REFORMED BUSINESS FUNDING
WHAT SMALL FIRMS WANT FROM BREXIT

FSB BREXIT RESEARCH SERIES
#FSBBREXIT

Published: May 2017
ACKNOWLEDGEMENTS

This report was authored by Greg Warren, Policy Advisor, Ben Baruch, Policy Advisor and Will Black, Senior Policy Advisor.

Special thanks to FSB’s EU, public affairs and media teams; in particular, the project team responsible for delivering this report: Matt Dickinson and David Hale, along with colleagues in the devolved nations. In particular we would like to recognise the support provided by colleagues in Wales for helping to organise a focus group with small business owners in Bangor in October 2016.

The survey was carried out by Verve, a market research agency. FSB would like to thank Verve for their contribution to this report, including their valuable insights on the research findings.

The report was designed by Cactus Design Limited – a small business based in Wales.

Finally, for their expert opinion and support with this research, we thank Dominic Williams, FSB Policy Portfolio Holder for DCLG, Ray Mills and Ammar Mirza CBE, FSB Brexit Policy Unit and Neil Warwick, Chair, FSB Brexit Policy Unit.
89% of small firms aspiring to grow by over 20% seek business support

Why haven't you applied for EU funding?

44% I wasn't aware of opportunities
32% None of the streams were applicable
13% I was put off by the complexity

What difficulties did you face in making an EU funding application?

59% Amount of information required was unrealistic
47% Application form was too long
44% Reporting requirements were excessive

Favourability of business support providers

Accountants: 97%
Solicitors: 93%
Growth Hubs: 72%
LEPs: 65%
Local Authorities: 62%

Prioritisation of future business support by region

£3.6bn EU funding for improving competitiveness of UK small firms (2014 - 2020)

68% of EU funding applicants say it has had a positive impact on their business
CONTENTS

Foreword .................................................. 5
Executive summary .......................................... 6
The current EU funding landscape .......................... 13
Small business engagement with EU-funded schemes ............ 23
Barriers to successful EU funding ............................ 33
Future landscape of business support ......................... 47
Access to finance following Brexit ............................ 55
Recommendations ............................................. 61
Methodology .................................................. 70
Supporting the growth and productivity aspirations of small businesses is a priority for FSB, the Government and devolved governments. Small businesses have a key role to play in increasing economic output and productivity, and helping to rebalance the UK economy.

As we leave the European Union, a key issue for many small business owners concerns the future of schemes currently supported by European funding. These schemes form an important component of the business support and access to finance infrastructure used by small businesses across the UK.

It is unlikely that the UK will continue to have access to these funds post-Brexit, meaning the UK Government and devolved governments need to consider how regional economic development can be supported in future.

We believe the UK has a unique opportunity to construct a new and more effective approach to the provision of business support and access to finance.

Our research shows there is no shortage in demand for business support. Small businesses generally recognise the benefits of seeking outside help at all stages of the business cycle - and this is especially true of those aiming to grow or increase productivity. There is also a clear relationship between the growth ambitions of small firms and the likelihood of seeking business support.

In addition to the likely loss of EU funds, the Single Local Growth Fund is also scheduled to come to an end in 2020/2021. The simultaneous ending of these two sources of funds for regional economic development could pose challenges to many small businesses. However, rather than a threat, we view this as an opportunity to create a new way of delivering business support - which is truly aligned to domestic priorities and the needs of small businesses.

Our research has identified many drawbacks with the current model of EU funding and offers a set of principles and specific policy recommendations on how funds could be best spent and distributed in the future.

The UK Government’s commitment to a new Industrial Strategy which seeks to support growth in all regions of the UK cannot be delivered without new ways of supporting regional economic growth. In addition, the focus cannot exclusively be on high growth firms, but must include small businesses with expectations of moderate growth.

Both the UK Government and devolved governments will need to set out how these important functions are supported after 2020. We urge the Government to commit to a new Growth Fund for England, bringing together a domestic replacement of current EU funding streams along with the existing Single Local Growth Fund, and give devolved governments the funds to design their own delivery programmes.

We hope that this report provides a clear steer for the Government, devolved governments and English regions on how businesses can be more effectively supported in coming years. This is an important debate and FSB looks forward to continuing to constructively engage in it to ensure that all small businesses, no matter where they are in the UK, are able to reach their full growth potential.

Martin McTague
FSB Policy Director
EXECUTIVE SUMMARY

The decision to leave the European Union has created a series of opportunities and challenges for small businesses. FSB has already published research highlighting how Brexit will impact the ability of small businesses to trade overseas\(^1\) and access skills and labour in the future.\(^2\)

Another key question for small businesses concerns the future of EU funding.

This report sets out how leaving the EU offers a unique opportunity for the UK Government – and devolved governments – to radically improve the support available to small businesses. Grasping this opportunity is essential to enabling small businesses across the UK to grow and, crucially, become more productive.

EU funds have supported a variety of investments to improve business conditions, predominately in regions which lag behind the rest of the UK in terms of economic growth, output and productivity. The Government’s commitment to a new Industrial Strategy which helps all regions of the UK to succeed means it is vital that support continues for these initiatives. The devolved governments are also committed to increasing economic growth and, indeed, receive a larger share of EU funding per capita from existing EU funding allocations relative to the English average.

This report focuses on the future of direct funds which regional authorities receive to help small businesses – primarily the European Structural and Investment funds (ESIF). In addition, we look at the future of access to finance schemes supported by various European funds.

Our evidence shows that these schemes are important to many small business owners and that, without continuing support from similar programmes, these businesses will struggle to meet their full economic potential.

It is, however, important to note that these schemes form only a part of the overall business support and small business finance landscape, much of which is delivered by the private sector. However, in regions of the UK where this infrastructure is less well developed, EU funding provides an important backbone of support for small businesses. Additionally, many EU-funded schemes provide free or subsidised support, which fills an important niche within the overall provision of business support.

Although our research suggests that take up of these schemes among small businesses is low, we consider this figure to be an underestimate, and that many more small businesses have been beneficiaries of EU-funded schemes without knowing it. This is due to the prevalent use of intermediaries through which funding is delivered.

There are some clear areas of support and help – for example in relation to the development of small business finance markets – where EU funding has been instrumental in tackling deep rooted problems. EU resources have facilitated the usage of commercial expertise to support the development of finance infrastructure across the UK. This is important because much of this expertise remains centred in London and the South East.

As a net contributor to the EU budget, the UK stands to benefit from repatriating funds which would previously have gone to the EU for redistribution between different member states. We now have the opportunity to refocus these funds towards UK priorities, so the Government should commit to maintaining these funding levels within a reformed delivery structure.

Our research makes it clear that, while small businesses have benefited from programmes supported by EU funds, these programmes are not as effective as they could be.

Many business owners are unaware of the potential opportunities which exist to help support their business, or are put off by excessive bureaucracy and reporting requirements.

With reform, we now have the opportunity to relieve some of these issues — helping businesses to grow and be more productive.

---

We believe that local communities are best placed to identify and prioritise funds to tackle local issues. In England, reformed Local Enterprise Partnerships (LEPs) and local Growth Hubs could provide the backbone for the delivery of this investment, while devolved governments should control their own funding and take the lead in setting their own priorities.

Through identifying what elements of the current landscape work well for businesses, where improvements can be made, and where businesses see the most effective delivery mechanisms for supporting businesses in future, this report seeks to demonstrate how a reformed funding model could unlock the economic potential of small businesses across the country.

During the course of our research, we attempted to uncover the views of small businesses in relation to the following key areas:

- How small businesses have engaged with EU funds - and the business support and access to finance schemes they deliver.
- What issues have stopped small businesses from applying for EU funds, or taking up the support they offer.
- How business support and access to finance schemes can be improved to more effectively support small businesses in future.

The report is structured into five sections. We also set out an overview of how business support and access to finance schemes are currently provided through EU funds.

Sections One and Two – The current EU funding landscape and Small business engagement with EU-funded schemes – outlines the current EU funding landscape and examines how small businesses have engaged with business support and access to finance schemes supported by EU funds to date.

Section Three – Barriers to successful EU funding – identifies some of the key barriers which have stopped small businesses from applying for EU funds or which have made the process difficult for those who have applied.

Section Four – Future landscape of business support – sets out in more detail how small firms benefit from business support highlighting how different delivery options provide the most benefit to small businesses.

Section Five – Access to finance following Brexit – sets out reforms to the access to finance framework which will be needed following Brexit.

Section Six – Recommendations – proposes a framework for improving the accessibility and deliverability of projects once we have left the EU, along with specific recommendations setting out how business support and access to finance schemes can be retooled to provide the best support for small businesses.
KEY FINDINGS:

- Among those small businesses that successfully applied for EU funds, 68 per cent thought it had a positive impact on their business. A similar proportion (64%) thought it had benefited the local area.
- There is significant regional variation between the numbers of small businesses which have interacted with EU-funded programmes, reflecting the varying levels of support given to different regions.

Demand for business support

- The majority (78%) of small businesses said they had sought external business support in the past two years. There is a clear link here to growth ambitions, with 89 per cent of those targeting over 20 per cent growth seeking business advice compared to 65 per cent of those who were not looking to grow.
- Public sector sources of support were often the first port of call for small businesses looking to grow their firms. Two thirds (68%) of businesses which visited LEPs, 73 per cent which used Growth Hubs and 47 per cent of those which visited their local authority for support were looking to grow their business.

Limitations of current EU-funded support

- Close to half (44%) of the small businesses which had not applied for EU funding said they had not done so because they were not aware of any existing opportunities to do so.
- Half (48%) of small businesses that had applied for EU funds found the process difficult.
- Among these businesses:
  - 59% said the amount of evidence and information required was unrealistic
  - 47% said the application forms were too long
  - 44% were put off by excessive reporting requirements
  - 27% said they had difficulties finding match funding partners
  - 25% were concerned about the possible funding clawbacks if targets weren’t met
  - 25% were unsure about eligibility requirements
  - 12% thought the funding call periods weren’t long enough

Business support

- Over half (58%) of small businesses want to see some funding assigned to business support schemes after the UK leaves the EU.
- Small businesses regard face-to-face and written advice that is tailored to the needs of their business as most useful. Digital support is viewed as somewhat useful, especially for businesses without time or resources to attend dedicated learning sessions.
- Private sector sources of business support, such as from accountants and lawyers, are also an important part of the business support landscape.
Access to finance

- The majority (52%) of small businesses believe EU funding for access to finance should be prioritised and a significant proportion of the current level of EU funding should be maintained.

- Despite the amount of EU funding invested in UK small business finance markets, FSB’s evidence revealed that, on the face of it, relevant schemes were not widely used by small firms. However, a larger proportion of small businesses are likely to have accessed finance through intermediaries and, therefore, may not have been aware they were benefiting from EU funding.

- Signposting of available EU-funded support for access to finance does not always work as effectively as it should. Specific complaints about poor signposting and engagement activity at a regional level were received across different parts of the UK.

- There is evidence of national public bodies responsible for access to finance failing to adequately meet the needs of small firms. Some small businesses have further complained about restrictive and expensive lending conditions alongside burdensome application processes.

- The design of public funds which have received investment from EU funding schemes has broadly worked well, allowing for the flexible reallocation of resources based on local demand for different finance options. Through the introduction of commercial expertise alongside these funds, economic benefits have included the development of local finance ecosystems as well as increased private equity and venture capital activity across different regions of the UK.

KEY RECOMMENDATIONS:

Create a new Growth Fund for England and give devolved governments control over repatriated funding

England

The Government should take the opportunity to bring future funding together into a single Growth Fund for England, which would incorporate a domestic replacement of current EU funding streams along with the existing Single Local Growth Fund (SLGF).

It is important, as discussed in our next recommendation, that regions which have benefited from existing allocations are not disadvantaged by any new reallocation of funds. EU funds currently form a critical part of the support infrastructure in these regions.

Having a Growth Fund for England would allow LEPs to entirely tailor their Strategic Economic Plans to the needs of their local economy, without the need to meet European criteria or spend funding within specific frameworks. It would also take away the confusion of LEPs currently having numerous funding streams, each working towards different start and finish points.

This new fund should be developed in the period before we leave the EU, so that businesses and regions have sufficient time to prepare for its use once the current funding round comes to an end.

This would also help businesses which currently make use of these funds to plan for the transition between the UK leaving the EU in March 2019 and the end of the 2014-2020 funding round. After the referendum, it was clear that uncertainty had a chilling effect on businesses making applications for EU funds and attracting match funding. Whilst it is positive that the Government has quickly set out commitments to honour applications approved before we leave the EU, longer-term solutions are needed to bridge the transition phase.

In order for the Growth Fund for England to be as effective as possible, we have set out a broad framework for the reforms which businesses would like to be made. Implementing these reforms will make the projects supported by a Growth Fund for England more cost effective and tailored towards the needs of businesses.
Reformed business funding: What small firms want from Brexit

Devolved governments
Alongside a new Growth Fund for England, FSB urges the UK Government to ensure future funding for the devolved governments remains administered directly by the Scottish and Welsh governments and by the Northern Ireland Executive.

The devolved nations should retain the powers to set their own allocations and frameworks for how funding should be prioritised, which takes account of local priorities.

Ensure the allocation of regional funding is maintained on the basis of need
EU funds provide a vital support structure for comparatively disadvantaged areas of the UK, such as Wales, the North East and Cornwall. Other areas also benefit from funding, but to a lesser degree. The evidence we have presented above demonstrates that these programmes support the growth ambitions of small businesses in many areas of the UK.

It is, therefore, important that a regional split of funds is maintained on the basis of need in the period after we leave the EU. This is especially important as the current Local Growth Fund spending round comes to an end in 2020/2021, meaning there is currently no regional development spend budgeted for England after 2020/2021.

England
The Government will need to decide the formula for allocating new resources within a new Growth Fund for England, prior to the UK leaving the EU. It is important that no region suffers a sudden drop in funding; so, if resources are reallocated, a transitional period should be established where a taper is implemented – allowing regions to identify and develop new forms of support for businesses.

Devolved governments
In recent funding rounds, the devolved governments of the UK have received some of the highest allocations of ESIF. All three regions currently receive more than England in per capita terms, with Wales five times so. This has consequently provided a vital part of regional policy in helping local economies and businesses across these regions.

The importance of this funding to these regions means it is vital that they retain a similar funding distribution to that received in previous rounds.

Maintain funding levels and ringfence funding for small business activity
As a net contributor to existing EU budgets, the UK should eventually receive a budgetary dividend once we leave the EU. We therefore believe that the Government should, at the very least, aspire to maintain the level of funding currently on offer to support small businesses.

Our evidence clearly shows that many small businesses view the programmes currently supported by EU funding streams as important to achieving their growth ambitions, and a large proportion want to see these continued after we leave the European Union. As a result, it is vital that funding for these schemes is ringfenced, if the Government is to achieve its aim of successfully increasing economic output, productivity and rebalancing the UK economy.

This is also the case for the devolved nations. Our evidence points to a similar desire from small businesses in these regions, for retaining government spending on business support and access to finance initiatives. The devolved governments should consider this when setting future priorities for spending post 2020.

We set out below reforms which could be made after 2020 to increase the effectiveness of these various schemes. Implementing these recommendations could produce an even greater benefit to businesses, and help businesses in all communities of the UK become more productive and more able to meet their growth ambitions in years to come. These recommendations are explored in more detail in the Recommendations section later in the report.
Improve programme delivery
Our evidence has uncovered a range of different issues which make the current model of distributing funds less effective than it could be. Leaving the EU offers the UK the opportunity to refocus attention on making sure as many businesses as possible are able to gain the maximum benefit.

Reduce bureaucracy
Now that the UK is leaving the EU, there is an opportunity for public bodies at all levels to assess how they can reduce the administrative burdens on small businesses. With UK and devolved control of funds, there is an opportunity to greatly reduce bureaucracy and improve the effectiveness of how funding is spent.

Improve support for LEPs and Growth Hubs and localise business support
In the period after we leave the EU, many businesses will require further support to achieve their growth aspirations. The Government will, therefore, need to play a more active role in helping LEPs and Growth Hubs to deliver that support.

Create a ‘What Works Hub’ for business support evaluation
One of the biggest challenges facing business support policymakers is the lack of high quality evaluations.

Once the UK leaves the EU, the Government will have greater control over reporting requirements and how to evaluate business support. Instead of being directly bound by EU rules and requirements, the Government has a chance to be rigorous and creative in evaluating which schemes are working and providing value for money.

The Government should lead the way by establishing a ‘What Works Hub’ for business support evaluation. This should consider the evaluation process as a tool for learning lessons to maximise the quality and effectiveness of future business support provision. It should consider what data are meaningful and useful to collect when designing new support schemes and engineer a level of standardisation across evaluations to ensure robust conclusions can be drawn.

More effective evaluations of existing schemes could then be used to iteratively improve the design and delivery of business support.

An expanded British Business Bank (BBB) should replicate the role of the European Investment Bank (EIB)
The UK’s status as a subscribing partner of the EIB is unlikely to be retained following Brexit. However, the range of funding provided by the institution - particularly alongside the associated European Investment Fund – provides a significant proportion of current investment in small business finance markets.

In such a scenario, the BBB – in association with relevant devolved bodies – should be provided with enhanced responsibilities and the necessary additional resources to support small business finance markets. The Bank’s remit for improving the structure of finance markets for small businesses makes it the most suitable public sector body for replicating this role.

Increase data disclosure to support targeting of finance gaps
The publication of lending data from existing finance providers may be a powerful means of improving the design of future access to finance schemes following Brexit. It would also support the work of regional bodies (such as LEPs and equivalent bodies in the devolved regions) who have a key role to play in advising on where duplication of funding may be occurring.
The Government should introduce legislation requiring all finance providers (including alternative lenders - such as peer-to-peer lenders - alongside banks), to publish lending data at a regional level on a mandatory basis. This would allow new funds to be established following a more accurate assessment of where finance gaps and market failures are occurring at a regional level.

In addition to the recommendations outlined above, we also have a list of further recommended actions for improving the delivery of business support and access to finance schemes after the UK leaves the EU.

These are discussed in more detail in the recommendations section.
THE CURRENT EU FUNDING LANDSCAPE

This section sets out how different EU funding streams - but primarily the European Structural and Investment funds (ESIF) - are used to support small businesses across the UK. It also looks at the different access to finance schemes which are supported by funds from the EU.

UK contribution to the European Union budget

All EU member states contribute to the EU budget. In 2015, the total EU budget was €145 billion, or around one per cent of the total wealth generated by all the economies of the EU.

This budget is used in areas where it makes sense to bring together resources for the good of Europe as a whole, and includes priorities such as the maintenance of external borders, protecting the environment, improving economies within Europe and supporting cross border initiatives.

The budget contribution from each country is based on its Gross National Income. For the UK, this equated to £18 billion in 2015, of which it received back roughly €4.5 billion in grants and a further £5 billion from a rebate. Therefore, the UK’s net contribution came to around £8.5 billion, making it one of the few member states that contribute more into the budget than they receive back in funding.

EU funding in the UK

For decades, some small businesses in the UK have benefited from EU funding. Whether by addressing barriers to growth or promoting economic and competitive potential, this funding has provided billions of pounds each year to help small businesses and the economies in which they operate. These benefits have largely been delivered via loans or grants that have been awarded to firms whose ethos, objectives and potential broadly meet criteria set out in each specific fund.

However, this funding landscape is complex, with hundreds of different subsidies currently in operation. Each of these is implemented through a wide range of programmes and funds that provide financial support to hundreds of thousands of beneficiaries. As will be shown later, many existing schemes are not as effective as they could be.

In the UK, this funding can broadly be split into two categories:

- **Direct funds allocated to national governments to manage:** This represents around 76 per cent of the funding received and is distributed in partnership with regional authorities. In the UK, this is largely done through ESIF and the Common Agricultural Policy (CAP).

- **Funds allocated by the European Commission (EC):** These funds are not allocated directly to the UK. Instead, organisations and small businesses are required to apply directly to the EC for funding, often on a competitive basis following calls for applications. Examples include Horizon 2020 (a research and innovation programme that funds a number of UK university projects) and Erasmus+ (which encourages students to study in other EU countries).

Regardless of the model, funding is managed according to strict rules which seek to ensure that there is tight control over how funds are used, and that funds are spent in a transparent and accountable manner.

In the UK, the largest and most significant funding channel for small businesses is ESIF. These are the main direct funds which provide money specifically to individual regions in the UK, and, since their inception, have targeted small businesses as one of its main beneficiaries.

Outside of these funds, the UK also receives significant funding for the support of agriculture and rural development across the country. This is awarded from the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development, both of which support CAP and provide financial support for farmers.

---

Reformed business funding: What small firms want from Brexit

There are also other important sources of funding from the EU. They include funding from the European Investment Bank (EIB) – which backs debt and equity finance schemes - much of which is aimed at small businesses - and streams of research funding for universities, such as Horizon 2020.

This report will concentrate on the funds which we believe are the most relevant to small businesses. These include ESIF and funds which back access to finance schemes, including the European Investment Fund (EIF) and those derived from the EIB.

**European Structural Investment Funds (ESIF)**

ESIF represents the EU’s main resource for promoting economic growth, jobs and reducing economic disparities between different regions in the EU. The different funds within ESIF form an important part of UK regional policy and have provided an estimated £66 billion for regional development programmes and projects since 1975. In the current spending round of 2014-20, the UK has been allocated €17.2 billion, of which over €4.3 billion has been dedicated exclusively to improving the competitiveness of small businesses.

ESIF is currently made up of five different funds. This report focuses on the European Social Fund (ESF) and the European Regional Development Fund (ERDF) as they are the most relevant for small businesses in the UK.

- **ESF** focuses on improving employment and education opportunities across the EU by providing grants for vocational training, wider skills and job creation schemes.
- **ERDF** promotes and develops projects across the country which boost business, innovation and support local growth. It also has a focus on reducing imbalances between regions within the UK.

ESIF (and ERDF in particular) has two objectives – a cohesion or convergence objective aimed at reducing disparities between regions and a competitiveness objective aimed at increasing the competitiveness of the EU as a whole.

The University of Warwick has found that, in those areas that qualified for the highest levels of funding, for every €1 spent, an additional €1.20 in GDP was generated from increased levels of investment and higher productivity. However, this was not uniform across the EU and the research demonstrates significant variation among those states which receive the highest levels of funding. Those that performed best were largely regions in richer countries in Western Europe. As a result, the UK was one of only a handful of countries where structural funds were found to drive a significant boost in investment.

The funds are awarded to European regions in proportion to the relationship between the regional Gross Value Added (GVA) and the European average. Currently, ‘less developed’ regions whose GVA is less than 75 per cent of the EU average receive the most funding.

In the UK, only Cornwall qualifies as ‘less developed’ along with West Wales and the Valleys. Prior to 2004, parts of the north of England, including Merseyside and South Yorkshire, also qualified. The expansion of the EU to include more of Eastern Europe lowered the average European GVA, meaning these regions are now treated as “transitional” regions and receive intermediate levels of funding. The rest of England is “more developed” and receives a lower level of funding, although they have a patchwork quilt of so called Tier 2 areas that can qualify for additional funding.

ERDF funded programmes are subject to tight eligibility, governance and monitoring requirements set by the European Commission. The fund includes nine priority Axis, including ‘Enhancing the Competitiveness of SMEs’, which is of most importance to small businesses. The main aim of this Axis is to improve the competitiveness of small businesses by increasing their capacity and capabilities.

---

8 CADE, EU Structural Funds: Do they generate more growth?, December 2012 http://www2.warwick.ac.uk/newsandevents/pressreleases/more_funds_do_ch_gage_hp_3_02512_3.pdf
ESF has three Axis, including ‘Skills for Growth’, which targets small businesses and their employees as a key priority.

**Figure one: Thematic areas for ERDF and ESF funding**  
*Source: A guide to ERDF and ESF: 2014-2020 programmes in England⁹*

### What can be funded through ERDF

<table>
<thead>
<tr>
<th>Theme Areas</th>
<th>Priority Axis for the European Regional Development Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research and innovation</td>
<td>Priority 1: Research and innovation</td>
</tr>
<tr>
<td>IT and Broadband</td>
<td>Priority 2: Enhancing access to, and use and quality of, ICT</td>
</tr>
<tr>
<td>Business Support</td>
<td>Priority 3: Enhancing the competitiveness of SMEs</td>
</tr>
<tr>
<td>Low carbon</td>
<td>Priority 4: Supporting the shift towards a low carbon economy in all sectors</td>
</tr>
<tr>
<td>Climate change</td>
<td>Priority 5: Promoting climate change adaption, risk prevention and management</td>
</tr>
<tr>
<td>Environment</td>
<td>Priority 6: Preserving and protecting the environment and promoting resource efficiency</td>
</tr>
<tr>
<td>Transport</td>
<td>Priority 7: Sustainable transport in Cornwall and the Isles of Scilly</td>
</tr>
<tr>
<td>Social inclusion</td>
<td>Priority 8: Promoting social inclusion and combating poverty and any discrimination</td>
</tr>
<tr>
<td>Technical Assistance</td>
<td>Priority 9: Technical Assistance</td>
</tr>
</tbody>
</table>

### What can be funded through ESF

<table>
<thead>
<tr>
<th>Theme Areas</th>
<th>Priority Axis for the European Social Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to Employment</td>
<td>Priority 1: Inclusive Labour Markets</td>
</tr>
<tr>
<td>Learning and Skills</td>
<td>Priority 2: Skills for Growth</td>
</tr>
<tr>
<td>Technical Assistance</td>
<td>Priority 3: Technical Assistance</td>
</tr>
</tbody>
</table>

The rules include an ‘additionality clause’, meaning that they must be spent alongside domestic funding and cannot be used as a replacement where government money has been cut. In Wales, this has been achieved relatively successfully through their Economic Prioritisation Framework. This Framework requires applicants seeking funding to demonstrate how they will improve and build on existing initiatives in Wales. This helps to avoid duplication and to ensure projects aren’t funded in isolation.

ESIF also requires match funding from external partners, which can be central or local government, the third sector or indeed the private sector.

---

Both these elements have meant that ESI Funds have brought in more regional investment than the headline figures would suggest. They have also allowed for projects they fund to be safeguarded, while some other public sector funds have been rolled back.

There is little difficulty awarding the money to public sector bodies, but ERDF is also subject to State Aid rules which limit the amount of subsidy that can be given to individual businesses. Higher subsidy levels (in percentage terms) are allowed in the “less developed” and “transitional” regions and small businesses can receive higher proportions of subsidy in each type of region. So, while Priority Axis 3 explicitly targets SMEs, a significant amount of funding in the other Priority Axis goes to small businesses because they qualify for higher levels of support.

ERDF programmes can help small businesses in many ways, but, typically, they can be grouped under three headings:

- **Business support**: advice, mentoring and training programmes.
- **Grants**: usually under £20,000 for small businesses and often as little as £1,000.
- **Access to finance**: usually for small businesses this means loan finance - we discuss this highly specialised topic separately later in Section Two.

**UK Governance**

At a UK level, the Government has a Partnership Agreement with the EC on how funds should be prioritised. Devolved nations have their own section of the UK Partnership Agreement, which sets out their specific challenges and opportunities, which does not apply to the rest of the UK.

In recent years, the Government has attempted to make best use of these separate funding streams by bringing them together under a single Growth Programme, aligned to maximise support for jobs and growth. The Department for Business, Energy and Industrial Strategy (BEIS) has overall responsibility for the policy and regulations governing the ESI Funds. Day-to-day management of the funds in England sits with the Managing Authorities: the Department for Communities and Local Government (DCLG) for ERDF, the Department for Work and Pensions (DWP) for ESF, and the Department for Environment Food and Rural Affairs (DEFRA) for agricultural funds. The Marine Management Organisation (MMO) manages fisheries funds. The Managing Authorities are assisted by a Growth Programme Board of stakeholders.

In the devolved nations, these funds are administered directly by the Scottish and Welsh governments and by the Northern Ireland Executive.

There is a clear disparity in the allocations of regional funding. In the 2014-2020 funding round, Wales has been allocated over eight times more in ESI Funding than the South East of England, €2.4 billion compared with just €286 million.10 Whilst the rationale behind these allocations has been explained above, it is clear that those areas with the highest funding will be the biggest losers if ESI funds are no longer available once the UK leaves the European Union.

Under EU rules, few sub-national bodies are allowed to become Intermediate Bodies and control their own funding allocations (the GLA being the major exception in England). So, programme funds are notionally devolved to England’s LEP areas, which set local priorities and operate ESIF sub-committees which recommend projects and programmes to the Managing Authority. Strictly speaking, however, the LEP and ESIF sub-committees have purely advisory roles.

Each LEP’s regional plan for the prioritisation of ESI funding differs significantly according to local circumstances. The North East LEP has prioritised addressing local market failures and skills gaps by focusing spending on business support, access to finance, skills and inclusion.11 In contrast, Cornwall has allocated significant sums to the future economy to support specific sectors that are important to the region, such as aerospace technology and digital skills.12

---

10 UK in a Changing Europe, Wales and EU Cohesion Policy, June 2016 http://sites.cardiff.ac.uk/wgc/files/2016/07/COHESION.pdf
ERDF programme funds are awarded by open competition by local offices of DCLG, usually administering periodic calls for bids with advice from LEPs. The minimum lot size is typically £500,000, which means that most small businesses are not able to bid directly for funds. Instead, intermediary organisations bid for funds to operate programmes. These intermediaries can be, and often are, local authorities, universities and third sector not-for profit organisations.

One governance challenge is that EC rules dictate the kind of organisations represented on the Growth Programme Board, its national sub-committees and the LEP ESIF sub-committees in a way that almost inevitably ensures that conflicts of interest are embedded in their structure. As a consequence, they are dominated by the public and not-for profit sectors. The few businesses represented are usually programme providers rather than the intended beneficiaries of aid. The situation is complicated by the Managing Authority not distinguishing between commercial businesses and not-for-profits, so that the Priority Axis 3 programme aimed at improving SME competitiveness is open to businesses that, by definition, do not have a competitive objective. While this has been the case under the current rules, there is a clear opportunity for reform in future by involving businesses in the administration of the funds.

**EU funding and access to finance**

EU funding plays an important role in some regions and sections of the finance market through providing complementary sources of finance to small businesses as well as enhancing the lending capacity of existing UK finance providers.

Brexit has caused some concern amongst small businesses that EU-funded access to finance schemes might be affected in the future. This may be more pronounced in those parts of the UK which have been more reliant on EU funding. Ensuring such regions are able to access appropriate levels of funding to support finance markets will be important following Brexit. A failure to do so could exacerbate regional imbalances in finance provision that persists in different parts of the UK.

Equally, Brexit is an opportunity for the Government to address broader structural problems relating to small business finance markets. This is particularly with regards to long-standing market gaps, for example, the unmet or discouraged demand for certain finance options, such as growth finance. New and existing policy interventions must be developed to address these market gaps and improve access to finance.

**Where EU funding supports small business finance markets**

Limited data exist for the specific contribution which current EU funding makes to small business finance markets. However, its importance may partly be illustrated by considering how broader public funding currently supports finance markets. Whilst a direct correlation between funding supported by local, regional or devolved government investors and EU funding cannot be drawn, the former is likely to indicate the existence of the latter. Accordingly, the chart below shows the proportion of publicly backed deals supporting the equity finance market across different regions of the UK.

There is a relatively limited number of equity deals supported by public funding that have taken place in London and the South East. This is likely to be because private markets are generally working well and local equity investment finance ‘ecosystems’ are well developed. This contrasts with the rest of the UK, where public investment is often involved in the majority of deals. In the North East, 69 per cent of equity deals are supported by public investment, which may indicate the importance of current levels of EU funding to the overall access to the finance landscape in that region.
Reformed business funding: What small firms want from Brexit

Anecdotal evidence from FSB members suggests EU funding plays a particularly important role around supporting scale-up firms looking to further develop their aspirations for further growth.

**EU funding landscape for access to finance in the UK**

Below is an overview of some of the key institutions and programmes which are of most relevance in supporting access to finance schemes.

**European Investment Bank (EIB)**

The EIB invests in a range of infrastructure and economic development projects across the EU and internationally. The UK is currently an active EIB shareholder, with a 16 per cent stake afforded to it as a member of the EU.

The EIB looks to support specific projects by borrowing money on capital markets and lending at preferable rates. It plays a central role in stimulating small business finance markets and has supported over 27,700 small firms since its first operation in the UK in 1996. There is currently no public sector body operating in the UK - and tasked with developing small business finance markets - that has an equivalent scale of resources at its disposal.

As well as these benefits, the EIB provides a significant amount of commercial expertise to managing authorities operating access to finance programmes across the UK market. In particular, EIB resources play an important role in informing the procurement process for establishing new investment funds.

---

14 Current rules dictate that only EU Member States are able to act as shareholders to the EIB.
15 This lending is “governed by a series of mandates from the EU in support of EU development and cooperation policies in partner countries” and requires the unanimous consent of the EIB’s board of governors. House of Commons Library, UK Funding from the EU, 29 December 2016 http://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7847#fullreport
**Infrastructure**

Between 2011 and 2015, a quarter of all EIB lending to the UK was invested in transport projects. Transport for London borrowed £1 billion from the EIB to part-finance Crossrail. In addition, the EC provides direct funding for transport projects. Half the cost of the ground investigation works for phase 1 of the HS2 route was funded from Europe, and potential EU funding formed part of the Government’s case for approving HS2.17 In addition, Cornwall has benefited from enhanced broadband provision from investments made by European funds.

**European Investment Fund (EIF)**

The EIF designs, delivers and promotes a range of finance products for small businesses to use across European markets.18 These include the following:

- **Equity finance**: The EIF invests in venture capital, growth and mezzanine funds to support small businesses.

- **Debt finance**: The EIF works with a wide range of financial intermediaries, including banks, mutual guarantee funds and leasing companies.

- **Microfinance**: Through a range of microfinance providers, the EIF channels support for debt and equity products.

Financial intermediaries lending to small businesses also benefit from guarantees the EIF provides for loan portfolios as well as the securitisation of loans. By the end of 2015, it had supported over 144 UK private equity funds and provided 34 partner finance guarantees.19

In total, the EIF has contributed approximately £470 million per year to UK small business finance markets over the period 2011-15, comprising £390 million per year for UK funds and £78 million per year for UK guarantees.20

**European Structural Investment Funds (ESIF)**

Financial instruments, co-funded by ESIF, support a broad range of development objectives, including the delivery of additional finance for small businesses. This is perhaps one of the most prominent areas where EU funding is channelled into the UK on a regional basis to support access to finance.

The advantage of ESIF backed financial instruments is that they often provide a basis for private sector match funding and, therefore, the opportunity for additional support to be injected into small business markets. This can potentially provide greater economies of scale and simplified administration to ensure that more money is available to invest in smaller businesses. In addition, the managing authorities using these financial instruments tend to benefit from the commercial expertise which is available alongside funds. In terms of creating more sustainable small business finance markets, the funds also provide for the potential creation of future legacy returns.

**Joint European Resources for Micro to Medium Enterprises (JEREMIE)**

During the 2007-2013 ERDF funding round, four UK public funds used available resources to deliver additional finance to small businesses. These funds were all designed around a model known as JEREMIE, which is a joint initiative between the EC and the EIB Group.

Utilising ERDF, EIB and UK Government funding,21 the rationale of JEREMIE funds is broadly premised on addressing a market failure that arises due to the reluctance of the private sector to lend certain

---

18 The shareholders of the EIF include the EIB, the EU and a number of public and private banks and financial institutions. House of Commons Library, UK Funding from the EU, 29 December 2016 http://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7847#fullreport
21 The Regional Growth Fund has been the primary UK government vehicle of supporting JEREMIE funding. However, in October 2016 the Government confirmed that no future rounds of the Regional Growth Fund were planned. House of Commons Library, Regional Growth Fund, 2 November 2016 http://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN05674#fullreport
finance products to small firms, or to lend on extremely restrictive terms. The funds are designed to specifically support geographical regions “considered most in need of economic development.”

The following four JEREMIE funds invested microfinance, debt and equity finance to support small businesses:

- North East Finance: A £159.5 million holding fund managed by North East Finance which is being invested via seven sub–funds.
- Wales: A £157.5 million JEREMIE fund delivered finance to small businesses between 2009 and 2015. It was the first fund of its kind in the UK. Its funding came from ERDF backed resources, the EIB and the Welsh Government.
- The North West Fund: A £155 million holding fund managed by North West Business Finance Limited which is being invested via six sub–funds.
- Finance Yorkshire (Yorkshire and Humber): A £113 million holding fund managed by Finance Yorkshire Limited which is being invested via three sub–funds.

Two follow-on funds have since been established in northern England. These are the Northern Powerhouse Investment Fund - which covers Yorkshire, the North West and the Tees Valley - and the North East Fund, covering Tyne and Wear, Northumberland and Durham, which will provide £145 million of lending to small firms.

Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME)

COSME is a joint EC-EIF operated scheme which channels debt finance, equity finance and guarantees through financial instruments that have been available since August 2014. With an overall budget of over £1 billion, COSME looks to fund small businesses where market gaps have been identified across the EU. As with other EU funding schemes, COSME’s financial instruments in the UK are managed by the EIF in cooperation with the BBB.

Joint European Support for Sustainable Investment in City Areas (JESSICA)

Developed between the EC and the EIB, and in collaboration with the Council of Europe Development Bank (CEB), the JESSICA fund uses a series of finance products - such as equity investments, loans and guarantees - to support urban development and regeneration. The scheme is largely financed through ERDF funding.

British Business Bank (BBB)

Launched in 2014, the BBB primarily looks to support the availability of finance by improving access to capital across the UK. It also supports the work of individual regional bodies, an example of which includes the current development of a financial instrument on behalf of the Cornwall and Isles of Scilly LEP.

The BBB seeks to do this by changing “the structure of finance markets for smaller businesses, so these markets work more effectively and dynamically.” The BBB works with over 90 partners to support the growth of different areas of lending. These partners include banks, leasing companies, venture capital funds and web-based platforms.

22 The investment strategies of the three English and one Welsh JEREMIE funds were all designed to address at least some aspect of market failure facing small businesses – such as early stage or growth finance. Whilst these market failures remain across all of the areas where the funds operated, the emergence of the financial crisis following 2008 is highly relevant in this context. Reduced lending on behalf of the banks, as well as a withdrawal from regional markets of some equity investors, perhaps strengthened the rationale of such interventions at the time, but also the impact of market failures on small firms. Indeed, the funds are likely to have played an even more significant role in supporting access to finance compared to what was first anticipated when they were originally established. British Business Bank, Small Business Equity Investment Tracker 2016, May 2016 http://british-business-bank.co.uk/wp-content/uploads/2016/05/97-Small-Business-Equity-Investment-Tracker-Report.pdf
26 The COSME financial instruments are: a) Loan Guarantee Facility (LGF) – this finance instrument guarantees lending to reach small businesses whose identified level of risk, lack of collateral or limited credit history would otherwise prevent them from accessing finance. It also helps encourage the provision of broader finance across the small business finance market. b) Equity Facility for Growth (EFG) - The EFG provides finance in many innovative small firms, including those ranging from the early to growth stages of their business journey.
28 Major schemes run by the Business Bank which provide debt and equity finance to SMEs include Enterprise Finance Guarantee, Enterprise Capital Schemes, UK Innovation Investment Fund, the Angel Co-investment Fund, and the Business Finance Partnership.
EU funding and access to finance through devolved governments

Often in partnership with the BBB, a number of separate initiatives have been undertaken in the devolved nations to support access to finance:

- **Scotland**: The Scottish Investment Bank, the investment arm of Scottish Enterprise, provides equity investment alongside private sector partners to support early-stage innovative businesses to access risk capital investment through its Scottish Venture Fund and Scottish Co-investment Fund. This is in addition to the Scottish Loan Fund, which was launched in 2011 to address the finance gap to Scottish small firms, and was supported by £20 million of ERDF funds.29 Separately, local authority loan funds provide finance directly to small firms, particularly to small and growing businesses that cannot secure finance through the private sector. In 2016, some of these funds were replaced by a new £6 million Scottish Microfinance Fund backed by ERDF resources.30

- **Wales**: Managed by Finance Wales, the Wales Business Fund supports small business finances through both debt and equity finance options ranging from £50,000 to £2 million. With a seven-year funding round, it is supported by both ERDF backed resources as well as legacy returns from Wales’s now fully invested JEREMIE fund.31

- **Northern Ireland**: Invest Northern Ireland is Northern Ireland’s regional business development agency with a remit to grow the local economy. The organisation offers a range of debt and equity finance options to small businesses. This includes CoFund NI, a £28 million venture capital fund that co-invests alongside business angels and other private investors. It also is responsible for two development equity funds which hold a combined £30 million of capital. These funds are designed to help small businesses looking to access growth finance. Finally, techstart NI is a £29 million collection of funds primarily for start-up and early stage businesses. All of these initiatives are supported by ERDF backed resources.32

EU funding until we leave the European Union

In October 2016, the Chancellor announced that the UK Government would provide financial guarantees for ESIF backed projects for this current funding round. This would include all projects agreed after Autumn Statement 2016 and which continue after the UK has left the EU, as long as they provide value for money and are in line with local and regional strategic priorities.33

This provided some much needed clarity for the many small businesses that are recipients of these funds or rely on the projects they deliver. However, it does put some new pressure on the managing authorities to ensure that funds are committed. In regions like Scotland, this is particularly important, as, to date, around £450 million is still to be allocated.34

In January 2017, the Prime Minister confirmed that once Britain has left the EU, it would cease to contribute further to the EU budget, except where “there may be some specific European programmes in which we might want to participate. If so, and this will be for us to decide, it is reasonable that we should make an appropriate contribution.”35

While this would potentially leave the UK free to spend the money it currently sends to Brussels on domestic priorities, it does mean that access to existing EU-funded schemes and programmes would likely be restricted. Losing access to these programmes will pose challenges to businesses which would otherwise benefit, meaning a new system of support needs to be developed.

There will also be significant confusion created by the fact that the UK will leave the EU in 2019, but the current funding programme does not end until 2020.

---

32 Invest Northern Ireland, Funding through loans and equity, March 2017 https://www.investni.com/support-for-business/funding-through-loans-and-equity.html
In the following sections, we set out how small businesses have participated in EU-funded schemes, where they have encountered issues with them, and how leaving the EU offers the UK Government and devolved governments the opportunity to set up a new and improved funding model – an opportunity we wouldn’t have otherwise had.
SMALL BUSINESS ENGAGEMENT WITH EU-FUNDED SCHEMES

Based on evidence from our survey of small businesses, this section sets out how small businesses have, in practice, engaged with programmes supported by EU funds, both in terms of business support and access to finance.

A large proportion of ESIF resource allocated in the UK has been targeted specifically to help small businesses. Between 2007 and 2013 it is estimated that EU structural funds helped to create 152,000 new jobs in the UK, with 29,000 of these specifically in small businesses. It also helped and supported 52,700 start-ups across the country to grow and develop.36

Nesta has found that, in 2013-14, the UK spent a total of £9.8 billion supporting businesses.37 While the majority of this support came in the form of tax relief, significant sums were also allocated to loans, grants and in kind support programmes. It is not possible to ascertain exactly how much of this came from EU sources, but, from the available data, we would estimate it to be roughly a quarter of the total.

Despite these statistics and the sums allocated from ESIF for small businesses, our evidence suggests that most small firms have knowingly had very little interaction with EU programmes.

Our research shows that just 15 per cent of small businesses have ever directly applied for EU funding. Of these, 58 per cent were for either ERDF or ESF schemes, which equates to just 10 per cent of all businesses surveyed.

This figure did rise depending on the size of the business, but even for larger small businesses (between 10-49 employees), still only 24 per cent have ever directly applied for EU funding. It is also possible that these figures are exaggerated through selection bias among the FSB members who took part in the survey underpinning this research. This could suggest that, from the wider small business community, the overall number of businesses who have directly applied for funding may be even lower.

The table below demonstrates that the areas with a higher ESIF allocation tended to see more businesses apply. Only eight per cent of businesses in the South East (the lowest funded area) said they had applied for EU funding, compared with 26 per cent in Wales and 18 per cent in the North West – two areas which receive some of the highest EU funding allocations.

Beyond the amount of funding available, the reason for this seems to be a greater awareness of the EU funding streams available. In Wales, only 21 per cent of businesses cited not having heard of any relevant opportunities as a reason for not applying, compared with 51 per cent in the Eastern region.

To some extent this isn’t surprising. The current landscape is complicated, opaque and much of the interactions small businesses have with EU funding comes from indirect sources. However, it does suggest a real problem whereby the funds designed for small businesses are largely being sought after by larger and better connected firms, which may be better positioned to hear about opportunities or make speculative applications.

Small business views of EU funding is mixed

Most small businesses did not have a particularly positive view of the impact that EU funds have had. Only 20 per cent felt that EU funding had had a positive impact on their own business, with the majority saying that either EU funding had no impact at all or they were unaware of where any funds had been spent. When combined, these accounted for 69 per cent of those businesses who responded.

EU funding was viewed only slightly more favourably when considering the impact on the wider community. In total, just 37 per cent believed that EU funding had impacted their region positively. Once again the largest percentage of those surveyed felt that EU funding had had either no impact at all, were unsure of any impact, or weren’t aware of any funding that had taken place in their local area. In total, these categories made up 59 per cent of all respondents.

The above findings are not surprising given the low number of small businesses who have knowingly directly applied for EU funding.

Businesses that had a direct interaction with EU funding were far more positive about the impact these funds have had, both on their own business and on their local area. For those businesses that had applied for EU funding, 68 per cent felt it had had a positive impact on their own business, and 64 per cent believed it had had a positive impact on the local area.

This clearly suggests that, for those businesses which have had a direct interaction with EU funds, this money is far more valued. However, the low number of small businesses who have knowingly directly applied for EU funding is noteworthy and too many aren’t aware of opportunities.

This suggests that there is a significant problem with publicity and awareness of how the funds are spent. In London, this is incredibly stark. In a region where €673 million was spent in structural funds between 2007 and 2013, 45 per cent of respondents said that they were not aware of any EU funding that had been spent. What makes this even more notable is that a high percentage of this funding was specifically designed for the benefit of small businesses, through either skills training or business support.38

38 It should also be noted that, in London, approximately 60 per cent of EU funding is delivered through ESF and is distributed through the Skills and Funding Agency.
The majority of businesses that applied for EU funding did so to receive business support. This equated to 36 per cent of responses, with skills training and research and development purposes coming in a close second and third. If taken together with delivering business support and delivering skills support, these clearly emerge as the two most popular purposes for why a business made an application for EU funds.

**Figure four: Small business net positive perception of EU funding**
*Source: FSB future of EU funding and business support survey*

---

### EU funding and business support

One of the areas where EU funding has had the biggest impact is on the business support landscape. Where they have been effectively provided, these funds have delivered schemes which have supported small businesses to start up and grow and have added much needed support to the regional economy. For the purpose of this report, we consider business support to be any scheme designed to deliver business information, advice or mentoring programmes with the aim of improving business growth and other outcomes.

According to EU figures, during the 2007-2013 funding round, ERDF helped 103,101 UK businesses to either start up, or improve their performance and grow.\(^{39}\) A concentration on business support has also continued into the new 2014-2020 programme, which looks to support innovation and boost business and local growth.

_I run a small antiques business in north Wales. After several years of trading I was finding it more and more difficult to manage and had started to work every hour under the sun just to keep things going. I decided to reach out for help, and approached Business Wales who put me in touch with an ESF funded business mentor. The difference this support made was monumental. After just a few meetings I was able to implement some changes that she suggested. This included setting up a pop-up shop, starting a social media presence and looking at how I could take advantage of local fairs and festivals. This has made a huge difference to the business and has enabled me be more creative in looking at other ways to grow the business, which I wouldn’t have had the time to do before._

*Helen, North Wales*

---

The way in which this business support is delivered varies from region to region depending on local circumstances, need and the abundance of private provision of support available. The precise impact of EU-funded support is hard to measure, because EU funds have mostly worked alongside activities supported by central and local government and the private sector. However, because of the previously mentioned additionality requirement, funds dedicated to business support must not (in theory) replace or duplicate other publicly-funded schemes.

As an indication of services supported, in the Hertfordshire LEP area there are 10 ERDF funded business support services that small businesses and start-ups can access in 2017. These support services range from export advice and supply chain management through to more general business and scale-up advice.

**Small business demand for business support is high**

Our research suggests that there is no shortage in demand for business support from small businesses. 78 per cent of small businesses say that they have sought external business advice or support over the last two years. The larger the business, the more likely they were to have sought business support.

This pattern was replicated when looking at business growth ambitions. The higher the growth ambition of the business, the more likely they are to have sought business support. For a business looking to grow by more than 20 per cent a year, 89 per cent had received help or support over the last two years, compared with just 65 per cent of businesses who felt they would remain the same size. This strongly suggests that small businesses regard business support activities as an important way of achieving their growth ambitions.

This was reiterated by the Government’s recent small business survey, which found that 85 per cent of businesses with substantive growth ambitions were more likely to have taken an active step to achieve that growth, such as seek business support.41

**Figure five: Proportion of small businesses that have sought business support in the last two years**

Source: FSB future of EU funding and business support survey

---

**Effectiveness of current support landscape**

It is clear that not all EU-funded business support interventions are well targeted. From our focus groups we heard complaints about the same companies applying for funding to deliver business support programmes, with questions around how successful these schemes have been. This will be expanded on more fully in Section Three, but there is little doubt that much of the EU funding currently spent on business support could be better targeted.

The figures for the number of businesses supported by ERDF further support this. Axis 3, which is specifically aimed at increasing the competitiveness and performance of small businesses, has allocated £1.46 billion to the UK. However, this funding is only estimated to provide support to 90,702 enterprises by 2023.\(^{42}\) Based on the latest BEIS business population estimates, this would suggest that just two per cent of small businesses in the UK would have been helped.\(^{43}\) Considering this funding is used to back a variety of measures and schemes, the number of small businesses supported seems small. The figure appears even starker considering that the funding spent on this relatively small number of businesses is actually twice this figure. This is due to the matching funding requirements, which would have required an additional minimum 50 per cent contribution from another funding stream.

Ultimately, the purpose of business support is to contribute to the improved performance of individual firms, thus enhancing the returns of the local and national economy. For EU-funded support, this is no different, but, at present, there is very little evidence to suggest how successful these interventions have been. While groups like the Enterprise Research Centre (ERC) and the What Works Centre for Local Economic Growth have completed some important evaluations recently, much more needs to be done to look at the benefits this funding has delivered.

Much evaluation is focused on simply tracking the number of businesses which have taken part in EU-funded schemes, which does little to evaluate the overall impact on a particular business.

We have a clear list of principles which we believe small businesses need from a reformed business support programme. These are outlined fully in Section Four.

**Growth Hubs**

One area of EU-funded business support that we regard as having been well targeted is that which currently helps fund the Growth Hub network in England. Growth Hubs have become an increasingly important part of the business support landscape. First set up in 2014 as a result of a review of business support, Growth Hubs are now at the centre of the Government’s ambitions to overhaul the provision of business support to make it simpler, more joined up and easier to access.

Set up with the help of ERDF, these Hubs provide a localised signposting service for businesses looking for business support or access to finance. Although relatively new, many Hubs now have a physical presence in their locality and are starting to see greater engagement with local small businesses by bringing together all of these services in an easy and recognisable way. According to the Work Foundation, over 67,000 small businesses have now engaged with their local Growth Hub.\(^{44}\) This still represents a small overall proportion of the total business population, so more work is needed to create a step change in small business engagement.

Growth Hubs across the country have been set up independently in order to meet the needs of the local business community. As such, Hubs look different depending on the area in which they are operating. Some, such as in Lincolnshire, are entirely web based, whereas those in Gloucestershire have a physical presence and employ local business advisors.

Most businesses prefer having face-to-face contact to discuss their needs, as this generally leads to greater trust and better engagement. On the whole, those who have used Growth Hubs felt their experiences were positive.

---

42 Management information provided by the ERDF managing authority.
Reformed business funding: What small firms want from Brexit

“In April 2015 I approached my local Growth Hub for help on how to scale up my business. Demand for new business had rapidly increased and I needed support and advice on managing growth - in particular taking on new employees to increase capacity and working through our growing pains.

After contacting the Hub, I was visited by a business advisor who listened to the issues I was facing and pointed me in the direction of a business mentor. They also helped me apply for European funding, which helped pay for the first round of meetings.

Since taking on the mentor I haven’t looked back. I now have six employees and have been able to develop quicker than I would have ever expected. I hope the government continues to prioritise Growth Hubs after we leave the EU.”

Steven, London

The work of LEPs and Growth Hubs to map out local business support has started to reverse the long-term problem of a landscape that was regarded as overly complicated, full of duplication and lacking an overarching strategy.45 This was emphasised in a 2015 government report on support for businesses which found that, in the public sector alone, there were over 600 publicly-funded schemes.46 This is in addition to the thousands in existence in the private sector.

There is emerging evidence to suggest that this mapping and simplification agenda has begun to reduce some of the vast duplication of business support services that currently exists in certain areas.47 It has also created far better coordination between the provision in the private and public sector.

Growth Hubs still have a way to go. According to BEIS’s own impact evaluations, Growth Hubs are viewed as not as effective as they could be, based on their self-reported impact and lack of a comparison group.48 Whilst most Growth Hubs still require improvements to achieve their overall aims, they are heading in the right direction and have been an effective and well-targeted government intervention.

At the various focus groups we held to discuss business support, an overriding priority was for the government to simplify the landscape and provide a one-stop shop which signposts all business support available. Growth Hubs provide just that and, with some improvements in outreach to raise awareness, we believe they could deliver exactly what small businesses have been asking for and need.

Cornwall Growth Hub

The Cornwall and Isles of Scilly Growth Hub is a good example of a one-stop shop approach for business support. The Hub provides a simplified, single signposting service to business support for those businesses looking to grow and for businesses with growth potential.

It encourages and supports small businesses who want to develop, innovate and invest through a one-stop business support, information and guidance service. This service can be accessed through a number of mediums including its online web portal and social media activity. This is also backed by a telephone and face-to-face service delivered through a team of Business Connectors.

Targeted at supporting eligible start-ups, micro businesses and small and medium-sized enterprises, it currently has ambitions to help 1,856 local businesses. It is part funded through £2.4m from the LEP’s ERDF allocation.49

45 See EBS, Gloucester Business Support Simplification Review: Final Report, March 2016, as an example of where this is working.


49 See https://www.cioslep.com/funding-streams/eu-growth-programme for CIoSLEP Growth Hub update.
In Scotland, Business Gateway is one of the key components of the publicly-funded business support system. It provides a national service of business support, including advice to start-ups, as well as growing businesses. Structural funding has been used to deliver additional products and services which go beyond core support and enable more businesses, particularly those with more modest growth ambitions, to access support from Business Gateway.

**Small business views of EU external finance**

This section sets out the views of small businesses on a range of topics related to the impact of EU funding on access to finance. This includes small business usage of available funding provided by access to finance schemes, along with other sources of credit.

**Uptake of EU funding for access to finance**

Despite the quantity of EU funding invested in UK small business finance markets, many schemes were not widely used by small businesses. Just over 10 per cent of our members who had applied for EU funds had done so to apply for loans or equity finance, COSME, EIF, JEREMIE or JESSICA funding. However, a larger proportion of small businesses are likely to have accessed these resources through intermediaries (e.g. banks and other financial institutions) and, therefore, may not have been aware they were benefiting from EU funding.

**Wider small business uptake of external finance**

As has been discussed, EU funding has been used to support the provision of a range of finance options across UK small business finance markets, including equity, debt and microfinance. When considering whether existing EU funding is being appropriately targeted to support gaps across finance markets, it is necessary to briefly consider overall small business applications for finance – including from the private sector - to identify demand.
Reformed business funding: What small firms want from Brexit

As can be seen above, the proportion of small business applying for equity finance products is low in comparison to those applying for debt finance products. This is supported by BDRC Continental’s SME Finance Monitor, which indicates that 30 per cent of small businesses were using core debt products in the final quarter of 2016. In contrast, equity finance uptake from small businesses is estimated to make up only one per cent of the overall small business finance market, potentially reflecting the lack of understanding of equity finance and broader finance options.

For many small firms, the motivation for seeking external finance is often limited to a specific set of categories.

Figure six: Types of finance applied for by small businesses
Source: FSB Voice of Small Business Index

Figure seven: Reasons for small business external finance applications
Source: FSB Voice of Small Business Index

---

50 FSB Voice of Small Business Index Q1 2017, April 2017
53 FSB Voice of Small Business Index Q1 2017, April 2017
Managing cash flow and updating old equipment makes up 71 per cent of the demand for external finance. Equity finance products may not be appropriate for either of these uses. This supports broader evidence which suggests that access to debt finance "in sufficient volume and on reasonable terms remains a major constraint for businesses across the UK."\(^5\) We might further infer from this evidence that the provision of debt finance is more likely to be relied upon by those small businesses currently using EU schemes to support access to finance in certain regions of the UK.

**Experiences of public bodies with responsibility for EU-funded access to finance**

A number of national public bodies (e.g. the BBB, Finance Wales, Scottish Enterprise and Invest Northern Ireland) as well as regional ones (LEPs, Growth Hubs and local authorities) hold responsibility for both the provision and signposting of access to finance initiatives. This activity is evidently in demand given that 65 per cent of small businesses who accessed such resources were seeking more information or advice specifically on finance.\(^5\)

Our evidence suggests that small business engagement and signposting of available EU funding support for access to finance does not always work as effectively as it should. This was reflected by one small business who attended a Newcastle FSB focus group on EU funding and business support in November 2016:

> "Finance Yorkshire manages a collection of different funds, but small firms don’t know which ones would be the most appropriate for them. Signposting is ineffective. Not many people know about the North East Business Growth Hub." \(^5\)

Such experiences reflect broader criticism that has previously been directed at the English JEREMIE funds, including the failure to adequately communicate their objectives and progress to “fund managers, the local finance community or to local economic development stakeholders."\(^5\) Welsh small businesses have previously highlighted similar issues with Finance Wales.\(^5\) Small firms who frequently come into contact with the organisation have criticised the body for offering restrictive and expensive lending conditions. In 2013, small businesses in Wales highlighted the cost and complexity of accessing finance:

> "My surprise to see that the offer on the table is more expensive in interest rates compared to the existing [high street bank] overdraft in place, the personal securities required are the same if not more stringent as from the bank, and on top Finance Wales is asking for 1.5 per cent lending fee, 0.5 per cent monitoring fee and a £275 security fee for the guarantee. This is a more commercial proposal based on stripping from any small business as much money as possible and in direct competition with the commercial banks and not offering small business any benefits at all." \(^5\)

---


\(^{55}\) FSB survey on EU funding and business support, November 2016.

\(^{56}\) FSB focus group on EU funding and business support, November 2016.


FSB Wales's October 2013 ‘SMEs and EU Funding’ report similarly detailed a landscape where formalised channels for businesses to hear more about available finance were often not available:

Businesses often hear about programmes and opportunities through word of mouth or informal networks. Very few of those interviewed noted that they had first heard about the programme through any targeted marketing activity. This can result in many businesses that would be eligible for support missing out on potentially important support and/or funding. Programme managers need to improve the way in which opportunities are marketed or communicated to small businesses.60

Indeed, a 2013 Welsh Government commissioned review of access to finance noted that “overall demand for funding remains relatively low partially due to a lack of understanding and awareness of different alternative sources of funding amongst the business community.”61 Consequently, there is evidence of public bodies across different nations with a specific remit for improving finance markets failing to adequately meet the needs of small firms.
BARRIERS TO SUCCESSFUL EU FUNDING

EU funding has supported many businesses in their efforts to grow and innovate. Our evidence has shown that there is a correlation between the growth ambitions of a business, their likelihood to have applied for EU funds and their likelihood to have applied for business support in the past two years. EU funds support economic development for many businesses, especially in regions which otherwise may have not received much private or public sector support.

Despite the importance that businesses often place on EU funding, our research has also made it clear that some EU supported projects are not as effective as they otherwise could be.

Clearly there are issues which stop some businesses from even considering making an application to access funds at present, and other barriers which makes it difficult for small businesses to make successful applications, potentially stopping them from doing so again.

In this section, we analyse these issues in more detail. We separately examine the challenges encountered by businesses that applied for EU funds.

These issues need to be addressed as a new funding model in England and devolved nations is established.

Beyond this, there are more fundamental questions about whether EU-funded projects are currently tailored to the needs of small businesses, and whether they are targeted towards the businesses which would gain the most benefit from EU-funded support. Again, there will be an opportunity to address these questions moving forward.

Many businesses have not heard of opportunities to apply for EU funds

Many businesses are simply unaware that schemes exist which could benefit their business. Our research demonstrated that many businesses which may have otherwise applied and benefited from EU-funded schemes have not done so as they are not aware that they exist.

Close to half (44%) of the small businesses which had not applied for EU funding said they had not done so because they were not aware of opportunities to do so.

It is possible that some firms have indirectly benefited from projects which were supported by EU funding without being aware that this was the case.

For example, businesses which take advantage of business support may not realise that an individual course or scheme has been funded by an EU grant. Our focus groups highlighted that this was the case for various management training courses that were hosted by universities, but paid for by EU funds. Similarly, many of the financial instruments supported by European funding streams will not necessarily be branded as having been supported by EU funds. As a result, it is possible that a higher percentage of businesses have actually benefited from EU projects than is indicated by the data in this survey.

Among the businesses that applied for EU funding, there were a range of information sources through which they heard about relevant opportunities.

For the most part, however, business owners find out about opportunities to apply for EU funding on an ad hoc basis, primarily as a result of personal relationships and networks.

Only around a quarter of businesses had found out about potential opportunities via engagement with bodies such as LEPs and Growth Hubs, with another 12 per cent of businesses respectively finding these opportunities from local authorities or through a government website (10%).

By contrast, 34 per cent found out about different opportunities from a business advisor, with an additional 10 per cent finding out through a personal relationship and five per cent from a relationship manager.

There was a clear perception among the small businesses who took part in our focus groups that some of the EU funding schemes were something of a closed shop, with those in the know able to
apply for grants and further support, and those on the outside missing out on those opportunities.
A small number (4%) of businesses reported that this was the primary reason for not applying for EU funds.

Considering two thirds (67%) of small businesses find out about possible opportunities via these personal networks or from previously applying for these funds, it is clear that many businesses could be missing out. Some of these businesses are likely to be ones which would most benefit from these opportunities.

LEPs, Growth Hubs and local councils should, therefore, consider how they could be more proactive in making sure that as many businesses as possible are aware of – and then apply for – opportunities to benefit from any schemes which are developed in the period after we leave the EU.

**Figure eight: Where did you hear about opportunities to apply for EU funds?**
*Source: FSB future of EU funding and business support survey*

<table>
<thead>
<tr>
<th>Source</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Through a business contact or advisor</td>
<td>34%</td>
</tr>
<tr>
<td>Through my LEP/Growth Hub/Business Wales</td>
<td>24%</td>
</tr>
<tr>
<td>I’ve applied for previous rounds of funding</td>
<td>18%</td>
</tr>
<tr>
<td>Through my local authority</td>
<td>12%</td>
</tr>
<tr>
<td>Personal relationship</td>
<td>10%</td>
</tr>
<tr>
<td>On a government website</td>
<td>10%</td>
</tr>
<tr>
<td>Through a relationship manager</td>
<td>5%</td>
</tr>
<tr>
<td>Other, please specify</td>
<td>12%</td>
</tr>
</tbody>
</table>

**Some schemes may not be directly aligned to the needs of small businesses**

Close to one third of small businesses reported that the primary reason why they did not apply for EU-funded projects was that there were no funds directly applicable to their business. Considering that supporting small businesses is one of the core priorities for EU funding streams, this should be of concern to policymakers, and presents an opportunity for reform.

The perception that small businesses are not the primary beneficiaries of EU funding streams could again be linked to a lack of awareness. LEPs and Growth Hubs, and devolved delivery bodies, should, therefore, not only consider how to more effectively advertise and promote new schemes and funding calls, but also how to tailor these messages in a way which helps businesses understand what benefits they could gain from taking part in these programmes.

Small businesses, and especially sole traders, often do not have the capacity to identify opportunities which would benefit their business. Most business owners spend most of their time running their actual business rather than spending time searching for potential opportunities.

As a result of these time pressures, business owners have a strong preference for information which clearly sets out what the potential benefits to their business are.

In England, dedicating resources within LEP and Growth Hub budgets for marketing to small businesses may encourage further participation - and would also open up new opportunities for businesses. Doing so would help business owners identify schemes which are clearly aligned to their growth needs.
The application process is too complex for many small businesses

13 per cent of small businesses claimed that the complexity of the administrative process was the main barrier stopping them from making an application to EU funding streams.

This was reported by businesses which had not applied for EU-funded projects, suggesting that they either started making an application and were put off by the complexity of the application procedure, or had heard from other sources that the burden of applying was too high for it to be worthwhile.

In addition to the 13 per cent who cited complex administrative burdens as the main reason for not making an application, four per cent of businesses said they had heard of opportunities to apply for EU funding, but did not make an application as they didn’t know how to apply.

Overly complex application procedures can, therefore, be seen to stop close to one in five (17%) small businesses making applications.

Although in the 2014-2020 funding round there have been concerted attempts to remove complexity and streamline application processes, it would appear that these measures have not gone far enough.

It is notable that the businesses which were most likely to be put off by the complexity of the application process were those seeking to grow at over 20 per cent per annum. One in five (22%) of these high growth businesses said the complexity of the process was the main reason for not applying. This again suggests that the businesses which could benefit most from applying to EU projects are the ones which are most focused on growing their core business - and, therefore, least likely to want to spend valuable time filling out a complex and challenging form.

The issues faced by businesses which had completed an application, but reported that it was challenging and overly burdensome, are discussed later in the report. The perception that the process is so difficult that there is no point in small businesses even considering making an application should be of concern to policymakers.

Figure nine: Why haven’t you applied for EU funding?
Source: FSB future of EU funding and business support survey

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>I haven’t heard of any opportunities to apply for EU funds</td>
<td>44%</td>
</tr>
<tr>
<td>None of the funding streams were applicable to my business</td>
<td>32%</td>
</tr>
<tr>
<td>I was put off applying by the complexity of the process involved</td>
<td>13%</td>
</tr>
<tr>
<td>The same companies get the funding each time, so there’s no point applying</td>
<td>4%</td>
</tr>
<tr>
<td>I have heard of opportunities to apply for EU funding, but don’t know how to apply</td>
<td>4%</td>
</tr>
<tr>
<td>Other, please specify</td>
<td>10%</td>
</tr>
</tbody>
</table>
Many firms which have successfully bid for funds also report difficulties

Our evidence demonstrates that many businesses which have completed an application for EU funds have also found the process challenging.

Only 51 per cent of small businesses found that the process for applying for funds simple, with just 12 per cent saying that the process was very straightforward. On the other hand, 48 per cent said the process was difficult, with a quarter (25%) of businesses reporting that they found the process very difficult. It is unclear whether the complexity is as a result of EU rules or domestic interpretations of these rules.

It is clear that, for a variety of reasons, small businesses are likely to struggle to complete application processes. There was a relationship between the size of the business and the relative difficulty attributed to the application process, with larger small businesses being somewhat more likely to find the application difficult (59%) compared to sole traders (43%) and micro businesses (47%). This could reflect the possibility that sole traders and micro businesses were more likely to employ a professional or have a match funding arrangement which helped to complete applications, compared to larger small businesses which may have done the work in house. If this is true, it means that sole traders and micro businesses are incurring additional financial costs when applying, which would reduce the economic benefits to the business of making an application.

Some small businesses may form consortia to assist their applications. Doing so could also help reduce the costs of making an application. Others may recruit specialists to help them complete an application.

Only 262 small businesses from our sample have made applications to EU-funded programmes, with low volumes of respondents having applied for individual funding streams. This makes a comparison between different funds challenging. As discussed above, ESF and ERDF represented the majority of applications.

ERDF was viewed more favourably compared to other schemes, with only 36 per cent reporting that they had found the application process difficult. LEADER projects, which have had well documented issues in the current funding round, fared less well, with 69 per cent of applicants reporting that the application process had been difficult and 41 per cent saying the process had been very difficult, albeit with insufficient numbers to make firm conclusions.

This could reflect differences in the governance arrangements between ERDF and LEADER. The strategic oversight provided by LEPs in administering and granting ERDF funds in England could represent a more effective model than the Local Action Group (LAG) model.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Very straightforward</td>
<td>12%</td>
</tr>
<tr>
<td>Quite straightforward</td>
<td>39%</td>
</tr>
<tr>
<td>Quite difficult</td>
<td>23%</td>
</tr>
<tr>
<td>Very difficult</td>
<td>25%</td>
</tr>
</tbody>
</table>

The reasons given for finding the application process difficult were varied.

The different issues can be categorised as challenges facing small businesses before they make an application, during the application process itself, and concerns about how they are assessed if they are successful.

All three of these issues could prevent some small businesses from applying to any future programme of funded support for business, meaning it is imperative that the Government considers how best to avoid these challenges in future. We will set out recommendations on how to avoid the issues below in the next section of this report.
Businesses which are considering making an application struggle with a range of challenges before they even start an application. In particular, businesses were unsure whether they were even eligible to make an application, had concerns about being exposed to funding clawbacks, and had difficulties finding match funding. In addition, some businesses reported that the funding call periods were not long enough.

Considering that these difficulties were reported by businesses which had made successful applications, it is likely that a higher percentage of the general business community may have considered making an application, but fell down at one of these hurdles.

The main challenges facing businesses before they made an application:

- I had difficulties finding match funding partners – 27%
- I was concerned about the possible funding clawbacks if targets weren’t met - 25%
- I wasn’t sure about eligibility requirements – 25%
- The funding call periods weren’t long enough – 12%

**Businesses report difficulties finding match funding partners**

A quarter (27%) of those businesses which found it difficult to make a successful application reported one of the main challenges they faced was finding match funding partners.

It is right that many EU-funded projects have requirements to find match funding from either private or public sector sources. This magnifies the impact of different projects, ensures buy-in from other relevant stakeholders and adds an additional level of scrutiny to funding applications, as they need to be sufficiently robust for other partners to commit funding.

At the same time, the availability of funds from either of these two sources has declined. Local authorities have been under increasing financial pressure, and the impact of the financial crisis has meant less private sector money can be leveraged to support an application. As a result, small businesses have found it difficult to identify potential match funding partners.

Beyond these issues, we received anecdotal evidence that the appetite to provide private sector match funding substantially fell in the period after the referendum result, reflecting uncertainty about the future of EU-funded projects. The pledge by the Government to honour spending commitments made before we leave the EU has helped to reduce this uncertainty, but it will likely be increasingly difficult to find private sector match funding as the UK gets closer to the point we formally leave the EU, meaning a longer-term plan is needed.

There is an associated risk that the entire match funding infrastructure which has built up over previous spending rounds could be disrupted once we leave the EU – greatly reducing the level of resource dedicated to helping small businesses.

The CLG Select Committee found that requiring match funding meant, in some cases, that worthwhile projects were unable to go ahead as there were no available match funding partners.62 The LGA submitted evidence to this inquiry suggesting that:

> “Over two thirds of respondent councils were not confident about the availability of match-funding for the ERDF remaining in their regional programme [and] over half had projects or potential projects which had either fallen through or were at risk of doing so.”63

Businesses with a strong network may find it easier to identify potential sources of funding, whereas those making an application for the first time may struggle. This could increase the perception that some funds are only available to a closed club of businesses which know how to craft successful bids, and which are in a position to identify where they can find funds.

---

63 Ibid
There are bodies which can help businesses identify match funding partners, although it is unclear how aware businesses are of this support. The Big Lottery Fund was viewed as being helpful in providing support to small businesses making applications and in providing match funding.

> “We found the Big Lottery Fund invaluable when applying for European Social Funds. By working in partnership with our Local Enterprise Partnership, not only did they provide the match funding needed, but they also took away much of the burden from the lengthy application process. Without their help it’s unlikely we’d have even been able to make an application.”

Sam, Manchester

Both the Industrial Strategy and devolution agenda offer an opportunity here to increase coordination at a local level between different bodies to help small businesses find match funding partners. Improved signposting, and proactive engagement with the local business community, could prove beneficial in helping small businesses find match funding partners in future.

**Eligibility requirements were hard to understand**

A quarter of businesses also reported that they were unsure about the eligibility requirements for different funding streams. This again could prove to be a disincentive to businesses which would otherwise have made an application, where confusion about which businesses were qualified to make an application could reduce their likelihood of applying.

The eligibility rules for ERDF currently stand at 12 pages and set out 10 separate criteria with multiple sub-clauses setting out what grants can be used for, and who is eligible to benefit. The guidance for understanding these rules runs to a further 32 pages. Similarly, ESF funded projects have 17 pages for eligibility requirements, with a further 21 pages of guidance.64

During the interviews which we carried out with various stakeholders, it was suggested that eligibility criteria can also be so strict that it is almost impossible for awarding authorities to distribute funds.65

There is also now a concern among Managing Authorities that the audit regime when we leave the EU will be made more stringent.

**Exposure to funding clawbacks poses a risk**

A quarter of businesses similarly reported that they were concerned about their exposure to funding clawbacks if a successful application did not deliver on its objectives. Small businesses may make significant up front investments following a successful application, so are at considerable financial risk if the project is then unsuccessful. We know of a number of cases where small businesses have had substantial clawbacks imposed on them for minor administrative errors, even though they achieved the overall aims of the project.

Micro businesses were more likely to report this as a concern, with one third flagging the issue, compared to just 13 per cent of small businesses. Again, this could reflect the increased financial risk which a smaller business may be taking on compared to a larger business, along with their ability to weather any clawbacks.

> “I lost all funding for one project after a significant investment as I apparently didn’t fully meet procurement targets.”

Russell, Cornwall

On the other hand, it is, of course, important for the future credibility of these projects, as well as to protect the interests of UK taxpayers, that the success of projects are monitored and that investments are recovered if projects are failing to deliver against agreed success criteria. There just needs to be much greater clarity on expected outcomes from the outset.

We heard anecdotal evidence that other projects were put at risk, after approval, from factors outside their control, such as the need to get planning permission. This again meant businesses invested time and resources into projects for which they retrospectively lost funding.

---

65 FSB interview with LEP programme manager
Funding calls were not long enough

A small number of businesses (12%) reported that current funding cycles were not necessarily aligned to business needs, or took so long to process that the grants were no longer needed. As will be discussed in more detail later in this report, there is a related issue that the current length of funding cycles can make it difficult to align funding priorities with changing economic circumstances.

“Opportunities are not always advertised for long enough, meaning that by the time you’re aware of an opportunity, there isn’t enough time to make an application.”

Helen, Bangor

With limited resources, business owners may not always find out about opportunities to bid for funds. This benefits businesses that are geared towards making bids for funds, rather than those businesses which would most benefit from different programmes. Better marketing and engagement with the local business community would help to overcome these challenges. It would also ensure that needs in a particular area can be addressed far more quickly.

Funding is not currently aligned with money from domestic sources, such as Growth Funds, which can mean that it is unclear to businesses when opportunities will come to make an application. Leaving the EU offers a possible opportunity to better align funding periods to give additional clarity about when resources will be on offer.

Challenges during the application process can be overly burdensome

Assuming businesses overcome these challenges, the process of applying can also prove difficult and burdensome. The top issues raised by applicants were:

- The amount of information and evidence required up front was unrealistic – 59%
- The application form was too long – 47%

The amount of information and evidence required up front was unrealistic

Over half (59%) of businesses reported that the main challenge they experienced in making an application was that the amount of information and evidence required up front was unrealistic.

In order to create propositions that deliver value for money, and which protect the taxpayer from funding ineffective projects, the amount of information awarding authorities need up front will be significant. However, the differing levels of bureaucracy currently involved in awarding this money has meant that businesses have to submit far too much information to stand a chance of successfully bidding.

It was suggested by business owners in both Scotland and Wales that delivery of funding was often bureaucratic in nature, and members were concerned about the gold-plating of EU requirements. An additional concern was that each level of administration gold-plated the requirements of the bureaucratic levels above it, meaning that compliance was viewed as being even more burdensome than it needed to be.

“The involvement of the Welsh Government in administering schemes has added additional bureaucracy to the process. Many of the inefficiencies in the process come from Wales rather than the EU.”

James, Bangor

Sole traders who had made a successful application were most likely to report that they had struggled to meet these up front requirements. These individuals are most likely to be time and resource poor, reducing their ability to spend a lot of time collecting evidence. The majority (70%) of sole traders said they struggled to find all the required evidence, compared to 57 per cent of micro businesses and 53 per cent of small businesses. It should, of course, be recognised that these time constraints also affect all small businesses, reflected in the high level of responses to this option.
It is also notable that businesses targeting higher growth were also more likely to view the amount of up-front information being required as posing a challenge. This could again reflect the fact that these businesses are more likely to be busy looking to expand or diversify their offerings, meaning that they are unwilling to spend a lot of time gathering information to make an application, even if this would help them achieve their growth ambitions. Two-thirds (66%) of businesses looking to expand turnover by over 20 per cent in the next year reported this as being the case, compared to 61 per cent targeting 10-19 per cent growth and 58 per cent of businesses targeting 1-9 per cent growth.

This demonstrates the importance of getting the application process right for small businesses, as these businesses seeking to grow are the ones which the Government will rely on to deliver their economic agenda.

"Although aimed at the small business sector, the programme had the overhead as if it were aimed at a large company. We were initially required to file accounts which unincorporated businesses do not have to produce. This is only one of the many barriers to overcome."

The cost involved in obtaining the grant to my business was between 15-20% of the value of the grant. The time delays had a potentially disastrous impact on my business. We survived and thrived but I would be very reluctant to apply for a grant again and would advise others to be very aware of the pitfalls including the time delays and disconnects between the stated aims of the programme and the actual grant process."

FSB member, South West

"The need to have settled all supplier invoices in full prior to receiving the grant money kind of defeated the point. If you’ve got the money in reserves, you don’t need the grant do you!"

Rob, South East

The application form was too long

In an issue related to the demand for upfront requirements, close to half of businesses (47%) that found the application process difficult reported that the application process was too long. There was a strong perception among many of the business owners we spoke with that, aside from the length of the application process, there was an art to writing successful applications which required inside or specialist knowledge to do effectively.

Sole traders and micro businesses were more likely to view the length of the application process as causing them difficulties compared to larger small businesses, again likely reflecting the varying capacities of different sized businesses.

"I used to apply for support myself, but as the process has got more complicated, as a small business owner I just don’t have the capacity anymore."

Geoff, Newcastle

"If it costs around £3,000 in time and effort to make an application, you need to be sure you’ll get enough benefit to consider applying."

Mark, Cornwall

There was also a notable gap between high growth businesses and those seeking more modest growth in their perception of the length of application forms. More than half (62%) of those aiming for 20 per cent growth or higher reported that the length of the application form caused problems for them, compared to 48 per cent targeting growth of 1-9 per cent. This again suggests that simplifying the forms could help high growth businesses benefit from projects currently funded through EU streams.
Supporting growth among businesses is a key aim of the Industrial Strategy, so any reduction in the administrative burdens they face would help achieve that goal.

“We received expert help in making the application. There is a format which is necessary to observe. It isn’t necessarily what you say, but how you say it. I would imagine a lot of small businesses have applied for assistance, but many have been unsuccessful and deterred from further action due to the application process.”

Nigel, Northern Ireland

“The degree of detail required was geared towards large companies with large financial, human and personnel resources.”

David, South East

“The application process for these funds can be challenging, so part of the skill is to know how to put in successful bids. The application process is long and drawn out, which means that larger businesses tend to be better positioned to make bids. Small businesses which cannot apply directly as a result are at a disadvantage.”

Paul, Newcastle

Post-application concerns also play a role

Other concerns were reported by some businesses, which reflect their concerns about what would happen after an application was complete:

- I was put off by excessive reporting requirements – 44%
- I had difficulties with my relationship manager – 5%

Stringent reporting requirements deterred some business owners from applying

Almost half (44%) of businesses were concerned by excessive reporting requirements following a successful application. Again, there is a clear interest in ensuring that public money is being spent effectively and on the purpose for which it was allocated. However, there is a clear perception that the data which must be reported does not measure the effectiveness of spending well, and that businesses are spending more time meeting reporting requirements than actually delivering projects.

Over half of small businesses (53%) reported this, compared to 38 per cent of sole traders, possibly reflecting the different sized grants which businesses had applied for, along with differing levels of scrutiny depending on the value of the application.

A particular concern for many small businesses was in reference to the UK Government’s requirement for three individual quotes to be provided when procuring supplier contracts. This was regardless of risk or the size of the contract being offered. Finding three separate suppliers to provide quotes for what could be a low value contract was viewed as overly burdensome. It is, of course, important that suppliers represent value for money and that a competitive and fair procurement process is carried out, but finding three suppliers in some situations could represent an overly burdensome requirement.

“Unclear criteria for success – we spent as much time researching the process as we did submitting the application.”

Wilson, East Midlands
“There wasn’t enough information about the evaluation procedure following submission.”
Anne, Wales

“We had to provide very extreme diligence on every item we needed to purchase, repeated requests for alternative quotes and very specific formats of information on procurement that drove us mad.”
Robert, South West

“There has been continual progress made on improving these schemes, but we still too often gather the wrong data and are unable to track progress effectively.”
Michelle, Newcastle

The quality of relationship managers could also have an impact

A small number of small businesses (5%) also reported that they had difficulties applying because of a poor relationship with their relationship manager. It was widely recognised by attendees at focus groups that a good relationship manager was useful in identifying potential new opportunities for small businesses to apply to.

“I had a relationship manager who really identified where opportunities existed, and pushed me towards making applications for funds I otherwise wouldn’t have heard about.”
Brian, Bangor

In addition, there was a general perception among the small business owners we spoke to that there was a general lack of understanding from fund administrators about the needs of small businesses. The administrators of different funds were sometimes viewed as being more concerned with box ticking and generating make-work tasks than genuinely attempting to benefit the local business community.

“Many of the fund administrators I’ve encountered are far too risk adverse. They design schemes based on what they think businesses need, rather than listening to what we have to say.”
Alan, Bangor

Administrators were also viewed as being overly risk adverse. There is a balance between protecting tax payer interests and delivering against the goals of different projects. The view of some business owners was, however, that some investments could have been made which were not owing to administrators being overly cautious.
Figure 11: What were the main difficulties in applying for EU funding?
Source: FSB future of EU funding and business support survey

<table>
<thead>
<tr>
<th>Difficulty</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>The amount of information and evidence required up front was unrealistic</td>
<td>59%</td>
</tr>
<tr>
<td>The application form was too long</td>
<td>47%</td>
</tr>
<tr>
<td>I was put off by excessive reporting requirements</td>
<td>44%</td>
</tr>
<tr>
<td>I had difficulties finding match funding partners</td>
<td>27%</td>
</tr>
<tr>
<td>I was concerned about the possible funding clawbacks if targets weren’t met</td>
<td>25%</td>
</tr>
<tr>
<td>I wasn’t sure about eligibility requirements</td>
<td>25%</td>
</tr>
<tr>
<td>The funding call periods weren’t long enough</td>
<td>12%</td>
</tr>
<tr>
<td>I had difficulties with my relationship manager</td>
<td>5%</td>
</tr>
<tr>
<td>I wasn’t aware of the relevant opportunities</td>
<td>2%</td>
</tr>
</tbody>
</table>

Beyond the evidence gathered from our survey, there was a range of other issues with different elements of the existing EU funding process which our engagement with members across the country uncovered.

**Aligning business support with national and local priorities**

Leaving the EU offers the UK the opportunity to deliver a new series of projects to help businesses that are more closely aligned with national priorities. In previous funding rounds, funds were distributed to national and local government based on criteria set in coordination with other member states of the EU.

Many of the criteria for these funds are likely to be retained by future UK Governments. However, we will have more flexibility in deciding what areas are given priority under a new system where funds have been repatriated.

One area where LEPs have reported that they are unable to find suitable projects, in part due to a lack of available match funding, relates to Priority Axis Four in the ERDF programme.66 This axis prioritises transitioning towards a low carbon economy and represents the third largest allocation of ERDF funds.67

There will be some regions with a thriving low carbon sector where these funds will prove beneficial, and where there will be large numbers of potential projects which would benefit from these funds. Other areas may struggle to find projects to fund.

FSB is, of course, supportive of the goal that businesses across the country continue to decarbonise. Repatriating funds would, however, allow different regions to decide whether there is economic benefit in them participating in different priority areas.

---

66 FSB interview with Programme Manager at a LEP.
Length of funding rounds

As discussed in Section Two, ESIF projects are supported by funding allocated over a seven-year cycle.

In theory, distributing funds over this period delivers policy stability outside the Westminster electoral cycle, especially when being allocated across multiple countries with different electoral cycles. For LEPs, this has been particularly useful and has allowed them to use ESIF funding allocations to feed into their longer term Strategic Economic Plans.

Now that we have taken the decision to leave the EU, one challenge for the UK Government will be how to balance the desire of businesses for policy stability against the need for democratic accountability. Few Governments would volunteer to automatically deliver funding commitments that a preceding Government has made.

Shortening funding rounds to align with electoral cycles would increase accountability around funding and allow the incumbent Government to set funding at a level it deems necessary while tying this to national policy objectives. However, electoral cycles for the devolved governments are not aligned with the Westminster electoral cycle – causing an additional issue to consider.

Another challenge to this approach is that distributing funds over a seven-year cycle can take several years for different projects to be scoped and approved, meaning successful projects may then not have much time to actually deliver their objectives before a funding round is closed.

This has been particularly problematic in the case of LEADER funding, where LAGs were not able to distribute funds for a significant period of time.

“It took us two years to identify schemes which the LAG could support, so that time was wasted in terms of helping businesses in the local community.”

Ian, Bangor

The net effect has been that, in some cases, the fund administrators were forced to quickly spend money on projects which may not reflect true value for money in order to meet fund distribution deadlines.

Reducing the length of funding periods would only serve to exacerbate these challenges.

At the same time, lengthening funding rounds could reduce the ability to respond to changing economic circumstances, or to respond to changing local needs. It would also mean that a new Government would potentially be stuck delivering a programme of funding which did not align with their spending criteria or policy priorities.

Balancing these two competing objectives will be a key question to address if the Government takes the opportunity to set up new funding models to continue supporting businesses in the period after 2020.

Stop start nature of schemes

Beyond this there are also practical problems caused by tying funds to a set period of time. Business owners repeatedly expressed frustration that different schemes would run for a certain amount of time, close due to a lack of funds or a funding period closing, with a similar scheme then reopening at a future date. For example, in relation to export support there have been a large number of schemes which have come and gone in relatively quick succession.

This process has had several negative effects. Firstly, the success of business support and access to finance schemes depends on businesses being aware they can take advantage of them. Our evidence has already shown that many small business owners are not aware of potentially beneficial programmes. When projects run for limited amounts of time, their effectiveness and value for money is reduced, as fewer businesses will be positioned to take advantage of them.

Secondly, successful schemes rely on the expertise of effective and experienced staff who are able to deliver longer term projects. Setting up new programmes on a regular basis runs the risk of
schemes losing institutional knowledge, and requires frequent downtime to re-establish procedures and improvements which otherwise could have been incorporated into a scheme in a process of continuous improvement. There is also a risk that experienced managers find other employment, meaning that their expertise is lost.

"Funds do not run for long enough, and a lack of long term planning means there are gaps which stop effectiveness, and lead to losing skills. Programmes need to build momentum in order to be effective, without continuous funding then they have to stop, and then rebuild."

Ros, Newcastle

This second point was viewed as being particularly important for access to finance schemes, which have generally had lower awareness and take up compared to other projects. Access to finance projects need time to build up brand awareness and reputation before they can deliver true value for money.

On a related note, it is important that a smooth transition process is put in place to ensure that the repatriation of funds in the period after we leave the EU doesn’t impact on the operation of these projects.

**Lack of coordination between different funding streams**

It is important that local areas are able to control spending and ensure that it is aligned with regional priorities. This fits well with the Government’s commitment to devolution in English regions, along with the aspirations of the Industrial Strategy.

The complexity and variety of different funding streams, and the projects which are supported by them, means that there has been a real risk of duplicated investment. Without joined up local oversight and delivery, it is likely that funds from different investment streams could have been spent on duplicative efforts, or on projects which have contradictory aims.

This has even been the case between different funding streams within the Structural Funds. Many LEPs told us that, although a great deal of time was spent on coordination of funds prior to this funding round, ERDF and ESF still operate to completely separate priorities, meaning coordination can be incredibly difficult.

It is right that funds should have additionality criteria placed on them to ensure they aren’t simply displacing investment which would have taken place anyway. However, these criteria should be evaluated to make sure resources are being targeted as effectively as possible.

There is a challenge that public money cannot and should not be used to give individual firms an unfair competitive advantage. At the same time, if funding is not targeted effectively, public money could simply be used to prop up firms which otherwise would not be commercially viable. Publicly funded programmes also should not unfairly compete against private sector organisations through undercutting their commercial viability.

A CLG Select Committee report in 2012 highlighted the challenges that having multiple sources of funds poses to effectively meeting regional objectives. Different funding streams had different priorities and success criteria attached to them, meaning that funds could not be aligned to achieve a single goal.68

Leaving the EU offers an opportunity to ensure that any future funds are spent in a manner which offers full local control over prioritisation, and enables local areas to manage resources in a way which most effectively delivers against their regional priorities.

68 DCLG, Select Committee ERDF report, July 2012 https://www.publications.parliament.uk/pa/cm201213/cmselect/cmcomloc/81/81.pdf
Lack of coordination between different regions

Despite the importance of individual localities being able to identify and adequately resource different local priorities, the evidence from our focus groups suggested that local institutional rivalries could pose a challenge to this being successfully delivered.

This was particularly apparent in the North East, where small businesses reported that a postcode lottery was evident in terms of what support was available to businesses. There was a clear issue that different institutions in the North East have not been able to coordinate efforts successfully in the past, which bodes poorly for their ability to coordinate effectively in future.

The level at which coordination and prioritisation takes place is also important. As will be discussed later, access to finance schemes relies on economies of scale to provide a stable funding base. Other issues, such as the delivery of business support and skills training, may require more tailored, local solutions. Depending on the needs of businesses in a locality or region, this may require cross-institutional coordination, which may require various institutions to learn to work more effectively together.
FUTURE LANDSCAPE OF BUSINESS SUPPORT

This section sets out in more detail how businesses are currently engaged with business support, outlining a clear framework for what should be prioritised in future.

In order for the Government to fulfil its aim of creating an economy for all – boosting regional growth and unlocking higher productivity – a new strategy must be developed for delivering business support after the UK leaves the EU.

In this space, Brexit offers the Government and devolved governments a real opportunity.

At a time of unprecedented change in the business landscape, and with a new Industrial Strategy now underway, the Government can start to realign the UK’s business support offer so that it better mirrors domestic priorities.

It can also start to think about how best to tackle the new challenges that businesses will face as a result of leaving the EU. One good example of these new challenges is in regards to exports. FSB’s own research shows that, as a result of our exit from the EU Single Market, some small businesses must be supported in trading with global markets, such as those in the Anglosphere and BRIC countries. Export support is going to be vital to adequately prepare businesses for this new challenge. For the 21 per cent of small businesses exporters who currently exclusively trade with the EU, trading outside of the single market is going to be an alien concept, and providing targeted help and support to ease this transition will be vital. This is just one example, but shows how a coordinated and forward-looking approach is required following Brexit.

As Section Three demonstrates, the European funded business support landscape has often not been as strong as it could be. Now we are leaving the EU, more can be done to progress recent improvements to the business support landscape which have been started by this Government. This includes better targeted funding and a focus on locally tailored and more responsive delivery of support.

As has been analysed in Section Two, there is no shortage of demand for business support. Small businesses generally recognise the benefits of seeking outside help at all stages of the business cycle - and this is especially true of those aiming to grow or increase productivity. There is also a clear relationship between business growth ambitions and the likelihood of seeking business support.

Therefore, in this section, we will be building on these themes by looking at what small businesses want prioritised from any future funding which may become available.

Small businesses want to see business support protected

We asked small businesses how they would like to prioritise any future funding that may be available after we leave the EU. We gave each respondent one hundred chips to allocate between a number of options for where they might want future money prioritised.

These options ranged from skills training to digital infrastructure, and tax relief to management buyouts. We also allowed respondents to write in their own priorities, if their favoured option was not listed.

Along with access to finance schemes and transport infrastructure, business support was clearly highlighted as an area where small firms would like to see money allocated in the future. More than half (58%) wanted to see some funds assigned to business support schemes after the UK leaves the EU. For the average respondent, the amount allocated from the total was almost a fifth (17 chips).

70 These ‘improvements’ are in reference to the changes made following the Government’s review of publicly funded business support schemes started in 2014. This led to the creation of the Business Growth Service and Growth Hubs, both of which started the process towards simplifying the support landscape. The full report can be read here: https://www.publications.parliament.uk/pa/cm201415/cmselect/cmbis/770/770.pdf
There are some regions where this view is stronger than others. In the North East, 75 per cent of businesses prioritised business support, 62 per cent in Yorkshire and Humber, 61 per cent in Wales, 61 per cent in the West Midlands, and 59 per cent in the South West. This is compared to 51 per cent in London and 52 per cent in Eastern England. This could be explained by the fact that London has the highest concentration of business support of any region and businesses may feel this money could be better spent elsewhere.

Of those who wanted future funding allocated to business support, the vast majority (71%) were businesses who have ambitions to grow over the next 12 months. This again demonstrates that small businesses see a clear link between business support and the ability to grow their own company.
Business support was, however, important to small firms of all growth ambitions, not just those which have ambitions of increasing revenues by 20 per cent or more a year. In recent years, the Government has held a particular focus on supporting the ambitions of this small pool of high growth firms. Following Brexit, we would argue that more attention needs to be placed upon those businesses which are not high growth, but, for example, have moderate growth ambitions and, with the right help and support, could become the supported scale-ups of the future. This would help deliver far broader economic growth across the whole of the UK.

Businesses seek support from a variety of different sources

The first stop for the overwhelming majority of small businesses seeking business support was private sector sources. Accountants were the most popular with 50 per cent of respondents, solicitors/lawyers coming in at 23 per cent and business advisors and the bank on 18 per cent and 17 per cent, respectively. Public sector sources were used by fewer businesses. Local authorities were used by eight per cent, LEPs 10 per cent, further education colleges three per cent and even Growth Hubs only saw seven per cent usage.

The reason for this is largely due to the type of support sought from private sources. The most popular type of support sought was financial or legal and, therefore, it is unsurprising that businesses went to accountants, financial advisors or banks for this. However, for the support more geared towards scaling up businesses, like skills support, exporting, innovation or help with growth, the public sector provision was far more popular.

The majority of the businesses which received support over the past two years had not paid for services. This equated to 85 per cent of the responses received. While this may seem counter intuitive when considering most business support provided was from private sources, it is likely explained by professional services, such as accountants or lawyers, providing support or advice as part of an already existing relationship. It may also be explained by private companies or business advisors being able to offer these services for free, due to backing from EU funds.

Figure 14: Sources of advice and support used by small businesses (of those seeking support)

Source: FSB future of EU funding and business support survey

<table>
<thead>
<tr>
<th>Source</th>
<th>Private sector</th>
<th>Public sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accountants</td>
<td>50%</td>
<td></td>
</tr>
<tr>
<td>Solicitors/lawyers</td>
<td>23%</td>
<td></td>
</tr>
<tr>
<td>Business advisors</td>
<td>18%</td>
<td></td>
</tr>
<tr>
<td>Bank</td>
<td>17%</td>
<td></td>
</tr>
<tr>
<td>LEPs</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>Local authorities</td>
<td>8%</td>
<td></td>
</tr>
<tr>
<td>Growth Hubs</td>
<td>7%</td>
<td></td>
</tr>
<tr>
<td>Further Education colleges</td>
<td>3%</td>
<td></td>
</tr>
</tbody>
</table>

71 Scale-up companies, also known as high-growth enterprises, are enterprises measured by employment or by turnover with average annualised growth in employees or in turnover greater than 20 per cent a year, over a three-year period, and with 10 or more employees at the beginning of the observation period, OECD, Enterprise at a Glance, 2011, OECD Structural and Demographic Business Statistics (SDBS) Database.
Small businesses have a wide variety of support needs

Our research shows there is no shortage of demand for business support in the UK. Three quarters (78%) of small businesses said they have sought external advice or support in the last two years. Where this advice was sought greatly depended upon the type of support that the business required. Business owners generally went for specific advice to pre-existing sources of professional advice – such as their accountant or bank for financial advice or their lawyer for legal advice.

**Figure 15: Sources of private sector advice and support used by small businesses**

*Source: FSB future of EU funding and business support survey*

<table>
<thead>
<tr>
<th></th>
<th>Accountant</th>
<th>Solicitor/Lawyer</th>
<th>Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Most sought advice</strong></td>
<td>Financial advice (67%)</td>
<td>Legal advice (74%)</td>
<td>Financial advice (54%)</td>
</tr>
<tr>
<td><strong>2nd most sought advice</strong></td>
<td>Tax advice (53%)</td>
<td>Employment law (33%)</td>
<td>Advice on accessing finance (36%)</td>
</tr>
<tr>
<td><strong>3rd most sought advice</strong></td>
<td>Workplace pensions (39%)</td>
<td>Regulation (10%)</td>
<td>Help to grow (33%)</td>
</tr>
</tbody>
</table>

The statistics show a very different picture for the advice sought from public sector sources. Businesses clearly use public sector services such as LEPs and Growth Hubs to help them grow. When looking at the growth ambition of a business, this disparity increases further. The majority (84%) of businesses with growth aspirations of 10-19 per cent who visited a Growth Hub sought help to grow. This figure was 91 per cent for those looking to grow by 20 per cent or more.

With the Government now placing so much emphasis on scale-ups in its drive for economic growth, this reliance upon public sector support for businesses who want to grow needs to be considered when designing any new business support landscape.

**Figure 16: Sources of public sector advice and support used by small businesses**

*Source: FSB future of EU funding and business support survey*

<table>
<thead>
<tr>
<th></th>
<th>LEP</th>
<th>Growth Hub</th>
<th>Local Authority</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Most sought advice</strong></td>
<td>Help to grow business (68%)</td>
<td>Help to grow business (73%)</td>
<td>Help to grow business (47%)</td>
</tr>
<tr>
<td><strong>2nd most sought advice</strong></td>
<td>Financial advice (28%)</td>
<td>Marketing (35%)</td>
<td>Financial advice (29%)</td>
</tr>
<tr>
<td><strong>3rd most sought advice</strong></td>
<td>Advice on accessing finance (26%)</td>
<td>Financial advice (22%)</td>
<td>Training/skills support (28%)</td>
</tr>
</tbody>
</table>
Views on effectiveness of advice vary markedly by provider

When looking at the overall business support landscape, as well as understanding where small businesses went and what support they required, we also wanted to ascertain their views on the usefulness of the support they received.

Generally, the vast majority of businesses thought that the support received was either very useful or quite useful.

However, when looking at individual advice providers, there are some substantial variations. LEPs and Local Authorities did not score as favourably as many private sector providers, scoring net unhelpful ratings of 26 per cent and 34 per cent, respectively.

Figure 17: Favourability of public sector service providers
Source: FSB future of EU funding and business support survey

Generally, it would seem that businesses which sought help or support from the private sector were happier with the service provided, with high ratings being given across different providers.

The focus groups we conducted across the country suggested that this can largely be explained by the general trust that most small businesses have in their accountants, solicitors or financial advisors. Business owners are also free to quickly find new providers if they are unhappy with the service on offer, meaning they are likely to be satisfied with their existing lawyer or accountant.

As a result, when viewed through this prism, it is unsurprising that they received such high favourability ratings. If a small business is looking for financial advice, if they go to their accountant it’s unlikely they will be unhappy with that received, especially if they have a long-standing relationship.

However, for public sector sources of support, these are often based on new relationships and on a far broader range of services.

Solicitors received 93 per cent favourability, accountants 97 per cent, FSB 92 per cent, business consultants 93 per cent and specialist financial advisors 95 per cent. These are remarkable favourability ratings, especially given the relatively large sample sizes.
The Government’s direct offer also fared well. DIT and Exporting is Great both have net favourability ratings of 87 per cent, with the Gov.uk website not far behind on 85 per cent.

Overall, this data suggests that small businesses believe that the support they have received over the last two years has been useful. No matter the provider, they all have been regarded as beneficial and, in some areas, overwhelmingly so. When taken with the statistic that most small businesses have sought support in some form over the last two years, it suggests that the current offer is going some way to fulfil the needs of small businesses and, therefore, needs to be replicated where possible.

Small businesses receive support and advice in a variety of different ways

Small businesses also receive advice and support in a variety of different ways. This ranges from face-to-face and classroom-based advice through to new digital offers.

Most small businesses accessed support either on the phone, via email, through individual mentoring or from a website. However, these were not necessarily the methods regarded as most useful. In fact, the most interesting data can be ascertained by cross-referencing location of advice with method of delivery and overall usefulness. This gives us a good idea as to how those surveyed felt business support was best delivered.

It is clear that small businesses found tailored and face-to-face support the most useful. Across all public sector sources of business advice, individual tutoring and mentoring along with face-to-face classroom sessions were consistently viewed as the most helpful by small businesses which had used these services. Online advice and that provided over social media was viewed as less helpful.

Written reports scored especially highly and had among the highest net useful ratings across all of the providers. This again suggests that small businesses generally regard advice or support to be the most useful when it is tailored to the specific requirements of a small firm or delivered on a face-to-face basis.
That firms would want a more tailored approach to how their support is delivered makes sense, especially when considering that the majority of small businesses pay for the support they receive. Business owners paying money to get support or advice would want that support designed especially for the specific needs of the business.

However, this type of support is usually intensive, expensive and delivered over a long period of time, combining several types of advice. On that basis, it is not always accessible to all smaller businesses.

---

72 Weights were applied to how useful a business found different forms of support. Those finding the support very useful, or very unhelpful, were double weighted to give an overall useful rating. As a result, values could range from -200 to +200, with 0 representing a neutral value. Don’t know or not applicable responses were not given a weight.
Breakthrough Cornwall

An example of a successful scheme is the ERDF backed Breakthrough programme in Cornwall. Set up in 2016, it is designed to support start-ups and micro businesses to grow and develop their potential. This fully funded programme is delivered through a mix of one-to-one mentoring, workshops and peer-to-peer support. Their aim is to support 1,000 businesses through the programme before the end of 2018. Schemes such as this one are in operation across the whole of the UK and provide an important contribution to the business support landscape.

There is a clear link between how much a business paid for support and the degree to which it was specified to their needs. For those businesses that paid between £1,000 - £2,499 for support, 28 per cent had it delivered through a tailored written report, compared with just 15 per cent over social media and 15 per cent who received the advice over the phone. This is also replicated higher in the scale. The largest portion of businesses paying between £5,000 - £9,999 received specific written reports that were tailored to the needs of their business.

It is clear that, although many small businesses do prefer face-to-face and tailored support, this can often be out of the reach of many small firms due to the cost and longer-term commitment required.

Therefore, while we believe any future funding dedicated to business support after we leave the EU should focus on this individual provision of support, it should not be at the expense of all other forms available. Many small businesses simply don’t have the time, finances or capacity to sign up for long-term mentoring or for the tailored support they would ideally like. On that basis, there is definitely scope for an improvement and enhancement of the online provision available, which tends to be cheaper and far easier to access, and which currently is less likely to meet business needs.
ACCESS TO FINANCE FOLLOWING BREXIT

Small business support for access to finance is a priority

Many small businesses owners listed access to finance as a priority when asked about where to target future funding. Half (52%) listed access to finance, clearly demonstrating the importance of this support.

Of those who listed access to finance as a priority, 82 per cent – the vast majority - believed 1-25 per cent of future funding was the appropriate level which should be allocated to access to finance. In comparison, 15 per cent of small businesses believed 26-50 per cent was the appropriate amount. Just 2.5 per cent believed 51-100 per cent was the right amount.

We can infer from this data that a majority of small businesses believe EU funding for access to finance is a priority for small businesses and that a significant proportion of the current level of funding should be maintained by the UK Government in the future.

There is a range of different areas the Government, and devolved governments, will need to consider to make sure the finance markets, which are currently supported by EU funding programmes, continue to develop.

Impact of EU funding on access to finance

A large proportion of existing EU funding has been centred on channelling EIB and ERDF backed resources to support the provision of finance at a regional level. A 2015 analysis of small business uptake of BBB and ERDF backed finance in England is shown below. It details the volume of investment and the investment rate in comparison to the Gross Value Added (GVA) and size of the business base.

Figure 20: Regional take-up of BBB and ERDF backed finance by small businesses
Source: European Investment Bank, Using Financial Instruments for SMEs in England

<table>
<thead>
<tr>
<th>Region</th>
<th>Average Annual Investment, £m</th>
<th>Average Annual Investment (£) per £1m of GVA</th>
<th>Investment per SME (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>North East</td>
<td>180</td>
<td>4,340</td>
<td>5,660</td>
</tr>
<tr>
<td>London</td>
<td>980</td>
<td>3,160</td>
<td>5,190</td>
</tr>
<tr>
<td>South East</td>
<td>540</td>
<td>2,670</td>
<td>3,030</td>
</tr>
<tr>
<td>North West</td>
<td>220</td>
<td>1,680</td>
<td>1,740</td>
</tr>
<tr>
<td>South West</td>
<td>140</td>
<td>1,360</td>
<td>1,190</td>
</tr>
<tr>
<td>West Midlands</td>
<td>120</td>
<td>1,260</td>
<td>1,140</td>
</tr>
<tr>
<td>Yorkshire and Humber</td>
<td>100</td>
<td>1,080</td>
<td>980</td>
</tr>
<tr>
<td>East of England</td>
<td>110</td>
<td>910</td>
<td>910</td>
</tr>
<tr>
<td>East Midlands</td>
<td>70</td>
<td>850</td>
<td>910</td>
</tr>
<tr>
<td>England</td>
<td>2,330</td>
<td>1,980</td>
<td>2,420</td>
</tr>
</tbody>
</table>

Excluding London, regions in Northern England have benefited more than anywhere else from BBB and ERDF backed funding. One reason for this may be the recent operation of JEREMIE funding in Northern England. Indeed, the data suggest this funding might have contributed to average investment rates in Northern England which were higher than that of the national average. In contrast, there has been far less impact from BBB and ERDF backed funding in the East of England and the East

73 Gross Value Added (GVA) is a measure of economic output.
75 Ibid.
Midlands (where JEREMIE funds have not operated). This contrast highlights the impact EU funding may have made towards supporting small business finance markets across different parts of the UK.

There is some evidence to suggest JEREMIE funds have supported the principle of additionality with regards to access to finance. A 2013 survey showed that the English JEREMIE funds were “all operating in a part of the market significantly affected by market failure.” Six out of seven private sector companies indicated that a failure to access finance through this funding would have affected their own investment decisions.

EU resources have also facilitated the usage of commercial expertise to support the development of finance infrastructure across the UK. This is important, because much of this expertise remains centred in London and the South East, whereas the rest of the UK, “aside from some clusters in the major regional centres, have lacked sufficient expertise in more specialist forms of finance and investment.”

It is, therefore, vital that regions continue to have access to resources that support the further development of regional finance ecosystems. Local economic growth strategies should continue to factor in the importance of creating greater cohesion amongst private and public sector providers of finance as well as those able to offer relevant advice to small firms.

**Design of fund structures should retain a flexible model to support better targeting of finance gaps**

Many schemes that have benefited from EU funding have been designed under the approach of a “fund of funds” model. This is where an overall fund is set up with the objective of distributing resources across multiple financial instruments. The model is broadly recognised as having delivered some efficiency and flexibility benefits for relevant public funds that have operated across the UK.

For example, the mid-term review of the Northern Ireland fund of funds noted that it “created a robust, long-term platform for the management of Invest NI’s risk capital funds, creating the framework to manage the funds flexibly.” Meanwhile, the Wales JEREMIE fund, which divided its resources between five sub-funds “each targeting a defined market area”, was an approach that enabled adjustments “in response to changes in the market or to practical delivery factors.”

The flexibility provided through the fund of funds model was further demonstrated with both North East Finance and the North West Funds. They both retained an unallocated investment pot as a means of anticipating any reduction in economic performance which their regions experienced – particularly in response to the retrenchment of bank lending and equity investment that occurred following the financial crisis. This sub-fund was then used to cater for changes in demand that might otherwise affect investment performance. Given the benefits that have been experienced by existing projects using this model, and the fact it has been well tested across the UK, a fund of funds approach should continue to be retained and developed following Brexit.

Separately, existing evidence suggests that establishing investment funds at an individual LEP level would not be cost-effective or efficient in terms of economies of scale. Instead, institutions like the EIB have indicated their desire for a minimum investment threshold to broadly be set at £100 million in size. This approach requires the consolidation of LEP funding in order to reach such a scale.

Indeed, such an approach was taken forward with the establishment of the English JEREMIE funds. It duly resulted in benefits associated with the aforementioned economies of scale and allowed for improvements to be made over “the coordination of investment and legacy management.” Similarly, the launch of the Northern Powerhouse and Midlands Engine Investment Funds in 2017 signalled the
Government and the BBB’s ongoing commitment towards this approach. Both funds will allow LEPs to pool their combined resources to meet the finance needs of small businesses.

**Legacy funds should be reinvested locally**

In this context, legacy funds refer to the financial returns generated through the investments made under existing financial instruments and programmes. One of the key advantages of ERDF backed financial instruments has been the ability to secure such legacy returns following investment. This has provided the potential to recycle EU funding into further support for small businesses as well as contributing towards the development of regional finance ecosystems. Particularly with the loss of EU funding expected following Brexit, future public funds should, therefore, be designed to ensure investment and portfolio management strategies maximise the opportunities for legacy funds to be generated.

Equally, any legacy returns generated by existing public funds, such as the Northern Powerhouse, Midlands Engine or North East LEP Fund, should be reinvested back into their respective regions after 2020. This will ensure that further long-term sustainability is injected into small business finance markets. It will also enable the potential impact of these funds to be “extended well beyond their operational life.”

**The growth of equity finance across the UK needs to be supported**

EU funding has also played a significant role in supporting private sector equity investment in the UK. For example, ERDF funding provided a major source of equity investment for the English JEREMIE funds, which received a combined £150 million. The English JEREMIE funds subsequently accounted for “a significant proportion of overall venture capital investment in their regions (especially in the North East)” with strong suggestions that private sector activity would not have occurred without this support. In the East Midlands, venture capital funds operating in the area were recognised as being “heavily dependent” on ERDF support. This funding was also recognised for providing “helpful anchor funds for angels and related network support.” This is, of course, on top of substantial investment from the EIB group, often alongside the UK private equity and venture capital market.

However, despite this support, FSB evidence highlighted earlier in this report demonstrates that a small business equity finance gap persists – and is more prominent outside of London and the South East. This is also supported by evidence from the BBB which shows that the “growth in the number of equity deals in northern regions overall has been relatively weak,” particularly since 2013. Indeed, all three English JEREMIE funds reported that “selling the benefits” of equity investment to small businesses proved challenging. This is largely due to a lack of understanding of equity finance amongst small businesses as well as a historic preference for debt finance options which don’t lead to dilution of company control.

It is, therefore, important that the equity finance market continues to grow following Brexit in order to encourage the development of more diverse, competitive and sustainable small business finance markets. The Government and the BBB should consider further ways in which both investment and uptake may be increased. The latter should be achieved through improved small business awareness and understanding of equity finance products. The emphasis on improving access to finance for small businesses looking to grow in the Government’s Industrial Strategy Green Paper is, therefore, a welcome step which should now be built upon.

---

83 Ibid.
84 Ibid.
87 Ibid.
89 Ibid.
More regional lending data should be published to support the design of future finance schemes

Whilst most public funds have carried out research into local small businesses to inform market assessments, this process is often “limited by the availability of data and inherent difficulties with sizing the market.” 91 Existing approaches towards conducting regional economic analyses tend to focus on the number of registered businesses, private sector jobs and high growth businesses as well as the employment rate. 92 However, this excludes a number of important metrics which would provide a more representative picture of the local business community.

An example of this may be seen through the ex-ante assessments for the deployment of EU resources which were carried out on behalf of the EIB and the UK Government. Noting the demand and uptake of external finance on behalf of small businesses, one assessment states the following:

The BIS Small Business Survey provides insights for the UK as a whole on the demand for different types of finance by region, but unfortunately it is not available regionally. The SME Finance Monitor – set up by the Business Finance Taskforce in 2010 – does provide some insight into the demand for finance from small businesses in the regions and the extent to which they are successful in obtaining the finance they are looking for. However, this only covers debt finance […] Also, data is not available sub-regionally. 93

The limited amount of small business access to finance data available at a regional level is, therefore, a major barrier towards launching future schemes following Brexit. This should be addressed in order to improve the accurate targeting of finance gaps and ensure public funding for access to finance is used as effectively and efficiently as possible.

Small business engagement needs to be prioritised at a regional level

Small businesses need appropriate access to information and guidance to ensure they can take advantage of available finance options. In terms of that which currently exists at a regional level, evidence suggested there is a mixed picture. This is largely attributed to levels of engagement with the local small business community. However, one of the key challenges for the four UK JEREMIE funds was the targeting of businesses across multiple LEP and devolved regions. Indeed, one report noted that this was a particular problem in rural areas, as “the penetration of the business base can be lower in areas which are more peripheral.” 94

This suggests that building increased awareness and uptake of available finance in a post-Brexit landscape must involve improved engagement with small businesses. In particular, more consideration will be required over how the investment strategies of funds consider the role of relevant partners - such as Growth Hubs, business groups and financial intermediaries - in order to ensure the cohesive development of local financial ecosystems. This will involve identifying how these partners can help deliver the marketing, branding and communication objectives of investment strategies. This activity should be supported by the increased provision of centralised government guidance and advice to ensure small business engagement can be improved.

---

Governance frameworks need to have access to commercial expertise to improve operations

Project developers involved in the operations of the English JEREMIE funds reported a series of external and internal risk factors affecting the performance of funds, including personnel changes in management teams as well as optimism bias in specific assumptions made over investment strategies. It is, therefore, important that the governance of similar funds established in the future are designed in a way which enables an efficient response to such issues as they emerge. This includes ensuring assumptions around investment decisions are continually challenged through independent review and stress-testing exercises. In addition, targets and benchmarks should also be established in a way which accounts for any increased risk and uncertainty which may relate to investment performance.

It is also important that the governance structures of future initiatives have reliable access to the commercial expertise required to support the development of its operations. This is particularly relevant for the ongoing management of portfolios as well as driving realisations and investment returns. However, a widely established difficulty for investment funds and schemes has been finding such personnel. This is because the concentration of the venture capital market in London and the South East often means there is a reluctance for some in the industry to relocate to other parts of the UK.

It is, therefore, important that both DCLG and the BBB continue to help develop the commercial expertise to which funds have access so that they are able to develop effective investment strategies as well as meet the needs of local businesses. Improvements in this area will also provide private sector investors with greater confidence in working alongside such schemes. Equally, formal channels which provide advice and oversight from businesses representatives across the areas where funds operate must continue to be monitored and developed for improvements.

UK private equity and venture capital markets must be supported through Brexit

The UK’s strength in private equity and venture capital markets directly supports the availability of finance for small firms. Indeed, the British Venture Capital Association (BVCA) reports that its members, who represent the majority of the UK industry, have invested £27 billion in UK firms over the last five years. Of those firms the industry invested in during 2015, 84 per cent were either small or medium-sized businesses. EU funding – particularly from the EIF – has played a significant role in supporting this investment activity. This investment needs to be maintained and expanded following Brexit in order to help support the development of more long-term and sustainable small business finance markets, particularly for those firms wishing to ‘scale-up’.

Two key components have contributed to the success of the UK’s private equity and venture capital markets. Firstly, the industry mostly retains an active model of cross-border investment – including with the EU. Indeed, the BVCA report that 18 per cent (£6.1 billion) of funds raised by the UK industry was from other EU countries. Ensuring the UK private equity and venture capital industry is able to continue accessing capital from EU investors, and vice versa, will be crucial following Brexit.

Secondly, the industry’s investment in small businesses has been supported by publicly backed finance from the EIB, the EIF, and more recently, the BBB. These funds are now being used “to...
unlock up to £1 billion of new investment in innovative firms planning to scale up.”101 In spite of these additional funds, the industry has warned that any risk of the UK losing its membership of the EIF as a result Brexit would put “this important source of funds in jeopardy” and risk creating an even bigger equity funding gap in the UK for small businesses.102

The Government must protect these two components in the wake of Brexit. This requires establishing short-term transitional arrangements around UK firms conducting EU cross-border trade as well as more long-term challenges around funding support for the industry. Demonstrating a commitment to do so will provide greater certainty to international investors as well as UK small firms looking to access available sources of finance.

In this section, we set out recommendations for how the UK Government and devolved governments could use the opportunity of leaving the EU to improve their support of small businesses across the UK.

Based on our engagement with small businesses across the UK, along with the quantitative data we have gathered, we have developed a series of key recommendations about how EU funds could be successfully repatriated in the period after we leave the EU.

Beyond this, we have established more specific recommendations for how the business support and access to finance landscapes could be improved to maximise the economic opportunities for all small businesses.

1. Create a new Growth Fund for England and give devolved governments control over repatriated funding

**England**

Since 2013, the UK Government has devolved economic powers to LEPs through the creation of a Single Local Growth Fund (SLGF) and Growth Deals. These funds, along with ESI Funds, have then been allocated to LEPs on a competitive basis, based on local multiyear strategic plans detailing how this money would be spent.

LEPs with the strongest strategic plans that have demonstrated their ability to deliver growth have gained the largest share of the SLGF. This is also partially the case for ESIF, except that the Government has had less control over regional allocations. Currently, these are largely dictated by regional GVA performance, in comparison to the EU average.

However, with the UK leaving the EU, both of these funding rounds are set to end in 2020/2021. This gives the Government the opportunity to bring future funding together into a Growth Fund for England, which would incorporate a domestic replacement of current EU funding streams along with the existing SLGF. It is important, as discussed in our next recommendation, that regions which have benefited from existing allocations on the basis of need are not disadvantaged by any new reallocation of funds. EU funds currently form a critical part of the support infrastructure in these regions.

Having a new Growth Fund for England would allow LEPs to entirely tailor their Strategic Economic Plans to the needs of their local economy, without the need to meet European criteria or spend funding within specific frameworks. It would also take away the confusion of LEPs currently having numerous funding streams, each working towards different start and finish points.

This new fund should be developed in the period before we leave the EU, so that businesses and regions will have sufficient time to prepare for applying for and using these funds once the current funding round comes to an end.

This would also help businesses which currently make use of these funds to plan for the transition between the UK leaving the EU in March 2019 and the end of the 2014-2020 funding round. After the referendum, uncertainty had a chilling effect on businesses making applications for EU funds and attracting match funding. Whilst it is positive that the Government has quickly set out commitments to honour applications approved before we leave the EU, longer-term solutions are needed to bridge the transition phase.

In order for the Growth Fund for England to be as effective as possible, we have set out a broad framework for the reforms which businesses would like to be made. Implementing these reforms will ensure projects supported by a Growth Fund for England are cost-effective and tailored towards the needs of businesses.

---

103 HM Treasury, *Investing in Britain’s Future*, Cm 8669, June 2013 pg. 61-63
Devolved governments

Alongside a new Growth Fund for England, FSB would urge the UK Government to ensure future funding for the devolved nations remains administered directly by the Scottish and Welsh governments and by the Northern Ireland Executive.

The devolved nations should retain the powers to set their own allocations and frameworks for how funding should be prioritised, which takes account of local priorities.

2. Ensure the allocation of regional funding is maintained on the basis of need

The Government has set out its ambition in the Industrial Strategy to drive growth across the country, highlighting the important gaps in productivity and economic output between, and within, different regions of the UK.

EU funds provide a vital support structure for comparatively disadvantaged areas of the UK such as the North East, Wales and Cornwall. Other areas also benefit from funding, but to a lesser degree. The evidence we have presented above demonstrates that these programmes support the growth ambitions of small businesses, especially in regions which otherwise suffer from underinvestment.

Businesses in all regions of the country are concerned that their region will lose vital sources of funds designed to support the overall business environment in their region, and that the various projects supported by these schemes would not have the same reach or effectiveness without these funds. It is important that regions are able to promote their own regional priorities based on the actual needs of businesses within those communities.

It is, therefore, important that a regional split of funds on the basis of need is maintained in the period after we leave the EU. This is especially important as the current Local Growth Fund spending round comes to an end in 2020/2021, meaning there is currently no regional development spend currently budgeted for England after 2020/1.

Losing access to equivalent funding streams will make it more difficult for the Government to achieve its ambition of creating the conditions for broad based economic growth across all regions of the UK.

England

The Government will need to decide the formula for allocating new resources within a new Growth Fund for England, prior to the UK leaving the EU. In our view, this should be based on regional need. It is also important that no region suffers a sudden drop in funding, so if resources are reallocated, a transitional period should be established where a taper is implemented – allowing regions to identify and develop new forms of support for businesses.

Devolved governments

In recent funding rounds, the devolved nations of the UK have received some of the highest allocations of ESIF. All three regions currently receive more than the English average in per person terms, with Wales almost five times so. This has consequently provided a vital resource, helping local economies and businesses across these regions.

The importance of this funding to these regions means it is vital that they retain a similar funding distribution to that received in previous rounds.

3. Maintain funding levels and ringfence funding for small business activity

As a net contributor to existing EU budgets, the UK should receive a budgetary dividend once we leave the EU. We, therefore, believe that the government should aspire to ringfence the level of funding currently on offer to support small businesses.

Our evidence clearly shows that many small businesses view the programmes currently supported by EU funding streams as important to achieving their growth ambitions, and a large proportion want to see these continued after we leave the European Union. As a result, it is vital that funding for these schemes is ringfenced, if the Government is to achieve its aim of successfully increasing economic output, productivity and rebalancing the UK economy.
This is also the case for the devolved nations. Our evidence points to a similar desire from small businesses in these regions, for retaining government spending on business support and access to finance initiatives. The devolved governments should consider this, when setting future priorities for spending post-2020.

We set out reforms which could be made after 2020 to increase the effectiveness of these various schemes below. Implementing these recommendations could produce an even greater benefit to businesses, and help businesses in all communities of the UK become more productive and better able to meet their growth ambitions in years to come.

4. Improve programme delivery

Our evidence has uncovered a range of different issues which make the current model of distributing funds less effective than it could be. Leaving the EU offers the UK the opportunity to refocus attention on making sure that as many businesses as possible are able to gain the maximum benefit from schemes designed to help them.

Clearly, one of the main issues is that many businesses remain unaware of the opportunities to either apply for EU funds, or are not aware that various business support and access to finance schemes even exist. This means well connected businesses are better placed to take advantage of these opportunities, whereas newer or less well established businesses suffer a competitive disadvantage.

Raising awareness of the opportunities which a new UK funding programme would create would allow all businesses which would really benefit from these schemes to access these programmes. This would tie in well with the Government’s ambition to support high and moderate growth businesses throughout the UK.

A dedicated marketing budget within new funding pots would give regional organisations the ability to market different schemes towards the businesses which would most benefit.

There should also be a clear strategy in relation to working with potentially helpful intermediaries, including accountants, lawyers and others, to support raising awareness and understanding of appropriate funding opportunities.

LEPs and Growth Hubs should take the lead, working with business groups like FSB, to promote new opportunities to the small business community. This promotion should be tailored to engage with businesses and to help them understand how they can take meaningful advantage of an individual scheme.

Beyond this, there should be better signposting from LEPs, Growth Hubs and devolved bodies for match funding opportunities, assuming the Government continues with the model of requiring match funding. In our view, the requirement to find match funding partners offers an additional level of scrutiny to different proposals, and also leverages more funds behind public sector investment. The challenge is to help match small businesses with potential partners, and to help businesses identify and meet these potential supporters.

Finally, LEPs and Growth Hubs should continue signposting to different business support and access to finance schemes which businesses in their local communities could benefit from using. They should also signpost when new UK funding streams are available, and make sure as many businesses as possible apply. We believe this should be aimed at all businesses with an ambition to grow, not just those with the highest potential.

5. Reduce bureaucracy

Businesses reported in both our survey and focus groups that excessive bureaucracy throughout the application and delivery process hindered the effectiveness of approved schemes, and stopped other small businesses from making an application in the first place.

As discussed in Section Three, businesses are expected to gather large amounts of documentation before making an application, spend a lot of time completing an application form, and then produce data during the delivery phase which are not always helpful for meaningful evaluations of a project’s success.
Now that the UK is leaving the EU, there is an opportunity for government bodies at all levels to assess how they can reduce the administrative burdens on small businesses.

In particular, different bodies should consider what criteria will be used to evaluate the success of an individual scheme, and ensure that only data pertinent to these criteria are collected. This will be discussed in more detail later in the business support recommendations.

6. Improve support for LEPs and Growth Hubs in England and devolve business support

The Industrial Strategy makes it clear that the Government is committed to taking a more active role in promoting regions and sectors to support broad economic growth. Reformed LEPs\textsuperscript{104} and Growth Hubs should be a key vehicle in England to deliver these aspirations.

Both LEPs and Growth Hubs remain comparatively new players in supporting businesses, and are yet to achieve their full potential. With reform, they will be better suited to helping support businesses.

LEPs already have a great deal of experience in allocating finance to programmes and schemes that fill gaps in the local business support landscape. Through Growth Hubs they have also been working to consolidate the local business support offer, bringing together public and private provision to reduce duplication and greatly simplify the landscape. This has led to some much needed improvements and means many LEPs have already built up skills and expertise in this area.

Through this local knowledge and expertise, LEPs have shown they can lead the drive to push the Government’s ambition to grow a dynamic and entrepreneurial nation where more people have the ambition, confidence and skills to start a business.

When looking at how future funding should be allocated for business support in England, the Government should look to reformed LEPs. The LEPs’ understanding of their local economy, combined with their existing institutional knowledge and expertise in delivering business support, makes them the obvious choice to take this role forward.

Central government may, therefore, need to play a more active role in helping LEPs and Growth Hubs. The Cities and Local Growth team within DCLG should be given enhanced resources to provide greater support for LEPs to step up to this enhanced role.

In the creation of new access to finance schemes, a greater strategic focus on marketing, branding and communication needs be undertaken at a local level. As previous analyses of JEREMIE funds have concluded, this should entail close collaboration and coordination with local partners. LEPs and devolved bodies should further develop their role in supporting the signposting of advice and support on access to finance, while also looking to specifically cater for the characteristics of local business communities.

The BBB - and equivalent devolved bodies - should continue providing guidance and messaging to local partners in order to ensure such activity is conducted more effectively in the future. Initiatives such as the Business Finance Guide are positive examples of how the BBB and devolved bodies can provide materials for local partners to communicate clear messages around available finance options.

\textsuperscript{104} FSB has long called for the government to reform LEPs and is glad that there is now a commitment to this in the Industrial Strategy Green Paper. In particular, we would like to see business population data made available at LEP level and for improvements to be made in transparency and corporate governance. We would also like to see better enforcement from Government of LEP Assurance Frameworks.
BUSINESS SUPPORT RECOMMENDATIONS

7. Fully fund England’s 39 Growth Hubs post-2018

The funding for England’s 39 Growth Hubs comes to an end in May 2018. At £24 million for this two-year period, we believe this money has been well targeted and has started to make a tangible difference by ensuring small businesses can access the national and local support schemes they need in order to succeed. Our research has shown that, for those looking to grow their business, Growth Hubs have a very important place in the support landscape.

The signposting service they provide is unique. It has also started the much needed drive towards mapping and simplifying the landscape by bringing together public and private sector business support provision for the first time. For many small businesses, removing this complexity has opened up the array of support on offer like never before. As our research has shown, for many small businesses it isn’t the lack of provision available that prevents them from accessing the support they need, it is the confusion over where to look.

According to the Work Foundation, over 67,000 small businesses have now engaged with their Growth Hub since they were formed.105 Albeit still a small percentage of the wider business community, we believe that, with continued funding, these numbers will continue to grow.

If public funding was removed, LEPs would likely be forced to look towards private sources of finance to keep Growth Hubs operational. We believe this would greatly inhibit their perceived impartiality and could lead to a situation whereby one support provider could be recommended over another, simply because it benefited the Growth Hub financially. In that event, the benefits of Growth Hubs being perceived as independent signposting services would be lost.

On this basis, we believe there is a strong case for the Government to guarantee Growth Hub funding for the foreseeable future.

8. Ensure Growth Hubs remain locally-driven, but focus on all small businesses

Part of the reason for the early success of Growth Hubs has been their ability to tailor their offer to fit the local context. This has carved out a useful niche, where, in many cases, the support offered can go above and beyond what generic business support can provide.

The Wave 2 Growth Hub Network provides a good example of this. This network, led by Lancaster University, has encouraged its fifteen member Hubs to design their offer entirely based on the needs of local businesses. By looking at market research and other data-driven evidence, they were able to identify gaps in local provision and design their models accordingly. These localised policy interventions have started to show that they have made a difference.

Although we support this locally-driven approach, in some areas this has led to an exclusive focus on high growth businesses. While LEPs and Growth Hubs may be following Government direction with this approach, we believe that Growth Hubs should provide a more inclusive offer that also supports businesses which aren’t high growth but still need help and support. With the new challenges facing businesses after Britain leaves the EU, this is likely to be even more important.

Focusing on this wider pool of businesses would also help provide support for a wider growth base, leading to greater economic uplift.

9. Create a ‘What Works Hub’ for business support evaluation

One of the biggest challenges facing business support policymakers is the lack of high quality evaluations.

As highlighted in Section Three, this is no different for EU-funded business support schemes. While the EU has attempted to address this problem by forcing providers to comply with extensive reporting requirements, in reality, none have delivered data which can be readily evaluated for actual impact. Just understanding how many businesses have been through a specific programme does not demonstrate meaningful evaluation.

Of the 700 business support evaluations the What Works Centre for Local Growth reviewed, only 23 met the Centre’s minimum standards, thus emphasising just how few effective evaluations are being used.106

However, once the UK leaves the EU, the Government will soon have greater control over reporting requirements and how to evaluate business support. Instead of being bound by EU rules and requirements, the Government has a chance to be rigorous and creative in evaluating which schemes are working and providing value for money.

The Government should lead the way by establishing a ‘What Works Hub for Business Support Evaluation’, similar to that proposed by the RSA.107 This should consider the evaluation process as a tool for learning lessons to maximise the quality and effectiveness of future business support provision. It should consider what data are meaningful and useful to collect when designing new support schemes and engineer a level of standardisation across evaluations to ensure robust conclusions can be drawn.

More effective evaluations of existing schemes could then be used to iteratively improve the design and delivery of business support.

The Government should also consider whether a central registry of business support schemes should be maintained, which would allow for more effective evaluation of these schemes in future.

10. Expand and raise awareness of the business support role of private sector providers

From our research, we know that a large number of small businesses use accountants and lawyers for business support, with these two sources being more popular than all those in the public sector combined. They also provided some of the highest satisfaction ratings.

Our research indicates that private sector and public sector sources of business support address different business support needs. Therefore, there is a need to continue to fund both; however, there are clearly opportunities for greater synergy between private and public sources of business support.

For example, there is more scope for members of accountancy groups like the ACCA and ICEAW to expand the role they currently play in advising clients on business matters. Members of these groups already provide useful advice and support to their clients on finance and legal issues, there is no reason to believe this could not be delivered more effectively.

Like the RSA, we believe that there is scope to work with the ACCA and ICAEW to explore how these opportunities could be more effectively communicated to their members. FSB has started doing more to improve our business support offer to members - we believe the Government should encourage others to do the same.

11. Allow schemes to ‘bed in’ and build brand awareness

There are thousands of different business support schemes and providers all vying for space in the same crowded landscape. This means that, for any new business support scheme, the biggest difficulty is always raising awareness of its own existence.

For publicly-funded provision, this is no different. As suggested above, one of the biggest challenges for Growth Hubs is raising awareness of the services they provide.

In recent years there has been a plethora of publicly-funded initiatives that have been set up and disbanded just as quickly. This includes support pilots like the Growth Accelerator scheme, the Growth Vouchers programme, the Business Growth Service and, indeed, the large number of exporting schemes that have come and gone in quick succession.

This churn has made the promotion of effective schemes far more difficult to communicate. It has also led to the aforementioned problem of awareness, as brands aren’t given long enough to bed in and establish themselves.

We made this point in our report on business support in 2013, but it is just as relevant today; if the new business support offer post-Brexit is to be a success, schemes need time to establish themselves and build a brand among small businesses.

We, therefore, recommend that the Government not only give initiatives like the Growth Hubs more time to bed in, but any further schemes that are introduced be given a reasonable shelf life to maximise their chance at success.

ACCESS TO FINANCE RECOMMENDATIONS

The evidence in this report demonstrates that a more sustainable, targeted and efficient use of domestic funding will be required in order to develop small business finance markets following Brexit. The recommendations below are, therefore, focused on protecting current investment flows into these markets, improving the design of future interventions and supporting engagement activities with small businesses at a regional level.

12. An expanded British Business Bank should replicate the role of the European Investment Bank

The UK’s status as a subscribing partner of the EIB Group is unlikely to be retained following Brexit. However, the range of funding the EIB - and particularly the EIF – currently has invested across UK small business finance markets is essential to the development of equity markets in particular. In such a scenario, the BBB – in association with relevant devolved bodies – should be provided with enhanced responsibilities to support small business finance markets.

The BBB’s remit for improving the structure of finance markets for small businesses makes it the most suitable public sector body for replicating this role. In addition, the EIF’s importance in increasing investment in the UK’s venture capital role is equally a key focus for the BBB. Indeed, in Autumn Statement 2016 the Government looked to further stimulate investment in the private equity and venture capital market through the BBB by providing it with an additional £400 million. These funds are now being used “to unlock up to £1 billion of new investment in innovative firms planning to scale up.”

However, the BBB would require additional resources from the UK Government to take on the scale of this role. This would be necessary both to maintain an increased allocation of finance, as well as ensuring it could replicate the EIF’s role in providing commercial expertise to new funds and finance schemes and, thereby, provide reassurance to the market.
13. Introduce transitional arrangements to support the UK private equity and venture capital industry

Given the importance of current EU funding streams to the UK’s private equity and venture capital firms, it is important investor certainty and the UK’s reputation as a global hub for this industry is maintained for the long term. This is particularly important given this industry’s role in investing across small business finance markets – and the fact such activity may not have occurred without EU funding support.

Therefore, in advance of Brexit, transitional arrangements should be put in place as soon as possible to protect existing trading access and mutual investment flows across European markets. As with other areas of financial services, many private equity and venture capital firms rely on trading access to the EU Single Market. This is enabled through passporting rights - mechanisms through which firms may exercise their right to provide services in an EU Member State.

If passporting is no longer possible, the Government should ensure the ability of UK firms to trade and invest across Europe is secured through alternative routes. In such a scenario, the Government should secure regulatory equivalence or some form of mutual recognition to ensure the UK industry’s investment flows are protected in the long term. These arrangements should also look to include a transitional period to mitigate any operational disruption for UK firms as well as for EU and non-EU investors. Avoiding so-called ‘cliff-edges’ in the regulatory and operating environment will be particularly important, given that the fundraising cycle for new funds can last anything from several months to a few years.

14. Design of new funds should retain flexible approach

Funds should retain the approach of covering multiple LEP areas in England to secure the appropriate scale of business demand and to ensure efficient delivery of funds through viable economies of scale. Working together across a larger region increases the size of the fund, which, in turn, offers the potential to “improve the coordination of investment and legacy management.” Whilst it is too early to assess the impact of the Northern Powerhouse and Midlands Engine Investment Funds, this model of partnering with groups of LEPs to deliver a range of finance options to small firms is something FSB would like to see replicated across other parts of the UK.

Separately, the fund of funds model should continue to be built into the design of new funds. Through the ability to move resources between different sub-funds, this approach provides regionally-focused access to finance interventions with the flexibility to target finance gaps as market conditions change. The flexibility provided through this model has broadly worked effectively in ensuring EU funding is used to channel a more diverse range of finance options to small businesses.

15. Increase national support for governance of fund management

FSB recommends a new standalone support unit be established under the auspices of the BBB with a specific remit towards developing the commercial expertise of publicly-backed funds. It should also conduct regular assessments throughout the year to identify where improvements to access to finance schemes could be made. An equivalent approach should be undertaken with Wales, Northern Ireland and Scotland.

BBB staff are already working across England on this basis, such as within the regions covered by the Northern Powerhouse and Midlands Engine Investment funds, to help deliver the respective objectives of both schemes. Such activity includes working to raise awareness of finance options for small businesses and establishing closer links with Growth Hubs and other intermediary bodies.

Following Brexit, the BBB, Finance Wales, the Scottish Investment Bank and Invest Northern Ireland should be provided with additional resources to increase this support – ensuring the funds themselves are adequately resourced with the appropriate level of commercial expertise and local business oversight.
16. Increased data disclosure

The publication of lending data from existing finance providers may also be a powerful means of improving the design of future access to finance schemes following Brexit. In particular, the Government should introduce legislation requiring all finance providers (including alternative lenders - such as peer-to-peer lenders - alongside banks), to publish lending data at a regional level on a mandatory basis. This would allow new funds to be established based on a more accurate assessment of where finance gaps and market failures are occurring at a regional level.

The basis for encouraging finance providers to disclose data has already been established in the UK. In December 2013, the British Bankers’ Association and the Council for Mortgage Lenders began publishing consumer and business lending data from a number of major banks. However, the data are not easily compatible with other sources. They do not reveal the number of lending transactions, nor more detailed information about the borrower’s circumstances or background. Indeed, knowledge of borrowers is largely limited to the postcode area in which they reside.

In addition, only 60 per cent of bank lending is covered and data from a number of other bank and non-bank finance providers are not included. Therefore, these data alone are insufficient to inform broader patterns of lending activity according to geography – particularly at a regional level. The Government should, therefore, launch a Review which looks to improve data disclosure, with a long-term objective to require all finance providers to regularly publish small business lending data at a regional level.

This would support the effective targeting of small business finance gaps. It would also support the work of regional bodies (such as LEPs and equivalent bodies in the devolved regions) which have a key role to play in advising on where funding “may be overlapping and potentially overcrowding the [access to finance] market.”

17. Mapping public funding schemes

The current range of access to finance schemes operating across the UK is vast and complex. This potentially contributes towards duplication in finance provision as well as an ineffective targeting of small businesses. Complexity may also contribute towards the low levels of awareness and uptake of finance amongst small firms that was highlighted earlier in this report.

In order to both contribute towards the design of new funds following Brexit, as well as the effectiveness of business signposting to relevant schemes, understanding the support available at national and regional levels will be crucial. It will also be important to ensure regional schemes are better aligned and provide complementarity with national initiatives in order to enable a more efficient use of government funding.

As yet, no single resource maps all public funding schemes that operate at a local level. HMT and BEIS – along with the BBB – should map where, and to whom, existing schemes currently allocate small business finance. This will support the development of new schemes across the nations and regions of the UK and further ensure funding is effectively allocated at a local level. It could also be used to support the development of new resources to help small businesses find and compare the finance that is available to them.
METHODOLOGY

This report is based on FSB members’ experiences and views of EU funds, as well as their engagement with business support and access to finance schemes. FSB undertook a mixed method approach for the research consisting of an online survey and a series of focus groups.

The survey was UK-wide, with members invited to participate via email and social media channels. The survey was administered by the research agency Verve and was in the field from 5 - 16 December 2016. The survey was completed by 1,659 small business owners.

The survey findings are all weighted according to FSB membership weighting (to reflect the demographic balance of FSB members throughout the UK). All percentages derived from the survey are rounded to the nearest whole number, which is why some percentages presented in the figures do not add up to 100 per cent.

FSB also facilitated an initial forum discussion with members of its Big Voice Panel (this consists of FSB members who volunteer to be part of a panel that is surveyed frequently throughout the year) to collect views on any immediate impact that the EU referendum result had had on their business. This forum discussion was open for two weeks from 16 August 2016.

We carried out focus groups in Bangor, Newcastle, Truro and Croydon between October and December 2016. We would like to thank all the small business owners who attended these meetings.