

SME's to benefit from regulation change on debt assignment

A relaxation in Government regulations on how small firms can finance their bids for public sector contracts should provide a welcome boost to the economy, according to a leading banking lawyer.

Small companies will now be able to use "debt assignment" tools to improve their chances of winning government tenders. Previously, they had to obtain prior permission before engaging intermediaries like factors or invoice discounters.

The move is part of Business Secretary Lord Mandelson's promise to "tease out the problems" facing small firms unable to obtain bank loans.

Thousands of companies wanting to obtain finance to help them bid for state contracts will now be able to compete on a level playing field, according to Stephen Maskell, head of banking and finance in the Banking and Business Recovery Division of Else Commercial Solicitors.

"The ban on assignments prevented a company wanting to tender for a public contract from using an intermediary such as a factor or invoice discounter without first getting permission," he said. It meant many SME's, which are more likely to use intermediaries to improve cash flow found that they could not compete for public contracts." Stephen Maskell added: "Small firms are generally dissatisfied by the level of government assistance.

"A third state they would like to see more protection offered to them rather than larger corporations. This new move by the Government will go a long way to helping them weather the recession." More optimistically, said Mr Maskell, a majority of smaller enterprises had already put in place a dedicated strategy to maximise business opportunities once the upturn did arrive.

"This suggests that business confidence hasn't completely ebbed and that companies are keen to look forward even though they are pessimistic about the immediate future; with tightening credit conditions, debtor days lengthening and increasing bad debts."

Latest figures from the Asset Based Finance Association show that corporate funding tools like invoice discounting now dominate the funding market. Advances totalled over £17.6 billion in the third quarter of 2008 – a 15 per cent growth from a year ago.

Invoice discounting is an alternative way for a company to draw money against its invoices while retaining control over the administration of the sales ledger.

It is used by companies that sell products or services on credit to other businesses and is normally only available to those with a proven track record and an annual turnover of at least £500,000.

Kate Sharp, Chief Executive of the ABFA, said: "It is a welcome change to hear some positive news amid all the negative press at the moment." Research released this month by the ABFA and finance broker Hilton Baird reveals that 62 per cent of SME's expect it will be as long as two years before the economy improves.

The time it takes for invoices to be paid is also extending, with average debtor days lengthening – nearly a third of SME's report this as up to 49 days.



Steve Maskell
Head of Banking & Finance

For more information, please contact: [Steve Maskell](#)

Tel: [0121 222 2602](tel:01212222602) Email: Stephen.maskell@elselaw.co.uk