

UKBB 115 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.

About the respondents

The UK Business Barometer surveys the people running small and medium size businesses. In the January 2008 survey, 116 respondents were drawn with the following population characteristics:

Sector			
Production & Manufacturing	Distribution	Services	Total
25.0%	8.6%	66.4%	100%

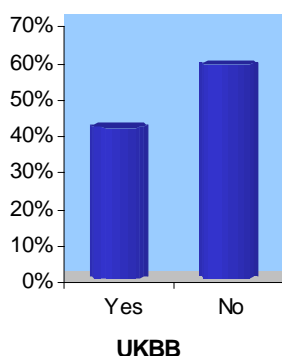
Turnover (£)			
< 1M	1M - 3M	> 3M	Total
68.1%	19.0%	12.9%	100%

Number of Full-time Employees					
1-10	11-20	21-50	51-100	100+	Total
58.6%	26.7%	7.8%	3.4%	3.4%	100%

Survey findings

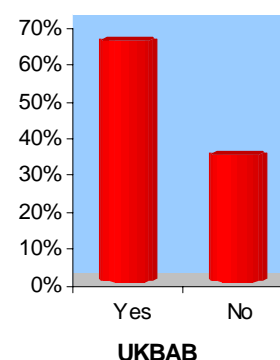
BANK CREDIT

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 the smaller businesses that comprise the membership of the UKBB's panel, if they have access to sources of external debt finance other than their bank and nearly 60% said that they did not.

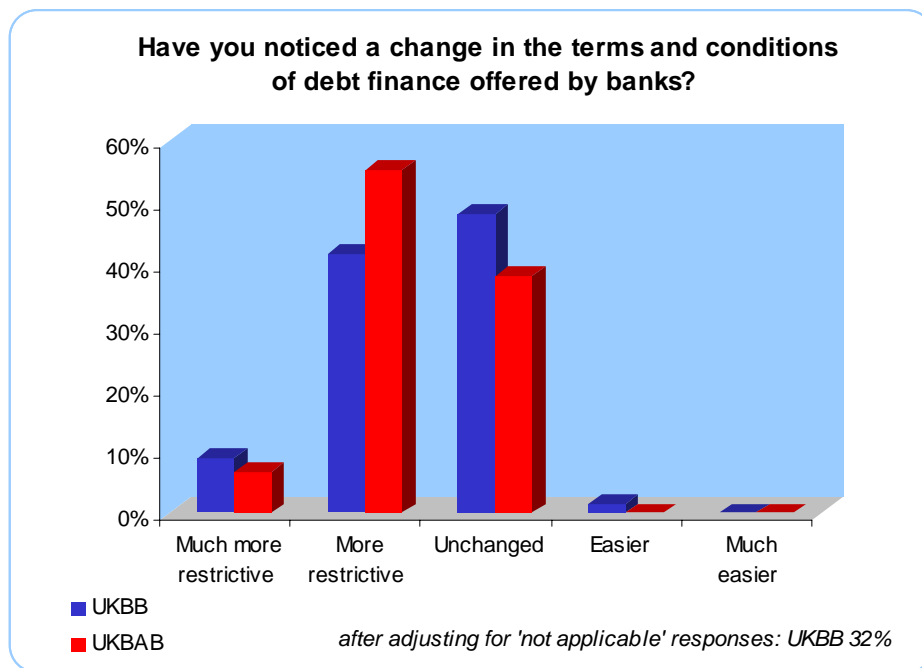
This contrasted with the picture gained from asking members of the parallel survey of business advisers, the UKBAB whether in general their clients have access to non-bank external debt finance. The UKBAB found that, after



adjusting for 'don't know' responses (16%), 66% said clients did have such access.

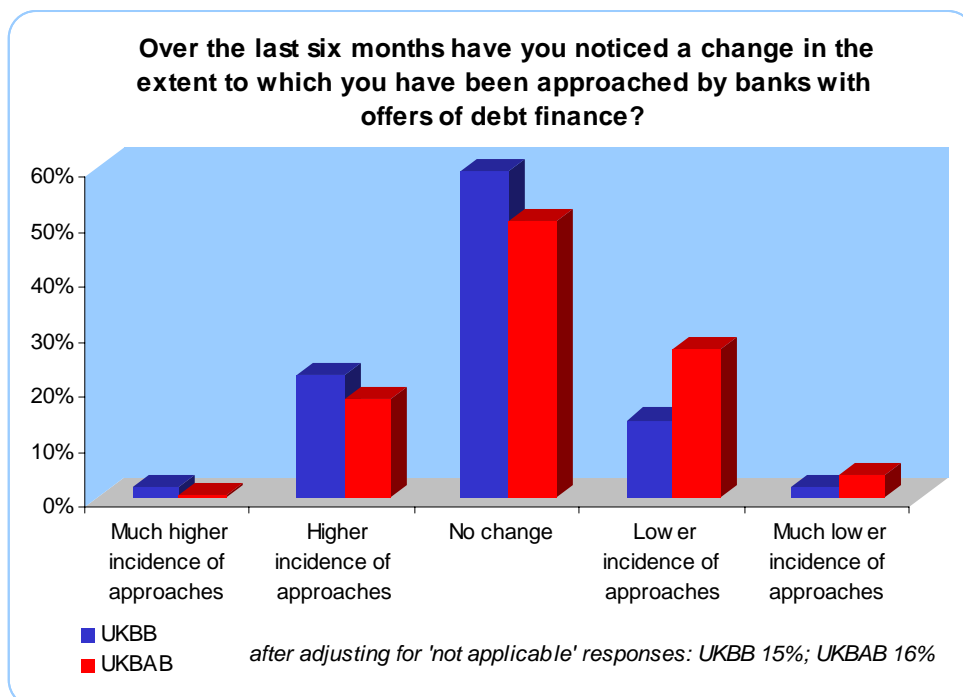
2007 saw the onset of the current credit squeeze and the major banks are reporting in their 2007 results significantly higher provisions against bad debts and losses from the collapse in credit markets. These problems are likely to continue in 2008 and the Financial Services Authority has warned banks 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.

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

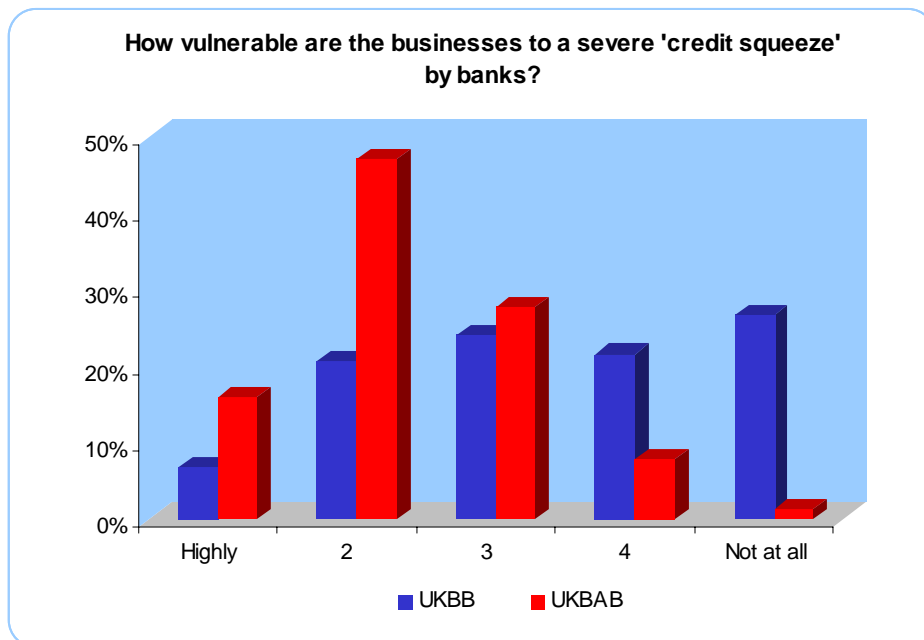


In spite of the more cautious approach to lending terms, after adjusting for 'not applicable' responses, nearly 60% of survey participants have not noticed any change in the frequency of loan sales pitching by banks, 24% of UKBB respondents have experienced a higher or much higher number of approaches while 16% say they have had fewer or far fewer approaches.

UKBAB panellists were asked if there had been a change in the extent to which their clients had been approached by banks with offers of debt financing. After adjusting for 'not applicable' responses, 50% of UKBAB respondents have not noticed any change, 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.



48% of the respondents to the UKBB say that their business is not at all or not very vulnerable to a severe credit squeeze by banks and only 7% say they feel highly vulnerable. This appears to be different in the case of businesses who are clients of business advisers. The UKBAB asked panellists to what extent their clients' businesses would be vulnerable in the event of a severe credit squeeze by banks and found that 63% of advisers assess their clients' businesses as highly or relatively highly vulnerable.

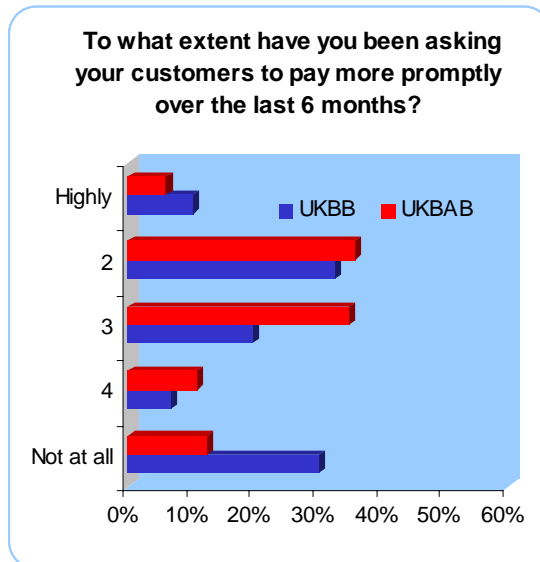
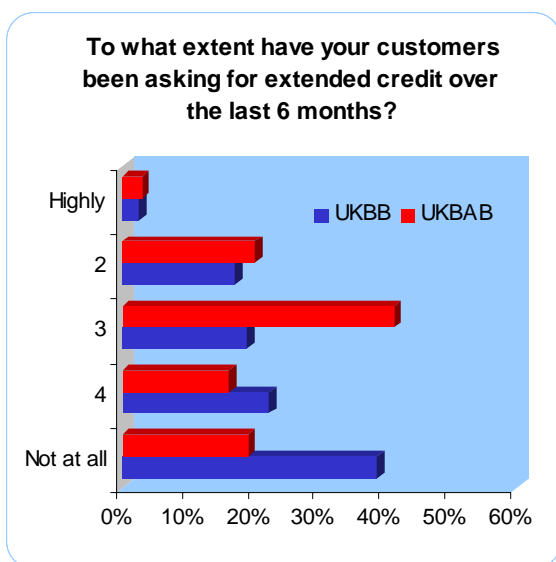


CREDIT CRUNCH

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

UKBB respondents reported some pressure from customers, 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.

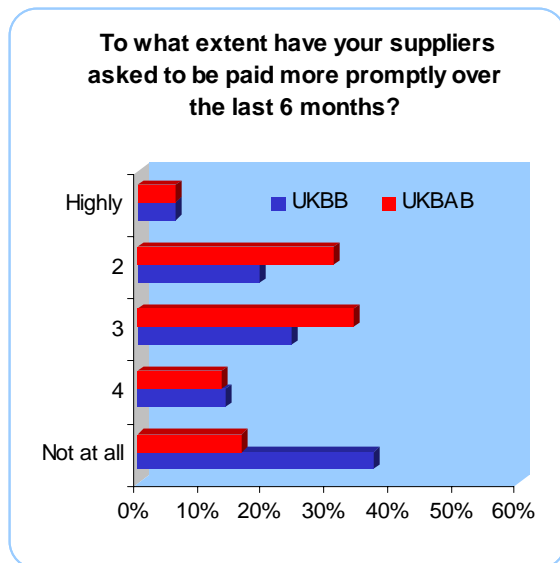
UKBAB respondents showed similar results at the higher pressure end, with 23% saying their clients are reporting to a high or reasonably high extent that their customers had been asking



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.

On the supply side, 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.

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.



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.

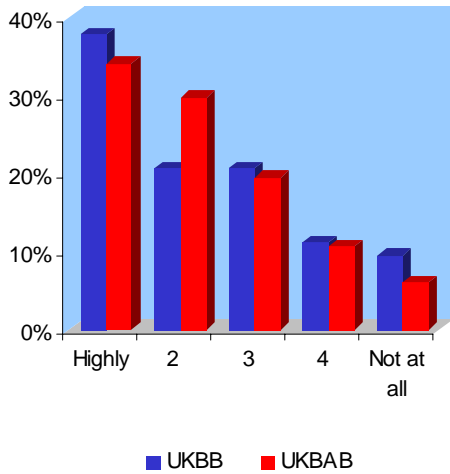
This survey went out to panellists on 18th January, before the revisions were announced and responses were received over a period of time, both pre-and post- the revision announcement. Because of the way in which, at present, survey data are held, they cannot be segregated by date of response and therefore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

38% of UKBB respondents are highly and 21% of respondents are reasonably highly aware that there are forthcoming changes to capital gains tax, while 21% said they were either not at all or hardly aware of changes. The same question was put to the business advisers surveyed by the UKBAB and a total of 64% said they are highly or reasonably highly aware of the forthcoming CGT changes, while 17% said they were hardly or not at all aware of them.

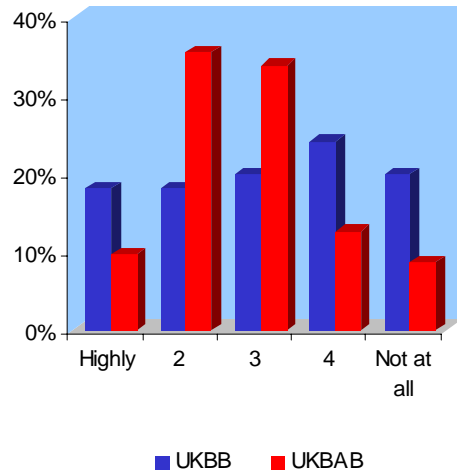
The importance of the changes to many businesses, either pre- or post- revision announcement is clear: 36% of UKBB respondents said the changes would impact strategic decisions highly or reasonably highly, although 44% said they would not impact strategic decisions at all, or very little.

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.

To what extent are you aware of the forthcoming changes in capital gains tax?



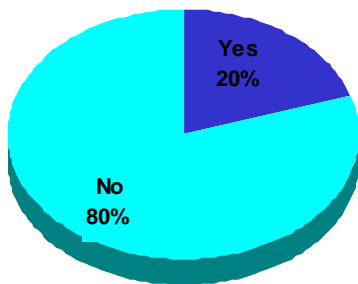
To what extent will the forthcoming changes in capital gains tax have an impact upon your strategic decisions?



BUSINESS FRAUD

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

Has your business ever been the victim of business fraud?

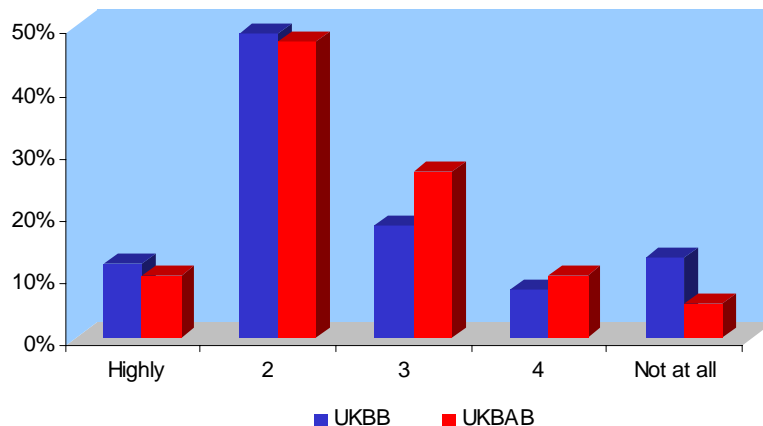


After adjusting for 'don't know' responses (5%), 20% of respondents say that they have been the victim of business fraud at least once.

61% 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.

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 highly or reasonably highly while 6% said not at all and 10% said very little.

Over the last two years to what extent have you introduced new measures to reduce the likelihood of business fraud?



Listed below are some of the personal views supplied in feedback received from respondents to Survey BB115 January 2008

Views expressed are those of individual panellists and may not represent those of the University.

The credit crunch will affect manufacturing trading levels in due course. We are not involved in the service sector which is already experiencing the downturn (banking, acquisition/mergers, property sectors etc.)

Q1. I don't believe that the impact of the 'credit crunch' has yet reached pond life such as small businesses. Our dinosaur banks have yet to start processing the 'threat' in the brains half way down their backs. When it comes, the response will take two forms. Firstly, the Banks will panic and introduce self defeating and arbitrary restrictions on lending in various categories. Secondly, they will see an opportunity to make short term profit by increasing rates and, particularly, 'fees'. In other industries coordinated price increases would be called anti competitive or restraint of trade. In Banking it has the blessing of the regulator.

Today we are to hear the decision on taper relief for capital gains tax. When I know what it is I will know whether or not I can sell my business and retire.

We have yet to go through the yearly review with our bank, it is then they will turn nasty if they are going to.

Banks and Building Societies are always financial winners in the money marketplace. However, it would be wise for them to remember that is the same clients that put them there who now want their help and it would be helpful if they could be more understanding and work closely with the businesses to get them over their difficult challenges until things change for the better.