



BUSINESS ADVISER BAROMETER

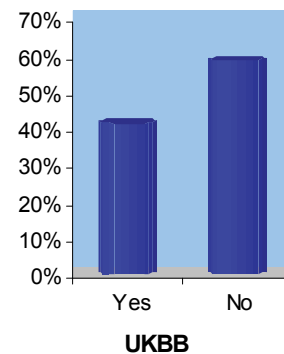
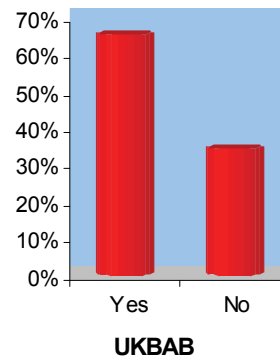
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> MARCH 2008 EDITION — KEYNOTES FROM JANUARY 2007 - BAB63

### Access to Finance — UKBB and UKBAB panels return contrasting results.

In this first survey of 2008, 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.

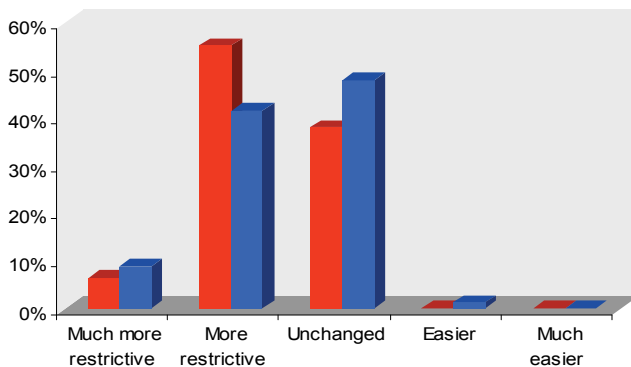
This contrasted with the picture gained from asking the smaller businesses that comprise the membership of the parallel UK Business Barometer survey, (UKBB) if they have access to sources of external debt finance other than their bank and nearly 60% said that they do not, although 41% do.



### What about the terms and conditions offered by banks?

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

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



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

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.

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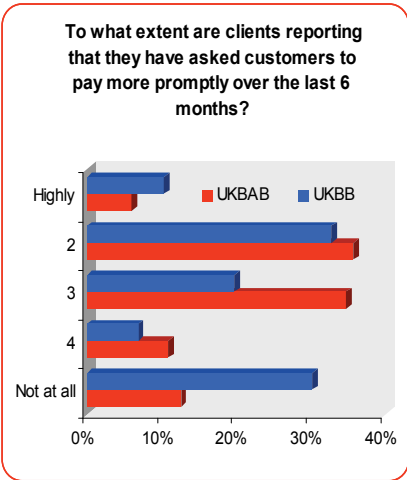
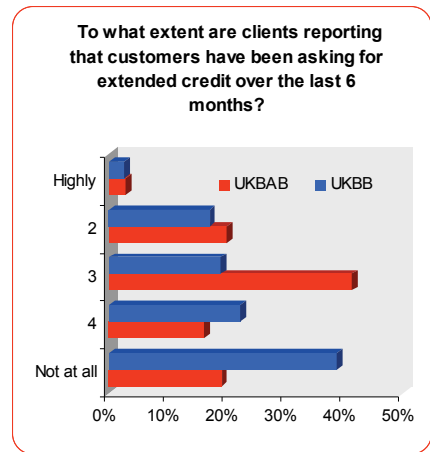
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## Payment relationships - Customers

The rising costs of bank finance are 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.

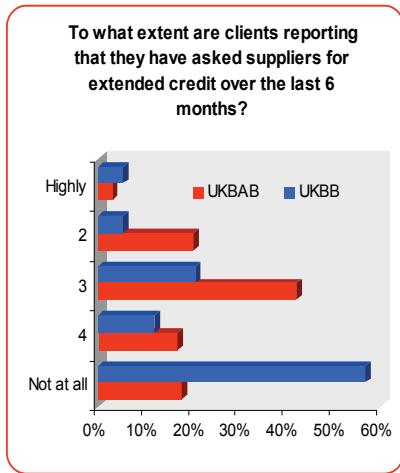
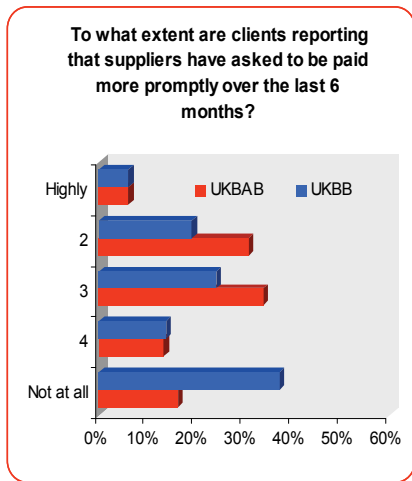
UKBAB respondents reported some pressure on clients, with 23% saying their clients are reporting to a high or reasonably high extent that their customers had been asking for extended credit over the last six months, and 42% saying that their clients are reporting to a high or reasonably high extent that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



## Payment relationships - Suppliers

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

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**Capital Gains Tax** 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.

Our 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.

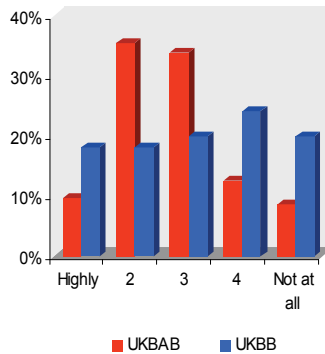
**Business fraud — is it on the increase?**

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.

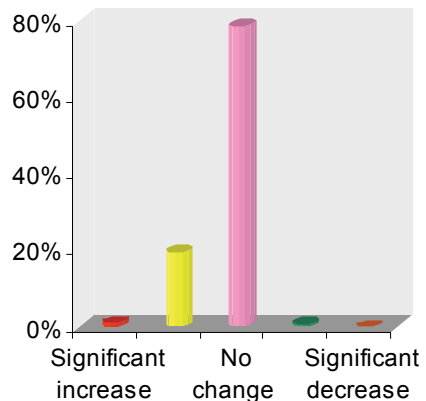
Several respondents added comments saying that fraud is an issue for them: increased measures include shredding documents far more often, checking internet security, changing email addresses frequently. Panellists of the UKBAB were asked to what extent their clients have introduced new anti-business-fraud 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.

To what extent will the forthcoming changes in capital gains tax have an impact upon your clients' strategic decisions?



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.



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> MARCH 2008 EDITION — JANUARY 2007 - BAB63 — THE QUESTIONS

- Q1.** As far as you are aware, in general, do your clients have access to sources of external debt finance over and above banks?
- Q2.** As far as you are aware, how, if at all, have the terms and conditions of debt finance offered to clients by banks changed in the last six months?
- Q3.** As far as you are aware, , how, if at all, is there a change in the extent to which clients have been approached by banks with offers of debt finance?
- Q4.** In general, to what extent would your clients' business be vulnerable in the event of a severe 'credit squeeze' implemented by banks in response to the current turbulence in the financial markets?
- Q5.** To what extent are you aware of the forthcoming changes in capital gains tax?
- Q6.** To what extent are clients reporting that customers have been asking for extended credit over the last 6 months?
- Q7.** To what extent will the forthcoming changes in capital gains tax have an impact upon your clients' strategic decisions?
- Q8.** To what extent are clients reporting that suppliers have asked to be paid more promptly over the last 6 months?
- Q9.** To what extent are clients reporting that they have asked customers to pay more promptly over the last 6 months?
- Q10.** To what extent are clients reporting that they have asked suppliers for extended credit over the last 6 months?
- Q11.** Over the last two years, have you seen a change in the number of instances in which clients have reported being victims of business fraud?
- Q12.** Over the last two years, as far as you are aware, to what extent have clients introduced new measures to reduce the likelihood of business fraud?

To view the complete set of results for this and for previous surveys, follow this link:

[www.ukbab.ac/UI/surveys.aspx](http://www.ukbab.ac/UI/surveys.aspx)

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**Greater transparency of business needs as observed by the adviser community**

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