

# **FSB Wales response to the Equality, Local Government and Communities Committee**

**Making the economy work for people on low  
incomes**

**5<sup>th</sup> July 2017**



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## About FSB Wales

FSB Wales is the authoritative voice of businesses in Wales. With 10,000 members, a Welsh Policy Unit, two regional committees and twelve branch committees; FSB Wales is in constant contact with business at a grassroots level. It undertakes regular online surveys of its members as well as a biennial membership survey on a wide range of issues and concerns facing small business.

## Introduction

FSB Wales welcomes the opportunity to provide evidence to the Equality, Local Government and Communities Committee on its inquiry into making the economy work for people on low incomes. In our view, this is an opportune moment for the Committee to consider issues around the ambition and scope of economic development policy as we transition through a period of economic uncertainty. It is also pertinent in that the Welsh Government is itself examining its economic strategy and we hope this inquiry will form part of a much wider engagement process in the development of the new strategy.

## Economic Strategy & Inclusive Growth

FSB Wales believes that the Welsh Government's new economic development strategy should set out clear ambitions for inclusive economic growth that will benefit all communities across Wales. This will necessarily mean a change in economic approach from the current strategy with a stronger emphasis on developing the prospects and vitality of indigenous businesses in communities across Wales. As part of this change, the current focus on foreign direct investment should be repurposed towards economic development goals ensuring successfully anchored large projects are supporting the growth of Wales' SME supply chains. This reorientation of economic development policy is key if we are to ensure the quality of employment improves in every area of Wales.

### **Welsh Government's economic development policy needs to be reoriented towards indigenous economic growth.**

There is a relationship between the diversity of the local business base and sustainable and resilient labour markets. The Centre for Local Economic Strategies (CLES) has previously argued that places that are too dependent on one aspect of the economy, or a dominant large employer, often have unbalanced and fragile local economies.<sup>1</sup> The Welsh Government's forthcoming Economic Strategy should consider the need to create a diversity of strong, sustainable SMEs in communities that are able to support labour markets which deliver positive social and economic outcomes.

### **Diverse local economies are more resilient than unbalanced economies dominated by a single large employer.**

More generally, an economic strategy focused simply on employment and increasing the number of people in work is unlikely to produce wider social benefits. FSB Wales has previously argued that Welsh Government should introduce a measure of "Employment

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<sup>1</sup> "Productive Local Economies: Creating Resilient Places", CLES, December 2010 P.25



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Quality” into the well-being measures and we believe that there is merit in an economic strategy using this as its key employment measure.<sup>2</sup> Moreover, the emerging economic development strategy should look at a wider set of economic indicators to ascertain economic wellbeing and diversity in local economies such as business size, the quality of employment and more regular localised economic statistics.

### **Welsh Government’s emerging economic development strategy should include a basket of indicators to complement GVA.**

Despite a growing body of literature examining the Welsh labour market, few reports look at the places and localities that provide jobs. This is symptomatic of a wider problem where public policy often fixates on national developments and overlooks important local variations. The Welsh Government should seek to produce more detailed, and more regularly updated, labour market statistics for the different regions of Wales – enabling policy makers to more quickly respond to local need and/or changes in circumstance.

### **Better data about how local economies function is key to a more place-based approach to economic development.**

#### **Work, wages and skills**

SMEs have a significant impact on employment in Wales with 62 per cent of all private sector employment taking place with micro, small or medium sized firms.<sup>3</sup> Previous research by FSB looking at smaller firms’ impact on employment has shown that not only do they create a significant proportion of new jobs but starting up a small business or becoming an employee in an SME accounts for 88 per cent of all movements from unemployment into private sector employment.<sup>4</sup> Of this, micro enterprises (24%), small businesses (27%) and self-employed individuals (17%) account for 68 per cent of all movements.

More significantly, this research has shown that 92 per cent of movements from either unemployment or non-participation into private sector employment are due to becoming employed by an SME or starting an SME<sup>5</sup>.

### **Smaller firms are more likely to employ those who are unemployed or do not participate in the labour market at present. This could be relevant in relation to groups of people that have historically engaged less with the labour market.**

One of the main explanations for this is that smaller firms have less formalised employment processes and offer more flexible employment relationships. For instance, another insight in our previous employment research is that the unemployed and non-

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<sup>2</sup> <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/consultationresponsefinal8f9984ba4fa86562a286ff0000dc48fe.pdf?sfvrsn=1>

<sup>3</sup> Welsh Government. 2016. *Size Analysis of Welsh Businesses* [Online]. Available at: <http://gov.wales/docs/statistics/2016/161129-size-analysis-welsh-business-2016-en.pdf> (accessed 5th July 2017).

<sup>4</sup> Back to Work: The Role of Small Businesses in Employment and Enterprise”, Peter Urwin and Franz Buscha for FSB, September 2012.

<sup>5</sup> IPPR (2014) [Small Firms Giant Leaps: Small Business and the road to full employment](#)



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participants moving into employment in large firms are two-and-a-half times more likely to do so under temporary contract, when compared to those moving into micro-businesses.

There is also evidence that suggests small firms are more likely to retain employees during downturns<sup>6</sup>, rather than laying people off.

**Policymakers should avoid a 'one-size fits all' approach to employment issues, recognising the differences in approach between smaller and larger firms.**

SMEs in general tend to be more likely to engage with the living wage (as defined by the Living Wage Foundation) as employers. FSB analysis indicates that the majority of the private sector, Living Wage Foundation accredited employers in Wales are SMEs. Further analysis in Scotland indicates that 79% of accredited Living Wage employers are SMEs, with the remaining 21% being made up of larger firms and public sector organisations.

Despite this, evidence presented by Cardiff University and the Living Wage Foundation found that Scottish organisations in both the public and private sector represented around 23 per cent of all those in the UK signed up to the Living Wage.<sup>7</sup> It seems from their research that this is the result of a concerted campaign on the part of Scottish Government to drive uptake. FSB Wales believes Welsh Government could undertake a similar approach, working in partnership with wider civil society and those in the public and private sector to properly resource a Living Wage campaign.

**Welsh Government should bolster the resourcing and approach of the Living Wage Campaign in Wales.**

However, it is important to recognise that in some sectors – particularly areas where SME involvement in Wales is large (and likely to grow) such as childcare and social care – government regulation plays a significant role in shaping the business model and creating regulatory pressure that may feed through into wages<sup>8</sup>.

This is clear in an area such as childcare, which has relatively small profit margins due to regulatory requirements around staffing levels and the type of premises a business can occupy – as well as commissioning of services that often reflects lowest cost rather than best value. It is easy to see how wages can be squeezed by sudden changes in the regulatory, policy or tax landscape.

**Government regulation plays a significant role in shaping business models, particularly in the foundational economy.**

Elsewhere, seasonal sectors such as tourism and agriculture may require support in order to ease variations in income over the course of the year. These sectors may also either be more labour intensive over certain periods, or struggle to maintain the income

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<sup>6</sup> "Productivity, Investment and Profits during the Great Recession: Evidence from UK Firms and Workers", C. Crawford et al, Fiscal Studies 34(2), June 2013.

<sup>7</sup> Heery, E; Nash, D & Hann, D. 2017. *The Living Wage Employer Experience*. Cardiff Business School. P.44

<sup>8</sup> This is reflected in a number of papers prepared by the Public Policy Institute for Wales, available here: <http://ppiw.org.uk/tackling-poverty/>



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to support year round employment. These seasonal sectors are a significant proportion of the Welsh economy, especially in rural areas<sup>9</sup>.

Specific support could include Welsh Government supporting innovation and diversification in these sectors to extend the profitable seasons.

**Government should seek to support seasonal sectors of the economy to diversify and extend the season.**

For many SMEs, the last two years have seen a number of regulatory changes, which whilst not a problem singly, may have created pressures on aggregate – including but not limited to: Pension auto-enrolment, changes to the National Minimum Wage, and Business Rates revaluation, all of which were put in place within 12 months. Whilst some of these policy areas are not devolved, other areas which may introduce cost pressures are devolved and Welsh Government should carefully consider these impacts (and the cumulative impacts of other changes) when introducing them.

**The cumulative impact of employment policies such as National Living Wage and pension auto-enrolment has a bearing on employment costs.**

Whilst work and wages are not devolved, skills policy is – and there are opportunities for Welsh Government to make “lower paid” work better by ensuring there are clearer opportunities for training and progression within low paid work. In childcare, this may mean creating pathways towards teaching qualifications or similar, whilst in social care similar pathways towards qualified health care work may also be suitable.

It is also worth noting that often lower paid employment with strong progression and training can provide a route out of poverty. This is particularly pertinent in relation to apprenticeships and sectors that have well-established education and training routes, many of which such as construction are heavily dominated by SMEs.

**Vocational education can provide a strong progression route out of poverty for many, with SMEs being particularly active in this area.**

## **Self-employment**

A growing proportion of the Welsh working population are self-employed, with self-employment accounting for a sizeable proportion of employment growth (and labour market re-engagement) since 2010.

The picture of self-employment is varied across Wales, with up to 25% of the working age population in rural areas in self-employment, whilst this is closer to 10% in urban and ex-industrial communities.

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<sup>9</sup> Whilst figures for employment by sector in Local Authorities, available statistics indicate that up to 15% of jobs in West Wales and the Valleys are in sectors that might be considered “seasonal”, around 9% of jobs in East Wales are in sectors that might be described as seasonal. Statistics for employment are available at: <https://statswales.gov.wales/Catalogue/Business-Economy-and-Labour-Market/People-and-Work/Employment/Jobs/Whole-Workforce/workplaceemployment-by-industry-area>



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**Initial findings from research that is currently being undertaken by FSB Wales suggests that most self-employment in Wales is genuine and driven by a number of positive factors rather than necessity driven.**

In the context of the committee's inquiry, we would urge the committee to consider ways in which the Welsh Government could, or should assist in making self-employment more sustainable and to remove some of the risks associated with self-employment that do not exist for those in an employed relationship. Whilst employment is not a devolved matter, there are significant policy levers available in areas such as procurement which should be used to drive forward such changes.

In the short term, the Welsh Government should consider ensuring that where contracts are tendered to self-employed people that they ensure that contracts are tendered at a price that allows the self-employed to take up insurance for sick pay and other forms of leave that are a statutory entitlement for employed people. FSB Wales was keen to see this taken forward in the Welsh Government's "Code for Ethical Employment in Supply Chains"<sup>10</sup> and we hope such a change can be incorporated in future revisions.

**Welsh Government should use its procurement capacity to help place self-employment on a more sustainable footing.**

Welsh Government should also closely monitor the work emerging from the Taylor review of self-employment and look to implement any changes that might fall within devolved competency.

## **Conclusion**

FSB Wales welcomes the Equality, Local Government and Communities Committee's inquiry into making economic development work for those on low incomes. We believe that an economic development strategy that pursues greater diversity in local economies can help deliver better outcomes for the people of Wales. Wales' 248,000 smaller firms have to be an intrinsic part of this strategy to make this successful.<sup>11</sup>

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<sup>10</sup> Welsh Government (2016), WG Code of Practice, Ethical Employment in Supply Chains <http://gov.wales/docs/dpsp/publications/valuwales/170309-ethical-en.pdf>

<sup>11</sup> Welsh Government. 2016. *Size Analysis of Welsh Businesses* [Online]. Available at: <http://gov.wales/docs/statistics/2016/161129-size-analysis-welsh-business-2016-en.pdf> (accessed 5th July 2017).