

Call for Evidence on Industry Issues, Regulatory Issues and Government Policy Issues relating to access to finance

A Call for Evidence issued by The Treasury Committee for SME Finance

Comments from ACCA to The Treasury Committee for SME Finance

1 September 2023

About ACCA:

ACCA (the Association of Chartered Certified Accountants) is the global professional body for professional accountants.

We're a thriving global community of **247,000** members and **526,000** future members based in **181** countries and regions, who work across a wide range of sectors and industries. We uphold the highest professional and ethical values.

We offer everyone everywhere the opportunity to experience a rewarding career in accountancy, finance, and management. Our qualifications and learning opportunities develop strategic business leaders, forward-thinking professionals with the financial, business, and digital expertise essential for the creation of sustainable organisations and flourishing societies.

Since 1904, being a force for public good has been embedded in our purpose. We believe that accountancy is a cornerstone profession of society and is vital in helping economies, organisations, and individuals to grow and prosper. It does this by creating robust trusted financial and business management, combating corruption, ensuring organisations are managed ethically, driving sustainability, and providing rewarding career opportunities.

And through our cutting-edge research, we lead the profession by answering today's questions and preparing for the future. We're a not-for-profit organisation. Find out more at accaglobal.com

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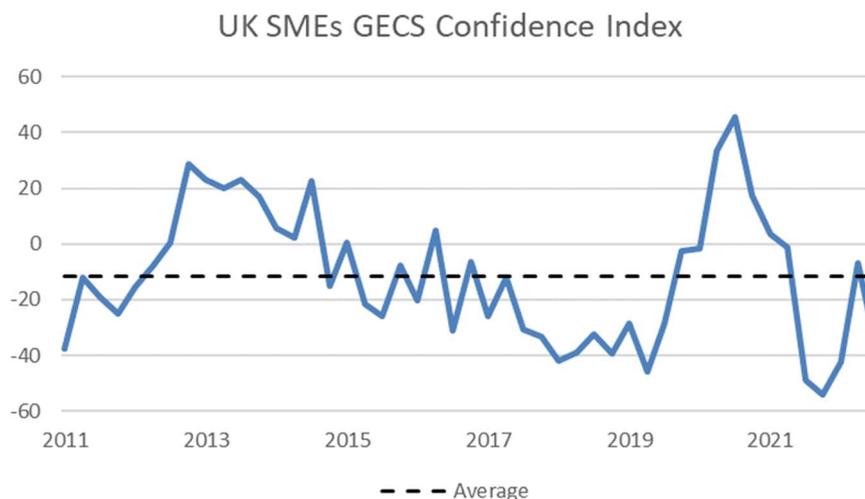
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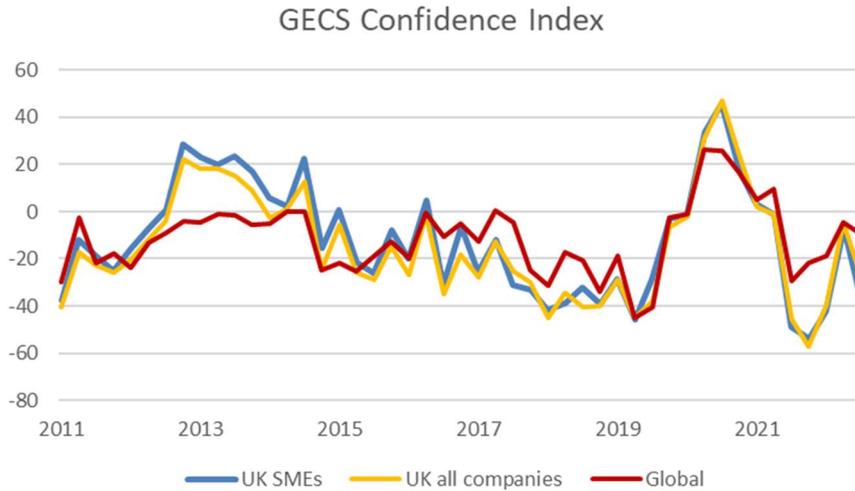
ACCA response summary:

- As a professional body with a public interest remit, ACCA trains, develops and regulates accountants, setting out the highest standards we expect from those working in finance and accountancy. Our members work across all sectors, public and private, from micro businesses to large firms and are trusted advisors to businesses in the UK, giving them unique insight into business and economic conditions.
- Accordingly, ACCA takes a strong interest in business practices, including payment practices, both for business our members work in, but also the businesses they support. We regularly engage with our members through discussions, surveys and webinars, as well as roundtables, including some with successive Small Business Commissioners.
- Based on the insight from our members, we believe that SME access to finance remains a complex and challenging marketplace.
- Small and Medium sized organisations are exceptionally time-poor but face significant challenges in accessing to finance in the UK. The challenge hinders cashflow throughout supply chains, ultimately leading to devastating consequences for SMEs.

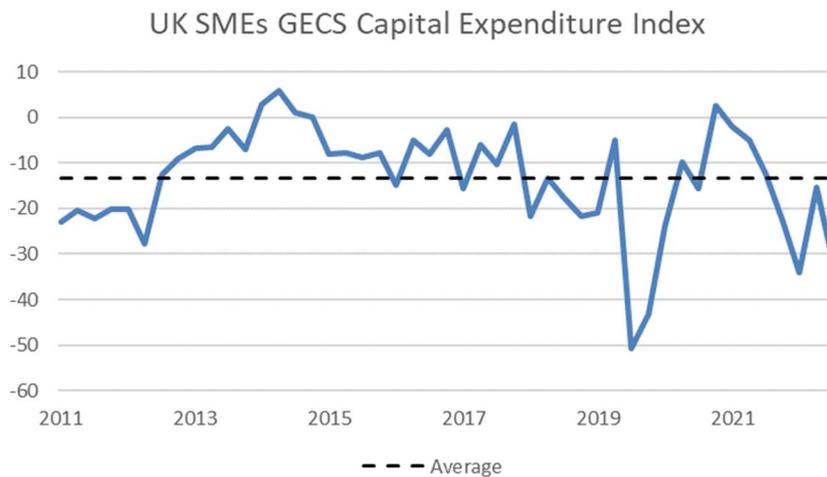
Industry Issues – insight from the Global Economic Conditions Survey (GECS)

1. Our research and insight highlights a number of factors affecting SME access to finance over the last decade. Now over 10 years old, GECS – carried out jointly by ACCA and the Institute of Management Accountants (IMA) – remains the world’s largest regular survey of accountants, both in terms of the number of respondents and the range of economic variables monitored. Our analysis demonstrates the strains on the availability of finance, the provision of finance services, certainty on obtaining finance and timely resolution of dispute. Where appropriate we have referenced trends for UK SMEs, the relationship to the UK as a whole and global comparisons.
2. After rebounding sharply in the first quarter of 2023, confidence amongst UK SMEs declined markedly in the second quarter, although it remains above the troughs recorded in the aftermath of Russia’s invasion of Ukraine. The trendline for the period is negative demonstrating persistent weakness in the confidence of UK SMEs and confidence amongst SMEs is currently lower than for the full UK sample.

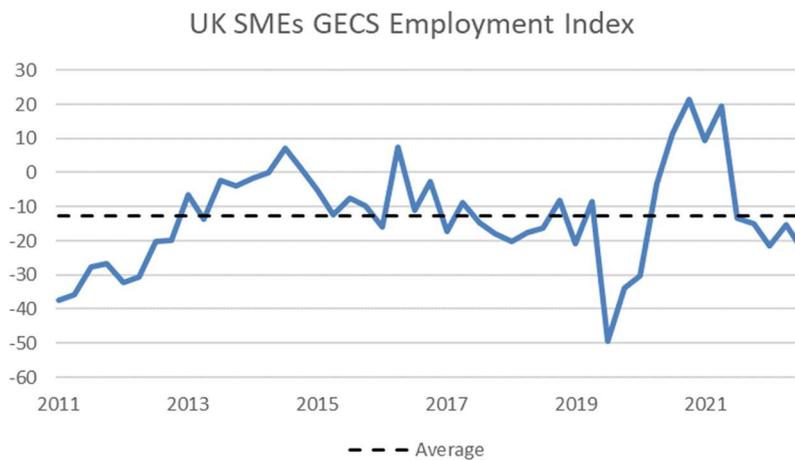




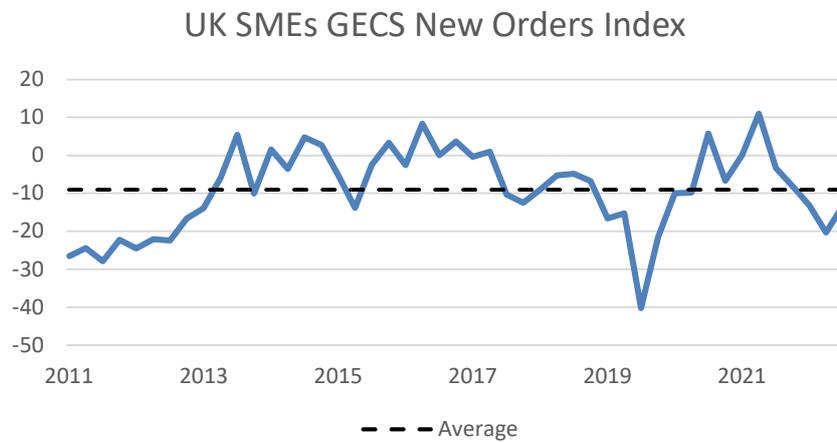
3. In the most recent report, we noted that it may be that the Capital Expenditure and Employment Indices are a more reliable guide to economic conditions than the more volatile confidence measure. For UK SMEs, the capital expenditure index also retreated smartly in the second quarter and is at a low level by historical standards.



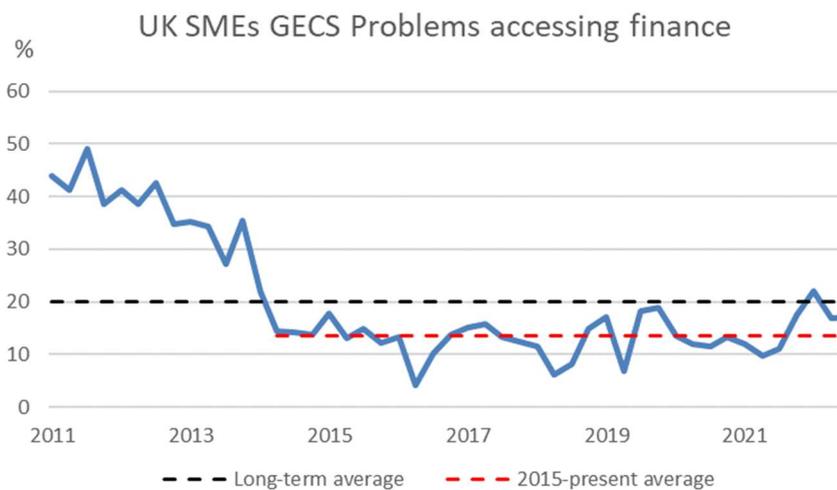
4. The employment index remains around recent troughs, although it is not far from the long-term average level. Given the very tight labour market, SMEs may be being careful not to let go of workers where possible.

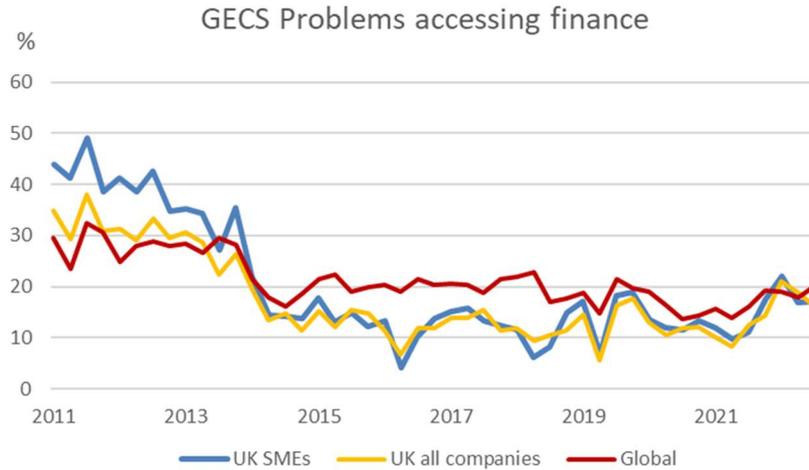


- The New orders index actually rose over the latest quarter, although that comes after a period of consistent declines. New orders are close to their long-term average.

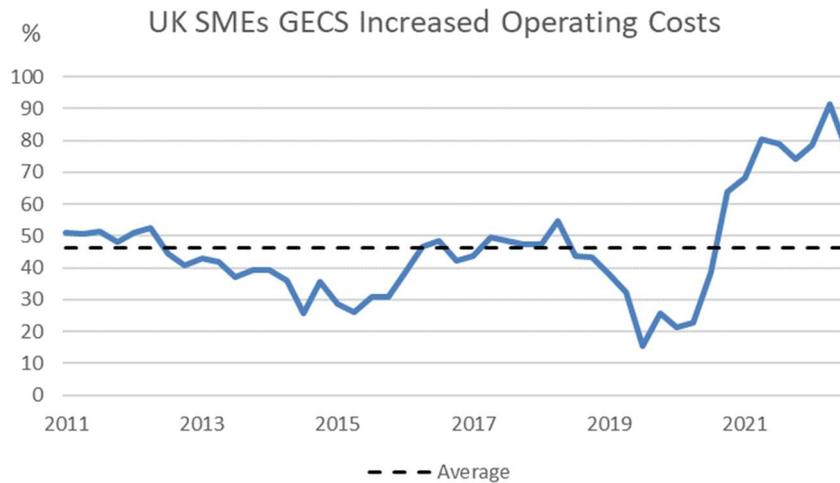


- The proportion of SMEs having problems accessing finance has risen since a recent trough in the first quarter of 2022, although it remains below the long-term average of the series. The latter is heavily influenced by the elevated readings in 2011-2014, however, perhaps related to the aftermath of the Great Financial Crisis and the euro area banking and sovereign debt crisis. The latest reading is close to the top end of the range of readings since the beginning of 2015. The current reading on problems accessing finance is similar for UK SMEs and for the full UK sample.
- Alongside GECs, we have additional survey data from UK members which shows that against the backdrop of high inflation, firms are struggling to secure working capital due to a number of factors including rising interest rates. Over half (57%) reported borrowing to manage cash flow has been more difficult in the last quarter than over the previous 12 months. Almost half (47%) say that supplier credit is harder to access, while over a quarter (27%) report accessing support from HMRC’s Time to Pay scheme is more difficult.

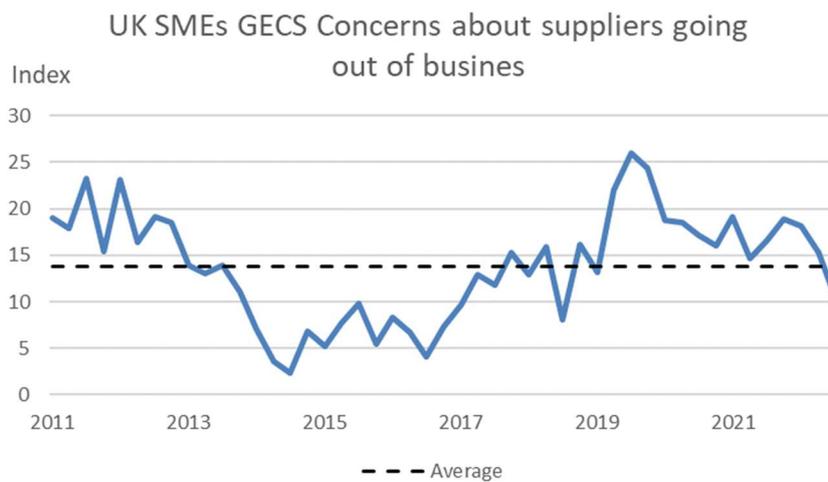




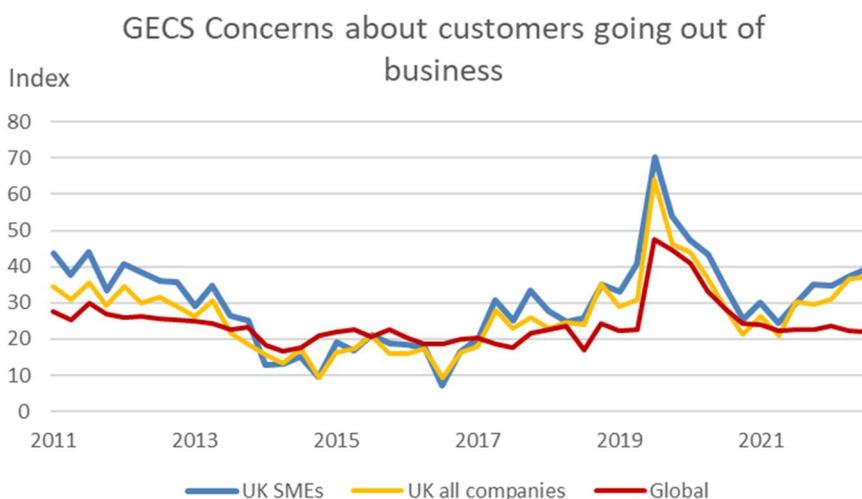
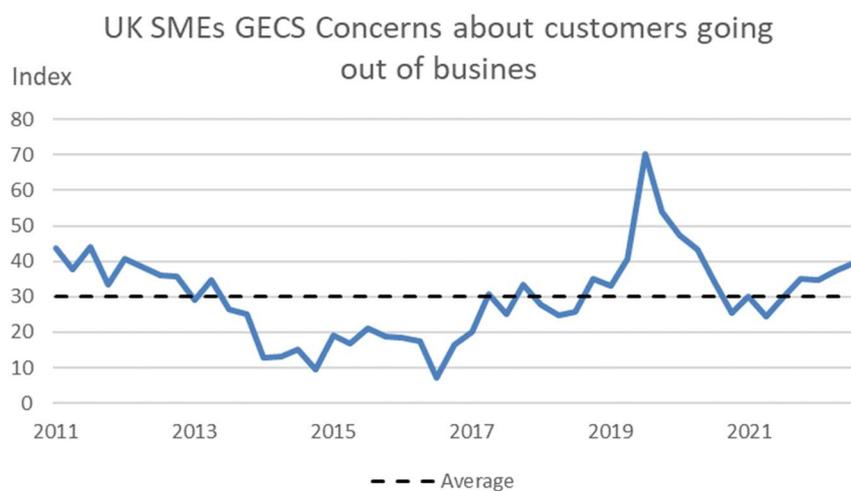
8. Concerns about increased operating costs eased in the second quarter but remain very high by historical standards.



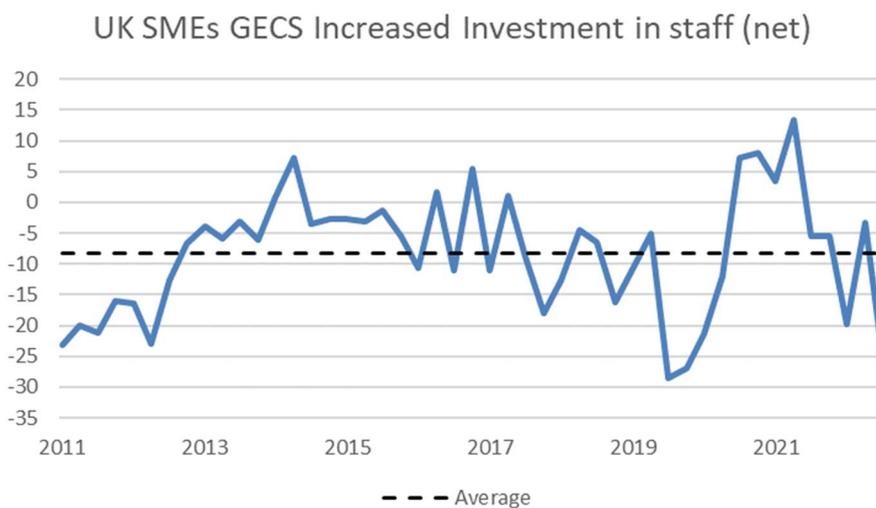
9. Concerns about suppliers going out of business eased in the second quarter.



10. But concerns about customers going out of business rose. The series is quite elevated by historical standards, but well below the peak at the beginning of COVID-19. Concerns about customers going out of business are broadly similar for UK SMEs and all UK companies.

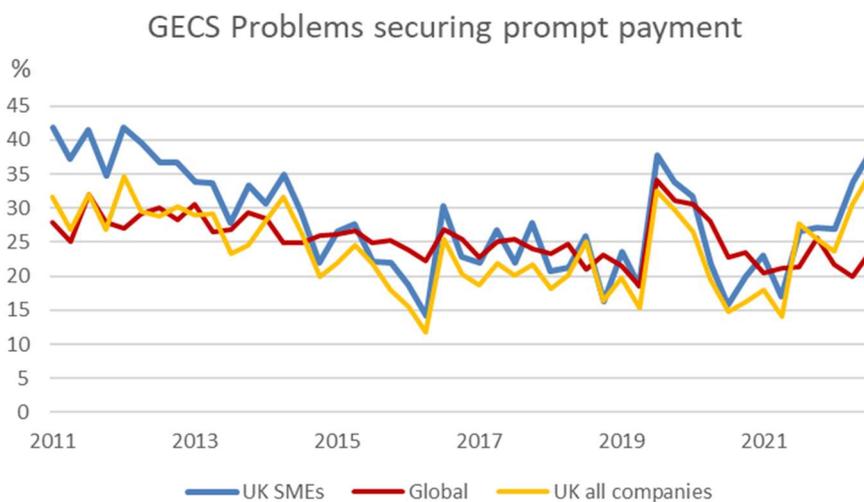
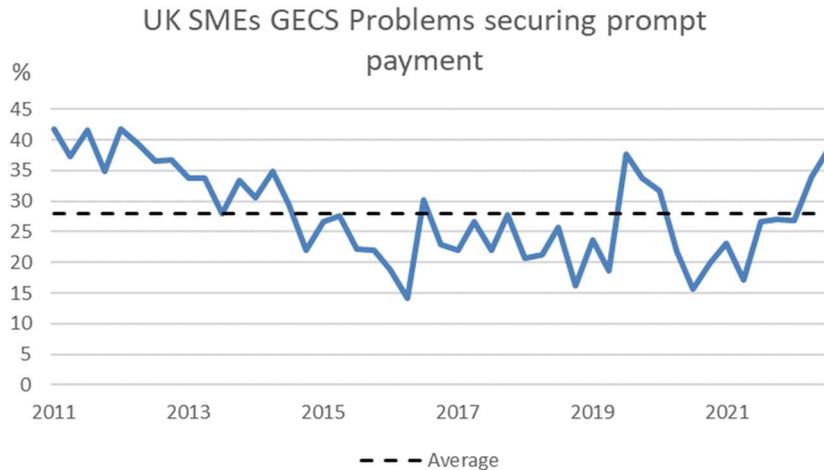


11. The index measuring SME's investment in staff fell sharply in the second quarter and is at a very low level by historical standards.



Industry Issues – Late payment

12. Late payment is a persistent problem in the UK hindering cashflow throughout supply chains, ultimately leading to devastating consequences for SMEs. While progress has been made through introduction of regulations, change takes time to embed. We recently responded to the government's consultation on Amendments to the Payment Practices and Performance Regulations 2017 and are concerned that removing the regulations too early could see a return to poor practice.
13. ACCA members noted that late payment from large corporate companies has the biggest and most detrimental impact on the stability of small businesses. Late payment from large businesses creates a 'domino effect' throughout the supply chain, in turn prohibiting smaller businesses from being able to make their own payments to others on time. In recent roundtables, with the Small Business Commissioner and MPs, members endorsed the framework and expressed support for it continuing as late payment continues to be an issue, particularly for small businesses.
14. We believe that legislation is a vital component of tackling poor payment and it is important to retain, and strengthen – not weaken – the regulatory approach, alongside other measures such as education and awareness raising around the impact of late payments.
15. We have supported actions to tackle late payment in recent years, including the introduction of reporting requirements, the Prompt Payment Code, as well as the establishment of the Small Business Commissioner.
16. We agree that improving poor payment practices in the UK requires change on a number of fronts, including changes in culture, improving awareness and enabling scrutiny, as well as effective regulation over a sufficient time period and, where required, legislative change. We recognise that this will take time and, given the particular challenges reaching small businesses, it is probably too early for the full effect of some measures to be felt.
17. Our view, as well as analysis by a wide range of organisations such as insolvency bodies, suggests that late payment is still a problem in the UK. Indeed, as we seek to pull on every lever to create the best economic environment to enable the economy to flourish, we believe there is a merit in strengthening certain aspects of the late payment landscape, such as the inclusion of payment performance in supply chain reporting, maximising the information available to small firms, and enhancing the role of the Small Business Commissioner.
18. Our GECs research shows that problems securing prompt payment increased sharply in the second quarter of this year and are high compared to the historical average. Problems securing prompt payment are slightly higher for UK SMEs than for all UK companies.



19. Similarly, recent research, conducted by YouGov on behalf of the Association of Accounting Technicians and ACCA with Members of Parliament, found cross party agreement that more action is needed to support small businesses in relation to prompt payment with:
- 65% agreeing that the Prompt Payment Code should be compulsory for organisations with more than 250 employees
 - 54% agreeing that the Small Business Commissioner should be given powers to impose financial penalties for persistent non-compliance with the Prompt Payment Code.

Industry Issues – SME funding channels

20. Although banks remain the most significant source of external finance for formal small firms, bank finance is generally only available to those businesses that can offer collateral or a strong record of generating profit. This leaves out a sizeable proportion of the SME population, including those in the informal sector, and at the other end of the scale, those with high growth ambitions and mostly intangible assets in need of large investments. Rightly, much effort is invested in encouraging banks to reach out to the SME sector and to provide more suitable financial products to their existing clients, but alternatives to bank lending need to generate similar attention and investment in order to build more complete financing markets for SMEs.

21. ACCA member feedback indicates that the typical channels for SME finance are trending away from traditional high street banks. While some still recognise high street banks as the most frequent method of securing finance, consistently more are starting to look at alternatives due to lack of access to a dedicated account manager, impersonal service, fixed procedures that do not take account of different types and sizes of business and long complicated processes that can lead to lost opportunities.
22. This is consistent with the British Business Bank's Small Business Finance Market's Report finding that challenger and specialist banks accounted for over half of gross lending to small businesses in 2022. British Business Bank itself receives praise from members for enabling lending to businesses that would otherwise miss out and for its programmes to support start-up businesses in particular. We are pleased to see the backing of regional investment funds and the rollout of these to additional geographic areas, which we support, and we continue to engage with BBB and highlight their work to our members.
23. A frequent area of complaint from members and the businesses they represent is a lack of communication from banks and lenders about the changes to the provision of services and other account related offers, for example new finance opportunities, overdraft facilities, opening of new accounts. Feedback cites banks using anti-money laundering (AML) procedures as the cause of the issue however small firms often feel this might be an area where transparency and openness from banks is lacking.
24. Members have also provided anecdotal feedback on the withdrawal of banking services from some businesses and/or sectors, usually with very limited notice. Conversely the lengthy time it can take to open, rather than close, services makes it difficult for businesses to find alternative arrangements in a timely manner to ensure business continuity. We are aware of inconsistency in approach and process and decisions are made which are not based information in the public domain. Some businesses, sectors and those involved in export, including to countries where the UK is currently discussing FTAs, note that, in many cases, the information being requested by the banks asks for customer and trade details and requires SMEs to invest considerable time in collating the information. We understand that the impact of these inconsistencies has driven some to pause on investment.
25. We are also aware of anecdotal evidence that businesses are increasingly using brokers to find alternative arrangements as this provides the more personal service that has been lost from traditional banks and access to a broader range of products from a wider range of providers across all of the market. However, we have heard feedback that businesses are, on occasion, able to access products through a broker with a traditional bank despite having previously been rejected for that same product on direct application. Members consistently share that often SMEs are put off applying for certain products and services and as a result bank reports on successful application rates could be misleading.
26. Notwithstanding general challenges facing SMEs accessing finance, there is a need to consider the impact on under-represented groups. While statistical evidence, for example in relation to the small percentage of investment in female-led firms, is key, our members also report that in their experience, applicants with marginalised characteristics find securing finance more challenging, particularly LGBTQIA+ people, those who speak English as a second language, and those from a lower socio-economic background, citing issues in

language/oracy, presumptions about 'lifestyle' businesses, difficulties presenting a meaningful business case. These factors are compounded by lack of access to networks where people can better understand the processes involved and gain support from experts.

27. ACCA would recommend funders to publish their statistics to show the proportions of funding applications approved, agreed in full, partially agreed or rejected by demographic, for example, gender, ethnicity, type of business. Such statistics might help establish whether there is or continues to be a disparity or whether businesses might be self-selecting out through perception issues. Appropriate action might then be taken by funders or could highlight the need for further legislation in this area.

Regulatory Issues – Business Banking Resolution Service

28. ACCA has engaged with the Business Banking Resolution Service since inception, raising awareness of the service including regular signposting for our members and their clients to the service.
29. We recognise that small businesses are exceptionally time-poor and often isolated, making them a hard-to-reach community. As one of the most trusted sources of advice for small firms, accountants have a critical role to play in highlighting the service and where it can be used by their clients.
30. ACCA has positively promoted the service to our members and their clients, however, feedback from members has been that the process is too long, especially as the business has to exhaust the bank's own processes before moving on to the resolution service.
31. We would advocate for a review of the process and to use learning from the HMRC Tax Tribunal system, which uses an independent review to assess referrals.