The economic crisis: policy responses

Standard Note: SN/BT/4968

Last updated: 3 June 2011

Author: Timothy Edmonds; Dominic Webb & Rob Long

Sections: Business & Transport Section
Economic Policy & Statistics Section
Social Policy Section

This note brings together the various elements of Government action to deal with the economic crisis. There are four main strands to the policy. Provisions to help banks; provisions to help industry (including small firms); provisions to support the housing market and homeowners; and, lastly, measures to support the macro-economy generally. This note follows this categorisation, though clearly there is considerable overlap between various policies, for example measures to help banks also support bank lending which helps small firms and the housing market.

For further enquiries about banking or small firms ring Tim Edmonds x4318; on the macro-economic response, Dominic Webb x4324 and for mortgages Rob Long x4376.

Contents

1 Banking

Ever since September 2007 when Northern Rock first showed how vulnerable banks could be, the Government has had the twin job of dealing with specific banks in crisis and with the broader problems of the monetary/banking system.

1.1 Individual bank rescues

Northern Rock Bank (NRB)

Pre nationalization

Following an announcement by the NRB on 14 September 2007 of market difficulties,[1] the Chancellor, Alistair Darling, made a statement on the situation in which he announced that the Government would guarantee deposits in NRB.[2] This was supplemented by a further statement on 20 September, when the Treasury announced extended protections for NRB customers and for the bank. The Treasury indicated that the "guarantee in relation to NRB plc will remain in place during the current instability in the financial markets".[3] Further guarantees were given to depositors on 9 October guaranteeing all future deposits with the bank.[4] The Chancellor wrote to the Public Accounts Committee setting out the basis for guarantees to NRB.[5]

NRB had also been given access to short term, liquidity support from the Bank of England, which, by September was thought to have amounted to 'about £3 billion' from the Bank of England facility.[6]

The Government's first strategy was to seek a 'private sector solution', hoping that another bank would buy NRB. How the Government would proceed in resolving NRB's future was first set out in a statement by the Chancellor on 19 November.[7] By January 2008 however, the Government had to admit defeat:[8] In his statement the Chancellor set out the future financial restructuring and ownership options for the bank. He began by stating that to date, there had been no cost to the taxpayer of existing government support for the bank; all existing guarantees, for savers and funding, would continue; the Government continued to favour a private sector solution but had not ruled out a period of nationalisation; putting the bank into administration had been rejected. He continued:

> Despite intensive efforts over the last few months, and as a result of uncertain market conditions across the world, it has proved impossible for Northern Rock to find a purely commercial solution. In the autumn, market conditions were such that banks became increasingly reluctant to lend on terms that would have been acceptable. As the House will be aware, banks right across the world are having to make substantial provisions. While conditions are better now than they were before Christmas, they remain difficult,

1 NRB Stock Exchange Announcement 14 September 2007

2 HM Treasury press notice 17 September 2007,

3 HM Treasury Press notice 20 September 2007

4 HM Treasury Press notice 20 September 2007

5 Deposited paper 2007/2120

6 *Financial Times*, 23 September 2007

7 HC Deb 19 November 2007 c959

8 HC Deb 21 January 2008 cc1207-10

> and the Government's financial advisers believe that there is no chance of achieving a private sector deal backed entirely with private finance in the near future.
>
> […]
>
> My proposal today is one in which Northern Rock is owned and run in the private sector as a commercial bank, and where the Government provide a backstop guarantee to make private financing possible in the current market conditions. I believe that this company should be managed within private sector disciplines and management, provided that we can do so on terms that properly protect taxpayers' interests.
>
> […]
>
> Ideally, the best solution would have been a private sector one without any Government support, but in the current uncertain market conditions, that is not possible. Administration, with the resulting fire sale of the company's assets, would not be in the public interest. Temporary public ownership—nationalisation—remains an option, however even those who advocate it now see it as a stepping-stone to the return of Northern Rock to the private sector, which would involve Government support. In the meantime, the company would require continuing financial support, which would leave the public sector bearing all of the risk.

On 17 February, the Chancellor announced legislation (*The Banking (Special Provisions) Bill*) "that will enable Northern Rock plc to be to be taken into a period of temporary public ownership".[9] The bill received Royal Assent on 21 February 2008. The Act was not NRB specific. However, the Chancellor told the House of Commons in a statement on 18 February 2008 that: "The Government have no intention at present to use the Bill to bring any institution other than Northern Rock into temporary public ownership".[10]

Post Nationalisation

The Business plan agreed between the Government and NRB, consistent with EU constraints on state aid, included the following elements:

- Early repayment of facilities provided by the Bank of England, principally by contracting the business to become smaller and more sustainable – reducing the balance sheet from around £107 billion in 2007 to about £50 billion by the end of 2011
- Reduce size if NRB operations, including staff
- Build a stand-alone funding and capital position that will facilitate the earliest possible release of the HM Treasury guarantee arrangements and a return to the private sector, with retail deposits representing a greater proportion of total funding (although at a lower absolute level than before the 2007 crisis)
- Strengthen the risk and control environment throughout the Bank by means of improved risk organisation, capabilities and processes

The main visible aspect of the recovery plan was a rapid wind down in mortgage commitments as existing customers were offered poor terms on which to continue lending when their fixed terms or other offers ceased. This process was halted at the Treasury's insistence in January 2009 when, as part of a further support package for the banks and for industry, the rate at which NRB was required to repay public debt was slowed, ending the

[9] HM Treasury press release, 17 February 2008, last viewed 11 April 2008)
[10] HC Deb 18 February 2008 c22

contradiction between Government ministers calling for lenders to maintain lending and the contraction of lending by the one institution completely nationalised.[11]

NRB received short term liquidity support from the Bank of England, which, by September 2007 was thought to have amounted to 'about £3 billion'.[12] By the end of December 2007 the loan to the Bank stood at £26.9 billion, reducing to £14.3 billion at 31 December 2009.[13]

After failing to find a 'private sector solution' i.e. a buyer for it, NRB was nationalised and no compensation is due to shareholders.

In order to provide further capital for NRB, £400 million of preference shares held by the Treasury were converted into equity shares. Up to a further £3 billion of capital support can be provided by converting part of the Treasury loan into equity.[14] As at 27 January 2010, £1.4 billion of this support has been rendered.[15] This is equivalent to the capital base of the new Northern Rock plc which was created by splitting the old NRB into Northern Rock plc (the 'good bank') and Northern Rock Asset management plc (the 'bad bank') to which the Treasury can provide the remaining £1.6 billion capital if required. The Government are also providing a working capital loan facility to Northern Rock (Asset Management) plc, currently up to £2.5 billion, to help with the orderly wind down of the company. Splitting the old NRB has had a further impact on the loan. The loan increased on 4 January 2010 by £8.5 billion, taking the outstanding loan balance to £22.8 billion, to finance the difference in mortgage assets and retail and wholesale deposit liabilities that were transferred to Northern Rock plc.[16]

Bradford & Bingley (B&B)

One year after the failure of one ex-building society turned bank, another found itself in difficulties. On 29 September 2008, the Treasury announced a reconstruction of the Bradford & Bingley Bank.

B&B had found itself under increasing pressure as investors and lenders lost confidence in its ability to carry on as an independent institution. A combination of high wholesale dependency for funds, and a perceived high exposure to the more risky buy-to–let housing market proved its undoing. On 27 September the FSA determined that the firm no longer met its threshold conditions for operating as a deposit taker under the *Financial Services and Markets Act 2000* and FSA rules. In comparison to the lengthy 'rescue' of NRB, B&B was dealt with quickly. The operations were split in half. The deposits half of the business was transferred to Abbey. In return, Abbey received a £14 billion payment from the FSCS and £4 billion from the Treasury to provide for the necessary liquidity. The remainder of the business, mainly comprising its mortgage lending, was nationalised and B&B shares were transferred to the Treasury.

---

11 HM Treasury Press Release 19 January 2009
12 *Financial Times*, 23 September 2007
13 HC Deb 25 January 2010 c37 ws
14 Letter to Chairman Treasury Committee August 2008, Deposited Paper 2008- 2131
15 HL Deb 27 January 2010 c1484
16 HC Deb 25 January 2010 c37 ws

Icelandic banks

On 9th October 2008 the Icelandic regulatory authorities took control of the Kaupthing bank and Landsbanki hf in Iceland as both were now insolvent. Both banks had operations in the UK.

- Heritable is a UK subsidiary of Landsbanki;
- Icesave is a UK branch of Landsbanki; and
- Kaupthing Singer & Friedlander is a banking subsidiary of Kaupthing Bank

London Scottish Bank (LSB)

LSB is a small, Manchester-based, specialist finance house providing loans in the sub-prime retail market. It had 10,000 savers and deposits of £250 million. In December 2008 it went into administration. There was no official rescue package from the Government however, the Government did immediately guarantee all customer deposits, even if they exceeded the protection level (£50,000) offered by the FSCS.[17]

1.2 Banking Sector help

As a framework for understanding the help given to the whole banking system the following fundamental equation is of use.

$$\frac{C}{A \times R} = Y\%$$

Here C is capital; A is assets (loans); R is risk and Y% is the capital asset ratio that banks must meet if they are to abide by FSA rules. It is a very simplified and stylised version of the Basel Accord. The help the Government has given in its various proposals has addressed these.

Very simply, it represents the very real constraints that banks are under. If the banks can get more capital it allows them to lend more. If the risk of their loans going bad declines, they need less capital. The scenario all commentators wish to avoid is where declines in share capital due to market fears over their (banks') profitability forces banks to reduce lending, which in turn makes more of their existing loans 'bad' as firms go out of business for want of an overdraft.

The Government announced two packages of measures – the October package and the January package. The October package can be described as the recapitalisation package, the January package was more varied but addressed liquidity and risk factors.

---

[17] HM Treasury Press notice 1 December 2008

The October package

The bank recapitalisation plan addressed problems of a lack of capital. This was in two stages, first, the Government and the FSA determined what it thought should be individual banks safe capital levels. These were in excess of the standard regulatory levels set by the Basel Accord. Some banks, Barclays and HSBC, decided not to participate in the government's offer of new capital but raised funds either internally or from overseas investors. For other banks, notably Lloyds/TSB, Halifax and the Royal Bank of Scotland, the Government to purchase new preference shares and ordinary shares that would achieve the desired capital levels. This involved UK banks raising approximately an extra £37 billion of capital. The details of the plan were announced by the Chancellor in a statement to the Commons. He said:[18]

> In the case of Lloyds TSB and HBOS, the Government will purchase both ordinary and preference shares once the merger is complete. HBOS will receive up to an £8.5 billion investment in newly issued ordinary shares on completion of the merger. The Government will also invest up to £4.5 billion in newly issued ordinary shares of Lloyds TSB at completion. At the same time, we will invest up to an additional £4 billion in preference shares in the merged institution, with £3 billion of which being invested in HBOS and £1 billion in Lloyds TSB. In return for this investment, which potentially represents around 44 per cent. of the proposed merged bank, the Government will appoint two independent board members. No cash bonuses will be paid to any board member this year. Directors in HBOS will be asked to relinquish their rights to bonuses, and directors in Lloyds TSB will receive restricted stock instead of cash for any 2008 bonus entitlements. The availability of lending to home owners and small businesses will be maintained at least 2007 levels, and greater support will be given to people experiencing difficulties with their mortgage payments to help them stay in their homes.
>
> For RBS, the Government will take up to £15 billion of ordinary shares and £5 billion of preference shares. This potentially represents a 63 per cent. interest in the bank, in return for which the Government will appoint three independent board members.

The detailed points about the agreements with individual banks are set out in the individual agreements contained in Deposited paper 2008/2350. One condition of broad significance is the prohibition:

> Until the date on which the preference shares are redeemed or repurchased in full, the company shall not:
>
> Declare or pay any dividend or make any distribution on or in respect of the ordinary shares of the company.[19]

Since the Government's offer to buy bank shares was above the then current market level it was unsurprising that few private investors took up the share offer. Only 0.5% of shares offered in Lloyds/TSB were bought and just 0.24% of HBOS shares. Once the sales had been completed the Government owned 43% of the combined Lloyds/TSB/HBOS group (the merger was finalised on 19 January 2009) and 58% of RBS. Since bank shares have generally failed to recover despite the recapitalisation, on paper the Government currently

---

[18] HC Deb 13 October 2008 c543-546

[19] Deposited paper 2008/2350 Lloyds TSB Agreement p12 5.2(a)

has a large ‘paper’ loss. This loss was calculated as being of the order of £5.4 billion in the middle of January 2009.[20]

A modification of the share support package to RBS was announced on 19 January 2009 as part of the January measures. The company announced the move on its website and illustrates how such support packages impact on the fundamental equation shown at the top of this section:

> RBS also announces that it has reached agreement with HM Treasury ("HMT") and UK Financial Investments ("UKFI") to replace the £5bn of preference shares it holds with new ordinary shares. Eligible RBS shareholders will be able to apply to subscribe for approximately £5bn of new ordinary shares pro rata to their existing shareholdings at a fixed price of 31.75 pence per share. This represents an 8.5% discount to the closing price on 16 January 2009. These new ordinary shares will be offered to shareholders and new investors on the same basis as the Offer in November 2008. The ordinary shares offer is fully underwritten by HMT. The proceeds of the issue will be used to fully redeem the preference shares held by HMT.
>
> The redemption of the preference shares held by HMT will also remove the annual cost of the preference share dividends of £0.6bn and will improve the Group's cashflow and capital generation. In recognition of this benefit and the needs of its customers in difficult times, RBS intends to increase lending across its UK businesses by £6bn and to extend the baseline lending commitments given in October 2008 in respect of mortgage and SME customers to larger UK corporates.[21]

The cumulative impact of the capital raising measures following the October package can be shown in the following table. This table was as at October 2008 and therefore does not include the RBS swap of preference shares for equity shares.

Table 1 Announced capital raising commitments from UK financial institutions(a)

	Current Tier 1 capital ratio	Ordinary	Shares Pref'ce	other	Dividend effect	Total	New tier 1 ratio following capital raising
Barclays	9.1	3.6	3.0	1.5	2.0	10.1	>11
HBOS	8.6	8.5	3.0	-	-	11.5	12
HSBC	8.8	0.8	-	-	-	0.8	8.8
Lloyds TSB	8.6	4.5	1.0	-	-	5.5	12.1
Combined Lloyds/TSB and HBOS		13.0	4.0	-	-	17.0	
Nationwide	9.7	-	-	0.5	-	0.5	10.3
RBS	9.1	15.0	5.0	-	2.0	22.0	12.1-13.1
Abbey/ Alliance & Leicester	8.0	1.0	-	-	-	1.0	raised by 1.25
Total						51.4	

Source: Bank of England *Financial Stability Report* October 2008

The second part of the October plan addressed liquidity problems and has three components.

[20] *Financial Times* 13 January 2009

[21] RBS Trading Update 19 January 2009

First, the Government guaranteed any debt instrument of up to three years maturity issued by banks. This addresses the problem that banks cannot raise money in the normal way because of increased risk in the capital markets.

Second, the Bank of England introduced Special Liquidity measures in the money markets. This provides about £200 billion in extra liquidity by enabling the banks to borrow in sterling and dollars against a broadened set of securities. Lastly, the Bank has made various changes to its money market operations with the intention of reducing the reputational stigma associated with seeking Bank help, and a new discount window facility allowing banks to swap a wide range of eligible securities for gilts or cash.[22] As part of the January measures the Government approved a three year extension for the asset swap discount window due to end at the end of January. This addresses the quality of assets (A) issue in the fundamental equation.

In addition, the Chancellor, in his statement of 11 October [23] announced an FSA led review of the UK liquidity regime[24] and the promise of legislation in the forthcoming session to provide a better compensation scheme for depositors. The legislation was the Banking Bill more information on which can be found in a Library Research Paper.[25]

The January package

Some elements – change to the RBS share structure and extension of the discount window facility have been described already, other aspects of the January package were:

> extending the drawdown window for new debt under the Government's Credit Guarantee Scheme (CGS) which is designed to reduce the risks on lending between banks;
>
> establishing a new facility for asset backed securities;
>
> establishing a new Bank of England facility for purchasing high quality assets;
>
> offering capital and asset protection scheme for banks, with proposals for this to be co-ordinated internationally; and
>
> clarifying the regulatory approach to capital requirements, through an announcement by the Financial Services Authority (FSA).

The individual measures are outlined in more detail below:[26]

Credit guarantee scheme

> As part of the Government's additional measures to encourage lending by financial institutions, the Government is extending the drawdown window of the CGS from 9 April 2009 to 31 December 2009, subject to state aid approval. This will support orderly issuance of debt guaranteed under the CGS. All other aspects of the scheme will remain the same, including the final maturity date of 9 April 2014. During the drawdown window, banks can issue new debt – and once it has been issued, they can keep rolling it over after the window closes (all of it until 13 April 2012 and up to one-third of

22 See *Financial Stability Report* October 2008 p31 for full details

23 HC Deb 11 October c464

24 FSA; "*FSA publishes a review of the liquidity requirements for banks and building societies*" (last viewed 22 April 2008)

25 http://hcl1.hclibrary.parliament.uk/rp2008/rp08-085.pdf

26 HM Treasury Press Notice; 19 January 2009

the total until 9 April 2014). Further details of the scheme's operation are available on the website of the Debt Management Office (DMO).

This measure will support bank capital raising (C)

Guarantee scheme for asset backed securities

In addition to the extension of the credit guarantee scheme, the Government is announcing a new guarantee scheme for asset backed securities, drawing on the recommendations of Sir James Crosby, to improve banks' access to wholesale funding markets, help support lending, and promote robust and sustainable markets over the longer-term. The Government will, in consultation with issuers and investors, provide full or partial guarantees to be attached to eligible triple-A rated asset-backed securities, including mortgages and corporate and consumer debt. UK banks and building societies eligible to participate in the CGS will be able to access the new scheme subject to fulfilling the scheme's conditions. Banks and building societies accessing the scheme will follow international standards and best practice on underwriting, disclosure, reporting and valuation. The Government will set conforming criteria to ensure that only transparent structures and high quality assets are eligible. The scheme will commence in April 2009, subject to state aid approval.

This measure lowers the risk of asset losses (R).

Bank of England asset purchase facility

As a further step to increase the availability of corporate credit, by reducing the illiquidity of the underlying instruments, the Bank of England will set up an asset purchase programme implemented through a specially created fund. The Bank will be authorised by the Treasury to purchase high quality private sector assets, including paper issued under the CGS, corporate bonds, commercial paper, syndicated loans and a limited range of asset backed securities created in viable securitisation structures. The Treasury will authorise initial purchases of up to £50 billion, financed by the issue of Treasury bills. Given the scale of the programme, the Bank will be indemnified by the Treasury. This programme will come into effect from 2 February.

The programme also provides a framework for the Monetary Policy Committee of the Bank of England to use asset purchases for monetary policy purposes should the MPC conclude that this would be a useful additional tool for meeting the inflation target. In such circumstances, the scale of the scheme could be expanded, a further announcement would be made.

This raises the capital levels of banks by swapping higher rated capital for lower rated assets (C).

Asset protection scheme

To provide certainty and confidence to banks in their lending, the Government is today announcing its intention to offer capital and asset protection on those assets most affected by the current economic conditions. This will reduce banks' uncertainty about the value of past investments, so providing them with greater confidence to lend in the future to creditworthy businesses, homeowners and consumers. The Government is publishing a separate notice setting out the outline terms of the scheme. The Government will make a further statement on the details of the scheme by the end of February.

This lowers market risk (R)

The first instance of this scheme in operation came in February 2009 when the Royal Bank of Scotland agreed terms to participate. Under the scheme eligible institutions will be able to insure 90% of losses on existing loans subject to an excess or ‘first loss’. The terms of the fee and the extent of the ‘first loss’ will be decided on a case by case basis.[27] The scheme will last for at least five years. Participation in the scheme also included guarantees of sustained lending to individuals and businesses and the adoption of approved remuneration policies.

Participation in the Asset Protection Scheme was agreed in principle in February and March. The original agreement is shown below.

Participation in Asset Protection Scheme

£, billions

Bank	Agreement date	Fee	Payment type	Value of loans insured	'First loss'	Subsequent gov't liability, %	Lending Commitments	
							Mortgage	Business
RBS	26/02/2009	6.5	B shares	325	19.5*	90	9	16
Lloyds Group	07/03/2009	15.6	B shares	260	25	90	3	11

Note * this sum is on top of £22 billion of losses already written down

The summer of 2009 saw a recovery in some aspects of economic activity, such as rising asset prices. Many banks, both here and worldwide took the opportunity to raise capital to strengthen their balance sheets. Those banks in receipt of government support used the time to reassess their positions in the light of an improved financial outlook. Lloyd’s in particular began to consider whether it needed to participate in the APS at all and started to explore the possibility of raising private capital instead. This was a complicated calculation.

The Treasury was known to want to demand an APS fee from Lloyds even if it did not participate on the grounds that it had enjoyed effective protection for a period. The FSA as the chief regulator had to be satisfied that Lloyds’ capital raising plans without the APS left it sufficiently protected. Lloyds wanted to exit from the APS as cheaply as possible and calculate the chances of a successful rights issue when much would depend on whether or not the government, its biggest shareholder wanted to participate. The outcome of these negotiations was announced on 3rd November 2009.

Lloyds announced plans to raise £21bn through a combination of a £13.5bn rights issue, and £7.5bn by swapping existing debt for contingent capital. The Government will take up its rights as a shareholder in Lloyds to participate in the planned capital raising, investing £5.7bn net of an underwriting fee, thus maintaining its 43% holding in the Lloyds Group..

Lloyds will leave the APS at a cost of an exit fee of £2.5bn.

The final agreement for RBS is more complex as it reflects a change in the terms of its continued participation in the APS. The key terms were set out in a Treasury press release:[28]

- A larger first loss to RBS than agreed in February – the first loss to be borne by RBS has increased from £42bn to £60bn;

- A smaller pool of insured assets – reduced from £325bn to £282bn based on their balance sheet at end 2008;

- A capital injection by the Government of £25.5bn — equal to the £25.5bn total capital commitment announced in February, which comprised £13bn in upfront

27 Asset Protection Scheme

28 HM Treasury Press notice;3 November 2009

capital, £6bn of capital to be drawn at the option of RBS and £6.5bn in a fee taken as capital;

- A fee to the Government to be paid annually at £0.7bn for the first three years, followed by £0.5bn a year for the life of the scheme – compared to the up-front fee of £6.5bn paid in shares agreed in February;

- Removing the undertaking, agreed by RBS in February, to forego for up to five years certain tax losses and allowances. This was estimated at a value of £9-11bn in RBS' most recent accounts.

The effect of the further capital injection is that the government now owns 84% of RBS.

Capital regulation

> In addition, to address any potential uncertainty and to mitigate unintended pro-cyclical effects, the FSA is today publishing a statement clarifying its expectations around bank capital ratios. The FSA's statement makes clear that there are no new statutory requirements for capital and that it sees the capital buffers built in as part of the recapitalisation exercise as playing a role in both withstanding losses and facilitating continued lending. The FSA's statement is consistent with the statement by the Basel Committee on Banking Supervision issued on 16 January.
>
> In the longer term, the Government and the FSA believe that it would be preferable for the capital regime to incorporate counter cyclical measures which lead to banks building up buffers in good years which they can draw down during economic downturns, and the FSA and the Bank will be strongly supporting the work by the Financial Stability Forum and Basel Committee in this area.

This means that the FSA will not impose higher capital ratio requirements on banks if, for example, their share price declines (C) due to current difficulties.

A summary of many of the issues covered in the section above can be found in chapter 8 of the Institute for Fiscal Studies (IFS) Green Budget – Government and the financial sector by Prof D. Miles. The cautious conclusion about the public sector cost of supporting the financial sector is that it may be between £1,000 billion or, potentially, a public sector profit.

Up to date figures for RBS and the Lloyds Banking Group are given in the tables below:

HM Treasury holdings in Royal Bank of Scotland

	Shares millions	Total investment £ millions	Investment per share. Pence
Initial recapitalisation	22,854	14,969	65.5
Preference Share conversion	16,791	5,058	31.75
apS B shares	51,000	25,500	50.0
Total Investment	90,645	45,527	50.2 (avg)
Return on Investment			
Fees received 2		*(305)*	
Dividends received		-	
Profit/(loss) on disposals	-	-	
Total	90,645	45,222	49.9 (avg)

HM Treasury holdings in Lloyds Banking Group

	Shares millions	Total investment £ millions	Investment per share. Pence
Initial recapitalisation	7,277	12,957	182.5
Preference Share conversion	4,521	1,508	38.43
rights issue	15,810	5,850	37.0
Total Investment	27,609	20,315	73.6 (avg)
Return on Investment			
Fees received		*(376)*	
Dividends received		-	
Profit/(loss) on disposals	-	-	
Total	27,609	19,939	72.2 (avg)
Total total investment net of APS exit fee	27,609	17,439	63.2 (avg)

Source: UKFI, *Update on UKFI market investments*

Government holdings are also recorded in the Treasury's Annual Report. This is shown below:

UK Government Financial Assets & Liabilities
£000's

Security	As at Mar-09
Available for sale assets	
RBS pref	5,052,647
RBS ord	5,599,180
Lloyds pref	4,044,484
Lloyds ord	5,019,496
Total	19,715,807
Loans & receivables	
Northern Rock loan	14,561,479
Bradford & Bingley statutory debt	3,040,404
Bradford & Bingley working capital facility	6,000,000
Bradford & Bingley loan assets	320,932
KSF statutory debt	233,394
London Scottish statutory debt	7,021
Heritable statutory debt	34,181
Icesave statutory debt	415,238
Dunfermline statutory debt	1,452,344
FSCS Bradford & Bingley loan	14,207,293
FSCS KSF loan	2,793,560
FSCS Heritable loan	519,171
FSCS London Scottish loan	88,485
FSCS Icesave loan	3,369,924
Total	47,043,426

Source: HM Treasury Annual Report, note 13 to Accounts p206-7, HC 611 2008-09

Alongside the help given to support the banks, the regulator, the FSA, investigated the conduct of banks in the lead up to the crisis. In December 2010, it concluded its investigation of RBS. The relevant press release is shown below:

> FSA CLOSES SUPERVISORY INVESTIGATION OF RBS
>
> In May 2009 the Financial Services Authority (FSA) launched a supervisory investigation into Royal Bank of Scotland Group (RBS), as one of the UK banks that required partial taxpayer bailout support. This work considered if regulatory rules had been broken and what, if any, action was appropriate. The review was necessarily extensive and looked specifically at the conduct of senior individuals at the bank, the acquisition of ABN AMRO in 2007 and the 2008 capital raisings. The FSA conducted the review with assistance from PWC.
>
> The FSA has now completed this supervisory investigation.
>
> The review confirmed that RBS made a series of bad decisions in the years immediately before the financial crisis, most significantly the acquisition of ABN AMRO and the decision to aggressively expand its investment banking business. However, the review concluded that these bad decisions were not the result of a lack of integrity by any individual and we did not identify any instances of fraud or dishonest activity by RBS senior individuals or a failure of governance on the part of the Board.

> The issues we investigated do not warrant us taking any enforcement action, either against the firm or against individuals. However, the competence of RBS individuals can, and will, be taken into account in any future applications made by them to work at FSA regulated firms.
>
> The FSA's supervisory investigations into other banks that 'failed' during the crisis are ongoing. If they lead to enforcement action being taken then it would be usual for the FSA to make these outcomes public if such actions against individuals or institutions are successful.
>
> The FSA cannot publish the content of the RBS review as information gathered from the bank during the course of the review remains confidential under the Financial Services and Markets Act 2000 (FSMA).[29]

2 Assisting Homeowners

2.1 Financial advice

In reaction to the increase in mortgage arrears and repossessions the Government moved to strengthen the financial advice available to mortgage holders. On Friday 9 May 2008, the Government announced a series of measures to further strengthen support for home owners. As well as announcing that £9 million will be made available in additional funding for debt advice by third sector partners, including Citizens Advice Bureau, the Government made a commitment to:

- expand access to free legal representation at county courts throughout England for households at risk of repossession;
- strengthen the National Housing Advice Service to provide a new comprehensive debt advice service; and
- provide more specialist training for Citizen Advice Bureau staff and local authorities on debt advice to help families get their finances back on track.[30]

2.2 Pre-Action Protocol on Repossession and Letter to Lenders

On 22 October 2008 the Chief Secretary to the Treasury announced that a new protocol for lenders regarding the repossession of homes had been agreed, this came into force on 19 November 2008:

> …the Master of the Rolls has approved the Civil Justice Council's protocol for mortgage possession cases, which complements existing regulation, and sets out clear standards that judges may expect of lenders bringing repossessions cases in the courts.
>
> The new protocol makes clear that repossessions should be a last resort. Where possible lenders are expected to try to discuss and agree with borrowers alternatives to repossession. Where a case subsequently comes to court, lenders will be expected to be able to tell the court precisely what they have done to comply with the protocol.[31]

---

29 FSA press release 2 December 2010

30 Department for Communities and Local Government, "Strengthening support for home owners in current market conditions", 9 May 2008

31 HC Deb 22 October 2008, Col 10WS

The protocol which was released by the Civil Justice Council alongside this statement, said it "is designed to encourage parties to exchange information at an early stage, to encourage early settlement of cases or where that cannot be avoided, more efficient case management. It does not alter parties existing rights and obligations."[32]

On 28 November 2008 the FSA wrote to the chief executives of all mortgage lenders to ensure that customers facing arrears are treated fairly. The chief executives must communicate conclusions and any actions their firm proposes to take to the FSA by 31 January 2009.[33] In the debate on the Queen's Speech on 3 December 2008, the Prime Minister announced a scheme to give those who lose their jobs, or take a big cut in earnings, the ability to defer mortgage payments for up to two years. The Prime Minister stated that eight major lenders have signed up to the scheme, to cover mortgages worth up to £400,000, this is meant to ensure that banks do not repossess homes where payments have been missed for six months or less (discussed in section 1.5).[34]

2.3 Financial assistance

In terms of assistance with mortgage costs, there is a scheme to help families who are out of work and receiving Income Support, income-based Jobseeker's Allowance or Pension Credit. This scheme only covers mortgage interest payments, and (for most claimants) is subject to a loan cap and only available after a certain 'waiting period' on benefit. For full details of the scheme see the Standard Note SN/SP/737, *Means-tested benefits: help with mortgage costs*.

On 2 September 2008 the Government announced reforms to the system of financial support for mortgagors to more accurately reflect the value of people's property and reduce the waiting time before help from Support for Mortgage Interest (SMI) kicks in. The announcement stated that, as a temporary measure, the 39 week waiting period before help towards a mortgage is paid would be cut to 13 weeks for all new working age claims. The measure is in effect from January 2009. In addition, also as a temporary measure from January 2009, the capital limit on loans upon which SMI is based would be increased from £100,000 to £200,000 for new working age claims.[35]

Details about the changes are available on the Department for Work and Pensions' website.

2.4 Mortgage Rescue Schemes

On 2 September 2008 the Government announced a £2 billion package for housing which included an enhancement to mortgage rescue schemes, costing £200 million, which aims to assist up to 6,000 households over the next two years. The announcement described the scheme as "a limited scheme which cannot help those who have borrowed excessively or acted recklessly". It stated:

> Depending on their specific circumstances, eligible homeowners will be offered one of three products, following an assessment of their case by their local authority:

---

32 Civil Justice Council, *New Pre Action Protocol Launched for Mortgage Possession Cases*, Press Notice, 22 October 2008

33 FSA Press Notice "FSA asks mortgage firms to review arrears and possessions practice", 28 November 2008

34 Department for Communities and Local Government, "New scheme to help people at risk of repossession", 3 December 2008. The eight lenders are HBOS, Nationwide, Abbey, Lloyds TSB, Northern Rock, Barclays, RBS, and HSBC.

35 Originally this was set to rise to £175,000. The increase to £200,000 was announced in the Pre-Budget Report on 24 November 2008.

- shared equity would help householders who have experienced payment shocks and need some help in paying their mortgage
- shared ownership would help those with a bigger financial gap but still able to make a contribution to monthly payments
- sale and rent back will help the most vulnerable on low incomes with little chance of sustaining a mortgage.

The statement also said:

> Our mortgage rescue scheme will help the most vulnerable households. A number of private sector organisations have proposed different schemes to help those facing difficulties. Over the autumn we will be working with the CML and private providers. We will be challenging them to develop privately-funded proposals so that mortgage rescue may be an option for other families in difficulty, perhaps because of payment shocks stemming from the end of fixed-rate terms.[36]

On 22 October 2008 Housing Minister Iain Wright confirmed that this scheme would be fully operational from January 2009. On 24 November 2008 it was further announced that more than 60 councils would be fast-tracking the scheme, and starting to take applications from the beginning of December and also that the scheme would be enhanced to cover vulnerable families at risk of repossession because of additional loans secured on their home.[37]

In the 2009 Budget the Government announced that it would be "widening the eligibility criteria for the Mortgage Rescue Scheme so that households in negative equity are not excluded."[38]

2.5 The Homeowner Mortgage Support Scheme

During the debate on the Queen's Speech on 3 December 2008 the Prime Minister announced that a new scheme would be launched to assist people who suffer a temporary but significant loss of income which leaves them unable to pay their mortgage for a short period, such as being made redundant.

Put simply, this scheme involves a government guarantee against losses incurred on a mortgage by the lender. If the borrower defaults the Government pays the lender up to 80% of the difference between the interest and principal owed the lender and the amount recovered when the property is sold. A press notice from HM Treasury on 10 December 2008 set out the rules regarding who will qualify for the scheme:

> To qualify, borrowers will:
>
> * have suffered a loss of income from employment or self-employment of a scale which now makes full mortgage payments difficult, but which is not expected to be a permanent loss of income;
>
> * have been in dialogue with their lender, including over the use of existing forbearance policies, and have been making some level of regular payment;
>
> * have taken out a mortgage of up to £400k;

[36] Department for Communities and Local Government "Billion pound package for housing", , 2 September 2008

[37] Department for Communities and Local Government "Real help now to support homeowners through difficult times" 24 November 2008

[38] HM Treasury, *Budget 2009: Building Britain's Future*, p 104

* have savings below £16,000, (which is the same as for the existing Support for Mortgage Interest scheme (SMI));

* apply for assistance as owner-occupier - the programme will not apply to people with second homes or buy-to-let properties;

* not be in receipt of SMI or mortgage rescue assistance;

* have been assessed as being able to pay a certain monthly amount on an ongoing basis;

* have received financial advice from a party other than their lender to determine their eligibility for the scheme, including testing the long-term sustainability of their financial position, and their ability to resume full payments once their income increases; and

* have fallen into arrears for a number of months during which the lender has exercised forbearance.

The scheme will be open for a window of two years, subject to review.[39]

On 21 April 2009 the scheme was formally announced in a statement to Parliament by the Secretary of State, beginning immediately. The statement said:

> From today, the following major high street lenders will offer their customers HMS: Lloyds Bank Group (which includes Halifax and Bank of Scotland), Bradford and Bingley, Northern Rock, the Royal Bank of Scotland (which includes NatWest and Ulster Bank), Cumberland Building Society, and the National Australia Bank Group (which includes Clydesdale and Yorkshire Bank).
>
> A number of other banks, building societies and specialist lenders have also confirmed today that they will offer their customers HMS as soon as possible. These are Bank of Ireland (which includes Bristol and West), GMAC, GE Money, Kensington Mortgages, Standard Life Bank, and the Post Office.
>
> Lenders offering HMS will have the security of a Government guarantee if the borrower defaults.
>
> At the same time, four other high street lenders, Barclays (including First Plus), HSBC, Nationwide and Santander (including Abbey and Alliance and Leicester) have all confirmed today they are offering comparable arrangements to their customers, while opting not to take up the Government guarantee. Customers of these institutions experiencing a reduction in income and willing to make regular monthly payments will receive a similar level of support and be encouraged to seek independent money advice.
>
> As a result of today's announcement, lenders covering more than 80 per cent of the mortgage market will now be providing enhanced support to their customers. Borrowers will receive independent money advice as part of these changes to help them make the right decisions for their circumstances. The door will remain open for further lenders to join the scheme, and we will be working actively with the sector to enable this.
>
> HMS does not provide consumers with a payment holiday. The mortgage interest payments that have been deferred will eventually have to be paid back.

[39] HM Treasury, "The Homeowner Mortgage Support Scheme", 10 December 2008

> Households will need to seek independent money advice before signing up to the scheme to make sure they understand the consequences of participating. We have been working closely with Shelter, Citizens Advice Bureau, Consumer Credit Counselling Service, National Debtline and PayPlan to ensure they are ready to provide advice on the scheme, including making £2.5 million available for advice agencies to support the delivery of the scheme.[40]

Further details on the scheme are available on the Department for Communities and Local Government's website. It was reported after this announcement that the larger banks taking up the scheme were those that are owner or controlled by the state, and that those outside of Government control have not taken part.[41]

3 Macroeconomic measures

This section looks at the macroeconomic measures adopted by the Coalition Government, the previous Labour Government and the Bank of England in response to the recession.

3.1 Interest rates

Interest rates are set by the independent Monetary Policy Committee of the Bank of England rather than the Government. Interest rates were cut from 5.0% in September 2008 to 0.5% in March 2009 - the lowest in over 300 years. Further information on the level of interest rates in recent years is in Library Standard Note *Interest rates and inflation*.[42]

3.2 Quantitative easing

On 5 March 2009, the Bank of England announced that it would start a policy of "Quantitative Easing" (QE).[43] This is a policy aimed at boosting the level of activity in the economy. Under normal circumstances, monetary policy operates through the interest rate set by the Bank of England. However, interest rates were reduced to 0.5% in March 2009 leaving little scope for further cuts. With conventional monetary policy constrained in this way, the Bank of England has had to adopt the unconventional QE policy. Under QE, the Bank creates money which it uses to buy assets (mainly government bonds). This increases the amount of money in the economy. It is hoped this will boost economic activity by encouraging banks to lend and consumers to spend.

The initial level of QE was set at £75 billion but this has been increased on several occasions to a total of £200 billion in November 2009. The MPC reviews the level of QE at its monthly meetings.

There are concerns over the use of QE. As it is an unusual form of monetary policy, it is hard to judge the extent of QE required to stimulate the economy to the desired effect. Too much QE could lead to higher inflation in the future while too little may not do enough to boost the economy. Further information is available in Library Standard Note, *Quantitative Easing.*[44]

---

40 HC Deb 21 April 2009 col 5WS

41 "Mortgage support scheme shunned", *Financial Times*, 22 April 2009; "More than 500,000 homeowners not covered by HMSS scheme", *Roof Magazine*, 22 April 2009

42 SN/EP/3731

43 Bank of England News Release, *Bank of England Reduces Bank Rate by 0.5 Percentage Points to 0.5% and Announces £75 Billion Asset Purchase Programme*, 5 March 2009

44 SN/EP/4997

3.3 Fiscal policy

Fiscal policy refers to the use of tax and public spending to meet economic policy objectives. Fiscal policy measures can be divided into two types:

- Automatic stabilisers
- Discretionary measures

The economy's "automatic stabilisers" mean that when the economy slows, government spending is increased (through, for example, higher benefit payments) while tax revenues tend to fall. This works to boost the economy. The reverse happens in an upswing. This has the effect of reducing the size of the upswing and downswing of the economic cycle. The automatic stabilisers are "automatic" as they do not require any policy change, such as alterations to tax rates or planned public spending.

Labour Government

The Labour Government introduced discretionary fiscal measures in the 2008 Pre-Budget Report (PBR) to support the economy. The main element of this was a temporary cut in the rate of VAT from 17½% to 15% from 1 December 2008 until 31 December 2009. VAT returned to 17½% on 1 January 2010. In his 2008 PBR statement, the Chancellor said:

> To prevent the recession from deepening, we … need to take action to put money into the economy immediately. I have looked at a wide range of ways in which we might achieve this. I have decided that the best and fairest approach is a measure which will help everyone, including millions of households that pay no direct tax at all, and it is to deliver a much-needed extra injection of spending into the economy right now. I therefore propose to cut VAT from 17½ to 15 per cent. until the end of next year. This reduction will come into effect next Monday, 1 December. It will continue for 13 months before returning to the present level of 17½ per cent. at the beginning of 2010, by which time we expect the recovery to be under way. This temporary reduction is equivalent to the Government giving back some £12½ billion to consumers to boost the economy. We would like retailers to pass it on as soon as they can. It will make goods and services cheaper and, by encouraging spending, will help stimulate growth ... this is possible only because I have rejected advice to take no action. [45]

The Treasury's assessment of the effect of the VAT cut on the economy was reported in the following PQ:

> Geraldine Smith: To ask the Chancellor of the Exchequer what assessment he has made of the effect of the temporary reduction in the rate of value added tax on the economy during the recession. [311365]
>
> Mr. Timms: The Government expect the package of stimulus measures announced in the 2008 pre-Budget report to have increased GDP by around 0.5 per cent. percentage points in 2009. The VAT reduction was a key element of this stimulus and reduced the tax liability for both businesses and households by around £11 billion. It has benefited consumers, where passed on via lower prices, and otherwise has helped to support businesses and jobs, by strengthening cashflow and profits.[46]

The IFS *Green Budget 2010* also commented on the effects of the cut in VAT:

---

[45] HC Deb 24 November 2008 c490 - c495

[46] HC Deb 18 January 2010 c198w

> Given the scale of the economic downturn, short-term fiscal stimulus policies to support household demand were desirable.
>
> [...]
>
> Analysis in Green Budget last year and further work since then was considerably more optimistic than that of many other commentators about the potential for the VAT cut to stimulate demand. However, the converse of this is that we anticipate a negative effect from the return of VAT to 17.5%, which may slow any nascent economic recovery.[47]

The 2008 PBR also announced that the Government would bring forward some capital spending to support the economy:

> The Pre-Budget Report also announces action to bring forward £3 billion of capital spending to support the economy, increasing capital budgets for 2008-09 and 2009-10. In turn, this means that capital budgets in 2010-11 can be set at a lower level, with total capital DEL budgets over the entire CSR period being no higher as a result. [48]

In its last Budget in March 2010, the Labour Government said that its aim was to deliver a sustained consolidation over the medium term while creating space in the short term to allow scope for continued fiscal support. It provided a small discretionary fiscal boost of £1.4 billion in 2010/11, which was to be more than offset by tightening in later years.

The recession and the fiscal response to it led to a severe deterioration in the public finances. The March 2010 Budget forecast a budget deficit of nearly 12% in 2009/10 and over 11% in 2010/11. In 2010, the Government passed the *Fiscal Responsibility Act* which required it to meet certain fiscal targets. The Government's targets included borrowing falling as a share of GDP in each year between 2009/10 and 2015/16 and that borrowing be more than halved to 5.5% of GDP or less in 2013/14. To achieve the medium term consolidation in the public finances, the Labour Government had announced a range of policies including:

- A new top rate of income tax of 50% on incomes over £150,000 from April 2010
- An 1 percentage point increase in national insurance from April 2011
- Increases in fuel, alcohol and tobacco duties
- Reduced public spending growth with current spending growing by 0.8% a year between 2011/12 and 2014/15 and public sector investment falling to 1¼ % of GDP by 2013/14.

Coalition Government

The Coalition Government took a different approach to fiscal policy, emphasising deficit reduction. Its first Budget said:

> The most urgent task facing this country is to implement an accelerated plan to reduce the deficit. Reducing the deficit is a necessary precondition for sustained economic growth. To continue with the existing fiscal plans would put the recovery at risk, given the scale of the challenge. High levels of debt also put an unfair burden on future generations.[49]

The Budget explained the reasons for this approach:

---

47 IFS, *The IFS Green Budget 2010*, p74
48 HM Treasury*, Pre-Budget Report 2008*, para 2.50
49 HM Treasury, *Budget 2010,* p1

- reducing public sector borrowing will underpin private sector confidence and reduce competition for funds for private sector investment, supporting growth and job creation over the medium term;

- failure to address rising public sector debt in the UK risks pushing up long-term interest rates, which would affect not just the Government, but also families and businesses through the higher costs of loans and mortgages. The IMF has estimated that every ten percentage points of additional debt could raise interest rates by around ½ percentage point and reduce long-term economic growth by around ¼ percentage point. Public spending on debt interest is unproductive and squeezes out spending on public services;

- reducing the deficit and so placing debt as a percentage of GDP on a downward path provides scope to absorb the impact of future economic shocks; and

- public borrowing is, in essence, taxation deferred, and it would be irresponsible and unfair to accumulate substantial debts to fund spending that benefits today's generation at the expense of subsequent generations.[50]

The Budget announced a package of fiscal tightening worth £40 billion by 2014/15. 80% of the tightening was due to spending measures and 20% to tax changes. On the tax side, the largest change was the increase in VAT from 17.5% to 20% from January 2011, raising over £13 billion by 2014/15. There were also some tax cuts with the income tax personal allowance being increased by £1,000 from April 2011 and a series of cuts to corporation tax announced. On the spending side, around a third of the cuts announced in the 2010 Budget related to welfare.

The Coalition Government also passed the *Budget Responsibility and National Audit Act*. This repealed the previous Government's *Fiscal Responsibility Act* and also established the independent Office for Budget Responsibility (OBR) on a statutory basis. The OBR produces the economic and fiscal forecasts used by the Government.

4 Help for Small Business

In the Pre-budget Report of November 2008, the Government announced a range of schemes to support small firms in the current period of financial difficulty. Some of this support was new, other aspects were modifications of existing schemes and some parts of the package would be delivered by other agencies, e.g. the Regional Development Agencies and European bodies such as the European Investment Bank.

Between November and the start of the programme, 'early 2009', the original package was itself re-examined and substantially modified. This was partly to reflect worsening conditions and partly to improve access to help and to simplify the administration of a complex package of help. For example, the longstanding small firms' loan guarantee scheme is now subsumed within a new, broader package of help. The new form of assistance was outlined by the Government on 14 January 2009.[51]

4.1 Financial help

The announcement on 14 January 2009 of further government support for bank lending to business can be divided into three elements:

---

[50] HM Treasury, *Budget 2010,* , para 1.10

[51] HC Deb 14 January 2009 c13WS

Enterprise Finance Guarantee – A 75% government guarantee of bank lending to firms with under £25 million turnover (**up to £1.3 billion**).

Working Capital Guarantee – A kind of 'matched' scheme where government supports banks' risks on existing working capital lending; in return for them expanding lending to other firms using capital freed up by the government support provided (**up to £10 billion**).

Capital for Enterprise Fund – providing long term capital to businesses that have exhausted traditional forms of finance. Various banks are contributing to the fund **(£75 million**).

This goes beyond what was announced in the Pre-Budget Report in November last year.[52] There is a Business Link search tool intended to help business access the support:

Business Link, *Real help with finance now*

The first two schemes are delivered via banks only. In other words, it will still be up to individual banks to decide whether to lend based on the "risk profile" of the potential borrower. A *Financial Times* article suggested that the agreement with banks was that this risk profile would be generally low.[53]

The **Enterprise Finance Guarantee** scheme is open to businesses with an annual turnover of up to £25m, seeking loans of £1,000 to £1m, repayable over a period of 10 years. Most businesses will be eligible, but state aid rules exclude businesses in the agriculture, coal and steel sectors. The purpose of the guarantee could be to support new or existing borrowing or converting an existing overdraft into a loan freeing money for working capital. Participating lenders are: Barclays; Clydesdale/Yorkshire Bank; HBOS; HSBC; Lloyds TSB; RBS/ Natwest; and Northern Bank. Other lenders can apply to join the scheme.

The **Working Capital Scheme** is described as follows:

> Small firms do not apply for this scheme: instead banks will bring to Government portfolios of their existing and new lending, which Government will guarantee. This will not, therefore, be visible to small firms – but the scheme will help to maintain existing lending and increase the availability of additional lending.
>
> The Government will provide banks with up to £10 billion of guarantees covering 50 per cent of the risk on the banks' portfolios.
>
> This will secure up to £20bn of working capital credit lines for companies. In addition, it will free up capital which the banks must use for new lending as a condition of this scheme..[54]

If a business has not been able to secure funding from their bank using the Enterprise Finance Guarantee, they may be eligible for a loan (RDA transition loan funds) from their local Regional Development Agency (NB not available in London). Local Business Links can advise on what additional finance help is available through the relevant RDA.

The **Capital for Enterprise Fund** is the only fund that will not be delivered via banks. The funds will be invested by professional commercial fund managers. Due to EU state aid rules

[52] See Library Research paper RP 08/87 *Small Business, Insolvency and Redundancy*, 25 November 2008
[53] Jean Eaglesham, "Complex concoction gets mixed response", *Financial Times*, 14 January 2009
[54] Business Link, *Real help with finance now* [on 10 February 2009]

the investments cannot cover a number of areas such as the agricultural sector. The fund will be delivered via *Capital for Enterprise Limited* which was incorporated in March 2007 as a private limited company and commenced actively trading in April 2008. It is a Non-Departmental Public Body wholly owned by BERR and managed by an independent Board of Directors with 12 full-time, permanent staff. Equity funding is a way of raising share capital from external investors in return for handing over a share of the business. The nature of the fund is explained by BERR:

> The government has launched a £75 million Capital for Enterprise fund (CFE) with £50 million of government funding which will allow companies to fund business development by selling debt in exchange for an equity stake in their business. The fund will provide equity and quasi-equity of between £250,000 and £2million for companies of up to £50m turnover who have viable business models and growth potential in need of long term capital.

Capital for Enterprise describes how the fund will operate as follows:

> The fund will invest through professional commercial fund managers (most likely two) who will operate within the recognised equity gap within the UK, specifically making investments of between £250,000 and £2m into businesses which meet the EU's SME definition. Investment will be aimed at fundamentally sound businesses with existing cash flows and genuine growth potential but which are currently constrained through being over-geared. The fund will offer equity or mezzanine investment aimed at releasing and sustaining that growth potential. The fund is not intended as a rescue facility for struggling businesses.
>
> A Government commitment of £50m will be invested pari-passu with a contribution of £25m from four banks. The private funding will be drawn down and invested pro rata with the public money, both Government and private funding will face the same proportionate fees, charges, profits and risk of loss The fund managers to be appointed will have to meet all the usual standards of propriety and regularity in making investments which will include a restriction on investing in businesses whose operation could embarrass, or fall outside the investment mandates of the Government or its partners.
>
> Until fund managers are appointed, interested businesses should telephone **0845 459 9780**. CfEL is putting in place experienced corporate finance managers to handle the responses.[55]

The three elements outlined above were described in the Ministerial Written Statement:

> - Up to £1.3 billion of additional lending to smaller businesses through the Enterprise Finance Guarantee. This 75% guarantee will support bank lending to businesses of less than £25m turnover who are otherwise credit worthy but are facing problems in accessing working capital because of economic conditions;
>
> - Up to £10bn Working Capital Guarantee, which by guaranteeing up to 50% of a portfolio of loans will support bank lending of up to £20bn. Banks have been invited to submit their portfolios of loans for approval. The first £1bn guarantee tranche should be operational by 1st March, supporting around £2bn of loans. Use of this facility will of course be subject to final terms guaranteeing value for money.

---

[55] Capital for Enterprise, *Capital for Enterprise Fund - Outline Description* [ret'd 5 February 2009]

- a £75 million Capital for Enterprise Fund, made up of £50m of Government funds and £25m from Barclays, HSBC, LloydsTSB and RBS. The fund will provide long-term capital to businesses who have exhausted traditional forms of finance.[56]

One extra source of financial support was announced in the 2009 Budget. A feature of the recession has been the drying up of trade credit insurance. This insures traders that they receive money owed them and therefore extends the free credit period available to, for example, retailers, between when they receive stock and when they sell it. The Government announced in the Budget a six month 'top-up' insurance for businesses that have had their insurance levels reduced or withdrawn altogether. Each firm can benefit to the extent of its credit reduction or £1 million, whichever is lower. The aggregate level of insurance is capped at £5 billion.[57]

4.2 Non- finance help

Alongside schemes to provide finance, the November 2008 Pre-Budget Report also included various schemes to provide relief for business,

Late payment

The measures include provisions to "provide a new service for businesses in temporary financial difficulty to spread payment of their tax bills over a timetable they can afford".[58]

The scheme focussed on a negotiation between HRC and the company "to agree arrangements tailored to need".[59] The dedicated phone number is 0845-302-1435. An article in *Taxation* noted that although any agreed payment delay will not attract late payment surcharges, interest (currently 3.5% for income tax) will be added to the amount due.[60]

According to BERR:

> As of 11 March 2009, over 88,000 businesses who contacted the Business Payment Support Line had been given agreements to delay payment of tax, amounting to more than £1.5 billion of tax.[61]

Extended loss carry back

Losses on trades and professions made now can be carried back against profits made in the three previous year's profits, as opposed to the current restriction to the previous year. Put simply, this will accelerate the speed with which companies can claim relief for losses and hence reduce their tax liabilities.

Small companies' corporation tax rate increase

The 2007 Budget introduced a staged increase in the rate of small firms' corporation tax rates from 19% in 2006 to 20% in 2007 and 21% in 2008. It was expected that the next increase, to 22%, would take effect from April 2009. It was announced that this increase would be delayed until April 2010.

---

56 BERR, Ministerial Written Statement, Government Financial Help for Business, 14 January 2009
57 HM Treasury Budget 2009 pp4.14
58 HM Treasury Pre-Budget Report 4.10
59 Ibid box 4.2
60 *Early Xmas present,* Taxation 4 December 2008
61 BERR Briefing Real Help for SME's, as at 10 February 2009]