



## Summary

The Forum of Private Business (FPB) is a member-led organisation and represents more than 25,000 smaller firms in the UK. Our quarterly *Referendum* newsletter forms part of our regular consultation with members. We use the results to facilitate dialogue between our members and their constituent MPs, MEPs, and Scottish and Welsh representatives.

The FPB surveyed 6,500 of its members in the first fortnight of December on the access to and the cost of finance for their business and the impact that it has had on trading. The results are summarised below:

- The next quarter will be crucial for small and medium sized employers in the UK as 24% of SMEs anticipate needing further funding in this period. As these businesses currently employ 48% of UK labour and are therefore crucial to the long and short term welfare of the nation.
- Rejections for finance have increased significantly in the last year, even for established firms with a track record stretching back over a decade
- Of those who have suffered rejections, 9% found finance from other sources but 31% still need urgent finance
- 29% of relevant businesses (those who have a facility) have seen deterioration in access to overdraft facilities and 35% have seen a deterioration in access to loans. 5% of businesses stated the overdraft facilities were not longer accessible to them and 12% stated that there was no longer access to loans
- 40% of businesses had seen an increase in the cost of banking in the final six months of 2008
- Despite a decrease in interest rates from 5% to 2% between October and December 2008, the cost of loans has increased by 1.5% and the cost of overdrafts by 1.7%
- 4.2% of firms had switched banks and 11% had considered doing so. Just 1 in 5 of those switching banks had seen an overall decrease in the cost of banking, indicating a lack of choice within the marketplace.
- The financial crisis has had a particularly negative effect on the turnover and the profitability of SMEs, although it has had a negative impact on all business indicators including long term planning and investment

With a clear understanding of our members' financial needs, the FPB is campaigning for Government to:

- Sort out the banking issues once and for all. Banks are being called on to lend more but at the same time FSA regulations require the banks to change the capital to lending ratios which means they have to improve their balance sheet to lend more. The two requirements conflict with one and other.
- Fasttrack of the new small business finance scheme so that it can provide funding for small businesses before it is too late
- Ensure that banks deliver the new finance scheme and Small Firms Loan Guarantee scheme (SFLG). There is evidence that banks are delaying SFLG decisions because they think their exposure will be less under the new scheme. As such the proposals in the Pre Budget Report are actually harmful as no money is getting through to small businesses
- Resolve the major remaining banking sector issue and the uncertainty over the real value of bank balance sheets by buying up the so-called "toxic debt". By clearing the financial system of the debt and replacing it with cash i.e. providing a strong liquid balance sheet, banks will be able to deliver the lending requirements for businesses and individuals. This can be done by "quantitative easing" or the printing of new money to buy the toxic debt
- Create a housing and construction industry fiscal stimulus by removing residential property stamp duty across the scale. This will cost the Treasury approximately £6bn per annum (based on 2007 figures) - half that of the PBR VAT reduction of 2.5%. The stimulus would generate additional consumer spending throughout the supply chain.
- Provision of clear sign-posting for access European Investment Bank funds

## Access to finance

Access to finance has become a major concern for Small and Medium Sized Enterprises (SMEs), in the last 3 months 33% of the FPB membership sought finance. As a comparison the BERR study into SME finance in 2007 stated that 36% of businesses sought finance in the last **3 years** (2004-7).

Comparison with BERR Data	BERR/ CBR	FPB
Sought finance	36%	33%
Complete success	71%	53%
Partial rejection	17%	20%
Outright rejection	12%	27%
Sought finance	36%	33%

41% of small and medium sized employers did not need an overdraft facility and 56% did not need an overdraft. These figures are higher than the BERR figures from 2007 (57% and 80% respectively), but reflects the greater need for employers for such financial products compared to the self employed/lifestyle businesses as well as the greater need for credit facilities.

Of those that had a need for such facilities, loans have deteriorated faster than overdrafts. As overdrafts are more frequently used for working capital than loans (51% compared to 19% according to the BERR report), they were perceived as generally more important in the current climate than loans by the FPB's economic downturn panel.

	Overdrafts	Loans
Improved	2%	2%
Deteriorated	29%	35%
No longer accessible	5%	12%
Stayed the same	64%	51%

Based on the figures from the research, the FPB estimates that 64,800 businesses no longer have access to commercial loans and 33,600 no longer have access to overdraft facilities. The figures contrast noticeably with the CBR/BERR figures from 2007 where as many businesses saw an access to finance improve as saw it deteriorate for these financial products.

8% of small and medium sized employers need immediate access to the new finance, with a further 25% requiring support before the 31<sup>st</sup> March. Should these figures reflect the entire UK economy a total of almost 400,000 small and medium sized employers will need support before the 1<sup>st</sup> April.

	FPB	UK
Immediately	8%	96,223
Before 31st March	25%	302,700
Between 1st April and 30th June	8%	98,227
After 1st July	9%	112,260
Will not need to borrow for the foreseeable future	50%	603,396

## Cost of finance

40% of businesses had seen an overall increase in the cost of banking in the last 6 months with 4% seeing a decrease in cost. 46% saw no change in banking costs and a further 11% did not know, although this uncertainty may be due to having multiple banking accounts.

4.2% have switched banks and 11% are considering doing so. The fact that 60% of those who had swapped had not seen a decrease in the cost of banking may indicate a lack of choice within the banking sector or may just indicate that the terms and conditions they had previously were unsustainable in the current economic climate by any financial institution.

Cost of overdrafts and loans vary considerably for small and medium sized employers due to a wide number of factors including the size of the loan/overdraft facility, securities required, financial performance and the figures indicate a similar impact

	Loans	Overdrafts
Increased by under 2%	8.3%	14.3%
Increased by 2% to 5%	11.4%	16.1%
Increased by over 5%	4.6%	4.8%
Decreased	7.7%	6.5%
Has not changed	24.3%	25.9%
Do not know	13.5%	15.1%
Mean rate	+1.57	+1.44

Although interest rates decreased from 5% in October to 2% at the start of December, a number of banks had not made it clear as to whether the 1% cut by the Bank of England on 4<sup>th</sup> December would be passed on to businesses.

## Impact on the business

The impact of the financial crisis on small and medium sized employers has been considerable, with turnover, profitability in particular being hit by the financial crisis. Worryingly the financial crisis has impacted negatively issues such as investment levels and long term planning which will be vital to the UK economy beyond 2009.

