

## **Meeting with HM Treasury to discuss the impact of the recession in the East of England, 31 March 2009**

### **Background**

HM Treasury requested a meeting with EEDA intelligence leads and business representatives in the region to discuss the impact of the recession on the five drivers of productivity (investment, skills, enterprise, innovation, competition). Following the meeting – and meetings with SWRDA and Yorkshire Forward – the Treasury will produce a report to inform the Budget 2009.

Business representatives in attendance were FSB, EEF, Chambers of Commerce, East of England Business Group, Greater Cambridge Partnership as well as Business Link East and East of England International.

### **Key points from the discussion**

#### **Business confidence**

- Business confidence is generally very low and is delaying investment plans, with impacts for longer-term competitiveness
- Many believed that negative press was driving business confidence down

#### **Overall business conditions**

- It was generally agreed that business conditions are mixed, with some companies badly affected by the recession and others doing well
- Enquiries from international businesses are up on the same time last year
- Manufacturing companies in niche markets and companies producing innovative or specialist products are generally doing well in the current environment, as are well-funded businesses with cash reserves
- The region's tourism sector is experiencing increased demand
- Manufacturing companies in high volume, low value production are worst affected – and it was argued that these companies would have eventually been hit without a recession if they had not moved higher up the value-chain
- Import costs are a key concern for many manufacturers
- Exports have dropped despite the depreciation of sterling, illustrated by lower volumes and over-capacity at the region's ports
- Cambridge technology consultants are experiencing record years with demand from international clients investing in innovation to get ahead for the upturn
- Some companies are on-shoring – bringing operations back to the UK – because the depreciation of sterling has increased the cost of operating abroad
- Some companies are selling their stocks at a discount, without restocking in order to maintain cashflow

#### **Skills**

- There is likely to be a future skills shortage for chartered surveyors: the number of chartered surveyors claiming Jobseeker's Allowance has risen by 500 per cent over the last few months. These may go into other sectors, with implications for future housing provision if the required skills are in short supply.
- A number of companies are taking innovative approaches to retain their skilled workers, such as making less-skilled workers redundant and temporarily redeploying

skilled workers to low skilled jobs – particularly in manufacturing where there is generally perceived to be a skills shortage in this region. It was also noted that companies such as Vauxhall (Luton) need additional support to retain their skilled workers.

- Some commented that many of those made redundant did not have the transferable skills to move into other sectors – although some Sanyo workers (Lowestoft) have moved into the offshore industry.
- Youth unemployment is of concern as this could have generational impacts if young people are unemployed for any length of time. There is concern that youth unemployment could rise at the end of the academic year. Some commented that greater creativity is needed in how apprenticeships are funded, as these are currently in short supply. There was also concern that, with demand for skills increasing among young people, that cuts in higher education budgets and LSC restructuring are coming at the wrong time.
- Large companies are still continuing their training programmes. Many small companies are concentrating on cashflow and survival.

### **Labour market**

- Pay cuts have been accepted by many workers as an alternative to redundancy
- With unemployment increasing and fewer vacancies available, Business Link East has reported an increased number of people looking to start their own business. However, this could lead to a higher failure rate in the future.
- Redundancies in Hertfordshire have occurred in sectors with strong graduate employment – with implications for the graduate labour market

### **Credit/finance**

- Payment terms for many companies in supply chains have increased to 90 days
- A number of businesses are not doing enough to understand their financial forecasts
- Some companies have been turned down by their banks for loans, but there was a general feeling that the perception of unsupportive banks has been exacerbated. Banks are reinforcing a 'business-as-usual' message and have turned down businesses that do not have viable business propositions – as would be the case at any time. However, there have been stories of banks putting unrealistic conditions on loans, of overdrafts being turned into loans and of personal guarantees being requested against loans, meaning that business owners would lose everything if their business failed.
- Venture capital funding has reduced, with many venture capitalists concentrating on boosting their existing portfolios.

### **Taxes and regulation**

- Business rates have increased and businesses who are eligible for rate relief have to apply – and awareness of eligibility is not widespread. The preferred option was for rate relief to be automatically applied.
- Charging rates on empty commercial properties was perceived to be unhelpful in the current climate
- National insurance contributions will rise shortly, with further impacts on business costs
- VAT cuts had virtually no impact – although increases in VAT will now hit businesses

### **Government support**

- Some commented that awareness of the HMRC tax deferral scheme was low among HMRC officers and some companies had found it difficult to obtain information or had

been told that they were not eligible (however, we've also received information that this scheme has been welcomed by businesses and a large number have applied)

- There has been a lack of communication about Government support schemes (such as EFGS) to local banks.
- Many commented that Government initiatives were announced too early – well before the support mechanisms had been put in place, which has caused widespread dissatisfaction among businesses
- A number of businesses have sought help from Business Link too late. A lot of businesses in difficulty have not had adequate financial management processes in place (one example of a company with no formal invoicing procedure)
- There is less support available for entrepreneurship – from 2010, Business Link will no longer be able to provide such extensive one-to-one support and advice
- There is a need for more funding for innovation activities. The region's voucher scheme is over-subscribed and there are examples of companies in the region that have been offered incentives in other UK regions to move operations from the East of England. Examples were given of two companies offered more funding to relocate to Wales and Scotland. One is likely to leave the region even though the firm considered that the East of England was a better location for business growth.

### **Other issues**

- Infrastructure provision (including utilities) and funding for infrastructure is not keeping pace with the region's needs
- However, current financial tools available to regional and local agencies/authorities – such as section 106 agreements – are not now appropriate vehicles for regeneration and provision of infrastructure
- Public sector targets (such as Business Link and EEI) are now distorting activity away from where it is needed. There needs to be a greater focus on outcomes.
- Recent developments in SNR have focused on regional governance rather than economic performance.