



Federation of Small Businesses in Wales

Response to the Welsh Assembly Government Consultation on Convergence Programmes 2007 – 2013

The Federation of Small Businesses welcomes the opportunity to respond to the National Assembly consultation document on the European Structural Funds Convergence Programmes (ERDF and ESF) for West Wales and the Valleys 2007-2013.

We respond as the UK's leading SME organisation representing 9,500 businesses in Wales alone, the FSB has a dedicated Welsh Office with staff concentrating on Welsh business issues.

- Our response is set out in relation to the headings and paragraph referencing denoted in the document.
- We also include two relevant consultation responses regarding microgeneration and education as we feel these are of relevance.

Foreword & introduction

Prioritising economic regeneration is the basis in creating a sound environment in order to improve quality of life and tackle social deprivation. This will naturally lead to the social and environmental regeneration priorities also stated.

We feel that qualifying for the highest level of support available is not something to be proud of and the 'lessons learnt' should note that there has been some concern within the private sector with the types of projects previous Objective 1 money has been spent on. The feeling among many is that instead of creating a strong and sustainable economy, money has been ploughed into short term community projects, whereas private enterprises create wealth. The development of grant to grant culture organisations is not viable long-term in our view.

SMEs are recognised as an intrinsic part of generating economy, and given that the Welsh economy is dominated by public sector jobs, for Wales to be financially productive this balance must be re-addressed. Retail outlets for example are huge employers for individual traders, as well as potentially for

National Assembly targeted groups, such as women returning to work. Targeted training needs to be readily available for these types of SMEs, and the types of businesses that are proactively accessing training for staff, for marketing and customer service for example, are not necessarily the businesses that need it as much.

Our Vision

We welcome the vision of an entrepreneurial region and the notion of sustainable economic development. We are also pleased to see an aim for raising the skill levels of the workforce and hope that the FSB's previous input has been useful we will continue to work with WAG on this issue.

To ensure the vision of a strong entrepreneurial region we would wish to ensure that if the Wales Spatial Plan has influence and input into the programmes then the ratio of private business experience is balanced with public sector stakeholders.

Chapter 1

Economic Overview.

(1.11 & 1.12 & 1.13)

With regard to the problem of lower jobs-to-employment ratio we agree with the prioritising of creating more and better jobs. Creating business opportunities, through promotion of entrepreneurship should be a focus alongside helping existing businesses to expand. This should be accepted as more sustainable than attracting branches of multinational companies, to create a large number of jobs in a few locations, are not committed to the area. This has proven not to be a worthwhile long term investment in Wales, and schemes such as the LG development have shown that we can't necessarily put our trust in foreign companies, for economic stability.

(1.15 & 1.16)

Hopefully creating better jobs will contribute to attracting the economically inactive back to work by ensuring that they are better off in work than on benefits.

Economic Inactivity

(1.24)

The type of training needed was explored in a recent survey of FSB members and basic skills shortages were noted when trying to recruit, the highest proportions including skills such as technical, communication, customer service, numeracy and literacy. Skills shortages listed highest among current staff were managerial skills, advanced IT skills, customer service, technical skills and sales and marketing.

Improving Knowledge and Innovation for Growth

(1.29)

There needs to be investment to help businesses in the critical 18 months plus period when they are usually looking to expand and take on staff. This

could be done by offering experienced business mentors to help objectively review their business and targeted training.

Wales as a location for businesses

(1.33)

A percentage of affordable units in major developments would be a major factor in enabling independent businesses to get a foot on the business ladder, in particular on high streets dominated by large chains.

(1.36)

Targeted business advice would be useful to businesses established past the start up support given so that the next step in solidifying the business is successful.

Targeted financial support needs to be readily available for businesses that have a proven track record for success, and want investment to develop further. This type of investment needs as much prioritising as helping failing businesses, as at the moment businesses often report that they feel success and good practice is not rewarded.

Innovation, R&D and entrepreneurship

We believe that VAT registration levels as an indicator of business success has limited use, especially if deregistration outweighs this, and especially in Wales where many business' turnover fall below the current VAT threshold. FSB statistics show that a quarter of members are not registered for VAT.

It is essential that Innovation & R&D has a central role to play in the new round of funding. We feel that many opportunities were missed within the process of Objective 1 to exploit the opportunity by targeting R&D-related activity fully. However, we do acknowledge the role of Objective 1 in boosting the development of the Technium programme.

The WAG has made it clear that it is essential that the Convergence programme for Wales adheres to the over-arching EU agenda including the all-important Lisbon agenda. Targeting R&D and innovation activities among smaller businesses and developing the SME sector in this way is fully in line with the Lisbon agenda and will necessarily play a part in this programme.

For the purposes of better exploiting Convergence funding under this heading, we feel that the WAG should pay close attention to the recently-published Review of Science Policy in Wales from the Enterprise, Innovation & Networks Committee of the National Assembly.

In particular, we would draw attention to some of the themes and issues, which arose from the EIN Committee's investigation namely:

- Facilitating and encouraging better-constructed links between SMEs and academia to better allow for the commercialisation of technologies.

- The provision of better advice and support for SMEs seeking to undertake, or currently undertaking R&D activity in Wales.
- Provide for convergence funding to be made available under key areas identified as part of a Science policy for Wales.

We recognise that Convergence funding cannot and will not be the 'catch-all' remedy for the promotion of R&D in Wales but it is essential that the funding is used not in a piecemeal way as before but as part of a structured and planned approach to the development of innovation in Wales. This bears resemblance to Ireland's use of structural funding in the development of its now highly successful R&D infrastructure.

Overall, we are disappointed that such a comprehensive consultation document should make such limited reference to this important area – an area, which is key to the development of Wales as a true knowledge economy and we would wish to see this theme better developed in the final scheme.

SWOT Analysis

Creating more of the higher paid jobs as mentioned in 1.16 will contribute to counteracting the out migration noted in the SWOT analysis.

Chapter 2: The Strategy

(2.3)

We are heartened to hear that the new convergence programmes will have a strong focus on increasing business competitiveness and employment and that investments will be made on the basis of future potential, and would expect that criteria for deciding resource allocation ensures that SME potential is not overlooked on the basis of size.

We are pleased that lessons learnt have been acknowledged before moving ahead with the second round. However, considering the economic sustainability focus of the programmes, careful regard must be paid to the views fed back by the private sector regarding 2000-2006 programmes.

(2.9)

Helping businesses to continuously progress is vital in tackling business survival rates, currently some businesses report that beyond start up support, help in moving to the next level, such as employing staff, is difficult to find. A recent FSB survey found that 59% of members were looking to expand their business within the next two years. There needs to be a step approach towards business development support.

(2.11)

Supporting job creation is a good notion as is supporting businesses with strong growth potential and we will welcome further details on this. However, SMEs do state that the increasing legislative burdens that accompany expansion are a disincentive to further growth. For example Health and Safety can become a full time job over a certain size, with no ability within the business to support the administration of this.

(2.18)

The public sector is recognised as the largest employer in Wales and improving service delivery is important. However, the role of the public sector is to provide support and public services, whereas the private sector creates wealth. This imbalance needs to be addressed by ensuring convergence programmes concentrate on creating sustainable private sector jobs.

(2.20)

The Objectives of the convergence programmes convey the basics needed to work from, but it must be kept in mind that an entrepreneurial region could be a region of insecure jobs, as being self employed is often high risk with long family un-friendly hours, and low financial returns. Support needs to be geared towards businesses for long term survival, and not measured by the number of start ups. Success also needs to be rewarded by motivation for further expansion, and not propping up failures.

(2.2)

Due to the priorities of the programme it is vital to ensure that private sector input is secured and not outweighed by other stakeholders, using the framework of the Wales Spatial Plan to target resources may not be sufficient for achieving this.

ERDF CONVERGENCE PROGRAMME

Priority 1

(2.24)

Allowing businesses to grow is dependent on providing incentives for businesses to want to allocate often stretched resources to work towards expansion as well as providing sufficient targeted support to allow growth.

(2.25)

Agglomeration effects through collaboration on matters such as transport should be encouraged, however it is worth bearing in mind that businesses by their nature have to strive for a competitive edge, therefore with regard to R&D expenditure there are issues of intellectual property and business sensitivity. The individual nature of businesses should be considered.

Targeting resources has to be priority; however we would like assurance of how economic sector targets will be decided, as we have previously expressed concern with certain elements of W:AVE, which is not a costed document. We would not want convergence programme money, which is to be spent over and above current WAG strategies, to be allocated to previous commitments that should already be budgeted for.

Focusing on concentrated projects such as promoting exports could be a successful use of resources, and ventures such as Wales Trade International have shown achievements. Creating further opportunities for SMEs to access local procurement opportunities would also be welcome.

ESF CONVERGENCE PROGRAMME

Priority 1

(2.44)

Attention to ensuring students have an option of choosing vocational skill programmes and have a chance to learn work related skills would be welcome alongside the traditional academic subjects and qualifications that are currently promoted as more acceptable achievements. We need to address the inaccurate assumption that higher education is the most appropriate route.

Priority 3

While we want a first class public sector we are very concerned that any funding would be allocated to training public services managers. This is blatantly subsidising public service budgets that should be standard and not acceptable. Service delivery does need more collaborative working (i.e. stages of business support need to be seamless and a natural progression for a business). Any public sector training should be based on skills and knowledge relevant to customers such as businesses, as businesses can feel that advice given by public sector workers with no relevant experience would not benefit their business, and is therefore not sought. Schemes providing secondments for business advisors and relevant staff could be far more beneficial.

(2.52)

Structural funds being used to add value to current provision has to be certain of being channelled into successful schemes that should be rolled out, rather than failing schemes. Therefore ensuring they are schemes that are well regarded by the business community is vital, as is evaluation. Mentoring schemes for example would be answering a call by SMEs.

Welsh Language

The FSB is very supportive of the Welsh Language Board's approach and final private sector strategy document; however we would welcome evidence supporting notions that the language is an economic driver. Businesses would regard proof that bilingualism is an economic advantage to business as a clear incentive for adoption of the private sector strategy.

(2.62)

We would welcome interventions to help SMEs become more competitive and more efficient in their use of natural resources, and project funding for certain schemes noted in our micro generation consultation response, copy supplied, would be appropriate.

(2.66)

The JEREMIE initiative in particular has the potential to be a very promising scheme that could benefit SMEs, we will be interested in the findings of the scoping exercise, and hope there will be positive outcomes. Initial indications though seem to suggest that the funding could prove a complex process for businesses to apply for.

(2.86)

Interventions in promoting SMEs are much welcomed. Other practical schemes which have been undertaken on local levels, such as mystery

shopper projects to give feedback to SMEs on training needs and potential for improvement , have had positive effects in engaging businesses.

Partnership

The External Stakeholder Group has been a success as a mechanism for different sectors, private, public and voluntary, to work together and feed into the process. We would welcome the continuation of this. Ensuring private sector input is integral to all stages of the process.

Chapter 3

(3.1)

The FSB is pleased to see prioritising existing business ventures as well as supporting new enterprises.

(3.2)

We agree that it is important to note that VAT registration rates are not necessarily a true reflection of entrepreneurial activity within an area.

We also welcome consideration into financial support mechanisms for entrepreneurs who are naturally regarded as high risk investments by conventional banks. The FSB has argued for a system of soft loans available to businesses wishing to develop through investment.

The FSB welcomes the aim to increase awareness of the potential for exporting and providing more focused support in order to consolidate and expand on the good work already being undertaken in this market.

Theme 3

The FSB reiterates that it is particularly pleased that the programme will focus on growth potential of businesses, by ensuring provision of quality post-start advice, and area which many businesses feel has been not easily available as a follow on from initial start-up support.

Theme 4

The creation of digital business ecosystems for collaboration within the same sector could be rather limited in their use due to the competitive nature of businesses and business sensitivity issues, further examples of practice would need to be looked at individually to see whether they would be an appropriate use of money.

(3.5)

With regard to point 10 in the table to 'Promote a more entrepreneurial culture and create a supportive environment for SMEs', the second bullet point should include 'Information and Support Services' for existing businesses with growth potential as well as start-ups.

ERDF Priority 2

(3.10)

The statement 'Businesses will need to work more closely together to offer integrated services and employ better trained staff , leading to higher profitability and higher wages' needs to be revised. Businesses do not naturally work together as they are working in a competitive market. With regard to staff, many FSB members have stated that they would like to be able to pay their staff better wages, but competing with wage structures of multinational companies can be difficult for SMEs. Some fear paying for training staff can lead to those staff then leaving to get work at a larger company. Therefore investment in training is not always seen as sustainable with regard to the business' interests.

Indicators

(3.15)

The number of SMEs supported is not necessarily the preferred output indicator. Rather a measure of quality would validate programme success of long term sustainability, and whether the right decision was taken with regard to investment input.

Results

We are in principal supportive of the aim of reducing the amount of municipal waste landfilled annually by supported SMEs and the number of SMEs adopting environmental management systems, and would like to see more schemes in place to help incentivise businesses into actively recycling and using cleaner fuel. For example kerbside business recycling and grants for bio fuel conversion would be welcomed. More details of how businesses could be encouraged to be environmentally aware are included in our response to the WAG microgeneration consultation. FSB figures show that 10% of small businesses want to reduce their environmental impact over the next two years and 28% consider their environmental friendliness as a positive strength. Significantly 67.1% are dissatisfied with the level of kerbside recycling offered in their area.

ERDF Priority 3

The FSB agrees that supporting the development of an attractive business environment through the development of high quality, sustainable business sites and premises should be a priority. This would promote the need for affordable units within new developments, in particular shopping arcade development, to bring independent shops back onto our High Streets. Another method for achieving this would be to subsidise rates in certain areas in need of regeneration.

(3.23)

Indicators should include the 'number of collaborating businesses' in order to gauge whether this is working effectively and if money is well invested. Monitoring the number of indigenous businesses versus branch of larger firms using new developments, to see whether investment is creating sustainable

businesses more likely to be committed long term to the area, should also be included.

Theme 2

Helping people remain in work should include supporting business' security to be able to create more sustainable employment opportunities. Our Barriers to Growth Survey published last May reflect SME ambitions with the next two years including; the fact that 42% wish to improve sales and marketing, 25% investing in ICT, 33% investing in new equipment/ machinery. Importantly 28% reported a possible increase in staff over the next year business insecurity needs to be alleviated through targeted support to ensure this is achieved. Funding should be used to address these ambitions rather than dictate new measures.

(3.29)

We are glad to see that point 22 in the Contribution of Priority to EU and UK Policy Priorities notes vocational training, including apprenticeships and enterprise training as viable options for students, rather than focusing solely on traditional academic subjects and qualifications.

ESF Priority 2

(3.34)

We are pleased that the WAG recognises the need to strengthen its capacity to understand what skills are needed for SMEs, including the management and leadership skills of SME owner-managers. Many SMEs are founded on the expertise or skills of the business owner and additional responsibilities, such as legislation compliance and employment matters, are not necessarily skills they might have.

Positive support and guidance for businesses is crucial to accompany any principles or legislation promoting lifelong learning strategies or systems to equip employees. The majority of our members report that they are not adversely affected by equality legislation, and it doesn't have to be a negative burden with the right help and support, but any scheme, however noble the intentions, should not detract from business productivity. Small businesses depend on the quality of their staff, with 61% of our membership reporting that the quality of staff in their business is a positive strength. An unsuitable staff member can create too much of an unfair burden on other employees, when there are only a few individuals involved in the daily running of a business.

Theme 1

(3.35)

We welcome the inclusion of achievements for supply of skills to include providing entrants with a broad range of academic and vocational options, as well as providing access to more flexible, employer-focused training provision. We feel that this view is more in tune with employers as a number of small businesses who have participated in apprenticeship schemes previously have felt that the agenda was set by the colleges rather than on business needs. The balance in this area should be redressed.

Theme 2

We agree that work needs to be done to address the shortage of basic skills levels, including literacy, numeracy and ICT. With regard to other types of training needed by businesses, strengths considered competitive by businesses include product and service quality (80%), specialised expertise or products (57%) and customer service (75%).

Theme 3

Improving systems for workforce development by better research into skills needs in relation to demand within the labour market is welcome, as is improving support for workforce development and support for employers to identify skills needs.

National Policies

(3.36)

The Wales Management Development Strategy does need to research the real needs of managers in Wales, and needs to recognise the difference between owner-managers of SMEs and managers working for companies with more resources at their disposal.

Contribution of Priority to EU and UK Policy Priorities

(3.37)

We feel that it is very important that, as point 23 of this table notes, there is effective recognition and validation of non-formal and informal training. The FSB would welcome research into validity of Training the Trainer schemes as there is much in house training that is ongoing as a natural process in Welsh businesses but not recognised. FSB statistics show that 39% of staff training undertaken in the last 12 months was in the workplace, including learning by doing.

ESF PRIORITY 3

The document rightly points out that mainstream service improvement programmes should be, and are, funded through mainstream government programmes. We do not therefore agree that money allocated to Convergence Funding programmes should be used to subsidise public bodies in improving business collaboration between all public service bodies, The WAG has given assurances that this is one outcome that the mergers were meant to achieve.

Improving skills and leadership within the public sector, ensuring core skills in managers, should be fundamental to public sector workers being qualified for the role in the first place. We strongly feel that these are basic requirements that should be covered by public body budgets and should not be considered above the traditional boundaries of the public service system.

Chapter 4: The Cross-Cutting Themes

Women Entrepreneurs

(4.23)

The FSB fully recognises the need to provide better opportunities for women to become entrepreneurs and to remove some of the cultural boundaries, which still stand in the way of that goal.

Our *Barriers to Growth* Report in 2006 show that there has been a 4% drop in the number of wholly female-owned businesses compared to the 2004 report although it must be cautioned that this does not account specifically for areas covered by convergence funding. There is an obvious need for this issue to be specifically addressed.

The FSB fully supports the work of *Cawarae Teg* and we feel that they have an important role to play in the convergence funding programme.

Lessons Learned from Structural Funds Programmes 2000-2006

(4.83)

The document recognises that there were problems attracting projects, which focussed on the more efficient use of water resources. The FSB recognises that this is an important area and approached the Assembly Government with a proposal to formulate an *SME Environmental Toolkit*, the aim of which was to give practical guidance on the conservation of energy and water supplies.

We feel that this is a suitable opportunity to encourage the Assembly Government to again look at this issue and reconsider its decision to back such a guide.

Chapter 5: Implementation Arrangements

We are broadly supportive of the measures set out in Chapter 5. It is important however, that the new Programme recognises the importance of creating appropriate structures for the engagement of individual businesses and business representative organisations. We would question the statement in para 5.5 that the former *approach to collaboration an partnership working has clearly added value* as this approach was almost exclusively centred on the public and voluntary sectors with the resource and wherewithal to attend a number of meetings.

(5.7)

We are very supportive of the points outlined in para 5.7 and feel that these points comprise suitable guidance for the development of the convergence programme.

(5.10)

While we recognise that using the Spatial Plan groups not only provides for convenience but also the cross-cutting agendas, we are concerned that these are currently heavily weighted by public and voluntary sector interests. It is

important in our view that the private sector becomes better involved in this round of funding.

(5.32)

The FSB welcomes the concept of the creation of a single Programme Monitoring Committee (PMC) as we agree that this will better provide for co-ordination and a more effective use of resources.

For further questions regarding this submission, please contact non.rhys@fsb.org.uk or Ben Cottam, ben.cottam@fsb.org.uk.

Wales Policy Office
FSB Wales