

**SMEs ACCESS TO FINANCE**

**Frequently Asked Questions  
(FAQs)**

Further information on Access to Finance is provided at Businesslink.gov (<http://www.businesslink.gov.uk/bdofg/action/home>) the main source of advice and information for SMEs

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# Policy

## 1. How will government address the flow of credit to SMEs?

- The [coalition agreement](#) makes clear that ensuring the flow of credit to viable SMEs is essential for supporting growth and should be a core priority for a new government, and we will work together to develop effective proposals to do so.
- This includes ensuring access to bank finance, equity finance and other sources of finance. Our response to the [Green Paper consultation](#) included a number of announcements to support this and we will work with the banks to ensure they deliver on the commitments they made in their response to the Green Paper.

## 2. What support can small businesses expect from government in accessing finance?

- There are various measures in place to support access to finance for SMEs, including the [Enterprise Finance Guarantee \(EFG\)](#), the [Enterprise Capital Funds](#) programme, lending commitments agreed with RBS and Lloyds Banking Group and the [Financial Ombudsman Service](#).

## 3. What is the Government response to the Finance Green Paper?

- The Government has published its response to the consultation on business finance issues, “Financing a private sector recovery”, available at <http://www.bis.gov.uk/businessfinance>. The response sets out a comprehensive package of support, both Government and industry-led, to answer the concerns raised by the small business community in the areas of expanding the range of support available for SMEs, including alternative sources of finance; extending existing schemes that provide finance for viable small businesses; and helping banks and businesses work together more effectively.

## 4. What is the Government strategy to assist SMEs?

- The Government published its strategy [Backing Small Business](#), a set of measures to help small and medium enterprises (SMEs) in the UK grow and boost enterprise across Britain. To help translate aspiration into action, the government has announced three major policies to:
  - Improve access to finance;
  - Make it easier to do business with the public sector;
  - Allow social tenants to start up their own business from home.

## 5. What is government doing to support local growth and economic development?

- The Government has published the [White Paper – “Local Growth: Realising every place's potential”](#) which explains how we work in partnership with regional and local bodies to meet our aim by working to promote investment, skills, employment, efficiency, innovation and competitiveness. It includes information on:
  1. [Local Enterprise Partnerships](#);
  2. how we are working with the European Union and internationally to achieve the Department's strategic priorities and to have the greatest impact on productivity.
- The Government is committed to rebalancing the economy, achieving private sector led economic growth, tackling welfare dependency and addressing the causes of poverty and inequality. The Government recognises that vulnerable places will need additional support to achieve this. The [Department for Communities and Local Government \(DCLG\)](#) administers a number of funding streams on behalf of the Government and the European Union.

## 6. What is Government doing to get the banks lending?

- The majority of SMEs applying for finance do continue to receive the finance they require, but demand for lending remains low. The Government continues to call on the banks to lend to credit-worthy businesses.
- **Lending Agreements** with RBS and Lloyds will deliver £50bn and £44bn of gross new lending to businesses this year respectively.
- Government pressure on the banks led to the [British Bankers' Association Task force announcing 17 new commitments](#) including:
  - a £1.5bn Business Growth Fund for established SMEs seeking £2-10m;
  - commitments to produce better data on bank lending;
  - commissioning regular survey in co-operation with business representative bodies to understand the issues;
  - setting up a Business Finance Round Table with business representative bodies to monitor business finance issues;
  - a [revised lending code](#) for microenterprises and a [Statement of Principles](#) for SMEs, and a new appeals process for businesses turned down for lending;
  - improved customer information, including signposting of alternative sources of finance and discussing options for re-financing loans with SMEs well in advance of those loans expiring.

- For businesses who are viable but have insufficient security or financial track record to obtain loans in the normal way, the Government has committed to running the [Enterprise Finance Guarantee](#) scheme for every year of this Parliament, supporting more than £2bn of lending, subject to demand.
- **Competition** is also key: The Government has set up the [Independent Commission on Banking](#) which will produce a paper on options for structural and related non-structural reforms to the UK banking sector to promote financial stability and competition in the spring and recommendations next autumn.

## 7. What help is there for SMEs to deal with business rates?

- Government fully understands SMEs' concerns and recognises that business rates are a significant issue for small businesses. That is why the Government is taking a number of steps to help firms with business rates and particularly small businesses.
- The Government has made [small business rate relief \(SBRR\)](#) more generous this year by providing eligible small businesses who occupy property with a rateable value of less than £6,000 a 12 month rate holiday, they are also exploring how to make SBRR automatic; and stopping unfair, retrospective business rates being imposed on local firms. More generally, the Government are considering the possibility of giving local authorities wide-ranging, discretionary powers to grant business rate discounts, so that they can respond to local circumstances by reducing business rates bills.

## 8. How is the Government addressing tax simplification for small businesses?

- The Government aims to create the most competitive corporate tax system in the G20 and it took immediate action in its plans for reducing Corporation Tax. From 2011:
  - the small profits rate will be reduced from 21% to 20%;
  - the main rate of corporation tax will reduce from 28% to 27%; followed by year on year reductions to 24% in 2015.
- The Government has also asked the Office of Tax Simplification (OTS) to undertake two reviews, on tax relief and Small Business Tax Simplification. This work will be an important step towards creating a tax regime which better supports investment, productivity and growth. If you want to contribute to the review, please email the OTS at [ots-smallbusiness@ots.gsi.gov.uk](mailto:ots-smallbusiness@ots.gsi.gov.uk).
- Further information on the Small Business Tax Review is found at [http://www.hm-treasury.gov.uk/ots\\_smallbusinessreview.htm](http://www.hm-treasury.gov.uk/ots_smallbusinessreview.htm).

# Banks

## 9. Are the banks open for business?

- The majority of businesses seeking bank finance are successful, but demand for finance from businesses remains subdued. Banks continue to state that businesses with a viable business plan will be successful when seeking credit.
- The BBA published [six binding commitments](#) from the UK's banks to support the small business sector:
  1. Banks are happy for SMEs to bring their professional advisers with them to support them in their discussions with their business manager. (Acknowledging shadow directorship boundaries in the provision of advice)
  2. Banks will use either in house guides or industry-standard literature to provide guidance on the factors that determine pricing
  3. Banks will always inform customers of the time it will take for a lending decision to be taken, starting from the point when a full suite of information is provided to complete an application
  4. Banks will ensure they have fair and effective processes in place to review decisions to decline a lending request
  5. Wherever practical banks will provide proactive and clear feedback to SMEs when a decision has been taken to decline a borrowing request and what next steps they might take, for example contacting [BusinessLink.gov](#) for further advice and support
  6. Banks will work with SME representatives and with the Lending Code standards board to promote both these initiatives and the Lending Code itself.
- The BBA Finance Taskforce also published [17 new commitments across three broad areas](#):
  - improving customer relationships;
  - ensuring better access to finance; and
  - providing better information and promoting understanding.

## 10. What are the banks doing to improve their relationship with SMEs?

- The BBA Finance Taskforce report "[Supporting UK Business](#)" identifies [17 new commitments](#) across three broad areas –
  - improving customer relationships;
  - ensuring better access to finance; and

- providing better information and promoting understanding.
- These actions identify positive solutions to some of the current problems faced by both the banking sector and by businesses. The Taskforce report commitments:

### **Improving customer relationships**

Banks will

1. **Support a network of business mentors** by working with the business groups to deliver this free service to small businesses across the UK
2. **Improve service levels to micro enterprises** (businesses with fewer than 10 employees and turnover or a balance sheet under €2m) by setting out in a new Lending Code the levels of service banks will provide and outlining additional sources of help and advice
3. **Publish lending principles** which clearly set out the minimum standards medium-sized and larger businesses can expect when asking banks for loans and other services
4. **Establish transparent appeals processes** for when loan applications are declined, with processes independently monitored by a senior independent reviewer, who will publish the results of their review, to ensure each bank has a fair and equitable appeals process
5. **Initiate a pre re-financing dialogue 12 months' ahead of any term loan coming to an end**, which will include a timely review of business and re-financing needs and an assessment of what needs to be in place ahead of loan expiry to maximise the prospect of successful re-financing.

### **Ensuring better access to finance**

Banks will

6. **Establish and invest in a new £1.5 billion Business Growth Fund** (built over a number of years) to fill a crucial gap in the market and provide capital for viable businesses which want to invest and grow
7. **Support the Enterprise Finance Guarantee Scheme**, seeking continued Government backing through to 2012, and accommodating any changes made by Government
8. **Help mid-sized businesses access syndicated debt markets** by raising customer awareness, training customer-facing staff and engaging more actively with business groups and customers
9. **Improve access to trade finance** through targeted SME awareness-raising campaigns and exploring possible regulatory adjustments with the FSA. Seek to open with Government access to trade finance products for businesses that qualify for the Enterprise Finance Guarantee Scheme

10. **Signpost alternative sources of finance**, giving customers helpful information and advice if a loan is declined and raising awareness about the financial solutions they should consider
11. **Help improve the supply of credit to the wider economy**, working with the authorities to ensure that wholesale markets can support the necessary lending capacity as the economy recovers.

### **Providing better information and promote understanding**

Banks will

12. **Fund and publish a regular independent survey**, commencing in early 2011, to a methodology agreed with Government and business groups, so there is an agreed and authoritative set of data on business finance demand and lending supply
13. **Enhance the cross-industry lending dataset** by broadening the statistics on lending available for wider bands of business activity; on lending to deprived areas; and on national and regional data on the provision of bank support to business start-ups
14. **Hold regional outreach events** throughout 2011 with business groups to enable business customers and business groups to meet with key staff from the banks to answer questions and explain what services are available
15. **Improve customer information** including a review of literature and other materials, so customers can more easily understand what products will best meet their needs
16. **Host a dedicated website** through the BBA to draw together and link useful sources of information to help customers access the most appropriate information. This will also connect mentoring networks
17. **Establish a Business Finance Round Table** where senior representatives from the banks and business groups meet regularly to discuss and review trends, identify emerging areas of concern, ensure problems are addressed and facilitate the implementation of the Taskforce initiatives.

### **11. How does the Lending code help small businesses?**

- The [Lending Code](#) sets standards of good lending practice in relation to loans, credit cards and current account overdrafts. The Code protects the following borrowing customers:
  - a consumer;
  - a micro-enterprise;
  - a charity which has an annual income of less than £1 million.
- A micro-enterprise is a business that employs fewer than 10 persons and has a turnover or annual balance sheet that does not exceed €2 million.



- The Lending Standards Board (LSB) recently commenced an independent review of the Lending Code and the Code will be updated in March 2011. Information on the review of the Lending Code can be found at <http://www.lendingstandardsboard.org.uk/news.php>.
- The current Lending Code may be useful for you to refer to in your dealings with your bank and the Ombudsman, and it can be found at <http://www.bba.org.uk/media/article/the-lending-code>.

## **12. Why do banks require a personal guarantee to secure an EFG loan?**

- Personal guarantees are standard features of commercial lending and we look to the lender to apply commercial rigours to lending decisions and to secure collateral from the borrower where appropriate.
- [Businesslink.gov](http://www.businesslink.gov) provides more information on [providing a guarantee on your loan](#) on its loan and overdrafts webpage.

# Access to finance

## 13. Where can I find information on venture capital funds?

- Equity finance is a way of raising share capital from external investors. The two main providers for equity finance are business angels and venture capitalist. [Businesslink.gov](#) provides a [guide to equity finance](#)
- Capital for Enterprise Limited ('CfEL') is the Government's principal centre of knowledge, expertise and information on the design, implementation and management of finance measures to support Small and Medium Size enterprises ('SMEs') across the UK.
- Information about the programmes and funds managed by Capital for Enterprise Limited ('CfEL') can be found at <http://www.capitalforenterprise.gov.uk/>. CfEL oversees a range of national funds including a programme of Enterprise Capital Funds who you can approach about their potential for investing in your business.

## 14. What support does Government provide for businesses in disadvantaged communities who are turned down for finance by the bank?

- The Government provides support for businesses or individuals who are turned down for finance by the banks via Community Development Finance Institutions (CDFIs). CDFIs have an important role in facilitating access to finance in disadvantaged areas and to disadvantaged groups. They provide loans to start-up businesses, individuals and established businesses that are unable to access finance from commercial banks.
- The Government has announced changes to the Enterprise Finance Guarantee (EFG) to make it easier for CDFIs to lend to a wide range of small businesses. The Government is also contributing to the European PROGRESS Microfinance Facility, which CDFIs can bid to support, and is currently developing the Big Society Bank, which will be established in Spring 2011.

## 15. What is a Community Development Finance Institution (CDFI)?

- [Community Development Finance Institutions \(CDFIs\)](#) are independent financial institutions, serving a specific disadvantaged geographic area or disadvantaged group (e.g. charities, non-profit distributing social enterprises or organisations supporting specific groups such as ethnic minorities).
- CDFIs provide loans to (sometimes referred to as micro-finance) start-up companies, individuals and established enterprises from within that area or community who are unable to access finance from more traditional sources i.e. banks. Enterprises supported by CDFIs are

nevertheless viable and benefit the community in which they operate, for example, in terms of jobs and services provided.

#### **16. Where do I go to find out if I can get a CDFI loan?**

- You may find it useful to approach a local Community Development Finance Institution (CDFI) who might be able to advise and guide you in accessing finance. CDFIs are independent financial institutions, they lend to start-up companies, individuals and established enterprises that are unable to access finance from mainstream banks. The [Community Development Finance Association \(CDFA\)](http://www.cdfa.org.uk) (the trade association for CDFIs) has details of local organisations on their website found at [www.cdfa.org.uk](http://www.cdfa.org.uk).

#### **17. How does Government support the CDFI sector?**

- The Government supports CDFIs in a number of ways:
  - Community Investment Tax Relief (CITR). CITR Accredited CDFIs are able to raise lending capital through the Community Investment Tax Relief (CITR). CITR scheme encourages investment in disadvantaged communities by giving tax relief to investors who back businesses and other enterprises in less advantaged areas by investing in accredited Community Development Finance Institutions (CDFIs).
  - Enterprise Finance Guarantee (EFG). Some CDFIs are also accredited Enterprise Finance Guarantee (EFG) lenders and CDFIs are able to borrow money through EFG.
  - The Government is also contributing to the European PROGRESS Microfinance Facility, which CDFIs can bid to support, and is currently developing the Big Society Bank, which will be established in Spring 2011.

#### **18. What else is the Government doing to help support Enterprise?**

- The Government also sees business as the driver of economic growth and innovation and urgent action is needed to boost enterprise and build a new and more responsible economic model. It is offering local areas the opportunity to take control of their future economic development. [Local Enterprise Partnerships \(LEPs\)](#) will be partnerships between local authorities and businesses and will play a key role in promoting local economic development.
- We announced a £1.4 billion [Regional Growth Fund](#) to help areas and communities at risk of being particularly affected by public spending cuts. The fund, which will operate in 2011/2012, 2012/2013 and 2013/14 will help areas most dependent on public sector employment as the country makes the transition to private sector-led growth and prosperity.

- Information on "[how to grow your business](#)" is found on BusinessLink.gov.

#### **19. Is the Enterprise Finance Guarantee (EFG) available to me?**

- The [Enterprise Finance Guarantee \(EFG\)](#) is a product offered by participating lenders only. It enables these banks and other specialist lenders to lend to viable small businesses that lack sufficient collateral or financial track record to secure a normal commercial loan. A list of participating lenders can be found on the [Businesslink.gov Enterprise Finance Guarantee webpage](#).
- The lender will typically assess the business against their normal commercial lending criteria for instance with regard to the viability of the business, ability to service the loan repayments, and availability of existing security, in order to determine which form of lending, if any, is appropriate.
- Where a lender determines that use of EFG is appropriate, each lender (usually via the lender's central EFG processing team), is provided with access to the EFG web portal through which they administer the EFG eligibility criteria, and through which they can check EFG eligibility at any point in the loan application process. An overview of the EFG application process is available at <http://www.bis.gov.uk/policies/enterprise-and-business-support/access-to-finance/enterprise-finance-guarantee>.
- However, there is no automatic entitlement to receive a guaranteed loan and nor is there any pre-qualification process for it. Decision-making on individual loans is fully delegated to participating lenders and are made on commercial terms. BIS plays no role in the application or decision making process.
- To ensure that more businesses have access to credit as the economy recovers, Government has announced a four year extension to the EFG scheme from April 2011 and subject to demand it will make over £2 billion available to viable small and medium sized businesses until 31 March 2015. During 2011/12 the EFG scheme will enable an additional £600m of commercial lending to around 6,000 SMEs who lack the credit history or collateral to secure a business loan.

# Dispute Resolution

## 20. How can I solve a dispute with my bank?

- An attempt should be made to resolve any dispute by the parties involved. Therefore, if a business wishes to pursue a complaint, the first recourse available to the borrower is through the lender's customer complaint procedure. The complaint procedure is available from the bank's website.
- If the matter is not resolved through the bank's complaint procedure, businesses with an annual turnover of less than two million euros or fewer than ten employees have the option of taking the complaint to the Financial Ombudsman Service at [www.fos.org.uk](http://www.fos.org.uk) or on **0845 080 1800**.
- Larger businesses might wish to seek legal advice if there is a contractual dispute.

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*These FAQs are found at: <http://www.bis.gov.uk/policies/enterprise-and-business-support/access-to-finance>*

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