House of Commons

West Midlands Regional Committee

The impact of the current economic and financial situation on businesses in the West Midlands Region

First Report of Session 2008–09

Report, together with formal minutes, oral and written evidence

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The West Midlands Regional Committee

The West Midlands Regional Committee is appointed by the House of Commons to examine regional strategies and the work of regional bodies.

Current membership

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Mr Adrian Bailey MP (*Labour, West Bromwich West*)
Mr David Kidney MP (*Labour, Stafford*)
Mr James Plaskitt MP (*Labour, Warwick & Leamington*)
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The West Midlands Committee is one of the Regional Committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152F. These are available on the Internet via www.parliament.uk.

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Summary

The West Midlands Regional Committee was appointed in March. From our first meeting, it was clear that our first inquiry should be the effect of the economic downturn on businesses in the region. The evidence that we received confirmed that the West Midlands region has been severely affected by the economic downturn. Evidence also suggests that the downturn is affecting different areas in different ways and at different speeds, and that this necessitates a need to achieve a better balance between regional and sub-regional initiatives.

Advantage West Midlands and its public sector partners have been able to draw on their experience of the mechanisms established at the time of the closure of MG Rover as they have sought to respond to the impact of the economic downturn on the region. However, some of the problems caused by that closure had still not been overcome when the recession hit, helping to explain why its severity was greater in the West Midlands than in other regions, with the manufacturing and automotive sectors particularly hard hit. This has fed through in the current downturn into higher levels of unemployment than elsewhere in the country, for example.

Access to finance

The question of businesses' ability to access adequate finance is one of the most significant issues that has been raised with us during the inquiry. At times it has seemed as if banks and businesses are living in parallel worlds, as the quantitative data on bank lending showing levels of lending being maintained does not match the evidence provided by businesses that there has been a squeeze on lending. In evidence, the banks were adamant that they had not changed their lending practices to make it more difficult for businesses to access finance. The evidence from business in the region is that the credit crunch is still a reality. This is putting viable businesses at risk. The banks' regional managers must work more closely with the region's business groups and ensure that their lending levels and charges are appropriate for supporting West Midlands businesses through the downturn.

There are some alternatives to straightforward bank lending. **The Enterprise Finance Guarantee Scheme** was introduced in January 2009 and is available up to 31 March 2010. The £1.3 billion scheme supports bank loans of between £1,000 and £1 million and 3 months to 10 years maturity, to UK businesses with a turnover of up to £25 million who are currently not easily able to access the finance they need. Lending under Enterprise Finance Guarantee Scheme has taken time to build up momentum because some bank staff were not aware of the scheme when it was first introduced and could not provide information to interested businesses. That slow start means that the proposed March 2010 cut off date is no longer appropriate. We recommend that the Regional Minister makes representations now that the scheme should be extended beyond March 2010.

The **Advantage Transition Bridge Fund** (ATBF) was established by Advantage West Midlands and the Regional Taskforce in late 2008. It provides loans of between £50,000 and £250,000 for SME businesses based in the West Midlands with a viable business plan,

that are unable to secure finance to progress that plan from normal commercial sources.

Demand for funding from the Advantage Transition Bridge Fund suggests that regional businesses are still having difficulty accessing commercial sources of credit. The Committee welcomes the recent announcement of a further £2 million, taking the total amount available to lend to regional businesses to £11 million. We recommend that Advantage West Midlands and the Regional Minister continue to lobby HM Treasury for the ability to extend the fund further should demand from regional businesses persist.

The use of **credit insurance** varies by sector and size of company. There is conflicting evidence on whether credit insurance has become more difficult to obtain in the current economic climate. The withdrawal of credit insurance is of significant concern to the West Midlands particularly for those sectors such as the construction and automotive supply chain where the availability of insurance has disappeared altogether. The Government should investigate, as a matter of urgency, why take up of its credit insurance provision has been low and if necessary reassess eligibility criteria in order to achieve its intended objective. Decisive action is needed by the Government on export credit guarantees if it hopes to achieve an export-led economic recovery.

Government initiatives

We note the popularity of the **Train to Gain** scheme and recognise the commitment amongst employers in the region to training. We also recognise the contribution of such schemes to companies that might be forced into reducing the hours they are operating on through the downturn, and to the general level of skills in the workforce throughout the region that will benefit the region in the future. We think this is something that the Government should encourage at all levels. We recommend that funding for the Train to Gain scheme is continued as long as there is demand, and that the Regional Minister work to ensure the delivery of the scheme in the region is not hampered by the break up the Learning and Skills Council.

The Government announced the launch of an **Automotive Assistance Programme** of £2.7 billion in January 2009. The programme provides loans and Government Guarantees to business in the automotive sector, including the supply chain, with sales in excess of £25m with planned project investment in excess of £5m. We welcome the support provided in the Automotive Assistance Scheme, but are dismayed to find that none of the funding has reached business in the West Midlands. We recognise that the programme is for long term investment but the process of applying and receiving funds should be as swift as practicable. We recommend that the Regional Minister does all that he can to accelerate the AAP application process, and to provide support to those firms that have submitted an application or an expression of interest.

Regeneration

Advantage West Midlands are involved in **regeneration projects throughout the region**, but the reduction in their budget and the effect of the recession has meant they cannot continue with every project that they would like to. They told us that they will continue to be involved in every project that they are contractually obliged to, but the reduction in their income meant they had decided to limit their focus to twenty particular locations. We have concerns that there are areas in the region that, because they are not included in the list of twenty, are unlikely to be able to attract investment in the near future. As such they are being penalised twice: first by not getting immediate help because they not in the list of twenty, and secondly, because they will not attract further investment around the development that would have otherwise have.

AWM has had to take difficult decisions about how best to use its limited, and recently reduced, resources. If the twenty do go ahead as presently planned, however, it does not mean that other schemes which had to be excluded are not important and that other parts of the region should be forgotten. We recommend that the task force compiles a reserve list of projects which failed to make the list of twenty priorities and seeks to find alternative ways of making progress with them.

We are concerned about the implications of reductions in the budget available to Advantage West Midlands for regeneration even though the resources are being redirected towards important initiative such as alleviating fuel poverty, Homebuy Direct scheme, Enterprise Finance Grants and the National Equity Fund. We recommend that the Government review the impact of its decisions to ensure that regeneration initiatives that are important to regional recovery are not being compromised and that areas of significant deprivation are given their appropriate priority.

Stimulating the upturn

Evidence submitted to the Committee has highlighted a number of ways that Government could stimulate the economy and meet its wider environmental objectives. The Government has heeded calls for a vehicle scrappage scheme, but other sectors need help too. Stimulating **the housing and construction sectors** by bringing forward plans to add environmentally friendly features to the existing housing stock, is one potential example . The Regional Minister and his colleagues on the Task Force should look at what role they might be able to play in encouraging such an approach in the West Midlands. The Minister should also urge central government to encourage initiatives such as these to help improve economic conditions generally.

It is clear that not all investment decisions (especially those relating to new and green technologies) can be left to the market. If there is a consensus that it is desirable for the regional economy to develop in a particular way, the Government and its agencies must seek to intervene to help achieve those ends. The Task Force and AWM should be doing everything possible to guide some of those investment decisions, but ultimately whether or not such approaches are successful will also depend on central government policy and expenditure. We therefore welcome the Government's announcement of its renewable energy strategy as part of its drive to achieve **a low carbon economy**.

There is pressure both from business and from unions for the introduction of **a short time working wage subsidy**. The Government has so far resisted those calls, but it has not yet in our view put forward convincing arguments about why such a subsidy would not be appropriate, and so the demands for the introduction of a subsidy continue. In order to make a proper assessment of the usefulness of a short time working wage subsidy we need to have some hard evidence. As we mentioned earlier, the TUC and Federation of Small

Businesses estimated that a wage subsidy of the kind we are discussing would cost £1.2 billion a year and prevent 600,000 redundancies across the UK. We recommend that the Government undertakes and publishes as a matter of urgency a cost benefit analysis of such a scheme compared to, for example, supporting 600, 000 workers through the benefits or tax credits systems. This could also include an assessment of the effectiveness of the Welsh ProAct initiative.

Preparing for the upturn

One of the most striking features of the current round of economic and financial problems is the speed with which the situation deteriorated. In planning for the future when the economy is once again prospering, we were told that it was important to make the West Midlands economy broader based and more sustainable in order to make it robust and help to withstand future problems. Mick Laverty of AWM told us that the region:

- needs to be more innovative
- needs to be more entrepreneurial
- needs to improve skills across the board
- requires increased investment in infrastructure
- has too many people who are workless

and that the answers lay mainly with the private sector, getting a groundswell of businesses systematically innovating their products and their services. The solutions to these problems are set out in the **Regional Economic Strategy**. The challenge now is to implement the necessary change.

Making it happen

Despite the problems that it has faced over funding and the priorities set for it by Department for Business, Innovation and Skills, it is clear that Advantage West Midlands is the key regional player. It has money, a regional remit and is able to develop plans on its own initiative. However, budget restrictions, even before the recent DBIS policy changes, mean that it does not have enough money available to it to fund all the projects it would like to fund at present. Therefore, using its funding as seed corn and bringing in **investment** from elsewhere is vital.

As we mention earlier, the other bodies in the region which have autonomy and access to funding, even though any money available is likely to be both limited and preciously guarded, are local authorities. They are obviously local bodies rather than regional bodies, but they are close to their local communities and are able to develop their own agenda. Local authorities are about to be given more duties and capabilities connected with economic regeneration.

It is important that official bodies within the region take as much responsibility as they can for developing genuinely regional economic solutions. Within the region, it is the more autonomous bodies which are likely to be able to react most flexibly to respond to difficulties. **AWM and local authorities** are the well placed to do this, and we look to them to establish themselves as local driving forces for economic regeneration in partnership with other statutory bodies in the region and the private and third sectors.

In order to ensure that the partnership working is as good as it can be, we recommend that the West Midlands Taskforce becomes a permanent body. Co-ordination to help address economic uncertainties will continue to be of the utmost importance, and its ability to bring together partners will remain vital when the economy begins to grow again.

We welcome the introduction of **Regional Ministers**. In the West Midlands, the current Regional Minister and his predecessor have played important and valuable roles, for example in pressing the case for important projects such as the redevelopment of New Street Station and in establishing the task force to co-ordinate responses to the economic downturn. However, if the post of Regional Minister is to achieve its full potential in the development of regional approaches, there needs to be greater clarity about the role. A key issue to be resolved is how they can openly advocate regional interests whilst simultaneously being bound to defend Government policies in the region through a conventional application of collective responsibility. Regional Ministers have been given a different role to Ministers elsewhere in Government, and this difference needs to be reflected in accountability arrangements if they are successfully to represent the interests of their region to the rest of Government. We would therefore welcome clarification from the Government on how Regional Ministers are going to be enabled to fulfil their dual role.

1 Introduction

Background to the Committee

1. The West Midlands Regional Committee is one of the eight Regional Committees established in November 2008 on the recommendation of the Modernisation Committee.[1] It has the remit to "examine regional strategies and the work of regional bodies".[2] The Modernisation Committee argued that "there is clear evidence of an accountability gap at regional level", and that although RDAs and other bodies were accountable to Ministers, "many of their activities in the regions are not subject to regular, robust scrutiny".[3]

2. Members were appointed to the Committees on 3 March 2009.[4] Only Labour members were appointed, as other political parties declined to take up their places. Clearly it would be much more satisfactory if Members from other parties were also participating. However, we have followed the practice of other select committees and conducted our work in as non-partisan manner as possible, as our principal concern has been to find ways of improving circumstances for people and business in the West Midlands region.

3. We have also been keen to ensure that the Committee is for the whole region, not just for a particular area or areas. It has been a point of principle, therefore, that we have looked at issues that affect the central West Midlands conurbation, urban areas in the north of the region and Warwickshire, market towns and rural areas. We have decided that when we hold our evidence gathering meetings that they should take place around the region, and by the time we complete the work we have planned for our first year we hope to have held meetings in every broad geographical area. The only exception to this approach is when we take evidence from ministers and official bodies, when the meetings will generally be in Westminster.

Our first inquiry

4. When we first met in March, it was clear what our first inquiry would be, namely the effect of the economic downturn on businesses in the region. Our terms of reference are:

- The effect of the financial and economic situation on businesses in the region including the effect on different sectors such as manufacturing, service industries etc

- How effective Advantage West Midlands and initiatives such as Business Link are being in assisting businesses in the current climate, including helping them to gain access to funding both from Government funding streams and through the banking system

1 The establishment of a ninth committee, for London, was agreed by the House on 25 June 2009.

2 Standing Order No. 152F.

3 Select Committee on Modernisation of the House of Commons, *Regional Accountability*, Third Report, Session 2007–08, HC 282, 2 July 2008, Summary.

4 Votes and Proceedings, 3 March 2009, pp 258–9.

- The response of banks and other financial institutions to government and other initiatives to stimulate bank lending and the access of businesses in the region to credit
- The role of the West Midlands Task Force established by the Regional Minister in helping businesses cope with the economic downturn.
- The role of other Government agencies such as the Government Office for the West Midlands, and of partnerships between Government agencies, local government and the private sector, in providing support for businesses.

5. We received 33 written submissions from organisations around the region. We were extremely pleased with this response, and are grateful to all of those who wrote to us. We took oral evidence from Barclays Bank, HSBC, Lloyds TSB, RBS, West Midlands Federation of Small Businesses, West Midlands Business Council, Chamber of Commerce Hereford & Worcester, West Midlands Developers' Alliance, British Ceramic Confederation, Ideal Standard, Jesse Shirley, UNITE, Local Government Association, Stoke-on–Trent City Council, Staffordshire County Council, North Staffordshire Regeneration Partnership, Advantage West Midlands, Government Office for the West Midlands, Department for Business, Innovation and Skills and Ian Austin MP, West Midlands Regional Minister. Once again, we are grateful to all of those who gave their time to discuss the current situation facing businesses in the West Midlands. We also thank Professor David Bailey, formerly of the Birmingham Business School and now of Coventry University, for his assistance to the Committee during the inquiry.

Next inquiries

6. We have decided that we will hold two further inquiries in late 2009–early 2010. For the first of these, on *The effects of the economic downturn on the people of the West Midlands*, which is designed to complement our current inquiry, we have already issued a call for evidence, and we intend to take oral evidence in early autumn. The second future inquiry will look at matters arising from the Regional Spatial Strategy (RSS), in the light of the outcome of the Examination in public of the phase 2 revisions of the RSS (relating to the provision of housing and employment land, town and city centres, transport and waste) and the decision on preferred options following consultation on the phase 3 revisions.

2 Economic situation in the West Midlands

Regional Economic Situation

7. The evidence that we received confirmed that the West Midlands region has been severely affected by the economic downturn. Many witnesses attributed the considerable impact on the regional economy to its heavy dependence on manufacturing; the West Midlands has the highest proportion of manufacturing companies of any region in the UK and the sector accounts for 15% of overall regional employment. The Government Office for the West Midlands highlighted that "the region has 19% of the UK's employment in motor vehicle manufacturing, 24% of employment in metal work sectors and 56% of ceramics", [5] these have been considerably affected by falling demand.

8. The Purchasing Managers Index for May 2009 reported that output in the West Midlands fell for the 12th consecutive month; however the pace of decline appears to be easing. The West Midlands has seen the steepest fall in output and of job-shedding of any UK region. In May the region saw the slowest rate of contraction for the past eight months; however, six other regions in the UK reported growth in activity in the month. The region's unemployment rate of 9.3% in April 2009 is the highest in the UK and is 2 percentage points above the national rate of 7.3%. Unemployment in the region has risen by 2.8 % in the past year compared with a rise of 1.9% nationally.

9. The region's employment rate was 70.3% of the working age population in April 2009. The number of people employed in the region has fallen by 55,000 since April 2008, a fall of 1.8%. Nationally, the employment rate was 73.3% in April 2009, 1.5 percentage points lower than a year ago.

10. The region's seasonally adjusted claimant count was 175,500 in May 2009, an increase of 81% in the last year. In April 2009, five local authorities in the region were within the top ten English local authorities with the greatest annual increase in the proportion of claimants. These are Cannock Chase, Redditch, Walsall, Tamworth and Sandwell.[6] Birmingham and Staffordshire have experienced the greatest increase overall in claimant numbers in the region (15,525 and 10,923 respectively) although Staffordshire experienced a fall of 1,514 claimants between April and May due to seasonal employment.

11. The Bank of England forecasts that the UK economy will contract by 4% in 2009 with a return to growth in the first half of 2010. The recovery is, however, expected to be slow and protracted. Some of the witnesses that we spoke to expressed their concern that the region would experience a double dip, where there is a structural readjustment in the economy, rather than "things drop but there is a return to some sort of normality".[7]

5 WM 09 Government Office West Midlands

6 West Midlands Monthly Economic Update Report, May 2009, West Midlands Taskforce

7 Q 167

12. The Committee notes the considerable extent to which the West Midlands' regional economy has been affected by the economic downturn, and this was the reason that the Committee chose to examine the issue as its first inquiry.

Sub-region and sector variations

13. We received submissions from several local authorities highlighting the problems in their areas, and we took evidence from Stoke-on-Trent City Council, the Local Government Association and Staffordshire County Council. Evidence suggests that the downturn is affecting different areas in different ways and at different speeds, and that this necessitates a need to achieve a better balance between regional and sub-regional initiatives. Warwickshire County Council told us it "appeared that [Advantage West Midlands] were initially overly focussed on the urban areas of the region, starting from an almost pre-conceived notion that they would naturally be the worst affected areas. As time has passed, it is encouraging to note the growing recognition of the greater relative impact on the shire counties such as Warwickshire."[8] Similarly Redditch Borough Council said the "lack of a physical presence [of Business Link] in the town further disengages the business community".[9] Redditch also felt Advantage West Midlands was not particularly active in the town and this was a town where the unemployment numbers had doubled.

14. Steve Burrows of Staffordshire County Council described what had happened recently in Uttoxeter, following redundancies from JCB and Dairy Farmers of Britain there were more than 1,000 redundancies just in Uttoxeter. At the same time, Fox's Biscuits which has a factory and distribution centre in the town announced it was restructuring which might lead to the loss of 950 jobs. A town with a population of around 12,000 could lose near 2,000 jobs. Mr Burrows said that the County Council was "working with Advantage West Midlands, particularly to make a case for Fox's Biscuits and to put in place any assistance that we can to help it retain production in Uttoxeter. We are not expecting a decision on that for probably another six to eight months."[10]

15. Every area of the region and every sector of business has been affected, but for some the effects have been worse than for others. Some areas without the older, manufacturing industries were being affected less. Small businesses in rural areas are affected, but it was not clear from the evidence presented to us how severely the agricultural sector was being affected.[11] The FSB told us, "There is some evidence that those located in the south-eastern parts of the region are continuing to trade with slightly less difficulty than others in the north-west of the region, notably Stoke, and certainly in the Black Country, Birmingham and Coventry." [12]

16. The Committee took evidence from representatives of different business sectors and from business associations. When asked about what sectors were feeling the impact of the downturn the common response was construction and manufacturing, particularly the

8 WM 27 Warwickshire County Council

9 WM 16 Redditch Borough Council

10 Q 178

11 Q 41

12 Q 34

automotive and ceramics industries, and that the lack of cash moving through the system meant that firms in the supply chains in these sectors were struggling. Research by Oxford Economics identified that the key sectors that have seen the largest falls in output over the 2nd half of 2008 were manufacturing; distribution; hotels & catering; mining, quarrying & oil; transport, storage & communications; and business & financial services.[13]

17. The Federation of Small Businesses told us that "if you are in the manufacturing sector through the supply chain, particularly if you are connected to the automotive industry, then I think that you would probably say that it is very dire indeed".[14] A view echoed by the West Midlands Business Council who said that in the automotive supply chain firms were working on average at around 50% capacity and with some operating as low as only 20% of capacity.[15] The Business Council described the situation in the ceramics industry in Stoke-on-Trent as "having a pretty dreadful time."[16] Mike Shirley, from Jesse Shirley ceramics, said that in the past six months he had seen a 30% to 40% drop-off in orders.[17]

18. The West Midlands Developers Alliance said, "the construction industry has had a massive downturn because the public and private sectors are not requiring residential, industrial or commercial buildings. The majority of project management and architect practices in the West Midlands have made at least one or two rounds of redundancies and some are on their third round. There are a number of practices on four-day weeks as well and in a number of practices the staff have taken voluntary pay cuts."[18] However; the Alliance did point out that some construction work was available fitting out buildings as landlords tried to retain tenants by reducing rents and refurbishing their buildings.

19. In the retail sector the impact on businesses has been dependent both on their sector and their location. The Federation of Small Businesses said that "retailers in towns and city centres have been feeling the blasts of this economic situation for a long time […] those businesses in the retail sector that are out in the more peripheral parts of town and urban centres and in village centres are reporting a slight improvement. People are looking at the total cost of a shopping expedition, and they are shopping more locally."[19]

Surviving the Downturn

20. Witnesses told us that they had not anticipated the downturn and had been surprised by the speed of the decline. Unite told us that some companies had been forecasting that they would have record profits up to September 2008. Representatives from the ceramics sector felt that they had survived the period of outsourcing to locations with cheaper labour costs, and that the lack of demand they were experiencing was due to the economic downturn rather than structural change in the industry. Ideal Standard said "we have seen growth year on year, but this year we have seen significant volumes of new technology in

13 WM 27 Warwickshire County Council

14 Q 34

15 Q 41

16 Q 41

17 Q 89

18 Q 39

19 Q 34

which we have invested … standing idle, which is primarily down to cash flow problems and reduced sales”.[20]

21. The UK has experienced a period of sustained economic growth since 1992, a period of over 15 years. As a consequence, many businesses lack the skills and experience needed to trade in a recession. Unite stated “many HR managers in reasonably senior positions have not experienced a recession of this nature and have found it very difficult to deal with the consequences of restructuring on such a huge scale … from a union point of view, that was also true of our representatives in the workplace”.[21] Representatives from high street banks said that some businesses had not analysed the impact of the downturn on their business and were applying for credit without up-to-date information: “we often find that we are not being given the information we ask for, so we are not seeing up-to-date audited accounts and we are not seeing up-to-date forecasts of trading, going forward”.[22] Barclays suggested that businesses could benefit from mentoring by “experienced people in SMEs, or former executives of larger businesses who have maybe recently retired, to work with SMEs who are in difficulty”.[23]

22. The West Midlands has previously had to respond to a significant shock on the regional economy, when MG Rover collapsed in 2005. This meant that there was experience in the region of the MG Rover Task Force to draw on as an example of partnership working. However, Advantage West Midlands pointed out that the nature of the intervention required now was very different: “that was a very well defined problem at a point of time when the regional economy was pretty buoyant. We had quite a lot of resources compared to what we have now”.[24] The Regional Minister, Ian Austin MP, added that the circumstances of the closure of MG Rover had allowed for better planning than the current downturn: “it was pretty obvious for some time in advance that there was going to be a crisis at MG Rover, so the task force was conceived and planned, and you could identify not only the companies that would be affected, but the individual workers”.[25]

23. A key requirement for businesses to be able to survive the downturn is their ability to access cash to meet their outgoings until demand increases. HSBC said “the fundamental of cash being king is a major issue. Profits or losses are less of an issue than cash”.[26] There is considerable anecdotal evidence about problems with access to credit; however it is hard to quantify the extent to which viable businesses are at risk of administration as a result. A representative from the Department for Business, Innovation and Skills stated that they needed to “drill down more into case studies” using regional finance forums and by “getting intelligence back from those companies that Business Link helps in order to understand and get their sense of it”.[27] Representatives from businesses welcomed the Government’s initiatives to improve cash flow such as the 10 day prompt payment pledge

20 Q 89

21 Q 155

22 Q 6

23 Q 33

24 Q 195

25 Q 302

26 Q 2

27 Q 250

but reported that some big private sector companies had moved in the opposite direction, extending their payment periods to as much as 105 days.

24. **Advantage West Midlands and its public sector partners have been able to draw on their experience of the mechanisms established at the time of the closure of MG Rover as they have sought to respond to the impact of the economic downturn on the region. However, some of the problems caused by that closure had still not been overcome when the recession hit, helping to explain why its severity was greater in the West Midlands than in other regions, with the manufacturing and automotive sectors particularly hard hit. This has fed through in the current downturn into higher levels of unemployment than elsewhere in the country, for example.**

3 Access to finance and insurance

Banks and their approach to lending

25. Respondents to the CBI's Access to Finance Survey in May 2009 reported that the availability of both existing and new credit had deteriorated further in the three months to May, but the rate of the reported decline has slowed. Respondents expected little change in the availability of existing and new credit in the next three months. Fewer respondents than in previous surveys reported an increase in the direct cost of finance; however the arrangement fees, and the speed and administrative burden of accessing new finance were still reported as worsening by the survey respondents.

26. Over the three months to May the availability of trade credit insurance declined but at a slower pace than in the previous survey, with reductions in the credit limit being insured and a fall in the number of customers covered by insurance. The British Ceramic Confederation summarised the problem in region:

> "I think the West Midlands economy has in some ways been affected worse than many other parts of the UK, as there is very heavy dependence on manufacturing industry. In particular, the drying up of finance and the challenges of obtaining finance in all its forms has startled the industry here. Problems include a lack of access to funding through financial markets, problems obtaining credit and with cash flow for companies, and problems with credit insurance—particularly export credit insurance for exporters."[28]

27. The West Midlands Regional Finance Forum told us that there is a need for alternatives to the banks for lending as the "Banks are, understandably, much less concerned about missing a good investment (and economic) opportunity than failing with a bad debt."[29] However, the West Midlands Development Alliance stated "where businesses have handled themselves pretty well, the banks have been quite understanding".[30]

28. In their evidence to the Committee on 20 April, representatives from some of the high street banks stated that they had grown their commercial lending in 2008. Lloyds Banking Group stated "we grew our commercial lending by 20%. So we can get 20% more than we did in 2007. In the West Midlands, we grew our lending by 21%". Barclays reported a growth in new lending of 20% and RBS reported a year on year increase of 11% in commercial lending to January 2009. HSBC stated that lending lines for businesses turning over up to £25 million have been consistent through 2007, 2008 and 2009 while "the corporate banking centre's loan book in the Midlands increased by in excess of 25% in 2008" for businesses turning over between £25 million and £2 billion.[31]

29. In their evidence to the Committee representatives of businesses highlighted that access to credit remained a problem for their members. The Chief Executive of the British

28 Q 88

29 WM 30 Finance Forum

30 Q 53

31 Q 5

Ceramics Confederation stated that "funding issues, including credit and cash flow, are definitely priorities"[32]. However, the Chairman of West Midlands Business Council stated that it was difficult to quantify the extent of the problem:

> "We hear lots of anecdotal stories [as well]. We sat down as a business council just over a week ago to try to get really specific information, and it is quite difficult to pin that down, as you are probably aware. I think that it is probably not as bad as the noise suggests. That would be the view of the business council members."[33]

Business representatives did report a number of unhelpful actions by the banks such as "moving the goalposts, often at very short notice"[34] and moves to invoice financing, which is linked to volume of sales, as a method of supplying funds to companies rather than overdraft facilities where the amount of credit that is available is independent of turnover. The West Midlands Business Council summarised the impact of invoice financing as "if you are in the manufacturing sector in the West Midlands and your business falls by 50%, your funds fall by 50% fairly progressively".[35] Business representatives also reported that banks were requiring company Directors to put up personal assets to secure borrowing rather than using company assets.

30. **The question of businesses' ability to access adequate finance is one of the most significant issues that has been raised with us during the inquiry. At times it has seemed as if banks and businesses are living in parallel worlds, as the quantitative data on bank lending showing levels of lending being maintained does not match the evidence provided by businesses that there has been a squeeze on lending. In evidence, the banks were adamant that they had not changed their lending practices to make it more difficult for businesses to access finance. The evidence from business in the region is that the credit crunch is still a reality. This is putting viable businesses at risk. The banks' regional managers must work more closely with the region's business groups and ensure that their lending levels and charges are appropriate for supporting West Midlands businesses through the downturn.**

Alternative Sources of Finance

Enterprise Finance Guarantee Scheme

31. The Enterprise Finance Guarantee Scheme was introduced in January 2009 and is available up to 31 March 2010. The £1.3 billion scheme supports bank loans of between £1,000 and £1 million and 3 months to 10 years maturity, to UK businesses with a turnover of up to £25 million who are currently not easily able to access the finance they need. A Government guarantee of 75% of the loan is provided: to allow existing loans to be extended where the banks would otherwise have refused to refinance the loan, to support new loans where there is insufficient security; and to convert long term debt held in overdrafts into loans. The scheme was introduced within six weeks of its announcement

32 Q 117

33 Q 53

34 Q 52

35 Q 53

compared to the 15 months it took to launch the Small Firms Loans Guarantee Scheme which it has effectively replaced.

32. At their evidence session on 20th April, representatives from the banks admitted that there had been a number of teething problems when the scheme was first introduced. In particular businesses were approaching cashiers and branch managers for information on the scheme, rather than business relationship managers who had been briefed on it. The banks addressed this problem by providing additional information to branch staff to allow them to signpost businesses to relationship managers. Some clarification was also needed about the conditions of the scheme, such as on security requirements, which the Government has addressed. Representatives from businesses said that awareness of the scheme was improving. Hereford and Worcestershire Chamber of Commerce said, "The enterprise finance guarantee scheme seems to be rolling now. The problems with that seem to have gone."[36] Nationally, the Enterprise Finance Guarantee Scheme had received 3,300 eligible applications with a potential lending value of over £375 million as at 13 May 2009.[37]

33. The Regional Minister did not believe it was his role in giving evidence to the Committee to express an opinion on whether the Government should extend the scheme beyond March 2010. However, he confirmed that he would 'bang the drum for the region' if he was told by businesses that the scheme was being wound up too soon.[38]

34. **Lending under the Enterprise Finance Guarantee Scheme has taken time to build up momentum because some bank staff were not aware of the scheme when it was first introduced and could not provide information to interested businesses. That slow start means that the proposed March 2010 cut-off date is no longer appropriate. We recommend that the Regional Minister makes representations now that the scheme should be extended beyond March 2010.**

Advantage Transition Bridge Fund

35. The Advantage Transition Bridge Fund (ATBF) was established by Advantage West Midlands (AWM) and the Regional Taskforce in late 2008. It provides loans of between £50,000 and £250,000 for SME businesses based in the West Midlands with a viable business plan, that are unable to secure finance to progress that plan from normal commercial sources. The loans run for up to 3 years and are priced at a commercial rate of interest usually in a range of 6% to 10% above Barclays Base rate. As with commercial lending, assets within the company will be used to secure the loan.

36. Advantage West Midlands said that the fund was an early response to the downturn because lessons learned from the MG Rover closure showed that "businesses needed very quick access to funding to make the transition cover some of the shocks that they were facing between supplying, in that case, MG Rover and sorting out new customers and

36 Q 54

37 HL Deb, 20 May 2009, WA320

38 Q 260

markets".[39] AWM has made offers of over £9 million to 54 companies in the region from the Bridge Fund.

37. A review of the MG Rover Taskforce initiative demonstrated that most of the money will be returned to the lenders and many jobs that otherwise would have been lost have been saved, demonstrating there are economic investment opportunities that might be missed by the clearing banks. AWM said that anecdotal evidence from the businesses that the fund was lending to suggested that commercial banks were reluctant to lend to certain sectors, such as construction and automotive manufacturing, which are prominent sectors in the region.

38. There was concern as to whether the fund was large enough. The British Ceramics Confederation stated that "the total—£9 million—is a relatively small amount for the cash flow issues that companies are facing".[40] In their submission, dated 30 April, the WM Finance Forum estimated that the, "ATBF is likely to use its current £10 million in about 6 months, in chunks of about £160k average, at a loan of around £2500k per job saved. Extremely good value for public money as that is recouped from about 3 months of individual activity. There is concern now that HM Treasury will discourage further use of this fund. That is clearly not an acceptable position. ATBF needs to continue alongside EFGS. They are fulfilling different purposes, with over 55% of ATBF loans to manufacturers, as a result of the greater experience and more skilled resources available to ATBF and their attitude to lending."[41]

39. Business representatives that gave evidence were supportive of the fund. Jesse Shirley Ltd, which had received money from the fund, said that it had been a benefit and they had received the loan very quickly which was important for businesses with a cash flow problem. Witnesses in Leamington said that they found the Fund very useful:

> "David Caro: One of the biggest problems that we are hearing about is that banks are demanding personal assets to cover the loans, even when there are plenty of assets in the company, and that is a worry.
>
> Barrie Williams: That is leading to a preference for the AWM transition fund, which does not have such high charges or such onerous requirements on the owners of the businesses. I think we favour the transition fund as a scheme.
>
> David Caro: We have heard nothing but good results in comments that we have had about the transition fund."[42]

40. West Midlands Business Forum made the point that when the upturn comes and business starts to improve, then "the working capital in business needs to increase. The working capital in business reduces during a recession, although you may make losses. However, it is when you start to come out of recession that the demand on funds is at its

39 Q 228

40 Q 98

41 WM 30 Finance Forum

42 Q 56

greatest, and that period has yet to come."[43] In his evidence to the Committee the Regional Minister confirmed that the Taskforce had "secured the agreement of Ministers to extend lending in the region by another £2 million, which will clearly help dozens more companies and save, hopefully, hundreds more jobs".[44]

41. **Demand for funding from the Advantage Transition Bridge Fund suggests that regional businesses are still having difficulty accessing commercial sources of credit. The Committee welcomes the recent announcement of a further £2 million, taking the total amount available to lend to regional businesses to £11 million. We recommend that Advantage West Midlands and the Regional Minister continue to lobby HM Treasury for the ability to extend the fund further should demand from regional businesses persist.**

Community Development Finance Institutions

42. SMEs in the region looking for smaller amounts (loans of up to £50,000) are directed from the supportwm website to Fair Finance Consortium and information on the region's Community Development Finance Institutions (CDFIs). They offer help to firms that have been refused bank finance and wish to start a new small business or fund an existing business or social enterprise.

43. Advantage West Midlands said that there are six or seven CDFIs in the region covering every sub region of the West Midlands. Warwickshire County Council told us that they had seen a "significant upturn in demand for loans through the local Community Development Finance Institutions (CDFIs), suggesting access to credit from the banking system remains a problem."[45] The Government Office for the West Midlands stated that lending under CDFIs in Quarter 3 of 2008–09 had "increased by 156% in number and 206% in value compared to Q3 2007–08".[46]

44. The West Midlands Finance Forum also said, "Currently the support has come from the AWM but there is scope for support from local authorities matched by EU money, as yet unrealised. Central government could also provide additional support to RDAs which could by matched with EU money."[47] AWM provided £2 million to Community Development Finance Institutions (CDFIs), and through the West Midlands Taskforce have encouraged local authorities to contribute funding to CDFIs which they are able to match with European funding.

45. The Federation of Small Businesses stated that CDFI funding is very expensive and that this put small businesses that require funding below the minimum loan value of the Advantage Transition Bridge Fund at a disadvantage. However, Advantage West Midlands said that the CDFIs offer good value for money.

43 Q 60

44 Q 249

45 WM 27 Warwickshire County Council

46 WM 09 Government Office for the West Midlands

47 WM 30 Finance Forum, para 2.5.6

46. **Advantage West Midlands and Local Authorities have provided additional funding to Community Development Finance Institutions to support small businesses and social enterprise in the current downturn. Advantage West Midlands should review the cost of finance under CDFIs to confirm that small businesses are not put at a disadvantage by the minimum lending value of the Advantage Transition Bridge Fund of £50,000.**

Credit Insurance

47. The use of credit insurance varies by sector and size of company. There is conflicting evidence on whether credit insurance has become more difficult to obtain in the current economic climate. The West Midlands Developers Alliance said that credit insurance was very important to the construction sector and insurance companies had reduced their credit insurance provision to the sector:

> "Insurance companies have dramatically reduced their willingness to insure trade suppliers, and so the big boys—Jewsons and Travis Perkins—and some of the large regionals—EH Smith and people like that who are fairly cash-rich—are tackling the issue themselves. I think that the smaller suppliers are really struggling."[48]

48. However, a representative from the automotive sector did not use credit insurance because the insurance was extremely expensive even before the credit crunch. The Federation of Small Businesses reported that "fewer than 20% of our members say that they use credit insurance" of which 40% reported an increase in the cost of the insurance and 50% stated that costs had stayed the same.[49]

49. The Government announced in the 2009 budget that where insurers had reduced domestic credit insurance to a UK business, it would match the revised insurance provision up to a maximum of £1 million for a period of six months. There are limitations to the scheme, as pointed out by the British Ceramics Confederation: "If your credit insurance has been withdrawn completely, as has happened to a number of firms in the construction sector, those measures do not help because double nothing is nothing".[50] The Department for Business, Innovation and Skills stated that take up of the Government's credit insurance provision has been low, and as a result eligibility for the scheme had been backdated from May 2009, when the scheme was introduced, to October 2008.

50. The Government launched a consultation on sharing the risks of export credit with banks on 8 May; this closed on 3 July. Businesses have been frustrated by the slow progress on export credit:

> "We welcomed the news in the pre-Budget report in November that there would be help for exporters, and our members were pleased because it would allow them to take advantage of the drop in exchange rates. However, despite a call to an official at DBERR and follow-up letters to the Department and Lord Mandelson, we did not

48 Q 65

49 Q 65

50 Q 123

> get a reply until recently, and that said just that a consultation is starting now. It feels like too little help, too late."[51]

51. The lack of available export credit insurance may be hampering regional businesses. The West Midlands Business Council said that they had been given examples requirement "of companies turning down quite sizeable orders—£250,000 for example—because they are unable to get export credit guarantees".[52] Business representatives said that any hope of achieving an upturn driven by exports would require export credit insurance due to the risks involved in supplying new markets and new customers.

52. **The withdrawal of credit insurance is of significant concern to the West Midlands particularly for those sectors such as the construction and automotive supply chain where the availability of insurance has disappeared altogether. The Government should investigate, as a matter of urgency, why take up of its credit insurance provision has been low and if necessary reassess eligibility criteria in order to achieve its intended objective. Decisive action is needed by the Government on export credit guarantees if it hopes to achieve an export-led economic recovery.**

Business Rates

53. Small business rate relief of up 50% is available to businesses in premises with a rateable value of less than £15,000 (£21,500 in London). However, the relief is not automatic. Businesses must pay the full rate to their local authority and then subsequently claim for rate relief if they are eligible. Less than 50% of eligible rate payers claim relief, leaving over £400 million unclaimed each year. In their oral evidence to the Committee the Federation of Small Businesses called for small business rate relief to be made automatic, or for bills sent to premises with qualifying rateable values to suggest that businesses should apply for the relief. Newcastle under Lyme Borough Council saw a 10% increase in take up of small business rate relief following a communications campaign which included presentations to the Chamber of Commerce, dissemination by business advisors, and features in the council publication and on its website.[53]

54. For 2009–10 the Government has raised the threshold for rate relief on empty properties from £2,200 to £15,000. It estimates that this increase will mean that 70% of empty properties will be exempt from paying rates. The Royal Institution of Chartered Surveyors stated that "Budget relief measures have not been substantial enough to counter the harm to the sector which in regeneration areas includes the demolishing of buildings that could otherwise be refurbished".[54]

55. **Improving the take up of small business rate relief is an important method of improving the cash flow for small businesses. Local authority partners should examine ways of improving the take up of the relief in the region such as by printing details of**

51 Q 122

52 Q 73

53 Q 169

54 WM 17 Royal Institution of Chartered Surveyors

the relief on business rate bills that may qualify and through increased publicity of the relief to business. The Regional Task Force could help disseminate best practice.

56. **We also recommend that the Government reviews the £15,000 rateable value threshold for small business rate relief on empty properties.**

4 Government initiatives

Train to Gain

57. The Government increased its funding of Train to Gain by £350 million in October 2008 to support the training needs of small and medium sized enterprises in the economic downturn, such as by providing access to funding for qualifications in business critical areas. The Learning and Skills Council provided £4.4million to Business Link in the West Midlands to fund delivery of the Train to Gain programme.[55] In its written submission, Unite described the West Midlands as the "the highest performing region in terms of Train to Gain and through previous recessions and the collapse of MG Rover has developed a number of initiatives to tackle unemployment and skills retention."

58. Feedback to the Committee on the Train to Gain scheme has been mixed. The Regional Manufacturing Director from Ideal Standard stated that they are "training, typically, 300 people this year by NVQ 1 and NVQ 2 training, which is 100% funded from the Government." The training is accelerated from its training plan to take advantage of short time working. It had reportedly been well received by employees with people attending training in their own time.[56] However, the British Ceramic Confederation stated that full funding is not available for training above NVQ level 2 which could impact on the retention of skilled staff.[57]

59. **We note the popularity of the Train to Gain scheme and recognise the commitment amongst employers in the region to training. We also recognise the contribution of such schemes to companies that might be forced into reducing the hours they are operating on through the downturn, and to the general level of skills in the workforce throughout the region that will benefit the region in the future. We think this is something that the Government should encourage at all levels. We recommend that funding for the Train to Gain scheme is continued as long as there is demand, and that the Regional Minister works to ensure the delivery of the scheme in the region is not hampered by the break up of the Learning and Skills Council.**

Support for automotive manufacturing

60. A vehicle scrappage scheme was announced in the 2009 budget and has been in operation since 18 May 2009. It is a voluntary discount scheme for motor manufacturers who will give motorists £2,000 or more to replace a car or van that is over 10 years old with a new vehicle. The Government co-funds the discount with industry, offering £1,000 per scrapped vehicle up to a total subsidy of £300 million. The Department for Business, Innovation and Skills stated that 35,000 orders for new vehicles had resulted from the scheme by the end of May and 38 car manufacturers are participating in it.[58] The Minister

55 WM 05 Business Link, para 7

56 Q 99–104

57 Q 124

58 Government scrappage scheme a winner with consumers' Business Enterprise and Regulatory Reform Press Release, 29 May 2009

told us that this equated to about 4,000 orders in the West Midlands region.[59] In their oral evidence to the Committee on 11 May, a representative from the automotive sector expressed concern that the scheme had not been restricted to cars manufactured in the UK. However, this would not have been compatible with EU rules.

61. A similar scheme operating in Germany increased registrations by 21.5% in February. In Germany, drivers receive €2,500 (£2,245) for trading in a car that is more than nine years old. The German Government is investing €5 billion (£4.5 billion) in their scheme; this is significantly larger than the UK Government's maximum investment of £300 million in a vehicle scrappage scheme.

62. The Government announced the launch of an Automotive Assistance Programme of £2.7 billion in January 2009. The programme provides loans and Government guarantees to businesses in the automotive sector, including the supply chain, with sales in excess of £25million with planned project investment in excess of £5million. Projects must meet the European Investment Bank's Clean Transport Facility criteria and require a Government guarantee; meet the Government's carbon, environmental or efficiency targets; or bring value to the UK through the retention of jobs or technologies. In evidence to the BERR Select Committee the automotive sector confirmed that the programme was structured as they would like it:

> "When we set out the package of measures that we were looking for in October/November time of last year, loans and loan guarantees were absolutely what we were looking for. The industry has always sought the ability to help itself through this difficult situation and for us the problems were getting access to credit and finance to allow us to sustain our businesses."[60]

However, they were frustrated at the delays in implementing the scheme.

63. We asked the Regional Minister how much of the Automotive Assistance Programme had filtered through to the region. The Minister said that none had yet been drawn down, but that there were five applications from firms in the West Midlands, out of a total of eighteen nationally, that were being considered. He said that he shared the feeling that "we would all like these schemes to be operating as quickly as possible". Mr Jackson from the Department for Business explained that the package is long-term investment, and involves the added dimensions of green technology and innovation, so it is taking some manufacturers and suppliers time to work up the business case.[61] He said the Department was working with all the firms who had expressed an interest, and trying to ensure things are progressing as quickly as possible. When asked if the money might appear before the end of the year, Mr Jackson said, "I expect so."[62] He also mentioned that the five applications were at an advanced stage, and there were a further 80 expressions of interest in the pipeline.

59 Q 284

60 Oral Evidence to BERR select committee on 20 May, Q 69

61 Q 290

62 Q 294

64. **We welcome the support provided in the Automotive Assistance Scheme, but are dismayed to find that none of the funding has reached business in the West Midlands. We recognise that the programme is for long term investment but the process of applying and receiving funds should be as swift as practicable. We recommend that the Regional Minister does all that he can to accelerate the AAP application process, and to provide support to those firms that have submitted an application or an expression of interest.**

HMRC

65. The Pre-Budget report announced that HMRC had introduced a new, dedicated Business Support Service designed to meet the needs of businesses affected by the current economic conditions. The service provides specific help where customers are worried about being able to pay tax, National Insurance, VAT or other payments owed to HM Revenue & Customs. In their oral evidence the Federation of Small Businesses said "The flexibility of the Inland Revenue to allow you to spread rates has been welcomed and is worth while … allowing people to spread payments".[63]

66. Trudi Elliot from the Government Office said that at the last Task Force meeting the business representatives were asked what had been the most successful initiative and they said the HMRC Business Support Scheme. The experience of the MG Rover task force had again proved useful in understand what business needed during an economic shock. HMRC could anticipate what the likely needs of the business community were going to be, and they had so far come to agreements with 13,350 businesses in the region.[64]

67. Richard Hutchins, from Advantage West Midlands, raised the additional point that not only did an executive from HMRC sit on the task force, but they were the same person that did so during the MG Rover crisis, and their experience had proved to be tremendously helpful. He said that there was some concern about what happens when the bills have to be paid eventually, but that AWM were exploring ways to manage the flow of cash out of these businesses as they repay HMRC for these deferred payments.[65]

68. **The relationship between HMRC and the taskforce demonstrates once again the benefits of the experience of MG Rover and the importance of retaining knowledge of how to deal with economic shocks. We welcome the positive contribution of the HMRC Business Payment Scheme, and the effect it has had on helping businesses in the region manage their cash flow during the downturn. We note that these are payments deferred and recognise that AWM is working with businesses and the banks to anticipate any future problems.**

63 Q 78

64 Q 268

65 Q 216

5 West Midlands regional response to the downturn

West Midlands Taskforce

69. The West Midlands Taskforce was set up in December 2008 to co-ordinate the region's response to the economic downturn. It is based on a similar taskforce which was established to address the closure of MG Rover. The most prominent ways in which the Taskforce and Advantage West Midlands are supporting businesses in the downturn are:

- the establishment of a website called www.supportwm.co.uk, a central information point to signpost individuals and businesses to available support;
- the re-launch of the Advantage Transition Bridge Fund, providing a total of £9 million in funding for loans of between £50,000 and £250,000 to small and medium sized businesses that have been unable to access credit through commercial sources;
- £61 million in funding to the construction industry to stimulate development that might not otherwise be delivered in current market conditions; and
- practical support to businesses in severe distress, including Waterford Wedgwood.

70. Unite, who are a member of the Regional Taskforce, stated that "the level of co-ordinated and partnership working in the West Midlands has been fairly extensive".[66] In their written evidence to the Committee some councils suggested that the Taskforce should communicate better with local partners to demonstrate its value,[67] while others believed that its activities represented a repackaging of existing work or that they were still in the information gathering phase.[68] Oral evidence from Newcastle-under-Lyme Borough Council was positive about the Regional Taskforce stating that they "were involved in the taskforce at the outset and have been significant influences on the streams of work underneath".[69]

71. Representatives from businesses were more cautious stating, "it is early days for the taskforce. I think it is making a difference and will make more of one."[70] A number of business representatives expressed disappointment that business is not included on the taskforce.[71] The Government Office for the West Midlands indicated that the Taskforce would issue its first report under a monitoring and evaluation framework at the end of April.[72]

66 Q 134

67 WM 23 Stoke-on-Trent City Council and WM 26 Walsall Council

68 WM 16 Redditch Borough Council and WM 24 Stratford-on-Avon District Council

69 Q 182

70 Q 42

71 WM 08 Federation of Small Businesses, WM 17 RICS, and WM 28 West Midlands Business Council

72 WM 09 Government Office for the West Midlands

72. When the Minister appeared before the Committee he was asked what he considered the successes of the taskforce were. He said there were a number of things that might not have happened if it had not been for the taskforce. The taskforce gave a route for the region to express its concerns to Government around issues, for example on the scrappage scheme. He also pointed out the West Midlands was the first region to establish a Transition Loan Fund. He gave details of a programme of 1,000 subsidised jobs, training places and internships; and initiatives aimed at keep high level skills in the region such as support for those graduating this autumn but struggling to find work. He said these were examples of schemes that would not have happened had there not been the task force bringing together partners to make them possible. He also held up the importance of communication between the important regional bodies as something that the taskforce does well, a lesson learned from the MG Rover Taskforce.[73]

Business link

73. The Business Link service was restructured in 2007 to provide a single regional support service to businesses. It is funded by Advantage West Midlands and contracted to the West Midlands Brokerage Services Limited and Gateway West Midlands Limited.

74. Business Link West Midlands told us that they received nearly £42million in the year 2008–2009, to deliver its extensive range of business support programmes to companies in the West Midlands region. This involved core funding of £24.7million provided by Advantage West Midlands (AWM) to deliver the Business Link service. Core funding included £3.0million, which was specifically ring-fenced to provide consultancy grant support to client businesses in projects relating to Diversification and Access to Finance. AWM funded other programmes such as Leadership and Management, Designing Demand and various Social Enterprise programmes costing £1.5million.[74] In addition, AWM provided additional funding of £1.4 million over and above the core contract value.[75]

75. Business Link West Midlands has responded to the economic downturn in several ways. In October 2008, it set up a dedicated Credit Crunch Hotline to give practical advice to businesses which has received an average of 62 calls a month. It has also launched a series of 'How To' guides and workshops which provide information and guidance to help businesses. There have been over 100 workshops covered key issues for business including: Managing Cash Flow, Reducing Energy and Raw Material Costs and Dealing with Redundancies which have been attended by nearly 1,000 delegates. Businesses are referred to Business Advisers if they require more detailed support.[76]

76. In their evidence to the Committee on 11 May, representatives from businesses said that they signposted their members to Business Link for advice and support. Business representatives said that feedback from its members on the support provided by Business Link was mixed: some small businesses that attended the credit crunch workshops felt the

73 Q 300

74 WM 05 Business Link, para 5

75 WM 05, Business Link, para 8

76 WM 05 Business Link

information was not relevant to them. Business Link is perceived to be most relevant for start-up businesses; it suffers from a historical poor reputation among established businesses. The regionalisation of the service may also have given the impression that the service has withdrawn from some areas. Business Link has tried to increase the awareness of its services through television advertising.[77]

Infrastructure projects

77. The Government committed to maintain its commitment to investing in schools, hospitals and national infrastructure in the Chancellor's the 2008 Pre-Budget speech. The Government singled out investment in energy efficiency, the social housing stock, and in further and higher education as priority areas for investment in 2008–09 to prepare the economy for a high-tech, low-carbon future. With spending brought forward to 2009–10 to help improve transport infrastructure, science research facilities, school buildings and primary healthcare facilities. Despite the Government's commitment, the British Ceramics Confederation in its evidence said that they "would welcome some practical help, such as the Government increasing funding for social and affordable housing and, I suppose, honouring commitments around Building Schools for the Future".[78]

78. Staffordshire County Council recognised its responsibility to support businesses through accelerating infrastructure but said "This is not always easy, because capital programmes are difficult to get up and running, particularly when you have to buy land, obtain planning consents and that sort of thing, but we have accelerate programmes, both on highways and on educations, to try to invest more money in our local economy and to do it fast".[79]

79. Trudi Elliot, Director of the Government Office, said that problems such as falling land values had affected the delivery of some projects and unblocking projects that were in danger of stalling was seen as a priority for the taskforce. The Minister met with the lead officers of the top eight funding bodies in the region, so they have the opportunity to say where funding from one might cause a project to stall, so they could explore ways of finding the money elsewhere. She stressed the importance of Advantage West Midlands identifying 20 strategic investment locations, most of which featured multi-funded projects, and focussing on those.[80] She also said that the Government Office wanted to use infrastructure delivery as a way to take forward the green agenda and economic inclusion, the latter to try and drive up the skills level and bring into the work force those who might not have been in the work force before.[81]

Prompt payment

80. In October 2008 the Government committed all central government Departments to paying suppliers within ten working days. The Pre-Budget Report announced that regional

77 Q 48

78 Q 124

79 Q 168

80 Q 271

81 Q 275

development agencies had also chosen to adopt the commitment, and work was underway to extend the commitment to the NHS and local authorities.

81. Representatives from business stated that the West Midlands was "doing better than any of the other regions" at meeting the 10 day payment commitment by central government and those that were not meeting the timescale were working towards it. They acknowledged that payment within 10 days was a challenging target for some public sector organisations such as the NHS and local authorities.[82]

82. Staffordshire County Council stated that it paid all its suppliers within 10 days, of which £360 million went to the local economy. Stoke on Trent City Council has also signed up to the same agreement.[83]

82 Q 64

83 Qq 167–168

6 Regeneration

The role of Advantage West Midlands

83. Advantage West Midlands are involved in regeneration projects throughout the region, but the reduction in their budget and the effect of the recession has meant they cannot continue with every project that they would like to. They told us that they will continue to be involved in every project that they are contractually obliged to, but the reduction in their income meant they had decided to limit their focus to twenty particular locations,[84] and were in the process of writing to partners to explain where projects were not going forward.[85] Mick Laverty, Chief Executive of AWM, pointed out that the RDA did not have the resources to deal with every area of deprivation in the region before the recession so it was not possible to deal with of them at the moment.

84. Mick Laverty explained the process AWM went through to decide of the twenty schemes. They had sat down with their partner agencies, such as the Homes and Communities Agency, the local authority, the Highways Agency and the Learning and Skills Council, and asked each if a project was a priority for all of the agencies involved. He said that the twenty are "all the large schemes, by and large, that all the partners have on the radar, which we have all concluded need to be a top priority for all of us."[86] He added that the twenty are schemes that have either started, on which phase one has started or that we are already into.[87]

85. As AWM have admitted, the twenty schemes are ones where they were priorities for all the partner agencies and they were already in progress. The decision as to which schemes to proceed with was to an extent based on where agencies were committed contractually rather than according to a level of deprivation or need. **We have concerns that there are areas in the region that, because they are not included in the list of twenty, are unlikely to be able to attract investment in the near future. As such they are being penalised twice: first by not getting immediate help because they are not in the list of twenty, and secondly, because they will not attract further investment around the development that they otherwise would have.**

86. **AWM has had to take difficult decisions about how best to use its limited, and recently reduced, resources. As Mr Laverty said, if the twenty are revisited, momentum will be lost. If the twenty do go ahead as presently planned, however, it does not mean that other schemes which had to be excluded are not important and that other parts of the region should be forgotten. We recommend that the task force compiles a reserve list of projects which failed to make the list of twenty priorities and seeks to find alternative ways of making progress with them.**

84 WM 34 AWM supplementary

85 Q 185

86 Q 211

87 Q 212

87. **We are concerned about the implications of reductions in the budget available to Advantage West Midlands for regeneration even though the resources are being redirected towards important initiative such as alleviating fuel poverty, Homebuy Direct scheme, Enterprise Finance Grants and the National Equity Fund. We recommend that the Government review the impact of its decisions to ensure that regeneration initiatives that are important to regional recovery are not being compromised and that areas of significant deprivation are given their appropriate priority. We will return to these issues in future inquiries.**

The role of local authorities

88. We received written evidence from several local authorities from all parts of the region and took oral evidence from local authorities and the North Staffordshire Regeneration Partnership in Stoke-on-Trent. They said that local authorities were being affected financially by the reduction in the value of property and a similar reduction in their incomes. However, they were trying to bring forward and accelerate capital schemes on highways and on education, but this was complicated by the delays involved in buying land and obtaining planning consent programmes. Mark Barrow, from the Local Government Association, said the majority of authorities in the region specify a proportion of local labour or the generation of local apprenticeships in construction contracts[88] and improve the ability of small businesses to secure contracts with the local authorities.[89]

89. The local authorities in North Staffordshire were working with Advantage West Midlands and other partner agencies to regenerate Hanley city centre, and the University quarter in Stoke-on-Trent. The Chief Executive from Stoke-on-Trent City Council said that it is difficult to have balanced redevelopment if the funding is not available from the RDA.[90]

90. **Without input from AWM, and other regional bodies, there is a limit to what local authorities can do. In the absence of funds, the task force has to work with local authorities and other local stakeholders to explore other ways of stimulating the local economy.**

91. One of the submissions we received was from Kington District Council, who said that small towns were overlooked by the RDA at the expense of the conurbations, and the abandonment of the successful Market Towns Initiative Programme had "left small Market Towns and the communities which surround and depend upon them without a source of assistance to regenerate the areas and kick start small initiatives which are needed in a time of recession."[91] Redditch said that their economy was low waged but deprivation is not sufficiently high to attract investment to address it. They felt they fell below the radar to benefit from significant grants or initiatives. The AWM said they did recognise there were problems beyond the major conurbations, such as in Cannock which had undergone the greatest proportionate increase in its claimant count of any local authority district in the

88 Q172

89 Q 174

90 Q 177

91 WM 11 Kington Town Council

country.[92] As a response AWM did say that they have launched a package of support for market towns in the region which, puts an extra £150,000 into bodies like citizens advice bureaux, and some additional help for retailers.[93]

92 Q 193

93 Q 208

7 Stimulating the upturn

92. Evidence submitted to the Committee has highlighted a number of ways that Government could stimulate the economy and meet its wider environmental objectives, such as a cistern scrappage scheme to encourage households to purchase water efficient sanitary ware, grants or a targeted VAT cut to encourage retrofitting of buildings to make them more energy efficient and grants to industry to support Research and Development in efficient technologies.

93. The West Midlands Developers Alliance raised a similar point at the session in Leamington, saying that they were having to provide “carbon-neutral housing by 2016 and carbon-neutral commercial development by 2020. Somebody needs to be doing their research to deliver that, but I think that it is the first thing that is cut. Green issues are being pushed along very firmly by both the Government and the industry, but of course someone needs to fund that, and it is the first thing that is cut.”[94]

94. The vehicle scrappage scheme has now started to have a significant effect, with the latest figures showing that 29,796 cars have been bought under the scheme[95]. It is not clear to what extent that has benefited car manufacturers in the West Midlands—given the nature of the remaining manufacturers, it is unlikely to be in any way significant—but component manufacturers supply throughout Europe, and car dealerships will certainly have benefited. There could be lessons to be learnt from this scheme for other sectors.

95. Brian Standbridge of Ideal Standard made reference to plans to put water meters in all homes in areas of 'water stress', which have recently been the subject of consultation. He said:

> “If there are potentially 10 million homes out here with still high-flushing systems, it is all right putting the meters in, but unless you put the hardware in that saves the water, all we are going to do is measure the high usage. That could pull thorough the whole supply chain: plumbers, supply chain and manufacturers ... you go to B & Q and there are low energy bulbs and loft insulation. I have not seen anything on the water usage of sanitary ware.”[96]

96. Gerard Coyne of Unite made a similar point in relation to the construction industry:

> “There is a strong argument for kick-starting refurbishments of existing properties in the region and nationally that could be retrofitted on a green basis. That would hit some of our important green targets. That is one of the first areas where you could start to reinvigorate the economy through a concerted effort on environmental standards in construction for social housing and retrofitting. Those issues would have an impact in the manufacturing sector as it relates to the construction industry.”[97]

94 Q 51

95 BBC News Online, 6 July 2009.

96 Qq 124–125

97 Q 158

97. **The Government has heeded calls for a vehicle scrappage scheme, but other sectors need help too. Stimulating the housing and construction sectors by bringing forward plans to add environmentally friendly features to the existing housing stock, is one potential example. The Regional Minister and his colleagues on the Task Force should look at what role they might be able to play in encouraging such an approach in the West Midlands. The Minister should also urge central government to encourage initiatives such as these to help improve economic conditions generally.**

98. Investment in general, and in research and development in particular, is essential if the regional economy is to come out of its present difficulties. Gerard Coyne said:

> "I cited LDV, which has interesting proposals on electric vehicles. However, as we sit here today, it is in administration and is unlikely to find a successful organisation to take it on, particularly on the electric vehicle issues ... Clearly, extensive efforts have been made to underpin LDV to enable a market solution ... If we are serious about creating a green economy, then at the moment—particularly in the midst of a recession—the market does not have the ability to lead on this. It requires some intervention from the Government to kick-start that. … This is not state intervention in terms of part-nationalisation or whatever. If we are to set priorities about economic growth after the recession that must take on board environmental concerns."[98]

99. **It is clear that not all investment decisions (especially those relating to new and green technologies) can be left to the market. If there is a consensus that it is desirable for the regional economy to develop in a particular way, the Government and its agencies must seek to intervene to help achieve those ends. The Task Force and AWM should be doing everything possible to guide some of those investment decisions, but ultimately whether or not such approaches are successful will also depend on central government policy and expenditure. We therefore welcome the Government's announcement of its renewable energy strategy[99] as part of its drive to achieve a low carbon economy.**

Wage subsidy

100. Short-term working subsidies are available in some European countries, including Germany and France, and a scheme was introduced in Wales in January 2009. In the 1970s a national temporary employment subsidy of £20 a week was available to companies for every job saved for up to a year where at least 10 redundancies were threatened. The TUC and Federation of Small Businesses have estimated that a wage subsidy for private companies that have had to introduce short-term reductions in staff hours or temporary lay offs as a result of the downturn would cost the Government £1.2 billion and would prevent the redundancy of 600,000 workers a year.[100] Representatives from businesses are

98 Qq 158–159

99 The UK Renewable Energy Strategy, Cm 7686, Department for Energy and Climate Change, 15 July 2009.

100 A TUC and FSB proposal for a short term working subsidy

supportive of a wage subsidy package as it would help businesses to retain the skilled staff that they will require when growth returns.[101]

101. The subsidy schemes in operation in France and Germany require an unavoidable reduction in working hours, or closure of all or part of the business, as a result of economic conditions. The subsidy offered in France is 60% of the gross pay for up to 800 hours per worker per year for most sectors; in Germany it is 60% of the difference between normal and short-time pay for a period of six months (extended to 18 months up to the end of 2009).

102. The Welsh Assembly Government introduced ProAct in January 2009; the scheme is currently funded until April 2010 using European Social Fund money. To be eligible for the scheme companies must have fewer than 100 employees and must demonstrate that they have introduced short-hours working and that they are seriously considering making redundancies. They can receive a training subsidy of £2,000 per worker and a wage subsidy of an equivalent amount. Employers must access the training subsidy and demonstrate that the training that they will provide will improve their companies' productivity and competitiveness.

103. One of the problems highlighted by evidence submitted to the Committee is that the lack of a short-time working subsidy in England means that regional businesses are not on a level playing field with their competitors. This may mean that they are at a competitive disadvantage when the recovery comes. Business representatives state that they require a short time working subsidy to ensure that the industry "can continue to employ skilled people".[102]

104. We raised the issue of a wage subsidy scheme with the Regional Minister and while he recognised there was support for short time working in the region the Government was not going to introduce a wage subsidy scheme. He said the situation in Germany was different in that they have an established scheme to deal with the seasonality of demand for construction workers, and that they did not have the same tax credit system that the UK has that can respond to falls and rises in people's income. Adam Jackson from the Department for BIS pointed out that ProAct in Wales was more similar to Train to Gain as it was a salary replacement scheme rather than a wage subsidy and their manufacturing sector was smaller so there were less companies eligible to take part. He also said that experience from the 1970s suggested previous wage subsidy schemes had subsidised companies that did not need it and had, in effect, subsidised a lack of profit rather than supported training.[103] The Minister said Train to Gain enabled companies with fewer than 50 workers to get compensation for wages, so that was how the Government would compensate firms in this position.[104]

105. We are not entirely convinced, however, that exact parallels can be drawn between the two programmes. Train to Gain is a training programme, which provides certificated

101 Q 85

102 Q 99, Q 124

103 Q 282

104 Q 279

training up to Level 2 NVQ. As a skills retention initiative, it has significant weaknesses. If people already have skills at Level 2 or above then Train to Gain will not necessarily be of use to them (although recent flexibilities mean people can take qualifications in other disciplines than their existing qualifications up to Level 2), and nor will it help those whose skills requirements are at a higher level. Where there is a trained workforce at a company some or all of whom are likely to lose their jobs because of a fall in demand, paying a short-time working subsidy might be the most cost effective way of retaining those people in work.

106. While there are undoubtedly other mechanisms for helping companies and employees who face financial hard times because of the recession, we do not consider that the issue of the usefulness of a short time working wage subsidy has yet been adequately resolved. It would be detrimental to the West Midlands economy if skilled staff are lost from work forces and have to retrain, so that their current skills are not available when the upturn arrives. It would be even more unfortunate if these skilled people were lost from companies whose problems stem entirely from the cash flow problems that we discussed earlier rather than from any fundamental unsoundness in individual companies.

107. There is clearly pressure both from business and from unions for the introduction of a short time working wage subsidy. The Government has so far resisted those calls, but it has not yet in our view put forward convincing arguments about why such a subsidy would not be appropriate, and so the demands for the introduction of a subsidy continue.

108. **In order to make a proper assessment of the usefulness of a short time working wage subsidy we need to have some hard evidence. As we mentioned earlier, the TUC and Federation of Small Businesses estimated that a wage subsidy of the kind we are discussing would cost £1.2 billion a year and prevent 600,000 redundancies across the UK. We recommend that the Government undertakes and publishes as a matter of urgency a cost benefit analysis of such a scheme compared to, for example, supporting 600, 000 workers through the benefits or tax credits systems. This could also include an assessment of the effectiveness of the Welsh ProAct initiative.**

8 Preparing for the upturn

109. One of the most striking features of the current round of economic and financial problems is the speed with which the situation deteriorated. In planning for when the economy is once again prospering, we were told that it was important to make the West Midlands economy broader based and more sustainable in order to make it robust and help to withstand future problems. Gerard Coyne of Unite told us:

> "If we are to learn anything from the speed with which we were hit by this economic recession, it has to be about the need to have a balanced approach to economic growth. The overall rationale is that, 12 or 18 months ago, any number of economic indicators would have said that actually employment growth will be in business finances and professional services. You would be a very brave economic forecaster to say that finance will be the area that generates employment opportunities to the degree that was predicted 18 months ago."[105]

He went on to argue for support for manufacturing, but if we as a region or a nation are to support manufacturing, it has to be with an eye to what will be necessary and potentially successful in the future, not based on what has done well in the past.

110. We argued above for greater investment in research and development, and cited the example of LDV and electric cars. As the West Midlands is no longer a base for high volume car production, for example, it makes sense to look to new technologies and areas of niche production and advanced manufacturing where the UK and the region can excel. The key skill is to identify areas which have the potential to be successful for the long term, but also to be as diverse as possible. It also makes sense to identify centres of excellence, of which there are several within the region, and support them through the recession so that they can make a strong recovery as soon as the economy starts to turn upwards.

111. Mick Laverty of AWM set out the issues facing the region very clearly in his evidence. He told us:

> "This region is not innovative enough. We have not got enough product and service innovation. This region is not entrepreneurial enough. This region has a problem at both ends of the skills spectrum. We have less people with high-level skills and more people with no skills or low-level skills than most other regions. We have not had the investment in infrastructure that we need. We have got too many people who are workless. We know the issues … We know what we need to do. It is just trying to get momentum behind enough businesses. It mainly is the private sector. Yes, it is great to have the public sector efficient. Yes, it is great to have the public sector innovative, but the public sector is not the wealth-creation sector. We have to get a groundswell of businesses systematically innovating their products and their services, systematically investing in their work force … We do know what to do; we just need

105 Q 146

> to all pull behind the [Regional Economic Strategy], because it sets it all out there … We just need to get behind it and deliver it."[106]

112. **We agree with this very succinct analysis of where the region stands economically. The challenge now is to implement the necessary change.**

106 Q 248

9 Making it happen

113. One issue that we discussed with various of our witnesses was how to ensure that ideas for the region were fed into Government, and how the might be acted upon without having to be filtered through national government bodies.

114. Despite the problems that it has faced over funding and the priorities set for it by DBIS, it is clear that Advantage West Midlands is the key regional player. It has money, a regional remit and is able to develop plans on its own initiative. However, budget restrictions, even before the recent DBIS policy changes, mean that it does not have enough money available to it to fund all the projects it would like to fund at present. Therefore, using its funding as seed corn and bringing in investment from elsewhere is vital.

115. As we mention earlier, the other bodies in the region which have autonomy and access to funding, even though any money available is likely to be both limited and preciously guarded, are local authorities. They are obviously local bodies rather than regional bodies, but they are close to their local communities and are able to develop their own agenda. As Mark Barrow of Newcastle–under-Lyme Council told us:

> "The closer you are to delivery, inherently, that for me is really where the intelligence and the best decision making is. Local authorities are best placed to understand their areas and to deliver the actions".[107]

Chris Harman, of Stoke-on-Trent City Council, also argued that local authorities were able to respond more rapidly when matters were urgent than regional and national bodies were able to.[108]

116. All of this chimes with government plans for local authorities, which are about to be given more duties and capabilities connected with economic regeneration. Under provisions in the Local Democracy, Economic Development and Construction Bill, 'primary' local authorities will have a duty to prepare an assessment of the economic condition of their area. The Bill also establishes Multi-Area Agreements, under which two or more local authorities may be placed under a duty to cooperate with each other in determining local improvement targets for the area to be included in the MAA, and a duty to have regard to the targets.[109]

117. **It is important that official bodies within the region take as much responsibility as they can for developing genuinely regional economic solutions. Within the region, it is the more autonomous bodies which are likely to be able to react most flexibly to respond to difficulties. AWM and local authorities are the well placed to do this, and we look to them to establish themselves as local driving forces for economic regeneration in partnership with other statutory bodies in the region and the private and third sectors.**

107 Q 181

108 Q 183

109 Local Democracy, Economic Development and Construction Bill, explanatory notes, para 253.

West Midlands Taskforce

118. Work in the region to encourage economic development is essentially always going to mean partnership working, as even AWM does not have sufficient funding to enable it to address all the concerns and fund all the projects that will be brought forward seeking funding. In order to ensure that the partnership working is as good as it can be, **we recommend that the West Midlands Taskforce becomes a permanent body. Co-ordination to help address economic uncertainties will continue to be of the utmost importance, and its ability to bring together partners will remain vital when the economy begins to grow again.** If it is to become permanent, further consideration will need to be given to the composition of the taskforce and its relationship with bodies such as the Council of Economic Advisers.

Regional Minister

119. Some things that business and others will want to be enacted in the region will only be possible using the resources of central government. The extent to which Whitehall departments are sensitive to regional needs and variations appears to us to be limited, and it is not clear that regional offices of departments and agencies have enough autonomy to be able to respond appropriately. The Regional Minister for the West Midlands, and his colleagues for other parts of the country, appear to be part of the Government's attempt to address these problems.

120. There is, however, a dichotomy facing regional ministers. In this case, the Minister represents the West Midlands region in the Government, but he also represents the Government in the West Midlands. Where the perceived interests of the region go against Government policy on a given issue, it is clearly difficult for the Minister to support change publicly because collective responsibility demands that he represents the Government’s view. There is a difficult balancing act for the Minister to perform, and we do not believe that his role representing the region in government has yet been properly defined.

121. **We welcome the introduction of regional Ministers. In the West Midlands, the current Regional Minister and his predecessor have played important and valuable roles, for example in pressing the case for important projects such as the redevelopment of New Street Station and in establishing the taskforce to co-ordinate responses to the economic downturn. However, if the post of Regional Minister is to achieve its full potential in the development of regional approaches, there needs to be greater clarity about the role. A key issue to be resolved is how they can openly advocate regional interests whilst simultaneously being bound to defend Government policies in the region through a conventional application of collective responsibility.**

122. **Regional Ministers have been given a different role to Ministers elsewhere in Government, and this difference needs to be reflected in accountability arrangements if they are successfully to represent the interests of their region to the rest of Government. We would therefore welcome clarification from the Government on how Regional Ministers are going to be enabled to fulfil their dual role.**

Conclusions and recommendations

Surviving the downturn

1. Advantage West Midlands and its public sector partners have been able to draw on their experience of the mechanisms established at the time of the closure of MG Rover as they have sought to respond to the impact of the economic downturn on the region. However, some of the problems caused by that closure had still not been overcome when the recession hit, helping to explain why its severity was greater in the West Midlands than in other regions, with the manufacturing and automotive sectors particularly hard hit. This has fed through in the current downturn into higher levels of unemployment than elsewhere in the country, for example. (Paragraph 24)

Banks and their approach to lending

2. The question of businesses' ability to access adequate finance is one of the most significant issues that has been raised with us during the inquiry. At times it has seemed as if banks and businesses are living in parallel worlds, as the quantitative data on bank lending showing levels of lending being maintained does not match the evidence provided by businesses that there has been a squeeze on lending. In evidence, the banks were adamant that they had not changed their lending practices to make it more difficult for businesses to access finance. The evidence from business in the region is that the credit crunch is still a reality. This is putting viable businesses at risk. The banks' regional managers must work more closely with the region's business groups and ensure that their lending levels and charges are appropriate for supporting West Midlands businesses through the downturn. (Paragraph 30)

Enterprise Finance Guarantee Scheme

3. Lending under the Enterprise Finance Guarantee Scheme has taken time to build up momentum because some bank staff were not aware of the scheme when it was first introduced and could not provide information to interested businesses. That slow start means that the proposed March 2010 cut-off date is no longer appropriate. We recommend that the Regional Minister makes representations now that the scheme should be extended beyond March 2010. (Paragraph 34)

Advantage Transition Bridge Fund

4. Demand for funding from the Advantage Transition Bridge Fund suggests that regional businesses are still having difficulty accessing commercial sources of credit. The Committee welcomes the recent announcement of a further £2 million, taking the total amount available to lend to regional businesses to £11 million. We recommend that Advantage West Midlands and the Regional Minister continue to lobby HM Treasury for the ability to extend the fund further should demand from regional businesses persist. (Paragraph 41)

Community Development Finance Institutions

5. Advantage West Midlands and Local Authorities have provided additional funding to Community Development Finance Institutions to support small businesses and social enterprise in the current downturn. Advantage West Midlands should review the cost of finance under CDFIs to confirm that small businesses are not put at a disadvantage by the minimum lending value of the Advantage Transition Bridge Fund of £50,000. (Paragraph 46)

Credit Insurance

6. The withdrawal of credit insurance is of significant concern to the West Midlands particularly for those sectors such as the construction and automotive supply chain where the availability of insurance has disappeared altogether. The Government should investigate, as a matter of urgency, why take up of its credit insurance provision has been low and if necessary reassess eligibility criteria in order to achieve its intended objective. Decisive action is needed by the Government on export credit guarantees if it hopes to achieve an export-led economic recovery. (Paragraph 52)

Business Rates

7. Improving the take up of small business rate relief is an important method of improving the cash flow for small businesses. Local authority partners should examine ways of improving the take up of the relief in the region such as by printing details of the relief on business rate bills that may qualify and through increased publicity of the relief to business. The Regional Task Force could help disseminate best practice. (Paragraph 55)

8. We also recommend that the Government reviews the £15,000 rateable value threshold for small business rate relief on empty properties. (Paragraph 56)

Train to Gain

9. We note the popularity of the Train to Gain scheme and recognise the commitment amongst employers in the region to training. We also recognise the contribution of such schemes to companies that might be forced into reducing the hours they are operating on through the downturn, and to the general level of skills in the workforce throughout the region that will benefit the region in the future. We think this is something that the Government should encourage at all levels. We recommend that funding for the Train to Gain scheme is continued as long as there is demand, and that the Regional Minister works to ensure the delivery of the scheme in the region is not hampered by the break up of the Learning and Skills Council. (Paragraph 59)

Support for automotive manufacturing

10. We welcome the support provided in the Automotive Assistance Scheme, but are dismayed to find that none of the funding has reached business in the West Midlands. We recognise that the programme is for long term investment but the

process of applying and receiving funds should be as swift as practicable. We recommend that the Regional Minister does all that he can to accelerate the AAP application process, and to provide support to those firms that have submitted an application or an expression of interest. (Paragraph 64)

HMRC

11. The relationship between HMRC and the taskforce demonstrates once again the benefits of the experience of MG Rover and the importance of retaining knowledge of how to deal with economic shocks. We welcome the positive contribution of the HMRC Business Payment Scheme, and the effect it has had on helping businesses in the region manage their cash flow during the downturn. We note that these are payments deferred and recognise that AWM is working with businesses and the banks to anticipate any future problems. (Paragraph 68)

Regeneration

12. We have concerns that there are areas in the region that, because they are not included in the list of twenty, are unlikely to be able to attract investment in the near future. As such they are being penalised twice: first by not getting immediate help because they are not in the list of twenty, and secondly, because they will not attract further investment around the development that they otherwise would have. (Paragraph 85)

13. AWM has had to take difficult decisions about how best to use its limited, and recently reduced, resources. As Mr Laverty said, if the twenty are revisited, momentum will be lost. If the twenty do go ahead as presently planned, however, it does not mean that other schemes which had to be excluded are not important and that other parts of the region should be forgotten. We recommend that the task force compiles a reserve list of projects which failed to make the list of twenty priorities and seeks to find alternative ways of making progress with them. (Paragraph 86)

14. We are concerned about the implications of reductions in the budget available to Advantage West Midlands for regeneration even though the resources are being redirected towards important initiatives such as alleviating fuel poverty, Homebuy Direct scheme, Enterprise Finance Grants and the National Equity Fund. We recommend that the Government review the impact of its decisions to ensure that regeneration initiatives that are important to regional recovery are not being compromised and that areas of significant deprivation are given their appropriate priority. (Paragraph 87)

The role of local authorities

15. Without input from AWM, and other regional bodies, there is a limit to what local authorities can do. In the absence of funds, the task force has to work with local authorities and other local stakeholders to explore other ways of stimulating the local economy. (Paragraph 90)

Stimulating the upturn

16. The Government has heeded calls for a vehicle scrappage scheme, but other sectors need help too. Stimulating the housing and construction sectors by bringing forward plans to add environmentally friendly features to the existing housing stock, is one potential example. The Regional Minister and his colleagues on the Task Force should look at what role they might be able to play in encouraging such an approach in the West Midlands. The Minister should also urge central government to encourage initiatives such as these to help improve economic conditions generally. (Paragraph 97)

17. It is clear that not all investment decisions (especially those relating to new and green technologies) can be left to the market. If there is a consensus that it is desirable for the regional economy to develop in a particular way, the Government and its agencies must seek to intervene to help achieve those ends. The Task Force and AWM should be doing everything possible to guide some of those investment decisions, but ultimately whether or not such approaches are successful will also depend on central government policy and expenditure. We therefore welcome the Government's announcement of its renewable energy strategy as part of its drive to achieve a low carbon economy. (Paragraph 99)

Wage subsidy

18. In order to make a proper assessment of the usefulness of a short time working wage subsidy we need to have some hard evidence. As we mentioned earlier, the TUC and Federation of Small Businesses estimated that a wage subsidy of the kind we are discussing would cost £1.2 billion a year and prevent 600,000 redundancies across the UK. We recommend that the Government undertakes and publishes as a matter of urgency a cost benefit analysis of such a scheme compared to, for example, supporting 600, 000 workers through the benefits or tax credits systems. This could also include an assessment of the effectiveness of the Welsh ProAct initiative. (Paragraph 108)

Preparing for the upturn

Mick Laverty of AWM set out the issues facing the region very clearly in his evidence. He told us:

> "This region is not innovative enough. We have not got enough product and service innovation. This region is not entrepreneurial enough. This region has a problem at both ends of the skills spectrum. We have less people with high-level skills and more people with no skills or low-level skills than most other regions. We have not had the investment in infrastructure that we need. We have got too many people who are workless. We know the issues … We know what we need to do. It is just trying to get momentum behind enough businesses. It mainly is the private sector. Yes, it is great to have the public sector efficient. Yes, it is great to have the public sector innovative, but the public sector is not the wealth-creation sector. We have to get a groundswell of businesses systematically innovating their products and their services, systematically investing in their work force … We do know what to do; we just need

to all pull behind the [Regional Economic Strategy], because it sets it all out there … We just need to get behind it and deliver it.”

19. We agree with this very succinct analysis of where the region stands economically. The challenge now is to implement the necessary change. (Paragraph 112)

Making it happen

20. It is important that official bodies within the region take as much responsibility as they can for developing genuinely regional economic solutions. Within the region, it is the more autonomous bodies which are likely to be able to react most flexibly to respond to difficulties. AWM and local authorities are well placed to do this, and we look to them to establish themselves as local driving forces for economic regeneration in partnership with other statutory bodies in the region and the private and third sectors. (Paragraph 117)

West Midlands Taskforce

21. We recommend that the West Midlands Taskforce becomes a permanent body. Co-ordination to help address economic uncertainties will continue to be of the utmost importance, and its ability to bring together partners will remain vital when the economy begins to grow again. (Paragraph 118)

Regional Minister

22. We welcome the introduction of regional Ministers. In the West Midlands, the current Regional Minister and his predecessor have played important and valuable roles, for example in pressing the case for important projects such as the redevelopment of New Street Station and in establishing the taskforce to co-ordinate responses to the economic downturn. However, if the post of Regional Minister is to achieve its full potential in the development of regional approaches, there needs to be greater clarity about the role. A key issue to be resolved is how they can openly advocate regional interests whilst simultaneously being bound to defend Government policies in the region through a conventional application of collective responsibility. (Paragraph 121)

23. Regional Ministers have been given a different role to Ministers elsewhere in Government, and this difference needs to be reflected in accountability arrangements if they are successfully to represent the interests of their region to the rest of Government. We would therefore welcome clarification from the Government on how Regional Ministers are going to be enabled to fulfil their dual role. (Paragraph 122)

Formal Minutes

Thursday 16 July 2009

Members present:

Mr Richard Burden, in the Chair

Mr Adrian Bailey
Mr James Plaskitt
Joan Walley

Draft Report (The impact of the current economic and financial situation on businesses in the West Midlands), proposed by the Chairman, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 122 read and agreed to.

Summary agreed to.

Resolved, That the Report be the First Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

Several Memoranda were ordered to be reported to the House for printing with the Report.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned to a date and time to be fixed by the Chairman.

Witnesses

A volume of evidence will be published in late July 2009.

Monday 20 April 2009

David Beaty, Deputy Regional Commercial Director, Midlands, HSBC, **Steve Cooper**, Managing Director, Barclays Local Business Banking, **Maurice Heath,** Head of Corporate Banking, Midlands, HSBC, **Peter Ibbetson**, Chairman, Business Banking, RBS, and **Andy Youngman**, Area Director, Commercial Banking, Lloyds Banking Group

Monday 11 May 2009

David Caro, Chairman West Midlands Federation of Small Businesses and Qualplast Ltd, **Denise Craig**, West Midlands Policy Manager, Federation of Small Businesses, **Chris Rosier**, Chord Developments and the West Midlands Developers Alliance, **Barrie Williams**, Chairman, West Midlands Business Council, and **Gary Woodman**, Policy Manager, Herefordshire and Worcestershire Chamber of Commerce

Monday 8 June 2009

Dr. Laura Cohen, Chief Executive, British Ceramic Confederation, **Mike Shirley**, Managing Director, Jesse Shirley and Son Ltd and Chairman, Hudson's Fine Bone China Ltd, and **Brian Standbridge**, Regional Manufacturing Director, Ideal Standard International

Gerard Coyne, Regional Secretary of Unite the Union, West Midlands

Mark Barrow, Chief Executive, Newcastle-under-Lyme Borough Council and Chairman, Individual and Community Support Workstream, **Steve Burrows**, Deputy Corporate Director, Staffordshire County Council, **Chris Harman**, Interim Chief Executive, Stoke-on-Trent City Council, and **Tom Macartney**, Managing Director, North Staffordshire Regeneration Partnership and Director of Regeneration, Stoke-on-Trent City Council

Monday 29 June 2009

Tim Gebbels, Corporate Director, Strategy and Communications, Advantage West Midlands**, Richard Hutchkins**, Corporate Director Economic Development, Advantage West Midlands

Mr Ian Austin MP, Minister for the West Midlands, **Trudi Elliot**, Regional Director, Government office for the West Midlands, and **Adam Jackson**, Head of Enterprise Directorate, Department for Business, Innovation and Skills

List of written evidence

A volume of evidence will be published in late July 2009.

WM

1	Advantage West Midlands
2	ACAS
3	Barclays
4	British Ceramic Confederation
5	Business Link West Midlands Limited
6	EEF
7	Fair Finance Consortium
8	Federation of Small Businesses
9	Government Office for the West Midland (GOWM)
10	Chamber of Commerce Herefordshire & Worcestershire
11	Kington Town Council
12	Lloyds TSB Commercial Banking, Birmingham
13	Natural England (West)
14	National Housing Federation
15	Royal Bank of Scotland Group
16	Redditch Borough Council
17	RICS (West)
18	Rugby Borough Council
19	Shropshire Council
20	SREDOG
21	Staffordshire County Council
22	North Staffordshire Regeneration Partnership
23	Stoke-on-Trent City Council
24	Stratford on Avon District Council
25	Unite the Union
26	Walsall Council
27	Warwickshire County Council
28	West Midlands Business Council
29	West Midlands Minority Ethnic Business forum
30	West Midlands Finance Forum
31	Worcestershire County Council
32	Birmingham City Council
33	West Midlands local Government Association/West Midlands Regional Assembly
34	Advantage West Midlands (supplementary)
35	Letter from Ian Austin MP to the Chairman