



National Audit Office: Department for Business, Innovation and Skills – Support to business during a recession

Economic activity began to contract in the United Kingdom around April 2008 and has since seen a 6.2 per cent decline, the largest cumulative fall since 1955. The situation worsened in late 2008 and early 2009 as it became evident that the economy was suffering from deteriorating confidence in the financial markets and the associated contraction in the availability of credit.

Against this backdrop, the Department for Business, Innovation and Skills (the Department) considered the economic situation risked damaging fundamentally viable businesses which were experiencing acute difficulties raising short-term finance for working capital needs. Between November 2008 and April 2009 it launched a series of schemes under the 'Real Help Now' brand. The announcements offered over £20 billion of help to improve businesses' access to either equity or debt finance and to support the automotive sector.

Scope and structure of the report

This report describes the measures taken by the Department to support businesses through the recession. It describes what support schemes were put in place and how effectively it conceived, designed and implemented them. It forms part of a wider body of National Audit Office work into the Government's handling of the financial crisis and support to business, including reports on: *The nationalisation of Northern Rock; Maintaining financial stability across the banking system; Venture Capital support to small businesses; and Consumer over-indebtedness.*

This report comprises two parts:

- Part 1 examines the economic context, why the Department felt it should intervene, and how it provided support; and
- Part 2 focuses on whether the Department responded quickly, with targeted support at a reasonable cost.

It is too early to assess the full impact of the schemes on businesses, and the economy, as a wide range of factors are involved, including the support offered by other departments. A full evaluation can only come when the schemes close, and an assessment of the sustainability of benefits is conducted. This report therefore does not evaluate the success of individual schemes but is an early assessment of the design and set-up of six business support schemes, drawing out thematic issues. It also does not consider schemes operated by other departments.

Key findings

The Department's implicit objective was to raise consumer and business confidence by providing, up to December 2009, a mixture of direct subsidies (£219 million), loans (£21.7 million) and guarantees (£2.8 billion). It also collected £11.5 million income from fees charged and used them to offset estimated administrative costs of £4.7 million and any future liabilities.

What the Department did well

In late 2008, the Department quickly pulled together economic data and feedback to diagnose challenges to business. It did not have reliable economic indicators on which to base its decisions as these are usually compiled some time after the period to which they relate, so the Department relied upon direct feedback from business and other parts of Government.

The Department opted to respond quickly rather than spend time perfecting its policy which was appropriate in the circumstances. Support reached businesses between three and 35 weeks after announcement. Most schemes were up and running by the second quarter of 2009. Three of the schemes (Capital for Enterprise Fund, Working Capital Scheme and Automotive Assistance Programme) took relatively longer to implement which reflected: the longer-term nature of the support; more complex application processes, including the need for due diligence; and the requirement for third party agreements such as banks and, in some cases, the European Commission.

Scheme management was generally good although formal arrangements were not in place from the start. The Department established operational arrangements including: systems to process applications and data; supporting governance structures; a way to monitor and report risks and performance; and a means to manage delivery partners.

Protecting the taxpayer was a central feature of scheme design.

The Department and Treasury sought to identify and manage risk. Where they felt the risks were greater, or there was less certainty surrounding them, they took a more conservative approach, for example, in pricing products, capping liability and limiting eligibility. This may have reduced the number of businesses that could be supported. An exception to this is the Vehicle Scrappage Scheme, where departmental analysis forecast that it would provide a net economic loss and was unlikely to represent good value for money in the longer term. The Minister directed the Department to continue for a number of reasons, including that extra purchases made while the economy was suffering were worth more than those when the sector had recovered and the risk of doing nothing outweighed the costs.

What the Department could have done better

The Department began to think strategically in autumn 2008 about its likely response to supporting business in a downturn. It was monitoring signs of financial market problems and gathering intelligence on individual business sectors and regions from summer 2007. But it only began developing its response in October 2008; for example, it did not use the monitoring information to develop business support options or consider the consequent resource implications for the Department until the months preceding scheme launch.

The Department did not articulate what it intended to achieve overall with its package of support, leading to a series of individual actions, rather than a coherent, structured programme. The schemes, when taken together, lacked at the outset overarching objectives though the NAO recognise the implicit aim to improve business and consumer confidence. Individual schemes also lacked clear objectives, suitable key performance indicators and budgets and targets were not always supported by strong evidence.

The Department estimates it has directly assisted 6200 businesses across the six schemes but is not able to say how many have been assisted indirectly. Some schemes fund intermediaries rather than business directly; for example, they support banks to increase lending to business or car dealers via manufacturers. As a result, the overall figure for the number of businesses assisted will be higher but no firm figure is available.

Business take-up for the six schemes varied and was, on average, lower than expected. This reflected the Department and Treasury's approach to risk and ambitious levels of support which proved unrealistic.

It also reflected the Department's varying business sector knowledge, the extent to which support could meet immediate needs, and the nature of communication with the target audience:

- The Department's pre-existing sector knowledge helped quicker delivery in the case of the Enterprise Finance Guarantee Scheme, which was an extension of a pre-existing scheme; and the Vehicle Scrappage Scheme which benefited from overseas experience of similar schemes. Conversely, the Department had very little experience in the banking sector (which was also subject to support from the Treasury) and the trade credit insurance markets making it more difficult for it to judge the action needed, and the likely take-up, of the Working Capital and Trade Credit Insurance Schemes.
- Some schemes were positioned as offering immediate help but actually serve a medium to longer-term need. The Capital for Enterprise Fund, for example, offers investment to replace debt and requires substantial due-diligence and long-term commitment.
- The Department used the Business Link and realhelpnow.gov websites to provide online scheme information but both had relatively low awareness amongst business. Some businesses found it difficult to access clear information on the nature of available support and where to get further help and advice. There were, however, good examples of direct communication once the schemes were under way, for example in the Automotive Assistance Programme.

The Department is not able to clearly identify how much it spent running the six schemes, although it estimates it is approximately £4.7 million, all of which is designed to be covered by income collected. The NAO found a lack of clarity and consistency in how the Department recorded and allocated staff, and consultancy costs to the schemes.

Conclusion

The Department needed to act quickly and was under considerable pressure to offer targeted support to business in response to the recession without exposing the taxpayer to unnecessary risk. In the absence of timely and robust economic data, the Department prioritised a fast reaction over rigorous planning and policy assessment. Under the circumstances, this approach was appropriate.

The Department, and Treasury, protected the taxpayer and, to date, few guarantees or loans have been called and most application processes and controls have worked effectively. Business take-up of these schemes has been mixed, for a number of reasons including high pricing offered by this conservative approach to risk, and also due to the suitability of the support, driven by the Department's limited pre-existing knowledge of some of the areas supported.

The Department did not, however, define sufficiently what it wanted to achieve from the programme as a whole or the individual schemes. The Department's impact could have been improved by thinking through how it might respond at an earlier stage, setting clear programme and scheme objectives, and more consistent recording of benefits and costs across the scheme to better enable measurement of value for money. With this in mind our recommendations are targeted at short-term actions and longer-term considerations.

Recommendations

These recommendations take account of the challenges which the Department faced in creating the measures under pressure, and are framed as immediate actions and lessons for dealing with future crises.

Short-term

Many of these schemes are at, or near, the end of their effective operation but the economic recovery is fragile and, therefore, the process for running-down the schemes needs to be thought through. The Department is giving consideration to these issues.

In doing so, it should:

- determine the circumstances under which it will extend existing, or introduce new, support particularly if recovery stalls or worsens. In exiting schemes, it should consider the effect as support is withdrawn;
- but before doing so, articulate an overall programme-level objective and success measure in order to guide decisions on the exit process.

Longer-term

While the NAO recognise it is not possible to predict with certainty the direction of the economy, the Department had not thought through how to deal with the effects of the credit squeeze and subsequent recession. This led to a reactive approach to developing support. The Department should review its approach to dealing with this recession and share lessons internally, and across Government. The NAO expect the Department to develop an infrastructure to identify, assess, prioritise and, where appropriate, mitigate any systemic shocks which might affect businesses; this should include an assessment of sectors where it may lack expertise or information.

The Department does not have an accurate picture of how much it spent running each scheme. The Department should review its resource management system and procedures including using cost centres to accurately and consistently measure programme and project costs. This should include, but not be limited to: staff, consultancy, and delivery partner costs for policy initiatives.

Part One

Responding to the recession

This part provides context on what motivated the Department to react, and the support it offered.

The economic situation

Economic output in the United Kingdom began to contract around April 2008 and has since seen a 6.2 per cent decline, the largest cumulative fall since official records began in 1955. Economic indicators worsened in the second half of 2008 and it became evident that the economy was suffering from the collapse in the financial markets and the consequent credit squeeze. Evidence of this rapid change in economic climate is now apparent in a range of economic indicators such as net bank lending, manufacturing output, and business investment.

The deepening recession affected many businesses, particularly small and medium-sized enterprises (SMEs).

Businesses reported:

- difficulties getting credit, more restrictive overdraft conditions and increased costs to lending delays in receiving payments leading to cashflow and liquidity problems which impacted on business operations such as the ability to pay bills; and
- falls in demand for goods and services, particularly high-value items.

The economic situation, tough trading conditions and difficulty with raising both debt and equity finance caused a sharp fall in business confidence. The rate at which the economy was changing put pressure on the ability of even well-run businesses to adjust.

The Department's motivation to act

The Department for Business, Innovation and Skills (the Department) has a series of Public Service Agreements which include: delivering the conditions for business success within the UK, raising the productivity of the UK economy, and improving the economic performance of all English regions.

The Department believed the economic situation during late 2008, in the immediate wake of the collapse of Lehman Brothers in September, and the wider banking crisis in October, risked the collapse of businesses which were fundamentally sound, due to difficulties covering working capital requirements. It considered this inability to raise short-term loan finance to be a market failure which, if unchecked, could have far-reaching consequences for the economy. For example, individual banks acting rationally would reduce or remove credit to a business, and, if all banks did this there would be a risk that businesses could not settle debts which would, in turn, affect other businesses.

Deciding what was needed

There was no pre-existing plan within the Department to deal with a recession. The Department was monitoring the credit crunch and impact on business sectors from 2007. In October 2008 it established an Action for Business team, made up of officials, to coordinate its response. Initially, its work involved horizon-scanning and information-gathering to identify common issues affecting business and provide early warning of significant corporate difficulties. In the same month, the National Economic Council, a ministerial committee, was established to coordinate economic policies across Government and discuss micro-economic interventions related to business, housing and jobs policy.

Whilst it was clear that economic prospects and business confidence were dented by the global crisis in the banking sector, there was still uncertainty about the precise impact on different sectors of the economy. Reliable indicators of economic performance tend to be compiled some time after the period to which they relate. In the rapidly changing circumstances of late 2008, the Department could not wait for publication of routine economic data and found itself reliant on whatever it could obtain from the business sector, including feedback from business groups, the Department's business sector teams and reports in the media.

In November 2008, it set up a business intelligence group which included all departments with a business interface and Jobcentre Plus. The information received could not be conclusive about what was happening at the time but was judged to be the best available to enable the Department to take pressing decisions.

The Department began work to identify the circumstances in which it could justifiably provide support, the nature of the support that might be offered and how it might be implemented. In late November 2008, it considered a range of possible short, medium and longer-term options. The Department did not wish to support businesses that were clearly not viable but considered that, if possible, it should try to support businesses that were otherwise fundamentally sound. In deciding what to do, it considered, to varying degrees, the extent to which the interventions would affect market competition; lead to unintended consequences; expose the public sector to risk; and maximise the impact of support.

The Department also considered how it might respond if a significant business entity were to be at risk of collapse. It drew up criteria to govern its assessment of any request for assistance and began monitoring large individual entities that might be at risk.

The intervention criteria, approved by the National Economic Council, included the following conditions, all of which had to be met before support could be offered:

- Government financial support should be seen as a last resort.
- A market failure should be identified which justifies Government intervention.
- The business being considered must be potentially viable.
- The business being considered must either be a supplier of a critical service that cannot easily be replaced, or its collapse would cause significant problems in the labour market.
- Providing support is affordable, does not have a disproportionate impact on competition, or have a disproportionate risk of moral hazard.

The range of support provided

Between November 2008 and April 2009, the Department and Treasury announced a range of support measures for business. These arose as a series of individual actions, rather than a coherent, structured programme with an overall objective. The Department recognised that the package of support, potentially worth up to £20 billion, was limited compared to the size of the economy and therefore would need to be targeted where it might have greatest effect.

The measures were therefore focused in two areas:

- Improving businesses' access to finance particularly small and medium-sized businesses, through the provision of loan guarantees to banks, investment and trade credit insurance cover.
- Support for the automotive sector through the provision of loan guarantees and incentives for consumers to trade-in older vehicles for new vehicles. Support was launched in response to: evidence of a sharper downturn in this sector compared to other manufacturing sectors; concerns for the impact on a capital-intensive industry with significant employment in specific localities; tightening emissions targets, which would require investment to meet; and similar schemes already launched by other countries.

The Department considered providing support to other sectors and concluded that they would be helped through the general stimulus packages or were already supported through other means, for example, the construction industry through 'Kickstart', a Department of Communities and Local Government scheme to help re-start stalled housing projects.

Alongside this direct support, it worked with the Regional Development Agencies and Business Link to roll-out regional support and tailored advice.

The support measures taken forward by the Department formed part of Government's wider response to the recession under the 'Real Help' brand including, for example:

- A Business Payment Support Service to help viable businesses facing temporary financial difficulties to spread their tax payments over an agreed timetable. As at the end of February 2010, the service had supported over 160,000 businesses, spread over £5 billion of tax with £3.9 billion already paid.
- A business rate scheme allowing businesses to defer part of the 5 per cent increase in business rates. Companies can defer up to £650 million-worth of business rates.
- Schemes where banks, in receipt of Government support, agreed to lending commitments to businesses and private individuals.
- A Prompt Payment Code to tackle late payment and encourage businesses to pay suppliers on time. Businesses voluntarily sign-up. By the end of December 2009, 645 businesses, health bodies and local authorities had signed up and average payment times had reduced by around 10 per cent since December 2008 across all businesses.
- Other schemes designed to help individuals and communities in need.

Part Two

Implementing the support package

This part of the report assesses the timeliness, quality and costs of the support schemes.

In implementing the support package, the Department had to balance the need to act quickly against the need to develop and deliver a package of support that reached the target audience, was well-managed, had the desired impact and protected taxpayers' interests.

The speed of the Department's response

The Department judged that the rapidly changing economic climate required speedy implementation of support to maximise its value to business. It established a series of teams to manage the delivery of individual schemes, drawing upon external expertise where it was judged

necessary. The Department had to: develop procedures and systems to support operation of the scheme including clear eligibility criteria; confirm that the proposal complied with European Union state aid requirements; establish contracts with potential delivery partners; seek feedback where appropriate, from the business sector on the proposed approach; put in place effective information and financial systems and controls; and decide, and action, the most appropriate marketing and communications strategies.

Once the schemes were announced, evidence suggests the Department acted quickly to implement them. For example, the first car under the Scrapage Scheme was delivered within four weeks of scheme announcement. In practice, development of the schemes had started some time before the announcement date.

The first loan under the Enterprise Finance Guarantee Scheme was signed within two months of announcement. Evidence suggests a fairly rapid implementation from launch on 14 January 2009. In January, 100 eligible businesses had expressed interest, 47 of which went on to take out a loan. By the end of October, 5110 businesses had received loans worth some £508 million. A departmental survey of 385 businesses offered scheme-backed loans up to September 2009 found that around a quarter of successful applicants received an offer of a loan within one month of an initial enquiry, but 39 per cent waited more than three months. The survey indicates that adverse effects such as delayed payments to creditors and subsequent loss of suppliers were felt most acutely by firms seeking working capital and only half felt that the loan was quick enough for its intended purpose. However, none of the interviews indicated that their business was very likely to close as a result of these delays. The speed of the overall lending process has improved over time. In January-February 2009, 44 per cent of businesses surveyed said it took more than three months to receive an offer but this reduced to 9 per cent by May-July.

The Scrapage scheme started to take qualifying orders the day after announcement. Below shows progress from launch to December 2009.



In contrast, three schemes took longer to get started. The Working Capital Scheme was a new scheme in the banking sector, where the Department had limited experience. Legal agreements had to be negotiated with the participating banks, new powers obtained through the Banking Act 2005, and state aid approval obtained from the European Commission.

The Capital for Enterprise Fund, which provides capital support to small businesses with growth potential, is a long-term investment and comparable with other commercially-run funds requires 'due diligence'. It could not, therefore, be categorised as providing immediate support to business. Announced in November 2008, firms were able to register interest and applications from January 2009 while fund managers were appointed in March 2009. The first investment was completed in July 2009. By 31 January 2010, Capital for Enterprise Ltd, the company responsible for establishing the scheme, had overseen the investment of a third of the fund's value compared to 8 and 13 per cent in an equivalent period for two similar sized funds. It will take some years before it is known if investments are profitable.

The Automotive Assistance Programme aims to ensure continued investment in developing green technologies and has an application and investment appraisal process before offering loans or guarantees. These took time to implement. The programme made two offers of support in 2009 which were not taken up and announced two further offers in mid-March 2010.

The following section identifies several factors that appear critical to developing and implementing schemes quickly.

Factors contributing to the delivery of support schemes

External pressure – The rapid deterioration of the economy, calls from the industry, Ministers and the wider public, created significant pressure to press ahead.

Pre-existing infrastructure – The Enterprise Finance Guarantee built on the infrastructure from the Small Firms Loan Guarantee scheme which was running since 1981. For the Capital for Enterprise Fund, the Department's delivery partner Capital for Enterprise Ltd, had experience of operating and investing through venture funds and was able to use this in developing the fund.

Learning from the experience of others – Departmental staff sought the advice of international colleagues during development, for example, similar schemes to Vehicle Scrapage had been developed in other markets.

Expertise of staff – It took time to establish teams of sufficient size and expertise to develop and run the schemes. Some schemes, such as the Automotive Assistance Programme, benefited from pre-existing knowledge and relationships with the sector as well as flexible resourcing, accessing project management staff via a central department 'project pool'. The Trade Credit Insurance team benefited from secondments within Government.

Commitment from staff – A range of external stakeholders gave examples of strong leadership and hard work by departmental staff in trying to deliver effective support schemes.

Reaching the target audience

The Department estimates it has directly assisted around 6200 businesses across the six schemes but is not able to say how many have been assisted indirectly. Some schemes fund intermediaries rather than business directly, for example, banks to increase lending to business (Working Capital Scheme) or car dealers via manufacturers (Scrapage Scheme) which make consistent measurement difficult. The number is likely to be higher but no firm figure is available.

The Department has measured scheme outputs, and take-up across the schemes is mixed. For two schemes, Vehicle Scrapage and Enterprise Finance Guarantee, the Department's initial expectations were either met or exceeded. At the other extreme, the Trade Credit Insurance Scheme and Automotive Assistance Programme have been little used in this period. In some cases, the headline levels of planned support proved unrealistic because they were not always developed on a strong evidence base. Announcing such high numbers may have been an approach to lift confidence but it raised expectations as to what was achievable and created pressure to deliver.

Whilst the issues affecting the take-up of individual schemes were complex, our work identified four key themes that are likely to have affected performance:

- The Department's knowledge of the market prior to the crisis. The extent to which the Department was familiar with the market and had already built relations with key stakeholders.
- The extent to which support intended to meet immediate needs could indeed do so. In practice a number of the schemes were only ever likely to provide support in the medium-term.
- The nature of communication with target audience, particularly through electronic media.
- Risk management. The level of risk which the Government was prepared to accept may have affected scheme attractiveness and, therefore, take-up.

Knowledge of the market

For three schemes, the Department benefited from its previous sector knowledge and involvement:

- **Enterprise Finance Guarantee** – The Department and Capital for Enterprise Ltd had long experience of running the previous Small Firms Loans Guarantee Scheme. As such, it was in a position to understand the strengths and weaknesses of the previous scheme and how it might be adapted quickly to suit the new circumstances.

The Department had well-established contacts with key players, including banks and business representatives, and could build on existing infrastructure. Business representatives the NAO interviewed praised the willingness of officials to listen and react quickly to feedback.

- **Capital for Enterprise Fund** – Capital for Enterprise Ltd drew upon its expertise and knowledge of overseeing public support for venture capital funds to design and set-up the new fund with private sector fund managers on an accelerated timetable.
- **Vehicle Scrappage** – Although the Scheme was new, the Department could draw upon its history of contact with the sector. The Department was also able to learn lessons from scrappage schemes established in other countries. Our work suggested officials put significant effort into drawing upon these experiences and, in terms of implementation, successfully avoided some of the pitfalls encountered elsewhere.

In contrast, the Department had virtually no prior knowledge of the trade credit insurance sector. The Trade Credit Insurance Scheme was developed in response to concerns from businesses that the contraction in the trade credit insurance market would impact on their supply chains. By the time the scheme was in place, however, there was little demand for the product. Stakeholders reported to us several reasons for this including: the product came too late and was aimed at top-up only rather than withdrawals; cover was too expensive; and businesses adapted to the situation.

What is Trade Credit Insurance?

Many businesses supply goods and services to other businesses on credit. For example, Supplier A might send goods to Buyer B and expect payment in 30 days. There is a risk that Buyer B might default on this payment. This default could be for any number of reasons, including the buyer becoming insolvent, or deciding that it just does not want to pay. Trade Credit Insurance is offered to businesses to cover this counterparty risk. Like any insurance policy there are terms and conditions to the insurance, and the value covered attracts a premium payable to the insurers.

The extent to which support intended to meet immediate needs could do so

The support package was intended to meet the immediate needs of business, however, some of the support serves a medium to longer-term need:

- The Capital for Enterprise Fund had 12 months to assess applicants and invest a minimum of £45 million of its £75 million. Up to 18 January 2010, it had received 955 enquiries of which 55 were made offers and 18 investments completed. After March 2010, there will be a further five years while the fund managers oversee the investment portfolios to maximise growth. Reflecting the longer-term timescale for this form of support, the Department does not plan an interim evaluation until 2012 with later stages after 2015.
- The Automotive Assistance Programme provides an investment product that relies on two conditions: firstly, businesses want to invest in research and development (at a time when liquidity and working capital were more of a concern) in advance of new EU emissions targets, and secondly, that banks will provide loans that the Department will guarantee. Demand was relatively low, despite proactive departmental communication, with 94 businesses in contact by December 2009. Of those, many decided not to pursue the investment; some did not meet the requirements or were able to secure alternative funding on better terms. At the end of 2009, there were 24 expressions of interest with 11 businesses under appraisal.

Communicating with the target audience

The schemes were formally launched using press notices which outlined the scale and nature of the support under the 'Real Help' brand. The first of the six schemes was announced in the November 2008 Pre-Budget Report and the last at the April 2009 Budget. These announcements were high-level and subsequently the Department faced the challenging task of providing scheme details to all businesses who might be interested in, and eligible for, support.

The Department used a mix of face-to-face, print and online marketing and its stakeholder network, including business representative groups, to raise awareness of the schemes. Focusing on the online marketing, the Department's approach was to use the Business Link website as the key online contact point for businesses interested in learning more about how to access support. Additionally, in April 2009, the Cabinet Office with input from other departments developed the RealHelpNow.gov.uk website to draw together all the information on support measures for businesses and individuals.

A departmental survey conducted in the week following the April 2009 Budget announcement found that some 70 per cent of SMEs surveyed knew that support measures had been announced but only 21 per cent, when prompted, claimed they knew the package of measures was called 'Real Help for Business Now'. Moreover, only 22 per cent of businesses surveyed in England could spontaneously name Business Link as the service providing information and advice.

This research found that whilst SMEs were generally aware that support was available, they were not always aware of where they could get further information. This concurs with the view of businesses and business groups the NAO interviewed which reported difficulties in accessing clear information on available support including eligibility criteria. Some businesses were confused, for example, by the initial information available on the Enterprise Finance Guarantee scheme and began contacting the Department to apply for funds, not realising this scheme was directly administered by banks, with eligibility criteria and lending decisions made on commercial terms.

In December 2009 the NAO tested how easy it was to find online information on the schemes. Searching for the Real Help brand name routed us quickly to the site mentioned in paragraph. Searching by scheme name, however, proved less successful, and in some cases information on the Department's website contradicted that on Business Link's and contained broken links where documents had been moved or deleted. Once found, an interactive tool on the Business Link website to help businesses identify available support was intelligible and useful.

The received positive feedback from business groups that phone and face-to-face contact with scheme staff was helpful. The Automotive Assistance Programme team were mentioned by stakeholders as communicating effectively. They held a series of information seminars to build awareness of the product within the industry and pro-actively approached eligible businesses.

Risk management

The Department sought to strike a balance between supporting business and protecting the taxpayer. Too tight a regime and businesses would find it difficult to obtain the support they needed, too lax a regime and taxpayers' money would be spent on businesses not in need, or which were fundamentally unsound. In most cases, protecting the taxpayer was a central feature of the design of schemes, though this may have had consequences for the take-up of some.

The Department lacked expertise, and reliable information on the external factors affecting the nature of the risks it was taking on. The Department, and Treasury, tended to take a conservative approach and price products on commercial terms (at or above normal market rates) to ensure that the taxpayer received a return reflecting the risk being carried, mitigate moral hazard, and keep interventions within state aid rules. State aid rules placed legal limits on pricing and the extent to which loans/guarantees could be subsidised to prevent support becoming anti-competitive.

They designed both the Working Capital and Trade Credit Insurance Schemes, for example, to break even with a high degree of confidence, based on their analysis of potential demand and price levels for each scheme. The relatively low level of risk the Department and Treasury were prepared to bear inevitably affected take-up: the Working Capital Scheme was designed to underwrite reasonably good credit risk loan portfolios across a range of sectors (with some exceptions); and trade credit insurers believed that the initial pricing of the Trade Credit Insurance Scheme was set too high. In both, demand was low. For the Working Capital Scheme, the availability of alternative sources of capital in the private sector and through the Asset Protection Scheme (announced five days after the

Working Capital Scheme) were major factors in curtailing demand. For Trade Credit, the fact it provided a top-up, limited its utility as businesses suffered more from the withdrawal of cover and were not eligible.

In the case of the Vehicle Scrappage Scheme, the Department assessed the potential economic impact and forecast that, in the longer term, the costs of the scheme would exceed benefits and would not, therefore, provide value for money. The Minister decided to proceed with the scheme for several reasons including that sales made during a recession were worth more than those made in the future, when the sector had recovered and the risk of doing nothing outweighed the possible scheme costs. As a result of the Minister's decision, the Department requested an Accounting Officer Direction in April 2009, and a second in September 2009 to approve the scheme extension. The NAO consider further the impact of this in the section entitled Evaluating Impact.

Evaluating impact

Whilst the Department set itself objectives and targets in terms of getting the schemes set up and encouraging take-up, it did not specify what it wanted to achieve from all the schemes individually, or the package of support as a whole, and its contribution to the Government-wide effort.

It is too early to assess the full impact of the schemes on business and the economy. Business confidence began improving in the first three months of 2009. A wide range of factors are likely to have impinged on business sentiment including wider trends in the domestic and global economy, stabilisation in the banking system, and the impact of other elements in the Government-wide package including the Business Payment Support Service administered by HMRC. Ultimately, a full assessment of success will need to include an assessment of any impact when the individual measures are withdrawn, and the sustainability of any benefits.

The Department has put in place arrangements to assess some of the impacts to date, summarised below.

Evaluating the impact of the support schemes

Scrappage Scheme

Before launch, officials estimated the economic costs and benefits of the scheme. As precise impacts and outcomes were, and still are uncertain, this work involved making a number of assumptions. Based on this work, the Department estimated that the scheme could lead to a short-term gain to the UK of £349 million, but a long-term loss of £55 million. These estimates were revisited before the scheme was extended in September 2009 and included information from a survey of those who had purchased a vehicle recently, including through the scheme; this led to predicted benefits of £116 million in the short-term and a lower than expected loss of £18 million in the long-term.

The estimated long-term loss is principally due to two factors:

- A prediction that most sales through the scheme would have happened anyway (this is referred to as deadweight and the Department estimates that in the short-term some 54 per cent of sales would occur anyway, rising to 92 per cent in the long-term)
- Some 85 per cent of vehicles sold in the UK are imported, although the UK is likely to have benefited from exports to other countries running similar schemes, and many components are made here.

Since the inception of the scheme, dealers report an increased demand for cars, and there has been a modest environmental benefit as more carbon-efficient cars replace old ones. The full impact of the scheme, however, will not be known for some time but the sector anticipates sales will be affected by the scheme withdrawal. The Department is planning an assessment of the impact of the scheme once it is closed.

Automotive Assistance Programme

No loans or guarantees have been issued.

Project assessments are planned and the overall scheme will be subject to full evaluation after it ends.

Enterprise Finance Guarantee Scheme

Positives

Interim results from a departmental survey of 385 businesses in September 2009 found:

- The majority of businesses had experienced outcomes that would otherwise not have been possible and/or not achieved as quickly or on the same scale. In total, 94 per cent of respondents indicated that their business prospects had improved as a result of the scheme, and 82 per cent reported that it had helped their prospects of survival. Businesses also reported improved cashflow.
- By the time of the survey, 350 new jobs had already been created in respondent businesses as a result of receiving funding. A further 1870 jobs were saved in respondent businesses, 80 per cent of recipients reported the loan was responsible for saving and/or creating jobs in their business.

Negatives

- Six per cent of respondents felt they would have achieved similar outcomes without the scheme and 28 per cent of businesses would definitely have gone ahead with plans in the absence of the scheme. However, a third of businesses reported that plans were likely to have taken place later or on a smaller scale.
- Businesses with prior borrowing experience indicated that the scheme was slightly worse in terms of speed of response, complexity of information and their time and effort.

Capital for Enterprise Fund

The Fund is part of a broader venture capital programme administered by the Department, and now Capital for Enterprise Ltd, for some years. Our recent report on venture capital support for small businesses highlighted weaknesses in the arrangements for evaluating the impact of these programmes. The Department has committed to better demonstrate value for money in the future.

The scheme has clear evaluation plans but it will be some years before the final financial performance of the fund is known, as it will not reach maturity for 10-12 years.

Trade Credit Insurance

The scheme closed on 31 December 2009. A full evaluation is planned for autumn 2010.

Working Capital Scheme

Our work suggested the Department is unable to measure the effect that the Working Capital Scheme is having on bank lending because:

- it cannot directly influence lending in banks, relying instead on guarantees with two banks, to free-up regulatory capital for new loans; and
- it cannot directly monitor additional lending generated by the scheme.

Under lending agreements between the banks and Treasury, the banks have committed to new lending under three schemes: the Asset Protection Scheme, Credit Guarantee Scheme and the Working Capital Scheme. Both banks report to Treasury and the Department on adherence to these lending commitments monthly and annually, Treasury will review the banks' implementation of, and compliance with, the commitments. A recent report by the Committee of Public Accounts found that so far, lending commitments to businesses are not being met and the Treasury has only limited sanctions available to it to encourage the banks to meet what are described as legally binding lending commitments.

It is not possible, to disaggregate overall performance to determine the specific contribution of the Working Capital Scheme. The Scheme is guaranteeing portfolios of a lower risk than was expected and is delivering a lower amount of extra capacity for new lending. Banks also report lower demand from businesses.

The Department is currently undertaking an internal lessons learned review of set-up and implementation. A final evaluation is planned for 2011.

Scheme management

At the time of our audit, all schemes had project management systems in place including a governance structure, such as a Board, a way to monitor and report risks, performance, and a means to manage delivery partners: not all were operating from the start but were put in place fairly quickly thereafter.

As these schemes were outside planned expenditure, the Department was required to seek Treasury approval for the commitment of additional funds. It did this in all but one scheme – where it guaranteed the second tranche of the Working Capital Scheme (just over £1 billion of guarantees) without obtaining prior written authority, as required under Government accounting rules. This was granted retrospectively, and the Department took steps to reinforce or put in place procedures to strengthen controls and minimise the risk of recurrence.

The Department monitors performance across the six schemes, focusing on performance against headline commitments and targets. The Action for Business team prepare a fortnightly delivery report for the Programme Board, chaired by the Permanent Secretary and attended by the lead Director General for each scheme, the Prime Minister's Delivery Unit and Treasury. For schemes where delivery progress is flagged as below target, the policy lead attends to explain the issues and discuss how to improve performance. There is no single Senior Responsible Officer for all the schemes.

Scheme costs

By the end of December 2009, the taxpayer had spent £230 million on support across the six schemes, mainly on subsidies to the automotive sector and had guarantees outstanding to the value of £1.6 billion.

The Department's resource management approach does not enable it to access clear, consistent, and complete information on the cost of administering the schemes. Its best estimate is that it has spent approximately £4.7 million to set-up and run the six schemes, consisting of staff, consultancy and other costs including delivery partner fees. In some cases, fees from loans/guarantees are intended to cover these running costs. However, the Department could not easily and consistently track costs across the schemes, for example, consultants could be charged to either programme or administrative spend. In addition, it could not easily apportion staff time to projects; there are no timesheets so the Department had to estimate how much time staff spent on each scheme and in some cases, staff assigned to work on schemes and other costs were charged elsewhere. No scheme had a fully allocated cost-centre.

The Department had to appoint advisers under time pressure in order to fill skills gaps. To bring in experts quickly, in two cases, officials selected consultants through single tenders without open competition and appointed consultants without establishing formal contractual arrangements from the start. Policy officials took mitigating steps on cost and quality but these procurements could have made better use of the Department's central procurement approval process. These approvals are intended to assist policy teams in making the right choice of supplier where time is limited as well as being a financial control.



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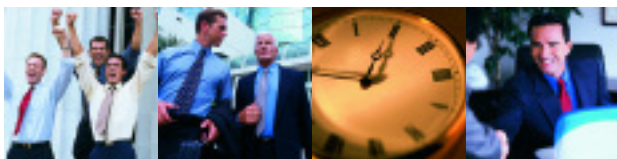
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