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MONEY BOX LIVE

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LEWIS: Hello. Today we're looking at small business finance and particularly how the credit crunch is affecting small businesses. They're often seen as the engine of the economy, employing thirteen and a half million people and contributing half the national economy. But because they're small, they sometimes feel they have little clout and that the Government and banks ignore their needs. In particular, there have been complaints recently that banks were putting up overdraft rates sharply. The Federation of Small Businesses surveyed its members and 40% of those responding said their overdraft rates had gone up. We'll be taking your questions on small business finance shortly, but, first, the news this morning that small businesses - among others - may benefit from the deal the Government did with three banks over the weekend. In exchange for up to £37 billion of public money, the banks have agreed to a number of conditions and one of those is to make small business finance available and to market it. Well to find out more on that, live now to talk to Eric Leenders, Executive Director of Retail Banking at the British Bankers' Association. Eric Leenders, how will this new promise work?

LEENDERS: Well we're just looking to work though the details, I have to say. The plan I think is to make sure that the level of borrowing that's provided to small businesses in 2007 is maintained through 2009. I think what's interesting for us to see is that actually the level of credit provided to small business has really rather held up in the last 12 months or so, so it's probably about thinking about the 6 months ahead rather than any constriction in borrowing over the last 12 months, as I say.

LEWIS: And when you say “the level”, do you mean the quantity or the rates charged?

LEENDERS: I’m talking about the quantity here. Clearly the rates charged, that’s a commercial issue for the bank and their small business customers.

LEWIS: But isn’t the problem businesses face not there isn’t credit available, but that banks are now putting the rates up, as we just heard from that survey from the Federation of Small Businesses?

LEENDERS: Well I was quite surprised when I saw the survey when it said that 40% of small businesses had seen their rates rise. It’s not something that all the banks have been doing, and actually talking to our members it’s actually only one or two, although I would concede that of those one or two it’s one or two of the larger players with a more significant market share.

LEWIS: Are you going to tell us who they are?

LEENDERS: I couldn’t be drawn, couldn’t possibly be drawn, Paul, but clearly the customers that have those accounts will know.

LEWIS: *(laughs)* I’m sure we’ll find out during the course of the next half hour. And this agreement, this condition if you like, only applies just to the three banks that have taken the money: HBOS, Lloyds TSB and RBS. It doesn’t apply to the others.

LEENDERS: No, but I think that one of the underpinning philosophies would be that if you’re introducing that sort of competition with people willing to lend, then those that aren’t part of the scheme, if they want to keep their market share, will also need to consider providing extra or consistent borrowing levels as well.

LEWIS: And just briefly, Eric, if a small business goes to the bank and they’re turned down, can they wave this document in front of the bank manager and say, you know, “You’ve got to lend me the money”?

LEENDERS: Well I think you raise a very valid point. It's about what the economy's going to do to your small business in the next 6, 12 months or so. Make sure that you've got your business plan sorted out, you've considered what perhaps a 10% drop in turnover or a 20% increase in expenditure might do to your bottom line over that forthcoming 12 month period, and come armed with the answers so that the bank manager concerned can make an informed decision.

LEWIS: So do your preparation.

LEENDERS: Absolutely.

LEWIS: Eric Leenders of British Bankers' Association, thanks. And there are links to the Treasury statement, which is very brief I have to say on that subject, and to commitments by some of the banks on our website, bbc.co.uk/moneybox.

Well of course access to finance at a reasonable price is one problem, but small businesses face many others - tax, VAT, red tape - and of course some of these problems do prove too much for some small businesses. Calls to debt advice services are rising, insolvencies are slowly going up too. Whatever your question, you can call Money Box Live now - 03700 100 444. With me today to answer your questions are Stephen Alambritis from the Federation of Small Businesses, which I mentioned a few moments ago; Ed Harber who's an adviser with Business Debtline; and Francesca Lagerberg, a partner with accountants Grant Thornton. And the first question is from Jane in Guildford. Jane, your question?

JANE: Hello. Yes, I wanted to find out what do we do? We've just had a letter today from our bank telling us that our overdraft interest rate has gone up from 3.50% over the base rate to 5.95%, which, according to my husband, is a 70% increase. What can we do as a small business? I mean ...

LEWIS: I'm sure you're not going to be shy about telling us which bank this is, Jane.

JANE: No, it's NatWest.

LEWIS: Right, so they've put it up, and of course they *are* one of the ones that will benefit from this government money.

JANE: Exactly!

LEWIS: And how big a burden would it be to you to meet this extra cost?

JANE: It'll be quite difficult because we are a small business, there's only the two of us. We make and restore musical instruments and we're in a difficult position like everybody else is.

LEWIS: Okay.

JANE: And you know they're saying 20% down, but this is already a 70% increase just on that one thing.

LEWIS: Indeed. Stephen Alambritis?

ALAMBRITIS: Yes, I would advise Jane to go back to the bank in view of the situation highlighted today - that NatWest RBS have got all this money from the Government and the Government is asking them to revert to 2007 lending at marketing rate, good rates. Another bank - and I will name it, it's Barclays Bank - issued letters to SMB's that as of 8th October ...

LEWIS: Small and medium sized businesses.

ALAMBRITIS: Small and medium sized businesses. As of 8th October that their overdraft rates would go from 6 above base to 10 above base. And so, yes, I think these banks should withdraw those hikes in the overdrafts given that we're all talking about rescuing the banks in order to rescue small businesses.

LEWIS: Isn't the problem though that these are by their nature small businesses and by their nature *very* small customers as far as the banks are concerned and they can afford to ... if you

don't like it, they can perfectly well say "Go somewhere else if you think you can get a better deal"?

ALAMBRITIS: Yes, Paul, but it's difficult to switch in today's climate. We're not over banked like in America where there's 12,000 different banks. We've got four major players, eight at the most, and they know full well that switching is very difficult to go from one to another bank. I would urge Jane to go back to the bank and say that the situation has changed; can you review my interest rate charges?

LEWIS: Yes. And of course RBS NatWest have had the biggest chunk.

ALAMBRITIS: Yes.

LEWIS: They've had £20 billion of our money, Jane's money and all the listeners' money. So maybe you can get something out of them, Jane. Good luck with that.

JANE: Okay. Can ...

LEWIS: But Francesca ... Sorry, Francesca Lagerberg has a point as well.

LAGERBERG: There are some very general things that can also be done to help ensure that you've got good cash flow and I think it's really important to look at all your other options in addition to the overdraft rate that you've got. For example, with your business can you make maximum use of available exemptions and reliefs? Can you use the new annual investment allowance to bring forward your capital allowances to help get some cash

LEWIS: *(over)* Tell us about that because that's a big change, isn't it?

LAGERBERG: That's a massive change and a very helpful one for your type of business. You get £50,000 of annual investment allowance each year - that's a full 100% first year allowance - on your core plant and machinery. That's the stuff that makes your business actually work. So it's a useful one to make the maximum use of.

LEWIS: So instead of all those messy capital allowances and working everything out; that anything core to the business - not a vehicle, that's right isn't it - but ...

LAGERBERG: That's right, it doesn't cover cars. It does cover company vans though, interestingly.

LEWIS: Company vans, right. So that really is a big help for small businesses. Anyway, Jane, hope there's a bit of useful advice there and it sounds as if your bank manager should get his ear bent or *her* ear bent and see what happens. (*laughs*) Thanks very much for your call. Let's hear from Liz now in Surrey, in Woking.

LIZ: Oh hello. I'd like to ask how safe are small business bank accounts and is there any compensation scheme if the bank does get into trouble?

LEWIS: Okay, let's keep you on the line, Liz, and talk to Ian as well because I think he has a similar point. Ian, your question?

IAN: Yes, hello. Yes, I run a small business and, yes, we're lucky enough to have in excess of £50,000 in the bank and I was wondering if as a small limited company the bank, you know our £50,000 is covered by the government scheme or if we have any options you know around that?

LEWIS: Right. I have to say this is an obsession of many, many people who've emailed us over the weekend and indeed for this programme today - is my money safe? Stephen Alambritis, is it safe?

ALAMBRITIS: It should be safe. There are certain thresholds, so a company, a corporate company, limited liability company with a turnover below six and a half million assets under 3.626 million and staff under 50 is covered by the £50,000 compensation package. That is certainly the case. If you're self-employed, you are covered by the £50,000 package, but you can't then cover another £50,000 with regard to trading as a painter or decorator say. That's a one off for self-employed people.

LEWIS: So it's one limit for you even if you have a business and a personal account with the same bank? So that's *some* protection. But above that, of course, you're lost and £50,000 might be quite a lot for an individual, but for a small business, Francesca, it can be quite a relatively small amount as cash comes in and out?

LAGERBERG: Absolutely. I mean obviously there's a huge amount of concern around this area and I suppose people are looking to see if they can take some of their money out of their business and spread it themselves personally. So, for example, could you take a loan from your corporate, take it out individually and then you personally spread it to give yourself some comfort that it's covered by the various agreements that are in place? You need to be a little bit careful, of course, because there's various restrictions on what you can and can't take out of a company, and obviously you are going to have a loan from the corporate entity to yourself which you need to be aware of. But there may be possibilities there, particularly for smaller businesses.

LEWIS: And spreading it around banks of course is difficult because of knowing who owns what. We've had an email from Mrs Moore who's asking about this, saying you know 'Can I move it around and how do I know where to move it to?' And it is difficult. There isn't an official list, though there are links on our website to one or two places that might help. So some guarantee there. And I have to say certainly what I say to individuals is that over the last year, the Government has in fact guaranteed up to *any* amount, all the money in the bank for individuals and sole traders. That's happened four times now with Northern Rock, Bradford & Bingley and the two Icelandic banks. So how safe your money is is a moot point, but certainly if you want to be ultra safe up to £50,000 and spread it around between organisations. Nods around the table, so I must have got it right.

ALAMBRITIS: Yes, you have.

LEWIS: Thank goodness for that. Ed Barber, I mentioned ... Ed Harber, I mentioned in the introduction that debt was becoming a problem and obviously people are worried about you know losing their money and all these things. Are you finding an increase in calls to your business Debtline?

HARBER: I would say massively so actually. Over the past few months or so, a lot of extra calls that we're having. We're not seeing much available time, we're seeing calls backlog up and it's difficult to get through. I can say that because the organisation is quite small.

LEWIS: So when they ring, persist is your message, is it?

HARBER: Absolutely. You know get through early. Don't call at lunchtimes. Obviously that's going to be a very busy time. But absolutely we'll always try and help and you can call us absolutely as many times as you need to.

LEWIS: And I know you're part of Money Advice Trust, which also has National Debtline for individuals in debt and you work as part of the same organisation. What's the difference between business debt, small business debt and what you can do, and personal debt?

HARBER: To be honest, it's a major actual misconception by people that a business is one thing and your personal debts are another. For most people, sole traders and partnerships, it's going to affect you just the same as your personal debts are going to. It's going to affect your home, it can affect your cars. It can affect any assets that you have. It's only really a limited company that has that protection and even then the banks get round it with personal guarantees.

LEWIS: And I suppose it's the same rule: you know if you've got debts, work out which one's most expensive and start paying that one off first if you can possibly can?

HARBER: Well a lot of the time it's *how* to put your money round - who to prioritise, who to deal with first. And budget properly. Talk to your accountant. You know do a plan, understand when things are going to be coming in. And credit control. You know get your money in when you can, try and extend out the ones which you have credit on.

LEWIS: Okay and there are links to Business Debtline on our website and all sorts of other useful places. The website address, bbc.co.uk/moneybox. Let's talk to Alan now in Lincolnshire. Alan, your question?

ALAN: Good afternoon. Can the panel offer any help to businesses that have empty premises due to the recession or even retirement and they're now forced to pay business rates at 100%? Surely in this economic climate, the new law which local authorities are powerless to change as they're only collectors for Her Majesty's Government, small businesses are not exempt and this new tax in this recessionary time is money that we can ill afford and it may cause serious financial difficulties for even businesses who can't sell their factories, what can they do? And are there any campaigns at present to get this change suspended?

LEWIS: And this is 100% rates and you used to pay what, Alan?

ALAN: You used to be able to get 6 months in a year off empty properties ...

LEWIS: Rate free, I see.

ALAN: Rate free.

LEWIS: Stephen Alambritis?

ALAMBRITIS: Yes, the Federation of Small Businesses is currently lobbying to bring back an element of relief on empty premises, a 50% element. When this was all introduced, things were going well and the rationale was there for it in terms of releasing empty property so the rent could come down. But given the very tight restrictions and the economic difficulties, we have taken the issue up with the Government to see whether a modicum of relief on 50% say and then move up if the difficulties continue to 100%.

LEWIS: Ed?

HARBER: Well I think the key thing to say here is that obviously to make use of, as my colleague Francesca said, about the reliefs that you can get. Obviously if you can get small business rate relief, you know look at it. Is your valuation on your premises correct? You can go and get it re-valued to see if that is the correct rating it should be on. And the council has the ability to give you discretionary allowance if you're going to suffer severe hardship or if

you're essential to that community. And go to the council and use them and you know I think they should help.

LEWIS: So you've got to show severe hardship or ...

HARBER: Absolutely.

LEWIS: ... immense ... big value to the community?

ALAN: But it's a terribly unfair tax to put onto businesses without any consultation.

LEWIS: Yes, it certainly seems that way to a lot of people. And, Francesca, I know accountants probably can't help with this particular one apart from pulling the building down, which I've read people are actually doing to avoid it?

LAGERBERG: Well, yes, we've been hearing anecdotal evidence of people doing that because it's actually cheaper for them to go that route, which obviously is very extreme and doesn't meet any of the reasons why this particular issue ever came to light anyway.

LEWIS: Yes. So, Alan, I think there are people campaigning on this and it may be worth getting together with some people locally and lobbying your MP. That sometimes does good on this kind of issue.

ALABRITIS: Yes it does.

LEWIS: Especially if you can show the value of you and other businesses to the local area. We've had an email on business rates as well from John. He lives in the area of Rother district council. He has a small engineering works and because of the nature of the business he needs a large floor space. So although he's a small business, he doesn't get small business relief. Is that right, Stephen?

ALAMBRITIS: Well if his rateable value is below £15,000, £21,000 in London, then he should access help from the local business rating department at the Town Hall. Unfortunately

you have to apply and the FSB's calling for all this to be made automatic, to be given automatically. But he should enter discussions and there's a very useful website, businessraterelief.co.uk, that has all the information that is needed.

LEWIS: Right, so if you put businessraterelief.co.uk into a search engine, you'll find it and you'll be able to look at that. I'm not sure if that's on our website, but we'll try and get it on there later this afternoon. Thanks for that email, John. Let's move on now to Harry who's calling us from Kent. Harry, your question?

HARRY: Yeah, hi.

LEWIS: Hello.

HARRY: It's a question about business loan repayment insurance.

LEWIS: Right. What's your question? What's happened?

HARRY: Yeah, well about 2 years ago my bank told me that they were cancelling my overdraft and converting it into a loan. They didn't give me any choice about that and they also insisted that I take out repayment insurance as a condition of them giving me the loan. I didn't know at the time that they apparently are not allowed to actually insist on that.

LEWIS: This is Payment Protection Insurance, as we call it ...

HARRY: Yes, that's it, yeah.

LEWIS: ... so if you fall ill or you lose your job, then you can carry on paying ... you can at least pay some of the interest on the loan for some short period of time.

HARRY: Yeah, yeah.

LEWIS: And so what are you asking about?

HARRY: Well I'm asking about whether I can actually cancel that insurance because from what I've heard in the media lately, they're not allowed to actually insist on you taking that

insurance as a condition of giving you the loan. Is that right?

LEWIS: Yes, that's certainly true, as I understand it. And I think Which?, the consumer organisation, has been having a campaign on this and probably has some useful information on its website. Stephen?

ALAMBRITIS: Yes, certainly I think Harry has a good case. I would exhaust all internal structures within the bank itself before just cancelling. It's wholly unfair to move from overdraft to a loan in order to take in place these warrant payments. Then if you have no luck through the internal procedures, then the Banking Ombudsman should be able to take up your case.

LEWIS: Right, that's ...

HARRY: The only thing I would say is that I did actually make a claim on this insurance. Would that stop me cancelling even a portion of it now?

ALAMBRITIS: It's the way the whole issue was undertaken by the bank in terms of transferring you from overdraft to loan. You should still have a good case.

LEWIS: And I think it's true, isn't it, that self-employed people find it very hard to claim on these policies sometimes. And, Ed, I wonder if people are sold these policies and that that puts them further into debt because they didn't need the policy in the first place?

HARBER: Yeah, I mean we do find that people get this PPI and it says on there you know 'if you're sick or you can't work'. I mean can't work and self-employed can be a very difficult thing to do to actually quantify ...

LEWIS: Because some of them say you've got to be able to do no work at all, which if you're self-employed you generally can ...

HARBER: You work from home.

LEWIS: Yeah, that's right.

HARBER: You know it can be very easy for you to work you know if you're not ... if you're just in a service base, Internet base for example - yes very difficult to claim on those.

LEWIS: So I think, Harry, the recommendation is look at the Which? website, which again we have had links on before on our website but you can certainly find it through the usual search engines, and they do give you a guide as to what you can do with PPI and whether you have a claim or not. And I think they even do standard letters that you can just fill in the details, so that may be worth pursuing. Thanks very much for your call. We're going to William now who's calling us from Northamptonshire. William?

WILLIAM: Hello. Referring to one of the earlier questions, one of my - amongst others - one of my problems is having had a transfer of overdraft loan some years ago, which has been nearly paid off now, I go to the bank and ask for a loan because we're desperate for capital to finish off a project and get it into production; and they say because it was a reconstructed loan system, of which I was not particularly aware at the time, they won't even consider me for another loan.

LEWIS: Right. And the reason is it was a reconstructed loan. I don't quite understand that term.

WILLIAM: Well I was in business some years ago and I had an overdraft and when I *tried* to retire, they said "Oh we'll convert it all to a loan for you."

LEWIS: I see. So it was an overdraft converted to a loan and, as you say, you had no choice about that. And now you want to carry it on.

WILLIAM: Well the loan itself is nearly finished ...

LEWIS: Right, you want another similar one?

WILLIAM: ... but I want another loan on the top. But because that one isn't quite finished, they will not give me another loan.

LEWIS: I see. William, you mentioned retirement. May I ask how old you are?

WILLIAM: 76. *(laughs)*

LEWIS: Right, I wonder if your age has something to do with it. Stephen?

WILLIAM: I feel it probably does.

ALAMBRITIS: It shouldn't have. Certainly there should be no age discrimination in the provision of goods and services and in fact loans to people as long as you've got a good business plan and William talks about nearly paying off the existing loan. This is very difficult. The banks should not be transferring overdrafts into loans and all the fees and the revision and the audits that go with that. We would urge a bank to show good faith in William and to go through. If William's got any problems and he feels it's age discrimination, then he just needs to contact the Equality Human Rights Commission which would look at it for him.

LEWIS: Yes, though of course that's not at the moment unlawful except in an employment context. The Government's talking of making it unlawful, isn't it?

ALAMBRITIS: There is an equality bill going through that should look at these issues.

LEWIS: Yes. I mean I think it may be time to have, as we said earlier on in the programme, to take these agreements the banks have come to and wave them in front of them and wave the Equality Commission as well and say this is really not the way to treat small businesses which are very productive things. A bit of work to do there, William, but we think you should persist with it. It may get somewhere. I've got an email here from Sue - and again this is a point we get a lot on this programme. 'One hears a great deal about larger businesses delaying payments to small businesses. What can you do if it happens? Is there a small claims procedure with the remit of compelling large businesses to pay up?' Ed?

HARBER: Well with this one obviously you don't want to rock the boat too much, you know. If it's a very key person that you work with, you know you don't want to really make difficulties for yourself in the current climate. But you know send a letter saying you know you're over your credit time, you know give them sort of two weeks or so. And you can issue a claim relatively easily. You can do it online. You can get a claim form from the court or online off the court's website.

LEWIS: You are supposed to pay up within a certain period, aren't you?

ALAMBRITIS: You need to pay up within your agreed payment terms; and if you don't, the individual can insist on a statutory right to interest. That's 8 above base. But that, as Ed said, is if you're not interested in continuing the business. I think it's about naming and shaming - again a word with your Member of Parliament - if you don't want to carry the business but you desperately want your money. Large companies are on average taking 44 days to pay. There's one bluechip company that's gone from 35 to 105 days to pay. Improving your cash flow on the back of your smaller suppliers is something that should be stopped, but it's about taking the issue up with the company.

LEWIS: And the suspicion is when times get hard big businesses do this because they can?

ALAMBRITIS: They can. They're in a strong position and it improves their cash flow.

LEWIS: Okay, well thanks very much for your call - for your email, sorry. That was an email from Sue. And we're moving onto a call now from Peter who's in Birmingham.

PETER: Good afternoon, Paul. My question is why can't we have the same business investment rates as the Germans? I've had it confirmed that the German industry is able to borrow money for capital investment at very low rates - around 1½, 2% - because the Germans are able to run two interest rates, one for the business sector and one for the high street. Thus they can control the danger of stagnation with the lower rate and they can control inflation with the higher rate. My business has invested fairly heavily in modern and efficient plant and machinery, but at a fairly high interest rate and very short-term - 3 years - which

makes it almost impossible to pay back and complete the deal over such a short time.

LEWIS: So you're investing in equipment for the long-term, but having to pay in the short-term and pay high rates. Francesca?

LAGERBERG: Well one of the great difficulties is competing with our European neighbours when they have sometimes more advantageous systems in place. Interestingly, the Government has been making noises around this area recently, saying they want to make the UK far more competitive. And I suspect we may need to wait till the pre-Budget report, whenever that might be - though early November possibly - to hear what they're actually going to do because I think it's a very strong claim from business that when you've got our very close competitors doing things like Germany, the UK needs to compete.

LEWIS: Stephen?

ALAMBRITIS: This has served Germany very well. It started with marshall aid funding after the Second World War, this two-tier interest rate system, and that's why Germany have more what's called mittelstand businesses. We visited Germany; we went to Frankfurt. We came back with the scheme, gave it to ministers some years ago, but we have the blunt instrument of one interest rate. It's a very clever system the Germans have. If you're investing for capital, that's not inflation. That's good for the economy and it should attract a lower interest rate.

LEWIS: Right. Well it took us fifty years to get an independent central bank, which the Germans had for a long time. Maybe it could follow this one as well.

ALAMBRITIS: Yes.

LEWIS: Thanks very much, Peter. I mean it sounds as if it's not going to happen, but, again, a word with your bank manager, maybe waving today's documents might do the trick. Marjorie is next from Bournemouth. Marjorie, can I ask you to be very brief because we've very little time left?

MARJORIE: I have a seasonal guest house and I don't have any loans or overdrafts or anything else, but I am loaded with legislation and taxation - £1,000 a year for business rate. There should be some relaxation for very small seasonal businesses which are self-employed.

LEWIS: I'm sure a lot of people would agree with you, Marjorie. Francesca very briefly?

LAGERBERG: Oh absolutely agree that definitely small businesses need all the help they can get. A lot of those regulations and restrictions aren't just of course about financing or about tax. I think the whole gamut of small business requires an overview and a review to help you go about doing what you're good at, which is doing your business.

LEWIS: Stephen very briefly?

ALAMBRITIS: Yes, certainly the definition of a small business - under 5 workers - should carry some exemptions to allow Marjorie to carry on her business.

LEWIS: Thanks very much for your call, Marjorie. I'm sure a lot of people would be cheering as they listened to the radio hearing that. That's all we have time for. My thanks to Stephen Alambritis from the Federation of Small Businesses; Ed Harber of Business Debtline; and Francesca Lagerberg from Grant Thornton. Thanks for all your calls and emails. You can find out more about small business finance from the BBC Action Line. That's 0800 044 044. Our website, as I've said, is bbc.co.uk/moneybox. You can listen to the programme again, you can download a copy, or you can subscribe to our podcast, and in a couple of days you can read it all in a transcript. Service or what? I'm back at noon on Saturday with Money Box and here to take more of your calls on Money Box Live next Monday afternoon.