

SHARING PROSPERITY

THE FUTURE OF UK BUSINESS SUPPORT

A joint report from the Enterprise Research Centre and the Federation of Small Businesses

November 2018

Acknowledgements

This report was authored by Daniel Bellis, Policy Advisor for Local Government and Procurement, with support from Dominic Williams, Chair of FSB's Communities and Local Government policy unit policy unit. Special thanks to FSB's Public Affairs and Policy offices in Wales, Scotland and Northern Ireland, and in particular the project team responsible for delivering the report: Charlotte Taylor-Philip, Charlotte Talbot, Andy Poole and Sonali Parekh. The research was carried out by the Enterprise Research Centre, the body responsible for the analysis of the Longitudinal Small Business Survey. Finally, a particular thanks to the Local Enterprise Partnerships and small businesses owners who gave their time to provide data and case studies.

Who we are

The Federation of Small Businesses (FSB) is the UK's leading business organisation. Established over 40 years ago to help our members succeed in business, we are a non-profit making and non-party political organisation that's led by our members, for our members. Our mission is to help smaller businesses achieve their ambitions. As experts in business, we offer our members a wide range of vital business services, including legal advice, financial expertise, access to finance, support, and a powerful voice in government.

FSB is the UK's leading business campaigner, focused on delivering change which supports smaller businesses to grow and succeed. Our lobbying arm starts with the work of our team in Westminster, which focuses on UK and English policy issues. Further to this, our expert teams in Glasgow, Cardiff and Belfast work with governments, elected members and decision-makers in Scotland, Wales and Northern Ireland.

SHARING PROSPERITY

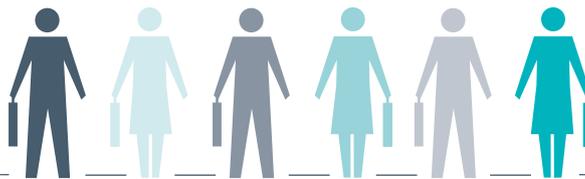
THE FUTURE OF UK BUSINESS SUPPORT



Small businesses in **Less Favoured Areas (LFAs)** have significantly **lower turnover growth** than firms in other parts of the UK (**0.7%** compared to **3.2%** in other areas)



Half of small business owners in **LFAs** aim to become a **successful business leader** in their community

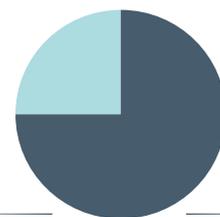


Small firms in **LFAs** are twice as likely to be owned by **ethnic minorities**, compared to other areas



Almost **one quarter** of business owners in **LFAs** aim to **'grow a national or international business'**

compared to



three quarters who are focused on **'keeping the business similar to how it operates now'**

CONTENTS

Foreword	5
Executive summary.	6
Recommendations	7
UK Government and the devolved nations.	7
Local Enterprise Partnerships	7
Introduction	8
Comparing performance and use of business support across the UK.	9
Profiling small businesses in Less Favoured Areas of the UK	10
Understanding business ambition in Less Favoured Areas	13
Challenges, strategies and finance.	15
Business challenges	15
Use of external finance.	17
Business strategy	19
Business support.	20
Comparison with devolved nations.	23
Scotland	23
Wales.	24
Northern Ireland.	25
England in review	27
Landscape	27
The LEP Review.	27
Going forward	27

FOREWORD

One of the defining features of the Government's Industrial Strategy is its ambition to rebalance economic growth across the UK. The UK Shared Prosperity Fund (UKSPF) will be essential to achieving this ambition. For the fund to have the greatest impact, policymakers must first understand the profile and needs of smaller businesses in those parts of the UK that are struggling the most. In this report, we call them Less Favoured Areas (LFAs). The purpose of this research is to shine a bright empirical light on the smaller businesses in LFAs, to inform the design of a UKSPF.

Our research shows that smaller businesses in LFAs have no lack of business ambition and personal ambition to thrive and grow. Indeed, they stand out relative to other areas for wanting to make a meaningful contribution to their wider community. However, they often have a different structure and greater likelihood of occurrence in particular sectors that tend to face more challenges.

The purpose of this research is to isolate particular areas where the challenges they face are more acute relative to businesses in other areas – whether that is in relation to employment costs, identifying suitable premises or accessing finance, it is important that governments at UK and devolved levels factor this into the design of the UKSPF.

The UKSPF provides a transformative moment to recast business support in this country. As we move away from EU funds to UK funds, we also move away from the previous value for money criteria. These, we believe, skewed the recipients of help towards those businesses already in rapid growth, those especially skilled in applying for EU funds, and those that can claim to have created a certain number of jobs. Instead, the funds should be repurposed towards boosting productivity in these LFAs, not simply achieving a tick-box threshold.

Improving outreach and the image of business support in England is key to reaching into these communities and working with these businesses to grow. We also have a number of comparisons with Wales and Scotland that show how England can take advantage and address some key challenges. Overall, the amount of funding is going to be critical to at least maintain, or to increase current support levels. However, this will only be effective if the funding is spent correctly. This will demonstrate if the UK Government is as genuinely pro-enterprise as the EU institutions that it will take over responsibility from.

As the UK begins to design its UKSPF, it can, and must, use it to realise the potential and ambition in these areas and help the local business community to grow.



Dominic Williams

Chair of FSB's MHCLG policy unit

EXECUTIVE SUMMARY

As the UK leaves the EU, a large proportion of business support funding will move, returning to UK control. This requires us to rethink how business support works across the UK and how funds can be better spent so that small business potential is unlocked and prosperity is shared by all.

This report explores the differences between those businesses in more deprived areas of the UK (using the Index of Multiple Deprivation), who may feel left behind, compared to other areas of the country. In this report, they are referred to as 'Less Favoured Areas' (LFAs).

With the Government looking to rebalance the economy through its Industrial Strategy, which launched a year ago, now is the perfect time to reconsider how business support is administered in England, Wales, Scotland and Northern Ireland.

There are also advantages that can be gained from all four nations, as each has in the past opted for slightly different implementation methods of business support in their respective nations.

KEY FINDINGS

- **Ownership:** Small businesses in LFAs reported significantly lower turnover growth than firms in other parts of the UK in 2017 (0.7% compared to 3.2% in other areas). Small businesses in LFAs are more likely to be owned by members of ethnic minorities than those elsewhere (4.7% compared to 1.7% in other areas), but are less likely to be family-owned (64.4% compared to 69.8% in other areas).
- **Ambition:** Ambition is very similar between firms in LFAs and those in other parts of the UK. In both areas around 20 per cent aim to 'grow a national or international business' compared to around 75 per cent who are more focussed on 'keeping the business similar to how it operates now'. The aspiration for rapid growth and exit is significantly stronger in LFAs than elsewhere in the UK. Owner-managers in LFAs are also significantly more likely to aim to 'become a successful business leader in their community'.
- **Challenges:** In some areas the business challenges facing firms in the LFAs closely reflect those in other parts of the UK, such as competition issues, regulation, taxation and VAT. However, in other areas there are statistically significant differences. A range of cost-based items relating to the National Living Wage, workplace pensions and premises costs were more commonly cited as barriers by firms in the LFAs. This is more of an issue as they are more likely to employ people on lower pay with tight margins. This was reflected in a lower proportion of profitable firms in the LFAs than in other parts of the UK.
- **Support:** Business support in a range of areas, from access to finance to business basics, is patchy across England, with some LEPs delivering better services than others. Although private sector providers attempt to fill this gap, and FSB has worked with the National Enterprise Network to address this, the lack of professional services in local LFAs can result in ad hoc private support.

RECOMMENDATIONS

UK Government and the devolved nations

1. The UK Government should ensure the current overall level of funding for business support is at least maintained, if not increased, when UKSPF replaces European Structural and Investment Funds (ESIF).
2. The devolved nations should maintain overall control and discretion of how their share of the UKSPF is spent, honouring existing devolution agreements.
3. The UKSPF should keep a specific focus on small businesses, as is currently the case under ESIF. This would include a sub-priority for small businesses in LFAs, whether in urban, rural or coastal areas to cater for their specific needs.
4. When determining value for money across the UK, business support should move beyond simple job creation targets towards a broader economic conversation. This could include modernisation, decarbonisation targets, productivity gains, and the social impact on communities.
5. The UK Government should develop a Business England brand for business support in England to ensure a more consistent picture across the country and greater engagement.
6. Business England should be responsible for meeting the wider strategic goals set by the Westminster Government and making sure that there is a consistent picture of business support across England in some of the more crucial areas, such as access to finance.

Local Enterprise Partnerships (LEPs)

7. All LEPs should have an engagement strategy that identifies and plans support for businesses in LFAs, including those from ethnic minority backgrounds.¹ This could either be part of or an addition to the Local Industrial Strategy.
8. A proportion of UKSPF funding should be given to each LEP and earmarked for LFAs. LEPs should be free to set their own criteria for how this funding is awarded with input from the small business champion on the LEP board and their local FSB.
9. As agreed by the Government, there must be a small business champion appointed to every LEP Board before the EU funds are repatriated.
10. Financial management training needs to be made available in LFAs, alongside all access to finance schemes. This is particularly needed for those businesses with turnover or low profitability issues, and those businesses that routinely use invoice discounting to free up liquidity.
11. There must be continued support for LEPs to deliver these types of 'soft skill', face-to-face resources which businesses find valuable. There should also be expansions to increase accessibility and outreach at local levels.

INTRODUCTION

For many years, both the EU and the UK have targeted their business support policies towards the small percentage of businesses that had potential to grow rapidly, using job creation as the principal measure of growth. One of the main drivers for growth was expected to be new to market innovation.

The UK Government has now been considering whether more attention should be paid to productivity rather than job creation as a policy objective, and whether more support should be provided for the so-called long tail of low productivity firms that need new to firm innovation rather than new to market innovation to improve productivity.

This report looks at how the support needs of firms in LFAs might differ from the needs of businesses in more prosperous areas and what policy recommendations could make to improve the distribution of funding through the UKSPF.

By using the Index of Multiple Deprivation (IMD) to map LFAs, it is possible to identify data down to units of around 1,500 population rather than relying on regional averages, which would have been the case if GVA was the measure used. This means that areas can be identified wherever they occur. This is important because while LFAs are concentrated in the obvious areas like the older industrial cities of the north or seaside towns, they can be found in most big urban areas, even the prosperous ones.

There are some limitations to this approach. The data used on firms is workplace-based, whereas the IMD is residence-based. Although in practice, this does not seem to be a significant limitation, it does not pick up variations in age profile and, in particular, the proportion of retired people in the population which makes a material difference to place-based productivity. It does not explain why these areas have become less favoured and many of them have very distinct local histories that require individual interventions to put right.

One caveat that runs through this report is that, at time of writing, the final terms upon which the UK will exit and engage with the EU is not known. Therefore, some rules around the UKSPF, such as state aid restrictions, may or may not be applicable, depending on the terms of the UK's withdrawal. For the purposes of this report, it is assumed that state aid rules will apply, and all recommendations made are subject to such rules.

COMPARING PERFORMANCE AND USE OF BUSINESS SUPPORT ACROSS THE UK

The analysis for this report, undertaken by the Enterprise Research Centre, draws on data from two recent surveys of small businesses in the UK and focuses on small businesses with one or more employees. The 2018 Micro-business Britain survey provides detailed information on business ambition for firms with one to nine employees. The 2017 wave of the Longitudinal Small Business Survey (LSBS) provides information on business support and firm strategy and performance for all small businesses. The aim of the report is to identify the key barriers to growth and improved productivity faced by small businesses operating in LFAs and provide some insight into their use of business support.

LFAs are defined using the IMD, which provides an indication of the overall level of welfare of neighbourhoods (over 32,000 in England alone).² The most recent measures were published in 2015, slightly pre-dating the business data used in this report. The IMD is based on baskets of indicators relating to seven domains of deprivation:

- Income deprivation
- Employment deprivation
- Education, skills and training deprivation
- Health deprivation and disability
- Crime levels
- Barriers to housing and services
- Living environment deprivation

Prior to the most recent publication of the IMD in 2015, an earlier analysis was conducted in 2010. Over the 2010 to 2015 period, the geographical distribution of the IMD remained relatively stable, i.e. areas that had high levels of deprivation in 2010 were also very likely to remain similar in 2015. This report follows standard practice by defining LFAs as those in the most deprived 15 per cent of local areas across the UK. These areas occur in all regions of the UK and in all major cities.

The Longitudinal Small Business Survey (LSBS) is the largest nationally representative survey of small businesses in the UK.³ It was conducted between August 2017 and January 2018 and provides detailed information on the performance and strategies of small businesses across the UK. The analysis reported here focuses on the 2017 cross-sectional sample of the LSBS, in particular businesses with one or more employees. A total of 4,771 small businesses are included in the analysis reported here; 586 in areas marked by significant deprivation and 4,185 in other areas of the UK.

The Micro-business Britain survey aimed to build a representative picture of established micro businesses in the UK. The focus was on established micro businesses, i.e. firms with one to nine employees that had been established for three years or more. Firms were also excluded from the survey if they were branches, divisions or subsidiaries of larger companies; if they were charities; or if they were part of the public sector. The UK survey was undertaken by telephone using a CATI system between February and May 2018, based on a commercially sourced sampling frame and achieved a response rate of 9.3 per cent. The survey covered 928 firms based in LFAs in the UK and 5,326 firms in other areas.

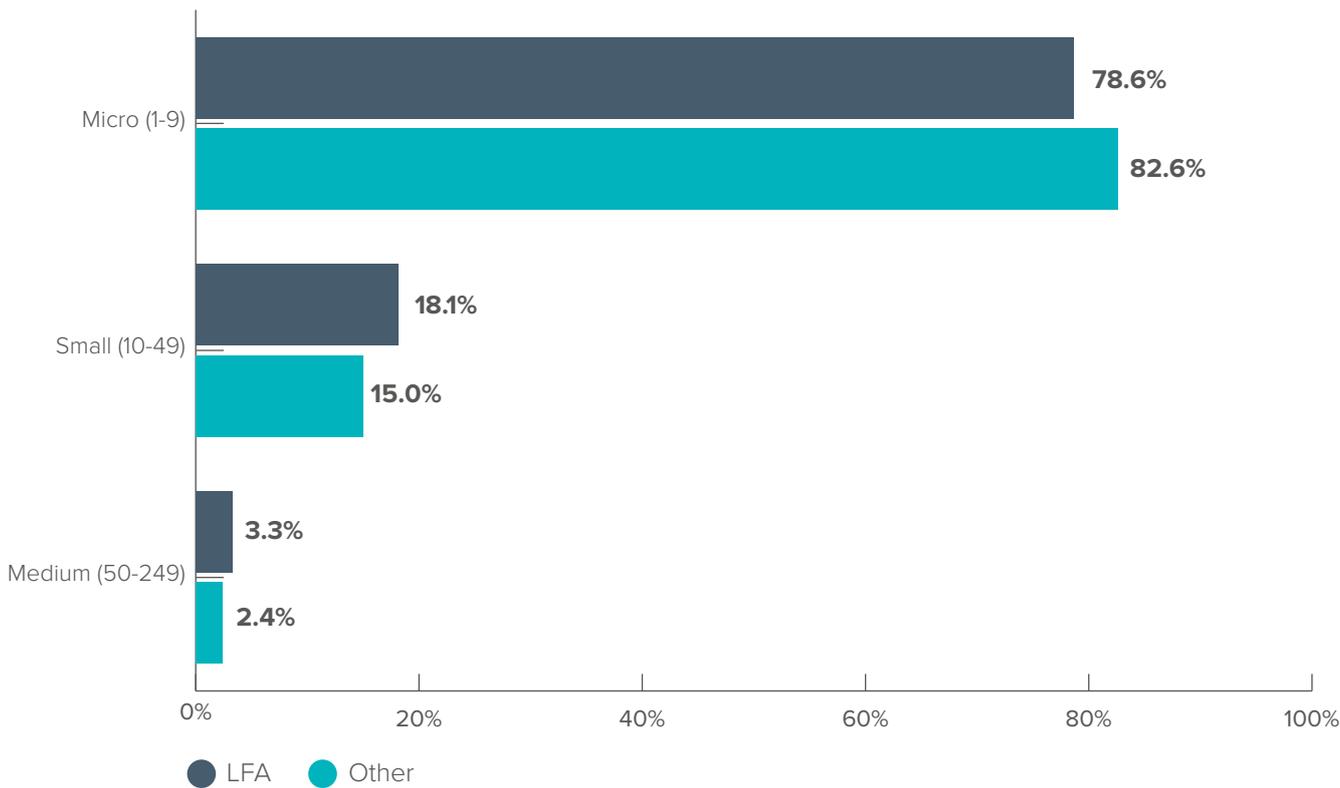
² MHCLG, Indices of Deprivation, 2015, <https://www.gov.uk/government/statistics/english-indices-of-deprivation-2015>.

³ BEIS, Small Business Survey 2017: Businesses with employees, 2017, <https://www.gov.uk/government/statistics/small-business-survey-2017-businesses-with-employees>.

PROFILING SMALL BUSINESSES IN LESS FAVOURED AREAS OF THE UK

The basic size distribution of small businesses in LFAs is relatively similar to other parts of the UK as Figure 1 indicates. In both areas, around 80 per cent of small businesses with employees were micro firms (one to nine employees), around 17 per cent were small firms (10 to 49 employees) and the remaining two to three per cent were larger medium-sized firms. Micro firms are slightly under-represented in LFAs, which have a larger proportion of small and medium-sized firms.

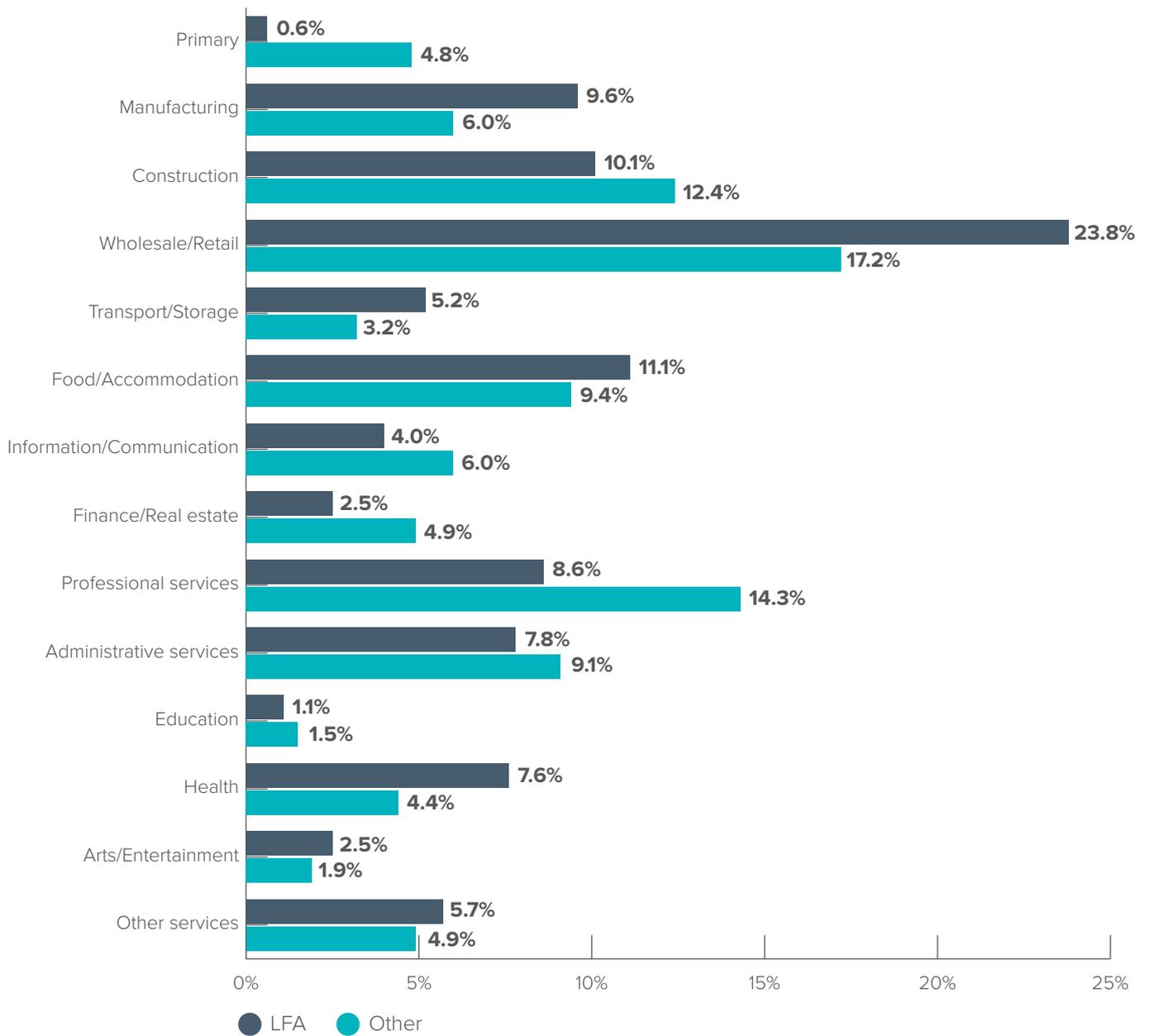
Figure 1: Size distribution of the SME population: LFAs and other UK areas



Small businesses in LFAs also have a rather different sectoral mix to those in other areas of the UK (Figure 2). In particular, manufacturing, wholesale and retail, transport, storage, and health services are over-represented. This reflects the urban context of many LFAs. Sectors where earnings levels tend to be higher, such as information and communications services, finance and professional and administrative services, are under-represented in LFAs.

This is also likely reflective of a geographic split in the types of LFAs in the UK. For example, although Manchester may be a prosperous city with access to a high number of professional services, there are still likely to be businesses in LFAs based there. Equally, coastal towns and villages are less likely to have the same level of professional services as larger cities, yet still have businesses located in LFAs.

Figure 2: Sectoral composition of the SME population: LFAs and other UK areas



Manufacturing, wholesale and retail businesses operate differently from businesses in the professional services sector – where most of the cost, operation and skills revolve around its staff.

For example, in 2017 PwC published the results of its law firm survey Time for Change which showed that, outside of the top 50 firms, the average cost of staff accounted for over 50 per cent of all outgoings.⁴ Manufacturing and retail, although they have their own staffing costs, tend to be much lower, while the cost of machinery and storage (capital costs) are a higher proportion of total cost to business.

The lack of professional services in LFAs, such as law firms or accountants, also has knock-on consequences when it comes to the types of business support accessed by small businesses. This will be discussed in the business support chapter.

As noted earlier, micro businesses are slightly under-represented in LFAs in the UK, which means that firms in these area are on average marginally larger in terms of employment and turnover than those in other parts of the UK (Figure 1). Firms in LFAs are also marginally older than those in other parts of the UK – 32 years compared to an average of 29 elsewhere. They are also significantly more likely to be owned by people from an ethnic minority and significantly less likely to be family-owned than those elsewhere (Figure 3).

⁴ PwC Time for Change, 2017 <https://www.pwc.fr/fr/assets/files/pdf/2017/12/law-firms-survey-report-2017.pdf> p6

Figure 3: Scale and ownership characteristics⁵

Area	LFA	Others	All
Number of observations	586	4,185	4,771
Number of staff (average) ^{***}	10.0	8.2	8.4
Average turnover (£) (average)	1,270.7	1,102.0	1,118.8
Average age of business (years)	31.9	28.7	29.0
Female-owned (per cent)	20.7	20.7	20.7
Ethnic minority-owned (per cent) ^{**}	4.7	1.7	2.0
Family-owned (per cent) ^{**}	64.4	69.8	69.3

Support in LFAs needs to be tailored to the needs and requirements of these different communities. Engagement with all small businesses in LFAs needs to be carefully considered, but particular attention needs to be given to how best to engage business leaders from ethnic minority backgrounds.

RECOMMENDATION

All LEPs should have an engagement strategy that identifies and plans support for businesses in LFAs, including those from ethnic minority backgrounds. This could either be part of, or an addition to, every Local Industrial Strategy.

For small businesses – and particularly micro businesses - employment growth is a potentially misleading performance indicator. This is because of the types of sectors they are likely to be working in, and that many already have a higher level of employment. This report focuses on turnover growth as our key performance metric. Here, there is a marked and statistically significant difference between firms in LFAs. Turnover growth is markedly lower as firms in the LFAs grew their sales by 0.7 per cent in the year prior to the survey compared to 3.2 per cent in other parts of the UK (Figure 4).

Figure 4: Turnover growth⁶

Area	LFA	Others	All
Number of observations	586	4,185	4,771
Turnover growth in year prior to survey (avg, per cent) ^{**}	0.7	3.2	2.9

In summary, small businesses in LFAs tend to be marginally larger than those in other parts of the UK and are concentrated in manufacturing, wholesale and retail and transport services sectors. Some higher value added sectors – particularly professional services – are under-represented in LFAs. This probably reflects the concentration of LFAs in urban areas with a historical focus on manufacturing industries. Small businesses in LFAs are also more likely to be owned by members of ethnic minorities than those elsewhere but are less likely to be family-owned. Small businesses in LFAs also reported significantly lower turnover growth than firms in other parts of the UK in 2017.

The most concerning finding from our profiling of small businesses in LFAs is the relative lack of growth in these businesses compared to that of other areas. In part this is due to the types of sector business in LFAs are more likely to be involved in, and the lack of high value added sectors such as professional services. However, this does not negate the need or the potential for businesses in these areas to grow at similar, or perhaps, greater rates than those small businesses in other areas, but that, perhaps, business support in these areas needs to be thought about differently. The UKSPF offers an opportunity to do just that.

The following sections in this report will set out both the ambitions of small businesses in these areas, as well as the challenges they face. The report will also consider what role ESIF has had in affecting this, and what can be done better under UKSPF to better support small businesses in LFAs of the UK.

⁵ Data from the LSBS 2017. Observations are weighted to give representative results. * indicates a significant difference at the 10 per cent level, ** at 5 per cent and *** at 1per cent.

⁶ Ibid

UNDERSTANDING BUSINESS AMBITION IN LESS FAVOURED AREAS

Ambition plays a key role in determining firms' engagement with new market opportunities and their willingness to take business risks. Previous research has linked owner-managers' growth ambitions to the subsequent growth and performance of the firm.⁷ The Micro-business Britain Survey uses a new set of ambition questions which reflect the dual structure adopted in some business development programmes.

The Dutch Growth Accelerator programme, for example, asks attendees to reflect on their own individual aspirations for the future and separately on their aspirations for the future of their business.⁸ Given the nature of micro businesses, which make up the majority of businesses in all parts of the UK, these two sets of aspirations are often strongly interlinked. But for many owner-managers their business aspirations will be a means towards a more personal ambition.

Despite their difficult operating environment, business leaders in LFAs are just as ambitious for their businesses and for themselves, as in other areas. Here, the proportion of respondents ranking each aspiration as 'important' or 'very important' (Figure 5) is considered. Nearly a quarter of micro businesses in LFAs are seeking to build a national or international business, a similar proportion to that in other areas of the UK. Similarly, nearly three quarters of respondents from LFAs who aim to 'keep their business similar to how it operates now', similar to that in other parts of the UK (Figure 5). This does not, however, mean that they are growth shy, but rather averse or ambivalent, making radical and fundamental changes to business models. More difference is evident in terms of a firm's desire to grow rapidly and exit – which is a significantly more common motive in the LFAs (37% of firms). The desire to create and develop more professional HR practices is also particularly prominent in LFAs. This could be due to a number of reasons, such as having more staff, as evidenced in Figure 3.

Figure 5: Business ambition among micro businesses: LFAs and other areas⁹ (percentage of firms saying each objective is important or very important)

	LFA	Others	All
Number of observations	928	5,326	6,254
To build a national and/or international business	23.1	21.9	22.1
To keep my business similar to how it operates now	72.9	73.9	73.7
To grow my business rapidly and profitably with a view to exit***	37.4	29.7	30.9
To develop more professional HR practices in the business***	27.1	22.3	23.0
To create a culture of employee engagement	55.6	53.1	53.5
To increase the social and environmental benefits of the business	50.2	47.0	47.5

Individual's personal ambitions suggest a rather different set of priorities, with a marked emphasis on 'freedom' and 'flexibility' across both LFAs and other parts of the UK (Figure 6). This is consistent with much of the research literature on self-employment and entrepreneurship, which stresses the non-financial as well as financial benefits of being your own boss. The financial aspect of running a business proves important for some, however, with 44 per cent of all business owners in LFAs regarding it as important 'to build great wealth or a very high income'. It is also possible to have more than one single reason or ambition for starting a small business, this is reflected in the data below.

⁷ Hermans, J., Vanderstraeten, J., Van Witteloostuijn, A., Dejardin, M., Ramdani, D., & Stam, E. (2015). Ambitious entrepreneurship: a review of growth aspirations, intentions and expectations. In *Entrepreneurial growth: individual, firm and region* (Vol. 17, pp. 127-160).

⁸ OECD. (2012). *An International Benchmark analysis of public programmes for high growth firms*. Paris.

⁹ Data from the Micro-business Britain Survey. Observations are weighted to give representative results. *indicates a significant difference at the 10 per cent level, **at 5 per cent and ***at 1 per cent.

Figure 6: Personal ambition among micro businesses in LFAs¹⁰ (percentage of firms saying each objective is important or very important – not mutually exclusive)

Area	LFA	Others	All
Number of observations	928	5,326	6,254
To have greater flexibility for my personal and family life	82.9	80.7	81.1
To have considerable freedom to adapt my own approach to work	81.3	81.1	81.1
To have a chance to build great wealth or a very high income	43.6	40.9	41.3
To fulfil a personal vision of becoming a successful business leader in my community**	49.5	43.5	44.4
To build a business to hand on to my family	44.4	41.9	42.2
To be able to retire	66.4	64.1	64.4

Only one aspect of personal ambition proves significantly different between LFAs and other areas. The proportion of business leaders aiming to 'become a successful business leader in my community' is significantly greater in LFAs than in other parts of the UK (Figure 6).

In summary, the profile of growth ambition is very similar between firms in LFAs and those in other parts of the UK. Around 20 per cent of businesses in LFAs aim to 'grow a national or international business' compared to around 75 per cent which are more focussed on 'keeping the business similar to how it operates now'. The aspiration for rapid growth and exit is significantly stronger in LFAs than elsewhere in the UK. Owner-managers in LFAs are also significantly more likely to aim to 'become a successful business leader in their community'. Although flexibility and freedom are still the main personal ambitions of small businesses in both LFAs and other areas, what is particularly striking is that small businesses in LFAs have greater levels of ambition within their community.

This enthusiasm is matched too when their business ambitions are considered. In all but one category presented in Figure 5, small businesses in LFAs outperform small businesses in other areas with regards to ambition. The only area where small businesses in LFAs did not score higher than those in other areas was the number of businesses aiming 'to keep my business similar to how it operates now'.

Although the overall level of ambition from small businesses could be improved, there is a greater level of general ambition from those small businesses in LFAs. This should be something that future government policy takes advantage of when looking at SME business support, especially if its longer term aim is to increase growth in the sector.

RECOMMENDATION

The UKSPF should keep a specific focus on small businesses as is currently the case under ESIF (priority axis 3). This would include a sub-priority for small businesses in LFAs, whether in urban, rural or coastal areas to cater for their specific needs

Overall, small businesses across LFAs are focused on business survival, hence the reluctance to make radical business plan changes; however there is a strong undertone of ambition for growth and success in these areas, as well as a greater connection to their local community. This is perhaps reflective of the general focus for small businesses on surviving and struggling with the day-to-day issues of running a business.

Surprisingly, the findings show a high proportion of small businesses in both LFAs and other areas which ranked creating a culture of employee engagement and increasing social and environmental benefits of the business as important or very important (Figure 5). This, combined with the personal ambitions of many business owners (Figure 6), shows that small businesses across the board have wider ambitions and are aware and linked to their local communities, but are perhaps struggling to keep their business in the black.

This will be explored further in the next section, looking at the challenges and difficulties facing small businesses in LFAs and other areas.

¹⁰ Data from the Micro-business Britain Survey. Observations are weighted to give representative results. *indicates a significant difference at the 10 per cent level, **at 5 per cent and ***at 1 per cent.

CHALLENGES, STRATEGIES AND FINANCE

Business challenges

The LSBS survey data provides an indication of the percentage of small businesses in LFAs and other areas of the UK facing specific obstacles. The most commonly cited challenges related to competition, regulation and taxation (Figure 7). Here, no significant difference is seen in the proportion of small businesses reporting these obstacles in LFAs and other parts of the UK. A smaller proportion of firms in both LFAs and other parts of the UK reported challenges with the National Living Wage, pensions, and the cost and difficulties in obtaining finance. In each case these challenges were emphasised by a higher proportion of firms in LFAs than in other parts of the UK (Figure 7). It is perhaps notable that each of the challenges reported as more significant in the LFAs related to business costs.

Figure 7: Major business challenges – percentage of small businesses reporting each challenge¹¹

Area	LFA	Others	All
Number of observations	586	4,185	4,771
Competition in the market	52.6	51.3	51.5
Regulations, red tape	50.2	45.4	45.9
Taxation, VAT, PAYE etc	45.5	40.7	41.2
Staff recruitment and skills	34.4	37.6	37.3
National Living Wage**	26.4	19.5	20.2
Workplace pensions**	25.8	20.2	20.8
Availability/cost of suitable premises**	24.6	17.5	18.2
UK exit from the EU	23.2	27.2	26.8
Obtaining finance **	22.6	17.5	18.0

It is also notable that alongside the lower level of growth achieved, a significantly smaller proportion of firms in these areas reported trading profitably than in other parts of the UK (Figure 8). 79 per cent of firms in LFAs generated a profit in 2017, compared to 86 per cent in other parts of the UK.

Although a lack of relative profitability and turnover among small businesses in LFAs may seem concerning, it is important to consider this in the context of the general profile of small businesses in LFAs. They are likely to be slightly older businesses and have higher numbers of employees (Figure 3).

Further, given that the concerns and challenges faced by small businesses in LFAs are not dissimilar to those in other areas, the approach taken to address issues in the two different areas do not need to be drastically different, but tailored to the particular needs and characteristics of the areas.

As seen in the first section, small businesses in LFAs carry strong levels of ambition, both personally as business owners and for the business itself, with a particular connection and context of their businesses within local communities. What is apparent, however, is that these businesses also struggle more with the general cost of doing business (i.e. National Living Wage, pensions auto-enrolment, cost of premises).

There could be a number of individual reasons for this, however it shows that a more careful approach to business support is needed. It should focus on both the day-to-day difficulties that businesses in LFAs are facing, but also that high growth programmes should not be restricted to just those businesses already experiencing growth and profitability.

In short, profitability does not always reflect potential.

¹¹ Data from the LSBS 2017. Observations are weighted to give representative results. *indicates a significant difference at the 10 per cent level, **at 5 per cent and ***at 1per cent.

Figure 8: Profitability – percentage of small businesses reporting each challenge¹²

Area	LFA	Others	All
Number of observations	586	4,185	4,771
Firms generating a profit or surplus**	78.5	85.6	84.8

However, at the moment the profitability of small businesses in LFAs does have knock-on consequences for their ability to access a range of business support, especially those around accessing finance and support.

Often under current reporting rules, projects in receipt of ESIF funding are required to state the projected number of jobs created, as well as a number of other metrics. Historically, the emphasis has been on the number of jobs.

For example, small businesses wishing to apply to a cross LEP area business growth programme must:

- Create at least one equivalent full-time job for every £10,000 of grant support received.
- Must result in net new jobs (by comparing staff levels at the start and end) which are expected to be sustained for a minimum of one year.
- Apprenticeships, agency and graduate placements cannot be claimed as jobs created.¹³

This is an example of the type of requirements commonly placed within grant applications that place a specific requirement to create jobs.

This makes the process and viability of many schemes difficult for businesses in LFAs, which, as already shown above, are less likely to be generating a profit (Figure 8), presumably less capable of absorbing risk, and already at higher staffing levels than those small businesses in other areas (Figure 3). Although, questions remain to be answered regarding the skills level of employees and small businesses in LFAs, the core issue for these businesses is not the number of employees.

Therefore, a heavy focus on job creation does not speak to the needs of businesses in LFAs, and may well be putting off small businesses in other areas that are seeking help.

There are also advantages to be gained from the Welsh experience (set out in more detail later in the report), where they have begun to change the emphasis away from a cost per job model and more towards a set of key themes. Although a look towards more strategic goals does exist within the English landscape, it is overpowered by the necessities surrounding job creation.

Schemes designed to support businesses in LFAs need to have fewer arbitrary qualifications and attachments, such as linking its use to the number and cost per job created. Although, there will still be a need to ensure value for money for the tax payer. Instead, a greater focus should be given on achieving strategic aims, such as productivity, modernisation, decarbonisation, job quality and automation.

As noted from the drivers of small businesses in LFAs (Figures 5 and 6), small businesses do not exist solely for the reason to employ other people, although this is a positive effect. Therefore, creating schemes that speak to the drivers of small businesses in LFAs (growth, profitability, success) but conditioning them on the number of jobs created, is counterproductive.

Conditions of funding and other types of business support should reflect the aims of the funding or support, in that if productivity or another strategic goal is set, then this should be the measure by which the criteria is set.

This is a view shared among LEPs, a number of whom cited layers of complexity and bureaucracy as a common frustration in the current system. It was also felt that too often local projects were driven by national agendas, which were not necessarily suited to local needs.

One LEP spoken to identified the range of different documents out there to help set the agenda for LEPs. It was said that these documents add complexity to any project bids going through, and create such a complex set of different and sometimes conflicting priorities that it becomes difficult to get projects off the ground.

¹² Data from the LSBS 2017. Observations are weighted to give representative results. ** at 5 per cent.

¹³ The Business Development Programme, Greater Birmingham & Solihull LEP, 2016 https://www.gbsleprowthhub.co.uk/upload/Programme_criteria__application_guidance_notes_and_processes__BDP_vSept2016.pdf

Having a more centralised body or theme to oversee these overarching strategic goals and setting clear guidelines, would help free up LEPs to focus on the types of project that best benefits their businesses.

While overall objectives and strategies need to be set and met, what these mean locally may differ to what they mean nationally. Local Industrial Strategies should be setting out local priorities and needs. However, there is a danger that these documents become too prescriptive and set the agenda for 'box ticking' when it comes to projects – which businesses in LFAs struggle to meet.

Although oversight and an overall strategy is needed, LEPs should be given some freedom to deviate to help deliver for business in LFAs.

RECOMMENDATION

A proportion of UKSPF funding should be given to each LEP and earmarked for LFAs. LEPs should be free to set their own criteria for how this funding is awarded with input from the small business champion on the LEP board and their local FSB.

RECOMMENDATION

As agreed by the Government, there must be a small business champion appointed to every LEP Board before the EU funds are repatriated.

Use of external finance

Firms in LFAs are statistically more likely to perceive challenges in obtaining external finance than firms in other parts of the UK. In broad terms, the sources of finance being used by firms in LFAs and other parts of the UK are relatively similar, although there are some interesting contrasts.

The most common forms of external finance in both LFAs and other parts of the UK are credit cards, bank overdrafts and leasing (Figure 9). Funding from government grants or schemes was more common in LFAs (10.4% of firms) than in other parts of the UK (7.5%), although this difference was not statistically significant. Firms in LFAs were, statistically, more likely to be using factoring or invoice discounting than firms in other areas and less likely to be using peer-to-peer lending (Figure 10).

Figure 9: Percentage of firms using different types of finance¹⁴

Area	LFA	Others	All
Number of observations	586	4,185	4,771
Credit cards	31.0	33.2	32.9
Bank overdraft facility	28.7	31.2	31.0
Leasing or HP	22.8	22.7	22.7
Bank or other loans	17.3	16.8	16.8
Grants or schemes	10.4	7.5	7.8
Factoring/invoice discounting**	8.7	5.0	5.4
Commercial mortgage	7.0	6.9	7.0
Family, partner loans	6.7	5.1	5.3
Equity Finance	3.1	1.6	1.7
Peer to peer lending ***	0.4	1.4	1.3

¹⁴ Data from the LSBS 2017. Observations are weighted to give representative results. * indicates a significant difference at the 10 per cent level, ** at 5 per cent and *** at 1per cent.

The greater reliance of small businesses in LFAs on factoring and invoice discounting suggests that they may have liquidity issues and difficulty processing late payments. Essentially, these practises involve releasing 90 per cent of the due invoice via a third party provider, with the third party or business then responsible for chasing the due invoice.

This would also speak to small businesses in LFAs and the difficulties they face with regards to the general cost of business. Access to finance and liquidity for small businesses in these areas could well be helped by a greater focus in business support on financial and invoice processing skills.

RECOMMENDATION

Financial management training needs to be made available in LFAs, alongside all access to finance schemes. This is particularly needed for those businesses with turnover or low profitability issues, and those businesses that routinely use invoice discounting to free up liquidity.

In summary, the business challenges facing firms in LFAs closely reflect those in other parts of the UK, with some, including factor invoicing and peer-to-peer lending, being statistically significant differences between businesses in LFAs compared to other areas. Things like competition, regulation and taxation, VAT are seen as the key challenges to success. A range of cost-based items relating to the National Living Wage, workplace pensions and premises costs were more commonly cited as barriers by firms in LFAs. This was reflected in a lower proportion of profitable firms in the LFAs than in other parts of the UK.

There are, of course, other schemes that provide access to finance, such as the British Business Bank's (BBB) Access to Finance scheme, which are not included within the individual list of ESIF projects, 'as well as individual Growth Hub projects in an area. However, this does not diminish the fact a small business' difficulty in accessing finance may be exacerbated by their location. Further, the number of different access to finance schemes, whether they are run directly via the LEP or signposted to national works such as BBB, paints an inconsistent picture of business support in this area across England.

At best, business support from ESIF funding in the form of financial investment into small businesses can be seen as patchy, in terms of its geographical spread. Small businesses in LFAs face challenges in accessing finance and are more likely to be involved in the manufacturing sectors. As highlighted earlier in the report, this means that the type of investment needed from these businesses is likely to be focused towards infrastructure and machinery, as opposed to staffing costs. This suggests there is greater potential for innovation opportunities, as new machinery replaces old.

Although access to finance may be difficult for small businesses across the UK, more rural areas face greater difficulty in accessing finance, owing to their geography and limited resource. Research suggests that the more innovative and growth-oriented small businesses in more rural and peripheral areas are most affected by this regional bias.¹⁵

Greater access to finance and a range of financial investment strategies is needed in order for small businesses in LFAs and rural areas to overcome perceived difficulties in both the day-to-day cost of business and the difficulties faced with access to finance.

Under UKSPF, the Government will have the opportunity to create and shape its own rules for distributing these funds across the UK and the devolved nations (subject to state aid rules). In this view England should perhaps consider the approach taken in Wales and Scotland (set out in more detail in their respective sections), to resolve the patchy and inconsistent picture of access to finance for small businesses in both LFAs and other areas.

Because access to finance is such an issue for small businesses in a range of different areas, the Government should bring the main national sources of finance under one roof. This will help recognition levels among small businesses which at present may find the scattered landscape of access to finance schemes confusing.

It would also open up the possibility of having two tiers of access to finance support, one focused nationally on overarching strategic goals, and a set of smaller, local, more niche target funds that LEPs would have greater control over and could tailor to their local areas.

¹⁵ Brown,R, Regional Differences Accessing Finance in UK Small businesses : Do They Matter? 2018 <https://www.enterpriseresearch.ac.uk/wp-content/uploads/2018/10/No6-SOTA-Regional-Differences-Accessing-Finance-R.-Brown-1.pdf>

Business Strategy

Previous research links a number of strategic activities to business growth and performance. Here, again based on data from the LSBS, consideration is given to whether there is any significant difference in the strategic activities undertaken by firms in LFAs and other parts of the UK. Perhaps surprisingly, there is no significant difference between the profiles of strategic activities of firms in each area (Figure 10). The proportion of small businesses with business plans is similar in both areas, as is the proportion of firms using external finance. 57 per cent of small businesses in LFAs have business plans compared to 52 per cent in other areas of the UK (Figure 10). A marginally higher proportion of firms in LFAs are providing training than in other areas of the UK but this difference is not statistically significant. Exporting and innovating are also equally common in LFAs and other areas of the UK.

Figure 10: Strategic positioning – percentage of small businesses¹⁶

Area	LFA	Others	All
Number of observations	586	4,185	4,771
Business plan in place	56.9	51.8	52.2
Using external finance	15.6	12.9	13.1
Providing on or off the job training	51.1	49.0	49.2
Exporting	18.0	19.9	19.7
Innovating (product or service)	37.8	35.0	35.3

NOTE: None of the above differences between small businesses in LFAs and other areas are statistically relevant

Although strategic positioning is largely similar between small businesses in LFAs and other areas, what is striking are the core numbers across all small businesses. For example, that only 52 per cent of small businesses have a business plan in place, perhaps highlights how far business support for small businesses has to go across all areas.

These are all relatively basic measures that businesses put in place; however, a number of small businesses simply don't have them. This is one area where it seems that every LEP and Growth Hub has at least one programme running, however, more needs to be done to improve access to these services.

These types of business support are most valued, as this is often where the one-to-one mentoring, business basics, and peer-led support systems are held. Of course, Growth Hubs and other private sector schemes are in place to supplement this area, but there is clearly still work to do for all small businesses.

¹⁶ Data from the LSBS 2017. Observations are weighted to give representative results. No differences are statistically significant.

BUSINESS SUPPORT

The LSBS survey provides some additional information on whether firms are using external business advice and where that advice is being sourced. Overall, around a third of small businesses reported using business support in the year prior to the survey. This proportion was very similar in LFAs and other areas of the UK (Figure 11).

Figure 11: Percentage of small businesses using business support¹⁷

Area	LFA	Others	All
Number of observations	581	4,126	4,707
Using external business support/advice	31.9	29.1	29.4

The most common sources of business advice for small businesses across all parts of the UK are accountants, consultants and business networks (Figure 12). The proportion of firms using each of these sources of external advice and information is broadly similar in LFAs and other parts of the UK. The main difference between the two areas is that solicitors are less commonly used as a source of advice by firms in LFAs than in other parts of the UK. However, in both cases the proportion of firms using solicitors as a source of advice is relatively small (Figure 12).

Figure 12: Sources of business advice and information¹⁸

Area	LFA	Others	All
Number of observations	586	4,185	4,771
Accountants	11.2	9.0	9.2
Consultant or business advisor	6.8	7.9	7.8
Business network/trade association	6.0	4.2	4.3
Solicitor**	1.8	3.5	3.4
Chamber of Commerce	1.7	0.4	0.6
Bank	1.5	0.6	0.7
University or other educational	1.1	1.1	1.1
Pensions regulator	1.0	0.2	0.3
Financial adviser	0.9	1.1	1.0
.GOV website	0.9	1.3	1.3
Internet search	0.9	1.3	1.2
Local council	0.7	0.9	0.9
Work colleagues	0.7	0.4	0.4
LEP	0.5	0.4	0.4
Family or friends *	0.0	0.2	0.2

Other notable features of the sources of advice used by firms is the extent to which this is dominated by private sector providers and remains predominantly face-to-face. In particular LEPs and local government were cited as sources

¹⁷ Data from the LSBS 2017. Observations are weighted to give representative results. There is no statistically significant difference between the proportion of small businesses taking advice between LFAs and other areas.

¹⁸ Data from the LSBS 2017. Observations are weighted to give representative results. * indicates a significant difference at the 10 per cent level, ** at 5 per cent and *** at 1per cent.

of advice and support by less than one per cent of small businesses (Figure 12). Use of the .GOV website or more general internet searches were also cited by less than one per cent of small businesses as important sources of advice or information.

The lack of small businesses in all areas identifying LEPs and public resources as sources of advice is perhaps the most concerning of all, especially when considering how best to shape the future of public small business support. This is in stark contrast to devolved nations such as Wales, where over 70 per cent of small businesses are aware of Business Wales.¹⁹

The business support landscapes in Wales, Scotland and Northern Ireland are vastly different to England; however, advantages can be gained from the devolved nations, especially in terms of improving small businesses' recognition of business support schemes. Wales and Scotland have also seen far less disruption in the business support landscape, giving small businesses a more consistent route to small business support.

As identified later in this report, it would be beneficial to bring aspects of business support under one banner, so that it is uniform across England and recognisable by small businesses. This should not come at the cost of excessive further churn to the business support landscape in England. LEPs, although a mixed picture in terms of quality across England, have continued to grow and build organisational capacity, and the latest LEP Review has set out policies to build on that further. A radical overhaul of LEPs and their role under UKSPF would not be helpful or necessary; however, greater steps must be taken to improve visibility.

LEPs are well-versed in delivering the types of soft skill areas of business support which businesses find valuable, such as mentoring and face-to-face contact. These areas should not be overlooked, as they can be difficult to administer from a centralised position, and require local links.

CASE STUDY

Through the partnership support of Greater Birmingham & Solihull LEP, the project connected with two directors of small businesses who were both very active within their own faith community (one through church and the other through temple). The feedback throughout the project was that the LEP began to understand that the business networks that the two directors were operating in, were not necessarily the traditional business networks of other SMEs, but heavily influenced through their faith and their networks around church and temple. This helped open up a whole new way on interacting and offering support to businesses in these types of networks which may not have traditionally interacted with the LEP.

RECOMMENDATION

There must be continued support for LEPs to deliver these types of 'soft skill', face-to-face resources, which business find valuable. There should also be expansions to increase accessibility and outreach at local levels.

It is worth noting that among firms using external business support the types of advice received were also similar between LFAs and small businesses in other UK regions (Figure 13). Around 69 per cent of firms using external advice in LFAs obtained information to help with the day to day running of their business compared to 65 per cent which sought advice related to growth or productivity improvement.

This again backs up the need for a more tailored approach to small business support under UKSPF. LEPs should be given the freedom and resources to continue to deliver the soft skill day-to-day advice, but under a national brand, whilst still retaining some aspect of larger strategic funding. Issues such as access to funding, whilst will always have some element of locality, may be better held and developed under the central brand, which can absorb more risk and move away from cost per job restrictions.

¹⁹ FSB Wales, 2018, Supporting Success: Business support beyond 2020 [https://www.fsb.org.uk/docs/default-source/fsb-org-uk/final-business-support-beyond-2020-\(english\).pdf?sfvrsn=0p10](https://www.fsb.org.uk/docs/default-source/fsb-org-uk/final-business-support-beyond-2020-(english).pdf?sfvrsn=0p10)

Figure 13: Types of business advice: information and/or strategic advice (percentage of firms receiving each type of external advice/support)²⁰

Area	LFA	Others	All
Number of observations	155	1,169	1,324
Information to inform the day to day business	68.5	60.7	61.5
Strategic advice to help with growth etc.	64.5	55.4	56.3

In summary, the use of external business support is relatively similar in the LFAs and other parts of the UK. Around a third of firms in each area took external advice in the year prior to when the survey data was gathered. In both areas the reasons for seeking advice were also similar. Accountants were the main source of business advice. Solicitors were used less often by firms in the LFAs as a source of external advice.

²⁰ Data from the LSBS 2017. Observations are weighted to give representative results. No significant difference was evident between areas. Some firms received both information and strategic advice.

COMPARISON WITH DEVOLVED NATIONS

Scotland

Business support in Scotland, much like the rest of the UK, is devolved, and has been since 1999.

The main public agents delivering business support in Scotland are Scottish Enterprise, Highlands and Islands Enterprise and Skills Development Scotland. These mechanisms provide a range of business support, both direct and indirect, such as specialist advice and funding/access to finance.

Local authorities also have a part to play in the delivery of business support in Scotland via Business Gateway. This provides a range of free business support, in the form of guides, seminars and face-to-face support with advisors.

Arguably, Scottish Enterprise has a greater focus on the larger strategic aims set out in Scotland's Economic Strategy,²¹ aligning their core objectives of investment, innovation, growth and exporting.²² Business Gateway on the other hand has a much greater focus on local areas and on day-to-day business support needs, while not neglecting the overall economic strategy.

Importantly, the Scottish business support landscape has its own brand identity, with Business Gateway and Scottish Enterprise sharing the same theming, making it instantly recognisable. Added to this, the two services interact and signpost to each other's services. For example if you are on the Scottish Enterprise website with a new start-up idea looking for help, you are immediately signposted to Business Gateway. This allows each to focus on its core objectives and strategic aims. This is also good for the business community, as it sees less of a fragmented picture of business support, and seemingly a 'whole Scotland' approach, despite its operating at a local authority level.

Over the last 10 years, Business Gateway annual report claims to have created over 100,000 jobs, and almost the same number of businesses started.²³ It also has very high satisfaction score from those who have used its service (seminars, advisors, online) with most contacting Business Gateway for help starting a business.²⁴ What is notable about these statistics is not just their high rating, but that they are statistics for the whole of Business Gateway, as opposed to just the services in one local authority – again emphasising the 'whole Scotland' approach. There is clearly benefit in this approach, as it helps ensure a consistent picture of business support across Scotland, and establishes branding among the business community.

Business support in Scotland should continue to be delivered along these lines, with any changes to the business support landscape in Scotland to ultimately be the decision of the Scottish Government. This benefits businesses by providing a consistent picture of support, at a time when the UK as a whole could be undergoing dramatic change.

RECOMMENDATION

For the Scottish Government to maintain overall control and discretion of how their share of the UKSPF is spent, maintaining existing devolution agreements.

ESIF has an important role to play in the financing of the business support infrastructure in Scotland, providing funds for Scottish Enterprise, Highlands and Islands Enterprise and Business Gateway.²⁵ Between 2014 and 2020, Scottish government received €476 million from European Regional Development Funds (ERDF) and €465 million from the ESF (both parts making a proportion of the overall ESIF). Although less reliant on ESIF due to funding formulas than other nations in the UK, the funding received nevertheless plays a crucial role in delivering business support in Scotland and its importance should not be disregarded.

For these reasons, all funding delivered under ESIF for the purposes of supporting businesses in Scotland (such as Scottish Enterprise and Business Gateway) should be protected under UKSPF.

²¹ Scottish Economic Strategy 2015 <https://beta.gov.scot/publications/scotlands-economic-strategy/pages/6/>

²² Scottish Economic Strategy 2015 <https://beta.gov.scot/publications/scotlands-economic-strategy/pages/5/> needs referencing to style

²³ Business Gateway 2017-18 annual report <https://www.bgateway.com/images/uploads/general/AnnualReport-25June18-02.pdf>

²⁴ 65 per cent – Ibid 2017

²⁵ Scottish Gov, Making Scotland more competitive in business <https://beta.gov.scot/policies/european-structural-funds/competitive-in-business/>

RECOMMENDATION

The overall allocation of funding for business support in Scotland should not be lowered under UKSPF, meaning vital business support services can be maintained.

The most recent changes to the system seen today came about through the Scottish Government's Enterprise and Skills Review launched in 2016.

The enterprise and skills review aimed to deliver 'the joined-up support that our young people, universities, colleges and businesses need' and would be an end-to-end review of enterprise and skills services in Scotland.²⁶ The review itself would focus on building the evidence of 'what works', capturing the user journey through business support, and looking at what services should be prioritised and how best to deliver them.

Although the review has only just entered its implementation phase, there are still a number of key lessons that can be learnt so far. For example, the review found a need to identify where to cut duplication further; and how best to support specific sectors, new joint approaches building on regional pilots and seeking partnership with local authorities were widely around economic support.²⁷

Each of these are key themes that could easily apply to many of the relationships in the English business support landscape.

Wales

The Welsh Government's vision of creating a 'one stop shop' for business support in Wales resulted in the creation of Business Wales back in 2013, which had a good record with 80,000 micro firms being established.²⁸

Wales has also seen the creation of the Development Bank of Wales (DWB), a publicly owned development bank to provide financing to small businesses, as well as managing well over £1 billion of public and private funds.²⁹

These are the main sources of business support in Wales, however there are also a number of smaller EU funded programmes which provide businesses support in a number of specialist ways, tailored to local communities and local needs. For example, Chwarae Teg's Agile Nation.

CASE STUDY

Chwarae Teg receives funding from ESIF and Welsh Government Agile Nation to help improve the position of women in the workforce across the nine priority sectors (axes) in Wales. This programme tailors business support to individual businesses helping them to attract, retain and develop talent, as well as improving diversity and inclusivity.

The funding for these programmes currently comes from a number of different sources, but mainly comprises a mix of European Social Funds (ESF), European Regional Development Funds (ERDF) and the European Investment Bank (EIB), which are administered down through devolved channels to Business Wales and the Wales Development Bank.

The success of schemes such as Business Wales are explicitly measured in the number and cost of the jobs created. In this measure, Business Wales represents relatively good value for money at £3,031.24 per job.³⁰ The Development Bank Wales also represents good value for money, after allowances for the types of investment (repayable loans, default rates and equity investment) are taken into consideration (£2,909 per job).³¹

However, across the UK there had been a general push towards creating higher quality jobs and increasing productivity levels, as unemployment sits at relatively low levels. This is reflected in the Welsh Government's recently published Economic Action Plan, where a greater focus is given towards a broader range of issues such as job quality, productivity, and general themes such as decarbonisation and automation.³²

26 Keith Brown, 2016, enterprise and skills review: call for evidence <https://beta.gov.scot/publications/enterprise-skills-review-call-evidence/>

27 Enterprise and Skills Review report on phase 2: enterprise and Business support <https://beta.gov.scot/publications/enterprise-skills-review-report-phase-2-enterprise-business-support/pages/5/>

28 FSB Wales, 2017, Wales' Missing Middle https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb_missing_middle_eng.pdf?sfvrsn=0 page 8

29 Development Bank Wales, funds we manage, <https://developmentbank.wales/about-us/funds-we-manage>

30 Welsh Government, 2015, Minister announces contact worth £50m for enhanced Business Wales Service [Gov.Wales/newsroom/businessandconomy/2015/151207-business-wales/?lang=en](https://gov.wales/newsroom/businessandconomy/2015/151207-business-wales/?lang=en)

31 FSB Wales, 2018, Supporting Success: Business support beyond 2020 [https://www.fsb.org.uk/docs/default-source/fsb-org-uk/final-business-support-beyond-2020-\(english\).pdf?sfvrsn=0p10](https://www.fsb.org.uk/docs/default-source/fsb-org-uk/final-business-support-beyond-2020-(english).pdf?sfvrsn=0p10)

32 Welsh Government, 2017, Economic Action Plan <https://gov.wales/topics/businessandconomy/economic-action-plan/?lang=en>

RECOMMENDATION

When determining value for money across the UK, business support should move beyond simple job creation targets towards a broader economic conversation. This could include modernisation, decarbonisation targets, productivity gains, and the social impact on communities.

The mechanisms by which European funding is delivered in Wales are vastly different to that in England, which has a more decentralised structure. Both Business Wales and the Development Bank of Wales are, in part at least, run or owned by the Welsh Government, meaning more centralised control.

Part of the rationale for this was to maintain brand recognition, and to this extent the main provider of business support in Wales, Business Wales, is well-recognised among Welsh businesses. Research by FSB Wales found that over 70 per cent of respondents were aware of the Business Wales Service.³³

It is important, given the high levels of recognition among small businesses in Wales, that these brands and operating practices are maintained under UKSPF. Further, the Welsh Government is already moving beyond a job creation model and towards more strategic goals, which is a positive for a more tailored approach to providing business support in more difficult areas.

Given the significant upheaval any major change would create, the progress being made at a devolved level and that economic development is already devolved, the Welsh Government should continue to retain these controls and powers under UKSPF.

RECOMMENDATION

For the Welsh Government to maintain overall control and discretion of how their share of the UKSPF is spent, maintaining existing devolution agreements.

European funding in Wales is heavily interwoven into Welsh Government programmes, with £295m making up the bulk of the economic actions each year via structural funds.³⁴ This is equivalent to roughly one third of the total Welsh Government's own budget for Economy and Transport (of which around two thirds related to transport programmes).³⁵

When the UK leaves the European Union, small businesses in Wales believe that Wales should continue to receive the same amount of funding as it does currently (78% of respondents).³⁶ When asked, 61 per cent of respondents in Wales said that business support should be prioritised when it comes to future funding.³⁷

The interesting observation here is that, across the UK, of those who wanted funding for business support prioritised, 71 per cent were businesses which had aspirations to grow in the next 12 months.³⁸ This suggests that across the UK business owners with growth aspirations believe Business Support funding to be important and that it should be given priority in future funding structures.

Any reduction of the overall amount of funding available to the Welsh Government for business support would be detrimental to the interests of those businesses with growth aspirations.

RECOMMENDATION

The overall allocation of funding for business support in Wales should not be lowered under UKSPF, meaning vital business support services can be maintained.

33 Ibid p.13

34 Welsh Government, 2017, Securing Wales' Future Transition from the European Union to a new Relationship with Europe https://beta.gov.wales/sites/default/files/2017-01/30683%20Securing%20Wales%20Future_ENGLISH_WEB.pdf

35 Welsh Government, 2017, Draft Budget Proposals 2018/19 <https://beta.gov.wales/draft-budget-2018-2019>

36 FSB Wales, 2017, Making Brexit Work for Wales, https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb_making_brexit_work_wales_eng.pdf?sfvrsn=0

37 FSB future of EU funding and business support survey <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/reformed-business-funding.pdf> p48

38 Ibid

Northern Ireland

Northern Ireland is a small business economy, with the highest concentration of SMEs in the UK. These businesses make the greatest contribution to turnover, employment and GVA.

FSB NI research indicates that 80 per cent intend to grow, so the potential of the sector to expand and flourish under the right conditions is considerable and must not be overlooked.

Business support in Northern Ireland is delivered through a multiplicity of agencies, including Invest NI, Enterprise NI, local government (which are responsible for the 'Go For It' start-up programme), further education colleges, universities, Catalyst Inc (formerly the Northern Ireland Science Park, and which acts as a channel for much of the available support and finance available for innovation and R&D).

A 'one-stop shop' for information is provided through www.nibusinessinfor.co.uk. This is comprehensive but underused, due to the need to search the site for the most relevant and appropriate advice and the lack of availability of direct face-to-face communication, which would help businesses identify what they need to look for.

All of these schemes are funded via ERDF, which is under the managing authority of the Department for the Economy, and ESF, which falls under the managing authority of the Department of Communities.

Research from 2015 undertaken by Ulster University Business School for FSB revealed that the main barriers and obstacles to doing business in NI were not dissimilar to those found by the ERCs research in this paper.³⁹

When asked which barriers impacted most on the success of their business in the past twelve months, the lack of suitable business support ranked highly, with 27 per cent of small businesses identifying this as a main obstacle. In fact, only 21 per cent of businesses identified a government or quasi-government source, and 14 per cent had no main source of business support. Perhaps most troubling is that nine per cent of respondents didn't know where to go for support.⁴⁰

Small businesses are confused about the myriad support available and find it difficult to identify and access the right source of advice or help. They found that the advice they were offered tended to be too general and did not address the specific problems which they experienced during the day to day operation of their businesses. As a consequence, the uptake of small business support, offered by public sector funded organisations, is lower than it should be.⁴¹

RECOMMENDATION

The Government of Northern Ireland should look to create a Small Business Advice Centre Network which complements and enhances the effectiveness of the array of existing agencies currently providing support in Northern Ireland.

Advice Centres would form an important entry point to the support environment for small businesses, which too often fail to access existing provision to acquire the help, information and advice they require to flourish. A Small Business Advice network would help them to navigate the maze of available support initiatives and providers.

FSB NI proposes that Advice Centres would constitute a physical existence in premises which are as accessible as possible, offering a uniformly-branded and recognisable high street presence to help promote entrepreneurship at the core of Northern Ireland society

However this, like all devolved nations, should be a decision to be made by the respective government.

39 The Contribution of Small Businesses to Northern Ireland, Ulster University SME Centre / FSB, 2015

40 FSB, Business Support in Northern Ireland, 2016 [https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-ni-business-support-paper-\(march-2016\)3895bcba4fa86562a286ff0000dc48fe.pdf?sfvrsn=1](https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-ni-business-support-paper-(march-2016)3895bcba4fa86562a286ff0000dc48fe.pdf?sfvrsn=1)

41 Ibid

RECOMMENDATION

For the Government of Northern Ireland to maintain overall control and discretion of how their share of UKSPF is spent, maintaining existing devolution agreements.

Further, if NI is to build and improve its business support system, in line with the recommendations from FSB NI, then resources must also be made to match.

RECOMMENDATION

The overall allocation of funding for business support in Northern Ireland should not be lowered under UKSPF, meaning vital business support services can be maintained and improved.

ENGLAND IN REVIEW

Landscape

As with other devolved nations, the business support landscape in England looks very different to that of Scotland, Wales and Northern Ireland. As well as the usual collection of private business support services (accountants, local banks) Local Economic Partnerships are the main way business support is administered through England.

Since their inception in 2010 LEPs have had a range of funding systems to support their projects, however most have been limited in amount and time available, creating winners and losers across LEP areas depending on who wins funding.⁴² It wasn't until the Heseltine Report in 2012 that the argument for greater devolution of funding from central Government to LEPs was made so that economic development 'is tailored directly to the individual challenges and opportunities of local communities'.⁴³

In 2013 the Structural and Investment Fund Opportunities: Preliminary Guidance to Local Enterprise Partnerships was published, outlining plans to give LEPs responsibility for the delivery of ESIF for 2014-2020.⁴⁴ LEPs would then be responsible for creating a plan of action as how best to use the funding to benefit their local areas whilst meeting the overarching criteria set by EU regulations – including SME support.

This, by large, has been the main mechanism by which European funding has helped small businesses in England, with Scotland, Wales and Northern Ireland setting their own mechanisms detailed in other sections of this report.

These funds have been instrumental for LEPs to deliver business support programs, and will have to be replaced in some form after Brexit. The UK Government has committed to create a UKSPF to ensure that local areas continue to receive flexible funding for local needs, this includes replacing ESIF and small business support.

The LEP Review

LEPs in England have undergone dramatic changes since their inception back in 2010, most recently in the form of the LEP Review which set out a number of recommendations, largely focusing on the operational capacity and structure of LEPs.

The LEP Review announced a number of headline changes:

1. £20 million of additional funding to support the implementation of the changes and embed evidence in Local Industrial Strategies.
2. A requirement for women to make up one third of LEP boards by 2020.
3. New transparency measures and improvements to operational capacity.
4. LEPs to submit proposals for revised geographies – including overlapping.

While the LEP Review was much needed, some of the most important and welcome changes in the review for businesses in LFAs will focus around the building of organisational capacity. Following discussions with LEPs and looking at the current capacity of LEPs across England, it is clear that some LEPs have better capacity than others to deliver their objectives.

This is echoed by comments from LEPs in more rural areas of England, which have fewer resources but different challenges simply due to their geography and businesses in their areas. LEPs with limited resource will tend to focus on the easier to achieve results. This may mean that many businesses in LFAs miss out on the business support they need.

Going forward

Given the evidence above, it is clear that business support in England can be improved, but wholesale change and upheaval needs to be avoided, and a greater emphasis on businesses in LFAs could yield results as well as improving businesses in these areas.

42 House of Commons Research Briefings, LEPs, 2017 Matthew Ward <http://researchbriefings.files.parliament.uk/documents/SN05651/SN05651.pdf> P.8

43 The Rt. Hon the Lord Heseltine of Thetford, No Stone Left Unturned October 2012 p 5

44 BIS Structural and Investment Fund Opportunities: Preliminary guidance to Local Enterprise Partnerships, April 2013 p 9

One of the key changes that England can make comes from neighbouring countries in Wales and Scotland. Centralised brands are important for improving business recognition and delivering a consistent picture across all areas of England.

RECOMMENDATION

The UK Government should develop a Business England brand for business support in England to ensure a more consistent picture across the country and greater engagement.

The creation of an overarching brand would provide the mechanism for a number of business support systems, not just those delivered via UKSPF. This would greatly improve outreach and recognition of public support available for small businesses, as well as helping to provide a baseline level of support across England. Business England would share branding with LEPs, creating a whole-England brand for business support, which has both national and local tie-ins.

Further, one of the key complaints from LEPs and an inbuilt disadvantage for businesses in LFAs is that many business support investment and access to finance packages are based and conditioned on key factors, such as cost per job. Heavy restriction surrounding funding and investment drive out accessibility for businesses in LFAs and limit the potential of LEPs. Although strategic goals need to be met, and value for money for the tax payer, a loosening of these conditions could allow for a more tailored approach at LEP level while maintaining a focus on strategic aims at a national level.

RECOMMENDATION

Business England should be responsible for meeting the wider strategic goals set by the Westminster Government and making sure that there is a consistent picture of business support across England in some of the more crucial areas, such as access to finance.

LEPs should have responsibility, and funding for, a series of smaller access to finance schemes, specifically designed to target small businesses in an LFA of their LEP area. This funding should come with fewer, if any, cost per job requirements, and allow LEPs greater discretion over its local use – this would also help to address regional / rural difficulty accessing finance.

Business England would be responsible for ensuring that LEPs Local Industrial Strategies were appropriate, and ensuring the measures set out in the LEP Review were abided to, but also protecting the freedom of LEPs to tailor support to their local areas.

© Federation of Small Businesses

fsb.org.uk

 [federationofsmallbusinesses](https://www.facebook.com/federationofsmallbusinesses)

 [@fsb_policy](https://twitter.com/fsb_policy)

 [@fsb_uk](https://www.instagram.com/fsb_uk)

If you require this document in an alternative format please email:
accessability@fsb.org.uk

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior permission of FSB. While every effort has been made to ensure the accuracy of the facts and data contained in this publication, no responsibility can be accepted by FSB for errors or omissions or their consequences. Articles that appear in the report are written in general terms only. They are not intended to be a comprehensive statement of the issues raised and should not be relied upon for any specific purposes. Readers should seek appropriate professional advice regarding the application to their specific circumstances of the issues raised in any article.

This report can be downloaded from FSB website at www.fsb.org.uk