

## UKBAB 64 January 2008 Analysis

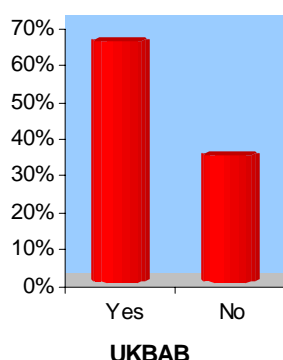
In this first survey of 2008, we asked panellists for their views on how banks are interacting with business with respect to external debt finance, the forthcoming changes in Capital Gains Tax, trade credit and business fraud.

The total number of respondents taking part in the UKBAB Survey was 302.

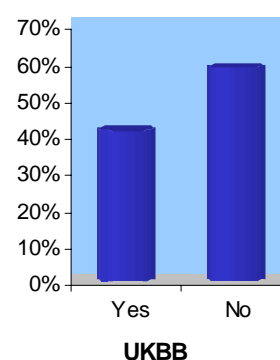
### Survey Findings

#### **BANK CREDIT**

From time to time, we have asked questions of the panel about access to external finance, and it has been reported to us that for some SMEs in some areas, there is only one source, namely banks.



We asked members of the UKBAB panel whether in general their clients have access to non-bank external debt finance. The UKBAB found that, after adjusting for 'don't know' responses (16%), 66% said clients did have such access, while a sizeable proportion, 34%, said clients did not.



This contrasted with the picture gained from asking the smaller businesses that comprise the membership of the parallel UK Business Barometer survey, (UKBB) if they have access to sources

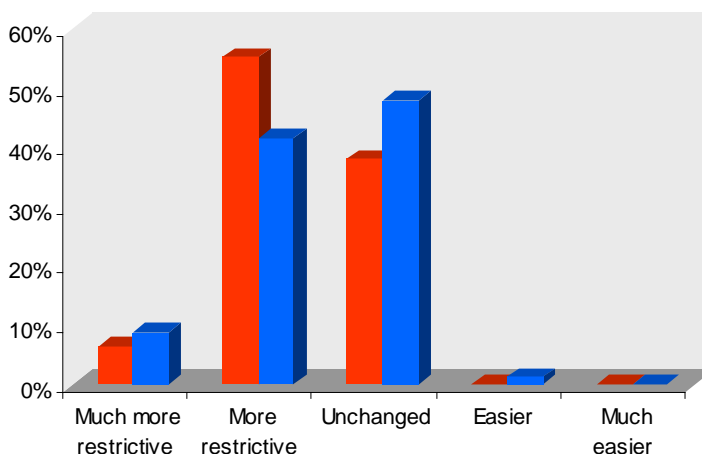
of external debt finance other than their bank and nearly 60% said that they do not, although 41% do.

2007 saw the onset of the current credit squeeze and the major banks are reporting in their 2007 results significantly higher provisions against bad debts and losses from the collapse in credit markets. These problems are likely to continue in 2008 and the Financial Services Authority has warned banks that in future they will have to keep more of their loans on their own books rather than selling them off. In addition the implementation of the Basel II Accord from the beginning of 2008 (regulations which require lenders to retain higher levels of capital when lending to lower credit-rated borrowers, mainly smaller businesses, than did the previous Basel I regulation) is likely to result in increased charges for borrowing.

Business advisers were asked if they thought terms and conditions of debt finance offered to clients by banks had become more restrictive over the last six months and 62% said they had.

After adjusting for 'not applicable' responses, 51% of UKBB respondents also said that terms and conditions of debt finance offered by banks had become more or much more restrictive.

#### **Awareness of changes to the terms and conditions of debt finance offered to clients by banks in the last six months.**

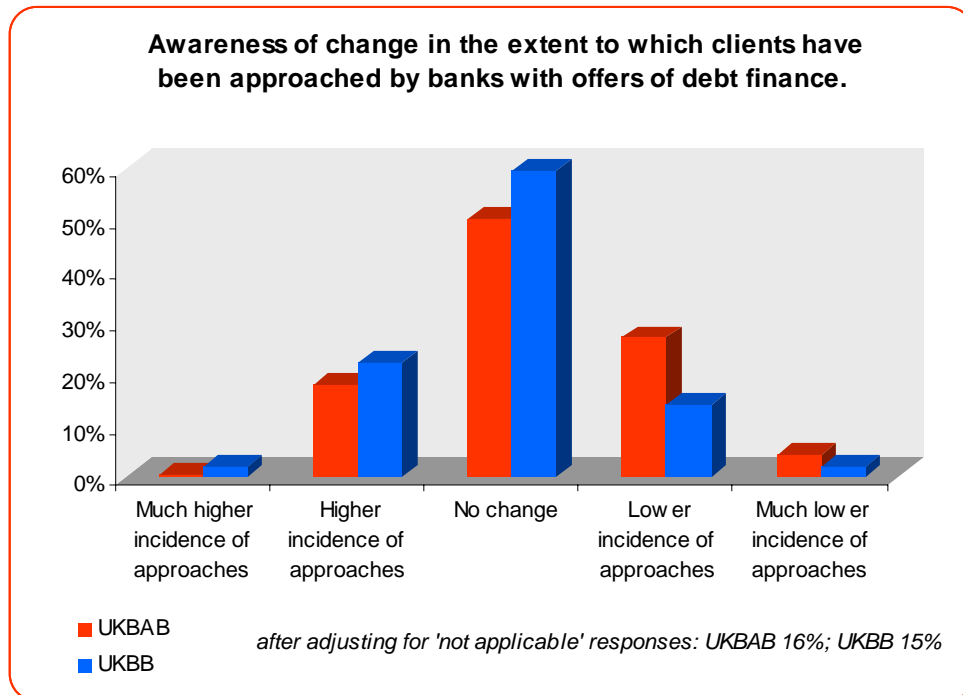


■ UKBAB ■ UKBB

after adjusting for 'not applicable' responses: UKBB 32%

In spite of the more cautious approach to lending terms, after adjusting for 'not applicable' responses, 50% of UKBAB respondents have not noticed any change in the extent to which their clients had been approached by banks with offers of debt financing. 18% said that the incidence of approaches to clients had been higher or much higher, while 31% said that the incidence had been lower or much lower.

Nearly 60% of UKBB panellists have not noticed any change in the frequency of business loan sales pitching by banks. After adjusting for 'not applicable' responses, 24% of UKBB respondents have experienced a higher or much higher number of approaches while 16% say they have had fewer or far fewer approaches.

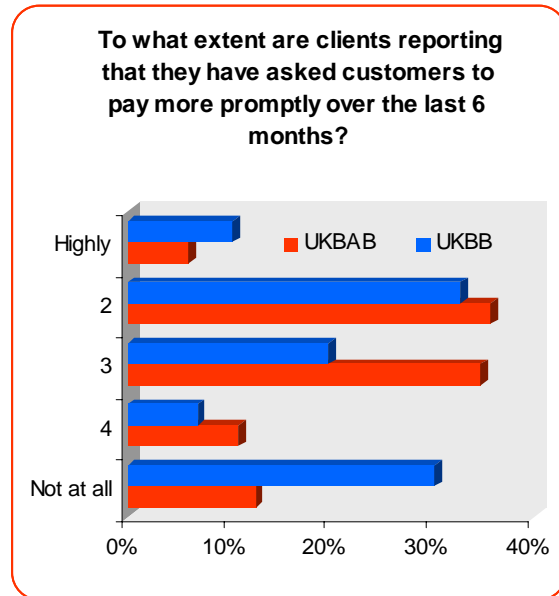
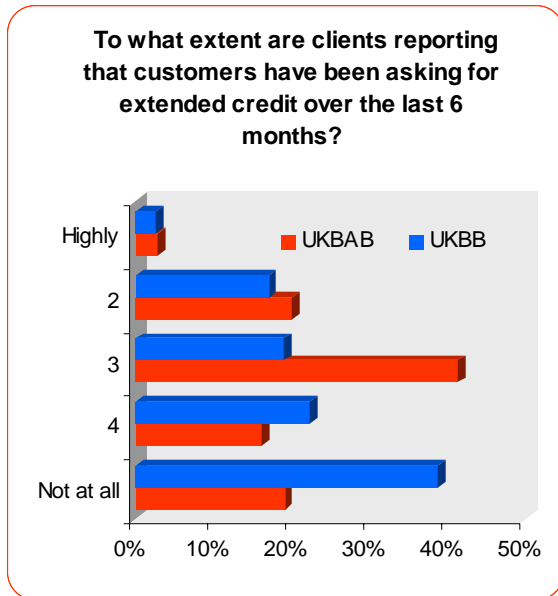


## CREDIT CRUNCH

The rising costs of bank finance are also expected to result in many businesses reviewing their payment relationships. The January UKBAB survey and the parallel UKBB survey of smaller businesses looked at terms of credit between buyers and sellers over the last six months.

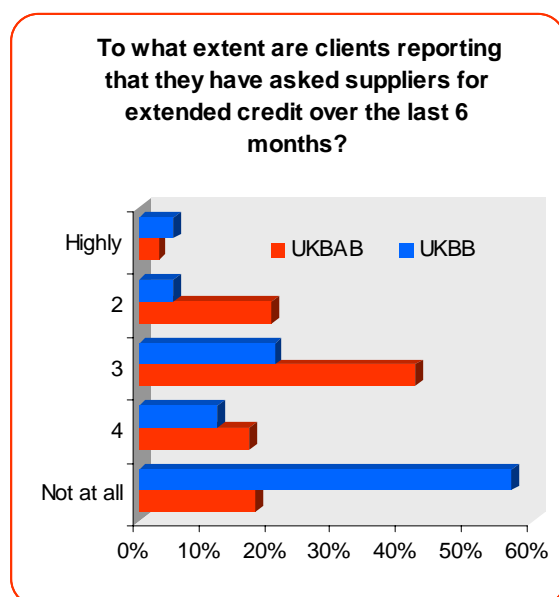
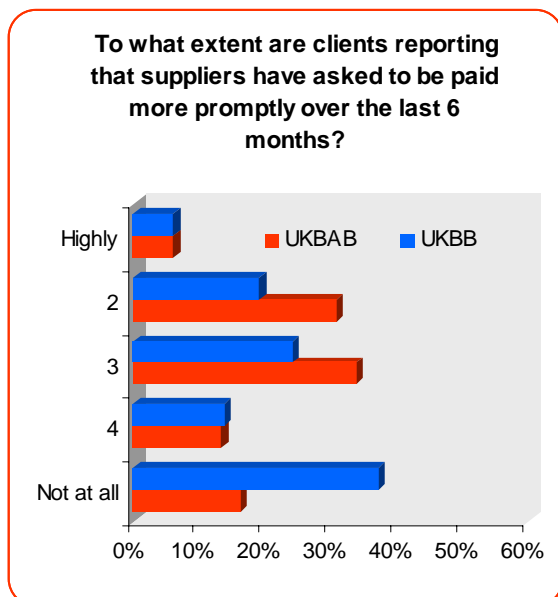
UKBAB respondents reported some pressure on clients, with 23% saying their clients are reporting to a high or reasonably high extent that their customers had been asking for extended credit over the last six months, and 42% saying that their clients are reporting to a high or reasonably high extent that they had asked customers to pay up more promptly.

UKBB respondents showed similar results at the higher pressure end, with nearly 20% saying their customers had been asking to a high or reasonably high extent for extended credit over the period, while 43% had at the same time been asking their customers, to a high or reasonably high extent, to pay up more promptly.



On the supply side, 37% of respondents to the UKBAB say that their clients reported to a high or reasonably high extent that their suppliers asked them to pay more promptly over the last six months, and 23% say that their clients reported to a high or reasonably high extent that they asked their suppliers for extended credit over the last six months.

25% of UKBB respondents say that suppliers have asked for more prompt payment over the last six months, to a high or reasonably high extent, while only 10% say they have asked for extended credit from their suppliers to a high or reasonably high extent over the same period.



## CAPITAL GAINS TAX

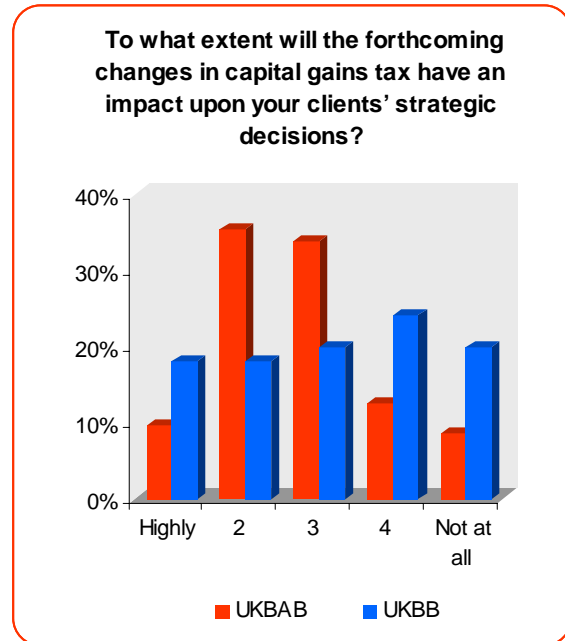
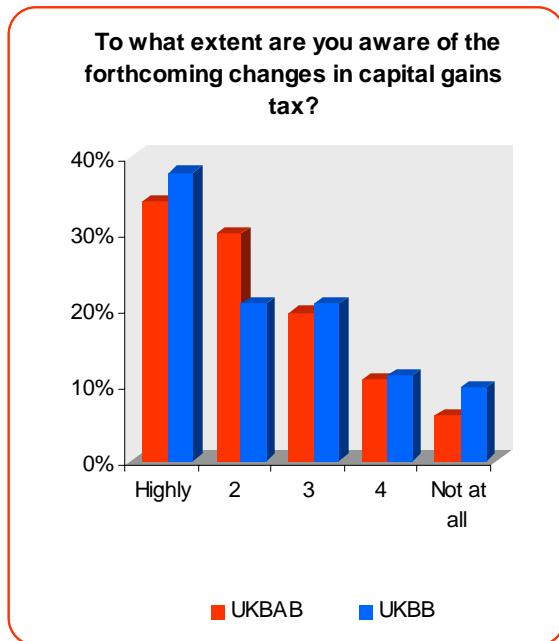
CGT is set to change in April 2008 and although the Pre-Budget Report originally announced a new flat rate of CGT at 18%, in late January 2008 revisions to this were announced by the Chancellor, reducing liability for entrepreneurs to 10% on the first taxable £1M. The January survey asked to what extent panellists were aware of forthcoming changes in CGT and to what extent the changes would impact on strategic decisions.

This survey went out to panellists on 18<sup>th</sup> January, before the revisions were announced and responses were received over a period of time, both pre-and post- the revision announcement. Because of the way in which, at present, survey data are held, they cannot be segregated by date of response and therefore the results must be interpreted in that light.

34% of UKBAB respondents are highly and 30% of respondents are reasonably highly aware that there are forthcoming changes to capital gains tax, while 17% said they were either not at all or hardly aware of changes. The same question was put to the smaller businesses surveyed by the UKBB and a total of 59% said they are highly or reasonably highly aware of the forthcoming CGT changes, while 21% said they were hardly or not at all aware of them.

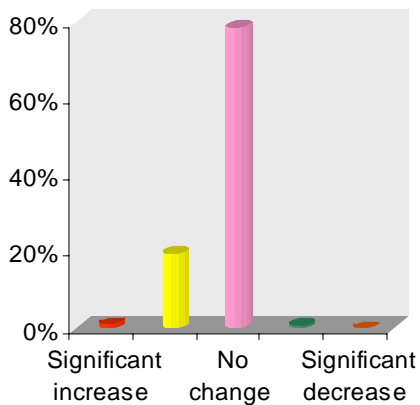
The importance of the changes to many businesses, either pre- or post- revision announcement is clear: UKBAB panellists were asked to what extent the forthcoming changes in CGT will have an impact on clients' strategic decisions, and 45% said they would have an impact to a high or reasonably high extent, while only 21% said they would not impact on client's strategic decisions at all or not very much.

In the parallel UKBB survey, 36% of the responding smaller businesses said that the forthcoming changes in capital gains tax would impact strategic decisions highly or reasonably highly, although 44% said they would not impact strategic decisions at all, or very little.



## BUSINESS FRAUD

In its annual report on fraud, BDO Stoy Hayward warns of 'an explosion' of corporate fraud in 2008.

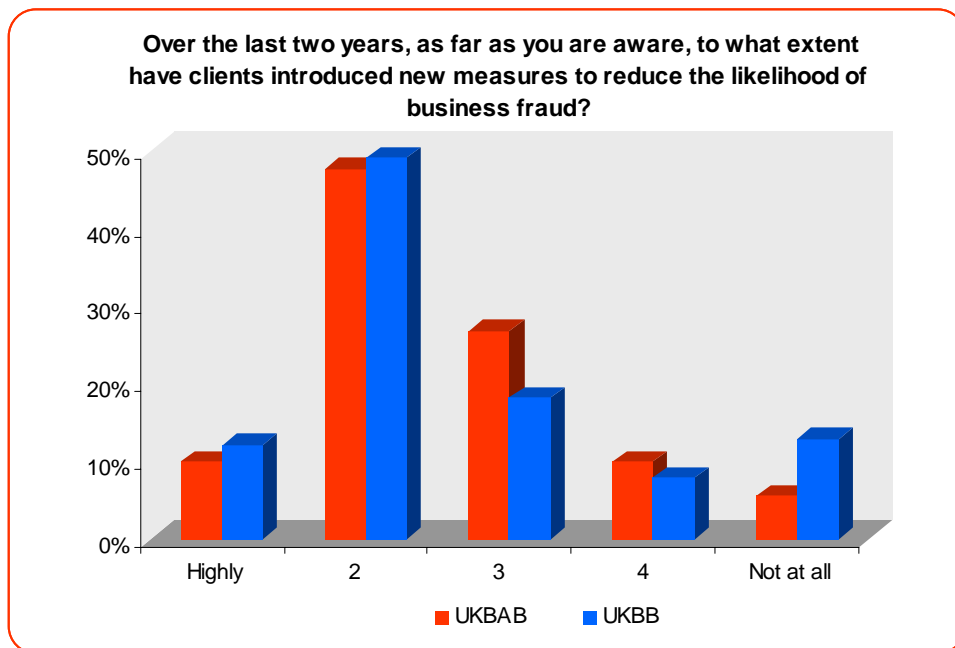


However, 79% of respondents to the January 2008 UKBAB survey say that they have seen no change over the last two years in the number of instances in which clients have reported being victims of business fraud, while 20% of respondents report a slight increase in instances.

Several respondents added comments saying that fraud is an issue for them: increased measures include shredding documents far more often, checking internet security, changing email addresses frequently.

Panellists of the UKBAB were asked to what extent their clients have introduced new anti-business-fraud measures over the last two years. 58% said to a high or reasonably high extent while 6% said not at all and 10% said very little.

The UK Business Barometer results were in reasonably close agreement: 61% of responding smaller businesses have introduced new measures against business fraud in the last two years to a high or reasonably high extent, although 13% have done nothing more and 8% have only done a little.



Listed below are some of the personal views supplied in feedback received from respondents to Survey BAB64 January 2008  
Views expressed are those of individual panellists and may not represent those of the University.

# It is obvious that the current problems in the financial marketplace will have a big impact on many businesses. I believe that the emphasis will be on SME's - start ups - Self Employed - charities and non governmental organisations.

If the government could support the challenges faced by the above with reduction in red tape, targets and grants available it would help clients to tread water until there is an improvement in the financial marketplace - however small. It will also allow clients to put strategic plans into place to meet the demands of their businesses.

# There has been no change for customers seeking refinance, continual funding from their bankers when they have up to date management accounts.

The situation has slightly deteriorated for those businesses that still refuse to do management accounts and who can blame the banks and indeed any other funders where the business does not look after the cash

# I have signed the petition from the Chambers of Commerce against changes to Capital Gains Tax from April and believe it is getting too late for clients to make decisions now before April.

# With regard to Q1, it is very difficult for SME's to approach Venture Capitalist's for refinancing their business without losing control as VC's want equity as collateral. However the banks are now using 'overdraft' facilities more for debt finance which is dangerous for businesses as an 'overdraft' can be 'called in' at any time, unlike a loan. If there is a continued downturn in the economic climate, 'called in' overdrafts can lead to immediate bankruptcy.

# New start SME's, Sole Traders and Micro Businesses can in certain circumstances access small amounts of start up finance through organisations such as The Prince's Trust and Lending Circles.

# Q1 on sources of finance is a big question. I have answered "no" as, in general, I find there are no significant alternatives to banks for the majority of small businesses. They can of course go to family, friends and "fools" (the 3 Fs): apart from that however, for the vast majority equity financing is not an option.

# Banks are very reluctant to discuss Small Firms Loan Guarantee. They see it as high risk lending and new business managers are often not aware the scheme exists

# Whilst credit (both to and from) is getting tighter the smaller companies are reluctant to apply pressure because of the fear of losing customers. However the larger customers have less fear.

# Many of our customers are new to the market making them risks for banks, but not yet having long term supplier /client relationships on budget.

They are also rarely in a position to be much affected by Capital Gains

# I make these comments on the basis of my understanding of clients' views although I have not discussed these specific issues extensively with them. It is fair to say that there is a genuine increase in concern regarding business financing.

# The other source of working capital that many clients use is family support - especially ethnic minorities.

# A number of my clients have undertaken SOX (Sarbanes Oxley Act) compliance processes. This assists with the detection of fraudulent activity.

I have assisted approx 30 different business centres with developing enhanced internal control procedures for both Finance and IT.

My clients are acutely aware of the requirements to ensure that their published accounts are accurate and as free from fraud as is reasonably possible.

# Unable to comment on Credit Crunch questions, sorry, so marked as neutral.

Can report much increased use of communal shredder (Q12) following increasing evidence of sightings of people going through the rubbish site to the rear of the buildings (managed office space).

# Overall, the major concern of my clients and indeed me is that of potential business fraud. Everyone is more alert and suspicious than even a year ago. It does seem, however, that trying to safeguard personal and business information is totally negated by the seemingly epidemic instances of gross neglect by governmental and local governmental offices so far as protection of confidential information is concerned.

# Although clients have access to finance over and above Banks, the amount is minimal.

# Confirm that whilst there are small pockets of funding in some areas, in general Banks & other commercial lenders are the only real avenues open for most clients to seek finance.

# In Bristol, we are lucky to have the BEDF (Bristol Enterprise Development Fund Limited - lenders of last resort) and some other non-bank sources of finance. Banks have always been difficult to get 'business loans' from.

Fraud is always an issue and some small businesses have to waste a lot of time on Internet security. Spam is even worse - constantly having to change email addresses / check old email addresses.

# We are heading into a downturn. My recent experience with a number of marketing companies indicates that they have all lost clients, or existing clients are spending less.