Forum of Private Business (FPB)

Sixth Economic Downturn Panel Report

Background

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

The fieldwork for this survey took place between 3 and 11 April.

Since the last report, the following have taken place:

- No change to the interest rates after the 0.5% reduction announced on 5 March.
- Quantitative easing was announced by the Bank of England on 5 March and was followed by similar announcements in Switzerland, Japan and the US.
- New changes to employment and health and safety law introduced on 6 April.
- End of the financial year on 1 April.

Since creating the Panel, three companies on it have ceased trading. The main reasons given for the closures were late payment, inability to access finance from their bank and problems with cash flow. No allowance for these companies has been made in the Panel.

Summary

There are some positive aspects to the results of this month's panel survey, most noticeably that more businesses reported an improvement in their markets than a deterioration.

Access to finance follows a similar trend, with some businesses having grounds for optimism as they see that money is getting through to businesses. However, others are facing closure due to the intransigence of the banks in granting extensions or calling in their loans.

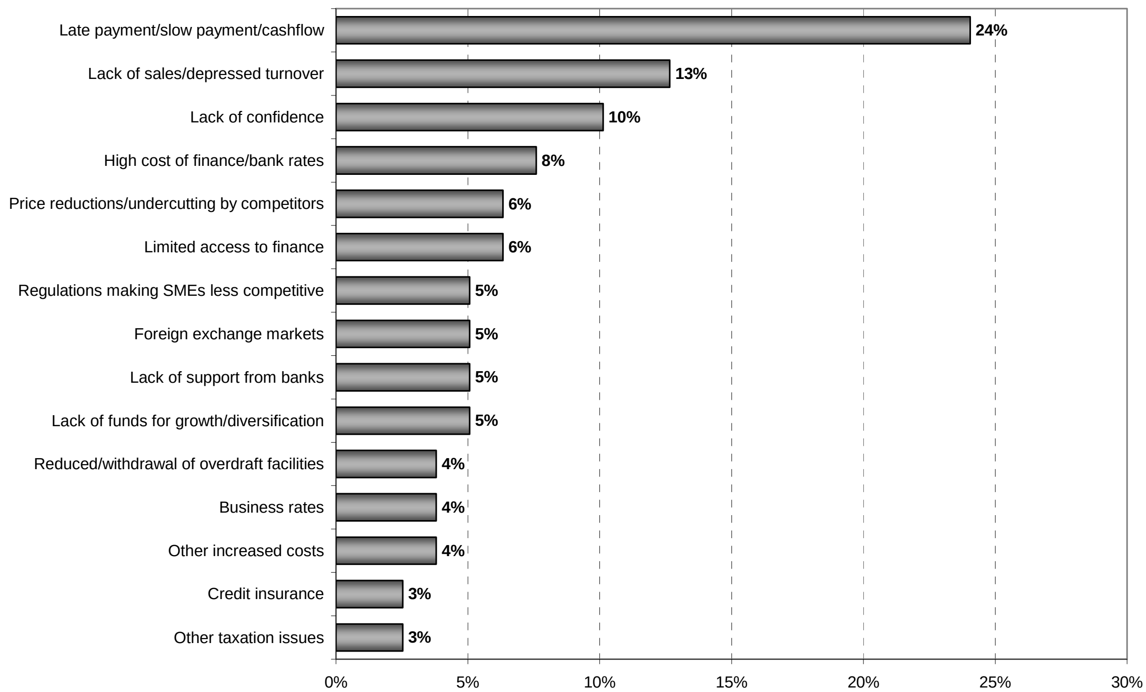
The overall picture is consistent with a degree of stabilisation returning to the lending markets, although there is still a feeling that the banks have limited resources. A small minority of businesses are beginning to indicate frustration at the inability of the banks to provide the resources they need to enable them to take advantage of opportunities in the marketplace.

Banking charges have increased significantly over the six months that the Panel has been in existence, with the average increase estimated to be £28 per month. Based on data from the Banking Industry Group (BIG) from 2007, this is an increase of between 15 and 20%.

Supporting data

Late payment and cash-flow issues remain the main concerns for panel members, followed by lack of sales, orders or turnover. Lack of confidence is the third most frequently cited issue by respondents, particularly in the house-building/construction industry. Financial issues also remain significant, most noticeably in access to finance for growth, as well as more generic limitations to finance.

The key issues affecting panel members are shown below:



Change over the last month

Business owners were asked whether they had experienced any change in access to finance over the last month. The results are shown in the table below:

	Improvement	Deterioration	No change	Balance
Market for products/services	26%	23%	51%	**2%**
Competition within the market	7%	26%	67%	**-19%**
Viability of your business	12%	23%	65%	**-12%**
Cost of complying with regulations	0%	37%	63%	**-37%**
Late payment	0%	56%	44%	**-56%**
Risk management undertaken by financial services organisations (credit reference agencies, banks, trade insurers etc.)	0%	21%	79%	**-21%**
Government support for small firms	5%	25%	70%	**-20%**
Bank support for small firms	5%	41%	54%	**-37%**
Accuracy of media coverage	5%	23%	72%	**-18%**

The market for products and services has a positive balance for the first time since the project began, with one in four businesses reporting an improvement in their markets; however, a similar proportion reported a decline.

Trend figures based on the final column (entitled balance) can be compared to previous months as shown below:

	December	January	February	March	April
Market for products/services	-64%	-38%	-54%	-12%	**2%**
Competition within the market	-14%	-18%	-9%	-15%	**-19%**
Viability of your business	-38%	-20%	-34%	-17%	**-12%**
Cost of complying with regulations	-41%	-30%	-38%	-28%	**-37%**
Late payment	-61%	-68%	-61%	-34%	**-56%**
Risk management undertaken by financial services organisations	-51%	-41%	-36%	-47%	**-21%**
Government support for small firms	-30%	-6%	-21%	-30%	**-20%**
Bank support for small firms	-45%	-22%	-48%	-50%	**-37%**
Accuracy of media coverage	n/a	n/a	-40%	-31%	**-18%**

Although the market for products is the most positive trend in April, the slowing in the deterioration of risk management by financial organisations and the less negative view of banks and the Government may indicate that lending support is getting through to a proportion of small business employers. However, businesses also reported some indicators of optimism in January, which dropped significantly in February.

Access to finance

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

	December	January	February	March	April
Improved	8%	12%	2%	0%	**8%**
Deteriorated	30%	18%	32%	18%	**19%**
No change	62%	71%	66%	82%	**73%**
Net Balance	-22%	-6%	-30%	-18%	**-11%**

A proportion of businesses have reported a notable improvement in access to finance, with loans starting to be agreed by banks in some areas. One or two have even been the recipients of payment holidays. In most cases, the administrative work required has been a significant additional burden, although the conclusion is beneficial.

Other businesses have not faired so well, with reports of reductions in overdrafts or withdrawal of facilities. Some have been refused access to additional funds in the form of loans. More worryingly, one business, which was moved from an overdraft facility to a term loan by its bank, has seen the bank call in the loan, despite regular contact and an understanding that the loan would be redeemed in two months. Another business has also been refused an extension to a loan.

A number of issues over access to finance are linked to providers of alternative forms of finance, such as invoice discounters or financial houses.

Loans

1 in 10 businesses cited a deterioration in the terms and conditions of their loans; the highest since December. Two companies reported this because they had been told that the banks were calling in their loans. In addition, some businesses claimed that the terms and conditions of their loans had deteriorated as they were rejected for additional finance. However, 85% of businesses on the Panel saw no change in the terms and conditions of their loans.

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

	December	January	February	March	April
Improved	17%	10%	3%	4%	**4%**
Deteriorated	27%	3%	6%	2%	**11%**
No change	57%	86%	91%	94%	**85%**
Net balance	-10%	+7%	-3%	+2%	**-7%**

The cost of finance has dropped slightly, but not quite in line with the 0.5% drop in the base rate from March.

	November	December	January	February	March	April
Mean lending rate	7.6	8.0	6.5 (1)	6.9	6.6	**6.4**
Bank of England interest rate	3%	3%	1.5%	1.5% (2)	1.0% (3)	**0.5%**

(1) Figure has increased from 6.4% based on additional firms reporting.
(2) As the reduction was made the day before the fieldwork was conducted, it was unlikely to have been factored into responses.
(3) As in February, the reduction was made the day before fieldwork started, so cannot be factored in to the results.

The total amount leant to companies has risen slightly over the last month, however three companies have reported that the banks are calling in loans totalling over £1 million pounds.

Total amount lent in commercial loans:

	November	December	January	February	March	April
Total	57,021,959	57,106,959	57,251,959	57,235,959	57,230,959	**57,245,959**
Change		85,000	145,000	-16,000	-5,000	**15,000**

Overdrafts

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

	December	January	February	March	April
Improved	9%	12%	0%	3%	**8%**
Deteriorated	28%	12%	23%	16%	**19%**
No change	63%	76%	77%	81%	**73%**
Net balance	-19%	0%	-23%	-12%	**-11%**

Two businesses have had their overdraft facilities cut, while others sought to have their facilities extended and were rejected. A small minority of businesses are seeing interest rates cut and one or two have seen fees reduced. In most cases the deterioration of overdrafts have been due to restrictions or withdrawal of facilities, cost was also an issue.

There has been a marginal reduction in the cost of finance, but equal to the reduction in bank of England base rates in March. One or two businesses on the Panel have seen an increase in the cost of finance due to penalty rates being levied on the businesses, but overdraft facilities remain more expensive than term loans.

	November	December	January	February	March	April
Mean lending rate	8.1	8.4	7.0	7.1	6.9	**6.8**
Bank of England interest rate	3%	3%	1.5%	1.5% (1)	1.0% (2)	**0.5%**

(1) As the reduction was made the day before the fieldwork was conducted, it was unlikely to have been 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.

Access to overdrafts remains and issue, as a handful of businesses reported that their overdraft limits have been cut or removed. One business cited an increase in the amount lent to his business. The figures are shown in the table below:

	November	December	January	February	March	April
Total	7,001,000	6,856,000	7,021,000	6,943,000	6,923,000	**6,911,000**
Change		-145,000	165,000	-78,000	-20,000	**-12,000**

Security

About 15% of businesses have been required to provide more security each month, until March, when 7% reported requiring additional security for their borrowing. The figure dropped again this month to 5%.

Change in terms of banking fees over the last six months

20% of companies have reported increases in banking fees paid, whilst only a handful have seen a reduction in banking fees, these were often due to good relations with their bank manager.

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

	December	January	February	March	April
Increased	26%	5%	15%	24%	**20%**
Decreased	2%	11%	2%	3%	**3%**
Stayed the same	72%	84%	83%	74%	**78%**
Net balance	+24%	-6%	+13%	+21%	**+18%**

42% of respondents saw an increase in overall banking fees over the six-month period. This may be an underestimation, as some businesses did not notice fees increase due to the sharp drop in interest rates.

	November to April
Increased	42%
Decreased	2%
Stayed the same	49%
Do not know	7%
Average cost to businesses over last six months	£167
Annualised average cost	£338

The average cost to businesses of this continued increase in banking fees has added around £28 a month to the cost of business banking. Using BIG figures for 2007, the average total monthly charges for businesses would be around £160, so this would work out at around a 15 to 20% increase in fees. However, a significant proportion of businesses were not aware which fees had increased and by how much, as they had lost track of the amount. Many businesses complained that standard letters sent by the banks did not make clear what the increase was from each time and contained information on accounts or borrowing arrangements that did not relate to them.

42% of respondents had cited increases in arrangement fees. Maintenance fees have also increased. One or two businesses have seen a decrease in fees, but this is often due to haggling with the bank manager or moving accounts.

	Increase	Decrease	Stayed same	Balance
Arrangement fees	42%	0%	58%	+42%
Maintenance fees	24%	3%	74%	+21%
Transaction/transmission fees	14%	0%	86%	+14%
Penalty fees	23%	4%	73%	+19%
Other fees	14%	0%	86%	+14%

Transaction/transmission charges were perceived as the most unfair costs to have increased, particularly regarding cash handling.