

A black and white photograph of a cable-stayed bridge, showing numerous white cables fanning out from a central point towards the right. The background is a dark sky.

ACCOUNTANCY FUTURES

Quarterly small business credit update (UK): Q2, 2010



ABOUT ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies at all stages of their development. We seek to develop capacity in the profession and encourage the adoption of global standards. Our values are aligned to the needs of employers in all sectors and we ensure that, through our qualifications, we prepare accountants for business. We seek to open up the profession to people of all backgrounds and remove artificial barriers, innovating our qualifications and their delivery to meet the diverse needs of trainee professionals and their employers.

We support our 140,000 members and 404,000 students in 170 countries, helping them to develop successful careers in accounting and business, based on the skills required by employers. We work through a network of 83 offices and centres and more than 8,000 Approved Employers worldwide, who provide high standards of employee learning and development. Through our public interest remit, we promote appropriate regulation of accounting and conduct relevant research to ensure accountancy continues to grow in reputation and influence.

ABOUT ACCOUNTANCY FUTURES

The economic, political and environmental climate has exposed shortcomings in the way public policy and regulation have developed in areas such as financial regulation, financial reporting, corporate transparency, climate change and assurance provision.

In response to the challenges presented to the accountancy profession by this new business environment, ACCA's *Accountancy Futures* programme has four areas of focus – access to finance, audit and society, carbon accounting, and narrative reporting. Through research, comment and events ACCA will contribute to the forward agenda of the international profession, business and society at large.

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ABOUT THE QUARTERLY SMALL BUSINESS CREDIT UPDATE

The Quarterly Small Business Credit Update is a digest of information on SMEs' access to finance. Regular sources of information include:

- the BBA monthly statistics on support to small businesses
- the ACCA *Global Economic Conditions Survey*
- the ABI trade credit quarterly claims statistics
- the ABFA quarterly statistics on asset based finance
- the BoE quarterly credit conditions survey
- the BoE monthly agents reports
- the BoE quarterly inflation report
- the BCC quarterly economic survey.

The full series of *UK Small Business Credit Updates* is available at <http://www.accaglobal.com/af>

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DEBT DOWN TO PRE-CRISIS LEVELS AS DELEVERAGING PICKS UP SPEED

Outstanding loans to small businesses continued to fall in the second quarter of 2010. In real average terms, the stock of lending fell by 2.5%, crossing into pre-crisis levels in April. This fall was made up of a 0.9% reduction in outstanding overdrafts and a 2.7% fall in outstanding term loans.¹ However, there are encouraging signs for small business finances, with deposits rising by 1.8%, against -0.2% last year and -1.5% in 2008. Small business are now de-leveraging very fast, with net borrowing back to pre-crisis levels and overdrafts slowly easing towards a 15.5% share of total lending (down from 18.7% pre-crisis). Overall, overdrafts are down 18% against pre-crisis levels.

SUPPLY MOSTLY UNRESPONSIVE TO IMPROVING FUNDAMENTALS

Demand for debt from small businesses continued to grow in line with lenders' expectations, and demand for non-card unsecured loans strongly exceeded expectations.² Once again, it would appear that supply has tightened, with spreads and commission charges rising, although the BoE also reports easing covenants and higher credit line limits.

The BoE reports that lenders were once again surprised by small business default rates, which fell in Q2, 2010, as well as strong demand for credit. Yet, paradoxically, their expectations for the next quarter are almost unchanged. In response, they appear to have once again increased approval rates beyond what they had expected, but supply appears to have grown more slowly than demand and less than lenders had expected.³

Once again, it appears that lenders are concerned about the strength of the recovery and eager to build up their balance sheets, but are beginning to reconsider in light of improved fundamentals. One possible area of concern is the fact that business insolvencies have stopped falling, possibly due to increased instances of over-trading as economic activity picks up.⁴

On the demand side, small businesses' strong appetite for debt is being driven by a combination of receding liquidity risk and a genuinely positive economic outlook. ACCA's dashboard of small business surveys suggests that:

- Small businesses are anticipating net growth in sales and employment for the first time in two and a half years.⁵
- Business investment is now firmly on the rise on a year-on-year basis and could reach positive territory in the third quarter (Figure 2).⁶
- After an unexpected tightening in early 2010, the recovery in cashflow conditions resumed in the second quarter (Figure 3).⁷
- The stock of businesses is still increasing.⁸

1. BBA, Bank of England, UK Insolvency Service and ONS. All figures have been adjusted for inflation (CPI) and changes to the stock of businesses with a banking relationship, but are not seasonally adjusted. For the purposes of BBA and BoE statistics, 'small businesses' are banking clients with account turnover of £1m or less. This is not equivalent to the UK government's definition of 'small business' and represents only a subset of the SME sector.

2. A simple regression analysis of the BoE data suggests that credit card lending accounts for at least two thirds and probably about three quarters of all variation in unsecured lending to small businesses.

3. Bank of England, *Credit Conditions Survey Q2 2010*, July 2010.

4. Insolvency Service, 'Statistics Release: Insolvencies in the Second Quarter 2010', August 2010.

5. OU Business School, *Quarterly Survey of Small Business in Britain Q2 2010*, June 2010.

6. OU Business School, op. cit.

7. *BCC Quarterly Economic Survey*, July 2010.

8. OU Business School, op. cit.

GOVERNMENT SUPPORT SCHEMES: THE STATE OF PLAY

Business Payment Support Service (BPSS)

According to HMRC, the BPSS had extended £5.2bn of credit in over 300,000 arrangements with more than 200,000 businesses by late March 2010, of which £4.2bn has been repaid.⁹ Additional data suggest that criteria are tightening for larger BPSS applicants, with the average successful VAT deferral application standing at just under £19,000, while the average rejected application stands at just over £117,000.¹⁰

Enterprise Finance Guarantee (EFG)

The EFG had supported £862 of lending to 8,500 SMEs by March, against a projected total of £1.3bn.¹¹ The scheme is set to run until March 2011, and was topped up with an additional £200m allocation, announced in the June Budget. The Budget also set a 20-day processing target for banks receiving EFG applications.¹² Reports suggest that the rate of EFG use fell in the six months leading up to the May general election.¹³

Working Capital Guarantee (WCG) (discontinued)

This is a wholesale scheme whereby the Government offered banks a guarantee on portfolios of 'medium-risk' SME loans in exchange for commitments of increased SME lending. Two lenders, in whom the government has capital stakes, sought guarantees for £2bn of SME loans, against a potential £20bn allocation; the Government has confirmed that no further guarantees will be offered.¹⁴

Credit Insurance Top-Up Scheme (discontinued)

The £5bn programme, which offered additional cover to businesses that had had their counterparty cover reduced but not removed, has now been discontinued. Only 78 suppliers had signed up to the scheme, obtaining £18m worth of cover as of 20 November.¹⁵

9. J. Moules, 'Time to pay take up doubles in months', *Financial Times*, 23 July 2010

10. 'Time to pay may be scrapped in budget', *AccountingWeb*, 18 June 2010.

11. 'Time to pay scheme keeps 160,000 businesses afloat', *Financial Times*, 5 March 2010.

12. HMT and BIS, 'Financing a private sector recovery', July 2010.

13. R. Tyler, 'Lending by Government's business loan plan falls 23%', *The Telegraph*, 5 July 2010.

14. M. Prisk, written answer to Jim Cunningham MP, 6 July 2010, HC Deb, 6 July 2010, c235W.

15. J. Pickard, op. cit.

Figure 1: Stock of lending to and deposits of small businesses from July 2007 to June 2010

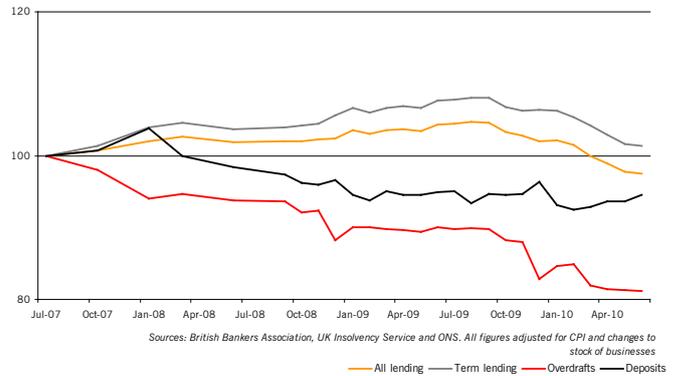


Figure 2: Investment trends, forward- and backward-looking

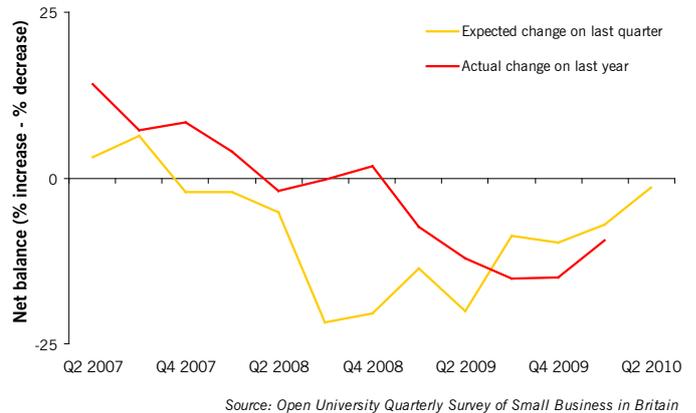
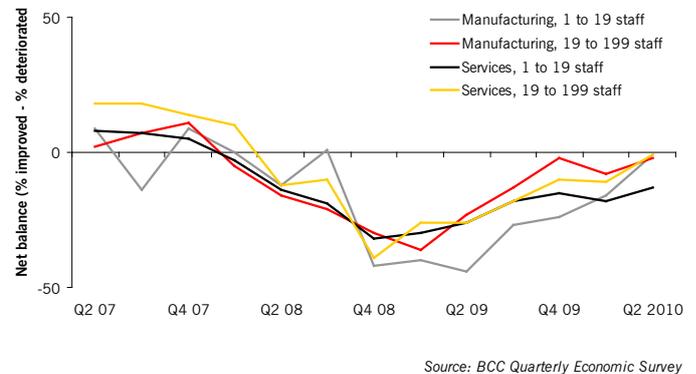


Figure 3: Cash flow conditions for SMEs



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