



## Forum of Private Business (FPB) Economic Downturn Panel – results of fifth survey

### Background

This is the fifth response from the FPB's Economic Downturn Panel. Respondents were chosen at random, with the only criteria being that they were VAT-registered and had need of external finance.

The results of the first panel survey were reported at a meeting with Gordon Brown on 19 November 2008 and the second in the first week of December at the Small Business Finance Forum. The fieldwork for the third survey took place between 21 and 26 January, and the fourth between 5 and 10 February. The fieldwork for this survey of the Panel took place between 4 and 11 March 2009.

Since the last report, the following have taken place:

- 0.5% interest rate reduction on 5 March, following a similar cut in February.
- Policy of quantitative easing announced on 5 March.
- Asset Protection Scheme, announced in the Pre-Budget Report, came into effect on 1 March.
- Announcement on 6 March by a major national bank that the latest interest rate cut was not going to be passed on to its customers.

Since starting the Economic Downturn Panel, three companies taking part have ceased trading. The main reasons cited have been late payment, inability to access finance from their banks and problems with cash flow. No allowance for these companies has been made in the Panel.

### Summary

Cash-flow problems caused by slow payments and bad debt are having a debilitating effect on panel members.

Access to finance is still deteriorating, albeit at a slower rate than in previous months.

Although the interest charged and the amount lent have not changed significantly, many businesses have seen banks increasing the amounts charged and suggesting solutions that businesses believe are designed to increase the fees they can charge.

The potential for the Enterprise Finance Guarantee scheme is considerable, with around 9% of panel members applying for funding under the scheme. Businesses are, however, concerned about the cost.

## Supporting data

Key issues for businesses (in descending order):

- Cash-flow/slow payment/bad debt
- Lack of orders/market
- Business and consumer confidence
- Business rates
- Taxation/VAT
- Exchange rate
- Access to finance
- Pressure on businesses to reduce prices
- High interest of lending
- Bank pressure on businesses to repay the borrowings.

## Change over the last month

	Improvement	Deterioration	No Change	Balance
Market for products/services	22%	34%	44%	-12%
Competition within the market	7%	22%	71%	-15%
Viability of your business	20%	37%	44%	-17%
Cost of complying with regulations	0%	28%	72%	-28%
Late payment	9%	43%	49%	-34%
Risk management undertaken by financial services organisations (credit reference agencies, banks, trade insurers and so on)	0%	47%	53%	-47%
Government support for small firms	5%	35%	59%	-30%
Bank support for small firms	0%	50%	50%	-50%
Accuracy of media coverage	11%	43%	46%	-31%

Trend figures based on the final column ('balance') can be compared to previous months' figures:

	December	January	February	March
Market for products/services	-64%	-38%	-54%	-12%
Competition within the market	-14%	-18%	-9%	-15%
Viability of your business	-38%	-20%	-34%	-17%
Cost of complying with regulations	-41%	-30%	-38%	-28%
Late payment	-61%	-68%	-61%	-34%
Risk management undertaken by financial services organisations	-51%	-41%	-36%	-47%
Government support for small firms	-30%	-6%	-21%	-30%
Bank support for small firms	-45%	-22%	-48%	-50%
Accuracy of media coverage	n/a	n/a	-40%	-31%

Figures relating to the general business climate (market, competition, viability) have deteriorated at their slowest rate since the Panel was formed, while the proportion of businesses that are suffering from late payment has halved.

Some businesses have seen their cash flow improve as suppliers in the Eurozone are looking to pay quickly to get the best exchange rate possible, as many analysts expect the Euro to weaken soon.

## Access to finance

Over the last month, access to finance has changed as follows:

	December	January	February	March
Improved	8%	12%	2%	0%
Deteriorated	30%	18%	32%	18%
No change	62%	71%	66%	82%
Net balance	-22%	-6%	-30%	-18%

Although no businesses have seen an improvement in access to finance, the number seeing a noticeable deterioration has fallen.

One worrying development is that a number of businesses have reported delays in banks responding to requests for additional finance, in some cases taking up to three weeks. This may be due to lack of training in local branches, or the more complex structure in terms of lending products.

## Loans

The Panel have experienced a slight improvement in the terms and conditions offered through loans; all respondents who stated that terms and conditions had improved also mentioned that they had seen a drop in the base rate or improvement in the London Interbank Offered Rate (LIBOR).

Terms and conditions of loans have changed in the last month as follows:

	December	January	February	March
Improved	17%	10%	3%	4%
Deteriorated	27%	3%	6%	2%
No change	57%	86%	91%	94%
Net balance	-10%	+7%	-3%	+2%

The cost of finance has dropped following the 0.5% cut in interest rates last month. No businesses have reported that February's reductions have not been passed on in full.

	November	December	January	February	March
Mean lending rate	7.6%	8.0%	6.5% <sup>(1)</sup>	6.9%	6.6%
Bank of England interest rate	3%	3%	1.5%	1.5% <sup>(2)</sup>	1.0% <sup>(3)</sup>

(1) Figure has increased from 6.4% based on additional firms reporting.

(2) As the reduction was made the day before the fieldwork started, it was unlikely to have been factored into responses.

(3) As in February, the reduction was made the day before fieldwork started and so cannot be factored in to the results.

There has not been a significant change to the level of finance provided to the Panel, although one or two felt that they were waiting too long for a response to their applications for loans.

The total amount lent in commercial loans is as follows:

	November	December	January	February	March
Total (£)	55,982,000	56,067,000	56,212,000	56,196,000	56,191,000
Change (£)	-	85,000	145,000	-16,000	-5,000

## Overdrafts

Over the last month, terms and conditions have changed as follows:

	December	January	February	March
Improved	9%	12%	0%	3%
Deteriorated	28%	12%	23%	16%
No change	63%	76%	77%	81%
Net balance	-19%	0%	-23%	-12%

Whilst some businesses are still reporting restrictions in their overdraft facilities, in the majority of cases, it was the cost of finance that was an issue. To some, this was as a result of restrictions in their overdraft facilities leading to penalty charges. Arrangement fees and maintenance charges were also mentioned as leading to a deterioration in the terms and conditions of overdraft facilities.

In one case, this was down to the refusal of a bank to pass on the rate cut (this came after the reduction to 0.5%, but before any national bank stated that they were not going to pass on the rate cut).

One business saw an improvement in the amount and cost of credit, with the others who cited an improvement mentioning the rate cut.

	November	December	January	February	March
Mean lending rate	8.1	8.4	7.0	7.1	6.9
Bank of England interest rate	3%	3%	1.5%	1.5% <sup>(1)</sup>	1% <sup>(2)</sup>

(1) As the reduction was made the day before the fieldwork it was unlikely to be factored into responses.

(2) As in February, the reduction was made the day before fieldwork started and so cannot be factored in to the results.

The cost of lending has increased marginally for business that still have access to overdrafts, but a number of businesses have seen their overdraft limits cut.

	November	December	January	February	March
Total	6,953,000	6,808,000	6,973,000	6,943,000	6,923,000
Change		-145,000	165,000	-78,000	-20,000

## Fees and security

24% of companies have seen an increase in the banking fees paid, including arrangement fees and transaction fees. Fees relating to overdrafts, in particular, seem to have increased.

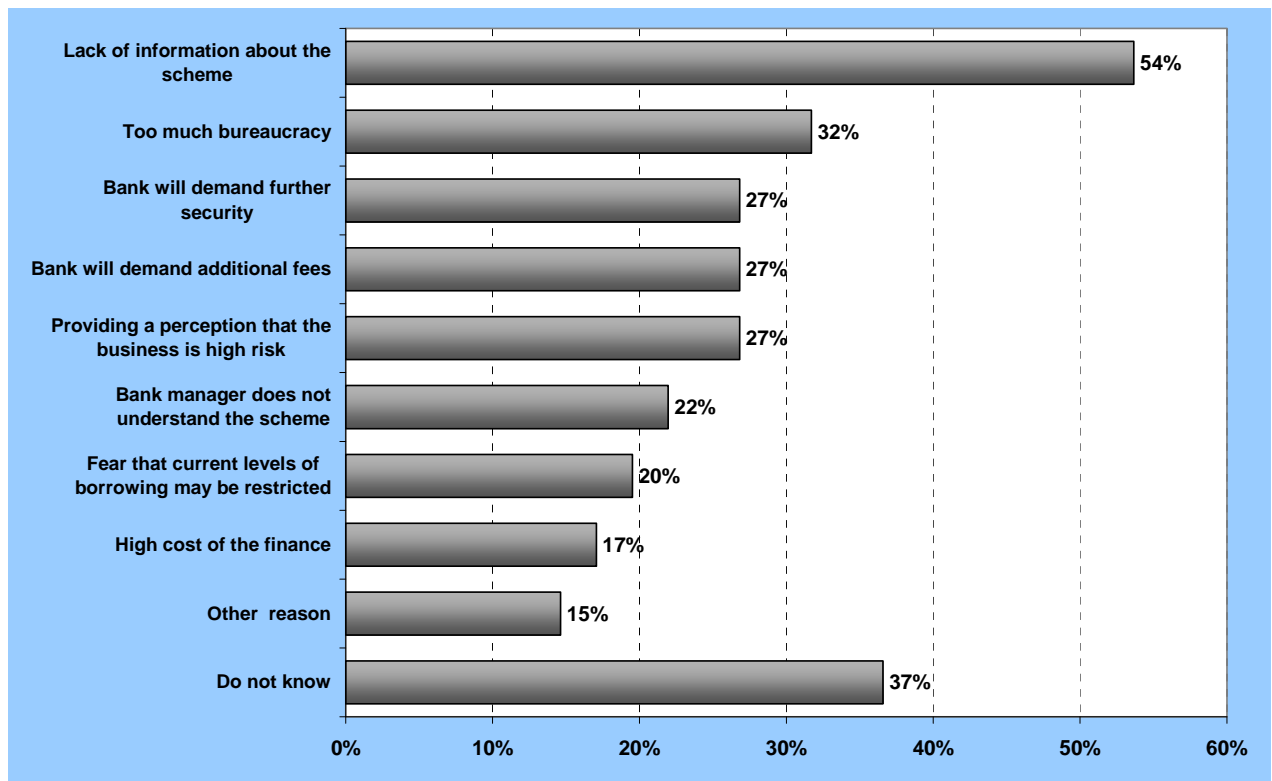
Changes to banking fees over the last month were as follows:

	December	January	February	March
Increased	26%	5%	15%	24%
Decreased	2%	11%	2%	3%
Stayed the same	72%	84%	83%	74%
Net balance	+24%	-6%	+13%	+21%

On average, one in seven businesses (14 to 15%) of businesses have been required to provide more security each month; however, this rate dropped by 7% in March.

## Barriers to using current government finance schemes such as the Enterprise Finance Guarantee scheme

Lack of information about the scheme is a core issue for businesses as they are still not convinced as to whether they qualify for various schemes, particularly whether they can apply if they have privately owned assets. There is also a concern over treatment by the banks as a result in terms of being considered as a higher risk or having to pay additional fees for services.



'Other reasons' included:

- Time taken to make a decision
- Currently applying for EFG or have already applied
- Various caveats and additional requirements
- Unforeseen restrictions to lending
- Not knowing where to go
- Perception that it had still not been set up.

A total of 9% of panel members have applied, or are about to apply, for the EFG scheme. This is considerably higher than the figures for its predecessor, the Small Firms Loan Guarantee scheme, as reported in the CBR/BERR research in 2007, when 2% had received support through the SLFG.

The majority of those businesses that had applied had not yet received a response from their banks, so details were sketchy; however, none anticipated having to provide personal guarantees of over 25% of the value of the loans and none expected to provide business collateral.

The comments about the length of the application process are more worrying.