



Forum of Private Business

Fourth Economic Panel Response

Background

This is the fourth response by the FPB's economic downturn panel. Panel participants were chosen at random with the only criteria being that they were VAT registered and had need of external finance.

The first panel response data was reported to a small business meeting hosted by Gordon Brown on Wednesday, 19 November. The second response was reported in the first week of December at the Small Business Finance Forum. The fieldwork for the third panel took place between 21 and 26 January and the fourth from 5 to 10 February.

Since the last panel report the following have taken place:

- 0.5% interest rate reduction on 6 February
- Banking initiatives from RBS and Barclays on 5 February

Since the panel was formed, three companies have ceased trading. The main reasons have been late payment and the inability to access finance from their bank, resulting in problems with cash flow.

Summary

There has been considerable deterioration in access to finance in the last few months as the latest finance packages have failed to deliver what was expected by the Government. There is evidence that some businesses have delayed talking to their banks over this period and others have been unhappy with the cost and levels of finance offered.

Dissatisfaction with the banks has increased significantly. This is partly due to some businesses having applications for finance refused or restricted, but is also a result of businesses seeing loan repayment times reduced and banking charges increased.

Market conditions have declined at an accelerated rate in February as has optimism, and late payment has continued to deteriorate significantly. Comparison with the FPB's late payment survey (where the sample was to some extent self-selecting) shows that the amount owed to companies has trebled, although the period of time that business have to suffer late payment has reduced from 51 days to 32 based on better debt collection systems.

Supporting data

Key issues for businesses (in order)

- Cash flow/late payment
- Access to finance
- Exchange rate fluctuations
- Lack of orders/market for products and services
- Lack of consumer confidence
- VAT/Tax issues
- Dissatisfaction with banks

Change by month

Figures shown are: Improvement – Deterioration (compared to previous month)
All response

| | December | January | February |
|--|----------|---------|----------|
| Market for products/services | -64% | -38% | -54% |
| Competition within the market | -14% | -18% | -9% |
| Viability of your business | -38% | -20% | -34% |
| Cost of complying with regulations | -41% | -30% | -38% |
| Late payment | -61% | -68% | -61% |
| Risk management undertaken by financial services organisations (credit reference agencies, banks, trade insurers etc.) | -51% | -41% | -36% |
| Government support for small firms | -30% | -6% | -21% |
| Bank support for small firms | -45% | -22% | -48% |
| Accuracy of media coverage | n/a | n/a | -40% |

Access to finance

Over previous months, access to finance has changed as follows:

| | January | February |
|--------------|---------|----------|
| Improved | 12% | 2% |
| Deteriorated | 18% | 32% |
| No change | 71% | 66% |

Access to finance is deteriorating at a much faster rate than in January, as businesses that held off applying for additional finance until the new government schemes were in place have been surprised by the attitude of banks at a local level.

A significant proportion of businesses have had their applications for new finance refused and a small number have had their loans or overdraft facilities restricted.

Loans

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

| | December | January | February |
|--------------|----------|---------|----------|
| Improved | 17% | 10% | 3% |
| Deteriorated | 27% | 3% | 6% |
| No change | 57% | 86% | 91% |

After a relatively positive January where the drop in interest rates provided some help to businesses who were on base-rate-plus accounts, the terms and conditions of fixed-term loans have declined. The cost of lending has gone up slightly in the last month, although this will be partly masked by the recent cut in the Bank of England base rate.

| | November | December | January | February |
|-------------------------------|----------|----------|--------------------|---------------------|
| Mean lending rate | 7.6 | 8.0 | 6.5 ⁽¹⁾ | 6.9 |
| Bank of England interest rate | 3% | 3% | 1.5% | 1.5% ⁽²⁾ |

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

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

Bank lending has declined slightly over this period, however although the figure shown includes one increase where the overdraft was restricted at the same time.

Total amount lent in commercial loans:

| | November | December | January | February |
|--------|------------|------------|------------|------------|
| Total | 55,981,959 | 56,066,959 | 56,211,959 | 56,195,959 |
| Change | | 85,000 | 145,000 | -16,000 |

Overdrafts

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

| | December | January | February |
|--------------|----------|---------|----------|
| Improved | 9% | 12% | 0% |
| Deteriorated | 28% | 12% | 23% |
| No change | 63% | 76% | 77% |

One in four businesses saw the terms and conditions of their overdrafts decline in December, and the rate in February is very similar, however no business with an overdraft is seeing an improvement.

| | November | December | January | February |
|-------------------------------|----------|----------|---------|---------------------|
| Mean lending rate | 8.1 | 8.4 | 7.0 | 7.1 |
| Bank of England interest rate | 3% | 3% | 1.5% | 1.5% ⁽¹⁾ |

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

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

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

Fees and security

15% of companies have seen an increase in the banking fees paid; this includes arrangement fees and transaction fees.

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

| | December | January | February |
|-----------------|----------|---------|----------|
| Increased | 26% | 5% | 15% |
| Decreased | 2% | 11% | 2% |
| Stayed the same | 72% | 84% | 83% |

Banks are still seeking assets for lending security including personal guarantees, other assets including machinery, or a second mortgage. This has continued at a fairly regular rate with 15% stating that further security was required, compared with 15% in January and 14% in December. This is partly down to the depreciation of asset values (especially houses) but also due to the risk aversion of lending.

Late Payment

Around a third (32%) of business customers pay late, however this varies from retailers who have practically no late payers to some manufacturers who have always had around half their customers paying late.

Proportion of business customers paying late is shown below:

| | |
|-----------|-----|
| None | 6% |
| Under 25% | 43% |
| 25 to 49% | 32% |
| 50 to 74% | 17% |
| Over 75% | 2% |

This can be compared to results from our survey in the summer of 2008 indicate that although the time taken to pay debt has been reduced – presumably down to great efforts to reclaim money owed – the amount owed has increased considerably.

Average cost of late payment and additional time taken by late payers to pay are shown below:

| | Cost | Time |
|---------------|--------|------|
| August 2008 | £1,030 | 51.3 |
| February 2009 | £3,600 | 34.2 |