

Coventry & Warwickshire Economic Recovery Partnership

Proposal

Emergency Support for Businesses in Coventry & Warwickshire

Background

1. The Group

Coventry & Warwickshire Economic Recovery Partnership (CWERP) was established under the auspices of Coventry Solihull & Warwickshire Partnership (CSWP) in August 2008. Partners are drawn from those that were involved in the successful 'Peugeot Partnership'.

These include: CSWP; City, County, District & Borough Councils; Advantage West Midlands, Jobcentre plus (JCP); Learning & Skills Council Coventry & Warwickshire; Business Link; Coventry University (CU) and Coventry & Warwickshire Chamber of Commerce (CWCC).

2. The Context

During the summer of 2008 it was becoming increasingly evident that the fast-deteriorating economic conditions were beginning to affect business and employment prospects in Coventry & Warwickshire.

Following the momentous events of September and October 2008, most business sectors were reporting trading difficulties. Evidence from the BETA model (for the period July-October 2008) shows a worrying rise in business closures. For both Coventry and Warwickshire, the numbers of business closures have more than doubled, rising from 244 for April-June to 544, and 529 to 1076 respectively.

These data suggest that Coventry and Warwickshire businesses are being hit harder than average for the region or indeed the UK as a whole. Part of the reason for the disproportionate impact in the sub region is because we are over-reliant on two of the four sectors that are being particularly badly hit by the economic downturn – Construction represents 11.8% Coventry business base (compared with 11.1% in the West Midlands) and business services which represents 16.8% Warwickshire's business (set against 14.9% in the West Midlands). In addition, detail is emerging of suppliers to the automotive industry (now fewer in number than during the early 1990s but still important to the sub-regional economy) being subject to severe pressure as sales of new cars decline.

The virtual disappearance of large private sector employers over the last decade and a half has made the sub region more reliant on its SME base. And, whilst the SME base in the sub-region is more competitive and resilient than it was during the last recession, it seems likely that businesses of this size will bear the brunt of the current economic conditions. Indeed, we have already seen significant SME redundancies being made by Thwaites in Leamington, Avondale Coachcraft in Atherstone and Precision Antennae in Stratford upon Avon.

In one sense, the hard-won progress made by some SMEs in Coventry & Warwickshire over the last fifteen years faces erosion by as economic conditions worsen in the coming year. At the same time, there are a large number of SMEs that have flourished during a time of economic prosperity and have little experience in dealing with adverse circumstances or managing a business through a recession. Put simply, a recession is new phenomenon for many businesses in the sub-region. All this has serious implications for

the regional economy, and its efforts to close the productivity gap with other regions, as Coventry & Warwickshire is an important contributor to the West Midlands GVA.

3. The Issues

Individuals

When large employers were more in evidence, as in the past, the requirement to notify redundancies (of over 25 employees) provided advance information and the ability to identify businesses affected. In turn, this facilitated early intervention by local partners in advance of redundancy in order to provide support such as re-training, job search skills and so on for individuals.

By way of contrast, Job Centre Plus (JCP) is currently reporting massive growth in new claims but more of these have not been notified in advance. As they reflect small numbers they fall below the redundancy notification threshold and are therefore less 'visible' to local partners

So, forecasting and planning support for individuals made redundant is proving difficult. As a consequence, individuals have not had the benefit of the early advice and support, which has been proven to increase the chance of securing early employment and reduce the risk of long term worklessness and its associated social exclusion.

Action: Critically all partners need to sign up to intelligence gathering, centralising and sharing - using formal and informal mechanisms – in order to provide the support that individuals are eligible for and can benefit from. CWCC has agreed to facilitate this data collection and will work with Business Link and other partners to refer into appropriate services.

SME Businesses

The current economic crisis differs from previous ones in respect of: the breadth of the sectors affected; the rapidity of the downturn and the acute paralysis of the banking sector.

SMEs are characterised by having modest resource backup in terms of management expertise and financial reserves. Most are not pro-active in engaging external agencies or seeking help.

In many cases SME finances are closely tied to family or personal finances. For example, business loans are frequently guaranteed against family residences - the housing price boom creating significant 'safe' assets which are now falling in value. Moreover, local businesses are reporting a downturn in trade characterised by: delayed and cancelled orders, slowing in payments and difficulty in accessing finance (for example denial or withdrawal of overdraft facilities or punitive interest rates - all of which have a negative impact on cash flow)

Action: There is an urgent need to provide immediate specialist response (identify issues, provide support on financial and legal matters to prevent viable SMEs being placed at risk due to the complex adverse conditions. The remainder of this paper sets out a proposal for a pilot initiative in Coventry & Warwickshire for delivering this response.

4. The Proposal

In the design of this proposal, partners have been critically aware of the need to work within the framework of the Business Support Simplification Process (BSSP). In practical terms this means working closely with Business Link. Although consideration was given to the option of requesting that Business Link prioritise a recovery programme in the sub-region, partners feel that a local initiative, which is integrated with Business Link services, is likely to yield a more successful package of interventions. As a pilot this will provide a practical opportunity to enhance working relationships between local partners and Business Link.

There are convincing reasons for putting together a local package of support as partners are able to bring the following additionality:

- Partners are genuinely keen and can quickly secure the capacity to undertake the activity immediately
- Partners have established relationships with local businesses (for example Chamber membership or through the delivery of current and previous business support programmes)
- Partners have a track record of providing support in similar circumstances (closure of Peugeot, Rover, Massey Ferguson)
- Partners have already sounded out potential private sector support (specifically, the Chamber's Legal & Professional Network and Coventry First) and received a positive response
- Support for business can be 'joined up' with assistance for individuals as a consequence of the partnership including sub-regional ESF contractors
- Partners have a detailed knowledge of the local economy (potential investors, new jobs in the pipeline)
- An understanding of potential public sector support solutions

In simple terms this is a mature partnership with structures that include a multiplicity of delivery agencies that have the ability to draw upon multiple solutions

As mentioned above, the proposed activity has been designed to complement Business Link activity. In practical terms this means that:

- Businesses engaged that do not require this emergency support will be referred to Business Link immediately
- The service will involve Business Link as a matter of routine following the 'added value interventions'.
- As the service is delivered, more businesses will move into the Business Link orbit

Business Recovery Team: Guiding Principles

The support is aimed at businesses that, in the view of a professional business mentor, using an agreed diagnostic, genuinely require emergency assistance either to avoid business failure or making significant redundancies.

With this in mind, it is proposed that, as pilot initiative, a Business Recovery Team (BRT) is created for Coventry & Warwickshire. The guiding principle of the BRT will be to offer support during the economic downturn. Of course it is difficult to determine how long this will be, although even the most optimistic commentators do not expect to see an upturn in the economy before the end of 2010. Therefore, it is proposed that this support is available between January 2009 and December 2010, with a review at the end of the first year.

It is proposed that the Business Recovery Team will offer an immediate and intensive mentoring service whilst optimising access to mainstream business support services. This

approach is an explicit acknowledgement that effective support has to be delivered within a framework of trust and confidence which will be built up during a period when the business will be particularly vulnerable. So, rather than provide only palliative assistance, the proposed intervention aims to promote sustainable development by fostering connections with the public and private sector business support infrastructure.

Estimating the likely demand for the service is not easy. However, assuming a 5.5% net reduction in the stock VAT registered businesses in Coventry & Warwickshire (the rate during the last recession – not a precise measure but about the best there is to work with), this translates as 1,700 closures.

Using this a starting point, it is proposed that the BRT will be staffed by **three full-time experienced business mentors** with financial knowledge and an in-depth understanding of the principal business sectors in Coventry & Warwickshire.

Working on the assumption that each mentor will offer an average of ten hours support to each business, this will allow each to develop a portfolio of 115 clients each year. With three mentors in post, the annual portfolio will be 345 clients and, over the proposed two year period this rises to 690 clients. In simple terms, therefore, the project is expecting to work intensively with 40% of the estimated client base. Of course, not all businesses engaged will require intensive assistance. Again, it is difficult to estimate the number but it is reasonable to assume that a further 230 clients can be either be assisted through 'light touch' support and referral to Business Link (the level two service). In total therefore the service will provide assistance to 920 clients or 54% of the estimated client base. As mentioned, there is an element of assumption contained within these calculations so a review of the service is planned at the end of 2009.

We are expecting these business mentors to be accredited and command credibility with the local business community. It is likely they will be recruited, or seconded, from partner organisations. In other words the mentors will be able to deliver services very quickly. All staff recruited or seconded to the Business Recovery Team will be dedicated to this activity.

Business Recovery Team: Description of Service

The service will be delivered in two stages:

Stage One: Emergency Measures

- Engagement through partners and intermediaries (banks, accountants)
- Diagnostic and filtering – referral as necessary
- One to One Mentoring, to include
 - A financial review of the company
 - Advocacy support with finance providers and other external organisations
 - Tactical support to address other immediate business issues

Stage Two: Stabilisation and Diversification

- Agree a medium term plan to consolidate the business.
- Introduce Business Link IDB services (level three and four) enhanced, as appropriate, by local services offered by public sector partners
- Source appropriate solutions from private sector providers to fill gaps in provision (for example legal, financial or technical expertise).
- Facilitate a programme of demand led one to many workshops on issues such as procurement or e-trading.

It is unlikely that businesses will have adequate resources to pay for private sector provision. Therefore, we are looking at creating a 'bank' of voluntary support drawn from the local private sector that can be made available. To this end, informal –but positive –discussions have already taken place with the local professional network, Coventry First. In addition, voluntary contributions have already been made by the private sector to local initiatives focussed offering support to business (notably the 'Weather the Storm' events held by the Chamber). However, at this stage it is uncertain whether this voluntary support will be adequate in scope and capacity to meet demand. Therefore, it is proposed that a small discretionary fund of £50,000 is created to provide a limited financial subsidy – as a last resort - to encourage take up of these services (and in doing so encourage sustainability). It should be kept in mind that the objective is to promote the uptake of private sector business support solutions, not fund business development projects. Whilst we would like to retain flexibility in how much subsidy is allowed, it is proposed that a ceiling of £500 per client is applied. Once more the level of this fund will be review after one year of operation.

Business Recovery Team: Funding

3 x Business Mentors

Salary: £40,000 per annum
On costs & overheads @ 40%: £16,000

Total cost of each Business Mentor: £56,000

Annual cost of three Business Mentors: £168,000

Cost of three Business Mentors 2009-2011: £336,000

Discretionary Fund

To cover the period 2009-2011: £50,000

Total Funding

£386,000

In parallel with this approach to AWM, partners are actively seeking local contributions to the cost of this proposal.

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