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**Report to:** Business Innovation and Growth Panel

**Date:** 24 May 2018

**Subject:** **Investment Readiness and Economic Resilience**

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## **1 Purpose of this report**

- 1.1 To seek input and approval from the Panel to progress two separate, but inter-connected, work streams focussed on investment readiness and economic resilience.

## **2 Information**

### **Investment Readiness**

- 2.1 Investment readiness, in the context of this report, is concerned with supporting businesses to access the right type and amount of external finance to meet their business needs.
- 2.2 It is a commonly held view, often reiterated to the LEP by providers of business finance, that there is sufficient finance available in the marketplace, but that businesses often fail to present their investment and business credentials in an effective or convincing enough manner. Although some of this is related to inadequacies in pitching for investment, the most common barrier to investment highlighted by funders is the inability of businesses to produce the required level and standard of financial information.
- 2.3 Ongoing discussions with the private sector intermediary network in the City Region via this Panel, the Business Investment Panel, the Business Communications Group and the Professionals' Perspective Network (representatives of banks, and accountancy and legal practices in the City Region) have continually identified a gap in the finance marketplace for impartial and confidential guidance on how to prepare for, and access, external finance.

- 2.4 The above is substantiated by the high number of enquiries to the LEP Growth Service over the last three years related to finance, with the most typical being along the lines of, 'we know that we need external finance to grow, but we don't know what type or where to get it from'.
- 2.5 Since July 2015, there have been 1,792 enquiries from businesses looking for external finance to support their growth plans, which represents 67% of all enquiries to the service. As the table below shows, there has been a year-on-year increase in the number of finance-related enquiries, which does point towards the need for more specific and specialist intervention in this area.

**Table 1 - Access to Finance Enquires to LEP Growth Service**

2015/16	92
2016/17	735
2017/18	965
Total Access to Finance Enquiries	1792

- 2.6 There is also a perception amongst many business-owners and managers that if their bank turns them down for finance, there are no other options available. This is clearly not the case as the market for business finance continues to expand, with new and innovative lenders, investors and funding platforms entering the market.
- 2.7 Further evidence of demand for developing interventions in this area comes from the 2017 Leeds City Region Business Survey (see Item 5), which provided the following findings:
- Access to finance was cited by most respondents (12%) as their main barrier to growth.
  - The above translated to one in eight respondents specifically citing access to finance as inhibiting their growth.
  - The second most commonly cited barrier to growth was cashflow.
  - 47% of respondents stated that they did not currently have a written business plan.
  - 15% of respondents had applied for finance in the previous 12 months, with one fifth of these being declined.
  - Investment for innovation/R&D was the only area of finance to see an increase in demand compared to the previous survey in 2015.
  - On the wider topic of where businesses go for business support/advice, banks and accountants was lower in 2017 than in 2015, but the LEP was higher.

### Proposed Activity

- 2.8 The above survey findings, coupled with the wide range of anecdotal evidence and the current lack of impartial advice in the City Region related to preparing for and accessing external finance, would suggest the need to develop activity in this area. This could include all or some of the following:
- A light-touch approach to supporting a large number of businesses via a helpline and website
  - Workshop programme covering the different types of finance available and the pros and cons of each, finance products available in Leeds City Region (including on-line funding platforms), business plans and cash flow management.
  - Seminars / masterclasses led by prominent private sector experts on new and emerging innovations in the marketplace e.g. crowd-funding, investment communities and bitcoin.
  - More intensive one-to-one advice and proposition development for those businesses with the most growth potential
- 2.9 Ongoing support and input from the private sector would be required to help shape any interventions, and to ensure that they reflect and respond to future regulatory, technological and economic changes.
- 2.10 Any future provision would be accessed via the LEP Growth Service and would complement the other publicly-funded business support available at the local, regional and national level.

### **Economic Resilience**

- 2.11 Economic Resilience, in the context of this report, is focussed on supporting businesses to be as well prepared as possible to respond positively to significant changes in the economy. These could be brought about by a range of factors, including natural events (such as the 2015 Boxing Day Floods in Leeds City Region), the collapse of large businesses in key sectors, such as Carillion, economic downturns and, most currently, the Brexit situation.
- 2.12 Although the precise impact on businesses both locally and nationally is not yet known and, as a result, it is difficult to point towards robust evidence on the level or nature of demand for support, there is consensus on the broad business areas most likely to be affected. These include: international trade, supply chains, workforce and skills, regulation, taxation and intellectual property. Linked to these are potential impacts on the economy related to changes to interest rates and currency values, and the availability of external finance.
- 2.13 It is important to stress that some of the above factors can bring opportunities to businesses, as has been the case for many City Region exporters since the EU vote. Therefore, any future activity on economic resilience should also

focus on identifying growth prospects, and preparing businesses to best take advantage of them.

- 2.14 Despite the broad range of potential impacts and opportunities, the 2017 City Region Business Survey presents a prevalent view that leaving the EU will be neither detrimental nor beneficial to many businesses (see the extracted table below), albeit with a significant proportion believing it will be detrimental. Therefore, it could be argued that the focus of any future activity should be on those firms that have already identified the challenges and opportunities. Accepting, however, there may also need to be an element of helping all businesses to consider, and prepare for, the possible impacts.

**Table 12: Whether consider the UK's decision to leave the EU to be beneficial or detrimental to their business**

	Total %
Beneficial to their business	10%
Neither beneficial or detrimental	52%
Detrimental to their business	28%
Don't know	9%
<i>Unweighted bases</i>	2368

- 2.15 There have been previous interventions aimed at supporting businesses in challenging economic times, such as the Financial Health Checks that Business Link delivered in response to economic downturns in the 2000s, and the 2007 floods, which particularly affected firms in South Yorkshire and Humber. Similarly, there have been a number of successful industry-specific responses for businesses affected by recent declines in the construction, oil and gas and defence sectors.
- 2.16 Whilst much good learning can be taken from the above approaches, the current economic and political situation is somewhat different in that the impact has not yet been felt, meaning that there is more time to prepare in a proactive and opportunity-focussed manner. Additionally, although the exact impacts are not yet known, it is clear that businesses with an international footprint of any nature are those most likely to be affected. Therefore, it is possible to now proactively start to identify those businesses and build interventions around them. This could include mapping where they sit within certain international supply chains, their exposure to EU regulation and their current reliance on overseas labour.
- 2.17 As referenced above, an important element of any future activity on economic resilience would be identifying those businesses most likely to be affected by changes in economic conditions, and their positions within the local and City Region economies. This would require a mixture of local intelligence and detailed analysis focussed on a number of key factors, including employment numbers, supplier and customer bases, international trade activities and positions within supply chains. A particular target may be to identify anchor

businesses that have strong ties to local communities, linked to work being undertaken as part of the inclusive growth approach.

- 2.18 A number of useful tools have been developed to date to support businesses prepare for the likely changes ahead, including the British Chambers of Commerce's Business Brexit Checklist, which sets out a number of key questions for businesses to consider under broad headings. This type of initial diagnostic approach is clearly a good starting point for businesses, but needs to be followed by a more forensic analysis of impacts and opportunities, leading to a call for action.

#### Proposed Activity

- 2.19 Future potential activity could include some or all of the following:
- Diagnostic tool to identify the challenges and opportunities of certain situations.
  - Diagnostic tool specifically focussed on the financial stability / sustainability of a business.
  - Workshop programme on key aspects of economic resilience, with an element of peer-to-peer support.
  - Intensive one-to-one advice and coaching on preparing for, and adapting to, specific conditions..
  - Detailed mapping of strategically important SMEs at the district level, and their customers, suppliers and workforces..
- 2.20 As with investment readiness, any future business support activity in the economic resilience space would be accessed via the LEP Growth Service, and would be an additional tool for the SME Growth Managers to use to support their clients.

### **3 Financial Implications**

- 3.1 There are current funding opportunities open to the Combined Authority to progress the proposed activities, including the European Regional Development Fund (ERDF) and the Leeds City Region Business Rates Pool. Detailed applications to both funds would be required, and it would be possible for the required 50% match-funding for an ERDF application to come from a successful bid to the Business Rates Pool.

### **4 Legal Implications**

- 4.1 There are no immediate legal implications directly arising from this report, but any successful applications for external funding would require the Combined Authority to enter into contractual arrangements.

### **5 Staffing Implications**

- 5.1 There are no immediate staffing implications directly arising from this report.

## **6 External Consultees**

- 6.1 No external consultation has been undertaken specifically related to this report. However, the need for support to better enable businesses to access investment has been a common outcome of several business surveys undertaken in the City Region in recent years. Similarly, questions related to the economic resilience of businesses in the light of Brexit are commonplace within recent business surveys by the LEP and the Chambers of Commerce.

## **7 Recommendations**

- 7.1 That the Panel provides input into the development of future activity to address the challenges and opportunities related to investment readiness and economic resilience.
- 7.2 That the Panel endorses the development of such activity to address the challenges and opportunities, and any subsequent funding applications to support delivery.

## **8 Background Documents**

None.

## **9 Appendices**

None