The British Business Bank

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1. Background

Work is currently taking place in the UK department for Business Innovation and Skills (BIS) to set up a state owned Business Bank which will be fully operational by the second half of 2014. It is being designed to do three things:-

- Increase finance provided to viable but underserved businesses, especially long term finance
- Increase the diversity of suppliers and products in the SME and mid-cap finance market
- Improve the effectiveness, raise awareness and increase the use of Government finance and other support by consolidating the array of existing schemes.

The Business Bank will not directly lend to or invest in businesses: its programmes are designed to increase the capacity of existing channels of finance, essentially by de-risking therefore increasing the profitability of investment. These channels will include providers of debt, equity and mezzanine finance. There will be some immediate refinements and a small amount of new money, while plans are being developed for new mezzanine and long term debt products for SMEs that are not currently available on the market. Various wholesale products are also being considered, designed to reduce risk or the capital a lender needs to hold against a portfolio of SME loans. The bank may offer business advice.

It will have £1bn of new capital and will take over existing investments, giving it a total of £3-4bn. It is expected to produce an 'appropriate' return.

At the same time the UK Labour Party, currently in opposition, has been developing its own plans for a British Investment Bank – in practice a further development of the same idea. A number of reports have been prepared by think tanks on how the current or a future Labour government could develop this idea. Most of the proposals are designed to address failures in the market for business finance, particularly as affecting small and medium sized enterprises (SMEs). In particular they cite a long standing (and long recognised) information failure (the cost of assessment do not justify the returns available on the investments), exacerbated by oligopoly and current restrictive market conditions.

At the same time The Good Jobs Taskforce, a group of business people, trade unionists, academics and policy researchers, including the new economics foundation (**nef**) has been considering the policies necessary to create more sustainable good jobs in the economy.

It defined '*good* jobs' as ones which provide

- a decent income
- job security
- opportunities for progression
- satisfying work
- employee voice
- decent conditions, *and*
- work life balance.

It defined '*sustainable* good jobs' as good jobs that (a) can survive and will be commercially viable following the transition to a low carbon, sustainable economy and (b) do not threaten environmental sustainability and thus do not reduce the prospects for other good jobs in the medium to long term.

It concluded that one of the levers that could help achieve this could be the British Business Bank – but with a suitable mandate, and operating with a performance indicator framework that used a new set of indicators. These are described below and, if used more broadly, can be seen as 'beyond GDP' indicators.

2. Methodology

Initial approaches revealed that Both BIS officials and Labour Party politicians and advisors were open to discussion of this and accordingly a case study was set up in which we were able to identify the barriers to the use of this new set of indicators and how these might be overcome in practice during the policy development process.

The case involved a series of interviews with officials, politicians and political advisors and email exchanges with experts and on this basis preparation of a presentation and a seminar attended by officials, political advisors, academics and representatives of stakeholders. Through these various methods we consulted with a total of 26 individuals.

Interviews were conducted with 8 individuals:-

- 2 officials
- 2 'front bench' politicians
- 4 political advisors

E-mail comment was received from:-

- 2 bankers/advisors on banking
- 3 policy specialists

16 people other than nef attended the seminar including:-

- 2 officials
- 3 political advisors
- 4 business consultants

- 4 representatives of business organisations with an interest in policy
- 2 trade unionists
- 1 business academic.

3 of the seminar attendees had been interviewed.

3. How alternative indicators could be used

The following is based on the draft report by the Good Jobs Taskforce which was used during the case study to elicit comments.

The bank's sustainable good jobs mandate is for the short and the long term, and so it should use both short and long term indicators. The short term indicators should measure between numbers of sustainable good jobs the bank has helped to create, and the long term indicators should be strategic or leading indicators, measuring the bank's contribution to the successful implementation of an agreed strategy for sustainable good jobs over the longer term (that is to say implementation of an industrial strategy).

Note that neither type of indicator reports directly on what the bank has done: they are outcome indicators, not output indicators. As such, they may be as much or more influenced by the actions of other agencies (or uncontrollable events) as by the bank itself.

The indicators are <u>not themselves targets</u>. However, they can be used as the basis for targets set by the bank's national board and regional boards.

<u>Short term indicators</u>

The choice of indicators represents a compromise what one would ideally measure given the definition of a sustainable good job in chapter two, and what data are available or could be made available.

The starting point for developing the bank's short term performance indicators should be a suite of national and regional 'sustainable good jobs' indicators. These measure performance in nation or region as a whole and are not performance indicators for the bank. They can be grouped into four themes: unemployment, pay/income, job quality other than pay and C02 emissions. A starting point for the discussion was as set out in table 1.

<table>
<tr><th colspan="2"><u>Category</u></th><th><u>Core Indicators</u></th><th><u>Supplementary Indicators</u></th></tr>
<tr><td colspan="2">Unemployment</td><td>• Unemployment Rate</td><td>• Youth unemployment Rate
• Long term unemployment rate</td></tr>
<tr><td colspan="2">Pay/Income</td><td>• Median Wages</td><td>• Median household income
• Proportion of working-aged individuals in low income households</td></tr>
<tr><td rowspan="2">Job quality (other than pay)</td><td>Working Hours</td><td>• % working more than 45 hours a week
• % underemployed</td><td>• Average working hours</td></tr>
<tr><td>Job security</td><td colspan="2">• % who feel it is likely or very likely that they will lose their jobs in the next 6 months
• % of employees on temporary contracts because they are unable to find full-time jobs
• Job turnover rates</td></tr>
</table>

	Job satisfaction	• % satisfied or very satisfied with their job
	Autonomy	• % reporting lots of or some autonomy with their job
	Employee voice	• % reporting they have adequate opportunity to have their views heard
	Opportunities for progression	• % reporting the opportunity to progress in their job • % reporting opportunities to develop their skills
Environmental impact		• Industrial and commercial CO_2 emissions per full time equivalent job • Overall CO_2 emissions per capita

Table 1

The data needed for most of these indicators already exist.

Positive or negative movement in these national and regional indicators will *not* tell the board, or the public, whether management is doing a good or bad job. They are subject to too many other drivers. However they do serve three other important functions:-

- They can inform decisions about the types of interventions that might be most appropriate in each region.
- They play a symbolic role, sending a signal to all staff about the purpose of their work and making clear the ultimate shared objectives of the various agencies contributing to the creation of sustainable good jobs in terms that make sense to the public.
- Poor performance against these measures *may* call into question the overall economic strategy and institutional architecture.

However indicators measuring the Bank's contribution to these results are also needed and a starting point for the discussion was as set out in table 2. All the indicators refer to the aggregate of investee companies in a region. In some instances they are absolute figures, in some cases changes, in some cases absolute figures or changes relative to the regional or sectoral average. The latter is important because the bank may be in a position to promote better than average pay, and better conditions, in badly paid industries.

Category	Core Indicators	Supplementary Indicators
Unemployment	• Net increase in employees	• Recruitment of workers under 25 compared with regional average • Recruitment of long term unemployed in investee companies compared with regional average
Pay/Income	• Median Wages compared with regional average • Median Wages of non-graduate employees compared with regional average and compared with sectoral average	• Proportion of employees earning less than 75% of national median wages

<table>
<tr><td rowspan="6">Job quality (other than pay)</td><td>Working Hours</td><td>% working more than 45 hours a week compared with regional average</td></tr>
<tr><td>Job security</td><td>Number of redundancies
% of employees on temporary contracts
Job turnover rates</td></tr>
<tr><td>Job satisfaction</td><td>% satisfied or very satisfied with their job</td></tr>
<tr><td>Autonomy</td><td>% reporting lots of or some autonomy with their job</td></tr>
<tr><td>Employee voice</td><td>% reporting they have adequate opportunity to have their views heard</td></tr>
<tr><td>Opportunities for progression</td><td>% reporting the opportunity to progress in their job
% reporting opportunities to develop their skills
Average percentage pay rise enjoyed by individuals excluding directors</td></tr>
<tr><td colspan="2">Environmental impact</td><td>CO_2 emissions per full time equivalent job relative to sector [This is problematic but better than a non-sectorally based measure]
Change in CO2 emissions per full time equivalent job</td></tr>
</table>

Table 2

There are clearly issues as to whether gathering this data is feasible, or at least can be done without imposing an undue burden on investee companies: this has proved a difficulty with the Regional Growth Fund. We therefore recommended investigating whether the core employment and pay data could be gathered through (or in parallel with) the PAYE system. Subjective data about job quality will require a survey, which the Bank can operate (at the government's expense) on all investee companies.

Strategic or leading indicators

The bank's performance should also be measured by leading indicators, measuring the extent to which the economy is developing into one which will support good jobs in the future. The Good Jobs Taskforce recommended that this will again require regional and national indicators of overall progress, for the same reasons as discussed above, as well as indicators of the bank's contribution to these.

The national and regional measures should be of:-

- Employment in targeted sectors and companies
- Skills development
- Sustainability and environmental performance.

The starting point for discussion was as set out in table 3. Again, the bank will not be the only or in the case of skills development the main agency responsible. However the bank's investment decisions will influence these outcomes and the starting point for discussion of indicators of the bank's contribution was as set out in table 4.

Category	
Employment	• Change in employment in target sectors and supply chains (i.e. sectors and supply chains identified as having the potential to deliver good jobs as part of the UK industrial strategy • Increase in employment in high growth companies • Increase in exports in target sectors
Skill development	• Skill levels (NVQ) in targeted sectors • Surveys of management in targeted sectors on ability to recruit people with requisite skills • Balance in projected demand and investment in supply of requisite skills
Sustainability	• Absolute levels of and changes in carbon (and other environmental) efficiency sector by sector, as compared with international changes and (for regional indicators) national changes in those sectors • Change in employment in sectors which are substituting for environmentally inefficient sectors

Table 3

Category	
Employment	• Change in employment in investee companies in target sectors/supply chains (i.e. sectors/supply chains identified as having the potential to deliver good jobs as part of the UK industrial strategy) • Net increase in employment in high growth investee companies • Change in proportion of total employment by investee companies in the above two categories
Skill development	• Proportion of financing used to develop skills • Proportions of jobs in investee companies requiring NVQ3 qualifications and NVQ4 qualifications as compared with regional average
Sustainability	• Absolute levels of and changes in carbon (and other environmental) efficiency in investee companies sector, as compared with international levels and changes and (for regional indicators) national changes in agreed comparator companies • Investment in technologies which are increasing environmental efficiency and in sectors which are substituting for environmentally inefficient sectors • Aggregate profitability and profit growth of the banks' investee firms if emissions priced at target price

Table 4

4. The barriers to the adoption of alternative indicators

During the discussions several potential barriers to the use of the indicators set out in section 3 were identified. These were broadly of two kinds: practical barriers, given that a good jobs mandate is accepted, and more theoretical or ideological barriers, calling into question the good jobs mandate.

Two kinds of practical barrier were identified: first, that the necessary data would be either unavailable or excessively costly and difficult to gather; second, that attempting to respond to the resulting indicators would involve excessively complex, bureaucratic operations.

It is true that some of the data about job quality would require use of surveys, and thus additional costs. There would also need to be additional investment in data gathering and analysis on wage levels since tax data gathered through the PAYE system might not be sufficient. There could also be issues about the reliability of some of the data collected at firm level about job quality – this kind of information can be manipulated. Collection of environmental data at firm and regional level in a meaningful form (for example so that it can be compared with sector averages) is also not straightforward and could involve excessive cost. Where investments are relatively small this cost could be disproportionate.

In addition, if the bank is to be guided by these indicators, it will have to make assessments of applicant firms according to criteria related to the indicators. Badly designed assessment processes could create unacceptable burdens on applicants (and deter good applications) or become excessively costly to the bank itself, given the relatively small size of many loans and investments. There is a real danger that an impossibly bureaucratic system is set up – and fear of this could deter use of the indicators.

For this reason the novelty of the indicators could itself constitute a barrier – this was raised as an issue by one interviewee: if the necessary data gathering and assessment systems have not been set up elsewhere, there is a perceived risk that the investment needed to set them up for the British Business Bank would be wasted.

Related to this was a concern that the use of indicators in this way would create an institution with too complex a set of objectives – this is not a concern about the details of day to day processing, but about lack of focus for management. This is an interesting issue, since much of the power of the traditional focus on GDP and market efficiency is its simplicity, and the ease with which it can be translated into guiding principles for middle ranking and junior officials. The concern, raised by an official, reflects the failure of government agencies which have lacked a clear and focussed mandate.

In addition to these practical or organisational issues, there were concerns at a more fundamental level with moving away from a mandate, and thus a set of indicators, to make market as currently structured work more efficiently.

This theoretical or ideological barrier was not about the ultimate goals described: no-one – from the bankers association to business to the finance ministry – would object to the broad goals implicit in the mandate and the indicator set (to create more sustainable good jobs). However, a minority revealed a theoretical attachment to the power of efficient markets:-

a. 3 of the 26 people we consulted thought that an explicit mandate and indicators of the kind suggested were unnecessary because relying on market forces and the resulting growth would deliver these goals; this was definitely a minority view amongst those we interviewed, but it remains powerful and we were told by one interviewee that it is widespread amongst members of the Government Economics Service. During our work with BIS as part of WP2 we were advised by some officials that they believed all too often officials were unaware of the assumptions on which this view depended – although as impartial officials they should be made aware of them.

b. 1 or 2 people expressed the related orthodoxy that it is better for non-financial objectives to be pursued separately – that investment intervention by government should use purely financial criteria, and that the objectives implicit in the indicators should be pursued through grant aid, or investment in further education etc; underlying this is, presumably, the assumption that distinct market failures can and should be clearly identified and dealt with by distinct policy instruments.

Others were clearly less attached to market solutions, but thought that in the real world government needed to work within this paradigm:-

c. Several of the people we consulted were sympathetic to the mandate but were concerned that use of these indicators would mean the bank would be perceived as 'uncommercial', that business and the banking community would then react negatively to it, and that this would in turn make the bank ineffective – less attractive to business clients and less of a role model to the banking community. In fact the discussion at the seminar suggested this need not be the case, and the Good Jobs Taskforce had shown that there are precedents for a 'social mandate' for a banking institution from outside the UK: this fear seemed to reflect less a worked out problem and more an implicit assumption that government interventions need to work within the grain of existing market and business paradigms. This is at least in part a continuing reaction to the failed industrial interventions by the UK government in the 1970s but may also reflect a common perception of the power of business to set the rules of the game, and the need to work within these rules.
d. The view was expressed that the use of these indicators, and the mandate behind them, would be more acceptable if described as economic rather than social indicators (and mandate). In other words the concern is possibly more about perceptions and rhetoric than reality.

5. Ways in which these barriers may be overcome

Our view, which was shared by several of those we consulted, was and is that the practical barriers identified can be overcome given a focussed effort, some money and a willingness not to let the best become the enemy of the good. However this happening will itself depend on a coherent strategy for implementing an industrial strategy being adopted, with something like the indicator set described above used to guide the full range of available interventions. Such a strategy would:-

- Justify the investment in data collection
- Make sense of the bank's mandate and justify the necessary process design
- Make it possible to allocate some kinds of investment and business to support to other institutions, and therefore deal with the problem of focus identified.

As for the broader, ideological objections,

- The reasons why markets do not deliver the ultimate objectives – and should not be expected to do so – need to be communicated again and again – and in terms that those on the other side of the argument cannot simply dismiss as uninformed; in particular the contradictions and assumptions in the views expressed need to be identified and communicated
- Similarly the reasons why identifying individual market failures and devising individual instruments for dealing with these is an inadequate approach to policy development – at both a theoretical and practical level – need to be communicated, again in terms that cannot be dismissed

- A coalition of support for the kind of institutions, mandates and indicators needed for the broader industrial strategy that justifies the use of new indicators by the Bank needs to be built – a coalition that includes sections of business and finance
- Care needs to be taken about the rhetoric used in building this coalition so as to ensure success.

The theoretical objections a and b described in section 4 are built into government institutions (in this case the Government Economics Service – and while we do not have evidence from the case itself, most likely the finance ministry – H.M. Treasury). It is difficult for elected politicians to take on these institutions and the assumptions they operate under. Typically discussion of this problem revolves inconclusively around whether the kind of argumentation advocated here should be designed to make such institutions guardians of the new agenda or to create alternative centres of expertise and power. Resolving this issue is beyond the scope of this case, but remains an important issue for Bringing Alternative Indicators into Policy Making and we will return to this in WP4.

6. Conclusions

The case overall demonstrates the following points:-

1. It is possible to identify sets of indicators that provide a new roadmap to broadly agreed goals – in this case the agreed goal is sustainable good jobs
2. This roadmap would lead to a different set of actions to those suggested by conventional indicators, such as increase in economic activity (GDP)
3. The objection to such indicators is not typically that the goal is objectionable or that the indicators fail to measure progress towards the goal; it is more likely to be that the indicators are at best redundant or not worth the effort (given the power of markets) and at worst will not work in practice or if they do may divert efforts away from well-established methods
4. Countering such objections requires effort at four levels:-
    a. Practical work to show that the indicators do work, both as descriptions of reality and as guides to decision making
    b. Strategic work that links the indicators to a coherent set of policy objectives, sufficiently broad to attract political momentum – in this case an industrial strategy
    c. Conceptual work that disarms the theoretical position of opponents
    d. Institutional work – to weaken opponent if the conceptual work fails to make powerful opponents themselves guardians of the agenda
    e. Campaigning work to build the necessary alliances.