



House of Commons

Business, Innovation and Skills
Committee

**Enterprise Finance
Guarantee scheme:
Government Response
to the Business and
Enterprise Committee's
Tenth Report of
Session 2008–09**

**Second Special Report of Session
2009–10**

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The Business, Innovation and Skills Committee

The Business, Innovation and Skills Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Business, Innovation and Skills. On 5 June 2009, the Department for Business, Enterprise and Regulatory Reform and the Department for Innovation, Universities and Skills become the Department for Business, Innovation and Skills. On 1 October 2009 the Business and Enterprise Committee was renamed the Business, Innovation and Skills Committee to reflect that change. The Committee retained the same membership as the Business and Enterprise Committee.

Current membership

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The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the Internet via http://www.parliament.uk/parliamentary_committees/parliamentary_committees

Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at http://www.parliament.uk/parliamentary_committees/bis.cfm

Committee staff

The current staff of the Committee are: James Davies (Clerk), Ben Williams (Second Clerk), Aruni Muthumala (Economist) Louise Whitley (Inquiry Manager), Anita Fuki (Senior Committee Assistant), Eleanor Scarnell (Committee Assistant) and Jim Hudson (Committee Support Assistant).

Contacts

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Second Special Report

1. The Committee published its Tenth Report of Session 2008–09 on 24 July 2009. The Government's response was received on Monday 18 January and is published as an Appendix to this Report.

Government response

On 24 July 2009, the Business and Enterprise Committee (now known as the Business, Innovation and Skills Committee) published its report on its enquiry into the Enterprise Finance Guarantee scheme. The Government, via a press release of 24 July, welcomed the Committee's report. The report had three recommendations/conclusions which the Government is pleased to briefly respond on.

It is important we recognise when the Government does get it right. Although it is limited in scope and cannot help all struggling businesses, the Enterprise Finance Guarantee scheme now appears to be working well, after a relatively slow start. We are delighted and we pay tribute to the civil servants who have made this work. The experience shows the value of having a Department which takes the needs of business into account. We are sure the Government will come forward with proposals in due course for what will happen when the EFG runs out in March 2010; we look forward to studying them (Paragraph 14)

1. The Government is grateful to the Committee for its recognition that the Enterprise Finance Guarantee (EFG) is helping viable small businesses through this difficult economic time. As at 13 January there had been nearly £1.1 billion of eligible applications from over 9,700 firms. Over 7,500 businesses have been offered loans totalling £763m, of which 6,213 businesses have drawn loans totalling £622.27m. Officials will continue to monitor the uptake and performance of the banks to ensure EFG plays its part in getting access to finance for small and medium businesses.

2. At pre-budget report in December 2009, the Government announced a 12 month extension to the EFG (from April 2010 to end March 2011) at a facility of £500m. This announcement was supported by a majority of small business organisations and lenders.

3. Of course, EFG is only designed to help those as that margins of normal commercial lending decisions, and the Government continues to encourage lending to viable under normal commercial terms.

Members of the Committee have been made aware of cases where banks are not offering companies a choice of support but are offering single measures, such as factoring, to businesses which would be eligible to benefit from this scheme. To coincide with the publication of this Report, we are releasing an invitation to companies to submit evidence to us if they feel they have evidence of this happening. (Paragraph 16)

4. The Government welcomes the Committee's continuing interest in the experiences which businesses, SMEs in particular, have with their banks. Ministers and officials would be interested to receive any findings or views the Committee has received from businesses to help us in our role of monitoring update of the EFG and the performance of the banks.

We will be keeping the evidence as to whether the Enterprise Finance Guarantee scheme is being offered appropriately under review, and will return to this issue in the autumn if we feel it is necessary. (Paragraph 17)

5. The Government welcomes the Committee's continuing interest in the Enterprise Finance Guarantee. If the Committee would find it helpful, the Government can provide quarterly reports on the uptake of the EFG. Additionally, the Committee may be interested in the Early Stage Assessment of the Impact of EFG on Recipient firms, published in December 2009. The key findings from this research are:

- **Overall satisfaction with EFG is high:** Two-thirds of businesses were fairly or very satisfied and satisfaction has increased further for more recent EFG loans. Respondents were particularly satisfied with the ease of the application process (62 per cent), repayment schedules (64 per cent) and the information supplied by lenders (60 per cent).
- Specific areas of EFG where respondents were less satisfied were the administrative fees charged by the lenders and, to a lesser degree, the interest rate applied. Despite this, 26 per cent and 36 per cent of respondents still rated their satisfaction with these elements of EFG respectively as good or very good.
- **The majority of businesses report positive business outcomes:** 94 per cent of respondents indicated that their business prospects had improved as a result of EFG, 84 per cent reported EFG had helped their prospects of survival and 84 per cent of businesses reported that EFG would serve as a platform for future growth. Other benefits stated included improved cash flow and the introduction of new products or processes.
- **EFG has had a significant impact on employment:** Approximately 60 per cent of firms reported the creation of jobs, either already or anticipated in the future, and 57 per cent of respondents reported that they had saved jobs, as a result of EFG. In the 385 respondent businesses, some 1,870 jobs have been saved, 350 jobs have already been created and a further 550 new jobs are expected in the future, due to receiving EFG backed lending.
- Scaling up the sample to the entire population of firms offered EFG loans up to the start of October, estimates suggest that EFG could have already been responsible for saving and creating around 31,600 jobs, with potentially a further 8,400 expected to be saved or mainly created in the future.

6. The full text of the Early Stage Assessment of the Impact of EFG on Recipient firms is available at <http://www.berr.gov.uk/files/file54076.doc>.