

The East Midlands Regional Select Committee Inquiry on the East Midlands Development Agency (EMDA) and the Regional Economic Strategy (RES)

Summary of Evidence

- EMDA's activities on the Information, Diagnostic and Brokerage (IDB) Model and Business Support Simplification Programme have been excellent, but its work on key clusters has been questionable.
- The revised accountability arrangements resulting from the Sub-national Review of Economic Development and Regeneration (SNR) are inadequate, and a mechanism needs to be put in place for businesses and stakeholders to continue to question publicly funded bodies.
- Whilst the business community has played a strong role in developing and delivering the Regional Economic Strategy (RES), the engagement of sole traders and micro businesses could be strengthened.
- Although significant data and intelligence was produced to underpin the RES, EMDA has not annually assessed how the data has changed, making it difficult to ascertain the impact that the RES and its priority actions are having.
- The vast majority of FSB members have reported continuously decreasing business confidence, decreased turnover, increased overheads and tighter cashflow, for the last fifteen months.
- EMDA's response to the economic crisis has been positive, and the re-focus of business support services on business survival has been welcomed.
- EMDA has been reliant on the data provided by business representatives during the recession, and needs to collect, analyse, and disseminate more timely and accurate data.
- There should be a statutory responsibility for local authorities to consult with businesses on the development and delivery of the single Integrated Regional Strategy.
- EMDA's funding is largely focussed on the three cities with insufficient investment in the region's towns and surrounding areas to support rurally based businesses and communities.

1. Introduction to the Federation of Small Businesses

- 1.1 The Federation of Small Businesses (FSB) is the UK's leading non-party political lobbying group for UK small businesses. It exists to promote and protect the interests of all who own or manage their own business. With over 215,000 members, the FSB is the largest organisation representing small and medium sized businesses in the UK. The FSB has approximately 16,000 members within the East Midlands region.

2. Role, Responsibilities and Accountability of EMDA

- 2.1 EMDA's role in the region has consisted of strategic economic development coupled with delivery, and this has sometimes caused confusion. In the past EMDA was regarded as a principal source of funding. Although they have tried to change this perception, there is still some uncertainty about its precise role and responsibilities. Clearly, the role and functions of the Regional Development Agencies will change as a result of the Sub-national Review of Economic Development and Regeneration (SNR), with delivery being devolved to local authorities and their partners. We feel that the implementation of SNR should be used as an opportunity to clearly communicate the future role and responsibilities of EMDA, local authorities, businesses and stakeholders in regional and local economic development.

- 2.2 The FSB in the East Midlands welcomed the introduction of a regional approach to business support through the Information, Diagnostic and Brokerage Model. The FSB also supported the Business Support Simplification Programme. We believe that EMDA's work on business support has been excellent, but we want an assurance that the extension of economic development duties to local authorities will continue this ethos, rather than lead to a re-proliferation of business support services at a sub-regional and local level.
- 2.3 One area of EMDA's work on business support which we believe has been questionable, is the focus on key clusters and industrial sectors. In some cases, the clusters have been 'artificial' and have not matched supply chains. We also feel that some important sectors to the East Midlands economy, such as the logistics industry which surrounds much of the M1 corridor in the region, have been excluded on the basis of their limited rate of growth and perceived contribution to the Gross Value Added (GVA) Rate.
- 2.4 The scrutiny powers afforded to the Regional Assembly provided a significant opportunity for businesses to question EMDA about its policies and activities. The FSB sat on several scrutiny panels allowing us to feed-in the experiences of small businesses, and influence change where it was needed. We are concerned that the scrutiny role of businesses will disappear with the demise of the Regional Assemblies. We do not believe that the revised accountability arrangements arising from the SNR are adequate. It is absolutely correct that all publicly funded bodies should be accountable for spending money derived from taxes. Whilst the Regional Select Committees will be able to hold any public body in the region to account, they are not a replacement for the in-depth regional scrutiny that has been undertaken by panels of local politicians, businesses and other partners. There needs to be another mechanism by which businesses can question the policy and activities of any publicly funded body in the region, to strengthen accountability.

3 Process for Developing the Regional Economic Strategy (RES) and Stakeholder Engagement

- 3.1 The FSB in the East Midlands has always had a good relationship with EMDA, particularly with the Business Services Directorate. EMDA has encouraged our views and we have found them to be receptive to our comments about small businesses. The FSB is part of the East Midlands Business Forum and apart from lobbying EMDA as an individual organisation, we have also worked collaboratively with the Chambers of Commerce and the Institute of Directors, to assist the development of the RES.
- 3.2 We believe that EMDA has always been committed to the notion of being business-led. We especially welcomed the opportunity presented to the private sector in chairing the Sub-regional Strategic Partnership Boards in the region. Businesses have occupied several seats on the Boards, and have helped steer sub-regional economic development. Whilst the business community has been able to play a strong role in the development and delivery of the Regional Economic Strategy (RES), we do feel that engagement with businesses could be strengthened, particularly in regards to entrepreneurs and micro businesses. In the past, EMDA has often engaged with larger companies rather than small and micro-sized firms, and although they have relied on input from business representative organisations such as the FSB, it would be preferable for them to seek more active consultation with small businesses.

4 Effectiveness of the RES in Delivering Targets

- 4.1 In terms of performance against the core output targets, EMDA has usually exceeded the targets specified in the RES and Corporate Plan. Some targets have been exceeded by a considerable margin. For example, EMDA confirmed in its 2007/08 Annual Report that the

target for businesses engaged with the UK knowledge base had been exceeded by 34%. EMDA also doubled its target for working adults gaining a full Level 2 qualification.

- 4.2 The continuous over-achievement of targets could suggest that either the targets have been deliberately set low in order for them to be easily attained, or that EMDA has focussed its support on delivering activities that meet the core output targets ('low-hanging fruit'), rather than on activities which would tackle the region's most difficult issues and deliver strategic added value.
- 4.3 In 2006, EMDA produced a comprehensive and comprehensible RES based on detailed intelligence, and it is easy to see how the strategic priorities and priority actions in the RES were determined. It is disappointing that whilst significant data and intelligence was produced to underpin the RES, there has been no assessment since of how this data has changed year on year. This means that the data and intelligence underpinning the delivery of the RES is static and historic, whereas an annual assessment of the data could have usefully shown statistical trends, and the progress made towards sustainable economic growth. It is therefore difficult to ascertain the impact that the RES and its priority actions are having on the East Midlands rates of Gross Domestic Product (GDP), business starts and innovation. The achievement and promotion of the output targets achieved is all well and good, but progress made towards a broad set of baseline indicators would be more timely, meaningful and illustrative of how EMDA's activities are having a positive economic, social and environmental impact.

5 Effect of Economic Recession on East Midlands Businesses and EMDAs Response

- 5.1 FSB members in the East Midlands have reported decreased business confidence each quarter over the last fifteen months. In January 2008, we had a strong indication that the economy was in serious decline when 42% of our members reported a drop in business confidence. Six months later, this rate increased to 58%, and it has remained constant. 33% of the respondents to our quarterly survey in January 2009 rated the decline in their confidence as 'substantial' since October 2008. The continuous decline in business confidence is coupled with decreased turnover for the majority of small businesses over the same period of time. In January 2009, 51% of our members reported a drop in sales and turnover, of which a staggering 31% reported significant falls of over 3%. Our most recent survey data for April 2009 shows only a slight improvement, with 48% of our members still reporting a decrease in trade.
- 5.2 The majority of small businesses have experienced increases in their overheads and tighter cashflow during the recession, and many have introduced cost-saving measures to ease the pressure. Our data shows us that three times as many businesses have reduced staffing numbers than have recruited, increasing numbers of businesses have reduced staff training, and the number of small businesses making capital investments in their business is now at its lowest rate for several years. The quarterly survey data also shows us that the majority of our members have absorbed the increased costs and resisted passing it on to their customers. Just 31% of small firms have increased their prices, whilst 21% have cut their prices to sustain turnover and to stimulate consumer demand.
- 5.3 Whilst the vast majority of FSB members have struggled during the recession, a minority of our members have fared reasonably well. In the East Midlands, a quarter of small businesses reported an improvement in turnover in January 2009, whilst 16% of small businesses stated that their profitability had improved. It is important to note that the minority of businesses

that are faring well, are those involved in highly specialised manufacturing and knowledge industries. Although survey data for April 2009 indicates that 21% of our members have experienced an increase in trade in the last three months, in normal economic conditions this rate would be substantially higher.

- 5.4 A primary concern for the FSB is the difficulty that our members are experiencing in accessing new finance and negotiating existing working capital facilities. This issue has been exacerbated by higher costs of borrowing for around a quarter of our members, despite the Bank of England's reductions in the base rate. We are regularly canvassing our members about their experiences in obtaining credit and financial support from banks and other lenders, to track how quickly the issue is being resolved, and the extent to which Government intervention is filtering down to the customer. It has also been recently highlighted through our membership, that insurance companies are restricting credit insurance, causing difficulty for businesses buying stock on credit.
- 5.5 Another key concern for the FSB is public sector procurement and how easily small firms can collaborate and win public sector contracts. For those FSB members who have been successful in winning public sector contracts, it is disappointing that the majority of them have had to wait significantly longer than ten days for payment. The quick payment of invoices is crucial to small businesses, not only in times of economic recession but also in periods of economic growth, to ease pressures on cashflow and provide much-needed liquidity.
- 5.6 During the last eighteen months we have continually lobbied EMDA, the Government Office for the East Midlands, MPs and the Regional Minister on the plight of small businesses, and the action needed to support them through the recession. To this end we are pleased with EMDA's positive response to the economic crisis, and the range of measures they have introduced to support businesses in the East Midlands, particularly those aimed at micro-sized firms. Due to the lengthy and bureaucratic processes that the RDAs operate on funding approval and decision-making, they do not tend to act swiftly. We therefore applaud EMDA's relatively quick response to the economic downturn. Clearly, the RDAs have never before operated in a period of economic decline, and the RES from each region has always been pre-occupied with high-growth businesses. We have therefore welcomed EMDA's re-focus of its business support services on business survival, the series of 'Survive and Thrive' events, and training packages which advise company owners and managers on how to manage their business through economic recession.
- 5.7 One particular tool which could have helped EMDA however, is more timely and accurate data on which to base decisions. EMDA's statistics are significantly out of date, and decisions are being based on data that is at best eighteen months old and at worst five years old. The FSB gathers data from member organisations every few months, so the data we use is current. During the recession we have found that EMDA has been reliant on the data gathered by business representative organisations. As a business-led body with a considerable budget, the collection, analysis and dissemination of up-to-date economic data should be better.
- 5.8 As a national organisation, we are aware that each RDA is responding to the economic recession in different ways, with their own initiatives and grant programmes. This means that businesses across the English regions have had access to different types and levels of support depending on where the business is based and the RDA's funding flexibility, rather than a set of grants and programmes that are universally available. This has therefore created inequality of support.

- 5.9 It is not always apparent where the RDAs are sharing and disseminating good ideas and good practice within the RDA network. It would be particularly beneficial to know about the outcome of RDA projects or initiatives trialled in other regions which could be replicated in the East Midlands to avoid any 're-invention of the wheel'. Similarly, it would also be good for EMDA to more widely promote the impact that they have had in responding to the economic recession, to provide more positive media coverage.

6 Proposals in the Local Democracy, Economic Development and Construction Bill

- 6.1 The SNR stated that the RDA Boards would continue to be business-led, and the FSB supported this view. It is therefore disappointing that the Local Democracy, Economic Development and Construction Bill has failed to re-affirm the role of businesses and business representative organisations in steering economic development.
- 6.2 We recognise the need for a wide spread of skills on the EMDA Board but we feel that it is vital that under the new proposals there is appropriate equilibrium between the private sector and local authorities. We feel particularly strongly that the business seats on the EMDA Board under the new arrangements, should also include entrepreneurs and small businesses. This would ensure that the Board is representative of the 99.2% of small business that make-up the East Midlands.
- 6.3 Although the Bill 'expects' local authorities to undertake consultation, it will not be a statutory duty and we believe that it should be. Similarly, the single Integrated Regional Strategy will be developed, approved and monitored jointly by EMDA and the local authorities. The role of businesses and other stakeholders under the proposals appears to be strictly limited, whereby only a select number of stakeholders from the EMDA Board will be able to influence the content and delivery activity of the strategy through the Joint Board.
- 6.4 The SNR was about economic growth. As businesses are the agents creating that growth, it should be mandatory that they are actively involved in planning the delivery of economic development. The role of businesses under the new arrangements must be much more than a consultee, otherwise there is a strong possibility that businesses will become disillusioned and disengage.
- 6.5 Whilst the establishment of area-based Economic Prosperity Boards proposed in the Bill may be seen as an avenue for business to influence local economic development, they are likely to duplicate the work of other existing Board structures, such as the thematic groups within the City Region Development Partnerships. They are therefore not a solution to the issue of insufficient stakeholder engagement. EMDA should consider alternative formal mechanisms for engaging businesses and other stakeholders in all stages of the single Integrated Regional Strategy - planning, development, consultation, delivery and monitoring. It is only through the active and ongoing engagement of wider economic, social and environmental partners, that sustainable economic growth will be realised.

7 Differences in Urban and Rural Support

- 7.1 The East Midlands is the third most rural region in England, and the FSB has lobbied on a wide range of issues affecting small businesses in rural areas. It is important to recognise that our members who are based in rural areas are not necessarily operating in traditional rural sectors such as agriculture. Their need for support is often similar to that of an urban based business. The cost of work premises is an issue for all businesses, but whilst it is cheaper for businesses

to be based in less urban areas, the availability of suitable business premises outside of the region's cities and principal towns is severely limited. Connectivity to broadband services is also an issue for businesses in rural areas, with differing levels of speed depending on the distance between the business and the telephone exchange.

- 7.2** Lincolnshire, Rutland and South Northamptonshire often feel that they are on the periphery of public investment, with EMDA's funding being largely focussed on the three core cities of Derby, Nottingham and Leicester. The FSB is concerned that there is insufficient investment in the East Midlands towns and surrounding areas to support rurally based businesses and communities.

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