

Government backed funding

The Government Unveils Initiatives to Help Viable Companies with Cashflow Difficulties

The recent collapse of a number of high profile financial institutions and banks has had a disproportionate impact on global lending sentiment, resulting in a significant reduction in funding for companies.

The UK government realise this issue requires urgent attention and have unveiled a raft of initiatives which are either new schemes or updates to schemes that were proposed in the 2008 pre-Budget Report. They are designed to help viable business with short term cash flow difficulties. The major initiatives are summarised opposite.

This briefing note reviews government funding available to companies under new and existing schemes and also features quotations from discussions with our contacts in the banking industry.

The report also explains how we can help companies gain access to the described schemes. We have been successfully helping companies secure bank funding for many years and as such have strong relationships with key figures in the banking sector.

It should be noted that all of the schemes noted in this report are geared towards SME companies. Being a public limited company does not exclude a company from any scheme as long as the company meets the scheme's other eligibility criteria.

Working Capital Scheme ("WCS")

- Up to £20bn of short term bank lending to be secured by the government for companies with turnovers of up to £500m.
- The Department for Business, Enterprise & Regulatory Reform (BERR) will guarantee 50% of the value of loan portfolios submitted by banks, subject to eligibility.
- It is designed to help increase bank lending for both new and existing loans.

Enterprise Finance Guarantee Scheme ("EFGS")

- The Government will support up to £1.3bn of new lending by banks. This security will only be supplied after all other sources of security have been exhausted.
- Loans are open to companies with turnover of up to £25m to obtain loans of between £1,000 and £1m.

- Banks will guarantee 25% of the loan, with the remaining 75% being covered by the Government.

Capital For Enterprise Fund ("CEF")

- £75m to be provided to allow companies to sell debt in exchange for equity.
- £50m is to be provided by the Government and £25m by Barclays, HSBC, Lloyds Group and RBS.
- Companies with turnover up to €50m will be eligible to apply for investments between £250,000 and £2m.

European Investment Bank Loan

- Estimated £4bn of business loans to be provided to UK companies by the European Investment Bank ("EIB") through UK clearing banks.

Government backed funding

- European Investment Bank Loan
- Working Capital Scheme
- Enterprise Finance Guarantee Scheme
- Capital for Enterprise Fund
- Government Grants
- Soft Loans
- Train to Gain Scheme

Useful links

- web-www.eib.org
- web-www.berr.gov.uk
- web-www.businesslink.gov.uk
- web-www.berr.gov.uk
- web-www.businesslink.gov.uk
- web-www.businesslink.gov.uk
- www.traintogain.gov.uk

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Detail on government funding currently available

1. European Investment Bank Loan

Introduction

This scheme was proposed in the 2008 pre-Budget Report. The EIB has recently allocated €30bn of funding to European companies in the form of new loans to be granted via commercial European banks. The UK is expected to receive an allocation of circa £4billion, the aim of which is to provide funding at a lower rate to the intermediary banks, to enable them to pass on the cost-savings and increase lending to businesses.

Key facts

- Must be an independent company with fewer than 250 employees.
- Can be used for any form of investment or expenditure necessary to grow a small business, including purchase of tangible assets, intangible assets and working capital.
- Applies to all sectors except arms, gambling, tobacco, pure property development and animal testing.
- Capped at €12.5million per loan and will be repayable between 2 to 12 years. The interest rate will vary depending on the risk associated with the business; no further details are available on likely lending rates at this stage.
- The EIB loans are available through a number of UK lending institutions, including: Barclays Bank, RBS, NatWest, HBos and Close Brothers.

Lloyds and Abbey have applied for funding under the scheme and these applications are currently being processed by the EIB.

- Applications will be assessed by the lending institution in the same way as a formal bank loan application. Our team has contacts within the designated lending institutions and we can make the necessary introductions for interested businesses and advise on what information will be required.
- Timescales will vary depending on the lending institution involved and the level of perceived risk, but our banking contacts believe it will take a similar amount of time as a standard bank loan application; typically 6-10 weeks.

What are the benefits to the scheme?

The aim of this initiative is to bring some much needed capital back into the market. It will also be cost effective for companies as the banks will borrow 50% of the funds for each approved deal from EIB at a reduced interest rate, which must in-turn be passed down to borrowers.

The bankers view

Anecdotal comments from bankers:

EIB loans

“The EIB loan scheme will provide selected lending institutions with access to cheaper capital, which can in turn be passed down to the final customer.

We would look to review applicants in the same way as a traditional bank loan, although the reality is that lending will remain tight.

The exact terms of the scheme have not yet been finalised and we understand that the EIB may also look to offer a ‘cashback’ facility to successful applications to help mitigate the costs of funding. This would provide additional support to businesses”.

2. Working Capital Scheme (“WCS”)

Key facts

- The Government is putting up £10bn which will guarantee bank lending of up to £20bn for short term loans to companies with turnover of up to £500m.
- The scheme is designed to release capital in order to increase all types of lending for both new and existing loans.
- Banks are to submit a portfolio of loans to the Department for Business Enterprise & Regulatory Reform (BERR) and, subject to eligibility, BERR will secure 50% of the portfolio.
- The scheme could potentially be extended to 31 March 2010 if it proves to be successful.
- Barclays, HSBC, RBS and Lloyds Group have shown interest in the scheme.

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- BERR will charge the banks a premium for the guarantee, the pricing of which to be decided when portfolios are submitted to BERR. Pricing will reflect the risk characteristics of the portfolio. The premium may be passed on to the borrower.
- The WCS is an expansion of a previous initiative proposed in 2008's pre-Budget report that was designed to provide short term working capital for small UK based exporters.

Eligibility

- Companies with turnover up to £500m are eligible to apply for the scheme.
- As these are commercial products from banks, participating lenders will determine the borrowing eligibility of individual companies.

Application Process

- It is the responsibility of the banks to submit portfolios of existing and new loans to BERR for approval.

3. Enterprise Finance Guarantee Scheme

Key facts

- This scheme is an extension of the £1bn Small Business Finance Scheme.
- The government will guarantee up to £1.3bn of new lending by banks to businesses which are not easily able

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to access the finance that they require.

- Eligible businesses can apply for loans of between £1,000 and £1m to be repayable over a period of up to 10 years.
- 75% of each loan will be guaranteed by the Government and 25% by the banks.
- The EFGS will cover new term loans, existing loans where lenders may not otherwise refinance the debt and the conversion of all or part of overdrafts into new term loans.
- In addition to interest and arrangement fees due to the lender, a premium will be charged by BERR of 2% per annum on the outstanding balance of the loan.
- This premium will be assessed and collected in quarterly instalments. A discount of 25% is available on any premiums due and successfully collected during 2009.
- At the time of printing, the lenders who have applied to join the scheme include Barclays, HBOS, HSBC, RBS/NatWest, Lloyds Group, Northern Bank and Clydesdale/Yorkshire Bank. A full list of the lenders can be found on the BERR website.
- The scheme will be in effect until March 2010.

Eligibility

- Open to most companies with turnover of up to £25m.
- Companies in the agricultural, coal and steel sectors are not eligible.

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- Loans for the financing of individual export orders are not eligible.
- Delivery of the EGS and the decision on its use in connection to any specific lending transaction is delegated to the lenders.
- There is no automatic entitlement for a company to receive a guaranteed loan nor is there any pre-qualification process for the scheme.

Application Process

These are commercial loans so companies will need to provide the information normally needed to obtain a loan. The information typically required by banks:

- Details of the purpose of the loan.
- Current business plan.
- Financial projections.
- Historic trading figures.
- Historic statutory accounts.
- Relevant management information.
- Information regarding previous borrowing transactions.

4. Capital for Enterprise Fund

Key facts

- This scheme will allow companies to convert debt into equity via an available fund of £75m.

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(continued)

- £50m of this will be supplied by the government, the remaining £25m being provided by Lloyds Group, Barclays, RBS and HSBC.
- The scheme is administered by Capital for Enterprise Limited (CfEL).
- Companies may be able to gain equity of between £250,000 and £2m.

Eligibility

- Companies with annual turnover less than £50m may apply for this scheme.

Application Process

- Companies may apply to CfEL.
- It is recommended that potential bidders make contact with CfEL prior to submitting a bid at: enterprise@capitalforenterprise.gov.uk
- Details of the application process and how to make a bid are found on the BERR website: <http://www.berr.gov.uk/files/file45483.pdf>

5. Government Grants

Overview

There are a wide range of grants available from the UK Government and government backed agencies. The most common grant providers to UK business are the UK government, the EU, Regional Development Agencies, Local Authorities and charitable organisations.

Grant criteria will vary, generally depending on location, size and industry. The best way for companies to find government grants which may be suitable is to visit the Business Link website (www.businesslink.gov.uk). There is a section which provides a directory search into the company's location, size and sector, highlighting any government grants which may be applicable.

Business Link's view on the current availability of grant funding

The overriding consensus is that it is currently very difficult to obtain the vast majority of government grants. A number have been frozen which has restricted availability of funds to companies.

We also obtained their view on two specific loans:

- Grant for Business Investment ("GBI") – GBIs are currently very difficult to obtain as the fund is almost frozen to companies. This will be reviewed in 2009, at which point it is expected to become more accessible. The government has a target of funding up to 75% of all applicants; however this success rate fell below 35% in 2008.

- Innovation, Research and Development grants are currently available. There has been no change in the issue rates as a result of the current climate, with over 50% of applicants who meet the criteria successfully achieving funding.

Common grants

Grant for Business Investment ("GBI")

www.berr.gov.uk

The Grant for Business Investment can be awarded to any company (UK-based or an inward investor), with the objective of investing into an under-developed area. The area must be designated an 'assistance area' by BERR, with grants awarded to finance the acquisition of key assets in these projects.

There are strict criteria which need to be met to be eligible for this grant, particularly that the project must be considered to be 'high-quality, innovative and knowledge-based'.

Funds received under the GBI scheme vary but will typically be in the range of 10-15% of total eligible expenditure. Grant applications must be for a minimum of £10,000.

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How we can help

How can companies obtain advice on government funding?

Devonshire Corporate Finance is a corporate advisors to PLUS companies. We are the corporate finance division of Kingston Smith LLP, a top 20 firm of chartered accountants.

We have been successfully helping companies secure bank funding for many years and as such have strong relationships with key figures in the banking sector.

We are in regular communication with our contacts at all the UK-based banks and are therefore made aware of developments in the availability of funding as they happen.

If there is an opportunity for your company to gain bank funding, we will know about it.

Because of our tailored approach to each engagement, we are able to provide our clients with solutions that fit their specific needs.

Before accepting any engagement, we carry out a full review of the project to assess its feasibility and our potential role. We will not accept a project in the unlikely situation where we believe we cannot add value.

We are proud of our strong reputation which has been built by helping our clients to achieve their goals, whatever they may be.

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