

How badly are Norfolk's businesses affected by the lack of credit available to them?

Report: 20 July 2009

Executive Summary

A significant minority of Norfolk businesses have been affected both by a deterioration in the availability of finance to them and constraints imposed by the banks in terms of costs and procedures. Despite these very real issues, Norfolk businesses report that banks *'are a part but not a significant part of the current problem'*. Factors other than a lack of available finance are having a greater affect on the majority of businesses in Norfolk, such as with 61% of businesses reporting reduced turnover with consequent effects on profits and the desire to take risks. However, the recession is having a mixed impact upon businesses in Norfolk with many performing well and others not requiring bank support. The perception is that these successes are not widely reported.

Banks say they have reverted to 'traditional' banking methods. Detailed proposals are required both for new and existing clients in applications for funds, and the banks are undertaking greater due diligence. Whilst relative interest rates and other borrowing charges have increased, the overall cost of funding has reduced. Banks operating in Norfolk have made it clear that they have money to lend. There are businesses that need funding now, and once confidence is back in the market, there will be fresh demand that will need to be satisfied. This demand can be met primarily by the banks but also by other organisations such as government agencies, for example EEDA.

We propose two recommendations by which Shaping Norfolk's Future (SNF) can add value to its stakeholders:

- Primary recommendation. A training programme for businesses providing practical targeted assistance to businesses. This will provide information on what the banks' require in a good proposal, much of which comprises business best practice.
- Secondary recommendation. We recommend that SNF undertakes a comprehensive campaign to deliver Norfolk business good news stories across the media.

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1 Introduction

As set out in our Proposal dated 20 March 2009 (Annex 1), we have been asked by SNF to consider the question of “*How badly are Norfolk’s businesses being affected by the lack of credit available to them*”. We have considered the question from both the perspective of Norfolk businesses and the banks.

In this report we set out a summary of the findings from our investigations together with our proposed recommendations. We found that a significant minority of Norfolk businesses have been affected by the lack of credit available to them. However, the majority of both businesses and banks were of the view that significant falls in turnover, a lack of confidence, the wider recession and inherent weaknesses within struggling firms were affecting them no less than the failure of banks to provide credit.

For those affected businesses, our primary recommendation is that SNF facilitate targeted training with the banks and other organisations to assist struggling businesses obtain funds. Our secondary recommendation is that SNF undertake a focussed campaign in the media concerning ‘good news’.

We have undertaken two information-gathering exercises in relation to considering the position of Norfolk businesses. First, we undertook an online survey of Norfolk businesses, drawn from three sources, SNF’s business partners, the Institute of Directors (IoD) and the Federation of Small Businesses (FSB). Secondly, we undertook two focus group meetings with members of the IoD and the FSB to further explore issues that arose in the online survey. Full details of the findings from the online survey are at Annex 2, a summary of our focus group meetings is at Annex 3.

In relation to Banks that do business in Norfolk, we had one to one meetings with the directors of five banks in Norwich. At these meetings we discussed issues that arose from both the online survey and the focus group meetings. A summary of these meetings and key issues, together with detailed notes of each of these meetings is at Annex 4.

The methodology and relevant assumptions in respect of each of our three primary evidence-gathering exercises is set out in the Annexes.

We have further considered secondary data. In particular, we undertook a review of relevant media concerning whether or not the lack of lending has affected businesses in Norfolk and a summary is at Annex 5 together with the relevant press articles. We have also reviewed relevant statistical data including GVA figures for Norfolk over the last 5 years to date, corporate insolvency figures for the Norwich Official Receiver's area for the last 5 years to date together with nationally relevant data from the Bank of England and the CBI Lending surveys for June 2009.

This report has been prepared for SNF by students from the University of East Anglia's Norwich Business School, MBA cohort of 2009 (Javid Babayev, Biju John, Mark Oxley and Deborah Rodrigues).

2 The national lending context

The causes and effects of the current financial crisis have been widely reported. They are both national and international in nature, and are far reaching. The consequences are that weaknesses in the financial sector have led to what is likely to be a deep and long-lasting recession the effects of which will be felt for many years to come.

Both nationally and locally the ramifications on business have been direct. The lack of cash in the banking system is a matter of record, and taken together with falling asset and inventory values and the negative cycle arising out of a general lack of confidence have resulted in banks both having neither the ability nor the will to lend as they did in the past. Businesses have also been affected by a consequential widespread lack of confidence and have witnessed a slow-down in sales and financial retrenchment resulting in increased.

Lending from the banks continues to be tight

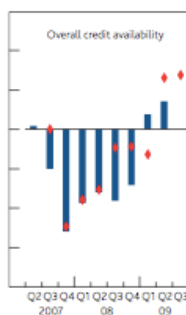
The Bank of England Quarterly Lending Survey for June 2009 reports that “Official data covering lending by all banks and building societies showed that the flow of net lending was negative in April, the largest monthly fall in lending since June 2000...the value of gross new corporate loan facilities granted fell slightly in May. New facilities tend to be offset by the removal of existing facilities and are not flowing through into net new lending...Lenders have continued to report subdued demand for new loans which they partly attribute to weak investment intentions. To some extent companies may have reduced their investment plans because credit has become more expensive or harder to obtain. And around two thirds of those facing tighter credit conditions had responded by reducing investment”.

No data exist which enable us to drill down lending figures to County level.

Credit availability increase in 2nd quarter by up to 20%

In relation to the question of whether there has been a lack of credit available to businesses nationally, figures concerning the availability of corporate credit are set out in the Bank of England’s quarterly Credit Conditions Survey. They show that the availability of credit during 2008 reduced by 35% to 40%. However, during the first two quarters of 2009, the overall trend of credit availability increased by up to 20%, as shown in figure 1.

Figure 1: Overall corporate credit availability



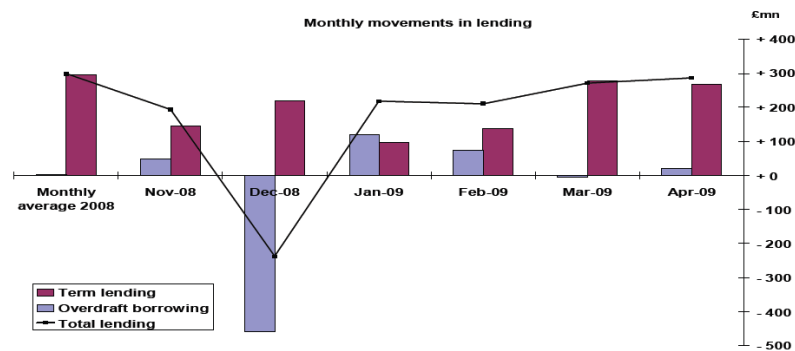
Source: Bank of England June 2009 credit conditions survey

April 2009 increase in lending to small business

The British Bankers’ Association (“BBA”) statistics release for April 2009 reports that lending to small businesses by the high street banks rose by £287 million in April and there were over 48,000 new small businesses banking

relationships established. Deposits from small businesses rose by £119 million. These figures are summarised in figure 2.

Figure 2: Monthly movements in lending to small businesses



Source: BBA statistics release April 2009

Commenting on the data, BBA statistics director, David Dooks, said: *“The high street banks’ support for the small business sector continues to rise. The net increase of £287m in April’s lending was consistent with the trend in recent months and the number of new banking relationships shows that the startup rate is holding up, despite the economic environment. Business liquidity improved as deposits saw another monthly rise, above the increase in overdraft balances”*.

We conclude that the availability of lending at the national level has improved for corporate lending, particularly to small businesses, from the second quarter of 2009.

3 Norfolk businesses

This report considers whether Norfolk businesses have been affected by a lack of credit and whether they have suffered from such lack of credit. Our online survey overwhelmingly reflects the position of small firms in Norfolk with up to 50 people. According to the Office for National Statistics, there were 36,830 businesses in Norfolk in 2008. Of these:

- 83.41% (30,715) have a headcount of less than 10
- 13.84% (5,095) have a headcount between 10 and 50
- 2.41% (890) have a headcount between 51 and 250 and
- 0.34% (130) have a headcount above 250

In comparison to this, our online survey was sent to over 4,754 businesses in Norfolk, we have received responses from 131 businesses. The respondents break up is as follows:

- 78.60% (103) from firms with a headcount of less than 10
- 18.30% (24) from firms with a headcount between 10 and 50
- 3.1% (4) from firms with a headcount above 51

Based on our combination of quantitative and qualitative types of research including the online survey and focus groups, we believe that the businesses who responded to us are positively representative of the total profile of Norfolk businesses. Further details of our analysis are set out in the methodology background to Annex 2.

4 A lack of available credit to businesses in Norfolk?

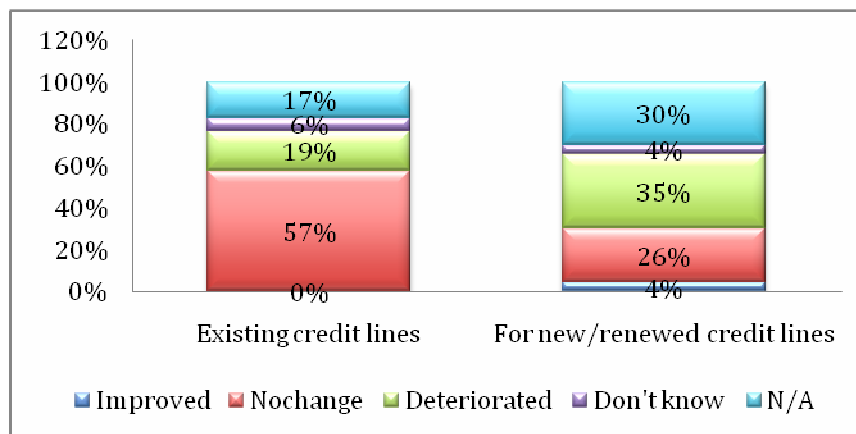
In order to answer the question of how badly Norfolk's businesses are being affected by the current lack of credit available to them, the starting point is to consider whether or not banks have failed to make sufficient credit available to Norfolk businesses. This could be either because the banks have simply lent less for whatever reason, have not themselves had the funds to lend or a combination of both factors.

To ascertain whether or not there has been a lack of credit the starting point is to consider whether or not the banks have provided an adequate **supply** of credit to Norfolk businesses.

35% say availability of credit has deteriorated for existing credit lines

The response to our online survey from businesses was mixed, in that whilst a significant minority of 19% of firms say that the availability of credit is worse for existing credit lines, the majority of firms say that there has not been a change in the availability of credit. In relation to new credit, the picture is worse, as shown in figure 1, with some 35% of respondents stating that the availability of new credit lines over the last 6 months has deteriorated.

Figure 1: Availability of finance in the last six months



Source: online survey Annex 2

The 'war stories' provided by respondents, support this mixed picture with one respondent stating that "Our bankers have been extremely supportive and at the moment I do not view the downturn as make or break for us". Another respondent wrote that "They simply refused any help and blamed it on the current economic climate".

At our focus group meetings, the position was similarly mixed, with one member stating that the banks "listen to proposals with no intention of lending", and another saying that "The banks have used the credit crunch as an excuse ...to reduce lending to struggling businesses".

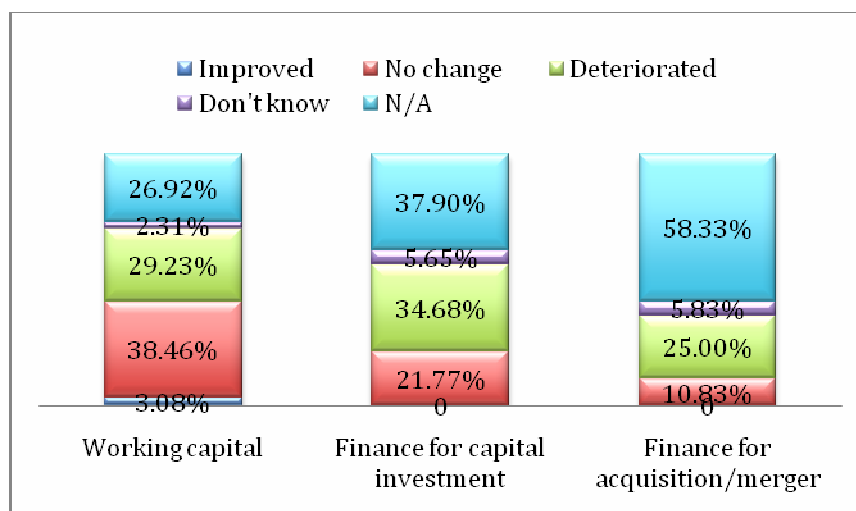
The Norfolk banks told us that there has been no material fall in the amount they lend. Whilst the majority of the banks we spoke to reported that lending levels had fallen only modestly over the last 6 months, we were provided with no data. As mentioned above, no data exists at a county level to be able to prove or disprove these assertions. The banks emphatically stated that any failure to lend more funds

was not because they did not have the funds to lend. One relevant factor is the withdrawal of certain foreign banks from the Norfolk market, but we have no data to support the supply of finance has decreased as a result of their departure.

- *“You hear unsubstantiated stories about facilities being withdrawn, this is not the bank’s experience”.*
- *“In no period during the crisis have we been curtailed”.*
- *“We have never declined to lend money because of lack of funds”.*
- *“There are sufficient monies to lend to businesses in Norfolk”.*
- *“The banking industry has in recent years seen a lot of new entrants to the market particularly from the foreign banks such as the Bank of Ireland. There has, compared to the position historically, been a high availability of credit in the market place. The disappearance of some of these banks makes it seem like there has been a withdrawing of capital. In fact, we are probably returning to ‘normal’ conditions”.*

We turned from looking at the general availability of funds from the banks to three specific issues, namely whether there had been a change in the availability of bank finance for working capital, capital investment and mergers and acquisitions. Figure 2 summarises the online survey responses in relation to this issue. If the banks had sufficient funds to lend, was there a lack of credit for these needs? Yes, there was.

Figure 2: Availability of bank finance in different areas



Source: Online survey Annex 2

Working capital availability deterioration of 29%

Whilst 38% of our respondents stated that there was no change in the availability of finance for working capital, there was a considerable deterioration in the availability of working capital for 29% of our respondents.

This picture was supported by our focus groups with one member saying *“the lack of working capital is the worst. This is the biggest problem.”* Small businesses, in particular, complained that they were having cash flow problems from late payment, *“my customers are not paying in 30 days”*, but were finding it hard to get funding *“I don’t want a loan. I want to fund the gap [ieby obtaining short time finance to cover working capital shortfall]”*.

The banks were more forthcoming about the position for working capital. Four out of the five banks were reluctant to lend for working capital alone. There was a willingness to support loyal existing clients by advancing funds to firms which required extended trading terms, but any applications needed to be well evidenced.

- *“Banks are concerned about requests for working capital”.*
- *“If firms are losing money, banks will be more reluctant to entertain applications for working capital”.*

So for those companies looking for assistance in finding working capital, the position is not good, and for a significant minority of businesses they are finding the availability of finance has deteriorated.

55% report a deterioration of finance for capital investment

In terms of the change of availability in finance for capital investment, the position has deteriorated with 55% of those respondents to whom the question was applicable saying that there had been a deterioration of finance for capital investment.

There was no clear response from the banks on this question, with one bank stating that there was less capital investment because firms were “*putting off investment decisions*”. Another reported that “*the bank has lent to companies to buy expensive assets and investment in equipment has held up. If a business is becoming more efficient/more green/more productive, it may well make sense to invest in capital items*”.

Lending for mergers and acquisition down by 60%

In relation to lending for mergers and acquisitions finance has fallen considerably, with 60% of those to whom the question was relevant in our survey stating that there was less bank finance for mergers and acquisitions. In one of our focus group meetings, one respondent stated “*60% doesn't reflect how bad it is. In our firm it is 25%*” and “*Mergers and acquisitions work involves borrowing at high levels. This is high risk and is too much for the banks*”. It was felt that alternative sources of funding such as some cash rich venture capital funds might be better for this sort of niche financing.

The banks confirmed that there had been a significant reduction in lending in this sector. Reasons given were that sellers were seeking unrealistic prices based on pre-recession levels of turnover, whilst buyers were looking for bargains, which generally were not being achieved. Whilst the banks were aware that many businesses were restructuring, these most often did not require bank support.

- “*Expansion has reduced significantly and there is little or no demand for mergers and acquisitions*”
- “*There has been a drastic cut in the demand for expansion and growth finance*”.
- “*Mergers and acquisitions work has dropped away. This is a higher risk area and the above factors relating to the recession generally have made firms less keen to take on risk...There is a higher risk awareness in purchasers, a lack of reality in sellers and from the banks' side a higher risk element*”.

Conclusion

It is apparent that both for existing and new credit lines, a significant minority of Norfolk businesses are being faced by reduced availability of bank funds. For working capital, capital investment and mergers and acquisitions, the availability of

funds for those businesses we have surveyed has decreased considerably. For their part, banks say that they do have available funds, but that lending has not increased over the last 6 months. No figures have been provided to substantiate actual lending figures. One factor causing a reduction in lending in the Norfolk banking market is the withdrawal of several foreign banks.

5 Demand for credit from Norfolk businesses

The banks are saying that they have the funds, and it should follow that Norfolk businesses have sufficient access to those funds. However, the banks are saying that demand has not increased in the last 6 months, and remains low. In the absence of specific lending figures for Norfolk, the banks say that “*Across the country applications are down by a 1/3 since last year...lending in Norfolk is broadly flat*”. However, it is acknowledged by the banks that there is a fall in demand. This is because of a falling appetite for risk in the local market, even if businesses are doing well. “*The problem is people asking us*”.

Our online survey results in relation to the demand for credit from businesses were consistent with the numbers of those businesses who were noticing a deterioration in the availability of finance. Whilst the demand for bank finance over the last 6 months was the same for 42% of existing credit lines and 30% for new credit lines, a significant minority of 18% of firms stated that their requirements were up a little for both new and existing credit lines.

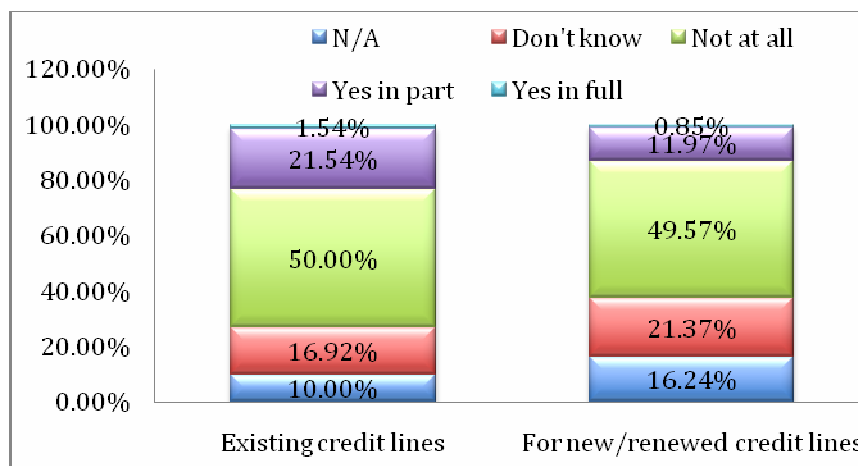
We consider the wider impact of the recession below, and whilst we have undertaken no specific correlation analysis, it is clear that the broader ramifications of the recession such as reduced turnover and the need to make redundancies will have the affect of reducing risk appetite and the desire to take on further risk. This conclusion is supported in our focus group and bank evidence.

We examined those factors which might tend to inhibit demand, and which might substantiate why a significant proportion of respondents say that the banks are not making funds available when the banks say they have money to lend. Key constraints imposed by lenders that might affect demand considered by us are primarily interest rates, finance costs and lending procedures.

50% of banks have not passed on interest rate reductions

The appetite for demand is affected by the cost of borrowing in terms of interest rates and other charges. As shown in figure 3, 50% of respondents to the online survey stated that the banks had not passed on the benefit of interest rate reductions. Set against this, less than 2% of respondents stated that the benefit of interest rate reductions had been passed on in full for new and existing credit lines, with 22% saying they had been passed on in part for existing credit lines and 12% for new credit lines.

Figure 3: Whether the benefit of interest rate reductions have been passed on by banks.



Source: Online Survey Annex 2

In the survey 'war stories', the response was mixed with one respondent stating "It seems that we have suffered an increase in costs of our overdraft facility from 3% over base to 4.64% over base-the reason given being the increased levels of capital adequacy (Basel II) required. Not convinced that this was not an opportunist moment to rebuild their margins at the cost of mine instead!". Another respondent stated "the conditions for the overdraft are onerous", with another "I contacted [x bank] for a loan, which they were happy to give me at 11.5% interest. I declined their offer. How can they justify getting virtually free money from the government and then charging 11% over base...It beggars belief". However, not all of our businesses have needed to borrow money with one online survey war story stating "if you borrowed bad luck", "we saved in the good years in order to buffer ourselves for leaner times such as

now” and another of our focus group attendees *“I don’t want to borrow and don’t want to take on risk”*.

In both focus group meetings, whilst concern was expressed about the relative increase in the interest rate cost, and in extra charges from the banks, it was noted that, overall, because of the significant fall in interest rates, the cost of borrowing was largely lower than before *“If 5% is the ‘natural’ rate we are now at ½%, not many banks have increased rates up by this much therefore you are generally better off”*. *“The banks have not passed on the full benefit of interest rate reductions”*.

The banks accept that the relative interest costs have increased. The reason given for this is that the majority say they now borrow more money against LIBOR rather than base rates, and the relative cost of money on LIBOR have increased. The banks argue that they have to pass on the increased cost of money, and the relative cost of overdrafts and loans is therefore more. Additionally, two of the banks we spoke to said that lending criteria since the introduction of Basel II had the implication of raising interest rates for higher risk offerings *“In relation to price, the bank rates every decision on objective criteria, following Basel 2. These take into account such factors as the nature of the audited accounts and the net asset value. Around 40% relates to account behaviour ie how the firm pays its creditors etc. The price will depend on the rating”*.

However, the banks also say that given the significant interest rate reductions most businesses are better off. Those banks, which had to borrow less in the capital markets, stated that they were better able to pass on the full benefit of interest rate reductions.

- *“Interest rates are more expensive for the customer relatively but are offset by the large reduction in base rate”*.
- *“Margins have generally increased, however, given the dramatic reductions in the base rate, businesses are paying a great deal less”*.

The balance of the evidence from our investigations is that many businesses have been adversely affected by the relatively more expensive cost of money, but because of the significantly cheaper rates, the cost of interest is not materially affecting the demand for money.

Increased arrangement fees for 45%

The same picture emerges for arrangement fees and the cost of finance. In relation to arrangement fees 45% of respondents to the online survey stated that these had increased for new credit lines. For those respondents to whom the issue was relevant, 31% stated that the cost of finance had got worse for existing finance agreements and 43% stated that it had deteriorated for new credit lines.

The online survey also picked up on “*excessively high bank charges*”. “*It feels like we have been assaulted by [x]. They took £6,000 in charges when I was struggling and withdrew an overdraft facility without warning*”.

The banks did not deny that arrangement fees have increased with one saying “*Arrangement fees have increased typically from 1.00% to 1.75%*”. In relation to other charges one said “*Margins have generally increased, however, given the dramatic reductions in the base rate, businesses are paying a great deal less*”. These increases were noted by members of our focus group one of whom reported that their bank were “*now increasing charges to an unacceptable level for our existing facility. We are now approaching another bank*”.

Requirements for security increase by 38%

Another significant minority, 38% to whom the question was relevant, stated that banks had increased their requirements for security over the last 6 months. One of our focus group members raised the fact that it was believed security levels had increased and that this reduced the ability to raise funds “*I had to put up substantially more than I can borrow*” and cited this factor as a reason for not borrowing.

One of the banks advised, “*Yes, in some cases increased security is being sought, but this, if offered, will have an affect of lowering interest rates on any loan*”.

Lending procedures a significant constraint on demand?

More prominent, in the bank and focus group meetings, was the question of the banks’ lending procedures. To what extent has demand been constrained through much tighter emphasis on lending criteria by the banks?

The banks provided conflicting messages on this question. All of the banks gave the strong message that it was 'business as usual, and, in the words of one bank, their *"cannons of lending have not changed one iota"*. So, on the one hand, they were all suggesting that nothing had changed. However, on the other hand, all of the banks said that they are returning to what they describe as 'traditional' lending principles, and we conclude this is a considerable constraint on demand.

- *"In the last 6-12 months banks have started looking back to traditional banking methods, loans are being made more secure, and terms for loan approvals has been tightened"*.
- *"We are going back to the traditional banking method"*.
- *"More due diligence is being undertaken"*.
- *"It is true that banks have been far more selective in their approaches to small business"*.

The banks all say that this newfound caution means that firms need to provide properly detailed proposals, which must include some of the following:

- Soundly backed proposals with profit and loss accounts, balance sheets, cashflow/profit projections
- Evidence of competent management teams
- Sound business models
- Competent professional advisers (accountants/lawyers)

The majority stated that if firms prepared properly supported business plans, then there were more rather than less likely to lend to small businesses.

Some businesses see these extra hurdles as a barrier with one of the online survey respondents saying in the 'war stories' that *"new procedures have made life very difficult"* and another saying that *"looking for funding or grants seems much more difficult now the mounting of paperwork involved can be very off putting"*.

It should be borne in mind, that not all of Norfolk businesses see that lending from banks is either necessary or desirable, with another of the online survey respondents stating *"all borrowing is bad, perhaps they will realise now, use your brain NOT your bank"*. However, the focus group meetings supported the minority position of one

online survey responded that “*new procedures have made life very difficult*” by saying that “*all this is true*”. The ambivalence between the banks saying that things have not changed, yet acting in another way is neatly summed up by one focus group member who said that “*it is not necessarily new procedures but people are **doing it by the book***”. We believe that this might be acting as a constraint on both the demand and supply (availability) of funds from the banks to businesses in Norfolk.

However, there is a cautionary tale here, even if good business plans are put to banks this will not guarantee success. As one business put it in the online survey war stories “*our business plan represented not only the right approach, but also ‘the best business plan of this type we have seen’. At that point we asked for additional funding and were told it should not be a problem. 2 days late they told us they would not lend*”.

Alternative sources of finance: government related and private

There is clearly a desire from Norfolk businesses to avail themselves of alternative sources of funding, for example from the government or quasi-governmental organisations such as EEDA.

In both the war stories and in the focus groups mention was made of the government’s Enterprise Finance Guarantee Scheme. Businesses were not uncynical in their comments on the scheme with one focus group member saying that “*EFG’s made good headlines at the time*”, and another with online survey respondent stating “*EFG loan recommended but our manager informed us the bank had no intention of doing these loans if he can avoid it*”.

Four of the five banks stated that they actively supported the Enterprise Finance Guarantee Scheme. They saw this as part of an overall package of services. All said that many customers had not considered the (undefined) requirement that businesses should be **viable** when making applications for funding, even if they lacked the sufficient security. It was important that Proposals were properly assembled. “*The scheme is meant for viable businesses*”. “*This bank does not see that there is a problem for EFGs*”.

The banks do not see themselves as being in competition with the EFG scheme or with the sort of schemes offered by EEDA: they are seen as a useful ‘third way’. “*We*

certainly do not see EEDA as competition". The banks were not able to provide data to show individually how much had been lent under this scheme to businesses in Norfolk.

A subsidiary question relates to that provided by venture capital funds or business angels. This was not an issue that we raised on our online survey. However, in the focus groups comment was made that "*some VC's do have cash, it is a good time to buy*" and there is "*a lot of VC money*". The assumption was that those private individuals who had cash might be prepared to take higher risks than the banks, in return for equity stakes. One of the banks commented, "*If there is a real difficulty, the bank can pass the customer on to other financial specialists*".

Conclusion

It is therefore apparent that, for those businesses for whom the question of the cost of bank borrowing is relevant, and that is by no means a majority, the relative cost of money and arrangement fees have increased and this is a real issue. However, a major constraint on demand would appear to be the fact that all the banks are now undertaking increased due diligence, and this is acting as a considerable constraint upon both demand for and supply of credit from the banks.

6 The extent to which Norfolk businesses are affected by any lack of credit, are there other factors?

50% of relevant firms significantly affected by lack of credit

It is apparent that a significant minority of Norfolk businesses, have been hampered both by the banks failure to lend to them but also that demand might well have been suppressed as a consequence of factors such as tighter due diligence by the banks.

Whilst a majority of our respondents stated that the question of whether their bank had failed to lend to them was not relevant (we have assumed because they did not request bank lending), for those firms to whom the question was relevant, 50% said that their business had been affected significantly, and 27% modestly. The impact of decisions not to lend is therefore significant for those firms who are seeking funding from the banks.

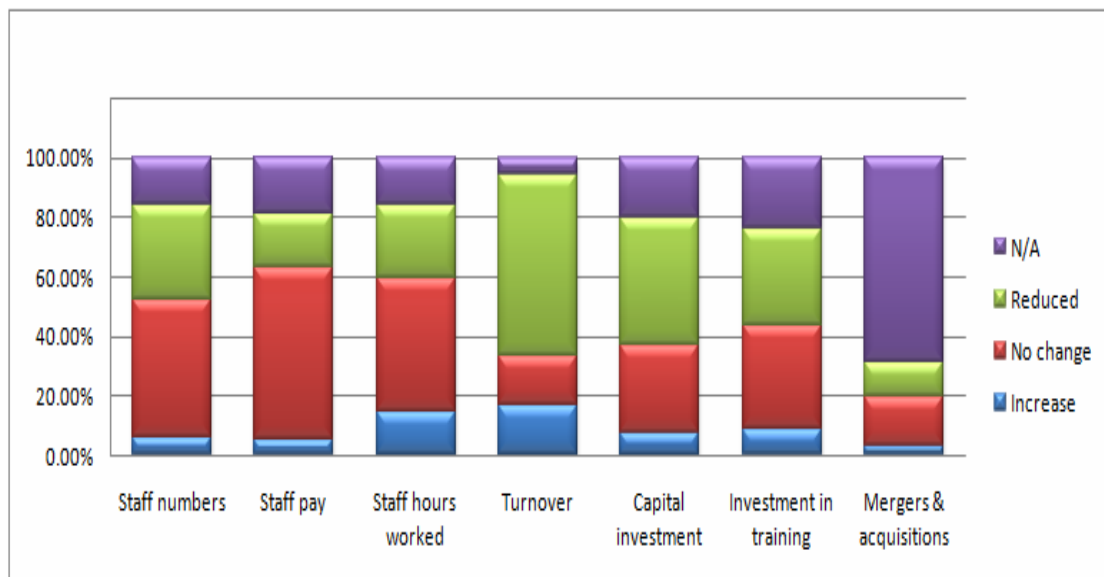
A small minority were vocal in their war stories that the actions of the banks were the cause of their problems, saying that “*Underfunded by our bank...if the account goes over it's limit by a fraction, no help or advice whatsoever*”. “*It feels like we have been assaulted by [x bank]*”.

Majority of firms suffer turnover decline of 61%

In the war stories section of our online questionnaire we asked businesses for their stories concerning how they had been affected by the credit crunch. Only 2 respondents referred to their banks as being a main cause. The majority referred to other issues, such as falling turnover, increased late payment by customers, fuel prices and other factors. Indeed, a significant percentage stated that business was good.

This qualitative findings were borne out in our online survey when we asked what changes could be attributed directly to the financial crisis. As shown in figure 3, 61% said that they had suffered a decline in turnover, but only 32% reported a decline in investment and training and 32% a reduction in staff numbers. On the other side of the equation, 57% of firms reported that there had been no change in staff pay. A significant minority of 17% of firms reported that turnover had increased.

Figure 4: Changes in Norfolk businesses attributed directly to the current financial crisis



Source: Online survey Annex 2

That the current crisis is not all doom and gloom is reflected in the war stories. *“Not affected to date”, “We have not been affected by the credit crunch”, “My sales are up, I don’t know what the fuss is about” and “Recession? What recession? Never been so sodding busy”* being some of the more positive comments. In the same vein, some respondents were supportive of the banks *“I cant honestly fault [x] bank”* and *“Our bankers have been extremely supportive”*.

One theme that ran through our three strands of evidence gathering, was that whilst some good businesses would invariably get caught in this recession (one bank commenting that *“it is a myth that just badly managed companies go to the wall”*), *“some businesses don’t deserve to be in business”* and *“badly run businesses will be found out”* (focus group members). One of the banks commented that *“good and strong companies are getting stronger, weak companies are being found out”*.

So if the effects of the recession depended upon how a particular business is run, what affect does the relevant sector have? Focus group members stated that *“it has to be sector related”, “construction and the car sectors are bad. If you are 30/40% down you cant survive”*. However, one of the online survey respondents stated that *“we are a small firm in the construction industry with a healthy order book and no need to borrow”*. The picture is therefore mixed, even within sectors.

The banks had the most to say about the relevance of sector, for example the following quote is typical, *“While some sectors are doing well, such as oil and gas and Tourism, and others not so well such as manufacturing, there were firms doing well in manufacturing and others badly in tourism. You have to look at the individual business”*. This viewpoint was confirmed by one of the banks *““Good and strong companies are getting stronger, weak companies are being found out”*.

The effects of the global financial crisis on Norfolk’s businesses

One of our most interesting findings was that the effect of the ‘credit crunch’ on Norfolk business is not so widespread as one might imagine. The picture is well characterised with the words of one focus group member *“The recession is definitely real”* and another saying that *“East Anglia as a whole is comfortable as we don’t have major big industries”*.

Our respondents went further. There are many good news stories with one online survey respondent saying *“We’re actually doing really well at the moment and there are many businesses we know who are too”*. In the focus groups there was agreement that *“We have some businesses which are doing rather well”* and *“Some businesses are doing well”*. All of the banks agreed that the general trading outlook in Norfolk was mixed.

- *“Norfolk is a real mix of business... There is not a lack of credit for Norfolk’s businesses. They have been hit by the wider economic situation. This will no doubt, affect their financial performance and their desire to borrow money from the banks”*.
- *“We did not see the peaks. We have not seen the same troughs. Of course there has been a downturn, but this is as much a question of confidence as anything”*.
- *“My personal view is that Norfolk is not significantly affected by the recession”....In Norfolk, the ups and downs of the economic cycle are evened out and the changes are not as dramatic as elsewhere”*.

Conclusion

The failure of banks to extend credit to businesses in Norfolk has had a significant effect on a minority of businesses. Additionally, the recession is having a very real

effect with the majority of businesses surveyed reporting a decline in turnover over the last 6 months. However, there are many examples of successful sectors and businesses in Norfolk where the picture relating to the effects of the credit crisis is mixed, both as between different sectors and within individual sectors.

7 The role of the media

We did not ask about the role of the media in our online survey. We have undertaken a summary of the media coverage of the credit crunch in Norfolk, and this is at Annex 6. As stated in our proposal, in this report, we only refer to the written medium of newspapers.

In the online survey war stories, one respondent stated *“I am fed up with the continual focus on the negative stories- particularly with the EDP. Let’s celebrate the success we have in Norfolk and hope it inspires others- as entrepreneurs our nature is to respond quickly to new challenges and opportunities”*. There was a feeling in the focus groups that the media contributed to the crucial question of confidence, for example *“News media in live time gets bad news out there. This is new for this recession”*. The question of the hunger for live media coverage meant to some of the focus group members that the newspapers were not able to properly digest news. The consequence of such coverage was that *“they have made people scared...all the papers seem to make people afraid of the future”*.

Whilst one of the banks said they thought that they could not criticise the local media, particularly the Eastern Daily Press, whom had reported responsibly, there was a consensus that the national and local press had not had enough ‘good news’ stories. This was adversely affecting sentiment. As one bank said *“the media have not been giving the message that the banks are open for business”*. Another bank said *“We live in an age of spin, and information is not necessarily portrayed in a factual manner. The media have massive role to play in this. At the end of 2007 the media were really looking for bad news. Now the balance has changed and the EDP is looking for good news stories”*.

In relation to the media as a whole, Norfolk has received some high profile support with section has been obtained from Invest in Norfolk (2009). Sir Richard Branson, for example, is reported as saying that *“Norfolk has proved to me that it’s a county that can deliver results. I would recommend it to anyone who wants to do business in*

a cost-effective, forward-thinking environment." The Eastern Evening News has also reported some of the real effects of the recession including *"increasing overdraft rates or withdrawing credit products in the current climate could force some companies out of business"*. The Eastern Daily Press has provided detailed analysis of the crisis and has provided coverage of the effects of the recession. We did not consider that the coverage was unbalanced in light of the mixed picture we received from our businesses. We noted that the Lynn News have launched a campaign called 'positively West Norfolk' to ensure that good news stories in the area are communicated.

8 How badly are Norfolk's businesses affected by the lack of credit available to them?

It is clear from the findings from our varied sources that the picture for Norfolk businesses is mixed. A significant minority of businesses are struggling to obtain lending from banks, despite the banks saying they have money to lend, and they are hurting as a result of this. It is not clear that there is a direct nexus, however, between the lack of credit and wider business performance as a whole. Many businesses have suffered from problems such as a decline in turnover, cashflow problems, late payment by creditors and these are having a significant effect upon business.

There was an acceptance from the banks with one sanguine appraisal being that *"the banking system has been an integral part of the current problems. Norfolk's business will have suffered. Some may not have received funding from banks in Norfolk, or elsewhere. In good times the banks are prepared to take risks but in bad times less so"*. However, the banks were all keen to point out that they were keen to lend, with the same bank going on to say it was *"continuing to support its existing customers and, in some cases, increase that support"*.

The four other banks were more bullish:

- *"There is not a lack of available credit for Norfolk's businesses. However, they have been hit by the wider economic recession. This will, no doubt, affect firms' financial performance and their*

desire to borrow money from banks. We have the money to lend and the desire to do so. The right proposals are supported”.

- *“I don’t think businesses are doing badly because of lack of credit. A small percentage of businesses are doing badly because of poor business models which were not relevant even in good times”.*
- *“Businesses are affected by the recession but finance is available to them”.*

These words will be of little comfort to those businesses that are suffering from a lack of credit as reported above.

It is appropriate that the last word on the question should be left to the members of one of our focus groups. Whilst they reported significant problems in the current climate, on the narrow question of the extent to which businesses are suffering as a consequence of lack of credit they, and we, conclude, that *“Banks are a part but not a significant part of the current problem”.*

9 Recommendations

SNF aims *“to create more jobs, greater prosperity and opportunity for the people of Norfolk”.* As such, SNF is supported by its seven strategic goals, including to *“Improve business performance and encourage innovation and entrepreneurship”* and *“Communicate and maximize the benefits of Norfolk’s positive profile locally, regionally, nationally and internationally in order to increase competitiveness, trade and investment”.*

Our two recommendations, for SNF to facilitate a focused training program and to ensure that ‘good news stories’ are conveyed to local and national media both support SNF’s strategic goals and add value to the services it offers its members.

Primary Recommendation: A focussed education for those businesses who require bank funding

From our discussions with the banks and our focus groups, there is a demonstrable need for a focussed education initiative to help those firms that have suffered a deterioration in the availability of credit by assisting them in putting the best possible proposals for finance to the banks. Such practical training could significantly affect the chances of loans being given as well as foster best business practice.

Nature

The banks have said funds are available but businesses are not addressing their requirements when seeking funding. We recommend that SNF works in partnership with the banks and one or two local financial advisers/accountants/Business Link to put together a training programme covering these issues.

As the training would be in the respective interests of the advisers and the banks, we believe that the best approach would be for SNF to prepare a design brief, find suitable parties who would devise a programme for consideration by SNF and then permit those parties to deliver it. There are, of course, alternative means of delivering the training, which SNF might prefer.

Areas to be covered would include those issues raised by the banks with us, for example any proposal should include:

- Sound business plans. These should include evidence of profitability. Applicants will need to show a good track record evidenced with the past, current and future financial information in the form of cashflow, balance sheets and profit and loss accounts. Projections should be realistic.
- Evidence that firms should have up to date [ie monthly] financial information.
- Satisfactory capital levels. Shareholders and stakeholders should ensure that funding is sought from the banks, sufficient capital is provided by way of security or otherwise which is proportionate with the funds requested.
- Experience. Firms need to make sure that they have **relevant experience** in the business/sector eg in the present market, a former accountant seeking funds to run a restaurant would not seem attractive on the face of it.
- Start-ups. Sales projections need to be realistic. Comparables over time and for similar businesses should be provided.
- The role of professional advice. Whilst businesses can put together their plans, good professionals might add competitive advantage.

Consideration should be given as to whether or not further training needs to be provided to businesses on the question of business fundamentals or whether this can be included in this session. The lack of poor quality management training in Norfolk is a matter specifically highlighted in EEDA's Regional Economic Strategy.

It goes without saying that any training is focussed, and easily intelligible.

Phases

We consider that there is an urgent need for such a programme to deal with those companies who require funding from banks. It is difficult to predict the total market for such training, but if there are 35,000 businesses in Norfolk of which 20% are struggling to obtain funds, then the total market for such training could be as high as 7,000 firms. In reality, this could be much smaller. In our survey 25 companies indicated that they were having difficulties in obtaining funding.

It was apparent from the evidence that many businesses were not currently looking for funding, but if demand did turn to the market, we predict that there could well be a second phase of companies requiring training when the economy picks up generally.

SNF could approach treat both markets separately, or it might well be a better policy, not least to present the training as a 'good news' story for the educative training to be presented as part of overall 'preparing for the recovery'.

Delivery

We consider that any training program should not be delivered by SNF, but be facilitated by it and conducted under its auspices. Communication of the program should be through all of the relevant channels to ensure as comprehensive a buy in as possible including all SNF's membership, but also IoD, FSB and other relevant bodies/groups considered necessary or whom those delivering the training might consider appropriate.

From our experience in conducting our online survey, we consider that the success of this scheme will depend upon obtaining full buy in of all stakeholders. Time spent with these stakeholders in advance of any program explaining why it is necessary, and welcoming feedback is considered to be critical to the program's success. We

would recommend that this is made available to the wider business community including the IoD and the FSB who have been so generous in their time in assisting us with this report. In terms of targeting such training, the relevant organisations will need to

Secondary recommendation: Norfolk success campaign

Confidence is affected by the role of the media. It is acknowledged that some media in Norfolk has been responsible of the credit crunch and subsequent recession. Whilst many success stories are mentioned in the press (eg the investment of £20m in a quayside plant¹) we believe more can be done.

We recommend that SNF, as part of its continuing objectives, leads a focussed media campaign to deliver good news stories concerning the successes Norfolk businesses.

Options available to SNF include some of the following:

- A certain number of cases a month should be selected whether by sector or otherwise.
- SNF may select success stories from within SNF or from other organisations such as the FSB or the IoD.
- Media means all media including television and radio. We recommend that a monthly spot is obtained on both the regional television services and that the stories are then released through the print media and the radio
- Full use should be made of the full range of internet channels including social networking sites and e-magazines in addition to website advertising through stakeholders etc.
- These stories should form part of a coherent and planned programme.
- Advance notice, and buy in, of the campaign should be given to all relevant stakeholders.

¹ Shaping Norfolk's Future Website accessed on line 15 July 2009
<http://www.shapingthefuture.org.uk/Article-1920/Cable+firm+opens+20m+quayside+plant.aspx>

- Critical success factors should be agreed in advance by which the success of the campaign can be measured.
- We do not consider the campaign should be limited to Norfolk alone. We suggest that the treatment of the media at a national level should depend upon the chosen sector eg a tourism success story might well have national application but detailed care should be given to the appropriate channel.

10 Conclusion

In this report we have considered the question of *“How badly are Norfolk’s businesses affected by the lack of credit available to them”*. A significant minority of businesses have found the availability of credit has deteriorated and that this has had a material affect on them. At a more specific level, the majority of businesses that have actively been looking for funding for working capital, capital investment or for mergers and acquisitions have found it much harder to obtain finance from banks.

The banks state that they have sufficient funds, yet demand remains depressed. Whilst the cost of finance, including the failure to pass on the full benefit of interest rate reductions, higher arrangement and other fees, and a possible increase of security levels appear to have inhibited demand, the main constraint appears to be the increased due diligence of the banks.

Alternative sources of funding are available but, whilst of use in limited circumstances, they are not sufficiently deep to drive any shortfalls.

Whilst specific Norfolk businesses are affected by a lack of credit, it is clear there are factors other than a lack of lending that have affected them. Most firms have reported a lack of turnover and this is attributed to the wider effects of the recession, rather than to the banks failing to lend. These wider factors also affect the appetite of businesses to take risks, and to take on debt.

Our primary recommendation is that training is provided to those firms that need funding not just urgently but also in anticipation of any recovery.

It is important not to focus on the bad news. Some businesses in Norfolk continue to perform well. There continue to be vibrant sectors and companies are doing well even in troubled sectors. The media have a role to play in building confidence, and if there are successes, these should be publicised. Our secondary recommendation is that SNF undertake a structured program to deliver focussed 'good news' stories of Norfolk business successes through the various media channels for those companies within its chosen sectors.