



Proposal for a Small Business Survival Package

Small businesses face unprecedented problems during this economic downturn in accessing affordable finance, winning healthy contracts and from aggressive late payment policies from big businesses. Figures from the OECD state 40 per cent to 50 per cent of small businesses fold within the first three to four years. The FSB pins this to the lack of cash flow which has a devastating impact on the job market.

Government needs to show clear and decisive action to help and protect small businesses as it did with the banking industry. It needs to be innovative in the short term as many small businesses are suffering right now. This will help the UK economy shorten the economic downturn and save threatened jobs.

The government had to rewrite the rules to rescue the banks. The FSB believes that it is now time to tear up the rule book to save the millions of small businesses that drive our economy and employ just under 60 per cent of the private sector workforce.

The FSB does not want to see profligate lending. Small businesses are not exposed to bad debts in the way banks were. Small businesses are well financed, but cash flow and short term financing has become a major issue to the 4.5 million small and medium sized enterprises in the UK.

The FSB's proposal identifies freeing-up access to finance, tackling the practice of late payments and vastly simplifying the process of applying for public sector contracts as crucial.

Three practical steps that can be taken in the next two weeks:

1. Create a new survival fund open to all small businesses and financed with £1 billion;
2. Fully enforce the Companies Act of 1985 and make Companies House an enforcement agency;
3. Introduce a single pre-qualification questionnaire for public procurement contracts

Details of the FSB's proposal

Freeing up access to finance

The Government has taken action to refinance the banks, but the effects of this are not being felt by the small business community. We now need immediate action to free up finance for small businesses.

In the absence of finance from the banks, the Government needs to adopt short term and innovative solutions.



Federation of Small Businesses

The UK's Leading Business Organisation

Finance for small businesses already exists within the Small Firms Loan Guarantee Scheme (SFLG). However, at the moment this is poorly promoted and targeted at a narrow section of the business community¹.

In addition, the Government has confirmed that money will be available through the European Investment Bank (EIB). However, this money will not become available immediately and currently only three banks in the UK deal with EIB loans.

The FSB proposes that the Government sets up a Small Business Survival Fund which takes over from the Small Firms loan Guarantee Scheme in the short term. This should be reviewed in six months time.

The FSB recommends the following practical measures be introduced in the next two weeks:

- Increase short term funding to the Small Business Survival Fund to £1billion to be reviewed in six months time²;
- Allow businesses to apply for intangible outcomes such as working capital and staff training, as well as tangible outcomes from finance;
- All recapitalised banks must offer the Small Business Survival Fund, and the Financial Services Authority (FSA) must stipulate that all banks and business advisors such as Independent Financial Advisors promote the scheme to small businesses;
- EIB money, when active, should be bought by the Government and distributed to small businesses through the Small Business Survival Fund³.

In addition, to ensure that Small Business Survival Fund money reaches those businesses most in need of funds, the FSB calls on the Government to rewrite the criteria for eligibility for funds to include:

- Businesses with under £5.6m turnover;
- Businesses with up to 250 employees;
- The age of a business not to be an excluding factor;
- All sectors of business will be able to apply to the Small Business Survival Fund;
- A guarantee to the lender covering 75 per cent of the loan amount

These practical steps will provide the short term finance on which small businesses depend.

¹Small Firms Loan Guarantee Scheme 2007/08 distributed £207m to 2617 applicants. The current criteria are: A guarantee to the lender covering 75 per cent of the loan amount, for which the borrower pays a 2 per cent premium on the outstanding balance of the loan, payable to BERR/the ability to guarantee loans of up to £250,000 and with terms of up to ten years/availability to qualifying UK businesses with an annual turnover of up to £5.6million/availability to businesses in most sectors and for most business purposes, although there are some restrictions

²FSB figures show 25% of SME's used a bank loan as a source of finance. If this was to be replicated amongst the 4.5million SME's in the UK it would amount to £90billion. The banking industry received loans, reassurances and safeguards worth £500billion. We recommend that the SFLG be funded to a level of five times the amount of 2007/08, £1billion, and be reviewed in 6 months time.

³Government should purchase £25m segments of EIB redistributed money and place them into the total government guaranteed amount of the SFLG, to be lent by the recapitalised banks.



Ending the culture of late payments

Late payments have become an ever increasing problem for small businesses in the UK. A recent survey⁴ suggested that there are £18.6billion in outstanding payments to the SME sector. The research also showed that almost a fifth of SMEs (19per cent) now employ a dedicated person to chase late payments and that the average figure owed is £30,000.

Late payment has come to represent standard business practice, but it is wrong and it has to end. During the course of an economic downturn, combined with current illiquidity, late payment will lead to business closures and job losses. It is antisocial and it affects us all. Late payment costs jobs.

The FSB welcomes moves by Government, Local Government and the Opposition to ensure payments by public bodies are made within 10 – 20 days. However, the Government can go further.

The FSB calls for an immediate end to late payment, through the following practical steps:

1. Fully enforce the Companies Act of 1985⁵;
2. Double the resources being directed to Companies House to fulfil its duties;
3. Publicly name, shame and fine companies renegeing on the payment terms registered with Companies House

Ever since the Companies Act of 1985, Public Companies have been obliged to submit their payment terms to Companies House. However, this has not been fully enforced and Companies House lacks the resources to fulfil its role.

Access to Public Procurement

The Chancellor of the Exchequer has pledged to switch spending priorities to “*areas which make a difference*”, referring specifically to small businesses.

This could provide an important lifeline to struggling small businesses, but it will fail unless accompanied by a rationalisation of the public procurement bidding process. Unfortunately, only 16 per cent of public procurement contracts are awarded to SMEs⁶.

Recent survey work conducted by the FSB revealed that over 50 per cent of small businesses do not apply for public procurement contracts due to the complexity of the application process.⁷ In particular the lack of a simplified and universal pre-qualification questionnaire that could be used for low value contracts and that would only have to be filled in once and then logged for future bids. The time it takes to resubmit a full pre qualification questionnaire for each new bid is time that small businesses do not have.

⁴ <http://www.bytestart.co.uk/content/news/statistics/late-payment-2008.shtml>

⁵ Companies House should be given the resources to properly carry out its duties in the Companies Act 1985 so it can punish and fine companies that do not submit payment policies every year.

⁶ Ref: BERR

⁷ “Evaluating SME Experience of Government Procurement” Joint report from FSB, CBI and BVCA, October 2008



This could be resolved with the following simple measures:

- Introduce a single pre-qualification questionnaire to be used in all public procurement contracts;
- Scrap the fee for receiving nationwide access to public procurement contracts via Supply2.gov.uk

The FSB has also found that 51 per cent of small businesses do not apply for public procurement contracts because they do not have free access to the supply2.gov.uk website advertising new contracts⁸, which currently requires a £180 registration fee for information about contracts across the UK⁹. It is free for a limited geographical area of your choice, but should also be free for nationwide access.

Universal free access to information on public procurement contracts, and a simplified bidding process would vastly increase public sector business opportunities for small businesses.

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⁸ "Evaluating SME Experience of Government Procurement" Joint report from FSB, CBI and BVCA, October 2008

⁹ http://www.supply2.gov.uk/pricing_matrix.shtml