



# Government Support for Business: Government Response to the House of Commons, Business, Innovation and Skills Committee Eighth Report of Session 2014-15

Presented to Parliament  
by the Secretary of State for Business, Innovation & Skills  
by Command of Her Majesty

March 2015





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## Summary

The Government welcomes the opportunity to address the issues raised in this report on Government support for businesses. We have considered the recommendations made by the Select Committee and our responses are set out in this document.

The Government recognises that small businesses are vital to economic growth and we continue to work hard to make the UK the best place to start and grow a business. We have listened to businesses and their representative organisations and much has already been done to address the findings of this report.

All businesses can find the support they need at [GREATbusiness.gov.uk](http://GREATbusiness.gov.uk), the single place to go for help from government, which is supported by a helpline and online tools. The Business Growth Service consolidates a range of government schemes that address specific market failures for ambitious growing businesses. The British Business Bank is up and running and has already provided over £1.5 billion of lending and investment, helping over 43,000 smaller businesses. UK Trade and Investment is leading a whole-of-Government effort in partnership with the private sector with the aim of doubling UK exports to £1 trillion by 2020.

Whilst we are proud of our achievements, we are not complacent. We will continue to monitor the effectiveness of our support offer and will continue to seek feedback from small businesses to ensure that our services can continually improve in line with what business needs.

## Traditional finance markets

***1. We have heard varying evidence about the availability of finance for SMEs. Given the importance of such access in supporting business, the Government should ensure it is drawing on the British Business Bank's expertise to maintain an overview of how the financial environment for SMEs is developing so that this information can be fed into policy development. The Government should work with the British Business Bank to establish whether regulation or funding is required to address the obstacles that businesses face when trying to access traditional finance. The Government should review and develop a comprehensive understanding of how these traditional finance markets are operating and, if necessary, it should develop new lending policies or models. (Paragraph 11)***

## Government response

- We agree with this recommendation. The British Business Bank commits significant resource to better understanding the specific market failures affecting smaller businesses in accessing finance and in monitoring the impact that its programmes have in addressing them.
- The British Business Bank has an ongoing programme of work in place to better assess where there are gaps in the market which includes market studies, policy evaluations, data development and longer term research.
- The recent publication 'Small Business Finance Markets 2014' provides an overview of this work, which feeds into work in BIS to improve small business access to finance.
- The British Business Bank can already demonstrate a capability in designing new products to respond to market conditions. For example, from the spring, the "Enable Guarantee" programme will encourage financial institutions to increase lending to SMEs by providing a guarantee on lending portfolios.
- The recent 'Help to Grow' pilot has been developed in response to a gap in the provision of finance to support small and medium sized business growth ambitions identified in this report.

## Alternative finance

***2. The British Business Bank may not be able to change the culture of the traditional banking sector, but it has had success in growing the market for alternative finance. The British Business Bank has a clear role to play in improving the coordination and administration of support for businesses to access alternative finance. The Government should work with the British Business Bank to improve signposting of available support as a matter of priority, developing a menu of alternative finance providers for each different area of financial support. (Paragraph 17)***

## Government response

- We agree with the recommendation. The British Business Bank has a strategic objective to “help ensure better provision of information in the market connecting smaller businesses and finance providers”. Initial work in this area has included the publication of the Business Finance Guide jointly with the Institute of Chartered Accountants in England and Wales in July 2014, which is available on the ‘GREATbusiness’ website. The guide outlines the sources of equity and debt advice available to businesses including signposting to other government support. A link to the report on the website has been circulated to over 600,000 business and 100,000 hard copies distributed.
- Provisions in the Small Business, Enterprise and Employment Bill require all major banks to refer declined small and medium sized business borrowers (who agree) to alternative lenders via online platforms. The British Business Bank is working closely with Her Majesty’s Treasury on implementation for the provisions for both bank referrals and credit reference agencies.
- In addition, the British Business Bank’s Investment Programme addresses long-standing gaps in the finance market for smaller businesses and promotes a greater choice in their supply of lending. This has provided extensive support to the alternative finance market, including innovation in financial services (also known as the FinTech sector).



## Enterprise Finance Guarantee

***3. While we heard a lot of positive feedback about the Enterprise Finance Guarantee scheme, we were concerned to hear that it included incentives for banks to use the loans as a tool for their liquidity, rather than to help businesses grow. We recommend that the Government takes note of the evidence that we received on this issue and reviews whether the scheme can be improved to prevent such perverse incentives that might see a bank choosing to foreclose a loan, rather than seeking solutions to keep the business concerned afloat. In its response to this Report, the Government should outline what actions it will take to address this issue. (Paragraph 21)***

### Government response

- The Enterprise Finance Guarantee, taken as a whole, is a valuable programme that helps viable businesses get access to finance where they have insufficient security or an inadequate track record. Since launch, the Enterprise Finance Guarantee has supported small and medium sized businesses by enabling over 23,000 loans with a total value of some £2.4bn (as at 31 December 2014) and has a significant wider economic benefit. Funding for up to a further £500 million of lending was made available for 2015/16 in the 2014 Autumn Statement.
- The Government Guarantee covers 75% of the Lender's net (post-recovery) exposure in the event that the Borrower defaults on repayment of their Enterprise Finance Guarantee-backed facility, with the Lender **sharing** the loss by incurring the remaining 25% of the (post-recovery) exposure. There is therefore no incentive on a participating lender to foreclose early on any borrower supported by the scheme. As is normal practice with a commercial loan, the Borrower remains fully liable for the entire outstanding debt at all times.
- We recognise however that there have been some instances of mis-selling based on the EFG. RBS has acknowledged its role in this matter and has made commitments to end this practice fully.
- The Enterprise Finance Guarantee is administered by the British Business Bank which closely monitors individual Lenders' use of the scheme via regular independent audits and through analysis of Enterprise Finance Guarantee-related complaints to the Banks and the Financial Ombudsman Service, ensuring that action is taken where improvements are needed.

## Green Investment Bank

***4. The Green Investment Bank has an important role in supporting the businesses that will drive the UK's transition to a low carbon economy. In order to ensure the continued effectiveness of its work, and to help bridge the current gap in overall levels of green investment, the Green Investment Bank will need borrowing powers. It is welcome that the Government recognises the potential utility of such additional powers. But the delay in coming to a decision on their introduction has been unhelpful. (Paragraph 29)***

***5. We recommend that the Government sets out plans to create borrowing powers for the Green Investment Bank in 2015–16. In its response to this Report, the Government should set out the steps necessary to introduce these powers, with an assessment of how long each step would take, so that action can be taken on this issue early in the next Parliament. (Paragraph 29)***

## Government response

- The Green Investment Bank (GIB) is a public limited company. As such it is a legal entity and could borrow money now should the Government consider this appropriate and choose to grant consent. No additional action is required to make borrowing possible.
- GIB has all the funding it requires for the period to March 2016. The Government has always intended GIB to be an enduring institution, including the use of borrowing. To this end, the Government is looking at a range of options for bringing private capital into the Green Investment Bank that could give it greater operational freedom and enable it to borrow from capital markets. We expect decisions on this matter to be considered as part of the next spending review.
- GIB does already have the option of borrowing up to £500 million of its £800 million funding allocation for 2015/16 from the National Loans Fund. This would allow GIB to demonstrate it can operate profitably on the basis of borrowing capital at a commercial rate and lending on at a margin.

## UK Trade and Investment

**6. The performance of the UKTI should be judged against impact as well as awareness, with the long-term benefit to the UK economy being a fundamental driver for this organisation. (Paragraph 37)**

### Government response

- UKTI already has in place its Performance and Impact Monitoring Survey (PIMS) to measure the effectiveness of its work and to ensure the quality of its services.
- PIMS is a valuable performance measurement and monitoring mechanism which ensures that UKTI can assess the value its trade services deliver for its business customers and the UK economy, and understand the impact of its services on its customers. PIMS also allows for effective performance management across all trade services.
- PIMS is a client interview survey that provides evidence for the quality of service UKTI provides to business. It is completed by an independent market research company specialising in business surveys, with the PIMS survey being based on telephone interviews with a sample of users of UKTI's services.
- Further details can be found at <https://www.gov.uk/government/collections/uk-trade-investment-performance-and-impact-monitoring-survey>.

**7. We welcome the Government's ambition for UK exports to reach £1 trillion by 2020. However, we are not convinced that this is a target the Government expects to meet. The Government should provide clarity about whether this is an "energising aspiration" or a serious objective. If the latter, it should provide projections for how we should expect exports to grow over the next six years, given current predictions for the broader economy. It should then report progress against these projections each year in its annual review. (Paragraph 37)**

### **Government response**

- The £1 Trillion is an aspiration, which drives ambition and commitment across the whole of Government to increase the UK's exports and global competitiveness. Of course the value of exports depend heavily on external factors which influence trade flows.
- 
- As one of the most open trading economies in the world, Britain is not immune to the risks in the global economy. The whole of Government is maintaining a focus on driving an increase in exports, creating the right conditions for economic growth including promoting UK products and services overseas developing the supply chain for export and inspiring more businesses to export and explore new markets.
- UKTI published a report "2020 Export Drive" in December 2014 which sets out what the government is doing in order to meet this aspiration. It is available at <https://www.gov.uk/government/publications/2020-export-drive/2020-export-drive>.

## UK Export Finance

**8. There is no doubt that UKEF's activity is increasing. However, this increase is measured from a low baseline. In 2013–14 only 94 SMEs were supported through this scheme, out of a population of 4.9 million. There is a risk that SMEs, the very businesses that the support of UKEF could be most beneficial to, may be those which are excluded by the apparently complex nature of its products. (Paragraph 43)**

**9. There is potential for UKEF to engage more effectively with SMEs. We recommend the Government undertakes an assessment of potential demand and review how this scheme is marketed to SMEs, which should include consideration of the role of trade associations in raising awareness of this facility. In addition, we would expect the support offered via the UKEF to be included in a menu of financial services developed by the British Business Bank and Growth Hubs. (Paragraph 43)**

## Government response

- UKEF (the name that ECGD now operates under), was only given a wider mandate to reach exporters selling goods on short terms of credit (e.g. consumer durables, light manufactured items) in 2011. It launched a range of new products accordingly, targeted mainly towards SMEs and has been reorganised to deal with these new activities, working closely with UKTI to reach this new client base.
- It has been the policy of successive Governments that UK Export Finance (UKEF) complements the private market and does not compete with it. UKEF's products and services come into play when exporters are unable to obtain insurance and finance solutions from the private sector. Therefore, the willingness and capacity of the private sector to assume risks determines, at any one time, the interventions that may be required of UKEF, to bridge that market gap.
- As the effects of the financial crisis subside, the hope has been that the private market could meet the needs of the vast majority of exporters. Should it appear that access to finance problems persist, a review will be carried out as to UKEF's future role in filling that market gap. Potential demand will, inevitably, vary from time to time according to the ability of the private market to provide support.
- The Government recognises the importance of UKEF making itself known to the exporting community, especially small and medium sized businesses who tend to find it the most difficult to access private market support, so that companies are (i) aware of UKEF and its products and services and (ii) can turn to it to seek help when private market support is unavailable.

- The potential business population that could benefit from UKEF support is not 4.9m businesses. Those that are exporting, or have the potential to export, is significantly smaller – UKEF estimates that around 2-3,000 smaller businesses in the UK could require its support over the next three years.
- UKEF has invested considerable resource in raising awareness of its products and services: recently, a wide-scale advertising campaign has been conducted; more broadly, it is marketing itself through various channels including third parties for example Chambers of Commerce, Trade Associations, accountancy and law firms which have a multiplier effect in reaching as wide an audience as possible.
- The Government accepts that the availability of UKEF's products and services should be aligned and marketed alongside other sources of help that is offered to exporters by government. It is working closely with UKTI, the British Business Bank, the Business Growth Service and others, so that from the exporter vantage there is coherence in the range of help that is available, from whom it is available and how it can be accessed.
- It works very closely with the banks with which it partners to deliver support to UK exporters and, in that regard, has recently developed a toolkit to assist bankers across the country to know and understand how UKEF can help their customers. UKEF has also expanded the number of its Export Finance Advisors based across the UK who can provide support at the *local* level and engage *directly* with exporters to help them to understand the choices open to them in relation to trade finance and payment risk protection when doing business overseas.
- Work is also in hand to simplify product documentation and the associated processes and procedures to make it easier for exporters to access such support and also to reduce the time to take decisions so the support is delivered within the commercial timescales required.

## **Manufacturing Advisory Service**

***10. We agree with the Minister that reducing organisational barriers between business support organisations such as the Manufacturing Advisory Service, GrowthAccelerator and UKTI would help manufacturers access a better quality advice offer. In the response to this report, the Minister should set out the practical measures he is undertaking to achieve this, alongside an explanation of how progress bringing these two organisations together will be monitored. This merger should be carried out in a manner that ensures continuity of service to the businesses using UKTI and MAS. (Paragraph 49)***

### **Government response**

- In December we launched the Business Growth Service which consolidates GrowthAccelerator and the Manufacturing Advisory Service and schemes from the Intellectual Property Office (IP Audits) and the Design Council (Design Mentoring) into a single service. Export support in the service is provided by UKTI and UKEF. The service is closely linked to InnovateUK and the British Business Bank. The benefits to business from this integrated approach include:
  - Effective and tailored solutions in a bespoke support package, not 'one size-fits-all';
  - A single point of contact, connecting businesses with all of the expertise they need – from developing better sales strategies to advice on export, marketing and operations;
  - Clear and consistent branding so businesses recognise and understand the support available from government;
  - Joined up marketing to increase awareness and take up and ensure businesses are not approached multiple times in an uncoordinated way;
  - Alignment with local growth hubs so local, national, public and private support can be accessed in one place;
  - Consistent and improved evaluation so that the service can be continually improved in line with what businesses need.

- There are a set of contractual performance indicators for the Business Growth Service that measure (i) economic impact in terms of Gross Value Added (GVA) and jobs created; and (ii) business satisfaction with the quality of referrals between organisations, the overall relationship management and the support received. By March 2017 it is expected that the service will have provided intensive advice to 20,000 firms, supporting them to create an additional 50,000 jobs and £2bn of GVA.
- We are ensuring continuity of service, at the same time as implementing these improvements. UKTI will continue to provide export advice and support to the full range of companies at all stages of their export journey; and manufacturers using the service now have access to a wider range of interventions, which will be tailored to meet their specialist needs by expert manufacturing advisers.

### ***Advanced manufacturing supply chain initiative***

***11. The Minister should report back to us with the results of his evaluation of the Advanced Manufacturing Supply Chain initiative when it is published in March 2015. This evaluation should pay particular attention to the extent to which the programme has supported SMEs. Lessons learned as a result of this process should be fed into the design of forthcoming supply chain initiatives. The Minister should write to us with an action plan when the review is published. (Paragraph 52)***

### **Government response**

- We agree to report back on the main findings of the Advanced Manufacturing Supply Chain Initiative evaluation, including any lessons learnt for future schemes, once we have reviewed the published reports. The process evaluation report will be published in March. The scoping report is currently undergoing peer review prior to publication and the initial additionality report is being finalised. These three reports form the evaluation of AMSCI and we anticipate developing an action plan to address the recommendations from these reports by June 2015 should publication run to anticipated timeframe.



## Local and national business support systems: the role of LEPs and Growth Hubs

**12. The Government has a role in supporting LEPs to ensure they operate to a high standard across the board. (Paragraph 60)**

### Government response

- The Government is working with LEPs to ensure that they operate to a high standard. Each LEP receives core funding and has a dedicated relationship manager in BIS. Government already works with LEPs to promote best practice and develop capability and provides funding to the LEP Network to do the same.

**13. The Government should step up its work in coordinating best practice amongst LEPs and Growth Hubs in order to make the most out of this system. We therefore recommend that Government makes specific commitment to raise standards across the LEP system, by undertaking an audit of both LEP's and Growth Hub's best practice, which should include an assessment of the extent to which limitations on available Government funding are responsible for poor performance. We further recommend that, where funding is an issue, and there are potential alternative sources available, the Government should encourage LEPs to be innovative in their efforts to secure further funding. The performance of Growth Hubs also needs to be monitored and assessed to ensure they are meeting the needs of businesses in their local area. (Paragraph 60)**

### Government response

- The Government has already created a comprehensive evaluation framework for the Growth Hubs that were funded through City Deals in 2014/15. This work is underway and is being led by Lancaster University. A report will be published by the end of July 2015 that will include a summary of performance and impact together with an overview of best practice and innovation. Government is also encouraging peer-to-peer learning through a BIS facilitated growth hub network that will help to diffuse best practice.

- Performance will continue to be monitored and assessed by both Government and LEPs to ensure that they are meeting the needs of business and creating a simplified business support landscape. All Growth Hubs will produce a further Annual Report of performance by 31 March 2016, using the framework developed for the City Deals as a basis.
- The Government has made funding available through Growth Deals to support Growth Hubs in 38 LEPs in 2015/16. BIS is also actively working with LEPs to explore other potential routes for securing future funding in order to ensure the ongoing sustainability of growth hubs.

## A single point of contact

**14. There was clear demand in this inquiry for a single port of call that businesses could contact to be directed to the support that they required. The Government launched the Business Growth Service during the course of this inquiry, with the intention that this service would fulfil such a role. If the Business Growth Service can be developed into that single port of call, then it will be a valuable addition. If not, then it risks becoming another complication in an already intricate system. We have not seen evidence to suggest that there was an awareness amongst businesses that this service was being introduced. The Government has an obligation to make this new service valuable and effective. (Paragraph 63)**

## Government response

- All businesses can now find the support they need at GREATbusiness.gov.uk, the single place to go for help from the government, which is supported by a helpline and online tools.
- For businesses with the right level of ambition, capability and capacity to improve and grow, the Business Growth Service consolidates Government services for growing firms and provides all the support they need through a single point of contact. This complements support from UKTI for exports and the British Business Bank for finance.
- Businesses can access both national (including the Business Growth Service) and local support through their local growth hubs.

**15. In its response to this Report, the Government should outline the steps it has taken, or will take, to ensure businesses are aware of, and make use of, the Business Growth Service. (Paragraph 63)**

### **Government response**

- The Business Growth Service is part of the wider ‘Business Is GREAT’ campaign, which brings together all government marketing to business under one banner, so they can recognise and understand the support available.
- BIS also works in partnership with local growth hubs, banks, accountants and other trusted intermediaries to ensure business can connect to the government support they need, wherever they turn to for help.

## Complexity and policy design

**16. Despite the Government's desire to create a simple and effective business support offer, the support landscape remains complex and difficult to navigate. This hinders its overall effectiveness. It also dilutes the Government's ability to track the efficacy and value for money of each new initiative and to measure their performance. If the Government had a better handle on what each scheme was aiming for, the results it should bring about and where the gaps in business need were, then it would be able to make its overall offer more effective. A more robust understanding of desired outcomes and value for money would support the development of this policy area. (Paragraph 68)**

**17. The Government should undertake a regular needs analysis to ensure its support offer is genuinely addressing areas of market failure and business need. We therefore recommend that the Government ask the NAO to audit the value for money of the schemes it offers at present. (Paragraph 68)**

## Government response

- BIS firmly believes that sound evidence from monitoring and evaluation is a key element of effective policy making and is committed to develop a rigorous approach to evaluation. There are four elements that will help deliver this vision:
  - Ensuring that all of our key policies and programmes are subject to robust monitoring and evaluation, and that there is a positive culture where findings are taken into account when developing and implementing policies;
  - Putting in place the right internal structures and governance to ensure that robust monitoring and evaluation is delivered even in challenging circumstances;
  - Building capability in both the analytical and policy professions to carry out and commission high-quality evaluations; and
  - Having independent and transparent quality assurance of evaluation findings, so that stakeholders can have confidence in the monitoring and evaluation of BIS policies.

- Full details are set out in the evaluation strategy published in December 2014. Steps already taken include the appointment of an external peer review panel, comprised of independent experts on evaluation, who will advise at each key stage of evaluation projects and peer review all BIS evaluations before publication. BIS is also adopting more robust evaluation methodologies and is developing its data collections on business and small enterprise.
- This is perhaps most clearly demonstrated by the Growth Vouchers Programme where a Randomised Controlled Trial, the 'gold standard of approaches to identifying the causal impact, will provide robust evidence on the market failures affecting businesses use of external advice.
- The Department also invests in wider research to inform policy making. The research strategy published in September 2014 outlines several projects that will improve our understanding of the needs of small and medium sized businesses. BIS part funds the Enterprise Research Centre (ERC), which is an independent research centre conducting policy-relevant research on what drives small and medium sized business growth. In addition we support the What Works Centre for Local Growth.
- BIS does not see any value in asking the NAO to examine its programmes at this time. The Ministerial Star Chamber has only recently conducted a detailed review of the value for money of national business support programmes and BIS is in the process of implementing changes in response to their recommendations. The improvements being made to evaluation have been informed by a NAO review of BIS's approach to evaluation and monitoring that was published in June 2013. The What Works team are currently working with us to identify further recommendations.
- The changes being made to evaluation and monitoring will provide BIS with ever more robust evidence on whether its schemes are genuinely addressing market failures; but in many areas evidence will take time to collect. We therefore question whether a further audit is needed; the resource required to support the activity would be better deployed in continuing to deliver on our vision.

## Long-term stability in business support

***18. The Government should seek to establish cross-party consensus to ensure that its offer of support for businesses reflects business need. This means that points of information about or access to the support available should remain consistent. The Government should strive to improve the schemes in place and make them flexible enough to meet business needs, rather than engage in continuous revolution of the system. (Paragraph 70)***

## Government response

- BIS' work to simplify its offer of support to business was in response to direct feedback from business. We have driven these changes at a national level through the development of the GREAT website and improvements to GOV.UK, and consolidation of successful advice schemes into the Business Growth Service.
- We are also working in partnership with Local Enterprise Partnerships to simplify how local and national business support can be accessed through growth hubs.
- BIS firmly believes that sound evidence from monitoring and evaluation is a key element of effective policy making. It is committed to develop a rigorous approach to evaluation, with significant progress in recent years and further measures being introduced as set out in the evaluation strategy it published in December 2014.
- This improved approach to performance management and evaluation, alongside regular feedback from business, will ensure that government support continues to evolve to meet the changing needs of business.

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