National Audit Office

REPORT BY THE
COMPTROLLER AND
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Department for Business, Innovation and Skills

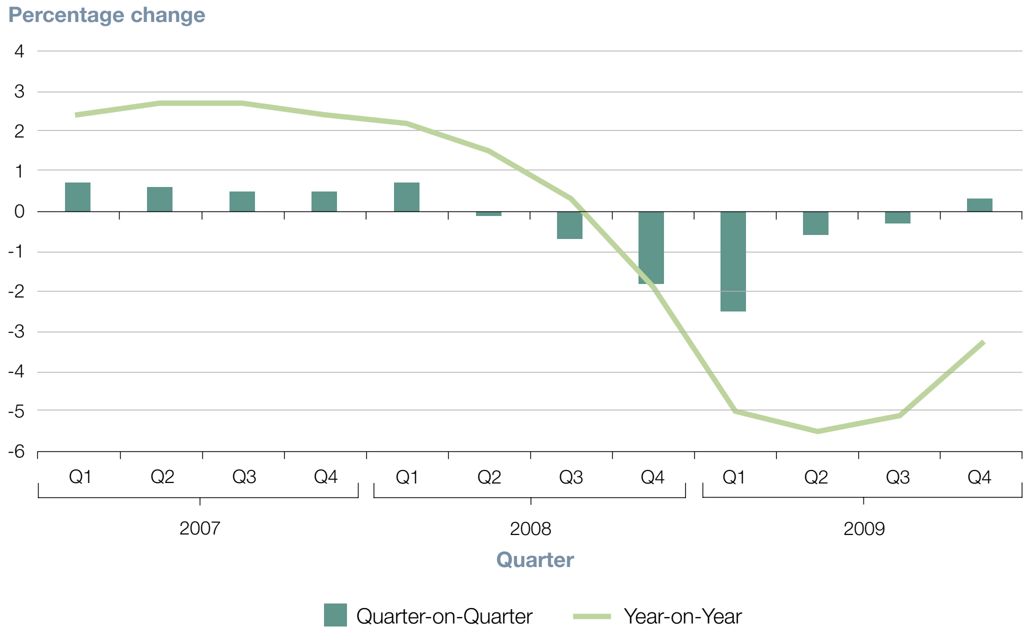
Support to business during a recession

Summary

1 Economic activity began to contract in the United Kingdom around April 2008 (**Figure 1**) and has since seen a 6.2 per cent decline, the largest cumulative fall since 1955. The situation worsened in late 2008 and early 2009 as it became evident that the economy was suffering from deteriorating confidence in the financial markets and the associated contraction in the availability of credit.

2 Against this backdrop, the Department for Business, Innovation and Skills (the Department) considered the economic situation risked damaging fundamentally viable businesses which were experiencing acute difficulties raising short-term finance for working capital needs. Between November 2008 and April 2009 it launched a series of schemes under the 'Real Help Now' brand (**Figure 2**). The announcements offered over £20 billion of help to improve businesses' access to either equity or debt finance and to support the automotive sector.

Figure 1
UK Gross Domestic Product



Source: Office of National Statistics

Figure 2
Summary of business support schemes

	Access to Finance				Support to Automotive Sector	
	Enterprise Finance Guarantee	**Working Capital**	**Trade Credit Insurance**	**Capital for Enterprise Fund**	**Automotive Assistance Programme**	**Vehicle Scrappage**
Need	Limited access to finance by viable Small and Medium Enterprises (SMEs) due to lack of collateral and/or track record.	Banks were unable to offer sufficient lending to viable businesses, particularly short-term working capital.	Businesses were losing trade credit insurance cover, increasing exposure in the event of customer default.	Viable but over-leveraged businesses could not grow, due to their inability to access additional finance.	Falling demand and lack of access to credit and finance for long-term investment within the automotive sector.	Sharp falls in consumer demand for vehicles affecting the automotive retail and manufacturing sector.
Aim	To ensure that viable SMEs which are unable to secure a normal commercial loan because they have no or insufficient security can access loans to finance working capital and investment.	To guarantee banks' exposure to loans to businesses, so that capital can be released to provide new loans to other businesses.	To top-up trade credit insurance to businesses that have their cover reduced.	To invest in businesses whose growth has stalled after exhausting other sources of finance. The fund allows businesses to restructure their finances.	To increase availability of loan finance to the automotive sector to ensure continued investment in researching and developing low carbon technologies.	To provide a short-term boost to the car industry and stimulate consumer demand in the wake of falling demand for new cars.
Announced support	Up to £1 billion of loan guarantees to deliver £1.3 billion extra lending through banks.	£10 billion of loan guarantees to banks to release regulatory capital for new lending.	Up to £5 billion in top-up cover.	£75 million of investment. (£50 million from Government & £25 million from banks).	£2.3 billion (£1 billion to cover UK bank guarantees and £1.3 billion to cover European Investment Bank).	£400 million matched by industry.
Level of support provided to 31 Dec 2009	£610 million of loans guaranteed.	£2.2 billion of guarantees via banks.	£18.6 million of insurance policy top-up.	£21.7 million invested in businesses.	£0 in loans/guarantees. Two offers not taken up.	£219.3 million in subsidies.

Source: National Audit Office

Scope and structure of the report

3 This report describes the measures taken by the Department to support businesses through the recession. It describes what support schemes were put in place and how effectively it conceived, designed and implemented them. It forms part of a wider body of National Audit Office work into the Government's handling of the financial crisis and support to business, including reports on: The nationalisation of Northern Rock[1]; Maintaining financial stability across the banking system[2]; Venture Capital support to small businesses[3]; and Consumer over-indebtedness[4].

4 This report comprises two parts:

- Part 1 examines the economic context, why the Department felt it should intervene, and how it provided support; and
- Part 2 focuses on whether the Department responded quickly, with targeted support at a reasonable cost.

5 It is too early to assess the full impact of the schemes on businesses, and the economy, as a wide range of factors are involved, including the support offered by other departments. A full evaluation can only come when the schemes close, and an assessment of the sustainability of benefits conducted. This report therefore does not evaluate the success of individual schemes but is an early assessment of the design and set-up of six business support schemes, drawing out thematic issues. It also does not consider schemes operated by other departments. Appendix 1 summarises the study methods.

Key Findings

6 **The Department's implicit objective was to raise consumer and business confidence** by providing, up to December 2009, a mixture of direct subsidies (£219 million), loans (£21.7 million) and guarantees (£2.8 billion). It also collected £11.5 million income from fees charged and used them to offset estimated administrative costs of £4.7 million and any future liabilities.

What the Department did well

7 **In late 2008, the Department quickly pulled together economic data and feedback to diagnose challenges to business**. It did not have reliable economic indicators on which to base its decisions as these are usually compiled some time after the period to which they relate, so the Department relied upon direct feedback from business and other parts of Government.

1 Comptroller and Auditor General, *HM Treasury: The nationalisation of Northern Rock*, HC 298, 20 March 2009.
2 Comptroller and Auditor General, *Maintaining financial stability across the United Kingdom's banking system*, HC 91, 4 December 2009.
3 Comptroller and Auditor General, *Venture capital support to small businesses*, HC 23, 10 December 2009.
4 Comptroller and Auditor General, Department for Business, Innovation and Skills: *Helping over-indebted consumers*, HC 292, 4 February 2010.

8 **The Department opted to respond quickly rather than spend time perfecting its policy which was appropriate in the circumstances**. Support reached businesses between three and 35 weeks after announcement. Most schemes were up and running by the second quarter of 2009. Three of the schemes (Capital for Enterprise Fund, Working Capital Scheme and Automotive Assistance Programme) took relatively longer to implement which reflected: the longer-term nature of the support; more complex application processes, including the need for due diligence; and the requirement for third party agreements such as banks and, in some cases, the European Commission.

9 **Scheme management was generally good** although formal arrangements were not in place from the start. The Department established operational arrangements including: systems to process applications and data; supporting governance structures; a way to monitor and report risks and performance; and a means to manage delivery partners.

10 **Protecting the taxpayer was a central feature of scheme design**. The Department and Treasury sought to identify and manage risk. Where they felt the risks were greater, or there was less certainty surrounding them, they took a more conservative approach, for example, in pricing products, capping liability and limiting eligibility. This may have reduced the number of businesses that could be supported. An exception to this is the Vehicle Scrappage Scheme, where departmental analysis forecast that it would provide a net economic loss and was unlikely to represent good value for money in the longer term. The Minister directed the Department to continue for a number of reasons, including that extra purchases made while the economy was suffering were worth more than those when the sector had recovered and the risk of doing nothing outweighed the costs.

What the Department could have done better

11 **The Department began to think strategically in autumn 2008 about its likely response to supporting business in a downturn.** It was monitoring signs of financial market problems and gathering intelligence on individual business sectors and regions from summer 2007. But it only began developing its response in October 2008, for example, it did not use the monitoring information to develop business support options or consider the consequent resource implications for the Department until the months preceding scheme launch.

12 **The Department did not articulate what it intended to achieve overall with its package of support, leading to a series of individual actions, rather than a coherent, structured programme**. The schemes, when taken together, lacked at the outset overarching objectives though we recognise the implicit aim to improve business and consumer confidence. Individual schemes also lacked clear objectives, suitable key performance indicators and budgets and targets were not always supported by strong evidence.

13 **The Department estimates it has directly assisted 6,200 businesses across the six schemes but is not able to say how many have been assisted indirectly**. Some schemes fund intermediaries rather than business directly, for example, they support banks to increase lending to business or car dealers via manufacturers. As a result, the overall figure for the number of businesses assisted will be higher but no firm figure is available.

14 Business take-up for the six schemes varied and was, on average, lower than expected. This reflected the Department and Treasury's approach to risk (see paragraph 10) and ambitious levels of support which proved unrealistic. It also reflected the Department's varying business sector knowledge; the extent to which support could meet immediate needs and, the nature of communication with the target audience:

- The Department's pre-existing **sector knowledge** helped quicker delivery in the case of the Enterprise Finance Guarantee Scheme, which was an extension of a pre-existing scheme; and the Vehicle Scrappage Scheme which benefited from overseas experience of similar schemes. Conversely, the Department had very little experience in the banking sector (which was also subject to support from the Treasury) and the trade credit insurance markets making it more difficult for it to judge the action needed, and the likely take-up, of the Working Capital and Trade Credit Insurance Schemes.

- Some schemes were positioned as offering immediate help but actually **serve a medium to longer-term need**. The Capital for Enterprise Fund, for example, offers investment to replace debt and requires substantial due-diligence and long-term commitment.

- **The Department used the Business Link and realhelpnow.gov websites to provide on-line scheme information but both had relatively low awareness amongst business**. Some businesses found it difficult to access clear information on the nature of available support and where to get further help and advice. There were, however, good examples of direct communication once the schemes were under-way for example in the Automotive Assistance Programme.

15 The Department is not able to clearly identify how much it spent running the six schemes, although it estimates it is approximately £4.7 million, all of which is designed to be covered by income collected. We found a lack of clarity and consistency in how the Department recorded and allocated staff, and consultancy costs to the schemes.

Conclusion

16 The Department needed to act quickly and was under considerable pressure to offer targeted support to business in response to the recession without exposing the taxpayer to unnecessary risk. In the absence of timely and robust economic data, the Department prioritised a fast reaction over rigorous planning and policy assessment. Under the circumstances, this approach was appropriate.

17 The Department, and Treasury, protected the taxpayer and, to date, few guarantees or loans have been called and most application processes and controls have worked effectively. Business take-up of these schemes has been mixed, for a number of reasons including high pricing offered by this conservative approach to risk, and also due to the suitability of the support, driven by the Department's limited pre-existing knowledge of some of the areas supported.

18 The Department did not, however, define sufficiently what it wanted to achieve from the programme as a whole or the individual schemes. The Department's impact could have been improved by thinking through how it might respond at an earlier stage, setting clear programme and scheme objectives, and more consistent recording of benefits and costs across the scheme to better enable measurement of value for money. With this in mind our recommendations are targeted at short-term actions and longer-term considerations.

Recommendations

19 These recommendations take account of the challenges which the Department faced in creating the measures under pressure, and are framed as immediate actions and lessons for dealing with future crises.

Short-term

a **Many of these schemes are at, or near, the end of their effective operation but the economic recovery is fragile and, therefore, the process for running-down the schemes needs to be thought through**. The Department is giving consideration to these issues. In doing so, it should:

- determine the circumstances under which it will extend existing, or introduce new, support particularly if recovery stalls or worsens. In exiting schemes, it should consider the effect as support is withdrawn;
- but before doing so, articulate an overall programme-level objective and success measure in order to guide decisions on the exit process.

Longer-term

b **While we recognise it is not possible to predict with certainty the direction of the economy, the Department had not thought through how to deal with the effects of the credit squeeze and subsequent recession**. This led to a reactive approach to developing support. The Department should review its approach to dealing with this recession and share lessons internally, and across Government. We expect the Department to develop an infrastructure to identify, assess, prioritise and, where appropriate, mitigate any systemic shocks which might affect businesses; this should include an assessment of sectors where it may lack expertise or information.

c **The Department does not have an accurate picture of how much it spent running each scheme**. The Department should review its resource management system and procedures including using cost centres to accurately and consistently measure programme and project costs. This should include, but not be limited to: staff, consultancy, and delivery partner costs for policy initiatives.