SME Finance Monitor

Q4 2016

An independent report by
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bdrc
continental

Shiona Davies
Director
Tel: 020 7490 9124
shiona.davies@bdrc-continental.com

Contents

Page No.

Foreword

Welcome to the full report of the SME Finance Monitor for Q4 2016. 2016 saw a number of significant events both in the UK and globally. Fieldwork for Q2 2016 was completed just as the EU referendum result was declared (providing a baseline for SME sentiment as that change was announced) while Q3 and Q4 2016 fieldwork allows an assessment of the immediate reaction of SMEs post Brexit and the election of Donald Trump.

The SME Finance Monitor surveys 4,500 businesses every quarter about past borrowing events and future borrowing intentions. It is the largest such survey in the UK and since the first report was published covering Q1-2 2011 has built into a robust and reliable independent data source for all parties interested in the issue of SME finance. In total, 23 waves of interviewing have been completed, with a full report now published every half year, following completion of the Q2 and Q4 fieldwork. For 2017 the full report will continue to be published every half year as before. Additional 'deep dive' reports are planned to explore the Monitor data set in more detail on specific topics of interest.

The survey was set up through the Business Finance Taskforce, which was itself established in July 2010 to review the key issue of bank finance and how the banks could help the UK to return to sustainable growth. It made a commitment to fund and publish an independent survey to identify (and track) demand for finance and how SMEs feel about borrowing – the SME Finance Monitor.

This extensive dataset is recognized by both public *and* private sector stakeholders as the de facto authority on access to finance conditions for SMEs, because it is seen as reliable, trustworthy, and, crucially, as independent. The Monitor is cited regularly in Parliament, in government led reviews, and in evidence to the European Commission and OECD, as well as forming the basis for policy discussions between the banks and BEIS.

The data provides both a clear view of how SMEs are feeling now, and, increasingly, how this has changed over time. It also provides analysis by size of SME and sector, as SMEs should not be seen as one homogenous group: in particular, the smallest SMEs with no employees can often report different views and experiences to their larger peers.

This is an independent report, and I am pleased to confirm that this latest version has once again been written and published by BDRC Continental, with no influence sought or applied by any member of the Steering Group.

Shiona Davies
Editor, The SME Finance Monitor
March 2017

The Survey Steering Group comprises representatives of the following:

Association of Chartered Certified Accountants
Barclays Bank
British Bankers' Association
Dept. for Business, Energy and Industrial Strategy
EEF the manufacturers' organisation
Federation of Small Businesses
Forum of Private Business
HM Treasury
HSBC
Lloyds Banking Group
Royal Bank of Scotland
Santander

1.Introduction

The issue of SMEs and external finance continues to provoke debate. Over time, the emphasis has moved from access to finance to demand for finance amongst SMEs and the extent to which funding is needed by and then available to, those businesses looking to grow and invest as economic conditions change. A range of government and financial initiatives, such as the 'Funding for Lending' scheme, have sought to make funds available for SMEs and encourage banks to lend. Alternative sources of finance, such as crowd-funding, are increasingly being discussed and the British Business Bank is involved in a range of initiatives. For some time the unstable economic atmosphere, including in the Eurozone, has affected business confidence and appetite for borrowing and the EU referendum result in June 2016 adds an additional level of uncertainty. The debate continues about the extent to which demand and/or supply issues are contributing to continued lower levels of lending to SMEs.

The Business Finance Taskforce was set up in July 2010 to review this key issue of bank finance and how the banks could help the UK to return to sustainable growth. It made a commitment to fund and publish an independent survey to identify (and track) demand for finance and how SMEs feel about borrowing.

BDRC Continental was appointed to conduct this survey in order to provide a robust and respected independent source of information. BDRC Continental continues to maintain full editorial control over the findings presented in this report.

The majority of this report is based on a total of 18,000 interviews with SMEs, conducted in 2016. This means that the interviews conducted in 2011 (three waves), and the 4 waves in each of 2012 to 2015 are no longer included in the *year-ending* results but they are still shown in this report where data is reported quarterly or annually over time, or by application date.

The YEQ4 2016 data therefore includes the following four waves:

- January-March 2016 – 4,500 interviews conducted, referred to as Q1 2016
- April-June 2016 – 4,500 interviews conducted, referred to as Q2 2016
- July-September 2016 – 4,500 interviews conducted, referred to as Q3 2016
- October-December 2016 – 4,500 interviews conducted, referred to as Q4 2016.

The results from these most recent four waves have been combined as usual to cover a full 12 months of interviewing, and weighted to the overall profile of SMEs in the UK in such a way that it is possible to analyse results wave on wave where relevant – and the data reported for an individual quarter will be as originally reported. This combined dataset of 18,000 interviews is referred to as YEQ4 2016.

The decision was made for 2016 to reduce the overall sample size slightly from 5,000 to 4,500 interviews per quarter which still provides a robust base size for analysis. At the same time the size, sector and region quotas and weighting were reviewed and, for the first time since the Monitor was established, minor changes were made to better reflect the current profile of SMEs. These new weights have been applied to all data in 2016, so the data for YEQ4 2016 in this report is the first to be based entirely on the new weights.

The majority of reporting is based on interviews conducted in the year to Q4 2016. The exceptions to this rule are:

- Where data is reported by loan or overdraft application date over time. In these instances, all applicants to date are eligible for inclusion, split by the quarter in which they made their application for loan and/or overdraft facilities.
- From Q2 2013, when applications are analysed by sub-group such as employee size, this is also now based on application date rather than date of interview. For the Q4 2016 report, this means such tables are based on all applications occurring in the 18 months between Q3 2015 and Q4 2016, to provide robust base sizes for each sub-group.
- Where SMEs are asked about their planned future behaviour, and typically their expectations for the next 3 months, comparisons are made between individual quarters.
- For key questions new summary tables are now provided with annual figures over the longer term to set the current results in context. The charts in the final chapter of this report provide more detailed quarter on quarter data from the start of the Monitor.

The structure of the SME market is such that the overall 'All SME' figures quoted will be heavily influenced by the views of those with 0 employees, who make up three quarters of the SME population. As the views of these smallest SMEs can differ markedly from their larger peers, an 'All employers' figure is now also reported for some key questions, that is those SMEs with 1-249 employees.

A further quarter of 4,500 interviews, to the same sample structure, is being conducted January to March 2017. In 2017, full reports will be published after the Q2 and Q4 fieldwork, with 'deep dive' and other analysis reported in-between these full reports.

A fifth edition of the annual report, published in June 2016, provided separate analysis at a regional level for an in-depth assessment of local conditions during 2015. A new regional report is planned for Spring 2017, to report on local conditions during 2016.

2. Management summary

This report covers

the borrowing process from the SME's perspective, with detailed information about those who have, or would have liked to have been, through the process of borrowing loan or overdraft funding for their business. Each chapter reports on a specific aspect of the process, dealing with different aspects of SME finance.

In 2016 demand for finance amongst SMEs remained muted, with half meeting the definition of a Permanent non-borrower and many saying they preferred to self-fund any future growth:

A third of SMEs were using external finance	37% of SMEs were using external finance (YEQ4 2016). There was some variation within 2016, but overall levels of finance remained in line with 2015 and below levels previously seen (in 2012, 44% were using external finance). As in previous reports, use of external finance in 2016 increased by size of SME from 33% of those with 0 employees to 64% of those with 50-249 employees.
More SMEs qualified as Permanent non-borrowers than used external finance	47% of SMEs met the definition of a Permanent non-borrower with little apparent appetite for external finance (YEQ4 2016). This is also unchanged from 2015, and remains higher than previously seen (34% in 2012). Whilst smaller SMEs remained more likely to be PNBs (50% of those with 0 employees YEQ4 2016) a third of SMEs with employees also met the definition (37%).
Demand for new or renewed loans and overdrafts remained muted	5% of SMEs had applied for a new or renewed loan or overdraft in the 12 months prior to interview (YEQ4 2016). This is the lowest level recorded to date on the Monitor, having been 11% in 2012 and 7-8% for 2013-15. The decline was seen across all size bands, risk ratings and once the PNBs were excluded.
Many SMEs appeared to prefer self-funding	A stable 80% of SMEs agreed that their current plans were based on what they could afford to fund themselves (YEQ4 2016) with limited variation by size (81% of those with 0 employees to 65% of those with 50-249 employees). 71% agreed that they would accept a slower growth rate they funded themselves rather than borrow to grow more quickly, with levels of agreement declining with size of business (71% of those with 0 employees to 55% of those with 50-249 employees). In a new statement for H2 2016, half of SMEs (49%) agreed that a fall in the cost of credit would *not* make them any more likely to consider applying for new finance, with little variation by size.
Being prepared to borrow to grow is linked to current use of finance	A stable 43% of SMEs agreed that they were happy to use external finance to help the business grow (YEQ4 2016), with little variation by size (41% of those with 0 employees to 51% of those with 50-249 employees). Those who were already using external finance remained more likely to agree with this statement (54%) than those who weren't (36%). Overall, 1 in 10 of all SMEs (11%) were planning to grow in the next 12 months and although not currently using finance would consider it to help the business grow, providing an indication of possible future demand for finance.

Demand for external finance may also be affected by other funding being available such as retained profits, cash balances and Trade Credit. SMEs reported a stable position for 2016:

Most SMEs reported making a profit	80% of SMEs reported making a profit in their last 12 months trading (YEQ4 2016 excluding DK answers), unchanged from 2015. This proportion has improved steadily from 2012 (when 69% reported making a profit) and also across all size bands.
Most also hold credit balances, which can reduce their need for external finance	Almost all SMEs hold some credit balances. The proportion of SMEs holding more than £10,000 in credit balances increased from 16% to 25% between 2012 and 2015 but was slightly lower (22%) in 2016, due to the 0 employee SMEs being somewhat less likely to hold such sums. 8 in 10 of those who held £10,000 or more said that it reduced their need for external finance and analysis showed that the proportion of SMEs with £10,000 or more who also used any external finance had declined from 51% in 2012 to 46% in 2016.
A third used Trade Credit, which can also reduce the need for external finance	A consistent 33% of SMEs regularly purchased goods or services from other businesses on credit. Two thirds of those who received Trade Credit said that it reduced their need for external finance and this varied little by size of SME.
Fewer SMEs have felt that they had to inject personal funds	28% of SMEs reported an injection of personal funds into the business (YEQ4 2016). This proportion has remained stable since 2014, and below the 43% injecting funds in 2012. The decline has been driven by fewer SMEs feeling that they 'had' to inject funds, from 25% of SMEs in 2012 to 11% in 2016.
Use of any business funding remained stable	While 37% of all SMEs used external finance, this increased to 63% using 'business funding' when Trade Credit and injections of personal funds were added in. Use of crowd funding remained limited (1% of all SMEs).
Those with a business mentor were more likely to have grown	1 in 8 SMEs had a business mentor, increasing by size of SME from 14% of 0 employee SMEs to 24% of those with 50-249 employees. Analysis showed that SMEs with a mentor were more likely to have grown (50% v 39% of those without a mentor) and also to be planning to grow (61% v 43% of those without a mentor) and this was true across all sizes of SME, especially for those with 0 employees. SMEs with mentors were also more likely to use external finance (45% v 37%) but were only slightly more likely to be planning to apply for finance (16% v 13%).

8 in 10 of those who applied for loans or overdrafts were successful, with little evidence of any change to recent success rates. Most SMEs continued to meet the definition of a Happy non-seeker of finance.

8 in 10 SMEs were Happy non-seekers of external finance	13% reported any borrowing 'event' including automatically renewed overdrafts (YEQ4 2016). This has declined over time from 23% of SMEs in 2012 and 16-17% for 2013 to 2015. 84% of SMEs met the definition of a Happy non-seeker of finance (YEQ4 2016) and that proportion has increased over time, from 68% of SMEs in 2012.
Very few SMEs have been Would be seekers of loans, overdrafts, or other forms of finance	The proportion of Would-be seekers of finance has declined over time, from 10% in 2012 to 2% of all SMEs in 2016. Including potential applications for other forms of finance (such as leasing) does not increase this proportion. Discouragement remained the main barrier for smaller WBS while larger ones were more likely to cite the process of borrowing. Would-be seekers were more likely than other SMEs to have seen an injection of personal funds into their business (60%) in 2016 and to wish that they had a more active relationship with their bank (34%).
A consistent 8 in 10 applications for new or renewed finance resulted in a facility	83% of all loan and overdraft renewals reported to date for the 18 months to Q4 2016 resulted in a facility. This proportion is unchanged from the 82% who were successful in the 18 months to Q4 2015 and remains higher than previous periods (69% of applications were successful in the 18 months to Q4 2012). Almost all renewals of loans and overdrafts were successful, with no change over time. Overall success rates for new money increased from 49% in the 18 months to Q4 2013 to 70% in the 18 months to Q4 2015 and have remained stable since (71% for the 18 months to Q4 2016).
Overdraft applicants remained more likely to be successful than loan applicants	86% of overdraft applicants and 74% of loan applicants in the 18 months to Q4 2016 ended the process with a facility. Overdraft success rates improved from 74% for the 18 months to Q4 2013 to 86% for the 18 months to Q4 2015 and have been stable since. Success rates for first time overdraft applicants also increased between 2013 and 2015 (34% to 66%) and have been stable since (currently 66% for the 18 months to Q4 2016). Loan success rates improved from 58% in the 18 months to Q4 2013 to 74% in the 18 months to Q4 2015 and have been stable since. There has been a smaller and less consistent increase in success rates amongst first time loan applicants (45% for the 18 months to Q4 2013 and 51% for the 18 months to Q4 2016). 97% of overdraft applicants and 93% of loan applicants in the 18 months to Q4 2016 said that their facility had been made available 'in good time' for when it was needed.

Looking forward, larger SMEs and those who trade internationally have become more concerned about the economic climate and political uncertainty. Whilst levels of past growth remained consistent, levels of future growth were somewhat less certain. Future appetite for finance remained stable, with most confident the bank would say yes (whether they planned to apply or not):

7 in 10 SMEs did not identify any factor as a 'major barrier' to their business	In Q4 2016, 70% of SMEs did not identify any of the potential obstacles tested as 'major barriers'. As in previous waves, the most likely to be mentioned were the economic climate (rated a major obstacle by 13% of SMEs), political uncertainty/government policy (12%) and legislation and regulation (10%). These have changed very little over time.
However, larger SMEs, and international SMEs had more concerns	During 2016 the proportion rating either the 'economic climate' or political uncertainty as major barriers did not change much overall but almost doubled for those with 50-249 employees: 13% rated the economic climate a major barrier in Q4 2016 up from 8% in 2015, and 15% rated political uncertainty a major barrier in Q4 2016 up from 7% in 2015. A more dramatic increase was seen amongst SMEs who trade internationally, notably those who both import and export: 35% rated the economic climate a major barrier in Q4 2016, up from 17% in 2015 and 32% rated political uncertainty a major barrier in Q4 2016 up from 8% in 2015.
Over time, fewer SMEs have planned to grow	Over time, the proportion of SMEs planning to grow has fallen from 49% in 2013 to 43% for 2016 as a whole. Over the same period the proportion of SMEs (excluding Starts) that had *achieved* growth remained stable at 40%. During 2016 there was some variation in the proportion of SMEs expecting to grow, from 45% in Q1 to 41% for both Q2 and Q3, before an increase in Q4 to 47%. This variation was caused by the 0 and 1-9 employee SMEs. Those who import and export were more likely to be planning to grow (70% for 2016 as a whole) and these growth expectations were in line with 2015. This was also the case for those who only import (63% planned to grow in 2016) while those who only export were less likely to be planning to grow (49% v 59% in 2015).
The proportion planning to apply for finance has changed little over time thanks to the 0 employee SMEs	12% of SMEs in 2016 planned to apply for new or renewed finance in the 3 months after interview. This has varied little over time: 14% of those interviewed in 2012 and 2013 planned to apply and then 13% in 2014 and 2015. This is due to a relatively stable appetite for finance amongst the 0 employee SMEs. Amongst those with employees, future appetite for finance has declined since 2013 by between 5 and 6 percentage points.

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Those with no plans to apply were typically confident the bank would say yes if asked	All SMEs are now asked how confident they would be that the bank would agree to a (potentially hypothetical) application for finance. Amongst those planning to apply for bank finance in Q4 2016, 59% were confident the bank would say yes, maintaining the increase seen from 2012, when 42% were confident. This increase has been seen across both larger and smaller potential applicants. Future happy non-seekers of finance made up three-quarters of SMEs in 2016. Their confidence about a hypothetical application was higher in Q4 than amongst those planning to apply to a bank (72%).
Future would-be seekers appeared less confident about applications generally	Future would-be seekers made up 13% of SMEs in 2016, almost unchanged from 2015 (11%) and remaining below the 23% meeting the definition in 2012. The FWBS were less confident than the Happy non-seekers that their bank would agree to lend if they were to apply (57% in Q4 2016), but their confidence has increased since this question was first asked in Q1 2016 (when 38% were confident). They were also less confident about assessing the products and services available at their main bank (59% v 68% overall), and less confident about making an application for funding to another bank (51% v 61% overall). The Future happy non-seekers with no plans for finance were typically the most confident in these scenarios, ahead of those actually planning to apply.

3. Using this report

As well as the overall SME market, key elements have been analysed by a number of other factors where sample sizes permit. Typically, nothing will be reported on a base size of less than 100 – where this *has* been done an asterisk * highlights the care to be taken with a small base size. If appropriate, a qualitative or indicative assessment has been provided where base sizes are too small to report.

Much of the analysis is by size of business, based on the number of employees (excluding the respondent). This is because research has repeatedly shown that SMEs are not a homogenous group in their need for external finance, or their ability to obtain it, and that size of business can be a significant factor. The employee size bands used are the standard bands of 0 (typically a sole trader), 1-9, 10-49 and 50-249 employees.

Where appropriate, analysis has also been provided by sector, age of business or other relevant characteristics of which the most frequently used is external risk rating. This was supplied, for almost all completed interviews by D&B or Experian, the sample providers. Risk ratings are not available for 15% of respondents, typically the smallest ones. Dun & Bradstreet and Experian use slightly different risk rating scales, and so the Experian scale has been matched to the Dun & Bradstreet scale as follows:

D&B	Experian
1 Minimal	Very low/Minimum
2 Low	Low
3 Average	Below average
4 Above average	Above Average/High/Maximum/Serious Adverse Information

It is also possible to show many results by sector. The table below shows the share of each sector, from 3% (Agriculture) to 27% (Property/Business Services) of all SMEs, and the proportion in each sector that are 0 employee SMEs.

	Sector	% of all SMEs	% of sector that are 0 emp
AB	Agriculture, Hunting and Forestry; Fishing	3%	65%
D	Manufacturing	6%	68%
F	Construction	19%	84%
G	Wholesale and Retail Trade; Repairs	10%	54%
H	Hotels & Restaurants	4%	30%
I	Transport, Storage and Communication	12%	82%
K	Real Estate, Renting and Business Activities	27%	76%
N	Health and Social work	7%	83%
O	Other Community, Social and Personal Service Activities	12%	84%

Analysis over time

This report is based predominantly on four waves of data gathered across the 4 quarters to Q4 2016. In all four waves, SMEs were asked about their past behaviour during the previous 12 months, so there is an overlap in the time period each wave has reported on. These year-ending figures are defined by the date of **interview**, i.e. all interviews conducted in the year concerned.

Where results can be shown by individual quarter over time, they have been. However, small sample sizes for some lines of questioning mean that in those instances data is reported based on four quarters combined (YEQ4 2016 in this report). This provides a robust sample size and allows for analysis by key sub-groups such as size, sector or external risk rating.

Each report also comments on changes in demand for credit and the outcome of applications over time. Here, it is more appropriate to analyse results based on when the **application** was made, rather than when the interview was conducted. Final data is now available for any applications made from 2010 up to and including Q4 2015 but for other more recent quarters data is still being gathered. Results for events occurring from Q1 2016 onwards are therefore still *interim* at this stage (respondents interviewed in Q1 2017 will report on events which occurred in Q1 2016 or later).

Where analysis is shown by date of application, this typically includes all interviews to date (including those conducted 2011-2015 which are no longer included in the year-ending data reported elsewhere), and such tables are clearly labelled in the report. For all reports from Q2 2013 onwards, when applications made are analysed by sub-group such as employee size, this is also now based on application date rather than date of interview. For the Q4 2016 report, this means such tables are based on all applications occurring in the 18 months between Q3 2015 and Q4 2016 to ensure a robust base size for analysis.

The exception to the approach outlined above is in the latter stages of the report where SMEs are asked about their planned future behaviour. In these instances, where we are typically reporting expectations for the next three months, comparisons are made between individual quarters as each provides an assessment of SME sentiment for the coming months and the comparison is an appropriate one.

Not *all* of the previous quarters are shown in the standard quarterly tables in this report. Quarterly data from 2011 -2014 is no longer routinely shown and subsequent reports will continue this policy of deleting the oldest wave before adding the latest.

However, a series of annual summary tables have been developed and were included for the first time in the Q2 2016 report. These complement the series of key charts in the final chapter of this report which show all results over time for these key metrics.

Definitions used in this report

Over time, a number of definitions have been developed for different SMEs and some standard terms are commonly used in this report. The most frequently used are summarised below:

SME size – this is based on the number of employees (excluding the respondent). Those with more than 249 employees were excluded from the research

External risk profile – this is provided by the sample providers (Dun & Bradstreet and Experian). Risk ratings are not available for 15% of respondents, typically the smallest ones. D&B and Experian use slightly different risk rating scales, and so the Experian scale has been matched to the D&B scale as shown at the start of this chapter

Fast growth – SMEs that report having grown by 20% or more each year, for each of the past 3 years (definition updated Q4 2012)

Use of external finance – SMEs are asked whether they are currently using any of the following forms of finance: Bank overdraft, Credit cards, Bank loan/Commercial mortgage, Leasing or hire purchase, Loans/equity from directors, Loans/equity from family and friends, Invoice finance, Grants, Loans from other 3rd parties, Export/import finance

Permanent non-borrower – SMEs that seem firmly disinclined to borrow because they meet all of the following conditions: are not currently using external finance, have not used external finance in the past 5 years, have had no borrowing events in the past 12 months, have not applied for any other forms of finance in the last 12 months, said that they had had no desire to borrow in the past 12 months and reported no inclination to borrow in the next 3 months

Borrowing event – these are defined as any Type 1 (new application or renewal), Type 2 (bank sought cancelation/renegotiation) or Type 3 (SME sought cancellation/reduction) borrowing event for loan or overdraft in the 12 months prior to interview. The definition also includes those SMEs that have seen their overdraft facility automatically renewed by their bank

Would-be seeker – those SMEs that had not had a loan or overdraft borrowing event and said that something had stopped them applying for loan/overdraft funding in the previous 12 months (definition revised in Q1 2016 – the question is now asked once for both loan and overdraft events rather than separately, but the question wording has not changed)

Happy non-seeker – those SMEs that had not had a loan/overdraft borrowing event, and also said that nothing had stopped them applying for any (further) loan/overdraft funding in the previous 12 months (definition revised in Q4 2012)

Issues – something that needed further discussion before a loan or overdraft facility was agreed, typically the terms and conditions (security, fee or interest rate) or the amount initially offered by the bank

Principle of borrowing – where an SME did not (or, looking ahead, will not) apply to borrow because they feared they might lose control of their business, or preferred to seek alternative sources of funding

Process of borrowing – where an SME did not (or, looking ahead, will not) apply to borrow because they thought it would be too expensive, too much hassle etc.

Discouragement – where an SME did not (or, looking ahead, will not) apply to borrow because it had been put off, either directly (they made informal enquiries of the bank and felt put off) or indirectly (they thought they would be turned down by the bank so did not enquire)

Major obstacle – SMEs were asked to rate the extent to which each of a number of factors were perceived as obstacles to their running the business as they would wish in the next 12 months, using a 1 to 10 scale. Ratings of 8-10 are classed as a major obstacle

Future happy non-seekers – those that said they would not be applying to borrow (more) in the next three months because they said that they did not need to borrow (more) or already had the facilities they needed

Future would-be seekers – those that felt that there were barriers that would stop them applying to borrow (more) in the next three months (such as discouragement, the economy or the principle or process of borrowing)

Average – the arithmetic mean of values, calculated by adding the values together and dividing by the number of cases

Median – a different type of average, found by arranging the values in order and then selecting the one in the middle. The median is a useful number in cases where there are very large extreme values which would otherwise skew the data, such as a few very large loans or overdraft facilities

Please note that the majority of data tables show **column** percentages, which means that the percentage quoted is the percentage of the group described at the top of the column in which the figure appears. On some occasions, summary tables have been prepared which include **row** percentages, which means that the percentage quoted is the percentage of the group described at the left hand side of the row in which the figure appears. Where row percentages are shown, this is highlighted in the table.

From the Q2 2016 report onwards, additional summary tables have been prepared for key questions to show the changes year on year since 2012. This provides a longer term context for the changes being seen in the most recent quarters, upon which most reporting is based.

4. The general context

This chapter presents

an overview of the characteristics of SMEs in the UK. Unless otherwise stated, figures are based on all interviews conducted in the year-ending Q4 2016 (YEQ4 16).

Key findings

8 in 10 SMEs reported making a profit in the previous 12 months (excluding DK answers). This was unchanged from 2015 and maintained the increase seen across all sizes of SME since 2012 when 69% reported making a profit.

4 in 10 SMEs (excluding Starts) reported having grown in the previous 12 months with little variation since 2012.

- 5% of these SMEs had achieved 'scale-up' growth, growing by 20% or more for 3 consecutive years.
- Larger SMEs were more likely to have *predicted* growth for 2016 than to have achieved it, while smaller SMEs were closer with their predictions (of a lower level of growth)

14% of SMEs traded internationally in 2016, down slightly from 2015 (17%), with a slight decline in both importers (now 10% of SMEs) and exporters (now 8%).

- 1 in 5 exporters (19%) said that international sales made up half or more of their total sales, up from 13% in 2015 but still somewhat lower than the 24% achieving this proportion of overseas sales in 2013.
- In a new question, 23% of exporters said that all (9%) or the majority (14%) of their international sales were to the EU. Half, 46%, made a minority of their sales to the EU while 17% did not export there at all.

The proportion of SMEs holding £10,000 or more of credit balances increased from 16% in 2012 to 24% in 2015. There was no further increase in 2016 (22%)

- This was due to fewer 0 employee SMEs holding this sum in credit balances (14% from 17% in 2015).
- 8 in 10 of the SMEs who hold £10,000 or more said that it reduced their need for external finance.

1 in 8 SMEs (12%) had a business mentor, increasing by size to a quarter of SMEs with 10-249 employees.

- SMEs with a mentor were more likely to have grown (50% v 39% with no mentor), to be planning to grow (61% v 43%) and to be using external finance (45% v 37%) and this was true across all size bands but more markedly for the smallest SMEs.

Larger SMEs continued to have a better risk profile than smaller SMEs. The risk profile of SMEs overall was slightly weaker in 2016 than in 2015 (49% now have a worse than average risk rating compared to 46% in 2015) but it remained stronger than in 2013 when 54% had a worse than average rating.

This chapter presents an overview of the characteristics of SMEs in the UK. Unless otherwise stated, figures are based on the 18,000 interviews conducted in the year ending Q4 2016 (that is Q1 to Q4 of 2016). There were a number of trading challenges when the survey started in 2011, and analysis of this data over time provides an indication of how SMEs have managed and continue to manage as conditions change. Note that in 2016, Q1 and Q2 data was collected prior to the EU referendum result being known, while Q3 and Q4 data was collected afterwards.

Profitability

In Q4 2016, 74% of SMEs reported making a profit in their most recent 12 month trading period. The proportion unable or unwilling to give an answer has varied over time, so the table below also reports the proportion that made a profit once those 'don't know' answers had been excluded. Over recent quarters a stable 8 in 10 SMEs have reported making a profit (excluding DK answers):

Business performance last 12 months

Over time By date of interview	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Unweighted base:	*5024*	*5038*	*5001*	*5004*	*5003*	*4500*	*4500*	*4500*	*4500*
Made a profit	72%	74%	76%	75%	75%	75%	74%	76%	74%
Broke even	11%	10%	10%	10%	9%	10%	12%	11%	14%
Made a loss	10%	10%	9%	9%	8%	8%	6%	7%	7%
DK/refused	8%	6%	5%	6%	8%	7%	7%	6%	6%
Median profit made	*£9k*	*£9k*	*£9k*	*£9k*	*£9k*	*£8k*	*£8k*	*£8k*	*£9k*
Made profit (excl DK)	*78%*	*79%*	*80%*	*80%*	*81%*	*81%*	*80%*	*81%*	*78%*

Q241 All SMEs/ * All SMEs making a profit and revealing the amount

Note that because consistently unprofitable SMEs tend to go out of business, there will be an element of 'survivorship bias' in the profit figures, potentially underestimating the proportion of unprofitable businesses in the population.

For the period YEQ4 2016, 75% of all SMEs had been profitable (80% once the DK answers were excluded), increasing by size of SME as the table below shows. The median profit, where made, was £8k, and the median loss £2k. Both increased by size of SME:

Business performance last 12 months YEQ4 16 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,000*	*3600*	*5800*	*5800*	*2800*
Made a profit	75%	74%	76%	80%	81%
Broke even	12%	13%	9%	6%	6%
Made a loss	7%	7%	7%	4%	4%
DK/refused	7%	6%	8%	10%	9%
Made profit (excl DK)	*80%*	*79%*	*83%*	*88%*	*89%*
Median profit made	*£8k*	*£7k*	*£13k*	*£51k*	*£194k*
Median loss made	*£2k*	*£2k*	*£2k*	*£12k*	*£128k*

Q241 All SMEs/ * All SMEs making a profit/loss and revealing the amount

Amongst SMEs with employees, 84% reported making a profit YEQ4 2016 (once the DK and refused answers were excluded).

Over recent quarters larger SMEs have remained consistently more likely to be profitable than smaller ones, as the table below shows:

Made a profit in last 12 months Over time Row percentages – excl DK By date of interview	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
All SMEs	78%	79%	80%	80%	81%	81%	80%	81%	78%
0 employee	76%	78%	79%	79%	81%	80%	79%	79%	77%
1-9 employees	81%	79%	82%	83%	82%	84%	80%	86%	81%
10-49 employees	85%	88%	87%	86%	88%	87%	88%	90%	87%
50-249 employees	85%	90%	87%	89%	93%	94%	87%	87%	87%

Q241 All SMEs excluding DK

By sector, once the 'don't know' answers were excluded, there was relatively little difference in the proportion reporting a profit YEQ4 2016, ranging from 77% for Agriculture and Health to 82% for Wholesale/Retail:

Business performance last 12 months

YEQ4 16 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWork	Other Comm
Unweighted base:	*1200*	*1501*	*3199*	*1804*	*1203*	*1999*	*3597*	*1497*	*2000*
Made a profit	73%	75%	76%	77%	74%	73%	75%	71%	73%
Broke even	12%	12%	13%	10%	10%	12%	12%	13%	11%
Made a loss	9%	6%	5%	7%	9%	9%	6%	8%	8%
DK/refused	6%	7%	6%	7%	6%	6%	7%	7%	8%
Made profit (excl DK)	*77%*	*81%*	*81%*	*82%*	*79%*	*78%*	*81%*	*77%*	*79%*
Median profit made	*£8k*	*£9k*	*£8k*	*£11k*	*£9k*	*£6k*	*£9k*	*£6k*	*£8k*
Median loss made	*£2k*	*£2k*	*£2k*	*£2k*	*£2k*	*£2k*	*£2k*	*£2k*	*£2k*

Q241 All SMEs/ * All SMEs making a profit/loss and revealing the amount

Median profits reported for YEQ4 2016 varied slightly, between £6-11k by sector, with little change over time. Reported median losses for YEQ4 2016 were £2k overall and for all sectors.

The table below takes a longer term view of profitability (since 2012) by key demographics. This shows more SMEs reporting making a profit between 2012 and 2015, and that Permanent non-borrowers are now no longer more likely to be profitable than their peers:

Made a profit in last 12 months Over time (excl DK) By date of interview – row percentages	2012	2013	2014	2015	2016
All	69%	70%	77%	80%	80%
0 emp	67%	69%	75%	79%	79%
1-9 emps	72%	75%	81%	82%	83%
10-49 emps	80%	81%	86%	87%	88%
50-249 emps	81%	84%	88%	90%	89%
Minimal external risk rating	83%	83%	84%	84%	86%
Low	81%	84%	82%	87%	86%
Average	71%	73%	80%	82%	82%
Worse than average	63%	65%	72%	76%	77%
Agriculture	74%	73%	79%	78%	77%
Manufacturing	69%	74%	80%	81%	81%
Construction	67%	68%	78%	80%	81%
Wholesale/Retail	67%	70%	74%	79%	82%
Hotels & Restaurants	59%	65%	73%	75%	79%
Transport	65%	66%	76%	78%	78%
Property/ Business Services	73%	73%	80%	81%	81%
Health	70%	69%	76%	78%	77%
Other	66%	73%	67%	83%	79%
PNBs	74%	73%	80%	82%	80%
All excl PNBs	66%	69%	74%	78%	80%

Q241 All SMEs excl DK

Sales growth

From Q4 2012, all SMEs that had been trading for 3 years or more were asked about their growth in the previous 12 months. Those that had grown by 20% or more were asked whether they had also achieved this level of growth in each of the previous 2 years.

As the table below shows, the proportion of SMEs (excluding Starts) reporting that they had grown at all in the previous 12 months has remained fairly stable over recent quarters at around 4 in 10, while the proportion reporting growth of 20% or more has declined slightly:

Growth achieved in last 12 months

All SMEs excluding Starts By date of interview	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Unweighted base:	*4046*	*4157*	*4146*	*4184*	*4203*	*3729*	*3686*	*3703*	*3665*
Grown by more than 20%	12%	10%	11%	11%	12%	10%	9%	7%	8%
Grown but by less than 20%	30%	31%	26%	29%	28%	33%	31%	32%	31%
Grown	*42%*	*41%*	*37%*	*40%*	*40%*	*43%*	*40%*	*39%*	*39%*
Stayed the same	44%	48%	51%	47%	49%	46%	49%	51%	52%
Declined	14%	12%	13%	13%	11%	10%	11%	10%	10%

Q245a All SMEs trading for 3 years or more excl DK

For the period YEQ4 2016:

- 8% of SMEs more than 3 years old said they had grown by 20% or more in the previous 12 months while 32% had grown but by less than 20%
- This means that for YEQ4 2016, 40% of SMEs reported having grown at all in the previous 12 months
- 50% had stayed the same size and 10% had got smaller.

The table below shows how these growth patterns varied by SME demographics, with larger (but also younger) SMEs more likely to report growth:

Business Growth	Further analysis (excluding Starts) YEQ4 2016
Size of SME	SMEs with no employees were less likely to have grown by 20% or more (7%) than SMEs in other size bands (all 11%). Larger SMEs were more likely to have grown by up to 20% and so were more likely to have grown overall: • 36% of 0 employee SMEs reported having grown at all • 47% of those with 1-9 employees had grown • Just over half of those with 10-49 (54%) or 50-249 (55%) employees had grown.
Risk rating	The proportion growing by 20% or more varied little by risk rating (8-9%) 45% of those with a minimal risk rating had grown at all. Those with a low risk rating were almost as likely to have grown (43%), those with an average (37%) or worse than average risk rating (41%) somewhat less likely.
Age of business	20%+ growth varied relatively little by age of business for those trading between 2 and 15 years (9-13%) but was somewhat lower for those trading over 15 years (5%). In terms of overall growth this was higher for those trading for 2-5 years (47%) or 6-9 years (48%), compared to those trading 10-15 years (39%) or more than 15 years (33%).
Sector	SMEs in the Other Community sector were the most likely to report 20%+ growth (12%), along with those in Manufacturing and Property/Business Services (10%). For other sectors the proportion varied from 6-9%. Those in Wholesale/Retail (47%) and Manufacturing (45%) were the most likely to report overall growth, compared to 34% in the Health sector. For other sectors, growth varied from 36-44%.
Appetite for finance	43% of those who reported a borrowing event in the 12 months prior to interview had grown in the previous year, compared to 38% of Would-be seekers and 40% of Happy non-seekers. Permanent non-borrowers (with no immediate appetite for finance) were as likely to have grown (39%) as those who did not meet the definition (41%), unlike previous years where they have been somewhat less likely.

The table below takes a longer term view of growth by key demographics. This shows a consistent proportion overall saying that they have grown over time, due to the performance of the 0 employee SMEs. SMEs with employees have seen more of a change over time and those with 1-9 or 10-49 employees were more likely to report growth in 2016 than back in 2013:

Growth achieved in last 12 months All SMEs over time (excluding Starts) By date of interview – row percentages	2013	2014	2015	2016
All	40%	42%	39%	40%
0 emp	38%	39%	36%	37%
1-9 emps	43%	48%	45%	48%
10-49 emps	49%	55%	56%	55%
50-249 emps	54%	61%	57%	55%
Minimal external risk rating	36%	44%	38%	45%
Low	40%	40%	39%	43%
Average	35%	38%	37%	37%
Worse than average	44%	45%	41%	41%
Agriculture	40%	40%	31%	36%
Manufacturing	44%	46%	45%	45%
Construction	35%	37%	35%	36%
Wholesale/Retail	38%	46%	43%	47%
Hotels & Restaurants	37%	43%	45%	44%
Transport	35%	38%	35%	39%
Property/ Business Services	44%	42%	41%	41%
Health	40%	45%	38%	34%
Other	44%	45%	41%	42%
PNBs	38%	40%	37%	39%
All excl PNBs	41%	43%	41%	41%

Q245a All SMEs excl DK

Scale up growth

Amongst those trading for more than 2 years who reported for YEQ4 2016 that they had grown by 20% or more, 6 in 10 (59%) went on to report that they had also achieved this level of growth for each of the two previous years. Those with 50-249 employees were slightly more likely to report such growth (72%).

This is the equivalent of 5% of all SMEs 3+ years old achieving 3 years of 20%+ growth, also known as 'scale-up' growth.

- This increased slightly by size (4% for 0 employee SMEs to 7% for those with 50-249 employees)
- By sector, 7% Other Community sector had achieved such growth compared to 3% in Construction
- PNBs were no more or less likely to have achieved scale up growth (4%) than non-PNBs (5%)
- Those using external finance were no more or less likely to have achieved scale up growth (4%) than non-users (5%)
- SMES trading 2-5 years were the most likely to be scale ups (8%) compared to 5% of those trading 6-15 years and 3% of older SMEs.

Past and future growth

The Monitor has recorded *future* growth expectations since it started in early 2011. This allows a comparison to be made between growth expectations recorded from 2011 onwards and growth subsequently achieved, albeit that these are based on **different** samples of SMEs and so this is not a direct comparison between prediction and achievement.

The table below shows the proportion of SMEs 3+ years old that predicted they would grow in the first time period, and compares it to the proportion of SMEs 3+ years old that reported having achieved growth in the second period. When this analysis started, the predictions made typically proved to be very close to the growth figures subsequently reported (by a different sample of SMEs). For the most recent period, predicted growth was ahead of achieved growth as it was for growth achieved in early 2015.

Back in Q3 2015, 44% of SMEs 3+ years old *predicted* that they would grow in the next 12 months. In Q4 2016 somewhat fewer, 38%, (of a *different* sample of such SMEs) reported that they *had* grown in the previous 12 months:

Growth predictions against expectations

All SMEs excluding Starts By date of interview	All SMEs Predicted growth	All SMEs Achieved growth	0-9 emps Predicted growth	0-9 emps Achieved growth	10-249 emps Predicted growth	10-249 emps Achieved growth
Predicted Q3 13/Achieved Q4 14	41%	42%	40%	41%	61%	56%
Predicted Q4 13/Achieved Q1 15	44%	41%	43%	40%	65%	61%
Predicted Q1 14/Achieved Q2 15	43%	36%	42%	35%	68%	59%
Predicted Q2 14/Achieved Q3 15	49%	40%	48%	39%	67%	54%
Predicted Q3 14/Achieved Q4 15	41%	39%	39%	39%	69%	52%
Predicted Q4 14/Achieved Q1 16	39%	44%	38%	43%	64%	53%
Predicted Q1 15/Achieved Q2 16	38%	39%	36%	38%	65%	57%
Predicted Q2 15/Achieved Q3 16	40%	39%	38%	38%	67%	55%
Predicted Q3 15/Achieved Q4 16	44%	38%	43%	38%	61%	53%
Predicted Q4 15/Achieved Q1 17	43%		42%		60%	

Q225a and Q245a All SMEs trading for 3 years or more excl DK

SMEs with 10-249 employees have typically been more likely to predict growth than to achieve it. Typically two thirds have expected to grow while around half have achieved that level of growth.

Financial Risk Profile

In earlier Monitor reports two assessments of financial risk were provided. The first was a self-reported risk from the survey itself, which over time affected a decreasing minority of SMEs (8% YEQ2 2015). As a result, from Q3 2015 this question has been 'rested' from the main survey and will be re-run from time to time to understand whether any changes have occurred.

The second assessment of financial risk is the external risk rating supplied by ratings agencies Dun & Bradstreet and Experian. They use a range of business information to predict the likelihood of business failure and their ratings have been combined to a common 4 point scale from minimal to worse than average risk. Although not all SMEs receive this external risk rating, most do (85%) and it is commonly used and understood by lenders. It has thus been used in this report for all risk related analysis.

The overall risk profile over recent quarters is shown below with half of SMEs having a worse than average risk rating:

External risk rating

(Where provided) over time By date of interview	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Unweighted base:	*4584*	*4560*	*4594*	*4601*	*4546*	*4139*	*4093*	*4111*	*4108*
Minimal risk	8%	9%	7%	8%	7%	6%	8%	8%	6%
Low risk	17%	18%	17%	17%	16%	13%	16%	14%	16%
Average risk	33%	30%	31%	27%	28%	28%	32%	30%	27%
Worse than average risk	43%	44%	45%	48%	48%	53%	44%	48%	51%

All SMEs where risk rating provided

Looking over the longer term, the proportion of SMEs with a minimal or low external risk rating increased over time from 16% in 2012 to 25% in 2015 (and 22% in 2016). The proportion with a worse than average risk rating dropped below 50% for 2014 and 2015 but was slightly higher for 2016:

External risk rating (Where provided) over time By date of interview	2012	2013	2014	2015	2016
Unweighted base:	*18,270*	*18,183*	*18,330*	*18,301*	*16,451*
Minimal risk	5%	6%	7%	8%	7%
Low risk	11%	10%	15%	17%	15%
Average risk	31%	29%	32%	29%	29%
Worse than average risk	53%	54%	45%	46%	49%

All SMEs where risk rating provided

The overall YEQ4 2016 ratings are shown below by size of SME, and continue to report a better risk profile for larger SMEs:

External risk rating YEQ4 16 – all SMEs where rating provided	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*16,451*	*2965*	*5111*	*5633*	*2742*
Minimal risk	7%	4%	12%	22%	35%
Low risk	15%	9%	26%	51%	45%
Average risk	29%	31%	27%	21%	15%
Worse than average risk	49%	56%	35%	7%	5%

All SMEs where risk rating provided

Amongst SMEs with employees, 45% had a minimal or low external risk rating, 26% an average risk rating and 29% a worse than average risk rating.

The proportion of all SMEs with a worse than average external risk rating is driven by the ratings for 0 employee SMEs. YEQ4 2016, 56% of SMEs with no employees had such a rating. The table below shows the proportion with this rating over the longer term, in each size band. Amongst the 0 employee SMEs the proportion with a worse than average risk rating was somewhat lower in 2014 and 2015 but has increased again in 2016. Amongst those with employees there has been a more consistent decline over time in the proportion with a worse than average risk rating:

Worse than average risk rating Over time Row percentages	2012	2013	2014	2015	2016
Total	53%	54%	45%	46%	49%
0 employee	58%	60%	50%	52%	56%
1-9 employees	43%	43%	37%	34%	35%
10-49 employees	17%	17%	11%	9%	7%
50-249 employees	13%	15%	9%	6%	5%

All SMEs where risk rating provided

An analysis for YEQ4 2016 by sector shows that SMEs in Agriculture remained much more likely than other sectors to have a minimal or low risk rating (47% YEQ4 2016) while those in Construction (14%) and Transport (11%) remained the least likely to have such a rating:

External risk rating

YEQ4 16	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWork	Other Comm
Unweighted base:	*1084*	*1385*	*2966*	*1628*	*1093*	*1786*	*3315*	*1356*	*1838*
Minimal risk	29%	8%	4%	9%	5%	4%	6%	13%	5%
Low risk	18%	18%	10%	21%	23%	7%	15%	21%	15%
Average risk	25%	35%	28%	25%	29%	27%	31%	33%	31%
Worse than average risk	28%	38%	57%	44%	43%	62%	49%	33%	50%
Total Min/Low	*47%*	*26%*	*14%*	*30%*	*28%*	*11%*	*21%*	*34%*	*20%*

All SMEs where risk rating provided

Credit balances

Almost all SMEs reported holding some credit balances. In 2016, 3% did not hold any, and this proportion has changed relatively little over time, nor does it vary much by size of SME, or risk rating. Between 2012 and 2015 the average credit balance held increased from £25,000 to £39,000 but this then declined slightly to £30,000 for 2016 as a whole:

Credit balances held Over time – all SMEs	2012	2013	2014	2015	2016
Unweighted base:	*15,020*	*14,752*	*13,039*	*13,182*	*10,730*
None	4%	4%	5%	3%	3%
Less than £5,000	66%	64%	58%	55%	57%
£5,000 to £10,000	14%	15%	17%	18%	18%
£10,000 to £50,000	11%	12%	14%	17%	15%
More than £50,000	5%	4%	6%	7%	6%
Average balance held	*£25k*	*£24k*	*£31k*	*£39k*	*£30k*

Q244 All SMEs excluding DK/refused

The median value of credit balances held remained at just over £2,000 for YEQ4 2016. This amount continued to vary by size of SME, and for YEQ4 2016 was:

- £1,900 for 0 employee SMEs
- £5,800 for 1-9 employee SMEs
- £33,400 for 10-49 employee SMEs
- £137,200 for 50-249 employee SMEs.

The median value of credit balances varied little by sector (£2-3k).

The table below shows the proportion of SMEs holding more than £10,000 in credit balances over time, and how this increased between 2012 and 2015 across all sizes of SME, notably for the smaller ones. The proportion in 2016 with £10,000 or more was slightly lower, due to fewer 0 employee SMEs holding such sums. The proportion of SMEs with employees holding £10,000 or more in 2016 was unchanged from 2015:

£10,000+ Credit balances held Over time – all SMEs Row percentages	2012	2013	2014	2015	2016
All SMEs	16%	17%	20%	24%	22%
0 employee	10%	10%	14%	17%	14%
1-9 employees	32%	33%	38%	41%	41%
10-49 employees	66%	66%	68%	70%	72%
50-249 employees	77%	80%	82%	81%	82%

Q244 All SMEs excluding DK/refused

The next chapter reports on the use of external finance amongst SMEs. The table below shows the proportion of SMEs in each group that also hold £10,000 or more in credit balances:

£10,000+ Credit balances held Over time – row percentages	2012	2013	2014	2015	2016
All SMEs	16%	17%	20%	24%	22%
SMEs who use any external finance	18%	20%	23%	27%	27%
SMEs who use core finance	18%	20%	22%	27%	26%
SMEs who use no external finance	14%	14%	19%	22%	19%

Q244 All SMEs excluding DK/refused

This shows that over time, those using external finance have become more likely to also hold £10,000 or more in credit balances (in 2016 a quarter of those using external finance (27%) also hold such credit balances). Amongst those who don't use external finance (typically smaller SMEs), there has been a smaller increase in the proportion also holding £10,000 in credit balances (19% in 2016).

From Q3 2015, all SMEs holding £10,000 or more of credit balances were asked whether holding such balances meant that the business had less need of external finance. 8 in 10 SMEs with such credit balances said that it did, declining slightly by size of business (from 87% of 0 employees SMEs with £10,000 or more of credit balances to 76% of those with 50-249 employees). The table below shows that this is the equivalent of 12% of all SMEs saying their need for external finance is lower due to the credit balances they hold:

Impact of £10k+ of credit balances YEQ4 2016 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,000*	*3600*	*5800*	*5800*	*2800*
£10k+ reduces need for external finance	12%	9%	21%	31%	27%
£10k+ does not reduce need for finance	2%	1%	4%	7%	9%
Hold less than £10k of credit balances	51%	58%	35%	12%	5%
No credit balances/DK/Refused	34%	32%	39%	50%	59%

Q244x All SMEs

Analysis shows that, over time, SMEs with £10,000 or more of credit balances have become somewhat less likely to actually use any external finance *at all* (51% in 2012 to 46% in 2016) and specifically core finance:

Use of finance over time Over time All with £10k+ in credit balances	2012	2013	2014	2015	2016
Unweighted base:	*6296*	*6319*	*5926*	*6376*	*5228*
Use any external finance	51%	52%	44%	44%	46%
• *Use core finance*	*41%*	*40%*	*32%*	*35%*	*36%*
Do not use finance	49%	48%	56%	56%	54%

How SMEs are managed

Interviews were conducted with the main financial decision maker. In almost all cases, this person was also the owner, managing director, or senior partner.

A series of questions collected information about the structure and control of the business. Those reported below (planning, trading internationally, and having someone in charge of the finances who is qualified) reflect their contribution to other areas of analysis such as applications for finance.

Included for the first time in this report are figures for innovation in the past 3 years. From Q1 2016, SMEs have also been asked whether the business has 'a mentor who provides help and advice' and these figures are reported below for the first time.

The table below shows that the proportion of SMEs undertaking planning activities was somewhat higher at the end of 2016 than in the first half of the year, while the proportion trading internationally was somewhat lower and the proportion that had innovated changed little during the year:

Business formality elements

Over time – all SMEs By date of interview	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Unweighted base:	*5024*	*5038*	*5001*	*5004*	*5003*	*4500*	*4500*	*4500*	*4500*
Planning (any)	54%	53%	51%	56%	56%	54%	52%	57%	58%
- Produce regular management accounts	*41%*	*40%*	*38%*	*44%*	*42%*	*41%*	*39%*	*45%*	*41%*
- Have a formal written business plan	*33%*	*30%*	*29%*	*34%*	*33%*	*32%*	*29%*	*33%*	*38%*
International (any)	15%	15%	15%	20%	18%	15%	15%	12%	13%
– Export goods or services	*9%*	*9%*	*9%*	*12%*	*11%*	*10%*	*9%*	*7%*	*7%*
- Import goods or services	*11%*	*10%*	*11%*	*14%*	*13%*	*10%*	*10%*	*8%*	*10%*
Innovation (any)	35%	35%	35%	40%	38%	36%	37%	37%	36%
-New product or service (last 3 yrs)	*15%*	*13%*	*15%*	*15%*	*16%*	*14%*	*15%*	*13%*	*14%*
-Improved aspect of business	*32%*	*32%*	*31%*	*35%*	*34%*	*31%*	*32%*	*34%*	*33%*
Mentors	-	-	-	-	-	13%	10%	12%	11%
Have qualified person in charge of finances	25%	24%	28%	26%	24%	23%	22%	23%	25%

Q223/251 All SMEs

The table below provides further analysis by key demographics for YEQ4 2016:

Business Formality	Further analysis YEQ4 2016
Planning	55% of all SMEs planned, increasing by size of business from 49% of those with 0 employees to almost all, 89%, of those with 50-249 employees. Levels of planning declined very slightly by age of business: 58% of Starts planned compared to 53% of those trading for more than 15 years. While 64% of those with a minimal or a low risk rating planned, 53% of those with an average rating and 54% of those with a worse than average risk rating planned. 65% of SMEs in the Wholesale/Retail and 64% of SMEs in the Hotels & Restaurant sector planned, compared to 49% of those in Construction. Amongst other sectors 51-58% planned.
International	14% of all SMEs were international, increasing by size of business from 12% of those with 0 employees to 30% of those with 50-249 employees. There was little variation by age (12-13%) with the exception of those trading for more than 15 years where 16% were international. 18% of those with a minimal or a low risk rating were international, compared to 15% of those with an average rating and 11% of those with a worse than average risk rating. SMEs in the Wholesale/Retail (25%) and Manufacturing (23%) sectors were the most likely to be international, with those in Construction (5%) or the Hotels & Restaurant sector (6%) the least likely. Amongst other sectors 9-17% were international.
Innovation	36% of all SMEs had innovated, increasing by size of business from 33% of those with 0 employees to 56% of those with 50-249 employees. There was no consistent pattern by age of business (from 35% for Starts to 41% for those trading 2-5 years). While 42% of those with a minimal or a low risk rating had innovated, 34% of those with an average rating and 36% of those with a worse than average risk rating had. SMEs in the Hotels & Restaurants (45%), Wholesale/Retail (43%) and Manufacturing (42%) sectors were the most likely to have innovated, with Construction (28%) the least likely. Amongst other sectors 33-39% had innovated.

Continued

Continued

Financial specialist	23% of SMEs had a financially qualified person looking after their finances increasing by size of business from 19% of those with 0 employees to 67% of those with 50-249. By age of business around a fifth of SMEs trading for less than 10 years had a financial specialist, increasing to 26% of those trading for 10 years or more. While 30% of those with a minimal and 31% of those with a low risk rating had a financial specialist, 23% of those with an average rating and 21% of those with a worse than average risk rating had one. Those in Wholesale/Retail (31%) and Property/Business Services (30%) were the most likely to have a financial specialist, compared to 14% in Construction. Amongst other sectors the proportion varied from 18-26%.

The smallest SMEs remained less likely to undertake any of these activities. For YEQ4 2016, excluding these 0 employee businesses sees the proportion of SMEs (with employees) who:

- Plan increase from 55% to 72%
- Trade internationally increase from 14% to 20%
- Innovate increase from 36% to 46%
- Have a qualified person in charge of the finances increase from 23% to 35%.

Taking a longer term view back to 2012, there was something of an increase in SMEs that identified as international between 2012 and 2015 with increases for both importing and exporting. Levels of planning and financial qualification have changed very little over time, while levels of innovation are now somewhat lower than 2012:

Business formality elements Over time – all SMEs By date of interview	2012	2013	2014	2015	2016
Unweighted base:	*20,055*	*20,036*	*20,055*	*20,046*	*18,000*
Planning (any)	55%	55%	54%	54%	55%
- Produce regular management accounts	*41%*	*42%*	*42%*	*41%*	*41%*
- Have a formal written business plan	*33%*	*32%*	*32%*	*32%*	*33%*
International (any)	10%	13%	16%	17%	14%
– Export goods or services	*6%*	*8%*	*10%*	*10%*	*8%*
- Import goods or services	*7%*	*9%*	*11%*	*12%*	*10%*
Innovation (any)	40%	38%	37%	37%	36%
-New product or service (last 3 yrs)	*17%*	*16%*	*16%*	*15%*	*14%*
-Improved aspect of business	*35%*	*33%*	*34%*	*33%*	*32%*
Have qualified person in charge of finances	25%	26%	27%	26%	23%

Q223/251 All SMEs

A new question from Q1 2016 asked whether the business was using a mentor for business help and advice. Initial results for 2016 show that 12% did, with larger SMEs much more likely to have such support:

- By size, the use of mentors increased from 10% of those with 0 employees and 14% of those with 1-9 employees, to a quarter of larger SMEs (23% for those with 10-49 employees and 24% for those with 50-249 employees).
- The presence of mentors declined slightly by risk rating: from 16% of those with a minimal risk rating and 14% of those with a low risk rating, to 11% of those with either an average or a worse than average risk rating.
- By sector those in Construction (7%) were less likely to have a mentor, with little variation across the other sectors (11-14%).
- Permanent non-borrowers were slightly less likely to have a mentor (9% v 14% who are not PNBs).

- Analysis showed that SMEs with a mentor were more likely to have grown (50% v 39% of those without a mentor) and that this was true across all sizes of SME, especially for those with 0 employees (where 47% of those with a mentor had grown v 36% of those without a mentor). They were also more likely to be planning to grow (61% v 43% of those without a mentor) and again this was true across all sizes of SME, especially for those with 0 employees (where 59% of those with a mentor planned to grow v 40% of those without a mentor). SMEs with mentors were also more likely to use external finance (45% v 37%) but were only slightly more likely to be planning to apply for finance (16% v 13%).

Two thirds of exporters (67%) reported that less than a quarter of their total sales came from overseas, with relatively little variation by size:

Percentage of turnover as sales overseas

All SMEs who export YEQ4 16	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*1970*	*230*	*522*	*808*	*410*
Less than 25% of sales overseas	67%	67%	69%	66%	59%
25-50%	14%	12%	15%	18%	23%
51-75%	10%	10%	9%	11%	11%
76-100% of sales overseas	9%	11%	7%	5%	7%
Average proportion	*28%*	*29%*	*26%*	*27%*	*29%*

Q223x All SMEs who export, excluding DK/refused

19% of exporters said that international trade made up 50% or more of sales, a slight increase after previous declines:

- In 2013, 24% of exporters said that overseas sales made up half or more of all sales, falling to 17% in 2014
- In 2015 this proportion dropped again to 13%, but increased to 19% for 2016.

8% of all SMEs export. This is made up of the equivalent of 1% of all SMEs where exports made up 50% or more of their sales, and 7% of all SMEs where exports made up less than 50% of their sales. 92% of all SMEs do not export.

From Q3 2016, all exporters have been asked about the extent to which they are currently selling to the EU. Base sizes remain limited at this stage but currently 1 in 10 exporters only export to the EU while almost twice as many (17%) said that they do not trade with the EU at all:

- 9% of exporters only export to the EU
- 14% said the majority of their sales are to the EU
- 14% said half of their sales are to the EU
- 46% said a minority of sales were to the EU
- 17% did not export to the EU.

A quarter of exporters (23%) said that all, or the majority, of their sales were to the EU. This was more likely:

- If the exporter had employees (31% v 17% for 0 employee exporters)
- For exporters in Manufacturing (28%).

More analysis will be provided as base sizes increase.

Occasional questions have been asked (starting in Q1 and Q2 2014) about whether the business holds intellectual property or other knowledge assets on its balance sheet such as patents, copyrights, trademarks or goodwill (in H1 2014, 6% did). When the questions were asked again for 2015 there was little change: 5% held intellectual property or other knowledge assets on their balance sheet, increasing by size from 4% of 0 employee SMEs to 12% of those with 50-249 employees. The latest figures for YEQ4 2016 are marginally higher, with 7% of all SMEs holding intellectual property or other knowledge assets on their balance sheet, increasing by size from 6% of 0 employee SMEs to 17% of those with 50-249 employees.

Membership of business groups or industry bodies

SMEs were asked whether the owner, senior partner or majority shareholder belonged to any business groups or industry bodies.

YEQ4 2016 a fifth of SMEs (19%) said that this was the case (excluding DK answers). This was somewhat lower than seen in previous years (in 2013, 24% of SMEs said that they belonged to a business group) due to fewer 0 employee SMEs belonging to such groups:

Business Groups	Further analysis YEQ4 2016
By size of SME	Membership increased somewhat by size of SME: • 18% of 0 employee businesses belonged to a group/body • 21% of 1-9 employee businesses • 25% of 10-49 employee businesses • 33% of 50-249 employee businesses.
By external risk rating	There was relatively little difference by risk rating: SMEs with a worse than average external risk rating were slightly less likely to belong to such groups (18%), compared to 20-24% of SMEs in the other 3 risk rating bands.
By sector	The most likely to belong to such groups remained those in the Health sector (25%) and Property/Business Services (23%) while those in Transport were less likely (15%).
PNBs and those using external finance	Those currently using external finance were slightly more likely to belong to such groups (22%) than those that did not use external finance (18%). There was also a slight difference by whether the SME met the definition of a Permanent non-borrower or not (17% v 21% if not a PNB).
Other demographics	There was some, limited, variation by age of business. Starts were less likely to belong to a business group (15%) with membership increasing by age of business to 23% of those trading for 15 years or more. Those who had someone in charge of the finances who was qualified (more common in larger SMEs) were more likely to belong to a business group (28% v 17%).

Business Ownership

66% of *companies* had one owner, ranging from 85% of 0 employee companies to 37% of those with 50-249 employees. This means that of *all* SMEs, 84% are either sole proprietorships or companies with one owner.

A broader question explored the extent to which the owner of the SME was also involved in other businesses. For YEQ4 2016 (and excluding DK answers):

- 90% reported that this was the only business the owner was involved in, managerially or strategically, decreasing with size from 91% of 0 employee SMEs, to 82% of those with 50-249 employees.
- 9% reported that the owner currently ran another business as well (8% amongst 0 employee SMEs increasing to 17% amongst those with 50-249 employees).
- 4% reported that the owner had set up and run a business before (with little variation by size).
- 1% said the owner had provided funds for another business in the past few years, again with little variation by size of SME.

From Q3 2014, SMEs with employees were asked whether theirs was a family business. For YEQ4 2016:

- 17% have employees and are family owned
- 8% have employees and a different ownership structure
- 75% of all SMEs have no employees (so are not asked the question).

5. Financial context – how are SMEs funding themselves?

This chapter provides

an overview of the types of external finance being used by SMEs, including the use of personal finance and trade credit within a business.

Key findings

37% of SMEs in 2016 were using external finance

- 30% were using core finance (loans, overdrafts and/or credit cards)
- 16% were using other forms of finance such as leasing.

This is unchanged from 2014 and 2015, but remained lower than in 2012 when 44% of SMEs used external finance, with the decline seen across all size bands.

At the other end of the scale, 47% of SMEs in 2016 met the definition of a Permanent non-borrower with no apparent appetite for finance. This was also unchanged from 2015, but remained higher than previously seen (in 2012, 34% of SMEs met the definition of a PNB).

- 0 employee SMEs remained more likely to meet the definition of a PNB (50%) but a third of SMEs with employees were PNBs (37%).
- Once the PNBs were excluded, 70% of remaining SMEs were using external finance, compared to 66% in 2012.

28% of SMEs in 2016 reported an injection of personal funds into the business. This was in line with 2014 and 2015, but slightly more of those injecting funds had chosen to do so to help the business develop (17% v 14% in 2014 and 2015).

- Overall injections of funds remained at lower levels than previously seen, as fewer SMEs reported 'having' to inject funds (in 2012, 25% of SMEs said they 'had to' inject funds decreasing over time to 11% in 2016).

Use of external finance

SMEs were asked some initial questions about their use of external finance:

- Which of a specified list of sources they were currently using
- Whether they had used any form of external finance in the past 5 years.

Use of external finance for 2016 as a whole was 37%, unchanged from 2014 and 2015. This remains lower than in previous years – in 2012, 44% of SMEs used external finance.

Analysis by recent quarter showed use of external finance in Q4 2016 itself was 46%, and that 2016 saw a dip in the use of finance early in the year before this strong recovery in the last quarter:

Use of external finance in last 5 years

Over time – all SMEs By date of interview	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Unweighted base:	*5024*	*5038*	*5001*	*5004*	*5003*	*4500*	*4500*	*4500*	*4500*
Use now	36%	36%	36%	36%	40%	33%	36%	34%	46%
Used in past but not now	3%	3%	3%	4%	2%	2%	3%	3%	2%
Not used at all	62%	61%	60%	61%	57%	65%	61%	63%	52%

Q14/15 All SMEs

As the table below shows, the 'dip' in early 2016 was due to lower levels of usage of external finance amongst smaller SMEs. Amongst those with 50-249 employees use was more stable during the year and such SMEs remained more likely to be using external finance:

Currently use external finance

Over time – all SMEs

By date of interview – row percentages	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
All	36%	36%	36%	36%	40%	33%	36%	34%	46%
0 emp	32%	32%	32%	31%	35%	28%	31%	31%	44%
1-9 emps	44%	48%	47%	49%	53%	44%	50%	42%	50%
10-49 emps	55%	61%	60%	59%	59%	60%	61%	53%	61%
50-249 emps	61%	58%	63%	60%	63%	63%	64%	64%	66%

Q14/15 All SMEs

The table below shows use of finance by risk rating for recent quarters. In Q4 2016, those with a minimal risk rating remained the most likely to be using external finance, but with a narrower gap to those with a poorer risk rating than previously seen:

Currently use external finance

Over time – all SMEs

By date of interview – row percentages	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
All	36%	36%	36%	36%	40%	33%	36%	34%	46%
Minimal	35%	41%	48%	51%	49%	40%	48%	41%	52%
Low	37%	51%	46%	41%	50%	40%	50%	39%	46%
Average	33%	35%	38%	39%	40%	36%	35%	40%	46%
Worse than average	37%	31%	29%	31%	36%	28%	33%	31%	43%

Q14/15 All SMEs , base varies slightly each quarter

As already reported, use of external finance has declined over time and these longer term changes are summarised in the table below. Overall use of finance declined from 44% in 2012 to 37% for 2014 and has been stable since, despite the variation seen during 2016:

Currently use external finance Over time – all SMEs By date of interview – row percentages	2012	2013	2014	2015	2016
All	44%	41%	37%	37%	37%
0 emp	38%	35%	32%	32%	33%
1-9 emps	58%	55%	49%	49%	46%
10-49 emps	70%	67%	61%	60%	59%
50-249 emps	73%	73%	63%	61%	64%
Minimal external risk rating	57%	50%	44%	47%	45%
Low	52%	51%	40%	47%	44%
Average	46%	42%	36%	38%	39%
Worse than average	41%	38%	35%	32%	34%
Agriculture	51%	44%	43%	44%	46%
Manufacturing	49%	44%	44%	39%	39%
Construction	41%	38%	33%	33%	38%
Wholesale/Retail	56%	50%	50%	45%	45%
Hotels & Restaurants	53%	47%	42%	44%	42%
Transport	47%	41%	38%	38%	36%
Property/ Business Services	41%	39%	34%	35%	33%
Health	32%	31%	28%	33%	32%
Other	38%	42%	33%	39%	38%
All excl PNBs	66%	68%	65%	70%	70%

Q14/15 All SMEs

Use of core forms of finance

To understand more about the use of external finance over time, the table below shows the overall reported use of the core forms of finance (overdrafts, loans and/or credit cards) across recent quarters. The 'dip' in overall use of finance seen in Q1 2016 is reflected here in a lower proportion of SMEs using any of the core forms of finance in that quarter, while the increase in Q4 2016 was due to higher use of overdrafts and credit cards. As a result 38% of SMEs were using core finance in Q4 2016, a higher proportion than has been seen in recent quarters:

Use of external finance

Over time – all SMEs By date of interview	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Unweighted base:	*5024*	*5038*	*5001*	*5004*	*5003*	*4500*	*4500*	*4500*	*4500*
Bank overdraft	16%	16%	16%	15%	17%	14%	16%	14%	20%
Bank loan/Commercial mortgage	7%	8%	6%	7%	8%	6%	6%	6%	9%
• *Bank loan*	*6%*	*7%*	*5%*	*6%*	*6%*	*5%*	*4%*	*5%*	*7%*
• *Comm. Mortgage*	*1%*	*2%*	*2%*	*2%*	*2%*	*2%*	*3%*	*1%*	*2%*
Credit cards	14%	15%	15%	15%	17%	15%	17%	17%	21%
Any core products – all SMEs	***28%***	***29%***	***28%***	***29%***	***32%***	***25%***	***30%***	***29%***	***38%***

Q15 All SMEs

From Q3 2014, use of bank loans and commercial mortgages has been recorded separately and each is now shown in the table above. Excluding the use of commercial mortgages from the core finance definition reduces the figure for Q4 2016 from 38% to 36% but has no impact on 2016 as a whole (both 30%).

The table above shows that use of core finance (including commercial mortgages) has been relatively stable over recent quarters. A longer term view, in the table below, shows how use of core finance declined from 36% in 2012 to 29% in 2014 and has been stable since. This earlier decline in use of finance was due to the increase in Permanent non-borrowers, as once they were excluded, use of core finance was fairly consistent year to year with around half of such SMEs using these forms of finance, albeit the figure for 2016 is somewhat higher at 57%.

The longer term changes in the use of core finance are summarised below:

Currently use core finance Over time – all SMEs By date of interview – row percentages	2012	2013	2014	2015	2016
All	36%	32%	29%	30%	30%
0 emp	31%	27%	25%	25%	27%
1-9 emps	48%	44%	40%	40%	37%
10-49 emps	62%	57%	50%	50%	50%
50-249 emps	67%	64%	55%	53%	57%
Minimal external risk rating	48%	42%	35%	39%	39%
Low	46%	43%	34%	39%	38%
Average	39%	34%	30%	31%	33%
Worse than average	31%	28%	26%	24%	26%
Agriculture	44%	37%	36%	36%	36%
Manufacturing	40%	35%	37%	31%	33%
Construction	34%	31%	25%	26%	32%
Wholesale/Retail	47%	39%	41%	36%	39%
Hotels & Restaurants	45%	38%	34%	37%	33%
Transport	36%	30%	29%	29%	28%
Property/ Business Services	33%	31%	26%	29%	27%
Health	25%	24%	22%	26%	27%
Other	30%	32%	25%	29%	30%
All excl PNBs	54%	53%	51%	55%	57%

Q15 All SMEs

YEQ4 2016, 80% of credit card users reported that they usually paid off the balance on their card in full each month (excl DK answers), so these businesses were not necessarily using their card as a source of finance, but as a payment mechanism. The larger the SME the more likely they were to pay off their credit card (77% of 0 employee SMEs with a credit card typically paid off the balance compared to 92% of those with 50-249 employees). The proportion typically paying off the balance has changed very little over time (it was 79% for Q2-Q3 2013).

7% of SMEs only used credit cards of all the forms of external finance reported. 84% of this group said that they usually pay off the balance each month. This is the equivalent of 6% of all SMEs who might be considered not to be using external finance, given that they use only credit cards and typically pay the balance off each month.

Excluding credit cards from the core product table above would result in 19% of SMEs YEQ4 2016 with either an overdraft and/or loan and this proportion has declined over time from 26% in 2012 (it was 20% for 2015).

From Q4 2012 those using core finance were asked whether any of those facilities were in their personal name, rather than that of the business. For YEQ4 2016, a third of those using such facilities (33%) said that one or more facilities were in their personal name, the equivalent of 9% of **all** SMEs having a facility in their personal name (or 17% of SMEs excluding the Permanent non-borrowers). This had varied relatively little across the quarters in which the question has been asked but was somewhat lower (at 26%) in the most recent quarter, Q4 2016.

As the table below shows, the incidence of facilities in a personal name varied by size of business. Amongst SMEs with loans, overdrafts and/or credit cards, 4 in 10 of those with 0 employees had some facility in their personal name (39%) compared to 9% of those with 50-249 employees. SMEs with these facilities, and who also had an average or worse than average risk rating, were more likely to have a facility in their own name (34% and 36%), than those with a minimal or low risk rating (19% and 22%) but the equivalent figures for **all** SMEs continued to show relatively little difference by risk rating:

Have element of facility in personal name YEQ4 16 – row percentages	Of those with an overdraft, loan or credit card	Equivalent % of all SMEs
Total	**33%**	**9%**
0 employees	39%	10%
1-9 employees	23%	8%
10-49 employees	13%	6%
50-249 employees	9%	4%
Minimal risk rating	19%	7%
Low risk rating	22%	8%
Average risk rating	34%	10%
Worse than average risk rating	36%	9%

Q15bbb All SMEs with one of these facilities

Those operating their business banking through a personal account were somewhat less likely to be using any external finance (YEQ4 2016, 21% were using a core form of external finance, compared to 33% of those operating through a business bank account). However, if they *did* use the relevant forms of external finance, then almost all (81%) said that some or all of the loan, overdraft or credit card facilities that they had were in their personal name. Those with facilities who used a business account, were much less likely to say that there were facilities in their personal name (25%).

As a result, amongst all SMEs, those using a personal account for their business were twice as likely to have a facility in their personal name as those using a business account (15% of all those using a personal account had a facility in their personal name compared to 7% of all those using a business account).

SMEs using loans, overdrafts or credit cards are now asked about each individual type of facility they hold, rather than simply whether any of these facilities were in a personal name. In all instances, those with 0 employees were much more likely to have a facility in a personal name:

Facilities in a personal name YEQ4 2016 (excl DK)

Overdrafts	17% of all SMEs with an overdraft said it was in a personal name, of which 89% were 0 employee SMEs. 8% said they had facilities in both personal and business names. 22% of 0 employee SMEs with an overdraft said that it was in a personal name. This declined by size to 7% of those with 1-9 employees, 3% of those with 10-49 employees and 1% of those with 50-249 employees.
Loans	16% of all SMEs with a loan said it was in a personal name, of which 83% were 0 employee SMEs. 7% said they had facilities in both personal and business names. 23% of 0 employee SMEs with a loan said that it was in a personal name. This declined by size to 9% of those with 1-9 employees, 2% of those with 10-49 employees and 1% of those with 50-249 employees.
Credit cards	23% of all SMEs with a credit card said it was in a personal name, of which 84% were 0 employee SMEs. 13% said they had facilities in both personal and business names. 29% of 0 employee SMEs with a credit card said that it was in a personal name. This declined by size to 14% of those with 1-9 employees, 5% of those with 10-49 employees and 2% of those with 50-249 employees.

Any use of external finance

The table below shows the full list of the different types of funding being used by SMEs YEQ4 2016. It includes both the core forms of finance already reported and the other forms of finance on which data has been collected, some of which may also be obtained from the bank.

Larger businesses continued to make use of a wider range of forms of funding. Amongst SMEs with employees, 49% were using external finance – 40% were using any form of core finance and 25% any of the other forms of finance listed:

External finance currently used YEQ4 16 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,000*	*3600*	*5800*	*5800*	*2800*
Core products (any)	30%	27%	37%	50%	57%
-Bank overdraft	16%	15%	20%	23%	23%
-Credit cards	17%	15%	20%	33%	41%
-Bank loan	5%	4%	7%	11%	14%
-Commercial mortgage	2%	1%	3%	7%	9%
Other forms of finance (any)	16%	14%	23%	33%	35%
-Leasing or hire purchase	7%	6%	11%	20%	21%
-Loans from directors, family & friends	5%	4%	8%	7%	5%
-Equity from directors, family & friends	2%	2%	3%	4%	4%
-Invoice finance	3%	2%	4%	10%	13%
-Grants	2%	2%	3%	4%	6%
-Loans from other 3rd parties	2%	1%	2%	4%	3%
Any of these	*37%*	*33%*	*46%*	*59%*	*64%*
None of these	*63%*	*67%*	*54%*	*41%*	*36%*

Q15 All SMEs

SMEs that import and/or export were asked about use of Export/Import finance. YEQ4 2016, 1% of such SMEs used these products, with limited variation by size of business (<1-1%).

A summary analysis for YEQ4 2016 by risk rating showed that:

- 45% of SMEs with a minimal and 44% of those with a low risk rating were using external finance at all, compared to 39% of those with an average risk and 34% of those with a worse than average risk rating.
- Use of core finance was more common amongst those with a minimal (39%) or low (38%) risk rating than those with an average (33%) or worse than average (26%) rating.
- This was also true for other forms of finance. 20% of those with either a minimal or a low risk rating were using other forms of finance compared to 16% of those with either an average or worse than average rating.

SMEs in the Wholesale/Retail sector remained more likely to be using core forms of finance (39%). There was more variation by sector in terms of the use of other forms of finance, with those in Agriculture more likely to be using such finance (24%):

External finance currently used

YEQ4 16 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	*1200*	*1501*	*3199*	*1804*	*1203*	*1999*	*3597*	*1497*	*2000*
Core finance	36%	33%	32%	39%	33%	28%	27%	27%	30%
Other finance	24%	18%	15%	19%	20%	20%	14%	12%	17%
Any finance	*46%*	*39%*	*38%*	*45%*	*42%*	*36%*	*33%*	*32%*	*38%*

Q15 All SMEs

From Q1 2014 SMEs using leasing, HP and vehicle finance were asked where this funding was obtained from, with SMEs able to give more than one source. From Q1 2015, those using these forms of finance have been asked to name the supplier(s) used and these have then been coded into the categories below to provide a more accurate analysis of how this funding is being provided.

For YEQ4 2016 leasing, HP and vehicle finance was obtained as follows:

- 35% obtained this funding from a bank/bank subsidiary: 16% from their main bank/subsidiary, 19% from another bank/subsidiary
- 24% from an equipment manufacturer
- 28% from another leasing provider
- 4% from a broker.

These results are very similar to 2015 as a whole and not that dissimilar to those in 2014 (when the SME self-identified the type of supplier used). Mentions of a bank are now slightly higher (having been 26% in 2014) and mentions of another leasing provider are somewhat lower (having been 39%).

SMEs can provide more than one source of leasing/vehicle finance and larger SMEs make use of a wider range of sources, with banks a major source of funding as the table below shows:

Source of leasing/vehicle finance YEQ4 16 – all SMEs using such finance	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*2479*	*193*	*622*	*1090*	*574*
Any bank	35%	38%	27%	40%	42%
-Main bank/subsidiary	*16%*	*15%*	*13%*	*25%*	*27%*
-Other bank/subsidiary	*19%*	*22%*	*15%*	*16%*	*18%*
Equipment manufacturer	24%	23%	27%	21%	17%
Other leasing provider	28%	24%	32%	33%	39%
Broker	4%	5%	4%	3%	4%

Q14x1 All SMEs using leasing or vehicle finance

The table below details the use of all of these forms of funding over recent quarters. Loans and equity from family/friends/directors and bank loans/ commercial mortgages can now be reported separately as sufficient data has been collected.

The higher use of finance in Q4 2016 (46%) was due to increased use of both 'core' and 'other' forms of finance, with higher usage of overdrafts and credit cards but also loans from directors, friends and family and grants:

Use of external finance

Over time – all SMEs By date of interview	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Unweighted base:	*5024*	*5038*	*5001*	*5004*	*5003*	*4500*	*4500*	*4500*	*4500*
Core products (any)	28%	29%	28%	29%	32%	25%	30%	29%	38%
-Bank overdraft	16%	16%	16%	15%	17%	14%	16%	14%	20%
-Bank loan/Commercial mortgage	7%	8%	6%	7%	8%	6%	6%	6%	9%
-Bank loan	*6%*	*7%*	*5%*	*6%*	*6%*	*5%*	*4%*	*5%*	*7%*
-Comm. Mortgage	*1%*	*2%*	*2%*	*2%*	*2%*	*2%*	*3%*	*1%*	*2%*
-Credit cards	14%	15%	15%	15%	17%	15%	17%	17%	21%
Other forms of finance (any)	16%	16%	17%	16%	19%	15%	15%	14%	22%
-Leasing, hire purchase or vehicle finance	6%	7%	6%	7%	8%	7%	8%	6%	7%
-Loans from directors/family/friends*	6%	7%	7%	6%	8%	4%	5%	3%	8%
-Equity from directors/family/friends*	2%	2%	2%	3%	3%	2%	2%	2%	3%
-Invoice finance	2%	2%	2%	3%	2%	2%	2%	3%	4%
-Grants	1%	2%	2%	2%	2%	2%	1%	2%	5%
-Loans from other third parties	2%	2%	2%	2%	2%	2%	1%	1%	2%
Any form of finance – all SMEs	*36%*	*36%*	*36%*	*36%*	*40%*	*33%*	*36%*	*34%*	*46%*

Q15 All SMEs

The table below shows how sole use of core and other forms of finance has varied over the longer term, as the proportion using none of these forms of finance increased from 56% to 63% of SMEs in 2015 and 62% in 2016:

External finance currently used Over time - all SMEs	2012	2013	2014	2015	2016
Unweighted base:	*20,055*	*20,036*	*20,055*	*20,046*	*18,000*
Only use core products	26%	23%	20%	20%	21%
Only use other forms of finance	8%	9%	8%	8%	7%
Use both forms of finance	10%	9%	9%	9%	10%
Use none of these forms of finance	56%	59%	63%	63%	62%

Q15 All SMEs

Since 2014, around 1 in 5 SMEs has used only core forms of finance, with 1 in 10 using both core and other forms of finance and these proportion have changed very little over recent years.

SMEs can use one or more of the forms of finance listed above, but most used just one if they used any (57% of SMEs using *any* external finance were only using one of the forms of finance listed). The table below shows the number of forms of finance used by all SMEs (including those using no external finance). Around a quarter of all SMEs in each size band used just one form of external finance. While 5% of the smallest SMEs were using 3 or more forms of finance, this proportion increased to around 1 in 5 of those with 10-49 or 50-249 employees:

Forms of external finance currently used YEQ4 16 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,000*	*3600*	*5800*	*5800*	*2800*
None	63%	67%	54%	41%	36%
1 form of finance	22%	21%	26%	26%	25%
2 forms of finance	9%	8%	12%	16%	18%
3 forms of finance	4%	3%	5%	8%	10%
4 or more forms of finance	2%	2%	4%	9%	11%

After further questioning, 2% of SMEs (YEQ4 2016) said that they were using an additional form of external finance not on the list detailed in full above. This did not vary much by size (2-4%) or risk rating (2-4%), or by sector (2-3%), and has varied little over time.

There was little difference in use of these other forms of finance by whether the SME was also using one of the *specified* forms of external finance (4% for those also using the specified forms of external finance and 2% for those not). This means that 1% of **all** SMEs are classed as non-users of finance in this report (because they do not use any of the specified forms of external finance) but said at this question that they were using some other form of finance. The form of funding used is not known.

The impact of crowd funding and alternative finance

A later chapter in this report covers awareness and usage of crowd funding/peer to peer lending.

These products are currently used by a minority of SMEs, many of whom are also using other forms of finance. If they were to be included in the definition of external finance used in this chapter, the use of external finance in 2015 would stay unchanged at 37% and for 2016 it would increase marginally from 37% to 38%.

More analysis will be provided over time.

Injections of personal funds

SMEs were asked whether personal funds had been injected into the business in the previous 12 months by the owner or any director, and whether this was something they had *chosen* to do or felt that they *had* to do.

The table below shows that in Q4 2016, almost a third of SMEs (31%) reported an injection of personal funds and that this was more likely to have been a choice (20%) than something they felt they had to do (11%). These figures are at the top end of the range seen over recent quarters:

Personal funds in last 12 months

Over time – all SMEs By date of interview	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Unweighted base:	*5024*	*5038*	*5001*	*5004*	*5003*	*4500*	*4500*	*4500*	*4500*
Inject personal funds – you chose to do to help the business grow and develop	14%	14%	13%	15%	15%	17%	14%	17%	20%
Inject personal funds – you felt you had no choice about this, that you had to do it	15%	11%	13%	15%	14%	13%	11%	8%	11%
Any personal funds	*29%*	*26%*	*26%*	*30%*	*29%*	*30%*	*25%*	*25%*	*31%*
Not something you have done	71%	74%	74%	70%	71%	70%	75%	75%	69%

Q15d All SMEs

The more detailed analysis below is based on the combined results YEQ4 2016 to provide robust base sizes for key sub-groups. Smaller SMEs, with fewer than 10 employees, remained much more likely to have received an injection of personal funds:

Personal funds in last 12 months YEQ4 16 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,000*	*3600*	*5800*	*5800*	*2800*
Inject personal funds – you chose to do to help the business grow and develop	17%	18%	14%	8%	7%
Inject personal funds – you felt you had no choice about this, that you had to do it	11%	11%	10%	5%	2%
Any personal funds	*28%*	*29%*	*24%*	*13%*	*9%*
Not something you have done	72%	71%	75%	87%	91%

Q15d All SMEs from Q2 2012

Amongst SMEs with employees, 22% reported any injection of personal funds – 13% because they chose to do so and 9% who felt that they had no choice.

Analysis by external risk rating showed that those with a worse than average external risk rating were more than twice as likely to have seen an injection of personal funds (33%), as those with a minimal external risk rating (13%). In the past, around half of all SMEs making *any* injection of funds reported that they had felt that they had no choice, this proportion is somewhat lower this time (40%), with more of those with a worse than average risk rating reporting that they chose to put funds in:

Personal funds in last 12 months YEQ4 16 – all SMEs	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*18,000*	*2999*	*5535*	*4040*	*3877*
Inject personal funds – you chose to do to help the business grow and develop	17%	8%	10%	15%	21%
Inject personal funds – you felt you had no choice about, that you had to do	11%	5%	8%	10%	12%
Any personal funds	*28%*	*13%*	*18%*	*25%*	*33%*
Not something you have done	72%	87%	82%	75%	67%

Q15d All SMEs from Q2 2012

Analysis by sector showed relatively little variation in terms of *any* injection of funds, experienced by 26-31% of SMEs in each sector with the exception of those in Manufacturing (23%) and Health (24%):

Personal funds in last 12 months

YEQ4 16 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	*1200*	*1501*	*3199*	*1804*	*1203*	*1999*	*3597*	*1497*	*2000*
Chose to inject	17%	12%	14%	17%	18%	19%	21%	16%	16%
Had to inject	10%	11%	12%	11%	12%	12%	9%	8%	12%
Any funds	*27%*	*23%*	*26%*	*28%*	*30%*	*31%*	*30%*	*24%*	*28%*
Not done	73%	77%	74%	72%	70%	69%	71%	76%	72%

Q15d All SMEs from Q2 2012

A longer term look at the injection of personal funds shows how this became less likely between 2012 (when 43% reported an injection of funds) and 2014 (when 29% reported an injection), and has been stable since. This is due predominantly to a drop in the proportion feeling that they *had* to inject funds (from 25% in 2012 to 15% in 2015 and now 11% in 2016):

Personal funds in last 12 months

Over time – all SMEs	2012*	2013	2014	2015	2016
Unweighted base:	*15,032*	*20,036*	*20,055*	*20,046*	*18,000*
Inject personal funds – you chose to do to help the business grow and develop	17%	19%	14%	14%	17%
Inject personal funds – you felt you had no choice about this, that you had to do it	25%	20%	15%	13%	11%
Any personal funds	*43%*	*38%*	*29%*	*28%*	*28%*
Not something you have done	57%	62%	71%	72%	72%

Q15d All SMEs from Q2 2012

The proportion of *all* injections of funds that were "forced" has fallen from 58% of all injections in 2012 to 39% in 2016.

The table below looks at the long term changes in injections of <u>any</u> personal funds, whether through choice or necessity, by key business demographics. It shows that larger SMEs, those with a minimal risk rating and those who meet the definition of a Permanent non-borrower have always been less likely to report an injection of funds:

Any personal funds in last 12 months Over time – all SMEs Row percentages	2012*	2013	2014	2015	2016
All	43%	38%	29%	28%	28%
0 emp	45%	40%	30%	29%	29%
1-9 emps	39%	36%	29%	26%	24%
10-49 emps	22%	19%	17%	16%	13%
50-249 emps	13%	11%	9%	8%	9%
Minimal external risk rating	20%	16%	17%	17%	13%
Low	29%	22%	21%	19%	18%
Average	36%	33%	25%	24%	25%
Worse than average	51%	46%	36%	33%	33%
Agriculture	41%	38%	27%	26%	27%
Manufacturing	42%	31%	30%	27%	23%
Construction	44%	38%	29%	25%	26%
Wholesale/Retail	43%	37%	27%	27%	28%
Hotels & Restaurants	47%	41%	33%	29%	30%
Transport	44%	40%	30%	31%	31%
Property/ Business Services	42%	41%	29%	27%	30%
Health	43%	37%	29%	27%	24%
Other	41%	37%	31%	34%	28%
PNBs	33%	29%	19%	19%	20%
All excl PNBs	48%	44%	37%	35%	35%

Q15d All SMEs from Q2 2012

Between 2012 and 2016 the proportion of SMEs reporting an injection of personal funds fell by a third (43% to 28%), with a similar proportional drop by size, risk rating and sector apart from those with 10-49 employees, and those in the Manufacturing and Health sectors where there was a drop in excess of 40% over the period. Once the PNBs have been excluded, the drop is less marked at 27%.

Returning to the current period, analysis by age of SME for YEQ4 2016 showed that it was the youngest, start-up businesses that were most likely to have had an injection of personal funds (46%), and that this was more likely to have been a choice (30%) than a necessity (16%). For older businesses, an injection of personal funds was less likely to have happened at all but where it had, a higher proportion of these injections were felt to have been a necessity:

Personal funds in last 12 months YEQ4 16 – all SMEs	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15 yrs+
Unweighted base:	*1807*	*1921*	*2231*	*3008*	*9033*
Inject personal funds – you chose to do to help the business grow and develop	30%	20%	18%	12%	10%
Inject personal funds – you felt you had no choice about this, that you had to do it	16%	13%	8%	10%	8%
Any personal funds	*46%*	*33%*	*26%*	*22%*	*18%*
Not something you have done	54%	67%	74%	78%	82%

Q15d All SMEs from Q2 2012

Starts have always been more likely to report an injection of funds than older businesses but the proportion has declined somewhat over time. In 2012, 68% of Starts reported receiving an injection of funds, dropping to 43% in 2015, before increasing slightly to 46% in 2016 with a slight increase amongst both those choosing to inject funds and those feeling they had to.

Those using a *personal* account for their business banking were somewhat more likely to have put personal funds in at all (32% v 27% of those with a business account) and to have chosen to do so (21% of SMEs with a personal account v 16% of those with a business account).

SMEs currently using external finance were more likely to have received an injection of personal funds (34% YEQ4 2016) than those not currently using external finance (24%) and were also more likely to say they had felt that there had been no choice (15% v 8%).

Analysed by their overall financial behaviour in the previous 12 months, the Would-be seekers (who had wanted to apply for loan or overdraft finance but felt that something had stopped them) remained much more likely to have received an injection of personal funds (and to have felt that they had no choice):

Personal funds in last 12 months YEQ4 16 – all SMEs	Total	Had an event	Would-be seeker	Happy non-seeker
Unweighted base:	*18,000*	*3223*	*350*	*14,427*
Inject personal funds – you chose to do to help the business grow and develop	17%	18%	25%	17%
Inject personal funds – you felt you had no choice about, that you had to do	11%	22%	35%	8%
Any personal funds	*28%*	*40%*	*60%*	*25%*
Not something you have done	72%	60%	40%	75%

Q15d All SMEs

As already reported, the proportion of SMEs that had seen an injection of personal funds has declined overall, from 43% when the question was first asked in 2012 to 28% for 2016.

- This was also true amongst those that have had a borrowing event (from 52% in 2012 to 40% for 2016) and amongst Happy non-seekers (37% to 25%).
- However, there has been no such decline amongst the small group of Would-be seekers of finance, (62% in 2012 and 60% in 2016) and so this group is now much more likely to have seen an injection of personal funds.

Use of personal accounts and accounts at other banks

Most SMEs used a business bank account (81% excluding DK answers).

Of the 19% that used a personal account, almost all (94%) were 0 employee businesses. So whilst 24% of 0 employee SMEs used a personal account for their business banking, amongst those with employees the figure was 5%.

SMEs more likely to be using a personal account included those in the Health sector (26%), Starts (26%), those with a worse than average risk rating (23%) and Permanent non-Borrowers (23%).

In most years around 1 in 5 SMEs has used a personal account, the exception being 2014 when 14% of SMEs used them, compared to 19% in 2016. This latest increase was primarily due to an increase in 0 employee SMEs using such accounts (18% to 24%). Amongst those with employees, usage remained low (3% to 5%).

YEQ4 2016, SMEs using a personal account were:

- less likely to be using external finance (26% used external finance, compared to 40% of those using a business account) and somewhat less likely to have applied for new or renewed facilities (3% v 5%).
- more likely to have put personal funds into the business (32% v 27% of those with a business account) and to be a Permanent non-borrower (55% v 45%).

In 2016, 99% of SMEs reported that they only used one bank for their business banking, with little difference by size. Multi-banking remains rare in this market:

Use one bank Over time - row percentages	2012	2013	2014	2015	2016
All	99%	99%	99%	98%	99%
0 emps	99%	99%	99%	99%	99%
1-9 emps	98%	99%	98%	98%	99%
10-49 emps	97%	98%	97%	97%	97%
50-249 emps	97%	98%	97%	98%	97%

The 'interweaving' of business and personal funds

A number of questions explore the use of personal funds and/or personal borrowing by SMEs and details are provided in the relevant chapters. For YEQ4 2016, 4 in 10 SMEs (43%) reported having one or more of these personal 'elements' to their business. This is in line with 2014 and 2015 (both 42%) but lower than in either 2012 (54%) or 2013 (53%), as fewer smaller SMEs with less than 10 employees reported that they had any personal element to their business. The table below shows how smaller SMEs, those with a worse than average risk rating and those in the Health, Transport or Construction sectors remained the most likely to have a personal element to their business:

Had any personal element

Row percentages	YEQ4 16
All SMEs	**43%**
0 employee	48%
1-9 employees	30%
10-49 employees	16%
50-249 employees	11%
Minimal external risk rating	25%
Low external risk rating	27%
Average external risk rating	41%
Worse than average external risk rating	50%
Agriculture	42%
Manufacturing	36%
Construction	45%
Wholesale/Retail	34%
Hotels & Restaurants	40%
Transport	45%
Property/Business Services etc.	43%
Health	45%
Other Community	49%

Excluding SMEs with no employees reduces the proportion of remaining SMEs with a personal element to their business to 27%.

Use of trade credit

Data has been gathered on the extent to which SMEs use trade credit from their suppliers and the impact it has on their use of, or need for, external finance.

YEQ4 2016, 33% of SMEs regularly purchased products or services from other businesses on credit and this has changed very little over time. As previously seen, use of trade credit increased by size of SME:

- 28% of those with 0 employees regularly purchased on credit
- 45% of those with 1-9 employees
- 59% of those with 10-49 employees
- 59% of those with 50-249 employees.

Those using external finance (loans, overdrafts etc) were more likely to be using trade credit (48%) than those who were not using any external finance (24%).

SMEs that received trade credit were asked whether having this trade credit meant that they had a reduced need for other forms of external finance. 7 in 10 of them did (with little variation by size of SME) and this is the equivalent of 23% of all SMEs needing less external finance, as the table below shows:

Impact of receiving trade credit YEQ4 16 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,000*	*3600*	*5800*	*5800*	*2800*
Receive trade credit	33%	28%	45%	59%	59%
Have less of a need for external finance	*23%*	*20%*	*31%*	*41%*	*39%*
Do not have less of a need for external finance	*8%*	*7%*	*12%*	*14%*	*14%*
Not sure	*1%*	*1%*	*2%*	*3%*	*6%*
Do not receive trade credit	67%	72%	55%	41%	41%
% of those with TC where it reduces need	*70%*	*71%*	*69%*	*69%*	*66%*

Q14y/y4 All SMEs

The proportion of Trade Credit users reporting that this reduces their need for external finance has increased from 65% in H2 2014 when the question was first asked, to 70% for 2016 as a whole. This is due to more smaller SMEs saying that Trade Credit reduces their need for external finance.

YEQ4 2016, SMEs currently using external finance (who are more likely to be using trade credit) were also more likely to say that they had less of a need for external finance as a result (35%) than those not using external finance (16%) or SMEs overall (23%).

SMEs with a minimal or low external risk rating were more likely to receive trade credit. Around 7 in 10 of those receiving trade credit in each risk rating band said that it reduced their need for external finance:

Impact of receiving trade credit YEQ4 16 – all SMEs	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*18,000*	*2999*	*5535*	*4040*	*3877*
Receive trade credit	33%	43%	46%	37%	28%
Have less of a need for external finance	*23%*	*31%*	*31%*	*26%*	*21%*
Do not have less of a need for external finance	*8%*	*10%*	*13%*	*9%*	*6%*
Not sure	*1%*	*2%*	*2%*	*2%*	*1%*
Do not receive trade credit	67%	57%	54%	63%	72%
% of those with TC where it reduces need	*70%*	*72%*	*67%*	*70%*	*75%*

Q14y/y4 All SMEs from Q3 2014

Older SMEs were also more likely to be receiving trade credit with a quarter saying it reduced their need for finance:

Impact of receiving trade credit YEQ4 16 – all SMEs	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15 yrs+
Unweighted base:	*1807*	*1921*	*2231*	*3008*	*9033*
Receive trade credit	24%	28%	31%	35%	41%
Have less of a need for external finance	*18%*	*21%*	*22%*	*25%*	*28%*
Do not have less of a need for external finance	*5%*	*6%*	*8%*	*9%*	*11%*
Not sure	*1%*	*2%*	*1%*	*1%*	*2%*
Do not receive trade credit	76%	72%	69%	65%	59%
% of those with TC where it reduces need	75%	*75%*	*71%*	*71%*	*68%*

Q14y/y4 All SMEs from Q3 2014

SMEs in the Manufacturing or Wholesale/Retail sectors were the most likely to receive trade credit. Amongst those receiving trade credit, those in Construction were most likely to say that it reduced their need for finance (79%):

Trade credit in last 12 months

YEQ4 16 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	*1200*	*1501*	*3199*	*1804*	*1203*	*1999*	*3597*	*1497*	*2000*
Receive TC	35%	46%	43%	48%	35%	26%	28%	19%	25%
Have less of a need for external finance	*23%*	*34%*	*34%*	*33%*	*23%*	*18%*	*19%*	*12%*	*16%*
Do not have less of a need for external finance	*11%*	*10%*	*8%*	*12%*	*10%*	*7%*	*8%*	*5%*	*7%*
Not sure	*2%*	*2%*	*1%*	*2%*	*2%*	*2%*	*1%*	*1%*	*1%*
Do not receive TC	65%	54%	57%	52%	65%	74%	72%	81%	75%
% where TC reduces need	*66%*	*74%*	*79%*	*69%*	*66%*	*69%*	*68%*	*63%*	*64%*

Q14y/y4 All SMEs from Q3 2014

The non-borrowing SME

As this chapter has already reported, just over a third of SMEs (37% YEQ4 2016) currently use external finance. Other data from this report allows for identification of those SMEs who seem firmly disinclined to borrow, defined as those that meet **all** of the following conditions:

- Are not currently using external finance
- Have not used external finance in the past 5 years
- Have had no loan or overdraft borrowing events in the past 12 months
- Have not applied for any other forms of finance in the last 12 months
- Said that they had had no desire to borrow in the past 12 months
- Reported no inclination to borrow in the next 3 months.

These Permanent non-borrowers make up 47% of SMEs (YEQ4 2016), and remained more likely to be found amongst the smaller SMEs, although not exclusively so (amongst SMEs with employees, 37% met the definition of a Permanent non-borrower):

- 50% of 0 employee SMEs met this non-borrowing definition
- 38% of 1-9 employee SMEs
- 30% of 10-49 employee SMEs
- 26% of 50-249 employee SMEs.

Half of SMEs in the Health (56%) or Property/Business Services (51%) sectors met the definition of a Permanent non-borrower. Those with an above average risk rating (48%) or using a personal account for their business banking (55%) were also somewhat more likely to meet the definition. This means that the equivalent of 10% of <u>all</u> SMEs are Permanent non-borrowers who use a personal bank account.

In the second half of 2015, the proportion meeting the definition of a PNB declined slightly due to fewer of the smaller SMEs meeting the definition, but this trend was not maintained in 2016 until Q4 2016 when the proportion fell again (with more SMEs reporting use of external finance). This time the fall was amongst all sizes of SMEs with the exception of the largest (who remained less likely to meet the definition):

Permanent non-borrowers

Over time – all SMEs Row percentages	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
All SMEs	*47%*	*48%*	*49%*	*46%*	*43%*	*49%*	*47%*	*50%*	*41%*
0 employee	51%	53%	53%	50%	47%	52%	52%	52%	43%
1-9 employees	39%	36%	38%	36%	33%	42%	34%	42%	36%
10-49 employees	31%	29%	28%	30%	29%	28%	28%	36%	28%
50-249 employees	28%	29%	26%	29%	28%	27%	24%	28%	25%

Analysis showed that the primary reason for there being fewer PNBs in Q4 2016 compared to Q3 was that more SMEs reported using external finance (from 34% in Q3 2016 to 46% in Q4). In terms of the other factors that would prevent an SME being a PNB there were slight increases in the proportion reporting a borrowing 'event' (14% from 11%) and in Future would-be seekers of finance (14% from 12%), but these were minor by comparison.

If these PNBs are excluded from the 'use of external finance' table, the proportion using external finance increases to 8 in 10 of the remaining SMEs in Q4 2016:

Use of external finance in last 5 years

Over time – all SMEs excl PNBs By date of interview	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Unweighted base:	*3153*	*3220*	*3195*	*3258*	*3338*	*2854*	*3008*	*2755*	*3017*
Use now	68%	70%	71%	66%	71%	64%	69%	68%	78%
Used in past but not now	5%	5%	6%	7%	4%	5%	5%	6%	3%
Not used at all	27%	25%	23%	27%	24%	31%	26%	26%	19%

Q14/15 All SMEs

The table below looks at the long term changes in the proportion of SMEs meeting the definition of a PNB by key business demographics. Between 2012 and 2015 the proportion of PNBs increased from a third to almost a half of all SMEs and the overall picture for 2016 saw that proportion remaining unchanged:

Permanent non-borrowers Over time – all SMEs Row percentages	2012	2013	2014	2015	2016
All	34%	40%	43%	47%	47%
0 emp	37%	44%	48%	51%	50%
1-9 emps	25%	28%	33%	36%	38%
10-49 emps	18%	22%	26%	29%	30%
50-249 emps	15%	17%	26%	28%	26%
Minimal external risk rating	31%	37%	41%	41%	42%
Low	29%	35%	44%	38%	43%
Average	36%	40%	45%	45%	46%
Worse than average	34%	40%	43%	51%	48%
Agriculture	26%	37%	40%	41%	40%
Manufacturing	32%	41%	42%	43%	45%
Construction	33%	41%	45%	52%	45%
Wholesale/Retail	26%	32%	34%	38%	40%
Hotels & Restaurants	28%	33%	39%	40%	43%
Transport	29%	33%	40%	44%	45%
Property/ Business Services	38%	43%	46%	48%	51%
Health	47%	52%	54%	51%	56%
Other	37%	38%	46%	47%	45%

All SMEs

As already reported, the proportion of all SMEs using external finance has decreased over the longer term, while the proportion that meet the definition of a PNB has increased. The table below shows that the relationship between these two elements is different over time for those with employees to those without:

Use of external finance and PNBs Over time Row percentages	2012	2013	2014	2015	2016
0 employees:					
• Use external finance	38%	35%	32%	32%	33%
• Permanent non-borrower	37%	44%	48%	51%	50%
All with employees					
• Use external finance	59%	57%	51%	51%	49%
• Permanent non-borrower	24%	27%	32%	35%	37%

All SMEs from 2012

Amongst 0 employee SMEs, the proportion using external finance and the proportion that met the definition of a PNB were the same in 2012. Between 2012 and 2015, use of external finance decreased and the proportion qualifying as PNBs increased, until there was a 19 percentage point difference between them in 2015, with little change for 2016 (17 points).

In 2012 twice as many SMEs with employees were using external finance (59%) as met the definition of a PNB (24%). Since then there has been a decline in the proportion using external finance, and an increase in those meeting the definition of a PNB. As a result, the gap narrowed from 35 to 16 percentage points by the end of 2015. In 2016 the gap narrowed again to 12 percentage points as use of finance decreased slightly and the proportion that met the definition of a PNB increased slightly.

PNBs are now a major influence on the overall position of SMEs regarding access to, and appetite for, external finance. Additional analysis has therefore been conducted, to understand the types of SME that fit the PNB definition.

The table below summarises the differences between PNBs and other SMEs on a range of key measures. PNBs are as likely to be profitable and almost as likely to hold £10,000 or more in credit balances. However, they remain less likely to be international, to innovate or to be planning to grow:

PNBs	Further analysis YEQ4 2016
Made a profit	PNBs were as likely to have made a profit in the previous 12 months (80%) as non-PNBs (80%). Over time the proportion making a profit has increased in both groups, but more for non-PNBs – 2012 to 2016 profitability amongst PNBs increased from 74% to 80% while for non-PNBs it increased from 66% to 80%.
Hold £10k+ in credit balances	19% of PNBs held more than £10,000 in credit balances, compared to 24% of those who were not PNBs. Over time the proportion holding £10,000 or more has increased more for non-PNBs – 2012 to 2016 such credit balances amongst PNBs increased only slightly from 17% to 19% while for non-PNBs they increased from 16% to 24%.
Minimal/Low external risk rating	20% of PNBs were rated a minimal or low risk, compared to 23% of non-PNBs. Over time the proportion with a minimal or low risk rating has increased in both groups – 2012 to 2016 minimal and low risk ratings amongst PNBs increased from 14% to 20% while for non-PNBs they increased from 17% to 23%.
International	PNBs were less likely to import and/or export. 11% were international compared to 16% of non-PNBs. 2012 to 2016 the proportion of international SMEs amongst PNBs increased from 7% to 11% while for non-PNBs it increased from 12% to 16%.
Innovation	PNBs were less likely to have innovated (32%) than non-PNBs (41%). Neither group has changed much over time. In 2012, 33% of PNBs and 43% of non-PNBs innovated.
Ambition	36% of PNBs planned to grow in the coming 12 months compared to 50% of non-PNBs. Since 2012, the proportion of PNBs planning to grow has varied between 36% and 43% with no clear pattern over time. For non-PNBs, 47% were planning to grow in 2012 but since then 50-52% each year have planned to grow.
Mentors	In a question asked for the first time in 2016, 9% of PNBs said they had a mentor to help the business, slightly lower than the 14% of non-PNBs with a mentor.

To explore this further, and to understand which factors in combination predicted a PNB, further detailed (CHAID) analysis was undertaken for the Q2 2015 report. All the usual business demographic variables (size, sector, region, growth, profitability etc) were included.

In summary, this showed that the best predictor of being a PNB was turnover. Other common themes seen across size bands, showed that SMEs were more likely to be a PNB if:

- ‘Access to Finance’ was not seen as a barrier
- They had not had a self-reported credit issue (such as a bounced cheque)
- They did not receive trade credit
- They had not put personal funds into the business
- They had not experienced a previous decline from a bank
- They held higher credit balances
- ‘Cash flow and late payment’ was not rated as a barrier.

This highlights that being a PNB is linked to already having enough funds within the business. These PNBs are not using external finance but neither are they likely to be using trade credit or to have injected personal funds (which are outside the PNB definition) and nor is cash flow or late payment causing them issues. This analysis will be updated for the Q2 2017 report.

These PNBs have indicated that they are unlikely to be interested in borrowing, based on their current views. At various stages in this report, therefore, we have provided an alternative to the ‘All SME’ figure, which excludes these Permanent non-borrowers and provided an alternative figure that might be described as ‘All SMEs with a *potential* interest in external finance’.

A wider definition of 'Total business funding'

The Permanent non-borrowers described in the previous section are defined by their non-use of, or appetite for, external finance (loans, overdrafts etc), and that definition will be maintained to provide consistent analysis over time.

The addition of the questions on trade credit does, though, allow for an analysis of the use of 'total business funding' by SMEs in a wider sense, i.e. including both trade credit received and injections of personal funds as well as external finance. Note that the amount of trade credit received is not recorded, and that when last asked, the typical injection of personal funds was for a relatively small amount (often less than £5,000).

For YEQ4 2016:

- 37% of SMEs were using **external finance** as defined earlier in this chapter (i.e. loans, overdrafts, invoice finance etc).
- An additional 15% of SMEs were not using external finance but were receiving **trade credit**.
- And finally, a further 11% of SMEs were using neither external finance, nor trade credit, but had seen an **injection of personal funds** into the business.

Widening the definition of external funding to include not only finance but also trade credit and personal funds thus increases the proportion of SMEs using business funding from 37% to 63% and this has changed very little for the period for which this data is available, as the table below shows:

Use of business funding Over time – all SMEs	2014	2015	2016
Unweighted base:	*20,055*	*20,046*	*18,000*
Use external finance	37%	37%	37%
Do not use finance but do use trade credit	15%	16%	15%
Do not use the above but injected personal funds	12%	11%	11%
Total business funding	*63%*	*64%*	*63%*

Q15d All SMEs from Q2 2012

Looking specifically at YEQ4 2016 in more detail, there remained a bigger 'uplift' amongst smaller SMEs when this wider business funding definition was applied:

Wider definition of business funding YEQ4 16 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,000*	*3600*	*5800*	*5800*	*2800*
Use external finance	37%	33%	46%	59%	64%
Do not use finance but do use trade credit	15%	14%	19%	19%	16%
Do not use the above but injected personal funds	11%	13%	7%	1%	1%
Total business funding	*63%*	*60%*	*72%*	*79%*	*81%*

Q14y/y4 All SMEs from Q3 2014

The proportion using business funding did not vary as much by age of business (59-68%) as by size of business (60-81%). Whilst 0 employee SMEs were the least likely to be using business funding (60%), analysis by age of business showed that Starts were somewhat more likely to be using business funding than older SMEs (68% compared to 59-63% for older SMEs) and also saw a greater uplift between use of external finance and total business funding (33% to 68%).

By sector, the proportion using business funding varied from 53% of those in the Health sector to 73% of those in Wholesale/Retail.

PNBs by their very definition are not currently using external finance. Adding use of trade credit and injections of personal funds results in 38% of PNBs using any business funding. If those who had injected personal funds and/or used trade credit were to be excluded from the PNB definition, the proportion of PNBs would reduce from 47% to 29% of all SMEs.

For those that do not meet the definition of a PNB, the uplift is from 70% of these SMEs using external finance to 86% using business funding.

Attitudes to finance

Since Q3 2014 an increasing number of attitudinal statements have been included in the SME Finance Monitor to explore different aspects of demand for finance amongst SMEs.

The first two statements below have been asked consistently since Q3 2014. In the latest period, YEQ4 2016, two thirds of SMEs agreed that their aim was to pay down debt and then remain debt free if possible, with little variation by size:

"Our aim as a business is to repay any existing finance (eg on loan or overdraft) and then remain debt free if possible"

YEQ4 16 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,000*	*3600*	*5800*	*5800*	*2800*
Strongly agree	35%	34%	37%	33%	29%
Agree	33%	32%	35%	38%	37%
Neither/nor	23%	24%	19%	20%	23%
Disagree	7%	7%	7%	7%	9%
Strongly disagree	3%	3%	3%	3%	2%
Total 'Agree'	*68%*	*66%*	*72%*	*71%*	*66%*

Q238a5 All SMEs from Q3 2014

Amongst those with employees, agreement with this statement was 71%. Amongst those currently using external finance it was 78% (v 61% amongst those not using external finance).

By sector the most likely to agree with the statement were those in Hotels & Restaurants (73%) while the least likely to agree were those in the Transport sector (64%). There was little variation in levels of agreement by external risk rating (65-69%) or age of business (66-68%).

The second long-standing statement (from Q3 2014) assesses the extent to which SMEs were happy to use external finance to help the business grow. Around 1 in 10 SMEs *strongly* agreed with this statement, across all size bands, but 0 employee SMEs were less likely to agree overall (41%) compared to half (49%) of those with employees:

"As a business we are happy to use external finance to help the business grow and develop"

YEQ4 16 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,000*	*3600*	*5800*	*5800*	*2800*
Strongly agree	10%	10%	12%	12%	12%
Agree	33%	31%	37%	40%	39%
Neither/nor	22%	23%	22%	25%	31%
Disagree	25%	27%	21%	18%	15%
Strongly disagree	9%	10%	8%	5%	3%
Total 'Agree'	*43%*	*41%*	*49%*	*52%*	*51%*

Q238a5 All SMEs from Q3 2014

Previous analysis revealed that a key predictor of being prepared to use finance to grow was to be already using external finance and amongst those using finance, 54% agreed with this statement, compared to 36% of those not currently using external finance.

Those planning to grow were more likely to agree with this statement (50%) than those not planning to grow (38%).

To understand this willingness to use external finance in more detail, additional analysis has been undertaken on this question.

The table below allocates all SMEs to one of four categories, depending on whether they are currently using external finance and whether they agreed that they would be willing to use external finance in the future to help the business develop and grow:

Combined analysis: Use of external finance and willingness to use in future

YEQ4 16 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,000*	*3600*	*5800*	*5800*	*2800*
Use external finance and willing to use in future	20%	17%	28%	35%	39%
Use external finance but not willing to use in future	17%	16%	18%	24%	27%
Do not use it but willing to	23%	24%	21%	17%	12%
Do not use it and not willing to	40%	43%	33%	24%	21%

Q15/Q238a5 All SMEs

The analysis shows that:

- 1 in 5 SMEs (20%) were using external finance and agreed that they would be willing to use it in future, increasing by size of SME to 39% of those with 50-249 employees.
- The remaining users of finance (17% of all SMEs) did not agree that they would be willing to use finance in future (the equivalent of 46% of all users of finance).
- Almost a quarter of all SMEs (23%) were not using external finance but agreed that they would be willing to use it to help the business develop and grow. This proportion declined by size of SME to 12% of those with 50-249 employees.
- The remainder, 4 in 10 SMEs, were non-users who would not be willing to use finance and this was more common amongst 0 employee SMEs (43% compared to 21% of those with 50-249 employees). Three quarters of this group (78%) met the definition of a PNB.

From Q3 2015 another statement explored demand for finance further: "Our current plans for the business are based entirely on what we can afford to fund ourselves". As the table below shows, 8 in 10 SMEs agreed with this statement, decreasing by size:

"Our current plans for the business are based entirely on what we can afford to fund ourselves"

YEQ4 16 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,000*	*3600*	*5800*	*5800*	*2800*
Strongly agree	40%	42%	37%	29%	25%
Agree	40%	39%	42%	41%	40%
Neither/nor	13%	13%	13%	17%	22%
Disagree	6%	5%	7%	11%	12%
Strongly disagree	1%	1%	1%	2%	1%
Total 'Agree'	*80%*	*81%*	*79%*	*70%*	*65%*

Q238a5 All SMEs from Q3 2015

Amongst those with employees, 77% agreed with this statement. Agreement with this statement did not vary much by whether the SME was currently using external finance or not (77% v 81%). There was little variation by age of business (78-83%) and only a slight increase by risk rating (77% if have a minimal risk rating to 81% if have a worse than average risk rating).

Two further demand related statements were added from Q1 2016. Both show levels of agreement declining by size:

"We never think about whether we could/should use more external finance"

YEQ4 16 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,000*	*3600*	*5800*	*5800*	*2800*
Strongly agree	13%	13%	12%	10%	6%
Agree	31%	31%	30%	26%	24%
Neither/nor	25%	25%	24%	29%	34%
Disagree	25%	24%	27%	29%	28%
Strongly disagree	7%	7%	7%	6%	8%
Total 'Agree'	***44%***	***44%***	***42%***	***36%***	***30%***

Q238a5 All SMEs from Q1 2016

Amongst those with employees, 41% agreed with this statement and agreement was lower amongst SMEs currently using external finance (39% v 46%). There was little variation by risk rating (42-45%) or by age (41-43% apart from those trading for 15 years or more, 46%).

7 in 10 SMEs were prepared to accept slower growth that was self-funded, again decreasing by size of SME:

"We will accept a slower growth rate rather than borrowing to grow faster"

YEQ4 16 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,000*	*3600*	*5800*	*5800*	*2800*
Strongly agree	27%	27%	25%	21%	17%
Agree	44%	44%	44%	42%	37%
Neither/nor	19%	19%	20%	23%	29%
Disagree	9%	9%	10%	12%	14%
Strongly disagree	2%	2%	2%	2%	2%
Total 'Agree'	*71%*	*71%*	*69%*	*63%*	*55%*

Q238a5 All SMEs from Q1 2016

Amongst those with employees, 67% agreed that they would accept a slower self-funded growth rate.

Those not currently using external finance were only slightly more likely to agree that they preferred self-funded growth (68% v 72%) and there was little variation by age of business (68-72%). There was a slight increase in levels of agreement by external risk rating (from 66% of those with a minimal risk rating to 72% of those with a worse than average rating).

With the changes and additions made to these statements, analysis over time is somewhat limited, but is shown here for half year periods from H2 2014 where available for each statement:

Attitudes to finance Over time – all SMEs All agreeing – row percentages	H2 2014	H1 2015	H2 2015	H1 2016	H2 2016
Repay existing finance and remain debt free	71%	74%	75%	67%	68%
Happy to use finance to help business grow	42%	45%	45%	43%	43%
Plans based on what can afford ourselves	-	-	80%	80%	80%
Accept slower growth rather than borrow	-	-	-	71%	70%
Never think about using more external finance	-	-	-	47%	40%

Q238a5 All SMEs from H214

Analysis shows that the proportion of SMEs looking to repay debt and remain debt free has dropped slightly, from 75% in the second half of 2015 to 68% in the equivalent period of 2016. Over the same period the proportion willing to use finance to grow, basing plans on what can be afforded and accepting slower growth has remained unchanged. The proportion that 'never' think about finance has reduced from 47% to 40%, due to fewer of the smaller SMEs agreeing with this statement.

In Q4 2016 a new statement was added "A fall in the cost of credit would *not* make us any more likely to consider applying for new external finance". Base sizes are limited at this stage, but half of SMEs (49%) agreed with this statement, with little variation by size (46-50%) or risk rating (47-51%) or by whether the SME was already using finance or not (50% if using v 48% if not). There was slightly more variation by age of business (44%-52%) with Starts and older SMEs more likely to agree. More analysis will be provided in future reports as base sizes increase.

Two final attitude statements cover other aspects of using external finance.

4 in 10 SMEs agreed that "If our bank were unable to help us with the finance we needed, we would be happy for them to pass on our request to an alternative lender", with relatively little variation by size:

"If unable to help, happy for bank to pass on our request to an alternative lender"

YEQ4 16 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,000*	*3600*	*5800*	*5800*	*2800*
Strongly agree	9%	9%	9%	8%	7%
Agree	29%	28%	33%	33%	30%
Neither/nor	24%	23%	24%	26%	32%
Disagree	27%	27%	25%	24%	23%
Strongly disagree	12%	12%	10%	8%	7%
Total 'Agree'	*38%*	*37%*	*42%*	*41%*	*37%*

Q238a5 All SMEs from Q3 2015

Amongst those with employees, 41% agreed with this statement. Those currently using external finance were more likely to agree with this statement (45%) than those who were not (34%), while those planning to apply for finance in the next 3 months were more likely to agree that their details could be passed on (56%) than Future would-be seekers (42%) or those who expected to be future Happy non-seekers of finance (35%).

Starts were the most willing to have their details passed on (46%), with agreement then declining by age of business to 34% for those trading for more than 15 years. There was less of a difference by external risk rating (36-41%).

This question was added ahead of the launch of the referral system and the new lending platforms. Future waves will monitor awareness and use of these platforms rather than this question.

Finally, a statement amended in Q3 2015 concerning interest rates. Previously, 3 in 10 SMEs agreed that they would struggle if interest rates were to rise by 2% or more. The revised statement asked SMEs whether they would struggle if their *cost of borrowing* were to increase by this amount. To reflect this, the table below is based just on those SMEs that are currently using external finance:

"If our cost of borrowing were to increase by 2% or more, the business would be struggling"

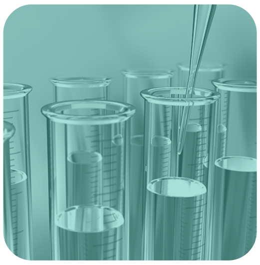
YEQ4 16 – all SMEs using external finance	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*9278*	*1234*	*2741*	*3469*	*1834*
Strongly agree	8%	7%	9%	6%	5%
Agree	19%	19%	21%	17%	12%
Neither/nor	25%	25%	24%	25%	28%
Disagree	37%	37%	35%	40%	40%
Strongly disagree	12%	12%	12%	11%	14%
Total 'Agree'	*27%*	*26%*	*29%*	*23%*	*17%*

Q238a5 All SMEs from Q3 2015 using external finance

Amongst those using external finance a quarter (27%) felt they would struggle if the cost of borrowing were to rise by 2% or more, declining by size of SME to 17% of those with 50-249 employees.

Amongst those with employees 28% agreed that they might struggle. Those with a worse than average risk rating were more likely to agree they would struggle (32% v 23-24% for the other risk ratings), with limited variation by age of business (22-29%).

6. An initial summary of all overdraft and loan events



This chapter provides

the full definition of each borrowing event together with summary tables of their occurrence. Subsequent chapters then investigate in more detail, and over time. The chapter covers the individual waves of interviews conducted to date. In each wave, SMEs have been asked about borrowing events in the previous 12 months, so overall, borrowing events may have occurred from Q2 2010 to Q4 2016. Where year-ending data is provided this is YEQ4 2016.

Key findings

Demand for new or renewed loans or overdrafts continued to decrease. In 2016, 5% of SMEs reported such an event, down from 11% in 2012.

- Excluding the PNBs with no apparent appetite for finance increases the proportion that have applied to 9% for 2016 but this too has declined over time (it was 16% in 2012).
- The decline has been seen across size band, risk rating and sector.

3% of all SMEs had applied for a new/renewed overdraft facility (down from 8% in 2012) while 2% had applied for a new or renewed loan (down from 4%). A further 7% of SMEs reported the automatic renewal of an overdraft.

10% of SMEs had applied for another form of finance (leasing, credit cards etc) increasing by size of SME to 1 in 5 of those with 10-249 employees. The proportion applying for such funding has also declined somewhat over time, from 15% in 2012.

Overall, in 2016, 80% of SMEs had neither had a loan or overdraft event (including an automatic renewal of an overdraft) nor had they applied for any of the other forms of finance. This is up from the 68% reporting no activity in 2012.

- The proportion reporting either a loan/overdraft event or an application for one of the other forms of finance declined from 26% in 2012 to 17% in 2016.
- The proportion reporting both a loan/overdraft event and an application for one of the other forms of finance declined from 6% in 2012 to 3% in 2016.

All SMEs reported on activities occurring in the 12 months prior to interview concerning borrowing on loan or overdraft. These borrowing events have been split into three types, defined as follows:

- Type 1, where the SME had applied for a new facility or to renew/roll over an existing facility
- Type 2, where the bank had sought to cancel an existing borrowing facility or renegotiate an existing facility
- Type 3, where the SME had sought to reduce an existing borrowing facility or pay off an existing facility.

This chapter provides analysis on loan and overdraft events reported in interviews conducted to YEQ4 2016. This provides bigger base sizes and more granularity for sub-group analysis, such as by employee size band. Where possible, analysis has also been shown over time. This chapter also now includes the analysis of applications made for other forms of finance, previously reported in Chapter 5.

The rolling aggregate of demand/activity

The table below shows the percentage of all SMEs interviewed in recent quarters that reported a loan or overdraft borrowing event in the 12 months prior to interview. Type 1 events remained the most common. In the second half of 2016 SMEs have been somewhat less likely to report a borrowing event:

Borrowing events in the previous 12 months

All SMEs– over time By date of interview	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Unweighted base:	*5024*	*5038*	*5001*	*5004*	*5003*	*4500*	*4500*	*4500*	*4500*
Type 1: New application/renewal	7%	8%	7%	8%	7%	6%	6%	4%	4%
Applied for new facility (any)	4%	5%	3%	4%	4%	3%	3%	2%	3%
Renewed facility (any)	4%	4%	4%	4%	4%	3%	3%	2%	2%
Type 2: Cancel/ renegotiate by bank	3%	4%	3%	3%	3%	2%	2%	1%	2%
Type 3: Chose to reduce/ pay off facility	1%	3%	2%	2%	2%	1%	1%	*	1%

Q25/26 All SMEs

In the previous chapter of this report it was noted that almost half of SMEs met the definition of a Permanent non-borrower and therefore appeared disinclined to use external finance. The table below excludes these PNBs from the sample, and shows the higher proportion of remaining SMEs that have had an event as a result.

In Q4 2016, 7% of SMEs (excluding the PNBs) reported a Type 1 event in the 12 months prior to interview, unchanged from Q3 2016 but lower than has been seen in recent quarters:

Borrowing events in the previous 12 months

All SMEs, excluding PNBs over time By date of interview	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Unweighted base:	*3153*	*3220*	*3195*	*3258*	*3338*	*2854*	*3008*	*2755*	*3017*
Type 1: New application/renewal	13%	15%	13%	14%	12%	11%	10%	7%	7%
Applied for new facility (any)	8%	10%	6%	8%	6%	6%	6%	4%	5%
Renewed facility (any)	8%	7%	8%	8%	7%	6%	6%	4%	3%
Type 2: Cancel/renegotiate by bank	6%	8%	6%	5%	5%	5%	5%	3%	4%
Type 3: Chose to reduce/pay off	2%	6%	3%	3%	3%	2%	2%	1%	2%

Q25/26 All SMEs

Events in the 12 months prior to interview, by key demographics

The remainder of this chapter looks in more detail at the types of SME that were more or less likely to report any of the loan or overdraft events specified. In order to provide robust sub-sample groups, these are reported below for YEQ4 2016, and, unless otherwise stated, are based on all SMEs.

The table below shows how SMEs with employees remained more likely to have experienced a Type 1 event:

Borrowing events in the previous 12 months YEQ4 16 all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,000*	*3600*	*5800*	*5800*	*2800*
Type 1: New application/renewal	5%	4%	7%	9%	8%
Applied for new facility (any)	3%	2%	4%	4%	3%
- applied for new loan	*1%*	*1%*	*2%*	*3%*	*2%*
- applied for new overdraft	*2%*	*2%*	*2%*	*2%*	*1%*
Renewed facility (any)	2%	2%	4%	6%	6%
- renewed existing loan	*1%*	*	*1%*	*2%*	*2%*
- renewed existing overdraft	*2%*	*1%*	*4%*	*5%*	*4%*
Type 2: Cancel/renegotiate by bank	2%	2%	3%	4%	4%
Bank sought to renegotiate facility (any)	1%	1%	2%	3%	3%
- sought to renegotiate loan	*1%*	*1%*	*1%*	*1%*	*2%*
- sought to renegotiate overdraft	*1%*	*1%*	*1%*	*2%*	*1%*
Bank sought to cancel facility (any)	1%	1%	1%	1%	1%
- sought to cancel loan	*1%*	*1%*	*1%*	*1%*	*1%*
- sought to cancel overdraft	*	*	*1%*	*1%*	*1%*
Type 3: Chose to reduce/pay off facility	1%	1%	2%	2%	1%
- reduce/pay off loan	*1%*	*	*1%*	*1%*	*1%*
- reduce/pay off overdraft	*	*	*1%*	*1%*	*1%*

Q25/26 All SMEs – does not include automatic renewal of overdraft facilities

Excluding those SMEs with no employees increases the incidence of Type 1 events to 7% of SMEs with employees, of Type 2 events to 3% and of Type 3 events to 2%.

Experience of events varied relatively little by risk rating, albeit those with a better risk rating were somewhat more likely to report a Type 1 event:

Borrowing events in the previous 12 months

YEQ4 16 – all SMEs	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*18,000*	*2999*	*5535*	*4040*	*3877*
Type 1: New application/renewal	5%	6%	7%	4%	4%
Applied for new facility (any)	3%	3%	3%	2%	3%
- applied for new loan	*1%*	*1%*	*1%*	*1%*	*1%*
- applied for new overdraft	*2%*	*2%*	*2%*	*1%*	*2%*
Renewed facility (any)	2%	4%	4%	3%	2%
- renewed existing loan	*1%*	*1%*	*1%*	*1%*	*
- renewed existing overdraft	*2%*	*4%*	*3%*	*2%*	*1%*
Type 2: Cancel/renegotiate by bank	2%	3%	3%	2%	2%
Bank sought to renegotiate facility (any)	1%	2%	2%	2%	1%
- sought to renegotiate loan	*1%*	*2%*	*1%*	*1%*	*1%*
- sought to renegotiate overdraft	*1%*	*1%*	*1%*	*1%*	*1%*
Bank sought to cancel facility (any)	1%	1%	1%	1%	1%
- sought to cancel loan	*1%*	*1%*	*1%*	*1%*	*1%*
- sought to cancel overdraft	*	*	*1%*	*	*
Type 3: Chose to reduce/pay off facility	1%	1%	1%	1%	1%
- reduce/pay off loan	*1%*	*1%*	*1%*	*1%*	*1%*
- reduce/pay off overdraft	*	*	*1%*	*	*

Q25/26 All SMEs with external risk rating

Those in Agriculture remained somewhat more likely to report a Type 1 event:

Borrowing events in last 12 months

YEQ4 16 – all SMES	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	*1200*	*1501*	*3199*	*1804*	*1203*	*1999*	*3597*	*1497*	*2000*
Type 1: New application/ renewal	9%	5%	5%	8%	7%	3%	3%	4%	6%
Applied for new facility (any)	5%	3%	3%	4%	4%	1%	2%	1%	4%
- applied for new loan	*3%*	*1%*	*2%*	*2%*	*3%*	*1%*	*1%*	*1%*	*1%*
- applied for new overdraft	*3%*	*2%*	*2%*	*2%*	*2%*	*1%*	*1%*	*1%*	*2%*
Renewed facility (any)	6%	3%	2%	5%	3%	2%	1%	3%	3%
- renewed existing loan	*2%*	*1%*	*	*1%*	*1%*	*1%*	*	*1%*	*
- renewed existing overdraft	*5%*	*3%*	*1%*	*4%*	*3%*	*1%*	*1%*	*2%*	*2%*
Type 2: Cancel/ renegotiate by bank	6%	3%	2%	2%	3%	2%	1%	2%	3%
Bank sought to renegotiate facility (any)	4%	2%	1%	1%	2%	1%	1%	2%	2%
- sought to renegotiate loan	*2%*	*1%*	*1%*	*1%*	*1%*	*1%*	*	*1%*	*1%*
- sought to renegotiate overdraft	*2%*	*1%*	*1%*	*1%*	*1%*	*	*	*1%*	*1%*
Bank sought to cancel facility (any)	2%	1%	1%	1%	2%	1%	*	*	1%
- sought to cancel loan	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*	*	*1%*
- sought to cancel overdraft	*1%*	*1%*	*1%*	*	*	*	*	*	*
Type 3: Chose to reduce/ pay off facility	1%	1%	1%	2%	1%	1%	1%	*	1%
- reduce/pay off loan	*1%*	*	*1%*	*1%*	*1%*	*1%*	*1%*	*	*
- reduce/pay off overdraft	*	*1%*	*	*1%*	*	*	*	*	*

Q25/26 All SMEs

The table below repeats this detailed analysis for all SMEs once the Permanent non-borrowers have been excluded from the SME population. The incidence of Type 1 events (applications/renewals) increases as a result from 5% to 9% of remaining SMEs:

Borrowing events in the previous 12 months YEQ4 16 – all SMEs	Total	All excl. PNBs
Unweighted base:	*18,000*	*11,634*
Type 1: New application/renewal	5%	9%
Applied for new facility (any)	3%	5%
- applied for new loan	*1%*	*3%*
- applied for new overdraft	*2%*	*3%*
Renewed facility (any)	2%	5%
- renewed existing loan	*1%*	*1%*
- renewed existing overdraft	*2%*	*4%*
Type 2: Cancel/renegotiate by bank	2%	4%
Bank sought to renegotiate facility (any)	1%	3%
- sought to renegotiate loan	*1%*	*1%*
- sought to renegotiate overdraft	*1%*	*1%*
Bank sought to cancel facility (any)	1%	2%
- sought to cancel loan	*1%*	*1%*
- sought to cancel overdraft	*	*1%*
Type 3: Chose to reduce/pay off facility	1%	2%
- reduce/pay off loan	*1%*	*1%*
- reduce/pay off overdraft	*	*1%*

Q25/26 All SMEs/all excluding the Permanent non-borrowers

Other business demographics showed limited variation in incidence of a Type 1 event YEQ4 2016:

Demographic	Incidence of Type 1 events reported YEQ4 2016
Age of business	The incidence of Type 1 events varied only slightly by age of business (4-6%).
Profitable SMEs	Those who had made a loss were more likely to report a borrowing event (9%), compared to those who had made a profit (5%) or broken even (3%).
Growth	Those who had either grown by 20% or more or declined in size in the past year were slightly more likely to have had a Type 1 event: Grown 20%+ 8% Grown by less than this 5% Stayed the same size 4% Declined 7%.
Importers/exporters	Those engaged in international trade were slightly more likely to have had an event (7%) than those who were not (4%).

The next analysis focuses specifically on Type 1 events and on the SMEs more or less likely to report such an event over time.

The first table below shows the proportion reporting a Type 1 event over recent quarters, overall and by key demographics. This shows a broadly stable picture to Q4 2015 followed by declining levels of application in 2016 primarily due to SMEs with employees.

The subsequent table takes the longer term view from 2012. This shows that Type 1 borrowing events (a new or renewed loan or overdraft facility) have halved from 11% of all SMEs in 2012 to 5% in 2016, and across all size and risk rating bands. Since 2012, the proportion of PNBs (who by definition have not had a Type 1 event) has increased, but even amongst remaining SMEs the proportion reporting an event has declined from 16% to 9%.

Had any Type 1 event

New application/renewal By date of interview Over time – row percentages	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
All SMEs	7%	8%	7%	8%	7%	6%	6%	4%	4%
0 employee	5%	6%	4%	7%	5%	4%	5%	3%	4%
1-9 employees	12%	12%	13%	10%	12%	9%	8%	5%	6%
10-49 employees	12%	16%	12%	11%	13%	12%	10%	6%	9%
50-249 employees	12%	9%	10%	8%	13%	10%	8%	6%	6%
Minimal external risk rating	9%	5%	8%	7%	11%	6%	6%	6%	5%
Low external risk rating	8%	10%	10%	13%	9%	10%	7%	4%	6%
Average external risk rating	6%	6%	7%	8%	7%	6%	5%	4%	3%
Worse than average external risk rating	7%	8%	4%	5%	6%	5%	5%	3%	4%
Agriculture	14%	10%	13%	15%	10%	11%	5%	12%	7%
Manufacturing	11%	9%	6%	10%	12%	7%	7%	5%	3%
Construction	6%	4%	4%	6%	5%	6%	6%	2%	4%
Wholesale/Retail	10%	12%	8%	15%	6%	10%	7%	7%	7%
Hotels & Restaurants	8%	11%	8%	7%	16%	9%	9%	6%	5%
Transport	5%	7%	6%	6%	6%	5%	4%	2%	2%
Property/Business Services etc.	6%	7%	6%	5%	6%	2%	4%	2%	5%
Health	6%	6%	3%	5%	7%	4%	5%	2%	4%
Other Community	5%	8%	10%	9%	7%	7%	8%	5%	2%
All SMEs excluding Permanent non-borrowers	13%	15%	13%	14%	12%	11%	10%	7%	7%

Q26 All SMEs: base size varies by category

The longer term view shows the decline in Type 1 borrowing events (a new or renewed loan or overdraft facility) from 2012:

Type 1 borrowing events Over time – all SMEs Row percentages	2012	2013	2014	2015	2016
All	11%	8%	8%	7%	5%
0 emp	9%	6%	6%	5%	4%
1-9 emps	16%	13%	12%	12%	7%
10-49 emps	19%	15%	15%	13%	9%
50-249 emps	19%	14%	12%	10%	8%
Minimal external risk rating	13%	9%	10%	8%	6%
Low	13%	10%	9%	11%	7%
Average	10%	7%	7%	7%	4%
Worse than average	11%	7%	7%	6%	4%
Agriculture	18%	13%	14%	12%	9%
Manufacturing	11%	9%	10%	9%	5%
Construction	10%	7%	7%	5%	5%
Wholesale/Retail	14%	10%	10%	10%	8%
Hotels & Restaurants	16%	12%	9%	11%	7%
Transport	10%	9%	6%	6%	3%
Property/ Business Services	10%	6%	6%	6%	3%
Health	6%	5%	6%	5%	4%
Other	10%	5%	8%	8%	6%
All excl PNBs	16%	13%	13%	13%	9%

Q26 All SMEs

The remainder of this chapter provides some further information on the proportion of SMEs that reported a Type 1 new or renewed loan or overdraft event in the 12 months prior to interview, both over time and by key demographics. It also includes data on the proportion of overdrafts that have been 'automatically renewed' by the bank, rather than a formal review being conducted (something which has not been included in the data reported in the first part of this chapter).

Type 2 (bank cancellation or renegotiation) and Type 3 (SME reducing/repaying facility) events remained rare and at stable levels. No further detail is therefore provided on these events in this report, and from Q3 2014 no further questions were asked about the detail of these events. This will be reviewed should the proportion of SMEs reporting such events start to increase.

Subsequent chapters of this report investigate those SMEs that have applied for a new overdraft or loan facility or to renew an existing one (a Type 1 event), and the outcome of that application by application date.

- SMEs were only asked these follow up questions for a maximum of one loan and one overdraft event. Those that had experienced more than one event in a category were asked which had occurred most recently and were then questioned on this most recent event. Base sizes may therefore differ from the overall figures reported above.

While reflecting on these events, it is important to bear in mind that 37% of SMEs currently use external finance while less than 1 in 10 reported one of the Type 1 borrowing 'events' in the previous 12 months. Indeed, around half of SMEs might be considered to be outside the borrowing process – the Permanent non-borrowers described earlier.

A later chapter reports on those SMEs that had not had a borrowing event in the 12 months prior to interview, and explores why this was the case.

Loan and overdraft applications

As the table below shows, the proportion of SMEs having had any Type 1 **overdraft** event in the 12 months prior to interview has been fairly stable over recent quarters, but with somewhat lower results for the second half of 2016. This was also true once the Permanent non-borrowers were excluded:

Overdraft events in previous 12 months

All SMEs– over time By date of interview	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Unweighted base:	*5024*	*5038*	*5001*	*5004*	*5003*	*4500*	*4500*	*4500*	*4500*
Applied for a new overdraft	2%	3%	2%	2%	2%	2%	2%	1%	2%
Renewed an existing overdraft	3%	3%	3%	4%	3%	3%	3%	2%	1%
Any Type 1 overdraft event	*5%*	*5%*	*4%*	*5%*	*5%*	*4%*	*4%*	*2%*	*3%*
Any Type 1 overdraft event excluding PNBs	*9%*	*10%*	*9%*	*10%*	*9%*	*8%*	*8%*	*5%*	*5%*

Q26 All SMEs

The incidence of Type 1 **loan** events in the 12 months prior to interview was lower in all four quarters of 2016 than in 2015:

Loan events in previous 12 months

All SMEs – over time By date of interview	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Unweighted base:	*5024*	*5038*	*5001*	*5004*	*5003*	*4500*	*4500*	*4500*	*4500*
Applied for a new loan	2%	3%	2%	2%	2%	1%	2%	1%	1%
Renewed an existing loan	1%	1%	1%	2%	1%	1%	1%	*	1%
Any Type 1 loan event	*3%*	*4%*	*3%*	*4%*	*3%*	*2%*	*2%*	*2%*	*2%*
Any Type 1 loan event excl PNBs	*6%*	*7%*	*5%*	*7%*	*5%*	*4%*	*4%*	*3%*	*3%*

Q26 All SMEs

Looking at the longer term picture, since 2012 there has been a decline in Type 1 applications for both loans and overdrafts, both overall and once the PNBs were excluded:

Type 1 borrowing events

Over time – all SMEs	2012	2013	2014	2015	2016
Any Type 1 overdraft event	8%	6%	5%	5%	3%
Any Type 1 loan event	4%	3%	3%	3%	2%
Any Type 1 overdraft (excl PNBs)	12%	10%	9%	9%	6%
Any Type 1 loan (excl PNBs)	6%	5%	6%	6%	4%

Further analysis was undertaken to explore the proportion of applications being made in each quarter, in order to establish whether any change in demand for Type 1 loan/overdraft finance can be identified. Respondents have had fewer opportunities to nominate a Type 1 borrowing event that occurred in Q4 2016 (which has only appeared as an option in one quarter of the SME Finance Monitor), compared to other quarters like Q4 2015 which has appeared as an option in 5 quarters (the maximum number possible).

If all applications made and reported from Q3 2014 to Q4 2016 had been distributed evenly over that period then a quarter of them should have been made in H2 2014, half of them in 2015 and a quarter of them in 2016. Both loans and overdrafts were somewhat more prevalent in 2014 and 2015 than in 2016 to date:

- 26% of relevant overdraft applications occurred in H2 2014, 54% in 2015 but 21% in 2016 to date (v 25% for an even distribution).
- 28% of relevant loan applications occurred in H2 2014, 50% in 2015 and 22% in 2016 to date (v 25% for an even distribution).

Those that reported a Type 1 event were asked whether the application was made in the name of the business or a personal name. For YEQ4 2016:

- 13% of overdraft applications reported were made in a personal name, while for loans the figure was 21% (excluding DK answers).
- In both instances applicants with 0 employees were much more likely to have applied in a personal name (19% for overdrafts and 30% for loans) and more than 8 in 10 of all applications in a personal name were from 0 employee SMEs.
- For context, this means that for YEQ4 2016, the equivalent of less than 1% of **all** SMEs reported making an overdraft or loan application in their personal name, in the 12 months prior to interview.

Overdraft events – definition and further clarification

Overdrafts are usually granted for a period of 12 months or less, but it was apparent in early Monitor reports that not all overdraft users reported having had an overdraft 'event' in the 12 months prior to interview.

To explore this further, SMEs that had reported having an overdraft facility but that had *not* subsequently mentioned any overdraft event were asked whether, in the previous 12 months, their bank had automatically renewed their overdraft facility at the same level, for a further period, without their having to do anything.

The results for YEQ4 2016 are reported below and show that almost half of overdraft holders (45%) reported that they had had such an automatic renewal, the equivalent of 7% of <u>all</u> SMEs. The analysis also shows a third of SMEs with an overdraft reporting neither an overdraft event nor an automatic overdraft renewal in the past 12 months:

Any overdraft activity YEQ4 16	All with overdraft	All SMEs
Unweighted base:	*3803*	*18,000*
Had an overdraft 'event'	20%	3%
Had automatic renewal	45%	7%
Neither of these but have overdraft	36%	6%
No overdraft	-	84%

Q15/ 26/26a All SMEs who now have an overdraft/all SMEs

Additional questions provide some further detail on these automatic renewals:

- For YEQ4 2016, 19% of those reporting an automatic renewal said that the facility was in a personal name (slightly higher than for other overdraft applications, where 13% were in a personal name).
- The proportion of automatic renewals that were in a personal name has varied over time. Analysis by when the automatic renewal took place (rather than when it was reported) shows that in 2013, 21% of renewals that took place were in a personal name, but that since then the proportion has been somewhat lower (it was 13% for 2014, 15% for 2015 and 12% for those occurring in 2016 to date).

Back in 2012, 50% of SMEs with an overdraft said that it had been automatically renewed, the equivalent of 11% of all SMEs. During 2013 and 2014 the proportion experiencing an automatic renewal was somewhat lower, but in 2015 the proportion reporting an automatic renewal increased to 48% for the year as a whole. It was somewhat lower for 2016 (45%):

Experienced an automatic renewal in previous 12 mths

By date of interview – over time Row percentages	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
SMEs with overdraft	39%	46%	50%	44%	49%	44%	48%	52%	38%
'All SMEs' equivalent	6%	8%	8%	7%	9%	6%	8%	8%	8%

Q15/ 26/26a All SMEs who now have an overdraft/all SMEs

Over time, with fewer SMEs having an overdraft facility at all, the proportion of total overdraft *activity* (i.e. an event or a renewal) which was accounted for by a borrowing event has declined somewhat. In both 2012 and 2013, 40% of overdraft activity was an 'event'. In 2015 the proportion was 37% and for 2016 it was 31%.

The analysis below looks at which types of business with an overdraft were more likely to have an overdraft 'event', based on YEQ4 2016 data to ensure robust base sizes.

For SMEs with an overdraft facility, overdraft 'events' made up a higher proportion of overdraft 'activity' if they had employees:

Overdraft activity YEQ4 16 – All with overdraft	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*3803*	*547*	*1183*	*1394*	*679*
Had an overdraft 'event'	20%	17%	26%	26%	21%
Had automatic renewal	45%	45%	47%	41%	31%
% of overdraft activity that was 'event'	*31%*	*27%*	*36%*	*39%*	*40%*
Neither of these but have overdraft	36%	39%	28%	32%	48%

Q15/ 26/26a All SMEs

Analysis by external risk rating shows the proportion of activity that was an 'event' was higher for those with a better risk rating:

Overdraft activity YEQ4 16 – All with overdraft	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*3803*	*593*	*1288*	*957*	*667*
Had an overdraft 'event'	20%	25%	26%	18%	17%
Had automatic renewal	45%	37%	47%	47%	41%
% of overdraft activity that was 'event'	*31%*	*40%*	*36%*	*28%*	*29%*
Neither of these but have overdraft	36%	38%	27%	35%	42%

Q15/ 26/26a All SMEs

Analysis by sector showed that the proportion of overdraft 'activity' made up by an 'event' varied from 40% of those with an overdraft in Wholesale/Retail or Hotels & Restaurants to 24% in Transport:

Overdraft activity YEQ4 16 – All with overdraft	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	*363*	*323*	*740*	*422*	*205*	*396*	*687*	*292*	*375*
Had an overdraft 'event'	25%	20%	18%	30%	29%	12%	17%	17%	21%
Had automatic renewal	40%	51%	46%	45%	44%	38%	47%	38%	47%
% of overdraft activity that was 'event'	***38%***	***28%***	***28%***	***40%***	***40%***	***24%***	***27%***	***31%***	***31%***
Neither of these but have overdraft	35%	29%	37%	26%	27%	50%	36%	45%	32%

Q15/ 26/26a All SMEs

The answers to these questions reflect the SME's perception of how their business overdraft facility had been managed by their bank. Given the low level of 'events' reported generally, these SMEs with an automatic renewal form a substantial group and, from Q2 2012, they have answered further questions about this automatic renewal.

The definition of 'having a borrowing event' has been adjusted to include these automatic renewals (see Chapter 11) and data is available on the security and fees relating to these automatically renewed overdraft facilities (see Chapter 10).

Recent applications for other forms of finance

The majority of this report focuses on activity around loans and overdrafts. For a complete picture of external finance applications in the 12 months prior to interview, an overview is provided below of applications for other forms of funding and the extent to which these were successful.

Overall a small minority of SMEs had applied for other forms of finance, with larger SMEs more likely to have applied, notably for leasing:

Other finance applied for	Total		Applied for			
YEQ4 16 – all SMEs	Applied	% success	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,000*	*varies*	*3600*	*5800*	*5800*	*2800*
Leasing/Hire purchase/vehicle finance	4%	84%	3%	7%	11%	11%
Credit cards	3%	81%	3%	4%	6%	6%
Loans from family/friends or directors	3%	78%	2%	4%	4%	2%
Grants	2%	53%	2%	3%	5%	4%
Equity from family/friends or directors	1%	53%	1%	2%	2%	2%
Invoice finance	1%	56%	1%	2%	4%	5%
Loans from other 3rd parties	1%	51%	1%	2%	2%	2%
Any of these	*10%*		*8%*	*15%*	*21%*	*19%*

Q222 All SMEs

The proportion of SMEs applying for any of these forms of finance has declined somewhat over time – in 2012, 15% had applied, dropping to 13% for 2014 and 2015 and then 10% for 2016.

Half or more of applicants for these types of funding were successful, with larger SMEs (10-249 employees) that applied generally more likely to be successful. Success rates in 2016 have typically been somewhat lower that in 2015.

SMEs that are companies were also asked about equity from other third parties. 1% had applied for such finance.

In a series of questions asked for the first time in 2015, respondents were asked in more detail about these other forms of finance:

Applications for other forms of finance YEQ4 2016

Net applications for facilities	10% reported an application for one or more of these other forms of finance. As reported above, 5% of SMEs interviewed YEQ4 2016 reported that they had made an application for a new or renewed loan or overdraft facility (not including any automatically renewed facility). Putting the two together increases the proportion making any application to 13% (25% when the PNBs are excluded). This has declined from 21% in 2012 due primarily to fewer loan and overdraft applications – applications for these other forms of finance have also declined but by a smaller amount (14% in 2013, 13% in both 2014 and 2015, but 10% in 2016).
Other applications	For YEQ4 2016, 1% of SMEs said that they had applied for some other form of finance not listed, half successfully and half unsuccessfully. The type of finance applied for is not recorded.
Identifying additional Would-be seekers of other forms of finance	SMEs who had not sought any of these forms of finance (whether from the list specified or any other source as above) were asked whether they had wanted to apply for any of them but had felt that something had stopped them. 89% of SMEs *qualified* for this question for YEQ4 2016 because they had not applied for any additional form of external finance.
Would-be seekers of other forms of finance	2% of these SMEs went on to say that something had stopped them applying for an additional form of finance, with no difference by size of SME. This is the equivalent of 2% of all SMEs – the potential impact on the proportion of Would-be seekers overall is explored in Chapter 11.
Net users of finance	Taking all loan/overdraft events (including automatic renewal of overdrafts) and the applications for these other types of finance together for YEQ4 2016 showed that: - Most SMEs (80%), reported neither a loan/overdraft 'event' nor an application for any of the types of finance listed above - 10% reported a loan/overdraft event, but had not applied for other forms of finance - 7% had applied for other forms of finance but did not report a loan/overdraft event - 3% reported both a loan/overdraft event and applying for one of these forms of finance. By comparison, in 2012, 6% of SMEs had applied for both types of finance, 26% had applied for one form or the other and 68% had not applied for either.

7. The build-up to applications for overdrafts and loans

This chapter is

the first of four covering Type 1 borrowing events in more detail and looks at the ‘build-up’ to the loan or overdraft application, why funds were required and whether advice was sought.

Key findings

Overdraft applications were more likely than loan applications to involve the renewal of an existing facility (48% v 7% of loans).

A similar proportion of overdraft (24%) and loan (29%) applications came from first time applicants, with first time loan applicants more likely to also be a Start-up (46% v 31% of first time overdraft applicants).

6 in 10 overdraft applicants (60%) were looking for £10,000 or less with most, 8 in 10, looking to fund working capital.

- Just under half, 44%, were looking for a safety net
- Almost all, 98%, applied to their main bank and 97% only applied to this one bank. 9% sought advice before they applied.

Loan applicants were typically looking for larger sums (35% sought £10,000 or less) with 7 in 10 loan applicants seeking all the funding required from the bank

- The most common purposes for the funding were UK expansion (32%), buying fixed assets (29%) or buying vehicles (25%).
- Loan applicants were slightly less likely than overdraft applicants to go to their main bank, although most did (87%). 1 in 5 loan applicants considered approaching more than one bank, but in the event 12% did. 18% of loan applicants sought advice.

The data presented thus far in this report has reflected events that had happened to the SME in the 12 months before they were interviewed, analysed by the date of interview. This chapter is the first of four covering Type 1 borrowing events in more detail. Type 1 events are those where the SME approached the bank looking for new or renewed overdraft or loan facilities. The first of these chapters looks at the build-up to the application, why funds were required and whether advice was sought. Subsequent chapters then detail the bank's response, the resultant loan/overdraft granted, the effect of the process on the SME and the security and fees relating to these facilities.

As these chapters examine overdraft and loan events specifically, it makes sense for the analysis to be based on when the event occurred, rather than when it was reported, and this approach has been adopted for these chapters since the Q2 2013 report.

Each chapter includes analysis, as far as is possible, on the extent to which loan and overdraft applications are changing over time. For the most recent quarters (especially those in 2016) this is only **interim** data, which is liable to change and which will be updated in subsequent reports.

However, for some sub-group analysis, such as by size or risk rating, sample sizes preclude analysis at the individual quarter level and the data needs to be grouped over time to provide a more robust sample size. In order to ensure a suitable sample size, a period of 18 months has been selected. This means that rather than reporting on applications for YEQ4 2016 (i.e. all interviews conducted in the 4 quarters to Q4 2016, irrespective of when the borrowing event occurred), data is now reported on the basis of 'Applications occurring in the 18 months to Q4 2016' (i.e. applications known to have been made between Q3 2015 and Q4 2016 and reported to date, irrespective of when the SME was actually interviewed).

Why were they applying?

Overdraft applications

This analysis is based on SMEs that made an application for a new or renewed overdraft facility during the most recent 18 month period, which for this report is Q3 2015 to Q4 2016. Within this 18 month time period, final data is now available for applications made up to the end of Q4 2015. Data on more recent applications (notably Q3 and Q4 2016) is still being gathered and will be updated in future waves, and so the figures quoted will be liable to change over time. All percentages quoted are therefore just of this group of applicants.

For context, in Q4 2016 this was the equivalent of 3% of all SMEs or around 150,000 businesses. Note that this does not include SMEs who had an overdraft automatically renewed.

Half of those reporting a Type 1 overdraft event that occurred between Q3 2015 and Q4 2016 said that they had been looking to renew an existing overdraft for the same amount (48%), and this remained more common amongst applicants with employees:

Nature of overdraft event Sought new/renewed facility Q3 15-Q4 16	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*926*	*104*	*319*	*349*	*154*
Renewing overdraft for same amount	48%	44%	54%	62%	56%
Applied for first ever overdraft facility	24%	29%	18%	6%	3%
Seeking to increase existing overdraft	12%	10%	15%	14%	22%
Seeking new overdraft but not first	6%	5%	7%	6%	4%
Seeking additional overdraft on another account	6%	9%	2%	5%	6%
Setting up facility at new bank	2%	2%	2%	4%	4%
Seeking to reduce existing facility	1%	1%	2%	2%	4%

Q52 All SMEs seeking new/renewed overdraft facility

A quarter of applicants (24%) were seeking an overdraft for the very first time:

- 31% of these first time applicants were Starts
- Over time the proportion of first time overdraft applicants that were Starts has declined somewhat. In the 18 months to Q4 2012, 48% of FTAs were Starts falling to 37% for the 18 months to Q4 2015 and now 31% for the most recent period.

Amongst applicants with employees, the proportion renewing an existing facility was 55% and the proportion of first time applicants was 16% of applications made.

Analysis in previous reports showed that the application process for an overdraft, as well as the eventual outcome, varied by the reason for application. The table below shows the proportion of applications made for each reason over recent quarters. There have been too few applications reported to date for Q3 or Q4 2016 to include in the table, but an initial assessment of the purpose of overdraft in this post Brexit period suggests the majority were renewing an existing facility (60%), while most of the rest were applying for the first time (29%).

Renewals have consistently been the most common reason for an overdraft event:

Nature of overdraft event

SMEs seeking new/ renewed facility By application date	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1* 16	Q2* 16
Unweighted base:	*390*	*377*	*375*	*295*	*356*	*334*	*295*	*259*	*247*	*226*	*108*
Renewing overdraft for same amount	44%	47%	50%	51%	49%	53%	53%	53%	37%	53%	36%
Applied for first ever overdraft facility	28%	19%	18%	27%	27%	20%	14%	21%	32%	20%	18%
Seeking to increase existing overdraft	17%	21%	17%	10%	10%	5%	7%	8%	15%	14%	19%
Setting up facility at new bank	4%	6%	2%	1%	5%	6%	1%	3%	5%	1%	1%
Seeking additional overdraft on another account	2%	3%	7%	4%	4%	3%	12%	7%	6%	7%	9%
Seeking to reduce existing facility	3%	3%	3%	1%	1%	4%	5%	2%	2%	1%	*
A new overdraft but not first (from Q314)	-	-	-	6%	5%	9%	9%	6%	3%	5%	17%

Q52 All SMEs seeking new/renewed overdraft facility. * indicates interim results as data is still being gathered on events in these quarters

Over a third of overdrafts sought were for £5,000 or less, with considerable variation by size of applicant. The median amount sought as an overdraft facility has changed relatively little over time and is currently just under £5,000, ranging from £4,000 amongst 0 employee SMEs seeking a facility to £88,000 for those with 50-249 employees:

Amount initially sought, where stated Sought new/renewed facility Q3 15-Q4 16	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*796*	*92**	*292*	*286*	*126*
Less than £5,000	39%	51%	25%	3%	2%
£5,000 – £9,999	21%	26%	15%	9%	4%
£10,000 – £24,999	20%	13%	33%	21%	20%
£25,000 – £99,999	16%	9%	24%	39%	22%
£100,000+	4%	1%	2%	27%	52%
Median amount sought	*£5k*	*£4k*	*£10k*	*£37k*	*£88k*

Q58/59 All SMEs seeking new/renewed overdraft facility, excluding DK/refused

As the table below shows, 8 out of 10 overdraft applicants said that the overdraft was needed for day-to-day cash flow, with little variation by size. Just under half (44%) wanted it as a safety net and this was slightly more likely to be the case for smaller applicants. As in previous quarters, overdrafts were much more likely to have been sought to support UK expansion (22%) than expansion overseas (1%):

Purpose of overdraft sought Sought new/renewed facility Q3 15-Q4 16	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*926*	*104*	*319*	*349*	*154*
Working capital for day to day cash flow	84%	86%	81%	81%	81%
Safety net – just in case	44%	45%	44%	39%	40%
Short term funding gap	33%	34%	32%	25%	28%
Fund expansion in UK	22%	24%	18%	16%	23%
Buy fixed assets	13%	13%	14%	10%	11%
Fund expansion overseas	1%	1%	1%	1%	4%

Q55 All SMEs seeking new/renewed overdraft facility

Analysis by risk rating showed that:

- Working capital remained the main reason for seeking an overdraft across all external risk ratings. It was mentioned by 87-92% of those with a minimal to average external risk rating and 83% of those with a worse than average rating.
- A safety net was mentioned more by those with an average risk rating (55%).
- Those with a minimal risk rating were less likely to mention a short term funding gap (15% compared to 32-40% of those with other ratings) or UK growth (6% compared to 17-22% for other ratings).

Looking at the purpose of the overdraft sought over recent quarters, working capital was consistently the most mentioned purpose, followed by a safety net or to fill a short term funding gap:

Purpose of overdraft

SMEs seeking new/ renewed facility – by application date	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1* 16	Q2* 16
Unweighted base:	*390*	*377*	*375*	*295*	*356*	*334*	*295*	*259*	*247*	*226*	*108*
Working capital for day to day cash flow	76%	87%	80%	78%	83%	85%	85%	83%	89%	78%	86%
Safety net – just in case	42%	48%	40%	38%	47%	42%	53%	60%	38%	34%	28%
Short term funding gap	40%	38%	31%	27%	26%	27%	34%	38%	34%	19%	31%
Fund growth in UK	22%	25%	17%	21%	17%	16%	22%	27%	23%	19%	22%
Buy fixed assets	7%	10%	19%	17%	22%	7%	14%	20%	8%	8%	14%
Fund growth overseas	2%	4%	1%	5%	3%	4%	3%	*	3%	*	1%

Q55 All SMEs seeking new/renewed overdraft facility. Q315* indicates interim results for that period as data is still being gathered on events in these quarters. NB ‘Growth’ replaced expansion in Q2 2013

There are currently too few applications in the second half of 2016 to report as individual quarters, but the current interim data suggests that the most common purpose of an overdraft post Brexit was for cash flow (90%), with slightly higher mentions of a safety net (55%) or to fill a short term funding gap (48%).

Looking longer term, most applications have been made for working capital (8 in 10 in recent 18 month periods and 84% in the latest period to Q4 2016). The proportion looking for a safety net has also been stable at around 4 in 10 (currently 44%), but there has been an increase in applicants looking to fund expansion in the UK (from 12% to 22%).

More details around recent overdraft applications are provided below. Most SMEs applied to only one bank (their main bank) and few sought advice:

Overdraft applicants	Sought new/renewed overdraft facility Q3 15-Q4 16
Applied to main bank	Almost all overdraft applications (98% in the 18 months to Q4 2016) were made to the SME's main bank. This varied little by size of applicant (97-99%).
Application made in a personal name	15% of overdraft applications made in the 18 months to Q4 2016 were in a personal name. This was much more common amongst smaller applicants (22% of applicants with 0 employees, compared to 5% of applicants with 1-9 employees, 2% of applicants with 10-49 and 1% of applicants with 50-249 employees). Overdraft applications remained less likely to be made in a personal name than loan applications (where 22% were in a personal name for the 18 months to Q4 2016).
How many banks were applied to	97% of those who had applied in the 18 months to Q4 2016 said that they had applied to one bank, with little variation by size (97-99%).
Advice sought	The proportion of SMEs seeking advice before they applied for an overdraft has remained consistently low (9% amongst those applying in the 18 months to Q4 2016), and this has changed relatively little over time (it was 10% for 2013 as a whole). Larger SMEs that applied for an overdraft were more likely to have sought advice (14% of those with 10-49 employees and 26% of those with 50-249 employees).
Analysis by size of facility	Previously, advice has been more likely to have been sought for larger overdraft facilities. In the current period there was relatively little difference–8% sought advice for an overdraft of £5,000 or less, 8% for an overdraft of £5-100,000, and 12% sought advice for overdrafts of more than £100,000. Those applying for larger overdrafts were no more likely to apply to several banks, or to apply anywhere other than their main bank.

Overdraft applications – a sector summary

On limited sample sizes, an analysis by sector showed that those in the Construction sector remained more likely to be seeking their first ever overdraft (36%), while 28% of those in Agriculture were looking to increase an existing overdraft:

Overdraft activity

Sought new/ renewed facility Q3 15-Q4 16	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	*93**	*93**	*170*	*114*	*56**	*84**	*156*	*60**	*100*
Renewing overdraft for same amount	64%	58%	30%	53%	52%	52%	48%	35%	53%
Applied for first ever overdraft	3%	22%	36%	20%	30%	18%	21%	28%	24%
Seeking to increase existing overdraft	28%	9%	20%	13%	12%	7%	14%	7%	3%

Q52 All SMEs seeking new/renewed overdraft facility

Most SMEs approached their main bank (98%). The least likely to do so were applicants in the Health sector, but even here almost all applied to their main bank (83%).

15% of all overdraft applicants said that the facility was applied for in their personal name. This was more likely to be the case for applicants from the Property/Business Services sector (25%), compared to 3% in Health. Overall, 97% of applications were made to one provider, with only those in Construction (7%) or Manufacturing (5%) showing much evidence of approaching more than one provider.

Those in Agriculture were seeking the highest median overdraft amount at £38,000. Across the other sectors the median amount sought ranged from £2-9,000.

The main purpose of the overdraft for all sectors was working capital, ranging from 89% of applicants in the Property/Business Services sector to 73% of those in Transport. 67% of those in the Manufacturing sector and 66% in Wholesale/Retail wanted their facility as a safety net, compared to 28% of applicants in Health and 27% of those in Agriculture.

Those in Transport were the most likely to have sought advice (18%) compared to 7-12% in other sectors.

Loan applications

This analysis is based on SMEs that had made an application for a new or renewed loan facility during the most recent 18 month period, which for this report is Q3 2015 to Q4 2016. Within this period, final data is now available for applications made up to Q4 2015. Data on applications in the more recent quarters (especially the second half of 2016) is still being gathered and will be updated in future waves, and so the figures quoted will be liable to change over time. All percentages quoted are therefore just of this group of applicants. For context, in Q4 2016 this was the equivalent of 2% of all SMEs or around 100,000 businesses.

There have been fewer loan events reported than overdraft events. As a result, even for applications across 18 months to Q4 2016, the same granularity of analysis is not always possible as for other areas of the report and the smaller base sizes mean the results should be treated with some caution.

Loan applications were more likely than overdraft applications to be for new funding (the first two rows of the table below), with 72% of loan applicants seeking a new loan (compared to 42% for overdrafts), including 29% saying this was their first ever loan (compared to 24% for overdrafts):

Nature of loan event Sought new/renewed facility Q3 15-Q4 16	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*531*	*57**	*165*	*226*	*83**
New loan but not our first	43%	46%	37%	40%	34%
Applied for first ever loan	29%	27%	35%	24%	18%
Renewing loan for same amount	7%	6%	9%	9%	17%
Topping up existing loan	9%	10%	7%	10%	6%
Refinancing onto a cheaper deal	9%	9%	9%	11%	13%
Consolidating existing borrowing	3%	3%	2%	5%	8%
New loan facility after switching bank	1%	-	2%	2%	4%

Q149 All SMEs seeking new/renewed loan facility. ‘New loan but not first’ combination of codes ‘New loan for new purchase’ and ‘New loan as hadn’t had one recently’

As the table above shows, a first loan was more likely to be the case for smaller SMEs that had applied, and 46% of first time applicants were Starts. The proportion of first time loan applicants who were Starts has varied over time, dropping from 46% for the 18 months to Q4 2013 to 34% for the 18 months to Q4 2015 before returning to 46% in the current 18 month period.

Excluding applicants with 0 employees increases the proportion of first time applications slightly from 29% to 32%.

Analysis in previous reports has shown that the application process for a loan, and the eventual outcome, varied by the reason for application. The table below shows the proportion of applications made for each reason over recent quarters where sufficiently robust sample sizes exist (insufficient data currently exists for applications made from Q2 2016). Most applications were for new facilities, shown in the first two rows of the table, but over time fewer applications have been for a *first* facility:

Nature of loan event

SMEs seeking new/ renewed facility – By application date	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1* 16
Unweighted base:	*193*	*217*	*196*	*224*	*167*	*202*	*191*	*158*	*142*	*160*	*103*
New loan but not our first	32%	39%	33%	45%	41%	43%	38%	39%	46%	38%	56%
Applied for first ever loan	42%	41%	43%	28%	30%	28%	28%	32%	25%	20%	34%
Renewing loan for same amount	16%	5%	9%	13%	5%	7%	25%	10%	8%	8%	4%
Topping up existing loan	3%	7%	12%	11%	11%	6%	2%	11%	2%	20%	1%
Refinancing onto a cheaper deal	4%	5%	2%	2%	4%	15%	3%	5%	15%	12%	4%
Consolidating existing borrowing	*	2%	*	1%	3%	*	2%	2%	1%	1%	*
New facility after switching banks (new)	2%	1%	1%	*	7%	1%	1%	*	1%	1%	*

Q149 All SMEs seeking new/renewed loan facility. Q315* indicates interim results for that period as data is still being gathered on events in these quarters

The initial amount sought for a loan was typically higher than for an overdraft (15% of loans sought were for less than £5,000 compared to 39% of overdrafts sought). The median loan amount sought was £15,000. Sample sizes limit the amount of analysis possible over time, but overall the majority of loans sought were for less than £100,000:

Amount initially sought, where stated Sought new/renewed facility Q3 15-Q4 16	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*449*	*52**	*140*	*188*	*69**
Less than £5,000	15%	20%	9%	1%	1%
£5,000 – £9,999	20%	27%	10%	4%	6%
£10,000 – £24,999	34%	37%	32%	17%	5%
£25,000 – £99,999	18%	12%	30%	29%	17%
£100,000+	12%	4%	19%	49%	72%
Median amount sought	*£15k*	*£8k*	*£20k*	*£85k*	*£244k*

Q153/154 All SMEs seeking new/renewed loan, excluding DK/refused

Loan applicants were also asked about the extent to which the funding applied for represented the total funding required and how much the business was contributing. The results for applications made in the 18 months to Q4 2016 are shown below, with most applicants (70%) seeking all the funding they required from the bank:

Proportion of funding sought from bank Sought new/renewed facility Q3 15-Q4 16	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*509*	*54**	*162*	*213*	*80*
Half or less of total sum required	12%	12%	11%	12%	13%
51-75% of sum required	9%	9%	8%	11%	6%
76-99% of sum required	9%	9%	9%	10%	10%
All of sum required sought from bank	70%	70%	72%	68%	71%

Q155 All SMEs seeking new/renewed loan, excluding DK/refused

There was relatively little difference in the proportion seeking all the funding from the bank by size of applicant or by risk rating.

More detailed analysis by date of loan application shows that in each period, the majority of applicants sought all the funding they required from the bank, with little difference by size of applicant:

Proportion seeking all funding from the bank Over time – all seeking loan Row percentages	H2 2012	H1 2013	H2 2013	H1 2014	H2 2014	H1 2015	H2 2015	H1* 2016
All loan applicants	69%	78%	75%	76%	75%	60%	67%	72%
All applicants with 0-9 employees	69%	78%	75%	77%	76%	60%	67%	72%
All applicants with 10-249 employees	70%	76%	74%	67%	68%	60%	66%	73%

Q155 All SMEs seeking new/renewed loan, excluding DK/refused

Overall, these funds were likely to have been sought either to fund expansion in the UK (32%) or to buy fixed assets (29%), with clear variation by size of applicant:

Purpose of loan Sought new/renewed facility Q3 15-Q4 16	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*531*	*57**	*165*	*226*	*83**
Fund expansion in UK	32%	32%	32%	29%	43%
Buy fixed assets	29%	28%	31%	27%	27%
Buy motor vehicles	25%	32%	15%	11%	8%
Develop new products/services	22%	23%	22%	15%	11%
Buy premises	14%	7%	25%	27%	28%
Replace other funding	10%	8%	13%	17%	13%
Fund expansion overseas	1%	-	2%	2%	1%
Take over another business	1%	-	3%	3%	5%

Q150 All SMEs seeking new/renewed loan facility

The table below shows the most common reasons for seeking a new loan by application date up to Q1 2016 (the latest for which robust data is available). In the first quarter of 2016 a higher proportion of applications were for fixed assets:

Purpose of loan

SMEs seeking new/ renewed facility – by application date	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1* 16
Unweighted base:	*193*	*217*	*196*	*224*	*167*	*202*	*191*	*158*	*142*	*160*	*103*
Fund expansion in UK	35%	39%	34%	35%	26%	13%	32%	21%	20%	28%	37%
Premises	19%	21%	29%	14%	21%	21%	29%	27%	12%	20%	14%
Buy fixed assets	20%	26%	25%	25%	20%	14%	11%	19%	18%	22%	40%
Develop new products/services	21%	24%	20%	17%	11%	17%	17%	20%	30%	12%	26%
Buy motor vehicles	9%	18%	5%	17%	19%	23%	13%	11%	29%	22%	25%
Fund expansion overseas	1%	2%	*	2%	3%	3%	1%	2%	1%	*	3%

Q150 All SMEs seeking new/renewed loan facility. * indicates interim results as data is still being gathered on events in these quarters

Quarterly data can make it difficult to discern longer term trends over time. Analysis of a series of 18 month application periods shows that since the 18 months to Q4 2013:

- Typically a third of loans have been for UK expansion.
- There has been a slight increase in the proportion looking to innovate through developing new products and services (16% in the 18 months to Q4 2013 to 22% in the current 18 month period).
- The proportion looking to buy fixed assets declined from 27% in the 18 months to Q4 2013 to 17% in the 18 months to Q4 2015 but is currently 29%.

Further details about the loan applications made are summarised in the table below. Loan applicants remained somewhat more likely than overdraft applicants to approach a bank other than their own (although most didn't):

Loan applicants	Sought new/renewed loan facility Q3 15-Q4 16
Applied to main bank	87% of loan applications were made to the SME's main bank, compared to 98% of overdraft applications, with little difference by size of applicant.
Application made in a personal name	22% of loan applications made in the 18 months to Q4 2016 were in a personal rather than a business name. This was more common amongst smaller applicants (29% of applicants with 0 employees applied in a personal name and 8 in 10 of those applying in a personal name were 0 employee SMEs). Personal applications were also more common overall for loans than for overdrafts (where 15% of applications were in a personal name).
How many banks were considered	In a new question from Q1 2016, loan applicants were asked how many banks they *considered* applying to. 21% of applicants asked had considered applying to more than one bank but, as reported below, 12% actually did so.
How many banks were applied to	88% of those who applied in the 18 months to Q4 2016 said that they had applied to one bank, with limited variation by size (81-90%). This is somewhat lower than the 97% of overdraft applicants who only applied to one bank.
Advice sought	A minority of loan applicants in the 18 months to Q4 2016 had sought external advice before applying (18%) but they remained more likely to have done so than overdraft applicants (9%). 0 employee applicants were less likely to have sought advice (13%) compared to around a quarter of those with 10-49 employees and a third of those with 50-249 employees.
Analysis by size of loan facility	Those seeking funding of £100,000 or more were much less likely to be applying in a personal name (2% v 23% of those seeking less than £100k) and more likely to apply to more than one bank (22% v 11%). They were also more likely to seek advice (24% v 17%).

Loan applications – a sector summary

Analysis by sector is somewhat limited as currently no sectors have more than 100 applicants for the most recent period. These results should therefore be treated with caution and as indicative:

Loan activity

Sought new/renewed facility Q3 15-Q4 16	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	*57**	*52**	*74**	*63**	*52**	*54**	*78**	*52**	*49**
Applied for first ever loan	5%	43%	31%	32%	29%	18%	37%	12%	27%
New loan (other)	63%	49%	36%	45%	31%	32%	39%	66%	46%
Renewing loan for same amount	10%	2%	3%	9%	13%	24%	3%	1%	*

Q149 All SMEs seeking new/renewed loan facility

Most SMEs approached their main bank (87%). The least likely to do so were applicants in the Health sector (where 60% of applications were made to the main bank). 22% of all loan applicants said that the facility was applied for in their personal name and this was less likely to be the case for applicants in Agriculture (6%).

Those in Agriculture sought the highest median loan amount (£92k) compared to £6-12k for other sectors. Those in Agriculture were also more likely to be seeking all the funding required from the bank (86%) while applicants from Manufacturing were less likely (43%). 12% overall applied initially to more than one bank and this was more likely to be the case for those in the Hotel & Restaurant (22%), Transport (21%) and Manufacturing sectors (20%).

For most sectors, the main purpose of the loan was either UK expansion or the purchase of fixed assets. Those in Property/Business Services (48%) and Health (44%) were more likely to be seeking funds for UK expansion. Those in Health were also more likely to be purchasing fixed assets (68%).

Advice was sought by 18% of loan applicants overall with variation across sectors (albeit on limited base sizes). 32% in the Hotel & Restaurant sector and 28% in Manufacturing sought advice compared to 11% in the Property/Business Services sector.

8. The outcome of the application/renewal

This chapter details

what happened when the application for the new/renewed facility was made. It covers the bank's initial response through to the final outcome.

Key findings

In the 18 months to Q4 2016, 83% of all new and renewed loan and overdraft applications resulted in a facility:

- 99% of loan and overdraft renewals were successful and this has changed little over time.
- 71% of new money applications were successful. First time loan and overdraft applicants were less likely to be successful (60%) than those who had borrowed before (79%), but their success rate remained higher than previously seen.

86% of new or renewed overdraft applicants in the 18 months to Q4 2016 ended the process with a facility, with 79% of applicants offered the facility they wanted and taking it.

- Over time, success rates improved from 74% in the 18 months to Q4 2012 to 85% for the 18 months to Q2 2015 and have been stable since. Larger, older, SMEs with a better risk rating remained more likely to be successful.
- Analysis of overdraft applicants suggests that the current higher success rate reflects the profile of those applying (including fewer first time applicants and fewer Starts).
- 66% of first time overdraft applicants ended the process with a facility. Whilst this is lower than for those who had borrowed before (86%), it maintains the improvement seen between the 18 months to Q4 2013 (when 34% of first time applicants were successful) and the 18 months to Q2 2015 (when 66% were successful).

74% of loan applicants in the 18 months to Q4 2016 ended the process with a facility, with 59% of applicants offered the facility they wanted and taking it.

- Over time, success rates improved from 59% for the 18 months to Q4 2012 to 74% for the 18 months to Q4 2015 and have been stable since. Larger, older, SMEs and those who do not have a worse than average risk rating remained more likely to be successful.
- 51% of first time loan applicants ended the process with a facility. As with loans this is lower than for those who had borrowed before (81%). Unlike overdrafts there has not been the same level of increase in success rates for first time applicants (in the 18 months to Q4 2013, 45% of first time loan applicants were successful).

This chapter follows the application journey from the initial response from the bank to the final decision. More detailed analysis is provided of the final outcome over time, and also the experiences of those applying for new funding compared to those seeking a renewal of existing facilities. Note that, unless specifically stated, this data does not include the automatic renewal of overdrafts, and that, as already explained, data for applications reported as having taken place from Q1 2016 onwards remains interim.

7% of loan and 5% of overdraft applicants in the 18 months to Q4 2016 had not received an initial response to their application by the time of our survey. Details of these applications were included in the data in the preceding chapter but are excluded from the remainder of this analysis.

The final outcome – all loan and overdraft applications to date

Before looking in detail at the individual loan and overdraft journeys, data is provided on the outcome of **all** Type 1 applications, both loan and overdraft, by recent quarters of application (since Q4 2013).

Final outcome (Overdraft+Loan)

SMEs seeking new/ renewed facility – by date of application	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1* 2016	Q2* 2016
Unweighted base:	*589*	*537*	*582*	*443*	*531*	*505*	*423*	*382*	*388*	*311*	*162*
Offered what wanted and took it	56%	63%	64%	70%	68%	72%	64%	76%	68%	74%	76%
Took facility after issues**	16%	16%	11%	18%	10%	11%	14%	10%	11%	7%	11%
Have facility (any)	*72%*	*79%*	*75%*	*88%*	*78%*	*83%*	*78%*	*86%*	*79%*	*81%*	*87%*
Took another form of funding	6%	8%	7%	2%	6%	1%	6%	3%	*	9%	4%
No facility	23%	14%	18%	10%	16%	16%	16%	11%	21%	10%	9%

Final outcome of overdraft/loan application by date of application: * indicates interim results as data is still being gathered on events in these quarters. ** typically the amount initially offered or the terms and conditions relating to the proposed facility such as security, the interest rate or the fee

The table shows that around 8 in 10 applications have been successful with initial data for 2016 suggesting this trend is continuing: In the first half of 2016, 83% of applicants ended the process with a facility, while indicative data for the second half of 2016 reports a success rate of 76%.

Analysis in previous reports has shown that the outcome of applications reported initially for a given quarter can be quite different from those reported subsequently as more data is gathered, and results for the most recent quarters should always be viewed in this context. Full quarterly data on all applications since the SME Finance Monitor started can be found in the charts at the end of this report.

The table below summarises the outcome for the different types of application included in this chapter over a longer time period, based on applications made in a series of 18 month periods. Data in the first 4 columns is now complete and the data for the 18 months to Q2 2016 will be completed in mid-2017.

The current position for the 18 months to Q4 2016 is that 83% of all loan and overdraft applications have been successful. Renewals remained more likely to be successful (99%) than applications for new money (71%), and overdraft applications more likely to be successful (86%) than loans (73%). At this stage, these most recent success rates are in line with the equivalent applications in the 18 months to Q4 2015 and have been consistent in recent periods:

% of applicants ending process with facility – Summary table

Over time – row percentages By 18 month period of application	Q3 11 Q4 12	Q3 12 Q4 13	Q3 13 Q4 14	Q3 14 Q4 15	Q1 15 Q2 16*	Q3 15- Q4 16*
All loans and overdrafts	69%	68%	77%	82%	83%	83%
Loans and overdrafts - New money	54%	49%	65%	70%	69%	71%
• *First time applicants*	*41%*	*39%*	*55%*	*60%*	*63%*	*60%*
• *Other new money*	*70%*	*69%*	*74%*	*77%*	*73%*	*79%*
Loans and overdrafts - Renewals	94%	96%	97%	100%	100%	99%
All overdrafts	74%	74%	83%	86%	86%	86%
All loans	59%	58%	66%	74%	75%	73%

All SMEs applying for a facility in the period specified, base size varies by category * Interim data

Taking a longer term view, the table above also shows that the overall success rate for loans and overdrafts combined has increased over time. From two thirds of applications being successful in the 18 months to both Q4 2012 and Q4 2013, success rates increased to 82% for the 18 months to Q4 2015 and 83% currently. This is due to the increase in success rates for new money, as almost all renewals in each period have resulted in a facility.

Whilst first time applicants remained less likely to end the process with a facility than those who have borrowed before, their success rates have improved such that 6 in 10 first time applicants in the most recent periods ended the process with a facility. Success rates for other new money applications have also increased over time.

More detailed analysis of all Type 1 applications (i.e. loans and overdrafts combined) is provided later in this chapter. Before that analysis, the next section looks at the initial response from the bank to the application made and then provides more detail on overdraft applications specifically, and then on loan applications.

How SMEs got to the final outcome – the initial response from the bank

This analysis is based on SMEs that made an application for a new or renewed loan or overdraft facility during the 18 months from Q3 2015 to Q4 2016 (irrespective of when they were interviewed) who have received a response from the bank.

The tables below record the initial response from the bank to applications made in this period. The initial response to 81% of overdraft applications was to offer the SME what it wanted, compared to 65% of loan applications. For both loans and overdrafts, larger SMEs remained much more likely to have been offered what they wanted at this initial stage:

Initial response (Overdraft) Sought new/renewed facility Q3 15-Q4 16	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*889*	*99**	*304*	*335*	*151*
Offered what wanted	81%	78%	85%	91%	97%
Offered less than wanted	6%	7%	4%	2%	3%
Offered unfavourable terms & conditions	2%	2%	3%	5%	*
Declined by bank	11%	13%	8%	2%	*

Q63 All SMEs seeking new/renewed overdraft facility that have had response

Initial response (Loan) Sought new/renewed facility Q3 15-Q4 16	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*487*	*53**	*150*	*204*	*80**
Offered what wanted	65%	62%	65%	83%	91%
Offered less than wanted	5%	4%	8%	7%	5%
Offered unfavourable terms & conditions	4%	4%	5%	4%	4%
Declined by bank	25%	30%	22%	6%	-

Q158 All SMEs seeking new/renewed loan facility that have had response

Additional analysis below shows that larger SMEs, those with a better risk rating and those renewing an existing facility were all more likely to receive a positive initial response from the bank:

Initial response All seeking facility Q3 2015-Q4 2016	
Initial response to applicants with employees	86% were initially offered the overdraft they wanted and 69% the loan they wanted. Such applicants were less likely to have been declined at this stage – 7% of overdraft applicants and 18% of loan applicants with employees were initially declined by the bank.
Applicants more likely to be offered what they wanted	Those applying to renew an existing facility: 98% were offered the overdraft they wanted, 90% the loan. Those with a minimal external risk rating: 95% were offered the overdraft they wanted, 96% the loan.
Applicants more likely to receive initial decline	Those applying for their first ever facility: 25% were initially declined for a first overdraft, 47% for a first loan. Those with a worse than average external risk rating: 14% were initially declined for an overdraft, 43% for a loan.

The table below looks at the initial response to overdraft applications over recent quarters by date of application. From the end of 2014 onwards, a higher proportion of applicants were typically offered what they wanted (87% for Q2 2016) and indicative data for the second half of 2016 is that this continues to be the case:

Initial response to application

SMEs seeking new/ renewed overdraft facility By date of application	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1* 16	Q2* 16
Unweighted base (Overdraft):	*379*	*356*	*367*	*285*	*340*	*320*	*280*	*250*	*237*	*215*	*105*
Offered what wanted and took it	65%	72%	73%	73%	79%	77%	72%	82%	74%	86%	87%
Any issues (amount or T&C)	12%	16%	11%	9%	9%	8%	12%	8%	13%	3%	3%
Declined overdraft	23%	13%	16%	18%	11%	15%	16%	10%	13%	12%	10%

Initial outcome of overdraft application by date of application: * indicates interim results as data is still being gathered on events in these quarters

With fewer loan applications made each quarter, it is harder to discern a pattern to the initial response over time. Current data for Q1 2016 shows that the proportion offered what they wanted was somewhat lower than in the second half of 2015, but indicative data for the second half of 2016 shows something of an improvement:

Initial response to application:

SMEs seeking new/ renewed loan facility By date of application	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1* 16
Unweighted base (Loan)	*183*	*210*	*181*	*215*	*158*	*191*	*185*	*143*	*132*	*151*	*96**
Offered what wanted and took it	53%	45%	57%	57%	66%	49%	66%	48%	69%	69%	49%
Any issues (amount or T&C)	16%	20%	8%	9%	18%	22%	18%	27%	10%	2%	18%
Declined loan	31%	35%	34%	35%	16%	29%	16%	25%	20%	28%	33%

Initial outcome of loan application by date of application: * indicates interim results as data is still being gathered on events in these quarters

No further analysis has been undertaken on these initial responses to applications, as analysis by date of application shows a fairly consistent pattern between initial response and final outcome. The report concentrates instead on providing more analysis of the final outcome of the applications and how this has changed over time.

The subsequent journey

The next section of this chapter describes what happened after the initial response from the bank, up to and including the final outcome of the application. This is reported first for overdrafts and then for loans and, unless otherwise stated, is based on all Type 1 overdraft/loan applications *sought* Q3 2015 to Q4 2016, where data is currently available.

Before the detail is discussed of what happened after each of the possible initial responses, the journeys are summarised below. 8 in 10 overdraft applicants (80%) and 6 in 10 loan applicants (59%) were offered the facility they wanted and went on to take it with no issues:

Journey summary

All seeking facility Q3 15 – Q4 16	Overdraft	Loan
Unweighted base:	*889*	*487*
Initially offered what they wanted and went on to take the facility with no issues	80%	59%
Initially offered what they wanted, but had issues before they got facility	2%	6%
Had issues with the initial offer, and now have a facility after issues	5%	9%
Were initially turned down, but now have a facility after issues	1%	*
Had issues with the initial offer made so took alternative funding instead	1%	-
Were initially turned down, so took alternative funding instead	3%	3%
Initially offered what wanted but now have no facility at all	-	*
Had issues with the initial offer made and now have no facility at all	2%	*
Initially turned down and now have no facility at all	6%	21%

Q63/158 All SMEs seeking new/renewed overdraft or loan facility that have had response

78% of those overdraft applicants who ended the process with no facility had been declined by the bank initially, while the remaining 22% had had issues with the offer made so did not take the facility.

For loans, 98% of the applicants who ended the process with no facility had been initially declined by the bank, leaving 2% that were made an offer but in the end did not take the facility.

This is the equivalent of 2% of all overdraft applicants and 3% of all loan applicants in the last 18 months receiving an offer but ending the process with no facility.

Profile of overdraft applicants by initial response

There continued to be differences in the demographic profile of overdraft applicants receiving each initial response from the bank and these are summarised in the table below. Note that due to limited base sizes and high success rates, it is no longer possible to separate out those initially offered less than they wanted and those who cited issues with the terms and conditions of the overdraft offered, so these are combined into the 'Had issues with offer' column below, while the "Initially declined" group provides only a qualitative assessment:

Profile of overdraft applicants Sought new/renewed facility Q3 15-Q4 16	All with response	Offered what wanted	Had issues with offer	Initially declined
Unweighted base:	*889*	*784*	*61**	*44**
No employees	61%	59%	66%	75%
Have employees	39%	41%	34%	25%
Starts	14%	10%	23%	31%
Trading 2-9 years	28%	24%	36%	53%
Trading 10 years+	58%	65%	41%	17%
Minimal/low risk rating	31%	33%	27%	19%
Average/worse than average risk rating	69%	67%	73%	81%
Renewing existing facility	50%	61%	7%	2%
Applying for first ever overdraft	23%	17%	42%	54%
Applying for new overdraft but not first	6%	5%	6%	12%

All SMEs seeking new/renewed overdraft facility that have had response

The table shows the continuing difference in profile between the three groups. Those initially offered what they wanted were typically larger, more established, businesses with a better risk rating profile. They were also more likely to be looking to renew an existing facility. By contrast, the small group of those initially declined were more likely to be 0 employee SMEs, more recently established, with an average or worse than average risk rating. They were also more likely to be seeking their first facility.

The subsequent journey – those who received an offer of an overdraft

Summarised below for all applications made in the 18 months Q3 2015 to Q4 2016 (and reported to date), is what happened after the bank's initial response to the overdraft application and any issues around the application. Base sizes for some groups remain small:

Initial offer	Subsequent events – all seeking overdraft Q3 2015 to Q4 2016
Offered what wanted (81% of applicants) Q64-65	98% of those offered what they wanted went on to take their facility with no issues. Those who experienced a delay or issue said this was typically waiting for a decision, supplying further information, or valuations.
Issue: offered less than wanted (6% of applicants) Q87-95	18% said they were not given a reason for being offered less (excluding those who couldn't remember). The main reasons given were: • No/insufficient security - 26% of those offered less than they wanted • Credit history issues (22%) • 19% said they were told their industry was 'too risky' • Had too much borrowing already (10%), applied for too much (7%), or a need for more equity in the business (5%). At the end of the process: • 45% ended up accepting the amount originally offered (almost all, 42% at the original bank) • 25% managed to negotiate a higher facility at the original bank (none at another bank) • 16% took some other form of funding • 14% ended the process with no facility at all. Most of those who now have an overdraft obtained 80% or more of the amount they had originally sought.

Continued

Continued

Issue: offered unfavourable T&C (2% of applicants) Q96-97	The unfavourable terms and conditions were most likely to relate to: • the proposed interest rate – mentioned by 43% of these applicants • security (the amount, type sought or cost of putting it in place) –26% • the proposed fee – 4%. At the end of the process: • 16% of applicants offered what they saw as unfavourable terms and conditions said they managed to negotiate a better deal than the one originally offered – almost all at the bank they had originally applied to (15%, with 1% at another bank). • 5% accepted the deal they were offered (almost all at the original bank) • 21% took other funding (typically funding in a personal name) • 59% decided not to proceed with an overdraft.

The subsequent journey – those who were declined for an overdraft

The table below details the subsequent journey of those whose overdraft application was initially declined (11% of all applicants):

Initially declined	Subsequent events – all seeking overdraft Q3 2015 to Q4 2016
Reasons for decline Q70	Those declined were asked for the reasons behind the initial decline. 19% of those initially declined said that they had not been given a reason (excluding those who could not remember the reasons given): • 48% said the decline related to their personal and/or business credit history • 22% asked for too much • 11% mentioned issues around security • 11% mentioned needing more equity.
Advice and alternatives Q71a	This section was replaced by a new, more straightforward, question in Q1 2016 but with comparable answer codes to previous waves. The answers below cover the same period as the rest of this section. Those initially declined were asked which of a series of events had occurred after that decline: • 26% were offered an alternative form of finance by the bank • 17% were referred to external sources of help and advice (7% by the bank, and 17% sought it themselves) • 11% said they were made aware of the appeals process (all by the bank) • 59% said that none of these events occurred.

Initially declined	Subsequent events – all seeking overdraft Q3 2015 to Q4 2016
Appeals Q71a-75	From April 2011, an appeals procedure has been in operation. 11% of applicants initially declined Q3 2015 to Q4 2016 said they were made aware of the appeals process, all by their bank. On limited base sizes, there were indications that awareness of the appeals process has declined after previous increases: amongst those applying in 2012, 13% said that they were made aware of the appeals process, increasing to 17% for 2013 and then 22% for 2014. Awareness of appeals for 2015 was 19% but for 2016 to date is 7%. To maximise base sizes, of all overdraft applications declined since Q3 2014, 24 were made aware of the appeals process having initially been declined, with 3 SMEs going on to appeal. In 1 instance the bank changed its decision, in 2 the original decision was upheld. Those who did not appeal typically said it was too much hassle and/or they did not think it would change anything.
Outcome Q81-84	At the end of this period: • 57% of applicants initially declined had no funding at all. • 13% of the SMEs initially declined had managed to secure an overdraft, typically with the original bank rather than an alternative supplier. • 30% secured alternative funding, with mentions of facilities in a personal name or a business credit card.

The final outcome – overdraft

At the end of the various journeys described above, respondents reported on the final outcome of their application for a new or renewed overdraft facility. This section is based on SMEs that made an application and had received a response for a new or renewed overdraft facility during the most recent 18 month period of Q3 2015 to Q4 2016, irrespective of when they were interviewed.

Most of these applicants (79%) had the overdraft facility they wanted, and a further 7% secured an overdraft after having issues relating to the amount or the terms and conditions of the bank's offer. 8% of all applicants ended the process with no overdraft. Note that this table does **not** include automatically renewed overdrafts.

Final outcome (Overdraft) Sought new/renewed facility Q3 15-Q4 16	All overdraft Type 1 applicants
Unweighted base:	*889*
Offered what wanted and took it	79%
Took overdraft after issues	7%
Have overdraft (any)	*86%*
Took another form of funding	5%
No facility	8%

All SMEs seeking new/renewed overdraft facility that have had response

Before looking at the detailed results for overdraft applications made in the latest 18 month period, the summary table below records the proportion who 'Have overdraft (any)' for a series of 18 month periods. To show the longer term context, this now reports on applications made from Q3 2012 onwards, in 18 month periods to Q2 and Q4 of each year.

This table shows a consistent success rate over recent 18 month periods for overdraft applicants (currently 86%) which is higher than in earlier periods (74% of overdraft applicants were successful in the 18 months to Q4 2013). Larger applicants and those with a better external risk rating remained more likely to end the process with a facility. There has been an improvement over time in the success rate for first time overdraft applicants while those in Construction have seen something of a decline.

% of applicants ending process with overdraft facility

Over time – row percentages By 18 month period of application	Q3 12 Q4 13	Q1 13 Q2 14	Q3 13 Q4 14	Q1 14 Q2 15	Q3 14 Q4 15	Q1 15 Q2 16*	Q3 15 Q4 16*
All SMEs	**74%**	**77%**	**83%**	**85%**	**86%**	**85%**	**86%**
0 employee	68%	70%	78%	80%	81%	81%	83%
1-9 employees	79%	83%	88%	91%	91%	92%	91%
10-49 employees	91%	92%	93%	94%	96%	96%	97%
50-249 employees	96%	97%	95%	96%	97%	98%	99%
Minimal external risk rating	96%	95%	95%	97%	98%	98%	98%
Low external risk rating	91%	91%	93%	94%	93%	91%	90%
Average external risk rating	83%	83%	92%	90%	92%	91%	95%
Worse than average external risk rating	59%	63%	72%	79%	81%	82%	79%
Agriculture	90%	91%	93%	95%	95%	94%	96%
Manufacturing	71%	68%	76%	84%	89%	87%	93%
Construction	75%	80%	83%	80%	70%	66%	56%
Wholesale/Retail	69%	70%	78%	81%	86%	83%	90%
Hotels & Restaurants	65%	73%	82%	90%	91%	93%	89%
Transport	53%	55%	67%	82%	87%	95%	91%
Property/Business Services etc.	71%	75%	82%	91%	93%	95%	94%
Health	87%	88%	94%	80%	82%	84%	97%
Other Community	94%	94%	96%	85%	87%	85%	95%
First time applicants	34%	40%	54%	66%	66%	68%	66%
Increasing an existing facility	78%	72%	77%	73%	85%	81%	86%
Renewals	98%	99%	99%	100%	100%	100%	98%

All SMEs applying for an overdraft in the period specified, base size varies by category. Q315* indicates interim results for that period

Overdraft final outcome – applications made Q3 2015 to Q4 2016

Overdraft applicants with more than 10 employees remained the most likely to have been offered, and taken, the overdraft they wanted and so were more likely to have a facility. Those with 0 employees remained more likely to end the process with no facility, albeit 83% were successful and this has increased over time:

Final outcome (Overdraft) Sought new/renewed facility Q3 15-Q4 16	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*889*	*99**	*304*	*305*	*151*
Offered what wanted and took it	79%	77%	81%	89%	94%
Took overdraft after issues	7%	6%	10%	8%	5%
Have overdraft (any)	***86%***	***83%***	***91%***	***97%***	***99%***
Took another form of funding	5%	7%	2%	1%	*
No facility	8%	10%	8%	3%	1%

All SMEs seeking new/renewed overdraft facility that have had response

Amongst applicants with employees, 92% ended the process with an overdraft facility (83% offered what they wanted and 9% had an overdraft after issues). 7% ended the process with no overdraft.

Analysis of the final outcome by external risk rating showed a difference for those rated a worse than average risk, where 8 in 10 ended the process with an overdraft facility compared to 9 in 10 or more in the other risk categories:

Final outcome (Overdraft) Sought new/renewed facility Q3 15-Q4 16	Total	Min	Low	Average	Worse/ Avge
Unweighted base:	*889*	*139*	*297*	*219*	*164*
Offered what wanted and took it	79%	91%	82%	83%	72%
Took overdraft after issues	7%	7%	8%	12%	7%
Have overdraft (any)	***86%***	***98%***	***90%***	***95%***	***79%***
Took another form of funding	5%	2%	*	*	10%
No facility	8%	*	9%	5%	11%

All SMEs seeking new/renewed overdraft facility that have had response

There were few differences in success rate by sector, with the exception of applicants in Construction who remained the least likely to have been successful (56%) and the most likely to end the process with no facility (24%):

Final outcome (Overdraft)

Sought new/renewed facility Q3 15–Q4 16	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	*92**	*89**	*160*	*109*	*51**	*82**	*152**	*58**	*96**
Offered what wanted and took it	93%	89%	47%	87%	78%	77%	85%	91%	87%
Took overdraft after issues	3%	4%	9%	3%	11%	14%	9%	6%	8%
Have overdraft (any)	***96%***	***93%***	***56%***	***90%***	***89%***	***91%***	***94%***	***97%***	***95%***
Took another form of funding	4%	1%	19%	5%	-	6%	1%	2%	*
No facility	1%	6%	24%	5%	11%	4%	6%	2%	5%

All SMEs seeking new/renewed overdraft facility that have had response

First time applicants remained more likely than others to end the process with no facility (29%). However, the current success rate for first time applicants, at 66%, maintained the improvement seen over time for these applicants (in the 18 months to Q4 2013, 34% of FTAs were successful):

Final outcome (Overdraft)

Sought new/renewed facility Q3 15-Q4 16	Total	1st overdraft	Increased overdraft	Renew overdraft
Unweighted base:	*889*	*102*	*137*	*526*
Offered what wanted and took it	79%	57%	73%	96%
Took overdraft after issues	7%	9%	13%	2%
Have overdraft (any)	***86%***	***66%***	***86%***	***98%***
Took another form of funding	5%	4%	12%	1%
No facility	8%	29%	1%	1%

All SMEs seeking new/renewed overdraft facility that have had response (does not include automatic renewals)

As reported earlier, a new overdraft code has been included since Q3 2014 "Applying for a new overdraft but not our first". On limited base sizes, success rates for this group appear to be somewhat lower than for first time applicants, with more taking other forms of funding.

The final piece of combined analysis for applications made in the 18 months to Q4 2016 shows the outcome by the age of the business. The older the business, the more likely they were to end the process with an overdraft facility:

Final outcome (Overdraft)

Sought new/renewed facility Q3 15-Q4 16 By age of business	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15+ yrs
Unweighted base:	*60**	*82**	*83**	*150*	*514*
Offered what wanted and took it	61%	59%	88%	84%	90%
Took overdraft after issues	2%	19%	7%	4%	5%
Have overdraft (any)	***63%***	***78%***	***95%***	***88%***	***95%***
Took another form of funding	16%	5%	-	1%	4%
No facility	21%	17%	5%	10%	1%

All SMEs seeking new/renewed overdraft facility that have had response

The success rate for older businesses is likely to be impacted by the type of application being made. 52% of the Starts in the table above and 56% of applicants trading for 2-5 years were applying for their first overdraft, where success rates are typically lower. Amongst the oldest applicants, 4% were applying for their first overdraft and this group were much more likely to be renewing an overdraft (73% v 26% of Starts), where success rates are typically higher.

For the last few quarters a consistent 4 in 10 overdraft applications have been for £5,000 or less. A further 4 in 10 applications were for between £5,000 and £25,000 with the remainder, around 2 in 10, for more than £25,000.

A qualitative assessment of overdraft outcome by amount **applied for** over time shows that:

- The outcome for those applying for larger overdrafts (£25,000+) has remained relatively consistent over time, and 90% or more of such applicants now had an overdraft.
- 6 in 10 applications for the smallest overdrafts (under £5,000) were successful in 2012 and 2013. The success rate improved for 2014 to around 7 in 10, which was maintained for 2015 before increasing to 8 in 10 for 2016 to date.
- Those in the middle (who applied for £5-25,000) saw a reduction in success rates to the end of 2013, from around 90% to around 70% of these applicants. Since then success rates have increased back to the 90% level previously seen.

Analysis on the size of overdraft facility granted over time is now provided in the chapter on rates and fees, as context for the pricing information that is provided in that chapter.

Final outcome by date of application – overdrafts

The table below shows the final outcome for Type 1 overdraft events by the individual quarter **in which the application was made**, for those recent quarters where robust numbers were available. This shows that since the start of 2014 at least 8 out of 10 overdraft applicants have ended the process with a facility:

Final outcome (Overdraft)

SMEs seeking new/ renewed facility By date of application	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1* 16	Q2* 16
Unweighted base:	*379*	*356*	*367*	*285*	*340*	*320*	*280*	*250*	*237*	*215*	*105*
Offered what wanted and took it	64%	68%	71%	73%	78%	77%	71%	80%	72%	85%	87%
Took overdraft after issues	10%	17%	13%	15%	11%	8%	9%	9%	12%	2%	3%
Have overdraft (any)	*74%*	*85%*	*84%*	*88%*	*89%*	*85%*	*80%*	*89%*	*84%*	*87%*	*90%*
Took other funding	5%	7%	4%	1%	4%	1%	6%	3%	*	9%	6%
No facility	21%	8%	12%	11%	7%	14%	14%	8%	16%	5%	4%

Final outcome of overdraft application by date of application: * indicates interim results as data is still being gathered on events in these quarters

Base sizes for the 2 quarters post Brexit (Q3 and Q4 2016) do not yet allow for the analysis shown above, but a qualitative assessment of the applications reported to date across H2 2016 suggests 8 in 10 applicants were successful.

To set all these results in context, an analysis has been done of the profile of applicants over time based on the analysis in this and previous reports which showed that size, risk rating and purpose of facility all affect the outcome of applications.

Over time, there have been a number of trends that might be expected to have an effect on the outcome of an overdraft application:

- The proportion of applicants with a worse than average risk rating is currently 49%, up from 40% in 2015. Over time, the proportion with this rating has varied, having increased from 43% in 2010 to 53% for 2012, before falling to 40% in 2015 and then increasing again.
- The proportion of first time applicants has remained consistent across 2015 and 2016 (21%) having declined from a peak of 30% in 2012.
- Starts have made up 12-16% of applicants since 2013.

To understand this more fully, further analysis was undertaken using regression modelling. This takes a number of pieces of data (described below) and builds an equation using the data to predict as accurately as possible what the actual overall success rate for overdrafts should be. This equation can then be applied to a sub-set of overdraft applicants (in this case all those that applied in a certain quarter) to predict what the overdraft success rate should be for that group. This predicted rate is then compared to the actual success rate achieved by the group, as shown in the table below.

As in previous reports, the equation was built using business size and risk rating, as well as the type of facility (first time applicant etc.) as these factors had been shown to be key influencers on the likelihood of success in a funding application.

From the start of 2014 the model has predicted a fairly consistent overdraft success rate in excess of 80%:

Final outcome (Overdraft) SMEs seeking new/ renewed facility By date of application	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1* 16	Q2* 16
Unweighted base:	*379*	*356*	*367*	*285*	*340*	*320*	*280*	*250*	*237*	*215*	*105*
Have overdraft (any)	74%	85%	84%	88%	89%	85%	80%	89%	84%	87%	90%
Predicted success rate	*79%*	*84%*	*84%*	*85%*	*83%*	*86%*	*87%*	*86%*	*83%*	*85%*	*82%*
Difference	-5	+1	-	+3	+6	-1	-7	+3	+1	+2	+8

Final outcome of overdraft application by date of application

Comparisons between the actual and modelled success rates show differences over time:

- In 2014, success rates were in line with, or marginally ahead of those predicted.
- The first half of 2015 saw higher predicted success rates, which were not initially matched by the success rates achieved, but with an improving picture in the second half of the year.
- Interim data for the first half of 2016 suggests current success rates are somewhat ahead of those predicted.

The impact of automatic renewals on overdraft success rates

A considerable number of SMEs had their overdraft automatically renewed by their bank. Such SMEs can be considered to be part of the 'Have an overdraft (any)' group, and thus impact on overall success rates.

The table below shows the impact on overall overdraft success rates when the automatically renewed overdrafts known to have been agreed in the same period are included. There have been more automatic overdraft renewals than Type 1 events, so the overall overdraft success rate increases from 86% to 95%:

Final outcome (Overdraft) Sought new/renewed facility Q3 15-Q4 16	Type 1 events	Type 1 + automatic renewal
Unweighted base:	***889***	***2124***
Offered what wanted and took it	79%	29%
Took overdraft after issues	7%	3%
Automatic renewal	-	*63%*
Have overdraft (any)	***86%***	***95%***
Took another form of funding	5%	2%
No facility	8%	3%

All SMEs seeking new/renewed overdraft facility that have had response

Amongst those who reported the automatic renewal of an overdraft facility between Q3 2015 and Q4 2016, 16% said that the facility was renewed in a personal capacity. As with Type 1 events, such renewals were typically for 0 employee SMEs (82% of those automatically renewing a personal facility).

The impact of personal borrowing on overdraft applications

15% of those making an overdraft application in the past 18 months (Q3 2015 to Q4 2016) said that the facility they had sought was in a personal capacity and these were typically smaller SMEs looking to borrow a smaller amount:

- 89% of personal overdraft applicants had 0 employees (v 56% of business applicants)
- 74% were applying for £5,000 or less (v 34% of business applicants)
- However there was less of a difference by risk rating than previously seen (46% had a worse than average risk rating v 45% of business applicants).

In terms of the outcome of the overdraft application by whether it was a personal or business application, base sizes remain limited. However, while those applying in a personal capacity have in the past typically been somewhat less likely to have ended the process with a facility, this was not the case for the 18 months to Q4 2016 (82% v 88% of business applicants) nor were they more likely to have ended the process with no facility at all (7% v 9% of business applicants).

Profile of loan applicants by initial response

Having explored overdraft applications and renewals, the next section of this chapter looks at loan applications and renewals. The profile of loan applicants (who applied Q3 2015 to Q4 2016) receiving each initial answer from their bank varied. Note that due to small base sizes the 'offered less than wanted' and 'offered unfavourable T&C' groups have been combined into a 'Had issues with the offer' column for this analysis, to boost the base size:

Profile of loan applicants Sought new/renewed facility Q3 15-Q4 16	All with response	Offered what wanted	Had issues with offer	Initially declined
Unweighted base:	*487*	*378*	*54**	*55**
No employees	62%	59%	52%	73%
Have employees	38%	41%	48%	27%
Starts	27%	20%	10%	51%
Trading 2-9 years	25%	25%	19%	26%
Trading 10 years+	48%	55%	71%	23%
Minimal/low risk rating	24%	29%	34%	4%
Average/worse than average risk rating	76%	71%	66%	96%
Renewing existing facility	7%	10%	7%	*
Applying for first ever loan	29%	21%	19%	53%
Applying for new loan but not first	43%	48%	48%	30%

All SMEs seeking new/renewed loan facility that have had response

The table shows similar differences in profile to those seen for overdraft applicants with the small group of those initially declined more likely to be 0 employee SMEs, more recently established, with an average or worse than average risk rating. Almost all were seeking new funding and half were first time applicants.

The subsequent journey – those that received the offer of a loan

Summarised below for all loan applications made in the 18 months Q3 2015 to Q4 2016 (and reported to date), is what happened after the bank's initial response. Base sizes for some groups remain very limited.

<table>
<tr><th>Initial bank response</th><th>Subsequent events – all seeking loan Q3 2015 to Q4 2016</th></tr>
<tr><td>Offered what wanted (65% of applicants)
Q159-164</td><td>92% of those offered what they wanted went on to take the loan with no problems.
7% took the loan after some issues (typically having to supply more information, waiting for security valuations or for a decision to be made).
Almost all took the full amount they had originally asked for.
1% of these applicants decided not to proceed with the loan they had been offered.</td></tr>
<tr><td>Issue: Offered less than wanted
(5% of applicants)
Q182-190</td><td>Note that there are just 29 respondents for this section, and so results are qualitative at best.
5% of applicants said that they had not been given a reason for being offered less than they wanted. The main reasons given included:
Security issues (a third of these SMEs)
Credit issues (1 in 7)
Around 1 in 7 mentioned applying for too much.
At the end of the process:
9 in 10 accepted the lower amount offered (from the original bank or elsewhere)
A few managed to negotiate a better deal, predominantly with another bank
None took other borrowing
1 in 10 ended the process with no facility.
The SMEs in this group who obtained a loan were likely to have received more than 50% of the amount they had originally sought.</td></tr>
</table>

Continued

Continued

Issue: Offered unfavourable T&C (4% of applicants) Q191-195	Note that there are just 25 respondents for this section, and so results are qualitative at best. The unfavourable terms (excluding those who didn't know) typically related to the proposed interest rate (a third of these SMEs) or the proposed fee (almost half of these applicants) There were few mentions of issues around security (level, type requested and/or cost). By the end of the process two thirds had agreed a facility with their main bank with about half improving on the deal initially offered. 6% had no facility.

The subsequent journey – those that were declined for a loan

The table below details the subsequent journey of those whose loan application was initially declined (25% of applicants – 55 respondents).

Initially declined	Subsequent events – all seeking loan Q3 2015 to Q4 2016
Reasons for decline Q165	16% of the SMEs initially declined said that they had not been given a reason for the decline (excluding those who could not remember the reasons given). The main reasons given were: • 4 in 10 said that the decline related to their personal and/or business credit history (especially smaller applicants). • 1 in 10 said that they had too much existing borrowing and the same proportion mentioned a weak balance sheet. • A few mentioned issues around security.
Advice and alternatives Q165b	This section was replaced by a new, more straightforward, question in Q1 2016 but with comparable answer codes to previous waves. The answers below cover the same period as the rest of this section. Those initially declined were asked which of a series of events had occurred after that decline: • 1 in 6 were offered an alternative form of finance by the bank. • The same proportion were referred to external sources of help and advice (mostly by the bank). • 1 in 8 said they were made aware of the appeals process (half by the bank and half by someone else). • 6 in 10 said that none of these events occurred (in line with those initially declined for an overdraft).

Initially declined	Subsequent events – all seeking loan Q3 2015 to Q4 2016
Appeals Q168-170	From April 2011, an appeals procedure was introduced. Amongst this group of applicants who were initially declined, 12% said that they were made aware of the appeals process. Awareness of the appeals system has varied between 6% and 14% since 2012 but is 18% for 2016 to date. Taking a longer-term view to maximise base sizes, of all loan applications reported on the Monitor from Q3 2014, 29 SMEs were made aware of the appeals process having initially been declined. 11 went on to appeal: in 5 instances the bank changed its decision, in 5 the original decision was upheld and 1 was still waiting to hear at the time of interview. Those who didn't appeal typically didn't think it would have changed anything or felt it was too much hassle.
Outcome Q176	At the end of this period: • 2% of those initially declined for a loan had managed to secure a loan with either the original bank or a new supplier. • 13% had secured alternative funding, with friends/family most likely to be mentioned. • 85% of those initially declined did not have a facility at all.

The final outcome – loan

At the end of the various loan journeys described above, respondents reported on the final outcome of their application for a new or renewed loan facility. This section is based on SMEs that made an application and had received a response for a new or renewed loan facility during the most recent 18 month period of Q3 2015 to Q4 2016, irrespective of when they were interviewed.

Three quarters (73%) of loan applicants now have a loan facility. 23% of applicants ended the process with no facility.

Final outcome (Loan) Sought new/renewed facility Q3 15-Q4 16	All loan Type 1 applicants
Unweighted base:	*487*
Offered what wanted and took it	59%
Took loan after issues	14%
Have loan (any)	*73%*
Took another form of funding	3%
No facility	23%

All SMEs seeking new/renewed loan facility that have had response

Before looking at the results for loan applications made in the latest 18 month period in more detail, the summary table below records the proportion who 'Have loan (any)' for a series of 18 month periods, stretching back to Q3 2012, by key demographics. As for overdrafts, this shows a series of 18 month periods ending in Q2 and Q4 of each year.

Over the periods shown in the table loan success rates have improved from around 60% to over 70% of applications with improvements seen across all size bands. First time loan applicants have not seen the sort of increase in success rates reported by other loan applicants, or by those seeking a first overdraft.

% of applicants ending process with loan facility

Over time – row percentages By 18 month period of application	Q3 12 Q4 13	Q1 13 Q2 14	Q3 13 Q4 14	Q1 14 Q2 15	Q3 14 Q4 15	Q1 15 Q2 16*	Q3 15 Q4 16*
All SMEs	**58%**	**58%**	**66%**	**69%**	**74%**	**75%**	**73%**
0 employee	52%	52%	59%	62%	68%	72%	70%
1-9 employees	61%	63%	72%	76%	78%	76%	75%
10-49 employees	85%	85%	87%	88%	91%	93%	96%
50-249 employees	87%	92%	94%	95%	96%	98%	99%
Minimal external risk rating	82%	75%	80%	89%	98%	99%	99%
Low external risk rating	78%	79%	85%	83%	88%	88%	94%
Average external risk rating	63%	64%	74%	73%	84%	88%	92%
Worse than average external risk rating	46%	47%	52%	51%	53%	59%	57%
Agriculture	86%	86%	86%	91%	94%	94%	96%
Manufacturing	67%	74%	83%	87%	60%	58%	49%
Construction	56%	53%	58%	56%	63%	58%	56%
Wholesale/Retail	47%	49%	63%	66%	77%	82%	92%
Hotels & Restaurants	55%	48%	55%	66%	71%	65%	63%
Transport	42%	47%	48%	51%	47%	60%	64%
Property/Business Services etc.	58%	57%	63%	68%	87%	92%	83%
Health	57%	54%	76%	78%	88%	84%	78%
Other Community	62%	69%	72%	75%	71%	78%	75%
First time applicants	45%	45%	55%	53%	51%	54%	51%
Other new facility	60%	59%	71%	78%	86%	82%	81%
Renewals	89%	82%	76%	82%	96%	100%	100%

All SMEs applying for a loan in the period specified, base size varies by category CARE re interim data. Q315* indicates interim results for that period

Final outcome – loan applications made Q3 2015 to Q4 2016

Smaller loan applicants remained less likely to end the process with a facility. Most applicants with 10-249 employees had a loan, while a quarter of the smaller applicants ended the process with no facility:

Final outcome (Loan) Sought new/renewed facility Q3 15-Q4 16	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*487*	*53**	*150*	*204*	*80**
Offered what wanted and took it	59%	58%	59%	74%	80%
Took loan after issues	14%	12%	16%	22%	19%
Have loan (any)	*73%*	*70%*	*75%*	*96%*	*99%*
Took another form of funding	3%	5%	1%	1%	-
No facility	23%	25%	24%	3%	2%

All SMEs seeking new/renewed loan facility that have had response

Amongst loan applicants with employees, 79% ended the process with a loan (62% were offered what they wanted and 17% had the loan after issues). 19% ended the process with no loan facility.

Compared to overdrafts, there was a clearer difference in outcome for those with a worse than average external risk rating who remained much less likely to have ended the process with a facility:

Final outcome (Loan) Sought new/renewed facility Q3 15-Q4 16	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*487*	*75**	*170**	*115**	*88**
Offered what wanted and took it	59%	83%	63%	76%	46%
Took loan after issues	14%	17%	31%	16%	11%
Have loan (any)	*73%*	*99%*	*94%*	*92%*	*57%*
Took another form of funding	3%	-	*	-	6%
No facility	23%	1%	6%	9%	37%

All SMEs seeking new/renewed loan facility that have had response where risk rating known

Smaller sample sizes of applicants restrict the scope for analysis by sector, and the results below should be viewed as indicative in all sectors. Those in Agriculture and Wholesale/Retail were the most likely to end the process with a loan, while those in the Manufacturing or Construction sector were less likely to end the process with a facility:

Final outcome (Loan)

Sought new/renewed facility Q3 15-Q4 16	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	*52**	*47**	*68**	*59**	*47**	*53**	*71**	*48**	*42**
Offered what wanted and took it	95%	38%	52%	73%	42%	45%	76%	42%	
Took loan after issues	1%	11%	4%	19%	21%	19%	7%	36%	
Have loan (any)	*96%*	*49%*	*56%*	*92%*	*63%*	*64%*	*83%*	*78%*	
Took another form of funding	-	-	-	-	1%	11%	1%	-	
No facility	4%	51%	44%	8%	36%	25%	16%	22%	

All SMEs seeking new/renewed loan facility that have had response

Analysis earlier in this report showed that the initial response from the bank was typically more positive for the renewal of existing loan facilities and less positive for new facilities. The analysis below shows that this was also the case at the end of the process. Those applying for their first loan remained more likely to end the process with no facility (38%). Most other applicants were successful:

Final outcome (Loan) Sought new/renewed facility Q3 15-Q4 16	Total	1st loan	New loan	Renew loan
Unweighted base:	*487*	*117*	*185*	*54**
Offered what wanted and took it	59%	44%	69%	63%
Took loan after issues	14%	7%	12%	37%
Have loan (any)	***73%***	***51%***	***81%***	***100%***
Took another form of funding	3%	11%	*	-
No facility	23%	38%	18%	-

All SMEs seeking new/renewed loan facility that have had response

As with overdrafts, there were differences in outcome for loan applications by age of business. On limited base sizes, Starts were the least likely to have been successful (52%) – half of these Starts were applying for their first loan. Those trading for more than 15 years were the most likely to have been successful (they were much less likely to be a FTA and more likely to be applying for a new loan but not their first):

Final outcome (Loan)

Sought new/renewed facility Q3 15-Q4 16 By age of business	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15+ yrs
Unweighted base:	*48**	*47**	*60**	*68**	*264*
Offered what wanted and took it	43%	63%	44%	68%	72%
Took loan after issues	9%	13%	23%	14%	16%
Have loan (any)	***52%***	***76%***	***67%***	***82%***	***88%***
Took another form of funding	11%	1%	-	-	*
No facility	37%	23%	33%	18%	11%

All SMEs seeking new/renewed loan facility that have had response

Success rates for smaller applications (under £100,000) have shown signs of increase over time. In 2013, half of such applications were successful, increasing to 6 in 10 for 2014 and 7 in 10 for applications in 2015 and 2016 to date.

Applications for larger amounts (£100,000+) have been more likely to be successful and success rates have improved from around 8 out of 10 to around 9 in 10 of these larger applications.

Final outcome by date of application – loans

The table below shows the outcome by recent quarter of application. There is no clear pattern over time but success rates for applications made in 2015 are currently somewhat higher than those made in previous years:

Final outcome (Loan) SMEs seeking new/ renewed facility By date of application	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1* 16
Unweighted base:	*183*	*210*	*181*	*215*	*158*	*191*	*185*	*143*	*132*	*151*	*96**
Offered what wanted and took it	46%	42%	52%	54%	64%	47%	62%	45%	67%	62%	46%
Took loan after issues	15%	26%	12%	7%	24%	9%	19%	28%	11%	9%	20%
Have loan (any)	*61%*	*68%*	*64%*	*61%*	*88%*	*56%*	*81%*	*73%*	*78%*	*71%*	*66%*
Took another form of funding	3%	8%	9%	12%	4%	10%	*	4%	5%	-	11%
No facility	36%	24%	26%	27%	8%	34%	19%	23%	17%	29%	23%

Final outcome of loan application by date of application: * indicates interim results as data is still being gathered on events in these quarters

There is currently insufficient data to report on applications post Brexit (Q3 and Q4 2016) but initial indications are that around 7 in 10 applications resulted in a facility.

To set these results in context, an analysis has been done of applicants over time based on the premise that size, risk rating and purpose of facility all affect the outcome of applications.

Over time, where robust data is available:

- Starts: 29% of current applicants are Starts, up from 19% in 2015. Over time the proportion has varied – the proportion of Starts increased from 15% in 2010 to 23% in 2012, before declining to 16% in 2014 and then increasing again to the 29% seen currently.
- First time applicants: currently 37% of applicants are applying for the first time, up from 26% in 2015. This proportion has also varied over time, initially increasing between 2010 and 2012 from 20% to 43%, then declining to 26% for 2015.
- The proportion of applicant SMEs with a worse than average external risk rating: Half of current applicants have this rating, up from 33% in 2015. In 2013, 53% of applicants had this rating, before the proportion then declined to 33% in 2015.

These are all factors that analysis has shown are likely to affect the loan success rate over time.

Further analysis was undertaken using regression modelling. This analysis takes a number of pieces of data (described below) and builds an equation using the data to predict as accurately as possible what the actual overall success rate for loans should be. This equation can be applied to a sub-set of loan applicants (in this case all those that applied in a certain quarter) to predict what the loan success rate should be for that group. This predicted rate is then compared to the actual success rate achieved by the group, as shown in the table below.

As in previous reports, the equation was built using business size and risk rating, as well as the type of facility (first time applicant etc.), as these factors had been shown to be key influencers on the likelihood of being successful in an application for funding.

Analysis using this approach is shown below. This shows that the predicted loan success rate increased during 2014, peaking at 80% for Q1 2015 but has declined somewhat since then:

Final outcome (Loan)

SMEs seeking new/ renewed facility By date of application	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1* 16
Unweighted base:	*183*	*210*	*181*	*215*	*158*	*191*	*185*	*143*	*132*	*151*	*96**
Have loan (any)	61%	68%	64%	61%	88%	56%	81%	73%	78%	71%	66%
Predicted success rate	*66%*	*65%*	*70%*	*69%*	*71%*	*71%*	*80%*	*78%*	*79%*	*73%*	*72%*
Difference	-5	+3	-6	-8	+17	-15	+1	-5	-1	-2	-6

Final outcome of loan application by date of application

Analysis shows that neither the higher success rate reported for applications in Q3 2014 (88%) nor the lower rate for Q4 2014 (56%) were explained by a change in the profile of applicants, as the predicted success rate remained unchanged at 71%. The lower predicted success rates for Q4 2015 and Q1 2016 have been reflected in the actual success rates achieved.

The impact of personal borrowing on loan applications

22% of those making a loan application in the past 18 months (Q3 2015 to Q4 2016) said that the facility they had sought was in a personal capacity, compared to 15% for overdrafts.

On a limited sample, those applying in a personal capacity were less likely to have employees (19% v 45% of those applying in a business capacity) or to be seeking a loan in excess of £25,000 (20% v 34% for those applying in a business capacity) but were no more likely to have a worse than average external risk rating for the business (48% v 45% for those applying in a business capacity).

In terms of the outcome of personal loan applications, base sizes remain limited. However, current data suggests that those applying in a personal capacity were no less likely to have ended the process with a facility (75% v 73% of business applicants) or to have ended the process with no facility (25% v 23% of business applicants).

Outcome analysis over time – new and renewed facilities

This chapter has reported separately thus far on the overdraft and loan journeys made, from initial application to the final outcome. It has shown how, for both loans and overdrafts, those applying for new money typically had a different experience from those seeking to renew an existing facility. This final piece of analysis looks specifically at applications for new or renewed funding, whether on loan **or** overdraft. As the summary table at the start of this chapter showed, renewals have been consistently successful with improvements seen over time in the success rates of those applying for new money, including first time applicants.

The analysis below, as in previous reports, has been based on all applications made, rather than all SMEs (so an SME that had both a loan and an overdraft application will appear twice). In line with the analysis elsewhere in this chapter, results are typically shown for applications made in the **last 18 months** (between Q3 2015 and Q4 2016) and which have been reported to date.

83% of all loan and overdraft applications in the 18 months to Q4 2016, and reported to date, resulted in a facility. The table below shows that those seeking to renew an existing loan or overdraft facility were more likely to have ended the process with a facility (99%) than those seeking new funds (71%). The margin between the two groups has narrowed somewhat over time as the success rate for new money improves (in earlier waves, those renewing were twice as likely to be successful as those seeking new funds):

Final outcome Loans and Overdrafts combined Q3 15 – Q4 16	New funds sought	Renewals sought
Unweighted base of applications:	*699*	*580*
Offered what wanted and took it	60%	94%
Took facility after issues	11%	5%
Have facility (any)	***71%***	***99%***
Took another form of funding	7%	1%
No facility	22%	1%

Final outcome of overdraft/loan application by type of finance sought

Further analysis looks at these applications over recent quarters and compares the outcome for renewals to the outcomes for new and specifically first time facilities, by date of application. Around 4 in 10 of all applications involved the renewal of an existing facility.

The outcome of applications for **renewed** loans/overdrafts over recent quarters is detailed below. It shows almost all such applicants ended the process with a renewed facility:

Final outcome (Overdraft+ Loan) – renewed facilities

By date of application	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1* 16
Unweighted base of applications:	*252*	*242*	*244*	*255*	*200*	*237*	*246*	*193*	*168*	*152*	*145*
Offered what wanted and took it	90%	89%	79%	79%	89%	91%	95%	97%	97%	89%	99%
Took facility after issues	8%	9%	19%	11%	11%	7%	5%	3%	3%	11%	1%
Have facility (any)	***98%***	***98%***	***98%***	***90%***	***100%***	***98%***	***100%***	***100%***	***100%***	***100%***	***100%***
Took another form of funding	*	*	*	6%	*	-	-	-	-	-	-
No facility	2%	1%	2%	4%	*	2%	*	-	*	-	*

Final outcome of overdraft/loan application by date of application: * indicates interim results as data is still being gathered on events in these quarters

The final outcome for applications for **new** funds (whether first time applicants or not) made over recent quarters is shown in the table below. There is variability by quarter:

Final outcome (Overdraft+ Loan) – applications for new money

By date of application	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1* 16
Unweighted base of applications:	*253*	*304*	*262*	*305*	*219*	*264*	*233*	*205*	*182*	*201*	*155*
Offered what wanted and took it	43%	40%	53%	55%	58%	59%	55%	37%	61%	59%	55%
Took facility after issues	13%	19%	13%	10%	23%	12%	10%	21%	13%	11%	12%
Have facility (any)	*56%*	*59%*	*66%*	*65%*	*81%*	*71%*	*65%*	*58%*	*74%*	*70%*	*67%*
Took another form of funding	7%	9%	13%	8%	3%	10%	2%	11%	6%	*	16%
No facility	38%	32%	21%	26%	16%	20%	32%	31%	20%	30%	17%

Final outcome of overdraft/loan application by date of application: * indicates interim results as data is still being gathered on events in these quarters

The success rate for new money combines the outcome of loan and overdraft applications made by first time applicants with the outcome for those who have borrowed before. First time applicants now make up a smaller proportion of all new money applications – they made up 41% of all new money applications in the 18 months to Q4 2016 compared to 66% for the 18 months to Q4 2013.

The table below shows the current success rates for new money applications made in the 18 months to Q4 2016, analysed by whether the SME was applying for a first facility or had borrowed before. Those who have borrowed before were more likely to end the process with a facility (79%) than those who were applying for the first time (60%) and this has been a consistent trend over time:

Final outcome – new money Loans and Overdrafts combined Q3 15 – Q4 16	First time applicants	Other new money
Unweighted base of applications:	*219*	*480*
Offered what wanted and took it	52%	66%
Took facility after issues	8%	13%
Have facility (any)	*60%*	*79%*
Took another form of funding	7%	7%
No facility	33%	14%

Final outcome of overdraft/loan application by type of finance sought

Over time, the success rate for first time loan/overdraft applicants has increased, from 41% in the 18 months to Q4 2012 to 60% for both the 18 months to Q4 2016 and the current 18 month period. As already reported, this is due to increasing success rates for first time overdraft applicants, as success rates for first time loan applicants were little changed over recent quarters:

Final outcome – first time applicants Loans and Overdrafts combined	Q3 11 Q4 12	Q3 12 Q4 13	Q3 13 Q4 14	Q3 14 Q4 15	Q3 15 Q4 16*
Unweighted base of applications:	*840*	*658*	*493*	*399*	*219*
Offered what wanted and took it	30%	27%	41%	49%	52%
Took facility after issues	11%	12%	14%	11%	8%
Have facility (any)	*41%*	*39%*	*55%*	*60%*	*60%*
Took another form of funding	8%	9%	6%	5%	7%
No facility	51%	53%	39%	34%	33%

Final outcome of overdraft/loan application by type of finance sought

Success rates for other new money applicants remained higher than for first time applicants and had increased steadily over time:

Final outcome – other new money

Loans and Overdrafts combined Other applications	Q3 11 Q4 12	Q3 12 Q4 13	Q3 13 Q4 14	Q3 14 Q4 15	Q3 15 Q4 16*
Unweighted base of applications:	*1471*	*668*	*1114*	*905*	*480*
Offered what wanted and took it	52%	47%	58%	60%	66%
Took facility after issues	18%	22%	16%	17%	13%
Have facility (any)	*70%*	*69%*	*74%*	*77%*	*79%*
Took another form of funding	6%	8%	10%	5%	7%
No facility	23%	23%	16%	18%	14%

Final outcome of overdraft/loan application by type of finance sought

Previous analysis has shown that external risk rating has been a key predictor of success rates. First time applicants have always been the most likely to have a worse than average risk rating, reflecting the fact that they are typically younger and smaller businesses. For 2016 to date some three-quarters of FTAs had such a risk rating, the highest proportion seen to date. Amongst other seekers of new money, almost half have a worse than average risk rating, back to the levels seen in 2011-12:

% of applicants with worse than average external risk rating

Overdraft + Loan By year of application (base varies)	In 2011	In 2012	In 2013	In 2014	In 2015	In 2016*
First time applicants	69%	71%	69%	67%	55%	76%
Other new money	49%	49%	45%	34%	35%	48%
Renewals	34%	40%	36%	29%	35%	34%

Final outcome of overdraft/loan application by date of application: * indicates interim results as data is still being gathered on events in these quarters

For the SME population as a whole, the proportion with a worse than average external risk rating rose from 50% in 2011 to 54% in 2013. In 2015, 46% had a worse than average risk rating, increasing slightly to 49% for 2016, so applicants have followed a similar pattern.

9. The impact of the application/ renewal process

This chapter reports

on the experience of applying for Type 1 loan and overdraft events and the impact on the wider banking relationship.

Key findings

Most successful applicants said that their facility was available in good time for when they needed it:

- A consistent 8 in 10 overdrafts had been made available within two weeks, with a similarly consistent 96-97% of overdraft applicants saying that their facility was available in good time for when they needed it.
- The proportion of loans made available in two weeks was lower (at around half of successful applications), but has also remained consistent over time. Whilst the speed of funds does not appear to have changed, the proportion saying their loan was available 'in good time' has increased somewhat over time (to 93%), narrowing the gap to overdrafts.

The majority of loans (89%) were agreed for a period of up to 10 years. Most applicants had their loan for the period they had asked for (89%), with 8% having wanted a loan for a longer period of time and 3% for a shorter period.

9 in 10 of those offered the overdraft (89%) or the loan (94%) they wanted were satisfied with the application process they had been through. By contrast, 61% of the overdraft applicants and 65% of the loan applicants that experienced any other outcome (a facility after issues, other funding or no facility) were dissatisfied with the experience.

More broadly, two thirds of SMEs (65%) described their relationship with their bank as 'fine but transactional'. 1 in 5 (22%) said they had a 'strong working relationship' while 12% wished they had a more active relationship with their bank.

- Smaller SMEs were more likely to have a transactional relationship with their bank (68% of those with 0 employees compared to 42% of those with 50-249 employees) or to wish they had a better relationship (13% of 0 employee SMEs compared to 5% of 50-249 employee SMEs).

- Strong working relationships were more common amongst larger SMEs (53% of those with 50-249 employees compared to 19% of 0 employee SMEs).
- A third of Would-be seekers of finance (34%) wished they had a more active relationship with their bank, compared to 13% of those who reported a borrowing event.

This chapter reports on the impact of Type 1 loan and overdraft events on the wider banking relationship. New questions from Q1 2016 cover satisfaction with the loan and overdraft application process, the length of time the loan facility was granted for and the wider banking relationship.

Satisfaction with application process

In a new question from Q1 2016, all applicants were asked how satisfied they were with the application process they had been through. Base sizes are somewhat limited for applicants other than those offered what they wanted and so only limited reporting is possible at this stage.

The table below shows that overall 73% of overdraft applicants were satisfied with the application process. However there was a marked contrast in satisfaction between those offered what they wanted and taking it, where 89% were satisfied, and those experiencing another outcome (taking a facility after issues, taking another form of funding or having no funding) where 15% were satisfied:

Satisfaction with application process

Sought new/renewed facility Q3 15-Q4 16 (interviewed from Q1 16)	All overdraft applicants	Offered OD wanted	All other OD outcomes
Unweighted base:	*671*	*574*	*97**
Very satisfied	56%	69%	8%
Fairly satisfied	17%	20%	7%
Satisfied (any)	***73%***	***89%***	***15%***
Neither satisfied nor dissatisfied	13%	10%	24%
Fairly dissatisfied	4%	1%	15%
Very dissatisfied	10%	1%	46%

Q100a All SMEs applying for new/renewed facility

Base sizes for those not offered what they wanted remain limited but qualitatively, 4 in 10 of those with a facility *after issues* reported being satisfied with the process, compared to less than 5% of those taking other funding or who were declined for an overdraft.

It was a similar story for loan applicants, with those who were offered a loan and took it being much more likely to be satisfied (94%) than those experiencing any other outcome (including having a loan after issues) where 26% were satisfied.

Satisfaction with application process

Sought new/renewed facility Q3 15-Q4 16 (interviewed from Q1 16)	All loan applicants	Offered loan wanted	All other loan outcomes
Unweighted base:	*365*	*249*	*116*
Very satisfied	49%	72%	17%
Fairly satisfied	17%	22%	9%
Satisfied (any)	***66%***	***94%***	***26%***
Neither satisfied nor dissatisfied	5%	1%	9%
Fairly dissatisfied	7%	-	17%
Very dissatisfied	23%	4%	48%

Q195a All SMEs applying for new/renewed facility

Base sizes for those not offered what they wanted remain limited but qualitatively, 6 in 10 of those with a facility *after issues* reported being satisfied with the process, compared to just over 1 in 10 of those taking other funding or who were declined for a loan.

This is supported by a follow up question, asked of all applicants *except* those who were offered, and took, the facility they wanted. Amongst such overdraft and loan applicants, just over a third said that the outcome of their application had had no negative impact on their business, but almost all of these had an overdraft/loan facility albeit 'after issues'.

Across both loans and overdrafts the most commonly mentioned negative impacts were not expanding the business as they would have liked (mentioned more by those with no loan) and finding running the business more of a struggle (mentioned more by those with no overdraft).

Period for which new loan facility granted

From Q1 2016 those with a new loan or commercial mortgage were asked how long the loan was granted for. Base sizes are limited at this early stage (164 respondents for applications made in the last 6 quarters) but early results are as follows:

- 44% of new loans/commercial mortgages were for less than 5 years (with little difference by size of applicant)
- 45% were for 5-10 years (more common for smaller applicants)
- 9% were for 11-20 years (more common amongst larger applicants)
- 2% were for more than 20 years (with little difference by size).

These successful applicants were also asked whether this was the time period they had wanted the loan for:

- 89% said that it was (with little difference by size)
- 8% would have liked the loan over a longer time period (half had loans of less than 5 years, half of 5-10 years)
- 3% would have liked a loan over a shorter time period (two thirds of this group had a loan of 5-10 years).

More analysis will be provided as base sizes permit.

New facility granted in good time

Successful respondents were asked how long it had taken from submitting their application to putting their new facility in place and whether this was in 'good time' for when they needed it. In line with analysis elsewhere in this part of the report, the table below is based on all applications made in the last 18 months, Q3 2015 to Q4 2016.

8 out of 10 overdrafts were in place within 2 weeks (82%), while half of loans were in place in this time period (53%):

Successful Type 1 applicants Time taken to put facility in place Sought new/renewed facility Q3 15-Q4 16	Overdrafts	Loans
Unweighted base:	*793*	*408*
Within 1 week	69%	36%
Within 2 weeks	13%	17%
Within 3-4 weeks	12%	26%
Within 1-2 months	4%	12%
Longer than this	1%	7%
Not in place yet	1%	2%

Q101a and Q196a All SMEs that granted new/renewed facility excluding DK

Further analysis is provided in the table below.

Time taken & impact	Successful Type 1 applicants Q3 2015 to Q4 2016
Time taken by sector	Overdrafts were more likely to be agreed within a week in the Other Community sector (88%), compared to 43% in the Transport sector. For other sectors the proportion agreed within a week ranged from 53-72%. Base sizes are small for loans and there is more variability – the proportion with a facility agreed in a week ranged from 2% for applicants in the Health sector to 50% for the Other Community sector.
By level of security	Secured loans were less likely to be in place within a week (22%) than unsecured ones (54%), given the security processes that need to be undertaken. There was also a difference between secured (50%) and unsecured (80%) overdrafts that were in place within a week (overdrafts are more likely to be renewals where the security may already be in place).
By size of SME	Loan facilities for smaller SMEs were slightly more likely to be made available within a week (38% for loans where the SME had 0-9 employees, 26% where they had 10-249 employees) with a clearer difference by size for overdrafts (70% v 56%).
In place in good time?	Most applicants agreed that the facility had been put in place in good time for when it was needed, with overdraft applicants slightly more likely to agree (97%) than loan applicants (93%).
In place in good time, by size of SME	There was little difference in rating the facility as available in good time by size of SME: • Amongst applicants with 0-9 employees, 97% said their overdraft was made available in good time, while for loans it was 93%. • Amongst larger applicants 97% said their overdraft was made available in good time, while for loans it was 91%.

Analysis by the length of time taken for the facility to be put in place showed that overall almost all those waiting up to 3 weeks said that the facility had been put in place in good time.

The table below shows the proportion granted a facility in 2 weeks and the proportion saying the facility was made available in good time, for a series of 18 month application periods.

A consistent 8 in 10 overdrafts have been made available within two weeks, with a consistent 96-97% of overdraft applicants saying that their facility was available in good time for when they needed it. The proportion of loans made available in two weeks was lower (at around half of successful applications), but has also remained consistent over time. Whilst the speed of funds does not appear to have changed, the proportion saying their loan was available 'in good time' has increased somewhat over time (to 93%), narrowing the gap to overdrafts:

Successful Type 1 applicants

Time taken to put facility in place Over time	Q3 13 Q4 14	Q1 14 Q2 15	Q3 14 Q4 15	Q1 15 Q2 16*	Q3 15 Q4 16*
Overdraft					
• Agreed within 2 weeks	83%	82%	82%	81%	82%
• Agreed in good time	96%	96%	96%	96%	97%
Loan					
• Agreed within 2 weeks	55%	59%	54%	54%	53%
• Agreed in good time	86%	84%	86%	89%	93%

Q101a/b and Q196a/b All SMEs that granted new/renewed facility excluding DK

‘Effort’ required to obtain a new facility

From Q1 2014, successful Type 1 loan and overdraft applicants were asked how much effort they had to expend to get their new facility. This question is derived from various academic studies from Harvard Business School which claim that the more ‘effort’ a situation requires, the less satisfied the customer and the less likely they are to remain loyal in future. A score is given between 1 and 5 (where 5 is high effort) and the net score of low-high effort calculated. The higher the net score the better, but negative net scores are not uncommon in other banking studies undertaken.

Overall, the overdraft application process was more likely than the loan application process to be rated a low effort experience. This, though, is due to more overdraft applicants being offered the facility they wanted (and then rating it a low effort process) as overdraft applicants who got their facility ‘after issues’ give a markedly different effort score.

Customer effort	Successful Type 1 applicants Q3 2015 to Q4 2016
Overdraft applicants	74% of successful Type 1 overdraft applicants described the process as ‘low effort’. 12% described it has ‘high effort’, a net score of +62.
Loan applicants	63% of successful Type 1 loan applicants described the process as ‘low effort’. 21% described it has ‘high effort’, a net score of +42.
Effort if offered what wanted	79% of successful overdraft applicants who were ‘offered what they wanted and took it’ rated this as a low effort experience. 63% of successful loan applicants who were ‘offered what they wanted and took it’ rated this as a low effort experience.
Effort if have facility after issues	16% of those who had their overdraft facility ‘after issues’ rated it a low effort experience (compared to 79% offered what they wanted). 59% of those who had their loan facility ‘after issues’ rated it a low effort experience (compared to 63% of those offered what they wanted).

Overall bank relationship

In previous reports analysis has been provided on overall satisfaction with the main bank. On an annual basis from 2011, overall satisfaction improved very slightly (80-84%) and was consistently higher for larger SMEs.

From Q1 2016 this question was replaced by one that sought to understand the banking relationship in more detail, with SMEs asked which of three phrases best described their relationship with their main bank. As the table below shows the most frequent answer in 2016, especially for smaller SMEs, was that the relationship was fine, but transactional:

Nature of relationship with main bank YEQ4 16 all SMEs	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base	*18,000*	*3600*	*5800*	*5800*	*2800*
We have a strong working relationship with our bank and feel we can approach them whenever we need to	22%	19%	29%	47%	53%
The relationship with our bank is fine but we really just use the bank for transactions so rarely need to approach them	65%	68%	59%	47%	42%
We don't have an active working relationship with our bank and wish that we had one	12%	13%	12%	7%	5%

Q24a All SMEs

There were clear differences by size of SME. Those with 0 employees were much more likely to describe their relationship as 'transactional' (68%) than to say they had a 'strong working relationship' (19%) and were almost as likely to wish for a more active relationship (13%). As the size of SME increases, so does the proportion with a 'strong working relationship' and amongst those with 50-249 employees this was the most common answer (53% v 42% who have a transactional relationship).

Excluding the Permanent non-borrowers increases the proportion with a 'strong relationship' slightly (to 25%). Analysis by age of business shows that around 1 in 5 of SMEs of all ages up to 15 years had a 'strong relationship' increasing to 1 in 4 of the oldest SMEs.

Analysis by previous borrowing behaviour shows that those who had reported a borrowing event (typically the larger SMEs) were more likely to have a 'strong working relationship' than those who had been Would-be seekers of finance. The relatively small group of WBS was more than twice as likely as the other groups to wish that they had a more active relationship with their bank (34%):

Nature of relationship with main bank YEQ4 16 all SMEs	Total	Had an event	WBS	HNS
Unweighted base	*18,000*	*3223*	*350*	*14,427*
We have a strong working relationship with our bank and feel we can approach them whenever we need to	22%	29%	13%	21%
The relationship with our bank is fine but we really just use the bank for transactions so rarely need to approach them	65%	57%	53%	67%
We don't have an active working relationship with our bank and wish that we had one	12%	13%	34%	12%

Q24a All SMEs

Analysis by future borrowing intentions shows a different pattern, with Future would-be seekers no more likely to wish they had a better relationship (15%) than those planning to apply (17%).

28-30% of SMEs in the Hotel & Restaurant, Agriculture or Wholesale/Retail sectors had a strong working relationship compared to 20% of those in Construction or Property/Business Services. There was relatively little variation by sector in the proportion wanting a more active relationship (9-14%).

10. Rates and fees – Type 1 events

This chapter covers

the security, interest rates and fees pertaining to overdrafts and loans granted after a Type 1 borrowing event (that is an application or a renewal) that occurred in the 18 months Q3 2015 to Q4 2016.

Key findings

Most overdrafts granted in the 18 months to Q4 2016 (83%) were for £25,000 or less.

- A third (36%) were secured, primarily on property, increasing by size of SME and of facility.
- Over time, the proportion of secured facilities has increased (from 34% of facilities granted in H2 2012 to 40% of those granted in H1 2016) as more smaller facilities were secured.
- 65% of overdrafts granted were on a fixed interest rate and this has changed very little over time. Fixed rate lending was more common for smaller facilities –72% of facilities of less than £10,000 were on a fixed rate, compared to 35% of facilities in excess of £100,000
- Most paid a fee for their overdraft, and in most cases (69%) this was the equivalent of 2% or less of the facility granted.

Loans were typically granted for larger sums, with 86% of those granted in the 18 months to Q4 2016 being £100,000 or less.

- Half of loans (54%) were secured -17% as a commercial mortgage and 37% as a secured business loan. As for overdrafts, loans granted to larger SMEs and for larger amounts were more likely to be secured.
- The proportion of loans (excluding commercial mortgages) that were secured has increased over time from 3 in 10 to 4 in 10.
- 73% of loans were on a fixed interest rate. Fixed rate lending was slightly less likely for larger loans above £100,000 (67%).
- Amongst loan applicants who paid a fee, 81% paid 2% or less of the sum granted.

This chapter covers the security and fees pertaining to overdrafts and loans granted after a Type 1 borrowing event (that is an application or a renewal) which occurred between Q3 2015 and Q4 2016.

The main reporting in this chapter does **not** include any overdrafts granted as the result of an automatic renewal process. These automatically renewed overdrafts are reported on separately towards the end of this chapter.

From Q1 2016, this element of the questionnaire was revised, simplifying the question on security and removing the questions on the margin or fixed rate charged for a facility.

Overdrafts: context

The price of a facility will be a function, at least in part, of the size of the facility and the business it is granted to, whether it is secured or not, and whether it is a personal or business facility.

Successful overdraft applications	**Further analysis Q3 2015 to Q4 2016**
Size of applicant	Of all new overdrafts successfully applied for Q3 2015 to Q4 2016: • 59% were granted to 0 employee SMEs • 33% to 1-9 employee SMEs • 8% to 10-49 employee SMEs • 1% to 50-249 employee SMEs.
Size of facility	83% of new/renewed overdrafts granted between Q3 2015 and Q4 2016 were for £25,000 or less. This varied by size of applicant from 93% of overdrafts granted to SMEs with 0 employees to 40% of those granted to SMEs with 50-249 employees.
Personal facilities	14% of successful new/renewed overdrafts in this period were in a personal name rather than that of the business. This was much more likely to be the case for those with 0 employees (22%) than for larger SMEs (<5%).

Analysis of the size of the overdraft facility granted by recent application date is reported below. In each quarter the majority of applications have been for facilities of less than £25,000. Typically around a quarter of applications have been for larger amounts with no clear pattern over time:

Overdraft facility granted

By date of application	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1* 16	Q2* 16
Unweighted base:	*337*	*318*	*338*	*261*	*314*	*301*	*256*	*232*	*224*	*201*	*99**
Less than £5,000	34%	49%	42%	37%	37%	37%	48%	42%	37%	36%	47%
£5-25,000	40%	32%	30%	35%	43%	40%	34%	45%	40%	41%	38%
£25,000+	26%	20%	28%	28%	20%	22%	19%	12%	23%	23%	15%

Overdraft facility granted – all successful applicants that recall amount granted

Overdrafts: Security

From Q1 2016, those who had successfully applied for an overdraft were asked a simplified question about the security pertaining to that facility, as shown in the table below. The headline categories remained the same as in previous waves allowing this 2016 data to be combined with previous data. A third of Type 1 overdrafts (i.e. a new or renewed facility not including automatic renewals, successfully applied for between Q3 2015 and Q4 2016) were secured:

Security required (Overdraft)

Successfully sought new/renewed overdraft Q3 15 – Q4 16	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*793*	*82**	*264*	*305*	*142*
Any security	36%	26%	48%	64%	69%
Property (business/personal)	*26%*	*18%*	*36%*	*47%*	*46%*
Other security (any)	*12%*	*9%*	*15%*	*20%*	*25%*
No security required	64%	74%	52%	36%	31%

Q 105a All SMEs with new/renewed overdraft excluding DK

The larger the SME, the more likely it was to have a secured facility and this was also true by size of facility granted. For overdrafts successfully applied for between Q3 2015 and Q4 2016:

- 28% of overdrafts granted for less than £10,000 were secured
- 33% of overdrafts granted for £10-24,999 were secured
- 67% of overdrafts granted for £25-99,999 were secured
- 86% of overdrafts granted for £100,000 or more were secured.

Over the longer term, more overdrafts have been secured, primarily due to an increase in the proportion of overdraft facilities of £10,000 or less that were secured. Larger facilities remained more likely to be to be secured, although there has been some variation over time in the proportion of overdrafts for £10-24,999 that have been secured.

% of overdraft facilities that were secured

By application date Row percentages	H2 2012	H1 2013	H2 2013	H1 2014	H2 2014	H1 2015	H2 2015	H1 2016*
All overdrafts	34%	35%	34%	36%	33%	42%	37%	40%
Overdrafts of <£10,000	16%	18%	22%	24%	24%	32%	31%	30%
Overdrafts of £10-24,999	52%	49%	40%	50%	38%	45%	31%	36%
Overdrafts of £25-100,000	63%	62%	62%	53%	40%	64%	64%	74%
Overdrafts of more than £100,000	63%	72%	78%	66%	68%	74%	92%	78%

Q 105a All SMEs with new/renewed overdraft, excluding DK

Initial indications for applications made in H2 2016 are that a lower proportion were secured, due to fewer overdrafts of less than £10,000 being secured.

Overdrafts: Rates

Amongst those who gave an answer, a third (35%) said that their new/renewed overdraft was on a variable rate and this remained more likely to be the case for larger facilities granted:

Type of rate (overdraft) by facility granted

Successfully sought new/renewed overdraft Q3 15-Q4 16 excl. DK	Total	<£10k	£10-25k	£25-100k	£100k+
Unweighted base:	*671*	*230*	*140*	*164*	*137*
Variable rate lending	35%	28%	33%	56%	65%
Fixed rate lending	65%	72%	67%	44%	35%

Q 107 All SMEs with new/renewed overdraft, excluding DK

As the table below shows, when analysed by date of application the proportion of lending on a variable rate has been fairly stable at around 4 in 10, with the exception of the first half of 2015 when almost half (46%) were on a variable rate:

New/renewed overdraft rate

By date of application	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1* 16
Unweighted base:	*255*	*278*	*280*	*281*	*220*	*250*	*262*	*207*	*194*	*176*	*167*
Variable rate lending	43%	43%	43%	40%	38%	38%	46%	46%	36%	38%	41%
Fixed rate lending	57%	57%	57%	60%	62%	62%	54%	54%	64%	62%	59%

Q 107 All SMEs with new/renewed overdraft, excluding DK

Questions around the margin charged for the overdraft facility are no longer asked.

Overdrafts: Fees

Most respondents (82%) were able to recall the arrangement fee that they had paid for their new/renewed overdraft facility (if any). The average fee paid was £237, and this has been fairly consistent over time.

As would be expected, fees vary by size of facility granted:

Fee paid (overdraft) by facility granted

Successfully sought new/renewed overdraft

Q3 15-Q4 16 excl. DK	Total	Under £25k	£25-100k	£100k+
Unweighted base:	*642*	*352*	*165*	*125*
No fee paid	13%	15%	7%	8%
Less than £100	23%	26%	7%	1%
£100-199	38%	44%	8%	1%
£200-399	16%	12%	43%	7%
£400-999	6%	1%	28%	20%
£1000+	4%	1%	7%	62%
Average fee paid:	*£237*	*£120*	*£413*	*£935*
Median fee paid	*£96*	*£93*	*£280*	*£934*

Q 113/114 All SMEs with new/renewed overdraft, excluding DK

Over time, the proportion paying no fee for their overdraft has remained fairly consistent, at around 1 in 5. Current data for H2 15 and H1 16 suggests a lower proportion paid no fee (around 1 in 9), with the proportion increasing back to levels previously seen for H2 2016.

Amongst those with a new/renewed overdraft who knew both what fee they had paid and the size of the facility granted, 24% paid a fee that was equivalent to less than 1% of the facility granted and a further 45% paid the equivalent of 1-2%.

Almost all of those borrowing £25,000 or more paid a fee which was the equivalent of 2% or less of the facility granted. This compares to around half of those with a facility of £10,000 or less:

- 52% of those granted a new/renewed overdraft facility of less than £10,000 paid the equivalent of 2% or less
- 89% of those granted a new/renewed overdraft facility of £10-25,000 paid the equivalent of 2% or less
- 97% of those granted a new/renewed overdraft facility of £25-100,000 paid the equivalent of 2% or less
- 96% of those granted a new/renewed overdraft facility of more than £100,000 paid the equivalent of 2% or less.

An analysis of secured and unsecured overdrafts is shown below:

Unsecured and secured overdrafts	Further analysis Q3 2015 to Q4 2016
Amount borrowed	Most unsecured overdrafts were for less than £25,000 (92%) compared to 66% of secured overdrafts.
Variable rates	Secured overdrafts were somewhat more likely to be on a variable rate (46%) than unsecured overdrafts (28%).
Fees	Secured overdrafts were somewhat more likely to attract a fee (96%) than unsecured overdrafts (82%), and the average fee charged was higher (£463 secured compared to £124 unsecured). Whilst secured overdrafts typically attracted a higher fee in absolute terms, these are typically larger facilities and the fee was more likely to be the equivalent of 2% or less of the agreed facility (80%) than was the case for unsecured overdrafts (63%).

Overdraft terms: Analysis by risk rating

Sample sizes also permit some analysis of size of facility and fees by the external risk rating of the SME granted the facility. Businesses with a minimal/low risk rating typically had a larger, secured, facility:

Further analysis by risk rating Q3 2015 to Q4 2016

Amount borrowed	Most overdrafts granted to those with an average or worse than average risk rating were for less than £25,000 (86%) compared to 68% of those granted to SMEs with a minimal or low risk rating.
Security	Those with a minimal or low risk rating were more likely to have a secured overdraft (46%) than those with an average or worse than average rating (32%). For both groups, those borrowing more than £25,000 were more likely to have a secured facility (75% for minimal/low and 68% for average/worse than average).
Variable rates	There was no difference in the type of interest rate by risk rating (35% on a variable rate for both those with a minimal/low or average/worse than average risk rating).
Fees	There was relatively little difference in the proportion who paid a fee for their overdraft (90% for minimal/low and 82% for average/worse than average). Those with a minimal/low risk rating paid a higher fee in absolute terms (£430 v £178 for those with an average or worse than average risk rating) but this was as likely to be the equivalent of 2% or less of the agreed facility (76%) as for those with an average or worse than average risk rating (72%).

Overdraft terms: Analysis by sector

Overall in the 18 months Q3 2015 to Q4 2016, 83% of overdrafts successfully applied for were facilities of £25,000 or less. On limited base sizes by sector this varied relatively little (between 79% and 95%), with the exception of Agriculture where 48% of overdrafts granted were for less than £25,000.

As the table below shows, these larger overdrafts in the Agricultural sector were also more likely to be secured:

Type 1 overdraft

Successfully sought new/ renewed overdraft Q3 15-Q4 16 excl. DK	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	*84**	*82**	*132*	*100*	*42**	*73**	*138*	*52**	*90**
Any security	65%	40%	29%	38%		43%	35%	35%	29%
- property	*60%*	*27%*	*16%*	*32%*		*33%*	*19%*	*35%*	*19%*
No security	35%	60%	71%	62%		57%	65%	65%	71%

Q 106 All SMEs with new/renewed overdraft excluding DK

Overall, a third of successful Type 1 overdrafts were on a variable rate (35%). On limited base sizes, overdrafts granted to SMEs in Wholesale/Retail were less likely to be on a variable rate:

Type 1 overdraft rate

Successfully sought new/ renewed overdraft Q3 15-Q4 16 excl. DK	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	*78**	*67**	*103*	*85**	*36**	*70**	*122*	*40**	*70**
Variable rate lending	57%	36%	26%	14%		42%	45%		25%
Fixed rate lending	43%	64%	74%	86%		58%	55%		75%

Q 107 All SMEs with new/renewed overdraft excluding DK

Whilst those in Agriculture paid on average a higher fee, this is a reflection of the larger overdraft facilities successfully applied for in this sector, given that they were more likely than many other sectors to pay a fee equivalent to 2% or less of the sum borrowed:

Type 1 overdraft fees

Successfully sought new/ renewed overdraft Q3 15-Q4 16 excl. DK	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base (varies):	*72**	*69**	*104*	*80**	*39**	*55**	*113*	*41**	*69**
No fee paid	18%	23%	9%	19%		14%	14%		2%
Average fee paid	£514	£186	£312	£177		£242	£273		£139
Equivalent of 2% or less paid*	88%	59%	88%	75%		63%	57%		73%

Q 113/114 All SMEs with new/renewed overdraft excluding DK

Overdrafts: Automatic renewals

As mentioned earlier in this chapter, data is available on the fees and security pertaining to overdraft facilities that were automatically renewed. The table below shows this data for all automatic renewals that occurred between Q3 2015 and Q4 2016.

16% of these automatic renewals were in a personal name (v 14% of Type 1 overdrafts granted). They were in many ways quite similar to Type 1 overdraft events in the same period:

Overdraft rates and fees summary Q3 15-Q4 16	Automatically renewed	Type 1 overdraft event
Unweighted base (varies by question):	*1235*	*830*
Any security required	32%	36%
Facility on a variable rate (excluding DK)	39%	35%
No fee	20%	13%
Average fee paid	£290	£237

All SMEs with new/renewed overdraft, excluding DK

Loans: Context

As with the overdraft section above, this section is based on SMEs that had made an application for a new or renewed loan facility during the latest 18 month period which for this report is between Q3 2015 and Q4 2016.

The price of a facility will be a function, at least in part, of the size of the facility and of the business granted that facility, whether it is secured or not, and whether it is a personal or business facility.

Successful loan applications	Further analysis Q3 2015 to Q4 2016
Size of applicant	Of all new loans successfully applied for between Q3 2015 and Q4 2016: • 61% were granted to 0 employee SMEs • 30% to 1-9 employee SMEs • 8% to 10-49 employee SMEs • 1% to 50-249 employee SMEs.
Size of facility	86% of new/renewed loans granted in the period Q3 2015 to Q4 2016 were for £100,000 or less. By size of applicant this varied from 93% of loans granted to SMEs with 0 employees to 39% of loans granted to those with 50-249 employees.
Personal facilities	24% of successful new/renewed loans in this period had been applied for in a personal name rather than that of the business. 99% of these loans were for £100,000 or less (albeit this is based on a small number of loans). 35% of 0 employee SMEs with a new/renewed loan said the facility was in a personal name, while amongst those with employees very few were in a personal name (1-9%). Personal facilities will typically be priced differently to business facilities, so as an indication 27% of all loans agreed for less than £100,000 were applied for in a personal name, compared to 1% of loans £100k+.

Analysis of loans granted by recent application quarter is shown below. Base sizes are limited and trends over time are not clear but there are currently fewer larger loans of £100k or more compared to the period Q4 2014 to Q2 2015:

Loan facility granted By date of application	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1* 16
Unweighted base:	*164*	*152*	*177*	*133*	*163*	*166*	*122*	*119*	*130*	*86**
Less than £25k	63%	59%	64%	72%	52%	63%	41%	67%	60%	70%
£25-99k	27%	23%	21%	12%	14%	13%	16%	17%	30%	19%
More than £100k	10%	19%	15%	16%	33%	24%	43%	15%	10%	11%

All successful loan applicants that recall amount granted

Loans: Security

17% of all loans were commercial mortgages (excluding don't know answers). These were much more likely to have been granted for £100,000+ and to larger applicants:

- 15% of successful applicants with 0-9 employees said their loan was a commercial mortgage
- 30% of successful applicants with 10-49 employees
- 27% of successful applicants with 50-249 employees.

All other successful loan applicants were asked whether any security was required for their loan. In line with the changes made to the questions about the security required for overdraft facilities, these questions have also been simplified and are reported in the new format below.

Smaller SMEs remained more likely to have an unsecured loan:

Security required (Loan) Successfully sought new/renewed loan Q3 15-Q4 16	Total	0-9 emp	10-49 emps	50-249 emps
Unweighted base:	*416*	*152*	*189*	*75**
Commercial mortgage	17%	15%	30%	28%
Secured business loan	37%	36%	48%	55%
Property (business/personal)	*29%*	*28%*	*42%*	*42%*
Other security (any)	*16%*	*16%*	*13%*	*19%*
Unsecured business loan	46%	49%	22%	18%

Q 198a All SMEs with new/renewed loan excl. DK

Including commercial mortgages, of new/renewed loans successfully applied for in Q3 2015 to Q4 2016:

- 37% of loans granted for less than £25,000 were secured
- 86% of loans granted for £25,000 to £100,000 were secured
- 73% of those granted for more than £100,000 were secured.

Analysis by date of application at the half year level, shows that most loans granted for more than £100,000 (*excluding* commercial mortgages) were secured. Loans for under £100,000 were less likely to be secured, but such security has become more likely over time. Currently then, around 4 in 10 of all loans that were not commercial mortgages were secured:

% of loan facilities that were secured

Application date Row percentages	H2 2012	H1 2013	H2 2013	H1 2014	H2 2014	H1 2015	H2 2015	H1 2016*
All loans (excluding commercial mtges)	33%	26%	35%	31%	34%	45%	41%	41%
Loans of <£100,000 (excl commercial mtges)	18%	17%	31%	24%	20%	38%	36%	
Loans of £100,000 or more (excl commercial mtges)	78%	82%	76%	72%	83%	73%	91%	

Q 200 All SMEs with new/renewed loan, excluding DK and those with commercial mortgage

Loans: Rates

Amongst those who knew, 73% said that their loan was on a fixed rate (including those with commercial mortgages). Fixed rate lending remained somewhat more common for loans than overdrafts (where 65% of facilities were on a fixed rate) and also more common for smaller loan facilities:

Type of rate (loan) by amount granted

Successfully sought new/renewed loan Q3 15-Q4 16	Total	<£100k	£100k+
Unweighted base:	*365*	*235*	*130*
Variable rate lending	27%	26%	33%
Fixed rate lending	73%	74%	67%

Q 198 All SMEs with new/renewed loan, excluding DK

Analysis by when the application took place showed that typically around 7 in 10 loans have been on a fixed rate, with no clear trend over time.

Analysis by size of loan over time is more qualitative in nature due to limited sample sizes. It suggests that between 7 and 8 in 10 loans under £100,000 were on a fixed rate. Recent loans above £100,000 were somewhat less likely to be on a fixed rate, with currently around two thirds being on a fixed rate.

Loans: Fees

72% of respondents were able to recall the arrangement fee that they paid for their loan (if any). As with overdrafts, those borrowing a smaller amount typically paid a lower fee in absolute terms:

Fee paid (loan)

Successfully sought new/renewed loan Q3 15-Q4 16	Total	<£100k	£100k+
Unweighted base:	*312*	*196*	*166*
No fee paid	45%	49%	26%
Less than £100	12%	13%	3%
£100-199	14%	16%	1%
£200-399	10%	10%	9%
£400-999	10%	8%	21%
£1000+	10%	4%	40%
Average fee paid:	*£1117*	*£183*	*£6252*
Median fee paid	*£20*	*£7*	*£656*

Q 207/208 All SMEs with new/renewed fixed rate loan, excluding DK

Amongst those with a new/renewed loan who knew both what fee they had paid and the original loan size, 57% paid a fee that was the equivalent of less than 1% of the amount borrowed and a further 24% paid between 1-2%:

- 80% of those granted a new/renewed loan of less than £100,000 paid the equivalent of 2% or less.
- 92% of those granted a new/renewed loan of more than £100,000 paid the equivalent of 2% or less.

The proportion paying the equivalent of 2% or less has been around 8 in 10 each year with the exception of 2012 when around 7 out of 10 paid a fee of this proportion.

An analysis of unsecured and secured loans (including commercial mortgages) is shown below:

Unsecured and secured loans	Further analysis Q3 2015 to Q4 2016
Amount borrowed	Almost all unsecured loans were for less than £100,000 (92%) compared to 81% of secured loans.
Fixed rates	Unsecured loans were more likely to be on a fixed rate (88%) then secured loans (62%).
Fees	Secured loans were somewhat more likely to attract a fee (66%) than unsecured loans (43%), and the average fee charged was higher (£2049 secured compared to £136 unsecured). Whilst secured loans typically attracted a higher fee in absolute terms, this was as likely to be the equivalent of 2% or less of the agreed facility (79%) as unsecured loans (83%).

Loan terms: Analysis by risk rating

Sample sizes also permit analysis of size of facility and fees by external risk rating. Those with a minimal/low external risk rating remained more likely to be typically borrowing more:

Risk rating	Further analysis Q3 2015 to Q4 2016
Amount borrowed	Most successful applicants with an average or worse than average risk rating were borrowing less than £100,000 (90%) compared to 78% of those with a minimal or low risk rating.
Security	58% of loans to minimal/low risk SMEs were secured, compared to 53% of those made to those with an average/worse than average risk rating.
Fixed rates	65% of loans to minimal/low risk SMEs were on a fixed rate v 75% of those made to SMEs with an average/worse than average risk rating.
Fees	Those with a minimal/low risk rating were more likely to pay a fee at all (78% v 43% with an average/worse than average risk rating). Those with a minimal or low risk rating paid a higher average fee (£3477 v £267 for those with an average or worse than average risk rating). This in part reflects the larger facilities granted but they were less likely to have paid the equivalent of 2% or less as a fee (63% v 90% for those with an average or worse than average risk rating).

Loan terms: Analysis by sector

The small proportion of SMEs reporting a successful loan event means that base sizes for all sectors are now below 100, even across an 18 month time period and many are below 50. This section therefore cannot be reported at present.

11. Why were SMEs not looking to borrow in the previous 12 months?

This chapter looks

at those that had not had a borrowing event, to explore whether they wanted to apply for loan/overdraft finance in the previous 12 months and any barriers to applying.

Key findings

In 2016, 13% of all SMEs reported a borrowing event. 2% had wanted to apply for a loan or overdraft but something stopped them and so qualified as Would-be seekers of finance, leaving 84% of SMEs as Happy non-seekers who had neither applied nor wanted to apply for finance.

- Larger SMEs were somewhat more likely to have had a borrowing event but most SMEs in each size band met the definition of a Happy non-seeker.
- Excluding the Permanent non-borrowers increased the proportion of remaining SMEs reporting an event (25%) and slightly increased the proportion of Would-be seekers (4%) but most SMEs were still Happy non-seekers (70%).
- Since 2012, the proportion of 'events' has fallen (from 23% in 2012 to 13% in 2016) as has the proportion of Would-be seekers (10% to 2%) resulting in more SMEs in the Happy non-seeker category (68% to 84%)
- 29% of Happy non-seekers in 2016 were using external finance but had not applied, or felt the need to apply, for a loan or overdraft in the 12 months prior to interview.
- Expanding the definition above to include applications for other forms of finance (such as leasing) increased the proportion of 'events' to 21%, and left the Would-be seekers unchanged at 2%. 77% of SMEs were Happy non-seekers under this definition.

Amongst the small group of Would-be seekers, the main barriers to an application were discouragement, especially amongst smaller SMEs, and the process of borrowing, especially amongst larger SMEs.

A consistent 5% of SMEs reported a previous decline by a bank. Most of those who had experienced such a decline (76%) said that it had made them more reluctant to apply for finance subsequently.

- Those made more reluctant by a past decline were as likely as those who were not made more reluctant to be using external finance now (48% v 40%) and more willing to use finance to help their business grow (68% v 53%).

- However, they were also more likely to have been a Would-be seeker of finance in the previous 12 months (17% v 6%).

As already detailed in this report, a minority of SMEs reported any borrowing event in the 12 months prior to interview. This chapter looks at those that had not had a borrowing event, to explore whether they had wanted to apply for loan/overdraft finance in the previous 12 months, and any barriers to such an application being made. Because this chapter covers not only those that have had a borrowing event, but also those that have not, analysis continues to be based on the date of **interview** (unlike chapters 7 to 10 which are entirely based on when the borrowing event in question *occurred*).

All SMEs have been allocated to one of three groups, encompassing both overdrafts and loans:

Had an event: those SMEs reporting any Type 1, 2 or 3 loan or overdraft borrowing event in the previous 12 months, or an automatic renewal of an overdraft facility.

Would-be seekers: those SMEs that had not had a loan or overdraft borrowing event/automatic renewal, but said something had stopped them applying for either loan or overdraft funding in the previous 12 months.

Happy non-seekers: those SMEs that had not had a loan/overdraft borrowing event/automatic renewal, and also said that nothing had stopped them applying for either loan or overdraft funding in the previous 12 months.

Changes to definitions over time – a summary

Up until Q1 2016, respondents who hadn't reported a relevant loan and/or overdraft borrowing event were asked separately about whether they had wanted to apply for a loan or an overdraft. This meant that a respondent might have been allocated to two different categories, for example if they reported a loan 'event' and had also been a Would-be seeker of an overdraft. In that instance they would have been classed as having had an event (due to the loan) and their answers in terms of being a Would-be seeker of an overdraft would not have been included at the analysis stage, as each respondent can only appear in one of the three categories above.

This meant that some answers (which took time to gather during the interview) were never reported. So, from Q1 2016 onwards, potential Would-be seekers have been identified within the survey as those who had reported neither a loan nor an overdraft event. Such SMEs were then asked whether anything had stopped them applying for either a loan or overdraft facility and if they identified any barrier, they qualified as a Would-be seeker of finance. Whilst this is a slightly different approach within the survey itself, the basis on which Would-be seekers are reported has not changed because the Monitor has only ever reported on Would-be seekers who had not had an 'event' as well.

Since the start of the Monitor a number of other adjustments have been made to this area of the questionnaire. These are summarised below but were reported in full in the Q4 2015 report:

- From the Q2 2012 report onwards, the definition of 'had an event' was amended to include automatic overdraft renewals, and all respondents from Q4 2011 re-classified under the new definition.
- From Q4 2012, the question used to separate the Happy non-seekers from the Would-be seekers was changed from:
    - Would you say that you would like to have an overdraft/loan facility for the business, even though you haven't applied for one?

  To

    - Has anything stopped you applying for an overdraft/loan, or was it simply that you felt that the business did not need one?
- In Q4 2012, the list of reasons available to Would-be seekers, explaining why they had not applied for a loan or overdraft facility was amended when the option 'I prefer not to borrow' was removed.
- From Q3 2015, a question has been asked that allows identification of Would-be seekers of other forms of finance (such as leasing). An initial assessment of the impact this would have on the overall Would-be seekers position is provided in this chapter but the main definition has not been changed in this report.

To what extent do SMEs have an unfulfilled wish to borrow?

The table below is based on the 'Had an event' definition described at the start of this chapter (i.e. including automatic renewals as an 'event'), and (from Q1 2016) the revised Would-be seeker/Happy non-seeker questions (which define these groups in the same way as previous reports).

As described earlier, the 'Have had an event' code includes not only applications for new or renewed loans and overdrafts (and the automatic renewal of overdrafts), but also Type 2 and Type 3 loan and overdraft events where either the bank or the SME was looking to reduce or repay an existing facility. The table below therefore shows, beneath the 'event' line, the proportion of SMEs each quarter that have applied for a new/renewed facility or had an overdraft facility automatically renewed, and then those that have had a facility reduced/cancelled or have chosen to do so (the Type 2 and 3 events):

Any events (overdraft and loan)

Over time – all SMES By date of interview	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Unweighted base:	*5024*	*5038*	*5001*	*5004*	*5003*	*4500*	*4500*	*4500*	*4500*
Have had an event	15%	18%	16%	16%	17%	13%	15%	11%	14%
• *New or (auto) renewed facility*	*13%*	*14%*	*14%*	*14%*	*15%*	*11%*	*13%*	*11%*	*12%*
• *Type 2 or 3 events*	*3%*	*6%*	*5%*	*4%*	*4%*	*3%*	*3%*	*2%*	*3%*
Would-be seekers	3%	3%	2%	3%	5%	3%	2%	2%	2%
Happy non-seekers	82%	79%	82%	80%	78%	83%	83%	87%	84%

Q115/209 All SMEs

This shows that over recent quarters, most SMEs met the definition of a Happy non-seeker of loan or overdraft finance (84% in Q4 2016), while the proportion of Would-be seekers remained low (2% in Q4 2016). The proportion of SMEs reporting an event remained at around 1 in 6.

Happy non-seekers can, and do, use external finance (the definition is based on borrowing *events* in the previous 12 months). In 2015 and H1 2016, a quarter of Happy non-seekers (25%) were using external finance, increasing in H2 2016 to 32%.

Permanent non-borrowers are by definition Happy non-seekers. The impact on the analysis above once these PNBs are removed is discussed later in the chapter.

The table below shows the small and broadly stable proportion of Would-be seekers of loan and overdraft finance over recent quarters:

Would-be seekers Over time – row percentages By date of interview	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
All SMEs	**3%**	**3%**	**2%**	**3%**	**5%**	**3%**	**2%**	**2%**	**2%**
0 employee	3%	3%	2%	4%	5%	4%	2%	2%	2%
1-9 employees	3%	4%	2%	3%	4%	3%	3%	2%	3%
10-49 employees	2%	2%	1%	2%	2%	1%	1%	1%	2%
50-249 employees	1%	1%	1%	1%	1%	*	2%	2%	1%
Minimal external risk rating	2%	1%	1%	2%	1%	3%	*	1%	3%
Low external risk rating	2%	4%	1%	2%	3%	1%	1%	1%	1%
Average external risk rating	2%	2%	2%	3%	7%	3%	2%	2%	1%
Worse than average external risk rating	5%	3%	2%	5%	6%	5%	3%	3%	3%
Agriculture	3%	2%	2%	4%	6%	3%	1%	2%	2%
Manufacturing	3%	3%	4%	4%	5%	4%	1%	4%	1%
Construction	3%	3%	2%	2%	3%	4%	1%	2%	1%
Wholesale/Retail	3%	1%	1%	6%	6%	2%	1%	4%	3%
Hotels & Restaurants	5%	5%	3%	4%	4%	3%	6%	2%	4%
Transport	8%	4%	5%	3%	5%	5%	3%	2%	2%
Property/Business Services etc.	3%	3%	2%	5%	4%	4%	3%	*	2%
Health	1%	2%	1%	3%	1%	1%	*	1%	2%
Other Community	3%	5%	*	1%	12%	2%	3%	2%	3%
All excluding PNBs	6%	6%	4%	6%	9%	7%	4%	4%	3%

Q115/209 All SMEs base size varies by category

As in previous periods, SMEs with no employees were less likely to have had an 'event' than those with employees. Across all sizes of SME, around 8 in 10 met the definition of a Happy non-seeker of finance:

Any events (Overdraft <u>and</u> loan) YEQ4 16 All SMES	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,000*	*3600*	*5800*	*5800*	*2800*
Have had an event	13%	12%	18%	21%	17%
Would-be seekers	2%	2%	3%	1%	1%
Happy non-seekers	84%	86%	79%	78%	82%

Q115/209 All SMEs– **new definitions** from Q4 2012

SMEs with employees were more likely to have experienced a borrowing event (19%). 2% met the definition of a Would-be seeker of finance, with the largest group, as overall, the Happy non-seekers (79%).

By risk rating, those SMEs with a worse than average risk rating remained somewhat less likely to have had an event but across all risk ratings the majority of SMEs met the definition of a Happy non-seeker:

Any events (Overdraft <u>and</u> loan) YEQ4 16 All SMEs with a risk rating	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*18,000*	*2999*	*5535*	*4040*	*3877*
Have had an event	13%	15%	18%	14%	11%
Would-be seekers	2%	2%	1%	2%	3%
Happy non-seekers	84%	83%	81%	84%	85%

Q115/209 All SMEs– **new definitions** from Q4 2012

Those currently using external finance were no more or less likely to be a Would-be seeker (3% v 2% not using external finance), but remained much more likely to have had an event (33% v 2% not using external finance).

The proportion of Would-be seekers varied relatively little by sector (1-4%). More variation was seen in terms of Happy non-seekers, which accounted for 89% of those in the Health sector (who were less likely to have had an event), compared to 78% of those in Agriculture (who were more likely to have had an event):

Any events (overdraft and loan) All SMEs YEQ4 16	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	*1200*	*1501*	*3199*	*1804*	*1203*	*1999*	*3597*	*1497*	*2000*
Have had an event	20%	16%	14%	18%	15%	10%	11%	10%	16%
Would-be seekers	2%	3%	2%	3%	4%	3%	2%	1%	2%
Happy non-seekers	78%	81%	84%	79%	81%	87%	87%	89%	81%

Q115/209 All SMEs

Analysis by age of business continued to show that the older the business the more likely they were to have had a borrowing event and the less likely to be a Happy non-seeker of finance (albeit 8 in 10 SMEs that have been trading for 10 years or more do meet the definition of a HNS):

Any events (overdraft and loan) All SMEs YEQ4 16	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15+ yrs
Unweighted base:	*1807*	*1921*	*2231*	*3008*	*9033*
Have had an event	10%	11%	10%	16%	18%
Would-be seekers	4%	3%	2%	2%	2%
Happy non-seekers	87%	86%	89%	82%	81%

Q115/209 All SMEs

The table below takes a longer term view back to 2012, accepting the slight changes to the questionnaire made over this period (and summarised at the start of the chapter). The proportion of Happy non-seekers of finance has risen year on year, as appetite for finance fell with fewer SMEs either reporting a borrowing event or met the definition of a Would-be seeker:

Any events (overdraft and loan) Over time – all SMEs	2012	2013	2014	2015	2016
Unweighted base:	*20,055*	*20,036*	*20,055*	*20,046*	*18,000*
Have had an event	23%	17%	16%	17%	13%
Would-be seekers	10%	6%	5%	3%	2%
Happy non-seekers	68%	77%	79%	80%	84%

Q115/209 All SMEs

As had already been reported, SMEs with 0 employees have less of an appetite for finance, but their responses form the majority of the “All SME” figures quoted. Analysis of SMEs with employees over time shows that they have also become less likely to have had an event (from 33% in 2012 to 19% in 2016), or to have been a Would-be seeker of finance (8% to 2%). As a result, the Happy non-seekers have increased from 59% of SMEs with employees in 2012 to 79% in 2016.

The impact on these longer term trends once the Permanent non-borrowers are excluded is reported later in this chapter.

An expanded definition of Would-be seekers

Mention was made earlier in this report of a new question from Q3 2015 which asked those who had not applied for any other form of finance (such as leasing or invoice discounting) whether something had stopped them applying (in much the same way as those who had not applied for a loan or an overdraft have been asked the questions that define a Would-be seeker of finance).

YEQ4 2016, 2% of those asked the question said that yes, something had stopped them applying for one of these other forms of finance. This is the equivalent of 2% of all SMEs.

It is therefore now possible to provide a revised analysis of activity:

- The 'event' category can be expanded to include not just loans and overdrafts but those who applied for another form of finance (such as invoice discounting).
- The Would-be seeker category can be expanded to include those who wanted to apply for one of these other forms of finance but felt that something stopped them.

As the table below shows, the impact of including Would-be seekers of other forms of finance in a revised definition of Would-be seekers overall, is minimal. The proportion with an 'event' increases from 13% to 21% and the proportion of Happy non-seekers reduces accordingly:

Any events (overdraft and loan) YEQ4 16	Original definition	Revised definition
Unweighted base:	*18,000*	*18,000*
Have had a loan/overdraft event	13%	21%
Would-be seekers	2%	2%
Happy non-seekers	84%	77%

Q115/209i/Q222b3 All SMEs

Three quarters of those defined as a WBS in the original definition remained in this category under the new definition, while a quarter moved into the 'event' category because they had applied for another form of finance. 91% of HNS in the original definition remained in this category under the new definition, while 8% moved into the 'event' category and 1% into the WBS category. The additional Would-be seekers under the revised definition have not been included in any other analysis in this chapter.

Barriers to overdraft or loan application

SMEs that were identified as Would-be seekers (i.e. they had wanted to apply for an overdraft/loan in the 12 months prior to their interview, but felt that something had stopped them) were asked about the barriers to making such an application.

These are reported below, firstly in terms of how frequently they were mentioned at all and secondly how frequently they were nominated as the main barrier.

The reasons have been grouped into the themes shown below, and respondents could initially nominate as many reasons as they wished for not having applied when they wanted to.

As described at the start of this chapter, this is now only asked once, across both loans and overdrafts, instead of separately for each form of finance. This limits the trend data available over the longer term, but some analysis has been provided of the answers given by loan and overdraft Would-be seekers on a combined basis for 2015.

The key reasons given in 2016 were:

Process of borrowing – those who did not want to apply because they thought it would be too expensive, too much hassle etc. This had been given as a reason by 48% of all Would-be seekers in 2015 and by 32% in 2016 (the equivalent of 1% of all SMEs)

Discouragement – those that had been put off, either directly (they made informal enquiries of the bank and were put off) or indirectly (they thought they would be turned down by the bank so did not ask). This was given as a reason by 42% of all Would-be seekers in 2015 and by 45% in 2016 (the equivalent of 1% of all SMEs)

Principle of borrowing – those that did not apply because they feared they might lose control of their business, or preferred to seek alternative sources of funding. This was given as a reason by 29% of all Would-be seekers in 2015 and by 26% in 2016 (the equivalent of <1% of all SMEs)

Current economic climate – those that felt that it had not been the right time to borrow. This was given as a reason by 11% of all Would-be seekers in 2015 and by 13% in 2016 (the equivalent of <1% of all SMEs).

The table below shows the results for 2016, and all the reasons for not applying for a loan or overdraft that are included in the summary categories above.

All reasons for not applying for loan or overdraft when wanted to

All Would-be seekers YEQ4 16 excluding DK	Total	0-9 emps	10-249 emps
Unweighted base:	*320*	*225*	*95**
Issues with process of borrowing	32%	32%	49%
-Would be too much hassle	*9%*	*9%*	*12%*
-Thought would be too expensive	*17%*	*17%*	*9%*
-Would be asked for too much security	*9%*	*9%*	*10%*
-Too many terms and conditions	*7%*	*7%*	*12%*
-Did not want to go through process	*9%*	*9%*	*7%*
-Forms too hard to understand	*3%*	*3%*	*6%*
Discouraged (any)	45%	46%	17%
-Direct (put off by bank)	*19%*	*19%*	*6%*
-Indirect (thought would be turned down)	*34%*	*34%*	*11%*
Issues with principle of borrowing	26%	26%	22%
-Not lose control of business	*8%*	*8%*	*6%*
-Can raise personal funds if needed	*11%*	*11%*	*9%*
-Prefer other forms of finance	*5%*	*5%*	*8%*
-Go to family and friends	*9%*	*9%*	*6%*
Economic climate	13%	13%	15%
-Not the right time to apply	*13%*	*13%*	*15%*

Q210 All Would-be seekers SMEs that wished they had applied for an overdraft or a loan

An additional question was asked of those giving more than one reason, asking them to nominate the key reason for not applying. The remaining analysis focuses on the main reason given by Would-be seekers for not having applied for an overdraft or loan in the previous 12 months.

Discouragement and the process of borrowing have typically been the two main reasons for not applying for a facility. For the new question in 2016 discouragement was the main barrier for Would-be seekers with 0-9 employees whilst larger Would-be seekers were more likely to cite the process of borrowing:

Main reason for not applying for loan or overdraft when wanted to All Would-be seekers YEQ4 16 excluding DK	Total	0-9 emps	10-249 emps
Unweighted base:	*318*	*225*	*93**
Discouraged (any)	42%	43%	11%
-Direct (put off by bank)	*15%*	*15%*	*5%*
-Indirect (thought would be turned down)	*27%*	*28%*	*5%*
Issues with process of borrowing	20%	19%	43%
Issues with principle of borrowing	18%	18%	13%
Economic climate	10%	9%	12%
None of these	*4%*	*4%*	*17%*

Q210a All SMEs that wished they had applied for an overdraft or a loan

Larger Would-be seekers who cited the process of borrowing as their main reason typically mentioned the hassle, terms and conditions and being asked to provide security.

Amongst all Would-be seekers with employees, the process of borrowing was as much of a barrier as discouragement. 34% reported feeling ‘discouraged’ while 32% cited the process of borrowing, around 1 in 6 mentioned the principle of borrowing (17%) and 1 in 12 the current economic climate (8%).

Analysis by external risk rating showed discouragement was also the main barrier for those with an average or worse than average external risk rating:

Main reason for not applying for loan or overdraft when wanted to

All Would-be seekers YEQ4 16 excluding DK	Total	Min/ Low	Avge/WTA
Unweighted base:	*318*	*86**	*193*
Discouraged (any)	42%	11%	43%
-Direct (put off by bank)	*15%*	*4%*	*17%*
-Indirect (thought would be turned down)	*27%*	*7%*	*26%*
Issues with process of borrowing	20%	27%	17%
Issues with principle of borrowing	18%	49%	17%
Economic climate	10%	8%	10%
None of these	*4%*	*2%*	*5%*

Q210a All SMEs that wished they had applied for an overdraft or a loan

Those with a minimal or low risk rating were less likely to have felt discouraged from applying. On a limited base, half cited the principle of borrowing, mentioning in particular being able to get finance from family and friends.

Base sizes are currently too small for analysis by sector.

Previous analysis over time has tracked the reasons for not applying for an overdraft separately to those for not applying for a loan. This makes comparisons over time with the new question introduced in Q1 2016 more difficult. The table below shows, on an annual basis for 2015, any mentions of each of the four key themes by Would-be seekers, whether they had been put off applying for a loan or an overdraft and compares them to the first results in 2016 of the new, combined, question. This shows that discouragement remained the key barrier:

Reasons for not applying for loan or overdraft when wanted to Over time – all Would-be seekers	2015	2016*
Unweighted base:	*485*	*318*
Discouraged (any)	42%	45%
Issues with process of borrowing	48%	32%
Issues with principle of borrowing	29%	26%
Economic climate	11%	13%

Q210a All SMEs that wished they had applied for an overdraft or a loan – question changed in 2016 and now excludes DK

In both instances, the two key reasons for not applying have been discouragement (almost all of it indirect) and the process of borrowing.

The new combined question will be tracked over time in future reports.

There is no evidence of Would-be seekers giving different reasons for not applying in the second half of the year (post-Brexit) compared to the first half of the year.

Would-be seekers constitute a minority of all SMEs (2%). The table below shows, for the main reasons given by Would-be seekers for 2016, the equivalent proportion of all SMEs:

Main reason for not applying YEQ4 16	Would-be seekers	All SMEs
Unweighted base:	*318*	*18,000*
Discouraged (any)	42%	1%
-Direct (put off by bank)	*15%*	*
-Indirect (thought I would be turned down)	*27%*	*
Issues with process of borrowing	20%	1%
Issues with principle of borrowing	18%	1%
Economic climate	10%	*

Q210a All SMEs v all that wished they had applied for an overdraft or a loan

The equivalent of 1% of all SMEs reported having felt discouraged from applying for a loan or overdraft facility.

The effect of the Permanent non-borrower

As identified earlier in this report, half of all SMEs met the definition of a Permanent non-borrower and this proportion has increased steadily over time. If such SMEs are excluded from the analysis in this chapter (because there is no indication from their answers that they will borrow), the population of SMEs reduces to around 2.7 million from 5 million.

25% of this group of SMEs excluding PNBs reported a borrowing event:

Any events (Overdraft and loan) YEQ4 16 – all SMES	All SMEs	All SMEs excl. PNB
Unweighted base:	*18,000*	*11,634*
Have had an event	13%	25%
Would-be seekers	2%	4%
Happy non-seekers	84%	70%

Q115/209 All SMEs

The proportion of Happy non-seekers declines to 70% but remains the largest group and 4% of these SMEs met the definition of a Would-be seeker, compared to 2% of all SMEs.

The table below shows the pattern over recent quarters, once the PNBs have been excluded. The proportion reporting an event had been broadly stable at around 30%, but was somewhat lower in the second half of 2016:

Any events (overdraft and loan) All SMES, excluding PNBs – over time By date of interview	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Unweighted base:	*3153*	*3220*	*3195*	*3258*	*3338*	*2854*	*3008*	*2755*	*3017*
Have had an event	29%	35%	32%	30%	30%	26%	29%	23%	23%
Would-be seekers	6%	6%	4%	6%	9%	7%	4%	4%	3%
Happy non-seekers	65%	59%	64%	63%	61%	67%	67%	73%	73%

Q115/209 All SMEs excluding PNBs

Taking a longer term view, from 2012, and accepting the slight changes in definition in that time, shows that the proportion of SMEs (excluding the PNBs) reporting a borrowing event remained fairly stable between 2012 and 2015, before dropping to 25% in 2016. The proportion of Would-be seekers of finance declined more steadily over time (15% to 4%). As a result, the proportion of Happy non-seekers has increased from 51% of SMEs excluding the PNBs in 2012 to 60% in 2016:

Any events (overdraft and loan) Over time – excl PNBs	2012	2013	2014	2015	2016
Unweighted base:	*15,312*	*14,578*	*13,613*	*13,011*	*11,634*
Have had an event	35%	28%	28%	32%	25%
Would-be seekers	15%	10%	8%	6%	4%
Happy non-seekers	51%	62%	64%	62%	70%

Q115/209 All SMEs excl PNBs

The table below shows the main reasons for not applying, using the revised 'all SME' definition that excludes the PNBs:

Main reason for not applying when wished to – YEQ4 16	Would-be seekers	All SMEs excl. pnb
Unweighted base:	*318*	*11,634*
Discouraged (any)	42%	2%
-Direct (put off by bank)	*15%*	*1%*
-Indirect (thought I would be turned down)	*27%*	*1%*
Issues with process of borrowing	20%	1%
Issues with principle of borrowing	18%	1%
Economic climate	10%	*

Q210a All SMEs v all that wished they had applied for an overdraft or a loan

The equivalent of 2% of all SMEs (excluding the PNBs) reported having felt discouraged from applying for a loan or overdraft facility.

The longer term impact of previous declines

Previous qualitative research conducted amongst discouraged Would-be seekers revealed that a number of these SMEs felt discouraged due to a previous decline from a bank, which might have occurred a number of years before. In order to understand the impact of such declines on the wider SME population as a whole, a new question was added to the SME Finance Monitor from Q1 2014.

5% of SMEs reported a declined banking facility at some time in the past and this has changed very little over time:

Previous decline by bank	All SMEs YEQ4 2016
By size of SME	Smaller SMEs were somewhat more likely to report a previous decline: • 5% of 0 employee SMEs • 5% of those with 1-9 employees • 4% of those with 10-49 employees • 2% of those with 50-249 employees Amongst SMEs with employees, 5% had previously been declined.
Excluding the PNBs	Once the PNBs were excluded, 7% of remaining SMEs had experienced a previous decline (compared to 2% of PNBs).
Risk rating	There was little difference by risk rating (4% for all bands except for those with a worse than average rating where 6% had been declined).
Use of external finance	6% of those currently using external finance had experienced a previous decline, compared to 4% of those who had not used external finance in the past 5 years (and 10% of the small group that had used finance in the past but were not using it now).

Amongst SMEs who had experienced a previous decline:

- 76% said that this had made them more reluctant to apply for bank finance subsequently (the equivalent of 4% of all SMEs). The smaller the SME experiencing the decline, the more likely they were to say they had been made more reluctant (79% of 0 employee SMEs that had been declined compared to 40% of such SMEs with 50-249 employees).
- By external risk rating, those declined with a worse than average risk rating were slightly more likely to have been made more reluctant (80%) than those with a minimal, low or average external risk rating (69-71%).

The tables below explore this reluctance in more detail. 4% of all SMEs had been made more reluctant by a previous decline, increasing to 6% once the PNBs had been excluded. Larger SMEs remained somewhat less likely to have been impacted:

Impact of previous decline by bank All SMEs YEQ4 16	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,000*	*3600*	*5800*	*5800*	*2800*
More reluctant to apply after a decline	4%	4%	4%	2%	1%
Declined but not more reluctant	1%	1%	2%	2%	1%
Have not been declined in past	95%	95%	95%	96%	98%

Q240x and Q240y All SMEs

Impact of previous decline by bank All SMEs YEQ4 16 excl PNBs	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*11,634*	*1821*	*3592*	*4113*	*2108*
More reluctant to apply after a decline	6%	6%	6%	3%	1%
Declined but not more reluctant	1%	1%	2%	2%	1%
Have not been declined in past	93%	93%	93%	95%	97%

Q240x and Q240y All SMEs excluding PNBs

There was relatively little difference overall by risk rating:

Impact of previous decline by bank All SMEs YEQ4 16	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*18,000*	*2999*	*5535*	*4040*	*3877*
More reluctant to apply after a decline	4%	3%	3%	3%	4%
Declined but not more reluctant	1%	1%	1%	1%	1%
Have not been declined in past	95%	96%	96%	96%	94%

Q240x and Q240y All SMEs

Amongst those currently using external finance, 5% had become more reluctant to apply as the result of a previous decline, compared to 7% of those that had used finance in the past five years but were not using it currently and 3% of those who have not used external finance for at least the past 5 years.

Analysis was then undertaken to see what impact this previous decline might have had on actual use of external finance and borrowing behaviour in the 12 months prior to interview. As the table below shows:

- Around half of those who had previously been declined were using any external finance, and this did not vary much by whether that decline had made them more reluctant to seek finance or not.
- Those who had never been declined were less likely to be using external finance (37%) and more likely to qualify as a Happy non-seeker of finance (86%).
- Those who reported that the decline had made them more reluctant to apply for bank finance were more likely to meet the definition of a Would-be seeker of finance (17%) than either those not put off by their decline (6%) or those who had never been declined (2%).

Impact of previous decline by bank All SMEs YEQ4 16	All SMEs	Made more reluctant by decline	Declined but not made more reluctant	Not previously declined
Unweighted base:	*18,000*	*491*	*288*	*17,221*
Using external finance	37%	48%	40%	37%
Have had an event	13%	35%	27%	12%
Would-be seekers	2%	17%	6%	2%
Happy non-seekers	84%	49%	67%	86%

Q240x and Q240y and Q115/209 All SMEs

To put these figures in context, less than 1% of all SMEs were Would-be seekers of finance who had been made more reluctant by a previous decline (the 17% group shown above).

The table below presents the same analysis once the PNBs have been excluded. This increases the use of finance amongst those with no previous decline, while those made more reluctant by a previous decline remain more likely to be a would-be seeker of finance:

Impact of previous decline by bank All SMEs YEQ4 16 excl PNBs	All SMEs	Made more reluctant by decline	Declined but not made more reluctant	Not previously declined
Unweighted base:	*11,634*	*428*	*217*	*10,989*
Using external finance	70%	58%	63%	71%
Have had an event	25%	41%	43%	24%
Would-be seekers	4%	20%	9%	3%
Happy non-seekers	70%	39%	48%	73%

Q240x and Q240y and Q115/209 All SMEs excluding PNBs

A similar pattern was seen for future borrowing intentions. Excluding the PNBs, 23% of remaining SMEs were planning to apply for finance in the next 3 months. Amongst those who had experienced a decline this proportion was higher (44%) and consequently they were less likely to meet the definition of a Future happy non-seeker of finance (29% v 54% of all SMEs excluding the PNBs).

Finally, the table below looks at the impact of a previous decline on attitudes to external finance:

Impact of previous decline by bank % agree – all SMEs YEQ4 16	All SMEs	Made more reluctant by decline	Declined but not made more reluctant	Not previously declined
Unweighted base:	*18,000*	*491*	*288*	*17,221*
Repay existing finance and remain debt free	67%	80%	72%	67%
Happy to use finance to help business grow	43%	68%	53%	42%
Plans based on what can afford ourselves	80%	79%	78%	80%

Q240x and Q240y and Q238a5 All SMEs

The statement with most variation was willingness 'to use finance to help the business grow', where those who had experienced a previous decline were more willing to consider using finance than those who had never been declined. The majority in each group would prefer to be debt free but this came through slightly more strongly for those who had experienced a previous decline. There was little variation in levels of agreement about basing plans on what the business can afford.

12. The future

This chapter reports

on growth plans and perceived barriers to that growth. It then explores SMEs' intentions for the next 3 months, in terms of finance and the reasons why SMEs think that they will/will not be applying for new/renewed finance in that time period.

Key findings

During 2016, the proportion of SMEs planning to grow fell from 45% in Q1 to 41% for both Q2 and Q3 before recovering to 47% in Q4. For the year as a whole, 43% of SMEs were planning to grow, continuing a gradual decline over time (in 2013, 49% were planning to grow).

- The changes during 2016 were led by SMEs with up to 10 employees.
- The longer term decline from 2013 to 2016 was seen more amongst the 0 employee SMEs (46% to 40% planning to grow) and those with 50-249 employees (67% to 58%).
- Growth ambitions in 2016 were higher amongst those who import (63% planned to grow) or who both import and export (70%) and these were also in line with their ambitions in 2015. Those who only export were less likely to be planning to grow (49%) than their international peers and this was also lower than in 2015 (when 59% of exporters planned to grow).

There was no change during 2016 in the overall proportion of SMEs rating either the current economic climate or 'political uncertainty and government policy' as major barriers, but larger and international SMEs did show some signs of concern in the second half of the year.

- In Q4 2016, 13% of all SMEs rated the current economic climate as a major obstacle, and this has changed very little during 2015 or 2016, due to there being little change in the views of the 0 employee SMEs. Amongst SMEs with 50-249 employees the proportion rating the current economic climate as a major barrier increased from 8% in 2015 to 15% in Q4 2016.
- 12% rated 'political uncertainty and government policy' as a major obstacle, up slightly from the 9-10% rating it a major obstacle during the rest of 2016 and 2015. Again, larger SMEs gave higher ratings in 2016 - the proportion of 50-249 employee SMES rating political uncertainty as a barrier increased from 7% in 2015 to 15% in Q4 2016.

- More significant increases were seen amongst SMEs that trade internationally, notably those who both import and export where concern about the economic climate increased from 17% in 2015 to 35% in Q4 2016 and concern about political uncertainty increased from 8% to 32% in the same period.

The proportion of SMEs planning to apply for finance in the 3 months after interview was 14% in Q1 2016 and then 11% for the rest of the year.

- The 12% planning to apply for 2016 as a whole was marginally lower than the 13% recorded for both 2014 and 2015, due to a consistent appetite for finance amongst 0 employee SMEs. Amongst those with employees, future appetite for finance has fallen since 2012.
- Excluding the Permanent non-borrowers with little apparent appetite for finance results in a more marked decline in appetite for finance from 28% of such SMEs in Q1 2016 to 19% in Q4. For 2016 as a whole though, appetite for finance was 23%, only slightly lower than the 25% recorded in 2015.
- Confidence amongst potential applicants that the bank would agree to lend to them increased during 2016 and was 55% for the year as a whole. This continued the increase in confidence seen since 2013, when 39% were confident of success. Larger SMEs and those with a better risk rating remained more confident of success, but confidence has increased for all groups over time.
- In Q4 2016 itself, 59% of those planning to apply to a bank were confident of success. Confidence about a hypothetical application amongst those who were not planning to apply was higher at 69%, driven by higher confidence amongst Future happy non-seekers (72%).

14% of SMEs in Q4 2016 expected to be Future would-be seekers of finance, and this has changed very little over recent quarters, remaining lower than seen in previous years (in 2012, 23% of SMEs were Future would-be seekers).

- The main barrier to a future application remained a reluctance to borrow in the current climate. This has typically been mentioned by around half of Future would-be seekers but was mentioned more in Q3 2016 (71%) immediately post Brexit. In Q4 it was mentioned as a reason by 58% of FWBS.
- During 2016, FWBS became somewhat more confident that their bank would agree to an application for finance, if they were to make one (from 38% in Q1 2016 to 57% in Q4). However, they remained less confident than Future happy non-seekers (72% in Q4 2016) and were also less confident about their ability to assess financial products or apply to another bank for finance: 51% were confident they could apply for finance to a bank other than their own, compared to 58% of those planning to apply and 63% of Future happy non-seekers.

Having reviewed performance over the 12 months prior to interview, SMEs were then asked about the **future**. As this is looking forward, the results from each quarter can more easily be compared to each other, providing a guide to SME sentiment.

This chapter reports on growth objectives and perceived barriers to future business performance. It then explores SMEs' intentions for the next 3 months in terms of finance and the reasons why SMEs think that they will/will not be applying for new/renewed finance in that time period.

Most of this chapter therefore is based on Q4 2016 data gathered between September and December, after the immediate aftermath of the referendum result but before any Government plans for Brexit had been published. Analysis of results across the four individual quarters of 2016 provides a first read of how SMEs are responding to the referendum result.

Given that SMEs that trade internationally will potentially see more of an impact post-Brexit, this chapter also includes a summary of how such SMEs have been feeling across the four quarters of 2016.

Growth plans for next 12 months

SMEs were asked about their growth plans for the next 12 months. In Q3 2015 the answer codes to this question were adjusted to match the question asked about past growth. Thus 'Grow substantially' became 'Grow by 20% or more' and 'Grow moderately' became 'Grow but by less than 20%'.

The results reported below show that, since that change, the *net* growth figure has been broadly in line with previous quarters but the split between 'Grow by 20% or more' and 'Grow but by less than 20%' has been different to that seen previously, with more SMEs planning to grow by 20% or more. Growth predictions in both Q2 2016 and Q3 2016 (immediately pre and post Brexit) were somewhat lower than had been seen at the end of 2015, but in Q4 2016 almost half of SMEs (47%) were planning to grow:

Growth in next 12 mths

All SMEs– over time By date of interview	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Unweighted base:	*5024*	*5038*	*5001*	*5004*	*5003*	*4500*	*4500*	*4500*	*4500*
Grow by 20% or more*	7%	8%	6%	24%	24%	21%	16%	16%	19%
Grow by less than 20%*	36%	35%	37%	24%	23%	24%	25%	25%	28%
All with objective to grow	***43%***	***43%***	***43%***	***48%***	***47%***	***45%***	***41%***	***41%***	***47%***
Stay the same size	46%	48%	47%	43%	43%	46%	47%	51%	44%
Become smaller	4%	4%	4%	4%	4%	5%	6%	4%	4%
Plan to sell/pass on/close	7%	6%	6%	4%	5%	4%	5%	4%	5%

Q225 All SMEs *definition changed for Q3 2015

The proportion of SMEs *predicting* growth, and 20%+ growth in particular, has typically been somewhat higher than the proportion *achieving* that level of growth. During 2016, the proportion expecting to grow dipped from 45% in Q1 to 41% for both Q2 and Q3 before increasing again to 47% in Q4. As the table later in this section shows, it was the smaller SMEs and notably those with 1-9 employees who drove this change.

In Q4 2016, the smallest SMEs were less likely to be planning to grow at all (44%), but as likely as larger SMEs to be planning to grow by 20% or more (18%):

Plans to grow in next 12 mths Q4 16 only	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*4500*	*900*	*1450*	*1450*	*700*
Grow by 20% or more	19%	18%	23%	19%	18%
Grow by less than 20%	28%	26%	33%	42%	43%
All with objective to grow	***47%***	***44%***	***56%***	***61%***	***61%***
Stay the same size	44%	46%	38%	36%	37%
Become smaller	4%	5%	3%	2%	2%
Plan to sell/pass on/close	5%	6%	4%	1%	*

Q225 All SMEs New Question wording in Q4 2012

The table on the next page summarises the growth plans/objectives of SMEs by key demographics over recent quarters, including by size of SME. As reported above, the overall figures are most influenced by the views of the smaller SMEs:

- For SMEs with 0 employees around 4 in 10 have been planning to grow, with a slight dip in Q2 and Q3 2016.
- Amongst SMEs with 1-9 employees 57% were planning to grow in Q4 2015. During 2016 that proportion declined somewhat to 48% in Q3 before increasing back to 56% for Q4 2016.
- From Q3 2015 a fairly consistent 6 in 10 SMEs with 10-49 employees have planned to grow.
- Similarly since Q3 2015, 6 in 10 SMEs with 50-249 employees have been planning to grow.

Objective to grow (any) in next 12 months

Over time – row percentages By date of interview	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
All SMEs	**43%**	**43%**	**43%**	**49%**	**47%**	**45%**	**41%**	**41%**	**47%**
0 employee	39%	39%	39%	46%	43%	41%	38%	37%	44%
1-9 employees	52%	51%	53%	54%	57%	55%	50%	48%	56%
10-49 employees	63%	65%	67%	61%	60%	58%	60%	57%	61%
50-249 employees	69%	69%	71%	64%	58%	56%	60%	57%	61%
Minimal external risk rating	40%	35%	44%	42%	38%	35%	36%	45%	41%
Low external risk rating	40%	44%	44%	47%	42%	44%	37%	41%	46%
Average external risk rating	39%	36%	37%	43%	41%	38%	35%	39%	43%
Worse than average external risk rating	50%	47%	48%	54%	54%	51%	51%	41%	51%
Agriculture	25%	32%	33%	40%	31%	34%	28%	37%	37%
Manufacturing	55%	41%	57%	53%	45%	43%	52%	41%	37%
Construction	34%	33%	31%	35%	42%	40%	33%	30%	37%
Wholesale/Retail	50%	54%	47%	60%	52%	54%	49%	50%	53%
Hotels & Restaurants	41%	45%	40%	48%	51%	49%	50%	45%	46%
Transport	34%	43%	46%	45%	44%	43%	43%	43%	43%
Property/Business Services etc.	45%	43%	48%	56%	46%	46%	40%	42%	56%
Health	50%	51%	43%	51%	46%	38%	39%	39%	45%
Other Community	49%	47%	47%	47%	59%	50%	45%	42%	51%
All Permanent non-borrowers	38%	37%	36%	42%	39%	39%	33%	35%	38%
All excluding PNBs	48%	48%	50%	54%	53%	50%	49%	46%	53%

Q225 All SMEs base size varies by category

The variability in predicted growth quarter on quarter makes trends harder to discern. The table below looks at annual growth plans since 2013 (due to previous changes to the question in Q4 2012) by key business demographics. Compared to 2013, SMEs in 2016 were somewhat less likely to be predicting growth (43% v 49%):

Objective to grow (any) in next 12 months Over time By date of interview – row percentages	2013	2014	2015	2016
All	49%	47%	45%	43%
0 emp	46%	43%	42%	40%
1-9 emps	54%	56%	54%	52%
10-49 emps	59%	67%	63%	59%
50-249 emps	67%	71%	66%	58%
Minimal external risk rating	45%	45%	40%	39%
Low	45%	45%	44%	42%
Average	41%	42%	39%	39%
Worse than average	54%	52%	51%	49%
Agriculture	43%	37%	34%	34%
Manufacturing	51%	55%	49%	43%
Construction	41%	37%	35%	35%
Wholesale/Retail	51%	54%	53%	51%
Hotels & Restaurants	46%	45%	46%	48%
Transport	48%	37%	44%	43%
Property/ Business Services	53%	49%	48%	46%
Health	49%	49%	48%	41%
Other	52%	57%	50%	47%
PNBs	43%	40%	38%	36%
All excl PNBs	52%	52%	51%	50%

Q225 All SMEs

Analysis on an annual basis, in the table above, reveals the steady decline in the proportion planning to grow to 43% in 2016. The decline was more marked amongst the smallest, 0 employee, SMEs and also the largest, with 50-249 employees. It was also seen more amongst those with a minimal external risk rating and amongst those who met the definition of a PNB.

98% of those planning to grow said that selling to existing markets in the UK was the main way in which this growth would be achieved (the equivalent of 44% of all SMEs). Overall, more SMEs planned to grow by selling to new markets in the UK (11% of all SMEs) than overseas (3%):

How plan to grow Q4 16	All planning to grow	All SMEs
Unweighted base:	*2335*	*4500*
Sell in the UK	98%	44%
Increase sales in existing markets in UK	*86%*	*39%*
Sell in new markets in UK	*24%*	*11%*
Sell overseas	10%	5%
Increase sales in existing markets overseas	*7%*	*3%*
Sell in new markets overseas	*6%*	*3%*

Q226 All SMEs planning to grow excluding DK/All SMEs

Exporters remained more likely to be predicting growth than their domestic peers and in Q4 2016, 58% reported that they planned to grow compared to 46% of non-exporters. Exporters are typically larger but both larger and smaller exporters were more likely to report planned growth than their peers:

- Amongst SMEs with 0-9 employees: 57% of exporters interviewed in Q4 2016 planned to grow compared to 46% of non-exporters.
- Amongst SMEs with 10-249 employees: 67% of exporters interviewed in Q4 2016 planned to grow compared to 60% of non-exporters.

As the table below shows, the majority of both exporters and non-exporters said that they would achieve that growth through sales in the UK. However, while two-thirds of exporters (65%) also planned to sell more overseas, just 4% of those who were not exporting planned to look overseas:

How plan to grow Q4 16	All planning to grow who export	All planning to grow who do not export
Unweighted base:	*308*	*2027*
Sell in the UK	89%	99%
Increase sales in existing markets in UK	*83%*	*86%*
Sell in new markets in UK	*36%*	*23%*
Sell overseas	65%	4%
Increase sales in existing markets overseas	*56%*	*2%*
Sell in new markets overseas	*37%*	*3%*

Q226 All SMEs planning to grow excluding DK

The tables below summarise these differences between exporters and non-exporters over recent quarters. The first table below shows that exporters have been more likely to be planning to grow each quarter than those that do not export:

Objective to grow (any) in next 12 months

By date of interview Row percentages	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Exporters	57%	64%	61%	69%	66%	60%	59%	62%	58%
Non-exporters	41%	40%	41%	46%	44%	43%	40%	39%	46%

Q225 All SMEs New Question wording in Q4 2012

The second table is based on those planning to grow and summarises how this growth is to be achieved (excluding 'Don't know' answers). Existing markets were the main target for both exporters and non-exporters:

How plan to grow

By date of interview Row percentages	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
In existing markets:									
Exporters	*89%*	*86%*	*90%*	*86%*	*93%*	*92%*	*88%*	*86%*	*88%*
Non-exporters	*89%*	*90%*	*87%*	*90%*	*89%*	*92%*	*89%*	*92%*	*87%*
New UK markets:									
Exporters	*26%*	*40%*	*34%*	*41%*	*25%*	*38%*	*35%*	*32%*	*36%*
Non-exporters	*18%*	*19%*	*20%*	*21%*	*27%*	*19%*	*22%*	*18%*	*23%*
New overseas markets:									
Exporters	*24%*	*22%*	*19%*	*26%*	*13%*	*33%*	*29%*	*24%*	*37%*
Non-exporters	*3%*	*5%*	*4%*	*3%*	*3%*	*3%*	*5%*	*3%*	*3%*

Q226 All SMEs planning to grow excluding DK

The final piece of analysis in this section takes a longer term view back to 2013. The table below shows that growth ambitions have declined overall for SMEs (49% to 43%), and for non-exporters (48% to 42%). Meanwhile, ambition amongst exporters increased year on year from 2013 to 2015 (60% to 65%) before declining back to 60% in 2016.

Amongst exporters planning to grow, the proportion planning to do so in new overseas markets (not necessarily within the EU) declined between 2013 and 2015 (30% to 20%) before improving to 31% in 2016.

Growth plans Over time By date of interview Row percentages	2013	2014	2015	2016
All SMEs:				
Plan to grow	49%	47%	45%	43%
New markets overseas (of those planning to grow)	*7%*	*6%*	*6%*	*7%*
Exporters:				
Plan to grow	60%	63%	65%	60%
New markets overseas (of those planning to grow)	*30%*	*26%*	*20%*	*31%*
Non exporters:				
Plan to grow	48%	45%	43%	42%
New markets overseas (of those planning to grow)	*4%*	*3%*	*4%*	*4%*

Q225/226 All SMEs planning to grow excluding DK

More detailed analysis of the growth ambitions of international SMEs, not just exporters, is now provided at the end of this chapter.

Obstacles to running the business in the next 12 months

SMEs were asked to rate the extent to which each of a number of factors were perceived as obstacles to them running the business as they would wish in the next 12 months, using a 1 to 10 scale (where 1 meant the factor was not an obstacle at all, and 10 that it was seen as a major obstacle). Scores have been analysed in 3 bands:

- 1-4 = a minor obstacle
- 5-7 = a moderate obstacle
- 8-10 = a major obstacle.

Over time, some amendements have been made to the list of factors tested.

- In Q3 2014, the following amendments were made:
  - 'Staff related issues' was amended to be 'Issues recruiting and retaining skilled staff'.
  - A new factor was added 'Political uncertainty and future government policy'.
  - Any SMEs that did not rate any of the factors 8-10 (a major obstacle) were asked whether there was anything else that they saw as an obstacle that was not on this list.
- In Q3 2015 an additional code was included 'The quality of management and leadership in the business'.

The latest data was collected in the immediate aftermath of the referendum campaign. At an overall level there was little change in the proportion of SMEs rating either the current economic climate or 'Political uncertainty and future government policy' as major obstacles, but this was due to there being no change in the views of 0 employee SMEs. Amongst larger SMEs and/or those who are international, both of these factors were mentioned more as major obstacles as 2016 progressed. More detail is provided below and this will be monitored over future waves.

As in all previous quarters, the economic climate remained the key issue in Q4 2016, but was a major obstacle for 1 in 8 SMEs compared to 1 in 3 at its peak:

- The **current economic climate** was rated as a major obstacle (8-10) by 13% of SMEs in Q4 2016. Whilst it remained the top rated barrier, this is a declining proportion of SMEs over time.
- 12% rated **political uncertainty/government policy** as a major obstacle.
- **Legislation and regulation** was the next most important obstacle. It was rated a major obstacle by 10% of SMEs.
- 6% rated **recruiting and retaining staff** as a major obstacle.
- The same proportion, 6%, of SMEs rated **availability of relevant advice** for their business as a major obstacle for the year ahead.
- 5% saw **access to external finance** as a major obstacle.
- **Cash flow and issues with late payment** was also rated a major obstacle by 5% of SMEs.
- The new factor, **management and leadership skills**, was also rated a major obstacle by 5% of SMEs.

The analysis below looks in detail at the barriers perceived in Q4 2016, by size of SME. Details of how these views have changed over time are provided later in this chapter.

Extent of obstacles in next 12 months Q4 16 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*4500*	*900*	*1450*	*1450*	*700*
The current economic climate (mean score)	4.0	3.9	4.4	4.5	4.5
- 8-10 major obstacle	*13%*	*13%*	*16%*	*14%*	*13%*
- 5-7 moderate obstacle	*29%*	*27%*	*33%*	*38%*	*36%*
- 1-4 minor obstacle	*56%*	*59%*	*49%*	*45%*	*47%*
Legislation and regulation	3.5	3.3	4.0	4.1	3.9
- 8-10 major obstacle	*10%*	*9%*	*14%*	*13%*	*8%*
- 5-7 moderate obstacle	*23%*	*22%*	*27%*	*28%*	*30%*
- 1-4 minor obstacle	*64%*	*67%*	*56%*	*55%*	*58%*
Political uncertainty/future govt policy	3.6	3.4	4.1	4.2	4.4
- 8-10 major obstacle	*12%*	*11%*	*17%*	*15%*	*15%*
- 5-7 moderate obstacle	*23%*	*22%*	*28%*	*31%*	*32%*
- 1-4 minor obstacle	*61%*	*64%*	*53%*	*50%*	*47%*

Continued

Continued

Cash flow/issues with late payment	2.7	2.6	3.0	3.0	3.0
- 8-10 major obstacle	*5%*	*5%*	*8%*	*6%*	*5%*
- 5-7 moderate obstacle	*17%*	*16%*	*19%*	*19%*	*21%*
- 1-4 minor obstacle	*76%*	*78%*	*72%*	*72%*	*71%*
Recruiting/retaining staff	2.3	2.0	3.2	3.8	3.6
- 8-10 major obstacle	*6%*	*4%*	*11%*	*12%*	*10%*
- 5-7 moderate obstacle	*11%*	*7%*	*19%*	*26%*	*22%*
- 1-4 minor obstacle	*81%*	*85%*	*68%*	*60%*	*66%*
Access to external finance	2.3	2.1	2.6	2.6	2.6
- 8-10 major obstacle	*5%*	*4%*	*7%*	*5%*	*4%*
- 5-7 moderate obstacle	*11%*	*9%*	*14%*	*15%*	*15%*
- 1-4 minor obstacle	*82%*	*83%*	*77%*	*77%*	*77%*
Availability of relevant advice	2.4	2.4	2.8	2.6	2.7
- 8-10 major obstacle	*6%*	*5%*	*7%*	*3%*	*5%*
- 5-7 moderate obstacle	*12%*	*11%*	*15%*	*16%*	*14%*
- 1-4 minor obstacle	*80%*	*82%*	*75%*	*77%*	*78%*
Management and leadership skills	2.1	1.9	2.4	2.7	2.8
- 8-10 major obstacle	*5%*	*4%*	*7%*	*6%*	*5%*
- 5-7 moderate obstacle	*8%*	*7%*	*11%*	*13%*	*14%*
- 1-4 minor obstacle	*86%*	*88%*	*80%*	*78%*	*78%*
None of these are major obstacles	70%	73%	61%	64%	72%

Q227a All SMEs

SMEs with employees were somewhat more likely to rate some of these factors as major obstacles:

- 16% rated political uncertainty as a major obstacle, compared to 11% of those with no employees
- 14% rated legislation and regulation as a major obstacle, compared to 9% of those with no employees
- 11% rated recruiting and retaining staff as a major obstacle, compared to 4% of those with no employees.

In Q4 2016, 70% of SMEs did not rate any of these factors as a major obstacle (scoring 8-10). This was slightly higher than in previous years (in Q4 2015, 66% saw none of these as major obstacles).

All those who did not score 8-10 for *any* of these factors were asked if there were any barriers missing from the list. Almost all (96%) said that there weren't. The top other mention was terrorism (2%) while less than 1% mentioned the referendum.

The tables below focus on those scoring 8-10 for each potential obstacle. For ease, the analysis by size of SME (provided in more detail in the previous table) is summarised below:

Extent of obstacles in next 12 months

Q4 16 – all SMEs 8-10 impact score	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*4500*	*900*	*1450*	*1450*	*700*
The current economic climate	13%	13%	16%	14%	13%
Political uncertainty/future govt policy	12%	11%	17%	15%	15%
Legislation and regulation	10%	9%	14%	13%	8%
Recruiting/retaining staff	6%	4%	11%	12%	10%
Availability of relevant advice	6%	5%	7%	3%	5%
Cash flow/issues with late payment	5%	5%	8%	6%	5%
Access to external finance	5%	4%	7%	5%	4%
Management skills	5%	4%	7%	6%	5%
None of these rated a major obstacle	*70%*	*73%*	*61%*	*64%*	*72%*

Q227a All SMEs

This shows that for the smallest SMEs, the current economic climate remained the main obstacle (13%). There has been a small increase in concerns about political uncertainty but three-quarters of these SMEs did not see any of these as major obstacles. Amongst larger SMEs, political uncertainty is as much, if not more, of an obstacle than the current economic climate, but both are cited as such by a minority of SMEs.

Analysis by risk rating showed that the current economic climate remained a key barrier across all risk ratings, together with political uncertainty. Legislation and regulation was mentioned slightly more by those with a minimal or low risk rating:

Extent of obstacles in next 12 months

Q4 16 – all SMEs 8-10 impact score	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*4500*	*761*	*1391*	*975*	*981*
The current economic climate	13%	13%	15%	14%	14%
Political uncertainty/future govt policy	12%	12%	13%	15%	12%
Legislation and regulation	10%	12%	14%	10%	9%
Recruiting/retaining staff	6%	8%	7%	3%	8%
Availability of relevant advice	6%	3%	4%	7%	6%
Cash flow/issues with late payment	5%	7%	5%	4%	6%
Access to external finance	5%	2%	4%	4%	6%
Management skills	5%	3%	6%	3%	6%
None of these rated a major obstacle	*70%*	*71%*	*64%*	*70%*	*70%*

Q227a All SMEs for whom risk ratings known

The table below shows that in Q4 2016, there were differences in perceived obstacles between those with plans to grow and those with no plans (which wasn't always the case in the past). Those planning to grow were more likely to see all of these factors as potential barriers, and as a result were less likely to say that none of these factors were a major obstacle (64% v 76% of those with no plans to grow).

This table also shows that clear differences were seen on all factors depending on whether the SME was a Permanent non-borrower or not. PNBs remained less likely to see any of these issues as major barriers and 76% said that none of them were.

Extent of obstacles in next 12 months

Q4 16 – all SMEs 8-10 impact score	Total	Plan to grow	No plans to grow	PNB	Not PNB
Unweighted base:	*4500*	*2434*	*2066*	*1483*	*3017*
The current economic climate	13%	16%	11%	10%	15%
Political uncertainty/future govt policy	12%	15%	10%	9%	15%
Legislation and regulation	10%	11%	10%	9%	12%
Recruiting/retaining staff	6%	9%	3%	3%	8%
Availability of relevant advice	6%	9%	3%	3%	7%
Cash flow/issues with late payment	5%	8%	3%	2%	8%
Access to external finance	5%	8%	2%	2%	7%
Management skills	5%	7%	4%	3%	6%
None of these rated a major obstacle	*70%*	*64%*	*76%*	*76%*	*65%*

Q227a All SMEs

Clear differences in perceived obstacles also continued to be seen by whether the SME planned to apply for new/renewed facilities in the next three months, or would like to:

Extent of obstacles in next 12 months

Q4 16 – all SMEs 8-10 impact score	Total	Plan to apply or FWBS	Future HNS	Future HNS excl. PNB
Unweighted base:	*4500*	*1163*	*3337*	*1854*
The current economic climate	13%	23%	10%	10%
Political uncertainty/future govt policy	12%	22%	9%	9%
Legislation and regulation	10%	16%	8%	8%
Recruiting/retaining staff	6%	12%	4%	6%
Availability of relevant advice	6%	14%	3%	3%
Cash flow/issues with late payment	5%	10%	4%	5%
Access to external finance	5%	13%	2%	3%
Management skills	5%	9%	4%	5%
None of these rated a major obstacle	*70%*	*56%*	*75%*	*73%*

Q227a All SMEs

Those with plans/aspirations to apply were more likely to see each of these issues as major obstacles, with 1 in 5 seeing the current economic climate and/or political uncertainty as major obstacles. Almost half, 44%, cited at least one of these as a major obstacle, compared to 25% of Future happy non-seekers.

The Future happy non-seeker category described above includes those SMEs that met the definition of a Permanent non-borrower, which indicates that they are not using finance as well as being unlikely to borrow. Such SMEs have been excluded from the Future happy non-seeker definition in the final column above, but with limited impact on the scores.

The economic climate was the most likely to be rated as a major obstacle to running the business by SMEs overall and in most sectors. As overall, political uncertainty together with legislation and regulation, were also likely to be seen as obstacles:

Extent of obstacles in next 12 months

Q4 16 – all SMEs 8-10 impact scores	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	*300*	*376*	*800*	*452*	*303*	*500*	*897*	*372*	*500*
The current economic climate	12%	12%	8%	11%	14%	17%	14%	18%	17%
Political uncertainty/future govt policy	16%	10%	8%	13%	12%	15%	13%	13%	15%
Legislation and regulation	15%	6%	10%	12%	14%	11%	12%	8%	8%
Recruiting/retaining staff	9%	4%	5%	10%	10%	6%	6%	3%	6%
Availability of relevant advice	4%	4%	3%	5%	6%	9%	6%	5%	7%
Cash flow/issues with late payment	6%	4%	8%	6%	4%	2%	5%	2%	9%
Access to external finance	1%	2%	4%	4%	9%	4%	6%	5%	6%
Management skills	2%	3%	6%	4%	6%	3%	6%	3%	7%
None of these rated a major obstacle	*65%*	*75%*	*73%*	*71%*	*70%*	*70%*	*69%*	*71%*	*65%*

Q227All SMEs

75% of Manufacturing SMEs said that none of these represented a major barrier to them. There was relatively little variation by sector, with those in the Agriculture and Other Community sectors the most likely to nominate at least one major obstacle (35% each).

Obstacles to running the business in the next 12 months – over time

The summary table below shows the proportion of SMEs rating each factor a major obstacle across the most recent nine waves of the Monitor. The current economic climate was the most likely to be rated a major obstacle in all quarters, and there has been little variation in overall scores during 2016:

Extent of obstacles in next 12 months

All SMEs over time 8-10 impact score By date of interview	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16
Unweighted base:	*5024*	*5038*	*5001*	*5004*	*5003*	*4500*	*4500*	*4500*	*4500*
The current economic climate	14%	13%	14%	13%	13%	13%	13%	10%	13%
Political uncertainty/ future govt policy	9%	10%	9%	10%	9%	10%	10%	10%	12%
Legislation and regulation	11%	12%	11%	13%	10%	11%	11%	8%	10%
Recruiting/retaining staff*	6%	6%	6%	6%	8%	6%	6%	5%	6%
Availability of relevant advice	6%	4%	4%	6%	5%	4%	4%	4%	6%
Cash flow/issues with late payment	8%	8%	9%	9%	8%	8%	7%	6%	5%
Access to external finance	6%	6%	5%	6%	6%	5%	5%	4%	5%
Management skills	-	-	-	7%	5%	5%	3%	3%	5%
None of these rated a major obstacle	*69%*	*68%*	*68%*	*64%*	*66%*	*67%*	*68%*	*74%*	*70%*

Q227 All SMEs

The tables below provide a longer term view back to 2012 to help identify changes over time:

Extent of obstacles in next 12 months Over time – all SMEs 8-10 impact score	2012	2013	2014	2015	2016
Unweighted base:	*20,055*	*20,036*	*20,055*	*20,046*	*18,000*
The current economic climate	34%	27%	17%	13%	12%
Legislation and regulation	13%	13%	12%	11%	10%
Political uncertainty/future govt policy	-	-	-	10%	10%
Cash flow/issues with late payment	13%	11%	9%	9%	7%
Recruiting/retaining staff	3%	3%	5%	6%	6%
Access to external finance	11%	10%	7%	6%	5%
Availability of relevant advice	6%	6%	5%	5%	4%
Management skills	-	-	-	-	4%

Q227a All SMEs

This shows the marked decline in the proportion of SMEs citing the current economic climate as a barrier. There has also been something of a decline in mentions of most of the other barriers with the exception of staff where there has been a slight increase (and a slight change in wording in 2014 to emphasise recruitment and retention).

The 2016 data was gathered during and immediately after the referendum campaign and, with a Brexit vote, perceptions about barriers to doing business may change in future. The table below shows the changes between 2015 and 2016 for two key barriers, the economic climate and political uncertainty, by size of SME. Analysis for those engaged in international trade is provided at the end of this chapter.

The tables below show that both factors were increasingly likely to be cited as barriers during 2016 by larger SMEs, while smaller SMEs gave more consistent ratings across this period:

The current economic climate

8-10 impact score Row percentages	2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
All SMEs	*13%*	*13%*	*13%*	*10%*	*13%*
0 employees	12%	12%	13%	9%	13%
1-9 employees	14%	14%	14%	14%	16%
10-49 employees	10%	11%	13%	10%	14%
50-249 employees	8%	12%	14%	13%	13%

Q227a All SMEs

Political uncertainty and future govt policy

8-10 impact score Row percentages	2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
All SMEs	*9%*	*10%*	*10%*	*10%*	*12%*
0 employees	9%	9%	9%	9%	11%
1-9 employees	12%	12%	14%	12%	17%
10-49 employees	9%	10%	12%	11%	15%
50-249 employees	7%	10%	16%	15%	15%

Q227a All SMEs

Access to finance is the key theme of this report but an issue that has been less likely to be rated a barrier by SMEs over time. The table below shows these changes over recent quarters by key demographics. Access to finance remains more of a barrier for those with a future appetite for finance, but again, the proportion citing it as a barrier has changed little in recent quarters.

Access to finance – 8-10 impact scores

Over time – row percentages By date of interview	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16
All SMEs	**6%**	**6%**	**5%**	**6%**	**6%**	**5%**	**5%**	**4%**	**5%**
0 employee	6%	6%	4%	5%	5%	5%	5%	4%	4%
1-9 employees	9%	8%	6%	8%	8%	6%	6%	5%	7%
10-49 employees	5%	5%	4%	6%	5%	5%	4%	3%	5%
50-249 employees	3%	4%	3%	2%	2%	2%	2%	3%	4%
Minimal external risk rating	7%	4%	5%	3%	3%	2%	2%	6%	2%
Low external risk rating	5%	7%	2%	5%	3%	3%	4%	2%	4%
Average external risk rating	4%	5%	4%	5%	5%	5%	3%	5%	4%
Worse than average external risk rating	8%	8%	5%	6%	8%	5%	8%	5%	6%
Agriculture	7%	4%	5%	4%	6%	5%	4%	8%	1%
Manufacturing	5%	3%	4%	4%	6%	6%	5%	3%	2%
Construction	5%	4%	3%	5%	5%	3%	5%	3%	4%
Wholesale/Retail	11%	9%	6%	9%	5%	4%	7%	3%	4%
Hotels & Restaurants	8%	9%	6%	8%	10%	9%	6%	8%	9%
Transport	12%	8%	5%	7%	9%	9%	8%	5%	4%
Property/Business Services etc.	4%	8%	5%	6%	6%	4%	3%	3%	6%
Health	4%	2%	2%	3%	5%	4%	7%	5%	5%
Other Community	7%	5%	6%	5%	4%	4%	4%	6%	6%
Use external finance	10%	10%	7%	8%	8%	7%	6%	4%	6%
Plan to borrow/FWBS	13%	18%	13%	13%	14%	14%	13%	11%	13%
Future Happy non-seekers	4%	2%	2%	3%	3%	2%	2%	2%	2%
All SMEs excluding PNBs	10%	10%	8%	9%	9%	8%	8%	7%	7%

Q227a_2 All SMEs, base sizes vary

Financial requirements in the next 3 months

SMEs were asked to consider their financial plans over the next 3 months. The proportion planning to apply/renew has changed relatively little over time, albeit the proportion planning to renew/apply from Q2 2016 onwards (11%) has been at the lower end of the range seen across recent quarters:

% likely in next 3 months

All SMEs– over time By date of interview	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Unweighted base:	*5024*	*5038*	*5001*	*5004*	*5003*	*4500*	*4500*	*4500*	*4500*
Will have a need for (more) external finance	8%	9%	7%	9%	10%	11%	9%	7%	7%
Will apply for more external finance	7%	8%	6%	7%	8%	9%	7%	6%	7%
Renew existing borrowing at same level	8%	9%	7%	8%	10%	8%	7%	7%	7%
Any apply/renew	*13%*	*14%*	*11%*	*12%*	*16%*	*14%*	*11%*	*11%*	*11%*
Reduce the amount of external finance used	7%	8%	8%	8%	9%	8%	7%	7%	7%
Inject personal funds into business	14%	16%	14%	18%	17%	17%	15%	14%	15%

Q229 All SMEs

The lower level of planned application/renewal in Q4 2016 (11%) was due to a lower appetite for finance across all sizes of SME with the exception of those with 50-249 employees where appetite for finance was stable, but lower than in some other groups at 13%. This is explored in more detail later in this chapter.

In all previous quarters to date, more SMEs have identified a need for finance than thought they would apply for it, but this was not the case in Q4 2016 when the two figures were the same (7%). The predicted level of applications/renewals in the coming quarter has consistently been higher than the actual level of applications/renewals reported subsequently (by different SMEs). Whilst 11-14% of SMEs in 2016 said that they *planned* to apply for finance, 5% of those interviewed in 2016 reported a borrowing event.

Amongst those SMEs that are companies, there continued to be limited interest in seeking new equity finance:

% likely in next 3 months All companies– over time By date of interview	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Unweighted base:	*2822*	*2927*	*2794*	*2876*	*2997*	*2670*	*2833*	*2839*	*2714*
Any new equity	5%	3%	2%	3%	5%	3%	4%	3%	4%

Q229 All companies

In Q4 2016 as in previous quarters, there continued to be a difference in future appetite for finance by size of business. Appetite was lower amongst those with 0 employees and these SMEs remained more likely to anticipate an injection of personal funds (16%) than an application for new/renewed finance (10%). The largest SMEs with 50-249 employees also had a lower appetite for finance (13%) but in this case very few were planning an injection of personal funds (4%):

% likely in next 3 months Q4 16 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*4500*	*900*	*1450*	*1450*	*700*
Will have a need for (more) external finance	7%	6%	9%	9%	8%
Will apply for more external finance	7%	6%	8%	8%	7%
Renew existing borrowing at same level	7%	6%	9%	11%	11%
Any apply/renew	***11%***	***10%***	***14%***	***16%***	***13%***
Reduce the amount of external finance used	7%	6%	8%	10%	6%
Inject personal funds into business	15%	16%	12%	7%	4%

Q229 All SMEs

Amongst SMEs with employees, 14% had plans to apply/renew in the next 3 months and 9% believed they would have a need for (more) external finance.

Before looking at future applications for finance in more detail, the analysis below explores the role of personal funding of SMEs. Between 2012 and 2014 there was a decline in the proportion of SMEs that had injected personal funds, from 43% to 29%. Since then, each year around 3 in 10 have reported an injection of funds. The proportion of SMEs planning to inject personal funds in the 3 months after interview has followed a similar pattern but at lower levels, with 1 in 6 of those interviewed in 2016 planning an injection of funds:

Injections of personal funds past and future Over time – All SMEs	2012	2013	2014	2015	2016
Unweighted base:	*20,055*	*20,036*	*20,055*	*20,046*	*18,000*
Have injected personal funds	43%	38%	29%	28%	28%
Plan to inject personal funds	24%	20%	16%	16%	15%

Q 15d/Q229-5 All companies

The table below shows how the injections of personal funds past and future have combined. Over recent quarters around two thirds of SMEs had neither put in funds, nor thought it likely they would do so (65% in Q4 2016). The proportion that had both put in funds in the past *and* planned to do so in future (10% in Q4 2016) has also changed relatively little:

Injections of personal funds Over time – All SMEs	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Unweighted base:	*5024*	*5038*	*5001*	*5004*	*5003*	*4500*	*4500*	*4500*	*4500*
Have injected personal funds and likely to do so again	9%	10%	9%	12%	11%	11%	9%	8%	10%
Have not put in personal funds but likely to do so	5%	6%	5%	6%	6%	6%	6%	6%	5%
Have injected personal funds but unlikely to do so again	20%	16%	17%	18%	18%	18%	16%	17%	21%
Have not put in personal funds and not likely to do so	66%	68%	69%	64%	65%	64%	69%	69%	65%

Q229/Q15d-d2 All SMEs

Turning back to future applications for external finance there has been limited variation in the proportion of SMEs planning to apply/renew during 2016:

% likely to apply or renew in next 3 months

Over time – row percentages By date of interview	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
All SMEs	**13%**	**14%**	**11%**	**12%**	**16%**	**14%**	**11%**	**11%**	**11%**
0 employee	11%	12%	9%	11%	14%	14%	10%	10%	10%
1-9 employees	19%	18%	16%	16%	20%	16%	15%	14%	14%
10-49 employees	16%	20%	19%	17%	20%	20%	16%	13%	16%
50-249 employees	15%	14%	15%	12%	13%	14%	13%	12%	13%
Minimal external risk rating	10%	13%	9%	11%	19%	12%	10%	11%	10%
Low external risk rating	13%	19%	14%	14%	14%	14%	13%	11%	13%
Average external risk rating	10%	14%	12%	13%	16%	12%	10%	11%	9%
Worse than average external risk rating	16%	12%	11%	11%	16%	15%	14%	12%	10%
Agriculture	13%	19%	18%	19%	18%	15%	13%	17%	15%
Manufacturing	15%	14%	16%	16%	17%	16%	15%	11%	11%
Construction	11%	10%	10%	11%	12%	17%	8%	9%	11%
Wholesale/Retail	18%	16%	10%	15%	19%	14%	12%	14%	12%
Hotels & Restaurants	15%	16%	14%	14%	20%	17%	13%	13%	11%
Transport	15%	12%	12%	14%	14%	14%	16%	15%	14%
Property/Business Services etc.	12%	16%	11%	12%	15%	12%	10%	9%	12%
Health	8%	10%	6%	8%	12%	11%	11%	8%	9%
Other Community	11%	13%	9%	12%	19%	17%	15%	11%	8%
Objective to grow	16%	20%	15%	17%	23%	21%	18%	15%	14%
No objective to grow	10%	9%	8%	8%	9%	9%	7%	8%	9%
All SMEs excluding PNBs	24%	27%	21%	23%	28%	28%	22%	22%	19%

Q229 All SMEs base size varies by category

The variability in predicted appetite for finance quarter on quarter makes trends harder to discern. The table below looks at annual appetite for finance since 2012 by key business demographics. This shows that overall appetite for finance was only marginally lower in 2016 than for 2014 or 2015, due to the 0 employee SMEs. However, over time fewer SMEs with employees have had an appetite for finance:

% likely to apply or renew in next 3 months Over time By date of interview – row percentages	2012	2013	2014	2015	2016
All	14%	14%	13%	13%	12%
0 emp	12%	12%	11%	12%	11%
1-9 emps	20%	19%	20%	17%	15%
10-49 emps	21%	17%	18%	19%	16%
50-249 emps	19%	16%	14%	14%	13%
Minimal external risk rating	16%	12%	13%	13%	11%
Low	17%	13%	14%	15%	13%
Average	13%	13%	12%	14%	10%
Worse than average	15%	14%	14%	12%	13%
Agriculture	18%	16%	15%	18%	15%
Manufacturing	16%	13%	16%	16%	13%
Construction	14%	13%	11%	11%	11%
Wholesale/Retail	16%	18%	19%	15%	13%
Hotels & Restaurants	17%	15%	16%	16%	14%
Transport	14%	16%	15%	13%	15%
Property/ Business Services	12%	13%	11%	13%	11%
Health	11%	12%	11%	9%	10%
Other	16%	12%	14%	13%	12%
All excl PNBs	21%	23%	24%	25%	23%

Q229 All SMEs

Amongst those planning to grow, future appetite for finance is somewhat higher (17% in 2016) and has changed very little over time (17-19% since 2013).

Amongst those planning to apply or renew in the next 3 months, working capital has been the most frequently mentioned purpose of future funding over recent quarters (excluding DK answers):

Use of new/renewed facility All planning to seek/renew Over time excl DK By date of interview	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Unweighted base:	*769*	*842*	*747*	*761*	*850*	*750*	*642*	*549*	*622*
Working capital	64%	63%	57%	57%	57%	56%	60%	66%	67%
Plant & machinery	21%	24%	22%	25%	28%	24%	21%	18%	19%
UK growth*	24%	28%	25%	30%	28%	30%	23%	29%	31%
Premises	8%	6%	10%	7%	8%	11%	7%	5%	6%
New products or services	5%	9%	5%	7%	6%	12%	9%	7%	8%
Growth overseas*	5%	6%	5%	4%	8%	6%	4%	4%	7%

Q230 All planning to apply for/renew facilities in next 3 months. *Growth replaced expansion in Q2 2013 NOW EXCL DK

Taking a longer term view back to 2012 shows relatively little variation in the proposed purpose of future funding, with slightly fewer mentions of funding for plant and machinery in 2016:

Use of new/renewed facility All planning to seek/renew– over time	2012	2013	2014	2015	2016
Unweighted base:	*3717*	*3316*	*3310*	*3200*	*2563*
Working capital	63%	62%	57%	59%	62%
Plant & machinery	27%	27%	26%	25%	21%
UK growth*	21%	28%	30%	28%	28%
Premises	7%	7%	10%	7%	8%
New products or services	10%	9%	9%	7%	9%
Growth overseas*	3%	5%	6%	6%	5%

Q230 All planning to apply for/renew facilities in next 3 months excl DK. *Growth replaced expansion in Q2 2013

The table below details what types of finance those planning to apply would consider for their new/renewed finance over recent quarters. From Q1 2016 data has been collected at a headline level rather than for each possible type of finance. Loans and commercial mortgages were separated into two individual categories in Q3 2014, limiting the time series available.

Consideration over time of any of the core lending products (overdrafts, loans and/or credit cards) and/or other forms of borrowing, is shown below for those planning to apply, using the new summary categories introduced from Q1 2016:

% of those seeking/renewing finance that would consider form of funding

Over time By date of interview	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Unweighted base:	*860*	*772*	*776*	*891*	*771*	*672*	*554*	*639*
Core product (loan, O/D, credit card)	57%	63%	61%	57%	52%	52%	47%	55%
Commercial mortgage	12%	11%	9%	10%	18%	16%	14%	16%
Leasing/invoice finance	31%	29%	28%	29%	23%	16%	15%	16%
Other	48%	45%	49%	49%	30%	22%	21%	26%
None of these	*23%*	*25%*	*25%*	*28%*	*33%*	*41%*	*45%*	*32%*

Q233 All SMEs seeking new/renewing finance in next 3 months

In all quarters consideration has been highest for the core products. Across 2016 as a whole, 25% of future applicants said they would consider one or more core products, up from 17% of potential applicants in 2015. During 2016, fewer potential applicants reported that they were considering 'other' forms of finance.

The proportion saying 'none of these' had been stable at around 1 in 4 but has been higher since the new format question was introduced at the start of 2016. Across 2016 as a whole, 37% of those planning to apply said that they were not considering any of these finance options, compared to 25% in 2015.

These undecided potential applicants were asked whether this was because they had not decided what they might use or because they were considering another form of finance not listed. 74% said that they had not decided, while 26% were considering another form of finance, up from 20% in 2015.

Amongst all potential applicants in 2016, 63% were considering one or more of the forms of finance listed, 10% were considering another form of finance and 28% hadn't yet decided what they might use.

The table below shows levels of consideration in Q4 2016 by the size of SME considering funding.

% of those seeking/renewing finance would consider funding

Q4 16	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*639*	*97**	*199*	*249*	*94**
Core product (loan, od, credit card)	55%	59%	50%	36%	39%
Commercial mortgage	16%	16%	15%	17%	15%
Leasing/invoice finance	16%	14%	18%	18%	24%
Other	26%	28%	25%	18%	16%
None of these	*32%*	*29%*	*37%*	*42%*	*46%*

Q233 All SMEs seeking new/renewing finance in next 3 months

The balance between consideration of core and other forms of funding changes by size of SME. Whilst those with 0 employees who planned to apply were much more likely to consider core forms of finance than anything else, larger SMEs were more likely to consider a range of funding.

Amongst SMEs with employees, 47% would consider one or more core products for their future lending, 15% a commercial mortgage, 18% leasing or invoice finance and 23% some other form of funding. 38% said they would not consider any of these.

Application confidence

Those planning to apply via loan, overdraft, leasing, invoice finance and/or credit cards were asked how confident they were that their bank would agree to their request (note that this excludes those planning to apply who only considered one of the other forms of finance specified or did not nominate any form of finance).

In Q4 2016, 6 in 10 of these prospective applicants (59%) were confident that the bank would lend to them. There are also now fewer SMEs who are 'not confident' that their bank will lend:

Confidence bank would lend

All planning to seek finance Over time by date of interview	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16
Unweighted base:	*526*	*592*	*494*	*522*	*586*	*433*	*377*	*295*	*362*
Very confident	31%	23%	25%	28%	21%	23%	22%	23%	22%
Fairly confident	23%	26%	24%	32%	31%	25%	31%	38%	37%
Overall confidence	*54%*	*49%*	*49%*	*60%*	*52%*	*48%*	*53%*	*61%*	*59%*
Neither/nor	19%	21%	22%	17%	24%	33%	22%	20%	22%
Not confident	28%	29%	28%	23%	24%	19%	25%	19%	19%
Net confidence (confident – not confident)	*+26*	*+20*	*+21*	*+37*	*+28*	*+29*	*+26*	*+42*	*+40*

Q238 All SMEs seeking new/renewing finance in next 3 months

Confidence amongst prospective applicants with employees was 57% in Q4 2016.

Over the longer term, there has been a steady increase since 2012 in levels of confidence amongst applicants, with over half of prospective applicants now confident their bank will agree:

Confidence bank would agree to lend All planning to apply – over time	2012	2013	2014	2015	2016
Unweighted base:	*2933*	*2477*	*2337*	*2194*	*1467*
Very confident	15%	14%	24%	24%	23%
Fairly confident	27%	25%	23%	29%	32%
Overall confidence	*42%*	*39%*	*47%*	*53%*	*55%*
Neither/nor	23%	30%	24%	21%	25%
Not confident	35%	31%	29%	26%	21%
Net confidence (confident – not confident)	*+10*	*+8*	*+18*	*+27*	*+34*

Q238 All SMEs seeking new/renewing finance in next 3 months

As the table below shows, larger prospective applicants with 10-249 employees and those with a minimal/low external risk rating have always been more confident of success:

Overall confidence bank would lend All planning to seek finance – over time By date of interview	Total	0-9 emps	10-249 emps	Min/low	Av/Worse than avge
Q4 2014	54%	53%	65%	58%	54%
Q1 2015	49%	49%	66%	71%	38%
Q2 2015	49%	48%	77%	63%	45%
Q3 2015	60%	60%	66%	67%	55%
Q4 2015	52%	52%	71%	57%	52%
Q1 2016	48%	47%	73%	71%	41%
Q2 2016	53%	51%	74%	83%	47%
Q3 2016	61%	60%	81%	71%	59%
Q4 2016	59%	58%	74%	71%	60%

Q238 All SMEs seeking new/renewing finance in next 3 months

A longer term view shows that the improvement in overall confidence between 2012 and 2016 was seen amongst both larger and smaller potential applicants and also those with a minimal/low risk or an average or worse than average risk rating. More immediately, between 2015 and 2016, there were increases in confidence for the larger applicants and those with a better risk rating while the confidence of smaller applicants and those with an average or worse than average risk rating changed relatively little :

Confidence bank would agree to lend All planning to apply – over time Row percentages	2012	2013	2014	2015	2016
All	***42%***	***39%***	***47%***	***53%***	***55%***
0-9 employees	41%	37%	46%	52%	53%
10-49 employees	58%	60%	66%	70%	75%
Minimum/Low risk rating	57%	67%	65%	66%	74%
Average/WTA risk rating	40%	35%	45%	48%	51%

Q238 All SMEs seeking new/renewing finance in next 3 months

Those planning to renew remained more confident of success than those planning to apply for a new facility. Analysis shows that in 2016 two-thirds of those planning to renew were confident (67%) compared to half of those planning to apply for new facilities (46%).

In both instances larger SMEs were more confident of success. Analysis over time also shows improvements in confidence for both renewals and new money:

- For renewals confidence was 56% for 2014, 60% for 2015 and 67% for 2016
- For new facilities confidence was 39% for 2014, 42% for 2015 and 46% for 2016.

These levels of confidence remained in contrast to the actual outcome of applications. The success rate for renewals in the last 18 months was 99% while for new funds the success rate in the same period was 71%.

In a new question asked for the first time in Q1 2016, all other SMEs were asked how confident they would be of their bank saying yes if they were to apply. The table below shows the results for Q4 2016 and how this hypothetical confidence increased by size of SME:

Confidence bank would say yes if asked All not planning to apply to bank Q4 16	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*4138*	*833*	*1336*	*1317*	*652*
Very confident	32%	30%	36%	42%	48%
Fairly confident	37%	38%	34%	37%	37%
Overall confidence	*69%*	*68%*	*70%*	*79%*	*85%*
Neither/nor	21%	22%	20%	15%	13%
Not confident	10%	11%	10%	6%	2%
Net confidence (confident – not confident)	*+59*	*+57*	*+60*	*+73*	*+83*

Q239b All SMEs not seeking new/renewing finance from bank in next 3 months

Included in the table above are those who planned to renew/apply but then did not nominate any bank products (or indeed any products) for consideration. The table below shows the confidence for this group (shown as 'all others planning to apply') and for those who expect to be Future would-be seekers or Future happy non-seekers of finance, as well as those reported above who plan to apply for bank finance:

Confidence bank would say yes if asked Q4 16	All planning to apply to bank	All others planning to apply	Future WBS	Future HNS
Unweighted base:	*362*	*277*	*524*	*3337*
Very confident	22%	24%	17%	35%
Fairly confident	37%	27%	40%	37%
Overall confidence	*59%*	*51%*	*57%*	*72%*
Neither/nor	22%	32%	19%	21%
Not confident	19%	17%	23%	8%
Net confidence (confident – not confident)	*+40*	*+34*	*+34*	*+64*

Q239b All SMEs not seeking new/renewing finance from bank in next 3 months

Those who had no need or plans to apply (the Future happy non-seekers) were the most confident that if they *were* to approach their bank they would be successful. Around half of those planning to apply for a non-bank product and of Future would-be seekers were confident.

By sector, amongst those thinking hypothetically about an application, confidence the bank would agree was higher in Agriculture (73%) and also Wholesale/Retail (also 73%). The lowest level of 'hypothetical' confidence was amongst those in the Other Community sector (63%).

Confidence amongst those planning to grow that the bank would say yes to an application was somewhat mixed. Of those currently planning to apply for bank finance, confidence amongst those also planning to grow was 52% compared to 59% overall. Amongst those thinking hypothetically about an application, confidence amongst those planning to grow was 65%, compared to 69% overall. In both instances larger SMEs that were planning to grow were more confident than smaller ones.

This hypothetical confidence question has only been asked since Q1 2016 so trend data is somewhat limited. The table below shows increasing confidence by quarter amongst those planning to apply for bank finance, while those planning to apply elsewhere have reported more variable levels of confidence. Future happy non-seekers remained the most confident, with a slight increase over time, while Future would-be seekers saw a steady increase in confidence during 2016:

Confidence bank would say yes (if asked)

Over time Row percentages	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Planning to apply to bank	48%	53%	61%	59%
Other planning to apply	49%	66%	56%	51%
Future would-be seekers	38%	48%	53%	57%
Future happy non-seekers	66%	68%	70%	72%

Q238/239b All SMEs

Those not planning to seek or renew facilities in the next 3 months

In Q4 2016, 11% of all SMEs reported plans to apply for, or renew, facilities in the following 3 months, leaving the majority (89%) with no such plans. 4 in 10 of that majority (41%) were current users of external finance, the rest were not. This means that, for Q4 2016, 52% of all SMEs neither used external finance nor had any immediate plans to apply for any. On an annual basis, the proportion neither using nor applying for finance increased from 50% of SMEs in 2011 to 60% for 2014 and has been stable since (59% for both 2015 and 2016 as a whole).

When thinking about SMEs with no plans to apply/renew, it is important to distinguish between two groups:

- those that were happy with the decision because they did not need to borrow (more) or already had the facilities they needed – the Future happy non-seekers
- those that felt that there were barriers that might stop them making an application (such as discouragement, the economy or the principle or process of borrowing) – the Future would-be seekers.

These Future would-be seekers can then be split into 2 further groups:

- those that had already identified that they were likely to need external finance in the coming 3 months (and could foresee barriers to an application to meet that need).
- those that thought it unlikely that they would have a need for external finance in the next 3 months but who thought there would be barriers to their applying, were a need to emerge.

As reported later in this chapter, very few of the Future would-be seekers had an actual need for finance already identified, and thus they are somewhat different from the Would-be seekers of the past 12 months, *all* of whom reported having an identified need for a loan or overdraft that they had not applied for.

There have been no changes over time to these definitions, unlike the equivalent question for *past* behaviour featured earlier in this report (although the option 'I prefer not to borrow' as a reason why Future would-be seekers were not planning to seek facilities was removed in Q4 2012, as it was for past behaviour).

The picture for recent quarters is reported below. Three quarters of SMEs in Q4 2016 met the definition of a Future happy non-seeker and this has changed little over recent waves:

Future finance plans

All SMEs– over time By date of interview	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Unweighted base:	*5024*	*5038*	*5001*	*5004*	*5003*	*4500*	*4500*	*4500*	*4500*
Plan to apply/renew	13%	14%	11%	12%	16%	14%	11%	11%	11%
Future would-be seekers – with identified need	1%	1%	*	1%	1%	1%	1%	1%	1%
Future would-be seekers – no immediate identified need	11%	10%	10%	11%	11%	11%	12%	11%	13%
Happy non-seekers	75%	75%	79%	76%	73%	74%	76%	77%	75%

Q230/239 All SMEs

Amongst SMEs with employees in Q4 2016, 14% had plans to apply/renew while 12% met the definition of a Future would-be seeker. The Future happy non-seekers remained the largest group at 73%.

As reported earlier, a third of past Happy non-seekers were users of external finance. A similar proportion of Future happy non-seekers identified above were using external finance (31% for 2016). This has declined over time from 37% in 2012.

As has been discussed elsewhere in this report, around half of SMEs can be described as Permanent non-borrowers based on their past and indicated future behaviour. The table below shows future plans over recent quarters once this group has been excluded, resulting in a higher proportion planning to apply (19% in Q4 2016) and fewer Future happy non-seekers (58% - although they remain the largest single group, as overall):

Future finance plans

SMEs excluding PNB – over time By date of interview	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Unweighted base:	*3153*	*3220*	*3195*	*3258*	*3338*	*2854*	*3008*	*2755*	*3017*
Plan to apply/renew	24%	27%	21%	23%	28%	28%	22%	22%	19%
Future would-be seekers – with identified need	2%	3%	1%	2%	1%	2%	1%	2%	1%
Future would-be seekers – no immediate identified need	21%	18%	20%	20%	19%	22%	22%	22%	22%
Happy non-seekers	53%	53%	58%	55%	52%	49%	55%	55%	58%

Q230/239 All SMEs excluding the Permanent non-borrowers

The tables below take a longer term view on changes in future appetite for finance from 2012, both overall and once the Permanent non-borrowers are excluded.

Future demand for finance has declined very slightly since 2012. The proportion of Future would-be seekers has almost halved in that time, as the proportion of Future happy non-seekers has increased:

Future finance plans Over time – all SMEs	2012	2013	2014	2015	2016
Unweighted base:	*20,055*	*20,036*	*20,055*	*20,046*	*18,000*
Plan to apply/renew	14%	14%	13%	13%	12%
Future would-be seekers	23%	18%	16%	11%	13%
Happy non-seekers	63%	68%	71%	76%	76%

Q230/239 All SMEs

Amongst SMEs with employees, the proportion planning to apply/renew is higher but has also declined over time. In 2012, 20% of SMEs with employees were planning to apply, declining to 15% for 2016. Over the same time period, the proportion of Future would-be seekers also declined (from 20% to 11%), leaving the Future happy non-seekers of finance as an increasingly large group (60% to 74%)

Once the Permanent non-borrowers were excluded, more SMEs were planning to apply or renew, with around a quarter planning to do so each year since 2013. The proportion of Future would-be seekers has fallen, as the proportion of Future happy non-seekers has increased but less markedly than for SMEs overall:

Future finance plans Over time – all SMEs excluding PNBs	2012	2013	2014	2015	2016
Unweighted base:	*15,312*	*14,578*	*13,613*	*13,011*	*11,634*
Plan to apply/renew	21%	23%	24%	25%	23%
Future would-be seekers	35%	30%	28%	21%	23%
Happy non-seekers	44%	47%	49%	54%	54%

Q230/239 All SMEs

The Future would-be seekers are a group of interest as they represent a measure of 'unmet' demand. The table below looks at the profile of this group over recent quarters. After previous declines, the proportion of SMEs meeting the definition of a FWBS has varied very little over more recent quarters (either overall or by size of SME).

Future would-be seekers

Over time – row percentages By date of interview	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
All SMEs	**12%**	**11%**	**11%**	**12%**	**12%**	**12%**	**12%**	**12%**	**14%**
0 employee	12%	11%	11%	13%	12%	12%	13%	12%	14%
1-9 employees	12%	12%	10%	10%	11%	10%	13%	10%	13%
10-49 employees	9%	9%	7%	7%	9%	9%	8%	8%	9%
50-249 employees	8%	10%	8%	7%	9%	11%	14%	10%	12%
Minimal external risk rating	12%	7%	9%	11%	7%	12%	11%	8%	9%
Low external risk rating	8%	11%	9%	9%	15%	10%	6%	9%	7%
Average external risk rating	10%	12%	11%	11%	12%	14%	11%	11%	14%
Worse than average external risk rating	16%	11%	11%	13%	10%	11%	14%	13%	17%
Agriculture	15%	7%	8%	7%	11%	17%	11%	12%	10%
Manufacturing	9%	7%	13%	10%	7%	11%	12%	19%	10%
Construction	13%	13%	13%	13%	10%	12%	17%	11%	11%
Wholesale/Retail	11%	12%	12%	15%	15%	11%	13%	13%	11%
Hotels & Restaurants	12%	12%	12%	13%	13%	11%	14%	9%	13%
Transport	14%	15%	12%	7%	12%	12%	14%	14%	16%
Property/Business Services	12%	9%	10%	11%	11%	10%	10%	8%	17%
Health	11%	11%	15%	15%	18%	14%	11%	13%	11%
Other Community	11%	10%	3%	10%	13%	14%	10%	13%	15%
All SMEs excluding PNBs	23%	21%	21%	22%	21%	23%	24%	22%	19%

Q230/239 All SMEs * shows overall base size, which varies by category

To understand this further, the table below shows all the reasons given by Future would-be seekers in Q4 2016 for thinking that they would not apply for finance in the next three months. It highlights the continued reluctance to borrow in the current environment (especially amongst larger FWBS), whether due to the predicted performance of their business specifically, or the economic climate more generally:

Reasons for not applying (all mentions) All Future would-be seekers Q4 16	Total	0-9 emps	10-249 emps
Unweighted base:	*524*	*302*	*222*
Reluctant to borrow now (any)	59%	59%	61%
-Prefer not to borrow in economic climate	*23%*	*23%*	*21%*
-Predicted performance of business	*37%*	*37%*	*40%*
Issues with <u>principle</u> of borrowing	8%	8%	4%
-Not lose control of business	*	*	*3%*
-Can raise personal funds if needed	*6%*	*6%*	*
-Prefer other forms of finance	*	*	*2%*
-Go to family and friends	*1%*	*1%*	-
Issues with <u>process</u> of borrowing	16%	16%	13%
-Would be too much hassle	*7%*	*7%*	*6%*
-Thought would be too expensive	*8%*	*8%*	*6%*
-Bank would want too much security	*2%*	*2%*	*1%*
-Too many terms and conditions	*	*	*
-Did not want to go through process	*	-	*
-Forms too hard to understand	*1%*	*1%*	*1%*
Discouraged (any)	17%	17%	14%
-Direct (Put off by bank)	3%	3%	4%
-Indirect (Think I would be turned down)	*14%*	*14%*	*10%*

Q239 Future would-be seekers SMEs

Those SMEs that gave more than one reason for being unlikely to apply for new/renewed facilities were asked for the main reason, and all the main reasons given over time are shown below.

A reluctance to borrow, at 58%, remained the main reason for not applying for external finance in Q4 2016. In Q3 2016, immediately post-Brexit, there was a 'spike' in the proportion of FWBS citing a reluctance to borrow (71%) but this reduced to 58% for Q4 2016, albeit with an increase in the proportion saying that the predicted performance of the business did not support them borrowing (now 35%):

Main reason for not applying

Future would-be seekers – over time By date of interview	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16
Unweighted base:	*544*	*514*	*455*	*445*	*525*	*466*	*520*	*457*	*524*
Reluctant to borrow now (any)	61%	54%	55%	58%	52%	44%	56%	71%	58%
-Prefer not to borrow in economic climate	*37%*	*37%*	*34%*	*36%*	*34%*	*21%*	*40%*	*49%*	*23%*
-Predicted performance of business	*24%*	*17%*	*22%*	*22%*	*19%*	*23%*	*16%*	*22%*	*35%*
Issues with principle of borrowing	5%	10%	7%	3%	1%	4%	4%	3%	6%
Issues with process of borrowing	13%	16%	18%	17%	22%	19%	22%	11%	13%
Discouraged (any)	9%	13%	9%	18%	15%	23%	12%	9%	16%
-Direct (Put off by bank)	*	*1%*	*3%*	*	*	*3%*	*2%*	*	*2%*
-Indirect (Think I would be turned down)	*9%*	*12%*	*6%*	*18%*	*15%*	*20%*	*10%*	*9%*	*14%*
None of these	*12%*	*7%*	*11%*	*4%*	*10%*	*10%*	*6%*	*1%*	*4%*

Q239/239a Future would-be seekers SMEs

Analysis over the longer term from 2013 shows a slight decline in the proportion mentioning a reluctance to borrow now, although it remained the most mentioned reason. There has been a small increase in the proportion mentioning the process of borrowing (hassle, expense, security etc):

Main reason for not applying Future would-be seekers – over time	2013	2014	2015	2016
Unweighted base:	*3241*	*2765*	*1939*	*1967*
Reluctant to borrow now (any)	64%	59%	55%	57%
Discouraged (any)	14%	13%	14%	15%
Issues with process of borrowing	12%	15%	18%	16%
Issues with principle of borrowing	3%	4%	5%	4%
Other	2%	3%	1%	2%

Q239/239a Future would-be seekers SMEs

These reasons remain in contrast to those given by past Would-be seekers where the economic climate is little mentioned and the two key reasons have been discouragement and the process of borrowing.

When these Future would-be seekers were first described, they were the sum of two groups – those with an identified need they thought it unlikely they would apply for, and a larger group of those with no immediate need identified. Over time, the main barriers to borrowing have been shown to be somewhat different for the two groups.

Results for these SMEs are reported on a two quarter rolling basis to boost the limited base sizes of Future would-be seekers with an identified need.

Amongst the limited number of SMEs with an identified need for finance, a 'reluctance to borrow' in the current economic climate (43% Q3-4 2016) has typically taken turns with discouragement (30%) as the main reason for not having applied:

Main reason for not applying

Future would-be seekers with identified need	Q4-1 2015	Q1-2 2015	Q2-3 2015	Q3-4 2015	Q4-1 2016	Q1-2 2016	Q2-3 2016	Q3-4 2016
Unweighted base:	*68**	*65**	*60**	*73**	*60**	*53**	*55**	*60**
Reluctant to borrow now (any)	42%	30%	26%	25%	28%	30%	36%	43%
-Prefer not to borrow in economic climate	*26%*	*26%*	*23%*	*21%*	*24%*	*24%*	*21%*	*33%*
-Predicted performance of business	*16%*	*4%*	*2%*	*4%*	*3%*	*6%*	*14%*	*9%*
Issues with principle of borrowing	11%	14%	10%	7%	-	1%	1%	*
Issues with process of borrowing	9%	10%	15%	35%	33%	30%	29%	20%
Discouraged (any)	28%	29%	43%	31%	31%	29%	25%	30%
- Direct (Put off by bank)	*1%*	*1%*	*1%*	*-*	*14%*	*14%*	***	*2%*
-Indirect (Think I would be turned down)	*27%*	*27%*	*42%*	*31%*	*18%*	*15%*	*25%*	*28%*
None of these	*10%*	*17%*	*6%*	*2%*	*8%*	*10%*	*4%*	*1%*

Q239/239a Future would-be seekers SMEs *SMALL BASE

As the table below shows, amongst those Future would-be seekers with no specific need for finance in mind, a 'reluctance to borrow' in the current climate presents more of a barrier than other factors (with more mentions in recent quarters). Discouragement is much less likely to be mentioned by this group, but where it is, almost all of it is indirect:

Main reason for not applying

Future would-be seekers with no identified need	Q4-1 2015	Q1-2 2015	Q2-3 2015	Q3-4 2015	Q4-1 2016	Q1-2 2016	Q2-3 2016	Q3-4 2016
Unweighted base:	*990*	*904*	*840*	*897*	*931*	*933*	*922*	*921*
Reluctant to borrow now (any)	59%	57%	59%	57%	50%	52%	65%	65%
-Prefer not to borrow in economic climate	*38%*	*36%*	*35%*	*36%*	*28%*	*32%*	*46%*	*35%*
-Predicted performance of business	*21%*	*21%*	*23%*	*22%*	*22%*	*20%*	*19%*	*30%*
Issues with principle of borrowing	7%	8%	5%	2%	3%	4%	3%	5%
Issues with process of borrowing	15%	17%	17%	18%	20%	20%	16%	12%
Discouraged (any)	9%	9%	12%	16%	18%	16%	9%	12%
- Direct (Put off by bank)	*1%*	*2%*	*1%*	***	*1%*	*1%*	*1%*	*1%*
-Indirect (Think I would be turned down)	*9%*	*7%*	*11%*	*16%*	*18%*	*15%*	*8%*	*11%*
None of these	*10%*	*9%*	*7%*	*7%*	*9%*	*8%*	*1%*	*2%*

Q239/239a Future would-be seekers SMEs

Further analysis of all Future would-be seekers including by size and risk rating, is based on the latest quarter (Q4 2016).

A 'reluctance to borrow now' was the top reason given, for both larger and smaller SMEs:

Main reason for not applying

Future would-be seekers by size Q4 16	Total	0-9 emps	10-249 emps
Unweighted base:	*524*	*302*	*202*
Reluctant to borrow now (any)	58%	58%	60%
-Prefer not to borrow in economic climate	*23%*	*23%*	*20%*
-Predicted performance of business	*35%*	*35%*	*39%*
Issues with principle of borrowing	6%	6%	4%
Issues with process of borrowing	13%	13%	12%
Discouraged (any)	16%	16%	13%
-Direct (Put off by bank)	*2%*	*2%*	*4%*
-Indirect (Think I would be turned down)	*14%*	*14%*	*10%*

Q239/239a Future would-be seekers SMEs

Excluding the Future would-be seekers with 0 employees makes relatively little difference to the overall picture above. 61% of FWBS with employees cited a reluctance to borrow now, with 24% citing the current climate and 37% their own performance. 16% cited discouragement.

The table below shows the main reasons given for not applying in Q4 2016 split by risk rating. A 'reluctance to borrow now' remained the main barrier across the risk ratings:

Main reason for not applying

Future would-be seekers by risk rating Q4 16	Total	Min/Low	Avge	Worse/ Avge
Unweighted base:	*524*	*202*	*120*	*152*
Reluctant to borrow now (any)	58%	60%	68%	56%
-Prefer not to borrow in economic climate	*23%*	*21%*	*29%*	*24%*
-Predicted performance of business	*35%*	*38%*	*39%*	*32%*
Issues with principle of borrowing	6%	3%	7%	6%
Issues with process of borrowing	13%	17%	15%	13%
Discouraged (any)	16%	16%	8%	16%
-Direct (Put off by bank)	*2%*	*1%*	*	*2%*
-Indirect (Think I would be turned down)	*14%*	*15%*	*8%*	*14%*

Q239/239a Future would-be seekers SMEs

To put all these results in context, the table below shows the equivalent figures for each reason amongst all SMEs in Q4 2016.

8% of all SMEs would have liked to apply for new/renewed facilities in the next 3 months but thought they would be unlikely to do so because of the current climate or the performance of their business:

Reasons for not applying Q4 16 – Future would-be seekers	Main reason	All SMEs Q4	All SMEs excl. PNB
Unweighted base:	*524*	*4500*	*3017*
Reluctant to borrow now (any)	58%	8%	14%
-Prefer not to borrow in economic climate	*23%*	*3%*	*5%*
-Predicted performance of business	*35%*	*5%*	*8%*
Issues with principle of borrowing	6%	1%	1%
Issues with process of borrowing	13%	2%	3%
Discouraged (any)	16%	2%	4%
-Direct (Put off by bank)	*2%*	*	*
-Indirect (Think I would be turned down)	*14%*	*2%*	*3%*

Q239/239a Future would-be seekers SMEs

The table above also shows the equivalent proportion of SMEs *excluding* the Permanent non-borrowers. Of those SMEs that *might* be interested in seeking finance (once the PNBs had been excluded), 14% were put off by the current economic climate (including their current performance in that climate).

Attitudes to seeking finance in future

This report has already highlighted lower levels of demand for finance and some attitudinal reluctance towards using external finance. In order to try to understand barriers to application in more detail, new questions were added from Q1 2016 and asked of all SMEs. These sought to explore the extent to which a lack of knowledge or understanding of financial products might present a barrier to SMEs.

The new questions asked SMEs how confident they were in their future ability to assess the advantages and disadvantages of finance products offered by either their own bank or another bank, or to put together an application for finance from someone other than their main bank (as this would be likely to require more information about the business and its finances than an application made to an existing bank).

In Q4 2016 around 7 in 10 SMEs felt confident about assessing their own bank's products and services, while 6 in 10 were confident about assessing or approaching another bank for finance.

The tables below show levels of confidence in Q4 2016 by size of SME. Larger SMEs were more confident about assessing the advantages and disadvantages of financial products offered by their own bank:

Confidence assessing financial products from own bank

Q4 16 – all SMEs excl DK	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*4467*	*892*	*1443*	*1437*	*695*
Very confident	27%	25%	33%	35%	41%
Fairly confident	41%	41%	38%	42%	38%
Overall confidence	*68%*	*66%*	*71%*	*77%*	*79%*
Not sure	24%	25%	21%	18%	19%
Not confident	8%	8%	7%	5%	2%

Q240i All SMEs excluding DK

Larger SMEs were also more confident about assessing the advantages and disadvantages of financial products offered by other banks, but across all groups, levels of confidence were somewhat lower than for assessing such products from their own bank (62% v 68% for SMEs as a whole):

Confidence assessing financial products from another bank

Q4 16 – all SMEs excl DK	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*4446*	*889*	*1431*	*1431*	*695*
Very confident	23%	22%	28%	29%	36%
Fairly confident	39%	40%	37%	41%	36%
Overall confidence	*62%*	*62%*	*65%*	*70%*	*72%*
Not sure	28%	29%	25%	24%	25%
Not confident	9%	10%	10%	7%	3%

Q240i All SMEs excluding DK

Levels of confidence in putting together an application for finance to a bank other than their own were similar to those reported above for the assessment of products at another bank:

Confidence putting together application for finance to other bank

Q4 16 – all SMEs excl DK	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*4440*	*883*	*1433*	*1432*	*692*
Very confident	24%	23%	28%	29%	38%
Fairly confident	37%	37%	36%	39%	37%
Overall confidence	*61%*	*60%*	*64%*	*68%*	*75%*
Not sure	27%	28%	24%	24%	22%
Not confident	12%	12%	11%	8%	4%

Q240i All SMEs excluding DK

The summary table below shows firstly how confidence varied by future plans for finance. Future happy non-seekers were the most confident about assessing products from their own bank or making an application to a bank other than their own. In each instance, Future would-be seekers were somewhat less confident, which may help explain why they were identified as a Future would-be seeker:

Confidence summary table Q4 16 – all SMEs excl DK	Total	Plan to apply	FWBS	FHNS	All excl PNB
Unweighted base (overall – will vary):	*4500*	*639*	*524*	*3337*	*3017*
Confident assessing products at main bank	68%	62%	59%	71%	69%
• *Very confident*	*27%*	*20%*	*19%*	*30%*	*25%*
• *Fairly confident*	*41%*	*42%*	*40%*	*41%*	*44%*
Confident assessing products at other bank	62%	62%	57%	63%	64%
• *Very confident*	*23%*	*19%*	*17%*	*25%*	*22%*
• *Fairly confident*	*39%*	*43%*	*40%*	*38%*	*42%*
Confident applying for finance to another bank	61%	58%	51%	63%	63%
• *Very confident*	*24%*	*20%*	*15%*	*26%*	*23%*
• *Fairly confident*	*37%*	*38%*	*36%*	*37%*	*40%*

Q240i All SMEs excluding DK

The table also shows the impact of excluding the Permanent non-borrowers who appear to have little interest in applying for finance. Amongst those with some interest in finance, confidence is only slightly higher than it is for SMEs overall, meaning that PNBs must be almost as confident as their peers about assessing banks or applying for finance. This is therefore unlikely to be a reason why they are not using finance.

The table overleaf shows the proportion of SMEs that were confident that they could apply to another bank, by key groups, over time. This statement has been chosen for further analysis as it helps inform the debate about SMEs 'shopping around' for finance. Across 2016, a steady 6 in 10 SMEs reported feeling confident that they could apply to another bank, with varying levels of confidence amongst those actually planning to apply. Amongst those already using a 'core' form of finance (ie loans, overdrafts and/or credit cards) confidence increased during 2016 from 57% in Q1 to 66% in Q4.

Confident putting together application for finance to another bank

Over time – row percentages By date of interview	Q1 2016	Q2 2016	Q3 2016	Q4 2016
All SMEs	60%	59%	60%	61%
0 employee	59%	57%	59%	60%
1-9 employees	64%	62%	62%	64%
10-49 employees	69%	66%	73%	68%
50-249 employees	77%	73%	73%	75%
Minimal external risk rating	61%	59%	61%	70%
Low external risk rating	63%	61%	66%	60%
Average external risk rating	58%	56%	64%	57%
Worse than average external risk rating	62%	60%	56%	63%
Agriculture	53%	62%	58%	64%
Manufacturing	48%	57%	64%	60%
Construction	52%	61%	53%	58%
Wholesale/Retail	67%	58%	63%	63%
Hotels & Restaurants	56%	51%	53%	62%
Transport	59%	50%	66%	55%
Property/Business Services	69%	61%	67%	65%
Health	57%	51%	63%	58%
Other Community	62%	66%	47%	61%
All SMEs excluding PNBs	58%	57%	59%	63%
All SMEs using core finance	57%	59%	62%	66%
All planning to apply for finance	64%	53%	47%	58%
Future would-be seekers	49%	56%	52%	51%

Q240i All SMEs

How have international SMEs responded in 2016?

The referendum took place at the end of June 2016 but the terms under which Brexit will take place are still to be negotiated and agreed. As highlighted at the start of this chapter, those SMEs that trade internationally are potentially more likely to anticipate an impact on their business, not least because of the change in the value of sterling since the vote.

This section summarises how international SMEs have felt during 2016 in comparison to 2015. SMEs have been split into three groups, based on the extent to which they trade internationally alongside their domestic trade. Note that 86% of SMEs only trade domestically (decreasing by size of SME from 88% to 70%):

- 4% export but do not import (with little variation by size of SME)
- 5% import but do not export (increasing slightly by size of SME from 5% to 9%)
- 4% both import and export (increasing by size of SME from 3% to 16%).

Key results for Q4 2016 are shown below:

Future outlook summary table

Q4 16 – all SMEs row percentages	Total	Export	Import	Both
Unweighted base:	*4500*	*173*	*311*	*320*
Plan to grow	47%	40%	70%	75%
Plan to apply for finance	11%	16%	17%	18%
Economic climate 8-10 barrier	13%	27%	24%	35%
Political uncertainty 8-10 barrier	12%	15%	26%	32%
Future would-be seeker of finance	14%	7%	22%	14%

Those who both import and export are the most likely to be planning to grow (75%) but are also more likely to be concerned about the economic climate (35%) and political uncertainty (32%).

The table below shows how these views changed during 2016 and how they compare to 2015. The ratings from SMEs overall have changed relatively little over time but those with an international element showed more signs of change during 2016:

Future outlook summary table

Over time – all SMEs	2015	Q1 16	Q2 16	Q3 16	Q4 16	2016
Plan to grow						
• All SMEs	45%	45%	41%	41%	47%	43%
• Export only	59%	48%	52%	54%	40%	49%
• Import only	62%	63%	59%	59%	70%	63%
• Import and export	72%	70%	66%	70%	75%	70%
Plan to apply for finance						
• All SMEs	13%	14%	11%	11%	11%	12%
• Export only	22%	18%	19%	21%	16%	19%
• Import only	19%	24%	18%	19%	17%	19%
• Import and export	19%	26%	31%	22%	18%	25%
Economic climate 8-10 barrier						
• All SMEs	13%	13%	13%	10%	13%	12%
• Export only	19%	9%	19%	13%	27%	17%
• Import only	12%	10%	13%	18%	24%	16%
• Import and export	17%	13%	20%	20%	35%	21%
Political uncertainty 8-10 barrier						
• All SMEs	9%	10%	10%	10%	12%	10%
• Export only	9%	7%	7%	12%	15%	10%
• Import only	11%	14%	7%	16%	26%	16%
• Import and export	8%	10%	19%	21%	32%	20%

Those who only export were less likely to be planning to grow in 2016 (49%) than in 2015 (59%) with lower scores seen throughout 2016. Their concern about the economic climate and political uncertainty increased in the latter half of 2016 but the year on year figures are broadly stable, as is their appetite for finance.

Those who only import have similar growth aspirations for 2016 as a whole as they did in 2015 with no clear pattern over time. They have become more concerned about the economic climate and political uncertainty and somewhat less likely over the course of the year to plan to apply for finance.

Those who both import and export have similar growth aspirations for 2016 as 2015, but again, have become more concerned about the economic climate and political uncertainty over the course of the year. They were more likely to be planning to apply for finance in 2016 as a whole (25%) than in 2015 (19%), but over the course of the year their appetite for finance declined somewhat.

13. Awareness of taskforce and other initiatives

This final section of the report looks at awareness amongst SMEs of some of the Business Finance Taskforce commitments, together with other relevant initiatives.

Key findings

Two thirds of SMEs in Q4 2016 were aware of any of the initiatives tested, with limited difference this quarter by size of SME:

- 59% were aware of any of the specific funding initiatives such as Start-up Loans (46%).
- 29% were aware of any of the support initiatives such as a network of business mentors (20%).
- 17% were aware of any of the information initiatives such as the Better Business Finance programme and website (10%).

Awareness was somewhat higher amongst those planning to apply for finance in the next 3 months (71%) than amongst Future would-be seekers (66%) or Future happy non-seekers (63%).

Overall awareness of the appeals process was 12% in Q4 2016 and has changed very little over recent quarters. Awareness was no different amongst those who had initially been declined for a loan or overdraft facility.

Awareness of crowd funding continued to increase steadily. 47% of SMEs (excluding the PNBs) were aware of crowd funding in Q4 2016, compared to 32% in Q4 2014.

- Levels of usage of crowd funding remained low (1-2%).
- 3 in 10 of those aware of crowd funding said that they would consider using it, decreasing by size of SME (33% of 0 employee SMEs aware of crowd funding would consider using it compared to 20% of those with 50-249 employees).
- The proportion of those aware who would consider using crowd funding has remained unchanged since the start of 2014.

15% of SMEs in 2016 had been contacted by a bank expressing a willingness to lend in the 3 months prior to interview.

- This was in line with 2015 but analysis by quarter showed that there had been more contact in the first half of 2016 (16-17%) than in the second (11-13%).

In October 2010, the Business Finance Taskforce agreed to a range of initiatives with the aim of supporting SMEs in the UK. This final section of the report looks at awareness amongst SMEs of some of those commitments, together with other relevant initiatives. This part of the survey has been revised several times, most recently in Q1 2016, so results are not always directly comparable over time.

The main change for Q1 2016 involved dropping the spontaneous awareness question asked before prompting on a range of specific initiatives and adding the Business Finance Guide to the list of initiatives tested.

Prompted awareness of funding initiatives

As the table below shows, when prompted with the various schemes listed, 59% of SMEs in Q4 2016 were aware of one or more of these specific schemes, with overall awareness not varying much by size:

Awareness of specific funding initiatives Q4 16 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*4500*	*900*	*1450*	*1450*	*700*
Start Up Loans*	46%	47%	44%	43%	43%
Funding for Lending	29%	27%	34%	33%	33%
Enterprise Finance Guarantee Scheme	18%	16%	21%	20%	21%
The Business Growth Fund	17%	17%	19%	22%	25%
The British Business Bank	12%	11%	14%	17%	16%
Any of these	*59%*	*59%*	*60%*	*59%*	*59%*
None of these	*41%*	*41%*	*40%*	*41%*	*41%*

Q240 All SMEs

Amongst those with employees, 60% were aware of any of these initiatives.

As many of these initiatives are aimed at those with an interest in seeking external finance, they are potentially less relevant to the Permanent non-borrowers who have indicated that they are unlikely to seek such external finance. Awareness excluding PNBs is provided later in this chapter.

Prompted awareness of other support initiatives

The table below shows awareness of other support initiatives tested in Q4 2016. Around 3 in 10 SMEs were aware of one or more of these initiatives, increasing somewhat by size of SME:

Awareness of initiatives Q4 16 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*4500*	*900*	*1450*	*1450*	*700*
A network of business mentors	20%	18%	25%	24%	29%
The Lending Code/principles	17%	15%	20%	23%	25%
Independently monitored appeals process	12%	11%	13%	15%	22%
Any of these	*29%*	*28%*	*34%*	*35%*	*40%*
None of these	*71%*	*72%*	*66%*	*65%*	*60%*

Q240 All SMEs * indicates new or amended question

Amongst those with employees, 34% were aware of any of these initiatives.

A further initiative around loans was only asked of those SMEs directly affected by it, as detailed below:

Initiative	Awareness
Loan refinancing talks, 12 months ahead – asked of SMEs with a loan	Awareness of this initiative amongst SMEs with loans was 9% in Q4 and for 2016 as a whole, unchanged from 2014 or 2015.

As it applies only to specific SMEs, this initiative is not included in any of the overall summary tables below.

Prompted awareness of other information initiatives

The table below shows awareness of other communications and sources of information tested in Q4 2016. Around 1 in 6 SMEs were aware of one or more of these initiatives, again increasing somewhat by size of SME:

Awareness of initiatives Q4 16 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*4500*	*900*	*1450*	*1450*	*700*
The Better Business Finance (BBF) programme and website	10%	10%	11%	14%	19%
The British Banking Insight website	10%	9%	11%	14%	19%
The Business Finance Guide published by the ICAEW and the British Business Bank	10%	9%	11%	14%	17%
Any of these	*17%*	*16%*	*19%*	*22%*	*27%*
None of these	*83%*	*84%*	*81%*	*78%*	*73%*

Q240 All SMEs * indicates new or amended question

Amongst those with employees, 20% were aware of any of these initiatives.

Awareness of all initiatives by key groups

64% of all SMEs in Q4 2016 were aware of one or more of these initiatives after prompting. Unlike previous waves, total awareness varied little by size of SME:

- 64% of SMEs with no employees were aware of any of these initiatives
- 65% of those with 1-9 employees were aware of any of these initiatives
- 63% of those with 10-49 employees were aware of any of these initiatives
- 65% of SMEs with 50-249 employees were aware of any of these initiatives.

Excluding the PNBs increased overall awareness slightly to 69%.

There was relatively little variation in overall awareness by age of business (32-39%).

Those currently using external finance were more likely to be aware (73%) than those not using finance (57%), as were those planning to apply in the next 3 months (71%, compared to 66% of Future would-be seekers and 63% of Future happy non-seekers).

The tables below provide detailed awareness by other key demographic groups.

The table below details awareness by sector of all the initiatives tested in Q4 2016. Overall awareness varied from 60% for Agriculture, Manufacturing and Construction to 67% for the Property/Business Services and Other Community sectors:

% aware of initiatives Q4 16 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	*300*	*376*	*800*	*452*	*303*	*500*	*897*	*372*	*500*
Start Up Loans	41%	42%	38%	47%	48%	41%	49%	50%	58%
Funding for Lending	29%	30%	26%	36%	33%	26%	33%	22%	24%
A network of business mentors	21%	15%	14%	24%	23%	14%	24%	27%	20%
The Lending Code/ principles	15%	16%	16%	19%	21%	12%	19%	16%	15%
Enterprise Finance Guarantee Scheme	19%	19%	16%	16%	16%	14%	22%	12%	17%
The Business Growth Fund	15%	19%	14%	18%	16%	18%	20%	12%	18%
Independently monitored appeals process	12%	10%	11%	13%	10%	10%	14%	15%	8%
The British Business Bank	11%	12%	10%	14%	14%	8%	16%	7%	11%
BetterBusinessFinance.co.uk	10%	7%	10%	14%	11%	10%	10%	11%	13%
The BBI website*	8%	8%	8%	12%	7%	7%	12%	9%	10%
The Business Finance Guide*	9%	8%	7%	13%	8%	7%	12%	14%	10%
Any of these	*60%*	*60%*	*60%*	*66%*	*64%*	*63%*	*67%*	*65%*	*67%*
None of these	*40%*	*40%*	*40%*	*34%*	*36%*	*37%*	*33%*	*35%*	*33%*

Q240 All SMEs * indicates new or amended question

Excluding the Permanent non-borrowers with little apparent interest in external finance increases awareness of *any* initiatives from 64% to 69%. The table below shows awareness of all the individual initiatives tested in Q4 2016, once these PNBs have been excluded:

Awareness of initiatives Q4 16 – all SMEs excluding PNBs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*3017*	*507*	*927*	*1062*	*521*
Start Up Loans	50%	50%	48%	47%	47%
Funding for Lending	31%	29%	34%	35%	37%
A network of business mentors	23%	21%	28%	27%	31%
The Lending Code/principles	18%	16%	22%	27%	27%
Enterprise Finance Guarantee Scheme	17%	16%	21%	21%	21%
The Business Growth Fund	19%	18%	19%	24%	27%
Independently monitored appeals process	13%	12%	14%	17%	23%
The British Business Bank	13%	12%	14%	19%	17%
BetterBusinessFinance.co.uk	12%	12%	12%	16%	21%
The BBI website*	12%	11%	12%	15%	22%
The Business Finance Guide*	12%	11%	12%	15%	20%
Any of these	*69%*	*70%*	*68%*	*68%*	*70%*
None of these	*31%*	*30%*	*32%*	*32%*	*30%*

Q240 All SMEs * indicates new or amended question

Awareness over time for all SMEs is shown in the table below for 2015 and 2016. The initiatives tested in Q4 2016 included some that were tested for the first time in Q1 2016, or where the wording has changed, as well as some that have been tracked consistently over the period shown. For many initiatives where trend data is available, the picture is broadly stable and overall awareness remained at around 6 in 10 SMEs:

Awareness of Taskforce initiatives

Over time – all SMEs By date of interview	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Unweighted base:	*5038*	*5001*	*5004*	*5003*	*4500*	*4500*	*4500*	*4500*
Start Up Loans	40%	40%	40%	42%	41%	40%	43%	46%
Funding for Lending	23%	24%	26%	24%	26%	26%	28%	29%
A network of business mentors	22%	19%	26%	24%	19%	17%	18%	20%
The Lending Code/principles	18%	19%	23%	22%	15%	18%	15%	17%
Enterprise Finance Guarantee Scheme	18%	18%	19%	19%	17%	18%	17%	18%
The Business Growth Fund	15%	15%	16%	16%	16%	15%	16%	17%
Independently monitored appeals process	12%	13%	14%	14%	10%	11%	10%	12%
The British Business Bank	11%	10%	12%	11%	9%	9%	10%	12%
BetterBusinessFinance.co.uk	8%	9%	10%	9%	8%	8%	9%	10%
The BBI website*	6%	9%	9%	8%	6%	6%	7%	10%
The Business Finance Guide*	-	-	-	-	8%	7%	8%	10%
Any of these	*61%*	*62%*	*64%*	*61%*	*60%*	*58%*	*60%*	*64%*
None of these	*39%*	*38%*	*36%*	*39%*	*40%*	*42%*	*40%*	*36%*

Q240 All SMEs

This second table also details awareness over recent quarters but this time with the Permanent non-borrowers excluded. It shows a similar picture of awareness over recent quarters:

Awareness of Taskforce initiatives

Over time – all SMEs excl PNBs By date of interview	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Unweighted base:	*3220*	*3195*	*3258*	*3338*	*2854*	*3008*	*2755*	*3017*
Start Up Loans**	44%	41%	42%	47%	42%	44%	47%	50%
Funding for Lending**	25%	26%	26%	26%	25%	26%	28%	31%
A network of business mentors	25%	22%	25%	24%	20%	19%	18%	23%
The Lending Code/principles	20%	21%	25%	24%	15%	18%	15%	18%
Enterprise Finance Guarantee Scheme**	22%	20%	19%	19%	18%	18%	17%	17%
The Business Growth Fund**	18%	19%	17%	17%	18%	15%	15%	19%
Independently monitored appeals process	14%	14%	15%	14%	11%	12%	10%	13%
The British Business Bank**	12%	10%	11%	12%	9%	8%	10%	13%
BetterBusinessFinance.co.uk	9%	9%	10%	8%	8%	7%	9%	12%
The BBI website*	8%	8%	9%	8%	6%	5%	7%	12%
The Business Finance Guide*	-	-	-	-	9%	7%	8%	12%
Any of these	*66%*	*65%*	*66%*	*66%*	*62%*	*62%*	*65%*	*69%*
None of these	*34%*	*35%*	*34%*	*34%*	*38%*	*38%*	*35%*	*31%*

Q240 All SMEs excl PNBS

The independently monitored appeals process

Not all SMEs borrow, or have any appetite for external finance. Initiatives such as the independently monitored appeals process therefore will not be immediately relevant to many SMEs. Awareness of this initiative is shown in more detail below, typically for 2016 as a whole, and looking at those SMEs for whom it could have particular relevance:

The appeals process

Awareness amongst those declined for a loan or overdraft	As reported earlier, of those who, in the 18 months between Q3 2015 and Q4 2016, had applied for an overdraft and initially been declined, 11% said that they had been made aware of the appeals process. For loans the equivalent figure was 12%.
Overall general awareness	Overall awareness of the appeals process (asked of all SMEs at Q240) was 11% for 2016 , somewhat lower than for previous years (14% consistently for 2013-2015). Once the PNBs were excluded awareness was unchanged at 11%, also somewhat lower than previously seen.
Overall awareness by size	Awareness continued to increase somewhat by size of SME. Excluding the PNBs, in 2016 10% of remaining SMEs with 0 employees were aware of appeals, increasing to 20% of those with 50-249 employees.
Awareness by interest in finance	13% of those reporting a borrowing event in the 12 months prior to interview were aware of the appeals process (YEQ416). Awareness was somewhat lower amongst both Happy non-seekers (10%) and Would-be seekers (9%). Looking forward, 11% of those planning to apply in the next 3 months were aware of the appeals process, compared to 11% of Future happy non-seekers and 9% of Future would-be seekers.

Crowd Funding

Questions on crowd funding have been through several iterations in the SME Finance Monitor. They were originally included in Q2 and Q3 2012, when awareness of the concept was 18%, varying by size from 17% of 0 employee SMEs to 27% of those with 50-249 employees. Excluding the PNBs with little apparent appetite for finance did not change these figures.

When the question was re-introduced for the Q2 2013 survey the answers available were extended to cover both awareness *and* use of crowd funding and a quarter of SMEs (excluding the PNBs) were aware of crowd funding.

The question was revised again for Q1 2014, to provide more granularity on applications for crowd funding. Overall awareness for the most recent quarters is shown below. Awareness has increased over time and in Q4 2016 almost half of SMEs (excluding the PNBs) were aware of crowd funding:

Aware of crowd funding

All SMEs excl PNBs Row percentages	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
All SMEs	**32%**	**32%**	**38%**	**36%**	**37%**	**45%**	**42%**	**41%**	**43%**	**47%**
0 emps	29%	31%	38%	34%	37%	46%	40%	39%	44%	45%
1-9 emps	36%	33%	39%	41%	38%	45%	46%	44%	41%	51%
10-49 emps	35%	34%	40%	42%	40%	46%	47%	46%	47%	49%
50-249 emps	36%	38%	33%	40%	41%	44%	48%	53%	54%	51%
All planning to apply	37%	45%	47%	38%	40%	49%	47%	40%	40%	53%

Q238a3 All SMEs excl PNBs

Those planning to apply for new/renewed finance in the 3 months after interview have typically been somewhat more likely to be aware of crowd funding and this was once again the case in Q4 2016 as awareness amongst those planning to apply increased to 53%.

The table below shows awareness and consideration of crowd funding for YEQ4 2016 to maximise base sizes. Very few SMEs were using crowd funding (1%) while a minority of those aware would consider using it (30% of those aware, the equivalent of 13% of all SMEs excluding the PNBs). Willingness to use declined slightly by size of SME:

Awareness and use of crowd funding

All SMEs excl PNBs YEQ4 16	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*11,634*	*1821*	*3592*	*4113*	*2108*
Aware of crowd funding	44%	42%	46%	47%	51%
- *Using crowd funding*	*1%*	*1%*	*2%*	*1%*	*1%*
- *Unsuccessfully applied for crowd funding*	*1%*	*1%*	*1%*	*	*
- *Would consider applying in future*	*13%*	*14%*	*13%*	*10%*	*10%*
- *Would not consider applying*	*29%*	*27%*	*31%*	*35%*	*40%*
Not aware	56%	58%	54%	53%	49%
% aware who would consider	***30%***	***33%***	***28%***	***21%***	***20%***

Q238a2 All SMEs excl PNBs

As the table below shows, since the start of 2014, awareness of crowd funding has increased from 22% to 45% of SMEs (excluding the PNBs) while the proportion *of those aware* who would consider using it has stayed broadly stable (32% in H1 2014 to 31% in H2 2016):

Awareness and use of crowd funding

All SMEs excl PNBs Over time	H1 2014	H2 2014	H1 2015	H2 2015	H1 2016	H2 2016
Unweighted base:	*6884*	*6729*	*6415*	*6596*	*5862*	*5772*
Aware of crowd funding	22%	32%	37%	41%	42%	45%
- *Would consider applying in future*	7%	10%	11%	12%	12%	14%
% aware who would consider	***32%***	***31%***	***30%***	***29%***	***29%***	***31%***

Q238a2 All SMEs excl PNBs

Overall consideration is driven by the views of the 0 employee SMEs:

- In H1 2015, 36% of 0 employee SMEs (excluding PNBs) were aware of crowd funding, with 11% willing to consider it as a form of finance. By H2 2016, 45% were aware and consideration had also increased to 15%.
- In H1 2015, 40% of 1-9 employee SMEs (excluding PNBs) were aware of crowd funding, with 10% willing to consider it as a form of finance. By H2 2016, 46% were aware and consideration had increased slightly to 13%.
- In H1 2015, 41% of 10-49 employee SMEs (excluding PNBs) were aware of crowd funding, with 9% willing to consider it as a form of finance. By H2 2016, 48% were aware while consideration was almost unchanged at 10%.
- In H1 2015, 37% of 50-249 employee SMEs (excluding PNBs) were aware of crowd funding, with 6% willing to consider it as a form of finance. By H2 2016, awareness had increased significantly to 52% while consideration had increased more modestly to 10%.

Bank communication about lending

SMEs were asked whether, in the 3 months prior to interview, they had been contacted by either their main bank, or another bank, expressing a willingness to lend.

In Q4 2016, 14% of all SMEs said that they had received such a contact in the previous 3 months (9% of SMEs had heard from their main bank, while 8% had heard from another bank). After a gradual increase in reported contact between Q2 2015 (14%) and Q2 2016 (18%), levels of contact were somewhat lower in the latter half of 2016:

Approached by any bank in last 3 mths

Over time – all SMEs	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
All SMEs	**14%**	**14%**	**14%**	**16%**	**17%**	**17%**	**18%**	**13%**	**14%**
0 emps	12%	14%	13%	15%	16%	16%	17%	11%	13%
1-9 emps	17%	16%	17%	17%	19%	17%	20%	17%	16%
10-49 emps	17%	18%	18%	20%	21%	22%	19%	17%	19%
50-249 emps	22%	16%	18%	19%	17%	17%	18%	21%	14%
All SMEs excluding PNBs	16%	17%	16%	19%	20%	20%	20%	15%	15%

Q221 All SMEs

SMEs with employees remained more likely to have been contacted. 17% reported in Q4 2016 that they had been approached by a bank (11% by their main bank and 7% by another bank).

Analysis over time shows that level of contacts for 2016 as a whole were in line with 2015:

Approached by banks in last 3 months All SMEs over time	2012	2013	2014	2015	2016
Unweighted base:	*20,055*	*20,036*	*20,055*	*20,046*	*18,000*
Approached by main bank	8%	9%	10%	11%	10%
Approached by other bank	6%	5%	5%	6%	7%
Any approach	*13%*	*13%*	*14%*	*15%*	*15%*

Q221 All SMEs

Those who had been contacted by a bank were more likely to be aware of *any* of the initiatives tested earlier in this chapter (70% compared to 59% of those who had not been approached and 64% of all SMEs). They were also more likely to be planning to apply for finance (18% v 11%).

Those who had heard from a bank were typically slightly larger SMEs with a somewhat better external risk rating profile than those who had not been contacted, and these factors are also likely to have impacted on awareness. More detailed analysis would therefore be needed to explore the actual impact that contact from a bank has had.

14. Selected Graphs and Charts

This chapter presents

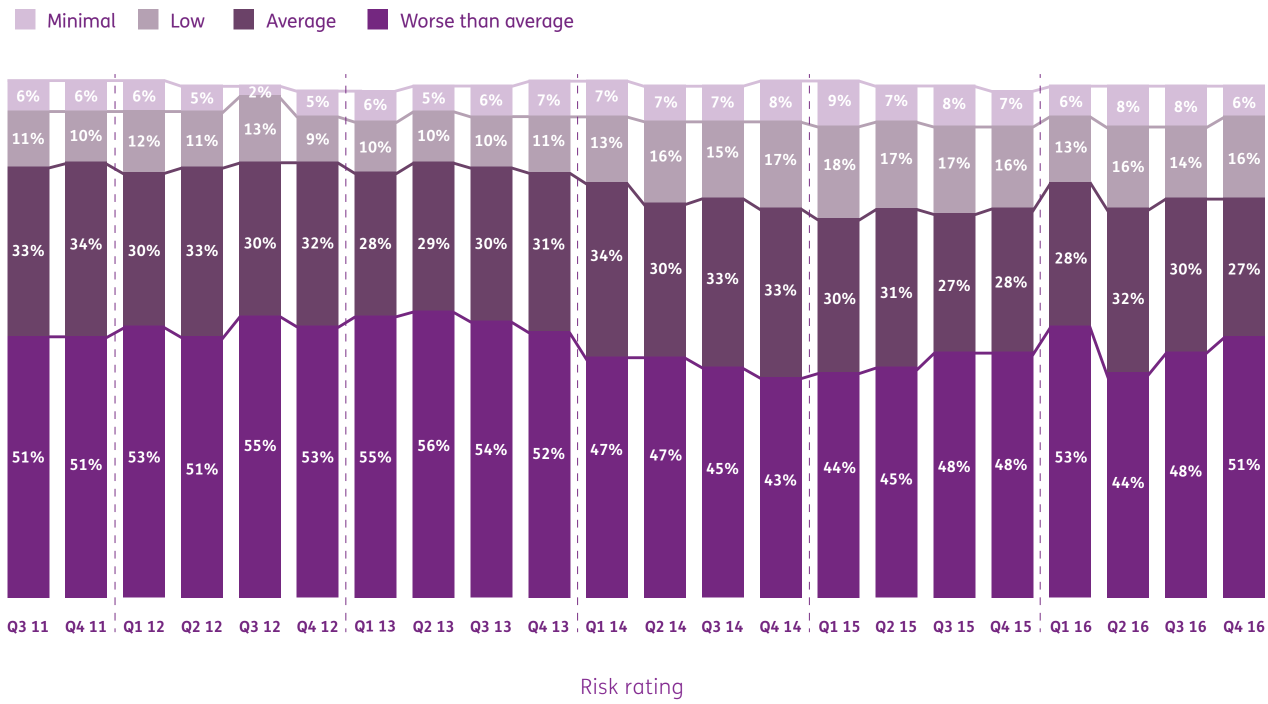
some of the key data in graphical form to provide data on longer term trends.

Much of the data in this report is provided and analysed over time, typically by quarter. After twenty three waves of the SME Finance Monitor, the tables containing data for each quarter have become too large to fit comfortably on a page. The main tables therefore show the most recent quarters only and a series of summary tables have been developed for key questions to show longer terms trends on an annual basis. This chapter also provides longer trend data, but this time quarter by quarter for key questions. At the bottom of each chart there is a reference to the page in the man report where the current data is presented in a table, and a summary of the trend shown.

Charts reflecting data reported in Chapter 4

External risk rating from D&B or Experian

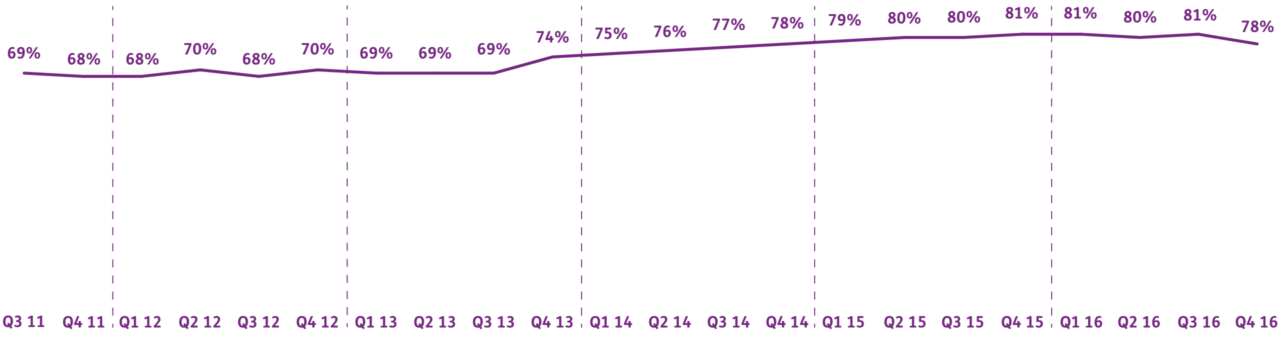
Time Series: Risk rating per quarter



This chart relates to the analysis found on page 34 of the main report. The proportion of SMEs with a minimal or low external risk rating increased over time from 16% in 2012 to 25% in 2015 (and 22% in 2016). The proportion with a worse than average risk rating was lower in 2014 and 2015 than in earlier years but is currently slightly higher for 2016 (49%).

% that made a net profit during last 12 month financial period

Time series: Reported profitability in past 12 months, per quarter, excluding DK

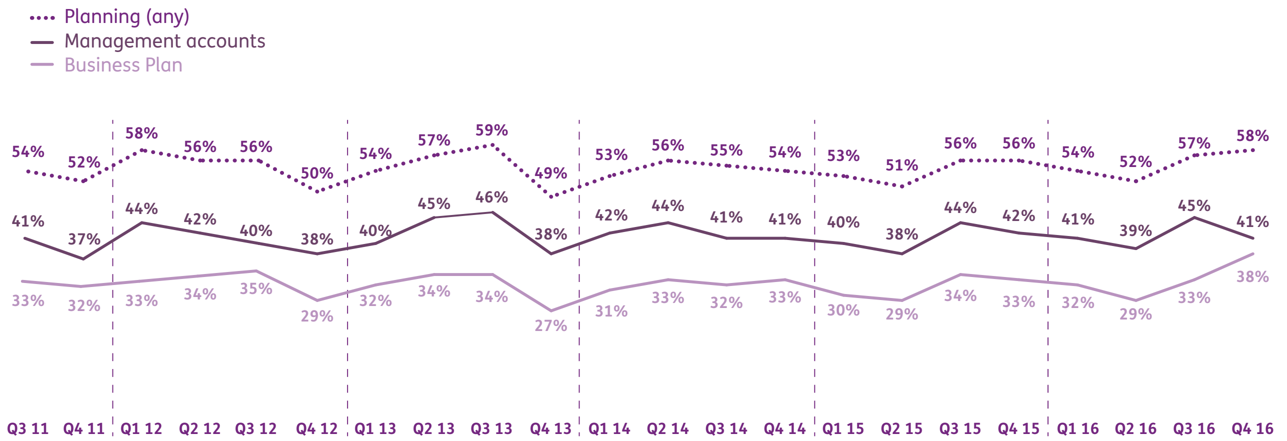


Q241

This chart relates to the analysis found on page 26 of the main report. The proportion of SMEs reporting a profit (once DK answers have been excluded) is stable at 8 in 10, having been 7 in 10 for 2012 and 2013.

Proportion preparing management accounts/business plans

Time series: Business planning



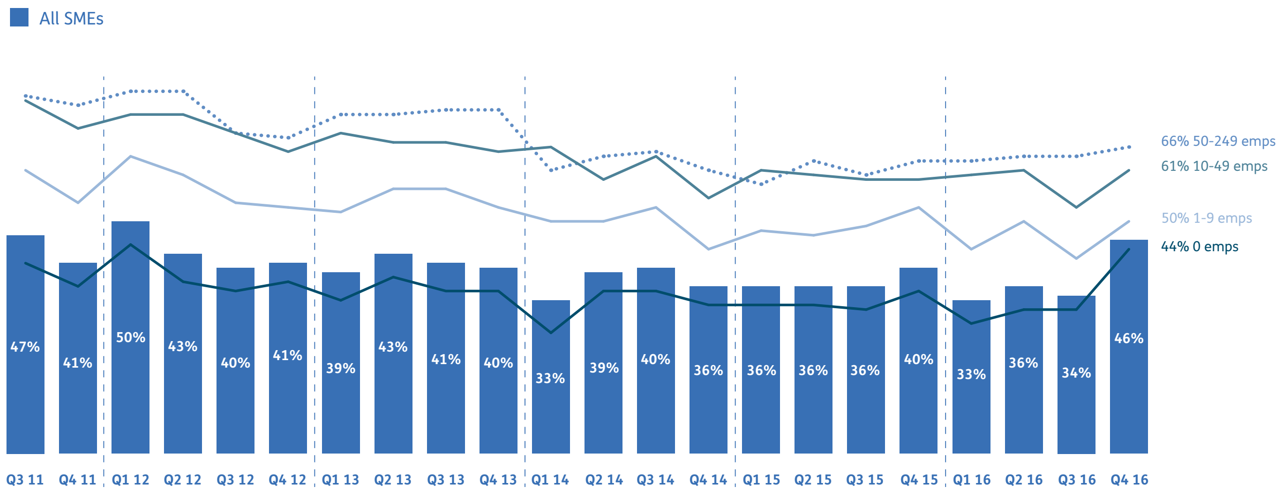
Q223

This chart relates to the analysis found on page 40 of the main report. Half of SMEs plan with relatively little variation over time.

Charts reflecting data reported in Chapter 5

Use of any listed forms of external finance currently – by size

Time Series: Use of external finance per quarter

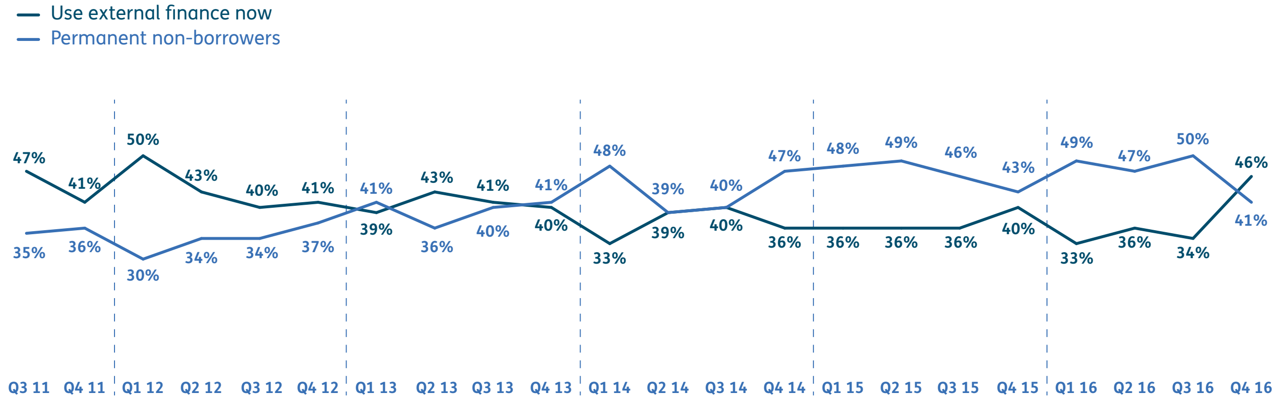


Q15

This chart relates to the analysis found on page 51 of the main report. A third of SMEs use external finance (37% in 2016) increasing by size of SME from 33% of those with 0 employees to 64% of those with 50-249 employees.

Proportion using external finance v those who meet definition of Permanent non-borrower

Time series: Permanent non-borrowers and users of external finance

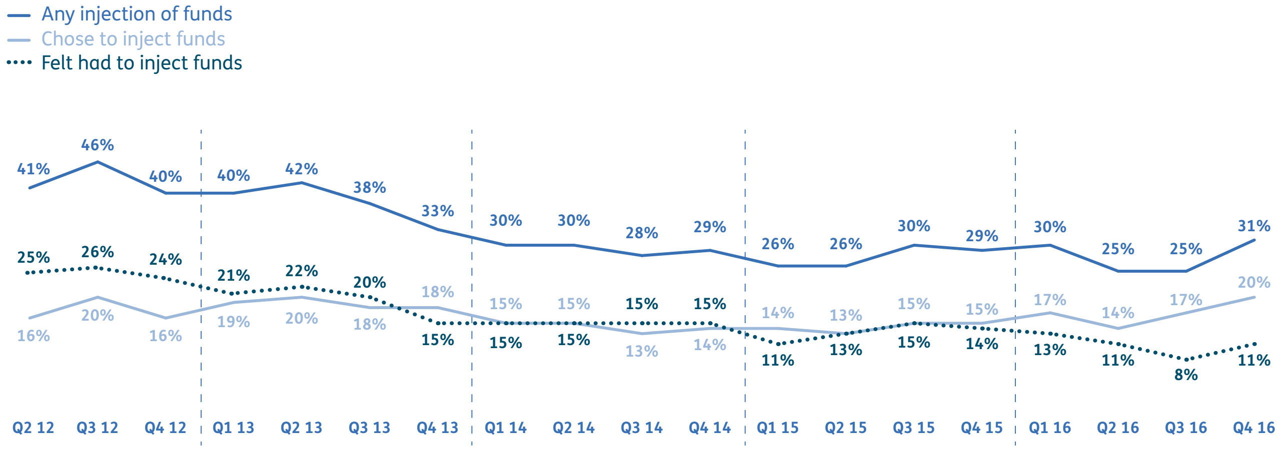


Q15/14 and others

This chart relates to the analysis found on pages 51 and 77

Proportion injecting personal funds into the business in last 12 months

Time series: Injections of personal funds



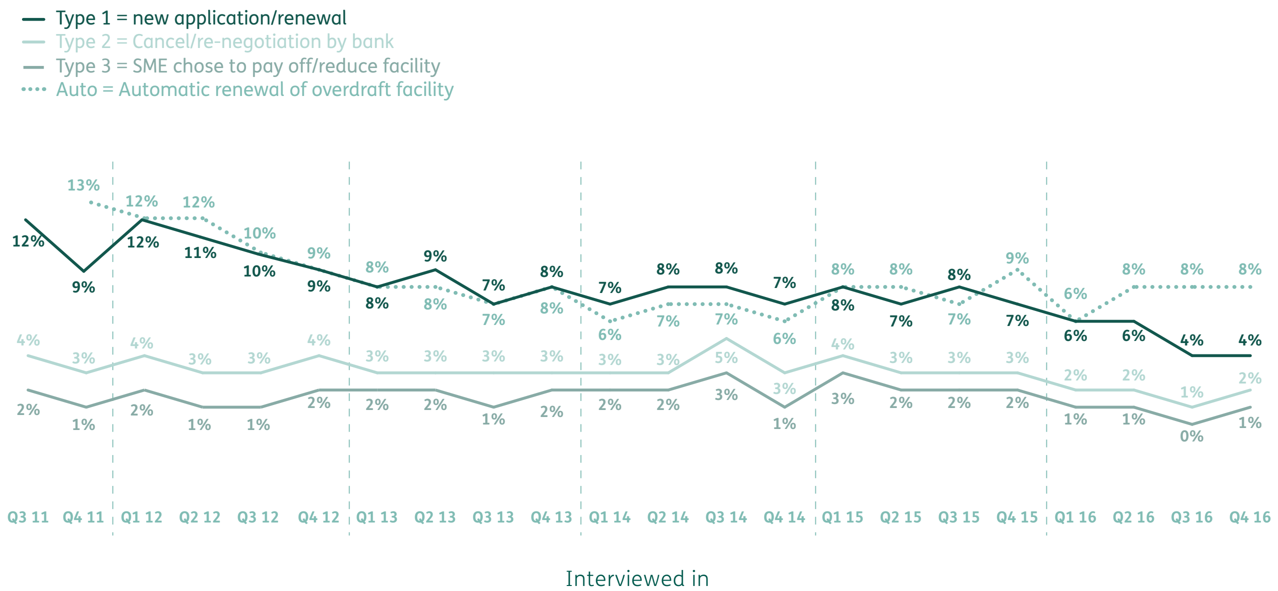
Q15/14 and others

This chart relates to the analysis found on page 65 of the main report. 31% of SMEs reported any injection of personal funds in the 12 months prior to Q4 2016. This was more likely to have been a choice (20% and increasing slightly over time) than the SME feeling this injection had to be made (11% and declining over time).

Charts reflecting data reported in Chapter 6

Borrowing events in 12 months prior to interview

Time series: Borrowing events

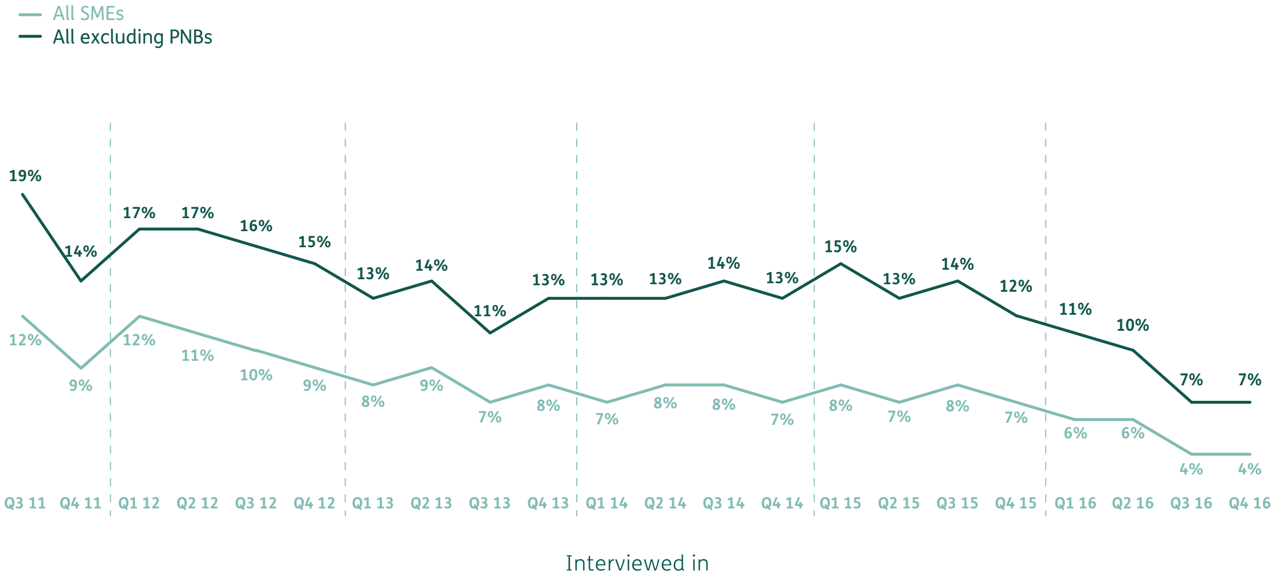


Q26

This chart relates to the analysis found on pages 95 and 109 of the main report. The proportion of SMEs reporting a Type 1 borrowing event continues to decline over time (from 11% in 2012 to 5% 2016).

Applied for a new/renewed loan or overdraft in 12 months prior to interview – a Type 1 event

Time series: Type 1 events



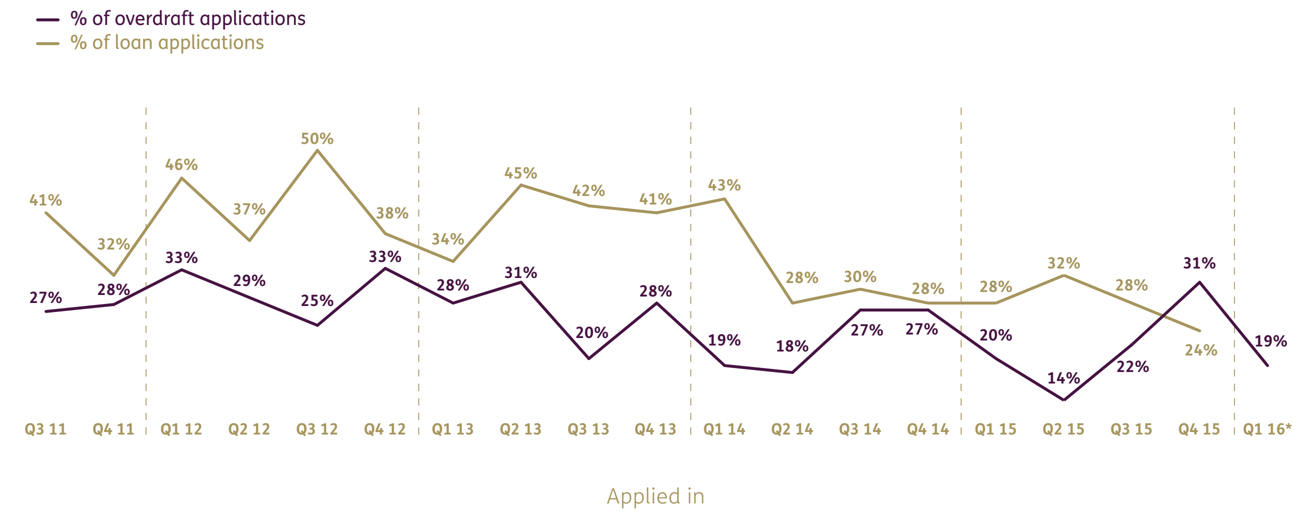
Q26

This chart relates to the analysis found on page 102 of the main report. Excluding the PNBs increases the proportion of remaining SMEs that have reported a Type 1 borrowing event but this remains at lower levels to those seen previously, from 16% in 2012 to 9% in 2016 as a whole.

Charts reflecting data reported in Chapter 7

Proportion of all applications that were made by first time applicants

Time series: Proportion of applications made by first time applicants



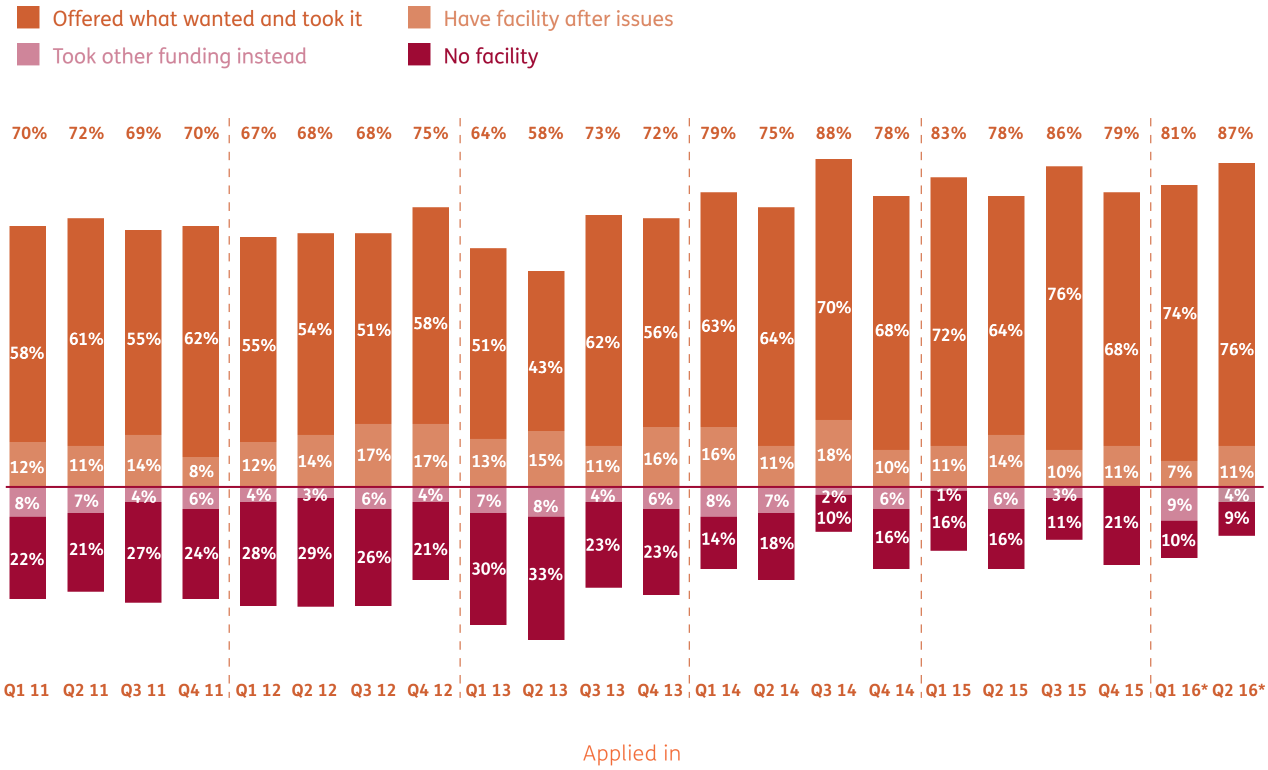
Q52/Q349

This chart relates to the analysis found on pages 117 and 124 of the main report. There is no consistent pattern over time, but typically a higher proportion of loan applicants are applying for their first loan.

Charts reflecting data reported in Chapter 8

Outcome of all loan/overdraft applications and renewals

Time series: Outcome by application date – ALL applicants/renewals (loans and overdrafts)

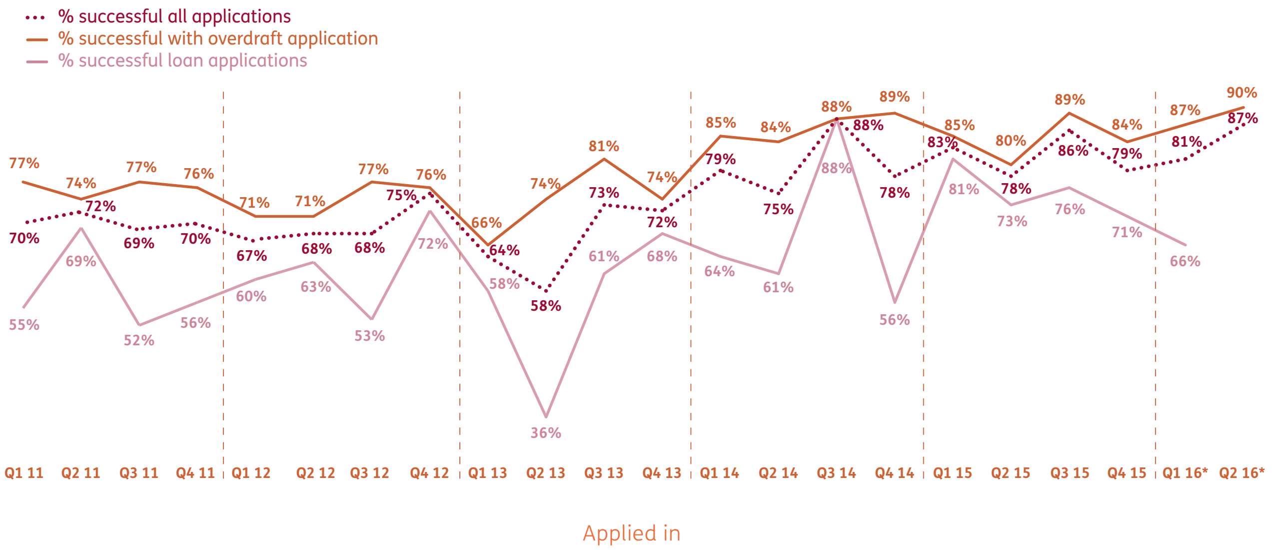


Q64/66/81/92/97

This chart relates to the analysis found on page 133 of the main report. Success rates in 2015 and 2016 have remained higher than in previous years.

Proportion of all applications that were successful, and proportions of loan and overdraft applications

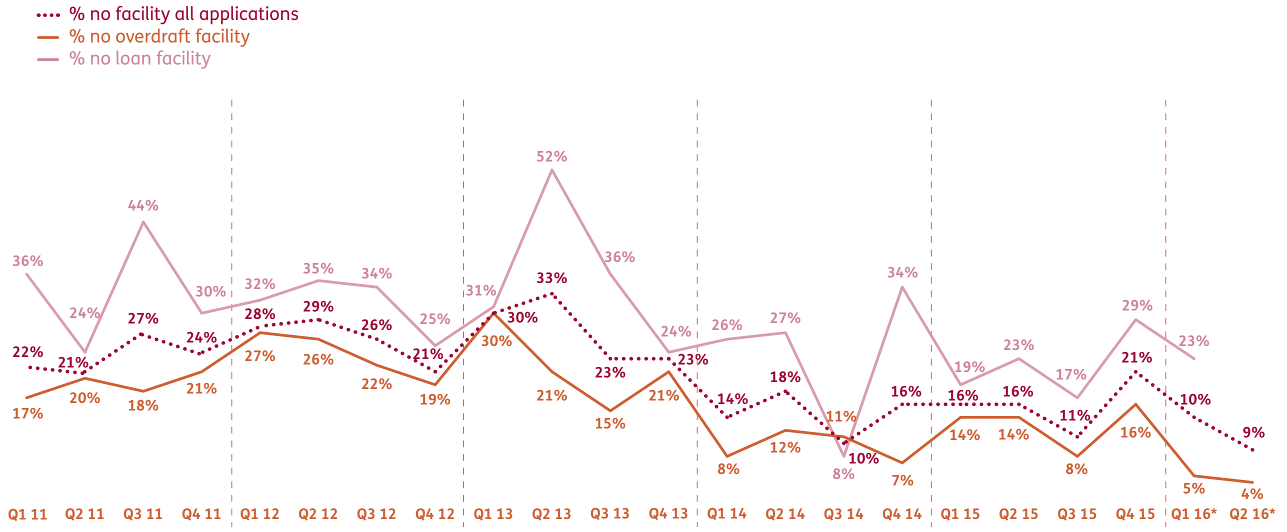
Time series: Successful outcome by application date



This chart relates to the analysis found on pages 133, 151 and 167 of the main report. Overdraft applications remain more likely to be successful than loan applications.

Proportion of all applications that ended the process with no facility, and proportions for loan and overdraft applications

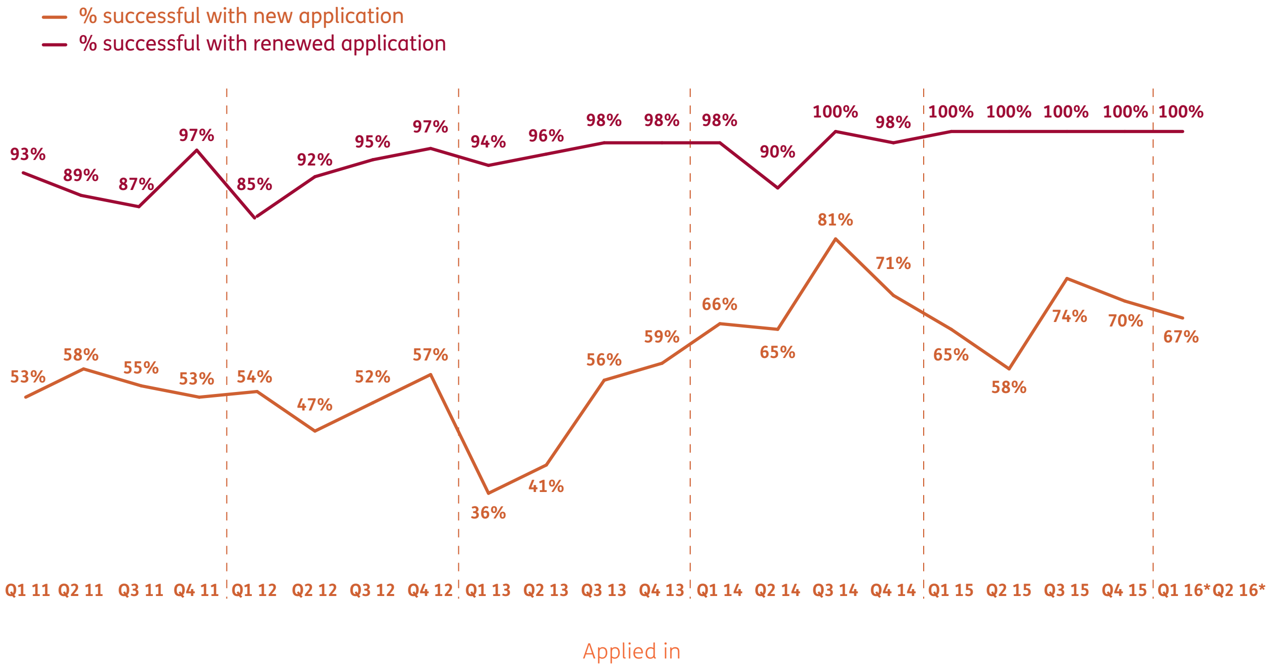
Time series: Ended process with no facility by application date



This chart relates to the analysis found on pages 133, 151 and 167 of the main report. Loan applicants remain somewhat more likely to be declined but the trend over time is for fewer applicants to end the process with no facility.

Proportion of all applications that were successful: Applying for new money and applying to renew an existing facility

Time series: Outcome by application date – all renewed v new money loans and overdrafts

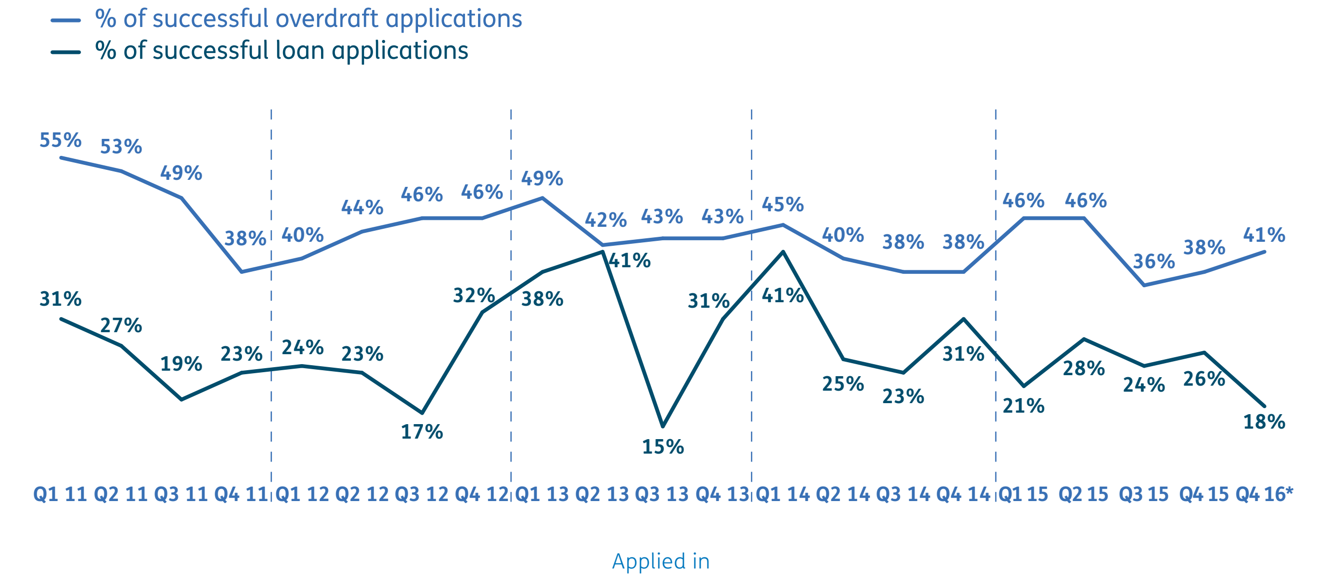


This chart relates to the analysis found on pages 172 and 173 of the main report. Almost all renewals are successful. Applicants for new money have become more likely to be successful.

Charts reflecting data reported in Chapter 10

Proportion of all successful facilities that were on a variable rate

Time series: Proportion of Type 1 facilities that were on a variable rate, excluding DK



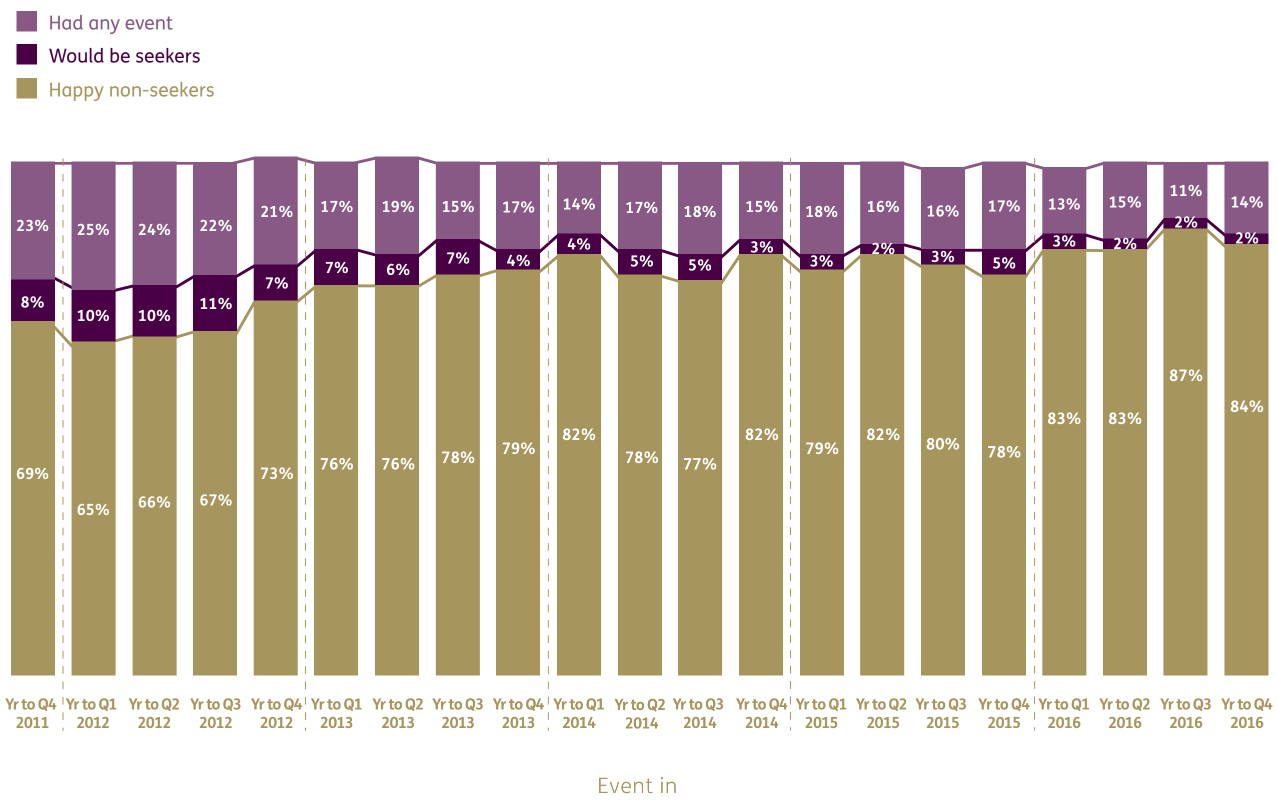
Q107/201

This chart relates to the analysis found on pages 193 and 203 of the main report. Overdraft applications remain more likely to be on a variable rate.

Charts reflecting data reported in Chapter 11

Classification of respondents based on borrowing behaviour in 12 months prior to interview

Time series: Borrowing profile in 12 months prior to interview



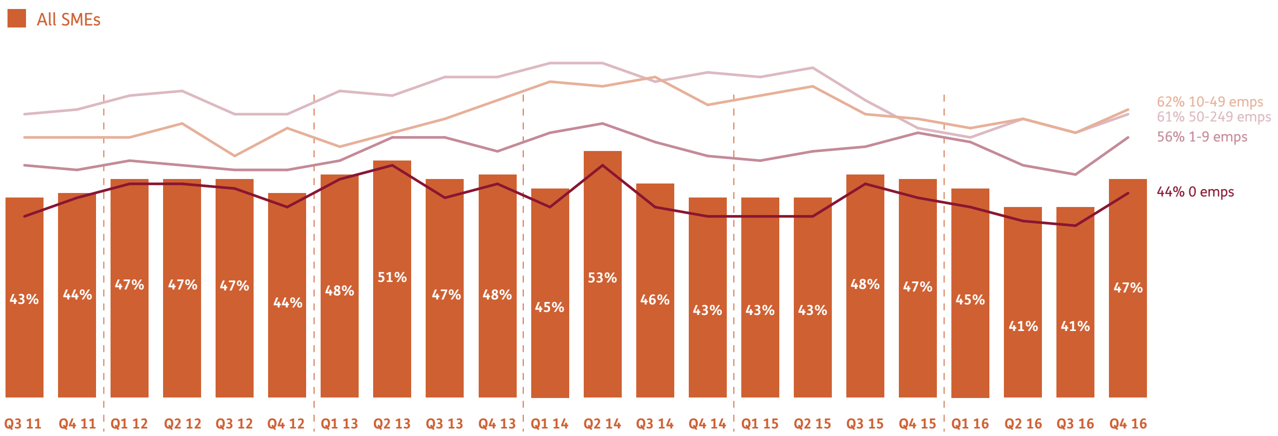
Q115/209

This chart relates to the analysis found on page 212 of the main report. This shows that over recent quarters, most SMEs met the definition of a Happy non-seeker of loan or overdraft finance (84% in Q4 2016), while the proportion of Would-be seekers remained low (2% in Q4 2016). The proportion of SMEs reporting an event remained at around 1 in 6.

Charts reflecting data reported in Chapter 12

Plan to grow moderately/substantially in next 12 months

Time series: Plan to grow

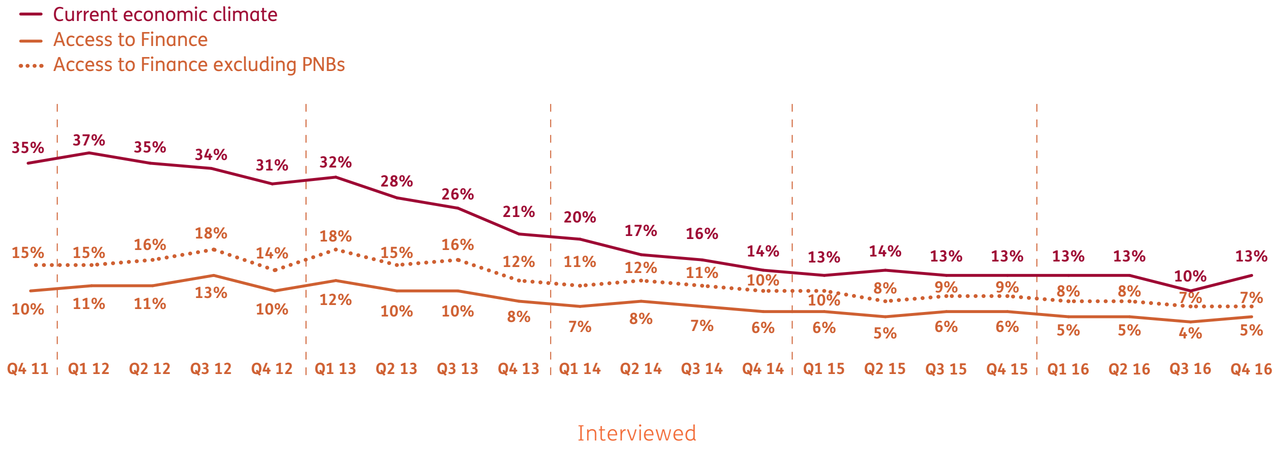


Q26/Q225

This chart relates to the analysis found on page 236 of the main report. Analysis on an annual basis reveals the steady decline in the proportion planning to grow from 49% to 43%. The decline was more marked amongst the smallest, 0 employee, SMEs and also the largest, with 50-249 employees.

Obstacles perceived to running business – Current economic climate and access to finance

Time series: 8-10 major obstacle

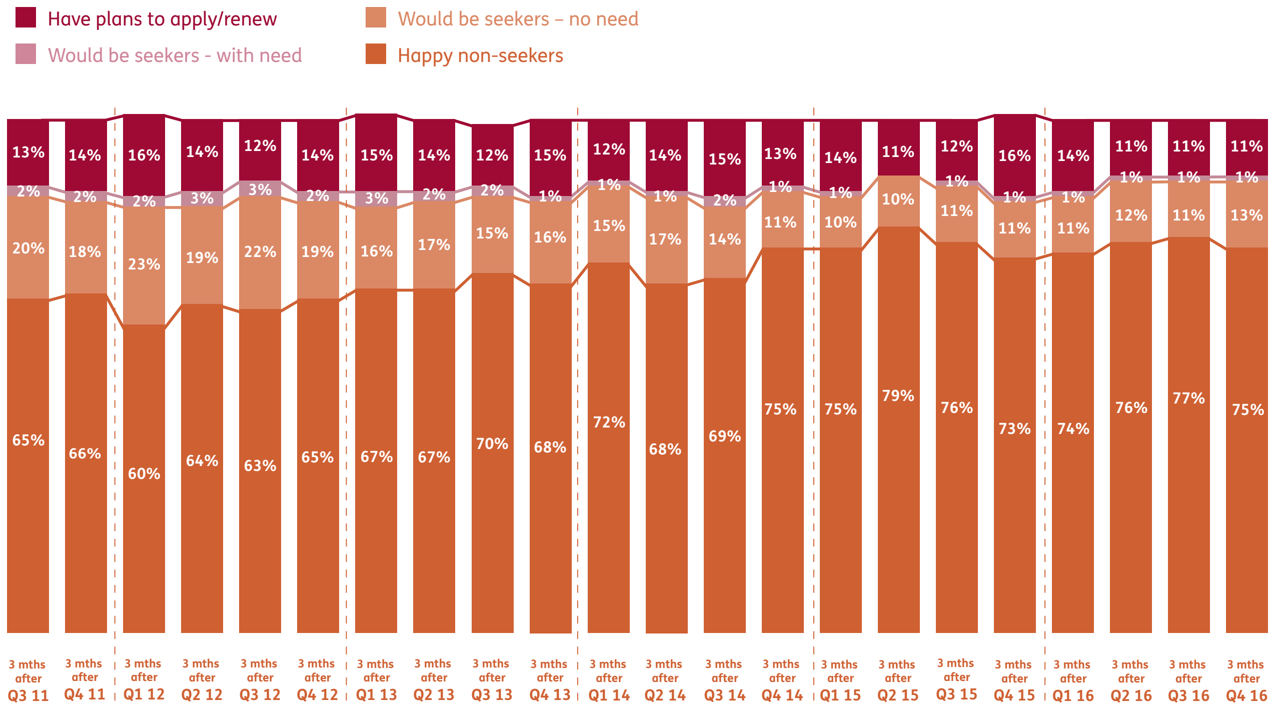


Q227

This chart relates to the analysis found on page 252 of the main report. The economic climate remains the main barrier but over recent quarters has only been mentioned by a minority of SMEs.

Classification of respondents based on expected borrowing behaviour in 3 months after interview

Time series: Anticipated borrowing profile for next 3 months

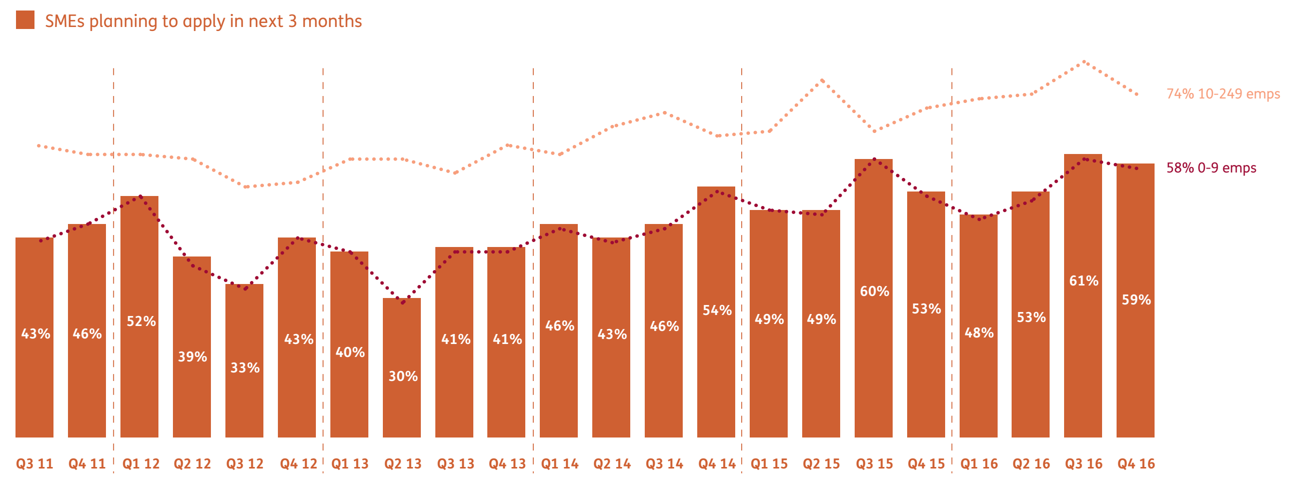


Q229

This chart relates to the analysis found on page 270 of the main report. Three quarters of SMEs in Q4 2016 met the definition of a Future happy non-seeker and this has changed little over recent waves.

Confidence amongst those planning to apply for finance in 3 months after interview that bank will agree to request

Time series: Confident bank will agree to facility next 3 months

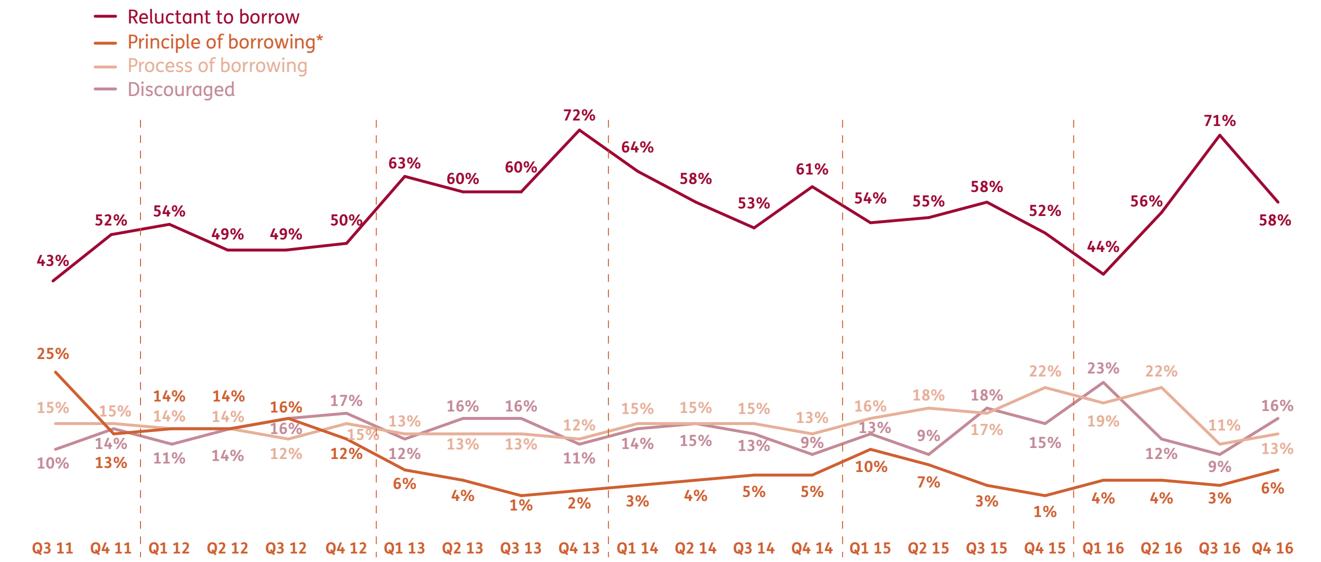


Q238

This chart relates to the analysis found on page 264 of the main report. Over the longer term, there has been a steady increase since 2012 in levels of confidence amongst applicants, with over half of prospective applicants now confident their bank will agree. This though remains below the actual success rates achieved by applicants.

Main barriers for Future would-be seekers

Time series: Main reason for not seeking borrowing amongst Future would-be seekers



Q239a

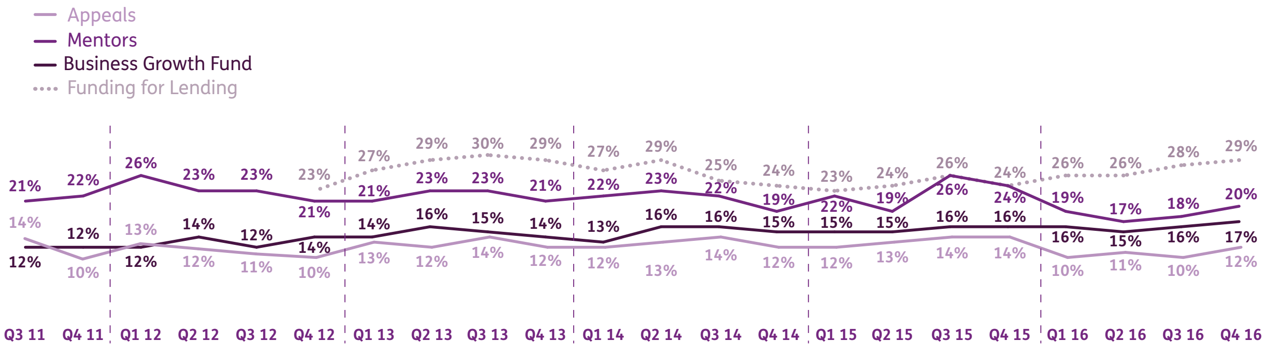
*principle of borrowing no longer includes 'prefer not to borrow'

This chart relates to the analysis found on page 275 of the main report. A reluctance to borrow in the current climate remains the main barrier to Future would-be seekers especially in Q3 2016.

Charts reflecting data reported in Chapter 13

Awareness of key initiatives

Time series: Awareness of initiatives – all SMEs

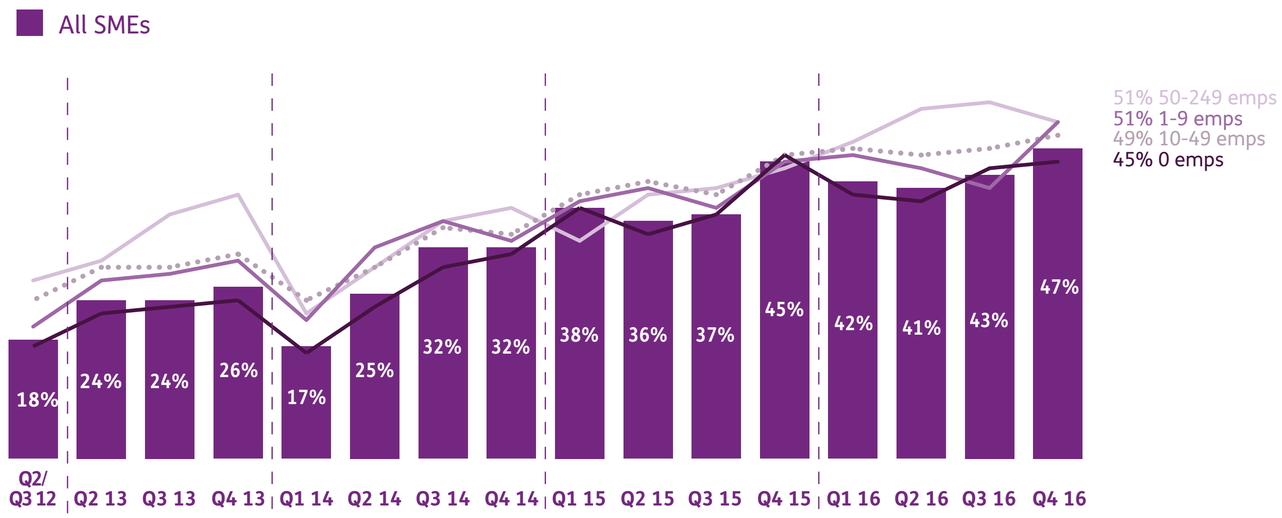


Q240

This chart relates to the analysis found on page 298 of the main report. Awareness of key initiatives has remained relatively stable over time.

Awareness of Crowdfunding

Time series: Awareness of Crowdfunding – excluding PNBs



Q236a2

This chart relates to the analysis found on page 301 of the main report. Since the start of 2014 awareness has increased and around 4 in 10 SMEs are now aware of crowd funding.

15. Technical Appendix

This chapter covers

the technical elements of the report – sample size and structure, weighting and analysis techniques.

Eligible SMEs

In order to qualify for interview, SMEs had to meet the following criteria in addition to the quotas by size, sector and region:

- not 50%+ owned by another company
- not run as a social enterprise or as a not for profit organisation
- turnover of less than £25m.

The respondent was the person in charge of managing the business's finances. No changes have been made to the screening criteria in any of the waves conducted to date.

Sample structure

Quotas were set overall by size of business, by number of employees, as shown below. The classic B2B sample structure over-samples the larger SMEs compared to their natural representation in the SME population, in order to generate robust sub-samples of these bigger SMEs. Fewer interviews were conducted with 0 employee businesses to allow for these extra interviews. This has an impact on the *overall* weighting efficiency (once the size bands are combined into the total), which is detailed later in this chapter.

The sample design shown below was adopted for 2016 (based on 2015 BIS data), and the sample sizes shown were achieved once the Q4 2016 interviewing was complete. The total annual sample size has therefore reduced from 20,000 interviews a year (up to 2015) to 18,000 a year from 2016 onwards and the data is grossed to a total of 5,002,010 SMEs.

Business size	**% of universe**	**Total sample size**	**% of sample**
Total	100%	18,000	100%
0 employee (resp)	75%	3600	20%
1-9 employees	20%	5800	33%
10-49 employees	4%	5800	32%
50-249 employees	1%	2800	15%

Overall quotas were set by sector and region as detailed below. In order to ensure a balanced sample, these overall region and sector quotas were then allocated within employee size band to ensure that SMEs of all sizes were interviewed in each sector and region.

Business sector* (SIC 2007 in brackets)	% of universe	Total sample size	% of sample
AB Agriculture etc. (A)	3%	1200	7%
D Manufacturing (C)	6%	1500	8%
F Construction (F)	19%	3200	18%
G Wholesale etc. (G)	10%	1800	10%
H Hotels etc. (I)	4%	1200	7%
I Transport etc. (H&J)	12%	2000	11%
K Property/Business Services (L,M,N)	27%	3600	20%
N Health etc. (Q)	7%	1500	8%
O Other (R&S)	12%	2000	11%

Quotas were set overall to reflect the natural profile by sector, but with some amendments to ensure that a robust sub-sample was available for each sector. Thus, fewer interviews were conducted in Construction and Property/Business Services to allow for interviews in other sectors to be increased, in particular for Agriculture and Hotels & Restaurants.

A similar procedure was followed for the regions and devolved nations:

Region	% of universe	Total sample size	% of sample
London	18%	2200	12%
South East	16%	2200	12%
South West	10%	1600	9%
East	10%	1600	9%
East Midlands	7%	1300	7%
North East	3%	960	5%
North West	10%	1600	9%
West Midlands	7%	1500	8%
Yorks & Humber	7%	1400	8%
Scotland	6%	1520	9%
Wales	4%	1120	6%
Northern Ireland	2%	1000	6%

Weighting

The weighting regime was initially applied separately to each quarter. The four most recent quarters were then combined and grossed to the total of 5,002,010 SMEs, based on BIS 2015 SME data.

This ensured that each individual wave is representative of all SMEs while the total interviews conducted in a 4-quarter period gross to the total of all SMEs.

The table below shows the new weighting being applied to interviews from Q1 2016 onwards

		0	1-49	50-249	
AB	Agriculture, Hunting and Forestry; Fishing	1.99%	1.06%	0.01%	**3.06%**
D	Manufacturing	3.75%	1.61%	0.12%	**5.49%**
F	Construction	16.04%	3.04%	0.04%	**19.12%**
G	Wholesale and Retail Trade; Repairs	5.59%	4.74%	0.09%	**10.43%**
H	Hotels & Restaurants	1.09%	2.51%	0.05%	**3.65%**
I	Transport, Storage and Communication	10.05%	2.14%	0.06%	**12.25%**
K	Real Estate, Renting and Business Activities	20.22%	6.41%	0.14%	**26.77%**
N	Health and Social work	6.16%	1.18%	0.07%	**7.41%**
O	Other Community, Social and Personal Service Activities	9.94%	1.86%	0.02%	**11.82%**
		74.83%	**24.56%**	**0.61%**	

An additional weight then split the 1-49 employee band into 1-9 and 10-49 overall:

- 0 employee 74.83%
- 1-9 employees 20.46%
- 10-49 employees 4.10%
- 50-249 employees 0.61%.

Overall rim weights were then applied for regions:

Region	% of universe
London	18%
South East	16%
South West	10%
East	10%
East Midlands	7%
North East	3%
North West	10%
West Midlands	7%
Yorks & Humber	7%
Scotland	6%
Wales	4%
Northern Ireland	2%

Finally a weight was applied for Starts (Q13 codes 1 or 2) set, after consultation with stakeholders at 20%.

The up-weighting of the smaller SMEs and the down-weighting of the larger ones has an impact on weighting efficiency. Whereas the efficiency is 77% or more for the individual employee bands, the overall efficiency is reduced to 28% by the employee weighting, and this needs to be considered when looking at whether results are statistically significant. The table below is based on the new sample design of 18,000 interviews per year:

Business size	Sample size	Weighting efficiency	Effective sample size	Significant differences
Total	18,000	28%	5040	+/-2%
0 employee (resp)	3600	79%	2844	+/-3%
1-9 employees	5800	77%	4466	+/-2%
10-49 employees	5800	78%	4524	+/-2%
50-249 employees	2800	82%	2296	+/-3%

Analysis techniques

CHAID (or Chi-squared Automatic Interaction Detection) is an analytical technique, which uses Chi-squared significance testing to determine the most statistically significant differentiator on some target variable from a list of potential discriminators. It uses an iterative process to grow a ‘decision tree’, splitting each node by the most significant differentiator to produce another series of nodes as the possible responses to the differentiator. It continues this process until either there are no more statistically significant differentiators or it reaches a specified limit. When using this analysis, we usually select the first two to three levels to be of primary interest.

This report is the largest and most detailed study of SMEs' views of bank finance ever undertaken in the UK. More importantly, this report is one of a series of regular reports. So not only is it based on a large enough sample for its findings to be robust, but over time the dataset has been building into a hugely valuable source of evidence about what is really happening in the SME finance market.

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