



Forum of Private Business

Third Economic Panel Response

Background

This is the third response by the FPB 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 first panel were reported at a meeting with Gordon Brown on Wednesday, 19 November and the second in the first week of December for the Small Business Finance Forum. The fieldwork for the third panel took place between 21 and 26 January.

Since the last panel report the following have taken place:

- An effective interest rate cut of 1.5%, due to a 1% cut in interest rates on 4 December 2008 and a 0.5% interest cut in January 2009
- Further capitalisation of RBS
- Enterprise Guarantee Scheme
- Announcement of the Working Capital Scheme
- Further guarantees from Government to secure bank assets

Summary

Concern over finance has been overtaken by problems in the real economy, with the decline in late payment accelerating and the market for products and services declining.

The rate of deterioration is continuing to slow in all areas apart from late payment and competition, indicating that some of the measures provided are having a modest impact.

Worryingly, access to finance continues to deteriorate, albeit at a slower rate. Those reporting a deterioration in this area tended to be service companies, which is indicative of the drop in confidence.

Terms and conditions of loans seem to have improved marginally, although terms and conditions on overdraft facilities have not. Many of the improvements are down to the change in the interest rate, but in general this has not led to anything more than marginal improvements for the business in the majority of cases (71%). For others it has allowed additional working capital or additional contingency to be put in place.

17% of panel members considered the problems in the credit insurance industry to be a serious issue for their business, particularly manufacturers. Cost issues predominated, even amongst those who did not consider the issue to be a serious one, whilst uncertainty in the supply chain was also having a significant impact.

Supporting data

Key issues for businesses (in order)

- Lack of orders/business confidence
- Cash flow/bad debts
- Cost of raw materials

Change over the last month

Figures shown are: Improvement – Deterioration
All response

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

Access to finance

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

Improved	12%
Deteriorated	18%
No change	71%

For some businesses the access to finance has improved due to the flexibility of their banks and reclassifications due to stronger financial performance than previously expected.

Those that have seen deterioration include the recruitment firms on the panel – due to regulatory change, as well as those seen to be considered higher risk by their banks due to the industries that they are in or supply.

Loans

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

Improved	10%
Deteriorated	3%
No change	86%

Those that reported an improvement indicated that the cost of borrowing had reduced in line with the Bank of England interest rate, although the impact of the increase is considered marginal compared to the deterioration in cash flow and market confidence.

There has been no change to average lending rate, and assumes that is based on interest rate reductions being passed on in full as only one business stated that the banks were slow in passing on reductions:

	November	December	January
Mean lending rate	7.6	8.0	6.4
Bank of England interest rate	3%	3%	1.5%

Banks are increasing their lending to panel members, but at a level below their requirements.

Total amount lent in commercial loans:

	November	December	January
Total	55,981,959	56,066,959	56,211,959
Change		85,000	145,000

Overdrafts

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

Improved	12%
Deteriorated	12%
No change	76%

1 in 4 businesses saw the terms and conditions of their overdrafts decline in December and the rate of deterioration has declined. The cost of the overdraft facility has dropped, but less than the difference in the interest rate.

	November	December	January
Mean lending rate	8.1	8.4	7.0
Bank of England interest rate	3%	3%	1.5%

The restrictions on lending noticed in December has appears to be reverse, however due to the relatively small sample the figures are quite volatile as some small businesses are still seeing their facilities being restricted.

	November	December	January
Total	6,953,000	6,808,000	6,973,000
Change		-145,000	165,000

Fees and security

2% of companies have seen an increase in the security needed including a £60,000 third party guarantee for a £20,000 unsecured loan and a proprietor having to take out a second mortgage to cover his overdraft agreement.

Businesses seeing an increase in fees has dropped considerably.

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

	December	January
Increased	26%	5%
Decreased	2%	11%
Stayed the same	72%	84%

Enterprise Finance Guarantee Scheme

Small businesses are divided on the impact that the guarantee will have on their business, many do not have the information to make a choice, but 1 in 4 will be actively pursuing this option.

1 in 3 feel that they do not have enough information on this issue and more needs to be made available as they can ill afford the time away from their business on a wild goose chase.

Would you consider using the new Enterprise Finance Scheme?

Definitely	24%
Only in an emergency	24%
No	21%
Not enough information has been provided for me to make a decision	31%

Credit Insurance

Credit insurance is a major difficulty for 17% of small businesses, and in particular manufacturers

Is credit insurance a serious issue for you?

Yes	17%
No	64%
Do not know	14%

The main reason given is the increase in cost that to their services that this has caused and in some cases lost of customers. It has also exposed businesses to loss of income from bad debts and late payment. Although friction within the supply chain was not reported as a frequent problem, the uncertainty was believed to be a key issue.