

Economy Committee – 15 January 2015**Transcript of Item 5: London Enterprise Panel and Deputy Mayor for Business and Enterprise – Session 1**

Jenny Jones AM (Chair): That brings us to today's main item, the London Enterprise Panel (LEP) and the Mayor's economic priorities. We have a number of guests today and we are going to do it in two parts.

Stephen [Howard], I am told it is the first time you have ever been in front of an Assembly Committee. Perhaps everybody would like to say just a few words, but, Stephen, do you want to start?

Stephen Howard (Member, LEP and Co-Chair, SMEWG): Chair, thank you. Members, thank you for giving us the opportunity to have this conversation with you. My name is Stephen Howard. I am a Member of the LEP and Co-Chair of the Small and Medium Enterprise (SME) Working Group. My day job is Chief Executive of Business in the Community and prior to that I spent much of my working life leading global businesses. I was Chief Executive Officer (CEO) of two London-headquartered but global manufacturing companies. I am a London resident and a long-time employee of City businesses and so I have some experience with the local economy.

Sue Terpilowski OBE (Member, LEP, SMEWG and SEWG): I am Sue Terpilowski. I have a number of hats. My main one is that I am on the LEP. I also sit on the SME Working Group (SMEWG) and the Skills and Employment Working Group (SEWG). I am also the London Policy Chairman of the Federation of Small Businesses (FSB) and I lead nationally for the FSB on business rates. I have a London business. I have had the business for 27 years. We are based in Hackney - and so a lot of these things are very relevant to me - and I live in the London Borough of Redbridge. I am affected all the way around.

Emma Stewart MBE (Member, SEWG): Hello. My name is Emma Stewart. I, too, wear several hats. I sit on SEWG. As my day job, I am Director of the Timewise Foundation, which supports families in London to get access to better quality flexible jobs. We have around 60,000 London residents on our books currently looking for work. Then I also Chair the London Child Poverty Alliance, which is a network of voluntary sector organisations championing living standards and child poverty in London.

Jenny Jones AM (Chair): It sounds like a huge workload. We also have the Deputy Mayor for Business and Enterprise sitting in with us.

Kit Malthouse AM (Co-Deputy Chair, LEP): I am slightly early, sorry. I thought I would sit in, just in case you needed me.

Jenny Jones AM (Chair): You are very early, but it is obviously a pleasure. We are going to try to keep the questions quite short and we are hoping for answers to be fairly pithy as well. If you agree with the person who has just spoken, you can say you agree with them. It means we can get as much information as possible from you while you are here. Thank you for coming.

How is the LEP supporting the SME sector in London?

Stephen Howard (Member, LEP and Co-Chair, SMEWG): As you know, Chair, the primary focus of the LEP is jobs and growth and our focus within the SMEWG is jobs and growth as well. As we look at the five principal priority areas that we can try to make a difference - access to finance, affordable workspace, trade

and export support, business support more generally and the Business Improvement Districts – how can we nurture, grow the numbers and provide practical tools and guidance that SMEs can use to be successful?

Sue Terpilowski OBE (Member, LEP, SMEWG and SEWG): Obviously, it seems they are the key elements. What we decided was that we had to go for some things where we could achieve something with limited time and a limited remit. Our remit is strategy. It is not deliverables. We felt those were where we could actually add most value.

Jenny Jones AM (Chair): Of course, in London, you talked about affordable accommodation. Obviously, that is extremely difficult. There are high business costs and high costs of living and so that must impact on those enterprises quite badly. Is that so?

Stephen Howard (Member, LEP and Co-Chair, SMEWG): It does. As Sue has said, we think about how best to use our limited resource and access to say, “Where are the places we can be innovative and additive and create leverage out there?” As we think about affordable workspace, part of our job can be to help people understand what is available, what is out there and how you can use simple mapping tools and other things to identify where space is, but then to think perhaps a bit more systemically about the implications of the conversion of what has been commercial space into residential space and the pressure that that can put on businesses, particularly small business and small and growing enterprises in the city centres.

Jenny Jones AM (Chair): Indeed. Apparently, the Government is doing a review of business rates. Have you responded as the LEP to that?

Kit Malthouse AM (Co-Deputy Chair, LEP): We have not, no. I do not think the Government has actually issued any kind of consultation document for us to respond to yet.

Sue Terpilowski OBE (Member, LEP, SMEWG and SEWG): It has.

Kit Malthouse AM (Co-Deputy Chair, LEP): Has it? All right. It is probably in the works, then.

Sue Terpilowski OBE (Member, LEP, SMEWG and SEWG): We have until the end of this month to get it in. It is out there.

Kit Malthouse AM (Co-Deputy Chair, LEP): All right. I have not seen anything yet and so we have only a couple of weeks.

Jenny Jones AM (Chair): Get a move on.

Sue Terpilowski OBE (Member, LEP, SMEWG and SEWG): As the FSB, we have. As the FSB, we are meeting with the Treasury to talk about it. I am very versed on business rates issues. Both on a London level and on a national level, this is something that is very important, particularly in London. Most London businesses now are finding their business rates are more than their rent. This is not sustainable because, with rents, you can have an argument with your landlord and it can go up and down. With business rates, it has only one trajectory and that is always up because it goes up by a minimum of inflation, if nothing else. Therefore, it is really affecting London more than any other area.

London had a 130%, on average, increase in business rates in the last revaluation. We in London went up an awful lot, whereas the northeast went down. That is one of the problems the Government has. This focus on the north means that it is not going to do much about the south, which is actually suffering. If we get another 130% increase at the revaluation in 2016, it means business rates in London will have gone up 260%.

Jenny Jones AM (Chair): Are you finding that SMEs can actually take on apprentices? Is there enthusiasm for that at the moment?

Sue Terpilowski OBE (Member, LEP, SMEWG and SEWG): It actually leads from the previous question. What we are finding with our members is they have an appetite to take on an apprentice, but what they are doing is downsizing in space because they cannot afford it and therefore they do not have the desk-space for the apprentice. Because growth is obviously now a really big issue, what they are finding is that they are actually being inhibited by business rates to grow because they cannot afford to take the accommodation and give the space to the person. It is not that they do not want the person. It is that they do not have the physical desk-space.

Jenny Jones AM (Chair): It is money as well as space?

Sue Terpilowski OBE (Member, LEP, SMEWG and SEWG): Yes.

Emma Stewart MBE (Member, SEWG): In our work, we have noticed that there is confusion around whether it is feasible to have part-time apprenticeships or not. The current guidance from the Mayor is to not advocate that necessarily because there is a risk of zero-hours contracts and exploitation of workers. Having said that, on the flipside in relation to enabling small businesses to have the flexibility to be able to take on particular groups who need flexibility in the way they work, which would also accommodate the space function, part-time apprenticeships could be of value. It is a conversation that needs to be had with the Mayor to rethink how the guidance is put out. Obviously, it has to work for both the business and the individual, but we think in our organisation that there is real value in repositioning the benefit of part-time apprenticeships.

Sue Terpilowski OBE (Member, LEP, SMEWG and SEWG): The other thing we are working on is shared apprenticeships. Maybe two companies take on one apprentice and share them on a two- or three-day basis or something similar to that. Then you have the other issue of who takes liability and responsibility and who pays all the National Insurance and everything else, but we do think that could be another solution where you would then share an apprentice between two companies. It is a similar thing to yours but it is actually making it more viable.

There is a lot of work that needs to be done on apprenticeships to make them smarter. However, one of the big factors that we got back in the last two surveys is that there is an appetite out there particularly from the very small micro-businesses to take apprentices, but they just physically at the moment cannot accommodate them.

Jenny Jones AM (Chair): You mentioned part-time jobs. You talked about the exploitation of workers, but on part-time jobs is there any movement there at all?

Emma Stewart MBE (Member, SEWG): Yes. The SEWG has been debating not just the need to consider how to support individuals back into work but how to facilitate conversations with employers to effectively stimulate more businesses in London to provide more quality flexible and/or part-time jobs. All the evidence suggests that actually there are a number of people working in part-time jobs in London, the majority of whom are on low pay, and there are even fewer part-time vacancies explicitly advertised from day one. The evidence suggests, as I know that you have looked at previously, that this has a huge knock-on effect of locking out people who cannot work 9.00am to 5.00pm five days a week, predominantly women with caring responsibilities and also older workers and people with health and mental health conditions.

We are looking now at is European Social Fund (ESF) commissioning to include a provision for providers to stimulate activity with employers to help unlock flexible jobs. Having said that, with my Timewise hat on, we would welcome more movement on the original pledge from the Mayor to create 20,000 part-time jobs in London. We feel that that needs additional investment outside of an ESF strategy. That is about how the Mayor takes a leadership role in communicating the value of a flexible additive to the labour market to employers in London.

Jenny Jones AM (Chair): When you say 'more resources', do you mean it just has not been resourced properly so far, that particular pledge?

Emma Stewart MBE (Member, SEWG): I do not think it has been resourced to the extent to achieve the target that is required.

Jenny Jones AM (Chair): It is not going to hit the target unless something happens on that? OK.

Andrew Dismore AM: A couple of questions from me. One of the things that I have picked up in my area is broadband and the lack thereof. To what extent is that an issue that you would get involved in? I certainly cannot get any sense at all out of BT, which does not even answer emails anymore. Is that something you get involved in and what are you doing about it?

Sue Terpilowski OBE (Member, LEP, SMEWG and SEWG): Broadband is a massive issue, particularly in London. There are pockets where the problem is that Virgin is not in there and BT has no incentive to do anything about it. That is because it is high business. The areas that have the super-fast broadband cabinet and the thing that you can use is where there is a good mix of residential and business in the area.

If you take my business, which is in Tech City in Shoreditch right by Old Street roundabout which has one of the slowest broadband speeds in the country, until I used a £3,000 voucher and got myself super-fast broadband put in through a land-based system. The problem is that the bit of Tech City I am in is just all business. There is no residential. BT would not give a date at any time in the next three or four years as to whether we might see it and there is no incentive for them to do it. It has no real competition apart from the Remote Area Broadband Inclusion Trial that has suddenly come in. That is a problem and it is a massive issue across London. People do not perceive it to be, but there are definitely areas that have no broadband or very limited broadband of the quality you need to do business. I was trying to submit my tax return online and after 20 minutes the computer just gave up because it was not getting the connectivity. That is ridiculous.

Andrew Dismore AM: What is the LEP doing about it?

Sue Terpilowski OBE (Member, LEP, SMEWG and SEWG): We had a strategy group where we actually got everybody together across the road at London & Partners (L&P) to start the dialogue. The problem is that it is a commercially-driven problem. How do you solve a commercially-driven problem when there is no incentive for that commercial entity to do anything about it? We can talk and we can issue dialogue but I am not sure, unless there is a better intervention by the Government with the voucher scheme and somehow getting over this anticompetitive issue, that we are going to really do something about it. There is no competitive reason for them to do anything.

Jenny Jones AM (Chair): There is nothing the Mayor can do?

Sue Terpilowski OBE (Member, LEP, SMEWG and SEWG): There is nothing anybody can do. We have all tried. We have tried for two years. All we can do is keep bringing it to the forefront so that BT gets embarrassed into doing something. That is the greatest thing --

Jenny Jones AM (Chair): I would have thought the Mayor could help there.

Andrew Dismore AM: They are unembarrassable.

Kit Malthouse AM (Co-Deputy Chair, LEP): We are in a slightly odd position in London. It is not like if you go to the beautiful county of Hampshire, for instance. The County Council --

Andrew Dismore AM: Take somewhere at random, yes.

Kit Malthouse AM (Co-Deputy Chair, LEP): Somewhere entirely at random. The --

Jenny Jones AM (Chair): You are standing as the putative Member of Parliament for North West Hampshire --

Kit Malthouse AM (Co-Deputy Chair, LEP): The County Council has a comprehensive plan to cover 95% of the entire county - rural as well - because it is deemed at a European level that there is a significant market failure there and they can do it. Here, we run into all sorts of state aid problems because effectively in London we have a duopoly between Virgin and BT. If we say, "We are going to give you, BT, the money to do all of this", Virgin will cry foul and vice versa.

Therefore, we have had to, after some time and lots of advice from lawyers, come up with this voucher scheme. There is £25 million, of which we have spent something like £6 million or £7 million so far, available for businesses. The issue is marketing and advertising it, which we were not actually given any money for as part of the £25 million. The LEP has been putting its hand in its pocket to market that. Critically, grouping small businesses together, which Sue did --

Sue Terpilowski OBE (Member, LEP, SMEWG and SEWG): That is what we did.

Kit Malthouse AM (Co-Deputy Chair, LEP): You get one block with 10 or 12 businesses and say, "Look, if you all apply for your £3,000 or £3,500, it will give us a fund of whatever, £40,000, which means we can get the whole building done". There is a project ongoing trying to group businesses together and to market it that way.

I have to say that in the outer 'doughnut' of London we have something like 85% or 90% super-fast broadband. Even quite close in, if you go just north of Camden Town, for instance - the north of London, as I know - you can get 120 megabytes. It is in the centre where it is medieval and, as Sue says, where it is largely commercial. They cannot flog you football, films and everything in the centre and therefore they cannot make money.

The other problem we have with it is that when small businesses do get broadband they complain that the running cost is expensive. Because you are not buying the footie and the films and all the rest of it, they sting you for a few hundred quid a month rather than whatever, £30 or £40, a month that consumers would pay.

Jenny Jones AM (Chair): It is a very interesting topic and we have --

Andrew Dismore AM: It is a very important one, actually.

Kit Malthouse AM (Co-Deputy Chair, LEP): We have tried very hard and everywhere we get to, it is effectively driven by the lawyers and the BT thing.

Having said that, if you remember, as part of Tech Week, Virgin is digitising 30,000-odd homes in the east around Hackney, Shoreditch and all of that. It is opening up slowly, but we are really at the mercy of their timetable.

Andrew Dismore AM: Can we or can the Mayor, when giving planning permission for developments, make it a condition that new builds are connected to super-fast broadband? We have a site up in Mill Hill, a brand new housing estate, with hundreds of flats going up and no broadband.

Sue Terpilowski OBE (Member, LEP, SMEWG and SEWG): We say it should be a fourth utility.

Andrew Dismore AM: Absolutely.

Sue Terpilowski OBE (Member, LEP, SMEWG and SEWG): Our campaign is that it should not be regarded as anything else other than the same as water and electricity. In planning, it should be. That is exactly what the FSB is campaigning on.

Kit Malthouse AM (Co-Deputy Chair, LEP): Currently, as I understand it, that is not an enforceable planning condition.

Fiona Twycross AM (Deputy Chair): This is a really significant issue for a lot of businesses. I was told yesterday of a story about somebody who is in the business of making films and has to upload films. He cycles from his office to his home to use the good internet and back again in order to do that. It is not a marginal issue for these businesses.

With the issue of the duopoly and preference for one very profitable company over another in terms of giving them incentives or state aid, could there not be some way of helping both of them to do what is essentially their duty in delivering what a lot of people would regard as an essential service now?

Sue Terpilowski OBE (Member, LEP, SMEWG and SEWG): Not without duplication. If you gave BT, say, my road - Paul Street - then Virgin will cry foul, "They have the better businesses and we only have Scrutton Street". You would have to give both Paul Street and therefore you are spending double the money and that is the problem. If it was a state-owned company, you could say to BT, "Just go and do it".

Fiona Twycross AM (Deputy Chair): The easiest solution in terms of market intervention would be to specify that it is a fourth utility and make them have a public duty to provide?

Sue Terpilowski OBE (Member, LEP, SMEWG and SEWG): That is it.

Jenny Jones AM (Chair): Or nationalise BT.

Kit Malthouse AM (Co-Deputy Chair, LEP): If there is a statutory requirement, who is the statutory requirement on? BT does still have some current statutory requirements, like it has to maintain telephone boxes. Nobody uses them and it is slightly bonkers and BT would love to get rid of them because they cost a lot - in London they are for prostitutes' cards and they cost a lot of money to clean out. The truth is: who do you put the onus on? BT? They would say, "Hold on. That is a bit unfair. Why is Virgin not shouldering some of it?"

The truth is that the Government and the Department for Culture, Media & Sport and everybody are sitting in rooms, sweating over this with lawyers and all the rest of it. The voucher scheme was the best way we could

find around it that did not require state aid and so, for the moment, we are pushing that out. As I say, we have done quite a few businesses now. We have £7 million or £8 million out there. We thought the scheme was going to come to an end in March 2015, but in fact it has been extended for another 12 months. It is really now about us promoting this thing and getting the money out as fast as we can.

Sue Terpilowski OBE (Member, LEP, SMEWG and SEWG): The scheme is very popular with our members and they are now seeing it. Once two or three of us did it and we are now telling people, it is getting traction out there. The problem is, as you say, the ongoing cost that is putting some businesses off. Particularly if they are in licenced premises where they only have the certainty of maybe seven or eight months left of their lease, to sign a 12-month contract on a very high figure is more of a problem and an issue. The more we can raise it and the more everybody talks about it, then this embarrassment factor that London is not connected has some traction.

Jenny Jones AM (Chair): I use phone boxes sometimes. I use them to do radio interviews on my mobile phone. They are soundproof with all the traffic.

Kit Malthouse AM (Co-Deputy Chair, LEP): Do you make those anonymous heavy-breathing calls so that they cannot trace the number?

Stephen Knight AM: Just on this issue, it strikes me that a bit of regulator stick rather than incentive carrots might be the answer, given these are highly profitable companies.

Anyway, I wanted to move on to a slightly different area. The cost of space has been raised and I just wondered whether or not there is evidence of the effect on this that the huge number of offices being converted into residential flats under the new permitted development rights is having.

Kit Malthouse AM (Co-Deputy Chair, LEP): Absolutely.

Stephen Knight AM: Would you say that there is evidence that business costs are being driven up by this policy in London and the poor effect that that is having on London businesses?

Sue Terpilowski OBE (Member, LEP, SMEWG and SEWG): I can give you an example of my office, which is in Shoreditch. My lease is up at the end of June and my new rent will be 130% more than I am paying now because, around that area, a lot of the warehouses are being converted into flats. The landlords, because of the shortage of property, now have the opportunity to put the rents up. Literally, the properties are lasting about four or five hours in the marketplace and are being snapped up because there is just such a shortage. We are moving out. For the first time in 27 years I am not going to be in central London and that is a criminal shame. However, it is just market forces.

The thing is that most micro and small businesses like the scruffy, 'un-glass' tower buildings. We are not conventional and going into a glass tower type of building. Down the road in Broadgate, half the floors are empty, but that is not where we want to be. We do not want to be in that sort of accommodation. We get the vibe off working together. Where I am now, four or five of us work together on projects. That is the vibe we want and the atmosphere we want to be in. That is being forced out because of the flats and a shortage of affordable space - although I would call some of those 'semi-affordable' with £500,000 at Old Street roundabout for a studio flat - is coming into force. It is really having an effect on London and it is having an effect on the accommodation and particularly hitting the micro and small businesses.

Stephen Knight AM: I wonder if there is any kind of quantitative evidence on this yet. Maybe it is early days, but it is important if we are lobbying the Government that we can point to the devastating effects this is having on businesses.

Sue Terpilowski OBE (Member, LEP, SMEWG and SEWG): London Councils have some great stats on this and we have joined in their letter. If you want the evidence, they have produced it all. We have all written to Eric Pickles [Secretary of State for Communities and Local Government].

Kit Malthouse AM (Co-Deputy Chair, LEP): Yes, the Mayor has.

Sue Terpilowski OBE (Member, LEP, SMEWG and SEWG): The LEP has written. The SMEWG has written. We have written as the FSB. Every single business group has. The Mayor has written on his own. We had a very bland reply because there was no --

Stephen Knight AM: This is something which certainly this Committee lobbied on before it happened and everybody lobbied on before it happened that it was going to be a bad thing in London. Now that we are getting the evidence of the impact it is having on businesses, it strikes me that it might be worth us following that up and making sure that we take a position, perhaps, as part of --

Stephen Howard (Member, LEP and Co-Chair, SMEWG): The evidence is showing, as you have heard, that it is disproportionately impacting on smaller businesses and start-up businesses. In fact, the things that are likely to be the jobs-growth engine going forward. Also, it is hitting hard artist communities and some of the other creative hubs, which are part of the economic vibrancy of the city and also part of what makes it a wonderful place to live and work. To the extent that we end up with either dark neighbourhoods or too-homogenised neighbourhoods, we lose some of the cultural vibrancy that is part of what makes this city special.

Stephen Knight AM: We are told in our briefing that SMEs employ over half of those in private-sector employment in London, which I find interesting because I had previously seen it portrayed the other way around and that London was the only region in the country where most people in private-sector employment were with larger employers.

Is there a trend one way or the other? It is about 50:50, but does anyone know whether in recent years there has been a trend towards a bigger proportion of London's employment being in SMEs or in large employers? If so, what is the reason behind that? Does anyone know?

Sue Terpilowski OBE (Member, LEP, SMEWG and SEWG): Yes, SMEs are taking up the vacuum and the vacuum is being created by partly the Government's policy of moving some of the backend office work out of London and a lot of the public sector jobs started to go. That started the trend. Add to that the BBC moving out, which was a vast amount of jobs around White City. Deutsche Bank has just announced that it is taking all of its backend jobs out of London. It is the backend jobs of the large corporates in London that are the high-volume jobs. Those have all left and exited out of London and therefore the vacuum is being filled by the SME community inside.

Stephen Knight AM: Is it the case that there are more people who perhaps are being made redundant from large employers and setting up as self-employed consultants and getting jobs with other large companies? Nevertheless, the employment model that they are under has changed, which categorises them as small businesses rather than --

Sue Terpilowski OBE (Member, LEP, SMEWG and SEWG): There is an element of that that has happened with the redundancies in the public sector where the same person is being re-employed but as a self-employed person. The big difference is that backend jobs are leaving London. Those are the jobs that most Londoners tend to fill and one of my big fears is that we are getting to a state where we have very highly qualified jobs in London and the medium jobs and the low-end jobs are the ones that are exiting out and they cannot afford to stay. My big theory as a person is that what jobs that Londoners can actually have that we need to be able to fulfil.

Jenny Jones AM (Chair): Is there actual growth in the SME area or is it just comparatively?

Sue Terpilowski OBE (Member, LEP, SMEWG and SEWG): SMEs are starting to grow, without doubt. We are seeing that in all our trends and all our stats. The good thing is that for the last three quarterly surveys that we have done people are saying they are thinking about or are starting to take on more people.

Stephen Howard (Member, LEP and Co-Chair, SMEWG): The other interesting dynamic on employment is that we talk an awful lot, appropriately, about young people who find themselves out of education, employment or training. When we think about the 50 to 64-year-old bracket, there are over a million in this country who are economically inactive and do not want to be. Either because of downsizing or changing environments or whatever, they find themselves out of work and want to be and need to be in work. Where are those jobs coming from? Increasingly, those are in SMEs, start-ups and other things. If we think about the skills challenges we face as a city and as a nation, there is an awful lot of skill in that age bracket as well. As we think about what we can do to both reskill and re-engage those people, along with the 15,000 returning service people that are coming in, there is a lot of talent out there that can help.

Emma Stewart MBE (Member, SEWG): We are seeing in our business that the nature of how SMEs are recruiting is changing and it has been changing over time. The nature of the way businesses are working and functioning and, again, looking at how agile and flexible they are means that many SMEs are now thinking more about output, thinking more about hours as opposed to thinking about, "I have to take a full-time person on at X salary".

The challenge of that flexibility for London is managing it at both ends of the spectrum so that there is not a cluster of low-paid, zero-hour, temp-type contracts but actually encouraging SMEs to think about flexibility from a permanent perspective. It is certainly the rhetoric and a lot of it is coming from big businesses doing this as well. Flexibility has always been very strong in small businesses, but with the growth in jobs there is a recognition that they could be done in a slightly different way, which can build more potential for growth because you are not having to invest too much upfront and you can start earlier.

Sue Terpilowski OBE (Member, LEP, SMEWG and SEWG): Also, part of the issue is that people are encouraging people to be self-employed and giving them the work in-house because we have a massive elephant in the room that nobody talks about and that is pensions. That is something that really scares people. I have never in my life in the FSB had such an email box full of people concerned about this pension issue and what it is going to do for staffing.

Kit Malthouse AM (Co-Deputy Chair, LEP): Do you mean the compulsory pension thing?

Sue Terpilowski OBE (Member, LEP, SMEWG and SEWG): Yes.

Kit Malthouse AM (Co-Deputy Chair, LEP): Yes, it has taken lots of SMEs by surprise, including mine.

Sue Terpilowski OBE (Member, LEP, SMEWG and SEWG): They are absolutely petrified by it because of the cost implications.

Stephen Knight AM: The next area was around support for small businesses more generally and certainly support around auto-enrolment [in a compulsory pension] is something I want to come to in just a second.

I was going to start off by saying that we have been told that one of the changes in the package being looked at is that the originally proposed business club project that the LEP was going to support has been cancelled and the funding put into other things. Could someone tell me why that was cancelled and what the consequences are going to be of that particular bit of work not happening?

Stephen Howard (Member, LEP and Co-Chair, SMEWG): As I mentioned in the beginning, we looked at the places where we could add the most value. This is a confusing marketplace out there. Organisations, particularly small organisations, are overwhelmed with places to go and things to do and people who are trying to sell them something. When we looked at what the original thinking was for the business club and then more specifically at where we could add the greatest value, the idea was changed a bit and focused on a different sort of web portal and access tool.

What we are calling the new London Growth Hub, which aligns with the central Government's national Growth Hub programme, is a web-based tool that will provide signposting support to people who give advice and support and will help find where funders and financiers and other options are. That is a challenge. We are going to talk about that in a bit and the funding opportunities. There is the workspace map that we talked about as well: Where are the pockets? Where are the hubs? Where are the opportunities out there? Where are people like you gathering so that you can maybe begin to shape your own thinking about where the right place is for you to grow your business or when you outgrow your bedroom and you are going to move into an accommodation that can employ ten people? Also, there is a series of video case studies. This is all being launched as part of the LEP's website tool.

Stephen Knight AM: You are happy that that website tool is providing the package of advice or is at least signposting to the right range of advice and support that SMEs need?

Stephen Howard (Member, LEP and Co-Chair, SMEWG): That is certainly the intention. It is just in its launch stage now and so we will have to monitor this.

Stephen Knight AM: Do you think there are any gaps in that? As you said, there are lots of people offering advice and support to small businesses, everybody from the banks to the chamber of commerce and various different organisations. I guess the key thing is identifying the gaps in all of this and, as you say, the signposting.

Sue Terpilowski OBE (Member, LEP, SMEWG and SEWG): Our job was more to put everything together in one place because there are probably about 100 different websites you could go to and you can get bits everywhere. Our idea was to actually try to be a magnet and say, "This is all that is available out there", with hyperlinks back out again. People then could at least find the information in a coherent place.

We have done a lot of work on this in the Working Group. Over the last nine months, we have really homed in on what is going to be some quite good and useful for London. It is in phase one. We have eight phases. We are going to get to eight, but at least let us get one out. One would be a good step in the right direction. We looked at the prototype yesterday and I was really pleased with it because it is starting to do that. If we can actually just do that and harness the good that is out there and get people to know where it is, it is going to be a major step forward.

The other thing that we are going to be working on is a calendar, which is going to bring together everything that is happening in London. If you suddenly find yourself in Ealing, you can click on it and see what is happening that day that you might be able to go to so that you can make more from your day. Those are some really good, positive things that are starting to happen. It will evolve and there is a programme behind it and - believe you me - we are going to make sure it is delivered because one of the real things in our Group that we are really passionate about.

Stephen Knight AM: Sometimes when you are bringing everything together, it is at that point that you can see where the gaps are.

Sue Terpilowski OBE (Member, LEP, SMEWG and SEWG): That would be stage two.

Stephen Knight AM: I have just wondered whether you have identified any gaps in what is out there that need to be filled in terms of business support.

Stephen Howard (Member, LEP and Co-Chair, SMEWG): One of the gaps that we identified early on was around the financing and funding. That was what led us to put LEP funding into the co-investment fund that we have talked about. This is something that is designed to attract other investment and funding as well, not just the Government but private equity and private investment funding, to fill a need and to begin that. We hope that we can do that as well as we, through our vantage point, can spot places where there either is market failure or an opportunity to do something a little different. That is where our role is, not to try to replicate what is already being offered.

Sue Terpilowski OBE (Member, LEP, SMEWG and SEWG): Nobody has replaced the hands-on support of Business Link, but it is not going to be replaced.

Stephen Knight AM: Indeed. I wonder if I can then move to the pension issue and auto-enrolment. You mentioned earlier that your mailbag is full of firms that are struggling with it. What is the picture across London in terms of SMEs being able to cope with auto-enrolment?

Sue Terpilowski OBE (Member, LEP, SMEWG and SEWG): There are two issues. One is coping with and understanding the complexity of becoming your own pension expert. That in itself is an element.

However, the big fear is the cost implication. Whatever year it hits you, you have 3% extra on top of your wage bill. Either you have to have a conversation with your employees, "This year, your wages are going down 3%", which is not a conversation people want to have - "You are not going to get a pay rise because I have this 3% to pay" - or the businesses will have to find between 5% and 6% or whatever the inflation is with the pension increase, which is a massive hike to the bill.

Kit Malthouse AM (Co-Deputy Chair, LEP): It is worth just mentioning that you also have to break it to your employees that their take-home is going to be lower because they have to make a contribution, too.

Sue Terpilowski OBE (Member, LEP, SMEWG and SEWG): Yes. Particularly in London with obviously fare rises and everything else, even though we might be in deflation, it still a big pot of money that we do not have. That conversation is a difficult conversation to have and that is the bit that really scares them. "How do we sit down and have this conversation with our staff without looking like being a mean boss?" What we are seeing if we look at the Australian model is that 3% is not going to be enough. If we are really realistic, we are going to be looking at somewhere close to 10% that the employers are going to have to pay to make this really work, which is where Australia is heading. If you add that to the wage bill, you are stopping probably two

people being employed because the money has to be found from somewhere within the company. At the moment, as business rates, rents and everything else go up, there is only finite money in that pot that can be divvied up. Therefore, staff are the logical thing that are going to have to be cut.

Kit Malthouse AM (Co-Deputy Chair, LEP): I know one of the issues you want to talk about later is wages and what the pattern of wages is. My sense is that this is very much contributing to wage stagnation because people are substituting this for wage rises. Particularly small businesses, although they are going to start to be affected only over the next 12 months or so, are preparing for it now by holding down wage rises so that when the 3% comes in - and of course they have an expectation that the Government will ramp it up over time - it is absorbed already. That is holding wage settlements down.

Sue Terpilowski OBE (Member, LEP, SMEWG and SEWG): They are saying to some people, "We can employ you but not as an employee, go self-employed and then we will employ you because we will not have that liability".

Stephen Knight AM: Obviously, SMEs are companies up to 250 employees. Presumably, a proportion of those will already have some pension arrangements, particularly at the larger end. What proportion of the medium-sized firms already had some pension arrangements?

Sue Terpilowski OBE (Member, LEP, SMEWG and SEWG): I do not know, actually. I do not think anybody does know because it is a commercially sensitive thing. As I said, it is probably going to hit those with 50 or fewer employees more than any other factor because those are the ones that probably have a pension scheme - if they have one at all - that is only for the owners of the company and most of them tend to own their own building. It is not a proper pension, if you like, but a way of managing their costs.

As I said, there are two factors to it. You have the factor of the physical cost and what that is doing to it, and also therefore they are saying, "Can I take on this extra person if I have this looming and all of the extra costs?" It has that effect. However, the big one is how you can have that conversation and that is where a mentoring programme or something is going to help. We are looking with the FSB to see what we can do to facilitate that. We are going to get only a small proportion of the population, but nobody wants to talk about it.

Stephen Knight AM: The big issue is that firms are not really geared up to manage a 3% cost increase on their staffing bills?

Kit Malthouse AM (Co-Deputy Chair, LEP): It is already very often their biggest overhead.

Dr Onkar Sahota AM: Access to finance is very important for SMEs and there have been many initiatives to increase this but, when you ask the SMEs, they say it is still a big problem. Can you tell us what the problems are and what the obstacles are in accessing finance for SMEs?

Stephen Howard (Member, LEP and Co-Chair, SMEWG): The issues are across the board. Some are struggling for working capital and are loathe to give up equity in their businesses at this point of the cycle. Others are finding access to that investment and equity investment is the challenge.

We looked at where we as the LEP could play a significant role in helping facilitate and deal with some of these market shortcomings: we decided that it was this equity co-investment fund. There is enough flexibility built into the modelling to allow for some other kinds of finance and loan work as well. How do we use the limited resources that we have to create an active fund? How can we attract co-investment along with that? The idea is to try to get three-to-one ratio: For every £1 of LEP money that goes in, close to £3 of private sector

funding and other matching support will go in. The fund has been launched, we have our first investments being made as we speak and the programme is ongoing.

It is an area that, like all the other things we are doing, is relatively new for us. We need to watch it. We need to monitor it. We need to make sure that we are getting the kinds of outcomes that we are looking for and that we are helping the right kinds of businesses. We have a focus on tech and FinTech [financial technology] and other things in the early stages because there is an appetite for it out there and a number of very interested parties. However, as we think about how the opportunity can grow and about some of the other sectors that we may want to think about prioritising, we will keep a watching brief on that.

Sue Terpilowski OBE (Member, LEP, SMEWG and SEWG): That is a great answer from the LEP's perspective and it was the best-value piece we did a lot of research into.

From an SME's point of view, still, working capital and working cash flow are the big issues and that is where the banks have no appetite to help the micro- and small end of businesses.

Dr Onkar Sahota AM: Is it because the banks seem to think that the risk is too much for them?

Sue Terpilowski OBE (Member, LEP, SMEWG and SEWG): Yes, and also it sits in the wrong part of their balance sheet for them and their strategy and obligations now. There is an element of feeling almost sorry for the banks here. Overdrafts sit in the wrong area of their balance sheet. If I have a £40,000 overdraft, even if I do not draw down a penny for the whole year, they have to say that I have had £40,000 out every day in their balance sheet, even though they have not lent it. Therefore, their risk factors are so high that they cannot make those decisions. They are trying to move everybody out of overdraft situations. That means that if you go into invoice discounting or something like that, you are giving away all your capital, whereas you might have only dipped into your overdraft two or three days in the year. That is why they have this problem. Therefore, access to working capital is a major issue.

Also, as we come out of recession, companies do not have the assets and do not have the books to generate growth and to get the loans to actually grow. If there is a high investment and you need to buy something like equipment or whatever, you are not getting the good leasing deals and you are not getting access to the finance because the books are not good enough. That is the problem.

Jenny Jones AM (Chair): I can hear some dissent on my right.

Kit Malthouse AM (Co-Deputy Chair, LEP): I should declare an interest as somebody who is involved in the equipment-leasing business. It is what my business does. That is not my impression of the industry.

In fact, equipment leasing in particular has rocketed, partly because of what Sue has just said. People are switching banks and switching from unsecured lending, which has much higher capital requirements on their balance sheet, to secured lending. Real interest rates on equipment finance have dropped like a stone and so the rates are much better.

Having said that, you have to work quite hard to get security on non-standard equipment. If you are a catering business, in the good old days you used to be able to finance all your knives and forks. You needed 1,000 knives or 1,000 forks or whatever and you could finance them. It is quite hard to finance them these days. For standard lathes, diggers and identifiable chunks of equipment, the market though is very strong at the moment.

Jenny Jones AM (Chair): Do you want to respond to that?

Sue Terpilowski OBE (Member, LEP, SMEWG and SEWG): It probably is, but do not forget that in London we do a lot more with service businesses, in which it is not a tangible thing like that.

Kit Malthouse AM (Co-Deputy Chair, LEP): Yes. It is a different market.

Sue Terpilowski OBE (Member, LEP, SMEWG and SEWG): It is a different market to what Kit is talking about.

Kit Malthouse AM (Co-Deputy Chair, LEP): However, invoice financing has taken off - you are right - as a substitute. The security requirements now are so stringent by banks because they are so risk-averse, largely, I have to say, because the conditions that are put on them to access the funding for lending money are actually quite strong, too. It means that people who are in the mid-level - or what you would call mid-prime rather than sub-prime or prime - find it harder than they used to to access money.

Fiona Twycross AM (Deputy Chair): Are there particular groups that find it harder to access finance for their businesses?

Sue Terpilowski OBE (Member, LEP, SMEWG and SEWG): Service companies.

Fiona Twycross AM (Deputy Chair): In terms of demographics, are there any differences between men and women, people from different backgrounds or --

Jenny Jones AM (Chair): Emma is nodding.

Emma Stewart MBE (Member, SEWG): If I can say personally, as a woman owning a business, I found it harder to get access to finance.

Fiona Twycross AM (Deputy Chair): Yes. Are there any studies done that? Obviously, with the importance of SMEs and people --

Emma Stewart MBE (Member, SEWG): The last one that I know of was about eight years ago. I could check, but there has been some work done by the Government Equalities Office relatively recently, but certainly women's barriers to access to finance are multiple. Some revolve around business perception but some also revolve around women's own approaches and lack of confidence or necessarily lack of networks in order to be able to do it.

Fiona Twycross AM (Deputy Chair): Yes, I have some more general questions on the devolution of employment and skills. I just wondered, maybe starting with Emma, whether in light of the agreement in Manchester how London can continue to build a case for further devolution of employment and skills programmes?

Emma Stewart MBE (Member, SEWG): Through the work of the SEWG, there has been a conscious debate for working towards London being able to have more responsibility for the employment skills programmes. The approach that the Skills Group is taking is to use the Growth Deal that London has to run some pilots in a similar way to the way that Manchester is. This is effectively to test out some approaches for particular groups and to look at how services can be co-developed, co-designed and co-delivered and, within that, to look at how devolution can work at a regional level, a sub-regional level and a localised level.

The pilots are focusing on a number of areas. They are focusing on looking at an Employment and Support Allowance work programme pilot. The pilot is in west London and looking at mental health service users and also looking at how to work with the Department for Work and Pensions around the Flexible Support Fund. The LEP's perspective is to take a staged approach: to trial, to learn, to review and to push on that, which I personally would agree with.

As a reflection on it, though, as a personal perspective from having been around the employment skills market for over ten years, the challenge the LEP will face and the SEWG will face is that devolution is potentially a good thing on the basis that, if it happens, we also address the complexity of the system. You can still have a devolved system that is ridiculously complex. The challenge of pathways and entry-points for individual people looking to upskill or get back to work or move on in work could still exist if you do not address the complexity of the system in that approach. That is very much about how the different divisions of London's skills and employment holders - namely London Councils, the GLA and the Skills Funding Agency - work closer together. The aspiration to have an integrated system has been around for a very long time, but the implementation is very challenging, particularly working with the boroughs.

The other thing I would say is that, looking forward, London has particular labour market challenges and therefore there is value both in looking at particular groups that are excluded from London's labour market - women are a classic example; older workers are another - and also looking at the nature of work not just in terms of moving people into work but on in work. Again, the issue of in-work poverty is incredibly significant in London with older professional workers and I am pleased to say that the SEWG is looking at leveraging some ESF money to trial some career progression pilots and to try to tackle some people who are working but just need an opportunity.

Sue Terpilowski OBE (Member, LEP, SMEWG and SEWG): The other thing I would like to add is that one of the bits of work we are really focusing on in the SEWG is trying to map forward the jobs in London and then trying to use that to influence both schools and further education colleges to make sure we upskill Londoners for the jobs that are available. There is a classic thing that London really does not have a problem filling jobs. London has a problem filling jobs with Londoners. That is a big difference and it is a separate challenge.

What I have been passionate about and what I think the group is passionate about is really ironing out and identifying where those jobs are. What are the jobs that London is going to have three, five or ten years hence from now and how can we get the system to upskill our people to be able to do those jobs? That is a crucial element and that will then start really helping if we need some people like that and if we can start to join that lot up together.

Fiona Twycross AM (Deputy Chair): Do you have any comments on what Prospects [contractor] will bring to the new National Careers Service and how that can be strengthened to push some of that?

Emma Stewart MBE (Member, SEWG): Through the SEWG, there has been engagement with Prospects. There was a schools inquiry and I know there is a schools summit lined up.

The challenge with looking at how to devolve a careers service for London is that the current national contract is volume and is not looking necessarily at quality of provision. I have talked about this before, but at the moment it is incredibly challenging for national providers to deliver the outputs that they are required to do with the budgets that they have. If London is going to tackle a careers service, it needs to be looking at more innovative approaches that are online through social media and leveraging the potential for voluntary input from businesses in terms of pro bono or corporate social responsibility-type support. It needs quite a different approach to the one that is working at national level because we know from all the evidence that the National Careers Service has significantly struggled. For London to make it work, it has to work very differently.

Fiona Twycross AM (Deputy Chair): Would further devolution be part of that solution?

Emma Stewart MBE (Member, SEWG): Absolutely. An interim measure needs to be to really look at how London and the SEWG can really push Prospects, which is holding the contract, to model some of the ideas that we want to take forward. At the moment, what you cannot do is go from what we have now to a brand new thing that has not been trialled and tested. The challenge is that we are working with a national contractor with a series of outputs that have been centrally driven. That is a conversation that is ongoing to try to trial some new ways within that. There is some additional money that the SEWG can leverage in, again, looking at ESF and other programmes to maybe facilitate some of those trials. We are really keen to push for that to happen because, otherwise, we are not moving forward on it.

Jenny Jones AM (Chair): All right. Thank you. Emma, Sue and Stephen, thank you so much for your contributions. It was very valuable.

Kit Malthouse AM (Co-Deputy Chair, LEP): On Emma's [Stewart] point earlier, I have emailed you, Chair, on a report and action plan that was put in place in early 2013 about women's access to finance and what the effect of it is in business. It is a national thing and I might be able to follow up and see where they have got with it. It was a Nick Clegg [Deputy Prime Minister] thing and so it may well have run into the sand, but I will follow it up and see where they have got to.

Jenny Jones AM (Chair): Thank you so much.