



SUPPORTING SUCCESS: BUSINESS SUPPORT BEYOND 2020

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Experts in Business
Arbenigwyr mewn Busnes

FOREWORD

Business support in Wales is changing.

With the introduction of the Development Bank of Wales and the inevitable disruption to business support funding that will be brought about by Brexit, we are now at a point where there is an opportunity to look at our priorities and what the future of business support in Wales needs to be.

At FSB Wales, we want to see a dynamic, fleet-of-foot business support system that empowers firms across Wales to meet their ambitions – whatever they may be.

This changing landscape also comes at a crucial time; Wales currently has a rich landscape of business support programmes with much of which is heavily-leveraged by European funding – and with our exit from the European Union now less than a year away, this funding is only protected so far as the year 2020.

One of the key asks in this report is that Business Wales must be empowered and, crucially, funded, to continue its activity post-2020. Whilst our members do not think that the Business Wales service is perfect, it represents value for money and some of the organisation’s functions – particularly face-to-face contact with advisors – have been raised as particularly effective.

Our members are also clear that EU funding has had a positive impact on their communities in the past, and the majority of firms that we surveyed for this work believe that the same level of funding should remain.

As part of the conversation about the amount of money that Wales receives, we must also consider how the money is delivered to ensure that this is done to maximum effect for businesses, the tax payer and economic development policy.

We hope that this work will be just the start of a conversation between Welsh Government and businesses across the country about how we want our business support services to look in the future, and how the funding can be delivered to ensure that these support services can deliver for smaller firms and the economy in Wales.

Ben Francis
FSB Wales Policy Chair



INTRODUCTION

“This is a Plan to deliver prosperity for all by encouraging participation for all.” *Prosperity for All: Economic Action Plan 2017*.

The business support landscape in Wales is about to change. In 2020, when the UK leaves the European Union, one of the main funding streams available to Welsh Government will potentially disappear. At the same time, Welsh Government is slowly beginning to implement a new vision for the Welsh economy through its Economic Action Plan.¹ Both of these drivers mean a conversation on the future of business support in Wales will have to take place, if we are to have a clear sense of direction post-2020. We hope to begin that conversation with this policy paper, giving the SME view on priorities for the future.

Indeed, we hope this will build on our previous policy work on self-employment in our report *Going Solo* and finding *Wales' Missing Middle*, our look at medium-sized firms in Wales, to provide a complete picture of a reformed business support environment for Wales.² Fundamental to this is our belief that Wales is an entrepreneurial nation, a nation with the assets and abilities to create and grow sustainable, grounded businesses. It rests on the notion that Wales' future prosperity will be earned not from the outside, but from building on the diversity of firms we already have.

¹ Welsh Government. 2018. Economic Action Plan [Online]. Available at: <http://gov.wales/docs/det/publications/171213-economic-action-plan-en.pdf>

² FSB Wales. 2017. Wales' Missing Middle [Online]. Available at: https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb_missing_middle_eng.pdf?sfvrsn=0

BACKGROUND: CURRENT LANDSCAPE

In 2012 the Welsh Government's Micro-Business Task and Finish Group set out a compelling vision of a 'one stop shop' for business support in Wales.³ This was realised with the creation of Business Wales in 2013. As we've pointed out in our report *Wales' Missing Middle*, Wales has had a good track record over the past decade with a rising number of micro firms being established, 80,000 between 2003 and 2016.⁴ Undoubtedly the business support provided by Welsh Government, including through Business Wales has played a part in this. Where we've had less success is the conversion of these businesses into small and then on to medium-sized businesses.

As well as the support from Business Wales, a series of access to finance reviews led by Professor Dylan Jones-Evans led to the creation of the Development Bank of Wales (DBW).⁵ The DBW took existing Finance Wales schemes and created a publicly-owned development bank for the purpose of providing finance to SMEs. Part of the discussion that is yet to be concluded here includes whether DBW will formally merge with Business Wales and there is further complication with the possible inclusion of Careers Wales in the mix.⁶

Welsh Government also has a series of grant and loan mechanisms. These vary in transparency and application to SMEs with the interestingly-named 'non-repayable repayable business finance' perhaps taking the mantle of most opaque but forming part of a series of grant funding regimes under the auspices of the 'sectors' approach.⁷ FSB Wales published a report with Cardiff Business School in 2012 showing that SMEs struggled to find a place within this approach and largely missed the opportunities this funding presented.⁸

Outside of these main sources of support there are a number of EU funded programmes. For instance, Chwarae Teg's Agile Nation has provided support to firms in improving gender representation in the workplace, Working Wales will help with employability schemes and the recently announced Iaith Gwaith project run through Mentrau Iaith all add to the broader business support landscape.

Wales currently has a rich landscape of business support programmes as a result of European Funding.

³ Welsh Government. 2012. Micro-Business Task and Finish Group [Online]. Available at: <http://gov.wales/docs/det/publications/120118microbusinessen.pdf>

⁴ FSB Wales. 2017. *Wales' Missing Middle* [Online]. Available at: https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb_missing_middle_eng.pdf?sfvrsn=0 P.8

⁵ Jones-Evans, D. 2013. Access to Finance Review. [Online]. Available at: <http://eprints.uwe.ac.uk/25608/1/access%20to%20finance%20stage%20%20review.pdf> (accessed 11th July 2018).

⁶ Welsh Government. 2017. Business Wales & Careers Wales: Decision Report. [Online]. Available at: <https://gov.wales/about/cabinet/decisions/2017/jul-sep/business/ks2235/?lang=en> (accessed 11th July 2018).

⁷ BBC Wales. 2017. Welsh Government business support changed after criticism [Online]. Available at: <http://www.bbc.co.uk/news/uk-wales-politics-39494843>

⁸ FSB Wales. 2012. Small Business in Priority Sectors [Online]. Available at: <https://www.fsb.org.uk/docs/default-source/Publications/policy/rpu/wales/images/cu-fsbw-small-businesses-in-priority-sectors.pdf?sfvrsn=1>

NEW CHALLENGES

To understand the rationale for this report, it's worth at the outset discussing the challenges that are prompting this conversation. Fundamentally, they are funding constraints that are likely to arise from Brexit and domestic reforms to economic policy.

EU Funding and Budgets

European funding comes in all shapes and sizes, through the European Social Fund, the European Regional Development Fund, the European Investment Bank and a number of smaller but significant funding streams. In total, Welsh Government believes Wales is a net recipient with around £680m a year in European funding supporting Welsh programmes.⁹ Of this, £295m annually flows through the structural fund programmes that provide the bulk of economic actions. It is important at this point to note that this funding is heavily interwoven in Welsh Government programmes and disentangling this funding will take time.



European Funding is heavily interwoven into Welsh Government economic development programmes and accounts for around £680m per annum

By way of comparison, the Welsh Government's annual budget for economy and transport is around £1bn. Of this, around two-thirds relates to transport programmes with around 10 per cent focusing on business support services. In that respect, ESIF funding equates to roughly a third of this budget and therefore has a significant impact on economic policy.¹⁰

Roughly £10m per annum of European Funding goes directly towards supporting the Business Wales service



⁹ Welsh Government. 2017. Securing Wales' Future Transition from the European Union to a new relationship with Europe [Online]. Available at: https://beta.gov.wales/sites/default/files/2017-02/31139%20Securing%20Wales%C2%B9%20Future_Version%202_WEB.pdf

¹⁰ Welsh Government. 2017. Draft Budget Proposals 2018/19. [Online]. Available at: <http://gov.wales/docs/caecd/publications/171024-detailed-narrative-en.pdf>

WEFO publishes regular updates on projects approved for funding, allowing us to delve deeper into the financing for business support schemes. From this, we can see that over the five year period (2015-20) the Business Wales programme will cost £85,784,188 in total, of which £51,470,507 will come from European funds with the remainder coming from Welsh Government.¹¹ This therefore equates to roughly £10m per year that goes towards supporting Business Wales from European funding.¹² It is worth noting here that this includes the Accelerated Growth Programme as well as the core Business Wales function.

For Welsh Government's part, the most recent budget (2018/19) suggests an annual contribution of £8.8m on the Entrepreneurship and Business Wales budget expenditure line. This is slightly above the core cost we would expect in light of the figures above from WEFO but likely includes additional or associated programme spend.

It is worth pointing out here that in the context of the Welsh Government's budget for the economy, this is a relatively modest sum. For instance, the 'sectors' budget currently has revenue funding of £29m per year and capital funding of £55m. Within this, one heading alone – Business Solutions – includes around £20m capital funding per year and appears to be the result of an earlier process of concentration of Welsh Government grant funding to firms.¹³ Direct support to SMEs through Business Wales is therefore a relatively small element of Welsh Government's current economic development funding.

Direct business support through Business Wales is currently a small element of Welsh Government's economy budget, compared in particular to sectors and 'business solutions' budgets.

Our work in the past highlighted how most small firms found it difficult to find support through the sectors agenda and that as a result there was likely to be a dominance among grants to larger firms.¹⁴

Indeed, the sectors budget appears to be largely a series of grant funding mechanisms as was highlighted in a recent Public Accounts Committee report that suggested of the £166m given out by Welsh Government between 2012 and 2015 93 per cent (or £154m) was given out as non-repayable.¹⁵ This is significant as the rules around RBF suggested only companies that were 'mobile' would not be expected to repay (indeed this explicitly gave the example of inward investment) meaning local SMEs were effectively priced differently to inward investors in relation to this funding.¹⁶



¹¹ WEFO. 2018. Approved Projects and Projects Under Development. [Online]. Available at: <https://gov.wales/funding/eu-funds/2014-2020/approved-projects/?lang=en>

¹² Ibid <http://gov.wales/funding/eu-funds/2014-2020/approved-projects/?lang=en>

¹³ National Assembly for Wales. 2007. Answers to Questions Not Reached In Plenary [Online]. Available at: [http://www.assembly.wales/Record%20of%20Proceedings%20Documents/Answers%20to%20Questions%20not%20reached%20in%20Plenary%20\(PDF,%20108kb\)-25092007-59710/oaq20070925qv-Cymraeg.pdf](http://www.assembly.wales/Record%20of%20Proceedings%20Documents/Answers%20to%20Questions%20not%20reached%20in%20Plenary%20(PDF,%20108kb)-25092007-59710/oaq20070925qv-Cymraeg.pdf)

¹⁴ FSB Wales. 2012. Small Business in Priority Sectors [Online]. Available at: <https://www.fsb.org.uk/docs/default-source/Publications/policy/rpu/wales/images/cu-fsbw-small-businesses-in-priority-sectors.pdf?sfvrsn=1>

¹⁵ Public Accounts Committee, NAFW. 2017. The Welsh Government's funding of Kancoat Ltd [Online]. Available at: <http://www.assembly.wales/laid%20documents/cr-ld10933/cr-ld10933-e.pdf>

¹⁶ Welsh Government. 2013. Repayable Business Finance [Online]. Available at: https://businesswales.gov.wales/sites/business-wales/files/documents/WG%20Business%20Funding%20Programmes%20March%202013/WG16912_Repayable%20Business%20Finance.pdf

Ultimately, this shows us two things. Firstly, that the withdrawal of European funding will place significant pressure on Welsh Government's economic policy budgets. This will mean less money will potentially be available to support economic policy. However, this also shows that within Welsh Government's budgets there are choices to be made between the sorts of firms Welsh Government wants to support and grow. This is a key consideration for the Economic Action Plan, if it is to focus on growing Wales' domestic economy.

Welsh Government has a choice to make with regards to future funding around the types of firms it wants to support, mobile inward investment or local, grounded firms.

Economic Action Plan

Late in 2017 the Welsh Government published its Economic Action Plan. This long-awaited strategic refresh set out a number of changes to business support. For instance, the sectors (mentioned above) are to be removed and replaced with foundational sectors and calls to action such as artificial intelligence and automation. Furthermore, the Welsh Government will shift its interventions towards a regional footprint with three economic regions as the locus for activity. Finally, funding streams will be brought together for grant and loan based projects under the banner of a single Economy Futures Fund.

This provokes significant questions for the debate around business support post-2020. Indeed, at a recent scrutiny session the Cabinet Secretary for the Economy Ken Skates noted that *"at the moment, the criteria for drawing down Government support largely rest on cost-per-job and ratio."*¹⁷ The current Business Wales support programme has explicit job targets and ambitions, as do other schemes such as the Business Finance Scheme (formerly Repayable Business Finance) and the activity of the Development Bank of Wales.

Previous support provided to firms in Wales has been based largely on job creation targets.

In contrast, the ambitions of the Economic Action Plan move beyond jobs as the primary aim towards a broader range of issues such as job quality, productivity and tackling major economic challenges such as decarbonisation and automation. This will require a different type of business support environment across all types and levels of support, one that may not be easily captured in terms of job numbers as has been the case in the past.

The primary mechanism for delivering this is the Economic Contract. The contract replaces the previous jobs-focused discussion between Welsh Government and firms with a 'something for something' approach. This means firms will receive grant from Welsh Government only if they can prove they can support wider aims such as developing local supply chains, decarbonisation, fair work and productivity increases. At present, this is restricted to grant funding (through the Business Finance Scheme) and there is an element of proportionality built in so that small firms have proportionate expectations.

The Economic Contract is moving government support beyond simple job creation targets towards a broader economic conversation.

The removal of European boundaries also opens up geographical possibilities. In the past, support has been given on the basis of East Wales and West Wales and the Valleys, largely to fit with EU funding criteria. Post-2020 there will be opportunities to refit the business support environment to modern economic boundaries, including potentially local authorities and the emerging economic regions.

¹⁷ Economy, Infrastructure and Skills Committee, NAFW. 2018. Welsh Government Draft Budget 2018-19 and the Economic Action Plan—Cabinet Secretary for Economy and Transport [Online]. Available at: <http://record.assembly.wales/Committee/4570>

European Union boundaries for funding will no longer be a barrier to project delivery.

Shared Prosperity Fund

The repatriation of regional policy brings with it further complications. As we have seen above, Wales is a net recipient of a significant amount of EU funding and this often has beneficial impacts on business across Wales. For instance, in our recent document Making Brexit Work for Wales our members told us clearly (78 per cent of respondents) that they thought Wales should continue to receive the same amount of funding as it had through the European Union.¹⁸

Furthermore, when asked if funding had been beneficial to their local community the vast majority said it had with only a small number saying it hadn't. Despite this, we believe funding can be better spent in the future to improve the economic wellbeing of Wales.

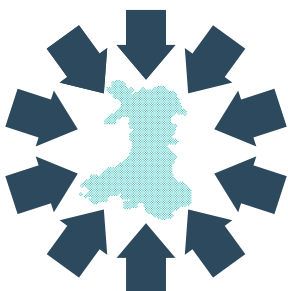


EU funding has had a positive impact in the past and the majority of firms we surveyed thought the same level of funding should remain

As well as the amount of money Wales receives, we also have to consider the way the money is delivered. At present, Welsh Government receives the money directly from Brussels which then gets spent through the Wales European Funding Office (WEFO). This gives Welsh Government significant control over the funding, albeit within the parameters set by the European Union. More recently, the UK Government suggested it would replace regional funding with a UK Shared Prosperity Fund. Crucially, it did not provide details around the nature of the fund, whether its priorities would be set by UK or Welsh Government, whether the qualification criteria would remain consistent and whether it would be the same amount of funding.

In anticipation of the Shared Prosperity Fund, FSB carried out UK-wide research into Brexit culminating in a report on funding titled Brexit Reformed Business Funding: What Small Firms Want from Brexit.¹⁹ In the report FSB calls for the devolved nations to retain the powers to set their own allocations and frameworks for how funding should be prioritised, which takes account of local economic needs.

Regional policy is fundamentally about balancing economic outcomes. As economic development is a devolved function, we believe Welsh Government are best placed to deliver any replacement funding through the Shared Prosperity Fund. This would ensure the funding aligns with the Welsh Government's economic strategy, the Economic Action Plan, and can be matched to Wales' emerging economic regions through the Chief Regional Officers. It should also be hypothecated to economic development and should not form part of Welsh Government's broader budget.



Welsh Government should retain control of regional funding through the Shared Prosperity Fund post-brexite

¹⁸ FSB Wales. 2017. Making Brexit Work for Wales [Online]. Available at: https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb_making_brexit_work_wales_eng.pdf?sfvrsn=0

¹⁹ FSB. 2017. Reformed Business Funding: What Small Firms Want from Brexit [Online]. Available at: <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/reformed-business-funding.pdf>

Business Support: Value for Money?

Any assessment of priorities post-2020 should include an analysis of value for money. This is obviously difficult to quantify and depends heavily on the objectives that underpin any scheme. As we've highlighted above, in the future we can foresee objectives that move beyond job quantity to look at a more refined set of indicators. That said, we can begin to use cost-per-job to highlight value within the economic budget.

Table 1 provides a brief examination of the costs incurred through job creation in Wales for various projects. It's important to note at this point that these are estimated figures based on the available information. Welsh Government doesn't always publish the relevant information to allow for a larger or more precise analysis, particularly around grants to individual companies. For that reason, these figures should therefore be taken as indicative only.

TABLE 1

COST PER JOB ANALYSIS	Budget	Jobs	Cost per job	Notes	Assumptions
BUSINESS WALES	£85,784,000.00	28,300	£3,031.24	Funding for provision of advice service.	Figures relating to the entire project period.
BUSINESS FINANCE SCHEME	N/A	N/A	Small £11,512 Medium £8,954 Large £6,396	93% projects grant funded, 7% repayable between 2012 – 15. Grants based on 'mobile' companies.	Based on the median wage in Wales (£25,584) in 2016 against the percentage investment criteria in a tier one assisted area.
DEVELOPMENT BANK OF WALES	£80,000,000.00	5,500	£14,545.45 (£2,909)	Loans or equity investment to SMEs that are repayable.	Based on the projected annual investment figure and jobs created/safeguard for 2022.
ENTERPRISE ZONES	£225,867,359.00	1,0706	£21,097.27	A mixture of grants, investment in infrastructure and property business support.	Figures relating to the entire project period.
ASTON MARTIN	£5,800,000.00	750	£7,773.33	Details not published, assumed RBF/BFS.	
ALDI	£4,500,000.00	422	£10,663.51	Details not published, assumed RBF/BFS.	
TUI	£525,000.00	175	£3,000.00	Business Finance Scheme.	
CAPGEMINI	£1,400,000.00	100	£14,000.00	Business Finance Scheme.	
DELOITTE	£3,500,000.00	700	£5,000.00	Repayable Business Finance (now renamed Business Finance Scheme).	

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N/A Not applicable

²⁰ References for tables are in annex.

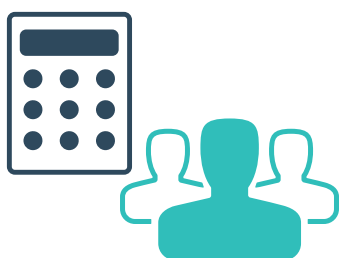
By this analysis, we can begin to make a number of assumptions. Firstly, it's clear that the spend for Business Wales represents value for money if job creation is the goal. At £3,031.24 per job Business Wales offers a significant return for a relatively small investment. It's also worth noting here that these are jobs created in communities across Wales with a broad variety of firms. From our perspective, this diversity is a strength in that these jobs are rooted in Wales, unlikely to be mobile and ensure further spending in their localities.



**Spending on Business Wales
delivers a good return to
government at a cost of
£3,031 per job**

In relation to the Development Bank, the picture is less clear. While the figure seems high it is worth pointing out that the Development Bank is providing loans not grants and therefore there is a very strong chance this money will be repaid, and in the case of equity investments the Development Bank stands to deliver returns to the public purse on sound investments.

Based on the 2017 Annual Report for Finance Wales, in 2016 around £30m was held as loan loss provision out of a total of £145m in loans receivable.²¹ While this does not relate to equity investment, this assumes a default rate of up to 20 per cent, which is to be expected for a public bank delivering gap finance. On that basis, we can assume as a maximum only 20 per cent of the funding will go unpaid, giving us a more realistic jobs figure of £2,909, which is again comparable to Business Wales. As was the case for Business Wales, the Development Bank lends to SMEs so is therefore likely to be targeting a broad spectrum of firms across Wales.



**The Development Bank of Wales
also provides good value for money
with an estimated cost per job
of £2,909**

In relation to Enterprise Zones, we can see that the cost of job creation is high at over £21,000. This may be due to the fact that interventions are provided in a number of areas such as through business support, property investment, tax relief and infrastructure.

²¹ Development Bank of Wales. 2017. Annual Report. [Online]. Available at: <https://developmentbank.wales/sites/default/files/2017-09/FW%20Annual%20Repor2016-2017.pdf> P.69



Finally, for this exercise we have drawn out reported figures from investment made to individual inward investment projects. The detail of these investments are usually not made public, so it is hard to ascertain their value for money. This assessment should therefore be taken as indicative only.

Business support to inward investors is usually made through the Business Finance Scheme, formerly known as Repayable Business Finance. The name here is important, as despite repayable being in the title, it was revealed by the Public Accounts Committee that 93 per cent of interventions made under this fund were in fact, non-repayable.²² There are legitimate questions to be asked as to whether this proportion is sustainable given possible future funding constriction. The criteria for whether a grant is non-repayable or repayable is around whether a business is mobile. To our knowledge, this is not publicly defined so there may be significant amounts of discretion involved. In practice, that suggests that local businesses rooted in Wales, whilst in principle eligible for the funding, in practice will receive it on worse terms than ‘mobile’ inward investors.

Based on the figures provided through Welsh Government press reports, we can see that value for money varies incredibly, with investments in TUI being comparable to Business Wales whereas the Capgemini intervention is around four and a half times more expensive. In contrast to Development Bank and Business Wales funding, these interventions are placed in individual firms who are classed as ‘mobile’ so are susceptible to moving outside of Wales if the funding environment is no longer favourable.

Direct grant funding to larger firms is of variable value for money with the examples examined here ranging from similar cost per job as Business Wales to over four and a half times more expensive.

Our aim here is not to say that these sorts of interventions should not take place, clearly it’s important for economic development that Wales is able to attract large anchor companies that add to our economic capacity. Indeed, as we expressed in our missing middle report, Welsh Government should prioritise investments that can be shown to have significant supply chain opportunities which would help anchor the activity. Rather, our intention here is to show that if there is a squeeze on funding arising from Brexit, prioritising business support to SMEs provides a better return on investment in a broader set of contexts.

²² Public Accounts Committee, NAFW. 2017. The Welsh Government’s funding of Kancoat Ltd [Online]. Available at: <http://www.assembly.wales/laid%20documents/cr-ld10933/cr-ld10933-e.pdf>

Despite a potential squeeze on funding, Welsh Government has the ability to choose the types of businesses it supports. Currently, larger firms are the beneficiaries of direct grants.

What do firms want from business support?

In order to inform future spending priorities around business support, FSB Wales undertook a brief poll of members. The poll received around 140 responses and some of the comments included have been used to highlight priorities for policy recommendations.

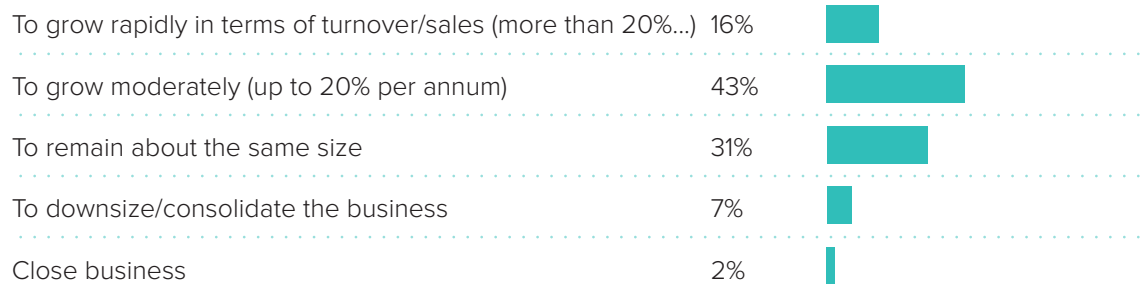
The poll received a fairly even split of firms from each of Wales' four regions, with the exception of mid-Wales which made up around 12 per cent of the sample. This is to be expected, with the number of firms in mid-Wales significantly less than elsewhere in Wales (see our report on the Missing Middle for more on this). Furthermore, a quarter of our respondents were self-employed, the majority (58 per cent) were micro-businesses with around 17 per cent of respondents in the small and medium size categories.

Given the size of the sample, this data should be treated as indicative only and where possible qualitative data has been used to provide further detail.

Growth Aspirations

GRAPH 1

What are the growth aspirations for your business over the next 12 months?



We asked our members what their growth aspirations were for the next 12 months. A majority had growth aspirations with around 15 per cent looking to grow rapidly with a further 43 per cent growing moderately. Significantly, a third of responses suggested that they would like to remain the same size, highlighting the need for business support to not focus exclusively on growth aspirations alone. Of more concern, around 7 per cent of firms were consolidating or downsizing with a further 2 per cent looking to close the business.

A majority of firms have strong growth aspirations, however around a third wish to remain the same size. Business support needs to cater to both these audiences if it is to improve the overall stock of businesses in Wales.

GRAPH 2**Have you sought **business support** in the last 2 years?**

Evidence from our poll suggests that around 30 per cent of businesses have actively sought business support and advice in the last two years.

Experiences of Business Wales

As noted previously, the main provider of public business support in Wales is Business Wales. We wanted to test experiences of the current Business Wales provision as this would provide a solid means for discussing what improvements could be made post-2020.

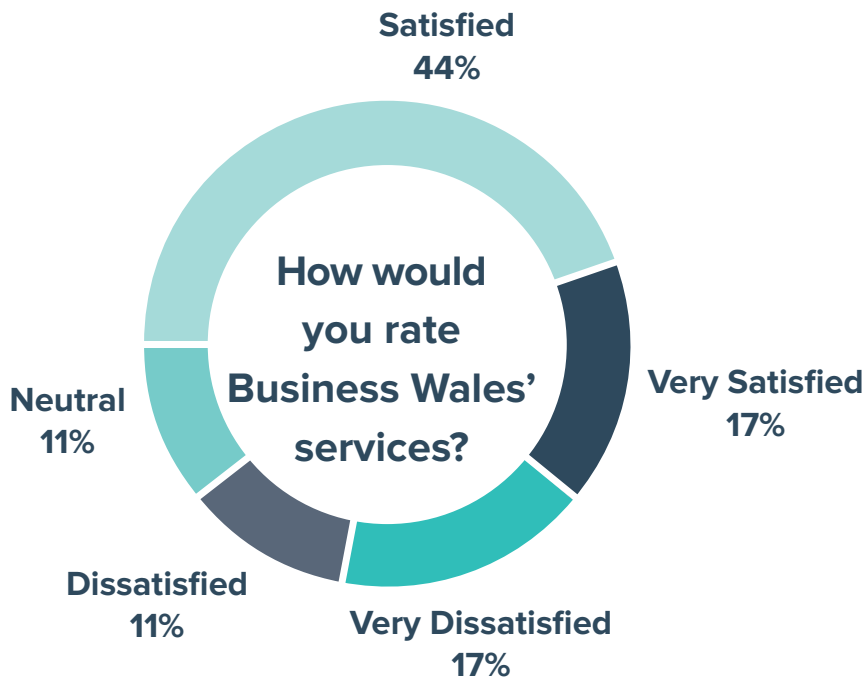
GRAPH 3

One of the main reasons Business Wales was created was to rationalise business support under a single brand name. This, it was argued, would lead to better brand awareness and therefore greater awareness of the support provider to businesses by the Welsh Government. Over 70 per cent of respondents to our poll said that they were aware of Business Wales as a service. This largely bears out the rationale for the brand creation and it is pleasing to see such high levels of recognition. Despite this, around 30 per cent of members were still unaware showing areas for progress that remain.

The Business Wales brand is widely recognised by firms and should be protected as a one-stop-shop in any new arrangements beyond 2020.

Of those that were aware of Business Wales about 40 per cent had actively used the Business Wales service to support their business. This suggests the level of capitalisation from brand awareness to service uptake is fairly high. This also correlates fairly strongly with the number of firms seeking business support highlighted earlier.

GRAPH 4



Of those that have used the Business Wales service, we can see that levels of satisfaction are overall positive. Around 60 per cent of those that had used Business Wales found the experience either satisfying or very satisfying, with a further 10 per cent feeling neutral on the experience. Despite this, levels of dissatisfaction were still over a quarter of those responding to the question.

Some of the supportive comments are illustrative in this regard. For instance, on a positive side the following comments were made:

“So far the people I’ve met from Business Wales have been helpful. My business is not doing as well as it should be and there have been many challenges this past year and a half. Thus far, the help has been more psychological as opposed to financial as I need to develop a new business plan and consolidate business debt. The woman who came to help me make the business more efficient was a retired accountant and she was able to provide me with some sound advice which I took and acted upon.”

“Great support from all team members. Very professional and understanding. Have helped me to understand a lot regards how businesses work and develop.”

“I found it difficult to apply some of Business Wales’ services but have become a member of the Accelerated Growth Programme which has helped with some legal and an upcoming funding campaign. It can be a little slow moving as you need to align with opportunities.”

Clearly here the personality of the advisors had been seen as key in establishing relationships with the businesses concerned, in particular around the level of comprehension of business issues and their professional manner. However, the final comment suggests things become more beneficial as the respondent moved towards higher categories of support (i.e. the Accelerated Growth Programme).

On the negative side, the following issues were recorded:

“The advisory service is useful in pointing small businesses in the right direction. It seems to offer no help in making some of the changes happen, particularly in the field of IT where our own understanding is scant.”

“Little real help. Very slow, very bureaucratic.”

“Some of the advisors do not have great attitudes when dealing with women and some of them use the service to channel clients towards their private practices.”

Again we see the role of the advisor as being key to the experience received. Of particular concern is the third comment which suggests there were issues around gender and the quality of service. A number of other comments felt that the level of knowledge around business issues was poor and that the process could be bureaucratic.

In between this range of comments we received a number who felt that the advice was generally good but that too little was done to help put the advice into practice.

Business Wales is on the whole providing a good service to businesses across Wales.

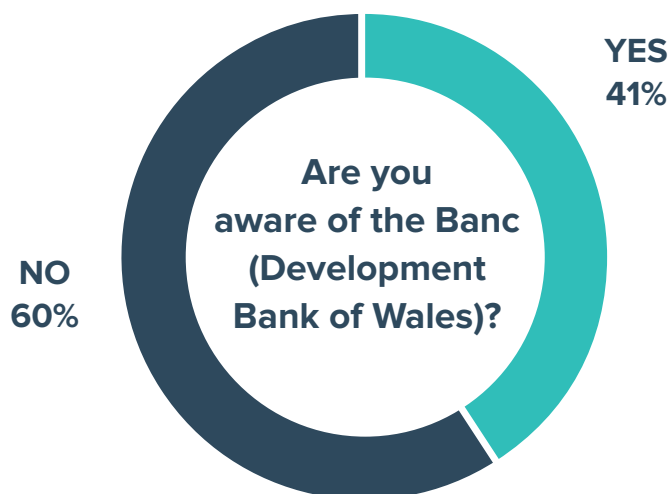
Despite this, the quality can be patchy and a number of firms do not find the service satisfactory. In particular, issues around moving from advice towards practical changes were noted.

The quality of the advisors was key to understanding both good and bad experiences of our members. This suggests more can be done to develop the service, such as broader awareness of business issues, interpersonal skills and awareness of dealing with women and minority and ethnic groups.

Development Bank of Wales

The other key player for business support is the Development Bank of Wales, which is currently using the brand name Banc. Banc has emerged from Finance Wales and provides loans and equity finance to SMEs across Wales, utilising European funding amongst other things. The first question our poll asked was around the number of firms who are in need of external finance. Our survey showed a quarter of firms had needed external finance in the last 2 years.

GRAPH 5



In terms of awareness, understandably there was less awareness among firms than is the case for Business Wales. Only 40 per cent of those polled were aware of the Development Bank. There are potentially two reasons for this. Firstly, the brand has very recently changed from Finance Wales to the Development Bank of Wales. Secondly, fewer businesses actively seek out external finance compared to business support. We've also worded the question not to include any reference to Finance Wales, which was included in later questions.

Awareness of the new Development Bank and its brand Banc are relatively limited at the moment. Maintaining consistency of brand and promoting it in the future should be a priority.

Of those that had heard of Banc around 15 per cent had actually used their services. It is worth noting at this point the response rate becomes too low to draw active conclusions, although on the whole three quarters of those responding were satisfied in some form.

Of the comments that were left by respondents, a theme emerged around the price of loans:

“Very high interest rates”

“Very expensive when all of the conditions that you have to meet are taken into account. But effective and supportive as a lender of last resort.”

This suggests that the interest rate policy of Finance Wales and now Banc is still a concern. However, this ultimately depends on what role we ascribe to the institution. From an FSB Wales perspective, Banc should be acting to some extent as disruptive in areas where the mainstream lenders currently will not provide finance. This finance gap is often at the lower end of the loan size spectrum where banks are less keen to engage with firms seeking to borrow relatively small amounts.

We are pleased to see the new research arm of Banc emerging. This should be used to provide a feedback loop in to the activities of the bank in the future with a view to it ameliorating the finance gap in Wales.



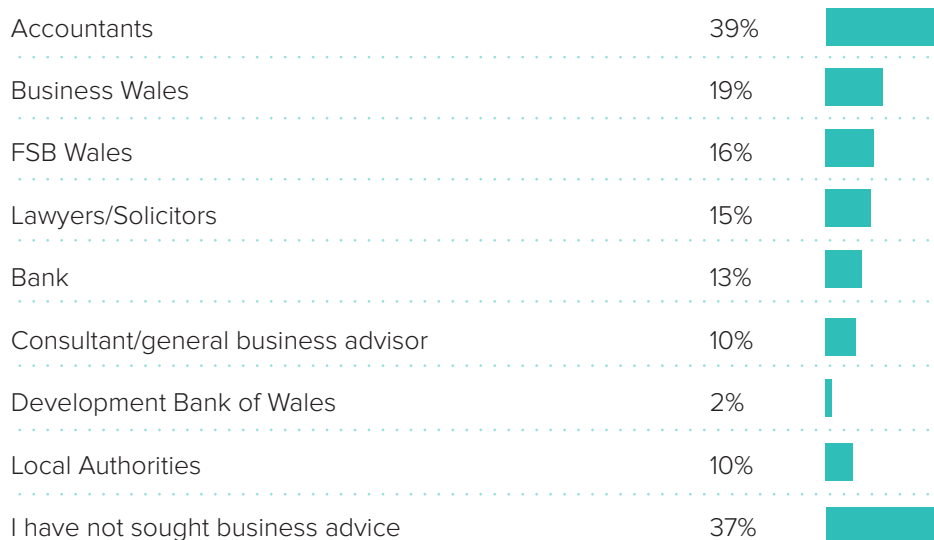
Banc's interest rate policy is still of concern to some businesses and should be **kept under review** to ensure the institution is able to properly fulfil its role as **a lender to SMEs**

Sources of Advice

While Business Wales is the key organisation for business support in Wales, there are a plethora of supporting organisations available in the private and public sectors. In order to understand the efficacy of any public provision, it is important to understand the thought process of firms who seek business support.

GRAPH 6

If any, who have you sought **business help or advice** in the last **2 years?**



We asked firms to mark who they approached when they needed business support and advice for their business. **Graph 6** shows that on the whole accountants are the best-placed resources in this respect. Clearly many firms feel a degree of trust in their accountant. This is vital for the future of business support post-2020. Any redesign of Business Wales should seek to dovetail with the accountancy profession as much as possible, including from marketing strategies through to practical referrals.

The survey also shows FSB Wales as an organisation that is used for business support and advice (only slightly less than Business Wales). While this is not unsurprising given the sample was FSB Wales members, it does highlight the broader business support landscape as important to the success or otherwise of Wales' firms.

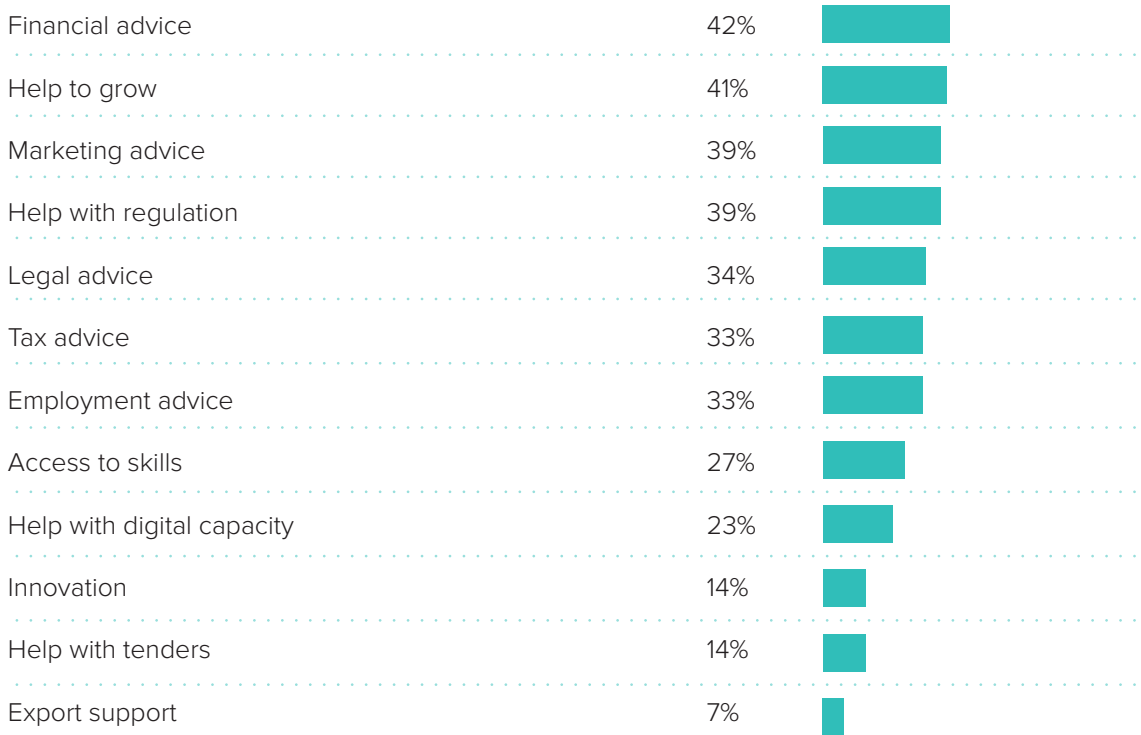
Accountants are the first port of call for business advice and support conversations for most firms. Business Wales and FSB Wales are also of importance to those surveyed.

Any future business support scheme needs to work closely with the existing business support landscape if it is to be successful.

Types of Advice

As well as asking which organisations are most relevant in terms of support and advice, we also asked which areas of advice were most needed.

GRAPH 7 Types of support



Graph 7 highlights a broad range of support is needed by firms. At the top end of the scale is financial advice and help to grow their business. Given the growth intentions highlighted earlier and the reliance on accountants, it is not surprising that these two areas are paramount to the future direction of businesses in Wales. However, just beneath these two areas are a number of other significant support functions such as marketing advice, help with regulation, legal advice, tax advice and employment advice.

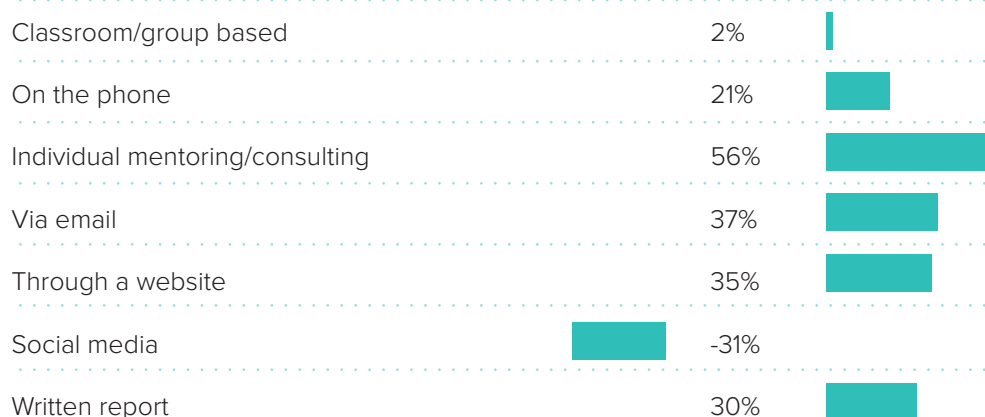
The current Business Wales offer functions across a number of these areas but it may be worth examining provision in light of the priorities above in order to ensure the advice provided is as relevant to firms as possible. While support for tendering and exports are lower on this poll, this may be explained by the smaller number of firms that engage in this activity.

Financial advice, advice to grow and a number of regulatory areas are seen as the most essential types of business support by firms.

Modes of Delivery

Business Wales and the Development Bank are currently provided through a mixture of advisors, online content and workshops. In order to test the means of provision and whether this was welcomed by firms, we asked what method of delivery was preferred.

GRAPH 8 Net usefulness



Overwhelmingly, individual mentoring and consulting emerged as the favourite means of delivering a service. As we have seen earlier, the quality of the service is often reflected both positively and negatively in the relationship between the advisor and the business. Given its favourability amongst firms (highlighted above) Business Wales clearly has a stock of advisors who are able to deliver a strong service. This must be maintained post-2020 in any arrangement and improved where possible to ensure that the relationships built and understanding of business issues does not get lost in any re-contracting process.

Beyond this, there is also significant support for written correspondence through emails and reports but also for web-based delivery. For instance, the Business Wales BOSS system is fairly comprehensive and may be seen as a useful means for many businesses.

Of less value are things such as social media and classroom based activity. It was clearly felt that these did not substitute for one-to-one support.

Some of the comments provided give extra context, for instance:

“ When advice is given written/formally it becomes so defensive and caveat filled that it is often useless. Informal face to face is generally better and more honest.”

“My preference is for is face-to-face consultations as it is easier to explain the situation when a consultant can see how things actually function and can make recommendations on the spot.”

“ Face to face support is the best as you can interact with other delegates and benefit from their personal experience”

The comments above suggest formality is an issue as well, with advisors less likely to provide useful advice if it's overly formalised, because of the risk of that later being seen as poor quality.

Face-to-face advice is seen as the best means of delivering business support. Post-2020 it is vital that Business Wales is able to maintain and **expand its advisor network**



Future Funding Priorities

Finally, we asked respondents to suggest which areas they would like to see investment in should EU funding continue at the current levels.

TABLE 2

Now thinking about the scenario where the UK has left the EU. If current levels of EU funding were replaced and maintained, as a small business owner, which priorities would you like to see FSB Wales campaign for? Please rank your priorities.		
ITEM	Total Score 1	Overall Rank
EXTENDED TAX RELIEF FOR SMALL BUSINESSES	532	1
DIGITAL INFRASTRUCTURE (MOBILE COVERAGE AND FIXED BROADBAND)	493	2
SKILLS AND TRAINING	437	3
BUSINESS SUPPORT (MENTORING PROGRAMMES AND HELP FOR START-UPS AND BUSINESSES LOOKING TO GROW)	397	4
TRANSPORT INFRASTRUCTURE (ROADS AND RAIL)	377	5
ACCESS TO FINANCE (SUCH AS LOANS OR EQUITY INVESTMENTS)	368	6

The rankings were used to create a score for each area of policy. This showed tax relief for small businesses as being the key priority for EU funding, followed by improvements to digital and mobile infrastructure. Below this skills and training and business support were the next two favoured priorities, followed by transport infrastructure and access to finance. All areas were broadly supported and it is vital that any replacement for EU funding is able to focus on all 6 of the areas highlighted above.

Notably, tax relief is the only area that is not currently catered for in the existing funding system, so there may be merit in examination of targeted tax incentives in any future programmes. For instance not charging business rates for a period of 12 months where improvements have been made to a premises as suggested by the Barclay Review in Scotland.²³

²³ Scottish Government. 2017. Report of the Barclay Review of Non-Domestic Rates [Online]. Available at: <http://www.gov.scot/Publications/2017/08/3435/5>

Extending tax reliefs for small businesses is the number one priority for future funding, along with improving digital infrastructure, investing in skills and training and business support.

Business Support Post-2020: Recommendations for Change

Having examined the financial and policy pressures on the business support regime, whether it is value for money and what firms would like to see from the service in the future, we now turn to recommendations for action by the Welsh and UK governments.

Replacing European Funding

European funding was seen on the whole as positive force in the Welsh economy by our members when they were surveyed. Members wanted to see the existing funding protected. Despite this, we're clear that improvements can be made to the way that funding is spent in the future to ensure business across Wales can grow sustainably and continue to be rooted in their local communities. Indeed, this was reflected in our UK-wide report on regional funding after Brexit Reformed Business Funding: What Small Firms Want from Brexit.

We therefore call for the following:

- UK Government should ensure Wales receives the same quantum of funding as was available through EU funding, once this policy area has been repatriated.
- In designing the Shared Prosperity Fund, it is vital that funding is able to complement the existing business support infrastructure in Wales through Business Wales and the Development Bank.
- Economic development is currently a devolved function. We therefore believe any replacement through the Shared Prosperity Fund should continue to give Welsh Government control over funding priorities to ensure alignment with the Economic Action Plan.

Building on Wales' economic assets

While uncertainty around replacing European funding poses a significant threat for business support services, Welsh Government still has substantial choices to make around what it prioritises within its own budgets. Our evidence suggests that business support through Business Wales and the Development Bank offer good value for money in relation to jobs created in communities across Wales. Whilst Welsh Government will rightly seek to attract large anchor investment to Wales, we believe economic action plan should focus more on developing indigenous supply chains and local economic diversity.

We therefore call on Welsh Government to:

- Prioritise the support of SMEs in delivering the Economic Action Plan by protecting business support services post-2020; recognising that business support provides good value for money when compared to other investments.
- Ensure the development of Welsh supply chains is a core ask in the economic contract, making inward investment decisions about more than job numbers.
- Clarify whether the Economy Futures Fund will replace the Business Finance Scheme and ensure the new fund is open and transparent in its budget, investment criteria and application process.
- Ensure the Economy Futures Fund is open to applications from all firms on the same or similar terms, scaling to meet their size.

Business Wales and Banc

There is no doubt that the Business Wales service has come a long way since the original idea was presented in the Micro-Business Task and Finish Group of 2012. Initiative churn has long been a problem for Welsh Government's economic policies. We must ensure Business Wales does not suffer the same fate despite the obvious policy and financial services.

In order to maintain and develop the Business Wales service, we call on Welsh Government and Business Wales to:

- Examine a broader range of issues than job-creation in defining any contract for Business Wales post-2020. This could align with aspirations of the Economic Contract and focus on the sustainability and productivity of firms amongst other things, moving away from jobs targets as the driver for advisor accountability.
- The Business Wales advisor network needs to be maintained and expanded post-2020 in order to improve the service. Businesses value face-to-face engagement and so this activity should be prioritised.
- Ensure the provision of publically-funded business support is able to dovetail with existing support mechanisms such as accountants and business organisations. These are often more obvious routes to advice than Business Wales.

In relation to the Development Bank of Wales, we suggest the following:

- Keep interest rates policy under review and ensure where possible Banc is able to be disruptive in areas where there is clear market failure.
- Invest in the brand over the longer-term. The initial awareness raising activity has been significant but must be maintained to ensure brand recognition.

Future policy priorities

The removal of European rules around regional policy provides an opportunity for a rethink. We must ensure that any funding is used to balance the UK economy and tackle Wales' longstanding structural economic deficiencies. In some areas, we need to continue doing what has worked in the past. In others, we should consider new policy options.

As such, we believe the replacement for European funding should:

- Continue to focus on core economic issues such as infrastructure (both digital and physical), skills and training and access to finance.
- Be hypothecated to economic development, as is the case with current structural funds. Replacement funding should not get lost in Welsh Government's broader budget process.
- Consider new policy levers such as targeted tax reliefs in areas to encourage investment such as the proposal in Scotland for a 12 month delay on rates accruing to investment in new buildings, plant and machinery.

CONCLUSION

Over recent years, Wales has had a strong tradition of supporting SMEs through business support services. This system will increasingly come under threat as the challenges of replacing European funding and a new approach to economic development are brought to bear.

Nevertheless, given the benefits of these intervention in terms of jobs growth, business stock growth and wider economic impacts priority should be given to properly resourcing business support architecture and funds in consideration of the priorities for any future funding.

This report has set out why continuing and expanding the business support services available in Wales is affordable and crucially valuable to Wales, its economy and its people. There are hard choices to be made in many policy areas but we are confident that with the right approach, a stronger SME sector could be the result of these decisions.

ANNEX

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