

27 April 2022

Peredur Owen Griffiths MS
Chair of Finance Committee
Senedd Cymru
Cardiff
CF99 1NA

Dear Mr Owen Griffiths

RE: Post-EU Funding Arrangements

I am writing to you in response to the consultation on Post-EU Funding Arrangements, which are a key part of the business support environment and is an area where we need certainty about structures, ways of working, and ensuring coordination across the system and different economic strategies to ensure we have a system that works for SMEs' long term economic development.

About FSB Wales

FSB Wales is the authoritative voice of businesses in Wales. It campaigns for a better social, political, and economic environment in which to work and do business.

With a strong grassroots structure, a Wales Policy Unit and dedicated Welsh staff to deal with Welsh institutions, media and politicians, FSB Wales makes its members' voices heard at the heart of the decision-making process.

SMEs form the overwhelming bulk of businesses in Wales. They are grounded and embedded in our communities and provide vital services and amenities, as well as jobs and prosperity. They form the foundation for local economic development and create value within our communities.

Brexit has meant that the whole structure of EU funding is changing in the UK. Advocates noted the opportunity that this could lead to a more responsive support system that would drive local needs with less bureaucracy and ensure better joined up policy. So far, it is yet to be seen how this will happen, but we can assess development so far and point to lessons for the future, and where there are opportunities in shaping business support to better ensure these desires are met.

Recent Developments in Funding Arrangements

With the latest Prospectus on the governance of the new funding arrangements only set in the last few weeks, FSB in Wales and at UK level are currently still looking at the detail on how this will affect our members.

We welcome the clear commitment to engagement with business representatives within the system in all areas.

However, in our recent '[Building Businesses: Building Communities through Business Support in Wales](#)' report we noted the need to ensure the coordination across different levels of government to ensure that the system does not lead to duplication, parallel systems, or not address the different responsibilities at different levels of governance. Our concern is that this if this is not done, it will lead to inefficiency and a less effective system addressing the economic development strategy in Wales. As such, we are concerned that there is no clear and



Arbenigwyr mewn Busnes
Experts in Business

stated role for Welsh Government or Members of the Senedd in the arrangements as currently set out which seems to work against coordinating across the reserved and devolved policy areas which together contribute to the enacting of effective economic development within our communities.

In terms of the practical experience of the funds so far such as the Community Renewal Fund, our evidence on members' experience is limited. Anecdotally we are aware of members who have tried for Community Renewal funding and not won the funds. We are also aware that for some, the short-term funding envelope of 1 budget year mitigated against projects such as local infrastructure that would have been the most useful for many businesses. Another problem we have heard is that the structure of the CRF funding means that projects' geographical spread are hyper-local and so there is little scope to involve businesses or actors from outside the local authority and the system mitigates against regional working and so in future more flexibility and incentives to work regionally would be welcome. It is welcome that the Prospectus for the Shared Prosperity Fund points specifically to the four regional footprints in Wales and the opportunities these allow. However, it is unclear where Wales-based institutions (such as Business Wales, WEFO, and Development Bank of Wales) that have substantial experience and learning that could be harnessed in a new system will fit in these arrangements in their specific Welsh setting. It is vital that institutions that have served their purpose well in terms of being central points of contact are harnessed in new arrangements, and that positive progress in business support in Wales is not lost.

Our engagement has largely been limited to sharing information on open projects with members on our lists. Many of these projects (within for example the city deals) would be based on existing brands, and so it is plausible that members would not necessarily link them to new funding arrangements, and that this would remain opaque for members. As such, underscoring and communicating new funding and new funding mechanisms is important to better engage businesses in that process. Only with new and concerted effort will we get the buy-in and contribution of businesses and business organisations outlined in the Prospectus for the Shared Prosperity Fund for example.

Given that the practical funding arrangements have been geared toward short-term projects in annual budget cycles rather than long term development, it is plausible (although not certain) that this would mitigate against projects involving small businesses, who would tend to need longer lead-in times and need to be communicated with on a long-term development basis. This is why we have recently provided concrete proposals to look at principles and governance for post-EU funding arrangements that work to that end in Wales.

FSB have always called for the quantum of funding in Wales to be equal to what has been in place previously and so current questioning and uncertainty about the quantum (at least until 2025) is disappointing. If there is to be less grant funding in place it is vital that areas such as access to low interest finance in Wales be looked at to address SME needs, or that other funding areas (e.g., decarbonisation) and procurement look to address SME interests directly. Less funding means that the way the funding is coordinated and delivered is that much more important, and the system needs to be set up to be independent of day-to-day politics, build trust and engagement and be targeted toward SME needs, and geared toward long term economic development and transition to future economic priorities.

FSB Wales's work on post-EU Business Support in Wales

Ff/T 029 2074 7406
E wales.policy@fsb.org.uk
W fsb.wales

C/A 1 Cleeve House,
Lambourne Crescent,
Caerdydd, CF14 5GP

Swyddfa Gofrestredig | Registered Office:
National Federation of Self Employed and Small Businesses Limited,
Sir Frank Whittle Way, Blackpool Business Park, Blackpool, FY4 2FE

Cofrestrwyd yn Lloegr Rhif | Registered in England: 1263540



Arbenigwyr mewn Busnes
Experts in Business

In terms of wider recommendations, FSB Wales have put in place what we view as the key principles and aims for successful business support in the future. We point to the wider ecosystem of business support in Wales and in the future, there will be a need to better 'knit together' the resources and funding of different layers of government. For instance, it is important that the new funding made available by the Chancellor of the Exchequer in the 'Fund for Wales' through the British Business Bank, is recognised in the wider picture of business support and sits in a complementary way alongside support from Welsh Government and local government.

Business support and regional development was a core part of EU policy in places like Wales. Relative to the rest of the UK, Wales has been in receipt of large amounts of EU funding based on regional need, which it was particularly dependent on. As such, it is unquestionably more vulnerable to changes to that system and to the delivery mechanisms built to implement that funding.

It is also true that changes to the structure provide an opportunity to create a less bureaucratic and better funding system that serves Wales and its SMEs' needs. The UK structure to replace EU funding has been uncertain for too long.

The UK Government's 'Levelling Up the United Kingdom' White Paper has provided an outline of the aims and broad principles of the approach. The detail on how this will be implemented in practice in Wales with partners remains unclear, but we welcome recent engagement by UK Government Ministers and officials as well as Andy Haldane, Head of the UK Government Levelling Up Taskforce with FSB Wales.

Ongoing uncertainty promotes inertia at the decision-making level, making things more uncertain for businesses on the ground. The situation does not encourage long-term planning or fiscal responsibility for governments, businesses, civil society actors and delivery bodies attempting to provide economic strategy and policy. Lack of clarity also risks increasing mistrust so all actors should look to be clear in putting forward details of what they wish to achieve, making it clearer how they can then work together.

In changing the funding system, we need to learn from past mistakes and look to a focus on long-term economic development in Wales. This requires a system that is anchored and certain, brings to bear considerable central resources to regional development, provides for local knowledge and builds on institutional learning and networks already in play, builds capacity and capabilities, and on a shared mission toward economic development in Wales that sits outside short-term political agendas and electoral cycles.

Findings

As noted, awareness of examples of SME interaction with post-EU funding arrangements are largely limited and anecdotal. However, FSB Wales' report, [Building Businesses](#), explored some of the challenges and opportunities surrounding business support, informed by the views of SMEs across Wales.

Given the role that Business Wales has played and the questions of its continued existence or capacity in the post-EU funding environment, we sought to explore how the service was regarded.

In terms of recognition, 83% of respondents were aware of Business Wales. 75% of those who had not used the service were aware of its existence. This compares favourably with an FSB survey undertaken in 2018 where the recognition was 72%, indicating that the past few years have had an impact on awareness of the general support



Arbenigwyr mewn Busnes
Experts in Business

structure. Business Wales is a well-known part of the furniture for the SME sector, and this visibility is strong comparative advantage as a mechanism for development, policy levers and steering business to transition to net-zero. Of those who used the Business Wales service, 51% were satisfied and 25% dissatisfied, with the rest neutral. Encouraging sentiments were also expressed for the Development Bank of Wales (albeit with a small sample).

It is vital therefore that the core business support infrastructure, including Business Wales and Development Bank of Wales, is protected, developed, and placed on a statutory footing with core multi-year funding set out, and viewed as a key competitive advantage to Wales's economic and business development.

These findings should signal to UK Government the need to interact with established business support services more effectively in Wales.

Institutions

Unlike EU Structural funds, where Welsh Government managed the funds, the UK Government 'will work directly with local authorities on the details of the fund'. Devolved governments will 'have a role' along with local partners, but what this will entail remains unclear and the resultant political debate about this has been unhelpful. However, that UK Government have urged the engagement of local actors and business organisations is an important signal and intent which, we hope will help ensure that funding is relevant to the needs of smaller businesses.

There are dangers and risks for SMEs by UK Government bypassing Welsh Government in delivery of business support, and in not using institutions and structures that have worked, retain trust between actors, are regionally based and embedded in Wales. A comprehensive OECD report has noted importance of strong institutions, regional based capacity, to ensure effective joined-up business support funding that works in the long-term and outside the electoral cycle. FSB Wales concurs with this assessment and urge that post-EU funding arrangements are shaped to accommodate the expertise, local knowledge and institutional advantages that are in place in Wales.

In evidence to the Welsh Affairs Select Committee, local authority leaders expressed the following:

- o welcomed the key role for local authorities, with most local authorities likely to welcome direct funding
- o noted concerns around centralisation of decision-making in London, calling for a "three-way conversation" that includes partnership working with the Welsh Government
- o raised concerns around the competitive bidding process
- o noted that tight timescales impacted on whether local authorities could progress priority projects that may need more time to develop, but which were more needed, noting the disadvantage smaller authorities may have in assessment and in competitive bidding generally
- o noted that the system did not incentivise collaborative bidding.

It is inevitable that different governments will have different views of desired policy ambitions and priorities. This needs to be understood and acknowledged by all parties, with awareness that plural perspectives are legitimate and to be managed accordingly. The institutional architecture then needs to take this into account.



Arbenigwyr mewn Busnes
Experts in Business

All levels of government should publicly recognise each others' legitimate interest in this agenda, and each level's relative strengths to shape an effective business support agenda and delivery. The relationship across UK and Welsh Government has been identified by many commentators as not conducive to building trust and achieving the best outcomes in their mutual interest. However, for these new streams of funding to have the confidence of the business community, Welsh and UK Government, along with local government across Wales, there will have to be a clear shared purpose and perhaps commit to the development of new structures for co-ordination and delivery.

Think Small First

The levers where a steer can be provided run across many policy areas and so also departments – and there is danger that these can be siloed within institutions and pursue different competing agendas. As such it is important that across government, there is a mainstreamed 'think small first' model that looks to suitable business support mechanisms that can contribute to the policy in question, from skills and education, research, to decarbonisation and health procurement. Post-EU funding arrangements must be no exception to this principle.

To promote a 'whole government' small business approach, FSB Wales have called for an Economic Development Bill to address this need to secure a small business perspective and economic lens from planning to regulation, tax, and reliefs through to education, skills and lifelong learning and everything in between. In the current position of significant uncertainties, an Economic Development Bill can also anchor an approach to the economy and allow Welsh Government to set out its approach in detail and in an accessible way that shows its approach to small business as an important partner to economic development in Wales. This legislation could also set out ambitions for intergovernmental collaboration, which is particularly salient in a post-EU environment.

Conclusion

The confused and uncertain landscape of future funding risks the danger of repeating some of the mistakes of EU funding – especially its early years in devolution – of money being spent in isolation with little holistic view as to the outcome and how it aligns with wider economic development and policy strategy across different governments.

Institutional space for differing views, delineating where business support fits across UK and Welsh policy programmes, appears the best solution to provide an impartial space for delivery. The OECD report has provided a significant contribution on this, albeit not taking a view on the UK Government role. Nevertheless, there is no logical reason to not simply take this view for long-term independent analysis and delivery.

Under a neutral arbiter (such as the OECD), UK and Welsh Governments should hold a summit to understand the best governance arrangements for long-term delivery of economic development through business support, with a view to providing impartial mechanisms for delivery outside day-to-day government business and interference. UK, Welsh, and local governments need to agree and have buy-in into a governance arrangement that:

- Ensures each level has input and shapes policy for strategic ends.
- Respects established statutory and legislative responsibility.



Arbenigwyr mewn Busnes
Experts in Business

- Provides a clear mix of local knowledge and national capacity.
- Ensures decision making on projects are made at the level that best suits addressing these tripartite needs.
- Provides regionally-based capacity, following the footprint based on the Corporate Joint Committees (CJCs) and City Deals.
- Is presided over as a statutory independent arm's length body with multi-scale government represented at the official level, accountable to the relative legislatures.
- Is backed by an independent evidence and research capability to drive, deliberate, and shape policy to each Government levels and stakeholders' needs and economic strategy, with equal buy in across each.
- Builds 'Think small first' into the system and builds all regulation, eligibility criteria and business engagement and representation into the system with this in mind.
- Promotes cross governmental working for common and clearly articulated ends.
- Links across and provides a central point of contact to all institutions and business support across Wales and UK as necessary, from Business Wales, Development Bank of Wales and the British Business Bank to universities and skills and Innovate UK and the relative Infrastructure Commissions. Mapping exercise to be made available and public.
- Recognises and utilises areas of capacity and capabilities in the legacy funding system, such as Business Wales, Development Bank of Wales, Welsh European Funding Office and utilises them to build learning and capacity across the system and particularly Local Authorities.

Outcomes matter more for business success than structures, or constitutional debates, but it is vital that structures are stable, clear, and geared toward SME success and long-term development, in order to provide for the best outcomes for SMEs and to provide an institutional norm across governments and institutions to 'think small first'.

A system that works should also be in the interest of advocates of constitutional and new arrangements following Brexit. For Brexit to be viewed as a long-term success, it is vital that funding systems are geared to allow communities and businesses to shape those systems to their needs, while taking advantage and making best use of the significant resources that UK Government can bring to bear on the issues facing our different nations and communities in the UK.

Proving that governments can work together effectively and to complement each other – including within the ambition of levelling up – will be important to the future success of businesses across the UK.

FSB Wales hope that this response is helpful in your inquiry and please do feel free to contact us if we can be of further assistance.

Yours Sincerely,



Arbenigwyr mewn Busnes
Experts in Business

Ben Cottam

Head of Wales

Federation of Small Businesses Wales

Ff/T 029 2074 7406
E wales.policy@fsb.org.uk
W fsb.wales

C/A 1 Cleeve House,
Lambourne Crescent,
Caerdydd, CF14 5GP

Swyddfa Gofrestredig | Registered Office:
National Federation of Self Employed and Small Businesses Limited,
Sir Frank Whittle Way, Blackpool Business Park, Blackpool, FY4 2FE

Cofrestrwyd yn Lloegr Rhif | Registered in England: 1263540