CONSULTATION RESPONSE

FSB Scotland
Federation of Small Businesses

Economy, Energy and Tourism Committee: Enterprise Networks Inquiry

September 2010

Introduction

The Federation of Small Businesses is Scotland's largest direct-member business organisation, representing around 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 respond to the Committee's Enterprise Networks Inquiry. As a key customer representative, the FSB has worked closely with various bodies in a bid to ensure small businesses are adequately supported to help return Scotland to growth. Our focus has therefore been on the support available to the broader small business community, meaning much of our comment relates specifically to the role of Business Gateway.

Overview

Writing this response, the FSB considered the findings of the inquiry into economic development completed by the Enterprise and Lifelong Learning Committee in 2000. In our view, many of the lessons from that report, particularly in relation to the potential for overlap and duplication of services and the need for a nationally-branded business support service, remain valid[1].

In particular, we believe that there is still a need for a consistent, branded, national business support service. It is now ten years since the need for such a service was identified and recommended by the Enterprise and Lifelong Learning Committee. Establishing this service has taken many years and our evidence suggests awareness and use of Business Gateway has increased[2].

Effective local economic development requires the right balance of this standard service, combined with local discretion to respond to specific events or opportunities, but avoiding duplication. Since 2000, we have gone from having a fragmented system,

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

2 Figures from our 2006 Lifting the Barriers to Growth memership survey show that only 5% reported using government funded business support. This figure had risen to 22% for the most recent FSB-ICM Voice of Small Business Annual Survey. Additional survey evidence shows 93% of FSB members have heard of Business Gateway.

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characterised by inefficiency and duplication at a local level, to a more rigid, prescriptive national model. The most recent re-structuring has seen a gradual shift towards a better balance between these two extremes. We should take care to maintain this balance.

Overall, we believe that the changes of 2007 were positive, but the strategy and timing of re-structuring – coming as it did at the onset of the recession – arguably meant that our business support structures were not geared up to respond quickly to the challenges of the credit crunch. The impact of the recession, notably the squeeze on finance, dealt a huge blow to businesses with consequences for the type of business support required. Given these circumstances, comparisons pre and post 2007 reforms are unlikely to be straightforward.

That said, as we look to build on economic recovery, we now need to look closely at our economic support strategy and ensure our services strike the right balance.

1. ***Has the rationalisation of the Enterprise Network affected the quality or effectiveness of the services delivered?***

Pre-2007 Scottish Enterprise had already begun to focus on a smaller group of sectors and programmes. The FSB accepted the rationale of Scotland's largest enterprise agency, but nonetheless felt that it had gradually become less interested in so-called "ordinary" businesses and their contribution to both the local and wider Scottish economy.

Post-2007, the remit of Scottish Enterprise has been clearer and allowed it to focus on specific areas of work. In very broad terms, the focus on schemes and support for globally competitive businesses and sectors, especially its work with account managed companies, means that most of their work touches only a small proportion of Scotland's 290,000 businesses.

Against this background then, it is perhaps unsurprising that discussion with our members suggests that they have not noticed any particular difference in the services delivered by Scottish Enterprise. In the HIE area, however, we have detected some concern about reductions in HIE personnel and budgets. This is non-specific but it is clear there are some concerns about HIE's ability to intervene at community level if current rationalisation continues.

2. ***Has the transfer of activities away from the local enterprise companies, such as the Business Gateway service, to local authorities improved the delivery of services to local businesses?***

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, which might allow better focus on the needs of local businesses. Also, we 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 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:

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"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."[3]

In considering the actual effectiveness of the transfer of responsibilities, two factors are important: the time taken for the transition period to be completed and the onset of the recession.

Although the FSB is a key stakeholder organisation of Business Gateway, our experience of the transition was largely as outsiders observing an apparently sensitive process with many discussions focused on funding and personnel issues. This is entirely understandable. Nonetheless, it was late 2009 before the new arrangements for the Board and Stakeholder Group (on which the FSB sits) were completed[4].

It was an unfortunate coincidence that this transition process coincided with the peak of the recession. In our view, this was not an environment condusive to open discussion about strategy and services of Business Gateway. It is arguable whether, had the recession hit us now, Scotland's business support structures might have been able to respond more quickly.

New processes have now had time to 'bed down' and, from the FSB's perspective, recent months have seen better discussion with stakeholders about what is necessary to support local economies as they move towards recovery.

The FSB believes that local authorities remain best-placed to manage Business Gateway at present and we make the following observations:

1. The FSB is aware of a good level of engagement between FSB branches and local authority economic development officials across Scotland, often across a range of projects.
2. We have seen little evidence of the anticipated integration via Business Gateway of other council services. Recent reports[5] and experience of the Regulatory Review Group highlight poor regulatory practice across our local authorities – an aspect of the local economic environment we had hoped would have been prioritised.
3. We recognise the ongoing importance of the complementary business support services delivered by local authorities, over and above the standard Business Gateway services. We believe that such services allow the local authority to adapt and respond to local circumstances and events. However, such services need to be monitored to ensure there is no duplication of national services and to ensure better sharing of best practice. Earlier in the year we were concerned that a range of schemes were being adopted by local authorities in Scotland without any real overview, since the only national forum for stakeholders relates entirely to

[3] Scottish Government Press Release, 26th September 2007
[4] The first meeting of the Business Gateway External Stakeholder Group took place in October 2009, prior to this the FSB attended the Transitional Steering Group.
[5] Regulatory Review Group report on the Licensing Act, Consumer Focus Scotland review of Trading Standards, SOCITM report on Services Directive.

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the functions of Business Gateway. We believe that recently-developed guidance and the role of SLAED will be important in ensuring the right balance[6].

4. Given the financial pressures facing local authorities and the difficult decisions that will have to be taken, we have grave concerns about future funding of Business Gateway and other business support services. Above all, we believe that the lessons from the 2000 Report about the need for a consistent service across the country remain valid.

3. ***What has been the experience of businesses that are not account-managed by Scottish Enterprise/Highlands and Islands Enterprise since the 2007 reforms? Are such companies finding it difficult to attract the support they need from the enterprise agencies?***

We recognise that a number of businesses have accessed HIE or SE services, particularly in relation to sector-specific schemes[7], while just over 2000 are account-managed. That said, the account-management model can be regarded as an elite club, well beyond the reach of most businesses. It is our impression that growing businesses, providing jobs in our communities, become frustrated with a system based on strict criteria which seems to undervalue their economic contribution. We are aware that some local authorities have also become frustrated by the lack of support options available to successful growing businesses and have tried to introduce additional support services[8].

Much of this frustration is caused by the use of arbitrary financial growth criteria to determine support, as opposed to relative growth criteria. For example, although the support strategy is based on 'growing' businesses, a business may double or even triple its employee numbers or turnover and still not be eligible for one-to-one support.

During the recession, we also raised the issue of the suitability of criteria and targets devised during a period of positive economic growth. The rationale for only providing dedicated support to eligible 'growing' businesses may be logical when the economy is growing, but when stability and survival of local businesses becomes key, where does our business support strategy stand?

To examine a specific angle of business support during the recession, in 2009 the FSB commissioned a report on support for small and micro businesses facing redundancy situations (to contrast their experience with the work of PACE in larger businesses) [9]. The report concluded that PACE teams were able to work with all businesses but support was primarily aimed at employees. However, PACE (including local authorities) could not access reliable data about job losses and had difficulty identifying affected businesses. Of greater concern was the fact that PACE had no particular business support angle. In other words, how could a viable business in difficulty be supported to stabilise and return to growth? Our report made a number of recommendations, focusing in particular on the need to support previously-

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[6] The FSB understands that Business Gateway, working with SLAED, have agreed guidance for local authorities outlining the types of services that could be used, to reduce duplication, encourage best practice and effective use of available European funding streams.

[7] According to figures provided to the FSB by SE, approximately 7,500 businesses were assisted in addition to those which are account-managed.

[8] Comments from Edinburgh City Council, Sunday Herald 27th December 2009

[9] SLIMS consulting, Research into Job Losses in Small and Micro Businesses - a Report to the FSB, 2009

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successful businesses through challenging times brought on by the credit crunch. We have been able to use the evidence from this report to work constructively with the PACE Partnership and to inform ongoing discussions with Business Gateway. Notably, it has recently been agreed to introduce a new support criteria for Business Gateway based on modest growth projections, of £200-400k growth over a three-year period[10].

Over and above the issues associated with PACE, the FSB has questioned whether certain services offered to the elite group of businesses might not also benefit the wider economy during difficult economic circumstances. For example, we suggested the adoption of a Scottish-equivalent to the Financial Intermediary Scheme - introduced in Business Link in England to monitor, advise and report on banking and financial difficulties of businesses 'on the ground'. Broadly, we understand that similar services are offered to account managed businesses and via the Scottish Manufacturing Advisory Service. As the credit situation shows little signs of improvement for small businesses, we continue to believe that such support should be available to a wider range of businesses.

The last two years have seen many businesses hit by unprecdented circumstances. It is therefore difficult to objectively determine differences in demand for services pre and post the 2007 reforms. Despite the undoubted logic of a business support system which uses resources to target selectively those who can potentially offer greater return on investment ('picking winners') we have highlighted the downside to such a strategy when growing businesses are thin on the ground[11].

4. ***How joined up are the various agencies that are now charged with supporting economic recovery? Are there are examples of successful partnership working between, for example, SE or HIE and local authorities? How has the establishment of the strategic forum assisted in this regard?***

From our experience as a stakeholder (as opposed to a service delivery organisation) we feel that there is still some way to go to ensure all agencies are working together effectively. However, in most cases this is largely due to lack of awareness about the key roles and responsibilities of different bodies in relation to Business Gateway and economic development. For example, the Business Gateway External Stakeholder Group has discussed instances where new initiatives have been launched which may have an impact on Business Gateway (e.g. Summer Leavers Policy, launch of Creative Scotland) where greater involvement of Business Gateway at an earlier stage could help improve its ability to signpost or raise awareness of particular schemes. We understand that Business Gateway is now taking steps to improve awareness across the public sector.

As mentioned in response to Q2, we are also aware of the potential for overlap and duplication. For example, we are aware that some council-run libraries are increasingly offering business support services[12]. Since councils are also funding and paying for Business Gateway, we do not understand the need for such apparent duplication of effort.

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[10] This is intended to complement the existing 'growth pipeline' criteria of £400k growth over a three-year period.
[11] End of year reports from Business Gateway will highlight, by area, where targets for businesses in each criteria have not been met.
[12] A recent example would be Edinburgh's 'Libraries mean business' service http://yourlibrary.edinburgh.gov.uk/libraries-mean-business

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We have also highlighted the potential for Scotland's councils to work more closely together to share best practice. We believe this potential is demonstrated by the recently launched East of Scotland Loan Fund where councils have come together to deliver a good outcome for businesses. It is important for councils to work together because, partly due to relative size, it appears that some councils have better-developed and better-resourced economic development departments than others. While local solutions are very important for recovery, this does not mean re-inventing the wheel 32 times.

Lastly, the FSB has no specific knowledge of any outcomes from the Strategic Forum, but this is perhaps unsurprising given our role as an external stakeholder.

5. ***Have COSLA and SE been able to agree on what constitutes local versus national regeneration? Are local authorities maintaining levels of local regeneration activities? What benefits have accrued from the transfer of local regeneration activities to local authorities?***

   Most small businesses are not directly involved in regeneration projects; their involvement is more likely to be in a specific aspect of regeneration e.g. BIDs. We are therefore not aware of any change in levels of local regeneration.

   As mentioned earlier, in many areas engagement and involvement of local businesses representatives by local authorities appears strong and, in our view, the contribution and involvement of small businesses in regeneration projects is likely to be more successful at local authority level, as opposed to regional level.

6. ***Have the Regional Advisory Boards successfully engaged with local business and provided a link between local, regional and national delivery as envisaged by the Cabinet Secretary?***

   Informal feedback from our members suggests that awareness of, and engagement with, the Regional Advisory Boards is very limited at local level. However we are aware that there is potential for successful engagement. In particular, we understand that the Aberdeen City and Aberdeenshire model works effectively.

7. ***What benefits have accrued from the transfer of local regeneration activities to local authorities and have there been any difficulties?***

   Please see response to Q5.

8. ***What advantages has the establishment of Skills Development Scotland brought in terms of the delivery of the skills agenda and have there been any difficulties?***

   The FSB welcomed the creation of Skills Development Scotland (SDS) as a means of making the skills and training landscape in Scotland more streamlined, by merging a number of different organisations. However we acknowledge there is a degree of concern about separating skills and training functions from business development functions and this creates potential for confusion in certain areas e.g. graduate and entrepreneurship schemes where responsibilities may be split between SE, SDS and Business Gateway.

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Despite progress, the skills landscape in Scotland could still be seen as cluttered, since much of the focus has been on re-structuring agency responsibilities, as opposed to thinking about engagement with the end user. From a small business perspective, there is still no clear route-map to find the information they require. The recent creation of the 'Step Forward Scotland'[13] initiative should be welcomed as an important first step towards consolidating information for employers in Scotland.

However, in order to further streamline the existing system, a clear policy position must be developed about which organisation should deliver the comprehensive support and how this is advertised to businesses. We believe that various arms of government and organisations are offering skills advice and services to business, through websites, such as 'Step Forward Scotland' and www.employersandyoungpeople.co.uk

Business Gateway must have a central role as the key signposting/referral source for businesses and all other services should ensure they liaise effectively with Business Gateway at a national level to avoid duplication. It may be that a review of government skills advice is required to further streamline and simplify the system for Scotland's small businesses.

9. ***Could the Scottish Government's economic aims be achieved in a different way? Are there more successful or efficient models of delivery in other parts of the world?***

The examples of which we have most experience are in other parts of the UK. In Wales, for example, the Welsh Assembly ran the Flexible Support for Business scheme, which was a dedicated one-stop shop for business support. This provided a single point of contact for businesses of any size, who would be passed to a dedicated team which could manage things such as recruitment, skills and finance. Colleagues in Wales report that, under the scheme, a Relationship Manager would tailor the support to what an individual business needed, rather than qualifying for a particular grant. This is the sort of one-to-one business development support which would plug the gaps in support in Scotland which the FSB has highlighted in the past. While we understand many aspects of this scheme are now going to be cut, this is for budgetary as opposed to policy reasons.

In England, the existence of Regional Development Agencies certainly appears to have made it easier for government to deliver policy initiatives on the ground quickly (such as loan funds, which took longer to establish in Scotland) when time was of the essence during the recession. As in Wales, this set-up is changing, with RDAs set to be replaced with Local Enterprise Partnerships.

Of course, the Scottish Government's aim in reorganising the enterprise networks was not to respond to a financial crisis and recession which didn't yet exist. That said, it is worth noting that, had the system the Scottish Government put in place been sufficiently flexible to allow Ministers and agencies to respond to rapidly changing circumstances, more business development support may have been available.

[13] http://www.skillsdevelopmentscotland.co.uk/step-forward.aspx

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10. ***Does the need still exist to have both SE and HIE operating within Scotland? Could services be delivered as effectively, with greater efficiency, by a single agency or some other structure with increased shared services etc? Conversely, are a single economic strategy and the SE account management model suitable for both Scotland and the Highlands and Islands?***

    Given Scotland's size, it is reasonable to assume that one national enterprise body to deliver key Scotland-wide projects and services would be adequate. After all, lowland Scotland comprises many different geographic areas, each with specific requirements but still functions with one approach, despite these differences. For example, 57% of private sector jobs in the Borders are in small and micro businesses (as opposed to 'SMEs'), whereas the figure is 23% in Glasgow[14].

    However, discussion with our members in the Highlands and Islands suggests a strong value is placed on the unique remit of HIE, with a level of community enagagement and reach never achieved, in our view, by Scottish Enterprise (accepting they did not have this aspect to their remit). There is understandable concern that a national agency focused on the 'big wins' in and around city regions is unlikely to be able to, or want to, prioritise the different focus required by communities across the Highlands and Islands. Accordingly, it seems likely that any attempt to remove the unique role of a separate agency focused on the Highlands and Islands is likely to be fiercely resisted by small businesses there.

11. ***What should be the role for a publicly-funded enterprise network, what activities should it be expected to deliver and what resources are required? Alternatively, what alternative exists to the current model in Scotland and what benefits would this have?***

    If it is accepted that a government should have a coherent economic / enterprise policy which goes beyond simply leaving everything to market forces, it seems fairly obvious that it should have some means of delivering that policy. Thus, there is a need for a high-level body to oversee the implementation of the major strategic policy decisions.

    On the ground, however, enterprise support needs to look carefully at what businesses really value. Thus, services should have a core which is consistent across Scotland, complemented by additional services which are appropriate in particular local areas. If the credit crunch and subsequent recession has taught us anything, it is that what constitutes these "core" services must be sufficiently flexible to allow a rapid response to changing circumstances.

12. ***Do the enterprise agencies' methodologies for calculating the return on investment bear scrutiny? Which agencies have been identified as delivering most return on investment?***

    The FSB is not best placed to respond in detail to this particular question. However, we believe that the real value of maintaining thriving businesses, providing goods and services, and, most importantly, jobs in every community across Scotland is deeply underestimated in such analysis. In discussing national economic strategy and

[14] Scottish Corporate Sector Statistics, 2009

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business support the 'business base' tends to be written off as insignificant. Yet evidence shows the huge importance of the small business base to Scotland. Between 2000 and 2009, employment in small businesses increased by 64,700 whereas employment in large businesses fell by 33,900 during the same period[15].

Scotland's economy faces a number of perennial challenges (e.g. productivity, R&D spend) over and above the pressing need to kick-start growth. We do not underestimate these challenges but believe it is time to focus on the evidence which suggests that recovery and jobs will be provided by Scotland's small businesses. We must therefore ensure that our enterprise networks and business support services are aligned towards the needs of small businesses.

For further information please contact Colin Borland, Public Affairs Manager, FSB Scotland on 0141 221 0775 or colin.borland@fsb.org.uk

[15] Scottish Corporate Sector Statistics, 2009

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