

MAY 2010



## SOUTH WALES CHAMBER OF COMMERCE

### RESPONSE TO THE ECONOMIC RENEWAL PROGRAMME

#### 1. Analysis of the current Welsh economy

##### Introduction

The current Welsh economy is poor with many of our key industries in decline. We would like to see the creation of a new and dynamic economy that exceeds expectations for business growth, employment and investment. The Welsh Assembly Government must now adopt fresh thinking and new approaches to improve economic performance in Wales.

##### Key Concerns

One of the more damaging effects of the recession has been the spike in redundancies as companies struggle with worsening cash-flow and diminishing order books. Post recession, we still have a large pool of unemployed people and fewer jobs available, adding burden on the public purse as people become economically inactive, inevitably at the expense of other public sector services such as education and health.

Wales is however a country that is full of opportunities for incumbent businesses, new ventures and inward investors. Links between Universities and businesses are strong and there is a lot of support available for companies. The WAG must start to recognise the positive effects of a growing private sector and its influence on wealth generation, a large public sector is not appropriate for a sustainable economy.

#### 2. Vision for the future Welsh economy

##### Background: Key Challenges

**Rising Unemployment.** Wales has been hit the hardest by increased unemployment. During the first quarter of 2010 UK unemployment rose by 0.1% whereas Wales' unemployment rose by 0.5%. The current unemployment rate in Wales is currently 9%, compared to the UK figure of 8%.

**Business Competition.** During the four consecutive quarters of 2009 the Quarterly Economic Survey has shown that business competition is the main business concern amongst our members.

**New Manufacturing.** The consequences of Wales' declining manufacturing industry have not gone un-noticed on a worldwide scale. Manufacturing fell from 24.0% in 2000 to 17.9% by 2007. Obviously, unemployment has risen and there has been a drop in the number of orders from overseas clients, and this, together with the global economic uncertainty has deterred overseas businesses from investing further in Welsh manufacturing. It is imperative that the backbone of our economy is revived through investment in a new long term manufacturing strategy.

**Business Growth.** The number of new entrepreneurs in Wales has been in gradual decline since the demise of the Entrepreneurship Action Plan in 2004. Its success led Wales into high rankings on the Global Entrepreneurship Monitor, and the private sector became a vital piece of backbone to Wales' economy and was recognised as healthy competition from businesses around the world.

**Supplier Development.** Public sector procurement in Wales has an annual budget of £5billion, of which, 50% is spent on goods and services outside of Wales. All Public Sector organisations in Wales are to adopt and implement the Opening Doors Charter.

**A Falling Economy.** Wales has the lowest Gross Value Added (GVA) per head of population at 74.3%, compared to other regions within the UK. GVA is low due to issues of retirement, emigration, low wages and low levels of profitability. Public Spending has accounted for a high proportion of incomes generated but European funding is in quick decline, the WAG must address this issue with private sector wealth creation.

## Recommendations

**Supporting Future Business.** Government in Wales has the opportunity to develop a new generation of support and structure that will encourage Entrepreneurship and Trade. This can be achieved through interaction with our business community - drawing on business best practice and the success stories of Welsh businesses through the recession.

- **Business Growth** - The WAG must consider a Welsh 'Centre of Excellence' for Entrepreneurship to promote business growth and develop key sectors. Develop new initiatives to support existing high growth businesses, to utilise the skills, knowledge and experience to develop smaller businesses and improve the current public sector business support models. Encourage links between business and universities to promote research, product innovation and work experience.
- **Research and Development** - We must look outwards in research and development for all policies and processes that do not work in Wales and draw comparisons with the UK, Europe and on a Global scale.

- *Procurement* - Value Wales must consult with businesses for best practice procurement processes, and adopting private sector procurement techniques. Businesses are faced with increased administration bureaucracy, duplication of process and lack of consistency between Local Authorities. Businesses would like to see WAG more proactive in looking for Welsh suppliers and recognise the quality within Wales; Meet the Supplier events; update existing supplier information instead of re-auditing suppliers for each contract, which has a high cost on resource; wider access and advertising of smaller value contracts and public sector procurement contracts that are outside of Wales.
- *International Trade and Investment* - Collaboration between International Business Wales (IBW) and the private sector to develop a Welsh export strategy that builds on our strengths in services and new manufacturing activity and incorporates a model for overseas investment into Wales. We need export advisers with private sector experience to increase export knowledge and skills in the SME sector, with a proactive approach for encouraging businesses to research alternative countries to export. We urge Local Authorities to invest in Trade Missions and increase International Trade activities.

*Finance and Funding.* A new strategy for business banking is required for the current fragmented industry. The strategy should introduce best practice models for the banking system, relax the process for providing funding, training for bank employees dealing with businesses on a day to day basis; provide accurate statistics to give a realistic view of the number of grants being given to SMEs.

- *Mentoring* - The quality of relationship managers in the banking industry must be addressed as there is a general consensus that they do not want to expose themselves to the day to day problems. Eligibility and application for grants and loans change too much to have an ongoing understanding therefore training or accreditation for Bank Relationship Managers should be introduced. From a banks perspective there needs to be competence from the person applying for a loan and show evidence that the business would be viable, this is achievable if financial mentoring is introduced to businesses.
- *Finance Wales* - Should Finance Wales go private as the board is predominantly civil servants? Reduce the bureaucracy if acquiring credit through Finance Wales as it is slowing the process for business development.
- *Healthy Competition* - Need to find more funders for Wales, possibility of an Industrial Bank for Wales? There are not enough

banks in Wales for healthy competition therefore customers do not always get the best deals.

- *New Models* - Alternative processes must be considered to boost business growth, including small equity investment schemes, WAG to consider taking a % of the company when applying for a grant - this is successful in the UK where there is no grant culture, and providing finance and guidance to companies identified with a healthy profit to help them develop into overseas markets.

**Building Future Business.** Constructing the future growth of the Welsh Economy can be achieved through continued investment in our infrastructure. Given the threads of sharp increases in unemployment, and major bottlenecks inhibiting recovery in output when demand picks up, we do not want to see cuts in infrastructure projects as this will have a detrimental effect on business growth and opportunities that creates employment and trade.

- *Transport* - Modernisation of Wales' infrastructure networks. We need a vision to develop West/East transport links and Cardiff International Airport to expose businesses in Wales to the wider UK competition. Move freight to rail to ease congestion and support the development of High Speed Rail.
- *Planning* - To develop a national infrastructure plan for all devolved Government and streamlining the planning process to reduce uncertainty surrounding investment projects which are attractive to private finance.
- *Renewable Energy* - An environment that is sustainable for future generations with energy efficiency measures that are affordable and reliable and are not a burden on small and medium enterprises. Continue to exploit new projects aimed at boosting Wales' green credentials and ensure exposure on a global scale.
- *Information Technology* - The present and future function for all industries, communities and families. Information Technology continues to develop at a high rate and Wales must keep up with the global pace. We must tackle the issues of rural broadband and blackspots and extend the super fast fibre-speed to many more regions across Wales.

**Barriers to Business Growth.** The increasing frustration of endless barriers to business in the form of Regulation and Tax! The burdens that prevent some businesses from growing and can discourage some business start-ups. Wales has seen high unemployment rates as there are a lack of jobs available, minimise the regulation and tax obstacles and encourage new businesses to grow.

- *Regulation and Tax* - The Burdens Barometer demonstrates between 1998 and 2009 regulations cost UK businesses £76.8 billion, assessment of current regulation and their impact on business is required. A review of taxes is more important than ever before to stabilise business profit. The WAG must introduce clear and efficient support systems for businesses to understand and implement changes in regulation and tax. Government must introduce simplification processes and sensible flexibility on taxes for some businesses.
- *Employment* - National employment statistics do not paint a healthy picture and according the Chambers Economic Survey, 69% of businesses continue to work below full capacity however 60% of businesses reported no workforce level changes, hence no redundancies. Businesses need sensible support and continued skills development to boost their workforce. Government must reconsider the increase to National Insurance contribution.

### 3. Government's role in the Welsh economy

The South Wales Chamber has approached its members to understand the relationship between the public and private sector, also gathering views on how effective Government intervention is on business needs and the economy.

#### Role of the Welsh Assembly Government

*Outward Thinking Models.* The Welsh Assembly Government has a dominant place in Wales but does not always provide efficient process and delivery mechanisms. It is impossible to understand why Civil Servants, who lead on such processes and policies, are not steered towards an outward thinking approach to the business community, to understand business needs and what is at the core of business concerns. The WAG must revise current process and delivery models, specifically those that are focused on an inward thinking approach to Ministers. It is time for an outward thinking approach encouraged by the knowledge and experience of private sector processes.

*European Influence.* Success in Wales must derive from being a more dynamic country and willing to adopt best practices from other European countries. The WAG must utilise the knowledge, influence and connections of Wales' Members of the European Parliament. Businesses and communities alike are rarely approached by local MEPs and the majority could not identify these representatives.

*Relationship Managers.* There must be changes to the operational structure and recruitment of Relationship Managers in WAG. Many public sector business mentors have limited skills and knowledge to understand the needs and operations of a private sector business, the industry or the

business background. WAG are limited to a skill base of their own people 'quangos', who are often placed because of re-deployment not experience and often move positions on a regular basis which causes deterioration to the relationship with the business community. The role of a WAG relationship manager is to understand and develop the business to its full growth potential, similarly to the role of a non executive director whom the private sector would trust with their business explicitly, unfortunately this is not a view shared for the WAG Relationship Manager.

- *Feedback:* Our members portrayed negative feedback regarding communication with the WAG relationship managers. There were two main concerns 1) lack of acknowledgement and response to private sector feedback and 2) businesses unable to make contact with the relationship manager, either the relationship manager did not respond to messages or the message was not communicated by a third party at WAG.

*Voice of Business.* The Government must consider appointing a Business Ombudsman on behalf of the private sector. A role that is specifically focused on business issues as a whole and one that does not incorporate as part of the economic debate. The Business Ombudsman must have the experience and knowledge of managing a business, from day to day operations to strategic management, and direct links with Government. Economic growth and job creation are sustainable through private sector businesses however Wales does not have enough private businesses at present, an issue primarily driven by the burdens of regulation and business bureaucracy.

#### **4. Direct business support**

98% of businesses in Wales are Small and Medium Enterprises - the backbone of the Welsh economy. It is vital that support for new and existing business is practical and easily accessible. Support and funding is currently geared up for businesses with growth potential, the focus must be on all stages of business development, from addressing basic business needs through to strategic business planning. In Wales there is no direct support for existing high growth businesses.

#### **Taking Risks**

Government intervention of providing businesses with grants and funding has arguably contributed to an expectation culture in Wales, unfortunately this results in businesses being stimulated to survive rather than taking a 'free market' approach where businesses are not afraid to seek opportunities, they may fail, they may survive and they certainly take risks, more businesses in Wales must adopt this method of trading.

*FS4B.* Direct business support through Flexible Support for Business is simply not working. Despite efforts made to create joined up thinking

between WAG departments the approach and process is still too fragmented with a clear lack of communication. There are processes and procedures that rule every aspect of the way our public sector business support networks are operated. The Welsh business support networks are target driven initiatives, with emphasis on business support consultants to reach an output and addressing business problems rather than tackling business needs.

**High Growth Business.** There are many successful high growth businesses in Wales with high employment, ownership of multiple premises and efficient supply chains however expansion is often limited to Wales. Businesses with a continued high growth potential should not expand and stop, they must be encouraged to explore competition outside of Wales and continue to grow. They should be encouraged to think globally from creation, replicating the success stories of European counterparts. Businesses in Wales must adopt a predatory attitude that is supported by the WAG. Many businesses in Wales would not survive without assistance from the public sector however we need initiatives that allow businesses to be more competitive, robust and take risks.

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