

**Cyhoeddir yr atodiad hwn yn yr iaith y'i derbyniwyd gan Gynulliad Cenedlaethol Cymru.**



**FFEDERASIWN BUSNESAU BYCHAIN CYMRU  
BUSINESSES WALES**

**FEDERATION OF SMALL**

**Briefing note for Agriculture and Rural Development Committee of the National Assembly  
meeting on 25 October 2000.**

**(i) the current QUALITY of support for rural businesses regarding access to capital and business support and advice.**

At the beginning of the year the FSB submitted a review of business support and development to the Economic Development Committee. The review contained a survey of 200 members throughout Wales on Business Connect. Details from the two documents are included in this submission.

There are some 60,000 VAT-registered businesses in Wales [ *source: Hansard; June 1997* ]. The most recent figures show that there were only 6,100 VAT registrations in Wales during 1998, the third lowest increase in the UK behind the North East (4,200) and Northern Ireland (3,700) [ *source: DTI SME Statistics Unit* ]. Of businesses in Wales initially registered for VAT in 1996, 4.5 per cent were no longer registered for VAT after six months, and 11.2 per cent were no longer registered after 12 months. Some 20.1 per cent of those registered in 1995 were no longer registered after 18 months. This shows that one-in-five of new businesses in Wales are not surviving after the critical year-and-a-half period. Overall, the number of business failures in Wales in 1999 rose by 26.1%, the largest increase in the whole of the UK ( *Dun & Bradstreet* ; December 1999): the average was 12.2%. New VAT registrations in Wales are 26 per 10,000 head of population aged 16 and over, compared to England which has 42.

Parts of rural Wales have a far lower percentage of businesses registered for VAT so the figure for new business failures in the first crucial 18 months could be much higher.

Wales ranked 11<sup>th</sup> out of 12 in the British league table of regional economies in 1998, placing it in the bottom third of EU regions [ *source: Information and Communications Technology and Regional Development; BT Local Futures Group; January 2000* ]. While leading UK regions are out-pacing the

rest of Europe, Wales is now suffering from a loss of competitive edge.

Business support and advice in Wales has traditionally been provided by an array of local and regional agencies which includes Enterprise Agencies, Training and Enterprise Councils, local authorities, and other business-related bodies. The object of *Business Connect*, introduced in 1995, was to link all of these bodies together through one telephone number in an attempt to counter the level of confusion reported by the business community at the amount of business support bodies which were offering their services.

The performance to date of business support in Wales through *Business Connect* can be described as 'patchy': some areas of Wales have a better service than others. Despite the more widely-regarded consortia such as the one functioning in North East Wales which is making a genuine effort to improve, it remains evident that there is still confusion, duplication, wasted resources, varying degrees of service quality, and a lack of consistency prevalent throughout the system.

The recent FSB Wales survey found that 60% of 200 randomly-chosen businesses questioned across the country had not heard of *Business Connect*. Of those who had heard of the system, 79% had not used them, with 83% of these saying that they believed *Business Connect* would not have understood their problem.

FSB Wales believes that there is a fundamental problem with the concept of *Business Connect*, namely that it is a network of largely publicly-funded organisations (or companies which operate mainly through contracts with publicly-funded organisations) which are uncoordinated, have no common direction or purpose, and which have no sanction against them should they supply sub-standard support and advice. Many also operate in direct competition with each other, which can lead to questions regarding whether businesses always get the most appropriate help available.

There are however a number of local rural advice agencies that have a good success rate in helping their clients which were established before Business Connect. They assess all the needs of the client rather than just dealing with the enquiry, as they may actually need something totally different. The basis of the first interview is to identify the needs of the business.

The evidence is that the client wants someone to sit down with them to discuss the business needs rather than be handed a form for completion. A case conference is arranged with a number of other agencies which provide quality support and advice. There are cases of 11 different advisors working in partnership to provide the one business with the best advice and help.

There is evidence that these agencies providing a small local service tackling local problems is successful because they are different. One has provided unsecured loans and has a 93 percent success rate. Some agencies have exhausted their Business Development Grants which seems to be the need of many struggling businesses.

## **(ii) the BARRIERS affecting rural business development and diversification**

The FSB has just published (19 October) a UK wide survey *Barriers to Survival and Growth in UK Small Firms*. The Welsh survey will be published in November.

The survey, *Barriers to Survival and Growth in UK Small Firms*, was carried out independently by the University of Strathclyde for the FSB.

With 21,858 responses received, the survey is one of the largest non-government surveys of the small business sector ever undertaken in the UK.

Key findings of the survey include:

- 73 per cent are dissatisfied with bank charges
- Only 10 per cent are satisfied with government business support services
- 83 per cent of respondents are dissatisfied with the complexity of legislation
- 95 per cent are dissatisfied with the high cost of fuel - FSB members were surveyed *before* the recent fuel protests and Dump the Pump

The impact of red tape is reflected by the dissatisfaction of respondents to the volume of legislation (80 per cent) complexity (83 per cent), rate of change (79 per cent) and interpretation of legislation (76 per cent).

Government funded business support services are found wanting. Only nine per cent are satisfied and one per cent very satisfied at the usefulness of business advice and quality of business advisers, while just two per cent are satisfied at government loan funding.

The 'one-stop shop' delivery is still a long way off, according to the survey. Only 50 respondents out of the 21,858 sample are satisfied with the co-ordination of support services.

Overall, these issues are the three most important external factors believed to influence survival and growth: finance and banking (75 per cent), business advice (68 per cent) and legislation (64 per cent).

The quality of central government support and local government assistance contrasts with the findings that respondents are more satisfied with business advice provided by their accountant (65 per cent), trade association (53 per cent), customers (50 per cent), other business owners (50 per cent) and suppliers (50 per cent).

In the field of developing businesses in rural areas it is the quality of advice and lack of Development Grants or loans that appears to be the major barrier. There are small, dedicated local agencies that are providing the service that is needed. There is evidence that whilst business advisors know their subject they lack the hands-on experience of running a small business.

Money is not always the answer but it appears that some agencies are running out of money for Business Development Grants. The problem with grants is that they often need match funding which can be beyond the financial means of many struggling small businesses.

**(iii) specific IMPROVEMENTS relating to business support and capital which would better encourage young businesses in rural Wales.**

The failure rate for new businesses registered for VAT within the first 18 months is 1 in five. The overall rate has been estimated at up to 40 or 50 percent. Anyone can set up in business without having any knowledge of basic bookkeeping, employment law, health and safety or waste disposal regulations.

Those setting up in business should be encouraged to seek advice and assistance from the business support agencies. Grants, similar to the Enterprise Allowance scheme, could be paid subject to the appropriate training in running a business. Business health checks could be free for the first six or nine months.

The agencies have to address the needs of 'that' business and those involved must be able to use the knowledge and skills of anyone within the partnership (Business Connect). Round table case conferences should be the norm with a study of 'that' business, its needs and potential.

Financial assistance will always be an issue for a business seeking help or advice. Soft loans with interest holidays are preferable to grants that need match funding. Loans are recycled. Most agencies need a business plan or the completion of a 20-page application form. If such documents are required they should be completed by the agency in consultation with the business owner.

Retaining businesses is just as important as creating new ones. The loss of a business impacts seriously on the owner, his family and his employees and their families. Not to mention the Treasury.

Most bankruptcies are for less than £9,000 and 85 percent of them are at the instance of Government Depts. Such as H.M. Customs & Excise and Inland Revenue. Local authorities recovering the UBR and High Street Banks closely follow these. Few bankruptcies are by other small business as they are not preferential creditors and are not likely to get paid anyway.

There should be a form of *relief from bankruptcy* for viable businesses with a short-term problem such as a large invoice not paid on time. An application for relief could be made to a District Judge in a County Court who could appoint someone to prepare a financial report confirming business viability or otherwise.