



HM TREASURY



Department of Trade and Industry

Joint HMT/ DTI Press Release

4 October 2004

## **GOVERNMENT TO OFFER MORE GENEROUS AND TARGETED SUPPORT FOR SMALL FIRMS**

The Government today welcomed and accepted Teresa Graham's recommendations on the future of the Small Firms Loan Guarantee (SFLG), designed to maximize the support that the scheme offers to small firms. Key recommendations include expanding lending limits to £250,000 per business, reducing bureaucracy surrounding the scheme, and raising the turnover limit to £5.6 million for all eligible businesses.

Welcoming the report on behalf of Government, the Chancellor of the Exchequer Gordon Brown said:

"Small businesses are the lifeblood of our economy - boosting productivity, creating employment and prosperity, and revitalising our communities. Access to finance is a vital ingredient in the growth of any successful business. Our ambition as a Government is to take action to ensure that talented entrepreneurs can get the finance they need to convert their ideas and creativity into thriving businesses.

Teresa Graham's recommendations will ensure the future SFLG will maximize its impact on our enterprise agenda and helping those SMEs with greatest difficulty in accessing debt finance. I welcome the review's recommendations and can today commit the Government to the implementation of her proposals in full."

The Secretary of State for Trade and Industry, Patricia Hewitt, said:

"I'm grateful to Teresa Graham and her review team for their work and welcome the principles of her main recommendations. The Review marks another milestone for this extremely popular DTI support scheme, which has guaranteed over £3.8bn worth of lending to around 88,000 businesses over the last 22 years. I have asked the Small Business Service to work with the British Bankers' Association, the high street banks and other SFLG lenders to determine how best to successfully implement the recommendations and we will make a further statement later at the time of the Pre Budget Report in the Autumn. However, I can confirm that, in the event of a full Enterprise Capital Fund programme being launched, the Government will create a

new public company to deliver our financial products for small firms – putting our support for enterprise on a commercial and market orientated footing.”

The Government has today committed to the implementation of the review’s key recommendations, including:

- Expanding the lending limits to £250,000 per business for all eligible businesses
- Raising the turnover limit to £5.6m for all eligible businesses
- Reducing bureaucracy by making changes to the operation of SFLG
- Better targeting of SFLG at start ups and young businesses by introducing a maximum age limit for eligibility of three years’ trading activity, and reserving a segment of SFLG funding for lenders with a clear focus on high-growth businesses
- Incentivising an increase in SFLG penetration, particularly wider geographic availability throughout banks’ network of branches
- Encouraging new lenders to join the scheme
- Allowing successful serial entrepreneurs to benefit by removing the current £250,000 limit on lending to any individual
- Introducing an overall lending limit for the scheme to limit contingent liabilities, by allocating each lender a capped ‘pot’ of lending each year according to historical usage of SFLG
- The new public company, which will oversee the Enterprise Capital Funds, should, if created, be responsible for the delivery of SFLG. In the interim, the Government will establish a forerunner body to advise it on implementing the changes to SFLG, and the establishment of ECFs.

## **NOTES FOR EDITORS**

1. The SFLG was introduced to help individuals overcome the problems obtaining the finance to start up new small businesses and also help small businesses expand.
2. It guarantees loans from banks and other financial institutions for small firms that have viable business proposals but which have tried and failed to get a conventional loan because of lack of security.
3. Loans are available for periods of between two and ten years on sums from £5,000 to £100,000 (£250,000 if the business has been trading for more than two years). The SFLG guarantees 75 per cent of the loan. In return for the guarantee, the borrower pays the DTI a premium of 2 per cent a year on the outstanding amount of the loan. The commercial aspects of the loan are matters between the borrower and the lender.

4. Since the scheme's launch in 1981, around 92,000 loans to over 88,000 businesses have been guaranteed, worth approximately £3.8 billion in total. Changes to the eligibility criteria made in April 2003 have led to an increase in the use of the scheme of more than 50 per cent. More than 6,000 loans have been guaranteed since April 2003 with a value in excess of £400 million, and the average loan size has now risen to around £69,000.
5. As announced in Bridging the Finance Gap (HM Treasury and Small Business Service, December 2003), Teresa Graham was asked to work closely with the main SFLG lenders to examine, and if appropriate make recommendations regarding:
  - the structure and rules of the SFLG and their appropriateness to the scheme's effective operation; and
  - whether the SFLG is proving effective in tackling the financial barriers faced by start-ups and small businesses in the current market.
6. Spending Review 2004 committed DTI to establishing by 2007/08 a new public company to deliver all of its SME equity-market interventions, including the new Enterprise Capital Funds. The new company will professionalise the management of government's financial market interventions for SMEs, particularly in light of the forthcoming programme of Enterprise Capital Funds, which will require expert management.
7. The Government recognises that the way SFLG is delivered needs to change to develop the right incentive structures and agrees that the new company organisation proposed to oversee the Enterprise Capital Funds, which will operate at arm's length from government, should be responsible for the delivery of SFLG as soon as it is established. This will align the Government's debt and equity investment instruments inside one commercially orientated organisation.
8. Teresa Graham OBE has almost 30 years experience advising small firms seeking finance, principally through her career at Baker Tilly, where she headed up their Business Services Department. She also has a wealth of experience working with Government. She is currently Deputy Chair of the Government's Better Regulation Task Force, a non-executive member of the Steering Board of the DTI's Small Business Service and member of the DTI's Small Business Council. Teresa was awarded an OBE in the 1997 New Years Honours List for services to Better Regulation and the small firms sector.
9. Electronic copies of the Review's final report are available on the Treasury website at [www.hm-treasury.gov.uk/independent\\_review/review\\_graham\\_index.cfm](http://www.hm-treasury.gov.uk/independent_review/review_graham_index.cfm) from today.
10. Media enquiries should be addressed to Marie-Anne Davies at the Treasury press office on **020 7270 5946** or to Kathryn Hinchcliffe at the DTI press office on **020 7215 5490**

11. Non-media enquiries should be addressed to the Treasury Correspondence and Enquiries Unit on **020 7270 4558**, or by e-mail to **public.enquiries@hm-treasury.gsi.gov.uk**
12. This press release and other Treasury publications and information are available on the Treasury website at **www.hm-treasury.gov.uk** If you would like Treasury press releases to be sent to you automatically by e-mail you can subscribe to this service from the press release on the website. It is also available on the Department for Trade and Industry website at **www.dti.gov.uk**