

14 April 2009

Essex County Council: *Banking on Essex*

Summary of policy/project

This is phase one of a banking scheme to provide financial products and business improvement services to Essex SMEs

Description

Essex is home to approximately 50,000 small businesses and nearly 100,000 self employed people. We have a longstanding reputation as an entrepreneurial county, with 5,000 new VAT registrations recorded in 2007.

Essex County Council has a close relationship with its local business community. For some time our businesses have been telling us that business support services are generally too complex, onerous and difficult to access. In recent months, the economic downturn and worldwide banking crisis has impacted heavily on these small businesses, with access to working capital reducing across sectors, regardless of the strength of order books and previous trading records.

The past decade has seen a move away from traditional retail/commercial banking to one that has been dominated by high return investment banking. Our small businesses are telling us that decisions on relatively small credit sums are being made by faceless call centres, meaning that a decline can often be the end of the road, when in many cases there are relatively quick and easy ways of making the business credit worthy.

In November 2008, the public sector partners in

Essex held an extraordinary meeting of the Essex Partnership to identify responses to the current economic conditions.

As part of our response, we are creating Banking on Essex to provide a focussed, easy to use business support and credit system. Working in partnership with high street banks, we will provide £50million of our own cash to support lending to viable Essex small businesses. We are developing methods to roll standard business support into the pre-application process to improve credit application quality, whilst also identifying ways small businesses can improve their operations, not only to survive the current downturn, but to be in good health for when the economy improves.

Has the idea worked elsewhere?

Banking on Essex is unique. Although it draws on a range of experience, both locally and from abroad, we do not believe it already exists anywhere.

The banking model we would like to see working in Essex is akin to that which operates very successfully in the US. The US model of locally-focussed municipal banking has many advantages, not least an established local identity and understanding of local needs, business sectors and markets.

Our businesses express frustration at not being able to speak directly to their bank manager or someone in a branch that can work with them to

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all politics is local

identify and meet their individual needs. In most cases the few £10's of thousands they require does not trigger anything more than a telephone application process to a remote call centre, whereby a decision lacks local interpretation and knowledge. The US model does not suffer from this 'corporation' approach to banking.

Many of the high street banks began their lives as local banks, for example Trustee Savings Bank (TSB). Is it coincidence that TSB and others are now being bailed out with £billions of taxpayers' money, whilst the traditional, local building societies, such as the Saffron in Essex, are trading well, and within their balance sheets?

By bringing together the business diagnosis and support regime into the banking model, we will also be able to align the two key threads that businesses need. There are many organisations, such as the Princes Trust, who align grants with mentoring and other support to great effect. Again, we want to recreate this joined-up way of working.

What problems does the policy/project solve?

We see the impact of this work being of benefit in two ways. Firstly, it will provide vastly improved support to small businesses who are working long and hard to survive the current economic downturn. Secondly, it will help to ensure Essex businesses are best able to trade successfully when the economy improves, ensuring that Essex continues to be a good place to do business.

Specifically, the Banking on Essex model will, over time, help to create a more traditional form of banking that is closely aligned with business support and development. By working with businesses to identify ways of improving the way they manage their business, both in terms of business processes and financial management, we can reduce failure rates, and by extension, unemployment and related consequences.

In the short term, the project will address the lack of available liquidity for working capital for small businesses. We have heard numerous stories of businesses not being able to access the credit they need to meet strong order books as a result of banks' restrictions on lending. We recognise that many banks need to recapitalise, and in many cases, there is a strong drive to repay Government bail outs and regain independence. Our £50million reflects our commitment to the project, and, whilst relatively small in comparison to the value of recent bail outs, could be the difference between survival and failure for many of our small businesses.

We also want to use our model to explore alternative ways of accessing the European Investment Bank (EIB) funds. UK banks are clearly reluctant to match 50:50 with EIB as they recapitalise. We would like to use our funds to provide the match. Still working via the agreed intermediary banks, we could run the scheme at a local level, thus getting much needed funds to our businesses.

What were the difficulties of implementation?

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The most significant difficulty has been the sheer complexity of projects, initiatives and schemes currently available. Like modern banking, the business support regime has become an unfathomable and complex web of inter-linked processes. Added to this has been the ever-changing Governmental response, with loan guarantee schemes and the like not being well understood, with businesses failing while the details were being worked out.

The structures of current business support mean there are many delivery streams, many of which are not mutually supportive. Whilst this is understandable on some levels, for the small business who wants some help it is often disorientating and in many cases they go it alone rather than give up productive working time to decipher the range of options.

We have also found that banks are generally reluctant to work in an open way. There seem to be fairly straightforward credit scoring processes used for small sums of lending, and we fully understand the commercial basis upon which these systems are based. However, there is a reluctance to change, even in cases where the work would not negatively affect their bottom line. It should be noted that there are exceptions, and we do think we have found banking partners that understand and support what we are trying to achieve.

likely to recruit a team of three FTE once operational. We will also spend a few £10s thousands on legal and consultancy advice, but believe the model will be self financing over time.

What is the evidence of success?

At this stage it is difficult to assess impact and success. However, we would very much welcome the opportunity to provide an ongoing and open analysis of the model as it progresses, perhaps as a case study.

To date we have met with various business representatives, all of whom have been positive about the work. In particular the Essex Federation of Small Businesses (FSB) has been very positive and has offered to work closely with us to roll out and continue to develop the project.

We have had a large number of enquiries about the work, from both local businesses and other local authorities. Our discussions with the British Bankers' Association (BBA) were very positive, and they agreed that we were pitching a strong proposal into a niche market that is currently under-provided for.

We have also drawn from the US model, which is proven to be a success. We see no reason why a local bank, providing tailored products at low risk, cannot succeed in Essex.

What is the cost of implementation?

We have dedicated officer time at 2 FTE, and are

Would this work in other Councils?

There is no reason whatsoever this cannot work

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elsewhere. Indeed, we would be proud to share our experience of this project with other local authorities and would expect to also learn from others who may wish to implement their own local version.

Our intention is to create a framework that can be tailored to work anywhere. We have been rigorous in our assessment of regulatory requirements and processes, including both our own treasury management and accounting needs. In addition, we have worked closely with partner banks to identify where alignment is possible and workable, and where it is better to 'keep it simple'.

What advice would you give any Councils wishing to adopt this idea?

We have found, as is often the case with innovative projects, that there is much to consider. The sheer complexity and scale of banking and business support systems and processes means much time and resource can be used in plotting a course through it.

We found that working in two phases has been critically important. Phase one is focussed on the here and now, dealing with current economic and banking issues to keep viable businesses trading. Phase two will look at creating a more traditional form of banking, possibly along the lines of the US municipal banks and traditional UK building societies, with low risk, sensible banking that is based on customers' needs rather than gearing on the capital markets for high risk high return investment.

The importance of staying focussed on objectives cannot be overstated. We have focussed our phase one ambitions upon the critical issues:

- Keeping viable Essex small businesses trading by providing commercially robust financial products where reduced bank credit is threatening their continued trading
- To create a more traditional/personal form of banking – moving away from remote credit scoring and making lending decisions based on viability and local knowledge to a greater extent than is currently available in the market place
- Ensuring people employed in Essex small businesses don't lose their jobs because of reduced access to credit
- Creation of a simpler and easier business support framework, helping Essex small businesses to be in a strong position when the economy improves
- Explore new ways of drawing down European Investment Bank (EIB) funds

Other Comments

We will be very keen to see the model delivered elsewhere. Not only will this hopefully be of benefit to small businesses outside of Essex, but there will undoubtedly be benefits for Essex in seeing how the model can be applied differently.

The current economic climate is one in which innovation is required for success. The last decade has seen a move away from traditional banking, with massive bail outs now highlighting the need to go back to basics and provide banking services that people and businesses

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actually want and need.

The current economic conditions will change and there will be an upswing at some point in the future. It is essential that our businesses are well structured, supported and resourced to maximise the benefits of a modern global economy regardless of their size. Whether it be providing small components as part of a supply chain for a major manufacturer or selling sandwiches on the local trading estate, it is these companies that make up a huge proportion of the Essex and UK economy.

I will be very happy to offer this project as an ongoing case study. We are launching the work in late April 2009.

For more information

Contact Lord Hanningfield, Leader of the Council or Ian Hatton, Senior Regeneration Manager for more information

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