

NEWS RELEASE

Reference 2009/
Date 14 January 2009

Real Help for Business

Business Secretary Lord Mandelson today unveiled a package of measures designed to address the cash flow, credit and investment needs of small and medium businesses.

The support package, which builds upon the commitments outlined in November's Pre Budget Report, consists of loan guarantees and a new Enterprise Fund aimed at helping companies struggling to access finance for working capital and investment.

The Government measures include:

- A £10bn Working Capital Scheme, securing up to £20bn of short term bank lending to companies with a turnover of up to £500m
- An Enterprise Finance Guarantee Scheme, securing up to £1.3bn of additional bank loans to small firms with a turnover of up to £25m
- A £75m Capital for Enterprise Fund (£50m from Government augmented by £25m from the banks) to invest in small businesses which need equity

Business Secretary Lord Mandelson said:

"UK companies are the lifeblood of the economy and it is crucial that Government acts now to provide real help to support them through the downturn and see them emerge stronger on the other side.

"We know that some companies are struggling to secure the finance they need, not because of any failure in their business but due to the tougher credit conditions. That is why we have designed a package of measures addressing different forms of credit and providing real help for businesses."

The **Working Capital Scheme** is a direct response to the constraint on bank credit available for lending to ordinary-risk businesses with a turnover of up to £500m a year.

The Government will provide banks with guarantees covering 50 per cent of the risk on existing and new working capital portfolios worth up to £20bn.

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The guarantee will secure up to £20bn of working capital credit lines for companies – ensuring they are safe from reduction or withdrawal.

In addition, the guarantee will free up capital which the banks must use for new lending as a condition of this scheme. This is lending that would otherwise not have been provided.

The **Enterprise Finance Guarantee** aims to help smaller, credit-worthy companies which might otherwise fail to access the finance they need for working capital or investment finance due to the current tight lending conditions.

The Government will provide £1bn of guarantees to support to £1.3bn of bank lending to smaller firms with an annual turnover of up to £25m, which are looking for loans of up to £1m for a period of up to 10 years.

The guarantee, available through high street banks, will apply to loans and can also be used to convert existing overdrafts into loans to enable businesses to free up their current overdraft facilities to meet working capital demands.

To help businesses raise new long-term finance, the Government will also offer to invest in viable companies which have high levels of existing debt through a new £75m **Capital for Enterprise Fund**. Banks are contributing to this fund.

The fund, to be managed externally, will provide long term capital to businesses which have exhausted traditional forms of finance. Companies can then use this capital to invest in and grow their business.

Lord Mandelson also confirmed today the Government is discussing with trade credit insurance providers a Government scheme to help companies affected by reductions in their credit insurance.

In order to help businesses identify their financial needs, the Government is today launching a new “one stop shop” easy-to-use web portal. The portal, on the businesslink.gov website, will direct companies to the most appropriate form of support and help them ascertain their eligibility for a range of government support.

Notes to Editors:

Enterprise Finance Guarantee (EFG)

- EFG builds on the £1bn Small Business Finance Scheme outlined in November’s Pre Budget Report.
- Government guarantees 75% of the loan, with banks covering the remaining 25%.

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- The guarantee will be available through 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 (WCS)

- In the PBR, the Chancellor announced a guarantee scheme to support a £1bn facility for smaller exporters to access short term working capital. We have expanded this to cover a wider group of businesses and lending, including exporters.
- Under the Working Capital Scheme, banks will submit a portfolio of loans to businesses (lending to businesses with turnover up to £500m) to BERR. BERR will guarantee up to 50 per cent of the value of the portfolio, securing up to £20bn of bank lending.
- 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 £1billion guarantee tranche of the scheme should be operational by 1st March.
- 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.
- Banks will pay a premium to BERR for this facility; pricing is to be agreed with the banks at the time a portfolio of loans is offered. Pricing will reflect the risk characteristics of the portfolio, to cover potential default payments.
- The Working Capital Scheme is subject to EU State Aid Clearance.

Capital for Enterprise Fund

- In the PBR, the Chancellor announced a £50m fund to convert businesses' debt into equity. Government is today announcing that this Capital for Enterprise Fund will provide £75m of equity, made up of £50m from Government funds and £25m from high street banks (Barclays, HSBC, Lloyds TSB, and RBS).

The online portal can be found at:

www.businesslink.gov.uk/realhelp/finance

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