

A man with short brown hair, wearing a bright red zip-up jacket, stands in a factory setting. He is looking directly at the camera with a neutral expression. Behind him is industrial machinery, including a large roll of material being processed by rollers. The background is slightly blurred, showing more of the factory environment with blue structural beams.

A BETTER WAY FOR WALES: BUILDING OUR ECONOMY ON THE SME FOUNDATION

FSB Wales' Business Manifesto for the 2016-21 Welsh Government

fsb⁰⁸

Arbenigwyr mewn Busnes
Experts in Business

“ The Federation of Small Businesses (FSB) has grown since our founding in 1974 into the UK’s leading business organisation.

Our mission is to create the best environment for businesses to start up and thrive. Our success will drive the economy and create jobs.

We are member-led, so that we authoritatively protect and champion the interests of more than 10,000 self-employed people and owners of small firms in Wales.

Proud of our independence, we ensure the voice of small business is heard by decision-makers at every level of Government – from a local council right through to Brussels. ”

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**WE CAN CREATE A BETTER
WELSH ECONOMY**

FOREWORD

This manifesto sets out what we at the Federation of Small Businesses Wales want to see from the next Welsh Government. As its title A Better Way for Wales suggests we believe that there are positive steps that can and should be taken to make Wales a better place to do business.

We are calling for a re-focussing on the economy we have in Wales by our next government. It is an economy built on the foundation of some 200,000 small businesses; businesses that are embedded in every community and in every part of Wales.

We strongly believe that if the measures in this manifesto are adopted by the next government Wales can become a better place to do business; a place where there is a better chance of both starting and growing an enterprise.

Only in supporting our small businesses do we have the best chance of growing our economy, of achieving the sort of German-style Mittelstand of long-standing indigenous medium-sized firms that Wales so badly needs.

Just like the best of gardeners we need to grow our economy from the ground up, nurturing the seeds and saplings that we have, rather than buying in expensive large plants that may, or may not, take proper root.

If we can help our grounded businesses to flourish then we can create a better Welsh economy, one which provides better job prospects and better wages for our people, and which better helps to support the public services we value as a nation.

It should be clear that this manifesto is not a mere wish-list. It is the culmination of several years' work and is supported by extensive research by some of the leading business academics in Wales and the wider-UK.

What we propose is not a magic bullet or a panacea that will solve the economic ills of Wales overnight. What we suggest will take time to achieve.

But we firmly believe the policies in this document do provide us with a better economic path – and a better way for Wales.

Janet Jones
FSB Wales Policy Chair



A BETTER ECONOMY FOR WALES

For some time there have been concerns among FSB members that economic policy in Wales has not reflected the needs of their own businesses and of the communities they serve. With that in mind, FSB Wales asked Professor Karel Williams and his team at the Centre for Research on Socio-Cultural Change (CRESC) to look at the Welsh economy as a whole, and provide us with a fresh perspective.

CRESC's report *What Wales Could Be* provides a revision of much established thinking when it comes to our economy. It questions long-accepted 'truths' about Wales and Welsh economic policy and sets out a vision of how things could be different.

The report complements this Manifesto. It provides an underpinning for key policy recommendations. As its title suggests, it helps us to move towards 'What Wales Could Be'.

The CRESC team argues persuasively in favour of a change of focus towards 'grounded firms' as part of a resilient

Welsh economy. Those 'grounded firms' fall broadly into two categories. The first category are SME firms which are rooted in their localities as a result of factors such as local ownership or a skilled local workforce, and whose knowledge is highly specific and not easily usable or transferable elsewhere. The second category comprises often large private and public sector organisations. These offer 'foundational basics' – goods and services required by every community such as utility services, schooling, healthcare, transport and retail banking. Such firms need to be locally-based in order to access and meet local demand.

CRESC looked at the Welsh economy as an eco-system; an approach which allowed them to gain a better understanding of the diversity of businesses in Wales, and how businesses interact with their environment. They examined how Wales could build its stock of grounded firms and change behaviours so as to build both industrial capability and social responsibility.

THE REPORT'S ANALYSIS HIGHLIGHTS:

- The need to challenge existing thinking and orthodoxy to reassess what we value and measure in terms of our economy. The known difficulties in narrowing the GVA gap are underlined and the report calls for a 'dashboard' of measures to assess Wales' economic position and progress.
- The absence of a developed German-style Mittelstand of long-established medium-sized firms in Wales. Wales has relatively few medium-sized firms sandwiched between a plethora of micro-businesses, employing a significant amount of the workforce, and a number of large businesses.
- The need for a better balance between supporting grounded firms and attracting mobile, headline-generating firms, which bring significant amounts of employment, but which often lack deeper roots in the communities in which they locate, and which are liable to move or close when conditions change.

- A caution that more and cheaper finance is not a panacea for small and medium-sized businesses in Wales. The demand for borrowing may remain low until more businesses have supply chain security, which depends on large firms behaving responsibly.

THE REPORT'S RECOMMENDATIONS FOR MORE RESPONSIBLE BUSINESS INCLUDE:

- Reforming the conditions of enterprise which currently encourage the churning of SME ownership. Existing policies (unintentionally) encourage the owners of small or medium-sized firms to sell their business at a relatively early stage. The report recommends new financial incentives to prevent unnecessary ownership churn and early exit.
- Taking a new approach to connected procurement, using high-volume public sector demand to build firm capability in Wales. Current aggregate targets for procurement rely

too heavily on postcode measures and exclude public sector outsourcing in areas such as IT and support services.

- Future Welsh governments should 'raise the social ask' of all large grounded businesses in relevant ways. For example, ensuring that major supermarket chains do not solve their own problems at the expense of Welsh processors and producers who need fair prices and a UK-wide market for meat and dairy products.
- Undertaking industry specific analysis to identify new levers for change so future Welsh governments can do more than just add training and transport infrastructure. In residential adult care, for example, the opportunity exists for low-cost public borrowing to build homes for operation by small operators with lower capital costs allowing the payment of higher wages.

The independent CRESC report raises many questions and challenges us all to think differently. It encourages us to think of the Welsh economy as an ecosystem, and suggests how the Welsh economy may better serve our communities and the businesses grounded within them through innovative interventions.

The report provides food for thought and creates a springboard for further research and debate amongst other organisations and civil society more widely about '*What Wales Could Be*'.

Given the specific findings and recommendations, what now follows are practical steps that could be taken to deliver a '*Better Way for Wales*'.



BETTER LOCAL ECONOMIES

Since the creation of the National Assembly for Wales successive Welsh governments have focussed on attracting inward investment from global companies at the expense of nurturing the enterprises that we already have.

While foreign direct investment is important in supporting employment, it has serious drawbacks with foreign investors carrying out higher value activities elsewhere and being less anchored into the community than home-grown firms. It means they may never be key players in Wales' economic transformation.

A reliance on outside capital and on UK and EU grant-funding has also created a situation where the Welsh Government role has become more about the administration and allocation of incoming money than on the development, testing and implementation of radical approaches to local economic development.

FSB Wales is calling for a new economic approach which builds on the foundations of SMEs in every part of Wales, and places a greater emphasis on economies of place – allowing more localised approaches to economic development.

FSB Wales calls on the next Welsh Government to:

- Devolve a statutory responsibility for local economic development and regeneration, together with all relevant staff and budgets from Welsh Government, to the proposed larger local authorities.
- Pilot the development of a measure of Gross National Product (GNP) for Wales and local authority areas. The measure would differentiate value-added created in Wales and repatriated elsewhere, from that created and remaining in Wales.
- Consider the creation of local development partnerships, modelled on local service boards, where possible building on existing partnerships. Such partnerships would be audited by Welsh Government and call on a Wales Small Business Administration for intelligence support. They would allow locally-owned businesses, the third sector and others to guide the development of bespoke local economic development policy.
- Ensure, as a principle, that funds provided by Finance Wales or the proposed Welsh Development Bank are targeted for application to entities wholly or majority-owned in Wales.
- Investigate the potential for planning and licensing regimes to favour development by locally-owned entities, with the expectation such organisations deliver proportionally higher levels of social, economic and developmental impact.



TIMETABLE

WITHIN 100 DAYS

- Set out plans for local authorities in Wales to be given a statutory duty for economic development.

WITHIN 1 YEAR

- Pilot a measure of GNP at a Wales and local authority level.
- Investigate the potential for planning and licensing regimes to favour locally-owned entities.

WITHIN 3 YEARS

- Ensure that, as a principle, funds provided by Finance Wales or a Development Bank are targeted at locally-owned businesses.
- A statutory duty for economic development should have been introduced for local authorities.

WITHIN 5 YEARS

- GNP data should be collected regularly at a Welsh Government and local authority level.



A BETTER DEAL FOR SMES

FSB Wales is concerned that in recent years there has been a lack of focus on the role of SMEs as the foundation of the Welsh economy. Access to appropriate finance remains a problem and the quality of business support can vary widely. There are also gaps in support for small business in public sector procurement and a lack of advocacy for small business within Welsh Government and the civil service.

FSB Wales is calling for a better deal for SMEs with the creation of an overarching governance structure for small business policy in Wales in the form of a Wales Small Business Administration (SBA).

We believe that a Wales SBA provides a better solution to fostering growth in indigenous SMEs, benefitting the wider economy and communities in every part of Wales.

FSB Wales calls on the next Welsh Government to:

- Establish a Wales Small Business Administration to support the needs of firms with 0 to 250 employees
- Give the Wales SBA overall policy responsibility for:
 1. SME Finance (Finance Wales/ Development Bank)
 2. Training and Support (Business Wales)
 3. Procurement (National Procurement Service)
 4. Advocacy (specific role for Wales SBA Director)
 5. Research (SME research centre).
- Focus the Wales SBA's strategy on overseeing the delivery of a unified approach to SME support, using local expertise from a range of sources (including local authorities) supported by high quality research.
- Ensure local delivery, within a regional framework, with organisations and business experts at the local level in local authorities and universities delivering the policy.
- Guarantee the Wales SBA has an arm's-length governance structure, strongly audited, and responsible to both a Welsh Government Minister and accountable to a Senedd committee.



TIMETABLE

WITHIN 100 DAYS

- Introduce legislation to create a Wales Small Business Administration, setting out the broad strategy, delivery and governance arrangements.

WITHIN 1 YEAR

- Create the Wales SBA with its core board membership and regional structure.
- To have commissioned an Independent SME research centre with the remit to generate / analyse the data necessary to support and assess the activities of the Wales SBA.

WITHIN 3 YEARS

- To have set up a fully-functioning Wales SBA, bringing together finance, training and support, procurement and advocacy functions.
- Establish a fully functioning SME research centre which is generating the required data and analysis both directly and in liaison with government statistical agencies.

WITHIN 5 YEARS

- The Wales SBA to have demonstrated that it has had a measurably beneficial effect (with the measures designed and research undertaken by the SME Research Centre) on business support, delivery mechanisms and entrepreneurial activity.



BETTER TAXATION

Following changes to the devolution settlement in recent years the Welsh Government is assuming full control of a variety of taxes, including Stamp Duty Land Tax, Landfill Tax and Non-Domestic Rates. The last of these – Non-Domestic Rates or business rates as the tax is sometimes called – is a major concern for small businesses here in Wales. The current system in Wales places a disproportionate burden on small businesses with premises, yet is more favourable to the very largest of firms. Our members want to see a radical overhaul of business rates to reduce the burden on small firms, supporting our high streets and fostering entrepreneurship in every community in Wales.

FSB Wales calls on the next Welsh Government to:

- Split the uniform business rate multiplier in line with the split between small and large multipliers operating in England.
- Grant Small Business Rate Relief (SBRR) on all business premises with a rateable value up to £18,000 in line with the system operating in Scotland.
- Apply a flat line taper to SBRR between £10,001 and £18,000 in line with the scheme operated in Scotland.
- Dispense with ad hoc relief schemes such as Open for Business and New Developments relief and refocus the money for SBRR.
- Undertake a review of hardship relief in Wales, examining the current eligibility criteria and how this relief can be better promoted to aid those businesses in genuine hardship.
- Move to more frequent revaluations of properties for business rates purposes.
- Index the business rates multipliers to CPI rather than RPI.
- Agree a position on local retention of business rates in its first 100 days of office.
- Direct the Welsh Revenue Authority to introduce a standard method of collection of business rates across Wales to streamline administration of the tax.
- Guarantee that the Welsh Revenue Authority is established in such a way that it is responsible to a Welsh Government Minister and accountable to a Senedd committee.
- Commit to a full review of the business rates system in Wales, with a view to replacing the current system.
- Seek to value land and property in Wales separately, allowing for wider examination of Land Value Tax as one of the options to replace the current system.



TIMETABLE

WITHIN 100 DAYS

- Commit to a full review of the business rates system in Wales with a view to replacing the current system.
- Agree a position on local retention of business rates.

WITHIN 1 YEAR

- Split the uniform business rate multiplier in line with the split between small and large multipliers operating in England.
- Grant Small Business Rate Relief (SBRR) on all business premises with a rateable value up to £18,000 in line with the system operating in Scotland and apply a flat line taper to SBRR between £10,001 and £18,000 in line with the scheme operated in Scotland.
- Undertake a review of hardship relief in Wales.
- Index the business rates multipliers to CPI rather than RPI.

WITHIN 3 YEARS

- Move to more frequent revaluations of properties for business rates purposes.
- Seek to value land and property in Wales separately, allowing for wider examination of Land Value Tax as one of the options to replace the current system.

WITHIN 5 YEARS

- Announce preferred option for system to replace business rates as a tax in Wales.



BETTER

REGULATION

Many issues that impact on small businesses arise out of secondary legislation and local regulation. FSB Wales recognises that there is a place for regulation of business activities, especially in areas where regulation is created to protect consumers or the public in general. However, regulation should not place unnecessary burdens on small businesses. The Welsh Government should ensure that regulation is created in line with the established principles of Better Regulation – meaning that it should be proportionate and clear. This would benefit both businesses in complying with regulation and the regulators themselves.

FSB Wales calls on the next Welsh Government to:

- Make a clear statement of intent on regulatory policy, creating a Better Regulation agenda for Wales to deliver a noticeable positive change in the day-to-day operations of businesses.
- Establish a Regulatory Reform Group for Wales to create a focal point for business engagement and encourage best practice in the creation and delivery of regulation. The Regulatory Reform Group needs to be supported by a dedicated team of Welsh civil servants.
- Ensure that the new Regulatory Reform Group works with the Welsh Government's own lead department on Better Regulation to inform the creation of Regulatory Impact Assessments. This process should be embedded across all Welsh Government departments at an early stage of policymaking.
- Adopt a Practicability and Enforcement Assessment process to ensure that new regulation has a reasonable chance of achieving its stated aims.
- Ensure the Regulatory Reform Group commissions work to improve the delivery of regulation in Wales.
- Place the Regulators' Compliance Code (or equivalent) on a statutory basis.



TIMETABLE

WITHIN 100 DAYS

- Make a clear statement of intent on regulatory policy.

WITHIN 1 YEAR

- Establish a Regulatory Reform Group (RRG) for Wales.
- Adopt a Practicability and Enforcement Assessment process.

WITHIN 3 YEARS

- Place the Regulators' Compliance Code (or equivalent) on a statutory basis.
- Ensure the Regulatory Reform Group is up and running and has commissioned work to improve the delivery of regulation in Wales.

WITHIN 5 YEARS

- Review the operation of the Regulatory Reform Group to ensure it is fulfilling its role in leading the Better Regulation agenda in Wales.



**BETTER
TRANSPORT**

If Wales is to function properly as an economic entity then we need an effective nationwide transport system; one that ensures that people and products are able to get where they need to be in good time. Good road links are important but there also needs to be a strong focus on the role of public transport if we are to mitigate the problems of congestion faced in parts of Wales.

While there is a widespread acceptance of the need for integrated transport we believe that the current approach to transport policy and planning is too fragmented to make the best use of resources.

The time has now come for a single body to oversee transport in Wales, to ensure that our transport system best supports the needs of businesses and the communities they serve.

FSB Wales calls on the next Welsh Government to:

- Create a new arm's-length body – Transport for Wales (TFW) – to oversee transport policy and provision in Wales. TFW would be accountable both to a Welsh Government Minister and a Senedd committee.

- Give Transport for Wales responsibility for matters including:
 1. Creating a Transport Investment Plan for Wales
 2. Managing the Wales-wide rail franchise
 3. Managing strategic Wales-wide bus services
 4. Overseeing Wales-wide ticketing
 5. Overseeing public transport information and promotion
 6. Overseeing Regional Transport
 7. Overseeing the Welsh roads network
 8. Promoting active travel.
- Establish joint transport authorities at a regional level.
- Develop a new methodology for ranking transport schemes for the Transport Investment Plan. This methodology would encompass all forms of transport investment including road, rail and public transport and would give additional weighting to projects in rural areas and those that bring sustainable economic benefits.
- Press the UK Government for the devolution of bus regulation to Wales.



TIMETABLE

WITHIN 100 DAYS

- Commit to setting up Transport for Wales (TFW).
- Press the UK Government for the devolution of bus regulation to Wales.

WITHIN 1 YEAR

- Create TFW with its core board membership and structure.
- Establish joint transport authorities.
- Commission the development of a new transport investment methodology.

WITHIN 3 YEARS

- To have established a functioning TFW, covering all those areas of transport for which the Welsh Government has authority.
- To have adopted a new methodology, with which to assess investment in transport schemes within Wales.

WITHIN 5 YEARS

- To review the effectiveness of TFW and its progress in producing a more integrated transport system.



BUDGET

IMPLICATIONS

BETTER LOCAL ECONOMIES

Making local economic development and regeneration statutory for the post-reorganisation local authorities would cost no more per current unitary authority than Local Economic Partnerships in England, which currently get £250,000 each. This would generate a total maximum cost of £5.5m a year. (and up to 110 staff being reassigned from local authorities and sector teams).

Their activities would be supported by the resources available in the Wales SBA (e.g. research).

This £5.5m would be reallocated from the Sectors (resource and capital) budget.

A BETTER DEAL FOR SMES

Mapping the proposed activities of the Wales SBA against existing activities and comparable activities in the additional areas proposed suggests a requirement for around 730 FTEs (many of which are already undertaking these activities in Welsh Government), and an annual cost not exceeding £36m.

This £36m would be drawn from reallocation of a range of existing budgets where these types of activities are already being undertaken, including elements of the Improving Economy and Labour Market statistics budget, Strategy Programmes budget, “Value Wales” budget, “Academi Wales” budget, Finance Wales Budget and the Entrepreneurship and Business Information budget. The majority of the £36m would be reallocated from the Sectors (resource and capital) budgets.

BETTER TAXATION

Applying the Scottish system of tapering of relief between £10,001 and £18,000 is estimated to cost £47m more than the current system according to the ‘Report to the Minister for Economy, Science and Transport from the Business Rates Panel’ (2015).

Refocusing resources that have been previously utilised in the Open for Business scheme and New Developments scheme is estimated to reduce costs by £1.75m a year.

According to figures presented in the ‘Report to the Minister for Economy, Science and Transport from the Business Rates Panel’ (2015) the cost of moving to a CPI rather than RPI based up-rating would be £9m in 2016-17 (£20m in 2017-18, and £35m in 2018-19), giving an average annual cost for the FSB manifesto proposals over the five years of the next Welsh Government of £12.8m

According to the British Property Federation Report (2014), the cost of administering Business Rates could be reduced by 27.66% through computerisation and annual revaluation, which in Wales would be equivalent to an estimate of £3.3m saving in years four and five, giving an average annual cost reduction of £1.32m.

This gives an average cost of £56.73m, with annual costs not to exceed £60.55m (making assumptions for slippages in timelines in implementing policies etc.).

This £60.55m would be drawn from reallocation of elements of the sectors (resource and capital) budget, the (Legacy) Strategic Investment Fund budget and the Homes and Places Regeneration (resource and capital budget) to reflect the wider refocusing of activity suggested in the manifesto.

BETTER REGULATION

Creating a Regulatory Reform Group would require an estimated £0.779m and require around 17 FTE posts.

This £0.779m would be drawn from reallocation of small (10%) elements of relevant planning related budgets, namely the Planning and Regulation budget in Natural Resources, and Supporting Collaboration and Reform in Local Government.

BETTER TRANSPORT

Mapping Transport for Wales (TFW) against its nearest current equivalent (Transport Scotland) in the areas of scope proposed identifies on a pro rata basis an organisation of around 230 FTEs and an operating cost of £10.35m a year. This cost would include the research elements encompassed within the new methodology proposed and the annual costs of proposed bus and rail management and regulation activities.

Initial set up costs for the Joint Travel Authorities, and one-off bus contract costs are estimated at £6.05m, giving an average annual cost (over five years) of £1.21m

This gives an estimated total cost of £11.56m, which would be drawn from reallocating less than 10% of the (resource and capital) Sustainable Travel budget.

OVERALL BUDGET IMPLICATIONS

In total the proposals contained within this manifesto would cost less than £115m, involving a refocusing of less than 0.75 % of the total Welsh Government budget, and equivalent to less than 10% of the Department for the Economy Science and Transport (DEST) budget.

Whilst the Sectors (resource and capital) element of the DEST budget is most heavily affected by the proposals, that would still refocus only just over 50% of the budget in this area, with many of the SMEs benefitting from the changes falling within the sectors current policy aims to support.

The manifesto is therefore fully-costed, with budgets identified; the clear aim being to assist in creating a better way for Wales by building our economy on the SME foundation¹.

Costings and budget implications estimated by Professor David Pickernell, University of South Wales².

¹Budget implications are based on current budgets. Whilst unprotected budgets may be reduced proportionately during next Assembly term, it is believed that the proposed policies can still be undertaken. Proposed budget reallocations may require changes to budgetary rules related to transfers between capital and resource budgets.

²Analysis undertaken using comparisons agreed with FSB Wales and budget areas identified by FSB Wales. Proposed policies do not necessarily represent the views of Professor Pickernell or the University of South Wales.

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