

Knowsley business summit

Key findings

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Executive summary

This paper is the output of the Knowsley Business Summit that brought together local businesses, Knowsley Metropolitan Borough Council and a range of business service providers from across the region in the spring of 2009.

The Summit's objective was to help inform policy-making at a local and national level so that businesses could be helped to survive the economic downturn and indeed lead us towards a prosperous and vibrant future.

The discussions revealed three broad challenges. To:

- Improve and create new services to help businesses where appropriate;
- Make sure that existing services are readily and easily available;
- Remove unnecessary administrative burdens.

Because of the complex, interrelated challenges local businesses face, we are asking the organisations listed below to respond to the challenges and proposed policy solutions outlined in this paper:

- The Association of British Insurers (ABI);
- The British Banking Association (BBA);
- The Department for Business Enterprise and Regulatory Reform (DBERR);
- The North West Development Agency (NWDA).

Knowsley Metropolitan Borough Council (KMBC) has also committed to produce a report to local businesses outlining measures that it is taking to support the local economy.

The table below identifies some of the broad themes that emerged from our discussions and potential solutions:

1. Cash flow, finance and insurance

Challenges

- Access to finance and insurance such as cash flow, access to and the cost of credit including credit insurance

Potential solutions

- A mechanism to guarantee a proportion of insurance credit risk
- Help on debt factoring
- A simple loan scheme and / or grant scheme for small businesses
- Encourage the credit insurance industry to make a more accurate assessment of actual risk

2. The role of government

Challenges

- Government as enabler, providing assistance to support education and skills training

Potential solutions

- Clearer guidance on education and training support and simplify the application process
- Investigate phasing grant income to help cash flow
- Improve awareness of business advice services
- Simplify the process for accessing grants and financial support
- Government as customer,
- Encourage RDAs to maintain the pace of new contracts

with questions relating to speed of payment, the release of public sector contracts and the process of public procurement

- Government as regulator, with concerns about the apparent duplication and complexity of regulation
- Government as revenue raiser, including business rates

- Ensure the public sector implements the prompt payment code, and extend it to cover subcontractors
- Investigate the value of pre-qualification questionnaires operated by local government, and introduce a more streamlined approach
- Apply better regulation principles to procurement documentation and processes
- Ensure that organisations consulted in the pre-tender phase are normally invited to tender
- Adopt the “ask me once” principle to cut down on multiple inspections
- Introduce "gatekeeper" roles for regulators across government to avoid duplication of inspections
- Better communications to explain to local businesses how to access locally administered schemes and deferment options

3. Individual markets

Challenges

- Construction and housing
- The automotive industry

Potential solutions

- Investigate expanding the RSL scheme
- Stimulate the construction industry by encouraging awareness of the recently simplified planning process
- Support to ensure staff can remain employed – a burden that needs to be shared between employees, employers and the Government
- Support for car finance to stimulate the demand side

Overview and introduction

Over the course of the last nine months we have received representations from businesses throughout Knowsley facing a range of often-disparate challenges, many connected to the economic downturn.

As your local MPs and council leader we decided to host a summit to bring together local businesses, representatives of both national and local government as well as the banking industry. Our objectives were to identify common themes, to enable us to make the case in Parliament and at Council level for more coherent action to support local businesses.

This paper summarises the discussions held on the day and suggests a range of practical measures that could assist businesses through these difficult times. Although this was primarily a local discussion, it is our belief that these are common challenges faced by industry across the country and therefore require both national and local solutions.

We are grateful to all those who participated on the day, including our panellists:

- Chris Burgess, Liverpool Branch Chair, Federation of Small Businesses;
- Martin Walsh, Chair of Knowsley Chamber of Commerce;
- Paul Pinnington, Government Office North West (BERR);
- Paul Ross, Director of Retail Banking for the British Bankers Association;
- Nick Kavanagh, Knowsley Metropolitan Borough Council.

The discussions revealed a range of frustrations and concerns held by local businesses. They also showed that both national and local government are already providing a range of valuable services and there was welcome input from the banking industry that helped to clarify a number of concerns.

Coming out of the day, we identified three broad challenges:

- To improve and create new services to help businesses where appropriate;
- Make sure that existing services and users are readily and easily available;
- To remove unnecessary administrative burdens.

To make this happen we will need a concerted effort to manage the overlap between local and national government and to ensure that this is done in a way that simplifies the process for businesses, rather than introducing extra complications. Speed, timeliness and accessibility should be central principles.



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The purpose of this paper

This paper summarises the challenges faced by local businesses and sets out potential solutions. For these to be effective, no one organisation can work alone, rather it is essential that we take a partnership approach. It is therefore our intention to ask for a response from the organisations listed below:

- The Association of British Insurers (ABI);
- The British Banking Association (BBA);
- The Department for Business Enterprise and Regulatory Reform (DBERR);
- The North West Development Agency (NWDA).

Going forward, we would welcome opportunities to work with all of these organisations and any other relevant stakeholders to promote measures that support the improvements outlined in this paper.

As part of our ongoing work to progress the proposals in this paper, Knowsley Metropolitan Borough Council (KMBC) has also committed to produce a report to local businesses outlining measures that it is taking to support the local economy.

Key themes

A number of broad themes emerged during our discussions:

- Challenges in accessing finance and insurance such as cash flow, access to and the cost of credit including credit insurance.
- The role of government:
 - As an enabler, providing assistance to support education and skills training;
 - As customer, with questions relating to speed of payment, the release of public sector contracts and the process of public procurement;
 - As regulator, with concerns about the apparent duplication and complexity of regulation;
 - As revenue raiser, with specific questions about business rates.
- Challenges facing individual markets, e.g.:
 - Construction and housing;
 - The automotive industry.

The section below discusses these challenges in more depth and proposes practical solutions that could be implemented at a national and / or local level.

1. Finance and insurance

Many of the principal concerns outlined by local businesses relate to access to finance. This appears to be a multifaceted challenge:

a. Cash flow

Local businesses are experiencing a squeeze on cash flow from several directions. This is particularly concerning because, when combined with even a modest fall in demand, it can be catastrophic for short-term survival. Examples of pressures on cash flow include:

- Larger businesses demanding more flexible terms from their suppliers;
- Significant variation in speed of payment by public sector customers, both centrally and at local level. There were numerous reports of public sector organisations and their contractors appearing to be unaware of their obligations under the prompt payment promise. This is discussed in more detail below in the "government as customer" section;
- The costs of unused overdraft facilities have increased, following the Basle II requirements that oblige banks to balance their lending more appropriately.

The combination of longer payment terms and lower demand in turn creates an increased requirement for credit which is also problematic.

b. Access to credit

- There is a perception among local businesses that access to credit has reduced significantly since the summer. A contrary view was expressed by the British Bankers Association which pointed out that lending is now returning to 2007 levels. Bank of England figures¹ suggest that total net lending flows continued to remain weak in the first two months of 2009, though there are signs of companies returning to the capital markets to raise funds and that "Companies setting up new borrowing facilities face higher spreads and fees and so their overall cost of borrowing has fallen by less than Bank Rate or Libor".

Whatever the exact situation, it is clear that local businesses do not feel there is ready access to credit and there were reports of businesses entering into conversations with their banks only to find that the cost compared with previously existing arrangements ended up being unfavourably revised.

- The Enterprise Finance Guarantee scheme is overly complicated and its implementation has disappointed many local businesses. There is widespread recognition that it is right that local businesses should take responsibility for a percentage of their loan, but there are widespread reports of banks demanding very high personal guarantees of up to 100% despite the headline figure of a 75% government guarantee. While it is possible to explain this disparity by pointing to the overall bank lending book, the general sentiment among summit participants was that the guarantee scheme was "a good idea poorly thought through and executed".

¹ Bank of England [Trends in Lending April 2009](#)

c. Cost of credit

- Knowsley businesses reported that the cost of credit has increased significantly over recent months despite record falls in the Bank of England base rate. As well as the headline interest rates rising on loans, there were reports of arrangement fees coming close to 4%. Taken together with the increasingly frequent requirement to manage relationships with several lenders as banks seek to spread their risk, both the financial and human resource implications of arranging credit have significantly increased.

d. Credit insurance

For many companies the ability to obtain credit insurance has perhaps been even more challenging than the cost and availability of credit. For example:

- Companies reported that they and / or their customers have had their credit cover either removed, or have faced very significant increases in premiums, with examples cited of increases in the order of 250%;
- There were widespread reports that the Export Credit Guarantee Scheme has been slow to take off;
- A number of organisations pointed out that credit insurance companies appear to focus more on the sector being insured, rather than the customers of those businesses. Consequently, credit insurance premiums can appear to bear little relation to the actual risk covered.

Potential solutions

We believe that the Government should consider a number of interventions to address some of the problems identified above. These could include:

- A mechanism to guarantee a proportion of insurance credit risk;
- Help on debt factoring;
- A simple loan scheme and / or grant scheme for small businesses instead of the EFG.
- Discussions with the credit insurance industry to encourage a greater correlation with actual risk so that the payment record and nature of creditors is more effectively taken into account.

2. Government as enabler

There was widespread recognition both that the Government should have a role to support businesses and that a number of valuable schemes are already available. However, awareness and access to existing schemes would appear to be sub-optimal, for example:

a. Assistance to support education and training skills

- A number of companies said that they have made decisions to put recruitment on hold until there is more certainty in the current trading environment. In the meantime, there is a clear appetite for easier access to training and employment skills that would help companies to retain the existing staff;
- Requirements for companies to spend first before receiving grant income can have a significant impact on cash flow and can therefore impede access to current schemes.

b. Complexity of accessing services and assistance

- The administrative process of accessing support packages can be extremely burdensome;
- Those organisations that had direct experience with organisations such as Business Link were generally positive about the range of services available. However, while favourability was high, awareness both of the range and depth of support would appear to be low.

Potential solutions

We believe there is scope for the Government to:

- Provide clearer guidance on education and training support that is available, together with a simplified application process;
- Investigate the practicality of phasing the payment of grant income in order to alleviate cash flow concerns;
- Improve awareness of business advice services, using existing Government communications to businesses, e.g. HMRC, NAO & local government communications etc to highlight services through Business Link etc;
- Introduce a simplified mechanism that reduces paperwork for accessing grants and finance support packages.

3. Government as customer

For many local businesses, government and public sector contracts represent very significant customers. A number of commonly held experiences suggest that both central and local government could modify their current procurement practices both to stimulate the economy and reduce unnecessary administration. For example:

- a. The release of public sector contracts.**
 - There was a commonly held perception that the rate of tendering and contracting has slowed significantly at regional level.
- b. Speed of payment (compliance with Prompt Payment Code).**
 - Examples were cited of public sector organisations asking for 60-day credit terms, and there was a general perception that the 10-day requirement for SMEs is widely ignored. Other companies said that credit term problems were particularly acute among FM providers to the public sector which can operate terms that could effectively mean 75-day payment periods.
- c. The unnecessarily complicated and bureaucratic nature of public procurement.**

A number of organisations expressed frustration at the volume of paperwork involved in pre-qualification questionnaires, with comments suggesting that this has increased significantly over the past 18 months.
- d. Using local contractors to provide “free” tendering consultancy**

Examples were cited of local companies being used by the council as a means to inform future tenders, but then being excluded from those tenders.

Potential solutions

We believe there is scope for action on a number of fronts to tackle these problems. For example, the Government could:

- Encourage RDAs to maintain the pace of new contracts;
- Remind public sector organisations of their obligations under the prompt payment code, and extend its remit to subcontractors in all future contracts / as contracts are renewed;
- Ask the Audit Commission to investigate the value of a sample of pre-qualification questionnaires operated by local government, and recommend a more streamlined approach that would both add value to procurement processes while reducing bureaucracy;
- Apply better regulation principles to procurement documentation and processes, i.e. proportionate, accountable, consistent, transparent and targeted;
- Ensure that organisations consulted in the pre-tender phase are normally invited to tender. This could include encouraging awareness of European procurement rules that protect companies that have assisted the development of tender processes through providing intellectual capital during the pre-tender phase of procurement.

4. Government as regulator

a. Duplication of inspections

- While accepting the importance of appropriate operational / health and safety regulation, organisations cited significant duplication and overlap that can occur among regulators. As well as adding a significant burden to the cost of doing business, it also poses the potential risk of effective double jeopardy.

Potential solutions

We believe there is scope for the Government to:

- Adopt the “ask me once” principle – i.e. organisations subject to regulation should be permitted to redirect questions that are asked by multiple regulators to the first regulator that posed the initial question, within a specified time period;
- Ensure that each Government department has a lead regulator that has the power to act as a gatekeeper on other regulators to avoid multiple inspections, either through data collection or on-site inspection. We would also like the Better Regulation Executive to take a role here to tackle situations where duplication of regulators occurs across different government departments.

2. Government as revenue raiser – business rates

- There was widespread support for the measures discussed by Knowsley Council to:
 - a. Allow companies to defer payments until the end of the year;
 - b. Allow payments to be spread over 12 months rather than 10;
 - c. Provide scope for payment holidays.

Building on these discussions, local businesses would benefit from a clear indication of plans to implement these measures including timescales and how to take advantage of them.

Potential solutions

We recognise that the recent budget brought some clarity at a national level, but there is still a need for local businesses to understand how to access locally administered schemes and deferment options.

5. Specific market concerns

As well as the general concerns identified above, a number of organisations cited challenges related to specific sectors of the economy. For example:

a. Construction and housing

- The dramatic slowdown in the private housing market has effectively stopped the "money circle" which in turn threatens a range of businesses dependent on that market. Questions were asked about what could be done through RSLs that would in turn have a knock-on stimulatory effect on the rest of the market;
- Organisations also observed that the slow rate of processing planning applications can impede new business.

Potential solutions

We believe that there is scope for the Government to:

- Investigate expanding the RSL scheme;
- Encourage people to take advantage of the simplification of the planning process that DCLG recently introduced by communicating these measures directly to local businesses and residents through existing communications channels.

b. Automotive industry

- The automotive industry has experienced a particularly sharp decline in sales over the past 12 to 18 months. A significant part of the problems faced by the industry relates to consumer access to credit as well as general public uncertainty.

Potential solutions

We believe that there is scope for the Government to provide:

- Support to ensure staff can remain employed – a burden that needs to be shared between employees, employers and the Government;
- Support for car finance to stimulate the demand side.

We recognise and welcome the support provided during the recent budget through the implementation of a scrappage scheme and would also highlight the wider points that we have made elsewhere in this paper about access to credit and liquidity.

Conclusion

It is clear that there are many challenges facing local businesses at this time. Yet, the future is not all bleak.

There are already mechanisms in place to mitigate some of these challenges provided that awareness and access becomes more widespread. For other challenges, businesses need new and more refined forms of support.

We have identified a number of very practical interventions that could be made, many at little or no cost. If implemented, it is our belief that they would help companies in Knowsley and across the country to lead us out of the downturn and towards a stronger economic future.

Appendix – list of businesses participating in the seminar

Around 100 people representing the organisations below attended the summit:

A1 Nursing and Homecare Ltd	Knowsley PCT
Acorn Taxis	KUC Business Advice
AEB Precision	Land Rover Experience
Aerelink	Life Cells
Alliance Fund Managers	Lighthouse Project
Angels Solicitors	M.Ray Ltd
Best Bar \None	Maxwell Hodge Solicitors
Bill Corris Photography	Mayfield Construction Ltd
Braidwater	Metro Security
C.A.R.E Ltd	Milbrook Therapies
Careers and Employability Service	Milligan Opticians
Cinetic Service UK Ltd	Mojo Theatre
Collage Marketing	Mulberry Services Ltd
Creative Chemicals	Mustang Creative
Credit Management Group	National Wildflower Centre
Delphi	Net Respect
Directions Driver Training Ltd	North West Business Leadership Team
EEF	Oakfield Project
Ensign Contractors Ltd	Oasis Prescott
Federation of Small Businesses	Open College for Sign Language
Firesafe Installations	Paper 4 Print
Firstrate Independent Mortgage Services	PAS Sound Engineering Ltd
Forefront Services	Paul's Carvers Ltd
Getrag Ford	Performance Studies
Glen Dimplex Home Appliances	PFL
Henry Diaper	Piece by Piece
HSBC Prescott	Planet Sports
Huyton Churches	PMC North West Ltd
International Automotive Components	Porter Associates
Jaguar and Land Rover	Prescot Shopping Centre
John's Breakfast Bar	Progression Training Industry
JST Lawyers	Search Time Saver Ltd
KB2	Sonae
Keith Lewis and Associates	Stewart Group
KHT	Tapes For Industry
King Construction	The Grog Shop
Kingfisher Design and Print	The Potter group
Kirkby Arts and Crafts	The Stable Door
Kirkby Blinds	Tomorrows People Trust Ltd
Kirwans Solicitors	Transport Media
Kitch-Cleanse Ltd	Trevor's Card Shop
Knowsley Business Watch	Trident Solutions
Knowsley Council Recycling Services	UNITE the Union
Knowsley Crossroads caring for carers	Woodlands Hospice
Knowsley Hall	