

January 2009

REAL HELP WITH FINANCE

Today we are launching a package of support to address the cash flow, credit and capital needs of businesses.

As we announce these measures, we really need your help to ensure that as many businesses as possible are aware of the support available for them at this critical time. I would be grateful for your assistance in disseminating this information as widely as possible, through your websites, newsletters, and any other channels that you think most appropriate.

This package operationalises and builds upon the commitments we made in the Pre-Budget Report, providing:

- £1bn of guarantees supporting £1.3bn of lending to smaller businesses;
- Up to £10bn of guarantees supporting £20bn of working capital
- £75m capital (£50m from HMG and £25m from banks) fund to invest in businesses who need equity or quasi equity.

Enterprise Finance Guarantee

In the PBR, the Chancellor announced a £1bn Small Business Finance Scheme. Today, this goes live as the Enterprise Finance Guarantee.

This 75% guarantee for loans will support bank lending, of 3 months to 10 year maturity, to businesses with a turnover of up to £25million who are currently not easily able to access the finance they need. This will enable them to secure loans of between £1,000 and £1m through the government guarantee, available up to 31 March 2010.

The guarantee will be available through the following high street banks from today - Barclays, Clydesdale/Yorkshire Bank, HBOS, HSBC, Lloyds TSB, RBS/Natwest and Northern Bank. It will become available from other lenders if they wish to apply.

Working Capital Scheme

In the PBR, the Government also announced a working capital scheme for smaller exporters. Based on the risk analysis we have done since that announcement we believe that the model can be expanded for working capital guarantees for all firms of turnover of up to £500m. So the Government is today ready to make available to banks guarantees of up to £10bn for up to 50% of the working capital on a £20bn portfolio of loans.

Banks are invited to submit their portfolio of existing and projected new or refinance loans for approval under the guarantee. We have received declarations of interest by Barclays, HSBC, Lloyds TSB and RBS. With the

support of participating banks, we hope the first £1 billion guarantee tranche of the scheme should be operational by 1st March. Use of this facility will of course be subject to final terms guaranteeing value for money.

By guaranteeing portfolios of working capital facilities, this package will release capital held by the banks against these portfolios. The banks have agreed they will make commitments to re-deploy this capital in order to increase all types of lending above their current plans, to businesses with a turnover of less than £500m. The guarantee will ensure banks do not reduce or withdraw working capital lines on renewal which, being short term, can be easy to cut. It will also ensure that there is new capacity by banks to lend to UK businesses, who are suffering from the withdrawal of certain lenders from the market.

Capital for Enterprise Fund

In the PBR, the Chancellor announced a £50m debt for equity fund. Government is announcing today that this Capital for Enterprise Fund will provide £75 million of equity, made up £50m of Government funds and an additional £25 million from Barclays, HSBC, Lloyds TSB and RBS.

The purpose of the fund will be to provide equity and quasi equity of £250,000 to £2 million for companies under the EU SME definition, i.e. of turnover of up to €50 million, who have viable business models and growth potential in need of long term capital.

Information on all this support can be accessed via a dedicated web portal at www.businesslink.gov.uk/realhelp. This provides details including contact names and numbers for each bank and for the local Business Link. To register interest for the Capital For Enterprise Fund, businesses should contact 0845 459 9780.

Time to Pay

As announced in the PBR, since November, businesses experiencing cash flow difficulties can also get help from the HM Revenue & Customs (HMRC) Business Support Service. Businesses worried about being able to meet tax, National Insurance, VAT or other payments owed or coming due to HMRC can call the Business Payment Support Line, seven days a week, on 0845 302 1435.

HMRC staff will review discuss temporary options tailored to the business needs, such as arranging for payments to be made over a longer period. HMRC will not charge additional late payment surcharges on payments included in the arrangement, although interest will continue to be payable on those taxes where it applies. This is one more way in which Government is providing real help for businesses to manage their cashflow and free up working capital they need.

Credit Insurance

The Government is committed to targeted support for businesses to help them through the current economic climate. I am aware that reduction of credit insurance can exacerbate financial difficulties already being felt by firms. My Department is discussing with trade credit insurance providers a government scheme to help companies affected by reductions in their credit insurance. There will be a further announcement on this as we progress.

The Government will continue to support and provide funding and capital to the bank system to ensure that banks are able to support businesses. Small businesses are the lifeblood of the economy – employing 60% of the private sector workforce and contributing over 50% of UK turnover. We remain committed to doing everything we can to help them through the current economic difficulties.

As always I am grateful for your ongoing support.

Yours sincerely

Peter Mandelson
Secretary of State for Business, Enterprise and Regulatory Reform