



January 2010

## **Rural Economies Recession Intelligence**

Briefing note from CRC to Hilary Benn

### **Business Performance**

#### **Summary of Key Messages**

- Businesses in rural England have seen some welcome stability return in the second half of 2009. There are some signs of improvement and some confidence and cautious optimism appears to be returning – although this is not uniform across all sectors and remains fragile.
- The external business environment remains tough. Customer demand is weak. Business turnovers are down. Business insolvencies have been recently decreasing, but remain higher than a year ago.
- According to the available survey data, rural businesses appear to be performing slightly better than their urban counterparts in weathering the initial impact of the recession. Rural businesses have seen slightly fewer insolvencies and rural businesses appear to be faring well in accessing both the government's Enterprise Finance Guarantee Scheme (EFGS) and Business Payment Support Service (BPSS).
- However rural businesses appear to be less likely than their urban counterparts to be anticipating a quick return to growth. Rural businesses are less likely to be anticipating a growth in turnover and are less likely to be expecting to increase their staff numbers in the next 12 months. This underlines the fact that the impact of the recession continues to be felt in business decisions on investment, finance, spending and staffing.
- Access to business lending remains difficult and a key concern for many businesses, particularly for small and micro businesses. Worryingly, according to the Bank of England and business representatives, credit availability has been recently tightening for many smaller businesses. Of equal concern is that this appears to be leading to an aversion from smaller businesses in applying for bank finance. Banks are reporting a lack of demand for growth finance from businesses. There are concerns that relationships between local bank managers and their business clients are deteriorating as credit risk decisions are taken more centrally. This is a concerning trend for smaller businesses and businesses in more remote areas.
- There are marked sectoral differences in experience. Tourism has had a strong summer, livestock farming appears buoyant whilst construction, retail and sectors dependent upon consumer spending remain weak.

**Recommendation**

At a macroeconomic level, until now intervention by the government and the Bank of England to improve market lending conditions appears to have mainly benefited businesses that are able to access wholesale financial markets. This excludes many smaller businesses. Steps to improve the flow of lending to small and micro business should remain a high priority for government policy.

CRC analysis highlights that rural areas have been successful in accessing money allocated by the Enterprise Finance Guarantee Scheme (EFGS). Although submissions from rural businesses to CRC have highlighted some concerns around the scheme's implementation – notably on accessibility and the uptake of the scheme by banks. The government should seek to address these concerns as it takes steps to improve the scheme.

The announcement of a future 'Growth Capital Fund' in the Pre Budget Report is welcome. It is important that this fund becomes available quickly and that the government ensures that, like the EFGS, the scheme is accessible in rural areas and to all size of businesses. CRC will be raising these issues with the Department for Business Innovation and Skills.

**Recommendation**

Weakness in economic demand is being highlighted by both rural and urban businesses as an important issue that could affect future levels of business growth. Government spending can play an important part in stimulating demand. Some rural areas have high levels of state employment or state spending alongside weaker labour markets and a smaller economic base. Some rural areas are also more dependent on state spending for the delivery of basic services.

It is important that in any future reduction in levels of government spending that the government rural proofs the economic and social impact. The Commission for Rural Communities is conducting analysis on the rural dimensions of public spending and will be seeking to provide this advice to government in relevant departments.

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## Business Confidence

1. Business confidence appears to be improving. The Institute of Chartered Accountants of England and Wales' (ICAEW) Business Confidence Monitor for Q4 2009 show that confidence has improved for the last three consecutive quarters and the Confidence Index moved to a record high of 24.6 up from the record low of -45.3 in the first quarter of 2009 and from 4.8 last quarter.
2. A poll of around 3500 small businesses by the Federation of Small Businesses (FSB) conducted in October 2009 confirms these findings, with an overwhelming majority of businesses saying that they are quite or very confident about the future prospects of their businesses. Rural businesses (75.5%) are slightly more confident than the urban businesses (70.6%). A significant majority of those polled were still hesitant when asked about conditions for starting up a business, with more than 60% of both the urban and rural businesses saying that they would be less confident in the current economic climate compared to a year ago.
3. Anecdotal evidence received by CRC suggests many businesses are "cautiously optimistic" but with nervousness about the future. West Lancashire Borough Council, for example, reports that businesses that were once buoyant are now starting to feel the effects of the recession and confidence in recovery in Lancashire is fragile. The North East Rural Affairs Forum reports that although the overall picture suggests that there are 'green shoots' in the rural economy, the majority of those surveyed are only cautiously optimistic. The forum warns that public sector cuts may reverse the positive climate as 60% of the workforce in the region work is employed in the public sector.
4. The CLA's Rural Economy Index<sup>1</sup> suggests that business confidence is volatile. The fourth quarter (July-October 2009) survey shows that whereas the number of those who are quietly confident of the state of the rural economy over the next three to six months continued to increase (to 39%) and the number of those not very confident continued to decrease (from 61% in January to 45% in June and to 34% in October), the number of those that have no confidence at all increased from 0% in June to 7% in October. Regarding business performance, while the number of those businesses that believed that their businesses would perform well over the next six months with a potential for growth increased (from 22% in June to 39% in October), the number of those that believed that their business will perform according to plan decreased considerably (from 69% in June to 42% in October). Also the number of those who expect their businesses to perform worse than planned increased by 5%.

## Business Health

5. A recent report commissioned by HSBC Commercial Banking (The Business of Recovery Report, November 2009) shows that average **turnovers** have dropped across the UK by an average of 19% between 2008 and 2009, with the predominantly rural South West and East Midlands hit the hardest (with falls in turnovers of 47.8% and 42.0% respectively).<sup>2</sup>
6. A July 2009 telephone survey of 238 rural SMEs in Kent by South East's Business Link Providers (and commissioned by Kent County Council and CRC) found that 44% of respondents reported that their turnover decreased in the 6 months to July 2009 and only 19% reported growth. There was some optimism about the future, with 34% expecting their turnover to grow in the next 6 months and only 13% expecting a decrease. In the South East as a whole, a higher proportion of urban SMEs (45%) were expecting a growth in turnover compared with rural SMEs (38%).

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<sup>1</sup> The survey is conducted quarterly to measure the confidence in the rural economy by surveying 100 CLA member businesses across England and Wales

<sup>2</sup> <http://network.hsbc.co.uk/servlet/JServelet/download/1700000150-1700003868-1700007919-1700001823/HSBC+business+of+recovery+report.pdf>

7. According to the Insolvency Service, there were 4,176 compulsory **liquidations** and creditors' voluntary liquidations in total in England and Wales in the third quarter of 2009 (on a seasonally adjusted basis). Although this represented a decrease of 4.7 % on the previous quarter, it was an increase of 14.6% on the same period a year ago.
8. CRC analysis of insolvencies data<sup>i</sup> shows that in England overall, for all months since the recession started, rural areas have been less affected by insolvencies compared to urban areas. In September 2009, for example, the insolvency rate per 1,000 businesses in rural areas was 0.7, compared to 0.8 in urban areas.<sup>ii</sup>

### **Businesses' Response to the Downturn**

9. Businesses have taken a range of measures to weather the downturn. **Reducing labour costs** was among the most common actions taken by businesses in response to the recession. Thirty-seven percent of respondents in a National Business Survey Conducted by Ipsos Mori in June 2009 said that they reduced the number of staff in the 12 months to June 2009, whereas 24% said they reduced the working hours. Businesses in the construction (48%), hotels/catering (45%) and manufacturing (40%) sectors - the latter two are major employers in rural economies - were most likely to have reduced their number of staff. By comparison, 21% of the rural businesses responding to the rural Kent SMEs survey (see above) said they reduced their staff numbers over the past 12 months whereas only 18% said they expected to increase their staff number in the next 12 months (compared to 24% of urban SMEs).
10. There have also been reports that businesses **remain risk averse** and **postpone major investments** in the light of an uncertain economic future. Northwest Regional Development Agency reports<sup>3</sup> that anecdotal evidence from its partners suggests "*firms aren't innovating, expanding or hiring and are working on a shoestring.*" This is supported by results of the Norfolk survey (see below) where the banks interviewed said that there have been a drastic cut in the demand for expansion and growth finance.
11. On the other hand, many other businesses have resisted the recession by creating **new products and services**. According to the FSB-ICM Voice of Small Business Annual Survey 2009<sup>4</sup> (see above) 53% of businesses introduced new or improved products and services last year while, 51% expressed their intention to continue innovation next year.

### **Business Challenges**

12. Lack of domestic demand (and consequently reduction in consumer spending) as well as cash flow and availability of credit are the most cited key challenges to business performance for both rural and urban businesses in recent surveys.<sup>iii</sup>

#### **Demand**

13. Weak wage growth and rising unemployment has meant that domestic demand has remained subdued and has continued to be the biggest challenge for business performance, surpassing other concerns such as cash flow and access to finance.<sup>5</sup> Respondents to Leicester and Leicestershire's Business Survey of 103 rural businesses in June 2009 also found customer confidence as the main concern.

#### **Availability and Cost of Finance**

14. Both rural and urban businesses -and particularly SMEs- have continued to face difficulty accessing finance. This has particular implications for rural businesses given the prevalence

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<sup>3</sup> Northwest Regional Development Agency Monthly Economic Update, October 2009

<sup>4</sup> Conducted between 18 September and 30 October with the participation of 10,000 small businesses.

<sup>5</sup> British Chambers of Commerce November 2009 Monthly Business Survey

of micro and small businesses in rural areas and their pattern of credit use.<sup>6</sup> There are worrying signs that credit for smaller businesses has recently been tightening, that banks are still asking for more stringent demands on potential business clients and that some businesses are becoming more averse to approaching banks for business finance.

15. The Bank of England Trends in Lending survey for November indicated that bank lending to businesses declined for two successive quarters in Q2 & Q3 2009 (something that hasn't happened since the Bank started recording this data in 1997).<sup>iv</sup>
16. The BoE also made a distinction between larger companies who are reporting credit conditions easing, and smaller companies who are still voicing concerns to the Bank's regional agents. This is exacerbated by smaller companies often being unable to access wholesale capital markets where credit conditions have recently been improving (see the Bank of England 'Trends in Lending' Survey for November and December).
17. According to the British Chambers of Commerce's November 2009 Business Survey, one third (an increase of 13% since the survey in June 2009) of the respondents reported that accessing finance has been more difficult over the last three months. One third of the 10,000 respondents to the FSB-ICM 'Voice of Small Business' Annual Survey 2009 (conducted between 18 September and 30 October) who borrowed finance in the last year said they have been charged more while half of them said they had not taken out any loans in the past 12 months.
18. The 8<sup>th</sup> FSB members poll conducted in October 2009 shows that the percentage of businesses experiencing difficulty in accessing finance is slightly higher in rural areas than in urban areas whilst the cost of both existing and new finance appears to have been lower in rural areas than urban areas. Analysing the responses of those businesses who have applied for credit in the past two months, 34% of rural businesses said that their bank refused their request for credit (compared to 33.9% of urban businesses), 58.7% of rural businesses said that they have seen an increase in the cost of new credit (compared to 64.8% of urban businesses) and 45.9% of rural businesses said that they have seen an increase in the cost of existing credit (compared to 54% of urban businesses) in the past 2 months. Importantly, more than half of all the rural and urban businesses surveyed said these questions were "not applicable" suggesting that they have not applied for credit in the recent past.
19. The Institute of Chartered Accountants' (ICAEW) research on SME Access to Finance (July 2009)<sup>7</sup> supports these findings. All of the participants in the survey believed that their SME clients –particularly in construction, property and retail sectors- are finding it more difficult to access capital. In general, they believed the banks have become a lot more cautious when they assess applications for new credit and more rigorous with existing clients. Research also showed that although demand for credit is pushed up by reduced SME turnover, it is at the same time pushed down by SMEs cutting back expenditure and avoiding engagement with their banks fearing increased bank charges. In addition to this, the respondents said that the relationships between SMEs and their banks have become increasingly strained. This was largely attributed to banks being less supportive and existing direct relationships weakening –such as branch managers' decisions on finance being revoked by head office which resulted in some inconsistency between what banks say they will do and what they actually do in the end.

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<sup>6</sup> See CRC's January 2009 Rural Recession Intelligence Report and 'Financing for UK Small and Medium Sized Enterprises', Centre for Business Research at the University of Cambridge 2008.

<sup>7</sup> This research was carried out through a series of interviews conducted between May and June with senior partners in the largest accounting firms.

[http://www.icaew.com/index.cfm/route/166573/icaew\\_ga/Technical\\_and\\_Business\\_Topics/SMEs/ICAEW\\_SME\\_Access\\_to\\_Finance\\_Report\\_July\\_2009/pdf](http://www.icaew.com/index.cfm/route/166573/icaew_ga/Technical_and_Business_Topics/SMEs/ICAEW_SME_Access_to_Finance_Report_July_2009/pdf)

### **Box 1: ICAEW Survey Quotations**

- *“All clients that are trying to get finance are having difficulty, but only a few are trying to get it.”*
- *“Banks are looking very very critically at the clients they have, the sectors they are in, and are they the sectors that the bank wants to be involved in? If they are not, then the banks really don't want those customers in the future.”*
- *“Relationships managers, and people further down the chain, used to be able to give you a good idea whether financing was going to be approved by the credit committee etc. Now it seems that a relationship manager won't have much influence, or really know whether financing will be permitted until they get an answer back from the credit committee”.*
- *“Waiting times for credits have dramatically increased. It takes longer to get the offer and then the banks will sometimes attach a very short shelf-life to the offer, say only 14 days, after which it will lapse. It is sometimes not possible to arrange transactions within that timescale, like, say, buying a farm for example, and then when deal has finally been completed, the offer may no longer be there. This problem is probably not as bad now as it was 4/5 months ago.”*

20. Intelligence on experiences of rural businesses in their dealing with banks echo the views expressed by accounting firms. In May-June 2009 MBA students from the University of East Anglia Norwich Business School conducted a survey with the support of Shaping Norfolk's Future (The County Economic Partnership), the Institute of Directors and FSB on Norfolk – a substantially rural county- businesses' experience in accessing finance. Although some of the 131 businesses that took part in the survey said that their banks have been supportive, many voiced mistrust of banks and complained about tighter lending conditions and high costs.

### **Box 2: UEA Norfolk Business Survey Quotations**

- *“Underfunded by our bank, had to (on the advice of the bank) use credit cards, so now huge interest charges. If the account goes over its limit by a fraction, no help or advice whatsoever.”*
- *“My bank refused a loan because it does not want hotels/restaurants/bars on their asset file...they class them as high risk...”*
- *“We have not been affected by the credit crunch, we have been growing to the extent that I need to invest in new machinery. I contacted... for a £20,000 loan, which they were happy to give me at 11.5% interest. I declined the offer. How can they justify getting virtually free money from the government and then charge 11% over base?”*
- *“Our bank manager can sometimes take up to 10 days to return a call.”*
- *“... we produced a new business plan and applied to ....for an EFGS loan. This was supported and recommended by our bank manager, but was rejected by the bank owing to having made losses that impacted on the value of the business. However, our manager informed us that the real reason was that the bank has no intention of doing these loans if it can avoid it, and until it is forced to do so by the government.”*

21. As part of the survey, Norfolk-based directors from Barclays, HSBC, NatWest and HBOS/Lloyds were also interviewed on the availability of credit from banks, demand for credit and the factors influencing their decisions in lending to businesses. The banks said that there was money to lend but demand for credit was down because businesses were less risk averse and less willing to take on new lending commitments. They also said that their due diligence has tightened and they have returned to traditional banking methods; namely, in order for businesses to have their loan applications approved, they should present sound

business plans, soundly backed proposals with profit and loss accounts, balance sheets, and realistic profit projections and have competent management teams and professional advisors. The banks also said that there had been a drastic cut in the demand for expansion and growth finance and that they were reluctant to lend for working capital alone.

22. Meanwhile, the submissions that CRC has received also confirm that financing continues to be a problem for many rural businesses (West Lancashire Borough Council, Northumberland County Council, East Riding of Yorkshire Council, One North East) and suggests that the lack of traditional bank finance has resulted in a more **varied source of funding** where credit cards have proved an “*essential life-line as cash flows dry-up*” while mortgage lending has been less easy to access (East Riding of Yorkshire Council). There has also been an increase in activity among less mainstream players, such as local building societies. Ipswich Building Society, for example, saw an 80% increase in the number of mortgage applications in July and a 55% increase in positive net receipts in the first half of 2009 compared to the same period in 2008.<sup>8</sup> (East England Development Agency).
23. A survey that was carried out by National Farmers Union between May and June 2009 shows that compared to other sectors, the agriculture sector is faring better in terms of accessing finance. The survey found that 36% of the 179 farmers questioned had approached a lender for a business overdraft facility with 78% accepting the overdraft that was offered. Also, the majority were satisfied with the terms and conditions offered.

## **Business Performance in Different Sectors**

### **Retail Sector**

24. The retail sector has been hit particularly hard by the downturn, leading to the failure of numerous big national chains and consequently the closure of thousands of outlets employing thousands of people all around the country. Allied Carpets, outdoor clothing retailer Blacks Leisure and most recently off-licence group First Quench have been the latest victims of the recession in the past few months.
25. Defra’s analysis of business insolvencies in the retail sector between January 2003 and September 2009<sup>9</sup> identified that the rate of business insolvencies in retail businesses have been higher in urban areas than in rural areas. For example in September 2009, retail insolvencies per 1,000 businesses in rural areas were 0.7, compared to 1.1 in urban areas. On the other hand, in December 2008, the rate of insolvencies in rural areas (2.1) was higher than urban areas (1.9). However this analysis only recorded insolvencies at the level of head office and thus would not capture branch closures in rural areas where the whole company has gone into receivership.
26. Submissions to CRC suggest that while the economic climate has improved in some market towns, it remained depressed in others:
  - In Derbyshire, while both Chesterfield and Bolsover town centres are showing positive signs with increasing demand for retail space and consequently a substantial reduction in the number of empty shops, market towns in the High Peak and Derbyshire Dales are still suffering from empty units and are continuing to see some reduction in footfall (EMDA).
  - In Leicestershire, Melton’s Town Centre Manager reports that over 21 units stand empty on the high street and are impossible to let at the moment. (EMDA)
  - The North East England Farmers Markets (NEEFM) says that Alnwick, Berwick and Hexham are all suffering from empty shops in the main shopping area, attributing this partly to the existence of edge of town superstores. NEEFM however confirms that some market towns are ‘bucking the trend’. For example a new town centre development in Morpeth attracted many major national brands taking shops in the new development – but without apparent loss of takers for on-street shops that become available. (One North

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<sup>8</sup> Mortgage based lending is a source of finance for very small businesses.

<sup>9</sup> Insolvencies in the Retail Industry and the Economic Downturn in Rural Areas, Defra Rural Statistics Unit, December 2009

- East)
- In the East of England, several former Woolworths premises have opened – or are due to be opened – by discount retailers and food outlets. However, many stores have not been taken up by new tenants. There are also concerns that discount retailers such as Iceland may not attract additional shoppers into market town centres. (EEDA)
  - In Gloucestershire’s market towns, overall, the economic climate improved slightly in October 2009 compared to April 2009. Although there have been an estimated 15 closures -6 of them attributed to the recession- since April 2009, 35 new shops or businesses have opened during the same period and the number of empty units came down from at least 95 to an estimated 79 (Gloucestershire Market Towns Forum).

27. Some businesses continued to voice concern over excessive rents and rates which were set in the past and so are not in line with today’s economic climate.

### **Agriculture sector**

28. The picture in the agriculture sector is mixed. One North East reports that while livestock farming remains buoyant, arable farmers are back in recession because of low prices. EEDA confirms that livestock farmers are doing well, benefitting from high prices whereas arable farmers are suffering from low prices.

### **Tourism sector**

29. Statistical and anecdotal evidence suggests that the tourism sector is doing well. Northumberland County Council, North East Rural Affairs Forum, East Riding of Yorkshire Council, EEDA, Cumbria Tourism all report that tourism has generally had a good season.
30. EEDA is reporting that East of England Tourism’s surveys of visitor attractions showed that there was a 24% increase in visitor numbers in 2009 Q2; that 73% of attractions had an increase in visitor numbers compared to the same time last year; and that 57% were more optimistic about their business prospects while 31% predicted no change and 12% were less pessimistic. EEDA is passing on anecdotal evidence from Business Link East which reported that some bed and breakfast accommodation in the region was fully-booked for summer with self-catering accommodation seeing strong demand, especially in Norfolk coastal districts. Bookings for caravan and camping parks were also robust.
31. Cumbria Tourism’s biannual survey with 500 businesses covering the period between April and September showed that 41% of businesses have had more visitors than the same period last year and only 25% reported a decrease. On the other hand 28% expressed that they expected good business for the next 6 months while 52% said their expectations are ‘OK’. 33% of businesses reported that their profits were down whereas 28% reported increased profits. This is an improvement from the results 6 months ago, when 43% reported a decrease and only 19% reported an increase.

### **Services Sector**

32. According to anecdotal evidence from stakeholders, whereas spending on services such as restaurants and pubs has declined in both rural and urban areas (EEDA) consumers have increased their usage of personal services -hair dressers, therapists and nail bars (East Riding of Yorkshire Council). EEDA revealed that business Link East reported in July that pub closures were averaging at about 4 per week in the region due to more people staying at home rather than going out to eat and drink because of the recession.

### **Third Sector/Social Enterprises**

33. CRC has received submissions suggesting that the third sector has been badly affected by both the recession and funding cuts. Northumberland County Council reported that social enterprises have lost income due to general fiscal constraints. Furthermore, voluntary organisations that depend on rental income have seen their revenues reduce.

34. One North East also informed CRC that the third sector in the region has been severely affected by the recession. It revealed reports from the Federation of Northumberland Development Trusts that the recession combined with Local Government Reorganisation in April 2009 and the reduction in funds available through the Northern Rock Foundation has had '*a profound effect on Development Trusts sustainability in Northumberland and the Social Enterprises that Trusts are involved in.*' As a consequence, '*Some Social Enterprises have had no option but to close - including the Bread Bin in Amble and the Landscaping Business at Ashington Development Trust and their employees have been made redundant.*' The move away from grants to income generation has made the problem worse as many voluntary organisations cannot generate enough income.
35. EEDA revealed that according to Business Link East, the social enterprise sector in the region has not yet felt the impact of the recession. However it also highlighted that since most social enterprises are dependent on public sector contracts for most part of their income, the effects of the recession are expected to take effect within the next few years.
36. The findings of the State of Social Enterprise Survey (conducted between December 2008 and March 2009 among 962 senior staff within social enterprises in the UK) suggest that these effects might be felt more in rural areas. According to the survey, organisations with turnovers above £10,000 are more likely to receive the majority of their income from the state and most of the social enterprises that operate in rural areas have turnovers above £10,000.<sup>v</sup>

### **Support Measures/ Initiatives**

37. Many local, regional and national schemes and initiatives have been put in place to support businesses weather the recession.

### **Local**

38. In its August 2009 report on **Councils' response to the recession**, the Audit Commission notes that 89% of Single Tier County Councils (ST&CCs) interviewed have introduced prompt payment schemes to reduce payment times to either 10 or 20 days; around 40% are promoting local firms within their procurement processes and encouraging the use of local labour by contractors; and just under 50% are supporting firms in paying business rates, usually by extending payment periods from 10 to 12 months. In addition to these all ST&CCs have offered basic support and advice, directed firms to national schemes, and/or alerted businesses to Small Business Rate Relief.
39. According to the Audit Commission, although less common, some ST&CCs have provided more specific support by liaising with banks to help firms access finance or even by setting up banks. In this context, for example, Banking on Essex, which is a joint development between Essex County Council and Santander, is offering loans and advice to local businesses. Unlike high street banks which base their decisions heavily on credit scoring when considering loan applications, Banking on Essex, evaluates the credit-worthiness of applications on their merits, taking into account local knowledge about the businesses' individual circumstances.
40. A wide range of **local initiatives** –such as loyalty card schemes, food and drink festivals, decoration of empty shop fronts, training workshops- have been put in place to attract visitors into market towns and **to support local retail businesses**. Examples include:
  - Forest of Dean District Council produced an on-line interactive Retail Support Toolkit (downloaded free from [www.firststoplocalshop.co.uk](http://www.firststoplocalshop.co.uk)) to help share the experience they gained through their 'First Stop Local Shop' retail support programme and to help other market towns attract shoppers back to their high streets.
  - Stonehouse Town Council, in Gloucestershire has agreed to offer the Stonehouse & District Chamber of Trade & Industry continued free use of the Town hall for their regular meetings at least for the immediate future.
  - Hambleton District Council lifted the parking fees in Northallerton, Bedale, Stokesle and Thirsk from December 7 to 24 to attract Christmas shoppers into towns.

## Regional

41. RDAs have put in place various schemes to help businesses in their regions. Some examples are:
- Between January and March 2009 EEDA distributed £77,000 to 83 businesses to support the rural pubs sector in the East of England. Due to success of the scheme, further £148,000 has been approved recently to help more 100 businesses.
  - A new partnership- Landskills East- which has been funded under the RDPE and managed by EEDA will provide rural businesses with improved access to skills and training opportunities.
  - Yorkshire Forward launched in February 2009 a £5 million Transition Loan Fund, designed to provide companies with finance through the credit crunch, has invested £2.7 million in regional businesses since it was launched in February 2009.

## National

42. **The Enterprise Finance Guarantee Scheme (EFGS)** replaced the Small Firms' Loan Guarantee in January 2009 to help viable SMEs that cannot access debt finance in times of tougher lending condition. By September, about 5000 businesses have been offered EFG backed loans and nearly 4000 of those businesses have drawn down against those loans, to a value of £382 million. 1,129 loans have been offered to businesses in rural areas, worth £106.9 million and 454 loans have been offered to businesses in significantly rural areas, worth £43 million. Business representatives have widely welcomed the recent extension of the EFGS announced in the Pre Budget Report.
43. Despite these figures, the experience from those making submissions to CRC suggest that EFGS has proved difficult for some businesses to access. Particularly uncertainty over the security required by the scheme and banks' failure to fully undertake the scheme has been criticised (Northumberland County Council). EEDA reported there had been evidence that otherwise viable businesses suitable for EFGS were rejected just because they fell into a sector –highlighting particularly the construction sector- that the bank would not support (for examples see box 2). EEDA also reported that the EEF Regional Council raised the issue that banks were not recommending government backed loan schemes as these were seen as too expensive and requiring too much administration. East Riding Council said that EFGS has been widely criticised and that taking into consideration the complete lack of confidence in the industry, loans and contingency funds might have been better placed with other organisations than the Banking Sector. EEDA revealed that Business Link East reported in September that a continued problem with the scheme was the belief from some businesses that it is the answer to having a non-viable business, or that it enabled a business owner not to take responsibility. Business frustration may also reflect the fact that the total amount of EFGS loans available is small when compared to the size of the contraction in total business lending within the economy.<sup>10</sup>
44. The banks interviewed for the Norfolk survey (see section on availability and cost of finance) raised the same concern saying although they actively supported the EFGS many customers had not considered the requirement that businesses should be viable when applying for funding under the scheme.
45. Another scheme that was introduced to help viable businesses that are experiencing difficulties because of the tough economic conditions has been the **Business Payment Support Service (BPSS)**. This scheme was launched following the 2008 Pre-Budget Report in November 2008 in order to assist businesses to meet their tax obligations by revising the

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<sup>10</sup> Up to £1.3 billion of new bank lending is being guaranteed by the Government via EFGS since its launch in January 2009 until 31 March 2010. Up to £500 million of new bank lending will be guaranteed by EFGS between 1 April 2010 and 31 March 2011. This is compared to average net monthly flows of lending to UK businesses of £7.3 billion during 2007, which has contracted to a net monthly negative flow of -£4.6 billion in October 2009, the latest month for which data is available, see Table 1A from 'Trends in Lending, December 2009', Bank of England.

<http://www.bankofengland.co.uk/publications/other/monetary/TrendsDecember09.pdf>

payment timetable. Between November 2008 and December 2009, 210,370 claims were made in England worth £3,679 million with an average of £17,488 per claim. Of these, 108,270 claims to a value of £1,711 million were made in predominantly rural and significant rural areas. These figures demonstrate that rural businesses have been quite successful in accessing this scheme. On the other hand, they may also suggest that rural businesses have been affected more than their urban counterparts by the recession.

### **BPSS results between November 2008 to December 2009**

Classification	Total arrangements	Total £M value	Average claim	Number of LEA's	Average no. of claims per LEA
Rural 80	3,590	44	£12,256	3	1,197
Rural 50	38,500	565	£14,675	18	2,139
Significant rural	66,180	1,102	£16,652	22	3,008
Other urban	21,560	381	£17,672	25	862
Large urban	18,820	328	£17,428	22	855
Major urban	61,720	1,259	£20,399	59	1,046
Predominantly rural	42,090	609	£14,469	21	2,004
Significant rural	66,180	1,102	£16,652	22	3,008
Predominantly urban	102,100	1,968	£19,275	106	963
<b>England</b>	<b>210,370</b>	<b>3,679</b>	<b>£17,488</b>	<b>149</b>	<b>1,412</b>

Source: CRC analysis of HMRC data – not to be copied

46. The government has also recently announced a second tranche of funding for **the Town Centres Initiative Fund** –designed to give short-term funding for Local Authorities to address problems of empty retail premises in towns and cities. CRC expressed disappointment with the first round for missing many rural local authorities, whose market towns have suffered significant retail closures during the recession. The newer funding has broadened availability to rural areas – so that 30% of the local authorities receiving this new payment are in areas with significant rural populations, which CRC has welcomed.

<sup>i</sup> The CRC analysis is based on insolvency data for England (provided by PH Group). The insolvencies in England in Q3 were 4,876 (not seasonally adjusted).

<sup>ii</sup> However, this data should be interpreted with caution since it provides a postcode location for the head office of a business enterprise and the insolvencies are at company level, not at each individual location. This means that if a business enterprise located in an urban area closed down a shop in a rural area, this would not register as the business being insolvent. The business will only be recorded as insolvent if the whole enterprise becomes insolvent. In this case the insolvency would be registered in an urban area. Therefore, particularly in the retail sector, insolvencies of chains with head offices in urban areas and with many stores in rural areas such as Woolworths, Allied Carpets or First Quench are registered under the insolvencies in urban areas rather than rural areas.

<sup>iii</sup> Including Ipsos Mori National Business Survey (June 2009); ICAEW UK Business Confidence Monitor Report (Q4 2009); CLA Rural Economy Index (Q3 2009)

<sup>iv</sup> <http://www.bankofengland.co.uk/publications/other/monetary/TrendsNovember09.pdf>

<sup>v</sup> "Interestingly, only 40% of those with turnovers less than £10,000 worked rurally but 50%–66% of all the other turnover bands did – suggesting that smaller operations tend to be based in urban areas. Perhaps unsurprisingly, social enterprises based in London and the South East were the least likely to offer services or trade in rural areas.

Organisations in the £250,001–£1 million turnover band were more likely to receive the majority of their income from the state (48%) while those in the £10,001–£50,000 turnover band were the least likely to receive the majority of their income from the state (31%). Non-state sources of income were the greatest source of income for organisations with a less than £10,000 turnover band (63%). From the survey, it would appear that many social enterprises already have the state as a key trading partner."

The State of Social Enterprise Survey, <http://www.socialenterprise.org.uk/data/files/stateofsocialenterprise2009.pdf>