

Economy, Energy and Tourism Committee Inquiry into Business Gateway Contract Renewal Process

September 2011

Introduction

The FSB is Scotland's largest direct-member business organisation, representing over 20,000 members. The FSB campaigns for an economic and social environment which allows small businesses to grow and prosper.

We welcome the opportunity to submit comments to the committee on the Business Gateway contract renewal process.

The FSB is the largest organisation representing Business Gateway service users, with evidence over the years suggesting that anywhere between a quarter, to half, of our members have used Business Gateway services at some point.

We have been involved in various steering groups since the creation of Business Gateway, most recently sitting on the Business Gateway Stakeholder Group. At times we have been frustrated by, or critical of, Business Gateway but we have always played a constructive part in the relevant stakeholder group.

Since the current group was formed, we have worked closely with other members to address any concerns and discuss change. Notably, we offered evidence to the group to support changing the current service to better respond to the needs of local businesses during the economic downturn.

Our input to the evaluation and renewal process

The stakeholder group was given updates on the evaluation report process at its quarterly meetings. We were interviewed by the report's author, and attended the wider stakeholder event.

The last meeting of the stakeholder group (in June) heard about what was *likely* to be in the final evaluation report (since it had not yet been published) and heard about some next steps in the process, leaving us with the impression that further consultation with us would be forthcoming.

We acknowledge that the evaluation report did ask about future arrangements and made recommendations. This is standard practice in such reviews. Nonetheless, it is usually the case that further detailed discussion (as opposed to consultation) would follow with *key* stakeholders and others heavily involved in the process to go over findings and how views would be taken forward.

In this case, it appears that the Business Gateway team felt that our input had been adequately covered by being interviewed by the consultants carrying out the evaluation and attending the stakeholder event. Their intention, we now understand, was that stakeholders would be further updated at the meeting originally scheduled for 12th September 2011 (now postponed to 30th September). We did not appreciate that this was the planned extent of our involvement.

We recognise that preparing for the contract renewal process has required a great deal of work to be undertaken by local authorities and the Business Gateway team in a short space of time. We know that timescales are comparatively tight. We accept that keeping stakeholders updated was planned for the September meeting. We understand that these contracts are owned by local authorities and that there are sensitivities around tendering exercises.

Our concern is that there is a difference between keeping us updated and involving us in the process. We have made general comments in relation to future contracts but we would very much have liked to be able to talk through many of the issues around, for example, the services offered by local authorities. In particular, which services are part of local contracts and the rationale for this. We understand that a great deal of work has been undertaken over the summer detailing which services local authorities deliver and which ones they should include in their contracts, over and above the core service. We would be interested to know, for example, whether there has been any specific customer input to this process i.e. are certain services needed/useful? Since the FSB has commended much of the work carried out by local authorities, it is unlikely we would have fundamentally disagreed with the conclusions that have been reached. Nonetheless, having previously expressed a clear interest in this area, we would have welcomed the opportunity to play a participative part in the process at an earlier stage.

It is our view that engagement with key stakeholders on the renewal process has fallen short of the standards we would expect. In the interests of clarity, we would be happy to provide the committee with all relevant communication between ourselves and Business Gateway officials during this process, including minutes and agendas of the stakeholder group, if this would be helpful.

A meeting of the stakeholder group has now been scheduled for 30th September 2011 with the intention of having a detailed discussion about the renewal process. We look

forward to constructive discussion at that meeting. We would not regard it as acceptable for debate to centre simply on decisions which have already been taken.

Finally, we are indebted to the committee for undertaking this inquiry. Were it not the committee's investigations, we are not confident that the shortcomings in the engagement process would have been uncovered in time for them to be corrected.

Questions

1. How successful have the previous contracts been in securing effective business support services?

The current contracts have succeeded in establishing a well-known¹, consistent, national business support service, as recommended by previous reviews of business support and economic development in Scotland.²

The services offered by Business Gateway range from one-to-one, tailored support, to attending advice seminars and accessing online tools and advice via the Business Gateway website ('one-to-many' services). Perhaps unsurprisingly, businesses favour face-to-face advice over other forms of support³ however we recognise that this support has to be targeted. The current approach enables more support for businesses in certain categories, specifically growing businesses in key sectors, in line with the Scottish Government's economic strategy.

Measuring the effectiveness of this approach, whether in relation to meeting targets or customer satisfaction, is discussed in the Ekosgen Business Gateway National Evaluation Report⁴ and the FSB is aware of high levels of satisfaction among service-users in reports presented to the Business Gateway Stakeholder Group. In addition, evidence from FSB members suggests that significantly more members who had used business support services found it helpful than found it unhelpful.⁵

However, much of this evidence is based on those who have used a specific service. Whether the absence of certain services excludes some businesses and the impact this might have on the overall effectiveness of Business Gateway, are issues the FSB has been keen to examine in light of the change of economic circumstances.

We felt it would be useful to review support available to small business employers experiencing difficulties during the recession. Our work concluded that there was little in the way of appropriate, consistent support services to viable

¹ 93% of FSB members in Scotland had heard of Business Gateway in a February 2010 survey

² <http://www.scottish.parliament.uk/business/committees/historic/x-enterprise/reports-00/elr00-01v1-02.htm#1>

³ 37% of FSB members cited one-to-one support as their preferred method of receiving business advice, compared to 26% who preferred online advice and 8% events/seminars in the February 2010 survey

⁴ Ekosgen, Business Gateway National Evaluation and Future Arrangements for the Delivery of Business Gateway, 2011

⁵ 42% found it to be a helpful source of advice while 27% found it unhelpful, FSB Voice of Small Businesses Annual Survey, 2009

small businesses which were neither start-ups nor growing.⁶ We accept that the service was not designed to support this scenario, however, considering the value of small businesses to local communities⁷ we do not believe it was unreasonable to expect our national business support service to have a key role to play when small businesses were crying out for advice and support.

In this respect, we believe it's clear that Business Gateway could have been a more effective support service if it had been able to vary the type of services and eligibility criteria.

2. What should comprise the 'core services' in the new contracts, at a time when resources for local economic development, which are not ring-fenced, may be in decline?

In light of the issues raised in response to question 1 above, the FSB believes that an element of supporting existing businesses, particularly in relation to sustaining employment, must be considered in relation to core services. Indeed, a Business Gateway Board paper outlined different programmes, aimed at sustaining businesses and supporting lower growth, being delivered by local authorities to businesses not eligible for one-to-one core service support:

"The experience of providing such programmes demonstrates the existence of significant levels of demand for one to one services to support lower levels of growth among many businesses and contribute to the sustainability of the business base. More importantly, the experience of the BG network shows that such programmes can generate significant benefits in terms of:

- Improved sustainability and survival rates
- Employment and GVA growth
- Encouraging innovation and product development
- More effective awareness and use of BG/SE services
- Improving clients ability to graduate towards GP and DRM readiness"⁸

More recently, a report⁹ prepared for PACE (Partnership for Action on Continuing Employment) on improving interventions with employers made the following recommendation:

"PACE Partnerships should leave early intervention, in terms of direct support for firms, to existing agencies such as the Enterprise Agencies and Business Gateway. However, the potential role of Business Gateway in providing more support (including aftercare) for firms where there is a threat (or there have been) redundancies should be considered during the drawing up of new contracts which are to be specified and negotiated in 2012."

⁶ SLIMS consulting, Research into Job Losses in Small and Micro Businesses – a Report to the FSB, 2009

⁷ 41.5% of private sector employment is in small businesses, Scottish Corporate Sector Statistics 2010

⁸ p10, Managing Business Growth for Economic Recovery, Business Gateway Board Paper, June 2010

⁹ p18, PACE delivery and Early Intervention Options, Employment Research Institute, Edinburgh Napier University, August 2011

We are unsure whether this recently published report has been considered in the renewal process.

The local government services are seen as complementary to the Business Gateway core service. They are usually funded by economic development departments, often incorporating an element of European (ERDF) funding. The FSB understands that one of the six Business Gateway Operational Network sub-groups is mapping local services with the aim of identifying which types of service should continue to be offered as a local flexible solution (and therefore not a core national service) within contracts. We would be keen to see the results of this exercise to ascertain whether certain services are being delivered widely at a local level and whether this might suggest that these services should, in fact, comprise part of the core service. This is particularly important if we consider the worse-case scenario where funding for services outwith the core service is reduced, or withdrawn. We appreciate resources are limited and are keen to discuss the practical merits of this approach including whether, as a consequence, other parts of the core service could be scaled back.

This should not be seen as a dilution of the focus on sustainable economic growth – support to help our businesses grow and create more jobs should still be the focus of our business support services. Rather, we believe that ensuring the stability of our business base is a critical step in economic recovery.

3. What flexibility will be necessary within the new contracts to allow for changing economic circumstances?

The current contracts have allowed a degree of flexibility i.e. introduction of new categories to address change in economic circumstances. It is our impression, however, that while some flexibility is possible with the current contracts, the time taken to exercise it and adapt is a problem. Since the onset of economic difficulties, we asked questions about the response to the recession in terms of Business Gateway services. This was initially met with a hostile response (though some shared our concerns, particularly local authorities and contractors). Changes to the contract did occur, however the addition of new categories was not formally agreed until spring 2010 and became operational by autumn 2010¹⁰. The Ekosgen report also makes reference to the difficulties in adapting the direction of Business Gateway.¹¹ These difficulties were probably due to a number of factors including: the focus on negotiations of transferring from SEN to local authorities; refusal to deviate from the agreed strategy by those who had developed it; unclear processes for changing contracts.

4. What is the optimum length for the contracts?

We are not best placed to answer this but assume that the current five year contract seems satisfactory, assuming flexibility to adapt is built in to the contracts.

¹⁰ p3, Managing Business Growth for Economic Recovery, Business Gateway Board Paper, June 2010

¹¹ p88 Ekosgen, Business Gateway National Evaluation and Future Arrangements for the Delivery of Business Gateway, 2011

5. Are improvements to the marketing of services necessary to enable BG to reach out to all eligible potential clients?

While there is still some work to be done on improving awareness of Business Gateway amongst relevant stakeholders (particularly other agencies or government bodies who are likely to interact with businesses), it appears that general marketing of Business Gateway has been largely successful, at least in terms of awareness. More recently, marketing has focused on services for existing businesses, rather than start-ups. This approach should continue to improve businesses' understanding of available services.

6. How can the contracts achieve a minimum quality of service provision across the country?

The current approach of agreed core services and national performance monitoring allows for consistent provision across the country.

7. Should/must BG contracts be based entirely on the Scottish Government's economic strategy or is there room for local flexibility?

It is appropriate for contracts to be based on the Scottish Government's strategy but alignment with the economic strategy can still allow flexibility in approach. The strategy highlights the importance of a supportive business environment, the government's role in economic recovery and a focus on jobs. These are the same factors underlining our suggestion that sustaining Scotland's business base is a key step towards economic growth. However, while accepting the overall aim of contracts should still be based on supporting business growth, we should avoid an overly-narrow focus on a limited number of high-growth companies until the economic situation improves.

8. What targets are appropriate for assessing growth? Should growth be expressed in terms of turnover or are numbers of jobs created or export potential more appropriate?

Turnover is a simple growth indicator and therefore has a place in measuring success. However, it is our view that use of arbitrary turnover figures alone is a simplistic approach that undervalues the important role played by local businesses. For example, a business growing from two to five employees may demonstrate clear growth potential and create employment in their local community but may fail to meet the necessary turnover criteria for support. Likewise, a high-tech company may demonstrate huge potential in turnover growth but create little or no new employment. A balance of measures is required and we would be happy to discuss the practicalities of this further.

9. How can the contract be designed to ensure BG services are fit to meet the needs of 'non-standard' companies, such as social enterprises, co-operatives, not-for-profit firms etc? How should they work alongside the new Just Enterprise Service?

The FSB is not well-placed to respond to this question but we would re-iterate the value of a single, nationally branded, consistent service which could act as a signpost to other services.

10. What is the most desirable method of contracting for future services (i.e. is there a risk that, under competitive tender, local knowledge and expertise could be lost)? What are the legal and cost implications?

The current contracts were, presumably, tendered on an open basis and factored in the value of understanding local economies. We believe that such local experience and knowledge is an important element in delivery of our business support system.

11. Is re-tendering over such a long timeframe necessary? What is the risk of disruption to delivery and damage to the morale of staff delivering services?

We cannot comment on the required timescale or legal aspects of the re-tendering process but we would have preferred better engagement with stakeholders within the timeframe, as discussed earlier. However, an observation about the transfer of contracts from Scottish Enterprise to local authorities was that dealing with 'internal' issues did seem to diminish discussion about service delivery.¹²

12. How do experiences of in-house delivery compare with outsourced delivery models?

We have no feedback or information to reach conclusions on this point. In principle, though, if the contract specifications are correctly drafted, who actually carries out the contract is of secondary importance.

That said, it is important to reiterate our view that the best team to deliver the best service to local business is the team which can call on the most experience, knowledge and understanding of the local economy and business community.

13. Has the transfer of services to local authorities promoted a more business-friendly ethos within local authorities as a whole?

The FSB supported the transfer of Business Gateway services to local authorities. This was because we felt that local authorities had a more fundamental relationship with, and understanding of, local businesses than the national enterprise networks, thus potentially allowing better focus on the needs of local businesses. We feel that economic development departments have risen to the challenge and we have been impressed by the level of engagement and willingness to react demonstrated by some council officers. That said, we believe there is scope to continue to monitor and share best practice across authorities.

We also hoped that the transfer might allow greater integration of a range of support services necessary to create the right conditions for economic growth in our communities. Ideally, we hoped to see the expansion of Business Gateway to

¹² Please see our response to the previous committee's review of the enterprise networks for more detail on this issue.

act as a 'single point of entry' to council and other local services. We were pleased when this aspiration was reflected in the original comments of the Cabinet Secretary:

“What we expect to achieve out of these reforms is that local businesses will be able to reach a single point of access for advice – planning, licensing, business development and other services and that will be a great contrast to the pillar to post experience of many businesses today.”¹³

While we are aware of a limited number of examples of good practice, on balance, there has been virtually no progress towards achieving a more-streamlined, business-focused approach across council services.

Many councils cite combining business or regulatory services in one department as progress but it is not clear whether this has actually changed working practices or introduced innovative approaches - good practice often seems to rely on individuals and/or colleagues sharing offices. But with councils playing a crucial role in creating the right business environment, and impending budget cuts demanding greater efficiency, now, more than ever, a more strategic approach is required.

Progress in relation to better regulation at a local level has been notably lamentable. The recent Audit Scotland report highlighting planning problems is the latest in a series of reports raising flaws in local regulation¹⁴. This is an area where there is still potential for Business Gateway to achieve more.

For further information on any of the points raised in this submission, please contact Susan Love, Policy Manager, susan.love@fsb.org.uk t: **0141 221 0775**.

¹³ Scottish Government press release, 26th September 2007

¹⁴ Regulatory Review Group report on the Licensing Act 2010, Consumer Focus Scotland review of Trading Standards 'Up to Standard' 2010, SOCITM report on the Services Directive 2010