⁵ Welsh Government (2017) Brexit and Devolution : Securing Wales Future

⁶ FSB (2017) Reformed Business Funding – What Small Firms want from Brexit <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/reformed-business-funding.pdf>



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This financial support has been used to provide skills training, research and development and business development support. FSB Wales also knows that a significant proportion of the apprenticeships budget, a key support to SMEs and wider skills development in Wales is currently funded by the EU.

In designing funds in the post Brexit landscape, the experiences of Wales' small business should be used to inform best practice. It shouldn't be the case that poor design, or disbursement of past funds should preclude the existence of new funds that suit the need of Wales.

The move away from European funding mechanisms and frameworks allows the possibility of reassessment priorities, allocation and delivery in Wales. This provides for a new engagement with business and other partners as to how funding can best be used to drive up economic activity and regional economic performance.

The future of Wales' regional development funding, currently largely delivered through European programmes **is a key issue for FSB Wales' members and Wales as a whole, and we would like to see this addressed as a matter of priority.**

Administration of future funds

As the UK proceeds through the process of exiting the European Union attention is now turning to the replacement for EU funding. In the first instance, the UK Government has stated its intention to create a UK shared prosperity fund that would replace previous forms of regional policy.

FSB Wales members are significantly impacted by current methods of EU funding and current programmes have a strong degree of alignment with economic development policy in Wales. Keeping in mind that economic development is a devolved responsibility, FSB Wales is keen to ensure this alignment continues post-Brexit and that funding continues to have a strategic impact. Similarly, we feel that funding should come to Wales at a level that continues to respond to existing need. Funding capacity should not be disadvantaged by Brexit.

Whilst FSB Wales believes improvements can be made to the way previous EU funding has been utilised; in our view it is vital that any replacement for European funding is complimentary and not contradictory to Welsh Government economic development policy.

Therefore, FSB Wales believes future funds should be administered from within Wales. In "Reformed Business Funding", FSB recommended that:

Alongside a new Growth Fund for England, FSB would urge the UK Government to ensure future funding for the devolved nations remains administered directly by the Scottish and Welsh governments and by the Northern Ireland Executive. The devolved nations should retain the



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powers to set their own allocations and frameworks for how funding should be prioritised, which takes account of local priorities.⁷

FSB Wales continues to believe that any future regional funding allocations to Wales should be administered by the Welsh Government, allowing it to prioritise funding according to Wales' needs.

Whilst future administration may, or may not, replicate the current arrangements with respect to the Welsh European Funding Office, there should be a visible "Wales" footprint on management and administration. Expertise currently present within WEFO should not be overlooked or lost in the design of any future funding mechanisms.

In England, FSB has recommended that funding should retain the approach of covering multiple LEP areas. In Wales, this could be replicated by ensuring that funding is administered on a similar basis to the areas identified as Economic Regions by the Welsh Government. This allows for flexibility based on the individual needs of different parts of Wales, whilst maintaining co-terminosity with other administrative and financial structures. These regions are also sufficiently large to ensure that larger projects have economy of scale to deliver wider benefits.

Future funding arrangements and administration therefore should learn from the best available practice in the disbursement of existing funds.

Further comments

Annexed to this document are our full reports on EU funding, as well as submissions to other committees on issues that have some relevance. Key points covered in these documents have been highlighted above, and we hope the committee finds this useful.

Annexes

1. FSB (2017) Reformed Business Funding : What Small Firms Want from Brexit <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/reformed-business-funding.pdf>
2. FSB Wales (2017) Making Brexit Work for Wales https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb_making_brexit_work_wales_eng.pdf?sfvrsn=0
3. FSB response to the External Affairs and Additional Legislation Committee on the Inquiry into resilience and preparedness: the Welsh Government's administrative and financial response to Brexit
4. FSB response to the External Affairs and Additional Legislation on the inquiry into Wales' future relationship with the EU.

⁷ ibid



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2nd November 2017

David Rees AM
Chair, External Affairs and Additional Legislation Committee
National Assembly for Wales
Cardiff Bay
CF99 1NA

Dear David

RE: Inquiry into resilience and preparedness: the Welsh Government's administrative and financial response to Brexit

FSB Wales welcomes the opportunity to contribute to the External Affairs and Additional Legislation Committee's inquiry into resilience and preparedness in response to Brexit.

FSB Wales is the authoritative voice of businesses in Wales. With 10,000 members, a Welsh Policy Unit, two regional committees and twelve branch committees; FSB Wales is in constant contact with business at a grassroots level. It undertakes regular online surveys of its members as well as a biennial membership survey on a wide range of issues and concerns facing small business.

Wales' economy is one that is based on the success of small firms – the vast majority of firms in Wales hire less than 25 people and most private sector employment in Wales is in SMEs. Therefore, it is crucial that Welsh and UK Government work together to deliver a Brexit that ensures that these firms can have a bright and successful future.

FSB Wales' Brexit Research

To inform our response to Brexit, FSB carried out four work streams on areas of concern to smaller businesses. These were; access to markets, access to skills and labour, European funding and regulation. Each theme had a published UK-wide report setting out key recommendations for the UK (and where applicable Welsh) government.

This was supplemented with additional survey work specifically with FSB Wales members which we then synthesised into a report for Wales bringing together all four themes and contextualising them in relation to the Welsh Government's Brexit White Paper. The resulting report *Making Brexit Work for Wales' Smaller Businesses* is attached to this letter for the committee's reference.

The report should provide a number of answers to the committee's line of inquiry including on the key issues facing the SME sector in Wales, some suggestions on how Welsh Government can support firms through the transition process and recommendations to help prepare SMEs for Brexit.

Brexit Preparedness Fund

As one might expect, this is an agenda that is moving quickly and there is a significant degree of uncertainty at present as to the nature of the UK's exit from the European Union. One recent development has been the Welsh

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Government's agreement with Plaid Cymru for a £5m Brexit support package for businesses. FSB Wales believes there is merit in this funding being used to help Wales' SMEs to risk assess their business in relation to various Brexit scenarios. This could be delivered through Business Wales and would make use of existing Business Wales support programmes to help prepare those firms that have been risk assessed to deal with any consequences emerging from Brexit.

Conclusion

I hope you find the comments of this letter of interest and that our report *Making Brexit Work for Wales' Smaller Businesses* is able to inform your inquiry.

Should you require any further information, please do not hesitate to contact FSB Wales.

Yours sincerely

Janet Jones
Wales Policy Chair
Federation of Small Businesses Wales



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9th February 2018

David Rees AM
Chair, External Affairs and Additional Legislation Committee
National Assembly for Wales
Cardiff Bay
CF99 1NA

Dear David

RE: Inquiry into Wales Future Relationship with the European Union

FSB Wales welcomes the opportunity to contribute to the External Affairs and Additional Legislation Committee's inquiry into Wales' future relationship with the European Union. We previously provided evidence to the committee's inquiry into resilience and preparedness in light of Brexit and would like to take this opportunity to restate many of the issues we raised during that inquiry.

FSB Wales' Brexit Research

To inform our response to Brexit, FSB carried out four work streams on areas of concern to smaller businesses. These were; access to markets, access to skills and labour, European funding and regulation. Each theme had a published UK-wide report setting out key recommendations for the UK (and where applicable Welsh) government.

This was supplemented with additional survey work specifically with FSB Wales members which we then synthesised into a report for Wales bringing together all four themes and contextualising them in relation to the Welsh Government's Brexit White Paper. We shared the resulting report *Making Brexit Work for Wales' Smaller Businesses*, with the committee during the previous inquiry and have attached it again for further reference to this submission.

Key elements of the report from our perspective that relate to Wales' future relationship with the European Union are as follows:

Access to Markets

- A transitional deal which provides clarity and stability for Welsh business.
- Post-Brexit trade arrangements that preserve Welsh firms' access to their key markets.
- FSB Wales believe the UK Government should seek to minimise tariff and non-tariff barriers with the EU single market following our exit from the EU.
- Welsh Government should assist the smallest Welsh firms in exploring new markets within the UK, as a first step to trading internationally.
- The Welsh Government should consider the development of a trade and investment strategy and potentially, the creation of a body to support the delivery of this.
- Welsh Government, in partnership with the UK Government where necessary should seek to better define and promote the Wales brand as a more effective vehicle for creating opportunities for Welsh businesses and investment.



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Access to Skills and Labour

- Post-Brexit migration arrangements should protect Welsh firms ability to fill skill gaps. Costs associated with hiring migrants should be kept to a minimum.

Regulation

- The Joint Ministerial Council should be repurposed and given greater visibility and transparency as a forum for resolving areas of domestic regulatory divergence where this has the potential to damage the UK internal market.

Wales' economy is one that is based on the success of small firms – the vast majority of firms in Wales hire less than 25 people and most private sector employment in Wales is in SMEs. Therefore, it is crucial that Welsh and UK Government work together to deliver a Brexit that ensures that these firms can have a bright and successful future.

Welsh Government's Brexit Position Papers

FSB Wales has welcomed the work that Welsh Government has undertaken on regional funding, migration and trade following Brexit. We called on the Welsh Government to be proactive in this area in setting out the priorities for Wales as the UK leaves the European Union and have had positive engagement with them on all of the above matters.

One theme that has emerged through all papers, but in particular around the most recent paper *Trade Policy: the issues for Wales* is the role of the Welsh Government in informing the future relationship between Wales, the UK and the rest of the world, particularly through trade deals. In our previous policy work on Brexit we have emphasised the need for a reformed Joint Ministerial Council process to ensure that all UK governments are able to come to consensus on the priorities for Brexit. This would help avoid threats to the internal UK market, and ensure regulatory alignment where this is needed for international trade deals.

In this respect, we welcome Welsh Government's suggestion of a JMC for International Trade and would see this as a key forum for Welsh Government and businesses in Wales to articulate the opportunities and threats for any proposed trade deal with the EU or a third-party.

Conclusion

I hope you find the comments of this letter of interest and that our report *Making Brexit Work for Wales' Smaller Businesses* is able to inform your inquiry.

Should you require any further information, please do not hesitate to contact FSB Wales.

Yours sincerely

Ben Cottam
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