



**The Federation of Small Businesses  
West Midlands Policy Unit**

**Response to  
Consultation on the  
West Midlands Economic Strategy  
Policy Choices Consultation**

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## INTRODUCTION

The Federation of Small Businesses (FSB) is the UK's largest lobbying organisation representing the self-employed and owners of small businesses. Founded in 1974, the FSB has over 200,000 members across all industry trades and sectors within the UK. In the West Midlands the FSB has 16,247<sup>1</sup> members employing over 200,000 people<sup>2</sup>. This response is on behalf of our members here in the West Midlands.

The FSB West Midlands Policy Unit (WMPU) welcomes the opportunity to contribute to the West Midlands Economic Strategy (WMES) Review 2006-7 Consultation on policy choices and looks forward to the follow-up consultation of the resulting preferred option. We hope that the comments and recommendations put forward in our response will help to strengthen the WMES in order to ensure that all businesses can play their part in achieving the vision for the region and the contribution from the small business sector can be recognised.

### Small Business Contribution to the Economic Success of the West Midlands

Taking into account the figures from the SME Statistics UK and Regions 2005<sup>3</sup>, small businesses in the West Midlands make a significant contribution to the region's economy.

According to the SME Statistics UK & Regions 2005, the West Midlands has over 353,000 businesses of which 99.2% are classified as small businesses (i.e. under 50 employees) and of those 95.1% are classified as micro businesses (i.e. under 10 employees). The contribution of small businesses to the success of the West Midlands is clearly demonstrated by these figures:

<i>All industries</i>	<i>Enterprises</i>	<i>%</i>	<i>Employment ( / 1,000)</i>	<i>%</i>	<i>Turnover ( / £million)</i>	<i>%</i>
Sole Traders	251,320	71.1	278	14.4	15,399	8.0
1-4	66,410	18.8	192	9.9	16,854	8.8
5-9	18,295	5.2	128	6.6	12,156	6.4
10-19	9,450	2.7	132	6.8	11,931	6.2
20-49	5,040	1.4	155	8.0	14,824	7.7

## WMES – GENERAL COMMENTS/FEEDBACK

We are pleased that decisions have been taken to review the WMES and the West Midlands Regional Spatial Strategy (WMRSS) at the same time so that both strategies can be more closely aligned and hope that this will ensure that targets for housing and infrastructure delivery are better matched.

For the WMES to be successful it needs to demonstrate two key factors. Firstly, it needs to speak to businesses in a language that they easily understand. As with previous regional economic strategies the FSB has always argued that the language employed in the document does not make the strategy easily accessible to small business owners. For the majority of small and micro business owners the phrases and jargon employed in the document would mean very little. When the final document is produced we would welcome one that uses terminology that businesses will understand and not one reliant on 'civil-service-speak'.

Secondly, small and micro businesses contribute 45.7% of employment and 37.1% of turnover within the region<sup>3</sup>; therefore it is important that the strategy should adequately address the issues

<sup>1</sup> As at January 2007

<sup>2</sup> Extrapolated from FSB Lifting the Barriers to Growth 2006 Survey

<sup>3</sup> <http://www.sbs.gov.uk/sbsgov> - SME Statistics UK & Regions 2005

and challenges faced by small businesses within the West Midlands. The strategy needs to demonstrate that the focus is not only on creating the right environment for the rapid development of the high technology, high growth potential sectors, but for creating an environment for all businesses that want to grow as well as those who need to diversify to realise their potential. Though the 'gazelle' type industries are undoubtedly a key component of the WMES it must also clearly demonstrate to the wider business community that it can address their needs as well. Without the WMES encouraging successful small businesses across all business sectors, Advantage West Midlands' (AWM) ambitions for creating sustainable communities will not be realised.

Feedback from FSB members suggests that the issue of most concern to them is Infrastructure in general, and Transport in particular. There is considerable feeling that years of under-investment in our roads and rail networks, specifically, is now causing significant difficulties for the sustainability and growth of the small business sector in the West Midlands. The lack of an integrated Transport network affects all parts of the Region, although there is a greater impact in certain areas, most notably the Black Country, Stoke-on-Trent and Birmingham.

"There is clear evidence that a comprehensive and high-performing transport system is an important enabler of sustained economic prosperity: a 5 per cent reduction in travel time for all business and freight travel on the roads could generate around £2.5 billion of cost savings – some 0.2 per cent of GDP." *Eddington Report*<sup>4</sup>

Although Section 2.6 (Infrastructure) has comments about congestion, housing and broadband they are at a superficial level. The issues surrounding the totally inadequate transport infrastructure and the new targets for housing cannot be ignored in a document dealing with the local economy. Jobs, transport and housing are inexorably linked together; in our opinion, they cannot and must not be taken in isolation.

We acknowledge that housing, to some extent, and the transport infrastructure, in particular, are outside of the control of AWM. Both rely on Government plans and funding and, judging by the recently published Eddington Transport Study there appears to be over reliance on road pricing so there is not seen to be much hope for an improved transport infrastructure – this is a key area to be addressed. Key requirements include:

- improvements to the M5/M6/M42;
- a south-western orbital loop from the M5 to the M6;
- the construction of simple slip roads, underpasses/flyovers to relieve local bottlenecks;
- additional rail tracks in and out of Birmingham New Street Station;
- the electrification of the Newcastle-Nottingham-Birmingham-Bristol line;
- Building of a Parkway-style station to the east of Worcester at the intersection of Hereford/London and the Bristol/Birmingham lines.

Until these problems are properly recognised, with appropriate solutions and financial resources put forward by Government, then the aims of the strategy cannot be realised.

There is one other aspect that should be adequately recognised - the role of manufacturing. Rightly, the Halcrow document<sup>5</sup> places great emphasis on manufacturing. Here in the region a higher proportion of the Region's Gross Value Added (GVA) still comes from the manufacturing sector than any other region. This is an area we cannot continue to ignore.

We hope to provide more evidence in greater depth on a variety of issues, in the draft strategy consultation later this year. Other points on housing, sustainability, affordability and eco-policies will be covered in our submission to the West Midlands Regional Spatial Strategy Phase 2 Review.

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<sup>4</sup> [http://www.hm-treasury.gov.uk/independent\\_reviews/eddington\\_transport\\_study/eddington\\_index.cfm](http://www.hm-treasury.gov.uk/independent_reviews/eddington_transport_study/eddington_index.cfm)

<sup>5</sup> Sustainability Appraisal, Strategic Environmental Assessment, and Future Proofing of Policy Choices for the WMES – Halcrow. 9 Nov 06

## RESPONSES TO QUESTIONS

### Question 1 (Enterprise)

**Which of these Enterprise policy choices, or what other choices for Enterprise should the WMES emphasise?**

We broadly favour choices 4, 5 & 6.

#### **Commitment and Support for Existing Businesses**

We are concerned at the emphasis on start-ups and feel there should be more commitment to supporting existing, established businesses to diversify and grow. This could be demonstrated by:

- Use of Angels and mentors to help funding and growth at a level which is genuinely affordable for small businesses.
- Long-term capital funding. We would like to see long-term capital investment, negotiated at the same advantageous lending rates as the large Plcs and multi-nationals, to be made available for the small business sector. This is something that could partly be helped in the work AWM is carrying out on Access to Finance.
- General funding. We would wish to see funding available for the full-spectrum of businesses, not just aimed at high GVA businesses. Funding should be solely based on needs of business irrespective of where that business is located in the Region.
- Succession Planning. Again, with the use of a small, but dedicated, team to point the most appropriate way forward for a small business, but with the option for additional mentoring support in order to enable a business to be 'succession ready', and at an affordable level.
- MG Rover Taskforce. Enterprise by its very nature will always involve some risk and therefore it is impossible to eliminate this from economic life. The failure of MG Rover provided many lessons learned from large failing companies and the impact on the small business sector. The taskforce established a model for future use and was an excellent initiative, which provided a practical impact on the ground. We would encourage AWM to consider mainstreaming this programme into its work for the benefit of future failures across the Region.

#### **Embedding a culture of enterprise and innovation**

We would like to see the WMES build on the positive attitude in the West Midlands to enterprise by:

- Working more closely with schools to encourage and promote self-employment and business as a career option.
- Young Enterprise. There should be more encouragement for Young Enterprise to assist schools in promoting enterprise and helping to raise skills levels as well as encouraging businesses to become more actively involved

#### **Use and application of ICT**

Although a large majority of FSB members in the West Midlands serve local and regional markets, over a third state they depend on UK-wide markets for over half of their annual sales. The notable distinction in the West Midlands is that they are less dependent on local and regional markets than other parts of the UK<sup>6</sup>. The use of ICT in facilitating business development is to be encouraged.

A part of this issue concerns procurement and e-Commerce. We work closely with the Small Business Focus Group regarding the use of e-Commerce for Public Sector Procurement. We feel this offers a practical way to assist SMEs to grow and develop their business. Skills learned in

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<sup>6</sup> FSB Lifting the Barriers to Growth Survey 2006

tendering for public sector contracts are useful in other business sectors, whilst reducing reliance on a too small customer base and spreading non-payment risks.

However, requirements for health and safety, accredited standards, equality of opportunity policies must be proportionate to the contract and the risk involved and should not be used to preclude SMEs from bidding for appropriate contracts.

The FSB has 10 key policy points on procurement (For full details see p Annex 1):

- 1 – It should be mandatory for local authorities to use the supply2.gov web portal and advertise as many low value contracts as possible, including Olympic 2012 contracts.
- 2 - E-procurement for public sector contracts should increase SME's ability to compete.
- 3 – Public authorities should avoid the aggregation of contracts.
- 4 – It should be mandatory for public authorities to report the break down in spend with SMEs in comparison to spend with large businesses in a comprehensive manner.
- 5 – A common, single and simple to use standard for accreditation run by the Office of Government Commerce (OGC).
- 6 – The standardised PQQ (Pre-Qualification Questionnaire) should be mandatory for contracts across all public authorities.
- 7 – Greater use by Public Authorities of 'Meet the Buyer' events.
- 8 – Mandatory Sign-up for Local Authorities to the Small Business Concordat. [According to the SBS<sup>7</sup>, as at 11 January 2007, only 18 (out of 38) of the West Midlands Local Authorities have signed up.]
- 9 – Proper and appropriate feedback must be given, whether successful or not.
- 10 – Similar principles to be applied for the supply2.gov portal to London 2012 tenders.

#### **Other choices**

Tourism is playing an ever increasing part in the economy of the West Midlands. However, the Foot & Mouth crisis of 2000, showed how important tourism was to the rural area, yet the industry has been slow to improve itself and be innovative. Heart of England Tourism should be given a bigger role, not just in the rural areas, but also in some urban areas as well, as should the Regional Centre for Tourism Business Support.

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<http://www.sbs.gov.uk/sbsgov/action/detail?r.11=7000000271&r.13=7000022345&type=RESOURCES&itemId=7000028306&r.12=7000000373&r.s=sc>

## **Question 2 (Innovation)**

### **Which of these Innovation policy choices, or what other choices for Innovation should the WMES emphasise?**

We feel that the choices put forward are simply tinkering with the problem.

Small businesses are constantly recognised as the ‘seedbed of innovation’, with nine out of ten commercial innovations coming from this sector. Small businesses therefore have a vital role to play.

The lack of R&D spend, together with the lack of capital investment, is a major problem and not a new one. Over decades these shortfalls have been a major contributor to the decline of the region. There has to be a major shift across the board in understanding that R&D is essential for survival.

#### **Encourage innovation across all business sectors.**

In order to ensure that small firms continue to bring innovation to the market place we need to encourage innovation within all business sectors. Innovation is a key driver of business success and takes place at all levels of business. Small businesses are generally some of the most innovative, the main reason being that they have to be in order to survive. AWM therefore must fully support all owner managers (including the self-employed), across all business sectors, who are prepared to invest in productivity enhancement leading to clear business growth.

#### **Confidentiality agreements, Patents and Intellectual Property rights**

One of the potential stumbling blocks to increasing knowledge transfer between businesses and the region’s knowledge base is the lack of faith small firms have in the confidentiality agreements signed with Universities, FE colleges etc. If we are to encourage closer collaboration between business and research departments to jointly develop ideas, then businesses need to be confident that their ideas will be given full professional respect by the educational establishment.

The cost and difficulty to small businesses in registering a patent or their designs and, just as importantly, subsequently protecting these from infringement also needs addressing if we are to encourage small firms to bring innovation to the market. We would ask AWM to assist in this process and provide proper advice.

#### **Grants, Funding and Support**

The FSB believes that there are a number of barriers to small and micro businesses investing in R&D. In addition there is clearly a gap where small businesses often need additional funding support after the R&D stage but before they are ready to go to market. Innovative mechanisms for providing this support should be investigated, to overcome barriers implicit in current grant funding schemes, e.g. retrospective grants – enabling innovators to fund their next project and for AWM to back ‘winners’.

On the issue of finance, small firms also struggle to deliver the ‘matched funding’ requirements of many of the smaller business grants. Small businesses have also shown little propensity for taking up R&D tax credits and further research needs to be done to establish the reason behind this trend. R&D is a normal part of most small business activities, but is not accounted for separately. Meeting the criteria for R&D grants at present is often too restrictive.

Small firms are looking to the Government and regional bodies to provide correctly focused financial support, better advice, the most appropriate experts, as well as more ‘hands on support’. We stress that this support and help must only be based solely on the needs of small and micro businesses.

### **Question 3 (Skills)**

#### **Which of the Skills policy choices, or what other choices for increasing Skills, should the WMES emphasise?**

The FSB would largely emphasise choices 1 & 2.

#### **Basic level skills**

It is vital that school leavers have the basic skills i.e. the 3 R's. However, we feel that this is a particularly challenging aspiration for the West Midlands given the current skills levels in the Region, particularly in the extensive disadvantaged areas. There would not appear to be much recognition of the projected demographic changes over the next 20 years and the impact these changes may have on the skills level of the workforce.

The value of both schooling and further training needs to be re-impacted into the children and young people of today, otherwise we risk losing another generation of young people who see no purpose in either schooling or training. The up-skilling of the workforce is of primary importance and essential for the jobs in the future, so that we can remain competitive in the future global economy. Various ways need to be used to effectively communicate and empower the young people for our future in the reasons for this, and one way to achieve this would be to provide case studies showing how training has benefited businesses that operate in the low skills sector. A medium for this already exists with Young Enterprise, and it should be relatively simple to put a little more funding in place as well as involving the business community more to make this work further across the whole of the region.

The importance of promoting progression up the skills ladder also begs the question as to who do AWM expect to do the low value jobs that businesses will still need to be done. This must clearly be defined so that we retain the basic skills which will still be required unless we are simply to close down all these businesses because the workers are no longer available. As people progress up the skills ladder business owners will still need to recruit people to do the lower skilled positions that are essential to ensure the smooth operation of the business, and the regional economy in the short to medium term.

#### **Knowledge-rich workforce**

It is recognised that considerable investment has already been made in the Black Country and Birmingham, but we feel there is still a very long way to not only make the area attractive to higher skilled graduates, but to make retention of these key people far easier.

Small businesses by their very nature do in fact carry out training for their staff. This is based on the needs for that business, and not simply to improve the skills of the individuals working for them – this should remain the responsibility of the individual. What is clearly lacking is the recognition that on-the-job training is often more effective at delivering the skills business needs (whether by its own staff or specialist providers from outside) than courses at the local college. This is because in-house training tends to be very specific to the business needs, but is not always linked to a formal qualification. However, its value to the businesses is often far greater than a generic qualification.

#### **OTHER CHOICES**

##### **Apprenticeships**

Often up-skilling of an employee still means they will then leave the employer for better pay, rather than a stable job – particularly with younger employees. The downgrading of apprenticeships and the belief that accreditation to NVQ's is the only means to an end has led to many of the problems experienced in today's modern workplace. Skill and experience cannot be replaced by theory.

Apprenticeships are essential to any targets aimed at solving skills shortages. However, barriers exist which act as a disincentive to business owners taking on apprentices and these need to be

addressed as a priority to ensure that everyone recognises they have a genuine role to play in the development of a business.

### **Support**

For small and micro business owners the potential benefits to their business from workers progressing up the skills ladder need to be clearly articulated. Raising the skills levels of lower paid workers does not immediately raise the profitability levels of the business e.g. a manufacturer of widgets cannot merely charge more for their product simply because they have invested in extra training for their machinists. Very often the unskilled learn skills appropriate to their job to carry out their work far more efficiently than someone with an NVQ level 1 or 2.

The call for firms in lower skilled sectors to raise both their standards and the demand for skills does not take into account one of the reasons that prevents small businesses from engaging in training - namely, the financial cost to the business of sending an employee on an external course, and the loss of staff time. Businesses that operate in the low skills sectors often operate to marginal profit levels.

### **Business Skills**

Management skills need to be an integral part of the Further Education process.

One of the key moments in the development of any business venture is the progression from micro to small and from small to medium. This is the stage where resources should be concentrated to provide specialist help to enable more micro businesses to grow to their true capabilities and potential.

Funding in the farming sector is focussed towards diversification and has moved too far away from encouraging and supporting sound business agricultural practice – this must be reversed.

#### **Question 4 (Economic Activity)**

**Which Economic activity policy choices, or what other choices for Economic activity should the WMES emphasise?**

The FSB feel that none of the choices will generate economic activity; only the private sector can do this. The choices on offer are really social engineering/political correctness and sorting out the unemployable is not the job of business to solve.

The importance of small business should be emphasised and there is a major need to support it as any growth is not possible without a successful small business sector. However, of those small businesses that are courageous enough to take on employees, they increasingly report difficulties in finding employees with the relevant employability skills and with a positive attitude towards business.

## **Question 5 (Quality of Life)**

### **Which Quality of life policy responses, or what other choices for Quality of life, should the WMES emphasise?**

The choices on offer seem to pit the rural parts of the region against the urban. We would wish to see a more balanced approach to the strategy that understands and supports the provision of a high quality of life for everyone in the West Midlands. And it should be understood that people create a good quality of life.

Underpinning the quality of life is the way in which individuals relate to their environment and communities. Their personal quality of life is greatly enhanced if they live in a safe, secure, attractive and properly functioning community. Key to this is variety – of homes, shops, jobs, schools and lifestyles. High Streets with a good mix of independent retailers among the chains; good employment prospects; reliable transport links; low crime rates; responsive police forces who work with the community and who recognise the impact of crime on businesses, and good schools are at the very heart of sustainable and vibrant communities. Maintenance of a high quality rural life is dependent on a successful and profitable agricultural industry, local post offices, banking facilities, pubs and schools or allowing over-zealous housing development - as well as knowledge economy workers.

The small business community is very well placed to ensure much of this variety is in place for safe and secure communities to thrive. However, they need to be properly considered when decisions about the community are taken and not automatically 'lumped' with the large business sector. Neither should they be excluded simply because they are small and hard to reach.

Small businesses should not be viewed as a 'milch-cow' by Local Authorities hungry for new revenue streams, but seen as a valuable resource to be nurtured and protected for the benefit of the communities in which they are based, and serve.

It is recognised however, that the rural areas of the region, should not be kept 'in aspic' to simply provide recreational spaces for the urban residents of the region to enjoy in their spare time. It should be remembered that the farms and businesses are working environments in the rural areas that need to 'move-with-the-times' as much as their urban counterparts and remain competitive. Therefore we ask that regulations aimed at protecting the countryside should not be applied so rigorously that they unduly disadvantage rural businesses.

Often regulations have been brought in without thinking through properly the impact they will have, not only on the business, but on the very areas they seek to regulate.

## Question 6 (Infrastructure)

### How should the WMES (supported by, and supporting, the Regional Spatial Strategy) tackle the infrastructure challenges and opportunities facing the region?

This is the most important section and affects and almost controls the Economic Strategy. Our views are given in the General Comments/Feedback section, but the need for considerable and comprehensive investment to improve and upgrade in particular the transport infrastructure cannot be stressed too strongly.

The West Midlands is often referred to as the 'Hub' of the UK's transport network and is still one of the main areas for manufacturing in the UK. Therefore, an infrastructure that is fit-for-purpose is key to the success of our industry in an increasing globally competitive market.

"The UK transport system supports a staggering 61 billion journeys a year. In broad terms, it provides the right connections in the right places to support the journeys that matter to economic performance. The UK has a greater proportion of its population connected to the strategic road and rail networks than its European competitors and provides the connections between cities to facilitate return business trips in a day. Logistics companies can deliver to over 75 per cent of the UK population from their West Midlands warehouse hubs in a half-day truck drive. Tellingly, investors rate London as the most attractive city in which to do business in Europe, and view the quality of its international connections and its domestic networks as a key element of its locational advantage." – *Eddington Report*<sup>3</sup>

The need to compete internationally is often spoken about by key decision-makers, yet the region continues to suffer from inadequate rail and road infrastructure. There is a sense of 'lip-service' being paid to the calls from business to properly address this issue.

- **Birmingham New Street Station.** The situation surrounding the modernisation of Birmingham New Street Station remains uncertain with question marks of funding still hanging over it. This is the gateway to our region and is the first encounter many visitors to our region experience. New Street is key to ensuring our region is seen in a positive way. The current station does not do this. The proposed changes to cross-country rail journey means that more commuters will have to change at New Street and there is a danger that new visitors to Birmingham will refuse to venture beyond the station and will therefore be unaware of the massive improvements already undertaken across Birmingham. AWM should make the modernisation of New Street one of its top priorities.

- **Local Rail Networks.** New Street Station is not the only area of our rail network that is suffering – local rail networks that carry our workers and customers cannot cope with the demand.

- **Park and Ride schemes.** Park and Ride schemes should be introduced more rapidly, and must properly reflect the needs of the workers and owners of businesses in town centres to take advantage of them, rather than operating opening hours that are only useful for customers. The Park & Ride scheme operating in Shrewsbury is one of the most successful schemes in the Region and is used by businesses, employees and customers. However, there are other schemes, which are not considered to be secure, and with opening hours that do not cater fully for the wide range of users, including business owners who would willingly use them where they are able to do so.

- **North Staffordshire.** A clear funding and transport strategy for North Staffordshire is also required if the decline in this part of the region is to be reversed. Strategies covering North Staffordshire need to be far more integrated given the essential changes they have to make.

- **Integrated transport planning.** AWM should use its influence to ensure that public agencies and the Government engage in effective integrated transport planning. There needs to be more 'joined-up' thinking across departments, agencies as well as with other regions to ensure greater integration of transport networks.

- **Bus deregulation.** Bus deregulation should be reviewed, as the free market does not properly address issues of access to jobs and services, particularly in rural areas but also for workers in sectors that do not work 'office hours'. The current arrangement has led to a private monopoly in certain instances which is neither helpful nor healthy.

- **'Quick Win' solutions.** Local authorities should engage with businesses, particularly the small business sector, on local 'quick win' solutions to improve traffic flows. We would like to see greater use of slip roads and filter lanes on major roads to improve traffic flow and road safety. Bus lanes should not be imposed by mindlessly following Central government directives, without assessing the proper impact on the area. The controversial decision to remove the bus lane on the Tyburn Road in Birmingham is one that the FSB agrees with as there is no doubt that traffic flow has been improved, pollution reduced and has helped customers get to local shops and businesses more easily. However we acknowledge that this scenario may not be applicable in other parts of the region.

- **Birmingham International Airport.** Improvements to Birmingham International Airport and the road and rail links around the airport must be made a priority to ensure the West Midlands does not lose out to other regions with inward investment or improving global links. These are crucial if Birmingham International Airport is to gain its second runway and so cope with the additional passenger numbers envisaged.

- **High-speed broadband.** We would want to see the roll-out of very high speed connectivity to maintain the competitive advantage that 100% coverage of basic-level broadband access has brought to the West Midlands.

## **CROSS-CUTTING THEMES**

### **Question 7 - The Role of Places**

**Q7a: How should the WMES (supported by and supporting the Regional Spatial Strategy) address the role of different places within the region?**

and

**Q7b: Should some places be priorities as a focus for activity?**

The WMES should not address nor prioritise the role of different places within the Region - places should develop organically.

Successful small businesses, given the chance, tend to move out of deprived areas. Successful role models should be encouraged to act as work ambassadors within these deprived areas to help raise aspirations.

#### **Rural**

Rural businesses have particular requirements; therefore we would want to see ongoing support to rural businesses for a minimum of 2 years in most cases.

After the Foot & Mouth crisis of 2000, it was realised how important and beneficial tourism is to our rural areas, yet the industry has been slow to improve itself and be innovative. Heart of England Tourism should have a far bigger role in this area as should the Regional Centre for Tourism Business Support.

The Peak District is one of the most valuable assets of the West Midlands from so many perspectives – Tourism, the environment and rurality. It is an area that falls into both the West and East Midlands. We would like to see a greater commitment from AWM to promote and support the businesses based in and near to the Staffordshire part of the Peak District.

We would also urge AWM to mirror the support EMDA gives to those businesses in the National Forest in establishing and sustaining this vital part of the Region's economy

## **Question 8 - The Role of Sectors**

**(Treatment of sectors in the current WMES)**

**Q8a: To what extent should the WMES seek to prioritise important types of businesses in the region?**

and

**Q8b: Which business sectors or clusters should receive the most support?**

An area of research that could have huge potential to benefit small businesses is the area of collaboration, and in particular its potential to increase productivity, profitability and competitiveness with SMEs. Organisations already exist that assist SMEs to form collaborations and AWM should tap into these in order to promote and facilitate SME collaboration to win business and public sector contracts. It must be clearly emphasised that collaboration is not the same as clusters. Clusters do not guarantee partnership working, and can often be too big. The work of HEFF (Heart of England Fine Food) is a good example of how facilitation can bring significant benefits and this approach could be repeated across other sectors.

However, no matter what approach is taken by the WMES it must recognise that we should not force/encourage people inappropriately into self-employment without investing in providing them with the training and skills to succeed.

Business start-up support needs to deliver real practical support and as such need to be given longer timescales and more support to produce results. It must support on wider issues that impact on people in communities that are moving from benefit-reliant status to self-sufficiency (i.e. confidence building, to real 'hands on' practical support with basics such as accounting and marketing). Success will need to be measured on a long term basis and we should not just accept the government assumptions that businesses succeed or fail within the first 8 months. In reality, many businesses take up to two or more years to secure a profitable future.

Bromsgrove District Council is a good example of encouraging start-up businesses. For several years, it has run a very successful start-up support scheme. Local people wishing to start a business can apply to the council for a grant. However, to get the money the embryo businessman or woman has to undertake four days training at the North-East Worcestershire College to learn business basics, such as preparing a business plan. Then the candidates submit their ideas and plan to a council scrutiny panel. The successful ones get a £500 grant. In other words it is an inducement, not welfare. Past successes have resulted in four niche engineering firms and three other companies reaching a £1million turnover. Similar schemes should be considered across the whole of the region based only on the needs of the businesses served.

Often long-term success is more important than short-term reward and this should be recognised.

### **Question 9 - Is Manufacturing Still a Key Challenge?**

**Q9a: To what extent should the WMES continue to prioritise manufacturing as a distinct challenge facing the region?**

and

**Q9b: What policy interventions are likely to be most effective in addressing that challenge?**

Yes – manufacturing should continue to be a priority. The fastest growing manufacturers are small businesses in the high tech arena. However, overall there is a need to raise R&D investment, innovation and improve training.

The image of manufacturing is one of the biggest barriers facing the sector. It is too often portrayed as a dying sector, an unattractive career choice and one that is low-skilled and boring. Success stories are often under-reported and there is a widespread misunderstanding of what working in manufacturing really involves. Role-models in the media are rarely accurate. An awareness programme in schools and colleges about the opportunities for personal development and variety of work this sector, plus how important manufacturing is to the prosperity of the region should be implemented. It should be valued as part of what makes the West Midlands special, and needs to be a key part in educating schools, young people and the wider community.

## **BROADER OPTIONS**

### **Question 10**

**This document has set out a range of policy choices under six broad themes - Enterprise, Innovation, Skills, Economic activity, Quality of life and Infrastructure. Are some themes more important than others in improving regional economic performance?**

Yes. Infrastructure is the one area that can have the most impact on the region's economic performance, most particularly in matters of transport. These have been referred to in detail earlier in the submission.

Sustainability will also be a key element in the regions' ability to succeed in the future.

**Question 11**

**If the WMES is to be specific in setting out choices and focusing attention, which of the strategies described in the framework above – Tackling Need, Spreading the Success or Investing in Success – should it focus on?**

Tackling the needs of business has to be the basis on which to drive the future prosperity of our region. The discredited 'top down' models should be curtailed as soon as possible.

## **Question 12**

### **How should the WMES address the challenges and opportunities associated with climate change?**

Infrastructure – meaning Transport – has to be the very top priority. Our congested roads, overcrowded trains and unreliable bus networks will hold back the economic success of the West Midlands. Years of under-investment, unhelpful comments from Central Government that they are ‘local problems’ and a lack of integrated planning have made the West Midlands one of the worst regions to move around. Efforts to improve the Region’s economy will come to naught if this problem is not addressed properly and soon! This clearly has a huge impact on our ability to properly deal with all the issues surrounding climate change.

Planning regulations should be applied to encourage businesses to take on board good environmental practice, possibly with some grant assistance. Many of the planning authorities apply the regulations in an inconsistent manner and many are over-rigorous in their interpretation, so stifling economic growth and development. This is particularly so in our rural areas and must be addressed if we are to begin to tackle climate change in an adequate and sustainable way.

## **Key Recommendations**

### **ENTERPRISE**

#### **Commitment and Support for Existing Businesses**

Long-term capital funding. We would like to see long-term capital investment, negotiated at the same advantageous lending rates as the large Plc and Multi-nationals, to be made available for the small business sector.

General funding. We would wish to see funding available for the full-spectrum of businesses not just aimed at high GVA businesses.

Succession planning. A service using Business Angels and/or combined with Mentors, made affordable for micro and small businesses. (i.e. less than 20 employees).

MG Rover Taskforce model. We would encourage AWM to consider mainstreaming this programme into its work.

#### **Embedding a culture of enterprise and innovation**

We would like to see closer working with schools to encourage and promote self-employment and business as a career option

Young Enterprise -There should be more encouragement for the Young Enterprise organisation to assist schools in promoting enterprise and helping to raise skills levels.

#### **Use and application of ICT**

We would wish to see more encouragement for the use of ICT in facilitating business development

#### **Procurement**

It should be mandatory for local authorities to use the supply2.gov web portal and advertise as many low value contracts as possible, including Olympic 2012 contracts.

E-procurement for public sector contracts should increase SME's ability to compete.

Public authorities should avoid the aggregation of contracts.

It should be mandatory for public authorities to report the break down in spend with SMEs in comparison to spend with large businesses in a comprehensive manner.

We would wish to see a common, single and simple to use standard for accreditation.

The standardised PQQ (Pre-Qualification Questionnaire) should be mandatory for contracts across all public authorities.

There should be greater use made by Public Authorities of 'Meet the Buyer' events.

It should be mandatory for Local Authorities to sign-up to the Small Business Concordat.

Feedback must be given on all contracts tendered for, whether successful or not.

Similar principles used with the supply2.gov portal should be applied to London 2012 tenders.

#### **Tourism**

Heart of England Tourism and the Regional Centre for Tourism Business Support should be given a bigger role, not just in rural areas, but also in some urban areas.

## **INNOVATION**

### **Encourage innovation across all business sectors**

AWM must demonstrate that it supports all owner managers (including the self-employed), across all sectors, who invest in productivity enhancement which leads to business growth.

### **Confidentiality agreements, Patents and Intellectual Property rights**

Assurances must be made to businesses collaborating with educational institutions that their ideas will be given full professional respect.

We would ask AWM to assist in the process of registering a patent or design and dealing with any subsequent infringements.

### **Grants, Funding and Support**

We would like to see innovative mechanisms investigated for providing R&D funding support to SMEs, such as retrospective grants.

Further research is to be undertaken to establish the reasons why small businesses in the West Midlands are reluctant to take up R&D tax credits.

Where financial support, business advice and help for small businesses are provided it must be based solely on the needs of small and micro businesses.

## **SKILLS**

We would look for acknowledgement that while up-skilling is important, there should be an understanding that there will still be a need for low value jobs to enable businesses to operate smoothly and policies precluding this should be brought in.

There should be greater recognition of the value of on-the-job training.

We would like to see a communication of the benefits to businesses for employees progressing up the skills ladder, whilst acknowledging that up-skilling does not immediately raise profitability.

We want to see the teaching of Management skills become an integral part of the Further Education process.

We would wish to see the removal of barriers which act as a disincentive to business owners taking on apprentices.

## **QUALITY OF LIFE**

Small businesses need to be properly considered when decisions about the community are taken and not automatically 'lumped' with the large business sector. Neither should they be excluded simply because they are small and hard to reach.

Small businesses should not be viewed as a 'milch-cow' by local authorities hungry for new revenue streams, but seen as a valuable resource to be nurtured and protected for the benefit of the communities in which they are based.

We ask that regulations aimed at protecting the countryside should not be applied so rigorously that they unduly disadvantage rural businesses.

## **INFRASTRUCTURE**

**Birmingham New Street Station** – AWM should make the modernisation of Birmingham New Street Station one of its top priorities

**Local Rail Networks** – these also need to be modernised to cope with the demands of employees and customers

**Park and Ride Schemes** – The needs of business owners and employees should be considered when setting Hours of Operation of Park & Ride schemes, as well as other users. The best examples should be used to improve the ones who do not perform well.

**North Staffordshire** – A clear funding and transport strategy is required to reverse the decline of this part of the Region. It must be fully integrated with other strategies for North Staffs.

**Integrated transport planning** – AWM should use its influence to ensure that public agencies and the Government engage in effect integrated transport planning.

**Bus deregulation** – We would wish to see a full review of the bus network.

**‘Quick Win’ solutions** – There should be greater engagement with business to improve traffic flows. Greater use should be made of slip roads and filter lanes on major junctions. Government directives on bus lanes should not be mindlessly implemented without assessment of likely consequences on local area.

**Birmingham International Airport** – Improvements to Birmingham International Airport and road and rail links must be made a priority.

**High Speed Broadband** - We would want to see the roll-out of very high speed connectivity as a priority to maintain the competitive advantage that 100% coverage of basic-level broadband access brings to the West Midlands.

## **CROSS CUTTING THEMES**

### **Role of Places**

We want to see Rural Business Advisors able to support businesses for at least 2 years.

Heart of England Tourism should be given a bigger role in the area as should the Regional Centre for Tourism Business Support.

We would like to see a greater commitment from AWM to promote and support the businesses based in and near to the Staffordshire part of the Peak District.

We would also urge AWM to mirror the support EMDA gives to those businesses in the National Forest in establishing and sustaining this vital part of the Region's economy

### **Role of Sectors**

AWM should make greater use of existing organisations to assist SMEs form collaborations to win contracts in the private, public and European sectors.

People should not be forced or encouraged inappropriately into self-employment. Examples of good practice should be rolled out across the region. Business start-up support needs to deliver real practical support and as such need to be given longer timescales.

### **Manufacturing**

Manufacturing must continue to be a priority.

There is a need to raise R&D investment, innovation and improve training.

An awareness programme in schools and colleges about the opportunities for personal development and variety of work in the Manufacturing sector should be implemented. This should also include how important manufacturing remains to the prosperity of the region.

## Annexe 1

**1 – It should be mandatory for local authorities to use the supply2.gov web portal and advertise as many low value contracts as possible, including Olympic 2012 contracts.** A significant proportion of SMEs serve local markets – 48% of sales occur within a 50 mile radius. But local authorities must put low-value contracts on web portals where they exist, and use them, even if it takes time at first. We would look for a commitment from AWM to encourage all local and regional public sector bodies to source work within the region in the first instance with a minimum of 25% for the small business sector. There is already concern at the level of fees charged to small businesses through the supply2gov scheme. We would wish to see a pledge that AWM would make representations to ensure that the fees on the supply2gov scheme do not reach such a level that they become unaffordable for small businesses. However, we welcome the move towards a single portal for public sector procurement to avoid the confusion with several access points to public sector procurement bodies.

**2 - E-procurement should increase SME's ability to compete.** We understand the drive to e-procurement and that this is occurring to save money. Getting a good price for public expenditure is important for SMEs – it helps to reduce pressure on their own bills as taxpayers. However, although only 18% of SMEs sell online and 20% buy online, 80% of SMEs have Internet and email capabilities. This gap between ICT capabilities and selling online represents an enormous opportunity in terms of e-procurement and e-business more generally, but SMEs need help to leverage the benefits of e-business and if they are shut out of the e-procurement market, this will make the situation worse. Public authorities should tender for contracts using the opportunities portal (which does not of course require online buying and selling facilities), mobile phone technology and other new technologies, which are far cheaper than advertising in the local newspaper, but all come under the 'e-procurement' banner.

**3 – Public authorities should avoid the aggregation of contracts.** Using single large contracts is to be deplored as this often precludes small businesses from procurement activities. The increase in procurement hubs (e.g. NHS Shropshire and Staffordshire hub) and e-auctions/reverse auctions can only mean one thing: a greater emphasis on aggregation. Public authorities need to consider the sustainability of local communities and local businesses and the wider objectives therein, as this is the whole reason behind the existence of Regional Development Agencies. Public authorities can help with this agenda by breaking larger contracts down – SMEs clearly cannot compete for a £70 million transport contract<sup>8</sup> and when public authorities switch contracts to larger businesses overnight or outsource to non-local or overseas suppliers, SMEs often have to lay off staff – a drain on the local economy, which runs counter to the RDA agenda of sustainable communities and bridging economic and social gaps. When contracts are broken down into lots, public authorities must also be aware not to require national coverage – as again, this will shut out some SMEs.

**4 – It should be mandatory for public authorities to report the break down in spend with SMEs in comparison to spend with large businesses in a comprehensive manner.** Although the Small Business Service (SBS) produces figures each year as to the percentage of central government spend with SMEs, there is some difficulty surrounding NHS, MOD and even local authority spend. The FSB believes that local authorities represent the best opportunity for SMEs from a public procurement perspective. We are aware that some local authorities are making progress on producing data on the share of procurement broken down into micro, small and medium-sized businesses, but it is disappointing that in the area of public money, there is still no comprehensive total on what percentage of the £50 billion get spent with whom. Keeping a record of this total would not contravene any EU competition legislation and would give a comparison between the number of SMEs in the UK and the level of expenditure between public authorities and SMEs.

**5 – A common, single, standard for accreditation may be the only way forward.** The ultimate responsibility for good procurement lies with public authorities. Whether, for example, local authorities use a third party accreditation scheme or not (and those that don't do not always charge businesses to trade with them), those that do have created a situation for themselves. The transfer of such a charge to SMEs is a burden for the small business community and goes against the principle of procurement – an honest buyer/seller relationship without barriers. We still

<sup>8</sup> Recent contract from the Staff/Shropshire NHS procurement hub

believe that a business should not have to pay another private business to have to trade with a public authority. However, some form of standardised public system that would enable SMEs to trade with all public authorities, as long as it was run by the Office of Government Commerce (OGC) and not profit-making, may solve some of the difficulties small businesses have experienced when trading with public authorities.

**6 – The standardised PQQ (Pre-Qualification Questionnaire) should be mandatory for contracts across all public authorities.** The development of a standardised PQQ by the OGC is a very positive step forward. The standardised PQQ should be rolled out to all public authorities so that SMEs can fill out one type of form that can be adapted to bids for all types of contract appropriate to individual businesses. One form will also reduce costs – both time and monetary – of selling to the public sector. Public bodies could count savings to businesses towards their targets for reduction in administrative burdens under the ‘better regulation’ agenda.

**7 – Meet the Buyer events.** Although not yet compulsory, ‘Meet the Buyer’ events are a useful way of facilitating communication between buyers and sellers. The events also facilitate small businesses meeting one another. It enables barriers to be broken down, relationships to be built and greater understanding on both sides, which should ultimately lead to more successful procurement opportunities, especially when combined with training opportunities for buyers and sellers. However, there is a need to make these events more strategic, perhaps holding events around specific opportunities and/or targeting specific business sectors, or complementary business sectors. Given the benefits that these events can clearly bring, more public authorities, in particular, local authorities, should conduct these events.

**8 – Small Business Concordat.** Given that 48% of SMEs serve local markets within a 50-mile radius, local authority level is the most frequent means of procurement in terms of the public sector. The Small Business Concordat is a way for local authorities to show their commitment to small businesses. Although all local authorities were supposed to have signed up to the Concordat by December 2005, this had to be extended to March 2006. According to the SBS<sup>9</sup> as at 11 January 2007, only 18 (out of 38) of the West Midlands Local Authorities have signed up. This is still not good enough. It should be mandatory for local authorities in England and Wales to be signed up to the Concordat.

**9 – Feedback must be given.** Just like feedback after a job interview, it is important for SMEs to hear how to rectify mistakes and be offered advice on how to get the contract the next time around. The feedback should be structured and detailed with reasons why a contract was not won by the small business.

**10 – London 2012.** The 2012 Games represent a tremendous opportunity in terms of public procurement and regeneration of local communities, and SMEs must not be left out of the loop. This requires the Olympic Delivery Authority (ODA) and the Delivery Partner to engage with SMEs. Experience of other Olympics has shown that where a conscious effort is made by the necessary partners, there can be real benefits to the SME community. We would also wish to see similar principles used with the supply2.gov portal applied to the London 2012 tenders and in addition ask for advertising of successful tenders with contact details so that small business can bid for supply chain work.

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<http://www.sbs.gov.uk/sbsgov/action/detail?r.11=7000000271&r.13=7000022345&type=RESOURCES&itmId=7000028306&r.12=7000000373&r.s=sc>