Support to business during a recession

Scheme outlines

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All performance and cost information correct at 31 December 2009

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Working Capital Scheme

When did it start?	The scheme was announced on 14 January 2009. The Department entered into an Agreement with two participating banks on 1 April 2009. The first guarantees were provided on 30 April 2009.
Why is it needed?	Banks were unable to offer sufficient funding to viable businesses, particularly short-term working capital.
What options were considered?	The Pre-Budget Report 2008 included the option of providing working capital solely to exporting businesses. The Working Capital Scheme evolved from this with a wider remit and larger guarantee limit, recognising that non-exporting businesses were also affected.
What is it meant to do?	The Scheme guarantees a bank's exposure to loans to businesses, releasing new regulatory capital and therefore allowing them to increase working capital facilities to businesses.
How does it work?	The Department provides banks with a guarantee of up to 50 per cent of the risk on existing and new working capital portfolios.
Which businesses are eligible?	The Scheme is directed at banks, not businesses. Only bank portfolios that fall within a specific credit risk range are eligible for the guarantee. Two banks participate. Businesses themselves do not apply for guarantees. The Scheme's exposure to any one company or group (across all portfolios) is limited to £25 million and no more than 10 per cent of the guaranteed amount can be lent to any single industry sector (with exceptions). Loans are restricted to Small and Medium Sized Enterprises (SMEs) with annual turnover of less than £500 million.
What are the key measures of success?	The Department measures Scheme success through new lending; Scheme break-even and compliance with Treasury financial limits; effective portfolio management; prompt payments and fees; and stakeholder management.

How is it performing?	The Scheme is guaranteeing portfolios of a lower risk than was expected. Because this means less regulatory capital is released, the Scheme is delivering a significantly lower amount of extra capacity for new lending. Uptake (at £2.2 billion) is lower than the initial £20 billion announcement. This is in part due to the involvement of a smaller number of banks than had been anticipated.
How much has been spent?	The Department has made guarantees under two tranches, Tranche 1 in April 2009 with Royal Bank of Scotland and Lloyds Banking Group, and Tranche 2 in July 2009 with Lloyds Banking Group. By the end of December 2009, the Department had provided participating banks with £2.2 billion in guarantees.
What is the potential taxpayer exposure?	Overall, the Scheme can guarantee up to £10 billion worth of existing loan facilities. The Scheme was designed to comply with the Treasury's requirement that it should be priced to break-even with a high degree of confidence, with 90 per cent probability that losses would not exceed £225 million. A provision was initially made to cover such losses. At 31 December 2009, exposure was £1.5 billion.
Return to the taxpayer?	The Scheme is designed to break even and it had produced enough revenue by June 2009 to cover set-up and administration costs. The Scheme guarantees portfolios with relatively good credit ratings, protecting the interests of the taxpayer.
What's the exit strategy?	Since guarantees apply to portfolios of working capital loans with less than 12 months to maturity, the latest date at which guarantees could apply is March 2011.
Who is managing it?	The Department has overall responsibility for the Scheme. The Export Credits Guarantee Department (ECGD) has day-to-day responsibility for monitoring portfolios submitted by banks and for risk assessment. Consultants provide legal, consultancy and IT support.
Who is delivering it?	It is delivered in conjunction with two banks: Lloyds Banking Group and Royal Bank of Scotland.
Changes to the scheme since the initial launch	No rule changes.

Trade Credit Insurance Scheme

When did it start?

It was announced on 22 April 2009 and started running on 1 May 2009.

Why is it needed?

Businesses which had trade credit insurance cover to protect against the risk of default by customers were having their cover withdrawn or reduced due to the rise in the number of businesses defaulting.

What options were considered?

Other interventions which were rejected were:

- An indirect intervention by applying pressure elsewhere in the financial system:
- Bespoke insurance for specific companies; and
- Re-insurance to protect insurers from large losses.

What is it meant to do?

The objectives were to:

- restore confidence in business-to-business transactions;
- reduce disruption to finance flows and financial pressures on supply chains; and
- create time for companies to respond effectively to increased risks in their supply chain.

How does it work?

The Scheme was designed to provide top-up where insurance cover has been reduced, not where it has been removed entirely. The top-up is never more than what the insurer is still covering and the insurer covers the first loss. Policies under the scheme expire after six months.

Businesses have to apply within 30 days from when their cover is reduced and are charged a premium by Government and the insurer.

Which businesses are eligible?

Eligible businesses are UK established and use trade credit insurance as part of their normal business operating model. They must have an underlying policy in place at least 30 days before cover was reduced.

Top-up cover is limited to £1 million per supplier-buyer relationship and for a maximum of six months following a reduction in cover by credit insurers.

What are the key measures of success?

Scheme success criteria:

- Policyholder access;
- Supply chain benefits;
- Stakeholder communication;
- Managing financial risks; and
- Operational effectiveness.

How is it performing?

At 31 December 2009:

- 109 policies have been written and re-insured, for a total value of £18.6 million;
- 20 policies have been cancelled because insurers pulled the cover entirely. In some of the cases there was partial refunding of the premium;
- one claim on a policy that was cancelled; and
- 20 policies have expired.

How much has been spent?

The Scheme has paid one claim of £81,000.

Policies issued total £18.6 million.

What is the potential taxpayer exposure?

Announced as providing up to £5 billion of support through insurance, the Scheme was designed to break-even with a high degree of probability. Credit insurers take the first loss (thereby having an incentive to minimise overall exposure).

Return to the taxpayer?

The Scheme was designed to break-even; therefore the intention is that there will be no cost to the taxpayer.

What's the exit strategy?

The Scheme closed on 31 December 2009 as planned: all insurance policies provided under the scheme expire after six months.

Who is managing it?

A team within the Department has overall responsibility. There is a steering group with members of the Department, Treasury, Export Credits Guarantee Department, and consultants.

Who is delivering it?

The main UK trade credit insurers are members of the Scheme.

Changes to the scheme since the initial launch	June 2009 • Eligibility was backdated to include suppliers who had their cover reduced since 1 October 2008. August 2009 • The requirement to apply within 30 days of the reduction in cover was removed; • Premium was decreased from 2 per cent to 1 per cent; • Upper limit was raised from £1 million to £2 million; and • Lower limit of £20,000 was removed.
Any similar schemes internationally?	A similar scheme was launched in France in November 2008.

Enterprise Finance Guarantee Scheme

When did it start running?	The Scheme was announced in the Pre-Budget Report in November 2008 and started running on 14 January 2009. It is a redesign of the Small Firms Loan Guarantee (SFLG) scheme.
Why is it needed?	To improve problems around SMEs' access to short-term finance and prevent viable businesses from closing.
What options were considered?	Policy appraisal initially focused on extending SFLG (e.g. with increased guarantee levels, or making larger firms eligible) but the Department decided more substantive changes were required including: • Working capital loans; • Conversion of overdraft facilities to loans; and • Expansion of overdraft facility. It also targeted support on marginal businesses that were previously viable but due to the credit crunch were no longer able to raise finance.
What is it meant to do?	Increase bank lending to viable businesses, which are unable to access commercial lending due to lack of sufficient security or financial track record, during the recession.
How does it work?	Businesses apply to participating lenders for loans of £1,000 to £1 million and three month to 10-year duration. Lenders decide whether a business is eligible. The Department guarantees 75 per cent of the loan. The guarantee will fund working capital and investment by businesses seeking to grow. The guarantee covers new term loans; existing lending (where lenders might not otherwise refinance the debt); conversion of part or all of an existing overdraft into a term loan; invoice finance facilities; and new or increased overdraft borrowing.
Which businesses are eligible?	It is aimed only at viable businesses with no or insufficient security for commercial lending. Eligible businesses must be operating in the UK, with an annual turnover of less then £25 million and not be from the coal, real estate or insurance sectors.

What are the key measures of success?	• The value of loans offered by banks and loan defaults; • Business satisfaction with delivery; • Scheme awareness amongst business and lenders; • Business take-up; and • Economic returns delivered by businesses.
How is it performing?	As at 31 December 2009: • £1.08 billion of applications from over 9,540 firms that are being processed or assessed; • 7,400 businesses have been offered loans totaling £752 million; • 6,090 businesses have drawn loans totaling £610 million; and • one default on a loan. A mystery shopping exercise of main lenders found 77 per cent of bank advisers surveyed had good awareness of the Scheme. An interim evaluation reported on business feedback on the processes.
How much has been spent?	Guarantees have been issued for a total value of £610 million.
What is the potential taxpayer exposure?	Government guarantees 75 per cent of the value of the lending portfolio. However, a 9.75 per cent cap on the cost of defaults limits the cost to Government. Should the maximum £1.3 billion be made available for lending, it is potentially liable to pay up to £127 million.
Return to the taxpayer?	Businesses pay an annual 2 per cent premium (reduced to 1.5 per cent for 2009) to the Department in addition to capital and interest payments to the lender.
What's the exit strategy?	The Scheme was set to run until 31 March 2010 or until the money ran out but in December 2009 was extended to March 2011.
Who is managing it?	Capital for Enterprise Limited is managing the Scheme on behalf of the Department.
Who is delivering it?	Thirty-eight lenders including most high street banks.

Changes to the scheme since the initial launch

- In March 2009, the Department reviewed the sector restrictions and 300,000 more businesses became eligible. Further restrictions were lifted in May and September 2009.
- In September 2009, two further facilities were made available: A guarantee on invoice finance facilities to support an agreed additional advance on a debtor book and a guarantee on new or increased overdraft borrowing.

Capital for Enterprise Fund

When did it start?

It was announced in the November 2008 Pre-Budget Report. From 14 January 2009, businesses could find out eligibility criteria and delivery partners were appointed in March 2009. The first investment completed in August 2009.

Why is it needed?

To improve SMEs' access to short-term finance by providing mezzanine finance, an area where the Department considered there was a gap.

What options were considered?

- Do nothing;
- Create a Government mezzanine finance (see 'how does it work?') fund;
- Change Small Firms Loan Guarantee to offer mezzanine finance; or
- Tax breaks, for example, through Venture Capital Trusts to encourage private sector involvement in mezzanine finance.

What is it meant to do?

- To increase the supply of appropriate finance to viable businesses seeking growth finance within the equity gap.
- To demonstrate the demand for this type of finance exists and provide the Department with experience in operating a fund.

The Fund is not intended for start-up funding, or to provide money out to shareholders. It is also not intended as a rescue facility for struggling businesses.

How does it work?

By investing between £200,000 and £2 million into a business usually through a mixture of loan instruments and some form of interest in its equity (mezzanine finance).

The £75 million was initially allocated to two £30 million Funds and a £15 million co-investment fund. Businesses apply to one of the two Funds (based on their location) who then decide on investment potential. To obtain funding from the £15 million co-investment fund, businesses need to have matching investment from an established fund manager. Note, the distribution of funds was re-allocated in-year (see 'who is delivering?' section).

Which businesses are eligible?

Eligible businesses must be SMEs based in the UK, and:

- have positive cash generation but be constrained from accessing further bank funding;
- have an incentivised management team with a proven track record;
- be operating in a growth market with a strong defensible position in relation to competitors; and
- be generating strong margins with a scalable business model.

What are the key measures of success?

- the number and value of investments undertaken and number of SMEs supported;
- percentage of fund value invested;
- aggregate performance of the multiple funds & valuation of investments;
- financial returns to the Department and of the scheme overall;
- economic returns delivered by businesses; and
- the demand for, and effectiveness of, mezzanine finance compared to traditional private equity.

How is it performing?

Progress to 31 December 2009:

- The appointed fund managers had made offers totalling £73.3 million to 48 businesses.

Of this:

- investments had successfully been completed in 15 businesses, amounting to £21.7 million (including fees)
- terms worth £18.7 million had been agreed with 11 businesses (following completion of successful due diligence process, businesses will receive investments)
- three businesses had received offers worth £6 million and were yet to agree terms of investment.

How much has been spent?

As at 31 December 2009, £21.7 million in investments have been completed.

What is the potential taxpayer exposure?

Government invested £50 million, with Royal Bank of Scotland, Lloyds, Barclays and HSBC investing a further £25 million.

Return to the taxpayer?	The Department has invested on the same terms as the private investors, sharing proportionally in the risk/return.
What's the exit strategy?	The scheme has an investment period of 12 months ending on 31 March 2010. Beyond this date, investments can only be in those companies already in the portfolio.
Who is managing it?	Capital for Enterprise Limited (CfEL) is managing the fund on behalf of the Department.
Who is delivering it?	• Private venture capital managers Maven Capital Partners have £35 million and focus on businesses in the East Midlands, North West, Yorkshire & Humber, North East, Northern Ireland and Scotland. • Private venture capital managers Octopus Investments have £32 million and focus on businesses in London, the South East, South West, East of England, the West Midlands and Wales. • The remaining £8 million is being managed as a co-investment fund by Capital for Enterprise Fund Managers to provide matched funding alongside other funds.

Automotive Assistance Programme

When did it start?	It was announced on 27 January 2009 and was launched on 11 March 2009.
Why is it needed?	To mitigate falling demand and lack of access to credit and finance for long-term investment in areas such as development of low carbon vehicles within the automotive sector.
What options were considered?	A range of proposals including measures suggested by the automotive industry.
What is it meant to do?	Increase the availability of loan finance to the auto sector by offering Government guarantees to eligible businesses which are unable to access finance to advance research and development for green technologies.
How does it work?	The Scheme offers: • Guarantees for loans up to a total of £1.3 billion from the European Investment Bank (EIB); • Up to £1 billion of loan guarantees for investments that are not eligible for EIB loans or which will bring 'special value' to the UK; and • In exceptional cases, loans. Guarantees are expected to underwrite up to 75 per cent of the value of the loan, or up to 90 per cent if required, which is the maximum possible under the EU Temporary Framework for State Aid. Applications are assessed case-by-case, via an investment appraisal which considers: (1) credit risk analysis, (2) additionality assessment (3) assessment of the wider economic and social benefits of the project, (4) strategic, technological and market assessment, (5) consistency with low carbon/green technology objectives.
Which businesses are eligible?	Viable UK automotive and its supply chain businesses with an annual turnover greater than £25 million and, in general, with a proposed investment of more than £5 million. No alternative private sector funding should be available.

What are the key measures of success?	Key deliverables of the scheme include: • developing and monitoring a 'pipeline' of applications; • ensuring that the future cost of loans and loan guarantees does not exceed the £400 million contingency; and • maintaining a record of total jobs safeguarded or created.
How is it performing?	At 31 December 2009, 94 businesses had been in contact, of which 24 had submitted formal expressions of interest. The 'pipeline' of cases under active consideration consisted of 11 companies (total value of projects: £2.3 billion; total guarantee: £1.1 billion).[1] In mid-March 2010, it offered loan guarantees to two companies. Two previous offers of support were made in 2009 but not taken up (as alternative funding was found).
How much has been spent?	No loans or guarantees provided by the end of December 2009.
What is the potential taxpayer exposure?	A £400 million contingency has been set aside to cover the possible future cost of providing loans and loan guarantees under the scheme, based on estimated average probability of default within the loan portfolio.
Return to the taxpayer?	Participating companies are charged a fee or interest rate to cover costs and risk involved. Support is likely to be secured against assets.
What's the exit strategy?	The scheme will run until at least the end of 2010, with loans or guarantees potentially running on longer than this.
Who is managing it?	A Departmental team manage the application process. Cases are considered by the Industrial Development Advisory Board (IDAB), an independent non-governmental body of senior business people.
Who is delivering it?	A team within the Department.
Changes to the scheme since the initial launch	The eligibility criteria were made more flexible, for example the initial £5 million limit has been reduced to £1 million.
Any similar schemes internationally?	Many countries have schemes to support their automotive industry: France has offered car makers €6.5 billion in loans and Australia has an AU$6.2 billion investment plan which includes a Green Car Innovation Fund.

1 Based on 4 January information.

Vehicle Scrappage Scheme

Date started	The Scheme was announced in the Budget on 22 April 2009 and was launched on 18 May 2009.
Why is it needed?	To mitigate falling demand for cars and the associated impact on the industry and manufacturing base, at what was considered a critical time for the industry.
What options were considered?	The Department considered a range of different scrappage scheme formats, by evaluating lessons from international schemes.
What is it meant to do?	To provide a short-term boost to the automotive industry and stimulate consumer demand.
How does it work?	By giving motorists a £2,000 discount on the cost of a new vehicle if they trade in a car over 10-years-old (eight years in the case of a van). The discount is jointly funded by Government and the car manufacturer (£1,000 each).
Which businesses are eligible?	Any manufacturer of eligible cars/vans (up to 3.5 tonnes) provided they are willing to comply with the Scheme terms. From launch, there were 38 vehicle manufacturers participating. In terms of buyers, old vehicles must be at least 10-years-old (8 years in the case of a van) and registered in the UK to the consumer for at least 12 months prior to trade-in.
What are the key measures of success?	The Scheme has defined success primarily in terms of volume of new car sales (in number and value terms) and what purchases were 'additional' to what would have happened without incentive. It has also considered wider effects on the environment and safety.
How is it performing?	From April to 20 December 2009, there were 298,800 orders for new vehicles under the Scheme, around a fifth of all new car purchases. Potential secondary successes include positive impacts on emissions and road safety, and a 'halo' effect on the second-hand car dealers (with a trend of rising prices). The Department is unlikely to be able to isolate and measure the full impact, particularly the long term effect.
How much has been spent?	At 31 December 2009, the Department estimates £219 million spend on subsidies.

What is the potential taxpayer exposure?	In April 2009, £300 million was allocated. On 28 September, £100 million was added for an extension. Total funding is capped at £400 million.
Return to the taxpayer?	The scheme required an Accounting Officer (AO) Direction due to an estimated net financial loss to the taxpayer of £55 million over the long-term. The decision to proceed was taken on the basis that purchases during the recession are worth more than future purchases when the sector has recovered and that the risks of doing nothing outweighed the costs. In September 2009, a second AO Direction was required to approve the extension. By this point, the revised estimate of net short-term financial impacts was £116 million for UK-only benefits. Over the long-term, the estimated impacts were a total taxpayer loss of £18 million.
What's the exit strategy?	Following the extension in September 2009, the scheme will run until end March 2010 or when funding is exhausted. The Department set quotas for manufacturers to allocate funds in the last weeks of operation.
Who is managing it?	A Vehicle Scrappage Team within the Department liaises with the 38 automotive manufacturers who are responsible for ensuring dealers and thus consumers comply with the Scheme terms.
Who is delivering it?	Car dealers are responsible for ensuring that vehicle ownership and eligibility criteria are met, checking documentation and arranging for the vehicle to be scrapped. The Driver and Vehicle Licensing Agency (DVLA) check eligibility on a sample of transactions sent from the Department.
Changes to the scheme since the initial launch	On Scheme extension, vehicle age was rolled forward to include cars which were then 10-years-old, and van eligibility was reduced to eight years.
Any similar schemes internationally?	Germany had the biggest European scheme (€5 billion) and schemes also operated in France, Italy, Austria, and the United States operated a short $3 billion scheme in 2009. The size of the incentive, the age of the eligible vehicles, the financial input from the manufacturers and emission requirements for the new cars vary.