

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Hampshire Economic Board
Date:	16 February 2011
Title:	Access to Finance
Reference:	2510
Report From:	Director of Economic Development and County Treasurer

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1. Executive Summary

1.1. The purpose of this paper is to highlight the issue of access to finance for small businesses. It summarises the actions being taken by Government and other agencies, including actions already taken by Hampshire County Council. The report also investigates what additional measures Hampshire County Council could take to help address the issue.

1.2. This paper seeks to:

- report on the feedback from business support organisations on the impact lack of access to credit is having on businesses;
- summarise the Government's plans to help; and
- highlight action Hampshire County Council could take.

2. Background

Feedback from the Hampshire Business Support Organisation Network

2.1. Access to finance to viable businesses is vital to ensure that they have the resources to invest and grow, particularly for small businesses. There has been much publicity on how the lack of business credit is affecting business and there have been endeavours in the past few months to ascertain the latest picture.

2.2. Information and feedback from consultation and meetings with the Hampshire business support organisations on this issue has been received, including from the Federation of Small Businesses (FSB), Hampshire Economic

Partnership, Hampshire Chamber of Commerce, Institute of Directors, Business Southampton and Enterprise First. The Hampshire Business Conference held in October by Hampshire County Council also heard from business support organisations and businesses themselves, all indicating that access to finance is one of the top issues for businesses and a real obstacle to growth and survival in many cases.

- 2.3. Businesses understand the impact the current instability in the financial markets is having on the flexibility their high street bank may have, but there is a general feeling that now bank reserves have in most cases been replenished, banks should relax their very tight controls on business credit. Many businesses are able to access credit but only through a limited offer of products – some have been offered unaffordable terms as much as 12% over base rate, or banks are requiring large equity stakes. Late payments seem to be a major cause of cash-flow problems for small and medium-sized businesses. The FSB advises that “it is the small business community which bears the brunt of the economic downturn and are leaned on by big businesses which continue to pay late”.
- 2.4. The FSB has been lobbying the Government hard for some time on the access to finance issue, and is calling on the Government to carry out a number of measures, including forcing the banks which it had to bail out (RBS and Lloyds) to return to 2007 lending levels, as well as a cut in VAT to 5% in the construction sector, and extending the National Insurance Contributions (NICS) holiday scheme.
- 2.5. More established businesses tend to have equity built in and existing reserves which put them in a better position to negotiate their financial needs.
- 2.6. However, the banks still deny there is any problem. A report by the Hampshire Chamber of Commerce in November 2010 summarised feedback from four major banks: HSBC, RBS, Société Générale and Santander. All confirmed that they were lending to small businesses and in fact lending was up anywhere between 11% and 27% on the same period in the previous year. Clydesdale Bank also reported to the business organisations in November that it was open for business and in fact had “over-reserved” so had plenty of funds available, too.

Government Action

- 2.7. Improving access to finance was a key action highlighted in the Government’s Backing Small Business Plan in November 2010, where it committed to identify measures to support finance for small businesses in particular. The Government has also committed to “**challenge the banks**” to deliver on their commitments to improve the transparency of their decisions, promote competition and provide the new business growth fund for established SMEs. It has also stated its intention to “assess how successful the package of both public and private sector support is in unlocking the finance small business needs to grow.” The Government has also promised to review the competitive landscape in access to finance for SMEs as a priority, particularly considering early-stage and venture capital investment,

introduce a new appeals process to help businesses that have been declined finance by banks and to fund and publish a new independent survey to provide data on business finance and lending supply. The White Paper also reports that major UK banks have committed to actions that will seek to repair relationships between banks and business customers. A new plan to cover all these issues has therefore been developed by the Coalition Government called **Merlin**; this is anticipated to be launched sometime in February. The plan aims to encourage banks to be more flexible on their lending policy and anticipates around £200 billion being released in loans to small businesses. The delay in announcing the new programme is reported to be over “governance” issues.

Localism Bill – Business Rates

- 2.8. The Government has included in the Localism Bill the necessary provisions to allow for discretionary business rates discounts, so that local authorities in England will be able to respond to local circumstances by reducing business rates bills and also to simplify the process for claiming small business rate relief in England by removing the legal requirement for ratepayers to submit an application form.

White Paper

- 2.9. In its White Paper of November 2010 – “The Path to Strong, Sustainable and Balanced Growth” - the Government stated that “Access to finance is a real concern for many small businesses” and sets out a package of Government and industry-led measures to work towards addressing this. As well as the proposed Merlin programme mentioned in paragraph 2.7, these measures include:
- (i) support for the **Enterprise Finance Guarantee (EFG)** over the next four years to enable lending to viable small businesses that lack collateral or track record. The EFG scheme will provide up to £600 million of additional lending to around 6,000 businesses next year alone and, subject to demand, over £2 billion in total over the next four years;
 - (ii) increasing the Government’s share of **Enterprise Capital Funds** by £200 million, which will enable investment into the equity gap of more than £300 million for early stage innovative SMEs with the highest growth potential;
 - (iii) encouraging business angel groups and the Government’s SME investment arm, Capital for Enterprise Limited, to put together a bid to the Regional Growth Fund for a **Business Angel Co-Investment Fund**. If successful, this will support angel investments into early stage SMEs with high growth potential, particularly in areas worst affected by public spending cuts; and

- (iv) The Government's new **Business Finance Taskforce** has committed banks to fund and implement a new single network of UK mentoring providers. This network of experts will help start-ups, growing businesses and businesses seeking financial mentoring. It will also include access to 'financial master classes' funded by banks.
- 2.10. In addition, the Government has introduced its own "**prompt payment commitment**". Government has committed central Departments to pay within ten days and nine out of ten invoices are now paid within that timescale – ensuring up to £66 billion in payments reaches business quicker than ever. BIS is now working in partnership with the Regional Economic Forums to promote prompt payment across the wider public sector, and a third of local authorities are reporting that they too are now paying within ten days.
- 2.11. In its new business support measures announced in January 2011, details of the **Enterprise Allowance** (EA) were made. The Allowance, which will help unemployed people set up their own businesses, will be launched in Merseyside and will now be rolled out nationwide from the autumn. The EA will be available to twice as many people as was originally planned. It will give people who have been unemployed financial support for their early months of self-employment, access to a start-up loan, and an expert business mentor to help guide them through the early months of their business. However, it is not clear yet whether this scheme will be available in the South East – it is rumoured that it is likely to be specifically targeted to the north of the country.
- 2.12. The restructured **Business Link service** will now be primarily delivered on-line or by telephone, but any face-to-face support will concentrate on business start-ups, seminars and high growth business support. Business Link handles enquiries for the Finance for Business: Commercialisation Fund, which aims to facilitate the progress to market of business ideas (products or services) with clear potential for high growth. The Finance for Business: Commercialisation Fund is part of the Solutions for Business portfolio and is financed by the South East England Development Agency (SEEDA) and managed by **Finance South East**. The funding is aimed at allowing a new business idea or innovation to sufficiently develop so that it can gain market entry or market traction. This may include first revenues or contracts, market-validation, or putting operational processes in place. The Finance for Business: Commercialisation Fund operates in two 'phases' with up to £30,000 available for each phase. An application for funding that involves activities across both phases may apply for a maximum of £60,000. An application may be made for either one of the phases. However, it is understood that the Regional Business Link service may close in November 2011, so it is unclear what will happen to this loan facility.

The Essex Bank Model

- 2.13. The Banking on Essex initiative was launched in June 2009 in Essex, using the Wellbeing provisions under the Local Government Act (2000). It allows Essex County Council to utilise its cash reserves to support small and

medium-sized businesses in the county and, by extension, keep people in jobs and support business growth.

- 2.14. Banking on Essex is operated on a sub-participation agreement between Essex County Council and Santander Corporate banking. The model uses the banks' expertise, systems and processes, while Essex County Council provides 50% of loan funds, receives half of the interest earned and shares half the risk of the default. Due to FSA licensing requirements, Essex County Council does not lend directly to businesses or make any lending decisions. Bank of Essex provides secured or unsecured loans of up to £100,000 over periods of up to five years and overdraft facilities of up to £100,000 to eligible businesses in Essex. The lending model is delivered in association with Santander Corporate Banking, part of the Santander Group. Pre-application business support is provided by the local Enterprise Agency in Essex. Subject to approval, loans and overdraft facilities are available for companies that have been in business for over 12 months, are based within the Essex County Council boundary (excluding Southend-on-Sea and Thurrock), have fewer than 250 employees and have an annual turnover of less than £25 million. As at November 2010, **97 enquiries** had been received and **20 loans** and **two overdrafts** have been sanctioned, totalling **£530,000**.
- 2.15. **Enterprise First**, one of the county's main business support organisations which Hampshire County Council financially supports, is currently in discussions with two national banks about developing a scheme whereby Enterprise First actively reviews and validates applications to the banks for finance. There may well be opportunities for Hampshire County Council to become involved or support this scheme.

3. Hampshire County Council - Possible Future Action

- 3.1. In its discussions with business and many Hampshire business support organisations, Hampshire County Council has been asked if it could consider taking action to alleviate the situation. There are several options that Members may want to consider, as follows:
- (i) Encouraging Hampshire County Council Contractors to Speed up Payments:
 - (a) Several meetings were held with the FSB specifically to look at improving procurement opportunities for small businesses in Hampshire and there are a number of actions underway to facilitate this. It is planned for Hampshire County Council and FSB to sign the Small Business Accord in March this year; this will acknowledge the efforts Hampshire County Council has taken in its procurement policy to help small business.
 - (b) However, the FSB and the IOD have both stated that Hampshire County Council could further help many small businesses in respect of their cash flow if it were to encourage

its suppliers and contractors to formally sign up to a policy of speedy payments to their own sub-contractors. Reports have been made of payments as late as 90-120 days which, for many small businesses, impact hugely on their cash flow with salary and overhead payments to make. The FSB is now urging Government to take the lead in tackling this problem by implementing a 'Social Clause' in national and local Government contracts. This relies on the Government stepping up its game, paying swiftly and then giving a guarantee that when the Government pays the lead contractor quickly, this is passed down the supply chain to all sub-contractors – with penalties attached for persistent non-compliance.

(ii) Reducing Hampshire County Council Payment time to Suppliers:

Hampshire County Council has also been asked by business support organisations if it can improve the speed of its own payments to suppliers. This matter was raised and addressed some time ago, although the County Council policy is 30 days, payments can be made faster than this if specifically requested. This policy is being successfully operated and provides a balance between supporting small businesses whilst avoiding significant financial implications to the County Council.

(iii) Hampshire County Council Loans:

Businesses have also asked if the County Council could lend money to small businesses, replacing the service previously offered by the banks. Hampshire County Council cannot loan directly to business but it has, in the past, discussed with Hampshire Economic Partnership and other partners the potential for a Hampshire Credit Company or Hampshire Bank. This was discussed at the Hampshire Senate some time ago and was not a favoured option to progress.

4. Recommendations

- 4.1. That Hampshire County Council pursues opportunities to encourage its contractors to pay their sub-contractors promptly, including the development of a good practice guide.
- 4.2. That further discussions be held with Enterprise First to identify opportunities for Hampshire County Council to collaborate on its plans to improve access to finance for small businesses through direct collaboration with banks.

**CORPORATE OR LEGAL INFORMATION:
Links to the Corporate Strategy**

Hampshire safer and more secure for all:	no
Corporate Improvement plan link number (if appropriate):	
Maximising well-being:	yes
Corporate Improvement plan link number (if appropriate):	
Enhancing our quality of place:	no
Corporate Improvement plan link number (if appropriate):	

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

Document

Location

None

IMPACT ASSESSMENTS:

1. Equalities Impact Assessment:

1.1. No impact assessment required at this stage.

2. Impact on Crime and Disorder:

2.1. Not applicable.

3. Climate Change:

a) How does what is being proposed impact on our carbon footprint / energy consumption?

Not applicable.

b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

Not applicable.