



Business, Innovation and Skills Committee

Oral evidence: [Government Support for Business](#)
HC 770-i

Tuesday 11 November 2014

Ordered by the House of Commons to be published on 11 November 2014.

Witnesses including written evidence where submitted:

At 9.30 am

Mike Cherry, National Policy Chairman, [Federation of Small Businesses](#) and [Supplementary evidence](#)

Lee Hopley, Chief Economist, EEF (the manufacturers' organisation)

At 10.15 am

Phil Orford MBE, Chief Executive, Forum of Private Business

Dr Kevin Farnsworth, Senior Lecturer, University of York

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Members present: Mr Adrian Bailey (Chair), Mr William Bain, Mr Brian Binley, Paul Blomfield, Mike Crockart, Rebecca Harris, Ann McKechin, Mr Robin Walker, Nadhim Zahawi

Questions 1-54

Witnesses: **Mike Cherry**, National Policy Chairman, Federation of Small Businesses, and **Lee Hopley**, Chief Economist, EEF (the manufacturers' organisation), gave evidence.

Q1 Chair: Good morning, and welcome. Thank you for agreeing to address the Committee. I am taking the opportunity, since you are here early, to start slightly earlier, and would stress that we have got two sessions to get in by 10 to 11. I am having to terminate proceedings for the Remembrance event at 11 o'clock. When I ask a question, it may well be that it is for both of you. On other occasions, if one has responded and the other feels there is nothing to add, please do not feel obliged to do so. We know who you are, but for voice transcription purposes, if you could just introduce yourselves, that would be helpful, starting with you, Lee.

Lee Hopley: Lee Hopley. I am Chief Economist at EEF, the manufacturers' organisation.

Mike Cherry: I am Mike Cherry. I am the National Policy Chairman at the FSB, the Federation of Small Businesses.

Q2 Chair: I will start, and this is to both. The World Bank ranks the UK as third in Europe for, and I quote, “ease of doing business”. However, the Government has said, and again I quote, “more can be done”. Where has the Government succeeded in cultivating “the growth aspiration”, and where do you think that it might do better?

Mike Cherry: I think, if you refer to our quarterly surveys, they have, over the last eight or 10 quarters, very clearly shown an increased level of confidence in our members and their aspirations. This is, at last, beginning to translate more into growth, investment, job creation and hopefully more exporting as well. That is to be very welcome. One of the most successful initiatives that has come out this year is Employment Allowance, which is the up-to-£2,000 allowance under the employer’s National Insurance contributions. Our members are very clearly showing they are using this to the benefit of their businesses, not least in increased wages, and that is very welcoming.

The reason I mention that is because it is a very simple and easy initiative that businesses understand. There needs to be a little more communication around it. As against other support initiatives, however, our concern is that it is a very mixed programme of initiatives throughout. There are far too many; there needs to be rationalisation. Most importantly, from our point of view, there needs to be consistency into the medium and longer term, so that businesses are fully aware of what may be available to them, and can access it when they need it, not when Government thinks they might like to offer it.

Q3 Chair: You are saying that this particular scheme is working well. Have you any figures that you could give us that would demonstrate this? If you have not got them to hand, would you be able to send them to us?

Mike Cherry: I would be very happy to send you the results of our very quick poll that we did in time for the Chancellor’s announcement last Friday.

Lee Hopley: From a manufacturing perspective, I can echo some of Mike’s comments. Activity has been picking up across the sector, after what has been a pretty turbulent five or six years for industry. That is positive, because we need manufacturing to be investing. That is key to greater balanced growth across the UK economy more broadly. There are, however, still clearly a number of challenges that the sector faces, not least in making those critical decisions about how it deploys what are limited resources towards a whole range of productivity and competitiveness-enhancing activity. That is about investment in skills and training. It is about continuing investment in innovation, new product process and service development. It is about investing in physical assets that make UK manufacturers more productive and efficient than competitors.

A lot of companies see those as quite difficult choices at the moment, at the same time as looking at how you expand your presence into new export markets in particular. This has been a real weak point of the UK recovery. Trade growth has been pretty flat since the middle of 2011. World trade growth generally has not been particularly supportive over that period. There is, however, definitely an appetite across EEF members, most of which are exporters already, to expand their presence beyond traditional European markets.

There is still a lot to do. The UK, for many manufacturers, is still seen as an unattractive place to do that. We have seen a trend towards production moving back from low labour-cost economies, for example, and switching decisions, in terms of moving sourcing from suppliers in some of those markets towards more flexible and responsive domestic suppliers. Again, that puts additional pressure, particularly on companies in the supply chain, to keep reinvesting in the whole spectrum of areas I just mentioned.

Q4 Chair: Thank you. The What Works Centre for Local Economic Growth reported that “business advice programmes show consistently better results for productivity and output than they do for employment”. Is that reflected, do you think, by your experience? You might reasonably expect output and growth to be reflected in the growth of employment. What are the reasons why you do not think this is happening?

Lee Hopley: Talking, again, from a manufacturing perspective, the focus of a lot of schemes on generating new employment is sometimes quite challenging for manufacturing. It is a sector that, until very recently, has seen a steady decline in employment, for a variety of reasons. Job creation has certainly increasingly tended towards medium and high-skilled jobs, but perhaps not overall growth in employment. For me, those conclusions are not particularly surprising. Investment in new assets and new product and process development will generate increased levels of output and productivity, but will not in every instance add new jobs to the sector.

Mike Cherry: I will not add anything to that at this stage.

Q5 Chair: Can I ask a slightly more philosophical question, although it obviously has to be embedded in economic theory and reality? Is it unreasonable to expect an expanding manufacturing sector to lead in employment growth within that sector? Obviously, expanding manufacturing leads to greater profits and improved trade and tax receipts, which in themselves can create more jobs. As a job creator, is it reasonable to expect this to play a significant part as the economy recovers?

Lee Hopley: I guess there are two ways of looking at that. There is the size of the workforce in manufacturing, which is currently nearly 2.7 million people directly employed in the sector. I think it is unlikely that will grow significantly. Nevertheless, there is still a high replacement demand for particularly skilled workers. The age profile of industry is older than the average in the workforce as a whole. Between now and 2020, there will be a need for some 700,000 new skilled engineers and technicians within the industry, just to maintain the workforce at its current size.

Q6 Chair: Yes. If I can summarise, and I am not trying to put words into your mouth, in terms of creating additional jobs, it is unlikely to do so. There is, however, still likely to be a big demand for employment, as the age-profile cohorts will retire and they will need to be replaced.

Lee Hopley: Absolutely, and there are just new skill requirements and new technologies within the industry.

Mike Cherry: It is important to know that it is the small businesses that are creating the jobs at the moment—four out of five, as most statistics reflect. It is important, as Lee has said, to recognise the huge problem that we have coming up with skills. Our members are already highlighting that as being the third most concerning issue in the surveys—the last two quarterly surveys in particular. There is a much greater effort needed, on behalf of business, careers advice and the education system, to work much more closely together to deal with this particular problem. Inevitably, whatever happens with the continued growth of small businesses, this is going to hold our members, and small businesses generally, back from being able to compete effectively in the global markets.

Chair: Yes. It is reassuring to know that a message that we have been trying to hammer home is being reflected by your experience.

Q7 Mr Binley: The business of the availability of labour is now rearing its ugly head, or its good head, whichever way you look at it. The front page of the *Daily Mail* today talked about my constituency, and talked about a company that is going to Hungary to employ labour because it cannot find it locally. My response was twofold: first, they have not looked hard enough, and if they had gone to the LEP, they might have found that. There was a problem there. Secondly, maybe they are going to Hungary because wage rates are lower. That does not help us as a nation, and it certainly does not help the unemployed. I wonder how you feel about that cusp where we are beginning in certain areas, so employers tell us, to run out of available labour.

Mike Cherry: It depends, to some extent, which sector you are in and what skill set you are looking for. The evidence that we very clearly have is that young people coming out of school are just not prepared adequately for the world of work. There needs to be a lot more, as I say, engagement between employers and schools around that particular problem.

If you look at the wider issue of perhaps why employers may need to go to Hungary and other Eastern European countries, certainly anecdotally there is much more willingness for those employees to do the work. Again, this is reflected from what we hear anecdotally, rather than evidence-based. The attitude is better, and that is reflected in customer service. I say again, this is anecdotal. I think, however, we have all experienced that when we go to hotels and places like that, where the attitude does definitely seem to be much better—shall I say?—which is very disappointing, because there are still a very large number, too many, of young people who are unemployed or out of work. Therefore, to my mind, this has been reflected even in my local area statistics, where you have this mismatch between vacancies and people out of work. We still do not seem to be able to get that right, and teach our young people the skills that are necessary for business today, and what will be needed in the future.

I have some real concerns about that, but I do not believe all the doomsayers that say, “It is business just finding low wages.” From our members, as I say, the Employment Allowance is very clearly being used to enhance wages where they possibly can. Over a half of our members pay the living wage or above to their employees, in any case. This is something that is often missed. When you are in a competitive market, unless that market raises the wages exponentially itself across all businesses, you are stuck, as an employer, at that level, because you are in direct competition. Some people may enhance their

bottom line a little more; others may use their bottom line. As I say, our evidence is very clearly showing that employers are using the Employment Allowance to support enhanced wages.

Mr Binley: Could you send us the stuff about attitude? That would be helpful to us, I think, in terms of how the Government might act to change that.

Q8 Mr Walker: Just briefly on this point about employment, and the mismatch between people coming out of schools and universities and what businesses want to see, there is a far higher proportion of businesses that want to employ people with previous work experience than there are businesses providing work experience. Do you think the Government could be doing more to support small businesses to provide work experience to people during school and university?

Mike Cherry: Far more needs to be done around that area. You also have to manage the expectations of teachers and the young person. In many areas, particularly in manufacturing, you are not able to put people on machinery. I am a manufacturer myself, and I know the issues only too well. There is no way that I would allow a young person near some of the sophisticated machines that we have, unless they have had proper and adequate training to enable them to operate that machine safely. You do have that mismatch of expectation. The young person very often wants to roll their shirtsleeves up and get to grips with something.

From the employer's side, very often you can only show them what you have available and what the options are, and break it down in that way. That is a key message, but it comes back to this engagement that we feel we need to have between employers and young people. We need to get the messaging out, particularly of what small businesses can offer, in local communities, to young people and the teachers, so that they are far more aware than just relying on the large businesses that everybody knows as household names.

Chair: I am conscious that we are perhaps moving slightly away from the core theme, but that is very interesting in itself.

Q9 Ann McKechin: The FSB highlighted Tim Breedon's 2012 report, which stated there was an "alphabet soup of initiatives", many of which have "duplicated existing private and public sector provision". The Government has recently said that it is trying to simplify matters for business. I would be grateful if both of you could comment on whether you still believe there is an alphabet soup out there, or whether you have got one dish on the menu and you know what it represents.

Mike Cherry: Inevitably, there is still that alphabet soup. There is no single organisation that is currently able to rationalise all of that, pull all of it together, and give consistency into that medium and longer-term future that business requires. As you will probably know, our *Enterprise 2050* was the report that highlighted that, and fed into Breedon. We had, at that time, 891—nearly 900—initiatives across the UK that were available to business, but how on earth was business supposed to know or be able to access what it needs?

This is a fundamental thing: nobody—whether it is BIS, the LEPs across England or local authorities—knows, I suspect, what business needs to enable it to grow, and therefore what support needs to be put in there. We constantly get initiative after initiative, and we do need consistency and rationalisation. We suggest that a small business administration, based around the USA model, that fits with the UK structure would be the way to do that. In simple terms at the moment, you have just got the British Business Bank set-up, which is now independent of government. We see that as a vehicle that could be used, in the interim, around some of the support mechanisms, particularly around finance and export.

Q10 Ann McKechin: Can I just press you a little further? There has been a great deal of debate recently about localism and devolution, and about transferring power. We have got City Deals, which have been agreed between the Treasury and some of our major cities in the country. Clearly, all this allows people to have a more nuanced and localised approach. It does tend to mean that you are likely to see more initiatives, in terms of the total. I am just wondering, in terms of your engagement with government, what the advantages and disadvantages are, and how should the Government try to counter that as they consider this agenda?

Mike Cherry: This whole area is confusing at the moment. You have LEPs. You have City Deals. You have Growth Hubs. You have unitary authorities. You have district authorities. You have county councils. You have that plethora that is out there, without very much steerage or guidance. This is one of the problems that you have. Without some steerage and guidance, everybody is left with a free-for-fall, and nobody is undertaking a needs analysis, if you like, of what business needs and what support is already out there. Again, from our evidence, you are very clearly seeing duplication. You are seeing overlapping. You are seeing a waste of public sector finances.

Lee Hopley: There are now a couple of issues that Mike has raised that resonate with our membership, which is slightly different. We tend not to have very small businesses or start-ups, for example, in EEF's membership with regard to the plethora of schemes that have to be navigated. For established businesses, there is also very problematic churn in applicability, in funding streams, and in the prioritisation of the type of business or activity that should be supported through schemes.

I think, for us, part of the problem has been “famine and feast” with funding, where the priorities are expected to adapt and adjust and pivot depending on some quite quick and significant changes in financing arrangements. This has affected some of the big strategic schemes and organisations that plug market failures across business activity, and I am thinking primarily about UK Trade & Investment and Innovate UK, formerly the Technology Strategy Board. That can be quite difficult for the organisations involved, but also makes the schemes themselves and their applicability quite opaque to businesses. You cannot expect businesses looking for some funding or support to export into new markets to continually go back and make contact with these schemes, hoping that at some point it is going to be applicable to them, because they will give up.

Q11 Ann McKechin: I am just wondering what consultation you have had, as trade organisations, with the Government, in the design of these support schemes. Obviously, I

know you have had a conversation, Mike, about this issue of having a small business section within central Government. I just wondered, from both your experiences, what sort of consultation you have had about support schemes and about this issue about consistency and streamlining.

Mike Cherry: It is a constant message we are giving to all parties and all politicians, quite frankly. Successive Governments have been very clear about putting in different initiatives that businesses just are not aware of. Of course, when you come to the time sensitivity or the pot sensitivity of the funding, very often when small businesses in particular want to avail themselves of it, it is no longer there. That applies specifically in manufacturing as well, because manufacturers have long-term investment plans. They are not going to take up an initiative just because it is there.

Chair: You talked, Mike, about Government schemes overlapping, duplication, waste of money and so on. I would like to put you on the spot, but not necessarily publicly at this moment. If you could write in, and point out those areas where there is duplication and overlap, and where you think there are potential savings that could be made, that would be very helpful indeed.

Q12 Ann McKechin: Lee, did you want to say anything more about Government consultation?

Lee Hopley: Similarly, the message around consistency is one that EEF has repeatedly made. There are a number of areas where you can point to the benefits of having something in place for a long time. Knowledge Transfer Partnerships, something that Innovate UK offers, has got a very high level of recognition amongst EEF members. It is well used, well regarded, and available to businesses of different sizes, and it has largely been left untouched over quite a long period. In contrast, Innovation Vouchers, another Innovate UK scheme, was started by RBAs, withdrawn, and re-introduced again, and had different applicability criteria. Awareness, according to EEF's Innovation Monitor, is still relatively low for those schemes. It was a great idea behind the scheme—de-risking that initial contact that a company would have with the research base. However, the uncertainty and churn, in how to get hold of it and who delivers it, has had an impact on the uptake.

Q13 Paul Blomfield: Mike, you were talking about advice and support to business. The Government has told us that “around 50% of small employers currently do not seek advice” and they said they “are not prepared to pay for advice if they do not know what the benefits are,” not unreasonably. Has the Government successfully engaged with smaller businesses, and what lessons does it need to learn?

Mike Cherry: We are clearly getting our messaging through that just because a scheme may be there does not mean to say either a business is aware of it or is going to be able to take advantage of it, because it might not suit its needs at that time. This comes down to a lack of understanding of how businesses operate, inasmuch as a business will work to what it needs to do, not the availability of a scheme or initiative offered by Government or local authorities or anything else.

The other thing that I would like to highlight around any scheme, and this is where Governments—plural—are very bad, is effectively communicating what is available to businesses out to the business community. Whilst we, as business organisations, are only too pleased to help, and we do get that out to our members through all of our various channels, including social media, there are still a lot of businesses that need that constant drip-drip message of what is available. You cannot just do it once and point us to a website. We have not got time to do that.

Q14 Paul Blomfield: I take that point, and I guess we all struggle with issues about communication in all sorts of ways. What do you think the Government could do better to reach business more effectively?

Mike Cherry: They have to recognise that it is a constant communication, using all channels that are effective. They will have more to ask than we have. A simple letter, I am afraid, being slightly old-fashioned, does work very well. A simple letter to the owner of the business just informing them about the scheme does sit with the business when it needs to access it.

Lee Hopley: We are talking about a community of 5 million businesses. I do not think there is going to be a single way in which you can effectively communicate with all of those groups. They will have different needs; they will be at different stages in their life cycle, for example. Certainly, I support the proposal that Mike has put forward. It will also place quite a bit of onus on the new Growth Hubs that are being established with Local Enterprise Partnerships, because those organisations are going to have to prove themselves to be knowledgeable and giving good-quality signposting. The experience of patchy delivery and then the unhelpful word of mouth that Business Link suffered from, from time to time, is probably a lesson from which the Growth Hubs will need to learn.

Similarly, however, there will be lots of established businesses that just need to know that the support from UKTI is there. A bit of an advertising campaign about the new mid-sized business offering, the Passport to Export schemes, and the fact that there are UK Export Finance advisers on the ground would help. Making sure that there is awareness through those marketing activities is going to be another route through which you can raise awareness amongst a part of that 5 million group of small businesses.

Q15 Paul Blomfield: Do you have confidence that the Growth Hubs are going to learn those lessons? Is there not a danger, notwithstanding the difficulties around Business Link and the patchiness of provision, that the Growth Hubs are going to offer even patchier and less consistent support to business?

Lee Hopley: There is clearly a risk of that, but Local Enterprise Partnerships, and the way in which they have been constructed, should support greater awareness of the types of sectors and activities within those local areas, as well as any specific geographical-related growth challenges, which the Growth Hubs should really be there to deal with. It is far too early for anyone to be drawing conclusions about where they might go.

Q16 Paul Blomfield: How do you see it, Mike? Small businesses talk to me all the time about the difficulties of engaging with the LEP.

Mike Cherry: You have got two issues. First, the Growth Hubs we see, unless they are given some very clear and distinct direction, are not going to be as effective as they could be. As far as the LEPs across England are concerned, our recent report very clearly identifies the disparity between the best performers and the worst performers, who need much more help and support, not least in resource, to be able to then effectively deliver what almost seems to be becoming an increasingly wide remit. That was always our concern at the very outset, when LEPs were designed. They should have a very concise and clear remit on what they needed to be delivering on, and not end up the same as the RDAs—trying to do too much with too few.

Q17 Paul Blomfield: This is clearly something we could pursue a lot further but I am conscious of time. I wonder if I can move on to the issue of exports. The Government has told us that UKTI provides “practical support” to companies that want to grow their business overseas. How successful do you think they have been and what schemes should be highlighted?

Lee Hopley: I think that awareness of UKTI is improving. We produced a piece of research last year looking at the export journey of small and medium companies, where they have identified the need to look at new markets. All of the companies that we interviewed in our in-depth research had used some element of UKTI support in order to help achieve their exporting goals. Interestingly, not all of them had been aware or utilised the full package of support. There was an awareness of some bits of it. The key thing that came out quite strongly from the conversations that we had with our members was that the really valuable support was in understanding the opportunities in some of their target markets. The help that they got from overseas posts and embassies was seen as really valuable in creating connections and making sure that companies were aware of opportunities, and also perhaps the different business cultures that they would need to operate within. Certainty, relatively few companies were utilising the full toolbox of support from UKTI.

Mike Cherry: I think, for small businesses, it is different from what Lee’s members are finding. You have to recognise that many small and microbusinesses would like to export. About a fifth of our members export currently, and more of those are looking to increase that, not just to the European and North American markets but also further afield, which is great news. You have to recognise that the biggest support that small and microbusinesses could have would be really good leads—knowing that there is somebody out there who genuinely wants to discuss whether your product or service is something they could use. Therefore, just going out on a punt into a new marketplace and meeting people is not what those businesses need.

Once they have that lead, they will then find the support. That support might be UKTI, other public sector bodies, or private sector bodies. In our report last year we looked at UKTI, and very clearly a lack of awareness of UKTI itself came out very strongly. Just under half were not aware of UKTI itself, let alone some of the support initiatives that they had available. It has given the wrong perception that the matched funding required of Passport to Export has now been or is being removed, which has given the perception that

the funding is going to the medium-sized businesses, rather than continuing to go to small and microbusinesses. As I say, that is the perception out there from our members, which is not, in fact, reality. It comes back to effective communication. We have been engaging with UKTI quite heavily in the last couple of years to try to get that understanding of the difference between small and micro-sector of the SME community clearly understood, so they can give them the support that our members say that they need.

Q18 Paul Blomfield: I know that Robin wants to come in on this issue, but I wondered if I could just press you on what impact you think the Small Business, Enterprise and Employment Bill might have. You submitted evidence to the Bill Committee. Do you think the provisions are going to significantly change the support for small business in relation to exporting?

Mike Cherry: I do not think you will see any significant changes for exporting. What we have been trying to get across is our consistent message that the small and microbusinesses have different needs, and therefore need to have different support mechanisms. The jury is still out on whether the UKTI can adapt to deliver those. They understand it, but what we are finding on the ground is that there is still patchiness across the country in businesses' understanding of what may be available and what could benefit them.

Q19 Mr Walker: Here we are, at the start of Export Week, and you are both talking about the need to raise awareness of support for exports. Clearly, that can play a role. I was very interested in the point you made, Mike, about the perception of the withdrawal of match funding, in terms of Passport to Export, being different from reality. Could you expand on that? Certainly, I have heard anecdotally concerns from small businesses that the degree of support that was there for them before is not there any longer, because they feel that it is being shifted for medium-sized businesses. Are you saying that those concerns are wrong?

Mike Cherry: You have still got the support out there. What you have had, of course, is the announcement, which I fully support, that more support is needed to help those medium-sized businesses that could export to export. The messaging has got crossed, inasmuch as small businesses are now perceiving that to be that the funding has moved to medium-sized businesses rather than continuing to support what they need.

Q20 Mr Walker: I refer to the Register of Members' Financial Interests. I came back last week from a trade delegation to China, the second one I have done in two years. In both of those, the businesses that took part were pleasantly surprised by the amount of support that there was from UKTI, and from Government bodies. They were particularly pleased by the support in terms of intelligence, something you both said, and briefing about markets, which has been very valuable. I just wonder: do you think there is scope for UKTI to look at charging its very biggest customers, who also value its support enormously and often say that they feel it is very good value for money, a bit more in order to cross-subsidise the small and medium-sized business market?

Mike Cherry: That would have to be a decision for UKTI.

Mr Walker: That is a politician's answer.

Mr Binley: He is a politician.

Lee Hopley: You have first got to put these support schemes' funding on a sustainable footing. As I said previously, famine and feast is very difficult to manage. You cannot come up with a strategy, a communications plan or a sense of priorities when the budget is going up and down with different spending reviews and in the middle of spending reviews. You sort out what a sustainable long-term funding plan for UKTI looks like, and then we will discuss the question of charging.

Q21 Mr Walker: Does that not suggest that there is scope to make funding more sustainable and less reliant on a public sector where spending can be cut overnight, and that it could generate more of its own income?

Lee Hopley: You have to look at some of the functions that UKTI provide, and first question whether there is a role for Government. The intelligence and overseas posts necessarily need to be funded from the public purse, because that is not something that the private sector could fill the gap in, to the same degree of quality and coverage. That is something that needs to be provided, regardless of what your customer base is.

Mike Cherry: Whatever UKTI does offer, it has to be affordable for its respective customers.

Q22 Mr Binley: Mike, your written evidence stated that "47% of small businesses believe credit is unaffordable and 24.8% of small businesses found the availability of credit very poor". I accept the latter. I am not sure I accept the former, bearing in mind I started a business in 1989, and by 1990 we were in the most difficult position we had been in at that time for a long time. We have superseded that now, of course. Can you tell me why banks are charging small businesses so much, when they ought not to be, bearing in mind the bank rate? I know there is a massive disconnection, but the bank rate is helpful in this respect.

Mike Cherry: The big problem here is very clearly still access to finance for those small and microbusinesses.

Q23 Mr Binley: I accept that. It is the cost of it that worries me in your statement.

Mike Cherry: That is very clearly the evidence that our members are telling us. I think, when you look at that, their average charge now is around just under 4%. If you go back, and I am going back to when I first started in business as well, businesses were able to get overdrafts around about 1% over base, which was quite effective at that time.

Q24 Mr Binley: That was still 7%.

Mike Cherry: No, you were looking at around about—I am going back even further, I suspect, Brian—to around 2% or 2.5%, which I seem to remember in my early days.

Q25 Mr Binley: In 1989, I think we were doing around 7% or 8%. That is why I do not understand that bit about affordability.

Mike Cherry: It comes down to the fact that it is far more affordable than it was in previous surveys, where the average was probably nearer 8% or 9%. That average of round about 4% is a very welcome shift. To some extent, we suspect that Funding for Lending has had some impact on the cost of finance. I come back to the point that I made, and that is around access to finance for those small or microbusinesses. That is still not getting through to them. It is still not sufficient for those businesses that need it.

Q26 Mr Binley: I accept that. I wanted to pursue that with both of you, because it is absolutely vital. Growth costs money. There is a bigger fiscal drag in a growth situation than there is in any other situation, and I am not sure that is fully appreciated. All of the talk from the banks is that they accept 80% of the applications. Are they being clever, and classifying an application as something written on paper, rather than somebody going into a bank and saying, “I want a loan. Can you help me?” Why do the banks say that 80% of loan applications are fulfilled when your people say they find that not to be the case?

Mike Cherry: You would have to ask them how they define the lending at that eight out of 10, or whatever the percentage is that you are referring to, because that will not just be for the microbusinesses. It will include some of the small, and it will certainly include some of the medium. The banks have a different threshold here under which they use those statistics, which may be 1 million in some cases, or it may be 2 million in other cases. Clarity around what is included in those statistics, and what size of business, is never made clear.

Q27 Mr Binley: I want to pursue this particular one with microbusinesses. The truth of the matter is we are not talking about 1 million or 2 million. We are talking about 15 grand, or 10 grand, very often. It is how we create a situation where microbusinesses can get that sort of money. It is that area, right at the start of the whole growth pattern for business development, that is the most difficult, it seems to me. Is my view right, and how can the Government help more than they are doing at the moment, in that respect?

Mike Cherry: I think, if you look at the start-up funding schemes that are available, those are proving very successful—again, from the evidence that we are getting. A bigger emphasis needs to be put on those businesses that want to grow, and can grow, but do not wish to grow exponentially, or do not have the capacity to grow exponentially. It is those medium-sized businesses, whether they be small, micro or medium, that want to grow steadily that need more support.

Q28 Mr Binley: Lee, you are in a different position. You are about borrowing quite a lot of money for quite expensive equipment, in general terms. You are about bigger loans, are you not, in the main? How are you finding this in relation to my questions?

Lee Hopley: Perhaps I can quickly touch on the statistics. The banks run the SME Finance Monitor, which looks at the financing experience of small and medium-sized businesses. In aggregate, about seven in 10 businesses are successful. However, you are

much less likely to be successful if you are borrowing for the first time or if you are very small. There is plenty of quantitative evidence out there that sets out the challenges for particular groups of small and medium-sized businesses. I think, on the cost front, the game has changed since the financial crisis. The Bank of England consistently shows that spreads over reference rates have been wider for small businesses than for medium and large businesses.

There are other costs other than the rate of interest on borrowing. The ways in which costs and fees, and terms and conditions, have been employed since the financial crisis have changed, and changed quite markedly for some businesses, particularly in the early years following the financial crisis. That has had an impact on behaviours, I think, of small businesses as well. There will be companies out there that perhaps have a need for finance, but, because of their experience with costs or service levels, or what they think their success rate will be, they are not approaching financiers for cash in the first place. That behavioural impact is an issue that has not quite been tackled yet.

For a lot of our members, the financing situation has improved over the last couple of years. Again, however, an investment survey that we carried out of our members in the summer still suggests that for around a fifth of the smallest businesses, with a turnover of up to £5 million, the biggest brake on investment in new physical assets, such as plant and machinery, is access to external finance. It is still an issue. It matters for all companies up through the supply chain, because if you have got companies that are small and not replacing their machinery and equipment at the rate necessary to keep up with competitors, it is going to start creating bottlenecks in supply chains as the economy keeps going again.

Chair: This is obviously a serious issue and I would like to spend more time on it. Unfortunately, I am running out of time. Could you send us some further information on this in written form, so that we could have a look at it? We may well come back to you with written questions.

Q29 Nadhim Zahawi: For many small businesses, lending may not be suitable for what they want to do with their business. I wonder whether you could comment on alternative finance, and on how well the Government has done in that area.

Mike Cherry: We very much welcome the setting-up and the now-independence of the British Business Bank, which is pushing money through the wholesale markets, as you know, through into the alternative financiers. We very much welcome the chance of having some more competition in that arena. It is still fundamentally a problem that you have got 85% of lending to small businesses with the four main high-street banks. We fully support, as you know, the advent of the peer-to-peer lenders and the crowd funders. We support the fact that you need light-touch—I emphasise again light-touch—regulation in that sector, so that you do not hit any problems just at this cusp of their growth. The Government fully gets that message. As I say, with the advent of the British Business Bank, we see that as a positive start.

Chair: Again, any further information on that would be welcome.

Q30 Rebecca Harris: I just want to make one more comment on that issue. Do you think there is a problem partly with business confidence, in that quite often smaller businesses are being asked for collateral, for which they have not been asked for many years, and are very reluctant to do that? I grew up in a small business where the house was permanently mortgaged to the business, but I am increasingly hearing that small businesses are being asked for collateral, somehow or other, and being very deterred by that. Is that a business confidence issue?

Mike Cherry: I do not think it is a business confidence issue. It is possibly a lack of understanding that that will be required. This comes back to our banking surveys, where we have very clearly identified that you need to be very clear about what you require from a business if it is hopefully to succeed in an application. We continue trying to get this message across to not just the banks but to any prospective lenders. This lack of communication has been one of the factors in not being able to get the right support to some small businesses.

If you look at the American model, it is completely the opposite to over here. You have to give security to the American banks first, before you then get any public support coming through for any additional funding that there may be a gap for. It is about expectations and effective communication on that particular front. Most people, very clearly, have a problem when they do not have the security of either the assets in the business, be they physical property, or indeed a home that they can offer to the bank as security, which means that there is even more reluctance to offer them any sort of funding whatsoever.

Q31 Rebecca Harris: You have talked about the UK version of the Small Business Administration, and the potential for the British Business Bank to fill that role. It would seem to me that the first point of contact for SMEs looking for help is often their trade association, and I am just wondering why you are not more ambitious for bodies such as yours to be a delivery vehicle in ensuring Government support is effective in future. I know you have done a great deal there.

Mike Cherry: I think, first, to come back on your point, we do not see the British Business Bank as an alternative or replacement for our idea around the Small Business Administration here in the UK. That is absolutely critical, with a direct link into No. 10, to be able to make sure that it works across Government Departments. On the other point, clearly, with all of our submissions, consultations and survey evidence from our members, we are continually getting the message across to politicians. What we do not always see, of course, is the delivery.

I would highlight here our manifesto, which very clearly has been tested and drawn together through continual work with our members, right down to our branches, over the last six months. It clearly identifies not just the issues but how the next Government can enable a lot of those issues to be dealt with, and to enable our members to grow their businesses and create more jobs. That is not just for FSB members; it is for small businesses and businesses generally. I would be very happy to pass that on to the Committee, so that you have the details behind that as well.

Chair: Thank you. I am going to have to conclude at this point, because we have got another panel and we need to finish by 10 to 11. However, do feel free to submit any further information that you feel that it would be appropriate for us to have. Of course, we did highlight different issues as we went through that we would like further information on. Can I thank you very much? It is very helpful, and we will be publishing in due course. I hope it meets what you feel needs to be met. Thank you.

Mike Cherry: Thank you very much.

Lee Hopley: Thank you.

Examination of Witnesses

Witnesses: **Phil Orford MBE**, Chief Executive, Forum of Private Business, and **Dr Kevin Farnsworth**, Senior Lecturer, University of York, gave evidence.

Q32 Chair: Good morning, and welcome. Could I just ask you to introduce yourselves for voice transcription purposes, starting with you, Phil?

Phil Orford: Yes, good morning. My name is Phil Orford. I am the Chief Executive of the Forum of Private Business. We are also a small business lobby group. Our membership is primarily made up of small employers.

Dr Farnsworth: I am Kevin Farnsworth. I am Senior Lecturer in Social Policy, University of York.

Q33 Chair: Thanks. We have to finish by 10 to 11, so I would appreciate brevity, and I will try to brief as well. This one is to you, Dr Farnsworth. You have written extensively about “corporate welfare” and the role of business and the Government. How would you define the Government’s respective roles and responsibilities when it comes to supporting business?

Dr Farnsworth: Perhaps I can just say a little about corporate welfare and how I define it first. I define corporate welfare at its simplest to refer to the various benefits and Government services that help in some way to satisfy the needs and, in some instances, the interests of business. My work in this area, I think, extends this notion of corporate welfare. It is not necessarily critical of corporate welfare. I want to say that first of all. It extends the notion of corporate welfare beyond perhaps what this Committee will focus on most, which is the grants and subsidies offered to business. It tries to view the range of Government benefits and services in the round, and the ways in which those benefits and services satisfy the needs of business. I am interested in looking just as much at public and social welfare, and how they satisfy the needs of business, as more direct forms of provision, which would be included within, as I said, most of the things that this Committee will be looking at.

In terms of how I see the roles, I think that it is really important, first of all, to accept that businesses need help and support from the state. I am really grateful to come along here to talk about this here today. If we look at this historically, or across nations, Government support to business is comprehensive, and always has been. As I said, it is really important for this Committee to begin with that kind of premise, but then to look at the range of benefits and services, and also how they interact with each other.

Q34 Chair: You talked about this being more than just Government schemes and so on. Obviously, there are usually metrics by which the Government can measure the impact of Government schemes on business. The broader approach that you talked about is more difficult to measure. Could I ask both of you, but starting with you, Kevin, how you might measure the impact of corporate welfare on things like employment, growth, taxes and so on?

Dr Farnsworth: In my work, the most difficult thing is just trying to identify and conceptualise what we might mean by corporate welfare, and how these different services do help businesses. They are important. If I just digress slightly, if we look at the evidence submitted to this Committee, it is clear that some of that evidence suggests that a whole range of provision is really important. In fact, if you look at things like the Crediton Chamber of Commerce submission, their argument is that the range of schemes on offer is far less important, for example, than welfare tax credits, and education and training provision, in assisting businesses. If we look at what the CBI is saying this week about the importance of child credits and taking more people out of tax, it is clear that there is a whole range of provision out there that is really important to business.

How do we measure it? I am just putting together the finishing touches to a report that I am happy to submit to the Committee, possibly under embargo until it is out fully, which tries to systematically go through some of these things. I start with grants and subsidies, and look at how much they are worth. In education, we have measures of added value that often apply. We can look at the value of that for businesses.

Q35 Chair: Can I just intervene at that point? Yes, we do have measures for added value. What we do not have is measures for, if you like, added value to business.

Dr Farnsworth: No.

Q36 Chair: Do you think that might be something that we should look at as part of engagement—

Dr Farnsworth: That is absolutely something that should be looked at. The best we have, and this is from private correspondence with a civil servant working in this area, is to look at added value, and to equate added value for individuals with added value for businesses. Obviously, there is a very close relationship between the two. We can look at those things. In terms of things like tax credits, tax credits are important for individuals on low incomes. They also operate, in some ways, as a wage subsidy. We might also look at that. Again, there is not necessarily anything wrong with that, but if we do think of them as wage subsidies, maybe we have to think of the whole system of assistance to businesses, and taxation paid by businesses, and the whole range of things, as being really important. As I said, it goes beyond maybe the more obvious things that happen within BIS.

Phil Orford: I think, bringing it right back down to perhaps its most basic level, business owners look at the benefits of inputs by looking at the outputs, and the output is profitability. In terms of measuring the impact of Government schemes, you have to look at the bottom-line outputs. Are businesses more profitable? Are tax takes up? Is employment rising? These are relatively straightforward measures to seek, I would have thought.

Q37 Mike Crockart: Dr Farnsworth, in your submission you wrote that “part of the problem is that there is very little recognition or acceptance of the fact that public policies operate in the interests of business”. Who is it that you feel has that perception? Is it the public generally, or is it business specifically?

Dr Farnsworth: It is both. There is an overriding public perception, I think, and we know this through surveys of citizens relating to social welfare, that we associate expenditure on education and training as being about citizens. We associate state spending on the welfare state and on benefits as being about citizens. That is a perception of citizens. In my work, for some time, I have also looked at some key approaches to public policy by organisations like the CBI. I think, again, that is really interesting and telling, because although the CBI will occasionally acknowledge that education is pretty important, and even at times have argued that healthcare is really important, they do not necessarily see that as something that is about businesses per se. In fact, the general approach of business organisations that I tend to look at is that at one particular time and one particular year, business will be more willing to accept that there is an important wider benefit from public policy, but it does not necessarily acknowledge that more broadly.

Q38 Mike Crockart: Is that the case? We have just had evidence from FSB, where they are talking about the number three priority being greater skills for employees going into their businesses. CBI yesterday said the biggest asset they had was childcare. Neither of those are BIS issues, per se; they are much more wide. Does that not argue against what you are saying, and that business does realise that there is a far wider variety of things that feed into and are benefiting them?

Dr Farnsworth: Yes and no. As I said, I am not saying that business organisations are always completely in denial about these things. If there is one summary view, it is that businesses occasionally acknowledge the benefits of some of these things. Education and training is pretty consistent across time. They occasionally do acknowledge it. They do not necessarily acknowledge that businesses should be the ones that are paying for this; because lots of these services are consumed by citizens, businesses should not necessarily be paying for those things.

The CBI is a really interesting case study. Again, I would urge the Committee to look at what the CBI has said over time, and some of it I have written up myself. As I said, it is inconsistent. During certain periods, they will focus on certain aspects of policy. Back in 1983, the CBI did quite a bit on the benefits of the National Health Service, for example, and have barely talked about it ever since.

Q39 Mike Crockart: Can I ask then, because we are quite short of time, what needs to change to change that perception? Is it just raising awareness? Is it engagement with business? What needs to change to deal with that?

Dr Farnsworth: It is both. It is raising awareness. It starts here, but in a way what this Committee might do is focus almost entirely on what BIS does. I would argue that it is changing perception and looking beyond that, so that we can have a really important debate. That debate is not just about, as I said, how public provision satisfies the needs and interests of business. It is also about how they satisfy the needs of citizens, and the relationship between the two. Business subsidies, for example, or business grants, do have really important outcomes for citizens. A whole range of services that are directed at citizens have real benefits for business, too, and we have to look at it in the whole.

Phil Orford: As well as doing what I do in my day-to-day job, I am also governor of an academy, and a chair of governors at a studio school. There are not that many studio schools in the UK at the moment, but they are focused on career pathways. Our school in particular focuses on five career pathways, which are specifically defined to support the skill need within the school's constituency. That is proving a very successful model. We are getting about 18 to 20 studio schools opening per year, operated obviously by the Department for Education and the Studio Schools Trust. These are very positive, impactful, on-the-ground initiatives that are making a significant difference to the quality of the individuals coming out of those schools and the skill needs of the local businesses, which are often very small businesses. There are real good things happening. I do not think that is necessarily within the BIS remit currently, but in terms of the overall skills agenda, of course it is.

Chair: If you could send further details of this, it may not be central to this particular inquiry but is very interesting in the context of a number of other inquiries that we have had. I have one school in my constituency that is similar, but I do think we are interested in looking at models that could be carried forward.

Q40 Mr Binley: Your theory is an interesting one, which I have not seen in quite that way before. I would point out, however, that it is not accidental that the CBI grasps your context, on the basis that they are very big companies, and they have got quite a lot of money sloshing around. The small businessmen perhaps would not quite see it in the way you say, particularly when doctors put people on what they call "the sick" for two months, for stress. They get very stressed about that, I can tell you. You have got to be very careful about how you apply your theory, as between the CBI and the big corporates, and small businesses, which most of us are part of and deal with. I just wanted to make that comment to you, because your idea is interesting, but you have got to make that definition and understand what that definition means.

The Government told us small companies "are not prepared to pay for advice", which is the opposite end of your bit about welfare. For example, businesses pay up to £3,000 to take part in the GrowthAccelerator advice programme. Many of them, at the end of that, feel it was a bit of a waste of time. When I had Government advice when I started my business, which now employs 180 people, in 1989, I had people coming along telling me I was going to turn over £15 million within three years. The whole thing had no connection with my business whatsoever. What I really want to ask is: how do we make that early advice, primarily but not only to small businesses, meaningful? How we get it to be delivered by

people who have the understanding of the sector, and are not, forgive this, academics who think they know and very often have not got a clue?

Dr Farnsworth: Who is that to, Brian?

Mr Binley: You, Phil.

Phil Orford: We are getting to the nub of business support, are we not, here? Businesses need state interventions. Businesses need support. Are businesses really saying they are not prepared to pay for business support? I do not think they are at all. They are paying for business support of one form or another, whether it is accountancy, whether it is legal, employment, or health and safety. We provide such services, as do other business organisations. The principle that businesses are not prepared to pay is wrong.

To cut to the nub of the question, are we focusing in the right areas? Maybe not. One of the two lead campaigns at the moment is GrowthAccelerator, as you mentioned. Interestingly, feedback from our members is more positive. Often, business owners are saying the advice they were given was probably what they would have done anyway, but all it has done is reinforced their decision-making process. It has created growth for a number of them and positive outcomes.

At the other end of the scale, of course, a major Government initiative is start-up loans, including significant numbers again, with 20,000 new start-up businesses. However, to the nub of your question, those are initiatives at either end of the scale—high-ambition growth businesses and start-up businesses. We know that there are 1 million employers employing nine or fewer employees, and these average businesses that sit in the middle are not receiving the focus of business support. If they did receive it, I believe it would create quite a significant economic wave. If you took the 1 million and divided it by three, meaning that 300,000 are doing well, 300,000 not so well, and 300,000 are in the middle, and if we could touch them positively in the day-to-day issues of their business around people management, leadership and growth strategies, at a level that is way beyond what GrowthAccelerator can do in the top 6%, then we can make significant positive impact in the UK.

Q41 Mr Binley: Thank you, Phil. I do find your concept interesting, genuinely. It has considerable value, but I do want to know from you how you see the difference operating in your terms between the big corporates and where most of the employment growth and wealth growth comes from, which is the SME sector.

Dr Farnsworth: Although I talk about the CBI—I talked about the CBI just now because I was talking about business perceptions of that particular sector—I do think there are real implications for small businesses. Just to take one example of how these things relate to each other, Amazon has been awarded over £7 million by the Scottish Government, and almost £11 million by the Welsh Assembly, to build distribution centres, which obviously has big implications. The Public Accounts Committee went through this, in terms of tax take and impact on small businesses. It is really important to ask questions about whether that is a good use of public money. In particular, is that a good use of money, when it has implications for a whole range of other different services? Part of that assistance from Wales, for example, was devoted to building a new link road for Amazon's distribution

centre. Because they are distribution centres, so they are not necessarily liable to tax in the same way.

That is just one example. That does not include also other work that is being carried out on the help and assistance that is given to workers working in those distribution centres. It is a good example, however, of how there is a relationship between the different parts of government and what they are doing, and the knock-on effects here in terms of small businesses, to take your example.

Phil Orford: In a supportive way, if you look at the Regional Growth Fund, and particularly the first three phases of awards, there were some significant large business grants given out. Bentley, where we are in Cheshire, received £14 million for an apprenticeship centre. If Cheshire had been given £14 million to develop programmes related to grants which would have turned small business projects from not happening into happening, there would have been a significant positive impact. I absolutely agree. The concept of supporting businesses at that scale, with their wealth and, frankly, lack of taxation, is scandalous.

Mr Binley: I accept that point, and an audit of corporate welfare maybe every two or three years would be very useful. I simply direct your attention to the Formula 1 racetrack being built on the Brecon Beacons, supported massively by the Welsh Development Agency. Do I want to call it a pipe dream? Do I want to call it pie in the sky? Whatever. However, there is a lot of money being thrown at something that already exists in our country. One wonders why that is happening. A corporate audit linked to your corporate welfare seems to me to have considerable relevance.

Q42 Rebecca Harris: On the issue of access to finance, the British Bankers' Association has told us that "while demand for lending has increased, SME holdings of cash have continued to rise strongly". Why do you think this is?

Phil Orford: Can I touch very briefly on the previous session as well? I think there was something that was not covered off there. This Committee has investigated the access-to-finance issues on a number of occasions already. We have got to accept that the environment in which we operate now is different from that of 2008. It is different from the five years prior to that. Many of the issues around perception of cost and around access related to the fact that there was easy low-cost finance accessible before the crisis. I think, frankly, politicians and business owners—my members—have got to get real about this. We are not going to significantly change what is happening in this landscape without serious new competition within the marketplace. It is just not going to happen. Sorry, what specifically was your question?

Q43 Rebecca Harris: It was that we were being told that SME holdings of cash are continuing to rise strongly.

Phil Orford: Yes. It reflects the ongoing uncertainty that businesses have. Our latest research, which is around the cost of doing business, not the cost of living, demonstrates that small business inflation is running at 4.7%. That is 3.1% of CPI. In the previous three years, it was running at above 6% every single year. Our members, small business

owners, are day in, day out feeling input costs going up, without the ability to pass those costs on. At the same time, they are hearing unhelpful comments, such as from the Governor of the Bank of England, about early interest rate rises, which are now being pulled back. These things are really unhelpful, and do not help the environment of certainty, consistency and continuity, and therefore confidence. It does not surprise me at all that business owners are hoarding cash, small or large.

Q44 Rebecca Harris: Thank you. The British Bankers' Association also told us that "businesses are finding it easier to access bank borrowing and costs are falling", but the Federation of Small Businesses obviously reports that "47% of small businesses believe credit is unaffordable". What is your view?

Phil Orford: That is their members' perception of affordability of finance. The reality is that it is no different in cost from what it was five or six years ago. Their bigger issue is probably that the banks are perceived to be making more margin on the loans that they lend, or the overdrafts that they give.

Q45 Rebecca Harris: We have been through a particularly benign period, and this looks much more frightening to some businesses than what they are used to.

Phil Orford: Absolutely. Our members, small business owners, our research says, are not experiencing the levels of growth that current GDP statistics are demonstrating. They are not growing at 3%. They are not even growing at 2.5%. Many are not growing at all. Many are still going backwards. The reality of what is happening out there in your constituencies is that businesses do not have the confidence to start to invest again. They do not have the incentive, either, to take on more debt and more risk.

Q46 Rebecca Harris: That slightly goes back to a point I was making before, in the previous session. In this country, we used to be quite used to being asked for security and collateral, and we have gone through a period where we are not used to being asked for that as businesses.

Phil Orford: No. I am sure in Brian's esteemed career in business, he has been asked for security at some points, and so was I in my business career.

Mr Binley: We put our house on the line to start our first business.

Q47 Chair: What you said was very interesting, because banks justify their lack of provision to small businesses by saying that there is not the demand out there. From what you just said, that would seem to reinforce that particular line of argument. Do you think it is a fair comment?

Phil Orford: Within our membership, it is certainly a fair comment. They tend to be established businesses. We do not have many start-ups. Therefore, they are probably realistically net depositors. They may still have some borrowings as well, but fundamentally they have got the security of some money in the bank. It might be a nuance

within our membership. However, if you look at the BBA-funded research, the quarterly SME Finance Monitor, it does indicate a continuing rise in businesses not seeking finance, and a continuing fall in lending. That is a fairly comprehensive report. I am not for a minute advocating that what the banks are saying is absolutely correct, because there is a huge amount that they could do. I am on the record already as saying the banks risk disabling recovery before it gets going. There is a huge amount more that they can do. It is difficult to argue against the evidence of quarterly research that has now been going for four years.

Q48 Mr Walker: I just want to follow up on that point, because we recognise the picture you are painting of businesses that are happy to sit on their cash. Should we necessarily think that that is a bad thing? We have seen, with previous recessions, when companies entered the recession with very high gearing, far higher levels of corporate bankruptcies and people being laid off than we did in the last recession. The last recession was much worse, but a lot of private businesses and public businesses went in with a lower level of gearing. We should not necessarily see it as a bad thing that people do not want to go out and borrow as much as they did during the credit boom.

Phil Orford: There are issues. Let's be realistic. There are issues, and it might be a small percentage where there are those issues, and there might be issues within those businesses themselves that prevent them from reaching the finance they need. However, I do not think anybody in this room or this House could advocate that a credit-less growing economy would be very positive for the long-term prosperity of the UK.

Q49 Mr Walker: Absolutely, and it is about striking the right balance. The other area I suppose is competition for the banks and where the banks are not providing the products that businesses want, there is now hopefully a better range of alternatives for businesses to go to. Do you think that is something that Government should be actively promoting perhaps more than schemes like Funding for Lending?

Phil Orford: Yes, absolutely. The alternative market is standing at something like £1.75 billion now, so it is significant growth on three years ago. It is still obviously way behind where the banks are. However, initiatives like RGF, for example, which has funded some of the asset finances to match-fund asset purchases, are very positive. Yes, we are very keen to see Government continuing with those initiatives.

Q50 Mr Walker: Talking of Funding for Lending and that side of things, it is obviously very difficult to objectively measure what a scheme like that is doing when we do not have the control. We do not know what the alternative would be, and what would be going on without it. Do you have a view as to how much difference a scheme like that is making to your members?

Phil Orford: Funding for Lending has primarily made a difference on cost. EFG, which is still with us, of course, certainly had its place in the last four or five years. That is probably less so the case now, but it still has its market. They are success stories, but probably not on the scale we would have all liked.

Q51 Chair: Thank you. Your responses have been commendably concise.

Phil Orford: Can I please have one more minute? May I?

Chair: Yes, we have time if you want to make a point, Phil.

Phil Orford: It is specifically on exports, if I may, because I know it was a subject before. I talked earlier about current initiatives, particularly around start-up businesses. We have got to accept that start-up businesses in a home market environment are not going to create wealth for this country. We have to look at international markets. This is a bit of an appeal, Chair. We have been lobbying BIS and Treasury about the formation of what we are calling an export tax credit. It is based upon the research and development tax credit system, with which a number of you, I am sure, will be familiar. It is a highly successful credit that has created innovation and development of technologies that are now creating great wealth for the country.

We believe that if businesses are going to be incentivised, and we really believe that they need to be incentivised to take more risk in overseas markets, the best way to do it is to apply a tax credit against investment made or additional revenue through export markets. We are getting some traction, but not what we would like. We are told that the issue is dead weight. My belief is: why worry about the dead weight if it creates significant export growth, aligned to the sort of targets that the Government is talking about by 2020? We are not just going to achieve that by UKTI or UK Export Finance. Business owners need something to incentivise them to get out there and get new business in overseas markets. A tax credit seems the logical way to do that.

Q52 Chair: Right. Could you send us some more information on that?

Phil Orford: I will. We have a paper on it.

Chair: We may well come back with some further questions on it, but thank you very much.

Rebecca Harris: Ahead of the Autumn Statement.

Mr Walker: Yes, good timing.

Phil Orford: It is in our manifesto for the Autumn Statement.

Q53 Chair: Kevin, do you wish to say anything? We have got one minute.

Dr Farnsworth: Only that these kinds of initiatives are really important, but obviously they need to be paid for as well. Again, that is why it is important that we look at the other side of this, which is tax, and tax benefits are important within that, too.

Q54 Mr Binley: Can I ask, Kevin, if you might consider the concept of a corporate welfare audit, in the way that we discussed?

Dr Farnsworth: I would, absolutely. That is what I have been working on.

Mr Binley: You do not call it that, then. I have just given you a title.

Dr Farnsworth: It is already in draft form, and that is pretty much what it is called. As I said, I agree with your point. I think it is really important.

Chair: Thank you very much. That is very helpful indeed. Again, we highlighted a number of issues. If you could provide us further information, I would be very grateful. We have been constrained with time, but there are several issues that you raised that we want to have a further look at. Thank you very much. It has been very helpful indeed.

