SME Finance Monitor

Q4 2017

An independent report by
BDRC, March 2018

bdrc

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Foreword

Welcome to the full report of the SME Finance Monitor for Q4 2017. After a number of significant UK and global events in 2016, including the EU referendum and the election of Donald Trump,2017 included a snap general election in the UK and the conclusion of the first stage of the Brexit negotiations. This report provides an overview of how SMEs have reacted to these events over time.

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, 27 waves of interviewing have been completed, with a full report now published every half year, following completion of the Q2 and Q4 fieldwork. For 2018 the full report will continue to be published every half year as before, but the Monitor questionnaire has been revised to reflect current trends in access to finance for SMEs.

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, with no influence sought or applied by any member of the Steering Group.

Shiona Davies
Editor, The SME Finance Monitor
March 2018

The Survey Steering Group comprises representatives of the following:

Association of Chartered Certified Accountants

Barclays Bank

UK Finance

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 issues around <u>access</u> to finance to <u>demand</u> for finance amongst SMEs and the extent to which the *right* forms of funding are available to those businesses looking to grow and invest. 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 and subsequent Brexit negotiations added an additional level of uncertainty. At present it appears that it is demand rather than supply issues that are contributing more to continued lower levels of lending to SMEs and the SME Finance Monitor questionnaire has evolved to capture more data in this area.

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

The majority of this report is based on a total of 18,012 interviews with SMEs, conducted across the 4 quarters of 2017. This means that the interviews conducted in 2011 (three waves) and the 4 waves in each of the years 2012 to 2016 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 2017 data therefore includes the following four waves:

- January-March 2017 – 4,500 interviews conducted, referred to as Q1 2017
- April-June 2017– 4,507 interviews conducted, referred to as Q2 2017
- July-September 2017 – 4,505 interviews conducted, referred to as Q3 2017
- October-December 2017 – 4,500 interviews conducted, referred to as Q4 2017

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 18,012 interviews is referred to as YEQ4 2017.

Since Q1 2016 the overall sample size has been 4,500 interviews per quarter (previously 5,000) which still provides a robust base size for analysis. Also, in 2016 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 from Q1 2016 onwards.

The majority of reporting is based on interviews conducted in the year to Q4 2017. 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 2017 report, this means such tables are based on all applications occurring in the 18 months between Q3 2016 and Q4 2017, 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 each 'All SME' figure 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 2018. The questionnaire has been significantly revised and updated for Q1 2018 to reflect the current financial landscape and the Q2 2018 report will be the first to reflect these changes (due to be published in September 2018).

A sixth edition of the annual report, published in June 2017, provided separate analysis at a regional level for an in-depth assessment of local conditions during 2015. A further regional report is planned for Spring 2018, to report on local conditions during 2017.

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. It also provides broader context information about SMEs including growth, profitability and perceived barriers to running the business.

SMEs remained more likely to meet the definition of a Permanent non-borrower (47%) than to be using external finance (38%). Demand for finance remained muted and most SMEs had been a Happy non-seeker of finance in the previous 12 months:

Overall use of external finance was stable	In 2017, 38% of SMEs were using some form of external finance, with 31% using core finance (loans, overdrafts and credit cards) and 18% one of the other forms of finance recorded. Overall use of finance was in line with 2014-16 (37%) and continued to be higher amongst larger SMEs (34% of those with 0 employees to 73% of those with 50-249 employees).
Almost half of SMEs met the definition of a Permanent non-borrower	47% of SMEs in 2017 met the definition of a Permanent non-borrower who was not using external finance and showed little appetite to do so. This proportion is unchanged since 2015. 0 employee SMEs remained the most likely to be a PNB (51%) while the proportion of the largest SMEs meeting the definition (21%) has declined somewhat since 2015 (when 28% were PNBs). Excluding the PNBs sees 72% of remaining SMEs using external finance, the highest proportion to date.
Demand for new or renewed finance remained limited	In 2017, 5% of SMEs reported having applied for new or renewed loan or overdraft facilities (4% for an overdraft and 2% for a loan). This is in line with 2016 but half the level seen in 2012 (11%). There were some early signs of increased demand in 2017 – in Q4 2017 7% reported making an application in the previous 12 months and there have been slightly more applications in 2017 to date than expected from an even distribution of events.
8 in 10 SMEs had been Happy non-seekers of finance	With 15% of SMEs reporting any kind of borrowing event and 2% being Would-be seekers of finance, the largest group of SMEs remained the Happy non-seekers (83% of SMEs in 2017, in line with 2016 and up from 68% in 2012). Would-be seekers were typically ambitious and prepared to use finance to help the business grow. Their main barriers to application were discouragement (47% of WBS) and the process of borrowing (29% of WBS). Happy non-seekers were attitudinally more risk averse and happy to grow slowly rather than borrowing to grow more quickly.

Levels of profitability, growth and credit balances are stable. Attitudinally, SMEs remain more likely to be self-reliant than willing to borrow to grow and awareness of equity finance is low. However, a quarter are both ambitious and prepared to take risks to succeed, and being willing to use finance to grow is a key predictor of being in this group:

Most SMEs reported making a profit	82% of SMEs reported making a profit (2017) and this proportion has increased steadily over time, from 69% in 2012. There was relatively little difference in profitability by size of SME (81-88%) but larger SMEs made larger profits.
4 in 10 SMEs (excl Starts) had grown	In 2017, 42% of SMEs reported having grown and this has changed little over time (Since 2012, between 39% and 42% have grown).
A quarter of SMEs hold £10,000 or more in credit balances	Almost all SMEs held some credit balances and the average amount held in 2017 was £37,000. On average SMEs held the equivalent of a quarter of their turnover as credit balances. 25% of SMEs held £10,000 or more in credit balances and most of them said this reduced their need for external finance.
A third of SMEs received Trade Credit	35% of SMEs in 2017 received trade credit (up slightly from 2014, when 31% received trade credit). Larger SMEs remained more likely to receive such credit (69% of those with 50-249 employees). 7 in 10 of the SMEs that received trade credit said that it reduced their need for external finance. This is the equivalent of 24% of all SMEs.
A stable 3 in 10 reported an injection of personal funds into the business	29% of SMEs in 2017 reported an injection of personal funds into the business in the previous 12 months. This was slightly more likely to have been a choice (16%) rather than something they felt they had to do (13%). Half of all Starts had received an injection of personal funds, as had 7 in 10 of those who had been Would-be seekers of finance.
Two thirds of SMEs use 'Business Funding'	Combining the use of external finance with trade credit and personal injections of funds sees 65% of SMEs using 'Business Funding' and this has remained fairly stable over time. Business Funding increased by size of SME (from 61% of those with 0 employees to 89% of those with 50-249 employees) with the biggest uplift between external finance and business funding for those with 0 employees (34% to 61%).
Not all SMEs would speak to their bank if a new opportunity required funding	Given a (hypothetical) business opportunity that required funding, 37% of SMEs in 2017 said that they would approach their bank for funding. Just as many (39%) said they would not approach the bank because the business or the directors would provide the funding. 19% would not approach the bank because of fears over the risks associated with debt. This was more of a concern for smaller businesses but varied very little by age of business.

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There is a continued attitude of self-reliance amongst SMEs but ambitious risk-takers see the benefits of finance	82% of SMEs said their plans were based on what they could afford and 70% would rather grow more slowly than borrow to grow faster. A declining proportion of SMEs were happy to use finance to grow (34% in 2017, down from 45% in 2015). New questions for H2 2017 showed that 38% of SMEs had ambitions to be a significantly bigger business (increasing to 68% of those with 50-249 employees) and a similar proportion (42%) were prepared to take risks to become more successful. Both these attitudes were seen more strongly amongst younger businesses. A quarter of all SMEs (27%) agreed with both of the new statements ie that they were ambitious and prepared to take risks. These were more likely to be younger, innovative businesses and a willingness to borrow to grow was a key predictor of membership of this group.
6 in 10 companies said they knew nothing about equity finance	Very few companies (3% in H2 2017) were using or planning to use equity finance. Most, 62%, said that they did not know anything about this type of finance. Use/planned use of equity finance was slightly higher for larger SMEs (6% of those with 50-249 employees), while the proportion that knew nothing about this type of finance declined somewhat by size (from 62% of those with 0 employees to 52% of those with 50-249 employees). 22% of companies did not think it was a suitable form of finance for them and this did not vary much by size of business.

Most of those who applied for a loan or overdraft in the last 18 months ended the process with a facility. Slightly lower success rates for those applying for the first time have resulted in a somewhat lower overall success rate for new money:

80% of all recent applications were successful	80% of loan and overdraft applications made in the 18 months to Q4 2017 resulted in a facility. This was in line with the 82% reported for the 18 months to Q4 2015 and remains ahead of the 68% success rates across 2012-2013.
Renewals remained more likely to be successful than new money	97% of applications for a loan or overdraft renewal made in the 18 months to Q4 2017 resulted in a facility and this is little changed over time. 63% of new money loan and overdraft applications made in the 18 months to Q4 2017 resulted in a facility. This was lower than was seen for the 18 months to Q4 2015 (70%) but remained ahead of the 18 months to Q4 2013 (49%).
First time applicants were less likely to end the process with a facility	Within the current success rate for new money applications, the success rate for those who have borrowed before was stable (78%). It is the success rate for first time applicants which has declined (currently 50% compared to 60% for applications in the 18 months to Q4 2015). First time applicant success rates do though remain above the 4 in 10 seen in the 18 months to both Q4 2012 and Q4 2013.
More than 8 in 10 overdraft applications were successful	For the 18 months to Q4 2017, 85% of all overdraft applicants ended the process with a facility: 76% were offered what they wanted and took it, while 9% took the overdraft after issues. 3% took another form of funding and 11% of applicants ended the process with no facility. The overdraft success rate is currently stable. 0 employee applicants remained less likely to be successful (81%) than those with employees (92-97%) but their success rates have improved over time (70% were successful in the 18 months to Q4 2012).
Almost 7 in 10 loan applications were successful	For the 18 months to Q4 2017, 67% of all loan applicants ended the process with a facility: 58% were offered what they wanted and took it, while 9% took the overdraft after issues. 7% took another form of funding and 26% of applicants ended the process with no facility. This overall loan success rate was somewhat lower than the 74% success rate for the 18 months to both Q4 2015 and Q4 2016. It remained though somewhat higher than the 58% success rate recorded for the 18 months to both Q4 2012 and Q4 2013.

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Almost all facilities were in place 'in good time'

87% of overdrafts and 67% of loans were in place within 2 weeks.

Almost all successful applicants agreed that the facility had been put in place in good time (92% for overdrafts and 95% for loans) with those waiting more than 2 weeks for an overdraft, or more than 4 weeks for a loan, less likely to agree.

Over time the proportion of facilities agreed within 2 weeks has increased for loans (55% in the 18 months to Q4 2014 to 67% currently) and the proportion agreeing their loan was in place in good time has also increased (86% to 95%). There was a smaller increase in 2 week facilities for overdraft applicants (83% to 87%) and a slight decline in the proportion in place in good time (96% to 92%).

Looking forward, there were more concerns about the economic climate and political uncertainty, especially for international SMEs. There were signs of planned growth and a range of business activities being undertaken, while appetite for finance remained stable:

SMEs were somewhat more likely to identify barriers to running the business	The top 3 barriers to running the business as they would want remained 'legislation, regulation and red tape' (15% in Q4 2017), 'political uncertainty' (15%) and 'the current economic climate' (14%) in Q4 2017. 29% of SMEs rated one or more of these as a 'major barrier' especially those with 1-9 employees (36%) and those with any future appetite for finance (39%). Compared to 2016, there were more mentions in 2017 as a whole of legislation and regulation as a barrier (10% in 2016 to 15% in 2017) and also of political uncertainty (10% in 2016 to 14% in 2017). Access to finance remained a major barrier for very few SMEs (5% in 2017 unchanged from 2016).
SMEs with employees are more likely to be planning future growth	Almost half of SMEs (46%) were planning to grow in the 12 months after Q4 2017, including 19% planning to grow by 20% or more. This proportion has varied little over recent quarters, with the slight exception of Q2 and Q3 2016 when 41% planned to grow. On an annual basis, planned growth has declined slightly from 49% in 2012 to 45% in 2017, driven by the 0 employee SMEs (46% to 41%). Amongst those with employees, growth aspirations in 2017 were in line with, or higher than they were in 2012. Almost all those planning to grow (97% in Q4 2017) planned to sell more in the UK. 11% planned to sell more overseas, almost all of them current exporters.
4 in 10 SMEs are planning some significant activity in the year ahead	In H2 2017, 4 in 10 SMEs (42%) planned one or more significant activity in the year ahead, including 19% planning to take on more staff, 17% planning to invest in new plant and machinery and 16% planning to develop a new product or service. The proportion planning any activity increased by size of SME (38% of those with 0 employees, to 60% with 50-249 employees). Around half of Starts (56%) and those trading 2-5 years (48%) planned to do any of these activities, compared to a third of older SMEs and these activities were also being planned by 61% of those planning to grow, and similarly by 62% of those planning to apply for finance.

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Future appetite for finance remains broadly stable but confidence of success dipped at the end of 2017	The proportion of SMEs planning to apply for finance increased during 2017 from 10% in Q1 to 14% in Q4. For 2017 as a whole it was 12%, unchanged from 2016 and slightly lower than the 14% seen in 2012 and 2013. Annual appetite for finance increased by size of SME from 11% of 0 employee SMEs to 17% of those with 50-249 employees. Most of those planning to apply were already using external finance (78%), a higher proportion than in either 2015 or 2016. In Q4 2017, 41% of applicants were confident that the bank would lend to them. The annual figure (50%) was lower than for 2016 (when 55% were confident) and also lower than current success rates for renewals (97%) or new money (63%). The lower confidence in 2017 was seen to some degree across both larger and smaller applicants and risk rating. Hypothetical confidence amongst those with no plans to apply remained higher (62% in Q4 2017).
1 in 10 SMEs would like to apply for finance but think something will stop them	In addition to the 12% of SMEs planning to apply for finance, a further 10% were Future would-be seekers who would like to apply but thought that something would stop them. The proportion of all SMEs meeting the definition has declined over time, from 23% in 2012 to 10% in 2017. The main barrier to applying in 2017 was a reluctance to borrow in the current climate (50% of FWBS), followed by discouragement (22%). Compared to 2016, the economic climate was mentioned slightly less (57% in 2016) and discouragement slightly more (15% in 2016).
International SMEs remained ambitious but with concerns	International SMEs are potentially more likely to be affected by the current Brexit negotiations. In 2017, compared to domestic SMEs: Those who export were more likely to be planning to grow (58%). They had become more concerned about political uncertainty (23%) and less likely to be planning to apply for finance (13%). Those who import were also more likely to be planning to grow (63%). Their appetite for finance had declined slightly over time (17%) and they had become more concerned about the economic climate (21%) and political uncertainty (19%). Those who both import and export were the most likely to be planning to grow (67%). Their appetite for finance has varied over time (currently 18%) and they were the most concerned about political uncertainty (26%).

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 the sample providers D&B or Experian. Risk ratings are not available for 14% 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 2017. 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 2017 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 2016 but for other more recent quarters data is still being gathered. Results for events occurring from Q1 2017 onwards are therefore still *interim* at this stage (respondents interviewed in Q1 2018 will report on events which occurred in Q1 2017 or later).

Where analysis is shown by date of application, this typically includes all interviews to date (including those conducted 2011-2016 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 2017 report, this means such tables are based on all applications occurring in the 18 months between Q3 2016 and Q4 2017 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 were 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 -2015 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 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 were asked whether they were 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 cancellation/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, particularly for data shown over time, 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 2017 (YEQ4 17).

Key findings

4 in 10 SMEs (42% in 2017, excluding Starts) had grown in the previous 12 months and overall this has varied little since 2013 (39-42%). Larger SMEs were more likely to have grown, and this proportion is now higher than in 2013 (59% of SMEs with 50-249 employees grew in 2017, compared to 54% in 2013).

Most SMEs were profitable (82% in 2017, excluding DK) and this proportion has increased steadily over time (from 69% in 2012). Unlike other metrics there was relatively little difference in profitability by size of SME (81-88%) albeit larger SMEs made higher profits.

Almost all SMEs held some credit balances and the average amount held in 2017 was £37,000, back to levels seen in 2015:

- On average, SMEs held the equivalent of a quarter of their turnover in credit balances (23%)
- A quarter of SMEs (25%) held more than £10,000 in credit balances and most of them said that this reduced their need for finance, the equivalent of 13% of all SMEs having a lower need for finance due to credit balances held.

A quarter of SMEs with employees (23%) have staff from overseas: 22% from the EU and 4% from further afield:

- Amongst the largest SMEs, 55% employ overseas staff
- 4 in 10 of employers of overseas staff (41%) were concerned about the impact on their business of any future change to migration rules
- This is the equivalent of 1 in 10 of all employers (9%), increasing to 31% of all those with 50-249 employees.

16% of SMEs trade internationally, with 11% importing and 10% exporting:

- The majority of exporters (62%) said that exports made up 25% or less of their total sales. The proportion of 'heavy exporters', where exports account for 50% of more of turnover was 23%, up from 13% in 2015 and back to levels seen in 2013
- A quarter of exporters (26%) do all or most of their trade with the EU (with little variation by size) while 18% do no trade at all (more common amongst smaller exporters).

This chapter presents an overview of the characteristics of SMEs in the UK. Unless otherwise stated, figures are based on the 18,012 interviews conducted in the year ending Q4 2017 (that is Q1 to Q4 of 2017). Since the survey started in 2011, SMEs have faced a range of trading challenges and analysis of this data over time provides an indication of how SMEs have managed as conditions have changed. For example, in 2016, the Q1 and Q2 interviews were completed prior to the EU referendum result being known, while the Q3 and Q4 interviews were conducted in the months immediately afterwards and in 2017 the Q2 interviews were being conducted during and immediately after the General Election.

Profitability

In Q4 2017, 75% 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 these 'don't know / refused' answers had been excluded, which over recent quarters has been a stable 8 in 10 SMEs:

Business performance last 12 months

Over time By date of interview	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Unweighted base:	*5003*	*4500*	*4500*	*4500*	*4500*	*4500*	*4507*	*4505*	*4500*
Made a profit	75%	75%	74%	76%	74%	75%	78%	76%	75%
Broke even	9%	10%	12%	11%	14%	11%	8%	9%	11%
Made a loss	8%	8%	6%	7%	7%	7%	7%	7%	7%
DK/refused	8%	7%	7%	6%	6%	7%	7%	9%	7%
Median profit made	***£9k***	***£8k***	***£8k***	***£8k***	***£9k***	***£10k***	***£9k***	***£9k***	***£9k***
Made profit (excl DK)	***81%***	***81%***	***80%***	***81%***	***78%***	***81%***	***84%***	***83%***	***81%***

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 2017, 76% of all SMEs had been profitable (82% once the DK answers were excluded), increasing slightly by size of SME as the table below shows. The median profit, where made, was £10k, and the median loss £2k. Both increased by size of SME:

Business performance last 12 months YEQ4 17 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,012*	*3607*	*5804*	*5801*	*2800*
Made a profit	76%	75%	77%	81%	80%
Broke even	10%	10%	8%	5%	5%
Made a loss	7%	7%	7%	5%	7%
DK/refused	8%	7%	9%	9%	8%
Made profit (excl DK)	*82%*	*81%*	*84%*	*88%*	*87%*
*Median profit made**	*£10k*	*£8k*	*£14k*	*£56k*	*£263k*
*Median loss made**	*£2k*	*£2k*	*£6k*	*£14k*	*£147k*

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

Amongst SMEs with employees, 85% reported making a profit YEQ4 2017 (excluding theDK and refused answers).

There has been relatively little variability in overall levels of profitability over recent quarters and larger SMEs 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 By date of interview	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
All SMEs	**81%**	**81%**	**80%**	**81%**	**78%**	**81%**	**84%**	**83%**	**81%**
0 employee	81%	80%	79%	79%	77%	80%	83%	82%	79%
1-9 employees	82%	84%	80%	86%	81%	84%	83%	85%	85%
10-49 employees	88%	87%	88%	90%	87%	90%	87%	89%	88%
50-249 employees	93%	94%	87%	87%	87%	87%	91%	83%	86%

Q241 All SMEs excluding DK

By sector, once the DK answers were excluded, the proportion reporting a profit YEQ4 2017 ranged from 77% for Transport to 86% for Construction:

Business performance last 12 months

YEQ4 17 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop / Bus	Hlth SWrk	Other Comm
Unweighted base:	*1202*	*1501*	*3200*	*1800*	*1200*	*2004*	*3603*	*1502*	*2000*
Made a profit	75%	76%	79%	73%	70%	71%	79%	78%	73%
Broke even	8%	8%	9%	11%	10%	13%	8%	12%	9%
Made a loss	10%	8%	4%	8%	9%	8%	7%	4%	10%
DK/refused	8%	8%	8%	8%	11%	7%	6%	6%	8%
Made profit (excl DK)	*81%*	*83%*	*86%*	*79%*	*78%*	*77%*	*84%*	*83%*	*79%*
*Median profit made**	*£8k*	*£10k*	*£9k*	*£13k*	*£11k*	*£8k*	*£10k*	*£7k*	*£9k*
*Median loss made**	*£2k*	*£2k*	*£1k*	*£2k*	*£5k*	*£2k*	*£2k*	*£2k*	*£2k*

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

Median profits reported for YEQ4 2017 varied slightly, between £7-13k by sector, with little change over time. Reported median <u>losses</u> for YEQ4 2017 were £2k overall and for almost all sectors.

The table below takes a longer term view of profitability (back to 2012 and excluding DK/refused answers) by key demographics. This shows that an increasing proportion of SMEs reported making a profit between 2012 (69%) and 2017 (82%), both overall and across all key demographic groups, led by the 0 employee SMEs. In 2012, 74% of Permanent non-borrowers made a profit, compared to 66% of non PNBs. Since then the gap between them has narrowed (although profitability has improved overall for both groups) and in 2017 there was no difference between the two groups:

Made a profit in last 12 months Over time (excl DK) By date of interview – row percentages	2012	2013	2014	2015	2016	2017
All	69%	70%	77%	80%	80%	82%
0 emp	67%	69%	75%	79%	79%	81%
1-9 emps	72%	75%	81%	82%	83%	84%
10-49 emps	80%	81%	86%	87%	88%	88%
50-249 emps	81%	84%	88%	90%	89%	87%
Minimal external risk rating	83%	83%	84%	84%	86%	88%
Low	81%	84%	82%	87%	86%	90%
Average	71%	73%	80%	82%	82%	84%
Worse than average	63%	65%	72%	76%	77%	78%
Agriculture	74%	73%	79%	78%	77%	81%
Manufacturing	69%	74%	80%	81%	81%	83%
Construction	67%	68%	78%	80%	81%	86%
Wholesale/Retail	67%	70%	74%	79%	82%	79%
Hotels & Restaurants	59%	65%	73%	75%	79%	78%
Transport	65%	66%	76%	78%	78%	77%
Property/ Business Services	73%	73%	80%	81%	81%	84%
Health	70%	69%	76%	78%	77%	83%
Other	66%	73%	67%	83%	79%	79%
PNBs	74%	73%	80%	82%	80%	83%
All excl PNBs	66%	69%	74%	78%	80%	82%

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 (also known as scaleup growth).

As the table below shows, the proportion of SMEs (excluding Starts) reporting that they had grown at all in the previous 12 months has typically been around 4 in 10 in recent quarters, with the exception of Q2 2017 (46%):

Growth achieved in last 12 months

All SMEs excluding Starts By date of interview	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Unweighted base:	*4203*	*3729*	*3686*	*3703*	*3665*	*3742*	*3716*	*3602*	*3649*
Grown by more than 20%	12%	10%	9%	7%	8%	6%	9%	10%	10%
Grown but by < 20%	28%	33%	31%	32%	31%	32%	37%	31%	32%
Grown	***40%***	***43%***	***40%***	***39%***	***39%***	***38%***	***46%***	***41%***	***42%***
Stayed the same	49%	46%	49%	51%	52%	48%	44%	47%	49%
Declined	11%	10%	11%	10%	10%	14%	10%	12%	10%

Q245a All SMEs trading for 3 years or more excl DK

For the period YEQ4 2017:

- 9% of SMEs (excluding Starts) said they had grown by 20% or more in the previous 12 months while 33% had grown but by less than 20%
- This means that for YEQ4 2017, 42% of SMEs (excluding Starts) reported having grown at all in the previous 12 months
- 47% had stayed the same size and 11% had got smaller.

The table below shows how these growth patterns varied by SME demographics. Larger SMEs remained more likely to report growth than smaller ones, while those trading for less than 10 years remained more likely to have grown than those trading for longer:

Business Growth	Further analysis (excluding Starts) YEQ4 2017
Size of SME	The proportion of SMEs that had grown by 20% or more varied relatively little by size of SME (8-11%). Larger SMEs were more likely to have grown by up to 20% and so were more likely to have grown overall: • 39% of 0 employee SMEs reported having grown at all • 47% of those with 1-9 employees reported having grown • Over half of those with 10-49 (56%) or 50-249 (59%) employees reported having grown
Risk rating	The proportion growing by 20% or more varied little by risk rating (8-9%). 46% of those with a minimal risk rating had grown at all. There was little difference in growth between those with a low risk rating (43% had grown), an average risk rating (40%) or a worse than average risk rating (42%).
Age of business	The proportion of SMEs achieving 20%+ growth declined by age of business, from 15% of those trading for 2-5 years to 6% of those trading for 15+ years. Overall growth was also higher for younger businesses: 53% of those trading for 2-5 years and 50% of those trading for 6-9 years had grown, compared to 41% of those trading 10-15 years and 34% of those trading for more than 15 years.
Sector	SMEs in the Other Community sector along with those in Property/Business Services and Manufacturing were the most likely to report 20%+ growth (10%). For other sectors the proportion varied from 4-9%. Those in Wholesale/Retail and Hotels and Restaurants were the most likely to report overall growth (both 45%), compared to 36% in the Transport sector. For other sectors, growth varied from 40-43%.
Appetite for finance	Those who reported a borrowing event in the 12 months prior to interview were slightly more likely to have grown in the previous year (48%), compared to 41% of Would-be seekers and 41% of Happy non-seekers. Permanent non-borrowers (with no immediate appetite for finance) were slightly less likely to have grown (40%) than those who did not meet the definition (44%).

The table below takes a longer term view of growth by key demographics. This shows a consistent 4 in 10 having grown in each period, due to the relatively consistent growth performance of 0 employee SMEs. Larger SMEs were consistently more likely to have grown than smaller ones, and the proportion of these larger SMEs reporting growth has also increased since 2013:

Growth achieved in last 12 months All SMEs over time (excluding Starts) By date of interview – row percentages	2013	2014	2015	2016	2017
All	40%	42%	39%	40%	42%
0 emp	38%	39%	36%	37%	39%
1-9 emps	43%	48%	45%	48%	47%
10-49 emps	49%	55%	56%	55%	56%
50-249 emps	54%	61%	57%	55%	59%
Minimal external risk rating	36%	44%	38%	45%	46%
Low	40%	40%	39%	43%	43%
Average	35%	38%	37%	37%	40%
Worse than average	44%	45%	41%	41%	42%
Agriculture	40%	40%	31%	36%	40%
Manufacturing	44%	46%	45%	45%	41%
Construction	35%	37%	35%	36%	41%
Wholesale/Retail	38%	46%	43%	47%	45%
Hotels & Restaurants	37%	43%	45%	44%	45%
Transport	35%	38%	35%	39%	36%
Property/ Business Services	44%	42%	41%	41%	43%
Health	40%	45%	38%	34%	43%
Other	44%	45%	41%	42%	42%
PNBs	38%	40%	37%	39%	40%
All excl PNBs	41%	43%	41%	41%	44%

Q245a All SMEs excl DK

Scaleup growth

In 2017, 9% of SMEs (excluding Starts) reported that they had grown by 20% or more in the previous 12 months. This proportion was unchanged from 2016 but somewhat lower than seen in previous years (13% in 2014).

Amongst those who reported for YEQ4 2017 that they had grown by 20% or more, almost 6 in 10 (57%) went on to report that they had also achieved this level of growth for each of the two previous years. Those with 1-9 employees were the most likely to report such growth (64%).

This is the equivalent of 4% of all SMEs (excluding Starts) achieving 3 years of 20%+ growth, also known as 'scaleup' growth.

- There was relatively little variation by size (4% for 0 employee SMEs and those with 50-249 employees and 6% for the 1-9 and 10-49 employee bands)
- There was also little variation by sector (3-5%)
- PNBs were no more or less likely to have achieved scaleup growth (4%) than non-PNBs (5%)
- Those using external finance were no more or less likely to have achieved scaleup growth (5%) than non-users (4%)
- SMES trading 2-5 years were the most likely to be scaleups (9%) compared to 4% of those trading 6-15 years and 3% of older SMEs

Past and future growth comparisons

The Monitor records both *past* growth and*future* growth expectations. This allows a comparison to be made between growth expectations recorded and growth subsequently achieved, albeit that these are based on **different** samples of SMEs and so 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. Since this analysis started, the predictions made have typically proved to be very close to the growth figures subsequently reported (by a different sample of SMEs). The growth achieved more recently, from Q2 2017, exceeded the predictions made in 2016, due to the performance of those with 0-9 employees.

Back in Q3 2016, 37% of SMEs 3+ years old *predicted* that they would grow in the next 12 months. In Q4 2017 more, 42%, (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%	38%	42%	38%	60%	53%
Predicted Q1 16/Achieved Q2 17	39%	46%	38%	46%	57%	58%
Predicted Q2 16/Achieved Q3 17	37%	41%	36%	40%	60%	56%
Predicted Q3 16/Achieved Q4 17	37%	42%	36%	41%	57%	59%
Predicted Q4 16/Achieved Q1 18	42%		41%		61%	

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, although the latest data showed prediction and achievement in line (57% v 59%).

Financial Risk Profile

The main assessment of financial risk is the external risk rating supplied for the sample 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 of failure. Although not all SMEs receive this external risk rating, most do (86%) 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 typically just under half of SMEs having a worse than average risk rating:

External risk rating

All SMEs (where provided) over time

By date of interview	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Unweighted base:	*4546*	*4139*	*4093*	*4111*	*4108*	*4175*	*4112*	*4140*	*4181*
Minimal risk	7%	6%	8%	8%	6%	7%	5%	7%	6%
Low risk	16%	13%	16%	14%	16%	15%	14%	17%	16%
Average risk	28%	28%	32%	30%	27%	35%	33%	34%	30%
Worse than average risk	48%	53%	44%	48%	51%	42%	48%	42%	49%

All SMEs where risk rating provided

Looking over the longer term, the proportion of SMEs with a worse than average risk rating dropped to just below 50% for 2014 and has remained there since. The proportion with a minimal or low external risk rating increased over time from 16% in 2012 to 25% in 2015, before declining slightly (21% in 2017):

External risk rating (Where provided) over time By date of interview	2012	2013	2014	2015	2016	2017
Unweighted base:	*18,270*	*18,183*	*18,330*	*18,301*	*16,451*	*16,608*
Minimal risk	5%	6%	7%	8%	7%	6%
Low risk	11%	10%	15%	17%	15%	15%
Average risk	31%	29%	32%	29%	29%	33%
Worse than average risk	53%	54%	45%	46%	49%	45%

All SMEs where risk rating provided

The overall YEQ4 2017 ratings are shown below by size of SME, and continue to report a better risk profile for larger SMEs. 82% of SMEs with 50-249 employees had a minimal or low risk rating compared to 14% of those with 0 employees:

External risk rating YEQ4 17 – all SMEs where rating provided	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*16,608*	*3062*	*5179*	*5624*	*2743*
Minimal risk	6%	4%	10%	23%	39%
Low risk	15%	10%	24%	50%	43%
Average risk	33%	35%	29%	21%	14%
Worse than average risk	45%	50%	37%	7%	4%

All SMEs where risk rating provided

Amongst SMEs with employees, 42% had a minimal or low external risk rating, 27% an average risk rating and 31% a worse than average risk rating.

The risk profile of all SMEs is driven by the ratings for 0 employee SMEs. The table below shows the proportion with a worse than average risk rating over time, in each size band:

- Amongst the 0 employee SMEs the proportion with a worse than average risk rating has varied over time (50-60%) but in 2017 was at the lower end of this range.
- The proportion of 1-9 employee SMEs with this rating appears to have stabilised from 2014 onwards at around a third.
- Amongst those with 10-49 and 50-249 employees there has been a more consistent decline over time in the proportion with a worse than average risk rating and they remained the least likely to have this rating.

Worse than average risk rating Over time Row percentages	2012	2013	2014	2015	2016	2017
Total	53%	54%	45%	46%	49%	45%
0 employee	58%	60%	50%	52%	56%	50%
1-9 employees	43%	43%	37%	34%	35%	37%
10-49 employees	17%	17%	11%	9%	7%	7%
50-249 employees	13%	15%	9%	6%	5%	4%

All SMEs where risk rating provided

An analysis for YEQ4 2017 by sector shows that SMEs in Agriculture remained much more likely than other sectors to have a minimal or low risk rating (46% YEQ4 2017) while those in Transport (13%) and Construction (15%) remained the least likely to have such a rating:

External risk rating

YEQ4 17	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	*1079*	*1402*	*2945*	*1682*	*1094*	*1809*	*3368*	*1363*	*1866*
Minimal risk	29%	7%	3%	9%	3%	4%	5%	12%	6%
Low risk	17%	19%	12%	21%	25%	9%	14%	26%	14%
Average risk	24%	35%	31%	27%	26%	31%	40%	30%	36%
Worse than average risk	30%	39%	54%	43%	46%	56%	42%	32%	43%
Total Min/Low	*46%*	*26%*	*15%*	*30%*	*28%*	*13%*	*19%*	*38%*	*20%*

All SMEs where risk rating provided

Credit balances

Almost all SMEs reported holding some credit balances. In 2017, 4% did not hold any, and this proportion has changed relatively little over time, nor has it varied much by size of SME, or risk rating.

Between 2012 and 2015 the average credit balance held increased from £25,000 to £39,000. It was somewhat lower for 2016 as a whole (£30,000) but was back to £37,000 for 2017:

Credit balances held Over time – all SMEs	2012	2013	2014	2015	2016	2017
Unweighted base:	*15,020*	*14,752*	*13,039*	*13,182*	*10,730*	*10,950*
None	4%	4%	5%	3%	3%	4%
Less than £5,000	66%	64%	58%	55%	57%	51%
£5,000 to £10,000	14%	15%	17%	18%	18%	19%
£10,000 to £50,000	11%	12%	14%	17%	15%	17%
More than £50,000	5%	4%	6%	7%	6%	8%
Average balance held	*£25k*	*£24k*	*£31k*	*£39k*	*£30k*	*£37k*

Q244 All SMEs excluding DK/refused

The median value of credit balances held remained at just over £2,000 for YEQ4 2017. This amount continued to vary by size of SME, and for YEQ4 2017 was:

- £2,000 for 0 employee SMEs
- £6,000 for 1-9 employee SMEs
- £34,000 for 10-49 employee SMEs
- £177,000 for 50-249 employee SMEs.

The median value of credit balances varied little by sector (£2-4k).

New analysis has looked at the amount of credit balances held as a percentage of the annual turnover of the SME, using the mid-points of the bands in which this information was collected. In 2016, 62% of SMEs provided figures for both turnover and credit balances and in 2017 the proportion was 58% (ranging from 59% of those with 0 employees to 51% of those with 10-249 employees).

As the table below shows, in both 2016 and 2017, on average SMEs held credit balances of the equivalent of 23% of their turnover:

% credit balances to turnover Over time – all SMEs	2016	2017
Unweighted base:	*9725*	*9795*
<5%	20%	25%
5-10%	21%	21%
11-20%	42%	37%
21-50%	8%	8%
More than 50%	9%	9%
Average percentage held	***23%***	***23%***

Q244 / Q9 All SMEs excluding DK/refused

The average proportion of credit balances held declined slightly by employee size:

- 0 employee SMEs held the equivalent of 24% of their turnover in credit balances, unchanged from 2016
- 1-9 employee SMEs held the equivalent of 21% of their turnover in credit balances, also unchanged from 2016
- 10-49 employee SMEs held the equivalent of 20% of their turnover in credit balances, slightly lower than the 22% reported in 2016
- 50-249 employee SMEs held the equivalent of 17% of their turnover in credit balances, also slightly lower than the 19% reported in 2016.

The table below shows the proportion of SMEs holding more than £10,000 in credit balances, and how this has changed over time. In 2012, 16% of SMEs held £10,000 or more in credit balances, increasing steadily to 24% in 2015 and stable since (25% in 2017).

Larger SMEs remained much more likely to hold such sums. All size bands have seen an increase in £10,000+ credit balances over time, including an almost doubling in the proportion of 0 employee SMEs holding such sums (10% to 18%):

£10,000+ Credit balances held Over time – all SMEs Row percentages	2012	2013	2014	2015	2016	2017
All SMEs	16%	17%	20%	24%	22%	25%
0 employee	10%	10%	14%	17%	14%	18%
1-9 employees	32%	33%	38%	41%	41%	44%
10-49 employees	66%	66%	68%	70%	72%	73%
50-249 employees	77%	80%	82%	81%	82%	90%

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 using external finance (or not) who also held £10,000 or more in credit balances:

£10,000+ Credit balances held Over time – row percentages	2012	2013	2014	2015	2016	2017
All SMEs	16%	17%	20%	24%	22%	25%
SMEs who use any external finance	18%	20%	23%	27%	27%	31%
SMEs who use core finance	18%	20%	22%	27%	26%	30%
SMEs who use no external finance	14%	14%	19%	22%	19%	22%

Q244 All SMEs excluding DK/refused

This shows that over time, those using external finance became more likely to also hold £10,000 or more in credit balances (from 18% of those using external finance in 2012 to 31% in 2017) and this was also true for those using core finance (loans, overdrafts and/or credit cards). There was a smaller increase amongst those not using external finance (14% to 22%) who are also typically smaller SMEs.

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 of a need for external finance. 8 in 10 SMEs with such credit balances agreed that it did, with the largest SMEs slightly less likely to agree (76% for those with 50-249 employees).

The table below shows that this was the equivalent of 13% of all SMEs saying their need for external finance was lower due to the credit balances they held:

Impact of £10k+ of credit balances YEQ4 2017 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,012*	*3607*	*5804*	*5801*	*2800*
£10k+ reduces need for external finance	13%	10%	21%	34%	37%
£10k+ does not reduce need for finance	3%	2%	5%	7%	12%
Hold less than £10k of credit balances	47%	53%	32%	12%	4%
No credit balances/DK/Refused	37%	35%	42%	48%	47%

Q244x All SMEs

Those currently using external finance were slightly more likely to say that it reduced their need for further finance (17%) than those not currently using finance (11%).

The table below shows the actual use of external finance amongst those who held £10,000 or more in credit balances, over time. Between 2012 and 2015, SMEs with £10,000 or more of credit balances became less likely to use any external finance *at all* (51% to 44%) but the proportion increased again slightly for 2017 (49%):

Use of finance over time Over time All with £10k+ in credit balances	2012	2013	2014	2015	2016	2017
Unweighted base:	***6296***	***6319***	***5926***	***6376***	***5228***	***5804***
Use any external finance	51%	52%	44%	44%	46%	49%
• *Use core finance*	*41%*	*40%*	*32%*	*35%*	*36%*	*38%*
Do not use finance	49%	48%	56%	56%	54%	51%

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 (including planning, trading internationally, and having someone in charge of the finances who was qualified) reflect their contribution to other areas of analysis such as applications for finance. From Q1 2016, SMEs have also been asked whether the business has 'a mentor who provides help and advice'.

The table below shows that the proportion of SMEs undertaking any business planning varied between 52-60% over recent quarters (currently 55% for Q4 2017), while the proportion of SMEs trading internationally returned to previous levels (15%) after a dip in the latter half of 2016. 34% reported innovative activity, up from 30% in Q2 2017, while a steady 1 in 10 had a business mentor:

Business formality elements

Over time – all SMEs By date of interview	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Unweighted base:	*5003*	*4500*	*4500*	*4500*	*4500*	*4500*	*4507*	*4505*	*4500*
Planning (any)	56%	54%	52%	57%	58%	60%	54%	59%	55%
- Produce regular management accounts	*42%*	*41%*	*39%*	*45%*	*41%*	*48%*	*41%*	*42%*	*40%*
- Have a formal written business plan	*33%*	*32%*	*29%*	*33%*	*38%*	*32%*	*28%*	*33%*	*32%*
International (any)	18%	15%	15%	12%	13%	16%	16%	17%	15%
– Export goods or services	*11%*	*10%*	*9%*	*7%*	*7%*	*11%*	*10%*	*11%*	*9%*
- Import goods or services	*13%*	*10%*	*10%*	*8%*	*10%*	*10%*	*12%*	*12%*	*10%*
Innovation (any)	38%	36%	37%	37%	36%	38%	30%	34%	34%
-New product or service (last 3 yrs)	*16%*	*14%*	*15%*	*13%*	*14%*	*13%*	*12%*	*15%*	*16%*
-Improved aspect of business	*34%*	*31%*	*32%*	*34%*	*33%*	*35%*	*26%*	*29%*	*29%*
Mentors	-	13%	10%	12%	11%	12%	10%	10%	11%
Have qualified person in charge of finances	24%	23%	22%	23%	25%	26%	21%	23%	26%

Q223/251 All SMEs

The table below provides further analysis by key demographics for YEQ4 2017:

Business Formality	Further analysis YEQ4 2017
Planning	57% of all SMEs planned, increasing by size of business from 52% of those with 0 employees to almost all, 93%, of those with 50-249 employees. Older SMEs were somewhat less likely to plan: 64% of Starts and 61% of those trading for 2-5 years planned compared to 53-55% of older SMEs. Those with a minimal (63%) or a low (64%) risk rating were more likely to plan, compared to 52% of those with an average rating and 58% of those with a worse than average risk rating. 64% of SMEs in the Hotels & Restaurant sector and 65% of SMEs in the Wholesale/Retail sector planned, compared to 52% of those in Construction. Amongst other sectors 54-59% planned.
International	16% of all SMEs were international, increasing by size of business from 14% of those with 0 employees to 31% of those with 50-249 employees. There was no consistent pattern by age of SME (13-18%). Those with a minimal risk rating were the most likely to be international (22%) decreasing by risk rating to 15% of those with a worse than average risk rating. SMEs in the Wholesale/Retail and Manufacturing sectors (both 27%) were the most likely to be international, with those in Construction (5%) the least likely. Amongst other sectors 7-21% were international.
Innovation	34% of all SMEs had innovated, increasing by size of business from 31% of those with 0 employees to 60% of those with 50-249 employees. There was no consistent pattern by age of business. Those trading 2-5 years were the most likely to have been innovative (41%) and those trading for 6-9 years were the least likely (30%). Those with a minimal risk rating (40%) were more likely to have innovated, while those with an average rating were the least likely (31%). SMEs in Manufacturing (44%) and Wholesale/Retail (42%) were the most likely to have innovated, with Construction (27%) the least likely. Amongst other sectors 30-39% had innovated.

Continued

Continued

Financial specialist	24% of SMEs had a financially qualified person looking after their finances. This became more likely as business size increased: 20% of 0 employee SMEs had a financial specialist compared to 32% of those with 1-9 employees, 48% of those with 10-49 employees and 70% of those with 50-249 employees. There was less variation by age of business (21-26%). 31% of those with a minimal and 30% of those with a low risk rating had a financial specialist, compared to 25% of those with an average rating and 21% of those with a worse than average risk rating. Those in Wholesale/Retail (30%), Hotels and Restaurants and Property/Business Services (both 29%) were the most likely to have a financial specialist, compared to 18% in Construction. Amongst other sectors the proportion varied from 20-24%.
Mentors	A new question from Q1 2016 asked whether the business was using a mentor for business help and advice. YEQ4 2017, 11% of SMEs did. By size, the use of mentors increased from 9% of those with 0 employees and 14% of those with 1-9 employees, to around a fifth of larger SMEs (23% for those with 10-49 employees and 22% for those with 50-249 employees). The presence of mentors decreased somewhat by risk rating: from 13% of those with a minimal risk rating and 12% of those with a low risk rating, to 11% of those with either an average or a worse than average risk rating. There was no variation by age of business (10-11%), and relatively little variation by sector (8-14%).

The smallest SMEs remained less likely to undertake any of these activities. For YEQ4 2017, excluding the 0 employee SMEs saw the proportion of SMEs (with employees) who:

- Plan increase from 57% to 73%
- Trade internationally increase from 16% to 22%
- Innovate increase from 34% to 44%
- Have a mentor increase from 11% to 16%
- Have a qualified person in charge of the finances increase from 24% to 35%

Taking a longer term view back to 2012:

- The proportion that plan has varied relatively little over time (54-57%)
- The proportion of SMEs that were international has been somewhat higher since 2014 (with more exporters and more importers)
- The proportion of SMEs that had been innovative has declined somewhat over the period (from 40% to 34%)
- The proportion with a financial specialist has changed relatively little:

Business formality elements Over time – all SMEs By date of interview	2012	2013	2014	2015	2016	2017
Unweighted base:	***20,055***	***20,036***	***20,055***	***20,046***	***18,000***	***18,012***
Planning (any)	55%	55%	54%	54%	55%	57%
- Produce regular management accounts	*41%*	*42%*	*42%*	*41%*	*41%*	*43%*
- Have a formal written business plan	*33%*	*32%*	*32%*	*32%*	*33%*	*31%*
International (any)	10%	13%	16%	17%	14%	16%
– Export goods or services	*6%*	*8%*	*10%*	*10%*	*8%*	*10%*
- Import goods or services	*7%*	*9%*	*11%*	*12%*	*10%*	*11%*
Innovation (any)	40%	38%	37%	37%	36%	34%
-New product or service (last 3 yrs)	*17%*	*16%*	*16%*	*15%*	*14%*	*14%*
-Improved aspect of business	*35%*	*33%*	*34%*	*33%*	*32%*	*30%*
Have qualified person in charge of finances	25%	26%	27%	26%	23%	24%

Q223/251 All SMEs

Occasional questions have been asked (starting in Q1 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 2017 were marginally higher, with 8% of all SMEs holding intellectual property or other knowledge assets on their balance sheet, increasing by size from 7% of 0 employee SMEs to 24% of those with 50-249 employees.

How SMEs are managed – international issues

In new questions from Q3 2017, SMEs with employees were asked whether they employed overseas staff, either from the EU or further afield. As the table below shows, a quarter did (23%) predominantly from the EU, increasing by size of SME to over half (55%) of those with 50-249 employees:

Employing overseas staff

All SMEs with employees H2 17	Total	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*7202*	*2902*	*2900*	*1400*
Employ any overseas staff:	23%	18%	40%	55%
- *Employ staff from EU*	*22%*	*17%*	*38%*	*54%*
- *Employ other overseas staff*	*4%*	*2%*	*9%*	*23%*

Q223 All SMEs with employees

The second new question asked all those employing overseas staff how concerned they were about the potential impact on their business of any changes to migration rules. 4 in 10 (41%) were concerned, the equivalent of 9% of <u>all</u> SMEs with employees, also increasing by size of SME:

Concern re changes to migration rules

All SMEs with overseas employees H2 17	Total	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*2350*	*501*	*1110*	*739*
Very concerned	19%	19%	19%	32%
Fairly concerned	22%	21%	22%	29%
Not very concerned	22%	20%	26%	20%
Not at all concerned	34%	39%	29%	15%
Concerned (all employing overseas staff)	***41%***	***40%***	***41%***	***61%***
Concerned (all SMEs with employees)	***9%***	***7%***	***17%***	***31%***

Q223c All SMEs with overseas employees

SMEs that trade internationally were more likely to employ staff from overseas, typically from the EU, but amongst those who did, levels of concern about changes to migration rules were in line with other employers of overseas staff. As a result, 1 in 5 SMEs with employees that both import and export were concerned about changes to migration rules:

Overseas staff

All SMEs with employees H2 17	Total	Export only	Import only	Fully intl
Unweighted base:	*7202*	*359*	*557*	*618*
Employ any overseas staff:	23%	34%	32%	48%
Employ staff from EU	*22%*	32%	31%	46%
Employ other overseas staff	*4%*	8%	4%	10%
Concerned (all employing overseas staff)	*41%*	*47%*	*47%*	*41%*
Concerned (all SMEs with employees)	*9%*	*16%*	*15%*	*20%*

Q223 All SMES with employees/ Q223c All SMEs with overseas employees

The table below summarises the position by sector. Employers in Manufacturing were the most likely to employ overseas staff (28%) but with the exception of Agriculture (13%) there was relatively little difference in the proportion in other sectors (20-26%).

There was though more variation by sector in levels of concern about the impact of any future changes to migration rules. Those employing overseas staff in the Health (59%), Hotel and Restaurant (53%) and Agriculture (56%) sectors were more worried about such changes compared to 27% in Manufacturing (despite this sector being more likely to employ such staff):

Overseas staff

All SMES with employees H2 17	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	*477*	*608*	*1272*	*731*	*483*	*795*	*1423*	*602*	*811*
Employ any overseas staff:	13%	28%	20%	20%	25%	23%	23%	26%	23%
Employ staff from EU	*12%*	*28%*	*20%*	*19%*	*23%*	*22%*	*23%*	*25%*	*22%*
Employ other overseas staff	*1%*	*4%*	*2%*	*2%*	*7%*	*4%*	*4%*	*7%*	*4%*
Concerned about migration changes (if employ)	*56%*	*27%*	*31%*	*39%*	*53%*	*46%*	*43%*	*59%*	*31%*
Concerned (all with employees)	*7%*	*8%*	*6%*	*8%*	*13%*	*11%*	*10%*	*15%*	*7%*

Q223 All SMES with employees/ Q223c All SMEs with overseas employees

The equivalent of 15% of all employers in the Health sector and 13% in Hotels and Restaurants were concerned about potential changes to migration rules affecting their overseas staff, compared to 6% of employers in Construction.

Turning now to international trade, six in ten exporters (62%) 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 17	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*2244*	*277*	*600*	*920*	*447*
Less than 25% of sales made overseas	62%	61%	65%	67%	56%
25-50%	15%	14%	18%	17%	24%
51-75%	12%	12%	10%	11%	14%
76-100% of sales overseas	11%	13%	7%	4%	7%
Average proportion	*30%*	*32%*	*28%*	*26%*	*31%*

Q223x All SMEs who export, excluding DK/refused

23% of exporters said that international trade made up 50% or more of sales, a return to levels seen in 2013:

- In 2013, 24% of exporters said that overseas sales made up half or more of all sales, falling to 17% in 2014 and then 13% in 2015
- This proportion then increased to 19% for 2016 and 23% for 2017

10% of all SMEs were exporters. This is made up of the equivalent of 2% of all SMEs where exports made up 50% or more of their sales, and 9% of all SMEs where exports made up less than 50% of their sales. 90% of all SMEs did not export.

From Q3 2016, all exporters have been asked about the extent to which they were selling to the EU. The figures for YEQ4 2017 show that most exporters traded to some extent with the EU (82%), with 1 in 10 exporters only exporting to the EU (9%):

Overseas sales to EU

All SMEs who export YEQ4 17	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*2349*	*289*	*631*	*966*	*463*
Only to the EU	9%	9%	10%	6%	5%
The majority to the EU	17%	16%	18%	18%	17%
Half to the EU	12%	12%	11%	13%	22%
A minority to the EU	45%	44%	44%	51%	53%
None to the EU	18%	19%	17%	12%	4%
Only/the majority	*26%*	*25%*	*28%*	*24%*	*22%*

Q223b All SMEs who export

The EU was also the sole/majority source of sales for 33% of those who achieved more than half of their turnover through exports, compared to 23% of those where less than half of their turnover came from exports.

Limited data is now available over time. The table below shows the proportion of exporters who either sold exclusively to the EU or made the majority of their sales there. This was slightly higher in H1 2017 (28%) than in either H2 2016 or H2 2017, driven by the small group of 0 employee exporters. Amongst those with employees there has been something of a decline in the proportion selling heavily to the EU (from 31% in H2 2016 to 25% in H2 2017).

All/majority sales to EU Over time – all exporters Row percentages	H2 2016	H1 2017	H2 2017
All exporters	22%	28%	23%
0 employee	17%	28%	21%
1-9 employees	33%	28%	27%
10-49 employees	24%	26%	21%
50-249 employees	35%	25%	16%
<50% of sales exported	23%	25%	22%
50%+ of sales exported	23%	45%	24%

Q223b All SMEs who export

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 2017 a quarter of SMEs (24%) said that this was the case (excluding DK answers) back to levels seen in previous years.

Business Groups	Further analysis YEQ4 2017
By size of SME	Membership increased somewhat for the largest SMEs: • 23% of 0 employee businesses belonged to a group/body • 25% of 1-9 employee businesses • 26% of 10-49 employee businesses • 38% of 50-249 employee businesses
By external risk rating	There was relatively little difference by risk rating, albeit SMEs with a worse than average external risk rating were slightly less likely to belong to such groups (22%), compared to 25-26% 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 (34%) and Property/Business Services (29%) while those in Transport (16%) were less likely.
PNBs and those using external finance	Those currently using external finance were no more likely to belong to such groups (25%) than those that did not use external finance (23%). There was also now little difference by whether the SME met the definition of a Permanent non-borrower or not (23% v 24% if not a PNB).
Other demographics	There was some, limited, variation by age of business. 27% of those trading for 15 years or more belonged to a business group compared to 20-24% of younger businesses. Those who had someone in charge of the finances who was qualified (more common in larger SMEs) remained more likely to belong to a business group (36% v 20%).

Business Ownership

66% of *companies* had one owner, declining by size from 85% of 0 employee companies to 36% of those with 50-249 employees. This means that of *all* SMEs, 90% were 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 2017 (and excluding DK answers):

- 90% reported that this was the only business the owner was involved in, managerially or strategically, decreasing with size from 92% of 0 employee SMEs, to 75% of those with 50-249 employees.
- 9% reported that the owner currently ran another business as well (8% amongst 0 employee SMEs increasing to 24% amongst those with 50-249 employees).
- 4% reported that the owner had set up and run a business before (with little variation by size).
- Less than 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 2017, 66% of those with employees said that it was. This means that for SMEs as a whole:

- 16% had employees and were family owned
- 9% had employees and a different ownership structure
- 75% of all SMEs had no employees (so were not asked the question).

5. Financial context – how are SMEs funding themselves? (Part 1)

This chapter provides

an overview of the types of external finance being used by SMEs, including the use of core and other forms of finance and crowd funding and the use of personal funds.

Key findings

38% of SMEs used external finance in 2017, almost unchanged from the 37% that used finance 2014-2016, and still below the 44% using finance in 2012:

- Use of finance increased significantly by size of business (34% of those with 0 employees to 73% of those with 50-249 employees)
- Whilst use of finance was higher in 2017 than in 2016 amongst those with employees, it remained below 2012 levels with the exception of those with 50-249 employees
- 31% of SMEs in 2017 used one or more of the core forms of finance: 18% used an overdraft, 16% credit cards and 6% a bank loan or commercial mortgage. A quarter of core finance users (typically those with 0 employees) had one or more facilities in a personal name
- 18% used one or more of the 'other' forms of finance recorded, of which the most common was leasing /HP (9%), which is typically financed away from the main bank.

3 in 10 SMEs (29%) had received an injection of personal funds in the previous 12 months:

- This was slightly more likely to have been a choice (16%) than feeling that it had to be done (13%)
- The proportion of SMEs receiving an injection of funds has been stable since 2014 but remained lower than previously seen (43% reported an injection of funds in 2012)
- Half of all Starts had received an injection of funds as had 7 in 10 of those who met the definition of a Would-be seeker of finance.

Financial context

This is the first of what are now two chapters on current use of external finance, in its many forms, and attitudes towards finance.

This chapter covers the use of the various financial products included in the SME Finance Monitor and the role of personal finance (whether as a borrowing facility or an injection of personal funds). The second chapter covers some of the wider context, including the Permanent non-Borrowers, use of trade credit and attitudes to finance.

Use of external finance – an overview

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 YEQ4 2017 was 38%, virtually unchanged from the 37% reported from 2014 to 2016. This was though lower than in earlier years (in 2012, 44% of SMEs used external finance) and more details on use of finance over time are provided later in this chapter.

The table below shows that larger SMEs were more likely to be using some form of external finance:

Use of external finance in last 5 years YEQ4 17 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,012*	*3607*	*5804*	*5801*	*2800*
Use now	38%	34%	49%	64%	73%
Used in past but not now	3%	3%	3%	3%	2%
Not used at all	59%	63%	48%	33%	26%

Q14/15 All SMEs

Analysis by recent quarter showed use of external finance in Q4 2017 itself was 39%, in line with Q2 and Q3 2017:

Use of external finance in last 5 years

Over time – all SMEs By date of interview	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Unweighted base:	*5003*	*4500*	*4500*	*4500*	*4500*	*4500*	*4507*	*4505*	*4500*
Use now	40%	33%	36%	34%	46%	36%	40%	38%	39%
Used in past but not now	2%	2%	3%	3%	2%	4%	3%	3%	3%
Not used at all	57%	65%	61%	63%	52%	61%	56%	59%	58%

Q14/15 All SMEs

As the table below shows, the 'spike' in Q4 2016 (when 46% were using external finance) was due to higher reported levels of usage of external finance amongst smaller SMEs which was not maintained for the 0 employee SMEs into 2017. Amongst those with 10-49 employees usage was somewhat higher in Q4 2017 (67%) while those with 50-249 employees saw an increase in the use of finance to Q2 2017 (to 76%) which has been partially maintained since:

Currently use external finance

Over time – all SMEs By date of interview – row percentages	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
All	40%	33%	36%	34%	46%	36%	40%	38%	39%
0 emp	35%	28%	31%	31%	44%	31%	35%	34%	35%
1-9 emps	53%	44%	50%	42%	50%	47%	52%	47%	49%
10-49 emps	59%	60%	61%	53%	61%	63%	64%	63%	67%
50-249 emps	63%	63%	64%	64%	66%	71%	76%	75%	69%

Q14/15 All SMEs

The table below shows use of finance by risk rating for recent quarters. Those with a minimal or low risk rating remained somewhat more likely to be using external finance:

Currently use external finance

Over time – all SMEs By date of interview – row percentages	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
All	40%	33%	36%	34%	46%	36%	40%	38%	39%
Minimal	49%	40%	48%	41%	52%	47%	50%	44%	49%
Low	50%	40%	50%	39%	46%	43%	49%	47%	42%
Average	40%	36%	35%	40%	46%	33%	39%	34%	40%
Worse than average	36%	28%	33%	31%	43%	33%	38%	38%	37%

Q14/15 All SMEs, base varies slightly each quarter

Overall use of external finance in 2017 was stable after previous declines. The table below shows use declining from 44% in 2012 to 37% in 2014 and remaining stable since. SMEs with employees were more likely to be using finance in 2017 than they were in 2016 but all size bands were less likely to be using external finance in 2017 than they were in 2012, with the exception of those with 50-249 employees where use of finance was back to 2012 levels at 73%.

Almost half of SMEs can be described as Permanent non-borrowers (described in the next chapter), with no use of, or apparent appetite for, finance. They have become an increasing proportion of SMEs over time and, once they were excluded, use of finance has increased rather than decreased, from 65% of remaining SMEs in 2012 to 72% in 2017, the highest level seen to date.

Currently use external finance Over time – all SMEs By date of interview – row percentages	2012	2013	2014	2015	2016	2017
All	44%	41%	37%	37%	37%	38%
0 emp	38%	35%	32%	32%	33%	34%
1-9 emps	58%	55%	49%	49%	46%	49%
10-49 emps	70%	67%	61%	60%	59%	64%
50-249 emps	73%	73%	63%	61%	64%	73%
Minimal external risk rating	57%	50%	44%	47%	45%	48%
Low	52%	51%	40%	47%	44%	45%
Average	46%	42%	36%	38%	39%	37%
Worse than average	41%	38%	35%	32%	34%	36%
Agriculture	51%	44%	43%	44%	46%	50%
Manufacturing	49%	44%	44%	39%	39%	43%
Construction	41%	38%	33%	33%	38%	37%
Wholesale/Retail	56%	50%	50%	45%	45%	48%
Hotels & Restaurants	53%	47%	42%	44%	42%	43%
Transport	47%	41%	38%	38%	36%	40%
Property/ Business Services	41%	39%	34%	35%	33%	33%
Health	32%	31%	28%	33%	32%	41%
Other	38%	42%	33%	39%	38%	34%
All excl PNBs	66%	68%	65%	70%	70%	72%

Q14/15 All SMEs

Use of core forms of finance

The overall use of finance figures already reported included use of the 'core' forms of finance often provided by banks (overdrafts, loans and/or credit cards). The table below shows the use of these forms of finance specifically across recent quarters. Typically 3 in 10 SMEs had used one or more forms of core finance, with the exception of Q4 2016 where 38% had used these forms of finance (boosting overall use of finance to 46% for that quarter, but not maintained subsequently):

Use of external finance

Over time – all SMEs By date of interview	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Unweighted base:	***5003***	***4500***	***4500***	***4500***	***4500***	***4500***	***4507***	***4505***	***4500***
Bank overdraft	17%	14%	16%	14%	20%	13%	19%	21%	19%
Bank loan/Commercial mortgage	8%	6%	6%	6%	9%	5%	7%	7%	6%
• *Bank loan*	*6%*	*5%*	*4%*	*5%*	*7%*	*4%*	*6%*	*6%*	*5%*
• *Comm. Mortgage*	*2%*	*2%*	*3%*	*1%*	*2%*	*2%*	*2%*	*2%*	*2%*
Credit cards	17%	15%	17%	17%	21%	17%	18%	15%	16%
Any core products – all SMEs	***32%***	***25%***	***30%***	***29%***	***38%***	***27%***	***32%***	***32%***	***31%***

Q15 All SMEs

The table above also shows that use of core finance (including commercial mortgages) was relatively stable in 2017. A longer term view in the table below shows how use of *any* of these forms of core finance declined from 36% in 2012 to 29% in 2014 and has been stable since. Within that stable position overall however, use of core finance amongst those with 50-249 employees has increased (to 64% in 2017), back to levels seen in 2013.

As with use of finance overall, these trends can be attributed in large part to the increase in Permanent non-borrowers. Once they were excluded use of core finance, having initially declined from 54% in 2012 to 51% in 2014, was at 57% for 2017.

Currently use any core finance Over time – all SMEs By date of interview – row percentages	2012	2013	2014	2015	2016	2017
All	36%	32%	29%	30%	30%	31%
0 emp	31%	27%	25%	25%	27%	27%
1-9 emps	48%	44%	40%	40%	37%	39%
10-49 emps	62%	57%	50%	50%	50%	53%
50-249 emps	67%	64%	55%	53%	57%	64%
Minimal external risk rating	48%	42%	35%	39%	39%	39%
Low	46%	43%	34%	39%	38%	38%
Average	39%	34%	30%	31%	33%	30%
Worse than average	31%	28%	26%	24%	26%	28%
Agriculture	44%	37%	36%	36%	36%	40%
Manufacturing	40%	35%	37%	31%	33%	35%
Construction	34%	31%	25%	26%	32%	30%
Wholesale/Retail	47%	39%	41%	36%	39%	39%
Hotels & Restaurants	45%	38%	34%	37%	33%	36%
Transport	36%	30%	29%	29%	28%	29%
Property/ Business Services	33%	31%	26%	29%	27%	26%
Health	25%	24%	22%	26%	27%	36%
Other	30%	32%	25%	29%	30%	26%
All excl PNBs	54%	53%	51%	55%	57%	57%

Q15 All SMEs

Use of all forms of external finance

The table below shows the full list of the different types of funding covered on the SME Finance Monitor and being used by SMEs YEQ4 2017. 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:

External finance currently used YEQ4 17 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,012*	*3607*	*5804*	*5801*	*2800*
Core products (any)	**31%**	**27%**	**39%**	**53%**	**64%**
-Bank overdraft	18%	16%	22%	28%	38%
-Credit cards	16%	14%	20%	33%	42%
-Bank loan	5%	4%	8%	14%	23%
-Commercial mortgage	2%	1%	3%	7%	14%
Other forms of finance (any)	**18%**	**14%**	**25%**	**40%**	**44%**
-Leasing or hire purchase	9%	7%	13%	27%	34%
-Loans from directors, family & friends	4%	3%	7%	7%	5%
-Equity from directors, family & friends	2%	1%	3%	4%	4%
-Invoice finance	3%	2%	5%	10%	12%
-Grants	2%	2%	3%	5%	6%
-Loans from other 3rd parties	2%	2%	3%	5%	3%
Any of these	***38%***	***34%***	***49%***	***64%***	***73%***
None of these	***62%***	***66%***	***51%***	***36%***	***27%***

Q15 All SMEs

Amongst SMEs with employees, 52% were using external finance – 42% were using any form of core finance and 28% any of the other forms of finance listed.

SMEs that import and/or export were asked about use of Export/Import finance. YEQ4 2017, 1% of such SMEs used these products, with limited variation by size of business (1-2%).

The table below details the use of all of these forms of funding over recent quarters. The proportion of SMEs with an overdraft was typically somewhat higher in 2017 than in 2016:

Use of external finance

Over time – all SMEs By date of interview	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Unweighted base:	*5003*	*4500*	*4500*	*4500*	*4500*	*4500*	*4507*	*4505*	*4500*
Core products (any)	32%	25%	30%	29%	38%	27%	32%	32%	31%
-Bank overdraft	17%	14%	16%	14%	20%	13%	19%	21%	19%
-Bank loan/Commercial mortgage	8%	6%	6%	6%	9%	5%	7%	7%	6%
-Bank loan	*6%*	*5%*	*4%*	*5%*	*7%*	*4%*	*6%*	*6%*	*5%*
-Comm. Mortgage	*2%*	*2%*	*3%*	*1%*	*2%*	*2%*	*2%*	*2%*	*2%*
-Credit cards	17%	15%	17%	17%	21%	17%	18%	15%	16%
Other forms of finance (any)	19%	15%	15%	14%	22%	17%	17%	17%	19%
-Leasing, hire purchase or vehicle finance	8%	7%	8%	6%	7%	8%	9%	10%	9%
-Loans from directors/family/friends*	8%	4%	5%	3%	8%	4%	4%	4%	5%
-Equity from directors/family/friends*	3%	2%	2%	2%	3%	1%	2%	1%	2%
-Invoice finance	2%	2%	2%	3%	4%	4%	3%	2%	3%
-Grants	2%	2%	1%	2%	5%	2%	2%	2%	3%
-Loans from other third parties	2%	2%	1%	1%	2%	2%	2%	2%	3%
Any form of finance – all SMEs	*40%*	*33%*	*36%*	*34%*	*46%*	*36%*	*40%*	*38%*	*39%*

Q15 All SMEs

The table below takes a longer term annual view of the use of these individual finance products, back to 2012. It shows how use of overdrafts was slightly higher in 2017 at 18% than the 16% seen consistently during 2014-16, while use of loans showed more of a long term decline (from 10% in 2012 to 6% in 2017):

Use of forms of finance Over time – all SMEs By date of interview	2012	2013	2014	2015	2016	2017
Core products (any)	**36%**	**32%**	**29%**	**30%**	**30%**	**31%**
-Bank overdraft	*22%*	*18%*	*16%*	*16%*	*16%*	*18%*
-Bank loan/Commercial mortgage	*10%*	*8%*	*7%*	*7%*	*7%*	*6%*
-Credit cards	*18%*	*18%*	*15%*	*16%*	*17%*	*16%*
Other forms of finance (any)	**18%**	**18%**	**17%**	**17%**	**16%**	**18%**
-Leasing, hire purchase or vehicle finance	*6%*	*8%*	*7%*	*7%*	*7%*	*9%*
-Loans/Equity from directors/family/friends	*6%*	*9%*	*8%*	*8%*	*6%*	*5%*
-Invoice finance	*3%*	*2%*	*3%*	*2%*	*3%*	*3%*
-Grants	*1%*	*1%*	*2%*	*2%*	*2%*	*2%*
-Loans from other third parties	*1%*	*1%*	*2%*	*2%*	*2%*	*2%*
Any Finance	***44%***	***41%***	***37%***	***37%***	***37%***	***38%***

Q14/15 All SMEs

The table below shows any use of the 'other' forms of finance, by key demographics over time. Usage has changed very little since 2012 (16-18%) due to consistent use amongst 0 employee SMEs. Amongst larger SMEs usage dipped slightly in 2016 (for those with 50-249 employees the 'dip' was in 2015 and 2016) but increased again in 2017. As already reported, the Permanent non-borrowers have had a significant effect on the trends in use of overall finance and core finance and this was also true for the long terms trends in the use of 'other' forms of finance:

Currently use other forms of finance Over time – all SMEs By date of interview – row percentages	2012	2013	2014	2015	2016	2017
All	18%	18%	17%	17%	16%	18%
0 emp	14%	14%	13%	13%	14%	14%
1-9 emps	27%	27%	25%	26%	23%	25%
10-49 emps	39%	39%	37%	37%	33%	40%
50-249 emps	46%	50%	40%	36%	35%	44%
Minimal external risk rating	26%	23%	21%	22%	20%	25%
Low	21%	22%	18%	22%	20%	20%
Average	17%	16%	15%	15%	16%	15%
Worse than average	19%	17%	18%	15%	16%	17%
Agriculture	20%	22%	21%	22%	24%	26%
Manufacturing	19%	22%	17%	18%	18%	19%
Construction	15%	14%	15%	13%	15%	17%
Wholesale/Retail	23%	22%	21%	22%	19%	22%
Hotels & Restaurants	23%	21%	20%	19%	20%	18%
Transport	20%	22%	20%	20%	20%	22%
Property/ Business Services	17%	16%	15%	15%	14%	14%
Health	15%	13%	13%	15%	12%	15%
Other	15%	18%	15%	19%	17%	17%
All excl PNBs	27%	29%	30%	32%	31%	33%

Q15 All SMEs

From Q1 2014 SMEs using leasing, HP and vehicle finance have been asked in more detail about the source of this funding. These questions have gone through several iterations, and from Q1 2017, SMEs using leasing, HP and vehicle finance have been asked a simplified question to understand the extent to which this funding came from their main bank/banking group.

The results for 2017 for the new question are shown below and were consistent with previous data – 79% were using "another provider" for this finance, compared to 75% YEQ4 2016 asked the previous question.

For YEQ4 2017 leasing, HP and vehicle finance was obtained as follows:

- 17% all from the main bank/banking group
- 5% some of it from the main bank/banking group
- 79% all from another finance provider (including another bank).

As the table below shows, the largest SMEs were more likely to use their main bank for at least some of this finance:

Source of leasing/vehicle finance YEQ4 17 – all SMEs using such finance	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*3722*	*257*	*851*	*1623*	*991*
Any main bank/banking group	21%	20%	20%	28%	40%
-All through main bank / banking group	*17%*	*17%*	*14%*	*20%*	*22%*
-Some through main bank / banking group	*5%*	*3%*	*5%*	*7%*	*18%*
All through other provider	79%	80%	80%	72%	60%

Q14x2 All SMEs using leasing or vehicle finance

Use of core and other forms of finance in combination

The table below shows how core and other forms of finance have been used individually or in combination since 2012. The proportion using only core forms of finance initially decreased from 26% to 20% of SMEs between 2012 and 2014 and has been stable since (21% in 2017):

External finance currently used Over time - all SMEs	2012	2013	2014	2015	2016	2017
Unweighted base:	*20,055*	*20,036*	*20,055*	*20,046*	*18,000*	*18,102*
Only use core products	26%	23%	20%	20%	21%	21%
Only use other forms of finance	8%	9%	8%	8%	7%	8%
Use both forms of finance	10%	9%	9%	9%	10%	10%
Use none of these forms of finance	56%	59%	63%	63%	62%	62%

Q15 All SMEs

The decline in the use of core finance was the main contributor to an increase in those using no finance as the proportions using only other forms of finance, or both other and core forms of finance, have been more stable over the whole period.

SMEs could 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, while 5% used 4 or more types of finance).

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 almost none of the smallest SMEs (1%) were using 4 or more forms of finance, this proportion increased to 16% of those with 50-249 employees:

Forms of external finance currently used YEQ4 17 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,012*	*3607*	*5804*	*5801*	*2800*
None	62%	66%	51%	36%	27%
1 form of finance	22%	21%	26%	27%	21%
2 forms of finance	10%	9%	13%	18%	21%
3 forms of finance	4%	3%	6%	10%	15%
4 or more forms of finance	2%	1%	4%	10%	16%

4% of SMEs (YEQ4 2017) said that they were using an additional form of external finance not on the list detailed in full above. This was slightly higher for those with 50-249 employees (7%) or in the Health sector (8%) but did not vary much by risk rating (3-4%), or by sector (3-5%), and has varied little over time.

There was a difference in use of these other forms of finance by whether the SME was also using one of the *specified* forms of external finance (7% for those also using any of the specified forms of external finance and 1% 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.

Personal elements to business finance

For smaller SMEs in particular there can be a 'blurring' between business and personal finance. This next section looks at the various ways in which personal funds have been used by SMEs.

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 2017, 3 in 10 SMEs (30%) reported an injection of personal funds and that this was slightly more likely to have been a choice (16%) than something they felt they had to do (14%). These figures are in line with other recent quarters:

Personal funds in last 12 months

Over time – all SMEs By date of interview	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Unweighted base:	*5003*	*4500*	*4500*	*4500*	*4500*	*4500*	*4507*	*4505*	*4500*
Inject personal funds – you chose to do to help the business grow and develop	15%	17%	14%	17%	20%	17%	15%	17%	16%
Inject personal funds – you felt you had no choice about this, that you had to do it	14%	13%	11%	8%	11%	12%	13%	14%	14%
Any personal funds	*29%*	*30%*	*25%*	*25%*	*31%*	*29%*	*28%*	*31%*	*30%*
Not something you have done	71%	70%	75%	75%	69%	71%	72%	69%	70%

Q15d All SMEs

The more detailed analysis below is based on the combined results YEQ4 2017 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 17 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,012*	*3607*	*5804*	*5801*	*2800*
Inject personal funds – you chose to do to help the business grow and develop	16%	17%	16%	8%	5%
Inject personal funds – you felt you had no choice about this, that you had to do it	13%	14%	12%	6%	2%
Any personal funds	*29%*	*31%*	*28%*	*14%*	*7%*
Not something you have done	71%	69%	72%	86%	93%

Q15d All SMEs

Amongst SMEs with employees, 25% reported any injection of personal funds – 14% who chose to do so and 11% who felt that they had no choice.

Analysis by external risk rating showed that those with a worse than average external risk rating were three times as likely to have received an injection of personal funds (38%), as those with a minimal external risk rating (12%):

Personal funds in last 12 months YEQ4 17 – all SMEs	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*18,012*	*3086*	*5460*	*4186*	*3876*
Inject personal funds – you chose to do to help the business grow and develop	16%	7%	12%	13%	21%
Inject personal funds – you felt you had no choice about, that you had to do	13%	5%	9%	12%	17%
Any personal funds	*29%*	*12%*	*21%*	*25%*	*38%*
Not something you have done	71%	88%	79%	75%	62%

Q15d All SMEs

Analysis by sector showed 37% of those in Transport had received an injection of funds compared to 25% of those in Construction. There was relatively little variation across the other sectors (27-34%):

Personal funds in last 12 months

YEQ4 17 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	*1202*	*1501*	*3200*	*1800*	*1200*	*2004*	*3603*	*1502*	*2000*
Chose to inject	16%	17%	13%	18%	20%	17%	16%	17%	17%
Had to inject	11%	11%	12%	12%	14%	20%	11%	12%	16%
Any funds	***27%***	***28%***	***25%***	***30%***	***34%***	***37%***	***27%***	***29%***	***33%***
Not put funds in	73%	72%	75%	70%	66%	63%	73%	71%	67%

Q15d All SMEs

A longer term look at the injection of personal funds shows how this became less likely between 2012 and 2014 (from 43% to 29% reporting an injection), and has been stable since. This was due predominantly to a drop in the proportion feeling that they *had* to inject funds (from 25% in 2012 to 15% in 2014 and 13% in 2017):

Personal funds in last 12 months

Over time – all SMEs	2012*	2013	2014	2015	2016	2017
Unweighted base:	*15,032*	*20,036*	*20,055*	*20,046*	*18,000*	*18,012*
Inject personal funds – you chose to do to help the business grow and develop	17%	19%	14%	14%	17%	16%
Inject personal funds – you felt you had no choice about this, that you had to do it	25%	20%	15%	13%	11%	13%
Any personal funds	***43%***	***38%***	***29%***	***28%***	***28%***	***29%***
Not something you have done	57%	62%	71%	72%	72%	71%

Q15d All SMEs from Q2 2012

The proportion of *all* injections of funds that were "forced" fell from 58% of all injections in 2012 to 39% in 2016 but increased slightly to 45% for 2017.

The table below looks at the long term changes in injections of any personal funds, whether through choice or necessity, by key business demographics. These have stable at around 3 in 10 since 2014, with larger SMEs, those with a minimal risk rating and those who met the definition of a Permanent non-borrower always 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	2017
All	43%	38%	29%	28%	28%	29%
0 emp	45%	40%	30%	29%	29%	31%
1-9 emps	39%	36%	29%	26%	24%	28%
10-49 emps	22%	19%	17%	16%	13%	14%
50-249 emps	13%	11%	9%	8%	9%	7%
Minimal external risk rating	20%	16%	17%	17%	13%	12%
Low	29%	22%	21%	19%	18%	21%
Average	36%	33%	25%	24%	25%	25%
Worse than average	51%	46%	36%	33%	33%	38%
Agriculture	41%	38%	27%	26%	27%	27%
Manufacturing	42%	31%	30%	27%	23%	28%
Construction	44%	38%	29%	25%	26%	25%
Wholesale/Retail	43%	37%	27%	27%	28%	30%
Hotels & Restaurants	47%	41%	33%	29%	30%	34%
Transport	44%	40%	30%	31%	31%	37%
Property/ Business Services	42%	41%	29%	27%	30%	27%
Health	43%	37%	29%	27%	24%	29%
Other	41%	37%	31%	34%	28%	33%
PNBs	33%	29%	19%	19%	20%	21%
All excl PNBs	48%	44%	37%	35%	35%	37%

Q15d All SMEs from Q2 2012

Returning to the current period, analysis by age of SME for YEQ4 2017 showed that the youngest, start-up businesses continued to be the most likely to have had an injection of personal funds (49%), and that this was more likely to have been a choice (28%) than a necessity (21%). For older businesses, an injection of personal funds was less likely to have happened at all but where it had, a higher proportion of those injections were felt to have been a necessity:

Personal funds in last 12 months YEQ4 17 – all SMEs	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15 yrs+
Unweighted base:	***1822***	***1704***	***1994***	***2986***	***9506***
Inject personal funds – you chose to do to help the business grow and develop	28%	21%	12%	10%	12%
Inject personal funds – you felt you had no choice about this, that you had to do it	21%	15%	12%	11%	10%
Any personal funds	***49%***	***36%***	***24%***	***21%***	***22%***
Not something you have done	51%	64%	76%	79%	78%

Q15d All SMEs

Starts have always been more likely to report an injection of funds. In 2012, 68% of Starts reported receiving an injection of funds, dropping to 43% in 2015 but then increasing slightly to 46% in 2016 and 49% in 2017.

Those using a *personal* account for their business banking were slightly more likely to have put personal funds in at all (35% v 29% of those with a business account YEQ4 2017).

SMEs currently using external finance were more likely to have received an injection of personal funds (37% YEQ4 2017) than those not currently using external finance (25%) and were also more likely to say they had felt that there had been no choice (19% v 10%).

Analysed by their overall financial behaviour in the previous 12 months, the small group of 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 17 – all SMEs	Total	Had an event	Would-be seeker	Happy non-seeker
Unweighted base:	*18,012*	*3752*	*285*	*13,975*
Inject personal funds – you chose to do to help the business grow and develop	16%	17%	34%	15%
Inject personal funds – you felt you had no choice about, that you had to do	13%	26%	38%	10%
Any personal funds	*29%*	*43%*	*72%*	*25%*
Not something you have done	71%	57%	28%	75%

Q15d All SMEs

As already reported, the proportion of SMEs that had seen an injection of personal funds has declined from 43% when the question was first asked in 2012 to its current 29% for 2017:

- This was also true amongst those that had had a borrowing event (from 52% in 2012 to 43% in 2017) and amongst Happy non-seekers (37% to 25%).
- However, there has been an increase in injections of personal funds amongst the small group of Would-be seekers of finance, (62% in 2012 to 72% in 2017) and so this group was much more likely than its peers to have seen an injection of personal funds.

Use of personal accounts and accounts at other banks

Most SMEs used a business bank account (84% excluding DK answers).

Of the 16% that used a personal account, almost all (93%) were 0 employee businesses. So whilst 20% 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 (24%) and Starts (21%).

In most years around 1 in 5 SMEs used a personal account, the slight exception being 2014 when 1 in 7 SMEs used them. The figure for 2017 (16%) was at the lower end of the range seen.

YEQ4 2017, SMEs using a personal account were:

- Less likely to be using external finance (30% 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%).
- Somewhat more likely to have put personal funds into the business (35% v 29% of those with a business account) or to be a Permanent non-borrower (51% v 46%).

In 2017, 99% of SMEs reported that they only used one bank for their business banking, with little difference by size. Multi-banking remained rare in this market:

Use one bank Over time - row percentages	2012	2013	2014	2015	2016	2017
All	99%	99%	99%	98%	99%	99%
0 emps	99%	99%	99%	99%	99%	99%
1-9 emps	98%	99%	98%	98%	99%	98%
10-49 emps	97%	98%	97%	97%	97%	98%
50-249 emps	97%	98%	97%	98%	97%	97%

Core finance facilities in a personal name

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 2017, a quarter of those using such facilities (26%) said that one or more facilities were in their personal name, the equivalent of 7% of **all** SMEs having a facility in their personal name (or 14% of SMEs excluding the Permanent non-borrowers). This varied relatively little across the quarters in which the question has been asked.

As the table below shows, the incidence of core facilities in a personal name varied by size of business and was predominantly concentrated amongst the smaller SMEs. Amongst SMEs with loans, overdrafts and/or credit cards, a third of those with 0 employees had some facility in their personal name (32%) compared to 4% 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 (29% and 27%), than those with a minimal or low risk rating (15% and 17%) but the equivalent figures for **all** SMEs continued to show relatively little difference by risk rating:

Have element of core facility in personal name YEQ4 17 – row percentages	Of those with an overdraft, loan or credit card	Equivalent % of all SMEs
Total	**26%**	**7%**
0 employees	32%	8%
1-9 employees	17%	6%
10-49 employees	8%	4%
50-249 employees	4%	3%
Minimal risk rating	15%	5%
Low risk rating	17%	6%
Average risk rating	29%	8%
Worse than average risk rating	27%	7%

Q15bbb All SMEs with one of these facilities

Those operating their business banking through a personal account were less likely to be using any core finance (24% for YEQ4 2017, compared to 32% of those operating through a business bank account). However, if they *did* use the relevant forms of external finance, then almost all (82%) said that some or all of the loan, overdraft or credit card facilities that they had were in their personal name. Those with a business account who used these facilities were much less likely to say that any of the facilities were in their personal name (18%).

As a result, amongst all SMEs, those using a personal account for their business were three times as likely to have a facility in their personal name as those using a business account (19% of all those using a personal account had a facility in their personal name compared to 5% of all those using a business account).

SMEs using loans, overdrafts or credit cards were also 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 2017 (excl DK)

Overdrafts	14% of all SMEs with an overdraft said it was in a personal name, of which 84% were 0 employee SMEs. 5% said they had overdrafts in both personal and business names. 18% of 0 employee SMEs with an overdraft said that it was in a personal name. This declined by size to 8% of those with 1-9 employees, 3% of those with 10-49 employees and <1% of those with 50-249 employees.
Loans	14% of all SMEs with a loan said it was in a personal name, of which 71% were 0 employee SMEs. 5% said they had loans in both personal and business names. 18% of 0 employee SMEs with a loan said that it was in a personal name. This declined by size to 12% of those with 1-9 employees, 3% of those with 10-49 employees and 1% of those with 50-249 employees.
Credit cards	26% of all SMEs with a credit card said it was in a personal name, of which 83% were 0 employee SMEs. 6% said they had credit cards in both personal and business names. 33% of 0 employee SMEs with a credit card said that it was in a personal name. This declined by size to 15% of those with 1-9 employees, 3% of those with 10-49 employees and 1% of those with 50-249 employees.

The 'interweaving' of business and personal funds – a summary

A number of questions explored the use of personal funds and/or personal borrowing by SMEs. For YEQ4 2017, 4 in 10 SMEs (42%) reported having one or more of these personal 'elements' to their business. This was in line with recent years (42% in both 2014 and 2015) 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 Transport sector remained the most likely to have a personal element to their business:

Had any personal element

Row percentages	YEQ4 17
All SMEs	**42%**
0 employee	46%
1-9 employees	33%
10-49 employees	17%
50-249 employees	8%
Minimal external risk rating	21%
Low external risk rating	28%
Average external risk rating	40%
Worse than average external risk rating	51%
Agriculture	37%
Manufacturing	38%
Construction	42%
Wholesale/Retail	38%
Hotels & Restaurants	42%
Transport	49%
Property/Business Services etc.	38%
Health	46%
Other Community	46%

Amongst SMEs with employees, 29% had a personal element to their business.

6. Financial context – how are SMEs funding themselves? (Part 2)

This chapter provides

an overview of other aspects of external finance – trade credit, Permanent non-Borrowers and attitudes to using finance.

Key findings

35% of SMEs received trade credit, up slightly from 2014 (31%) and increasing by size of SME (29% of 0 employee SMEs received trade credit compared to 69% of those with 50-249 employees):

- 7 in 10 of those receiving trade credit said that it reduced their need for external finance – the equivalent of 24% of all SMEs.

Adding trade credit to the external finance and injections of personal funds reported in the previous chapter results in 65% of all SMEs using 'Business funding':

- Use of business funding increased by size of SME (61% of those with 0 employees to 89% of those with 50-249 employees) while the biggest uplift between external finance and business funding was amongst the 0 employee SMEs (34% to 61%).

Almost half of all SMEs in 2017 (47%) met the definition of a 'Permanent non-Borrower' who was not using finance and showed little inclination to do so:

- In 2012, 34% of SMEs met the definition of a PNB, increasing to 47% by 2015 and remaining stable since
- 0 employee SMEs remained the most likely to be a PNB (51%). A fifth (21%) of the largest SMEs met the definition and this was somewhat lower than in 2015 when 28% were PNBs
- PNBs were less likely to be innovative or to plan to grow but were as likely as other SMEs to have made a profit
- If the PNBs are excluded, the proportion of remaining SMEs using external finance increases to 72% for 2017 (compared to 38% of all SMEs). This is the highest proportion seen to date. In 2012, 64% of SMEs (excluding the PNBs) used external finance.

Attitudinally, SMEs remained somewhat reluctant to use finance but new statements have identified more ambitious SMEs:

- As previously reported, most SMEs said their plans were based on what they could afford to fund themselves (82%) and that they would rather grow more slowly than borrow to grow faster (70%)
- A declining proportion were happy to use external finance to help the business grow (34% in 2017 compared to 45% in 2015, with a decline across all sizes of SME)
- New questions for H2 2017 showed that 38% of SMEs had ambitions to be a significantly bigger business (increasing to 68% of those with 50-249 employees) and a similar proportion (42%) were prepared to take risks to become more successful. Both these attitudes were seen more strongly amongst younger businesses
- A quarter of all SMEs (27%) agreed with both of the new statements ie that they were ambitious and prepared to take risks. These were more likely to be younger, innovative businesses and a willingness to borrow to grow was a key predictor of membership of this group.

Use of trade credit

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

35% of SMEs regularly purchased products or services from other businesses on credit (YEQ4 2017). As previously seen, use of trade credit increased by size of SME:

- 29% of those with 0 employees regularly purchased on credit
- 49% of those with 1-9 employees
- 64% of those with 10-49 employees
- 69% of those with 50-249 employees.

Those using external finance (loans, overdrafts etc) remained more likely to be using trade credit (51%) than those who were not using any external finance (25%).

As the table below shows, overall use of trade credit increased slightly over time (31% to 35%). In 2017, larger SMEs were more likely to report using trade credit than previously, with 7 in 10 of those with 50-249 employees now using trade credit, compared to 6 in 10 previously:

Currently use trade credit Over time – all SMEs By date of interview – row percentages	2014	2015	2016	2017
All	31%	33%	33%	35%
0 emp	26%	28%	28%	29%
1-9 emps	45%	47%	45%	49%
10-49 emps	58%	61%	59%	64%
50-249 emps	58%	60%	59%	69%

52% of SMEs with employees used trade credit in 2017, up from 48% in 2016.

SMEs that received trade credit were asked whether this 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 24% of all SMEs needing less external finance, as the table below shows:

Impact of receiving trade credit YEQ4 17 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,012*	*3607*	*5804*	*5801*	*2800*
Receive trade credit	35%	29%	49%	64%	69%
Have less of a need for external finance	*24%*	*20%*	*33%*	*48%*	*52%*
Do not have less of a need for external finance	*9%*	*8%*	*13%*	*13%*	*13%*
Not sure	*2%*	*1%*	*2%*	*3%*	*5%*
Do not receive trade credit	65%	71%	51%	36%	31%
% of those with TC where it reduces need	*69%*	*69%*	*67%*	*75%*	*75%*

Q14y/y4 All SMEs

The proportion of Trade Credit users reporting that it reduced their need for external finance increased from 65% in H2 2014 when the question was first asked, to 69% for 2017. This was due to an increased proportion of smaller SMEs saying that Trade Credit reduced their need for external finance. Larger SMEs using trade credit remained more likely to say that it reduced their need for external finance (75%).

YEQ4 2017, SMEs using external finance (who were more likely to be using trade credit at all) remained more likely to say that they had less of a need for external finance as a result of that trade credit (37%) than those not using external finance (16%) or SMEs overall (24%).

SMEs with a minimal or low external risk rating remained 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 <u>receiving</u> trade credit YEQ4 17 – all SMEs	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*18,012*	*3086*	*5460*	*4186*	*3876*
Receive trade credit	35%	47%	47%	35%	30%
Have less of a need for external finance	*24%*	*32%*	*33%*	*24%*	*21%*
Do not have less of a need for external finance	*9%*	*14%*	*11%*	*10%*	*8%*
Not sure	*2%*	*2%*	*2%*	*1%*	*1%*
Do not receive trade credit	65%	53%	53%	65%	70%
% of those with TC where it reduces need	*69%*	*68%*	*70%*	*69%*	*70%*

Q14y/y4 All SMEs from Q3 2014

Older SMEs remained more likely to be receiving trade credit. The proportion of trade credit users saying it reduced their need for finance peaked at 76% of those trading for 6-9 years before declining amongst older SMEs:

Impact of <u>receiving</u> trade credit YEQ4 17 – all SMEs	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15 yrs+
Unweighted base:	*1822*	*1704*	*1994*	*2986*	*9506*
Receive trade credit	29%	27%	29%	37%	43%
Have less of a need for external finance	*19%*	*19%*	*22%*	*26%*	*29%*
Do not have less of a need for external finance	*8%*	*7%*	*7%*	*9%*	*12%*
Not sure	*1%*	*1%*	*1%*	*1%*	*2%*
Do not receive trade credit	71%	73%	71%	63%	57%
% of those with TC where it reduces need	*66%*	*70%*	*76%*	*70%*	*67%*

Q14y/y4 All SMEs from Q3 2014

SMEs in the Wholesale Retail sector were the most likely to receive trade credit (53%). Amongst those receiving trade credit, those in Health were the most likely to say that it reduced their need for finance (76%) and those in Agriculture the least likely (62%):

Trade credit in last 12 months

YEQ4 17 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	*1202*	*1501*	*3200*	*1800*	*1200*	*2004*	*3603*	*1502*	*2000*
Receive TC	39%	48%	44%	53%	38%	24%	27%	29%	27%
Have less of a need for external finance	*24%*	*34%*	*32%*	*38%*	*26%*	*17%*	*18%*	*22%*	*17%*
Do not have less of a need for external finance	*13%*	*11%*	*10%*	*14%*	*11%*	*7%*	*8%*	*5%*	*8%*
Not sure	*2%*	*2%*	*2%*	*2%*	*1%*	*1%*	*1%*	*2%*	*2%*
Do not receive TC	61%	52%	56%	47%	62%	76%	73%	71%	73%
% where TC reduces need	*62%*	*71%*	*73%*	*72%*	*68%*	*71%*	*67%*	*76%*	*63%*

Q14y/y4 All SMEs from Q3 2014

A wider definition of 'Total business funding'

The questions on trade credit and injections of personal funds allow for an analysis of the use of 'total business funding' by SMEs in a wider sense, i.e. including not only external finance but trade credit and injections of personal funds. Note that the amount of trade credit received was 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 2017:

- 38% of SMEs were using **external finance** as defined in the previous chapter (i.e. loans, overdrafts, invoice finance etc).
- An additional 16% 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 (also defined in the previous chapter).

Widening the definition of external funding to include not only finance but also trade credit and personal funds thus increased the proportion of SMEs using business funding from 38% to 65%.

Analysis by year shows that this changed very little over the period for which this data is available, albeit the 2017 figure of 65% was the highest seen to date:

Use of business funding Over time – all SMEs	2014	2015	2016	2017
Unweighted base:	*20,055*	*20,046*	*18,000*	*18,012*
Use external finance	37%	37%	37%	38%
Do not use finance but do use trade credit	15%	16%	15%	16%
Do not use the above but injected personal funds	12%	11%	11%	11%
Total business funding	*63%*	*64%*	*63%*	*65%*

All SMEs from 2014

Looking specifically at YEQ4 2017 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 17 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,012*	*3607*	*5804*	*5801*	*2800*
Use external finance	38%	34%	49%	64%	73%
Do not use finance but do use trade credit	16%	14%	20%	20%	16%
Do not use the above but injected personal funds	11%	13%	7%	1%	*
Total business funding	*65%*	*61%*	*76%*	*85%*	*89%*

Q14y/y4 All SMEs from Q3 2014

Analysis by other demographics showed that:

- SMEs with an average risk rating were somewhat less likely to be using business funding (61%) than their peers with other ratings (66-69%)
- Starts were somewhat more likely to be using business funding than older SMEs (74% v 56-65%).
- The proportion using business funding varied from 58% of those in Property/Business Services to 77% of those in Wholesale/Retail and 75% in Manufacturing, with the rest in the range 60-72%.

The non-borrowing SME

As the previous chapter reported, 4 in 10 SMEs (38% YEQ4 2017) used external finance. Other data from this report allows for identification of those SMEs who seem firmly disinclined to borrow, defined as those that met **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** made up 47% of SMEs (YEQ4 2017), and remained more likely to be found amongst the smaller SMEs, although not exclusively so (amongst SMEs with employees, 35% met the definition of a Permanent non-borrower):

- 51% of 0 employee SMEs met this non-borrowing definition
- 37% of 1-9 employee SMEs
- 27% of 10-49 employee SMEs
- 22% of 50-249 employee SMEs.

Half of SMEs in Property/Business Services (52%) sectors met the definition of a Permanent non-borrower, compared to 37% of those in Agriculture. Starts were somewhat less likely to meet the definition (42%) than older SMEs (46-49%) and those with a minimal or low external risk rating (both 42%) were less likely to meet the definition than those with an average (49%) or worse than average (47%) risk rating.

Those using a personal account for their business banking (51%) were also somewhat more likely to meet the definition. This means that the equivalent of 8% of <u>all</u> SMEs were Permanent non-borrowers who used a personal bank account.

With the exception of Q4 2016 (when more SMEs reported using external finance), the proportion of PNBs has changed relatively little since the start of 2016, as the table below shows:

Permanent non-borrowers Over time – all SMEs Row percentages	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
All SMEs	***43%***	***49%***	***47%***	***50%***	***41%***	***47%***	***46%***	***48%***	***45%***
0 employee	47%	52%	52%	52%	43%	51%	50%	52%	49%
1-9 employees	33%	42%	34%	42%	36%	37%	35%	40%	37%
10-49 employees	29%	28%	28%	36%	28%	27%	28%	29%	24%
50-249 employees	28%	27%	24%	28%	25%	22%	17%	22%	25%

As the table below shows, if these PNBs were excluded from the 'use of external finance' table reported in the previous chapter, the proportion using external finance would increase to 72% of the remaining SMEs in 2017:

Use of external finance over time Over time – all SMEs excl PNBs	2012	2013	2014	2015	2016	2017
Use any external finance	66%	68%	65%	70%	70%	72%
- *Use core finance*	*54%*	*53%*	*51%*	*55%*	*57%*	*57%*
- *Use other forms of finance*	*27%*	*29%*	*30%*	*32%*	*31%*	*33%*
Do not use external finance	34%	32%	35%	30%	30%	28%

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 (34%) to almost a half of all SMEs (47%) and has been stable since:

Permanent non-borrowers Over time – all SMEs Row percentages	2012	2013	2014	2015	2016	2017
All	34%	40%	43%	47%	47%	47%
0 emp	37%	44%	48%	51%	50%	51%
1-9 emps	25%	28%	33%	36%	38%	37%
10-49 emps	18%	22%	26%	29%	30%	27%
50-249 emps	15%	17%	26%	28%	26%	22%
Minimal external risk rating	31%	37%	41%	41%	42%	42%
Low	29%	35%	44%	38%	43%	42%
Average	36%	40%	45%	45%	46%	49%
Worse than average	34%	40%	43%	51%	48%	47%
Agriculture	26%	37%	40%	41%	40%	37%
Manufacturing	32%	41%	42%	43%	45%	42%
Construction	33%	41%	45%	52%	45%	48%
Wholesale/Retail	26%	32%	34%	38%	40%	39%
Hotels & Restaurants	28%	33%	39%	40%	43%	41%
Transport	29%	33%	40%	44%	45%	42%
Property/ Business Services	38%	43%	46%	48%	51%	52%
Health	47%	52%	54%	51%	56%	48%
Other	37%	38%	46%	47%	45%	50%

All SMEs

The proportions of SMEs that used finance or that met the definition of a PNB have varied over time. As the table below shows, those with 0 employees have followed a quite different pattern to those with employees:

Use of external finance and PNBs Over time Row percentages	2012	2013	2014	2015	2016	2017
0 employees:						
• Use external finance	38%	35%	32%	32%	33%	34%
• Permanent non-borrower	37%	44%	48%	51%	50%	51%
All with employees						
• Use external finance	59%	57%	51%	51%	49%	52%
• Permanent non-borrower	24%	27%	32%	35%	37%	35%

All SMEs from 2012

In 2012, equal numbers of 0 employee SMEs were using external finance as met the definition of a PNB. 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 (32% v 51% in 2015). The gap has since narrowed slightly (17 points for 2017) as a few more 0 employee SMEs reported using external finance.

By contrast, in 2012 SMEs with employees were twice as likely to be using external finance (59%) as to meet the definition of a PNB (24%), a gap of 35 percentage points. Between 2012 and 2016 there was a decline in the proportion using external finance, and an increase in those meeting the definition of a PNB, which narrowed this 'gap' from 35 to 12 percentage points. In 2017, use of finance increased slightly (to 52%), and the proportion of PNBs declined slightly (to 35%), so the gap widened again, to 17 points.

PNBs are a major influence on the overall position of SMEs regarding access to, and appetite for, external finance. Additional analysis was therefore 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 over time:

PNBs Over time Row percentages	2012	2013	2014	2015	2016	2017
Made a profit:						
• PNBs	74%	73%	80%	82%	80%	83%
• Other SMEs	66%	69%	74%	78%	80%	82%
Hold £10k+ of credit balances:						
• PNBs	17%	14%	19%	23%	19%	23%
• Other SMEs	16%	18%	21%	25%	24%	27%
Minimal/Low risk rating:						
• PNBs	14%	15%	22%	21%	20%	20%
• Other SMEs	17%	17%	23%	28%	23%	23%
International						
• PNBs	7%	10%	12%	13%	11%	14%
• Other SMEs	12%	15%	19%	20%	16%	17%
Innovative						
• PNBs	33%	32%	31%	31%	32%	31%
• Other SMEs	43%	42%	42%	42%	41%	36%
Plan to grow						
• PNBs	-	43%	40%	38%	36%	37%
• Other SMEs	-	52%	52%	51%	50%	52%

All SMEs from 2012

As the table above shows, there were some instances where differences between PNBs and non-PNBs narrowed over time and others where they have widened:

- In 2012, PNBs were more likely than non PNBs to have been profitable (74% v 66%). Over time, profitability has improved for both groups, but to a greater degree for the non-PNBs and so the 'gap' has closed (83% v 82% in 2017).
- In 2017 there was less to choose between the two groups in terms of being international. In 2012, 7% of PNBs were international compared to 12% of non-PNBs. By 2017 the proportion of PNBs that were international had doubled (to 14%), while for non-PNBs the proportion had initially increased to 20% but then reduced slightly to 17% for 2017.
- PNBs have always been less likely to be innovative and this proportion has been stable over time (33% in 2012 to 31% in 2017). Amongst non-PNBs, the proportion that innovated was stable 2012 to 2016 (41-43%) but somewhat lower in 2017 (36%), narrowing the gap to PNBs.
- In 2012, PNBs were as likely to be holding £10,000 or more in credit balances as non-PNBs (17% v 16%). Since then, the proportion of non-PNBs holding this sum has increased slightly more rapidly (to 27% for 2017) compared to PNBs (to 23% for 2017), widening the gap between them.
- Growth plans amongst the non-PNBs have been very stable over time, with half planning to grow. Amongst PNBs on the other hand, the proportion planning to grow has declined from 43% to 37%, widening the gap between them and the non-PNBs.

Analysis conducted in order to understand which factors in combination best predicted an SME meeting the definition of a PNB showed that the key determinant, as it was when this analysis was last run, was size of business. Common issues across size bands that increased the likelihood of being a PNB included not seeing access to finance as a barrier, not planning to grow, lower levels of planning and/or innovation and agreeing that their plans were based on what they could afford. The full analysis can be found in the Q2 2017 report.

PNBs by their very definition were not using external finance. Adding use of trade credit and injections of personal funds results in 40% 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 46% to 28% of all SMEs.

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'.

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. These are reported below for YEQ4 2017, including two new statements reported for the first time. Changes in levels of agreement over time are reported later in this chapter.

The first statement below has been asked consistently since Q3 2014. A third of SMEs (34%) agreed that they were happy to use external finance to help the business grow:

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

YEQ4 17– all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,012*	*3607*	*5804*	*5801*	*2800*
Strongly agree	5%	5%	6%	8%	13%
Agree	29%	26%	34%	40%	40%
Neither/nor	21%	21%	21%	24%	27%
Disagree	33%	35%	30%	22%	16%
Strongly disagree	12%	13%	9%	6%	3%
Total 'Agree'	***34%***	***31%***	***40%***	***48%***	***53%***

Q238a5 All SMEs from Q3 2014

0 employee SMEs were less likely to agree overall (31%) than larger SMEs (42% of those with employees). Analysis by other demographics over time is shown later in this chapter.

Previous analysis revealed that a key predictor of agreement with this statement was to be a current user of external finance. Amongst those using finance, 46% agreed with this statement, compared to 26% of those not currently using finance. Those planning to grow were also more likely to agree with this statement (43%) than those not planning to grow (26%).

To understand 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 were 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. This shows that 45% of SMEs were neither using external finance nor were willing to do so in future, but with considerable variation by size of SME:

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

YEQ4 17 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,012*	*3607*	*5804*	*5801*	*2800*
Use external finance and willing to use in future	18%	14%	25%	37%	47%
Use external finance but not willing to use in future	21%	19%	23%	28%	28%
Do not use it but willing to	16%	17%	15%	11%	8%
Do not use it and not willing to	45%	50%	36%	24%	18%

Q15/Q238a5 All SMEs

The analysis shows that:

- 1 in 5 SMEs (18%) were using external finance and agreed that they would be willing to use it in future, increasing by size of SME to 47% of those with 50-249 employees.
- The remaining users of finance, 21% of all SMEs, would not be willing to use finance in future (the equivalent of 55% of all users of finance).
- 1 in 6 of all SMEs (16%) 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 slightly by size of SME to 8% of those with 50-249 employees.
- The remainder, 4 in 10 SMEs (45%), were non-users of finance who would not be willing to use it in future and this was more common amongst 0 employee SMEs (50% compared to 18% of those with 50-249 employees). 8 in 10 of this group (80%) met the definition of a PNB.

The other attitudinal statement introduced in Q3 2014 sought to understand the extent to which SMEs agreed that “their aim was to pay down debt and then remain debt free if possible”. In 2016, 7 in 10 SMEs (68%) agreed with this statement, with little variation by size, and this question has been rested in 2017.

From Q3 2015 another statement was added to further explore demand for finance: "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 17 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,012*	*3607*	*5804*	*5801*	*2800*
Strongly agree	36%	38%	33%	27%	20%
Agree	46%	45%	47%	45%	42%
Neither/nor	11%	10%	12%	15%	20%
Disagree	6%	5%	7%	11%	15%
Strongly disagree	1%	1%	1%	2%	3%
Total 'Agree'	*82%*	*83%*	*80%*	*72%*	*62%*

Q238a5 All SMEs from Q3 2015

Amongst those with employees, 79% agreed with this statement.

Analysis by other demographics showed that:

- Agreement with this statement was slightly lower amongst those currently using external finance (78% v 84%).
- There was relatively little variation by sector (79-84%) or risk rating (80-83%).

Two further demand related statements were added from Q1 2016. In both cases, levels of agreement declined by size.

Half of SMEs said they never thought about using (more) external finance and this was more likely to be the case for smaller SMEs:

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

YEQ4 17 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,012*	*3607*	*5804*	*5801*	*2800*
Strongly agree	13%	14%	12%	9%	5%
Agree	39%	41%	35%	30%	26%
Neither/nor	20%	19%	22%	25%	28%
Disagree	23%	22%	27%	29%	32%
Strongly disagree	5%	5%	5%	6%	10%
Total 'Agree'	*52%*	*55%*	*47%*	*39%*	*31%*

Q238a5 All SMEs from Q1 2016

Amongst those with employees, 45% agreed with this statement.

Analysis by other demographics showed that:

- Agreement was lower amongst SMEs currently using external finance (46% v 56%).
- There was relatively little variation in levels of agreement by risk rating (51-53%) or by sector (47-55%).

7 in 10 SMEs agreed with the second statement and 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 17 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,012*	*3607*	*5804*	*5801*	*2800*
Strongly agree	23%	24%	21%	18%	13%
Agree	47%	47%	48%	44%	37%
Neither/nor	19%	19%	19%	23%	29%
Disagree	9%	9%	10%	12%	17%
Strongly disagree	2%	2%	2%	2%	3%
Total 'Agree'	*70%*	*71%*	*69%*	*62%*	*50%*

Q238a5 All SMEs from Q1 2016

Amongst those with employees, 68% agreed that they would accept a slower self-funded growth rate.

Analysis by other demographics showed that:

- Those using external finance were only slightly less likely to agree that they preferred self-funded growth (67% v 71%)
- There was little variation by sector (67-74%) or risk rating (69-71%)

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". Just over half of SMEs agreed with the statement with little variation in overall agreement by size.

"A fall in the cost of credit would not make us any more likely to consider applying for new external finance"

YEQ4 17 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,012*	*3607*	*5804*	*5801*	*2800*
Strongly agree	15%	15%	14%	12%	9%
Agree	39%	39%	39%	38%	37%
Neither/nor	25%	25%	25%	26%	31%
Disagree	17%	17%	19%	20%	19%
Strongly disagree	4%	5%	4%	4%	4%
Total 'Agree'	***54%***	***54%***	***53%***	***50%***	***46%***

Q238a5 All SMEs from Q4 2016

Amongst those with employees, 52% agreed that a fall in the cost of credit would not make them more likely to apply for finance.

Analysis by other demographics showed that:

- There was no difference in levels of agreement by whether the SME was already using finance (54% v 54%)
- There was no variation by external risk rating (all 54%)
- There was slightly more variation in levels of agreement by sector, from 50% of those in Transport to 58% of those in Property/Business services

In Q3 2017 two further statements were added to explore ambition in a bit more detail. The first statement was "We have a long term ambition to be a significantly bigger business" and initial data showed that 4 in 10 SMEs agreed with the statement, increasing by size of business:

"We have a long term ambition to be a significantly bigger business"

H2 17 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	***9005***	***1803***	***2902***	***2900***	***1400***
Strongly agree	11%	10%	12%	19%	23%
Agree	27%	25%	30%	40%	45%
Neither/nor	17%	17%	20%	19%	18%
Disagree	36%	39%	31%	20%	12%
Strongly disagree	9%	10%	7%	2%	1%
Total 'Agree'	***38%***	***35%***	***42%***	***59%***	***68%***

Q238a5 All SMEs from Q4 2016

Amongst those with employees, 46% agreed that they had ambitions to be significantly bigger.

Analysis by other demographics showed that:

- SMEs already using finance were more likely to be ambitious (50% v 30%)
- There was no consistent pattern by risk rating (from 31% for those with an average risk rating to 42% for those with a worse than average risk rating)
- Excluding the PNBs increased the percentage of remaining SMEs with ambition to 47%
- By sector, the most likely to agree were those in the Wholesale/Retail sector (44%). Those least likely to agree were those in Agriculture, Manufacturing and Construction (all 35%)

The second new statement was "As a business we are prepared to take risks to become more successful". Initial data showed that 4 in 10 SMEs agreed with the statement, also increasing by size of business:

"As a business we are prepared to take risks to become more successful"

H2 17 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*9005*	*1803*	*2902*	*2900*	*1400*
Strongly agree	7%	6%	8%	10%	11%
Agree	35%	34%	37%	43%	46%
Neither/nor	21%	20%	21%	23%	27%
Disagree	30%	32%	27%	20%	13%
Strongly disagree	7%	7%	7%	3%	2%
Total 'Agree'	*42%*	*40%*	*45%*	*53%*	*57%*

Q238a5 All SMEs from Q4 2016

Amongst those with employees, 47% agreed that they were prepared to take risks to be successful.

Analysis by other demographics showed that:

- SMEs already using finance were more likely to be prepared to take risks (52% v 35%)
- There was no consistent pattern by risk rating (from 37% for those with an average risk rating to 46% for those with a worse than average risk rating)
- Excluding the PNBs increased the percentage of remaining SMEs willing to take a risk to 50%
- 46% of SMEs in the Hotels and Restaurants and Transport sectors agreed with this statement, compared to 38% in Health and 39% in Agriculture

A further piece of analysis (H2 2017 so that all statements can be included) looks at differences in attitude by the age of the SME.

This shows that there was typically little to choose between the attitudes of younger and older SMEs, albeit willingness to borrow to grow does decline with age of business and Starts were the most likely to say that they never think about using (more) external finance. However there were clear differences by age of SME on the new statements, with both ambition to be a bigger business and willingness to take risks seen more in younger SMEs:

H2 17 – all SMEs	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15 yrs+
Unweighted base:	*920*	*843*	*1059*	*1483*	*4700*
Happy to use finance to help business grow	41%	35%	36%	36%	29%
Plans based on what can afford ourselves	84%	81%	83%	82%	81%
Accept slower growth rather than borrow	71%	69%	70%	69%	69%
Never think about using (more) external finance	59%	46%	51%	53%	51%
Fall in cost of credit would not encourage application	58%	53%	58%	53%	56%
We have a long term ambition to be a significantly bigger business	57%	47%	35%	34%	26%
As a business we are prepared to take risks to become more successful	56%	43%	40%	43%	34%

Q238a5 All SMEs

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	H1 2017	H2 2017
Happy to use finance to help business grow	42%	45%	45%	43%	43%	33%	34%
Plans based on what can afford ourselves	-	-	80%	80%	80%	82%	82%
Accept slower growth rather than borrow	-	-	-	71%	70%	70%	70%
Never think about using (more) external finance	-	-	-	47%	40%	52%	52%
Fall in cost of credit would not encourage application	-	-	-	-	-	52%	56%
We have a long term ambition to be a significantly bigger business	-	-	-	-	-	-	38%
As a business we are prepared to take risks to become more successful	-	-	-	-	-	-	42%

Q238a5 All SMEs from H214

The proportion happy to use finance to help the business grow was lower in 2017 than in previous years and there was an increase in the proportion of SMEs agreeing that they never think about credit (to 52%) or that a fall in the cost of credit would not encourage application (56%).

As happiness to use finance can be seen as a key indicator of SME sentiment, further detail has been provided over time by key demographics:

Happy to use finance to help business grow – % agree Over time – all SMEs Row percentages	H2 2014	2015	2016	2017
All	42%	45%	43%	34%
0 emp	39%	43%	41%	31%
1-9 emps	49%	51%	49%	40%
10-49 emps	56%	57%	52%	48%
50-249 emps	57%	58%	51%	53%
Minimal external risk rating	38%	48%	45%	35%
Low	41%	45%	42%	35%
Average	39%	45%	41%	31%
Worse than average	43%	47%	45%	36%
Agriculture	49%	51%	44%	37%
Manufacturing	47%	48%	42%	35%
Construction	41%	44%	46%	31%
Wholesale/Retail	51%	51%	44%	39%
Hotels & Restaurants	48%	47%	46%	38%
Transport	39%	47%	43%	38%
Property/ Business Services	42%	45%	42%	33%
Health	32%	39%	43%	27%
Other	35%	39%	39%	32%
PNB	31%	36%	34%	22%
Not a PNB	50%	53%	51%	44%
Use external finance	54%	56%	54%	46%

Q238a54 All SMEs

The table shows that the proportion of SMEs happy to use finance to grow varied very little between H2 2014 and 2016 (42-45%) but was lower in 2017 (34%):

- This was due to lower levels of agreement amongst smaller SMEs in particular (41% to 31% for those with 0 employees and 49% to 40% for those with 1-9 employees)
- There was also lower levels of agreement across all risk ratings and sectors
- Those who did not meet the definition of a Permanent non borrower remained more likely to agree (44%) but this was lower than previously seen (50-53%) and the same was true for those using external finance (now 46% having previously been 54-56%)

Attitudes to finance – ambitious risk takers

Taking the two new statements together, a quarter of all SMEs (27%) could be described as "ambitious risk takers" as they agreed both that they were ambitious for the long term size of the business and were prepared to take risks to be successful. Twice as many SMES (47%) agreed with neither statement.

Initial analysis of these 'ambitious risk takers' showed that they were young, innovative and more likely to be using external finance. They were:

- More likely to be younger SMEs (51% trading for less than 5 years compared to 29% who didn't agree with both statements) but also to have employees (30% v 23%)
- More likely to use external finance (54% v 33%), to have had a borrowing event (27% v 13%) and/or to be planning to apply for finance (25% v 9%)
- Less likely to be a PNB (31% v 53%)
- Three quarters (74%) were planning to grow in the next 12 months (v 35% who didn't agree with both statements) and 9% were already scaleups
- More likely to innovate (47% v 29%), trade internationally (21% v 14%) and to plan (73% v 51%)
- The owner/MD was more likely to be male (85% v 75%) and under 50 (66% v 42%)
- Their external risk rating and sector profiles were not very different to those who didn't agree with both statements

Initial CHAID analysis suggests that a willingness to borrow to help the business grow was a key predictor of being an ambitious risk taker (64% agreed compared to 23% who didn't agree with both statements), followed by immediate plans to grow the business in the next year (especially by 20% or more) and to take on staff, but also to see access to finance as more of a barrier (albeit 11% saw this as a barrier v 3% who didn't agree with both statements).

7. 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 these events 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 2017. Where year-ending data is provided this is YEQ4 2017.

Key findings

Demand for loan and overdraft finance remained limited but there were some signs in Q4 2017 of a slight increase in new applications and renewals:

- In the first half of 2016, 6% of SMEs had applied for a new or renewed loan or overdraft facility. Immediately post referendum, this fell slightly to 4% and remained at this lower level for the rest of 2016 and to Q3 2017
- In Q4 2017, 7% of SMEs reported that they had applied for a new/renewed facility (with a slight increase in both new and renewal applications) back to levels seen in Q4 2015
- On an annual basis, 5% of SMEs reported an application for new/renewed finance in 2017 as a whole, in line with 2016 but at half the level seen in 2012 (11%). Excluding the PNBs increases the figure for 2017 to 9%, also in line with 2016 but lower than 2012 (16%).

Both loan and overdraft events have halved since 2012 but there are signs of more applications being made in 2017:

- In 2012 8% of SMEs reported a new or renewed overdraft application in the previous 12 months, declining over time to 3% in 2016 and 4% in 2017
- For loans the decline has been from 4% in 2012 to 2% in both 2016 and 2017
- An analysis of when those applications were made showed that fewer applications were made during 2016 than would have been expected. Overdraft applications showed signs of increase in 2017, loans were more in line with the proportion expected (assuming an even distribution over time)
- In 2017, an additional 9% of all SMEs reported the automatic renewal of an overdraft.

12% of SMEs had applied for one of the other forms of finance recorded, typically leasing/HP or a credit card. This was also slightly lower than in 2012 when 15% had applied:

- Most SMEs (77%) had reported neither a loan or overdraft event nor an application for another form of finance, up from 68% in 2012.

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 2017. 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.

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 and the Q4 2017 figure (7%) was the highest seen since Q4 2015:

Borrowing events in the previous 12 months

All SMEs– over time By date of interview	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Unweighted base:	*5003*	*4500*	*4500*	*4500*	*4500*	*4500*	*4507*	*4505*	*4500*
Type 1: New application/renewal	7%	6%	6%	4%	4%	4%	4%	4%	7%
Applied for new facility (any)	4%	3%	3%	2%	3%	2%	2%	2%	4%
Renewed facility (any)	4%	3%	3%	2%	2%	2%	2%	2%	4%
Type 2: Cancel/ renegotiate by bank	3%	2%	2%	1%	2%	1%	1%	1%	2%
Type 3: Chose to reduce/ pay off facility	2%	1%	1%	*	1%	1%	2%	1%	2%

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 those PNBs from the sample, and shows the higher proportion of remaining SMEs that had an event as a result.

In Q4 2017, 12% of SMEs (excluding the PNBs) reported a Type 1 event in the 12 months prior to interview, also the highest proportion since Q4 2015:

Borrowing events in the previous 12 months

All SMEs, excluding PNBs over time By date of interview	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Unweighted base:	*3338*	*2854*	*3008*	*2755*	*3017*	*3011*	*3038*	*2890*	*3001*
Type 1: New application/renewal	12%	11%	10%	7%	7%	8%	8%	8%	12%
Applied for new facility (any)	6%	6%	6%	4%	5%	4%	4%	4%	7%
Renewed facility (any)	7%	6%	6%	4%	3%	4%	4%	5%	6%
Type 2: Cancel/renegotiate by bank	5%	5%	5%	3%	4%	2%	3%	2%	3%
Type 3: Chose to reduce/pay off	3%	2%	2%	1%	2%	1%	4%	2%	3%

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 2017, 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 and that for the largest SMEs this was more likely to be a renewal than an application for a new facility:

Borrowing events in the previous 12 months YEQ4 17 all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,012*	*3607*	*5804*	*5801*	*2800*
Type 1: New application/renewal	5%	4%	8%	11%	10%
Applied for new facility (any)	3%	2%	4%	5%	3%
- applied for new loan	*1%*	*1%*	*2%*	*3%*	*2%*
- applied for new overdraft	*2%*	*2%*	*2%*	*2%*	*1%*
Renewed facility (any)	3%	2%	5%	7%	8%
- renewed existing loan	*1%*	*	*2%*	*3%*	*3%*
- renewed existing overdraft	*2%*	*2%*	*4%*	*6%*	*6%*
Type 2: Cancel/renegotiate by bank	1%	1%	2%	2%	3%
Bank sought to renegotiate facility (any)	1%	1%	2%	2%	3%
- sought to renegotiate loan	*	*	*1%*	*1%*	*1%*
- sought to renegotiate overdraft	*1%*	*	*1%*	*1%*	*2%*
Bank sought to cancel facility (any)	1%	*	1%	1%	1%
- sought to cancel loan	*	*	*1%*	*	*
- sought to cancel overdraft	*	*	*	*	*
Type 3: Chose to reduce/pay off facility	1%	1%	2%	2%	3%
- reduce/pay off loan	*1%*	*1%*	*1%*	*2%*	*2%*
- reduce/pay off overdraft	*1%*	*1%*	*1%*	*1%*	*1%*

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

Excluding those SMEs with no employees increased the incidence of Type 1 events to 8% of SMEs with employees, of Type 2 events to 2% and of Type 3 events to 2%.

Experience of events was slightly higher for those with a minimal or low risk rating, due to more renewals:

Borrowing events in the previous 12 months

YEQ4 17 – all SMEs	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*18,012*	*3086*	*5460*	*4186*	*3876*
Type 1: New application/renewal	**5%**	**7%**	**6%**	**5%**	**4%**
Applied for new facility (any)	3%	3%	3%	3%	3%
- applied for new loan	*1%*	*2%*	*1%*	*1%*	*1%*
- applied for new overdraft	*2%*	*1%*	*2%*	*1%*	*2%*
Renewed facility (any)	3%	5%	4%	3%	2%
- renewed existing loan	*1%*	*2%*	*1%*	*1%*	*
- renewed existing overdraft	*2%*	*4%*	*3%*	*3%*	*2%*
Type 2: Cancel/renegotiate by bank	**1%**	**1%**	**2%**	**1%**	**1%**
Bank sought to renegotiate facility (any)	1%	1%	2%	1%	1%
- sought to renegotiate loan	*	*	*1%*	*1%*	*
- sought to renegotiate overdraft	*1%*	*1%*	*1%*	*	*
Bank sought to cancel facility (any)	1%	*	1%	1%	*
- sought to cancel loan	*	*	*	*	*
- sought to cancel overdraft	*	*	*	*	*
Type 3: Chose to reduce/pay off facility	**1%**	**3%**	**2%**	**1%**	**1%**
- reduce/pay off loan	*1%*	*2%*	*1%*	*1%*	*
- reduce/pay off overdraft	*1%*	*1%*	*1%*	*1%*	*1%*

Q25/26 All SMEs with external risk rating

Those in Agriculture remained somewhat more likely to report a Type 1 event, again due to more renewals:

Borrowing events in last 12 months

YEQ4 17 – all SMES	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	*1202*	*1501*	*3200*	*1800*	*1200*	*2004*	*3603*	*1502*	*2000*
Type 1: New application/ renewal	9%	6%	4%	7%	6%	5%	5%	3%	4%
Applied for new facility (any)	3%	3%	2%	4%	3%	3%	3%	2%	2%
- applied for new loan	*2%*	*2%*	*1%*	*2%*	*2%*	*2%*	*1%*	*1%*	*1%*
- applied for new overdraft	*2%*	*2%*	*1%*	*2%*	*2%*	*2%*	*2%*	*2%*	*1%*
Renewed facility (any)	6%	4%	2%	4%	4%	3%	2%	1%	2%
- renewed existing loan	*2%*	*1%*	*	*1%*	*2%*	*	*	*1%*	*
- renewed existing overdraft	*5%*	*3%*	*2%*	*4%*	*3%*	*2%*	*2%*	*1%*	*2%*
Type 2: Cancel/ renegotiate by bank	3%	2%	1%	1%	3%	1%	1%	1%	2%
Bank sought to renegotiate facility (any)	2%	1%	1%	1%	2%	1%	1%	1%	1%
- sought to renegotiate loan	*1%*	*	*	*1%*	*1%*	*1%*	*	*	*
- sought to renegotiate overdraft	*1%*	*1%*	*	*1%*	*1%*	*1%*	*	*1%*	*1%*
Bank sought to cancel facility (any)	1%	1%	1%	1%	1%	*	*	*	1%
- sought to cancel loan	*1%*	*	*	*	*1%*	*	*	*	*
- sought to cancel overdraft	*	*	*	*	*1%*	*	*	*	*
Type 3: Chose to reduce/ pay off facility	2%	2%	1%	2%	2%	2%	1%	1%	1%
- reduce/pay off loan	*1%*	*1%*	*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*
- reduce/pay off overdraft	*1%*	*1%*	*	*1%*	*1%*	*1%*	*	*1%*	*1%*

Q25/26 All SMEs

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

Borrowing events in the previous 12 months YEQ4 17 – all SMEs	Total	All excl. PNBs
Unweighted base:	*18,012*	*11,940*
Type 1: New application/renewal	**5%**	**9%**
Applied for new facility (any)	3%	5%
- applied for new loan	*1%*	*2%*
- applied for new overdraft	*2%*	*3%*
Renewed facility (any)	3%	5%
- renewed existing loan	*1%*	*1%*
- renewed existing overdraft	*2%*	*4%*
Type 2: Cancel/renegotiate by bank	**1%**	**3%**
Bank sought to renegotiate facility (any)	1%	2%
- sought to renegotiate loan	*	*1%*
- sought to renegotiate overdraft	*1%*	*1%*
Bank sought to cancel facility (any)	1%	1%
- sought to cancel loan	*	*1%*
- sought to cancel overdraft	*	*
Type 3: Chose to reduce/pay off facility	**1%**	**2%**
- reduce/pay off loan	*1%*	*1%*
- reduce/pay off overdraft	*1%*	*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 2017:

Demographic	Incidence of Type 1 events reported YEQ4 2017
Age of business	The incidence of Type 1 events continued to vary only slightly by age of business (from 3% of Starts to 6% of those trading for 10-15 years).
Profitable SMEs	Those who had made a loss remained somewhat more likely to report a borrowing event (7%), 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%+ 9% Grown by less than this 5% Stayed the same size 4% Declined 6%.
Importers/exporters	Those engaged in international trade were only 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.

The first table below shows the proportion reporting a Type 1 event over recent quarters, overall and by key demographics. All size bands saw a decline in reported applications in the second half of 2016. For the 0 and 1-9 employee SMEs this lower level of demand continued until a slight increase in the most recent quarter, while for larger SMEs demand started to improve in Q2 2017.

The subsequent table takes the longer term annual view from 2012. This shows that Type 1 borrowing events (a new or renewed loan or overdraft facility) halved, from 11% of all SMEs in 2012 to 5% in 2017, and this was also the case once the PNBs had been excluded. This was due to the steady decline in applications from 0 employee SMEs (9% to 4%), while amongst larger SMEs appetite for finance in 2017 was slightly higher than in 2016.

Had any Type 1 event

New application/renewal By date of interview Over time – row percentages	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
All SMEs	**7%**	**6%**	**6%**	**4%**	**4%**	**4%**	**4%**	**4%**	**7%**
0 employee	5%	4%	5%	3%	4%	3%	3%	3%	5%
1-9 employees	12%	9%	8%	5%	6%	6%	8%	8%	10%
10-49 employees	13%	12%	10%	6%	9%	8%	11%	11%	13%
50-249 employees	13%	10%	8%	6%	6%	8%	12%	9%	11%
Minimal external risk rating	11%	6%	6%	6%	5%	4%	6%	7%	13%
Low external risk rating	9%	10%	7%	4%	6%	6%	5%	5%	7%
Average external risk rating	7%	6%	5%	4%	3%	4%	4%	3%	9%
Worse than average external risk rating	6%	5%	5%	3%	4%	4%	4%	4%	5%
Agriculture	10%	11%	5%	12%	7%	10%	7%	11%	9%
Manufacturing	12%	7%	7%	5%	3%	4%	6%	6%	10%
Construction	5%	6%	6%	2%	4%	4%	2%	2%	6%
Wholesale/Retail	6%	10%	7%	7%	7%	5%	6%	6%	10%
Hotels & Restaurants	16%	9%	9%	6%	5%	4%	7%	5%	8%
Transport	6%	5%	4%	2%	2%	5%	5%	4%	6%
Property/Business Services etc.	6%	2%	4%	2%	5%	4%	6%	4%	4%
Health	7%	4%	5%	2%	4%	1%	2%	2%	7%
Other Community	7%	7%	8%	5%	2%	3%	2%	4%	8%
All SMEs excluding Permanent non-borrowers	12%	11%	10%	7%	7%	8%	8%	8%	12%

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, led by those with 0 employees:

Type 1 borrowing events Over time – all SMEs Row percentages	2012	2013	2014	2015	2016	2017
All	11%	8%	8%	7%	5%	5%
0 emp	9%	6%	6%	5%	4%	4%
1-9 emps	16%	13%	12%	12%	7%	8%
10-49 emps	19%	15%	15%	13%	9%	11%
50-249 emps	19%	14%	12%	10%	8%	10%
Minimal external risk rating	13%	9%	10%	8%	6%	7%
Low	13%	10%	9%	11%	7%	6%
Average	10%	7%	7%	7%	4%	5%
Worse than average	11%	7%	7%	6%	4%	4%
Agriculture	18%	13%	14%	12%	9%	9%
Manufacturing	11%	9%	10%	9%	5%	6%
Construction	10%	7%	7%	5%	5%	4%
Wholesale/Retail	14%	10%	10%	10%	8%	7%
Hotels & Restaurants	16%	12%	9%	11%	7%	6%
Transport	10%	9%	6%	6%	3%	5%
Property/ Business Services	10%	6%	6%	6%	3%	5%
Health	6%	5%	6%	5%	4%	3%
Other	10%	5%	8%	8%	6%	4%
All excl PNBs	16%	13%	13%	13%	9%	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 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 had 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 38% of SMEs used 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 higher results in Q4 2017. 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 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Unweighted base:	*5003*	*4500*	*4500*	*4500*	*4500*	*4500*	*4507*	*4505*	*4500*
Applied for a new overdraft	2%	2%	2%	1%	2%	2%	2%	1%	2%
Renewed an existing overdraft	3%	3%	3%	2%	1%	2%	2%	2%	3%
Any Type 1 overdraft event	*5%*	*4%*	*4%*	*2%*	*3%*	*3%*	*3%*	*3%*	*5%*
Any Type 1 overdraft event excluding PNBs	*9%*	*8%*	*8%*	*5%*	*5%*	*6%*	*6%*	*6%*	*8%*

Q26 All SMEs

The incidence of Type 1 **loan** events in the 12 months prior to interview remained at lower levels than overdrafts but was also somewhat higher in Q4 2017:

Loan events in previous 12 months All SMEs – over time By date of interview	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Unweighted base:	*5003*	*4500*	*4500*	*4500*	*4500*	*4500*	*4507*	*4505*	*4500*
Applied for a new loan	2%	1%	2%	1%	1%	1%	1%	1%	2%
Renewed an existing loan	1%	1%	1%	*	1%	*	1%	*	1%
Any Type 1 loan event	*3%*	*2%*	*2%*	*2%*	*2%*	*1%*	*1%*	*1%*	*3%*
Any Type 1 loan event excl PNBs	*5%*	*4%*	*4%*	*3%*	*3%*	*2%*	*3%*	*2%*	*5%*

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, overall and once the PNBs were excluded:

Type 1 borrowing events Over time – all SMEs	2012	2013	2014	2015	2016	2017
Any Type 1 overdraft event	8%	6%	5%	5%	3%	4%
Any Type 1 loan event	4%	3%	3%	3%	2%	2%
Any Type 1 overdraft (excl PNBs)	12%	10%	9%	9%	6%	7%
Any Type 1 loan (excl PNBs)	6%	5%	6%	6%	4%	3%

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 2017 (which has only appeared as an option in one quarter of the SME Finance Monitor), compared to other quarters like Q2 2016 which has appeared as an option in 5 quarters (the maximum number possible).

If all applications made and reported to date from Q3 2015 to Q4 2017 had been distributed evenly over that period then the following distribution would have been seen:

- 25% of applications would have been made in H2 2015 – but the actual proportion made was higher for both overdrafts (29%) and loans (34%)
- 25% of applications would have been made in H1 2016 – but the actual proportions of overdrafts (23%) and loans (22%) made were somewhat lower
- 25% of applications should have been made in H2 2016 – but the actual proportions made were lower again (19% for overdrafts and 21% for loans)
- 25% of applications should have been made in 2017 – the actual proportion of overdrafts was somewhat higher (29%) but loans were more in line (23%)

The analysis supports the declining appetite for finance seen in the latter half of 2016 but suggests something of an increase in appetite for 2017.

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 2017:

- 11% of overdraft applications reported were made in a personal name, while for loans the figure was 16% (excluding DK answers).
- In both instances applicants with 0 employees were more likely to have applied in a personal name (14% for overdrafts and 26% for loans) and the majority of all applications in a personal name were from 0 employee SMEs.

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 those with an overdraft facility went on to report having had an overdraft 'event' in the 12 months prior to interview.

To explore this further, such SMEs 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 2017 are reported below and show that half of overdraft holders (51%) reported that they had had such an automatic renewal, the equivalent of 9% of all SMEs. The analysis also shows that 3 in 10 SMEs with an overdraft reported neither an overdraft event nor an automatic overdraft renewal in the past 12 months:

Any overdraft activity YEQ4 17	All with overdraft	All SMEs
Unweighted base:	*4780*	*18,012*
Had an overdraft 'event'	17%	3%
Had automatic renewal	51%	9%
Neither of these but have overdraft	32%	6%
No overdraft	-	82%

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

Additional questions provide some further detail on these automatic renewals:

- For YEQ4 2017, 11% of those reporting an automatic renewal said that the facility was in a personal name (in line with other overdraft applications, where 11% 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 declined: it was 10% for 2016 and 9% for 2017 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. Since then the proportion has varied year by year but was around 50% for 2017:

Experienced an automatic renewal in previous 12 mths By date of interview – over time Row percentages	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
SMEs with overdraft	49%	44%	48%	52%	38%	47%	49%	54%	52%
‘All SMEs’ equivalent	9%	6%	8%	8%	8%	6%	10%	11%	10%

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

Over time the proportion of total overdraft *activity* (i.e. an event or an automatic 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%. As the next table shows, the interim figure for YEQ4 2017 was 25%.

For SMEs with an overdraft facility, overdraft ‘events’ continued to make up a higher proportion of overdraft ‘activity’ if they had employees:

Overdraft activity YEQ4 17 – All with overdraft	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*4780*	*654*	*1334*	*1675*	*1117*
Had an overdraft ‘event’	17%	15%	21%	24%	21%
Had automatic renewal	51%	53%	48%	41%	37%
% of overdraft activity that was ‘event’	***25%***	***22%***	***30%***	***37%***	***36%***
Neither of these but have overdraft	32%	32%	31%	35%	42%

Q15/ 26/26a All SMEs

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

Overdraft activity YEQ4 17 – All with overdraft	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*4780*	*877*	*1630*	*1134*	*825*
Had an overdraft 'event'	17%	23%	21%	18%	15%
Had automatic renewal	51%	42%	52%	51%	51%
% of overdraft activity that was 'event'	***25%***	***35%***	***29%***	***26%***	***23%***
Neither of these but have overdraft	32%	35%	27%	31%	34%

Q15/ 26/26a All SMEs

Analysis by sector showed that the proportion of overdraft 'activity' made up by an 'event' varied from 37% of those with an overdraft in Agriculture to 18% in Health:

Overdraft activity YEQ4 17 – All with overdraft	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	*408*	*375*	*857*	*535*	*294*	*541*	*859*	*451*	*460*
Had an overdraft 'event'	25%	19%	14%	17%	18%	18%	19%	10%	20%
Had automatic renewal	43%	53%	51%	52%	50%	43%	54%	47%	60%
% of overdraft activity that was 'event'	***37%***	***26%***	***22%***	***25%***	***26%***	***30%***	***26%***	***18%***	***25%***
Neither of these but have overdraft	32%	28%	35%	32%	32%	39%	27%	43%	21%

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 and data is available on the security and fees relating to these automatically renewed overdraft facilities.

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 minority of SMEs had applied for any of these other forms of finance (12%), with larger SMEs more likely to have applied, notably for leasing and credit cards:

Other finance applied for	Total		Applied for			
YEQ4 17 – all SMEs	Applied	% success	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,012*	*varies*	*3607*	*5804*	*5801*	*2800*
Leasing/Hire purchase/vehicle finance	5%	77%	4%	7%	12%	14%
Credit cards	5%	76%	5%	5%	7%	10%
Loans from family/friends or directors	3%	63%	3%	4%	3%	2%
Grants	3%	49%	3%	4%	5%	4%
Equity from family/friends or directors	2%	41%	2%	2%	2%	1%
Invoice finance	2%	37%	2%	2%	3%	4%
Loans from other 3rd parties	2%	44%	2%	3%	2%	2%
Any of these	*12%*	-	*11%*	*15%*	*21%*	*26%*

Q222 All SMEs

The proportion of SMEs applying for any of these forms of finance declined somewhat over time – in 2012, 15% had applied, dropping to 10% for 2016 and 12% for 2017.

Up to three quarters of applicants for these types of funding were successful, with larger SMEs (10-249 employees) that applied generally more likely to be successful. On limited base sizes, success rates were typically somewhat lower in 2016 than in 2015, but increased somewhat in 2017. Note that SMEs were only asked if they were successful and, unlike loan and overdraft applications, they were not asked for additional information (such as whether they were offered a facility they chose not to accept).

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

From 2015 respondents have been asked in more detail about these other forms of finance:

Applications for other forms of finance YEQ4 2017

Net applications for facilities	12% reported an application for one or more of these other forms of finance. As reported above, 5% of SMEs interviewed YEQ4 2017 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 16% (29% when the PNBs are excluded). This was somewhat higher than in 2016 (13%) but remained lower than previously seen (21% had made any application in 2012) due primarily to fewer loan and overdraft applications. Applications for these other forms of finance also declined somewhat (15% in 2012, 13% in both 2014 and 2015, and 10% in 2016) but stabilised in 2017 (12%).
Other applications	For YEQ4 2017, 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 was not recorded.
Identifying additional Would-be seekers of other forms of finance	SMEs who had <u>not</u> 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. 87% of SMEs *qualified* for this question for YEQ4 2017 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 <u>all</u> SMEs – the potential impact on the proportion of Would-be seekers overall is explored later in this report.
Net users of finance	Taking all loan/overdraft events (including automatic renewal of overdrafts) and the applications for these other types of finance together showed that for YEQ4 2017: - Most SMEs (77%), reported neither a loan/overdraft 'event' nor an application for any of the types of finance listed above - 11% reported a loan/overdraft event, but had not applied for any of these other forms of finance - 8% had applied for these other forms of finance but did not report a loan/overdraft event - 4% reported both a loan/overdraft event <u>and</u> 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.

8. 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

6 in 10 overdraft applications made Q3 2015 to Q4 2017 were to renew an existing facility, increasing to 84% of applications made by those with 50-249 employees. 4 in 10 were for a new facility including a quarter of applications (23%) from those applying for the first time and these were typically smaller and younger SMEs:

- Most wanted the facility to help with cash flow (84%) while 4 in 10 (41%) were looking for a safety net and these two reasons have varied little over time
- 62% of applications were for £10,000 or less
- Almost all applied to their main bank (99%) and only to this bank and very few took advice before applying (8%).

Loan applications were more likely to be for a new facility (76%) with a third of applicants (36%) applying for their first facility and these were also typically smaller and younger SMEs:

- Loans were sort for a variety of reasons including UK expansion (25%), buying fixed assets (22%) and buying motor vehicles (20%)
- They were typically for larger sums than overdrafts (34% were for less than £10,000 and 23% were for more than £100,000) and in 7 out of 10 cases the SMEs was seeking all the funding it needed from the bank
- Loan applicants were less likely than overdraft applicants to apply to their main bank, (although most did, 86%) and less likely to only apply to one bank (although again most did, 83%). A minority took advice before applying (18%).

The data presented thus far in this report has reflected events that 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 have changed over time. For the most recent quarters (especially those in 2017) this is only **interim** data, which is liable to change and which will be updated in subsequent reports.

However, for 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 2017 (i.e. all interviews conducted in the 4 quarters to Q4 2017, irrespective of when the borrowing event occurred), data is reported on the basis of 'Applications occurring in the 18 months to Q4 2017' (i.e. applications known to have been made between Q3 2016 and Q4 2017 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 2016 to Q4 2017. Within this 18 month time period, final data is now available for applications made up to the end of Q4 2016. Data on more recent applications (notably Q3 and Q4 2017) 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.

Note that this does not include SMEs who had an overdraft automatically renewed.

In Q1 2017, the question on the nature of the overdraft event was simplified to three core categories – the renewal of an existing facility, a first overdraft facility and thirdly any other new or increased overdraft facility that was not a first facility. As in previous waves, the most likely overdraft event was the renewal of an existing facility:

Nature of overdraft event Sought new/renewed facility Q3 16-Q4 17	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*872*	*90**	*280*	*354*	*148*
Renewing overdraft for same amount	59%	52%	68%	76%	84%
Applied for first ever overdraft facility	23%	29%	18%	5%	7%
New or increased overdraft facility but not first	17%	19%	14%	19%	9%

Q52 All SMEs seeking new/renewed overdraft facility

Amongst applicants with employees, the proportion renewing an existing facility was 70% and the proportion of first time applicants was 15% of applications made.

A quarter of applicants (23%) were seeking an overdraft for the very first time and this was more likely to be the case for smaller SMEs. 36% of these first time applicants were Starts. The proportion of first time overdraft applicants that were Starts declined somewhat between the 18 months to Q4 2012 and the 18 months to Q4 2016 (48% to 31%). The current figure to Q4 2017 showed a slight increase (36%).

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, using the new question definition.

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

SMEs seeking new/ renewed facility

By application date	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	Q1* 17	Q2* 17	Q3* 17
Unweighted base:	*334*	*295*	*259*	*247*	*248*	*149*	*135*	*200*	*246*	*159*	*79**
Renewing overdraft for same amount	53%	53%	53%	37%	50%	42%	61%	58%	58%	55%	74%
Applied for first ever overdraft facility	20%	14%	21%	32%	18%	23%	21%	29%	29%	21%	7%
New or increased overdraft facility but not first	23%	28%	24%	29%	31%	35%	17%	13%	13%	24%	19%

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

4 in 10 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 was £5,000 for the 18 months to Q4 2017, ranging from £4,000 amongst 0 employee SMEs seeking a facility to £71,000 for those with 50-249 employees:

Amount initially sought, where stated Sought new/renewed facility Q3 16-Q4 17	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*770*	*83**	*248*	*310*	*129*
Less than £5,000	41%	53%	27%	4%	3%
£5,000 – £9,999	21%	25%	19%	6%	10%
£10,000 – £24,999	21%	16%	30%	25%	17%
£25,000 – £99,999	13%	6%	20%	40%	22%
£100,000+	4%	*	4%	26%	48%
Median amount sought	*£5k*	*£4k*	*£9k*	*£36k*	*£71k*

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. 4 in 10 (41%) mentioned having a safety net, also with little difference by size. As previously seen, overdrafts were much more likely to have been sought to support UK growth (15%) than expansion overseas (2%):

Purpose of overdraft sought Sought new/renewed facility Q3 16-Q4 17	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*872*	*90**	*280*	*354*	*148*
Working capital for day to day cash flow	84%	87%	79%	79%	81%
Safety net – just in case	41%	43%	39%	40%	46%
Short term funding gap	29%	31%	26%	25%	27%
Fund growth in UK	15%	16%	12%	13%	13%
Buy fixed assets	8%	5%	13%	9%	7%
Fund expansion overseas	2%	2%	1%	2%	*

Q55 All SMEs seeking new/renewed overdraft facility

From Q1 2017, SMEs have been able to nominate “to hire staff” as the reason for seeking an overdraft facility. 3% of those interviewed in 2017 gave this as a reason and more detail will be provided as sample sizes increase.

Analysis by risk rating showed that:

- Working capital remained the main reason for seeking an overdraft across all external risk ratings (from 76% of those with an average risk rating to 90% of those with a worse than average risk rating)
- Those with an average risk rating were more likely to mention a safety net (49% v 22% of those with a minimal risk rating) or funding UK growth (22% v 9-12% for other ratings)
- Those with a minimal risk rating were less likely to mention a short term funding gap (18% compared to 23-32% of those with 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	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	Q1* 17	Q2* 17	Q3* 17
Unweighted base:	*334*	*295*	*259*	*247*	*248*	*149*	*135*	*200*	*246*	*159*	*79**
Working capital for day to day cash flow	85%	85%	83%	89%	78%	83%	86%	87%	83%	86%	69%
Safety net – just in case	42%	53%	60%	38%	34%	29%	48%	44%	38%	42%	35%
Short term funding gap	27%	34%	38%	34%	18%	30%	38%	25%	23%	35%	36%
Fund growth in UK	16%	22%	27%	23%	18%	21%	6%	11%	6%	31%	16%
Buy fixed assets	7%	14%	20%	8%	7%	18%	11%	4%	3%	11%	23%
Fund growth overseas	4%	3%	*	3%	*	1%	-	*	3%	-	7%
To hire staff (from Q1 17)	-	-	-	-	-	-	-	-	1%	2%	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

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 2017). The proportion looking for a safety net was also stable at around 4 in 10 (41% in the latest period to Q4 2017).

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 16-Q4 17
Applied to main bank	Almost all overdraft applications (99% in the 18 months to Q4 2017) were made to the SME's main bank. This varied little by size of applicant (98-100%).
Application made in a personal name	10% of overdraft applications made in the 18 months to Q4 2017 were in a personal name. This was much more common amongst smaller applicants (13% of applicants with 0 employees, compared to 6% of applicants with 1-9 employees, 3% 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 20% were in a personal name for the 18 months to Q4 2017).
How many banks were applied to	99% of those who had applied in the 18 months to Q4 2017 said that they had applied to one bank. Those with 50-249 employees were the most likely to have applied to more than one provider (5%).
Advice sought	The proportion of SMEs seeking advice before they applied for an overdraft has remained consistently low (8% amongst those applying in the 18 months to Q4 2017), and this has changed relatively little over time (it was 10% for 2013 as a whole). Advice was more likely to have been sought by larger applicants: 7% of applicants with 0 employees sought advice, compared to 11% of applicants with 1-9 employees, 9% of applicants with 10-49 and 16% of applicants with 50-249 employees
Analysis by size of facility	Those seeking a facility of more than £100,000 were more likely than other applicants to have applied to several banks (4%), and less likely to have applied to their main bank (96%) but most did just apply to their main bank.

Overdraft applications – a sector summary

Analysis by sector is restricted due to small sample sizes, notably for Health and Hotels and Restaurants. The table below shows indicative data for the overall purpose of the overdraft facility sought but no further detail will be provided until sample sizes are more robust:

Overdraft activity

Sought new/ renewed facility Q3 16-Q4 17	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	*71**	*77**	*158*	*112*	*47**	*90**	*169*	*48**	*100*
Renewing overdraft for same amount	75%	75%	64%	64%	73%	55%	54%	22%	58%
Applied for first ever overdraft facility	3%	8%	21%	24%	10%	22%	34%	9%	27%
New or increased overdraft facility but not first	23%	17%	16%	12%	17%	23%	11%	69%	14%

Q52 All SMEs seeking new/renewed overdraft facility

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 2016 to Q4 2017. Within this period, final data is now available for applications made up to Q4 2016. Data on applications in the more recent quarters (especially the second half of 2017) 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.

There have been fewer loan events reported than overdraft events. As a result, even for applications across 18 months to Q4 2017, 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. For this report, the 0 and 1-9 employee bands have been merged as there were too few 0 employee applicants to report separately.

In Q1 2017, the nature of loan event question was simplified to three core categories – the renewal of an existing facility, a first loan facility and thirdly any other new or increased loan facility that was not a first facility. Loan applications were more likely than overdraft applications to be for new funding (the first two rows of the table below), with 76% of loan applicants seeking a new loan (compared to 40% for overdrafts), including 36% saying this was their first ever loan (compared to 23% for overdrafts):

Nature of loan event Sought new/renewed facility Q3 16-Q4 17	Total	0-9 emp	10-49 emps	50-249 emps
Unweighted base:	*462*	*171*	*216*	*75**
New loan but not first	40%	39%	48%	57%
First loan	36%	39%	18%	1%
Renewed existing loan facility	24%	22%	34%	42%

Q149 All SMEs seeking new/renewed loan facility.

As the table above shows, a first loan was more likely to be the case for smaller SMEs that had applied, and 33% of first time applicants were Starts. The proportion of first time loan applicants who were Starts has varied over time, from 46% for the 18 months to Q4 2013 to 34% for the 18 months to Q4 2015 and 33% in the current 18 month period.

Excluding applicants with 0 employees reduced the proportion of first time applications from 36% to 27%.

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, with most applications for new facilities, shown in the first two rows of the table. Note that base sizes for some quarters are below the normal threshold for the Monitor but are shown to provide at least indicative data for all quarters:

SMEs seeking new/ renewed facility **By application date**	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	Q1* 17	Q2* 17
Unweighted base:	***191***	***158***	***142***	***160***	***117***	***85****	***72****	***124***	***115***	***78****
New loan but not first	38%	39%	46%	38%	62%	56%	36%	46%	48%	29%
First loan	28%	32%	25%	20%	32%	33%	55%	21%	20%	54%
Renewed existing loan facility	25%	10%	8%	8%	5%	11%	9%	32%	32%	17%

Q149 All SMEs seeking new/renewed loan facility. * 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 (14% of loans sought were for less than £5,000 compared to 41% of overdrafts sought). The median loan amount sought was £17,000. Sample sizes limit the amount of analysis possible over time, but overall the majority of loans sought have been for less than £100,000:

Amount initially sought, where stated Sought new/renewed facility Q3 16-Q4 17	Total	0-9 emps	10-49 emps	50-249 emps
Unweighted base:	*386*	*143*	*181*	*62**
Less than £5,000	14%	15%	8%	-
£5,000 – £9,999	20%	23%	4%	-
£10,000 – £24,999	25%	28%	10%	10%
£25,000 – £99,999	17%	16%	30%	29%
£100,000+	23%	19%	48%	60%
Median amount sought	*£17k*	*£16k*	*£78k*	*£155k*

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 2017 are shown below, with 7 in 10 applicants (72%) seeking all the funding they required from the bank:

Proportion of funding sought from bank Sought new/renewed facility Q3 16-Q4 17	Total	0-9 emps	10-49 emps	50-249 emps
Unweighted base:	*435*	*160*	*202*	*73**
Half or less of total sum required	8%	8%	9%	12%
51-75% of sum required	10%	11%	8%	10%
76-99% of sum required	10%	10%	4%	4%
All of sum required sought from bank	72%	71%	78%	73%

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 showed that in each period, the majority of applicants sought all the funding they required from the bank, with typically little difference by size of applicant:

Proportion seeking all funding from the bank Over time – all seeking loan Row percentages	H2 2013	H1 2014	H2 2014	H1 2015	H2 2015	H1 2016	H2 2016	H1* 2017
All loan applicants	75%	76%	75%	60%	67%	73%	72%	77%
All applicants with 0-9 employees	75%	77%	76%	60%	67%	73%	73%	75%
All applicants with 10-249 employees	74%	67%	68%	60%	66%	75%	70%	85%

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

Overall, these funds were likely to have been sought either to fund growth in the UK (25%) or to buy fixed assets (22%), with clear variation by size of applicant:

Purpose of loan Sought new/renewed facility Q3 16-Q4 17	Total	0-9 emps	10-49 emps	50-249 emps
Unweighted base:	*454*	*167*	*212*	*75**
Fund expansion in UK	25%	25%	25%	39%
Buy fixed assets	22%	21%	27%	27%
Buy motor vehicles	20%	22%	7%	14%
Develop new products/services	13%	12%	17%	13%
Buy premises	20%	18%	32%	30%
Replace other funding	12%	11%	12%	16%
Fund expansion overseas	1%	1%	3%	-
Take over another business	1%	1%	2%	8%

Q150 All SMEs seeking new/renewed loan facility excluding DK/refused

The table below shows the most common reasons for seeking a new loan by application date up to Q2 2017, the latest for which indicative base sizes are available. Expansion in the UK remained the most common reason for seeking funds, while the increase in loans for the purchase of fixed assets seen in the first half of 2016 does not appear to have been maintained:

Purpose of loan

SMEs seeking new/ renewed facility – by application date	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	Q1* 17	Q2* 17
Unweighted base:	*191*	*158*	*142*	*160*	*113*	*85**	*69**	*123*	*112*	*78**
Fund expansion in UK	32%	21%	20%	28%	39%	48%	34%	16%	19%	23%
Premises	29%	27%	12%	20%	15%	11%	5%	27%	17%	19%
Buy fixed assets	11%	19%	18%	22%	46%	42%	33%	12%	26%	18%
Develop new products/services	17%	20%	30%	12%	27%	31%	7%	12%	11%	14%
Buy motor vehicles	13%	11%	29%	22%	27%	23%	29%	10%	21%	38%
Fund expansion overseas	1%	2%	1%	*	4%	*	*	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. The current proportion (to Q4 2017) was 25%, due to fewer such applications from Q4 2016 onwards.
- 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 and 22% currently. Almost half of the loans sought in the first half of 2016 were for this purpose but the proportion has been lower subsequently.

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 16-Q4 17
Applied to main bank	86% of loan applications were made to the SME's main bank, compared to 99% of overdraft applications. Loan applicants with 10-249 employees were somewhat more likely to go to their bank (90%) than smaller applicants (85%).
Application made in a personal name	20% of loan applications made in the 18 months to Q4 2017 were in a personal rather than a business name. This was more common amongst smaller applicants (22% of applicants with 0-9 employees applied in a personal name compared to 6% of larger applicants). Personal applications were also more common overall for loans than for overdrafts (where 10% 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. 20% of applicants had considered applying to more than one bank and, as reported below, 17% actually did so.
How many banks were applied to	83% of those who applied in the 18 months to Q4 2017 said that they had applied to one bank, somewhat lower than the 99% of overdraft applicants who only applied to one bank. Loan applicants with 10-249 employees were no more likely to apply to more than one bank (18%) than smaller applicants (17%)
Advice sought	A minority of loan applicants in the 18 months to Q4 2017 had sought external advice before applying (18%) but they remained more likely to have done so than overdraft applicants (8%).
Analysis by size of loan facility	Those seeking funding of £100,000 or more were likely to initially consider several providers (35% v 18%) and to go on to apply to more than one bank (32% v 16%). They were also more likely to seek advice (38% v 12%).

Loan applications – a sector summary

Analysis by sector is restricted due to small sample sizes, and all results should be treated with caution. The table below shows the overall purpose of the loan facility sought but no further detail will be provided until sample sizes are more robust:

Loan activity Sought new/ renewed facility Q3 16-Q4 17	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	*47**	*42**	*70**	*49**	*37**	*50**	*77**	*32**	*58**
New loan (not first)	49%	32%	62%	33%	30%	44%	27%	59%	45%
Applied for first ever loan	15%	35%	22%	39%	44%	50%	37%	28%	41%
Renewing loan for same amount	36%	33%	15%	28%	26%	6%	36%	13%	14%

Q149 All SMEs seeking new/renewed loan facility

9. 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

The overall success rate for all loans and overdrafts remained stable at 80% for applications made in the 18 months to Q4 2017. This maintained the improvement seen since the 18 months to Q4 2012 when 69% of applications were successful.

This is driven by consistently high success rates for renewed facilities. Success rates for applications for new money, and specifically first time applicants, were somewhat lower than previously seen:

- 97% of all renewal applications for loans and overdrafts in the 18 months to Q4 2017 were successful
- 63% of new money applications were successful, somewhat lower than the 69% success rate seen for new money applications in the 18 months to Q4 2016. It was though still higher than the 49% success rate recorded for the 18 months to Q4 2013
- Within the current success rate for new money applications, the success rate for those who have borrowed before is stable (78%). It is the success rate for first time applicants which has declined (currently 50% compared to 60% for applications in the 18 months to Q4 2015). First time applicant success rates do though remain above the 4 in 10 seen in the 18 months to both Q4 2012 and Q4 2013.

Overdraft applications remained more likely to be successful (85%) than loan applications (67%) in the 18 months to Q4 2017.

85% of overdraft applicants in the 18 months to Q4 2017 ended the process with a facility (76% were offered what they wanted and took it, 9% had their facility 'after issues'). 3% took other funding and 11% ended the process with no facility:

- This overall overdraft success rate remains stable (it was 86% for the 18 months to Q4 2015) and somewhat higher than the 74% success rate recorded for the 18 months to both Q4 2012 and Q4 2013
- 0 employee applicants remained less likely to be successful (81%) than those with employees (92-97%) but their success rates have improved over time (70% were successful in the 18 months to Q4 2012). Success rates have also improved for those with 1-9 employees (79% to 92%)
- Those with a better external risk rating were also more likely to have a facility (99% of those with a minimal risk rating compared to 80% of those with a worse than average risk rating)
- In the 18 months to Q4 2012, 36% of first time overdraft applicants were successful. This increased to 66% for the 18 months to Q4 2015 but is currently somewhat lower at 55%
- Including those overdrafts that were automatically renewed increases the current overdraft success rate from 85% to 95%.

67% of loan applicants in the 18 months to Q4 2017 ended the process with a facility (58% were offered what they wanted and took it, 9% had their facility 'after issues'). 7% took other funding and 26% ended the process with no facility:

- This overall loan success rate was somewhat lower than the 74% success rate for the 18 months to both Q4 2015 and Q4 2016. It was though somewhat higher than the 58% success rate recorded for the 18 months to both Q4 2012 and Q4 2013
- 0 employee applicants remained less likely to be successful (58%) with success rates increasing by size of applicant to 99% of those with 50-249 employees. Unlike smaller overdraft applicants where improved success rates have been maintained, success rates for 0 employee loan applicants improved to Q4 2016 (70%) and are now somewhat lower (58%)
- Those with a better external risk rating were also more likely to have a facility (89% of those with a minimal/low risk rating compared to 63% of those with an average/worse than average risk rating)
- In the 18 months to Q4 2012, 48% of first time loan applicants were successful. Unlike overdrafts, their success rate has varied relatively little over time with no clear pattern (45-55%) but is currently 41%.

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 2017 onwards remains interim.

5% of loan and 2% of overdraft applicants in the 18 months to Q4 2017 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.

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 so 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.

Application outcomes – an overview

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 5 columns is now complete and the data for the 18 months to Q4 2017 will be completed at the end of 2018.

The current position for the 18 months to Q4 2017 is that 80% of all loan and overdraft applications were successful. Renewals (97%) remained more likely to be successful than applications for new money (63%), and overdraft applications (85%) more likely to be successful than loans (67%):

% 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	Q3 15- Q4 16	Q3 16 – Q4 17*
All loans and overdrafts	**69%**	**68%**	**77%**	**82%**	**81%**	**80%**
Loans and overdrafts - New money	54%	49%	65%	70%	69%	63%
• *First time applicants*	*41%*	*39%*	*55%*	*60%*	*56%*	*50%*
• *Other new money*	*70%*	*69%*	*74%*	*77%*	*78%*	*78%*
Loans and overdrafts - Renewals	94%	96%	97%	100%	99%	97%
All overdrafts	74%	74%	83%	86%	84%	85%
All loans	59%	58%	66%	74%	74%	67%

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 increased over time to 82% for the 18 months to Q4 2015 and has been stable since. Renewals have always been likely to be successful, so the increase in overall success rate was due to new money applications, where success rates increased from 49% in the 18 months to Q4 2013 to 70% in the 18 months to Q4 2015 but were then somewhat lower in the current period (63%).

Amongst new money applicants, first time applicants have always been less likely to end the process with a facility than those who have borrowed before. Their success rate improved from 39% in the 18 months to Q4 2013 to 60% for the 18 months to Q4 2015, but then decreased to the current 50%. Success rates for other new money applications also increased over time, from 69% to 77%, and have remained stable since.

More detailed analysis of all Type 1 applications (i.e. loans and overdrafts combined) is provided at the end of this chapter. Before that analysis, the next section looks at the initial response from the bank to the application made, followed by 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 2016 to Q4 2017 (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 and 62% of loan applications was to offer the SME what it wanted. 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 16-Q4 17	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*853*	*88**	*269*	*351*	*145*
Offered what wanted	81%	77%	85%	90%	86%
Offered less than wanted	4%	4%	5%	3%	7%
Offered unfavourable terms & conditions	2%	1%	3%	3%	7%
Declined by bank	13%	18%	7%	4%	*

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

Initial response (Loan) Sought new/renewed facility Q3 16-Q4 17	Total	0-9 emps	10-49 emps	50-249 emps
Unweighted base:	*426*	*155*	*199*	*72**
Offered what wanted	62%	59%	81%	93%
Offered less than wanted	5%	5%	5%	4%
Offered unfavourable terms & conditions	5%	5%	6%	2%
Declined by bank	28%	31%	8%	-

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 16-Q4 17	
Applicants with employees	86% of applicants with employees were initially offered the overdraft they wanted and 71% the loan they wanted. Applicants with employees were less likely to have been declined at this stage – 6% of such overdraft applicants and 20% of loan applicants.
Applicants more likely to be offered what they wanted	Those applying to renew an existing facility: 97% were offered the overdraft they wanted, 78% the loan. Those with a minimal external risk rating: 88% were offered the overdraft they wanted, while 85% were offered the loan they wanted Those with a low external risk rating: 89% were offered the overdraft they wanted, while 84% were offered the loan they wanted
Applicants more likely to receive initial decline	Those applying for their first ever facility: 39% were initially declined for a first overdraft, 49% for a first loan. Those with a worse than average external risk rating: 45% were initially declined for a loan.

The table below looks at the initial response to overdraft applications over recent quarters by date of application. From the start of 2015 around 8 in 10 applicants were typically offered what they wanted:

Initial response to application

SMEs seeking new/ renewed overdraft facility By date of application	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	Q1* 17	Q2* 17	Q3* 17
Unweighted base (Overdraft):	*320*	*280*	*250*	*237*	*237*	*146*	*132*	*198*	*243*	*153*	*77**
Offered what wanted and took it	77%	72%	82%	74%	81%	79%	78%	77%	83%	81%	86%
Any issues (amount or T&C)	8%	12%	8%	13%	5%	3%	13%	7%	5%	4%	3%
Declined overdraft	15%	16%	10%	13%	14%	19%	9%	15%	11%	15%	11%

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. Data currently available for the first half of 2017 showed that the proportion offered what they wanted was somewhat lower than previously at 6 in 10 with around a third of applicants being declined:

Initial response to application:

SMEs seeking new/ renewed loan facility By date of application	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	Q1* 17	Q2* 17
Unweighted base (Loan)	*191*	*185*	*143*	*132*	*151*	*109*	*79**	*65**	*114*	*112*	*69**
Offered what wanted and took it	49%	66%	48%	69%	69%	50%	66%	61%	68%	59%	60%
Any issues (amount or T&C)	22%	18%	27%	10%	2%	18%	18%	3%	14%	4%	9%
Declined loan	29%	16%	25%	20%	28%	32%	17%	35%	19%	37%	31%

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

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 2016 to Q4 2017, 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. Three quarters of overdraft applicants (77%) and just over half of loan applicants (56%) were offered the facility they wanted and went on to take it with no issues:

Journey summary

All seeking facility Q3 16 – Q4 17	Overdraft	Loan
Unweighted base:	*853*	*426*
Initially offered what they wanted and went on to take the facility with no issues	77%	56%
Initially offered what they wanted, but had issues before they got facility	4%	4%
Had issues with the initial offer, and now have a facility after issues	5%	4%
Were initially turned down, but now have a facility after issues	2%	*
Had issues with the initial offer made so took alternative funding instead	2%	*
Were initially turned down, so took alternative funding instead	2%	8%
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	*	4%
Initially turned down and now have no facility at all	10%	20%

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

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 have been combined into the 'Had issues with offer' column below. Both this and the "Initially declined" group can provide only a qualitative assessment of applicant demographics:

Profile of overdraft applicants Sought new/renewed facility Q3 16-Q4 17	All with response	Offered what wanted	Had issues with offer	Initially declined
Unweighted base:	*872*	*750*	*57**	*46**
No employees	59%	56%	50%	82%
Have employees	41%	44%	50%	18%
Starts	14%	9%	35%	25%
Trading 2-9 years	29%	26%	33%	46%
Trading 10 years+	57%	64%	32%	29%
Minimal/low risk rating	26%	29%	27%	10%
Average/worse than average risk rating	74%	71%	73%	90%
Renewing existing facility	59%	73%	20%	2%
Applying for first ever overdraft	23%	12%	61%	64%
Applying for new overdraft (not first - new defn)	17%	15%	18%	34%

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 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 overdraft applications made in the 18 months Q3 2016 to Q4 2017 (and reported to date), is what happened after the bank's initial response to the application and any subsequent issues. With the exception of those offered what they wanted, base sizes for these groups are very limited and only a qualitative analysis is currently possible:

Initial offer	Subsequent events – all seeking overdraft Q3 2016 to Q4 2017
Offered what wanted (81% of applicants) Q64-65	95% 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 to be made, supplying further information, or a delay speaking to their RM. Of the 5% experiencing a delay, 4% took the facility and 1% decided not to
Issue: offered less than wanted (4% of applicants) Q87-95	31 respondents are in this section, so the information is qualitative at best. Almost all were given a reason for being offered less than they wanted. The main reasons given were: • Credit history issues • A need for more equity in the business There were also a few mentions of security being a barrier. 21 respondents were interviewed in 2017 and had applied for an overdraft between October 2016 and December 2017. 2 said they were offered a referral, with 1 agreeing (but then managing to agree a facility at the bank) and 1 refusing (as they did not think it would change anything and would be too much hassle). At the end of the process: • Just over half had accepted the amount originally offered (almost all at the original bank) • Around 1 in 6 managed to negotiate a higher facility at the original bank (none at another bank) • Around 1 in 4 took some other form of funding • Very few ended the process with no facility at all.

Continued

Continued

Issue: offered unfavourable T&C (2% of applicants) Q96-97	26 respondents are in this section, so the information is qualitative at best. The unfavourable terms and conditions were most likely to relate to: • the proposed fee – 5 in 10 of these applicants • security (the amount, type sought or cost of putting it in place) –4 in 10 • the proposed interest rate – 1 in 10 21 respondents interviewed in 2017 had applied for an overdraft between October 2016 and December 2017. 5 of them said that the bank had offered to refer their application: • 2 agreed to be referred (1 subsequently agreed an overdraft with the same bank and 1 took other funding from the same bank). • 3 refused the referral (as they did not think it would change anything, or was too much hassle), with 2 ending the process with an overdraft at the original bank and one ending the process with no facility At the end of the process: • 4 in 10 applicants initially offered what they saw as unfavourable terms and conditions said they had accepted the deal they were offered (all at the original bank) • A quarter managed to negotiate a better deal than the one originally offered – almost all at the bank they had originally applied to • Less than 5% took other funding (typically funding in a personal name) • Around a quarter 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 (13% of all applicants – 46 respondents, so the results should be treated as qualitative):

Initially declined	**Subsequent events – all seeking overdraft Q3 2016 to Q4 2017**
Reasons for decline Q70	Those declined were asked for the reasons behind the initial decline. A quarter of those initially declined said that they had not been given a reason (excluding those who could not remember the reasons given). The main reasons given were: • A quarter said the decline related to their personal and/or business credit history • Around 1 in 10 mentioned each of: asking for too much, issues around security and/or the bank not being happy with their financial forecasts
Advice and alternatives Q71a	Those initially declined were asked which of a series of events had occurred after that decline: • A third said they had been made aware of the appeals process (almost all by the bank) • A quarter went to external sources of help and advice (most sought it themselves) • Around 1 in 10 were offered an alternative form of finance by the bank Just over 4 in 10 said that none of these events occurred. 38 respondents were interviewed in 2017 and had applied between October 2016 and December 2017.2 of them said that the bank had offered to refer their application. Both agreed to the referral but went on to say that they had ended the application process with no facility.

Initially declined	Subsequent events – all seeking overdraft Q3 2016 to Q4 2017
Appeals Q71a-75	From April 2011, an appeals procedure has been in operation. A third of applicants initially declined Q3 2016 to Q4 2017 said they were made aware of the appeals process, most by their bank. On limited base sizes, there were indications that awareness of the appeals process was stable: amongst those applying in 2012, 13% said that they were made aware of the appeals process, increasing to 22% by 2014. Awareness of appeals was then broadly unchanged for 2015 and 2016, with initial data for 2017 suggesting a third were aware of the appeals process. Since Q1 2016, 14 applicants initially turned down for an overdraft reported that they were made aware of the appeals process. 12 did not appeal, because they did not think it would change anything, they were busy keeping the business going, and/or they accepted the banks decision. 2 appealed: in 1 case the bank changed its mind and the other had not heard at the time of interview
Outcome Q81-84	At the end of this period: • 8 in 10 applicants initially declined had no funding at all. • 1 in 10 secured alternative funding. • 1 in 10 managed to secure an overdraft with the original bank.

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 2016 to Q4 2017, irrespective of when they were interviewed.

Three quarters of these applicants (76%) had the overdraft facility they wanted, and a further 9% secured an overdraft after having issues relating to the amount or the terms and conditions of the bank's offer. 11% 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 16-Q4 17	All overdraft Type 1 applicants
Unweighted base:	*853*
Offered what wanted and took it	76%
Took overdraft after issues	9%
Have overdraft (any)	*85%*
Took another form of funding	3%
No facility	11%

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 from Q3 2011 onwards.

This table shows a consistent success rate over recent 18 month periods for overdraft applicants of 84-85% which is higher than in earlier periods (74% of overdraft applicants were successful in the 18 months to Q4 2013). That said, the current success rate for first time applicants, at 55%, was somewhat lower than the 64-66% reported during 2014 and 2015.

% of applicants ending process with overdraft facility

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	Q3 15 Q4 16	Q1 16 Q2 17*	Q3 16 Q4 17*
All SMEs	**74%**	**74%**	**83%**	**86%**	**85%**	**84%**	**85%**
0 employee	70%	68%	78%	81%	80%	79%	81%
1-9 employees	79%	79%	88%	91%	91%	91%	92%
10-49 employees	90%	91%	93%	96%	96%	94%	94%
50-249 employees	95%	96%	95%	97%	99%	99%	97%
Minimal external risk rating	97%	96%	95%	98%	98%	98%	99%
Low external risk rating	86%	91%	93%	93%	89%	93%	91%
Average external risk rating	84%	83%	92%	92%	90%	87%	87%
Worse than average external risk rating	66%	59%	72%	81%	78%	77%	80%
Agriculture	83%	90%	93%	95%	97%	92%	87%
Manufacturing	83%	71%	76%	89%	94%	94%	93%
Construction	63%	75%	83%	70%	55%	67%	78%
Wholesale/Retail	79%	69%	78%	86%	89%	85%	92%
Hotels & Restaurants	68%	65%	82%	91%	91%	94%	97%
Transport	66%	53%	67%	87%	91%	78%	74%
Property/Business Services etc.	75%	71%	82%	93%	85%	85%	84%
Health	83%	87%	94%	82%	97%	96%	98%
Other Community	80%	94%	96%	87%	96%	98%	90%
First time applicants	36%	34%	54%	66%	59%	56%	55%
Other new overdraft facility**	81%	78%	77%	85%	79%	76%	78%
Renewals	96%	98%	99%	100%	99%	99%	99%

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

** slight definition change for results from Q1 2015 onwards

Overdraft final outcome – applications made Q3 2016 to Q4 2017

Overdraft applicants with employees remained the most likely to have been offered, and taken, the overdraft they wanted and so were more likely to end the process with a facility. Those with 0 employees remained more likely to end the process with no facility, albeit 81% were successful:

Final outcome (Overdraft) Sought new/renewed facility Q3 16-Q4 17	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*853*	*88**	*269*	*351*	*145*
Offered what wanted and took it	76%	71%	84%	86%	79%
Took overdraft after issues	9%	10%	8%	8%	18%
Have overdraft (any)	*85%*	*81%*	*92%*	*94%*	*97%*
Took another form of funding	3%	5%	1%	1%	-
No facility	11%	15%	7%	4%	4%

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

Amongst applicants with employees, 92% ended the process with an overdraft facility (84% offered what they wanted and 8% had an overdraft after issues). 6% 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 16-Q4 17	Total	Min	Low	Average	Worse/ Avge
Unweighted base:	*853*	*138*	*296*	*207*	*156*
Offered what wanted and took it	76%	88%	88%	75%	71%
Took overdraft after issues	9%	11%	3%	12%	9%
Have overdraft (any)	*85%*	*99%*	*91%*	*87%*	*80%*
Took another form of funding	3%	-	2%	-	8%
No facility	11%	1%	7%	13%	12%

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

On limited base sizes, around 9 in 10 applicants were successful in each sector with the exception of Transport, Construction and Property/Business services:

Final outcome (Overdraft) Sought new/renewed facility Q3 16–Q4 17	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	*71**	*75**	*153*	*110*	*47**	*87**	*168*	*44**	*98**
Offered what wanted and took it	82%	75%	73%	86%	79%	64%	74%	69%	88%
Took overdraft after issues	5%	18%	5%	6%	18%	10%	10%	29%	2%
Have overdraft (any)	*87%*	*93%*	*78%*	*92%*	*97%*	*74%*	*84%*	*98%*	*90%*
Took another form of funding	2%	2%	10%	-	1%	9%	*	-	1%
No facility	11%	5%	11%	8%	2%	17%	15%	2%	9%

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

The table below uses the simplified overdraft codes described in the previous chapter. First time applicants remained more likely than others to end the process with no facility (34%). The current success rate for first time applicants, at 55%, was lower than the 66% seen during 2014-15 but remained higher than the success rates previously seen for these applicants (in the 18 months to Q4 2013, 34% of FTAs were successful):

Final outcome (Overdraft) Sought new/renewed facility Q3 16-Q4 17	Total	1st overdraft	Other overdraft	Renew overdraft
Unweighted base:	*853*	*86**	*142*	*625*
Offered what wanted and took it	76%	43%	62%	93%
Took overdraft after issues	9%	12%	16%	6%
Have overdraft (any)	*85%*	*55%*	*78%*	*99%*
Took another form of funding	3%	10%	2%	1%
No facility	11%	34%	20%	*

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

The final piece of combined analysis for applications made in the 18 months to Q4 2017 shows the outcome by the age of the business (on somewhat limited base sizes). Those trading for more than 5 years remained more likely to end the process with an overdraft facility:

Final outcome (Overdraft)

Sought new/renewed facility Q3 16-Q4 17 By age of business	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15+ yrs
Unweighted base:	*39**	*62**	*98**	*151*	*503*
Offered what wanted and took it	50%	63%	77%	85%	86%
Took overdraft after issues	16%	7%	12%	10%	6%
Have overdraft (any)	***66%***	***70%***	***89%***	***95%***	***92%***
Took another form of funding	9%	8%	-	1%	2%
No facility	25%	22%	11%	3%	5%

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

The success rate for older businesses is likely to have been impacted by the type of application being made. 54% of the Starts in the table above and 48% of applicants trading for 2-5 years were applying for their first overdraft, where success rates were typically lower. The older applicants were much more likely to be renewing an overdraft (80% of those trading more than 15 years), where success rates were typically higher.

Over time, 4 in 10 overdraft applications have been for £5,000 or less, a further 4 in 10 applications have been for £5,000 to £25,000 with the remainder, around 2 in 10, for more than £25,000. In the most recent quarters however, fewer overdrafts have been for less than £5,000 (3 in 10) and more for £25,000 or more (3 in 10).

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

- The outcome for those applying for larger overdrafts (£25,000+) remained relatively consistent over time, and 90% or more of such applicants 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 2014and 2015 to around 7 in 10, and increased again to three-quarters of such applicants in 2016 and 2017.
- 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%. Since then success rates have increased back to the 90% level previously seen.

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 2015 8 out of 10 or more overdraft applicants have ended the process with a facility:

Final outcome (Overdraft) SMEs seeking new/ renewed facility By date of application	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	Q1* 17	Q2* 17	Q3* 17
Unweighted base:	*320*	*280*	*250*	*237*	*237*	*146*	*132*	*198*	*243*	*153*	*77**
Offered what wanted and took it	77%	71%	80%	72%	81%	79%	71%	76%	79%	76%	80%
Took overdraft after issues	8%	9%	9%	12%	4%	3%	7%	8%	9%	9%	8%
Have overdraft (any)	*85%*	*80%*	*89%*	*84%*	*85%*	*82%*	*78%*	*84%*	*88%*	*85%*	*88%*
Took other funding	1%	6%	3%	*	8%	4%	14%	1%	*	5%	1%
No facility	14%	14%	8%	16%	7%	14%	9%	15%	12%	10%	11%

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

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 affected the outcome of applications.

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.

In 2016 and the first half of 2017, the model predicted success rates in the mid-80s rather than the high 80s that had typically been predicted in 2015:

Final outcome (Overdraft)

SMEs seeking new/ renewed facility

By date of application	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	Q1* 17	Q2* 17	Q3* 17
Unweighted base:	*320*	*280*	*250*	*237*	*237*	*146*	*132*	*198*	*243*	*153*	*77**
Have overdraft (any)	85%	80%	89%	84%	85%	82%	78%	84%	88%	85%	88%
Predicted success rate	*86%*	*87%*	*86%*	*84%*	*84%*	*80%*	*85%*	*84%*	*83%*	*84%*	*91%*
Difference	-1	-7	+3	-	+1	+2	-7	-	+5	+1	-3

Final outcome of overdraft application by date of application

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

- The higher success rates predicted for Q1 to Q3 2015 were achieved in Q1 and Q3 but not in Q2
- The somewhat lower success rates predicted for 2016 were achieved, with the exception of Q3
- In the three quarters where data is available for 2017, the achieved success rate moved from ahead of the predicted success rate to slightly behind it.

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 increased from 85% to 95%:

Final outcome (Overdraft) Sought new/renewed facility Q3 16-Q4 17	Type 1 events	Type 1 + automatic renewal
Unweighted base:	***853***	***2461***
Offered what wanted and took it	76%	22%
Took overdraft after issues	9%	2%
Automatic renewal	-	*71%*
Have overdraft (any)	***85%***	***95%***
Took another form of funding	3%	1%
No facility	11%	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 2016 and Q4 2017, 10% said that the facility was renewed in a personal capacity. As with Type 1 events, such renewals were typically for 0 employee SMEs (80% of those automatically renewing a personal facility).

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. There continued to be differences between the demographic profiles of loan applicants receiving each initial response from the bank and these are summarised in the table below.

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 but both this and the "initially declined" data should be considered as qualitative:

Profile of loan applicants Sought new/renewed facility Q3 16-Q4 17	All with response	Offered what wanted	Had issues with offer	Initially declined
Unweighted base:	*426*	*332*	*38**	*56**
No employees	53%	46%	59%	66%
Have employees	47%	54%	41%	34%
Starts	19%	7%	2%	51%
Trading 2-9 years	22%	25%	11%	20%
Trading 10 years+	59%	68%	87%	29%
Minimal/low risk rating	27%	36%	22%	8%
Average/worse than average risk rating	73%	64%	78%	92%
Renewing existing facility	24%	30%	20%	11%
Applying for first ever loan	36%	24%	36%	63%
Applying for new loan but not first	41%	46%	45%	26%

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 (half of them were Starts), with an average or worse than average risk rating. Almost all were seeking new funding and 6 in 10 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 2016 to Q4 2017 (and reported to date), is what happened after the bank's initial response. With the exception of those offered what they wanted, base sizes for these groups are very limited and only a qualitative analysis is currently possible:

Initial bank response	Subsequent events – all seeking loan Q3 2016 to Q4 2017
Offered what wanted (62% of applicants) Q159-164	94% of those offered what they wanted went on to take the loan with no problems. 6% took the loan after some issues (typically having to supply more information). Almost all took the full amount they had originally asked for.
Issue: Offered less than wanted (5% of applicants) Q182-190	Note that there are just 17 respondents for this section, and so results are qualitative at best. All applicants said that they had been given a reason for being offered less than they wanted. The main reasons given were: • 6 in 10 said they had applied for too much • 3 in 10 mentioned security issues 14 respondents were interviewed in 2017 and had applied for a loan between October 2016 and December 2017. 3 were offered the option of referral: • 1 agreed to be referred but ended the process with no facility • 2 declined to be referred, with 1 taking a loan with the original bank and 1 ending the process with no facility At the end of the process: • 4 in 10 accepted the lower amount offered (mainly from the original bank) • 6 in 10 ended the process with no facility.

Continued

Continued

Issue: Offered unfavourable T&C (5% of applicants) Q191-195	Note that there are just 21 respondents for this section, and so results are qualitative at best. The unfavourable terms (excluding those who didn't know) typically related to issues around security (level, type requested and/or cost), the proposed interest rate or the fee. 18 respondents were interviewed in 2017 and had applied for a loan between October 2016 and December 2017 with 1 offered the opportunity for a referral but declining (they found the funding elsewhere) and 17 saying that the bank had not offered to refer their application. By the end of the process around 5 in 10 had accepted the deal offered and 4 in 10 had no facility. The remainder had either found a better deal or taken another form of funding.

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 (28% of applicants – 52 respondents so only a qualitative analysis is possible).

Initially declined	Subsequent events – all seeking loan Q3 2016 to Q4 2017
Reasons for decline Q165	1 in 6 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. • 2 in 10 mentioned issues around security. • There were other mentions of a weak balance sheet or the bank not being satisfied with forecasts
Advice and alternatives Q165b	Those initially declined were asked which of a series of events had occurred after that decline: • A quarter went to external sources of help and advice (most self-referred). • Less than 5% were offered an alternative form of finance by the bank, or said they were made aware of the appeals process. • Two thirds said that none of these events occurred (in line with those initially declined for an overdraft). 42 respondents were interviewed in 2017 and had applied for a loan between October 2016 and December 2017. 3 said they were offered the option of a referral, and 2 agreed to be referred but both went on to say that they ended the process with no facility.

Initially declined	Subsequent events – all seeking loan Q3 2016 to Q4 2017
Appeals Q168-170	From April 2011, an appeals procedure was introduced. Awareness of the appeals system has varied between 6% and 14% since 2012 – but almost none of the loan applicants in 2017 were aware of the system (1%). Of all loan applications reported on the Monitor in this period 3 SMEs were made aware of the appeals process having initially been declined and none of them appealed, as they felt it was too much hassle, or didn't think it would have changed anything.
Outcome Q176	At the end of this period: • Three quarters of those initially declined did not have a facility at all • Most of the rest had secured alternative funding

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 a loan application and had received a response for a new or renewed facility during the most recent 18 month period of Q3 2016 to Q4 2017, irrespective of when they were interviewed.

Two thirds (67%) of loan applicants had a loan facility. 26% of applicants ended the process with no facility.

Final outcome (Loan) Sought new/renewed facility Q3 16-Q4 17	All loan Type 1 applicants
Unweighted base:	*426*
Offered what wanted and took it	58%
Took loan after issues	9%
Have loan (any)	*67%*
Took another form of funding	7%
No facility	26%

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 2011, by key demographics.

Over the period shown in the table loan success rates improved to around three quarters of applicants for the 18 months to Q4 2015 but then declined slightly (to 67% in the current period). This was due primarily to fewer 0 employee SMEs being successful, together with those applying for their first loan.

Please note that results for the sectors in particular should be treated as indicative due to small sample sizes (all <60).

% of applicants ending process with loan facility

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	Q3 15 Q4 16	Q1 16 Q2 17*	Q3 16 Q4 17*
All SMEs	**58%**	**58%**	**66%**	**74%**	**74%**	**71%**	**67%**
0 employee	52%	52%	59%	68%	70%	65%	58%
1-9 employees	63%	61%	72%	78%	75%	73%	74%
10-49 employees	80%	85%	87%	91%	93%	91%	88%
50-249 employees	91%	87%	94%	96%	99%	100%	99%
Minimal external risk rating	89%	82%	80%	98%	92%	91%	88%
Low external risk rating	70%	78%	85%	88%	95%	90%	90%
Average external risk rating	61%	63%	74%	84%	88%	81%	72%
Worse than average external risk rating	54%	46%	52%	53%	61%	60%	54%
Agriculture	78%	86%	86%	94%	88%	75%	64%
Manufacturing	60%	67%	83%	60%	61%	84%	68%
Construction	41%	56%	58%	63%	58%	69%	88%
Wholesale/Retail	66%	47%	63%	77%	92%	77%	62%
Hotels & Restaurants	66%	55%	55%	71%	66%	66%	77%
Transport	58%	42%	48%	47%	52%	42%	43%
Property/Business Services etc.	53%	58%	63%	87%	82%	79%	61%
Health	71%	57%	76%	88%	85%	82%	97%
Other Community	57%	62%	72%	71%	78%	71%	84%
First time applicants	48%	45%	55%	51%	51%	53%	41%
Other new loan facility**	61%	60%	71%	86%	80%	78%	79%
Renewals	82%	89%	76%	96%	96%	87%	85%

All SMEs applying for a loan in the period specified, base size varies by category CARE re SMALL base sizes and interim data. * indicates interim results for that period. ** slight definition change for results from Q1 2015 onwards

Final outcome – loan applications made Q3 2016 to Q4 2017

Smaller loan applicants remained less likely to end the process with a facility. Almost all 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 16-Q4 17	Total	0-9 emps	10-49 emps	50-249 emps
Unweighted base:	*426*	*155*	*199*	*72**
Offered what wanted and took it	58%	55%	75%	88%
Took loan after issues	9%	9%	13%	11%
Have loan (any)	*67%*	*64%*	*88%*	*99%*
Took another form of funding	7%	7%	5%	-
No facility	26%	28%	8%	*

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

Amongst loan applicants with employees, 78% ended the process with a loan (66% were offered what they wanted and 12% had the loan after issues). 20% ended the process with no loan facility.

Current base sizes preclude a full analysis by risk rating. As the table below shows, a quarter of those with an average or worse than average risk rating ended the process with no loan facility:

Final outcome (Loan) Sought new/renewed facility Q3 16-Q4 17	Total	Min / Low	Avge/Worse Avge
Unweighted base:	*426*	*235*	*171*
Offered what wanted and took it	58%	74%	55%
Took loan after issues	9%	15%	8%
Have loan (any)	*67%*	*89%*	*63%*
Took another form of funding	7%	1%	10%
No facility	26%	10%	27%

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

Smaller sample sizes do not currently allow analysis for detailed analysis by sector.

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 much more likely to end the process with no facility (48%). The success rate for first time applicants (41%) was somewhat lower than in recent 18 month periods when around half of such applicants were successful:

Final outcome (Loan) Sought new/renewed facility Q3 16-Q4 17	Total	1st loan	New loan	Renew loan
Unweighted base:	***426***	***78****	***197***	***151***
Offered what wanted and took it	58%	40%	64%	74%
Took loan after issues	9%	1%	15%	11%
Have loan (any)	***67%***	***41%***	***79%***	***85%***
Took another form of funding	7%	11%	5%	5%
No facility	26%	48%	16%	9%

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

As with overdrafts, there were clear differences in outcome for loan applications by age of business. On limited base sizes, those trading for up to 5 years were the least likely to have been successful (29%) compared to 8 in 10 or more of older SMEs. As well as reflecting their business age, this was also a reflection of what they were applying for – 6 in 10 of these youngest applicants were applying for their first loan, compared to 2 in 10 of those trading for more than 15 years:

Final outcome (Loan)

Sought new/renewed facility Q3 16-Q4 17 By age of business	Starts – 5 years	6-9 yrs	10-15 yrs	15+ yrs
Unweighted base:	*63**	*58**	*64**	*241*
Offered what wanted and took it	21%	82%	62%	71%
Took loan after issues	8%	7%	14%	9%
Have loan (any)	***29%***	***89%***	***76%***	***80%***
Took another form of funding	19%	9%	1%	1%
No facility	51%	3%	22%	19%

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

Most loans applied for (three-quarters in the current 18 month period) were for less than £100,000. Indicative data for applications reported to date for the second half of 2017 suggested that there were more larger applications in this period (a similar pattern was seen for overdrafts of £25,000 or more).

Success rates for loan applications below £100,000 increased from half of such applications in 2013 to 7 in 10 for those in 2015 and 2016. Success rates in 2017 to date were slightly lower at 6 in 10.

For applications above £100,000 success rates have typically been between 8 in 10 and 9 in 10, but were 6 in 10 for 2017 to date.

Final outcome by date of application – loans

The table below shows the outcome by recent quarter of application. Data has been included for Q2-Q3 of 2016 even though the sample sizes were below the normal 100 threshold, to provide at least indicative data for loans during 2016.

There was no clear pattern over time but success rates for applications made in 2015 were somewhat higher than those made in 2017 to date:

Final outcome (Loan)

SMEs seeking new/ renewed facility By date of application	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	Q1* 17	Q2* 17
Unweighted base:	*191*	*185*	*143*	*132*	*151*	*109*	*79**	*65**	*114*	*112*	*69**
Offered what wanted and took it	47%	62%	45%	67%	62%	48%	61%	53%	63%	56%	59%
Took loan after issues	9%	19%	28%	11%	9%	20%	22%	11%	14%	6%	9%
Have loan (any)	*56%*	*81%*	*73%*	*78%*	*71%*	*68%*	*83%*	*64%*	*77%*	*62%*	*68%*
Took another form of funding	10%	*	4%	5%	-	11%	*	1%	4%	15%	*
No facility	34%	19%	23%	17%	29%	22%	17%	35%	18%	23%	31%

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

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.

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 was quite varied during 2016 and 2017 (from 59% to 78%):

Final outcome (Loan) SMEs seeking new/ renewed facility By date of application	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	Q1* 17	Q2* 17
Unweighted base:	***191***	***185***	***143***	***132***	***151***	***109***	***79****	***65****	***114***	***112***	***69****
Have loan (any)	56%	81%	73%	78%	71%	68%	83%	64%	77%	62%	68%
Predicted success rate	*73%*	*80%*	*78%*	*76%*	*71%*	*71%*	*73%*	*59%*	*68%*	*78%*	*61%*
Difference	-17	+1	-5	+2	-	-3	+10	+5	+9	-16	+7

Final outcome of loan application by date of application

Analysis showed that neither the higher success rate reported for applications in Q2 2016 (83%) nor the lower rate for Q1 2017 (62%) were explained by a significant change in the profile of applicants, as the predicted success rates were not that different (73% and 78%). Across 2016 as a whole, success rates were typically better than predicted, but the picture for 2017 was more mixed.

Outcome analysis over time – all loan and overdraft applications

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 some 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). It provides both an immediate snapshot of the results of applications made in recent quarters and also a longer term view, across a series of 18 month periods ending in Q4 of each year.

The table shows that typically 8 in 10 of all applications made were successful but with slightly lower success rates (7 in 10) currently reported for Q3 2017 (as was the case in Q3 2016):

Final outcome (Overdraft+Loan)

SMEs seeking new/ renewed facility – by date of application	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	Q1* 17	Q2* 17	Q3* 17
Unweighted base:	*505*	*423*	*382*	*388*	*346*	*225*	*197*	*312*	*355*	*222*	*126*
Offered what wanted and took it	72%	64%	76%	68%	71%	73%	64%	72%	74%	72%	67%
Took facility after issues**	11%	14%	10%	11%	9%	9%	8%	10%	8%	9%	6%
Have facility (any)	***83%***	***78%***	***86%***	***79%***	***80%***	***82%***	***72%***	***82%***	***82%***	***81%***	***73%***
Took another form of funding	1%	6%	3%	*	9%	3%	9%	2%	4%	4%	9%
No facility	16%	16%	11%	21%	11%	15%	19%	16%	14%	15%	19%

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

Taking a longer term view of all applications shows that success rates increased from 69% for the 18 months to Q4 2012 to 82% for the 18 months to Q4 2015 and have been broadly stable since:

Final outcome – all applications Loans and Overdrafts combined All applications made	Q3 11 Q4 12	Q3 12 Q4 13	Q3 13 Q4 14	Q3 14 Q4 15	Q3 15 Q4 16	Q3 16 Q4 17*
Unweighted base of applications:	*4439*	*3564*	*3213*	*2672*	*1850*	*1279*
Offered what wanted and took it	56	53%	63%	70%	71%	71%
Took facility after issues	13	15%	14%	12%	10%	9%
Have facility (any)	***69%***	***68%***	***77%***	***82%***	***81%***	***80%***
Took another form of funding	5%	6%	6%	3%	4%	4%
No facility	26%	26%	18%	15%	15%	15%

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

80% of all loan and overdraft applications in the 18 months to Q4 2017 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 (97%) than those seeking new funds (63%):

Final outcome Loans and Overdrafts combined Q3 16 – Q4 17	New funds sought	Renewals sought
Unweighted base of applications:	*494*	*776*
Offered what wanted and took it	52%	90%
Took facility after issues	11%	7%
Have facility (any)	***63%***	***97%***
Took another form of funding	7%	2%
No facility	29%	1%

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

Further analysis of these two different types of application over recent quarters compares the outcome for renewals to the outcomes for new and specifically first time facilities, by date of application. Half of all applications in the current period 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	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	Q1* 17	Q2* 17	Q3* 17
Unweighted base of applications:	*246*	*193*	*168*	*152*	*161*	*109*	*102*	*180*	*230*	*137*	*80**
Offered what wanted and took it	95%	97%	97%	89%	98%	90%	86%	96%	85%	86%	95%
Took facility after issues	5%	3%	3%	11%	1%	8%	4%	4%	9%	13%	2%
Have facility (any)	*100%*	*100%*	*100%*	*100%*	*99%*	*98%*	*90%*	*100 %*	*94%*	*99%*	*97%*
Took another form of funding	-	-	-	-	1%	-	7%	-	3%	*	1%
No facility	*	-	*	-	*	2%	2%	1%	3%	1%	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

Taking a longer term view of renewals shows that in all periods, back to the 18 months to Q4 2012, the vast majority of applications had been successful with 9 in 10 offered the facility they wanted:

Final outcome – renewals

Loans and Overdrafts combined Renewals	Q3 11 Q4 12	Q3 12 Q4 13	Q3 13 Q4 14	Q3 14 Q4 15	Q3 15 Q4 16	Q3 16 Q4 17*
Unweighted base of applications:	*1859*	*1767*	*1430*	*1196*	*872*	*776*
Offered what wanted and took it	84%	81%	86%	93%	94%	90%
Took facility after issues	10%	15%	11%	6%	5%	7%
Have facility (any)	***94%***	***96%***	***97%***	***99%***	***99%***	***97%***
Took another form of funding	*	1%	1%	*	1%	2%
No facility	5%	3%	2%	*	1%	1%

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

Turning now to the final outcome for applications for **new** funds (whether first time applicants or not) made over recent quarters, shown in the table below. There was variability by quarter, with around 3 in 10 of the most recent applicants ending the process with no facility:

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

By date of application	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	Q1* 17	Q2* 17
Unweighted base of applications:	*264*	*233*	*205*	*182*	*201*	*174*	*106*	*90**	*128*	*125*	*85**
Offered what wanted and took it	59%	55%	37%	61%	59%	52%	68%	48%	47%	61%	59%
Took facility after issues	12%	10%	21%	13%	11%	13%	5%	11%	16%	7%	6%
Have facility (any)	***71%***	***65%***	***58%***	***74%***	***70%***	***65%***	***73%***	***59%***	***63%***	***68%***	***65%***
Took another form of funding	10%	2%	11%	6%	*	15%	5%	10%	4%	5%	8%
No facility	20%	32%	31%	20%	30%	20%	23%	31%	32%	28%	28%

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

Taking a longer term view of applications for new money shows that success rates increased from around 5 in 10 in the 18 months to Q4 2013 to 7 in 10 applicants in the 18 months to Q4 2015. Success rates since have been slightly lower (currently 63%), with 29% ending the process with no facility:

Final outcome – new money

Loans and Overdrafts combined All new money applications	Q3 11 Q4 12	Q3 12 Q4 13	Q3 13 Q4 14	Q3 14 Q4 15	Q3 15 Q4 16	Q3 16 Q4 17*
Unweighted base of applications:	*2311*	*1326*	*1607*	*1304*	*881*	*494*
Offered what wanted and took it	40%	34%	50%	56%	57%	52%
Took facility after issues	14%	15%	15%	14%	12%	11%
Have facility (any)	***54%***	***49%***	***65%***	***70%***	***69%***	***63%***
Took another form of funding	7%	8%	8%	5%	6%	7%
No facility	38%	43%	26%	25%	26%	29%

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

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 51% of all new money applications in the 18 months to Q4 2017 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 2017 (63% overall), analysed by whether the SME was applying for a first facility or had borrowed before. Those who had borrowed before remained more likely to end the process with a facility (78%) than those who were applying for the first time (50%):

Final outcome – new money Loans and Overdrafts combined Q3 16 – Q4 17	First time applicants	Other new money
Unweighted base of applications:	*164*	*330*
Offered what wanted and took it	42%	63%
Took facility after issues	8%	15%
Have facility (any)	*50%*	*78%*
Took another form of funding	10%	3%
No facility	40%	18%

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

The success rate for first time loan/overdraft applicants increased from 41% in the 18 months to Q4 2012 to 60% for the 18 months to Q4 2015. It then declined somewhat, to 50% currently:

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	Q3 16 Q4 17*
Unweighted base of applications:	*840*	*658*	*493*	*399*	*278*	*164*
Offered what wanted and took it	30%	27%	41%	49%	47%	42%
Took facility after issues	11%	12%	14%	11%	9%	8%
Have facility (any)	*41%*	*39%*	*55%*	*60%*	*56%*	*50%*
Took another form of funding	8%	9%	6%	5%	6%	10%
No facility	51%	53%	39%	34%	38%	40%

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 having increased to 77% for the 18 months ending Q4 2015 and been stable since:

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	Q3 16 Q4 17*
Unweighted base of applications:	*1471*	*668*	*1114*	*905*	*603*	*330*
Offered what wanted and took it	52%	47%	58%	60%	64%	63%
Took facility after issues	18%	22%	16%	17%	14%	15%
Have facility (any)	*70%*	*69%*	*74%*	*77%*	*78%*	*78%*
Took another form of funding	6%	8%	10%	5%	6%	3%
No facility	23%	23%	16%	18%	16%	18%

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

Previous analysis had shown that external risk rating was 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 were typically younger and smaller businesses. For 2017 to date two-thirds of FTAs had such a risk rating (back to levels seen in 2014), compared to a quarter of other seekers of new money, and a third of those renewing a facility:

% of applicants with worse than average external risk rating

Overdraft + Loan By year of application (base varies)	In 2012	In 2013	In 2014	In 2015	In 2016	In 2017*
First time applicants	71%	69%	67%	55%	49%	66%
Other new money	49%	45%	34%	35%	24%	25%
Renewals	40%	36%	29%	35%	41%	31%

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 was just above 50% in 2012 and 2013 and just below it ever since.

10. 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

76% of overdraft applicants and 69% of loan applicants were 'satisfied' with the application process in the 18 months to Q4 2017 but with marked differences depending on outcome:

- Amongst those offered the facility they wanted, 91% of overdraft applicants and 96% of loan applicants were satisfied
- For those offered their facility after issues, satisfaction was lower at 45% for overdrafts and 77% for loans
- And amongst the small group declined for a facility, satisfaction was 23% for overdrafts and 12% for loans.

87% of overdrafts and 67% of loans were in place within 2 weeks:

- Almost all successful applicants agreed that the facility had been put in place in good time (92% for overdrafts and 95% for loans), with those waiting more than 2 weeks for an overdraft, or more than 4 weeks for a loan, less likely to agree
- Over time the proportion of facilities agreed within 2 weeks has increased for loans (55% in the 18 months to Q4 2014 to 67% currently) and the proportion agreeing their loan was in place in good time has also increased (86% to 95%). There was a smaller increase in 2 week facilities for overdraft applicants (83% to 87%) and a slight decline in the proportion in place in good time (96% to 92%).

Most loans were granted for 10 years or less (52% for up to 5 years and 30% for 5-10 years). 96% said that their loan was granted for the term they wanted.

73% of successful overdraft applicants and 70% of successful loan applicants described the application process as 'low effort':

- The proportion of overdraft applicants rating the process 'low effort' is stable over time and amongst those offered the facility they wanted (77%). There has been an improvement amongst those who had their facility after issues – in the 18 months to Q4 2015, 26% of such applicants rated the process as low effort compared to 43% in the 18 months to Q4 2017
- The proportion of loan applicants rating the process 'low effort' has increased over time from 54% in the 18 months to Q4 2015 to 70% currently. It has also increased for those offered what they wanted (59% to 72%) and those who had their facility after issues (30% to 56%).

A quarter of SMEs (28%) reported contact with a bank in 2017 regarding possible use of finance, increasing to 43% of those with 50-249 employees:

- 19% were approached by a bank expressing a willingness to lend (13% by their own bank and 10% by another bank) up from 13% in both 2012 and 2013
- 16% reported any contact with their bank about external finance in the previous year.

Two thirds of SMEs (64%) described their broader relationship with their bank as 'fine but transactional':

- 22% had a strong working relationship, increasing by size of SME to 64% of those with 50-249 employees
- 14% wished that they had an active working relationship with their bank. This has changed little over time and remains more common for smaller SMEs (15% of 0 employee SMEs compared to 6% of those with 50-249 employees).

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

All applicants, whether successful or not, were asked how satisfied they were with the application process they had been through. Base sizes are limited for applicants other than those offered what they wanted and so reporting of this question also remains somewhat limited.

The table below shows that overall 76% 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 91% were satisfied, and those experiencing another outcome: 45% of those who had their overdraft facility after issues and 23% of the small group that had no funding were satisfied. Those taking other funding were excluded from this analysis due to low base sizes:

Satisfaction with application process

Sought new/renewed facility Q3 16-Q4 17	All overdraft applicants	Offered OD wanted	OD after issues	No funding
Unweighted base:	*853*	*713*	*82**	*46**
Very satisfied	51%	62%	30%	8%
Fairly satisfied	25%	29%	15%	15%
Satisfied (any)	***76%***	***91%***	***45%***	***23%***
Neither satisfied nor dissatisfied	12%	8%	39%	16%
Fairly dissatisfied	4%	1%	9%	10%
Very dissatisfied	8%	*	8%	51%

Q100a All SMEs applying for new/renewed facility

It was a similar story for loan applicants, where 69% were satisfied with the application process overall. Those who were offered a loan and took it were again much more likely to be satisfied (96%) than those experiencing any other outcome: 77% of those who had their loan after issues were satisfied and 12% of those that ended the process with no funding. Those taking other funding have been excluded from this analysis due to low base sizes:

Satisfaction with application process Sought new/renewed facility Q3 16-Q4 17	All loan applicants	Offered loan wanted	Loan after issues	No funding
Unweighted base:	***426***	***306***	***53****	***53****
Very satisfied	40%	61%	48%	*
Fairly satisfied	29%	35%	29%	12%
Satisfied (any)	***69%***	***96%***	***77%***	***12%***
Neither satisfied nor dissatisfied	7%	1%	15%	20%
Fairly dissatisfied	7%	*	4%	23%
Very dissatisfied	17%	3%	4%	45%

Q195a All SMEs applying for new/renewed facility

A follow up question, about the impact of the application on the business, was asked of all applicants *except* those who were offered, and took, the facility they wanted. 7 in 10 of remaining applicants who had been satisfied with the way their overdraft application had been handled overall said that there had been no negative effects, compared to 3 in 10 of those dissatisfied with the way the application had been handled (where half said that running the business day to day was now more of a struggle).

Amongst loan applicants, fewer said there had been no negative effects (4 in 10), irrespective of whether they had been satisfied or dissatisfied with the way the loan application was handled. There were more mentions of day to day struggles and not expanding the business while those that had been dissatisfied with the application process were more likely to mention not being able to improve the business.

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. For loans granted Q3 2016 to Q4 2017:

- 52% of new loans/commercial mortgages were for less than 5 years. This was more likely to be the case for those with 0-9 employees (54%) than those with 10-249 employees (37%)
- 30% were for 5-10 years (more common for larger applicants)
- 5% were for 11-20 years (more common amongst larger applicants)
- 13% were for more than 20 years (slightly more common amongst smaller applicants)

Most successful applicants (96%) said that they got their loan for the time period that they had wanted. This was slightly more likely to be the case for those with 0-9 employees (97%) than those with 10-249 employees (90%):

- 3% would have liked the loan over a longer time period
- 1% would have liked a loan over a shorter time period

New facility granted in good time

Successful respondents were also 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 2016 to Q4 2017.

Almost 9 out of 10 overdrafts were in place within 2 weeks (87%), compared to two thirds of loans (67%):

Successful Type 1 applicants Time taken to put facility in place Sought new/renewed facility Q3 16-Q4 17	Overdrafts	Loans
Unweighted base:	*752*	*343*
Within 1 week	71%	48%
Within 2 weeks	16%	19%
Within 3-4 weeks	8%	14%
Within 1-2 months	4%	9%
Longer than this	*	6%
Not in place yet	1%	3%

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 2016 to Q4 2017
By size of SME	Loan facilities for smaller SMEs were more likely to be made available within a week (53% for loans where the SME had 0-9 employees, 26% where they had 10-249 employees) and there was also a difference by size for overdrafts (72% v 63% available within a week).
In place in good time?	Most applicants agreed that the facility had been put in place in good time for when it was needed (92% for overdraft and 95% for loan applicants).
In place in good time, by size of SME	Larger loan applicants were slightly less likely to say the loan was available in good time, although most did: • Amongst applicants with 0-9 employees, 92% said their overdraft was made available in good time, while for loans it was 95%. • Amongst larger applicants 97% said their overdraft was made available in good time, while for loans it was 92%.

Analysis by the length of time taken for the facility to be put in place showed that for overdrafts the proportion saying the facility was available in 'good time' started to decline after waiting for 2 weeks, while for loans it was 4 weeks.

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.

The proportion of overdrafts made available within two weeks increased somewhat in recent periods to almost 9 in 10. Over 90% said that their facility was available in good time for when they needed it. The proportion of loans made available in two weeks was lower but had also increased somewhat in recent periods to around 7 in 10 applications. The proportion saying their loan was available 'in good time' had also increased (to 95%), narrowing the gap to overdrafts:

Successful Type 1 applicants

Time taken to put facility in place <u>Over time</u>	Q3 13 Q4 14	Q3 14 Q4 15	Q1 15 Q2 16	Q3 15 Q4 16	Q1 16 Q2 17*	Q3 16 Q4 17*
Overdraft						
• Agreed within 2 weeks	83%	82%	82%	83%	86%	87%
• Agreed in good time	96%	96%	96%	96%	95%	92%
Loan						
• Agreed within 2 weeks	55%	54%	54%	57%	68%	67%
• Agreed in good time	86%	86%	89%	93%	95%	95%

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

‘Effort’ required to obtain a new facility

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 loan application process was as likely as the overdraft application process to be rated a low effort experience:

Customer effort	**Successful Type 1 applicants Q3 2016 to Q4 2017**
Overdraft applicants	73% of successful Type 1 overdraft applicants described the process as ‘low effort’. 13% described it has ‘high effort’, a net score of +60.
Loan applicants	70% of successful Type 1 loan applicants described the process as ‘low effort’. 17% described it has ‘high effort’, a net score of +53.
Effort if offered what wanted	77% of successful overdraft applicants who were ‘offered what they wanted and took it’ rated this as a low effort experience. 72% 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	43% of those who had their overdraft facility ‘after issues’ rated it a low effort experience (compared to 77% offered what they wanted). 56% of those who had their loan facility ‘after issues’ rated it a low effort experience (compared to 72% of those offered what they wanted).

This question has been included on the SME Finance Monitor since the start of 2014. Analysis over time, where available, shows a stable picture for the proportion who rated their overdraft application as 'low effort' with a slight improvement in the most recent period amongst those who had their facility after issues (from 30% to 43%). Amongst loan applicants, the proportion rating the experience 'low effort' increased over time from 54% to 70%, closing the gap on overdraft applicants:

Successful Type 1 applicants Low effort to put facility in place Over time	Q3 14 Q4 15	Q3 15 Q4 16	Q3 16 Q4 17*
Overdraft			
• All successful	72%	74%	73%
• *All offered what wanted*	*78%*	*79%*	*77%*
• *All with facility after issues*	*26%*	*30%*	*43%*
Loan			
• All successful	54%	64%	70%
• *All offered what wanted*	*59%*	*65%*	*72%*
• *All with facility after issues*	*30%*	*58%*	*56%*

Q101c and Q196c All SMEs that granted new/renewed facility excluding DK

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 YEQ4 2017, especially for smaller SMEs, was that the relationship was fine, but transactional:

Nature of relationship with main bank YEQ4 17 all SMEs	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base	*18,102*	*3607*	*5804*	*5801*	*2800*
We have a strong working relationship with our bank and feel we can approach them whenever we need to	22%	19%	26%	46%	64%
The relationship with our bank is fine but we really just use the bank for transactions so rarely need to approach them	64%	66%	60%	46%	30%
We don't have an active working relationship with our bank and wish that we had one	14%	15%	13%	8%	6%

Q24a All SMEs

Analysis over time showed that the proportion wishing that they had a more active relationship with their bank had changed very little, from 12% in 2016 to 14% in 2017, with this slight increase seen across all size bands.

There were clear differences by size of SME and other demographics:

- Those with 0 employees were much more likely to describe their relationship as 'transactional' (66%) than to say they had a 'strong working relationship' (19%) and were almost as likely to wish for a more active relationship (15%).
- 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 (64% v 30% who have a transactional relationship).
- Excluding the Permanent non-borrowers increased the proportion with a 'strong relationship' slightly (to 25% overall).
- Analysis by age of business showed that Starts (24%) and those trading for more than 15 years (25%) were the most likely to have a 'strong relationship' compared to 17-20% of those trading for 2 to 15 years.
- Analysis by risk rating showed that the proportion describing the relationship as 'strong' declined from 33% of those with a minimal risk rating to 19% of those with a worse than average risk rating.
- 31% of SMEs in Agriculture and 28% in the Hotel & Restaurant sector had a strong working relationship compared to 20-25% in other sectors. There was relatively little variation by sector in the proportion wanting a more active relationship (11-15%).

Analysis by previous borrowing behaviour showed 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 twice as likely as the other groups to wish that they had a more active relationship with their bank (36%):

Nature of relationship with main bank YEQ4 17 all SMEs	Total	Had an event	WBS	HNS
Unweighted base	*18,102*	*3752*	*285*	*13,975*
We have a strong working relationship with our bank and feel we can approach them whenever we need to	22%	35%	10%	20%
The relationship with our bank is fine but we really just use the bank for transactions so rarely need to approach them	64%	50%	54%	67%
We don't have an active working relationship with our bank and wish that we had one	14%	14%	36%	13%

Q24a All SMEs

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 2017, 20% of all SMEs said that they had received such a contact in the previous 3 months (13% of SMEs had heard from their main bank, while 11% had heard from another bank). Levels of contact in 2017 were somewhat higher than in the latter half of 2016:

Approached by any bank in last 3 mths

Over time – all SMEs	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
All SMEs	**17%**	**17%**	**18%**	**13%**	**14%**	**17%**	**19%**	**19%**	**20%**
0 emps	16%	16%	17%	11%	13%	17%	18%	18%	19%
1-9 emps	19%	17%	20%	17%	16%	18%	20%	21%	22%
10-49 emps	21%	22%	19%	17%	19%	17%	21%	21%	21%
50-249 emps	17%	17%	18%	21%	14%	18%	34%	25%	17%
All SMEs excluding PNBs	20%	20%	20%	15%	15%	18%	23%	25%	24%

Q221 All SMEs

SMEs with employees remained somewhat more likely to have been contacted. 22% reported in Q4 2017 that they had been approached by a bank (13% by their main bank and 12% by another bank).

Analysis over time showed that levels of contact in 2017 where somewhat higher than in previous years:

Approached by banks in last 3 months All SMEs over time	2012	2013	2014	2015	2016	2017
Unweighted base:	*20,055*	*20,036*	*20,055*	*20,046*	*18,000*	*18,012*
Approached by main bank	8%	9%	10%	11%	10%	13%
Approached by other bank	6%	5%	5%	6%	7%	10%
Any approach	*13%*	*13%*	*14%*	*15%*	*15%*	*19%*

Q221 All SMEs

A new question from Q1 2017 asked more generally whether the SME had had any conversation or contact, however informal, with their bank about external finance in the previous 12 months. As the table below shows, 16% had, increasing to 32% of the largest SMEs:

Had any contact with bank re finance YEQ4 17 all SMEs	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base	*17,427*	*3542*	*5631*	*5487*	*2587*
Yes	16%	15%	18%	25%	32%
No	84%	85%	82%	75%	68%

Q24b All SMEs excl DK

Initial analysis of this new question showed that

- Level of contact varied by risk rating from 21% of those with a minimal risk rating to 15% of those with a worse than average risk rating.
- Those currently using external finance were twice as likely to have had contact (26%) as those not using external finance (11%).
- With the exception of Starts (21%), there was little difference in contact by age of business (13-16% across older SMEs). By sector, contact ranged from 22% in Agriculture (who were also more likely to have a strong relationship with their bank) to 13% in Construction (15-19% across other sectors).

Analysis of these two questions in combination shows that 28% of all SMEs had had some form of contact with a bank (ie expressing a willingness to lend and/or a more general or informal contact about finance). Larger SMEs were more likely to have had contact:

- 27% of those with 0 employees had had contact
- 32% of those with 1-9 employees
- 36% of those with 10-49 employees
- 43% of those with 50-249 employees

Levels of contact were higher once the Permanent non-borrowers were excluded (35%) and amongst those already using external finance (39%). They were also higher amongst those planning to apply for finance (42%) and those who had a strong working relationship with their bank (43%).

11. 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 2016 to Q4 2017.

Key findings

Of overdraft facilities successfully applied for in the 18 months to Q4 2017:

- Half (56%) were granted to 0 employee SMEs
- 38% were secured, increasing by size of applicant to 80% of those with 50-249 employees and by size of facility to 76% of overdrafts for £100,000 or more
- 40% were on a variable rate and this was slightly more likely to be the case for facilities granted in 2017
- The average fee paid was £289, increasing by size of facility. Overall, 57% paid a fee equivalent to 2% or less of the agreed facility and this was the case for almost all facilities agreed for £25,000 or more
- The terms for automatically renewed overdrafts were similar to those who had applied for a new/renewed facility.

Of loan facilities successfully applied for in the 18 months to Q4 2017:

- Just under half (45%) were granted to 0 employee SMEs
- 64% were secured, including 19% that were commercial mortgages. Secured lending increased by size of applicant to 73% of those with 10-249 employees and by size of facility to 86% of loans for £100,000 or more
- 28% were on a variable rate and this was slightly less likely to be the case for facilities granted in 2017
- The average fee paid was £1148, increasing by size of facility. Overall, 91% paid a fee equivalent to 2% or less of the agreed facility.

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 2016 and Q4 2017.

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.

This element of the questionnaire was revised from Q1 2016, 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 was granted to, whether it was secured or not, and whether it was a personal or business facility.

Successful overdraft applications	Further analysis Q3 2016 to Q4 2017
Size of applicant	Of all new overdrafts successfully applied for Q3 2016 to Q4 2017: • 56% were granted to 0 employee SMEs • 33% to 1-9 employee SMEs • 9% to 10-49 employee SMEs • 1% to 50-249 employee SMEs.
Size of facility	86% of new/renewed overdrafts granted between Q3 2016 and Q4 2017 were for £25,000 or less. This varied by size of applicant from 91% of overdrafts granted to SMEs with 0-9 employees to 42% of those granted to SMEs with 10-249 employees.
Personal facilities	10% 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 0-9 employees (11%) than for larger SMEs (3%).

Analysis of the size of the overdraft facility granted by recent application date is reported below. In each quarter the majority of applications were for facilities of less than £25,000. In 2015 around 1 in 5 applications were for more than £25,000 but since Q2 2016 fewer applications have been for this amount (with the exception of initial data for Q3 2017).

Overdraft facility granted

By date of application	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	Q1* 17	Q2* 17	Q3* 17
Unweighted base:	*301*	*256*	*232*	*224*	*218*	*135*	*124*	*183*	*231*	*139*	*69**
Less than £5,000	37%	48%	42%	37%	38%	50%	45%	41%	34%	67%	33%
£5-25,000	40%	34%	45%	40%	39%	35%	39%	50%	49%	21%	39%
£25,000+	22%	19%	12%	23%	23%	14%	17%	9%	17%	12%	28%

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. Just over a third of successful Type 1 overdrafts were secured:

Security required (Overdraft)

Successfully sought new/renewed overdraft Q3 16 – Q4 17	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*748*	*70**	*230*	*313*	*135*
Any security	38%	32%	41%	58%	80%
Property (business/personal)	*35%*	*32%*	*36%*	*45%*	*67%*
Other security (any)	*4%*	*1%*	*5%*	*14%*	*14%*
No security required	62%	68%	59%	42%	20%

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 2016 and Q4 2017:

- 32% of overdrafts granted for less than £10,000 were secured
- 40% of overdrafts granted for £10-24,999 were secured
- 59% of overdrafts granted for £25-99,999 were secured
- 76% of overdrafts granted for £100,000 or more were secured.

Over time more overdrafts have been secured, primarily due to an increase in the proportion of overdraft facilities of £10,000 or less that were secured. Data for the second half of 2016 showed fewer overdrafts were secured (30%) but the initial data for H1 2017 showed 4 in 10 overdrafts were secured:

% of overdraft facilities that were secured

By application date Row percentages	H2 2013	H1 2014	H2 2014	H1 2015	H2 2015	H1 2016	H2 2016	H1 2017*
All overdrafts	34%	36%	33%	42%	37%	39%	30%	43%
Overdrafts of <£10,000	22%	24%	24%	32%	31%	30%	21%	42%
Overdrafts of £10-24,999	40%	50%	38%	45%	31%	36%	40%	33%
Overdrafts of £25-100,000	62%	53%	40%	64%	64%	71%	56%	57%
Overdrafts of > £100,000	78%	66%	68%	74%	92%	77%	83%	57%

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

Overdrafts: Rates

Amongst those who gave an answer, 4 in 10 (40%) said that their new/renewed overdraft was on a variable rate and this remained more likely to be the case for the largest facilities granted:

Type of rate (overdraft) by facility granted

Successfully sought new/renewed overdraft Q3 16-Q4 17 excl. DK	Total	<£10k	£10-25k	£25-100k	£100k+
Unweighted base:	*630*	*212*	*142*	*151*	*125*
Variable rate lending	40%	42%	30%	36%	53%
Fixed rate lending	60%	58%	70%	64%	47%

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 was fairly stable at around 4 in 10. The proportion in 2016 was somewhat lower than in 2015, but initial data for 2017 suggested that around half of overdrafts were on a variable rate:

New/renewed overdraft rate

By date of application	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	Q1* 17	Q2* 17
Unweighted base:	*262*	*207*	*194*	*176*	*181*	*111*	*99**	*150*	*178*	*113*
Variable rate lending	46%	46%	36%	38%	44%	30%	36%	34%	54%	49%
Fixed rate lending	54%	54%	64%	62%	56%	70%	64%	66%	46%	51%

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 (81%) were able to recall the arrangement fee that they had paid for their new/renewed overdraft facility (if any). The average fee paid was £289, 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 16-Q4 17 excl. DK	Total	Under £25k	£25-100k	£100k+
Unweighted base:	*600*	*336*	*148*	*116*
No fee paid	18%	19%	18%	3%
Less than £100	23%	26%	5%	2%
£100-199	34%	37%	11%	13%
£200-399	12%	10%	27%	14%
£400-999	7%	4%	33%	6%
£1000+	6%	4%	7%	62%
Average fee paid:	*£289*	*£184*	*£465*	*£2164*
Median fee paid	*£99*	*£97*	*£295*	*£1457*

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

In earlier waves, around 1 in 5 successful applicants paid no fee for their overdraft. Since H2 2015 this proportion has varied: In H2 15 and H1 16 it fell to around 1 in 9, before increasing back to 1 in 5 for H2 16 and H1 17. Early indications for H2 17 were that around 1 in 9 paid no fee.

Amongst those with a new/renewed overdraft who knew both what fee they had paid and the size of the facility granted, 28% paid a fee that was equivalent to less than 1% of the facility granted and a further 29% 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:

- 53% of those granted a new/renewed overdraft facility of less than £25,000 paid the equivalent of 2% or less
- 94% 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 2016 to Q4 2017
Amount borrowed	Most unsecured overdrafts were for less than £25,000 (91%) compared to 75% of secured overdrafts.
Variable rates	Secured overdrafts were somewhat more likely to be on a variable rate (48%) than unsecured overdrafts (37%).
Fees	Secured overdrafts were somewhat more likely to attract a fee (96%) than unsecured overdrafts (75%), and the average fee charged was higher (£460 secured compared to £196 unsecured). Whilst secured overdrafts typically attracted a higher fee in absolute terms, these were typically larger facilities and the fee was as likely to be the equivalent of 2% or less of the agreed facility (61%) as it was for unsecured overdrafts (55%).

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 facility:

Further analysis by risk rating Q3 2016 to Q4 2017

Amount borrowed	Those with a worse risk rating were somewhat more likely to have been granted an overdraft of less than £25,000 (72% of those with a minimal risk rating, 69% with a low risk rating, 86% with an average risk rating and 95% of those with a worse than average risk rating)
Security	There was relatively little difference in the proportion of facilities that were secured by risk rating (35-45%)
Variable rates	Nor was there a clear pattern by risk rating for facilities on variable rates (50% of those with a minimal risk rating, 40% with a low risk rating, 32% with an average risk rating and 51% of those with a worse than average risk rating)
Fees	Those with a minimal risk rating were more likely to have paid a fee for their overdraft (93%) compared to 74-85% for other risk ratings. Those with a minimal or low risk rating paid a higher fee in absolute terms (£522 and £433) than those with an average or worse than average risk rating (£212 and £189). For most of those with a minimal risk rating this represented 2% or less of the facility granted (82%) compared to 62% of those with a low or average risk rating and 52% of those with a worse than average risk rating

Overdraft terms: Analysis by sector

Overall in the 18 months Q3 2016 to Q4 2017, 85% of overdrafts successfully applied for were facilities of £25,000 or less. On limited base sizes by sector this varied relatively little (between 85% and 93%), with the exception of Agriculture where 54% of overdrafts granted were for less than £25,000.

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

Type 1 overdraft Successfully sought new/ renewed overdraft Q3 16-Q4 17excl. DK	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	*65**	*64**	*132*	*96**	*41**	*75**	*146*	*41**	*88**
Any security	58%	40%	36%	40%	33%	45%	34%	40%	30%
- property	*57%*	*38%*	*31%*	*38%*	*33%*	*42%*	*29%*	*40%*	*28%*
No security	42%	60%	64%	60%	67%	55%	66%	60%	70%

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

Overall, 4 in 10 of successful Type 1 overdrafts were on a variable rate (40%). On limited base sizes, overdrafts granted to SMEs in Construction or the Other Community sector were less likely to be on a variable rate:

Type 1 overdraft rate <u>Successfully sought</u> new/ renewed overdraft Q3 16-Q4 17 excl. DK	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	*60**	*53**	*100*	*86**	*38**	*59**	*129*	*28**	*77**
Variable rate lending	37%	41%	16%	37%		67%	46%		17%
Fixed rate lending	63%	59%	84%	63%		33%	54%		83%

Q 107 All SMEs with new/renewed overdraft excluding DK

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

Type 1 overdraft fees <u>Successfully sought</u> new/ renewed overdraft Q3 16-Q4 17excl. DK	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base (varies):	*41**	*54**	*105*	*84**	*39**	*58**	*119*	*30**	*70**
No fee paid	18%	20%	9%	12%		5%	17%		43%
Average fee paid	£757	£235	£274	£439		£366	£162		£179
Equivalent of 2% or less paid*	79%	63%	56%	57%		45%	51%		78%

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

Overdrafts: Automatic renewals

As mentioned earlier in this chapter, data is also 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 2016 and Q4 2017.

10% of these automatic renewals were in a personal name (v 10% 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 16-Q4 17	Automatically renewed	Type 1 overdraft event
Unweighted base (varies by question):	*1547*	*748*
Any security required	32%	38%
Facility on a variable rate (excluding DK)	57%	40%
No fee	15%	18%
Average fee paid	£356	£289

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 2016 and Q4 2017.

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 was secured or not, and whether it was a personal or business facility.

Successful loan applications	Further analysis Q3 2016 to Q4 2017
Size of applicant	Of all new loans successfully applied for between Q3 2016 and Q4 2017: • 45% were granted to 0 employee SMEs • 38% to 1-9 employee SMEs • 15% to 10-49 employee SMEs • 2% to 50-249 employee SMEs
Size of facility	83% of new/renewed loans granted in the period Q3 2016 to Q4 2017 were for £100,000 or less. By size of applicant this varied from 87% of loans granted to SMEs with 0-9 employees to 63% of loans granted to those with 10-249 employees.
Personal facilities	15% of successful new/renewed loans in this period had been applied for in a personal name rather than that of the business. By size of applicant this varied from 17% of loans granted to SMEs with 0-9 employees to 3% of loans granted to those with 10-249 employees. Personal facilities will typically be priced differently to business facilities, so as an indication 16% of all loans agreed for less than £100,000 were applied for in a personal name, compared to 8% of loans £100k+.

Analysis of loans granted by recent application quarter is shown below. Base sizes are limited and quarterly trends over time are not clear but in both 2016 as a whole and 2017 to date around 6 in 10 loans were for less than £25,000, 2 in 10 were for £25-99k and the remainder were for more than £100k:

Loan facility granted By date of application	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	Q1* 17	Q2* 17
Unweighted base:	*166*	*122*	*119*	*130*	*97**	*72**	*52**	*94**	*96**	*60**
Less than £25k	63%	41%	67%	60%	70%	56%	59%	72%	60%	70%
£25-99k	13%	16%	17%	30%	18%	17%	33%	11%	22%	20%
More than £100k	24%	43%	15%	10%	11%	27%	8%	17%	19%	10%

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 to those seeking more than £100,000 (32% v 14% of those seeking less than £100,000) but with little difference just by size of SME (17% of applicants with 0-9 employees and 19% of applicants with 10-249 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 were also simplified and are reported in the new format below (note that due to DK answers at this second question, the figures for commercial mortgages may not exactly match those quoted above, based on a single question).

Smaller SMEs remained more likely to have an unsecured loan:

Security required (Loan) Successfully sought new/renewed loan Q3 16-Q4 17	Total	0-9 emp	10-249 emps
Unweighted base:	*340*	*102*	*238*
Commercial mortgage	19%	19%	20%
Secured business loan	45%	43%	53%
Property (business/personal)	*38%*	*35%*	*49%*
Other security (any)	*11%*	*12%*	*5%*
Unsecured business loan	36%	38%	27%

Q 198a All SMEs with new/renewed loan excl. DK

Including commercial mortgages, 64% of new/renewed loans successfully applied for in Q3 2016 to Q4 2017 were secured, increasing by size of facility:

- 58% of loans granted for less than £25,000 were secured
- 59% of loans granted for £25,000 to £100,000 were secured
- 86% 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 remained less likely than larger facilities to be secured, but such security became more likely over time. Currently then, around 5 in 10 of all loans that were not commercial mortgages were secured:

% of loan facilities that were secured

Application date Row percentages	H1 13	H2 13	H1 14	H2 14	H1 15	H2 15	H1 16	H2 16	H1 17*
All loans (excluding commercial mtges)	26%	35%	31%	34%	45%	41%	43%	55%	48%
Loans of <£100,000 (excl commercial mtges)	17%	31%	24%	20%	38%	36%	44%	52%	41%
Loans of £100,000 or more (excl commercial mtges)	82%	76%	72%	83%	73%	91%	37%	71%	87%

Q 198a All SMEs with new/renewed loan, excluding DK and those with commercial mortgage

Loans: Rates

Amongst those who knew, 72% 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 60% 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 16-Q4 17	Total	<£100k	£100k+
Unweighted base:	*319*	*208*	*111*
Variable rate lending	28%	26%	35%
Fixed rate lending	72%	74%	65%

Q 201 All SMEs with new/renewed loan, excluding DK

Analysis by when the application took place showed that typically around 7 in 10 loans were on a fixed rate, with no clear trend over time. Interim data for applications in 2017 suggests something of an increase to 8 in 10 loans on a fixed rate.

Loans: Fees

66% 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 16-Q4 17	Total	<£100k	£100k+
Unweighted base:	*243*	*145*	*98**
No fee paid	43%	49%	20%
Less than £100	15%	16%	8%
£100-199	13%	15%	5%
£200-399	10%	10%	8%
£400-999	5%	6%	2%
£1000+	15%	3%	57%
Average fee paid:	*£1148*	*£211*	*£4665*
Median fee paid	*£19*	-	*£1263*

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, 74% paid a fee that was the equivalent of less than 1% of the amount borrowed and a further 17% paid between 1-2%:

- 93% of those granted a new/renewed loan of less than £100,000 paid the equivalent of 2% or less.
- 83% 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. Current indications for 2017 were that 9 in 10 had paid the equivalent of 2% or less as a fee.

Further analysis by risk rating, security and sector is not currently possible with the limited base sizes.

12. 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

Most SMEs continued to meet the definition of a Happy non-seeker of finance (83% in 2017). 2% were Would-be seekers of finance, who had wanted to apply for loan or overdraft finance but something had stopped them, while 15% reported a borrowing 'event':

- Borrowing events increased by size of SME to 25% of those with 50-249 employees, as the proportion of Happy non-seekers declined (to 74%)
- Between 2012 and 2016 the proportion of borrowing events fell from 23% to 13%, before increasing slightly to 15% in 2017
- The proportion of Would-be seekers also fell over the same period (10% to 2%), leaving the Happy non-seekers as an increasingly large group (from 68% in 2012 to 84% in 2016 and 83% currently)
- Excluding the Permanent non-borrowers from the analysis increases events in 2017 to 28%, Would-be seekers to 4% and reduces the Happy non-seekers to 67% of remaining SMEs.

The small group of Would-be seekers in 2017 cited discouragement and the process of borrowing as key barriers to application:

- 47% cited discouragement as their main barrier, most of it (30%) indirect where the SME assumed they would be turned down and so did not apply. This was slightly more likely to be mentioned by smaller WBS (47% with 0-9 employees and 31% of those with 10-249 employees)
- 29% cited the process of borrowing (typically the hassle or expense) and this was slightly more likely to be mentioned by the larger WBS (38%).

Attitudinally, Would-be seekers were happy to use finance to grow and were more ambitious for their business, while Happy non-seekers were less ambitious, more risk averse and happier to grow more slowly rather than borrow to grow faster.

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, and 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, but 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 and/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 <u>one</u> of the three categories available.

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 from amongst those who had reported <u>neither</u> 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 defined and reported here 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 <u>include</u> 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 <u>not</u> 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 the revised Would-be seeker/Happy non-seeker questions.

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 had applied for a new/renewed facility or had had an overdraft facility automatically renewed, and then those that had had a facility reduced/cancelled or had chosen to do so (the Type 2 and 3 events experienced by a minority):

Any events (overdraft and loan)

Over time – all SMES By date of interview	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Unweighted base:	*5003*	*4500*	*4500*	*4500*	*4500*	*4500*	*4507*	*4505*	*4500*
Have had an event	17%	13%	15%	11%	14%	11%	15%	17%	18%
• *New or (auto) renewed facility*	*15%*	*11%*	*13%*	*11%*	*12%*	*10%*	*13%*	*15%*	*16%*
• *Type 2 or 3 events*	*4%*	*3%*	*3%*	*2%*	*3%*	*2%*	*3%*	*2%*	*3%*
Would-be seekers	5%	3%	2%	2%	2%	2%	2%	2%	2%
Happy non-seekers	78%	83%	83%	87%	84%	86%	82%	81%	80%

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 (80% in Q4 2017), while the proportion of Would-be seekers remained low (2% in Q4 2017). The proportion of SMEs reporting an event has increased very slightly to 18%, the highest quarter figure since the end of 2015.

Happy non-seekers can, and do, use external finance (the definition is based on borrowing *events* in the previous 12 months). In 2015 and 2016, a quarter of Happy non-seekers were using external finance, increasing slightly in 2017 to 28%.

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 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
All SMEs	**5%**	**3%**	**2%**	**2%**	**2%**	**2%**	**2%**	**2%**	**2%**
0 employee	5%	4%	2%	2%	2%	2%	2%	2%	3%
1-9 employees	4%	3%	3%	2%	3%	3%	2%	2%	2%
10-49 employees	2%	1%	1%	1%	2%	1%	1%	1%	2%
50-249 employees	1%	*	2%	2%	1%	1%	*	*	*
Minimal external risk rating	1%	3%	*	1%	3%	2%	1%	*	1%
Low external risk rating	3%	1%	1%	1%	1%	2%	2%	1%	2%
Average external risk rating	7%	3%	2%	2%	1%	2%	1%	2%	1%
Worse than average external risk rating	6%	5%	3%	3%	3%	2%	3%	1%	4%
Agriculture	6%	3%	1%	2%	2%	2%	1%	*	4%
Manufacturing	5%	4%	1%	4%	1%	*	2%	3%	3%
Construction	3%	4%	1%	2%	1%	2%	2%	1%	2%
Wholesale/Retail	6%	2%	1%	4%	3%	3%	3%	2%	3%
Hotels & Restaurants	4%	3%	6%	2%	4%	3%	5%	2%	1%
Transport	5%	5%	3%	2%	2%	2%	4%	4%	2%
Property/Business Services etc.	4%	4%	3%	*	2%	3%	3%	2%	3%
Health	1%	1%	*	1%	2%	*	*	3%	2%
Other Community	12%	2%	3%	2%	3%	3%	1%	1%	2%
All excluding PNBs	9%	7%	4%	4%	3%	4%	4%	4%	4%

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 and therefore somewhat more likely to meet the definition of a Happy non-seeker of finance:

Any events (Overdraft and loan) YEQ4 17 All SMES	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,012*	*3607*	*5804*	*5801*	*2800*
Have had an event	15%	14%	19%	23%	25%
Would-be seekers	2%	2%	2%	1%	*
Happy non-seekers	83%	84%	78%	75%	74%

Q115/209 All SMEs– **new definitions** from Q4 2012

SMEs with employees were more likely to have experienced a borrowing event (20%). 2% met the definition of a Would-be seeker of finance, with the largest group, as overall, the Happy non-seekers (78%).

By risk rating, those SMEs with a low risk rating were somewhat more 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 and loan) YEQ4 17 All SMEs with a risk rating	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*18,012*	*3086*	*5460*	*4186*	*3876*
Have had an event	15%	16%	20%	15%	14%
Would-be seekers	2%	1%	1%	2%	3%
Happy non-seekers	83%	83%	79%	83%	84%

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 (37% v 2% not using external finance).

The proportion of Would-be seekers varied relatively little by sector (1-3%). More variation was seen in terms of Happy non-seekers, which accounted for 85% of those in the Construction and Other Community sectors, compared to 77% of those in Agriculture and Wholesale/Retail (who were more likely to have had an event):

Any events (overdraft and loan)

All SMEs YEQ4 17	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop / Bus	Hlth SWrk	Other Comm
Unweighted base:	*1202*	*1501*	*3200*	*1800*	*1200*	*2004*	*3603*	*1502*	*2000*
Have had an event	22%	19%	13%	20%	17%	14%	14%	16%	14%
Would-be seekers	2%	2%	2%	3%	3%	3%	3%	1%	2%
Happy non-seekers	77%	79%	85%	77%	80%	83%	84%	83%	85%

Q115/209 All SMEs

Analysis by age of business continued to show that, with the exception of Starts, 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 had traded for 10 years or more did meet the definition of a HNS):

Any events (overdraft and loan)

All SMEs YEQ4 17	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15+ yrs
Unweighted base:	*1822*	*1704*	*1994*	*2986*	*9506*
Have had an event	15%	11%	12%	18%	17%
Would-be seekers	5%	2%	2%	1%	2%
Happy non-seekers	81%	87%	87%	81%	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 (summarised at the start of the chapter). The proportion of Happy non-seekers of finance rose steadily 2012 to 2016, as appetite for finance fell. Figures for 2017 suggest the decline in appetite for finance may have stabilised:

Any events (overdraft and loan) Over time – all SMEs	2012	2013	2014	2015	2016	2017
Unweighted base:	***20,055***	***20,036***	***20,055***	***20,046***	***18,000***	***18,102***
Have had an event	23%	17%	16%	17%	13%	15%
Would-be seekers	10%	6%	5%	3%	2%	2%
Happy non-seekers	68%	77%	79%	80%	84%	83%

Q115/209 All SMEs

As already reported, SMEs with 0 employees had 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 showed that they had also become less likely to have had an event (from 33% in 2012 to 20% in 2017), or to have been a Would-be seeker of finance (8% to 2%). As a result, the Happy non-seekers increased from 59% of SMEs with employees in 2012 to 78% in 2017.

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 were asked the questions that define a Would-be seeker of finance).

YEQ4 2017, 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, was minimal. The proportion with an 'event' increased from 15% to 24% and the proportion of Happy non-seekers reduced accordingly:

Any events (overdraft and loan) – original and new definition YEQ4 17	Original definition	Revised definition
Unweighted base:	***18,012***	***18,012***
Have had an event	15%	24%
Would-be seekers	2%	2%
Happy non-seekers	83%	74%

Q115/209i/Q222b3 All SMEs

67% of those defined as a WBS under the original definition remained in this category under the new definition, while a third moved into the 'event' category because they had applied for another form of finance. 90% of HNS in the original definition remained in this category under the new definition, while 10% moved into the 'event' category and 1% into the WBS category.

Analysis over time is limited at this stage, but is shown below in half year periods from when the question was first asked. In H2 2015 a quarter of SMEs (26%) reported a loan/overdraft or other borrowing event, decreasing to 20% for H2 2016, before recovering in 2017 (25% in H2). The proportion of would-be seekers remained limited and 7 in 10 or more SMEs in each period met the alternate definition of a Happy non-seeker of finance:

Any events – new definition Over time – all SMEs	H2 2015	H1 2016	H2 2016	H1 2017	H2 2017
Unweighted base:	***10,007***	***9000***	***9000***	***9007***	***9005***
Have had an event	26%	22%	20%	23%	25%
Would-be seekers	4%	3%	2%	2%	2%
Happy non-seekers	70%	75%	78%	75%	73%

Q115/209i/Q222b3 All SMEs

This expanded definition has not been used in the analysis in the remainder of 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, but some analysis has been provided of the answers given by loan and overdraft Would-be seekers on a combined basis for 2015.

The reasons given YEQ4 2017 were:

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 50% of all Would-be seekers YEQ4 2017 (the equivalent of 1% of all SMEs), and has become somewhat more of an issue over time (42% in 2015, 45% in 2016)

Process of borrowing – those who did not want to apply because they thought it would be too expensive, too much hassle etc. This was given as a reason by 48% of all Would-be seekers YEQ4 2017 (the equivalent of 1% of all SMEs), back to levels seen in 2015 (having been 32% in 2016)

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 19% of all Would-be seekers YEQ4 2017 (the equivalent of <1% of all SMEs), and has become less of an issue over time (29% in 2015 and 26% in 2016)

Current economic climate – those that felt that it had not been the right time to borrow. This was given as a reason by 9% of all Would-be seekers YEQ4 2017 (the equivalent of <1% of all SMEs) and was somewhat less of an issue than previously seen (having been 11% in 2015 and 13% in 2016)

The table below shows the results for YEQ4 2017, 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 17 excluding DK	Total	0-9 emps	10-249 emps
Unweighted base:	*280*	*203*	*77**
Issues with process of borrowing	48%	48%	55%
-Would be too much hassle	*16%*	*16%*	*17%*
-Thought would be too expensive	*18%*	*18%*	*25%*
-Would be asked for too much security	*5%*	*5%*	*20%*
-Too many terms and conditions	*8%*	*8%*	*14%*
-Did not want to go through process	*11%*	*11%*	*20%*
-Forms too hard to understand	*8%*	*8%*	*5%*
Discouraged (any)	50%	50%	36%
-Direct (put off by bank)	*21%*	*21%*	*17%*
-Indirect (thought would be turned down)	*36%*	*37%*	*25%*
Issues with principle of borrowing	19%	18%	31%
-Not lose control of business	*8%*	*8%*	*13%*
-Can raise personal funds if needed	*8%*	*9%*	*4%*
-Prefer other forms of finance	*6%*	*6%*	*14%*
-Go to family and friends	*4%*	*4%*	*9%*
Economic climate	9%	9%	14%
-Not the right time to apply	*9%*	*9%*	*14%*

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 given over time for not applying for a facility. The latest data shows discouragement as 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 17 excluding DK	Total	0-9 emps	10-249 emps
Unweighted base:	*277*	*203*	*74**
Discouraged (any)	47%	47%	31%
-Direct (put off by bank)	*17%*	*17%*	*14%*
-Indirect (thought would be turned down)	*30%*	*30%*	*17%*
Issues with process of borrowing	29%	29%	38%
Issues with principle of borrowing	10%	10%	18%
Economic climate	5%	5%	6%
Other	*4%*	*4%*	*10%*

Q210a All SMEs that wished they had applied for an overdraft or a loan

Amongst all Would-be seekers with employees, the process of borrowing (40%) was slightly more of a barrier then discouragement (36%). Around 1 in 10 mentioned the principle of borrowing (11%) and just a few mentioned the current economic climate (2%).

Analysis by external risk rating showed discouragement was the main barrier for both groups:

Main reason for not applying for loan or overdraft when wanted to

All Would-be seekers YEQ4 17 excluding DK	Total	Min/ Low	Avge/WTA
Unweighted base:	*277*	*70**	*167*
Discouraged (any)	47%	57%	45%
-Direct (put off by bank)	*17%*	*18%*	*16%*
-Indirect (thought would be turned down)	*30%*	*39%*	*29%*
Issues with process of borrowing	29%	25%	36%
Issues with principle of borrowing	10%	10%	9%
Economic climate	5%	*	4%
None of these	***9%***	***8%***	***6%***

Q210a All SMEs that wished they had applied for an overdraft or a loan

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 the reasons for not applying for a loan. This makes comparisons with the new question more difficult.

The table below shows, on an annual basis from 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. It compares the 2015 results (from the previous questions) to the results in 2016 and 2017 of the new, combined, question. This shows that discouragement remained the key barrier:

All reasons for not applying for loan or overdraft **Over time – all Would-be seekers**	2015	2016*	2017
Unweighted base:	***485***	***318***	***277***
Discouraged (any)	42%	45%	50%
Issues with process of borrowing	48%	32%	48%
Issues with principle of borrowing	29%	26%	19%
Economic climate	11%	13%	9%

Q210 All SMEs that wished they had applied for an overdraft or a loan – question changed in 2016 and now excludes DK

In all instances, the two key reasons for not applying were discouragement (almost all of it indirect) which has increased slightly over time, and the process of borrowing, which has varied over time as a reason.

Would-be seekers constituted a minority of all SMEs (2%). The table below shows, for the main reasons given by Would-be seekers for YEQ4 2017, the equivalent proportion of all SMEs:

Main reason for not applying YEQ4 17	Would-be seekers	All SMEs
Unweighted base:	*277*	*18,012*
Discouraged (any)	47%	1%
-Direct (put off by bank)	*17%*	*
-Indirect (thought I would be turned down)	*30%*	*1%*
Issues with process of borrowing	29%	1%
Issues with principle of borrowing	10%	*
Economic climate	5%	*

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.

Would-be seekers - attitudes to finance

Earlier in this report a series of attitude statements about external finance showed key differences by size and age of business. These statements are repeated here (for H2 2017 so that the latest statements can also be included) analysed by recent borrowing behaviour, to provide additional insight into those who had not applied for finance.

The table below shows clear differences amongst the small group of Would-be seekers of finance, who were more ambitious for their business, happier to use finance to grow the business and not as willing to accept slower growth. Happy non-seekers on the other hand were less ambitious, less willing to take risks and less willing to use finance to grow:

Attitudes to finance H2 17 – all SMEs	Had an event	Would-be seeker	Happy non-seeker
Unweighted base:	*2026*	*140*	*6839*
Happy to use finance to help business grow	52%	61%	30%
Plans based on what can afford ourselves	81%	83%	82%
Accept slower growth rather than borrow	70%	61%	70%
Never think about using (more) external finance	54%	39%	52%
Fall in cost of credit would not encourage application	63%	45%	54%
We have a long term ambition to be a significantly bigger business	55%	66%	33%
As a business we are prepared to take risks to become more successful	56%	61%	39%

Q238a5 All SMEs

The effect of the Permanent non-borrower

As identified earlier in this report, almost half of all SMEs met the definition of a Permanent non-borrower and this proportion has increased steadily over time. If such SMEs were excluded from the analysis in this chapter (because there is no indication from their answers that they will borrow), the population of SMEs would reduce to around 2.7 million from 5 million.

28% of this group of SMEs excluding PNBs reported a borrowing event, compared to 15% of SMEs overall:

Any events (Overdraft and loan)

YEQ4 17 – all SMES	All SMEs	All SMEs excl. PNB
Unweighted base:	*18,012*	*11,940*
Have had an event	15%	28%
Would-be seekers	2%	4%
Happy non-seekers	83%	67%

Q115/209 All SMEs

In this analysis, the proportion of Happy non-seekers declined to 67% but remained 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 had been excluded. Until Q2 2016 the proportion reporting an event had varied very little at around 30%. It then dropped to 23% in Q3 2016 and remained at this lower level for the rest of 2016 but was higher from Q2 2017 (28% in Q2 2017 and 32% in both Q3 and Q4 2017):

Any events (overdraft and loan)

All SMES, excluding PNBs – over time By date of interview	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Unweighted base:	*3338*	*2854*	*3008*	*2755*	*3017*	*3011*	*3038*	*2890*	*3001*
Have had an event	30%	26%	29%	23%	23%	21%	28%	32%	32%
Would-be seekers	9%	7%	4%	4%	3%	4%	4%	4%	4%
Happy non-seekers	61%	67%	67%	73%	73%	74%	68%	64%	64%

Q115/209 All SMEs excluding PNBs

Accepting the slight changes in definition over time, the proportion of SMEs (excluding the PNBs) reporting a borrowing event remained fairly stable between 2012 and 2015, before dropping to 25% for 2016 but then increasing again to 28% in 2017. 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 increased from 51% of SMEs excluding the PNBs in 2012 to 70% in 2016 and 67% for 2017:

Any events (overdraft and loan) Over time – excl PNBs	2012	2013	2014	2015	2016	2017
Unweighted base:	***15,312***	***14,578***	***13,613***	***13,011***	***11,634***	***11,940***
Have had an event	35%	28%	28%	32%	25%	28%
Would-be seekers	15%	10%	8%	6%	4%	4%
Happy non-seekers	51%	62%	64%	62%	70%	67%

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 17	Would-be seekers	All SMEs excl. pnb
Unweighted base:	***277***	***11,940***
Discouraged (any)	47%	2%
-Direct (put off by bank)	*17%*	*1%*
-Indirect (thought I would be turned down)	*30%*	*1%*
Issues with process of borrowing	29%	1%
Issues with principle of borrowing	10%	*
Economic climate	5%	*

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

Qualitative research conducted amongst discouraged Would-be seekers revealed that a number of them 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 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 2017
By size of SME	The largest SMEs were somewhat less 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, 8% of remaining SMEs had experienced a previous decline (compared to 1% of PNBs).
Risk rating	There was little difference by risk rating (3-5%)
Use of external finance	7% of those currently using external finance had experienced a previous decline, compared to 3% of those who had not used external finance in the past 5 years (and 7% 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, 71% said that this had made them more reluctant to apply for bank finance subsequently (the equivalent of 3% of <u>all</u> SMEs).

- The smaller the SME experiencing the decline, the more likely they were to say they had been made more reluctant (73% of 0 employee SMEs that had been declined compared to 47% of such SMEs with 50-249 employees).
- By external risk rating, those declined who had an average (73%) or worse than average risk rating (74%) were slightly more likely to have been made more reluctant than those with a minimal (64%) or low (55%) external risk rating.

The tables below explore this reluctance in more detail, across all SMEs. 3% of all SMEs had been made more reluctant by a previous decline, increasing to 5% once the PNBs were excluded. Larger SMEs remained somewhat less likely to have been impacted:

Impact of previous decline by bank All SMEs YEQ4 17	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,012*	*3607*	*3804*	*5801*	*2800*
More reluctant to apply after a decline	3%	3%	3%	2%	1%
Declined but not more reluctant	1%	1%	2%	1%	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 17 excl PNBs	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*11,940*	*1812*	*3645*	*4265*	*2218*
More reluctant to apply after a decline	5%	6%	5%	3%	1%
Declined but not more reluctant	2%	2%	2%	1%	1%
Have not been declined in past	92%	92%	92%	96%	98%

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 17	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*18,012*	*3086*	*5460*	*4186*	*3876*
More reluctant to apply after a decline	3%	3%	2%	4%	4%
Declined but not more reluctant	1%	2%	2%	1%	1%
Have not been declined in past	95%	96%	97%	95%	95%

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 5% of those that had used finance in the past five years but were not using it currently and 2% 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 made more reluctant by a decline were currently using any external finance, increasing to 7 in 10 of those who had also been declined but said that it had not made them more reluctant
- 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 (84%).
- 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 (15%) 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 17	All SMEs	Made more reluctant by decline	Declined but not made more reluctant	Not previously declined
Unweighted base:	*18,012*	*485*	*248*	*17,279*
Using external finance	38%	55%	71%	37%
Have had an event	15%	35%	50%	14%
Would-be seekers	2%	15%	6%	2%
Happy non-seekers	83%	51%	44%	84%

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 15% group shown above).

The table below presents the same analysis once the PNBs were excluded. This increased the use of finance amongst those with no previous decline from 37% to 72%, while those made more reluctant by a previous decline remained more likely to be a would-be seeker of finance:

Impact of previous decline by bank All SMEs YEQ4 17 excl PNBs	All SMEs	Made more reluctant by decline	Declined but not made more reluctant	Not previously declined
Unweighted base:	*11,940*	*433*	*216*	*11,291*
Using external finance	72%	65%	83%	72%
Have had an event	28%	41%	59%	27%
Would-be seekers	4%	17%	7%	3%
Happy non-seekers	67%	42%	35%	70%

Q240x and Q240y and Q115/209 All SMEs excluding PNBs

A similar pattern was seen for future borrowing intentions. Excluding the PNBs, 22% of remaining SMEs were planning to apply for finance in the next 3 months. Amongst those who had been made more reluctant by a decline this proportion was higher (42%) and consequently they were less likely to meet the definition of a Future happy non-seeker of finance (36% v 59% of all SMEs excluding the PNBs).

13. 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

Almost half of SMEs (46%) were planning to grow in the 12 months after Q4 2017, including 19% planning to grow by 20% or more:

- This proportion has varied little over recent quarters, with the slight exception of Q2 and Q3 2016 when 41% planned to grow
- On an annual basis, expected growth has declined slightly from 49% in 2012 to 45% in 2017, driven by the 0 employee SMEs (46% to 41%). Amongst those with employees, growth aspirations are in line with, or higher than they were in 2012
- Excluding the PNBs sees expected growth amongst remaining SMEs stable over time (50-52% since 2012)
- Almost all those planning to grow (97% in Q4 2017) plan to sell more in the UK. 11% plan to sell more overseas, almost all of them current exporters.

In H2 2017, 4 in 10 SMEs (42%) planned one or more significant activity in the year ahead, including 19% planning to take on more staff, 17% planning to invest in new plant and machinery and 16% planning to develop a new product or service:

- The proportion planning any activity increased by size of SME (38% of those with 0 employees, 50% with 1-9 employees, 63% with 10-49 employees and 60% with 50-249 employees)
- Around half of Starts (56%) and those trading 2-5 years (48%) planned to do any of these activities, compared to a third of older SMEs
- These activities were also being planned by 61% of those planning to grow (compared to 26% of those not planning to grow) and similarly by 62% of those planning to apply for finance.

The top 3 barriers to running the business as they would want remained 'legislation, regulation and red tape' (15% in Q4 2017), 'political uncertainty' (15%) and 'the current economic climate' (14%):

- 29% of SMEs in Q4 2017 rated one or more of these as a 'major barrier' especially those with 1-9 employees (36%) and those with any future appetite for finance (39%)
- Compared to 2016, there were more mentions in 2017 as a whole of legislation and regulation as a barrier (10% in 2016 to 15% in 2017) and also of political uncertainty (10% in 2016 to 14% in 2017)
- Access to finance remained a major barrier to very few SMEs (5% in 2017 unchanged from 2016).

The proportion of SMEs planning to apply for finance increased from 10% in Q1 2017 to 14% in Q4. For 2017 as a whole it was 12%, unchanged from 2016 and slightly lower than the 14% seen in 2012 and 2013:

- In 2017, appetite for finance increased by size of SME from 11% of 0 employee SMEs to 17% of those with 50-249 employees
- 78% of those planning to apply were already using external finance, a higher proportion than in either 2015 or 2016
- The most popular use of a new facility remained working capital (63% in 2017) and half of potential applicants were considering a core facility of loan, overdraft or credit card
- In Q4 2017, 41% of applicants were confident that the bank would lend to them. The annual figure (50%) was lower than for 2016 (when 55% were confident) and also lower than current success rates for renewals (97%) or new money (63%). The lower confidence in 2017 was seen to some degree across both larger and smaller applicants and by risk rating
- Hypothetical confidence amongst those with no plans to apply remained higher (62% in Q4 2017).

In addition to the 12% of SMEs planning to apply for finance, a further 10% were Future would-be seekers who would like to apply but thought that something would stop them:

- Smaller SMEs were more likely to meet this definition (11% of 0 employee SMEs compared to 3% of those with 50-249 employees)
- The proportion of all SMEs meeting the definition has declined over time, from 23% in 2012 to 10% in 2017
- The main barrier to applying in 2017 was a reluctance to borrow in the current climate (50% of FWBS), followed by discouragement (22%). Compared to 2016, the economic climate was mentioned slightly less (57% in 2016) and discouragement slightly more (15% in 2016).

Given a (hypothetical) business opportunity that required funding, a third of SMEs (37%) in 2017 said they would be likely to approach their bank for funding. As many (39%) said that the business or the directors would fund it themselves. 19% would not approach the bank because of concerns over the risk of taking on debt while 4% would not approach the bank due to issues such as bank willingness to lend:

- Larger SMEs were more likely to approach their bank for funding. Whilst 34% of 0 employee SMEs said they would approach the bank, this increased to 58% of those with 50-249 employees
- The proportion planning to fund through the business or its directors declined slightly by size of SME (40% of those with 0 employees to 32% of those with 50-249 employees)
- Overall, three quarters of SMEs would take one of these two options, increasing by size of SME from 74% of those with 0 employees to 90% of those with 50-249 employees
- Concerns about the risk of taking on debt (19% overall) were mentioned more by smaller SMEs (21% of those with 0 employees).

International SMEs are potentially more likely to be affected by the current Brexit negotiations. Analysis for 2017 showed that, compared to domestic SMEs:

- Those who export are more likely to be planning to grow (58%). They have become more concerned about political uncertainty (23%) and less likely to be planning to apply for finance (13%)
- Those who import are also more likely to be planning to grow (63%). Their appetite for finance has declined slightly over time (17%) and they have become more concerned about the economic climate (21%) and political uncertainty (19%)
- Those who both import and export are the most likely to be planning to grow (67%). Their appetite for finance has varied over time (currently 18%) and they are the most concerned about political uncertainty (26%).

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 2017 data gathered between October and December 2017, after the General Election and during the first stage of Brexit negotiations.

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 since the referendum result.

Growth plans for next 12 months

SMEs were asked about their growth plans for the next 12 months. Around 4 in 10 SMEs planned to grow in each quarter. Growth predictions in Q2 and Q3 2016 (immediately pre and post Brexit) were somewhat lower (41%) than were seen either at the end of 2015 (47% in Q4 2015), or since (46% in Q4 2017).

Growth in next 12 mths

All SMEs– over time By date of interview	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Unweighted base:	*5003*	*4500*	*4500*	*4500*	*4500*	*4500*	*4507*	*4505*	*4500*
Grow by 20% or more*	24%	21%	16%	16%	19%	15%	17%	18%	19%
Grow by less than 20%*	23%	24%	25%	25%	28%	28%	28%	27%	27%
All with objective to grow	***47%***	***45%***	***41%***	***41%***	***47%***	***43%***	***45%***	***45%***	***46%***
Stay the same size	43%	46%	47%	51%	44%	45%	45%	45%	44%
Become smaller	4%	5%	6%	4%	4%	6%	5%	5%	6%
Plan to sell/pass on/close	5%	4%	5%	4%	5%	5%	5%	5%	5%

Q225 All SMEs *definition changed for Q3 2015

In Q2 2017, the largest SMEs were more likely to be planning to grow at all (67% v 43% of those with 0 employees), but the proportion planning to grow by 20% or more was lower than for other size bands (12%):

Plans to grow in next 12 mths Q4 17 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%	19%	20%	21%	12%
Grow by less than 20%	27%	24%	32%	47%	55%
All with objective to grow	***46%***	***43%***	***52%***	***68%***	***67%***
Stay the same size	44%	45%	42%	30%	30%
Become smaller	6%	7%	3%	2%	1%
Plan to sell/pass on/close	5%	6%	3%	1%	1%

Q225 All SMEs New Question wording in Q3 2015

The table on the next page summarises the growth plans/objectives of SMEs by key demographics over recent quarters, including by size of SME. The overall figures are most influenced by the views of the smaller SMEs:

- For SMEs with 0 employees around 4 in 10 planned to grow (43% in Q4 2017)
- Amongst SMEs with 1-9 employees the proportion planning to grow has been more variable, but typically half have planned to grow
- A fairly consistent 6 in 10 SMEs with 10-49 employees planned to grow, with a slightly higher proportion (68%) planning to grow currently.
- Around 6 in 10 SMEs with 50-249 employees planned to grow, but this has increased in recent quarters (67% currently).

Objective to grow (any) in next 12 months

Over time – row percentages By date of interview	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
All SMEs	**47%**	**45%**	**41%**	**41%**	**47%**	**43%**	**45%**	**45%**	**46%**
0 employee	43%	41%	38%	37%	44%	39%	41%	43%	43%
1-9 employees	57%	55%	50%	48%	56%	56%	54%	49%	52%
10-49 employees	60%	58%	60%	57%	61%	62%	65%	61%	68%
50-249 employees	58%	56%	60%	57%	61%	64%	72%	70%	67%
Minimal external risk rating	38%	35%	36%	45%	41%	41%	47%	37%	45%
Low external risk rating	42%	44%	37%	41%	46%	39%	44%	43%	47%
Average external risk rating	41%	38%	35%	39%	43%	42%	42%	38%	42%
Worse than average external risk rating	54%	51%	51%	41%	51%	50%	48%	53%	47%
Agriculture	31%	34%	28%	37%	37%	28%	38%	35%	39%
Manufacturing	45%	43%	52%	41%	37%	38%	46%	42%	49%
Construction	42%	40%	33%	30%	37%	32%	33%	37%	39%
Wholesale/Retail	52%	54%	49%	50%	53%	54%	51%	48%	54%
Hotels & Restaurants	51%	49%	50%	45%	46%	52%	47%	44%	45%
Transport	44%	43%	43%	43%	43%	48%	42%	42%	45%
Property/Business Services etc.	46%	46%	40%	42%	56%	45%	50%	52%	46%
Health	46%	38%	39%	39%	45%	37%	43%	56%	47%
Other Community	59%	50%	45%	42%	51%	53%	52%	40%	49%
All Permanent non-borrowers	39%	39%	33%	35%	38%	35%	38%	36%	38%
All excluding PNBs	53%	50%	49%	46%	53%	51%	51%	53%	52%

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.

Overall, the proportion of SMEs planning to grow fell from 49% in 2013 to 43% in 2016 but was slightly higher in 2017 (45%). The increase in 2017 was driven primarily by those with 10-49 or 50-249 employees, with little change seen in recent growth aspirations for smaller SMEs:

Objective to grow (any) in next 12 months Over time By date of interview – row percentages	2013	2014	2015	2016	2017
All	49%	47%	45%	43%	45%
0 emp	46%	43%	42%	40%	41%
1-9 emps	54%	56%	54%	52%	53%
10-49 emps	59%	67%	63%	59%	64%
50-249 emps	67%	71%	66%	58%	69%
Minimal external risk rating	45%	45%	40%	39%	42%
Low	45%	45%	44%	42%	43%
Average	41%	42%	39%	39%	41%
Worse than average	54%	52%	51%	49%	49%
Agriculture	43%	37%	34%	34%	35%
Manufacturing	51%	55%	49%	43%	44%
Construction	41%	37%	35%	35%	35%
Wholesale/Retail	51%	54%	53%	51%	51%
Hotels & Restaurants	46%	45%	46%	48%	47%
Transport	48%	37%	44%	43%	44%
Property/ Business Services	53%	49%	48%	46%	48%
Health	49%	49%	48%	41%	46%
Other	52%	57%	50%	47%	48%
PNBs	43%	40%	38%	36%	37%
All excl PNBs	52%	52%	51%	50%	52%

Q225 All SMEs

88% of those planning to grow said they would achieve this by selling more to existing markets in the UK (the equivalent of 39% 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 17	All planning to grow	All SMEs
Unweighted base:	***2443***	***4500***
Sell in the UK	97%	43%
Increase sales in existing markets in UK	*88%*	*39%*
Sell in new markets in UK	*24%*	*11%*
Sell overseas	11%	5%
Increase sales in existing markets overseas	*8%*	*4%*
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 2017, 59% reported that they planned to grow compared to 44% of non-exporters. Exporters were typically larger SMEs but both larger and smaller exporters were more likely to report planned growth than their peers:

- Amongst SMEs with 0-9 employees: 58% of exporters interviewed in Q4 2017 planned to grow compared to 43% of non-exporters.
- Amongst SMEs with 10-249 employees: 77% of exporters interviewed in Q4 2017 planned to grow compared to 66% of non-exporters.

As the table below shows, the majority of both exporters and non-exporters who were planning to grow said that they would achieve that growth through sales in the UK. However, while half of the exporters (52%) were planning to sell more overseas, just 5% of those who were not exporting planned to look overseas:

How plan to grow Q4 17	All planning to grow who export	All planning to grow who do not export
Unweighted base:	*365*	*2078*
Sell in the UK	88%	98%
Increase sales in existing markets in UK	*80%*	*89%*
Sell in new markets in UK	*30%*	*23%*
Sell overseas	52%	5%
Increase sales in existing markets overseas	*47%*	*2%*
Sell in new markets overseas	*27%*	*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 were more likely to be planning to grow each quarter (around 6 in 10) than those that do not export (around 4 in 10), albeit the current 'gap' between them (15 percentage points) was somewhat smaller than the more typical 20 percentage point gap usually seen:

Objective to grow (any) in next 12 months

By date of interview Row percentages	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Exporters	66%	60%	59%	62%	58%	59%	67%	66%	59%
Non-exporters	44%	43%	40%	39%	46%	42%	42%	42%	44%

Q225 All SMEs

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 remained the main target for both exporters and non-exporters, with exporters more likely than non-exporters to also be contemplating new markets, especially overseas:

How plan to grow By date of interview Row percentages	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
In existing markets:									
Exporters	*93%*	*92%*	*88%*	*86%*	*88%*	*88%*	*96%*	*94%*	*91%*
Non-exporters	*89%*	*92%*	*89%*	*92%*	*87%*	*93%*	*91%*	*92%*	*90%*
New UK markets:									
Exporters	*25%*	*38%*	*35%*	*32%*	*36%*	*31%*	*38%*	*32%*	*30%*
Non-exporters	*27%*	*19%*	*22%*	*18%*	*23%*	*16%*	*23%*	*17%*	*23%*
New overseas markets:									
Exporters	*13%*	*33%*	*29%*	*24%*	*37%*	*25%*	*30%*	*30%*	*27%*
Non-exporters	*3%*	*3%*	*5%*	*3%*	*3%*	*4%*	*3%*	*6%*	*3%*

Q226 All SMEs planning to grow excluding DK

Taking a longer term view back to 2013, the table below shows that growth ambitions declined overall for SMEs (49% to 45% in 2015 and currently), and for non-exporters (48% to 43%) Meanwhile, ambition amongst exporters remained higher but has varied over time (60-65%).

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%) but has since recovered.

Growth plans Over time By date of interview Row percentages	2013	2014	2015	2016	2017
All SMEs:					
Plan to grow	49%	47%	45%	43%	45%
New markets overseas (of those planning to grow)	*7%*	*6%*	*6%*	*7%*	*7%*
Exporters:					
Plan to grow	60%	63%	65%	60%	63%
New markets overseas (of those planning to grow)	*30%*	*26%*	*20%*	*31%*	*28%*
Non exporters:					
Plan to grow	48%	45%	43%	42%	43%
New markets overseas (of those planning to grow)	*4%*	*3%*	*4%*	*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.

A new question from Q3 2017 sought to understand the activities being planned by SMEs for the next few months. As the table below shows, 4 in 10 SMEs planned to undertake at least one of these activities, increasing by size of SME:

Planned activities in next 12 mths H2 17 All SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*9005*	*1803*	*2902*	*2900*	*1400*
Take on more staff	19%	15%	27%	40%	35%
Invest in new plant, machinery, premises	17%	15%	21%	28%	26%
Develop a new product or service	16%	16%	19%	21%	18%
Start to sell, or sell more, overseas	9%	9%	9%	13%	11%
Some other major expenditure	6%	5%	8%	12%	12%
Any of these	*42%*	*38%*	*50%*	*63%*	*60%*
None of these	58%	62%	50%	37%	40%

Q240w All SMEs from Q3 2017

Analysis by age of business showed that just over half of Starts were planning any of these activities, compared to a third of SMEs trading for 6 years or more:

Planned activities in next 12 mths H2 17 All SMEs	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15 yrs+
Unweighted base:	*920*	*843*	*1059*	*1483*	*4700*
Take on more staff	28%	24%	17%	18%	13%
Invest in new plant, machinery, premises	20%	23%	14%	15%	15%
Develop a new product or service	22%	23%	16%	15%	11%
Start to sell, or sell more, overseas	11%	10%	8%	7%	9%
Some other major expenditure	8%	6%	6%	5%	6%
Any of these	*56%*	*48%*	*37%*	*38%*	*34%*
None of these	44%	52%	63%	62%	66%

Q240w All SMEs from Q3 2017

Excluding the Permanent non-borrowers increased the proportion planning to take any action slightly to 47% of remaining SMEs. By sector those in Manufacturing were the most likely to be planning action (54%) compared to 36% in Construction and 38% in Agriculture (40-48% for other sectors).

Key differences in levels of planned activity were seen by both future growth plans and future finance plans. Those planning to grow in the next 12 months and those planning to apply for finance were much more likely to also be planning these activities:

Planned activities in next 12 mths H2 17 All SMEs	Plan to grow	No plans to grow	Plan to apply	FWBS	FHNS
Unweighted base:	*4982*	*4023*	*1354*	*662*	*6989*
Take on more staff	31%	9%	35%	21%	16%
Invest in new plant, machinery, premises	24%	11%	30%	14%	15%
Develop a new product or service	27%	8%	28%	16%	15%
Start to sell, or sell more, overseas	14%	4%	14%	12%	8%
Some other major expenditure	10%	3%	16%	6%	5%
Any of these	*61%*	*26%*	*62%*	*40%*	*39%*
None of these	39%	74%	38%	60%	61%

Q240w All SMEs from Q3 2017

Analysed as a group, the 42% of SMEs planning to take any of these actions in the next 12 months were:

- More likely to be using external finance (44% v 35% of those not planning any actions) and to be willing to use it in future to help the business grow (45% v 26%)
- No more likely to have had a past borrowing event, but much more likely to be planning to apply for finance (19% v 8%)
- Much more likely to be planning to grow (68% v 30%)
- More likely to say they had ambitions to grow the business (57% v 24%) and to be a risk taker (59% v 30%)

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 possible obstacles tested, including two changes for Q1 2017:

- 'Changes in the value of sterling' replaced 'The quality of management and leadership in the business' which had been added in Q3 2015.
- The existing code 'Legislation and regulation' was extended to include 'red tape'.

The data for 2017 was collected during and immediately after the General Election campaign and then as the UK dealt with a hung parliament and the conclusion of the first round of Brexit negotiations. At an overall level there were no dramatic changes in the proportion of SMEs rating either the current economic climate or 'Political uncertainty and future government policy' as major obstacles, although both have increased very slightly over time. Amongst larger SMEs and/or those who are international, both of these factors were mentioned more as major obstacles during 2017, although views remained somewhat volatile as is reported later in this section.

The economic climate has long been a key issue for SMEs, albeit at much lower levels than the 1 in 3 who saw it as a major obstacle at its peak in 2013. Over time though, it has declined in importance and so other issues have become as important:

- The three top issues in Q4 2017 were **Legislation, regulation and red tape** and **political uncertainty/government policy,** both rated a major obstacle by 15% of SMEs, and the **current economic climate** rated a major obstacle by 14% of SMEs. 29% of SMEs rated at least one of these barriers a major obstacle.
- The most recently added factor, **changes in the value of sterling**, was rated a major obstacle by 10% of SMEs.
- **Cash flow and issues with late payment** was rated a major obstacle by 9% of SMEs.
- 8% rated **recruiting and retaining staff** as a major obstacle.
- 5% saw **access to external finance** as a major obstacle.
- 4% of SMEs rated **availability of relevant advice** for their business as a major obstacle for the year ahead.

The analysis below looks in detail at the barriers perceived in Q4 2017, by size of SME and ranked by mean score. Details of how these views have changed over time are provided later in this chapter.

Extent of obstacles in next 12 months Q4 17 – 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	4.5	4.4	4.1
- 8-10 major obstacle	*14%*	*13%*	*20%*	*14%*	*11%*
- 5-7 moderate obstacle	*32%*	*32%*	*31%*	*37%*	*37%*
- 1-4 minor obstacle	*51%*	*53%*	*46%*	*45%*	*51%*
Legislation, regulation and red tape	3.8	3.6	4.3	4.4	4.2
- 8-10 major obstacle	*15%*	*14%*	*19%*	*17%*	*14%*
- 5-7 moderate obstacle	*24%*	*23%*	*28%*	*33%*	*34%*
- 1-4 minor obstacle	*57%*	*60%*	*49%*	*47%*	*51%*
Political uncertainty/future govt policy	3.8	3.6	4.2	4.3	4.5
- 8-10 major obstacle	*15%*	*14%*	*19%*	*15%*	*11%*
- 5-7 moderate obstacle	*26%*	*25%*	*26%*	*32%*	*40%*
- 1-4 minor obstacle	*56%*	*58%*	*50%*	*47%*	*44%*

Continued

Continued

Changes in the value of sterling	3.0	2.8	3.7	3.7	3.5
- 8-10 major obstacle	*10%*	*8%*	*15%*	*14%*	*9%*
- 5-7 moderate obstacle	*19%*	*18%*	*22%*	*22%*	*24%*
- 1-4 minor obstacle	*68%*	*71%*	*59%*	*60%*	*64%*
Cash flow/issues with late payment	2.9	2.9	3.1	3.3	3.3
- 8-10 major obstacle	*9%*	*9%*	*11%*	*9%*	*7%*
- 5-7 moderate obstacle	*16%*	*16%*	*18%*	*19%*	*18%*
- 1-4 minor obstacle	*71%*	*72%*	*68%*	*68%*	*73%*
Recruiting/retaining staff	2.4	2.1	3.0	3.6	3.5
- 8-10 major obstacle	*8%*	*7%*	*10%*	*11%*	*8%*
- 5-7 moderate obstacle	*10%*	*7%*	*18%*	*24%*	*23%*
- 1-4 minor obstacle	*79%*	*83%*	*68%*	*62%*	*68%*
Availability of relevant advice	2.3	2.3	2.6	2.5	2.3
- 8-10 major obstacle	*4%*	*4%*	*5%*	*4%*	*2%*
- 5-7 moderate obstacle	*13%*	*12%*	*17%*	*14%*	*10%*
- 1-4 minor obstacle	*79%*	*81%*	*74%*	*77%*	*86%*
Access to external finance	2.2	2.2	2.3	2.3	2.3
- 8-10 major obstacle	*5%*	*5%*	*5%*	*4%*	*2%*
- 5-7 moderate obstacle	*12%*	*12%*	*14%*	*12%*	*15%*
- 1-4 minor obstacle	*79%*	*80%*	*77%*	*79%*	*82%*
None of these are major obstacles	**61%**	**63%**	**55%**	**60%**	**69%**

Q227a All SMEs

SMEs with employees were somewhat more likely to rate any of these factors as ‘Major obstacles’ with 44% nominating at least one factor compared to 37% of those with 0 employees. In particular they were more likely to nominate:

- The economic climate (19% v 13% of those with 0 employees)
- Changes in the value of sterling (15% v 8%)
- Legislation, regulation and red tape (19% v 14%)
- Political uncertainty (18% v 14%)

In Q4 2017, 61% of SMEs did not rate <u>any</u> of these factors as a major obstacle (scoring 8-10).

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 (95%) said that there weren't. The top other mention was terrorism (3%).

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 also summarised below:

Extent of obstacles in next 12 months Q4 17 – 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*
Legislation, regulation and red tape	15%	14%	19%	17%	14%
Political uncertainty/future govt policy	15%	14%	19%	15%	11%
The current economic climate	14%	13%	20%	14%	11%
Changes to value of sterling	10%	8%	15%	14%	9%
Cash flow/issues with late payment	9%	9%	11%	9%	7%
Recruiting/retaining staff	8%	7%	10%	11%	8%
Access to external finance	5%	5%	5%	4%	2%
Availability of relevant advice	4%	4%	5%	4%	2%
None of these rated a major obstacle	*61%*	*63%*	*55%*	*60%*	*69%*

Q227a All SMEs

This shows that the top 3 major obstacles (the economic climate, political uncertainty and legislation) were key issues for all sizes of SME:

- 3 in 10 SMEs in Q4 2017 (29%) mentioned one or more of these three factors as a major obstacle. They were most likely to be mentioned by those with 1-9 employees (36%), compared to 29% of those with 10-49 employees, 27% of those with 0 employees and 23% of those with 50-249 employees.

The new barrier, changes to the value of sterling, was also mentioned more by those with 1-9 (or 10-49) employees and was no longer the top mentioned factor for those with 50-249 employees.

Analysis by risk rating showed the same three key obstacles. Those with a better external risk rating were slightly more concerned about political uncertainty and changes in the value of sterling, while those with a worse than average risk rating were more concerned about cash flow and late payment:

Extent of obstacles in next 12 months

Q4 17 – all SMEs 8-10 impact score	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*4500*	*733*	*1356*	*1029*	*1063*
Legislation, regulation and red tape	15%	16%	14%	14%	15%
Political uncertainty/future govt policy	15%	17%	14%	14%	16%
The current economic climate	14%	15%	13%	15%	15%
Changes to value of sterling	10%	13%	9%	9%	10%
Cash flow/issues with late payment	9%	7%	9%	7%	11%
Recruiting/retaining staff	8%	8%	8%	7%	8%
Access to external finance	5%	3%	4%	4%	6%
Availability of relevant advice	4%	2%	3%	3%	6%
None of these rated a major obstacle	*61%*	*61%*	*63%*	*63%*	*59%*

Q227a All SMEs for whom risk ratings known

There was relatively little difference in the proportion mentioning any of the top 3 barriers by risk rating (ranging from 32% of those with a minimal rating to 27% of those with a low risk rating).

The table below shows that in Q4 2017, there were clear differences in perceived obstacles between those with plans to grow and those with no plans, albeit there were no differences on the main issue, legislation and regulation. Overall 46% of those planning to grow nominated at least one major obstacle compared to 33% 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 71% said that none of them were.

Extent of obstacles in next 12 months

Q4 17 – all SMEs 8-10 impact score	Total	Plan to grow	No plans to grow	PNB	Not PNB
Unweighted base:	*4500*	*2536*	*1964*	*1499*	*3001*
Legislation, regulation and red tape	15%	15%	14%	11%	18%
Political uncertainty/future govt policy	15%	17%	13%	11%	18%
The current economic climate	14%	18%	11%	10%	17%
Changes to value of sterling	10%	14%	6%	6%	13%
Cash flow/issues with late payment	9%	13%	6%	4%	14%
Recruiting/retaining staff	8%	10%	6%	4%	12%
Access to external finance	5%	6%	4%	2%	8%
Availability of relevant advice	4%	6%	3%	2%	6%
None of these rated a major obstacle	*61%*	*54%*	*67%*	*71%*	*53%*

Q227a All SMEs

Mentions of any of the top 3 barriers were lower amongst those with no plans to grow (26% v 32% of those planning to grow) and also amongst PNBs (24% v 33% that did not meet the definition of a PNB).

Those planning to apply for new/renewed facilities in the next three months, or who would have liked to, were much more likely to see these issues as major obstacles, including access to finance. 57% nominated at least one major obstacle, compared to 33% of Future happy non-seekers:

Extent of obstacles in next 12 months Q4 17 – all SMEs 8-10 impact score	Total	Plan to apply or FWBS	Future HNS	Future HNS excl. PNB
Unweighted base:	*4500*	*1031*	*3469*	*1970*
Legislation, regulation and red tape	15%	21%	13%	15%
Political uncertainty/future govt policy	15%	23%	12%	14%
The current economic climate	14%	21%	12%	14%
Changes to value of sterling	10%	15%	8%	11%
Cash flow/issues with late payment	9%	18%	7%	11%
Recruiting/retaining staff	8%	15%	6%	9%
Access to external finance	5%	11%	3%	5%
Availability of relevant advice	4%	9%	3%	4%
None of these rated a major obstacle	*61%*	*43%*	*67%*	*60%*

Q227a All SMEs

The Future happy non-seeker category described above includes those SMEs that met the definition of a Permanent non-borrower, which indicates that they were not using finance nor were they likely to borrow. Such SMEs have been excluded from the Future happy non-seeker definition in the final column above, with a modest impact on the scores.

Those with a future appetite for finance were more likely to mention any of the top 3 barriers (39%) than Happy non-seekers were (26% and 28% once the PNBs were excluded).

Those in Agriculture (51%) and Wholesale/Retail (50%) were the most likely to nominate at least one barrier as a major obstacle while those in the Other Community (33%) and Construction (34%) sectors were the least likely to nominate any barriers:

Extent of obstacles in next 12 months

Q4 17 – all SMEs 8-10 impact scores	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	*300*	*375*	*800*	*450*	*300*	*500*	*900*	*375*	*500*
Legislation, regulation and red tape	25%	14%	16%	15%	21%	12%	15%	14%	12%
Political uncertainty	22%	14%	11%	16%	20%	12%	19%	11%	10%
The current economic climate	15%	15%	7%	24%	23%	12%	14%	20%	14%
Changes to sterling	11%	11%	4%	23%	17%	13%	7%	8%	9%
Cash flow/issues with late payment	10%	9%	10%	9%	6%	7%	10%	13%	9%
Recruiting/retaining staff	12%	10%	8%	10%	12%	8%	5%	6%	9%
Access to external finance	7%	5%	3%	3%	6%	8%	5%	9%	5%
Availability of relevant advice	2%	5%	6%	3%	6%	5%	4%	2%	5%
None of these rated a major obstacle	***49%***	***58%***	***66%***	***50%***	***53%***	***61%***	***64%***	***55%***	***67%***

Q227All SMEs

Of the top 3 obstacles, legislation and political uncertainty were more of an obstacle for those in Agriculture, as was also the case for those in Hotels and Restaurants, who were also more likely to nominate the economic climate along with those in Wholesale/Retail.

40% of SMEs in the Hotel and Restaurant sector mentioned one or more of these top 3 barriers, along with 37% of those in the Wholesale/retail sector and in Agriculture, compared to 21% in the Other Community sector. Mentions in other sectors varied between 24% and 34%.

Obstacles to running the business in the next 12 months – over time

The summary table below shows the proportion of SMEs that rated each factor a major obstacle across the most recent nine waves of the Monitor. In Q4 2017 there was little to choose between the top 3 barriers (legislation, the current economic climate and political uncertainty):

Extent of obstacles in next 12 months

All SMEs over time 8-10 impact score By date of interview	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17	Q3 17	Q4 17
Unweighted base:	*5003*	*4500*	*4500*	*4500*	*4500*	*4500*	*4507*	*4505*	*4500*
Legislation, regs and red tape	10%	11%	11%	8%	10%	15%	14%	15%	15%
Political uncertainty	9%	10%	10%	10%	12%	14%	13%	14%	15%
The current economic climate	13%	13%	13%	10%	13%	11%	13%	16%	14%
Changes in sterling	-	-	-	-	-	11%	10%	15%	10%
Cash flow/issues with late payment	8%	8%	7%	6%	5%	8%	8%	12%	9%
Recruiting/retaining staff*	8%	6%	6%	5%	6%	5%	7%	6%	8%
Access to external finance	6%	5%	5%	4%	5%	4%	4%	5%	5%
Availability of relevant advice	5%	4%	4%	4%	6%	3%	4%	5%	4%
None of these rated a major obstacle	*66%*	*67%*	*68%*	*74%*	*70%*	*66%*	*64%*	*62%*	*61%*

Q227 All SMEs

The proportion saying that "none of these" were a barrier has declined over time, from around 7 in 10 to around 6 in 10 (the last additional barrier (sterling) was introduced in Q1 2017).

The proportion mentioning any of the top 3 barriers was stable in 2016 (22% for the year as a whole) but increased steadily during 2017 from 26% in Q1 to 29% in Q3 and Q4. Excluding the 0 employee SMEs increased the proportion mentioning any of these barriers in 2016 to 26% and the increase in 2017 was from 31% in Q1 to 35% in Q4.

The table below provides 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	2017
Unweighted base:	*20,055*	*20,036*	*20,055*	*20,046*	*18,000*	*18,012*
Legislation, regulation and red tape	13%	13%	12%	11%	10%	15%
The current economic climate	34%	27%	17%	13%	12%	14%
Political uncertainty/future govt policy	-	-	-	10%	10%	14%
Changes in sterling	-	-	-	-	-	11%
Cash flow/issues with late payment	13%	11%	9%	9%	7%	9%
Recruiting/retaining staff	3%	3%	5%	6%	6%	6%
Availability of relevant advice	6%	6%	5%	5%	4%	4%
Access to external finance	11%	10%	7%	6%	5%	5%

Q227a All SMEs

This shows the marked decline in the proportion of SMEs citing the current economic climate as a barrier between 2012 and 2015, such that it is now no more of a barrier than legislation and regulation or political uncertainty, where scores have increased somewhat in 2017 after a period of stability.

The 2017 data was gathered during and after a General Election campaign and the conclusion of the first stage of Brexit negotiations, both of which may have affected perceptions about the future. The table below shows the changes since 2015 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.

Political uncertainty remained more of a barrier than it was in 2015, across all size bands. Compared to Q4 2016, SMEs with 0 or 1-9 employees were more likely to cite it as a major barrier in Q4 2017, while there was little variation for those with 10-49 employees and those with 50-249 employees ended the year less likely to be concerned:

Political uncertainty and future govt policy

8-10 impact score Row percentages	2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
All SMEs	*9%*	*10%*	*10%*	*10%*	*12%*	*14%*	*13%*	*14%*	*15%*
0 employees	9%	9%	9%	9%	11%	13%	12%	14%	14%
1-9 employees	12%	12%	14%	12%	17%	16%	16%	16%	19%
10-49 employees	9%	10%	12%	11%	15%	14%	14%	15%	15%
50-249 employees	7%	10%	16%	15%	15%	14%	19%	13%	11%

Q227a All SMEs

Overall, the proportion of SMEs seeing the current economic climate as a barrier has been stable since 2015. Compared to Q4 2016, those with 0 employees were as likely to cite it as a barrier in Q4 2017 (having briefly become more concerned in Q3 2017), while those with 1-9 employees were more concerned. There was little variation over time for those with 10-49 employees while those with 50-249 employees became less concerned during 2017:

The current economic climate

8-10 impact score Row percentages	2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
All SMEs	*13%*	*13%*	*13%*	*10%*	*13%*	*11%*	*13%*	*16%*	*14%*
0 employees	12%	12%	13%	9%	13%	11%	12%	16%	13%
1-9 employees	14%	14%	14%	14%	16%	13%	14%	18%	20%
10-49 employees	10%	11%	13%	10%	14%	14%	14%	13%	14%
50-249 employees	8%	12%	14%	13%	13%	17%	15%	10%	11%

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.

Access to finance – 8-10 impact scores

Over time – row percentages By date of interview	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17	Q3 17	Q4 17
All SMEs	**6%**	**5%**	**5%**	**4%**	**5%**	**4%**	**4%**	**5%**	**5%**
0 employee	5%	5%	5%	4%	4%	4%	4%	5%	5%
1-9 employees	8%	6%	6%	5%	7%	5%	5%	4%	5%
10-49 employees	5%	5%	4%	3%	5%	5%	4%	4%	4%
50-249 employees	2%	2%	2%	3%	4%	4%	1%	4%	2%
Minimal external risk rating	3%	2%	2%	6%	2%	1%	3%	3%	3%
Low external risk rating	3%	3%	4%	2%	4%	4%	4%	5%	4%
Average external risk rating	5%	5%	3%	5%	4%	4%	2%	3%	4%
Worse than average external risk rating	8%	5%	8%	5%	6%	4%	5%	7%	6%
Agriculture	6%	5%	4%	8%	1%	4%	3%	7%	7%
Manufacturing	6%	6%	5%	3%	2%	4%	4%	5%	5%
Construction	5%	3%	5%	3%	4%	5%	3%	7%	3%
Wholesale/Retail	5%	4%	7%	3%	4%	6%	6%	4%	3%
Hotels & Restaurants	10%	9%	6%	8%	9%	8%	8%	4%	6%
Transport	9%	9%	8%	5%	4%	4%	5%	8%	8%
Property/Business Services etc.	6%	4%	3%	3%	6%	3%	3%	3%	5%
Health	5%	4%	7%	5%	5%	1%	5%	5%	9%
Other Community	4%	4%	4%	6%	6%	3%	3%	5%	5%
Use external finance	8%	7%	6%	4%	6%	7%	7%	9%	8%
Plan to borrow/FWBS	14%	14%	13%	11%	13%	13%	14%	14%	11%
Future Happy non-seekers	3%	2%	2%	2%	2%	2%	1%	3%	3%
All SMEs excluding PNBs	9%	8%	8%	7%	7%	6%	7%	9%	8%

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. With the slight exception of Q4 2015 when 16% planned to apply, the proportion planning to apply/renew has changed relatively little over time, with 14% planning to apply after Q4 2017:

% likely in next 3 months

All SMEs – over time By date of interview	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Unweighted base:	*5003*	*4500*	*4500*	*4500*	*4500*	*4500*	*4507*	*4505*	*4500*
Will have a need for (more) external finance	10%	11%	9%	7%	7%	7%	8%	9%	10%
Will apply for more external finance	8%	9%	7%	6%	7%	6%	6%	6%	8%
Renew existing borrowing at same level	10%	8%	7%	7%	7%	6%	8%	8%	8%
Any apply/renew	*16%*	*14%*	*11%*	*11%*	*11%*	*10%*	*12%*	*12%*	*14%*
Reduce the amount of external finance used	9%	8%	7%	7%	7%	4%	7%	8%	8%
Inject personal funds into business	17%	17%	15%	14%	15%	12%	13%	13%	15%

Q229 All SMEs

SMEs were typically somewhat more likely to identify a need for finance than to think they would apply for it. 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% of SMEs in the second half of 2016 said that they *planned* to apply for finance, 5% of those interviewed in 2017 to date reported a loan or overdraft borrowing event in the previous 12 months.

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 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Unweighted base:	*2997*	*2670*	*2833*	*2839*	*2714*	*2846*	*2753*	*2948*	*2709*
Any new equity	5%	3%	4%	3%	4%	2%	4%	4%	5%

Q229 All companies

In Q4 2017 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 compared to those with 1-9 or 10-49 employees and these smaller SMEs remained more likely to anticipate an injection of personal funds (15%) than an application for new/renewed finance (13%). The largest SMEs with 50-249 employees reported an increased appetite for finance in Q2 2017 (23%), a significant increase compared to the 12-14% seen in previous quarters (but due almost entirely to 19% of them planning to renew an existing facility) but this was not maintained in Q4 2017, where 12% planned to apply and 23% planned to reduce the amount of finance being used:

% likely in next 3 months Q4 17 – 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	10%	10%	10%	11%	9%
Will apply for more external finance	8%	8%	9%	8%	7%
Renew existing borrowing at same level	8%	8%	10%	13%	8%
Any apply/renew	*14%*	*13%*	*16%*	*18%*	*12%*
Reduce the amount of external finance used	8%	8%	9%	15%	23%
Inject personal funds into business	15%	15%	15%	7%	3%

Q229 All SMEs

Amongst SMEs with employees, 16% had plans to apply/renew in the next 3 months and 10% 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 reported an injection of funds. Having been stable for a while, the proportion of SMEs planning to inject personal funds declined further in 2017, to 13%:

Injections of personal funds past and future Over time – All SMEs	2012	2013	2014	2015	2016	2017
Unweighted base:	*20,055*	*20,036*	*20,055*	*20,046*	*18,000*	*18,012*
Have injected personal funds	43%	38%	29%	28%	28%	29%
Plan to inject personal funds	24%	20%	16%	16%	15%	13%

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 (66% in Q4 2017). Meanwhile a fairly stable 1 in 10 SMEs had both put in funds in the past *and* planned to do so in future (10% in Q4 2017):

Injections of personal funds

Over time – All SMEs	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Unweighted base:	*5003*	*4500*	*4500*	*4500*	*4500*	*4500*	*4507*	*4505*	*4500*
Have injected personal funds and likely to do so again	11%	11%	9%	8%	10%	9%	9%	10%	10%
Have not put in personal funds but likely to do so	6%	6%	6%	6%	5%	3%	4%	4%	4%
Have injected personal funds but unlikely to do so again	18%	18%	16%	17%	21%	20%	18%	21%	20%
Have not put in personal funds and not likely to do so	65%	64%	69%	69%	65%	68%	68%	66%	66%

Q229/Q15d-d2 All SMEs

Turning back to future applications for external finance, the Q4 2017 figure of 14% was slightly higher than seen in recent quarters (10-12% since Q2 2016), due to increased appetite amongst those with 10-49 employees and/or a minimal external risk rating. Excluding the PNBs also revealed an increase in appetite for finance amongst remaining SMEs (to 26% in Q4 2017):

% likely to apply or renew in next 3 months

Over time – row percentages By date of interview	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
All SMEs	**16%**	**14%**	**11%**	**11%**	**11%**	**10%**	**12%**	**12%**	**14%**
0 employee	14%	14%	10%	10%	10%	8%	11%	11%	13%
1-9 employees	20%	16%	15%	14%	14%	16%	14%	13%	16%
10-49 employees	20%	20%	16%	13%	16%	16%	15%	16%	18%
50-249 employees	13%	14%	13%	12%	13%	12%	23%	19%	12%
Minimal external risk rating	19%	12%	10%	11%	10%	9%	9%	9%	16%
Low external risk rating	14%	14%	13%	11%	13%	13%	13%	13%	14%
Average external risk rating	16%	12%	10%	11%	9%	8%	9%	11%	12%
Worse than average external risk rating	16%	15%	14%	12%	10%	11%	13%	13%	16%
Agriculture	18%	15%	13%	17%	15%	12%	11%	7%	16%
Manufacturing	17%	16%	15%	11%	11%	7%	20%	10%	20%
Construction	12%	17%	8%	9%	11%	10%	7%	11%	12%
Wholesale/Retail	19%	14%	12%	14%	12%	13%	11%	14%	15%
Hotels & Restaurants	20%	17%	13%	13%	11%	15%	13%	11%	21%
Transport	14%	14%	16%	15%	14%	13%	12%	11%	16%
Property/Business Services etc.	15%	12%	10%	9%	12%	7%	11%	12%	12%
Health	12%	11%	11%	8%	9%	9%	11%	16%	15%
Other Community	19%	17%	15%	11%	8%	13%	15%	13%	12%
Objective to grow	23%	21%	18%	15%	14%	16%	18%	17%	19%
No objective to grow	9%	9%	7%	8%	9%	5%	6%	7%	10%
All SMEs excluding PNBs	28%	28%	22%	22%	19%	19%	21%	23%	26%

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 in 2017 was in line with previous years but with an increased appetite for finance for those with 50-249 employees:

% likely to apply or renew in next 3 months Over time By date of interview – row percentages	2012	2013	2014	2015	2016	2017
All	14%	14%	13%	13%	12%	12%
0 emp	12%	12%	11%	12%	11%	11%
1-9 emps	20%	19%	20%	17%	15%	15%
10-49 emps	21%	17%	18%	19%	16%	16%
50-249 emps	19%	16%	14%	14%	13%	17%
Minimal external risk rating	16%	12%	13%	13%	11%	11%
Low	17%	13%	14%	15%	13%	13%
Average	13%	13%	12%	14%	10%	10%
Worse than average	15%	14%	14%	12%	13%	13%
Agriculture	18%	16%	15%	18%	15%	11%
Manufacturing	16%	13%	16%	16%	13%	14%
Construction	14%	13%	11%	11%	11%	10%
Wholesale/Retail	16%	18%	19%	15%	13%	13%
Hotels & Restaurants	17%	15%	16%	16%	14%	15%
Transport	14%	16%	15%	13%	15%	13%
Property/ Business Services	12%	13%	11%	13%	11%	11%
Health	11%	12%	11%	9%	10%	13%
Other	16%	12%	14%	13%	12%	13%
All excl PNBs	21%	23%	24%	25%	23%	22%

Q229 All SMEs

Amongst those planning to grow, future appetite for finance was somewhat higher (18% in 2017) and has changed very little over time (17-19% since 2013).

Previous analysis has shown that those already using external finance were more likely to consider applying for finance than those not currently using it. The table below shows that around 1 in 10 of all SMEs both used finance and planned to apply in the next 3 months (9% in 2017) and this has declined very slightly since 2012. In 2017, a further 3% of all SMEs were not using external finance and this has changed very little over time.

This means that most of those planning to apply for finance were already using it (78%), back to the levels seen 2012-2014:

Plans to apply v use of external finance Over time – all SMEs	2012	2013	2014	2015	2016	2017
Unweighted base:	*20,055*	*20,036*	*20,055*	*20,046*	*18,000*	*18,012*
Use external finance and plan to apply	11%	10%	10%	10%	8%	9%
Use external finance, no plans to apply	33%	30%	27%	27%	29%	29%
Do not use finance but plan to apply	3%	3%	3%	4%	4%	3%
Do not use finance, no plans to apply	53%	56%	60%	59%	59%	59%
% of future applicants using finance	*79%*	*77%*	*77%*	*71%*	*67%*	*78%*

Q15 and futfin All SMEs

Analysis of the 2017 results showed that the proportion of SMEs that were both using finance and planning to apply increased by size of SME. The proportion of future applicants that were already using finance also increased by size of SME from 75% to 97%:

- 8% of 0 employee SMEs were using external finance and planned to apply for more and 75% of all future applicants were already using finance
- 12% of 1-9 employee SMEs were using external finance and planned to apply for more and 82% of all future applicants were already using finance
- 15% of 10-49 employee SMEs were using external finance and planned to apply for more and 92% of all future applicants were already using finance
- 17% of 50-249 employee SMEs were using external finance and planned to apply for more and 97% of all future applicants were already using finance.

Amongst those planning to apply or renew in the next 3 months, working capital was the most frequently mentioned purpose of future funding over recent quarters.

In Q1 2017 some additional codes were added covering borrowing in order to take on new staff, run a marketing campaign or develop a new product/service. The proportion of potential applicants mentioning these reasons for borrowing (around 1 in 10 each) are also reported below where data is available:

Use of new/renewed facility

All planning to seek/renew Over time excl DK By date of interview	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Unweighted base:	***850***	***750***	***642***	***549***	***622***	***606***	***686***	***657***	***667***
Working capital	57%	56%	60%	66%	67%	63%	52%	68%	67%
Plant & machinery	28%	24%	21%	18%	19%	21%	19%	20%	20%
UK growth	28%	30%	23%	29%	31%	23%	32%	19%	20%
Premises	8%	11%	7%	5%	6%	8%	5%	5%	11%
New product or service launch	6%	12%	9%	7%	8%	5%	8%	4%	11%
Growth overseas	8%	6%	4%	4%	7%	3%	5%	2%	4%
Hiring staff**	-	-	-	-	-	9%	9%	7%	10%
Marketing campaign**	-	-	-	-	-	9%	9%	6%	12%
Developing new product/service**	-	-	-	-	-	6%	11%	5%	8%

Q230 All planning to apply for/renew facilities in next 3 months. ** new for 2017 NOW EXCL DK

A longer term view back to 2012 showed relatively little variation in the proposed purpose of future funding, with slightly fewer mentions of funding for plant and machinery in 2016-17:

Use of new/renewed facility All planning to seek/renew– over time	2012	2013	2014	2015	2016	2017
Unweighted base:	***3717***	***3316***	***3310***	***3200***	***2563***	***2616***
Working capital	63%	62%	57%	59%	62%	63%
Plant & machinery	27%	27%	26%	25%	21%	20%
UK growth*	21%	28%	30%	28%	28%	23%
Premises	7%	7%	10%	7%	8%	7%
New product or service launch	10%	9%	9%	7%	9%	7%
Growth overseas*	3%	5%	6%	6%	5%	4%
Hiring staff**	-	-	-	-	-	9%
Marketing campaign**	-	-	-	-	-	9%
Developing new product/service**	-	-	-	-	-	7%

Q230 All planning to apply for/renew facilities in next 3 months excl DK. *Growth replaced expansion in Q2 2013 ** new for 2017

In 2017, 17% of future applicants mentioned one or more of the new purpose of borrowing codes and 11% mentioned either developing or launching a new product or service.

The table below details what types of finance those planning to apply would consider for their new/renewed funding. From Q1 2016 data has been collected at a headline level rather than for each possible type of finance.

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 those new summary categories. It shows consideration of core finance was fairly stable (54%) but at lower levels than previously seen (in H2 2015 6 in 10 were considering core finance):

% of those seeking/renewing finance that would consider form of funding

Over time By date of interview	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Unweighted base:	*771*	*672*	*554*	*639*	*616*	*698*	*667*	*687*
Core product (loan, O/D, credit card)	52%	52%	47%	55%	55%	61%	54%	54%
Commercial mortgage	18%	16%	14%	16%	13%	12%	24%	15%
Leasing/invoice finance	23%	16%	15%	16%	18%	15%	22%	16%
Other	30%	22%	21%	26%	22%	19%	27%	30%
None of these	*33%*	*41%*	*45%*	*32%*	*34%*	*32%*	*37%*	*32%*

Q233 All SMEs seeking new/renewing finance in next 3 months

In all quarters consideration was highest for the core products. In Q4 2017, 54% of future applicants were considering a core form of finance, compared to 30% considering any of the other forms of finance.

The proportion saying 'none of these' was previously stable at around 1 in 4 but increased after the new format question was introduced at the start of 2016 (37% for 2016 as a whole). It has been more stable in 2017 at around a third of future applicants.

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. In 2017, 69% said that they had not decided, while 31% were considering another form of finance, up from 20% in 2015.

Amongst all potential applicants in 2017, 67% were considering one or more of the forms of finance listed, 11% were considering another form of finance and 23% hadn't yet decided what they might use.

The table below shows levels of consideration in Q4 2017 by the size of SME considering funding.

% of those seeking/renewing finance would consider funding

Q4 17	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*687*	*116*	*219*	*269*	*83**
Core product (loan, od, credit card)	54%	57%	48%	46%	63%
Commercial mortgage	15%	13%	21%	15%	22%
Leasing/invoice finance	16%	15%	17%	21%	31%
Other	30%	29%	32%	25%	22%
None of these	*32%*	*31%*	*32%*	*38%*	*29%*

Q233 All SMEs seeking new/renewing finance in next 3 months

The balance between consideration of core and other forms of funding changed by size of SME. Core finance was the most likely source of funding to be considered in all size bands, but larger SMEs were more likely to also consider commercial mortgages and leasing/invoice finance.

Amongst SMEs with employees, 48% would consider one or more core products for their future lending, 20% a commercial mortgage, 18% leasing or invoice finance and 31% some other form of funding. 33% 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 were either only considering one of the other forms of finance specified or who did not nominate any form of finance).

There has been significant variation in levels of confidence during 2017, with fewer SMEs now "very confident" of success:

Confidence bank would lend

All planning to seek finance Over time by date of interview	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17	Q3 17	Q4 17
Unweighted base:	*586*	*433*	*377*	*295*	*362*	*389*	*437*	*421*	*401*
Very confident	21%	23%	22%	23%	22%	17%	14%	12%	14%
Fairly confident	31%	25%	31%	38%	37%	32%	41%	47%	27%
Overall confidence	*52%*	*48%*	*53%*	*61%*	*59%*	*49%*	*55%*	*59%*	*41%*
Neither/nor	24%	33%	22%	20%	22%	22%	21%	26%	26%
Not confident	24%	19%	25%	19%	19%	28%	23%	15%	33%
Net confidence (confident – not confident)	*+28*	*+29*	*+26*	*+42*	*+40*	*+21*	*+32*	*+44*	*+8*

Q238 All SMEs seeking new/renewing finance in next 3 months

Confidence amongst prospective applicants with employees was 53% in Q4 2017.

As the table below shows, the lower confidence in Q4 2017 was seen amongst both larger and smaller potential applicants and more acutely amongst those with an average or worse than average risk rating:

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
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%
Q1 2017	49%	48%	66%	74%	44%
Q2 2017	55%	54%	79%	69%	51%
Q3 2017	59%	57%	78%	72%	61%
Q4 2017	41%	40%	65%	58%	37%

Q238 All SMEs seeking new/renewing finance in next 3 months

Over the longer term, the steady increase in levels of confidence seen between 2012 and 2016 was not maintained in 2017:

Confidence bank would agree to lend All planning to apply – over time	2012	2013	2014	2015	2016	2017
Unweighted base:	*2933*	*2477*	*2337*	*2194*	*1467*	*1648*
Very confident	15%	14%	24%	24%	23%	14%
Fairly confident	27%	25%	23%	29%	32%	36%
Overall confidence	*42%*	*39%*	*47%*	*53%*	*55%*	*50%*
Neither/nor	23%	30%	24%	21%	25%	24%
Not confident	35%	31%	29%	26%	21%	26%
Net confidence (confident – not confident)	*+10*	*+8*	*+18*	*+27*	*+34*	*+24*

Q238 All SMEs seeking new/renewing finance in next 3 months

The drop in overall confidence in 2017 was seen across all sizes of business:

Confidence bank would agree to lend All planning to apply – over time Row percentages	2012	2013	2014	2015	2016	2017
All	*42%*	*39%*	*47%*	*53%*	*55%*	*50%*
0-9 employees	41%	37%	46%	52%	53%	49%
10-49 employees	58%	60%	66%	70%	75%	72%
Minimum/Low risk rating	57%	67%	65%	66%	74%	68%
Average/WTA risk rating	40%	35%	45%	48%	51%	48%

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 showed that in 2017, 6 in 10 of those planning to renew were confident (61%) compared to 4 in 10 of those planning to apply for new facilities (39%).

In both instances larger SMEs were more confident of success. Analysis over time showed improvements in confidence for those seeking both a renewal or new money between 2014 and 2016 but somewhat lower levels of confidence in 2017:

- For renewals confidence was 56% for 2014, increasing to 67% for 2016, but 61% for 2017
- For new facilities confidence was 39% for 2014, increasing to 46% for 2016, but was back to 39% for 2017.

These levels of confidence remained in contrast to the actual outcome of applications. The success rate for renewals in the last 18 months was 97% while for new funds the success rate in the same period was 63%.

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 2017, when 6 in 10 were confident of success with a hypothetical application (compared to 4 in 10 of those planning to apply to a bank). This 'hypothetical' confidence increased by size of SME from 59% of those with no employees to 84% of those with 50-249 employees:

Confidence bank would say yes if asked All not planning to apply to bank Q4 17	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*4099*	*832*	*1326*	*1297*	*644*
Very confident	28%	24%	36%	48%	47%
Fairly confident	34%	35%	29%	33%	37%
Overall confidence	*62%*	*59%*	*65%*	*81%*	*84%*
Neither/nor	25%	26%	25%	13%	12%
Not confident	14%	14%	10%	5%	4%
Net confidence (confident – not confident)	*+48*	*+45*	*+55*	*+76*	*+80*

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 summarises the confidence of all SMEs in Q4 2017, whether they were planning to apply to a bank (41% confident), apply but for another form of finance (61%), or not apply because they were a Would-be seeker of finance (43%). The largest group, those who had no need or plans to apply (the Future happy non-seekers) remained the most confident that if they *were* to approach their bank they would be successful (64%):

Confidence bank would say yes if asked Q4 17 – all SMEs	All planning to apply to bank	All others planning to apply	Future WBS	Future HNS
Unweighted base:	*401*	*286*	*344*	*3,469*
Very confident	14%	28%	17%	29%
Fairly confident	27%	33%	26%	35%
Overall confidence	***41%***	***61%***	***43%***	***64%***
Neither/nor	26%	19%	34%	25%
Not confident	33%	20%	23%	11%
Net confidence (confident – not confident)	*+8*	*+41*	*+20*	*+53*

Q238/ 239b All SMEs

This hypothetical confidence question has only been asked since Q1 2016 so trend data is somewhat limited. The table below shows that across all SMEs (those planning to apply and those answering hypothetically) confidence improved during 2016 (60% to 68%) but then decreased in 2017 to end the year at 60% again:

Confidence bank would say yes Over time Row percentages	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
All SMEs	*60%*	*64%*	*67%*	*68%*	*64%*	*61%*	*62%*	*60%*
Planning to apply to bank	48%	53%	61%	59%	49%	55%	59%	41%
Others planning to apply	49%	66%	56%	51%	67%	50%	74%	61%
No plans – Future would-be seekers	38%	48%	53%	57%	51%	37%	37%	43%
No plans – Future happy non-seekers	66%	68%	70%	72%	66%	65%	65%	64%

Q238/239b All SMEs

On an annual basis, overall confidence amongst all SMEs decreased slightly from 65% in 2016 to 62% in 2017. This was driven by the Future happy non-seekers as the largest group, where confidence has moved from 69% to 65%. Those planning to apply to a bank (55% to 50%) and Future would-be seekers (50% to 42%) were less confident in 2017 than in 2016. The only group to see an increase in confidence was those planning to apply (but not to a bank) where confidence was 55% in 2016 and 63% in 2017.

The summary table below shows overall confidence (whether the SME planned to apply or not) for other key groups by year. In addition to the Future happy non-seekers mentioned above, the lower level of confidence in 2017 (62%) was due primarily to changes in confidence amongst smaller SMEs (62% to 59% for those with 0 employees and 70% to 66% for those with 1-9 employees).

Larger SMEs and those with a minimal or low risk rating remained more confident of success, as were those in Agriculture (67% in 2017) and Wholesale/Retail (66%), with little variation otherwise by sector (59-63%). Permanent non-borrowers were initially more confident than other SMEs (68% v 62% in 2016) but this was not the case in 2017 (63% v 61%).

Confidence bank will say yes (whether planning to apply or not) Over time By date of interview – row percentages	2016	2017
All	65%	62%
0 emp	62%	59%
1-9 emps	70%	66%
10-49 emps	80%	79%
50-249 emps	85%	84%
Minimal external risk rating	73%	73%
Low	73%	70%
Average	67%	61%
Worse than average	61%	58%
Agriculture	71%	67%
Manufacturing	67%	61%
Construction	65%	62%
Wholesale/Retail	70%	66%
Hotels & Restaurants	62%	63%
Transport	61%	59%
Property/ Business Services	65%	62%
Health	64%	59%
Other	62%	59%
PNBs	68%	63%
All excl PNBs	62%	61%

Q238/239b All SMEs

Those not planning to seek or renew facilities in the next 3 months

In Q4 2017, 14% of all SMEs reported plans to apply for, or renew, facilities in the following 3 months, leaving the majority (86%) with no such plans. 58% 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 planning to apply for finance increased from 50% of SMEs in 2011 to 60% for 2014 and has been stable since (58-59%).

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 were a wider group than 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 2017 met the definition of a Future happy non-seeker and they remained the largest group:

Future finance plans

All SMEs– over time By date of interview	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Unweighted base:	*5003*	*4500*	*4500*	*4500*	*4500*	*4500*	*4507*	*4505*	*4500*
Plan to apply/renew	16%	14%	11%	11%	11%	10%	12%	12%	14%
Future would-be seekers – with identified need	1%	1%	1%	1%	1%	1%	1%	1%	1%
Future would-be seekers – no immediate identified need	11%	11%	12%	11%	13%	10%	9%	8%	9%
Happy non-seekers	73%	74%	76%	77%	75%	80%	79%	79%	76%

Q230/239 All SMEs

Amongst SMEs with employees in Q4 2017, 16% had plans to apply/renew while 9% met the definition of a Future would-be seeker. The Future happy non-seekers remained the largest group at 75%.

33% of Future happy non-seekers in Q4 2017 were using external finance (31% for 2016).

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 was excluded, resulting in a higher proportion planning to apply (26% in Q4 2017) and fewer Future happy non-seekers (55% – although they remained the largest single group, as overall):

Future finance plans

SMEs excluding PNB – over time By date of interview	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Unweighted base:	*3338*	*2854*	*3008*	*2755*	*3017*	*3011*	*3038*	*2890*	*3001*
Plan to apply/renew	28%	28%	22%	22%	19%	19%	21%	23%	26%
Future would-be seekers – with identified need	1%	2%	1%	2%	1%	1%	2%	2%	2%
Future would-be seekers – no immediate identified need	19%	22%	22%	22%	22%	18%	16%	15%	17%
Happy non-seekers	52%	49%	55%	55%	58%	62%	61%	59%	55%

Q230/239 All SMEs excluding the Permanent non-borrowers

The tables below take a longer term view on changes in future appetite for finance since 2012, both overall and once the Permanent non-borrowers were excluded.

Future demand for finance has declined slightly since 2012 (14% to 12% in both 2016 and 2017). More markedly, the proportion of Future would-be seekers halved in that time, and so the proportion of Future happy non-seekers increased:

Future finance plans Over time – all SMEs	2012	2013	2014	2015	2016	2017
Unweighted base:	***20,055***	***20,036***	***20,055***	***20,046***	***18,000***	***18,012***
Plan to apply/renew	14%	14%	13%	13%	12%	12%
Future would-be seekers	23%	18%	16%	11%	13%	10%
Happy non-seekers	63%	68%	71%	76%	76%	78%

Q230/239 All SMEs

Amongst SMEs with employees, the proportion planning to apply/renew was higher but had also declined over time, from 20% in 2012 to 15% in 2017. Over the same time period, the proportion of Future would-be seekers also declined (from 20% to 9% of those with employees), leaving the Future happy non-seekers of finance as an increasingly large group (60% to 76% of those with employees).

Once the Permanent non-borrowers were excluded, more of the remaining SMEs were planning to apply or renew. The proportion increased slightly between 2012 and 2015 (21% to 25%) before returning to 2012 levels by 2017 (22%). The proportion of Future would-be seekers fell steadily (35% to 19%), as the proportion of Future happy non-seekers increased (44% to 59%):

Future finance plans Over time – all SMEs excluding PNBs	2012	2013	2014	2015	2016	2017
Unweighted base:	***15,312***	***14,578***	***13,613***	***13,011***	***11,634***	***11,940***
Plan to apply/renew	21%	23%	24%	25%	23%	22%
Future would-be seekers	35%	30%	28%	21%	23%	19%
Happy non-seekers	44%	47%	49%	54%	54%	59%

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 this group over recent quarters. The proportion of FWBS was lower in 2017 than in 2016, with 50-249 employee SMEs in particular less likely to meet the definition.

Future would-be seekers

Over time – row percentages By date of interview	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
All SMEs	**12%**	**12%**	**12%**	**12%**	**14%**	**10%**	**10%**	**9%**	**10%**
0 employee	12%	12%	13%	12%	14%	11%	10%	9%	11%
1-9 employees	11%	10%	13%	10%	13%	10%	10%	9%	9%
10-49 employees	9%	9%	8%	8%	9%	6%	6%	6%	6%
50-249 employees	9%	11%	14%	10%	12%	10%	4%	5%	3%
Minimal external risk rating	7%	12%	11%	8%	9%	6%	11%	5%	3%
Low external risk rating	15%	10%	6%	9%	7%	8%	7%	6%	8%
Average external risk rating	12%	14%	11%	11%	14%	11%	9%	9%	10%
Worse than average external risk rating	10%	11%	14%	13%	17%	10%	11%	9%	12%
Agriculture	11%	17%	11%	12%	10%	7%	13%	10%	10%
Manufacturing	7%	11%	12%	19%	10%	12%	5%	8%	9%
Construction	10%	12%	17%	11%	11%	10%	9%	10%	10%
Wholesale/Retail	15%	11%	13%	13%	11%	9%	14%	9%	8%
Hotels & Restaurants	13%	11%	14%	9%	13%	15%	7%	7%	10%
Transport	12%	12%	14%	14%	16%	12%	10%	10%	13%
Property/Business Services	11%	10%	10%	8%	17%	9%	10%	8%	10%
Health	18%	14%	11%	13%	11%	8%	7%	6%	11%
Other Community	13%	14%	10%	13%	15%	12%	10%	11%	13%
All SMEs excluding PNBs	21%	23%	24%	22%	19%	19%	18%	18%	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 2017 for thinking that they would not apply for finance in the next three months. It highlights their continued reluctance to borrow in the current environment, mainly due to the general economic climate:

Reasons for not applying (all mentions) All Future would-be seekers Q4 17	Total	0-9 emps	10-249 emps
Unweighted base:	*344*	*238*	*106*
Reluctant to borrow now (any)	53%	53%	58%
-Prefer not to borrow in economic climate	*31%*	*31%*	*42%*
-Predicted performance of business	*21%*	*21%*	*16%*
Issues with principle of borrowing	3%	3%	5%
-Not lose control of business	*	*	*3%*
-Can raise personal funds if needed	*2%*	*2%*	*1%*
-Prefer other forms of finance	*	*	-
-Go to family and friends	*1%*	*1%*	*1%*
Issues with process of borrowing	13%	13%	17%
-Would be too much hassle	*4%*	*4%*	*6%*
-Thought would be too expensive	*6%*	*6%*	*7%*
-Bank would want too much security	*2%*	*2%*	*1%*
-Too many terms and conditions	*1%*	*1%*	*2%*
-Did not want to go through process	*	*	-
-Forms too hard to understand	*2%*	*1%*	*8%*
Discouraged (any)	28%	28%	22%
-Direct (Put off by bank)	3%	4%	2%
-Indirect (Think I would be turned down)	*26%*	*26%*	*21%*

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 53%, remained the main reason for not applying for external finance in Q4 2017, but the proportion citing it as their main reason has varied (39% to 71% and currently 53%). Mentions of discouragement have also varied over recent quarters and in Q4 2017 was at one of the higher levels seen (28%):

Main reason for not applying

Future would-be seekers – over time By date of interview	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17	Q3 17	Q4 17
Unweighted base:	***525***	***466***	***520***	***457***	***524***	***419***	***335***	***318***	***344***
Reluctant to borrow now (any)	52%	44%	56%	71%	58%	63%	39%	44%	53%
-Prefer not to borrow in economic climate	*34%*	*21%*	*40%*	*49%*	*23%*	*41%*	*25%*	*33%*	*31%*
-Predicted performance of business	*19%*	*23%*	*16%*	*22%*	*35%*	*22%*	*13%*	*11%*	*21%*
Issues with principle of borrowing	1%	4%	4%	3%	6%	2%	2%	5%	2%
Issues with process of borrowing	22%	19%	22%	11%	13%	11%	19%	13%	11%
Discouraged (any)	15%	23%	12%	9%	16%	16%	25%	18%	28%
-Direct (Put off by bank)	*	*3%*	*2%*	*	*2%*	*	*2%*	*	*2%*
-Indirect (Think I would be turned down)	*15%*	*20%*	*10%*	*9%*	*14%*	*16%*	*23%*	*18%*	*26%*
None of these	***10%***	***10%***	***6%***	***1%***	***4%***	***1%***	***1%***	***3%***	***1%***

Q239/239a Future would-be seekers SMEs

Analysis over the longer term from 2013 showed a steady decline in the proportion mentioning a reluctance to borrow now, although it remained the most mentioned reason. There have been more mentions in 2017 of discouragement than have been seen previously:

Main reason for not applying Future would-be seekers – over time	2013	2014	2015	2016	2017
Unweighted base:	***3241***	***2765***	***1939***	***1967***	***1416***
Reluctant to borrow now (any)	64%	59%	55%	57%	50%
Discouraged (any)	14%	13%	14%	15%	22%
Issues with process of borrowing	12%	15%	18%	16%	14%
Issues with principle of borrowing	3%	4%	5%	4%	3%
Other	2%	3%	1%	2%	1%

Q239/239a Future would-be seekers SMEs

These reasons remain in contrast to those given by past Would-be seekers where the economic climate was little mentioned and the two key reasons were 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:

- Discouragement and a reluctance to borrow in the current economic climate have taken it in turns to be the key barrier for those with a need for finance identified (each mentioned by around a third of this group)
- Those with no identified need were much more likely to cite a reluctance to borrow in the current economic climate (mentioned by around 6 in 10 of this group) and less likely to mention any of the other potential barriers

With the reducing proportion of Future would-be seekers the sample size of those with an identified need for finance has fallen below the threshold required and so this analysis will not be run until base sizes increase.

Further analysis of all Future would-be seekers including by size and risk rating, is based on the latest quarter (Q4 2017).

A 'reluctance to borrow now', especially in the current economic climate, was the top reason, given by half of these SMEs. Just over a quarter mentioned discouragement (most of it indirect) and this was more likely to be the case for smaller Future would-be seekers:

Main reason for not applying

Future would-be seekers by size Q4 17	Total	0-9 emps	10-249 emps
Unweighted base:	*344*	*238*	*106*
Reluctant to borrow now (any)	53%	53%	58%
-Prefer not to borrow in economic climate	*31%*	*31%*	*42%*
-Predicted performance of business	*21%*	*21%*	*16%*
Issues with principle of borrowing	2%	2%	4%
Issues with process of borrowing	11%	11%	12%
Discouraged (any)	28%	28%	19%
-Direct (Put off by bank)	*2%*	*2%*	*2%*
-Indirect (Think I would be turned down)	*26%*	*26%*	*17%*

Q239/239a Future would-be seekers SMEs

Amongst Future would-be seekers with employees 50% mentioned a reluctance to borrow now, compared to 24% mentioning discouragement and 16% the process of borrowing.

The table below shows the main reasons given for not applying in Q4 2017 by risk rating. A 'reluctance to borrow now' remained the main barrier across the risk ratings. Those with an average or worse than average rating were more likely to mention discouragement (31%) than those with a minimal or low risk rating (22%):

Main reason for not applying

Future would-be seekers by risk rating Q4 17	Total	Min/Low	Avge/ Worse Avg
Unweighted base:	***344***	***121***	***187***
Reluctant to borrow now (any)	53%	63%	50%
-Prefer not to borrow in economic climate	*31%*	*41%*	*30%*
-Predicted performance of business	*21%*	*23%*	*20%*
Issues with principle of borrowing	2%	4%	2%
Issues with process of borrowing	11%	10%	10%
Discouraged (any)	28%	22%	31%
-Direct (Put off by bank)	*2%*	*11%*	*1%*
-Indirect (Think I would be turned down)	*26%*	*11%*	*29%*

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 2017.

5% 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 17 – Future would-be seekers	Main reason	All SMEs	All SMEs excl. PNB
Unweighted base:	***344***	***4500***	***3001***
Reluctant to borrow now (any)	53%	5%	10%
-Prefer not to borrow in economic climate	*31%*	*3%*	*6%*
-Predicted performance of business	*21%*	*2%*	*4%*
Issues with principle of borrowing	2%	*	*
Issues with process of borrowing	11%	1%	2%
Discouraged (any)	28%	1%	5%
-Direct (Put off by bank)	*2%*	*	*
-Indirect (Think I would be turned down)	*26%*	*1%*	*5%*

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 were excluded), 10% 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 confidence questions have been added:

- From Q1 2016 all SMEs were asked how confident they were in their future ability 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).Additional questions covering confidence assessing the advantages and disadvantages of finance products offered by either their own bank or another bank were included until Q2 2017.
    - When the full question was last asked in Q2 2017, 65% of SMEs were confident in their future ability to assess the advantages and disadvantages of finance products offered by their own bank and 57% were confident about the same thing at another bank.
- In Q1 2017 new questions were added about how to fund a future business opportunity, asked of all SMEs. These sought to explore the extent to which an aversion to risk or a preference to self-fund might present a barrier to SMEs accessing finance

Analysis of levels of confidence in putting together an application for finance to a bank other than their own continued to show that those with 10-249 employees were notably more confident:

Confidence putting together application for finance to other bank

Q4 17– all SMEs excl DK	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*4436*	*886*	*1427*	*1429*	*694*
Very confident	25%	22%	29%	41%	40%
Fairly confident	39%	40%	34%	34%	40%
Overall confidence	***64%***	***62%***	***63%***	***75%***	***80%***
Not sure	26%	27%	28%	19%	18%
Not confident	10%	11%	9%	6%	2%

Q240i All SMEs excluding DK

The summary table below shows firstly how confidence varied by future plans for finance. Future would-be seekers continued to be somewhat less confident, which may help explain why they have identified as a Future would-be seeker:

Confidence summary table Q4 17 – all SMEs excl DK	Total	Plan to apply	FWBS	FHNS	All excl PNB
Unweighted base (overall – will vary):	*4500*	*674*	*338*	*3424*	*2963*
Confident applying for finance to another bank	64%	65%	52%	64%	64%
• *Very confident*	*25%*	*25%*	*24%*	*24%*	*26%*
• *Fairly confident*	*39%*	*40%*	*28%*	*40%*	*38%*

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. Once excluded, levels of confidence amongst remaining SMEs were in line with SMEs overall, meaning that PNBs were 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. Across 2016, a steady 6 in 10 SMEs (60%) reported feeling confident that they could apply to another bank. Confidence was slightly lower in the first half of 2017 (57%) due to lower confidence amongst 0 employee SMEs and Future would-be seekers, but improved in the second half of the year so that for 2017 as a whole confidence was 59%.

Confident putting together application for finance to another bank Over time – row percentages By date of interview	2016	2017
All SMEs	**60%**	**59%**
0 employee	59%	57%
1-9 employees	63%	64%
10-49 employees	69%	72%
50-249 employees	74%	77%
Minimal external risk rating	63%	63%
Low external risk rating	63%	67%
Average external risk rating	59%	59%
Worse than average external risk rating	60%	56%
Agriculture	59%	59%
Manufacturing	57%	56%
Construction	56%	58%
Wholesale/Retail	63%	62%
Hotels & Restaurants	56%	60%
Transport	58%	56%
Property/Business Services	65%	64%
Health	57%	59%
Other Community	59%	54%
All SMEs excluding PNBs	59%	60%
All SMEs using core finance	62%	64%
All planning to apply for finance	56%	62%
Future would-be seekers	52%	47%

Q240i All SMEs

In the other new question asked for the first time in Q1 2017, SMEs were asked to imagine that a promising new business opportunity had presented itself but that extra funding was required in order for them to take up the opportunity.

In this scenario, almost 4 in 10 said that they would be likely to approach their bank about borrowing the funds required, increasing by size of SME:

Likelihood to approach bank about funding

YEQ4 17 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	***18,012***	***3607***	***5804***	***5801***	***2800***
Very likely	11%	9%	14%	17%	21%
Fairly likely	26%	25%	29%	33%	37%
Overall likely	***37%***	***34%***	***43%***	***50%***	***58%***
Not very likely	26%	27%	23%	24%	23%
Not at all likely	36%	38%	33%	26%	19%

Q238a6i All SMEs

Analysis of these results for 2017 as a whole showed that:

- Younger SMEs were somewhat more likely to say they would approach their bank (44% of Starts would approach the bank, decreasing by age to 32% of those trading for 15 years or more)
- There was a slight increase in likelihood to approach by risk rating (35% of those with a minimal external risk rating to 39% of those with a worse than average risk rating).
- By sector, those in Wholesale/Retail (43%) and Transport (42%) were the most likely to contact the bank while those in Construction and Health (both 32%) were the least likely.
- Those already using external finance were more likely to approach their bank (47%) than those who weren't (31%).
- Two thirds of those with plans to apply in the next 3 months said they would approach the bank (65%) compared to 35% of Future would-be seekers and 33% of Future happy non-seekers.
- Permanent non-borrowers were less likely to approach their bank (28% v 45% of those who were not PNBs).

Analysis showed that SMEs were more likely to say they would approach their bank in Q1 and Q2 2017 (39% and 42%) than they were in Q3 and Q4 (33% and 34%). The next table looks at this trend by half-year so as to maximise base sizes:

Likely will approach bank Over time By date of interview – row percentages	H1 2017	H2 2017
All	41%	33%
0 emp	38%	31%
1-9 emps	48%	38%
10-49 emps	52%	49%
50-249 emps	61%	54%
Minimal external risk rating	39%	31%
Low	39%	33%
Average	41%	32%
Worse than average	42%	36%
Agriculture	46%	33%
Manufacturing	42%	36%
Construction	35%	29%
Wholesale/Retail	47%	40%
Hotels & Restaurants	42%	38%
Transport	46%	39%
Property/ Business Services	41%	32%
Health	36%	29%
Other	38%	32%
All excl PNBs	48%	42%
All using external finance	51%	44%
All planning to apply for finance	68%	62%
Future would-be seekers	39%	30%
Future happy non-seekers	37%	29%

Q238a6i All SMEs

The table above shows that appetite to approach the bank for finance was lower in H2 2017 across all size bands and risk ratings, but dropped slightly less for those already planning to apply (from 68% to 62%).

All those who were unlikely to approach their bank were asked why this was. Respondents could cite several reasons and these have been grouped into themes in the table below. The largest group (62%) said that they would find the funds from within the business or from the directors and this was more likely to be the case for larger SMEs:

Reasons would not approach bank All who would not approach bank YEQ4 2017	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*9725*	*2360*	*3286*	*2883*	*1196*
Business/directors will fund	62%	61%	65%	70%	77%
- *Would look to fund from inside business*	*60%*	*59%*	*62%*	*67%*	*74%*
- *Owners/directors would fund it themselves*	*6%*	*6%*	*8%*	*7%*	*9%*
Concerns about risk/debt	31%	32%	26%	23%	26%
- *Don't want debt even for good opportunity*	*16%*	*16%*	*14%*	*12%*	*9%*
- *Don't want risk of borrowing*	*10%*	*10%*	*9%*	*7%*	*12%*
- *We won't take an opportunity that needs finance*	*10%*	*11%*	*9%*	*8%*	*7%*
Bank issues (not lending etc)	7%	6%	8%	8%	4%
- *Don't think bank would agree to lend*	*4%*	*4%*	*5%*	*3%*	*2%*
- *Prefer to speak to another provider*	*1%*	*1%*	*2%*	*4%*	*2%*
- *Have a poor relationship with the bank*	*1%*	*1%*	*2%*	*2%*	*

Q238a6b All SMEs not approaching bank about opportunity

The table below summarises these key themes and also includes those likely to approach the bank, to give an overall view across all SMEs. It shows smaller SMEs more concerned about the risks of debt and so not approaching the bank. Amongst the largest SMEs most of those not planning to approach the bank said that they would self-fund:

Likelihood to approach bank about funding

YEQ4 17 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,012*	*3607*	*5804*	*5801*	*2800*
Likely to approach bank	37%	34%	43%	50%	58%
Unlikely - Business/directors will fund	39%	40%	37%	35%	32%
Unlikely - Concerns about risk/debt	19%	21%	15%	12%	11%
Unlikely - Bank issues (not lending etc)	4%	4%	5%	4%	2%

Q238a6i All SMEs

Self-funding was also more likely amongst those with a better external risk rating (45% of those with a minimal risk rating v 38% of those with an average or worse than average rating).

As the table below shows, the proportion of SMEs with concerns about the risks of borrowing varies little by age of business (18-21%). The older the business the less likely they were to approach the bank and the more likely to self-fund:

Likelihood to approach bank about funding

YEQ4 17 – all SMEs	Starts	2-5 years	6-9 years	10-15 years	15 years+
Unweighted base:	*1822*	*1704*	*1994*	*2986*	*9506*
Likely to approach bank	44%	41%	36%	38%	32%
Unlikely – Business/directors will fund	35%	37%	39%	40%	41%
Unlikely – Concerns about risk/debt	18%	19%	21%	19%	20%
Unlikely – Bank issues (not lending etc)	5%	5%	3%	3%	5%

Q238a6i All SMEs

The proportion planning to self-fund did not vary greatly by sector (34-41%).

Those already using external finance were more likely to approach their bank (47%) with most of the rest opting to self-fund (31%). The proportion concerned about the risks of borrowing were the same as for SMEs overall (18% v 19% overall).

As the table below shows, those already planning to apply for finance in the next 3 months were more likely to approach their bank (65%). Future would-be seekers of finance were less likely to approach their bank (35%) and almost as many (29%) were concerned about the risks of borrowing, while Future happy non-seekers were the most likely to say they would self-fund (44%):

Likelihood to approach bank about funding YEQ4 17 – all SMEs	Total	Plan to apply	FWBS	FHNS	All excl PNB
Unweighted base:	*18,012*	*2668*	*1416*	*13,928*	*11,940*
Likely to approach bank	37%	65%	35%	33%	45%
Unlikely – Business/directors will fund	39%	18%	27%	44%	31%
Unlikely – Concerns about risk/debt	19%	11%	29%	19%	18%
Unlikely – Bank issues (not lending etc)	4%	8%	10%	3%	6%

Q238a6i All SMEs

The table also shows the impact of excluding the Permanent non-borrowers, increasing the proportion that would approach the bank and reducing the proportion that would self-fund.

As this is a new question for 2017, limited data over time is available. As already reported, fewer SMEs thought they would approach their bank in H2 2017 compared to H1 and, as the table below shows, there was a consequent rise in the proportion who planned to self-fund or who felt put off by the risks of borrowing:

Likelihood to approach bank about funding All SMEs over time	H1 2017	H2 2017
Unweighted base:	*9007*	*9005*
Likely to approach bank	41%	33%
Unlikely - Business/directors will fund	38%	40%
Unlikely - Concerns about risk/debt	18%	21%
Unlikely - Bank issues (not lending etc)	5%	4%

Q238a6i All SMEs

How have international SMEs responded to current conditions?

The EU 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 and 2017 in comparison to 2015. SMEs have been split into three groups, based on the ways in which they trade internationally alongside their domestic trade. Note that in 2017 as a whole 84% of SMEs only traded domestically (decreasing by size of SME from 86% to 69%):

- 5% export but do not import (with little variation by size of SME)
- 6% import but do not export (increasing slightly by size of SME from 5% to 9%)
- 5% both import and export (increasing by size of SME from 4% to 17%).

Key results for Q4 2017 are shown below:

Future outlook summary table

Q4 17– all SMEs row percentages	All SMEs	Export	Import	Both
Unweighted base:	*4500*	*209*	*307*	*310*
Plan to grow	46%	51%	66%	66%
Economic climate 8-10 barrier	14%	24%	22%	29%
Political uncertainty 8-10 barrier	15%	20%	15%	34%
Sterling 8-10 barrier	10%	13%	25%	31%
Plan to apply for finance	14%	13%	18%	29%
Future would-be seeker of finance	10%	13%	16%	7%

International SMEs of any kind were more likely to be planning to grow but also to have concerns. While those who both import and export were more likely to be planning to grow (66%) and to apply for finance (29%) they were also more likely to be concerned about the current economic climate (29%), political uncertainty (34%) and changes in the value of sterling (31%).

The tables below show how these views have changed over time. There was variation quarter to quarter but those who import or are fully international remained more ambitious but more worried about changes to sterling and all international SMEs were more concerned than their domestic peers about the economic climate:

Future outlook summary table Over time – all SMEs	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17	Q3 17	Q4 17
Plan to grow								
• All SMEs	45%	41%	41%	47%	43%	45%	45%	46%
• Export only	48%	52%	54%	40%	52%	65%	65%	51%
• Import only	63%	59%	59%	70%	65%	61%	58%	66%
• Import and export	70%	66%	70%	75%	67%	69%	67%	66%
Plan to apply for finance								
• All SMEs	14%	11%	11%	11%	10%	12%	12%	14%
• Export only	18%	19%	21%	16%	10%	21%	8%	13%
• Import only	24%	18%	19%	17%	13%	12%	23%	18%
• Import and export	26%	31%	22%	18%	18%	18%	10%	29%
Economic climate 8-10 barrier								
• All SMEs	13%	13%	10%	13%	11%	13%	16%	14%
• Export only	9%	19%	13%	27%	14%	22%	22%	24%
• Import only	10%	13%	18%	24%	10%	19%	30%	22%
• Import and export	13%	20%	20%	35%	18%	19%	19%	29%
Political uncertainty 8-10 barrier								
• All SMEs	10%	10%	10%	12%	14%	13%	14%	15%
• Export only	7%	7%	12%	15%	25%	19%	26%	20%
• Import only	14%	7%	16%	26%	19%	20%	22%	15%
• Import and export	10%	19%	21%	32%	21%	29%	22%	34%
Changes in sterling 8-10 barrier								
• All SMEs	-	-	-	-	11%	10%	15%	10%
• Export only	-	-	-	-	16%	17%	12%	13%
• Import only	-	-	-	-	25%	20%	29%	25%
• Import and export	-	-	-	-	27%	26%	32%	31%

The second table takes a longer term view back to 2013 where data exists. This shows the following patterns:

- **Exporters** have always been more likely to be planning to grow than SMEs generally but ambition dipped in 2016, before recovering in 2017. Their appetite for finance peaked at 22% in 2015 but is currently 13%, in line with the market. They have become more worried about political uncertainty in 2017, while concerns about the economic climate have increased more steadily since 2015
- **Importers** have also always been more likely to be planning to grow than SMEs generally, and a stable 6 in 10 have been planning to grow. Their appetite for finance has declined since 2014 but remains ahead of SMEs overall. Levels of concern about both the economic climate and political uncertainty have increased somewhat since 2015
- **Those who import and export** have also always been more likely to be planning to grow than SMEs generally, and since 2014 a fairly stable 7 in 10 have been planning to grow. They have more of an appetite for finance than SMEs generally but it has varied over time and was somewhat lower in 2017 than in 2016. Their concern about political uncertainty continues to increase but levels of concern about the economic climate have increased more slowly since 2014

Future outlook summary table Over time – all SMEs	2013	2014	2015	2016	2017
Plan to grow					
• All SMEs	49%	47%	45%	43%	45%
• Export only	54%	56%	59%	49%	58%
• Import only	63%	65%	62%	63%	63%
• Import and export	66%	69%	72%	70%	67%
Plan to apply for finance					
• All SMEs	14%	13%	13%	12%	12%
• Export only	19%	20%	22%	19%	13%
• Import only	19%	24%	19%	19%	17%
• Import and export	21%	24%	19%	25%	18%
Economic climate 8-10 barrier					
• All SMEs	27%	17%	13%	12%	14%
• Export only	29%	14%	19%	17%	20%
• Import only	26%	20%	12%	16%	21%
• Import and export	24%	15%	17%	21%	21%
Political uncertainty 8-10 barrier					
• All SMEs	-	-	9%	10%	14%
• Export only	-	-	9%	10%	23%
• Import only	-	-	11%	16%	19%
• Import and export	-	-	8%	20%	26%

From Q3 2016 exporters were asked the extent to which they sell to the EU. The table below looks at how the views of exporters have changed since that time, depending on the extent to which they exported to the EU. For those making all or most of their sales to the EU, the position was relatively stable, with the exception of appetite for finance, which declined (as it has for all groups). During 2017, those who did no trade with the EU became more concerned about political instability and changes in the value of sterling:

Future outlook summary table

Over time – Exporters	H2 16	H1 17	H2 17
Plan to grow			
• All/most sales to EU	54%	57%	60%
• Some sales to EU	64%	68%	66%
• No sales to EU	54%	57%	56%
Plan to apply for finance			
• All/most sales to EU	20%	12%	14%
• Some sales to EU	19%	17%	14%
• No sales to EU	20%	21%	16%
Economic climate 8-10 barrier			
• All/most sales to EU	26%	29%	25%
• Some sales to EU	21%	14%	20%
• No sales to EU	29%	14%	30%
Political uncertainty 8-10 barrier			
• All/most sales to EU	31%	37%	33%
• Some sales to EU	17%	18%	21%
• No sales to EU	14%	19%	30%
Changes in sterling 8-10 barrier			
• All/most sales to EU	-	35%	27%
• Some sales to EU	-	18%	21%
• No sales to EU	-	9%	21%

14. 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

Very few companies (3% in H2 2017) were using or planning to use equity finance. Most, 62%, said that they did not know anything about this type of finance:

- Use/planned use of equity finance was slightly higher for larger SMEs (6% of those with 50-249 employees)
- The proportion that knew nothing about this type of finance declined somewhat by size (from 62% of those with 0 employees to 52% of those with 50-249 employees)
- 22% of companies did not think it was a suitable form of finance for them and this varied very little by size of business.

Half of all SMEs (53% in Q4 2017) were aware of any of the broader support initiatives tested:

- This included 37% who were aware of Startup Loans, 22% aware of the Enterprise Finance Guarantee Scheme and 19% aware of the Business Growth Fund
- 9% were aware of the independent appeals process and 8% of the new referral platform, with slightly higher awareness amongst those using or applying for finance
- Overall awareness did not vary much by size of SME (52-59%) or once the Permanent non-borrowers were excluded (59%)
- While awareness of individual initiatives has not varied much over time, awareness of any of them is now around 5 in 10, having been around 6 in 10 in 2016.

Excluding the Permanent non-borrowers, 46% of remaining SMEs were aware of equity crowd funding or peer to peer lending platforms:

- Awareness increased by size of SME (from 45% of 0 employee SMEs in Q4 2017 to 55% of those with 50-249 employees) and was also higher for those planning to apply (57%)
- Very few SMEs were using this form of funding but around a third of those aware would consider using it in future and this proportion has varied relatively little over time.

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 2017 when "Funding for Lending" was removed and the referral platforms added, so results are not always directly comparable over time.

Prompted awareness of funding initiatives

As the table below shows, when prompted with the various schemes listed, 46% of SMEs in Q4 2017 were aware of one or more of these specific schemes, with overall awareness varying relatively little by size:

Awareness of specific funding initiatives Q4 17 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*4500*	*900*	*1450*	*1450*	*700*
Start Up Loans	37%	36%	37%	37%	31%
Enterprise Finance Guarantee Scheme	22%	22%	21%	27%	30%
The Business Growth Fund	19%	19%	18%	23%	21%
The British Business Bank	13%	13%	13%	19%	23%
Any of these	*46%*	*46%*	*47%*	*50%*	*46%*
None of these	*54%*	*54%*	*53%*	*50%*	*54%*

Q240 All SMEs (Funding for Lending removed in Q1 2017)

Amongst those with employees, 47% 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 indicated that they were unlikely to seek such external finance. Awareness excluding the PNBs is provided later in this chapter.

Prompted awareness of other support initiatives

The table below shows awareness of some of the other support initiatives tested in Q4 2017. Around 3 in 10 SMEs were aware of one or more of these initiatives, again with limited variation by size:

Awareness of initiatives Q4 17 – 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	16%	15%	16%	21%	19%
The Lending Code/Standards of lending practice*	18%	16%	21%	23%	18%
Independently monitored appeals process	11%	11%	10%	14%	12%
The referral platform for unsuccessful applications*	10%	9%	11%	13%	13%
Any of these	*30%*	*29%*	*33%*	*37%*	*34%*
None of these	*70%*	*71%*	*67%*	*63%*	*66%*

Q240 All SMEs * indicates new or amended question

Amongst those with employees, 33% 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 2017, back to levels recorded previously. 0 employee SMEs were less likely to be aware (5%) than those with employees (13%)

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 2017. Around 1 in 6 SMEs were aware of one or more of these initiatives, increasing somewhat by size of SME:

Awareness of initiatives Q4 17 – 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	9%	8%	9%	16%	21%
The British Banking Insight website	9%	9%	8%	13%	15%
The Business Finance Guide published by the ICAEW and the British Business Bank	10%	10%	9%	14%	18%
Any of these	*17%*	*17%*	*16%*	*25%*	*32%*
None of these	*83%*	*83%*	*84%*	*75%*	*68%*

Q240 All SMEs * indicates new or amended question

Amongst those with employees, 18% were aware of any of these initiatives.

Awareness of any initiatives by key groups

53% of all SMEs in Q4 2017 were aware of one or more of these initiatives after prompting. This was in line with Q2 2017 (when 55% were aware) but lower than the 64% aware in Q4 2016. This was at least in part a reflection of changes made to the questionnaire as awareness of Funding for Lending (which was 29% in Q4 2016) is no longer measured.

Total awareness did not vary much by size of SME:

- 52% of SMEs with no employees were aware of any of these initiatives
- 55% of those with 1-9 employees were aware of any of these initiatives
- 59% of those with 10-49 employees were aware of any of these initiatives
- 53% of SMEs with 50-249 employees were aware of any of these initiatives.

Excluding the PNBs increased overall awareness slightly to 59%.

There was relatively little variation in overall awareness by age of business (51-57%) with the exception of those trading for 6-9 years where 45% were aware.

Those currently using external finance were more likely to be aware (62%) than those not using finance (47%), as were those planning to apply in the next 3 months (65%, compared to 45% of Future would-be seekers and 52% of Future happy non-seekers).

The table below details awareness by sector of all the initiatives tested in Q4 2017. Overall awareness varied from 49% for Construction to 57% for Agriculture:

% aware of initiatives Q4 17 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	*300*	*375*	*800*	*450*	*300*	*500*	*900*	*375*	*500*
Start Up Loans	39%	36%	30%	35%	38%	35%	38%	42%	42%
A network of business mentors	16%	16%	10%	16%	16%	18%	18%	15%	16%
The Lending Code	25%	14%	15%	18%	17%	21%	19%	16%	16%
Enterprise Finance Guarantee Scheme	21%	20%	17%	19%	19%	28%	24%	20%	26%
The Business Growth Fund	15%	18%	18%	19%	17%	20%	21%	11%	24%
Independently monitored appeals process	12%	5%	13%	10%	10%	11%	11%	13%	13%
Referral platform	11%	5%	9%	10%	13%	7%	11%	10%	10%
The British Business Bank	12%	15%	9%	13%	14%	14%	16%	7%	14%
BetterBusinessFinance.co.uk	10%	5%	10%	9%	9%	8%	9%	10%	11%
The BBI website*	11%	5%	9%	10%	7%	11%	9%	5%	12%
The Business Finance Guide*	10%	8%	9%	9%	9%	13%	10%	7%	11%
Any of these	***57%***	***54%***	***49%***	***50%***	***51%***	***50%***	***55%***	***56%***	***56%***
None of these	*43%*	*46%*	*51%*	*50%*	*49%*	*50%*	*45%*	*44%*	*44%*

Q240 All SMEs * indicates new or amended question

Excluding the Permanent non-borrowers with little apparent interest in external finance increased awareness of *any* initiatives from 53% to 59%. The table below shows awareness of all the individual initiatives tested in Q4 2017, once these PNBs were excluded:

Awareness of initiatives Q4 17 – all SMEs excluding PNBs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*3001*	*454*	*902*	*1108*	*537*
Start Up Loans	41%	42%	41%	38%	29%
A network of business mentors	17%	17%	19%	22%	20%
The Lending Code	20%	19%	24%	24%	20%
Enterprise Finance Guarantee Scheme	24%	24%	22%	27%	31%
The Business Growth Fund	20%	20%	18%	24%	20%
Independently monitored appeals process	14%	14%	12%	14%	12%
Referral platform	11%	10%	14%	13%	13%
The British Business Bank	13%	13%	12%	20%	20%
BetterBusinessFinance.co.uk	11%	11%	10%	17%	22%
The BBI website*	12%	12%	10%	13%	16%
The Business Finance Guide*	12%	13%	9%	15%	19%
Any of these	*59%*	*59%*	*62%*	*60%*	*52%*
None of these	*41%*	*41%*	*38%*	*40%*	*48%*

Q240 All SMEs * indicates new or amended question

Awareness over time for all SMEs is shown in the table below. The initiatives tested in Q4 2017 included some that have been tracked consistently over the period shown and other more recent additions. For many initiatives where trend data is available, the picture remained broadly stable but awareness of *any* of these initiatives was around 5 in 10 compared to 6 in 10 previously:

Awareness of Taskforce initiatives Over time – all SMEs By date of interview	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Unweighted base:	*5003*	*4500*	*4500*	*4500*	*4500*	*4500*	*4507*	*4505*	*4500*
Start Up Loans	42%	41%	40%	43%	46%	42%	39%	37%	37%
A network of business mentors	24%	19%	17%	18%	20%	16%	15%	14%	16%
The Lending Code	22%	15%	18%	15%	17%	17%	17%	15%	18%
Enterprise Finance Guarantee Scheme	19%	17%	18%	17%	18%	17%	17%	20%	22%
The Business Growth Fund	16%	16%	15%	16%	17%	15%	15%	16%	19%
Independently monitored appeals process	14%	10%	11%	10%	12%	9%	7%	8%	11%
Referral platform*	-	-	-	-	-	8%	7%	8%	10%
The British Business Bank	11%	9%	9%	10%	12%	12%	10%	11%	13%
BetterBusinessFinance.co.uk	9%	8%	8%	9%	10%	6%	7%	8%	9%
The BBI website	8%	6%	6%	7%	10%	6%	4%	8%	9%
The Business Finance Guide	-	8%	7%	8%	10%	7%	7%	8%	10%
Any of these	*61%*	*60%*	*58%*	*60%*	*64%*	*57%*	*55%*	*53%*	*53%*
None of these	*39%*	*40%*	*42%*	*40%*	*36%*	*43%*	*45%*	*47%*	*47%*

Q240 All SMEs * list revised in Q1 2017

The table below also details awareness over recent quarters but this time with the Permanent non-borrowers excluded. It shows a similar picture of stable awareness over recent quarters, but again current awareness of any of these initiatives was slightly lower than previously seen:

Awareness of Taskforce initiatives Over time – all SMEs excl PNBs By date of interview	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Unweighted base:	*3338*	*2854*	*3008*	*2755*	*3017*	*3011*	*3038*	*2890*	*3001*
Start Up Loans	47%	42%	44%	47%	50%	43%	43%	39%	41%
A network of business mentors	24%	20%	19%	18%	23%	15%	17%	16%	17%
The Lending Code/principles	24%	15%	18%	15%	18%	18%	21%	17%	20%
Enterprise Finance Guarantee Scheme	19%	18%	18%	17%	17%	17%	19%	23%	24%
The Business Growth Fund	17%	18%	15%	15%	19%	15%	16%	16%	20%
Appeals process	14%	11%	12%	10%	13%	9%	8%	11%	14%
Referral platform*	-	-	-	-	-	8%	8%	9%	11%
The British Business Bank	12%	9%	8%	10%	13%	13%	11%	11%	13%
BetterBusinessFinance.co.uk	8%	8%	7%	9%	12%	6%	8%	10%	11%
The BBI website	8%	6%	5%	7%	12%	7%	5%	9%	12%
The Business Finance Guide	-	9%	7%	8%	12%	7%	8%	10%	12%
Any of these	*66%*	*62%*	*62%*	*65%*	*69%*	*59%*	*59%*	*56%*	*59%*
None of these	*34%*	*38%*	*38%*	*35%*	*31%*	*41%*	*41%*	*44%*	*41%*

Q240 All SMEs excl PNBS * list revised in Q1 2017

Appeals and referrals

Not all SMEs borrow, or have any appetite for external finance. Initiatives such as the independently monitored appeals process and the new referrals platform therefore will not be immediately relevant to many SMEs. Awareness of these initiatives amongst key groups of SMEs is shown in more detail below:

Awareness of initiatives All SMEs over time	2013	2014	2015	2016	2017
Unweighted base (overall):	*20,036*	*20,055*	*20,046*	*18,000*	*18,012*
All SMEs:					
• Independent appeals process	13%	13%	14%	11%	9%
• Referral platform	-	-	-	-	8%
All who use external finance:					
• Independent appeals process	14%	15%	15%	12%	11%
• Referral platform	-	-	-	-	10%
All who had borrowing "event"					
• Independent appeals process	14%	13%	16%	13%	16%
• Referral platform	-	-	-	-	14%
All planning to apply for finance:					
• Independent appeals process	15%	13%	17%	11%	12%
• Referral platform	-	-	-	-	11%
All Future would-be seekers:					
• Independent appeals process	11%	13%	11%	9%	7%
• Referral platform	-	-	-	-	6%

Q240 All SMEs

This shows broadly stable awareness of the appeals process between 2013 and 2015, before awareness declined slightly in 2016 and again in 2017 (to 9% overall). Those who had experienced a borrowing 'event' had higher awareness which has been broadly stable over time, while those with plans to apply for finance also had slightly higher awareness than SMEs overall, but had seen a similar decline over time.

Initial awareness of the referrals platforms was also higher amongst those who have applied, or plan to apply for external finance.

Crowd Funding and other forms of finance

Questions on crowd funding have been through several iterations in the SME Finance Monitor since they were originally included in Q2 and Q3 2012, when awareness of the concept was 18%.

The question has been revised several times, most recently in Q1 2017 when SMEs were asked specifically if they were aware of either 'equity crowd funding platforms' or 'peer to peer lending platforms'.

Before reporting on awareness of these specific forms of funding, the table below looks at awareness of a range of additional sources of funding, which have been included in the SME Finance Monitor from Q1 2017. Note that 'Mezzanine finance' was replaced in Q3 2017 by 'Venture Capital' and so results are shown here for H2 2017 to maximise base sizes, excluding PNBs as has been standard practice in the past:

Awareness of finance sources

All SMEs excl PNBs H2 17	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5819*	*897*	*1757*	*2105*	*1060*
Equity crowd funding platform	37%	36%	38%	43%	52%
Peer to peer lending platform	32%	32%	31%	37%	48%
Business Angels	30%	30%	28%	34%	42%
Venture Capital	39%	37%	43%	49%	52%
Any of these	*57%*	*56%*	*56%*	*64%*	*72%*
Not aware	43%	44%	44%	36%	28%

Q238a3x All SMEs excl PNBs and DK

Awareness of any of these sources of funding increased by size of SME. Amongst those with employees, 58% were aware of one or more of the forms of funding tested.

The table below shows both previous levels of awareness of crowd funding under the more generic question and awareness (from Q1 2017) of either 'equity crowd funding platforms' or 'peer to peer lending platforms'. Awareness was initially somewhat lower than under the previous question, but in Q4 2017 was back in line with earlier waves:

Aware of equity crowd funding/peer to peer lending

All SMEs excl PNBs Row percentages	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1* 2017	Q2 2017	Q3 2017	Q4 2017
All SMEs	**45%**	**42%**	**41%**	**43%**	**47%**	**36%**	**40%**	**42%**	**46%**
0 emps	46%	40%	39%	44%	45%	35%	38%	41%	45%
1-9 emps	45%	46%	44%	41%	51%	38%	43%	41%	46%
10-49 emps	46%	47%	46%	47%	49%	42%	47%	47%	51%
50-249 emps	44%	48%	53%	54%	51%	42%	62%	63%	55%
All planning to apply	49%	47%	40%	40%	53%	43%	48%	49%	57%

Q238a3 All SMEs excl PNBs *Question changed in Q1 2017

Those planning to apply for new/renewed finance in the 3 months after interview were typically somewhat more likely to be aware of crowd funding and this was also the case in Q4 2017 when 57% of those planning to apply were aware.

The table below shows both awareness and consideration of 'crowd funding' ie equity crowd funding platforms and/or peer to peer lending for H2 2017 to maximise base sizes. Very few SMEs were using these forms of crowd funding (1%) while a minority of those aware would consider using it in future (30% of those aware, the equivalent of 13% of all SMEs excluding the PNBs). Willingness to use was slightly higher amongst smaller SMEs:

Awareness and use of crowd funding

All SMEs excl PNBs H2 17	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5891*	*900*	*1769*	*2140*	*1082*
Aware of "crowd funding"	44%	43%	44%	49%	59%
- *Using crowd funding*	*1%*	*1%*	*1%*	*1%*	*1%*
- *Unsuccessfully applied for crowd funding*	*	*	*	*	*
- *Would consider applying in future*	*13%*	*13%*	*11%*	*11%*	*13%*
- *Would not consider applying*	*30%*	*28%*	*32%*	*37%*	*45%*
Not aware	56%	57%	56%	51%	41%
% aware who would consider	***30%***	***30%***	***25%***	***22%***	***22%***

Q238a3x4 All SMEs excl PNBs

With minimal use of crowd funding currently recorded, including this form of finance in the 'Use of external finance' definition would make no difference to the proportion using finance overall.

As the table below shows, between 2014 and 2016, awareness of crowd funding increased from 32% to 45% of SMEs (excluding the PNBs) while the proportion *of those aware* who would consider using it remained broadly stable (31% in H2 2014 to 31% in H2 2016).

Both awareness and consideration were somewhat lower with the new question in H1 2017 but back in line for H2 2017:

Awareness and use of crowd funding All SMEs excl PNBs Over time	H2 2014	H1 2015	H2 2015	H1 2016	H2 2016	H1 2017	H2 2017
Unweighted base:	***6729***	***6415***	***6596***	***5862***	***5772***	***6049***	***5891***
Aware of crowd funding	32%	37%	41%	42%	45%	38%	44%
- *Would consider applying in future*	10%	11%	12%	12%	14%	9%	13%
% aware who would consider	***31%***	***30%***	***29%***	***29%***	***31%***	***24%***	***30%***

Q238a3 All SMEs excl PNBs

A new question introduced in Q3 2017 sought a better understanding of attitudes amongst companies to equity finance. They were told that "Equity finance is where an external third party, like an angel investor but not friends, family or the directors, receives shares in the business in exchange for an injection of cash" and then asked for their views on such funding.

As the table below shows, only a small minority of companies were using, or planning to use such finance (3%) with 6 in 10 (62%) saying they knew nothing about this form of finance and most of the rest (22% overall) saying they did not think it was a suitable form of finance for them:

Attitudes to equity finance

All companies H2 17	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*5657*	*378*	*1617*	*2354*	*1308*
Use or plan to use in near future	3%	4%	3%	3%	6%
Reluctant to give up control of the business	8%	7%	7%	14%	22%
Do not think it is suitable for us	22%	21%	23%	22%	19%
Wouldn't know where to start	4%	6%	4%	2%	2%
Don't know anything about this form of finance	62%	62%	63%	59%	52%

Q238a4 All SMEs that are companies

Once the Permanent non-borrowers with no apparent appetite for external finance were excluded, the remaining companies were slightly more likely to be using or planning to use such finance (5%) with 1 in 5 saying it was not a suitable form of finance for them:

Attitudes to equity finance

All companies H2 17	Total	PNBs	Excl PNBs
Unweighted base:	*5657*	*1743*	*3914*
Use or plan to use in near future	3%	1%	5%
Reluctant to give up control of the business	8%	5%	10%
Do not think it is suitable for us	22%	25%	20%
Wouldn't know where to start	4%	2%	6%
Don't know anything about this form of finance	62%	67%	59%

Q238a4 All SMEs that are companies

Those in the Health sector were the most likely to be using or planning to use such finance (12%) compared to less than 1% in Agriculture and 1-5% for other sectors. Those in Manufacturing were the most likely to say this finance was not suitable for them (30%) compared to 11% in Health, 13% in Agriculture and 19-24% in other sectors.

SMEs that were planning to grow were no more likely to be using or planning to use equity finance (4% v 3% of those not planning to grow) with 24% saying it was not a suitable form of finance for them (v 20% of those not planning to grow).

15. Graphs and Charts

This chapter presents

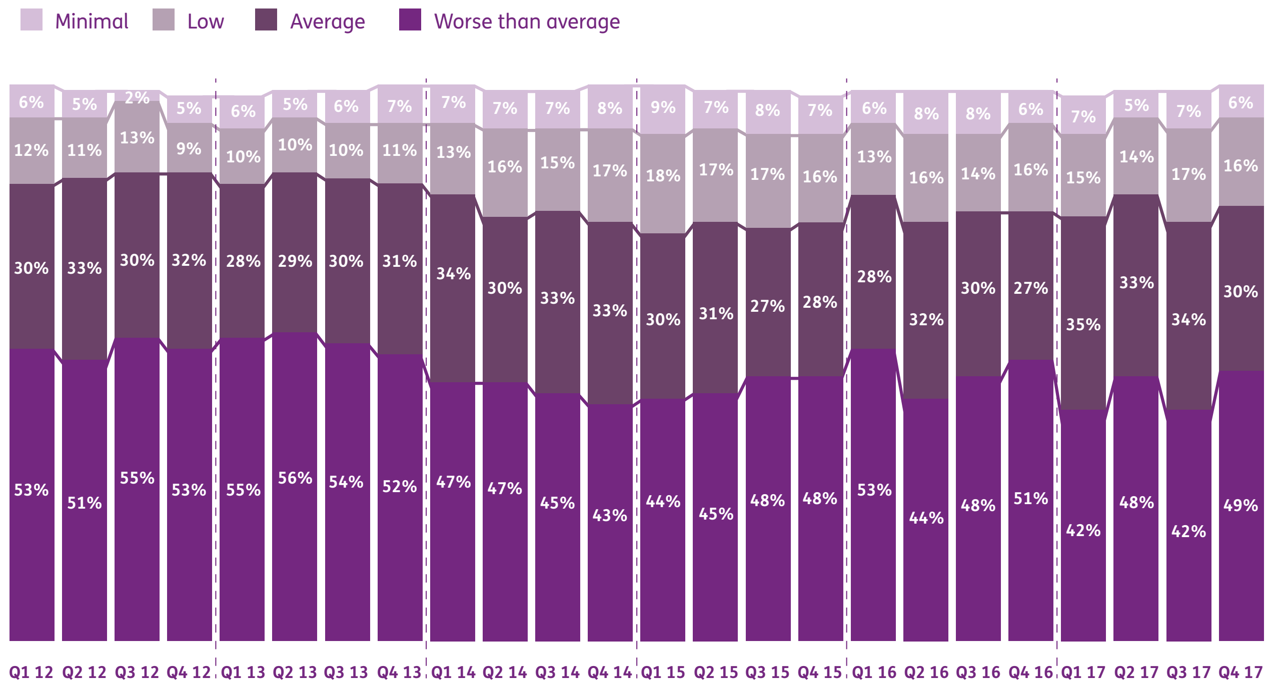
some of the key data in graphical form to provide data on longer term trends.

Much of the data in this report is provided and analysed over time, typically by quarter. After twenty five 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 from 2012. 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

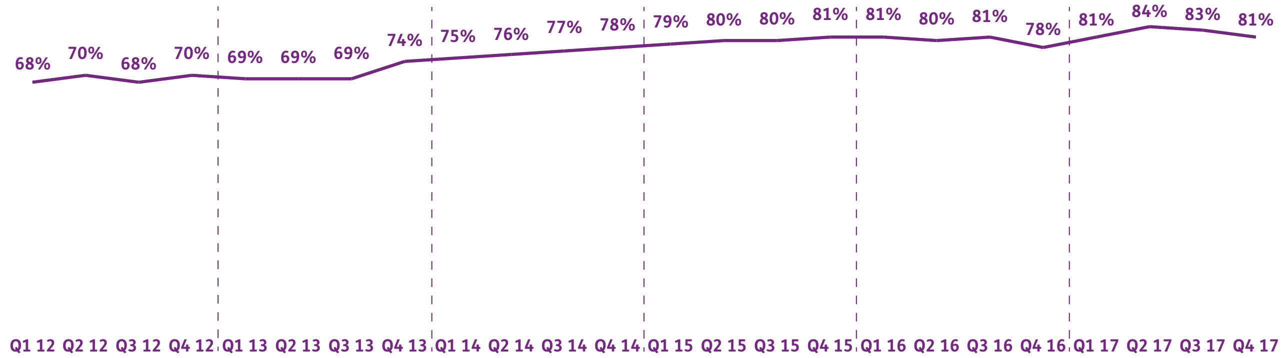
External risk rating from D&B or Experian

Time Series: Risk rating per quarter



% that made a net profit during last 12 month financial period

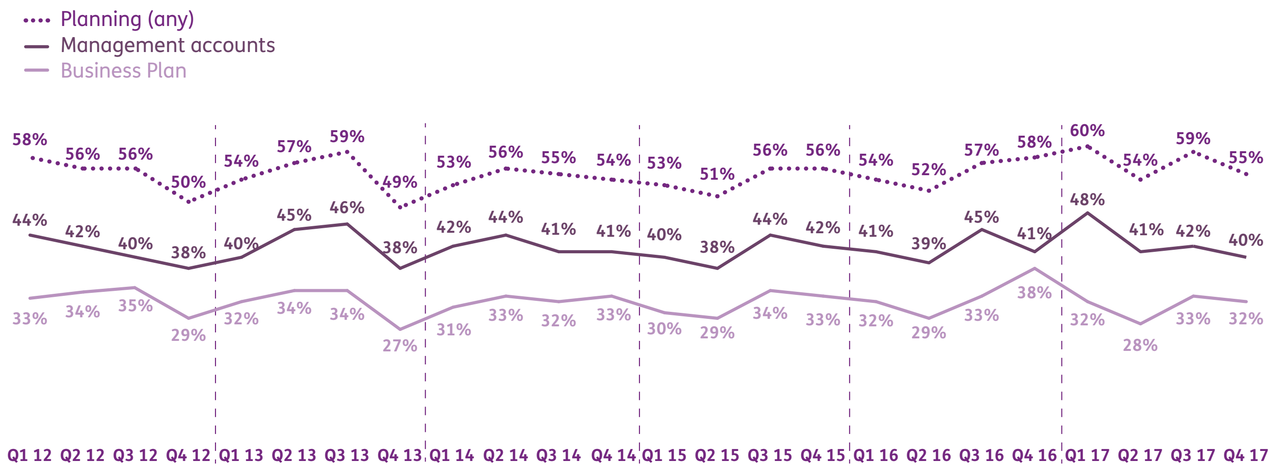
Time series: Reported profitability in past 12 months, per quarter, excluding DK



Q241

Proportion preparing management accounts/business plans

Time series: Business planning

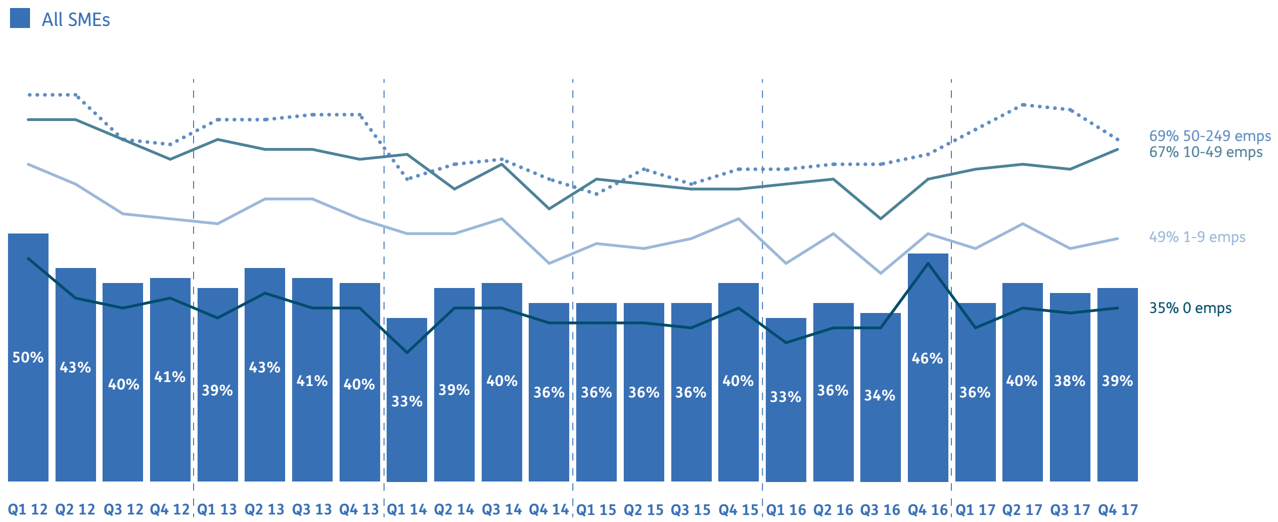


Q223

Charts reflecting data reported in Chapter 5

Use of any listed forms of external finance currently – by size

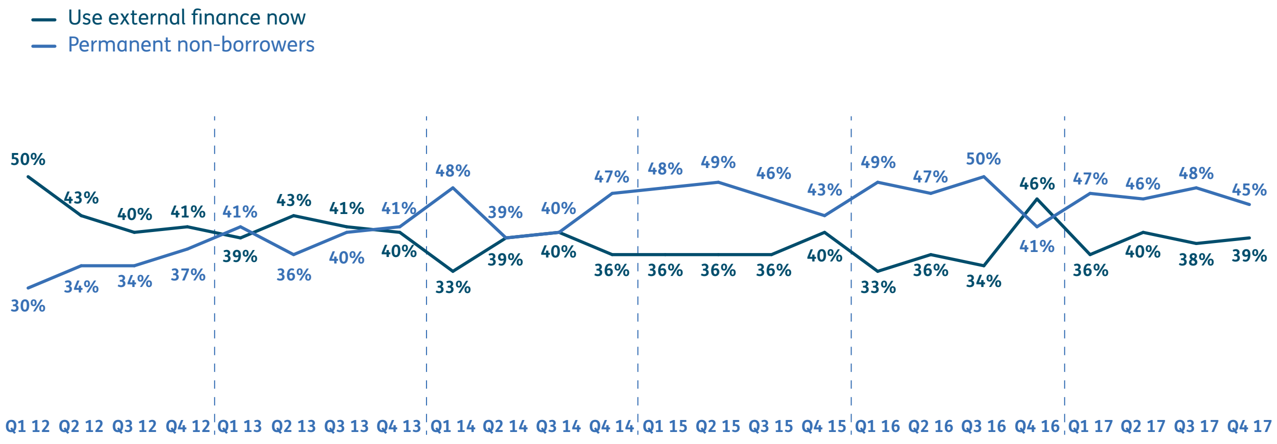
Time Series: Use of external finance per quarter



Q15

Proportion using external finance v those who meet definition of Permanent non-borrower

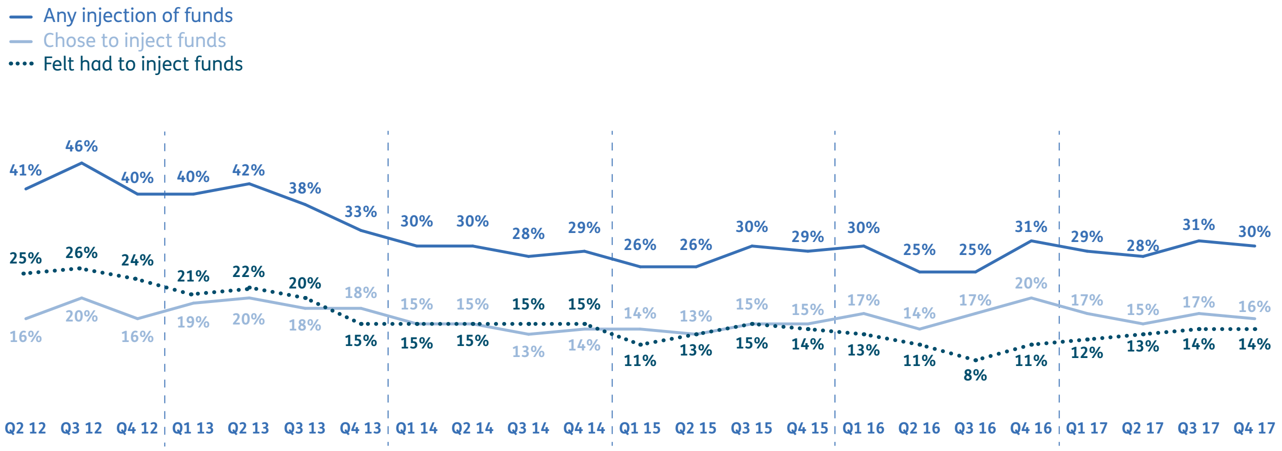
Time series: Permanent non-borrowers and users of external finance



Q15/14 and others

Proportion injecting personal funds into the business in last 12 months

Time series: Injections of personal funds

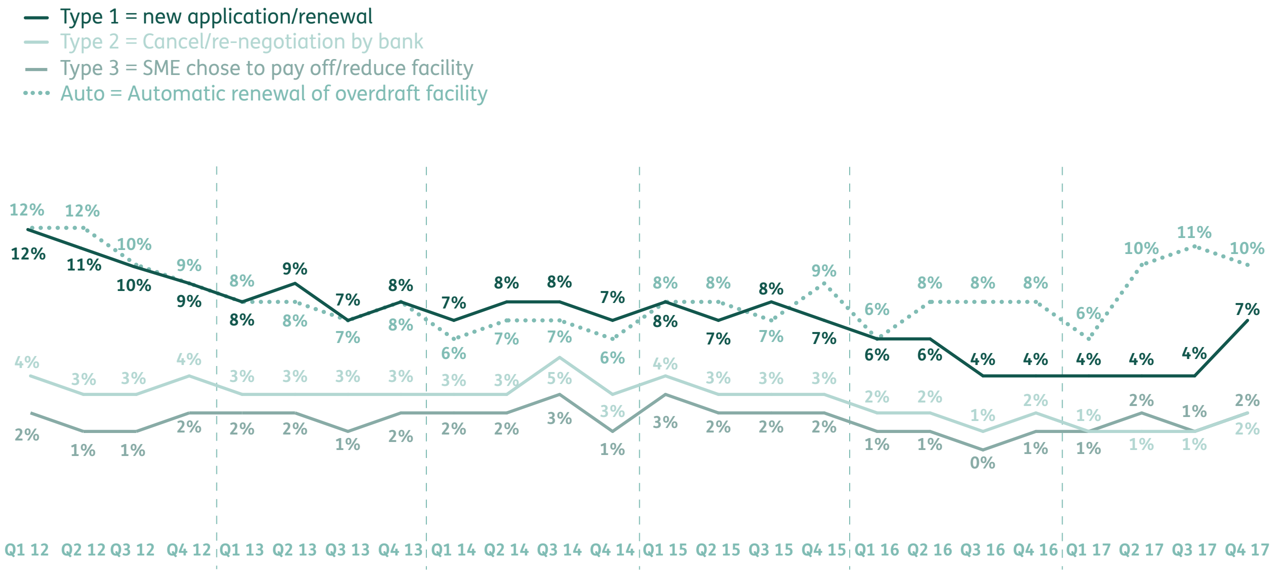


Q15/14 and others

Charts reflecting data reported in Chapter 6

Borrowing events in 12 months prior to interview

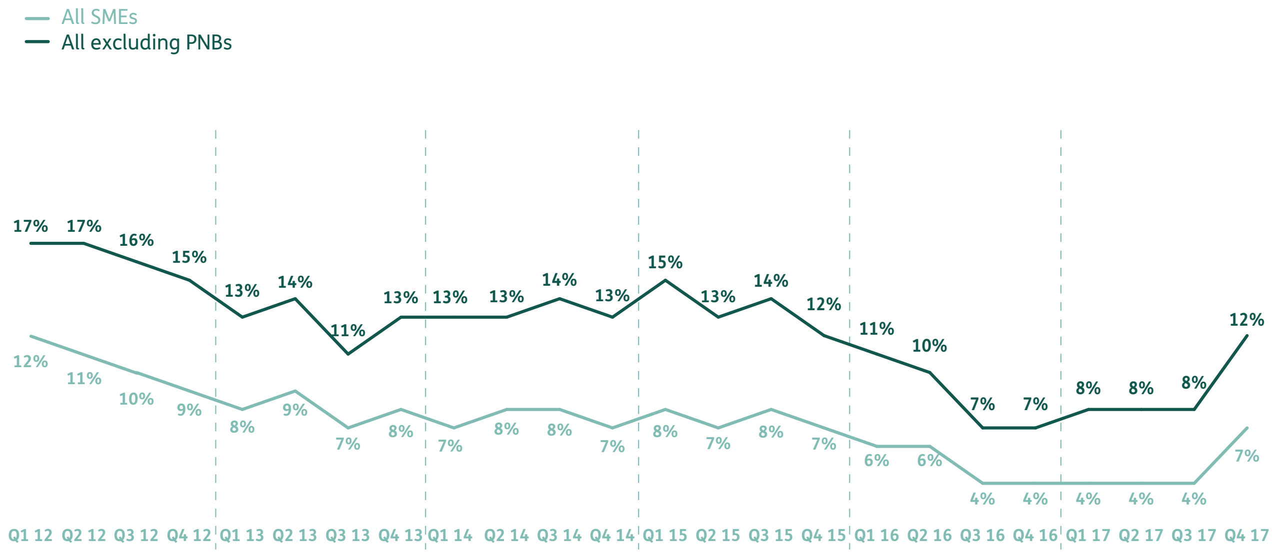
Time series: Borrowing events by date of interview



Q26

Applied for a new/renewed loan or overdraft in 12 months prior to interview – a Type 1 event

Time series: Type 1 events by date of interview

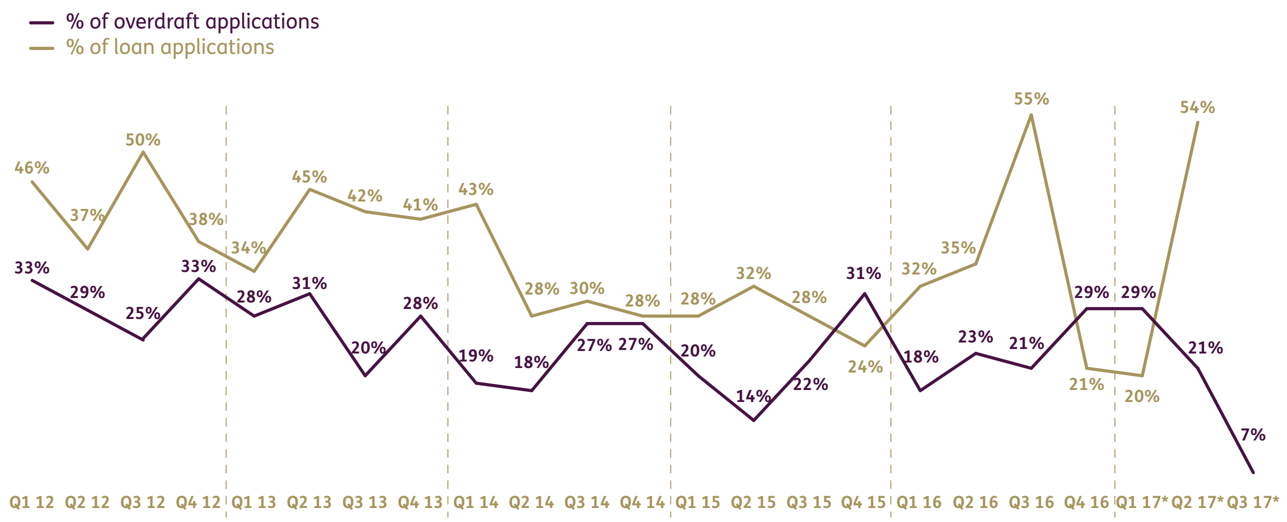


Q26

Charts reflecting data reported in Chapter 7

Proportion of all applications that were made by first time applicants

Time series: Applications made by first time applicants – by date of application

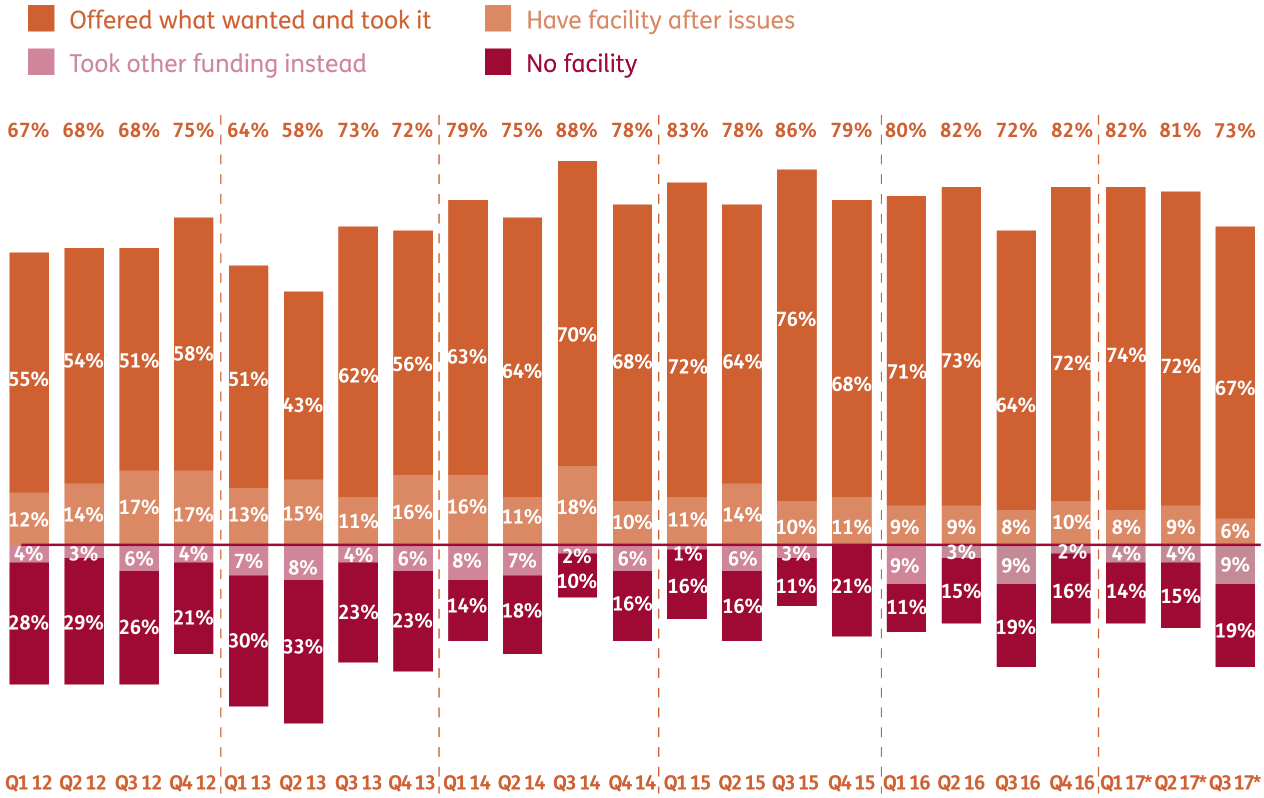


Q52/Q349

Charts reflecting data reported in Chapter 8

Outcome of all loan/overdraft applications and renewals

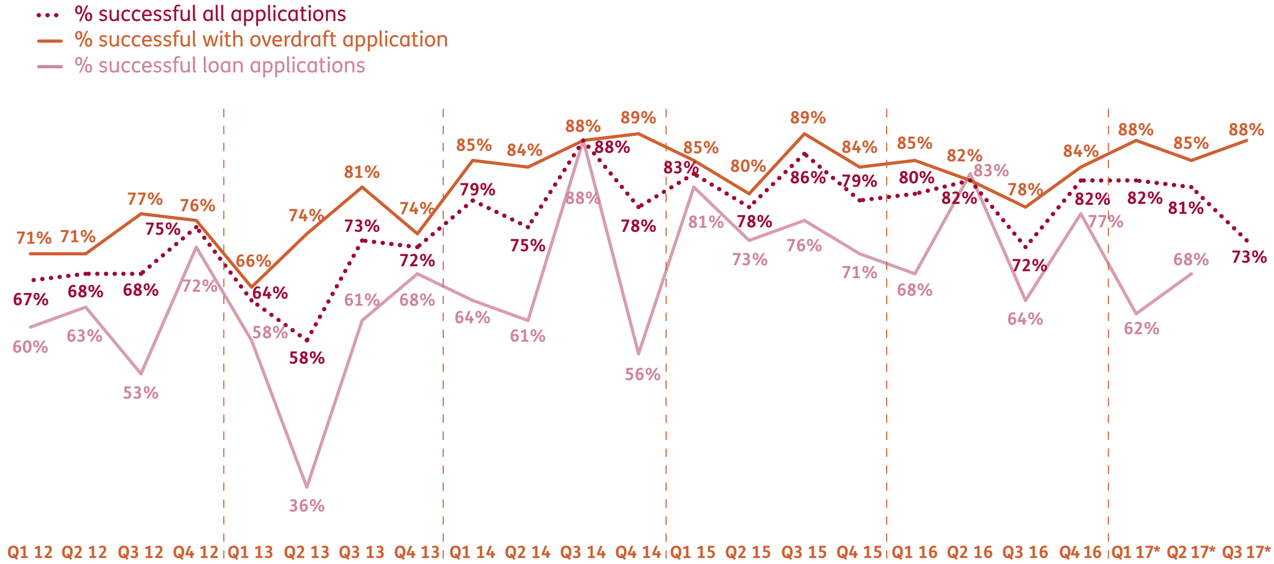
Time series: Outcome by application date – ALL applicants/renewals (loans and overdrafts)



Q64/66/81/92/97

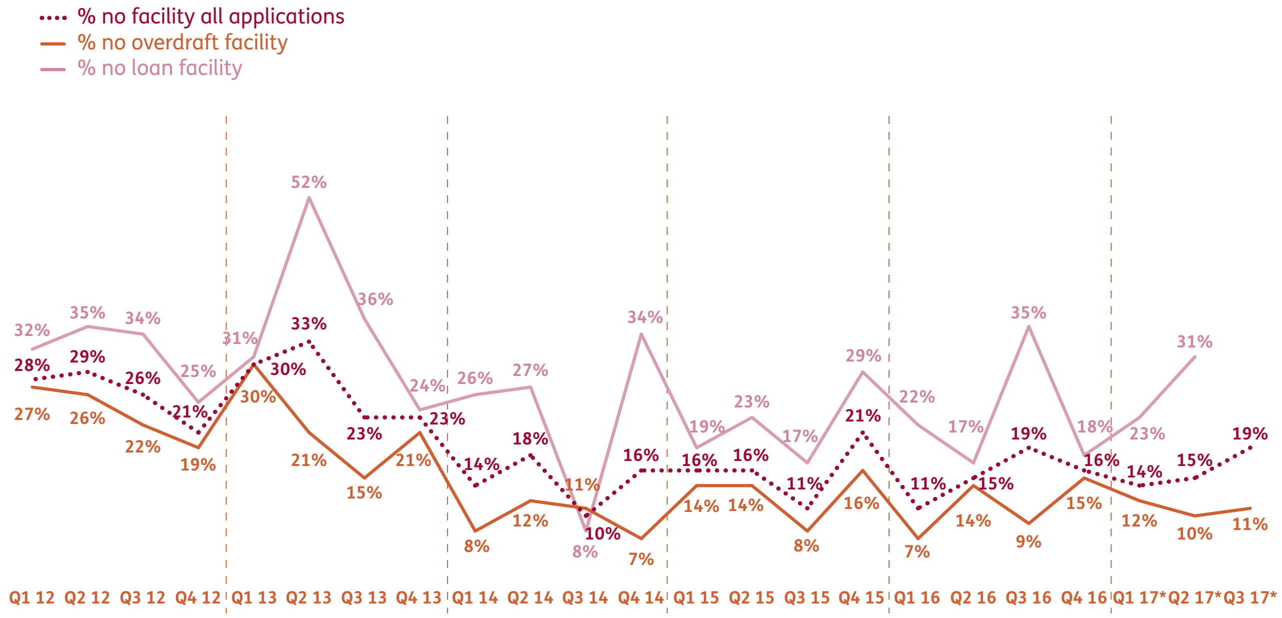
Proportion of all applications that were successful, and proportions of loan and overdraft applications

Time series: Successful outcome by application date



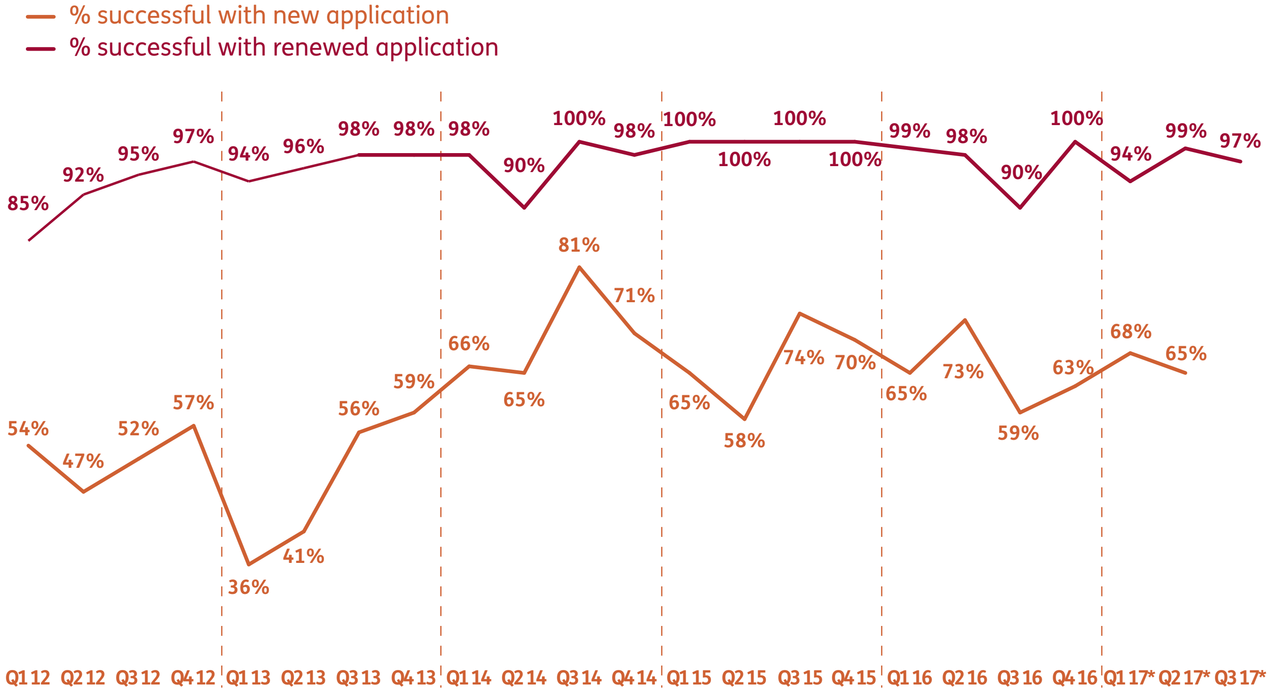
Proportion of all applications that ended the process with no facility, and proportions for loan and overdraft applications

Time series: Ended process with no facility by application date



Proportion of all applications that were successful: Applying for new money and applying to renew an existing facility

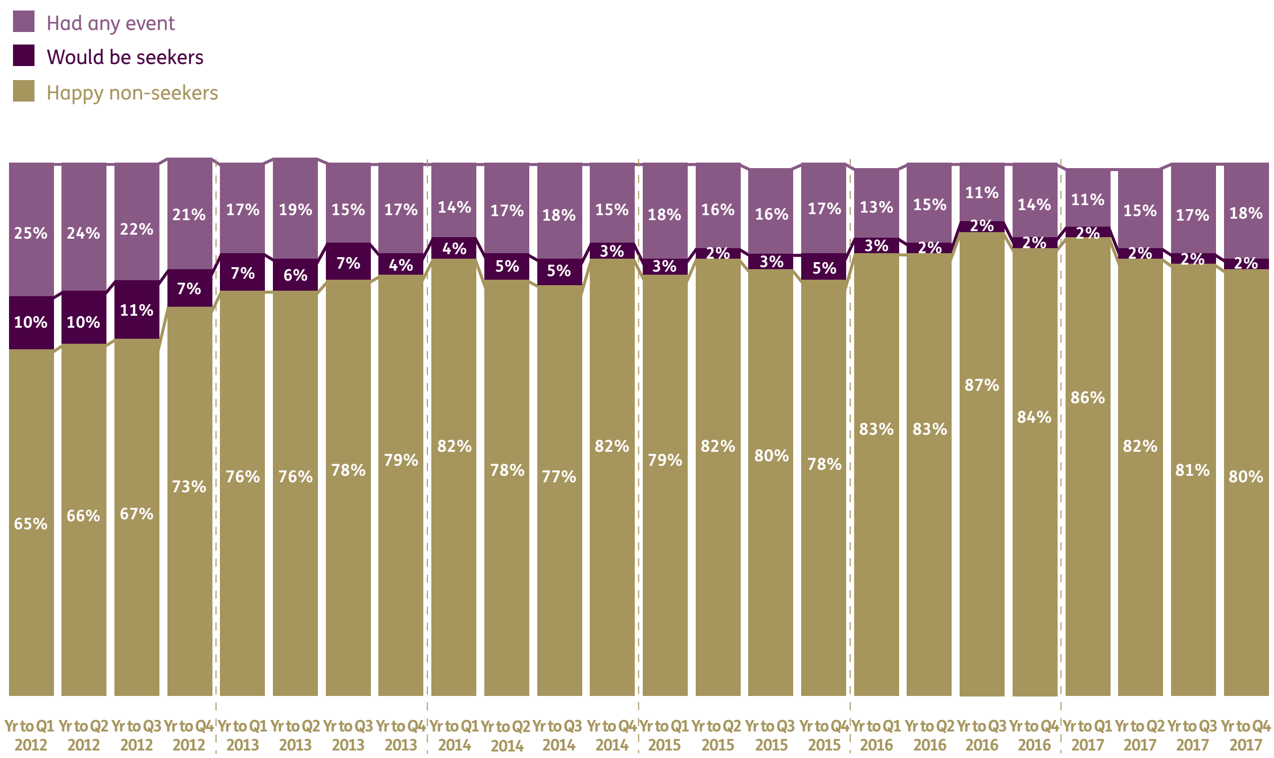
Time series: Outcome by application date – all renewed v new money loans and overdrafts



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

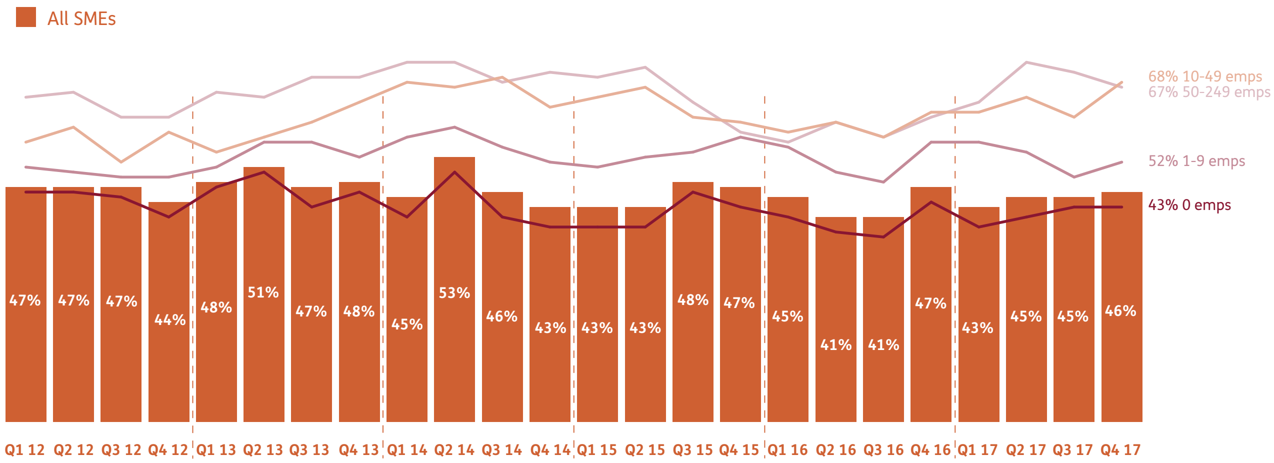


Q115/209

Charts reflecting data reported in Chapter 12

Plan to grow moderately/substantially in next 12 months

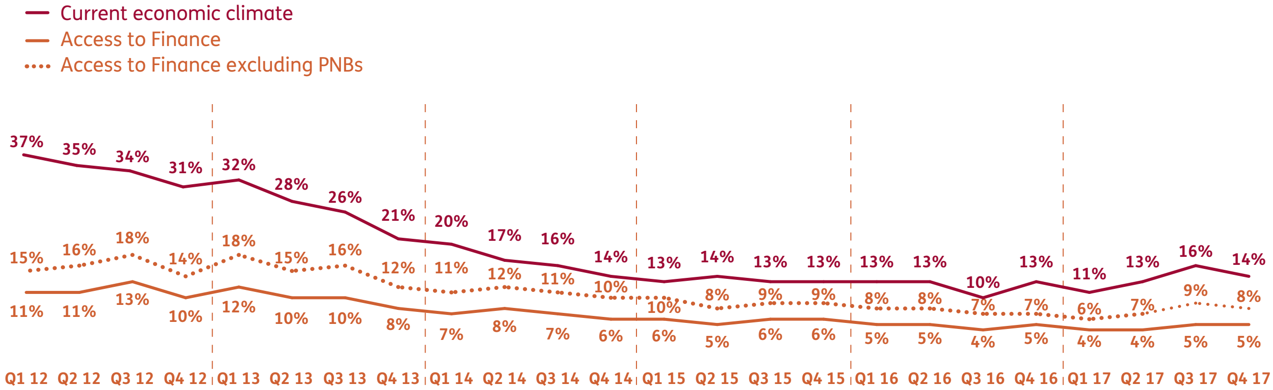
Time series: Plan to grow



Q26/Q225

Obstacles perceived to running business – Current economic climate and access to finance

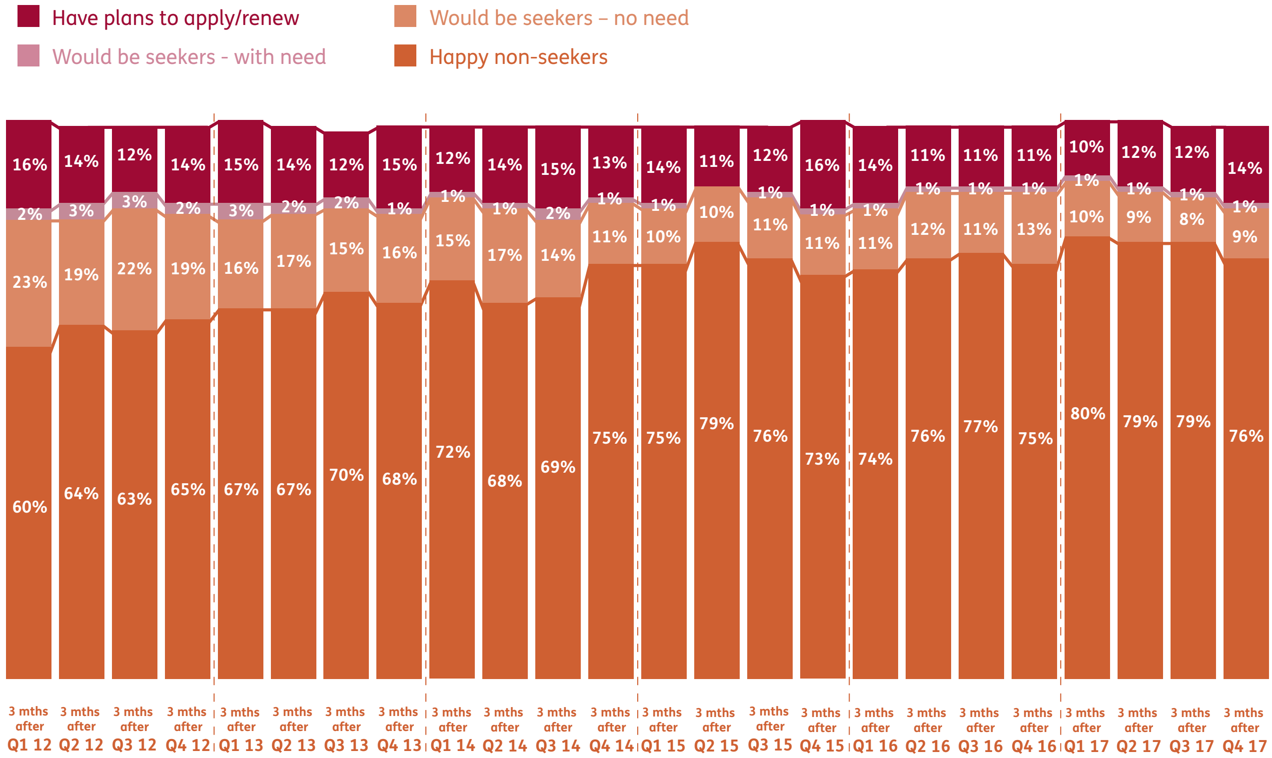
Time series: 8-10 major obstacle



Q227

Classification of respondents based on expected borrowing behaviour in 3 months after interview

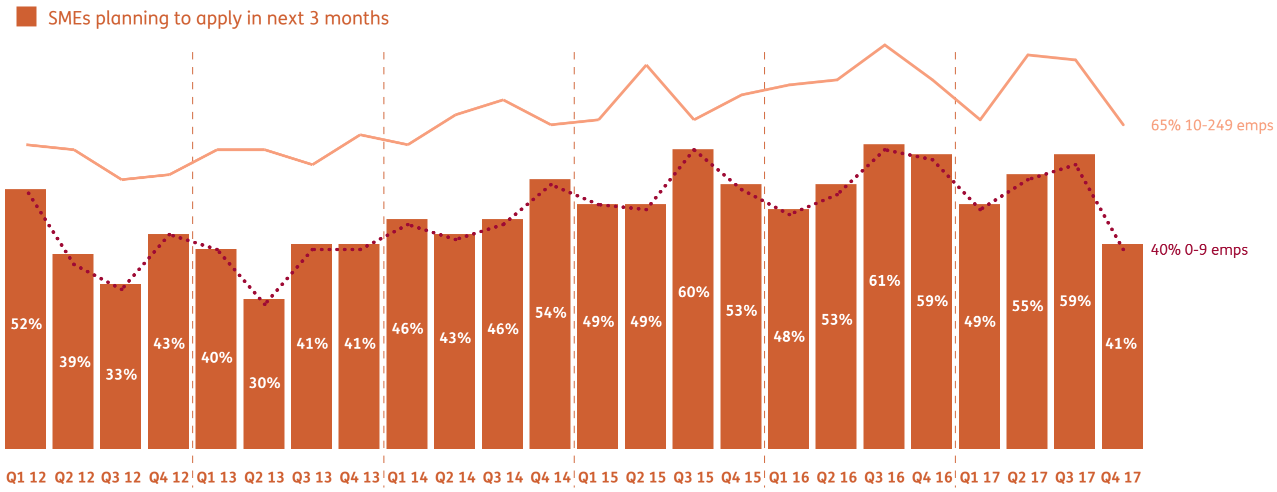
Time series: Anticipated borrowing profile for next 3 months



Q229

Confidence amongst those planning to apply for finance in 3 months after interview that bank will agree to request

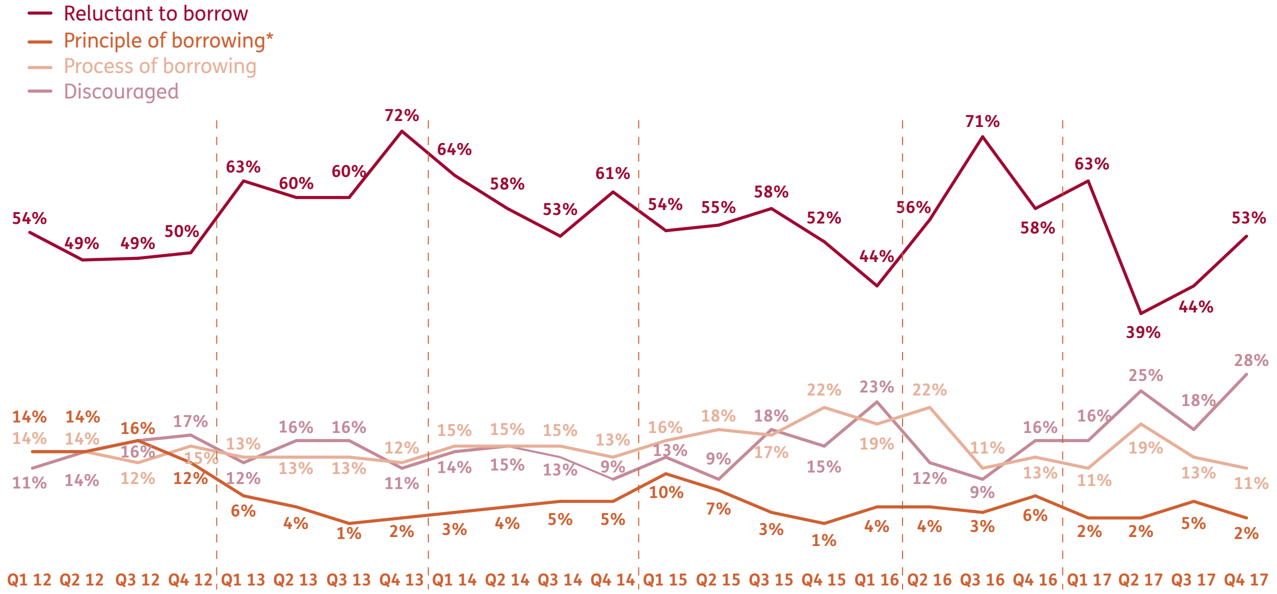
Time series: Confident bank will agree to facility next 3 months



Q238

Main barriers for Future would-be seekers

Time series: Main reason for not seeking borrowing amongst Future would-be seekers



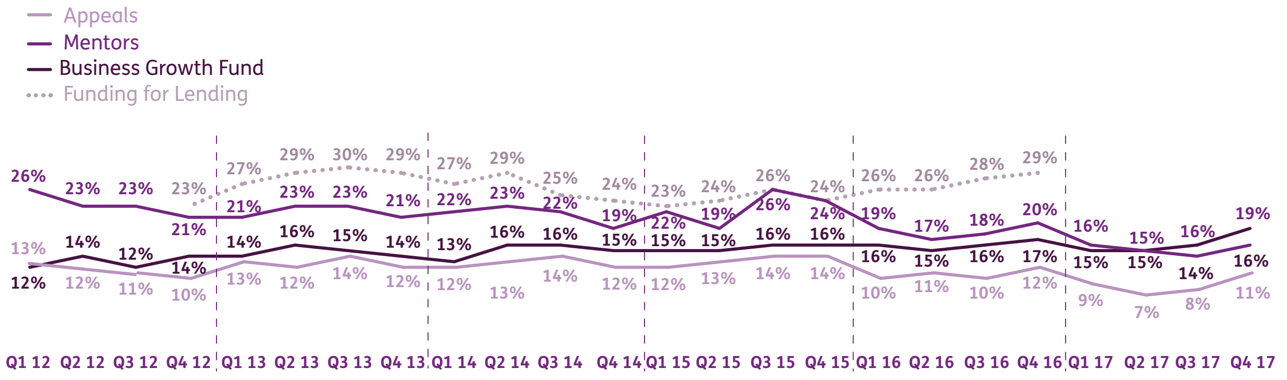
Q239a

*principle of borrowing no longer includes 'prefer not to borrow'

Charts reflecting data reported in Chapter 13

Awareness of key initiatives

Time series: Awareness of initiatives – all SMEs

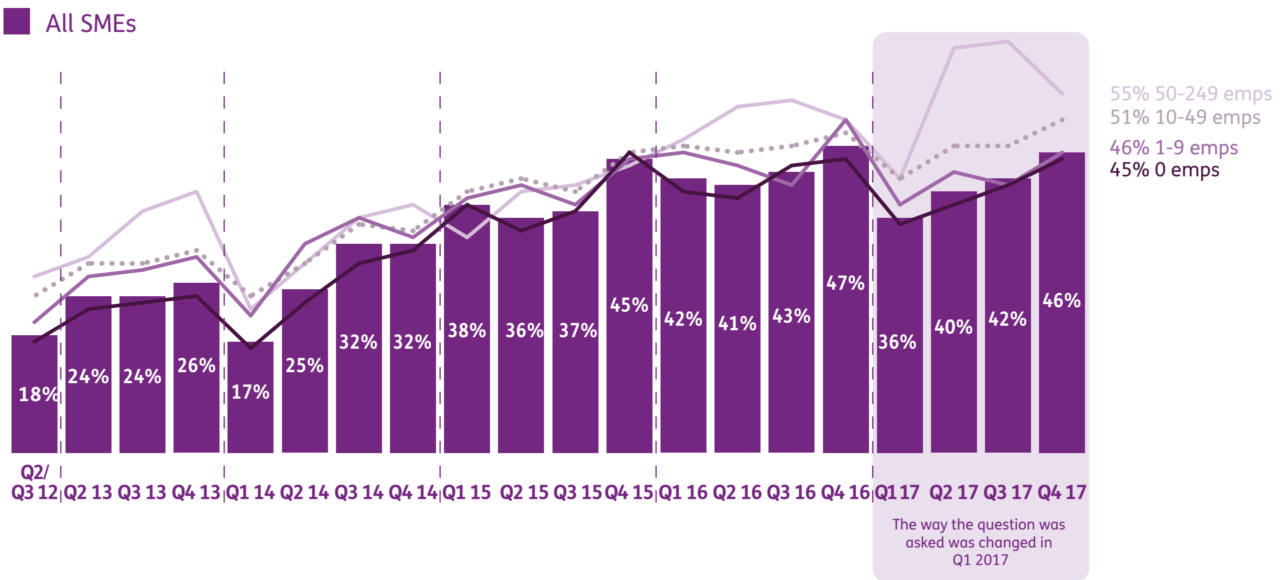


Q240

'Funding for Lending' is no longer tracked

Awareness of Crowdfunding

Time series: Awareness of Crowdfunding – excluding PNBs



Q236a2

16. 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%

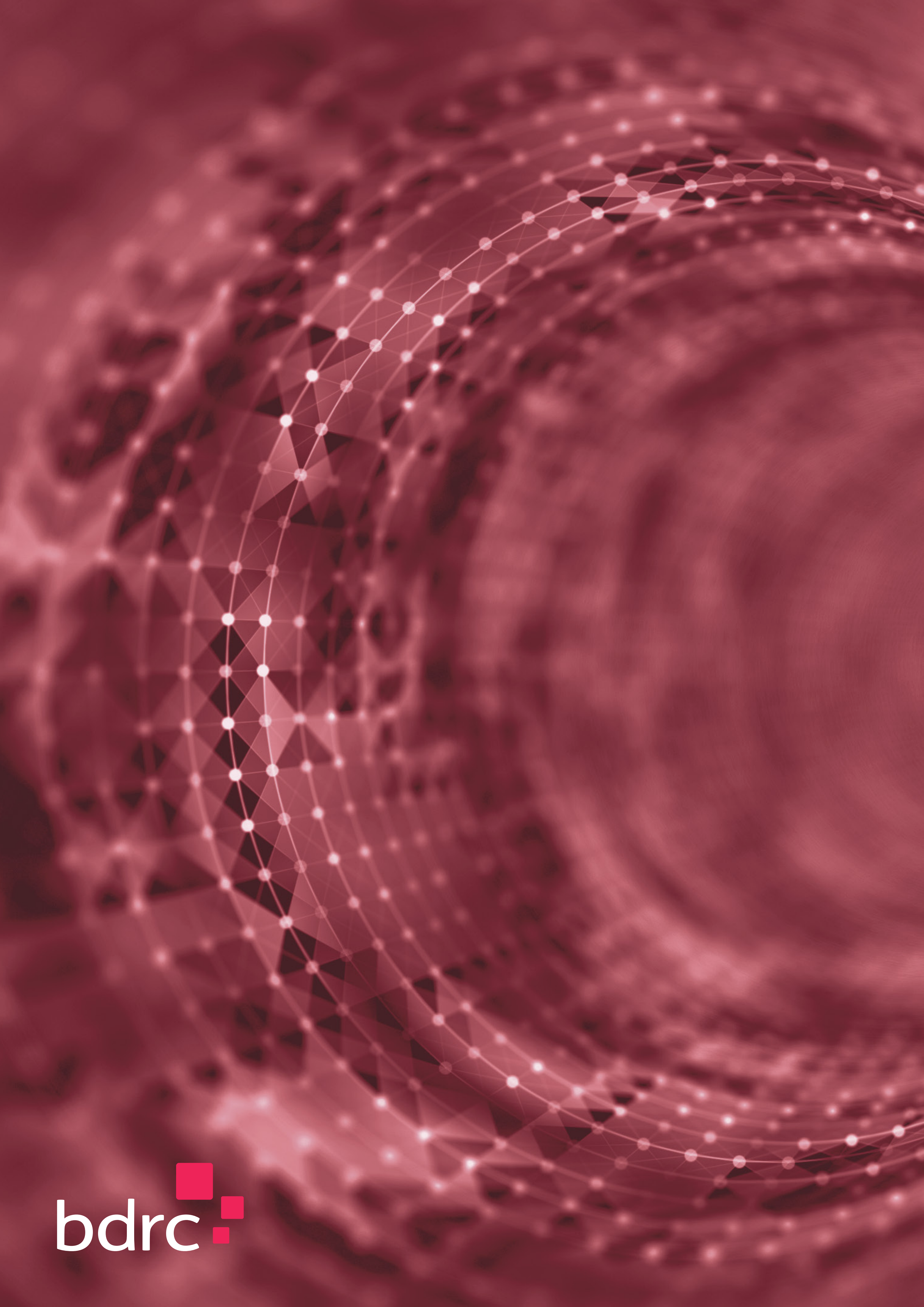
Analysis techniques

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.

A report such as this can only cover the main headlines emerging from the results.

Information within this report and extracts and summaries thereof are not offered as advice, and must not be treated as a substitute for financial or economic advice. This report represents BDRC's interpretation of the research information and is not intended to be used as a basis for financial or investment decisions. Advice from a suitably qualified professional should always be sought in relation to any particular matter or circumstance.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