



Lancashire LEP Finance Review Executive Summary Report

April 2021
Updated May 2022

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1. Foreword

1.1 This report presents an Executive Summary of the Finance Market for (SME) Businesses in Lancashire which completed a detailed review of the demand for, and supply of finance, for Lancashire SMEs to identify any significant gaps in the funding market and recommend appropriate actions/ responses.

1.2 The research also sought to investigate opportunities and options to design and establish an “Investment Forum” for Lancashire.

1.3 This Executive Summary is part of a suite of evidence papers which includes the following: Initial discussion paper – Availability of Business Finance in Lancashire; Main headline report addressing the research objectives; and Technical Annex containing the detailed evidence and data sets.

1.4 A number of activities were completed in undertaking the research, including: extensive desk review of published data and sector/industry reports to provide an overview of finance, economic and financial markets; broad engagement with 40 key stakeholders using in depth telephone interviews; presentation and discussion with the LEP Board and Sector Groups around initial findings and conclusions; and development of final reports and technical appendices with conclusion and recommendations.

1.5 It is crucial to recognise that the report and analysis were completed during a time of extreme flux, with impact of Covid and Brexit impacting significantly across the business spectrum and the availability of the Governments national responses significantly distorting the market for business finance.

1.6 It is not suggested that the LEP can, or indeed should, seek to address all the recommendations and associated actions under their own account. Instead, the next stage should be to disseminate and discuss with partners (public and private agencies) and agree detailed requirements and associated roles and responsibilities for future delivery actions.

1.7 We do, however, suggest that time is of the essence to implement some of the recommendations, in particular the development of the ability to deliver business advice, at scale, to companies facing potential distress as COVID support comes to an end.

1.8 There will be limitations on what can be done to address some issues at a local level. For example, the level of Covid debt support has been so large this can't be replaced by the LEP or any single (public or private) source.

2. Headline Conclusions

2.1 At a high level, our examination of the finance market in Lancashire identified the provision of Early Stage Seed and Development (property) funding was problematic for some businesses. Currently the business finance market is significantly distorted from 'normal' by the level of Covid support debt that has been made available by the government.

2.2 Government Covid-specific support funding packages have significantly distorted the current SME finance market which is clearly in a state of flux. Recently, the data show that far more SMEs have taken on external finance than in the past. These SMEs represent "borrowers of necessity" seeking finance for survival as opposed to "planned borrowers", typically seeking to fund investment and growth. Post-covid it seems probable that the majority of these "borrowers of necessity" will revert to being non borrowers, if they can survive the transition to a non-Covid support environment.

2.3 Some SMEs who previously borrowed on a commercial basis may also take the opportunity of the long repayment terms of COVID support to pay down other commercial loans and exit the lending market in the short/medium term, seeking to reduce their perceived personal risk. Others may seek new borrowing to enable them to take advantage of opportunities provided by the anticipated future economic growth. For the present, this is all speculation and forecasting future demand is really little more than "a finger in the air".

2.4 More gaps may emerge once the covid pandemic comes to an end. Indeed, it is likely that many SMEs will be subject to financial difficulty when existing support funding has been stopped, and repayments become due. This will be a nationwide problem, and we anticipate nationwide solutions are likely to be developed. It is, however, appropriate to consider what local steps can be taken to resource, organise and coordinate a short term local response.

2.5 We were advised (anecdotally) of a very few specific cases where a business was said to be unable to obtain the finance they required. There does seem to be an impression held by some consultees that shortages in some areas remain. For example, property funding being an example although we were, however, unable to identify any evidence to support this contention.

2.6 While future demand for funding may be unknown (or unknowable), there are local steps that can be taken to improve the efficiency of the Lancashire finance market. The research has identified issues around information provision/ signposting/ visibility of success/ and business financial skills which should be addressed.

2.7 A headline SWOT of the finance market in Lancashire is presented below and is based on the evidence gathered through the research.

| <u>Strengths</u> | <u>Weakness</u> |
|---|---|
| <ul style="list-style-type: none"> • Strong Lancashire identity • Range of national and regional funds are accessible • Local established funds (Rosebud) • Current A2F infrastructure • Potential for angel activity • Local Partnership working established | <ul style="list-style-type: none"> • Limited national/regional strategic influence • Low visibility of local activity • Lack of easy access to Lancashire financial information • Unclear tech deal flow • Data often lost within 'north west' • Limited 'Lancashire' angel activity visible. • Immature finance market • Unclear SME demand for different types of finance |
| <u>Opportunities</u> | <u>Threats</u> |
| <ul style="list-style-type: none"> • Develop financial infrastructure/ ecosystem • Regular county data collection monitoring and reporting • Joined up information/ signposting/online education • Develop Finance Lancashire as a finance portal • Expand capacity of support services (for both supply and demand). • Support for innovation and low carbon sector activity • Increase angel activity • Embed Environmental, Social and Governance in the financial ecosystem | <ul style="list-style-type: none"> • Continuing policy focus on cities • Longer term consequences of covid • Weak SME balance sheets • Loss of funding for national/ regional projects • Lack of policy priority • Impact of the war in Ukraine |

2.8 There are clear steps that can be taken locally to improve the efficiency of the Lancashire finance market and address these opportunities and threats in the wider financial eco-system including - information provision/ signposting/ visibility of success/ and business financial skills and the establishment of a robust and inclusive investment/ investor forum. These are now expanded on below.

3. May 2022 Update

3.1 The Government announced its Living with Covid plan in February 2022 which removed the last legal restrictions. However, the impact of Covid is still felt by businesses in terms of staff absences and supply chain issues. This in turn has financial consequences.

3.2 The impact of the war in Ukraine has further exacerbated the position for companies in terms of source raw materials from Russia, Belarus and Ukraine. The government has issued sanctions against Russia and Belarus. With sanctions on Russian banks, it is becoming increasingly difficult to obtain goods and services from Russia. The government has warned that there is likely to be significant disruption to supply chains because of the war in Ukraine. It is unknown how widespread the impact is on Lancashire companies. What is known is the impact of the war in Ukraine on energy prices which has soared. In addition, many pension funds, investment houses and funding providers are now scrutinising their portfolios and divesting their interests in Russian and Belarussian companies.

3.3 Against this background, Lancashire's Internationalisation Strategy is emerging. It will be published at a similar time to this report and the two reports should align with each other.

3.4 It is important for the Lancashire economy that it is attractive to Foreign Owned Companies for inward investment, that Lancashire companies export more to provide resilience, for universities to attract international students, academics, support innovation in Lancashire companies and overseas collaborations. All this activity will increase the size and value of the economy in which the financial ecosystem plays an enabling role.

3.6 The LEP's Sector Groups are publishing their Sector Plans and finance features in many of the plans. If Lancashire businesses are to grow and stay in the county there needs to be the financial eco-system for them to access the right finance at the right time. This includes micro and third sector businesses with an emphasis on inclusivity to support our diverse business community.

3.7 Moving forward government funded financial products are likely to focus on their flagship policies such as Levelling Up and the 10-point plan for a Green Revolution in their investment decisions. This works alongside businesses who are looking at their environmental, social and governance responsibilities.

4. Recommendations

4.1 The recommendations are designed to address the key issues raised through the research and the opportunities and threats as highlighted. These are considered both proportionate to address the identified issues and (relatively) low cost/ low maintenance and as such could be implemented quickly. The main report provides additional information on all the recommendations.

4.2 Post Covid Support Taskforce. It is likely that within Lancashire additional resources and skills will be required to assist companies experiencing debt repayment problems. There already exists investment ready and A2F services and these will likely need to be further developed - scaled up, new skills are likely to be needed in relation to dealing with distressed companies (as opposed to growth companies), new information and guidance will be required, and additional signposting to specialist debt management and insolvency services.

4.3 Improved Data Access. Effective future policy development should be built upon a proper understanding of the existing and potential demand for, and supply of, funding. Having a clear grasp of demand/ supply of grant, lending and equity funding requires regular, effective, and systematic data collection and analysis at local, regional and national levels.

4.4 Regular Business Surveys and Market Reports. It would be appropriate to undertake regular (eg bi-annual) surveys of businesses operating in the key Lancashire sectors. This need not be an onerous undertaking and could be delivered through the sector representative organisations, as standalone surveys or by adding finance questions to existing member surveys. A regular market report to highlight the scale and scope of finance activity in Lancashire would help to promote the region and its opportunities. This could include data from the above, supplemented with data from BoE; British Business Bank etc.

4.5 Lancashire Early-Stage Finance Discussion Group. This new discussion group hosted by British Business Bank and should be encouraged and, where appropriate, supported. In part due to its initial relative informality, together with the obvious enthusiasm of those attending, it appears to have potential to be a useful forum for sharing experience, identifying problems and developing coordinated solutions.

4.6 Regional Financial Information Portal. The provision of information around financial sources/ availability of finance is inconsistent, incomplete and fragmented across the region. A new common regional brand (eg Finance Lancashire) should be developed and promoted on all (public and private sector) partner websites, and in turn the Portal would signpost users to the services offered by other partners.

4.7 Access to Finance Services / Finance Education. In light of the potential longer-term consequences of, and recovery from, Covid, it would be appropriate to review the capacity, scope and skills of the A2F service. It is understood that current services are constrained by the need to deliver support to meet EU targets. Businesses need a more flexible approach which may increase both capacity and demand, for example through a telephone triage service. Consideration should also be given as to how much support material can be put online, including articles and webinars. This may again increase capacity, and help to filter companies to appropriate levels of support (online, telephone, light touch or in depth).

4.8 Signposting and information for Angel Investment. The development of an effective angel investment market at a local level is inhibited by the general lack of knowledge about the nature and operations of Business Angels. This applies to both seekers and potential suppliers of funding (Angels). Some misunderstanding exists regarding the typical profile of the individuals who become angel investors, the amounts they invest, the ages and stages of companies they invest in, and even their underlying motivations. Advisory organisations, Investor Ready and Access to Finance services should be encouraged to provide improved links. The Regional Information Portal should include information and signposting for potential applicants for angel funding and individuals interested in becoming angel investors.

4.9 Support New Angel Networks, Groups and Investors. A number of initiatives are already underway at a regional level to increase the amount of angel investing in the region. These include the British Business Bank Regional Angel's Programme and to take advantage of these opportunities consideration should be given to supporting an umbrella angel support and development agency specifically focused on the county (but empowered to look outside the county for deal flow and co-investment to facilitate necessary scale of investment).

4.10 New Finance-Related Products. There are currently no clear identified gaps in the Lancashire market for lending products. We believe that for the moment effort should be concentrated on providing improved signposting to, and education about, existing products available regionally and nationally. The only issues raised (although not evidenced) include: early stage seed finance and funds to support green projects. However, we do not believe these are issues that can be addressed locally but must be subject to national or possibly regional interventions.

4.11 Lancashire Investment Forum. This could take many forms (options) including: a meeting place/introduction service; an events-based angel network meeting; an extension, or Lancashire chapter of an existing regional angel network, such as GC Angels; a Lancashire 'Angel Hub; establish a new angel group/network of Lancashire new and existing angel investors; and setting up a specialist investor group, focused on a specific industry sector.

5. Some Early Actions

5.1 Crucially, the LEP cannot (and probably should not attempt to) address these issues on their own as they require to be delivered in partnership with wider public, financial and SME sectors. No single grouping or organisation will be able to address all the issues and recommendations highlighted in the report and any future MUST be a partnership one with perhaps the LEP taking a lead role in driving forward.

5.2 The LEP can however provide the required strategic leadership in delivering some key actions which could, if deemed appropriate, be developed further.

- Establish baseline data;
- Work with key sector groups to produce more detailed sector specific reports e.g. Provide national international context / options;
- Detailed option appraisal for investor forum with recommendations/ actions;
- Undertake in depth SME interviews (sector or thematic) early post-covid;
- Establish regional information portal and local brand such as Finance Lancashire;
- Detailed swot analysis - or at sector/ thematic level with strategic pointers;
- Establish a local stakeholder group to consider the development of an investor forum to deliver the highlighted recommendations with partners and to produce delivery/ action plans;
- Depending on options selected, assist with development and implementation of angel network; and
- Consideration of new funding products / adjustments to existing eg co-investment grants or green/low carbon finance;
- embed Environmental, Social and Governance into financial ecosystem; and
- align with Lancashire's Internationalisation Strategy.

5.3 Our clear and strong message is that there are some (relatively low cost) actions which can be taken to improve the workings of the local financial ecosystem and support better access to funding for local SMEs.