

# Barclays Submission to the 2014 Budget

## Introduction

Barclays is pleased to make this submission to the 2014 Budget in the context of improving circumstances for businesses and families. Across the economy as a whole, 43 per cent of businesses feel positive about the economy, which is 20 per cent higher than the same point last year.<sup>1</sup>

We believe that this Budget is an opportunity to think positively about how to create the right conditions for long term, sustainable success for the United Kingdom. We set out below some of our thoughts about the UK economy with some suggested opportunities for further measures from the Government:

1. **Fostering entrepreneurialism:** We encourage the Government to consider ways of creating a world class ecosystem for entrepreneurialism. Most fundamentally, we believe that high growth potential start-ups require significantly enhanced access to non-bank risk finance. Equally, access to skilled employees, clear regulation and effective business support should all be at the heart of a growth strategy aimed at supporting the next generation of British business champions. A recent report for Barclays by *The Economist* highlighted the importance of supporting ‘micro-multinationals’ if they are to be able to thrive in the global market.
2. **Exports:** Britain has a long history as a trading nation. With the emergence of new economic powers, particularly in the East, but also in Africa and Latin America, a new global race to supply the goods and services needed in those regions has surfaced. Barclays is working hard to support the Government’s export strategy through measures to give SMEs the tools and confidence to look abroad. This, together with enhanced support to medium-sized companies, will see a fundamental shift in the UK’s competitiveness and subsequent ability to increase exports.
3. **Skills and employability:** Significant progress is being made on delivering high quality apprenticeships and employability skills training for young people. This is crucial for enhancing life chances for the next generation. It is also fundamental to the competitiveness of UK businesses, for which access to a high quality workforce is a precondition for success.
4. **Housing:** For Help to Buy to reach its full potential, it must be partnered with measures to deliver a sufficient housing supply.
5. **Infrastructure:** We commend the Government’s commitment to enhancing the UK’s infrastructure system as a means of encouraging growth at national and regional levels. We believe that the private sector has an integral role to play in this and encourage the utilisation of co-lending.

We are delighted to be able to work so closely and effectively with the policy community on these areas, and believe that a great deal more can be achieved through partnership between Government and industry.

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<sup>1</sup> Barclays Data

## 1. Fostering entrepreneurialism

Recent research by Demos Finance highlighted the distinction between high growth companies and SMEs. SMEs are fundamentally important employers and comprise 99.9 per cent of the UK's businesses,<sup>2</sup> and as such are an important focus of our work as a bank. However, the majority of these businesses are focused on continued profitable trading rather than delivering significant or transformative growth. For these companies, finance and business support to help them continue to be successful is more relevant than interventions to help them become global giants.

Conversely, high growth potential firms can exist in all sectors, in all parts of the economy, and crucially at all sizes, from a start-up to a large firm. These businesses are the most likely to offer the export rich, high-value business models crucial to goals as varied as reducing the trade balance and addressing youth unemployment.

Consequently it is important for the business environment to support both the majority of businesses to continue to profit and grow, as well as to effectively incubate those businesses that have the potential for highly significant growth.

It is particularly important to create the right infrastructure to foster entrepreneurialism. The UK already has significant numbers of start-ups, but has struggled to convert this trend into growth in the overall number of businesses. The reasons for this lack of net growth are varied, and include cannibalisation of existing businesses' market share, identifying and hiring technical skills, suboptimal conversion into exporter business models, and a lack of early stage risk capital.

For the highest potential entrepreneurs, identifying solutions to these challenges is particularly important to bridge the gap from conception of an idea to full commercialisation.

### Funding businesses.

One of the most significant issues facing the UK economy is the extent to which smaller businesses face a funding shortfall. Some commentators have argued that there has been a fundamental reduction in demand from the business community for finance. Others – including business organisations themselves - have strongly argued that many customers experience real difficulties in accessing funding.

Government data shows that in recent years traditional business lending by the high street banks has remained relatively stable with only a seven per cent reduction in the overall stock of loans, which is largely accounted for by natural cyclicity.<sup>3</sup>

The visible reduction in finance availability, we believe, is largely accounted for by a fundamental reduction in lending from overseas banks and other peripheral lenders, as captured by the Bank of England's 'LN' data. These lenders have largely taken flight from this market and are not expected to re-establish activities in the UK on a similar scale. Importantly,

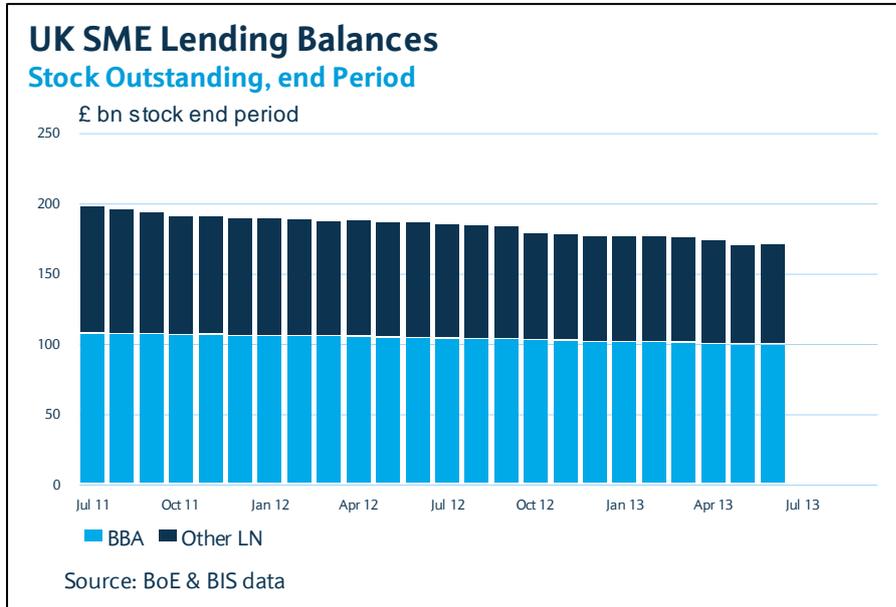
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<sup>2</sup> Department for Business Innovation and Skills, October 2013 Business Population Estimates

<sup>3</sup> Bank of England & Department for Business, Innovation and Skills data.

much of the finance that was provided by these lenders was higher risk, and so Barclays believes that it is unwise – and likely unsuccessful – to look to the traditional lenders to wholly replace this lending.

**Figure 1:**



Instead, the solution should be in enhancing ‘non-bank’ finance. Much of this would be more suitably structured as a mechanism for financing risk, and we can learn from the structure of other nations’ business finance provision. For instance, the UK business finance market relies on 80 per cent of its finance to be provided by traditional lending, while in the US, this stands at only 20 per cent, and the remaining 80 per cent is derived from non-bank sources.<sup>4</sup>

Moreover, this lack of alternative financing options is exacerbated outside of the ‘Golden triangle’ comprising London, Cambridge and Oxford. While regional finance policy has largely focused on delivering localised traditional lending, the geographical disparity of coverage in non-bank and risk finance is a far greater concern.

Separately to these growth financing challenges, many small businesses struggle with the cash flow implications of being paid late for their services. Barclays research suggests that a large number of businesses have rejected potential contracts due to the fear that they will be paid late or not at all. We are pleased to be working with the Government, industry and small business groups to identify solutions to this issue, including financing options, education on legal rights, and help on credit checking potential customers.

Beyond financing, SMEs are subject to difficulties such as skills shortages and uncertainty that affect business performance. Barclays is pleased by the increasingly global outlook of the Government and we believe this could benefit SMEs by encouraging skilled professionals to relocate to the UK.

<sup>4</sup> *Alternative Finance for SMEs and Mid-Market Companies*, TheCityUK, page 24, October 2013.

## Requests to the Government

- **Focus on non-bank risk finance to address the growth finance funding gap** – A vibrant bank lending environment is fundamental to the success of UK businesses, but it is clear that the lack of effective non-bank markets suitable for providing long term risk finance is a significant barrier to growth. We encourage the Government, through the Business Bank, to consult on how to support the development of a diverse market for risk finance, and in particular to consider ways of enhancing the geographical coverage of these funding channels, whilst sensible regulation would encourage participation through the provision of confidence without excessive regulatory burden.
- **Bringing skills into the UK** – The domestic skills agenda is fundamental to sustainable success for the UK on the global stage, and we set out our thoughts on this below. It is equally important that businesses are able to access international expertise where it cannot be found domestically. We request that the Government develop immigration policies to make the UK accessible for skilled professionals who will be able to contribute to our economy's success.
- **Promote late payments best practice amongst SME groups** – For many businesses, the risk of customers failing to pay within a reasonable period is significant. We ask the Government to continue to work with the Financial Services industry, accountancy bodies and SME groups to promote awareness of late payment rights and responsibilities, as well as products available to help SMEs manage late payments and wider cash flow risk.

## 2. Exports:

We support the Government's continued focus on the importance to British businesses of success in overseas markets. Research carried out by Barclays shows that the average business reaches a domestic growth ceiling after just four years, after which any significant development is likely to require access to overseas markets.

For many companies, particularly SMEs, the costs associated with beginning a journey as an exporter – or in some cases the perception of the costs – prevents companies from reaching their potential and limits their growth at an early stage. We believe that greater coordination between UKTI, UKEF, large businesses and the SME community could materially improve the success of British exporters.

Barclays has placed great emphasis on raising the awareness of the potential impact that exporting can have both on businesses and, more widely, on the UK economy. Our partnership with the think-tank Reform served well to bring attention to this and the report *Open for Business* was well received in its appraisal of its importance.

The Government's challenge to double UK exports by 2020 is ambitious but not misplaced, and we wish to contribute further to this. We have been working with UKTI and UKEF on different initiatives to help achieve this and we look forward to continuing our partnership in the future.

For instance, Africa is a key area of focus for Barclays, with our strong presence on the ground hosting 50,000 employees in sub Saharan Africa and our CAPEX Solutions capability places great emphasis on Africa. With the backing of UKEF it secured a contract worth US\$170m for a Hospital Project in Ghana for a UK SME named NMS. Similar to this, we will be encouraging our clients where appropriate to explore various developing markets including Africa, as this is one of the best ways to stimulate the UK economy. We are currently exploring different alternatives to partner with UKTI to promote these markets.

### **Requests to the government:**

- **Enhance awareness of Export support programmes** – Many UK companies, especially SMEs, are still unaware of the different export support schemes provided by the Government. We encourage the Government to begin a renewed programme of promotion to potential exporters of all sizes to increase explicit awareness and the benefit of UKTI and UKEF to UK business.
- **Greater information sharing between UKTI and large businesses** – The Autumn Statement's commitments to increase UKTI's presence in India and China, and the proposed British Business Centres in six key emerging markets are encouraging for SME exporters. But large businesses often have deep knowledge of target export markets, both in the common target regions, and also in less recognised areas which might offer high potential markets for smaller exporters. We ask the Government to build on current success to deliver a more effective transfer of information and partnership between SMEs, larger businesses and the Government to ensure our smaller businesses are able to respond quickly and effectively to potential trading opportunities.
- **Stronger ties between Government, banks and large companies:** London boasts world class financial expertise. Barclays fully acknowledges that we as a bank have a fundamental role to play not just in financing overseas expansion but also in instilling our international knowledge and networks. This is something that we embrace and our efforts to provide expert global knowledge and exposure to important networks are markedly well received. Our seminars that connect experienced exporters and businesses, for which exporting is a completely new concept, are a good example. We believe stronger collaboration between the financial industry and the Government could truly enhance the ability of established exporters to transmit their knowledge to potential new exporters.

### **3. Skills and employment**

While there is rightly a focus on optimising the UK's business finance markets and their global exposure, for many businesses of all sizes, access to skills is the most significant challenge they face. Some employers struggle to identify candidates with the technical skills required for a role, and others experience challenges with work readiness of potential staff.

Both of these challenges need to be addressed, and we are delighted to have a productive relationship with the Government to support skills and work readiness among young people. We support the latest Autumn Statement committing the Government to abolish National Insurance Contributions for employees under 21 years old and earning less than £813 a week, making it more affordable to employ young people whilst maintaining good standards of pay. The commitment to build on the success of the 1.5 million apprenticeship starts since 2010 is also very encouraging and we look forward to seeing the plans for employers to receive

funding for the training costs of apprentices directly through the HMRC-led system along with the £10 million to be invested every year in Jobcentre Plus support for 16 and 17 year olds.

Barclays has a strong track record in helping young people become 'work ready' and providing opportunities for them within our business and in partner organisations. As part of this, we have committed to welcoming 2,000 apprentices into Barclays by 2015, with over 1,000 in post so far. Over 80 per cent of these apprentices were previously 'NEET' and over 70 per cent no longer receive benefits since starting our schemes. We are already seeing strong retention rates (over 80 per cent) and performance ratings - the business benefits are clear.

However, there is still room to improve opportunities for young people to develop the skills they will need in the work place, and we would highlight the importance of tackling youth employability at an earlier age.

### **Requests to the Government**

- **A greater focus on work readiness within schools** – We suggest that the Government increases the time within the curriculum for preparing young people for work. Students would strongly benefit from high quality professional careers advice, as well as workplace behaviour and skills training. Barclays believes the Government should consider reinstating the statutory duty that schools should provide every young person at KS4 with a standard amount of work-related learning. The provision of work-related learning would benefit pupils most effectively if teachers were given additional support in meeting this criterion were it to be implemented.
- **Promote work experience amongst small business** – We welcome recent changes which make it easier for small businesses to offer work experience. The next stage is to increase awareness of these changes among the small business community.
- **Create a kite mark to promote quality work experience** – The quality of work experience is as important as availability. A kite mark would promote standards amongst both schools and businesses.
- **Encourage wider use of work experience preparation tools** - We welcome the Government's support for the recently created LifeSkills programme which provides young people with the key skills they need to transition effectively from education to work by 2015, as one step to help tackle youth unemployment. It develops the skills employers most seek in young people covering topics such as writing a CV, managing money, and building self-confidence through schools, colleges and online. After completing the modules in class or online, teachers can then match students to local work experience opportunities.
- **Open up apprenticeships to those who need them most:** We are concerned by the barriers young people face when applying for certain apprenticeships schemes. Many colleges require students to achieve A-C grades in English and Maths, which is likely to exclude high potential apprentices who have found a school environment challenging. We would ask the Government to encourage a less prescriptive approach to post-16 apprenticeships in this educational setting and consider opening level 2 apprenticeships to those without any academic qualifications.

### **4. Housing**

Ensuring young people are able to access good quality, affordable housing is extremely important, and it is regrettable that it currently takes the average first time buyer eight years to

save for a deposit. In addition to measures that address mortgage pricing and availability of finance, the fundamental imbalance between supply and demand within the market must be addressed if access to home ownership is to be improved.

It was encouraging to see the Autumn Statement highlight the support the Government is providing through schemes such as the National Planning Policy Framework, the £4.5 billion investment in Affordable Housing, and the £570 million Get Britain Building scheme. However, it is key that this approach is sustained and furthered if we are to ensure a balanced housing sector.

### **Requests to the Government**

- **Address barriers to the supply of housing** – We hope that Government-led schemes will support many first time buyers in purchasing their own home and are pleased to be participating in Help to Buy. Given the policy is designed to increase demand, it is critical that the supply of housing also increases. There is a risk, if this does not happen, that the market may still overheat. We would encourage the Government to explore ways in which housing supply can be increased.

## **5. Infrastructure**

High quality infrastructure is an important component of any economy's long term competitiveness, and we note the Government's activity to deliver significant enhancements in many areas to the transport, communications and energy infrastructure.

As with any major infrastructure delivery programme, access to significant amounts of finance will be crucial to continuing the success of these schemes and others across the country in a cost effective way. Barclays is pleased to have played a leading role in several high profile projects, including:

- Wakefield Waste PFI, co-funded by the Green Investment Bank, along with banks including Barclays
- 20 renewable energy developments including three solar energy projects, a wind farm and an anaerobic digestion plant

We encourage the Government to be innovative in accessing private sector and institutional finance, and believe that co-lending structures in particular could be materially beneficial.

### **Requests to the Government**

- **Enhance the role of banks in delivering infrastructure finance** – Banks play a major role in funding infrastructure projects, and could do more still. We encourage the Government to make greater use of innovation such as co-lending structures, and to create smoother transitions between bank debt and capital markets finance.