

12. The future



This chapter reports

on growth plans and perceived barriers to that growth. It then explores SMEs' intentions for the next 3 months, in terms of finance and the reasons why SMEs think that they will/will not be applying for new/renewed finance in that time period.



Key findings

During 2016, the proportion of SMEs planning to grow fell from 45% in Q1 to 41% for both Q2 and Q3 before recovering to 47% in Q4. For the year as a whole, 43% of SMEs were planning to grow, continuing a gradual decline over time (in 2013, 49% were planning to grow).

- The changes during 2016 were led by SMEs with up to 10 employees.
- The longer term decline from 2013 to 2016 was seen more amongst the 0 employee SMEs (46% to 40% planning to grow) and those with 50-249 employees (67% to 58%).
- Growth ambitions in 2016 were higher amongst those who import (63% planned to grow) or who both import and export (70%) and these were also in line with their ambitions in 2015. Those who only export were less likely to be planning to grow (49%) than their international peers and this was also lower than in 2015 (when 59% of exporters planned to grow).

There was no change during 2016 in the overall proportion of SMEs rating either the current economic climate or 'political uncertainty and government policy' as major barriers, but larger and international SMEs did show some signs of concern in the second half of the year.

- In Q4 2016, 13% of all SMEs rated the current economic climate as a major obstacle, and this has changed very little during 2015 or 2016, due to there being little change in the views of the 0 employee SMEs. Amongst SMEs with 50-249 employees the proportion rating the current economic climate as a major barrier increased from 8% in 2015 to 15% in Q4 2016.
- 12% rated 'political uncertainty and government policy' as a major obstacle, up slightly from the 9-10% rating it a major obstacle during the rest of 2016 and 2015. Again, larger SMEs gave higher ratings in 2016 - the proportion of 50-249 employee SMEs rating political uncertainty as a barrier increased from 7% in 2015 to 15% in Q4 2016.



- More significant increases were seen amongst SMEs that trade internationally, notably those who both import and export where concern about the economic climate increased from 17% in 2015 to 35% in Q4 2016 and concern about political uncertainty increased from 8% to 32% in the same period.

The proportion of SMEs planning to apply for finance in the 3 months after interview was 14% in Q1 2016 and then 11% for the rest of the year.

- The 12% planning to apply for 2016 as a whole was marginally lower than the 13% recorded for both 2014 and 2015, due to a consistent appetite for finance amongst 0 employee SMEs. Amongst those with employees, future appetite for finance has fallen since 2012.
- Excluding the Permanent non-borrowers with little apparent appetite for finance results in a more marked decline in appetite for finance from 28% of such SMEs in Q1 2016 to 19% in Q4. For 2016 as a whole though, appetite for finance was 23%, only slightly lower than the 25% recorded in 2015.
- Confidence amongst potential applicants that the bank would agree to lend to them increased during 2016 and was 55% for the year as a whole. This continued the increase in confidence seen since 2013, when 39% were confident of success. Larger SMEs and those with a better risk rating remained more confident of success, but confidence has increased for all groups over time.
- In Q4 2016 itself, 59% of those planning to apply to a bank were confident of success. Confidence about a hypothetical application amongst those who were not planning to apply was higher at 69%, driven by higher confidence amongst Future happy non-seekers (72%).



14% of SMEs in Q4 2016 expected to be Future would-be seekers of finance, and this has changed very little over recent quarters, remaining lower than seen in previous years (in 2012, 23% of SMEs were Future would-be seekers).

- The main barrier to a future application remained a reluctance to borrow in the current climate. This has typically been mentioned by around half of Future would-be seekers but was mentioned more in Q3 2016 (71%) immediately post Brexit. In Q4 it was mentioned as a reason by 58% of FWBS.
- During 2016, FWBS became somewhat more confident that their bank would agree to an application for finance, if they were to make one (from 38% in Q1 2016 to 57% in Q4). However, they remained less confident than Future happy non-seekers (72% in Q4 2016) and were also less confident about their ability to assess financial products or apply to another bank for finance: 51% were confident they could apply for finance to a bank other than their own, compared to 58% of those planning to apply and 63% of Future happy non-seekers.



Having reviewed performance over the 12 months prior to interview, SMEs were then asked about the **future**. As this is looking forward, the results from each quarter can more easily be compared to each other, providing a guide to SME sentiment.

This chapter reports on growth objectives and perceived barriers to future business performance. It then explores SMEs' intentions for the next 3 months in terms of finance and the reasons why SMEs think that they will/will not be applying for new/renewed finance in that time period.

Most of this chapter therefore is based on Q4 2016 data gathered between September and December, after the immediate aftermath of the referendum result but before any Government plans for Brexit had been published. Analysis of results across the four individual quarters of 2016 provides a first read of how SMEs are responding to the referendum result.

Given that SMEs that trade internationally will potentially see more of an impact post-Brexit, this chapter also includes a summary of how such SMEs have been feeling across the four quarters of 2016.



Growth plans for next 12 months

SMEs were asked about their growth plans for the next 12 months. In Q3 2015 the answer codes to this question were adjusted to match the question asked about past growth. Thus ‘Grow substantially’ became ‘Grow by 20% or more’ and ‘Grow moderately’ became ‘Grow but by less than 20%’.

The results reported below show that, since that change, the *net* growth figure has been

broadly in line with previous quarters but the split between ‘Grow by 20% or more’ and ‘Grow but by less than 20%’ has been different to that seen previously, with more SMEs planning to grow by 20% or more. Growth predictions in both Q2 2016 and Q3 2016 (immediately pre and post Brexit) were somewhat lower than had been seen at the end of 2015, but in Q4 2016 almost half of SMEs (47%) were planning to grow:

Growth in next 12 mths

All SMEs– over time By date of interview	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Unweighted base:	5024	5038	5001	5004	5003	4500	4500	4500	4500
Grow by 20% or more*	7%	8%	6%	24%	24%	21%	16%	16%	19%
Grow by less than 20%*	36%	35%	37%	24%	23%	24%	25%	25%	28%
All with objective to grow	43%	43%	43%	48%	47%	45%	41%	41%	47%
Stay the same size	46%	48%	47%	43%	43%	46%	47%	51%	44%
Become smaller	4%	4%	4%	4%	4%	5%	6%	4%	4%
Plan to sell/pass on/close	7%	6%	6%	4%	5%	4%	5%	4%	5%

Q225 All SMEs *definition changed for Q3 2015

The proportion of SMEs *predicting* growth, and 20%+ growth in particular, has typically been somewhat higher than the proportion *achieving* that level of growth. During 2016, the proportion expecting to grow dipped from 45% in Q1 to 41% for both Q2 and Q3 before increasing again to 47% in Q4. As the table later in this section shows, it was the smaller SMEs and notably those with 1-9 employees who drove this change.



In Q4 2016, the smallest SMEs were less likely to be planning to grow at all (44%), but as likely as larger SMEs to be planning to grow by 20% or more (18%):

Plans to grow in next 12 mths			0	1-9	10-49	50-249
Q4 16 only	Total	emp	emps	emps	emps	
<i>Unweighted base:</i>	4500	900	1450	1450	700	
Grow by 20% or more	19%	18%	23%	19%	18%	
Grow by less than 20%	28%	26%	33%	42%	43%	
<i>All with objective to grow</i>	47%	44%	56%	61%	61%	
Stay the same size	44%	46%	38%	36%	37%	
Become smaller	4%	5%	3%	2%	2%	
Plan to sell/pass on/close	5%	6%	4%	1%	*	

Q225 All SMEs New Question wording in Q4 2012

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

- For SMEs with 0 employees around 4 in 10 have been planning to grow, with a slight dip in Q2 and Q3 2016.
- Amongst SMEs with 1-9 employees 57% were planning to grow in Q4 2015. During 2016 that proportion declined somewhat to 48% in Q3 before increasing back to 56% for Q4 2016.
- From Q3 2015 a fairly consistent 6 in 10 SMEs with 10-49 employees have planned to grow.
- Similarly since Q3 2015, 6 in 10 SMEs with 50-249 employees have been planning to grow.



Objective to grow (any) in next 12 months

Over time – row percentages By date of interview	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
All SMEs	43%	43%	43%	49%	47%	45%	41%	41%	47%
0 employee	39%	39%	39%	46%	43%	41%	38%	37%	44%
1-9 employees	52%	51%	53%	54%	57%	55%	50%	48%	56%
10-49 employees	63%	65%	67%	61%	60%	58%	60%	57%	61%
50-249 employees	69%	69%	71%	64%	58%	56%	60%	57%	61%
Minimal external risk rating	40%	35%	44%	42%	38%	35%	36%	45%	41%
Low external risk rating	40%	44%	44%	47%	42%	44%	37%	41%	46%
Average external risk rating	39%	36%	37%	43%	41%	38%	35%	39%	43%
Worse than average external risk rating	50%	47%	48%	54%	54%	51%	51%	41%	51%
Agriculture	25%	32%	33%	40%	31%	34%	28%	37%	37%
Manufacturing	55%	41%	57%	53%	45%	43%	52%	41%	37%
Construction	34%	33%	31%	35%	42%	40%	33%	30%	37%
Wholesale/Retail	50%	54%	47%	60%	52%	54%	49%	50%	53%
Hotels & Restaurants	41%	45%	40%	48%	51%	49%	50%	45%	46%
Transport	34%	43%	46%	45%	44%	43%	43%	43%	43%
Property/Business Services etc.	45%	43%	48%	56%	46%	46%	40%	42%	56%
Health	50%	51%	43%	51%	46%	38%	39%	39%	45%
Other Community	49%	47%	47%	47%	59%	50%	45%	42%	51%
All Permanent non-borrowers	38%	37%	36%	42%	39%	39%	33%	35%	38%
All excluding PNBs	48%	48%	50%	54%	53%	50%	49%	46%	53%

Q225 All SMEs base size varies by category



The variability in predicted growth quarter on quarter makes trends harder to discern. The table below looks at annual growth plans since 2013 (due to previous changes to the question in Q4 2012) by key business demographics. Compared to 2013, SMEs in 2016 were somewhat less likely to be predicting growth (43% v 49%):

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

Q225 All SMEs



Analysis on an annual basis, in the table above, reveals the steady decline in the proportion planning to grow to 43% in 2016. The decline was more marked amongst the smallest, 0 employee, SMEs and also the largest, with 50-249 employees. It was also seen more amongst those with a minimal external risk rating and amongst those who met the definition of a PNB.

98% of those planning to grow said that selling to existing markets in the UK was the main way in which this growth would be achieved (the equivalent of 44% of all SMEs). Overall, more SMEs planned to grow by selling to new markets in the UK (11% of all SMEs) than overseas (3%):

How plan to grow Q4 16	All planning to grow	All SMEs
<i>Unweighted base:</i>	2335	4500
Sell in the UK	98%	44%
<i>Increase sales in existing markets in UK</i>	86%	39%
<i>Sell in new markets in UK</i>	24%	11%
Sell overseas	10%	5%
<i>Increase sales in existing markets overseas</i>	7%	3%
<i>Sell in new markets overseas</i>	6%	3%

Q226 All SMEs planning to grow excluding DK/All SMEs

Exporters remained more likely to be predicting growth than their domestic peers and in Q4 2016, 58% reported that they planned to grow compared to 46% of non-exporters. Exporters are typically larger but both larger and smaller exporters were more likely to report planned growth than their peers:

- Amongst SMEs with 0-9 employees: 57% of exporters interviewed in Q4 2016 planned to grow compared to 46% of non-exporters.
- Amongst SMEs with 10-249 employees: 67% of exporters interviewed in Q4 2016 planned to grow compared to 60% of non-exporters.



As the table below shows, the majority of both exporters and non-exporters said that they would achieve that growth through sales in the UK. However, while two-thirds of exporters (65%) also planned to sell more overseas, just 4% of those who were not exporting planned to look overseas:

How plan to grow Q4 16	All planning to grow who export	All planning to grow who do not export
Unweighted base:	308	2027
Sell in the UK	89%	99%
<i>Increase sales in existing markets in UK</i>	83%	86%
<i>Sell in new markets in UK</i>	36%	23%
Sell overseas	65%	4%
<i>Increase sales in existing markets overseas</i>	56%	2%
<i>Sell in new markets overseas</i>	37%	3%

Q226 All SMEs planning to grow excluding DK

The tables below summarise these differences between exporters and non-exporters over recent quarters. The first table below shows that exporters have been more likely to be planning to grow each quarter than those that do not export:

Objective to grow (any) in next 12 months									
By date of interview	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Row percentages	2014	2015	2015	2015	2015	2016	2016	2016	2016
Exporters	57%	64%	61%	69%	66%	60%	59%	62%	58%
Non-exporters	41%	40%	41%	46%	44%	43%	40%	39%	46%

Q225 All SMEs New Question wording in Q4 2012



The second table is based on those planning to grow and summarises how this growth is to be achieved (excluding 'Don't know' answers). Existing markets were the main target for both exporters and non-exporters:

How plan to grow

By date of interview	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Row percentages	2014	2015	2015	2015	2015	2016	2016	2016	2016
In existing markets:									
<i>Exporters</i>	89%	86%	90%	86%	93%	92%	88%	86%	88%
<i>Non-exporters</i>	89%	90%	87%	90%	89%	92%	89%	92%	87%
New UK markets:									
<i>Exporters</i>	26%	40%	34%	41%	25%	38%	35%	32%	36%
<i>Non-exporters</i>	18%	19%	20%	21%	27%	19%	22%	18%	23%
New overseas markets:									
<i>Exporters</i>	24%	22%	19%	26%	13%	33%	29%	24%	37%
<i>Non-exporters</i>	3%	5%	4%	3%	3%	3%	5%	3%	3%

Q226 All SMEs planning to grow excluding DK



The final piece of analysis in this section takes a longer term view back to 2013. The table below shows that growth ambitions have declined overall for SMEs (49% to 43%), and for non-exporters (48% to 42%). Meanwhile, ambition amongst exporters increased year on year from 2013 to 2015 (60% to 65%) before declining back to 60% in 2016.

Amongst exporters planning to grow, the proportion planning to do so in new overseas markets (not necessarily within the EU) declined between 2013 and 2015 (30% to 20%) before improving to 31% in 2016.

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

Q225/226 All SMEs planning to grow excluding DK

More detailed analysis of the growth ambitions of international SMEs, not just exporters, is now provided at the end of this chapter.



Obstacles to running the business in the next 12 months

SMEs were asked to rate the extent to which each of a number of factors were perceived as obstacles to them running the business as they would wish in the next 12 months, using a 1 to 10 scale (where 1 meant the factor was not an obstacle at all, and 10 that it was seen as a major obstacle). Scores have been analysed in 3 bands:

- 1-4 = a minor obstacle
- 5-7 = a moderate obstacle
- 8-10 = a major obstacle.

Over time, some amendments have been made to the list of factors tested.

- In Q3 2014, the following amendments were made:
 - ‘Staff related issues’ was amended to be ‘Issues recruiting and retaining skilled staff’.
 - A new factor was added ‘Political uncertainty and future government policy’.
 - Any SMEs that did not rate any of the factors 8-10 (a major obstacle) were asked whether there was anything else that they saw as an obstacle that was not on this list.
- In Q3 2015 an additional code was included ‘The quality of management and leadership in the business’.

The latest data was collected in the immediate aftermath of the referendum campaign. At an overall level there was little change in the proportion of SMEs rating either the current economic climate or ‘Political uncertainty and future government policy’ as major obstacles, but this was due to there being no change in the views of 0 employee SMEs. Amongst larger SMEs and/or those who are international, both of these factors were mentioned more as major obstacles as 2016 progressed. More detail is provided below and this will be monitored over future waves.



As in all previous quarters, the economic climate remained the key issue in Q4 2016, but was a major obstacle for 1 in 8 SMEs compared to 1 in 3 at its peak:

- The **current economic climate** was rated as a major obstacle (8-10) by 13% of SMEs in Q4 2016. Whilst it remained the top rated barrier, this is a declining proportion of SMEs over time.
- 12% rated **political uncertainty/government policy** as a major obstacle.
- **Legislation and regulation** was the next most important obstacle. It was rated a major obstacle by 10% of SMEs.
- 6% rated **recruiting and retaining staff** as a major obstacle.
- The same proportion, 6%, of SMEs rated **availability of relevant advice** for their business as a major obstacle for the year ahead.
- 5% saw **access to external finance** as a major obstacle.
- **Cash flow and issues with late payment** was also rated a major obstacle by 5% of SMEs.
- The new factor, **management and leadership skills**, was also rated a major obstacle by 5% of SMEs.

The analysis below looks in detail at the barriers perceived in Q4 2016, by size of SME. Details of how these views have changed over time are provided later in this chapter.

Extent of obstacles in next 12 months		0	1-9	10-49	50-249
Q4 16 – all SMEs	Total	emp	emps	emps	emps
Unweighted base:	4500	900	1450	1450	700
The current economic climate (mean score)	4.0	3.9	4.4	4.5	4.5
- 8-10 major obstacle	13%	13%	16%	14%	13%
- 5-7 moderate obstacle	29%	27%	33%	38%	36%
- 1-4 minor obstacle	56%	59%	49%	45%	47%
Legislation and regulation	3.5	3.3	4.0	4.1	3.9
- 8-10 major obstacle	10%	9%	14%	13%	8%
- 5-7 moderate obstacle	23%	22%	27%	28%	30%
- 1-4 minor obstacle	64%	67%	56%	55%	58%
Political uncertainty/future govt policy	3.6	3.4	4.1	4.2	4.4
- 8-10 major obstacle	12%	11%	17%	15%	15%
- 5-7 moderate obstacle	23%	22%	28%	31%	32%
- 1-4 minor obstacle	61%	64%	53%	50%	47%

Continued



Continued

Cash flow/issues with late payment	2.7	2.6	3.0	3.0	3.0
- 8-10 major obstacle	5%	5%	8%	6%	5%
- 5-7 moderate obstacle	17%	16%	19%	19%	21%
- 1-4 minor obstacle	76%	78%	72%	72%	71%
Recruiting/retaining staff	2.3	2.0	3.2	3.8	3.6
- 8-10 major obstacle	6%	4%	11%	12%	10%
- 5-7 moderate obstacle	11%	7%	19%	26%	22%
- 1-4 minor obstacle	81%	85%	68%	60%	66%
Access to external finance	2.3	2.1	2.6	2.6	2.6
- 8-10 major obstacle	5%	4%	7%	5%	4%
- 5-7 moderate obstacle	11%	9%	14%	15%	15%
- 1-4 minor obstacle	82%	83%	77%	77%	77%
Availability of relevant advice	2.4	2.4	2.8	2.6	2.7
- 8-10 major obstacle	6%	5%	7%	3%	5%
- 5-7 moderate obstacle	12%	11%	15%	16%	14%
- 1-4 minor obstacle	80%	82%	75%	77%	78%
Management and leadership skills	2.1	1.9	2.4	2.7	2.8
- 8-10 major obstacle	5%	4%	7%	6%	5%
- 5-7 moderate obstacle	8%	7%	11%	13%	14%
- 1-4 minor obstacle	86%	88%	80%	78%	78%
None of these are major obstacles	70%	73%	61%	64%	72%

Q227a All SMEs

SMEs with employees were somewhat more likely to rate some of these factors as major obstacles:

- 16% rated political uncertainty as a major obstacle, compared to 11% of those with no employees
- 14% rated legislation and regulation as a major obstacle, compared to 9% of those with no employees
- 11% rated recruiting and retaining staff as a major obstacle, compared to 4% of those with no employees.



In Q4 2016, 70% of SMEs did not rate any of these factors as a major obstacle (scoring 8-10). This was slightly higher than in previous years (in Q4 2015, 66% saw none of these as major obstacles).

All those who did not score 8-10 for *any* of these factors were asked if there were any barriers missing from the list. Almost all (96%) said that there weren't. The top other mention was terrorism (2%) while less than 1% mentioned the referendum.

The tables below focus on those scoring 8-10 for each potential obstacle. For ease, the analysis by size of SME (provided in more detail in the previous table) is summarised below:

Extent of obstacles in next 12 months

Q4 16 – all SMEs 8-10 impact score	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	4500	900	1450	1450	700
The current economic climate	13%	13%	16%	14%	13%
Political uncertainty/future govt policy	12%	11%	17%	15%	15%
Legislation and regulation	10%	9%	14%	13%	8%
Recruiting/retaining staff	6%	4%	11%	12%	10%
Availability of relevant advice	6%	5%	7%	3%	5%
Cash flow/issues with late payment	5%	5%	8%	6%	5%
Access to external finance	5%	4%	7%	5%	4%
Management skills	5%	4%	7%	6%	5%
None of these rated a major obstacle	70%	73%	61%	64%	72%

Q227a All SMEs

This shows that for the smallest SMEs, the current economic climate remained the main obstacle (13%). There has been a small increase in concerns about political uncertainty but three-quarters of these SMEs did not see any of these as major obstacles. Amongst larger SMEs, political uncertainty is as much, if not more, of an obstacle than the current economic climate, but both are cited as such by a minority of SMEs.



Analysis by risk rating showed that the current economic climate remained a key barrier across all risk ratings, together with political uncertainty. Legislation and regulation was mentioned slightly more by those with a minimal or low risk rating:

Extent of obstacles in next 12 months

Q4 16 – all SMEs 8-10 impact score	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	4500	761	1391	975	981
The current economic climate	13%	13%	15%	14%	14%
Political uncertainty/future govt policy	12%	12%	13%	15%	12%
Legislation and regulation	10%	12%	14%	10%	9%
Recruiting/retaining staff	6%	8%	7%	3%	8%
Availability of relevant advice	6%	3%	4%	7%	6%
Cash flow/issues with late payment	5%	7%	5%	4%	6%
Access to external finance	5%	2%	4%	4%	6%
Management skills	5%	3%	6%	3%	6%
None of these rated a major obstacle	70%	71%	64%	70%	70%

Q227a All SMEs for whom risk ratings known



The table below shows that in Q4 2016, there were differences in perceived obstacles between those with plans to grow and those with no plans (which wasn't always the case in the past). Those planning to grow were more likely to see all of these factors as potential barriers, and as a result were less likely to say that none of these factors were a major

obstacle (64% v 76% of those with no plans to grow).

This table also shows that clear differences were seen on all factors depending on whether the SME was a Permanent non-borrower or not. PNBs remained less likely to see any of these issues as major barriers and 76% said that none of them were.

Extent of obstacles in next 12 months

Q4 16 – all SMEs 8-10 impact score	Total	Plan to grow	No plans to grow	PNB	Not PNB
Unweighted base:	4500	2434	2066	1483	3017
The current economic climate	13%	16%	11%	10%	15%
Political uncertainty/future govt policy	12%	15%	10%	9%	15%
Legislation and regulation	10%	11%	10%	9%	12%
Recruiting/retaining staff	6%	9%	3%	3%	8%
Availability of relevant advice	6%	9%	3%	3%	7%
Cash flow/issues with late payment	5%	8%	3%	2%	8%
Access to external finance	5%	8%	2%	2%	7%
Management skills	5%	7%	4%	3%	6%
None of these rated a major obstacle	70%	64%	76%	76%	65%

Q227a All SMEs



Clear differences in perceived obstacles also continued to be seen by whether the SME planned to apply for new/renewed facilities in the next three months, or would like to:

Extent of obstacles in next 12 months

Q4 16 – all SMEs 8-10 impact score	Total	Plan to apply or FWBS	Future HNS	Future HNS excl. PNB
Unweighted base:	4500	1163	3337	1854
The current economic climate	13%	23%	10%	10%
Political uncertainty/future govt policy	12%	22%	9%	9%
Legislation and regulation	10%	16%	8%	8%
Recruiting/retaining staff	6%	12%	4%	6%
Availability of relevant advice	6%	14%	3%	3%
Cash flow/issues with late payment	5%	10%	4%	5%
Access to external finance	5%	13%	2%	3%
Management skills	5%	9%	4%	5%
None of these rated a major obstacle	70%	56%	75%	73%

Q227a All SMEs

Those with plans/aspirations to apply were more likely to see each of these issues as major obstacles, with 1 in 5 seeing the current economic climate and/or political uncertainty as major obstacles. Almost half, 44%, cited at least one of these as a major obstacle, compared to 25% of Future happy non-seekers.

The Future happy non-seeker category described above includes those SMEs that met the definition of a Permanent non-borrower, which indicates that they are not using finance as well as being unlikely to borrow. Such SMEs have been excluded from the Future happy non-seeker definition in the final column above, but with limited impact on the scores.



The economic climate was the most likely to be rated as a major obstacle to running the business by SMEs overall and in most sectors. As overall, political uncertainty together with legislation and regulation, were also likely to be seen as obstacles:

Extent of obstacles in next 12 months

Q4 16 – all SMEs 8-10 impact scores	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	300	376	800	452	303	500	897	372	500
The current economic climate	12%	12%	8%	11%	14%	17%	14%	18%	17%
Political uncertainty/future govt policy	16%	10%	8%	13%	12%	15%	13%	13%	15%
Legislation and regulation	15%	6%	10%	12%	14%	11%	12%	8%	8%
Recruiting/retaining staff	9%	4%	5%	10%	10%	6%	6%	3%	6%
Availability of relevant advice	4%	4%	3%	5%	6%	9%	6%	5%	7%
Cash flow/issues with late payment	6%	4%	8%	6%	4%	2%	5%	2%	9%
Access to external finance	1%	2%	4%	4%	9%	4%	6%	5%	6%
Management skills	2%	3%	6%	4%	6%	3%	6%	3%	7%
None of these rated a major obstacle	65%	75%	73%	71%	70%	70%	69%	71%	65%

Q227All SMEs

75% of Manufacturing SMEs said that none of these represented a major barrier to them. There was relatively little variation by sector, with those in the Agriculture and Other Community sectors the most likely to nominate at least one major obstacle (35% each).



Obstacles to running the business in the next 12 months – over time

The summary table below shows the proportion of SMEs rating each factor a major obstacle across the most recent nine waves of the Monitor. The current economic climate was the most likely to be rated a major obstacle in all quarters, and there has been little variation in overall scores during 2016:

Extent of obstacles in next 12 months

All SMEs over time

8-10 impact score

By date of interview

	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16
Unweighted base:	5024	5038	5001	5004	5003	4500	4500	4500	4500
The current economic climate	14%	13%	14%	13%	13%	13%	13%	10%	13%
Political uncertainty/ future govt policy	9%	10%	9%	10%	9%	10%	10%	10%	12%
Legislation and regulation	11%	12%	11%	13%	10%	11%	11%	8%	10%
Recruiting/retaining staff*	6%	6%	6%	6%	8%	6%	6%	5%	6%
Availability of relevant advice	6%	4%	4%	6%	5%	4%	4%	4%	6%
Cash flow/issues with late payment	8%	8%	9%	9%	8%	8%	7%	6%	5%
Access to external finance	6%	6%	5%	6%	6%	5%	5%	4%	5%
Management skills	-	-	-	7%	5%	5%	3%	3%	5%
None of these rated a major obstacle	69%	68%	68%	64%	66%	67%	68%	74%	70%

Q227 All SMEs



The tables below provide a longer term view back to 2012 to help identify changes over time:

Extent of obstacles in next 12 months					
Over time – all SMEs					
8-10 impact score	2012	2013	2014	2015	2016
<i>Unweighted base:</i>	20,055	20,036	20,055	20,046	18,000
The current economic climate	34%	27%	17%	13%	12%
Legislation and regulation	13%	13%	12%	11%	10%
Political uncertainty/future govt policy	-	-	-	10%	10%
Cash flow/issues with late payment	13%	11%	9%	9%	7%
Recruiting/retaining staff	3%	3%	5%	6%	6%
Access to external finance	11%	10%	7%	6%	5%
Availability of relevant advice	6%	6%	5%	5%	4%
Management skills	-	-	-	-	4%

Q227a All SMEs

This shows the marked decline in the proportion of SMEs citing the current economic climate as a barrier. There has also been something of a decline in mentions of most of the other barriers with the exception of staff where there has been a slight increase (and a slight change in wording in 2014 to emphasise recruitment and retention).

The 2016 data was gathered during and immediately after the referendum campaign and, with a Brexit vote, perceptions about barriers to doing business may change in future. The table below shows the changes between 2015 and 2016 for two key barriers, the economic climate and political uncertainty, by size of SME. Analysis for those engaged in international trade is provided at the end of this chapter.



The tables below show that both factors were increasingly likely to be cited as barriers during 2016 by larger SMEs, while smaller SMEs gave more consistent ratings across this period:

The current economic climate

8-10 impact score Row percentages	2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
All SMEs	13%	13%	13%	10%	13%
0 employees	12%	12%	13%	9%	13%
1-9 employees	14%	14%	14%	14%	16%
10-49 employees	10%	11%	13%	10%	14%
50-249 employees	8%	12%	14%	13%	13%

Q227a All SMEs

Political uncertainty and future govt policy

8-10 impact score Row percentages	2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
All SMEs	9%	10%	10%	10%	12%
0 employees	9%	9%	9%	9%	11%
1-9 employees	12%	12%	14%	12%	17%
10-49 employees	9%	10%	12%	11%	15%
50-249 employees	7%	10%	16%	15%	15%

Q227a All SMEs

Access to finance is the key theme of this report but an issue that has been less likely to be rated a barrier by SMEs over time. The table below shows these changes over recent quarters by key demographics. Access to finance remains more of a barrier for those with a future appetite for finance, but again, the proportion citing it as a barrier has changed little in recent quarters.



Access to finance – 8-10 impact scores

Over time – row percentages	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
By date of interview	14	15	15	15	15	16	16	16	16
All SMEs	6%	6%	5%	6%	6%	5%	5%	4%	5%
0 employee	6%	6%	4%	5%	5%	5%	5%	4%	4%
1-9 employees	9%	8%	6%	8%	8%	6%	6%	5%	7%
10-49 employees	5%	5%	4%	6%	5%	5%	4%	3%	5%
50-249 employees	3%	4%	3%	2%	2%	2%	2%	3%	4%
Minimal external risk rating	7%	4%	5%	3%	3%	2%	2%	6%	2%
Low external risk rating	5%	7%	2%	5%	3%	3%	4%	2%	4%
Average external risk rating	4%	5%	4%	5%	5%	5%	3%	5%	4%
Worse than average external risk rating	8%	8%	5%	6%	8%	5%	8%	5%	6%
Agriculture	7%	4%	5%	4%	6%	5%	4%	8%	1%
Manufacturing	5%	3%	4%	4%	6%	6%	5%	3%	2%
Construction	5%	4%	3%	5%	5%	3%	5%	3%	4%
Wholesale/Retail	11%	9%	6%	9%	5%	4%	7%	3%	4%
Hotels & Restaurants	8%	9%	6%	8%	10%	9%	6%	8%	9%
Transport	12%	8%	5%	7%	9%	9%	8%	5%	4%
Property/Business Services etc.	4%	8%	5%	6%	6%	4%	3%	3%	6%
Health	4%	2%	2%	3%	5%	4%	7%	5%	5%
Other Community	7%	5%	6%	5%	4%	4%	4%	6%	6%
Use external finance	10%	10%	7%	8%	8%	7%	6%	4%	6%
Plan to borrow/FWBS	13%	18%	13%	13%	14%	14%	13%	11%	13%
Future Happy non-seekers	4%	2%	2%	3%	3%	2%	2%	2%	2%
All SMEs excluding PNBs	10%	10%	8%	9%	9%	8%	8%	7%	7%

Q227a_2 All SMEs, base sizes vary



Financial requirements in the next 3 months

SMEs were asked to consider their financial plans over the next 3 months. The proportion planning to apply/renew has changed relatively little over time, albeit the proportion planning to renew/apply from Q2 2016 onwards (11%) has been at the lower end of the range seen across recent quarters:

% likely in next 3 months

All SMEs– over time By date of interview	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Unweighted base:	5024	5038	5001	5004	5003	4500	4500	4500	4500
Will have a need for (more) external finance	8%	9%	7%	9%	10%	11%	9%	7%	7%
Will apply for more external finance	7%	8%	6%	7%	8%	9%	7%	6%	7%
Renew existing borrowing at same level	8%	9%	7%	8%	10%	8%	7%	7%	7%
Any apply/renew	13%	14%	11%	12%	16%	14%	11%	11%	11%
Reduce the amount of external finance used	7%	8%	8%	8%	9%	8%	7%	7%	7%
Inject personal funds into business	14%	16%	14%	18%	17%	17%	15%	14%	15%

Q229 All SMEs

The lower level of planned application/renewal in Q4 2016 (11%) was due to a lower appetite for finance across all sizes of SME with the exception of those with 50-249 employees where appetite for finance was stable, but lower than in some other groups at 13%. This is explored in more detail later in this chapter.

In all previous quarters to date, more SMEs have identified a need for finance than thought

they would apply for it, but this was not the case in Q4 2016 when the two figures were the same (7%). The predicted level of applications/renewals in the coming quarter has consistently been higher than the actual level of applications/renewals reported subsequently (by different SMEs). Whilst 11-14% of SMEs in 2016 said that they *planned* to apply for finance, 5% of those interviewed in 2016 reported a borrowing event.



Amongst those SMEs that are companies, there continued to be limited interest in seeking new equity finance:

% likely in next 3 months

All companies– over time By date of interview	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Unweighted base:	2822	2927	2794	2876	2997	2670	2833	2839	2714
Any new equity	5%	3%	2%	3%	5%	3%	4%	3%	4%

Q229 All companies

In Q4 2016 as in previous quarters, there continued to be a difference in future appetite for finance by size of business. Appetite was lower amongst those with 0 employees and these SMEs remained more likely to anticipate an injection of personal funds (16%) than an application for new/renewed finance (10%). The largest SMEs with 50-249 employees also had a lower appetite for finance (13%) but in this case very few were planning an injection of personal funds (4%):

% likely in next 3 months

Q4 16 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	4500	900	1450	1450	700
Will have a need for (more) external finance	7%	6%	9%	9%	8%
Will apply for more external finance	7%	6%	8%	8%	7%
Renew existing borrowing at same level	7%	6%	9%	11%	11%
Any apply/renew	11%	10%	14%	16%	13%
Reduce the amount of external finance used	7%	6%	8%	10%	6%
Inject personal funds into business	15%	16%	12%	7%	4%

Q229 All SMEs

Amongst SMEs with employees, 14% had plans to apply/renew in the next 3 months and 9% believed they would have a need for (more) external finance.



Before looking at future applications for finance in more detail, the analysis below explores the role of personal funding of SMEs. Between 2012 and 2014 there was a decline in the proportion of SMEs that had injected personal funds, from 43% to 29%. Since then, each year around 3 in 10 have reported an injection of funds. The proportion of SMEs planning to inject personal funds in the 3 months after interview has followed a similar pattern but at lower levels, with 1 in 6 of those interviewed in 2016 planning an injection of funds:

Injections of personal funds past and future					
Over time – All SMEs	2012	2013	2014	2015	2016
Unweighted base:	20,055	20,036	20,055	20,046	18,000
Have injected personal funds	43%	38%	29%	28%	28%
Plan to inject personal funds	24%	20%	16%	16%	15%

Q 15d/Q229-5 All companies

The table below shows how the injections of personal funds past and future have combined. Over recent quarters around two thirds of SMEs had neither put in funds, nor thought it likely they would do so (65% in Q4 2016). The proportion that had both put in funds in the past *and* planned to do so in future (10% in Q4 2016) has also changed relatively little:

Injections of personal funds	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Over time – All SMEs	2014	2015	2015	2015	2015	2016	2016	2016	2016
Unweighted base:	5024	5038	5001	5004	5003	4500	4500	4500	4500
Have injected personal funds and likely to do so again	9%	10%	9%	12%	11%	11%	9%	8%	10%
Have not put in personal funds but likely to do so	5%	6%	5%	6%	6%	6%	6%	6%	5%
Have injected personal funds but unlikely to do so again	20%	16%	17%	18%	18%	18%	16%	17%	21%
Have not put in personal funds and not likely to do so	66%	68%	69%	64%	65%	64%	69%	69%	65%

Q229/Q15d-d2 All SMEs



Turning back to future applications for external finance there has been limited variation in the proportion of SMEs planning to apply/renew during 2016:

% likely to apply or renew in next 3 months

Over time – row percentages By date of interview	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
All SMEs	13%	14%	11%	12%	16%	14%	11%	11%	11%
0 employee	11%	12%	9%	11%	14%	14%	10%	10%	10%
1-9 employees	19%	18%	16%	16%	20%	16%	15%	14%	14%
10-49 employees	16%	20%	19%	17%	20%	20%	16%	13%	16%
50-249 employees	15%	14%	15%	12%	13%	14%	13%	12%	13%
Minimal external risk rating	10%	13%	9%	11%	19%	12%	10%	11%	10%
Low external risk rating	13%	19%	14%	14%	14%	14%	13%	11%	13%
Average external risk rating	10%	14%	12%	13%	16%	12%	10%	11%	9%
Worse than average external risk rating	16%	12%	11%	11%	16%	15%	14%	12%	10%
Agriculture	13%	19%	18%	19%	18%	15%	13%	17%	15%
Manufacturing	15%	14%	16%	16%	17%	16%	15%	11%	11%
Construction	11%	10%	10%	11%	12%	17%	8%	9%	11%
Wholesale/Retail	18%	16%	10%	15%	19%	14%	12%	14%	12%
Hotels & Restaurants	15%	16%	14%	14%	20%	17%	13%	13%	11%
Transport	15%	12%	12%	14%	14%	14%	16%	15%	14%
Property/Business Services etc.	12%	16%	11%	12%	15%	12%	10%	9%	12%
Health	8%	10%	6%	8%	12%	11%	11%	8%	9%
Other Community	11%	13%	9%	12%	19%	17%	15%	11%	8%
Objective to grow	16%	20%	15%	17%	23%	21%	18%	15%	14%
No objective to grow	10%	9%	8%	8%	9%	9%	7%	8%	9%
All SMEs excluding PNBs	24%	27%	21%	23%	28%	28%	22%	22%	19%

Q229 All SMEs base size varies by category



The variability in predicted appetite for finance quarter on quarter makes trends harder to discern. The table below looks at annual appetite for finance since 2012 by key business demographics. This shows that overall appetite for finance was only marginally lower in 2016 than for 2014 or 2015, due to the 0 employee SMEs. However, over time fewer SMEs with employees have had an appetite for finance:

% likely to apply or renew in next 3 months					
Over time					
By date of interview – row percentages	2012	2013	2014	2015	2016
All	14%	14%	13%	13%	12%
0 emp	12%	12%	11%	12%	11%
1-9 emps	20%	19%	20%	17%	15%
10-49 emps	21%	17%	18%	19%	16%
50-249 emps	19%	16%	14%	14%	13%
Minimal external risk rating	16%	12%	13%	13%	11%
Low	17%	13%	14%	15%	13%
Average	13%	13%	12%	14%	10%
Worse than average	15%	14%	14%	12%	13%
Agriculture	18%	16%	15%	18%	15%
Manufacturing	16%	13%	16%	16%	13%
Construction	14%	13%	11%	11%	11%
Wholesale/Retail	16%	18%	19%	15%	13%
Hotels & Restaurants	17%	15%	16%	16%	14%
Transport	14%	16%	15%	13%	15%
Property/ Business Services	12%	13%	11%	13%	11%
Health	11%	12%	11%	9%	10%
Other	16%	12%	14%	13%	12%
All excl PNBs	21%	23%	24%	25%	23%

Q229 All SMEs

Amongst those planning to grow, future appetite for finance is somewhat higher (17% in 2016) and has changed very little over time (17-19% since 2013).



Amongst those planning to apply or renew in the next 3 months, working capital has been the most frequently mentioned purpose of future funding over recent quarters (excluding DK answers):

Use of new/renewed facility

All planning to seek/renew

Over time excl DK	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
By date of interview	2014	2015	2015	2015	2015	2016	2016	2016	2016
Unweighted base:	769	842	747	761	850	750	642	549	622
Working capital	64%	63%	57%	57%	57%	56%	60%	66%	67%
Plant & machinery	21%	24%	22%	25%	28%	24%	21%	18%	19%
UK growth*	24%	28%	25%	30%	28%	30%	23%	29%	31%
Premises	8%	6%	10%	7%	8%	11%	7%	5%	6%
New products or services	5%	9%	5%	7%	6%	12%	9%	7%	8%
Growth overseas*	5%	6%	5%	4%	8%	6%	4%	4%	7%

Q230 All planning to apply for/renew facilities in next 3 months. *Growth replaced expansion in Q2 2013 NOW EXCL DK

Taking a longer term view back to 2012 shows relatively little variation in the proposed purpose of future funding, with slightly fewer mentions of funding for plant and machinery in 2016:

Use of new/renewed facility

All planning to seek/renew- over time

	2012	2013	2014	2015	2016
Unweighted base:	3717	3316	3310	3200	2563
Working capital	63%	62%	57%	59%	62%
Plant & machinery	27%	27%	26%	25%	21%
UK growth*	21%	28%	30%	28%	28%
Premises	7%	7%	10%	7%	8%
New products or services	10%	9%	9%	7%	9%
Growth overseas*	3%	5%	6%	6%	5%

Q230 All planning to apply for/renew facilities in next 3 months excl DK. *Growth replaced expansion in Q2 2013



The table below details what types of finance those planning to apply would consider for their new/renewed finance over recent quarters. From Q1 2016 data has been collected at a headline level rather than for each possible type of finance. Loans and commercial mortgages were separated into two individual categories in Q3 2014, limiting the time series available.

Consideration over time of any of the core lending products (overdrafts, loans and/or credit cards) and/or other forms of borrowing, is shown below for those planning to apply, using the new summary categories introduced from Q1 2016:

% of those seeking/renewing finance that would consider form of funding

Over time	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
By date of interview	2015	2015	2015	2015	2016	2016	2016	2016
Unweighted base:	860	772	776	891	771	672	554	639
Core product (loan, O/D, credit card)	57%	63%	61%	57%	52%	52%	47%	55%
Commercial mortgage	12%	11%	9%	10%	18%	16%	14%	16%
Leasing/invoice finance	31%	29%	28%	29%	23%	16%	15%	16%
Other	48%	45%	49%	49%	30%	22%	21%	26%
None of these	23%	25%	25%	28%	33%	41%	45%	32%

Q233 All SMEs seeking new/renewing finance in next 3 months

In all quarters consideration has been highest for the core products. Across 2016 as a whole, 25% of future applicants said they would consider one or more core products, up from 17% of potential applicants in 2015. During 2016, fewer potential applicants reported that they were considering ‘other’ forms of finance.

The proportion saying ‘none of these’ had been stable at around 1 in 4 but has been higher since the new format question was introduced at the start of 2016. Across 2016 as a whole, 37% of those planning to apply said that they were not considering any of these finance options, compared to 25% in 2015.

These undecided potential applicants were asked whether this was because they had not decided what they might use or because they were considering another form of finance not listed. 74% said that they had not decided, while 26% were considering another form of finance, up from 20% in 2015.

Amongst all potential applicants in 2016, 63% were considering one or more of the forms of finance listed, 10% were considering another form of finance and 28% hadn’t yet decided what they might use.



The table below shows levels of consideration in Q4 2016 by the size of SME considering funding.

% of those seeking/renewing finance would consider funding		0	1-9	10-49	50-249
Q4 16	Total	emp	emps	emps	emps
Unweighted base:	639	97*	199	249	94*
Core product (loan, od, credit card)	55%	59%	50%	36%	39%
Commercial mortgage	16%	16%	15%	17%	15%
Leasing/invoice finance	16%	14%	18%	18%	24%
Other	26%	28%	25%	18%	16%
None of these	32%	29%	37%	42%	46%

Q233 All SMEs seeking new/renewing finance in next 3 months

The balance between consideration of core and other forms of funding changes by size of SME. Whilst those with 0 employees who planned to apply were much more likely to consider core forms of finance than anything else, larger SMEs were more likely to consider a range of funding.

Amongst SMEs with employees, 47% would consider one or more core products for their future lending, 15% a commercial mortgage, 18% leasing or invoice finance and 23% some other form of funding. 38% said they would not consider any of these.



Application confidence

Those planning to apply via loan, overdraft, leasing, invoice finance and/or credit cards were asked how confident they were that their bank would agree to their request (note that this excludes those planning to apply who only considered one of the other forms of finance specified or did not nominate any form of finance).

In Q4 2016, 6 in 10 of these prospective applicants (59%) were confident that the bank would lend to them. There are also now fewer SMEs who are 'not confident' that their bank will lend:

Confidence bank would lend									
All planning to seek finance Over time by date of interview	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Unweighted base:	526	592	494	522	586	433	377	295	362
Very confident	31%	23%	25%	28%	21%	23%	22%	23%	22%
Fairly confident	23%	26%	24%	32%	31%	25%	31%	38%	37%
Overall confidence	54%	49%	49%	60%	52%	48%	53%	61%	59%
Neither/nor	19%	21%	22%	17%	24%	33%	22%	20%	22%
Not confident	28%	29%	28%	23%	24%	19%	25%	19%	19%
Net confidence (confident – not confident)	+26	+20	+21	+37	+28	+29	+26	+42	+40

Q238 All SMEs seeking new/renewing finance in next 3 months

Confidence amongst prospective applicants with employees was 57% in Q4 2016.



Over the longer term, there has been a steady increase since 2012 in levels of confidence amongst applicants, with over half of prospective applicants now confident their bank will agree:

Confidence bank would agree to lend					
All planning to apply – over time	2012	2013	2014	2015	2016
Unweighted base:	2933	2477	2337	2194	1467
Very confident	15%	14%	24%	24%	23%
Fairly confident	27%	25%	23%	29%	32%
Overall confidence	42%	39%	47%	53%	55%
Neither/nor	23%	30%	24%	21%	25%
Not confident	35%	31%	29%	26%	21%
Net confidence (confident – not confident)	+10	+8	+18	+27	+34

Q238 All SMEs seeking new/renewing finance in next 3 months

As the table below shows, larger prospective applicants with 10-249 employees and those with a minimal/low external risk rating have always been more confident of success:

Overall confidence bank would lend					
All planning to seek finance – over time		0-9	10-249		Av/Worse
By date of interview	Total	emps	emps	Min/low	than avge
Q4 2014	54%	53%	65%	58%	54%
Q1 2015	49%	49%	66%	71%	38%
Q2 2015	49%	48%	77%	63%	45%
Q3 2015	60%	60%	66%	67%	55%
Q4 2015	52%	52%	71%	57%	52%
Q1 2016	48%	47%	73%	71%	41%
Q2 2016	53%	51%	74%	83%	47%
Q3 2016	61%	60%	81%	71%	59%
Q4 2016	59%	58%	74%	71%	60%

Q238 All SMEs seeking new/renewing finance in next 3 months



A longer term view shows that the improvement in overall confidence between 2012 and 2016 was seen amongst both larger and smaller potential applicants and also those with a minimal/low risk or an average or worse than average risk rating. More immediately, between 2015 and 2016, there were increases in confidence for the larger applicants and those with a better risk rating while the confidence of smaller applicants and those with an average or worse than average risk rating changed relatively little :

Confidence bank would agree to lend					
All planning to apply – over time					
Row percentages	2012	2013	2014	2015	2016
All	42%	39%	47%	53%	55%
0-9 employees	41%	37%	46%	52%	53%
10-49 employees	58%	60%	66%	70%	75%
Minimum/Low risk rating	57%	67%	65%	66%	74%
Average/WTA risk rating	40%	35%	45%	48%	51%

Q238 All SMEs seeking new/renewing finance in next 3 months

Those planning to renew remained more confident of success than those planning to apply for a new facility. Analysis shows that in 2016 two-thirds of those planning to renew were confident (67%) compared to half of those planning to apply for new facilities (46%).

In both instances larger SMEs were more confident of success. Analysis over time also shows improvements in confidence for both renewals and new money:

- For renewals confidence was 56% for 2014, 60% for 2015 and 67% for 2016
- For new facilities confidence was 39% for 2014, 42% for 2015 and 46% for 2016.

These levels of confidence remained in contrast to the actual outcome of applications. The success rate for renewals in the last 18 months was 99% while for new funds the success rate in the same period was 71%.



In a new question asked for the first time in Q1 2016, all other SMEs were asked how confident they would be of their bank saying yes if they were to apply. The table below shows the results for Q4 2016 and how this hypothetical confidence increased by size of SME:

Confidence bank would say yes if asked		0	1-9	10-49	50-249
All not planning to apply to bank Q4 16	Total	emp	emps	emps	emps
Unweighted base:	4138	833	1336	1317	652
Very confident	32%	30%	36%	42%	48%
Fairly confident	37%	38%	34%	37%	37%
Overall confidence	69%	68%	70%	79%	85%
Neither/nor	21%	22%	20%	15%	13%
Not confident	10%	11%	10%	6%	2%
Net confidence (confident – not confident)	+59	+57	+60	+73	+83

Q239b All SMEs not seeking new/renewing finance from bank in next 3 months

Included in the table above are those who planned to renew/apply but then did not nominate any bank products (or indeed any products) for consideration. The table below shows the confidence for this group (shown as 'all others planning to apply') and for those who expect to be Future would-be seekers or Future happy non-seekers of finance, as well as those reported above who plan to apply for bank finance:

Confidence bank would say yes if asked	All planning	All others		
Q4 16	to apply	planning to	Future	Future
	to bank	apply	WBS	HNS
Unweighted base:	362	277	524	3337
Very confident	22%	24%	17%	35%
Fairly confident	37%	27%	40%	37%
Overall confidence	59%	51%	57%	72%
Neither/nor	22%	32%	19%	21%
Not confident	19%	17%	23%	8%
Net confidence (confident – not confident)	+40	+34	+34	+64

Q239b All SMEs not seeking new/renewing finance from bank in next 3 months



Those who had no need or plans to apply (the Future happy non-seekers) were the most confident that if they were to approach their bank they would be successful. Around half of those planning to apply for a non-bank product and of Future would-be seekers were confident.

By sector, amongst those thinking hypothetically about an application, confidence the bank would agree was higher in Agriculture (73%) and also Wholesale/Retail (also 73%). The lowest level of 'hypothetical' confidence was amongst those in the Other Community sector (63%).

Confidence amongst those planning to grow that the bank would say yes to an application was somewhat mixed. Of those currently planning to apply for bank finance, confidence

amongst those also planning to grow was 52% compared to 59% overall. Amongst those thinking hypothetically about an application, confidence amongst those planning to grow was 65%, compared to 69% overall. In both instances larger SMEs that were planning to grow were more confident than smaller ones.

This hypothetical confidence question has only been asked since Q1 2016 so trend data is somewhat limited. The table below shows increasing confidence by quarter amongst those planning to apply for bank finance, while those planning to apply elsewhere have reported more variable levels of confidence. Future happy non-seekers remained the most confident, with a slight increase over time, while Future would-be seekers saw a steady increase in confidence during 2016:

Confidence bank would say yes (if asked)				
Over time	Q1	Q2	Q3	Q4
Row percentages	2016	2016	2016	2016
Planning to apply to bank	48%	53%	61%	59%
Other planning to apply	49%	66%	56%	51%
Future would-be seekers	38%	48%	53%	57%
Future happy non-seekers	66%	68%	70%	72%

Q238/239b All SMEs



Those not planning to seek or renew facilities in the next 3 months

In Q4 2016, 11% of all SMEs reported plans to apply for, or renew, facilities in the following 3 months, leaving the majority (89%) with no such plans. 4 in 10 of that majority (41%) were current users of external finance, the rest were not. This means that, for Q4 2016, 52% of all SMEs neither used external finance nor had any immediate plans to apply for any. On an annual basis, the proportion neither using nor applying for finance increased from 50% of SMEs in 2011 to 60% for 2014 and has been stable since (59% for both 2015 and 2016 as a whole).

When thinking about SMEs with no plans to apply/renew, it is important to distinguish between two groups:

- those that were happy with the decision because they did not need to borrow (more) or already had the facilities they needed – the Future happy non-seekers
- those that felt that there were barriers that might stop them making an application (such as discouragement, the economy or the principle or process of borrowing) – the Future would-be seekers.

These Future would-be seekers can then be split into 2 further groups:

- those that had already identified that they were likely to need external finance in the coming 3 months (and could foresee barriers to an application to meet that need).
- those that thought it unlikely that they would have a need for external finance in the next 3 months but who thought there would be barriers to their applying, were a need to emerge.

As reported later in this chapter, very few of the Future would-be seekers had an actual need for finance already identified, and thus they are somewhat different from the Would-be seekers of the past 12 months, *all* of whom reported having an identified need for a loan or overdraft that they had not applied for.

There have been no changes over time to these definitions, unlike the equivalent question for *past* behaviour featured earlier in this report (although the option ‘I prefer not to borrow’ as a reason why Future would-be seekers were not planning to seek facilities was removed in Q4 2012, as it was for past behaviour).



The picture for recent quarters is reported below. Three quarters of SMEs in Q4 2016 met the definition of a Future happy non-seeker and this has changed little over recent waves:

Future finance plans

All SMEs– over time By date of interview	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Unweighted base:	5024	5038	5001	5004	5003	4500	4500	4500	4500
Plan to apply/renew	13%	14%	11%	12%	16%	14%	11%	11%	11%
Future would-be seekers – with identified need	1%	1%	*	1%	1%	1%	1%	1%	1%
Future would-be seekers – no immediate identified need	11%	10%	10%	11%	11%	11%	12%	11%	13%
Happy non-seekers	75%	75%	79%	76%	73%	74%	76%	77%	75%

Q230/239 All SMEs

Amongst SMEs with employees in Q4 2016, 14% had plans to apply/renew while 12% met the definition of a Future would-be seeker. The Future happy non-seekers remained the largest group at 73%.

As reported earlier, a third of past Happy non-seekers were users of external finance. A similar proportion of Future happy non-seekers identified above were using external finance (31% for 2016). This has declined over time from 37% in 2012.



As has been discussed elsewhere in this report, around half of SMEs can be described as Permanent non-borrowers based on their past and indicated future behaviour. The table below shows future plans over recent quarters once this group has been excluded, resulting in a higher proportion planning to apply (19% in Q4 2016) and fewer Future happy non-seekers (58% - although they remain the largest single group, as overall):

Future finance plans

SMEs excluding PNB – over time By date of interview	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Unweighted base:	3153	3220	3195	3258	3338	2854	3008	2755	3017
Plan to apply/renew	24%	27%	21%	23%	28%	28%	22%	22%	19%
Future would-be seekers – with identified need	2%	3%	1%	2%	1%	2%	1%	2%	1%
Future would-be seekers – no immediate identified need	21%	18%	20%	20%	19%	22%	22%	22%	22%
Happy non-seekers	53%	53%	58%	55%	52%	49%	55%	55%	58%

Q230/239 All SMEs excluding the Permanent non-borrowers

The tables below take a longer term view on changes in future appetite for finance from 2012, both overall and once the Permanent non-borrowers are excluded.



Future demand for finance has declined very slightly since 2012. The proportion of Future would-be seekers has almost halved in that time, as the proportion of Future happy non-seekers has increased:

Future finance plans					
Over time – all SMEs	2012	2013	2014	2015	2016
Unweighted base:	20,055	20,036	20,055	20,046	18,000
Plan to apply/renew	14%	14%	13%	13%	12%
Future would-be seekers	23%	18%	16%	11%	13%
Happy non-seekers	63%	68%	71%	76%	76%

Q230/239 All SMEs

Amongst SMEs with employees, the proportion planning to apply/renew is higher but has also declined over time. In 2012, 20% of SMEs with employees were planning to apply, declining to 15% for 2016. Over the same time period, the proportion of Future would-be seekers also declined (from 20% to 11%), leaving the Future happy non-seekers of finance as an increasingly large group (60% to 74%)

Once the Permanent non-borrowers were excluded, more SMEs were planning to apply or renew, with around a quarter planning to do so each year since 2013. The proportion of Future would-be seekers has fallen, as the proportion of Future happy non-seekers has increased but less markedly than for SMEs overall:

Future finance plans					
Over time – all SMEs excluding PNBs	2012	2013	2014	2015	2016
Unweighted base:	15,312	14,578	13,613	13,011	11,634
Plan to apply/renew	21%	23%	24%	25%	23%
Future would-be seekers	35%	30%	28%	21%	23%
Happy non-seekers	44%	47%	49%	54%	54%

Q230/239 All SMEs

The Future would-be seekers are a group of interest as they represent a measure of ‘unmet’ demand. The table below looks at the profile of this group over recent quarters. After previous declines, the proportion of SMEs meeting the definition of a FWBS has varied very little over more recent quarters (either overall or by size of SME).



Future would-be seekers

Over time – row percentages By date of interview	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
All SMEs	12%	11%	11%	12%	12%	12%	12%	12%	14%
0 employee	12%	11%	11%	13%	12%	12%	13%	12%	14%
1-9 employees	12%	12%	10%	10%	11%	10%	13%	10%	13%
10-49 employees	9%	9%	7%	7%	9%	9%	8%	8%	9%
50-249 employees	8%	10%	8%	7%	9%	11%	14%	10%	12%
Minimal external risk rating	12%	7%	9%	11%	7%	12%	11%	8%	9%
Low external risk rating	8%	11%	9%	9%	15%	10%	6%	9%	7%
Average external risk rating	10%	12%	11%	11%	12%	14%	11%	11%	14%
Worse than average external risk rating	16%	11%	11%	13%	10%	11%	14%	13%	17%
Agriculture	15%	7%	8%	7%	11%	17%	11%	12%	10%
Manufacturing	9%	7%	13%	10%	7%	11%	12%	19%	10%
Construction	13%	13%	13%	13%	10%	12%	17%	11%	11%
Wholesale/Retail	11%	12%	12%	15%	15%	11%	13%	13%	11%
Hotels & Restaurants	12%	12%	12%	13%	13%	11%	14%	9%	13%
Transport	14%	15%	12%	7%	12%	12%	14%	14%	16%
Property/Business Services	12%	9%	10%	11%	11%	10%	10%	8%	17%
Health	11%	11%	15%	15%	18%	14%	11%	13%	11%
Other Community	11%	10%	3%	10%	13%	14%	10%	13%	15%
All SMEs excluding PNBs	23%	21%	21%	22%	21%	23%	24%	22%	19%

Q230/239 All SMEs * shows overall base size, which varies by category



To understand this further, the table below shows all the reasons given by Future would-be seekers in Q4 2016 for thinking that they would not apply for finance in the next three months. It highlights the continued reluctance to borrow in the current environment (especially amongst larger FWBS), whether due to the predicted performance of their business specifically, or the economic climate more generally:

Reasons for not applying (all mentions)		0-9	10-249
All Future would-be seekers Q4 16	Total	emps	emps
Unweighted base:	524	302	222
Reluctant to borrow now (any)	59%	59%	61%
-Prefer not to borrow in economic climate	23%	23%	21%
-Predicted performance of business	37%	37%	40%
Issues with <u>principle</u> of borrowing	8%	8%	4%
-Not lose control of business	*	*	3%
-Can raise personal funds if needed	6%	6%	*
-Prefer other forms of finance	*	*	2%
-Go to family and friends	1%	1%	-
Issues with <u>process</u> of borrowing	16%	16%	13%
-Would be too much hassle	7%	7%	6%
-Thought would be too expensive	8%	8%	6%
-Bank would want too much security	2%	2%	1%
-Too many terms and conditions	*	*	*
-Did not want to go through process	*	-	*
-Forms too hard to understand	1%	1%	1%
Discouraged (any)	17%	17%	14%
-Direct (Put off by bank)	3%	3%	4%
-Indirect (Think I would be turned down)	14%	14%	10%

Q239 Future would-be seekers SMEs



Those SMEs that gave more than one reason for being unlikely to apply for new/renewed facilities were asked for the main reason, and all the main reasons given over time are shown below.

A reluctance to borrow, at 58%, remained the main reason for not applying for external

finance in Q4 2016. In Q3 2016, immediately post-Brexit, there was a 'spike' in the proportion of FWBS citing a reluctance to borrow (71%) but this reduced to 58% for Q4 2016, albeit with an increase in the proportion saying that the predicted performance of the business did not support them borrowing (now 35%):

Main reason for not applying

Future would-be seekers – over time	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
By date of interview	14	15	15	15	15	16	16	16	16
Unweighted base:	544	514	455	445	525	466	520	457	524
Reluctant to borrow now (any)	61%	54%	55%	58%	52%	44%	56%	71%	58%
-Prefer not to borrow in economic climate	37%	37%	34%	36%	34%	21%	40%	49%	23%
-Predicted performance of business	24%	17%	22%	22%	19%	23%	16%	22%	35%
Issues with <u>principle</u> of borrowing	5%	10%	7%	3%	1%	4%	4%	3%	6%
Issues with <u>process</u> of borrowing	13%	16%	18%	17%	22%	19%	22%	11%	13%
Discouraged (any)	9%	13%	9%	18%	15%	23%	12%	9%	16%
-Direct (Put off by bank)	*	1%	3%	*	*	3%	2%	*	2%
-Indirect (Think I would be turned down)	9%	12%	6%	18%	15%	20%	10%	9%	14%
None of these	12%	7%	11%	4%	10%	10%	6%	1%	4%

Q239/239a Future would-be seekers SMEs



Analysis over the longer term from 2013 shows a slight decline in the proportion mentioning a reluctance to borrow now, although it remained the most mentioned reason. There has been a small increase in the proportion mentioning the process of borrowing (hassle, expense, security etc):

Main reason for not applying				
Future would-be seekers – over time	2013	2014	2015	2016
<i>Unweighted base:</i>	3241	2765	1939	1967
Reluctant to borrow now (any)	64%	59%	55%	57%
Discouraged (any)	14%	13%	14%	15%
Issues with <u>process</u> of borrowing	12%	15%	18%	16%
Issues with <u>principle</u> of borrowing	3%	4%	5%	4%
Other	2%	3%	1%	2%

Q239/239a Future would-be seekers SMEs

These reasons remain in contrast to those given by past Would-be seekers where the economic climate is little mentioned and the two key reasons have been discouragement and the process of borrowing.

When these Future would-be seekers were first described, they were the sum of two groups – those with an identified need they thought it unlikely they would apply for, and a larger group of those with no immediate need identified. Over time, the main barriers to

borrowing have been shown to be somewhat different for the two groups.

Results for these SMEs are reported on a two quarter rolling basis to boost the limited base sizes of Future would-be seekers with an identified need.



Amongst the limited number of SMEs with an identified need for finance, a ‘reluctance to borrow’ in the current economic climate (43% Q3-4 2016) has typically taken turns with discouragement (30%) as the main reason for not having applied:

Main reason for not applying

Future would-be seekers with identified need	Q4-1 2015	Q1-2 2015	Q2-3 2015	Q3-4 2015	Q4-1 2016	Q1-2 2016	Q2-3 2016	Q3-4 2016
Unweighted base:	68*	65*	60*	73*	60*	53*	55*	60*
Reluctant to borrow now (any)	42%	30%	26%	25%	28%	30%	36%	43%
-Prefer not to borrow in economic climate	26%	26%	23%	21%	24%	24%	21%	33%
-Predicted performance of business	16%	4%	2%	4%	3%	6%	14%	9%
Issues with <u>principle</u> of borrowing	11%	14%	10%	7%	-	1%	1%	*
Issues with <u>process</u> of borrowing	9%	10%	15%	35%	33%	30%	29%	20%
Discouraged (any)	28%	29%	43%	31%	31%	29%	25%	30%
- Direct (Put off by bank)	1%	1%	1%	-	14%	14%	*	2%
-Indirect (Think I would be turned down)	27%	27%	42%	31%	18%	15%	25%	28%
None of these	10%	17%	6%	2%	8%	10%	4%	1%

Q239/239a Future would-be seekers SMEs *SMALL BASE



As the table below shows, amongst those Future would-be seekers with no specific need for finance in mind, a 'reluctance to borrow' in the current climate presents more of a barrier than other factors (with more mentions in recent quarters). Discouragement is much less likely to be mentioned by this group, but where it is, almost all of it is indirect:

Main reason for not applying

Future would-be seekers with no identified need	Q4-1 2015	Q1-2 2015	Q2-3 2015	Q3-4 2015	Q4-1 2016	Q1-2 2016	Q2-3 2016	Q3-4 2016
Unweighted base:	990	904	840	897	931	933	922	921
Reluctant to borrow now (any)	59%	57%	59%	57%	50%	52%	65%	65%
-Prefer not to borrow in economic climate	38%	36%	35%	36%	28%	32%	46%	35%
-Predicted performance of business	21%	21%	23%	22%	22%	20%	19%	30%
Issues with <u>principle</u> of borrowing	7%	8%	5%	2%	3%	4%	3%	5%
Issues with <u>process</u> of borrowing	15%	17%	17%	18%	20%	20%	16%	12%
Discouraged (any)	9%	9%	12%	16%	18%	16%	9%	12%
- Direct (Put off by bank)	1%	2%	1%	*	1%	1%	1%	1%
-Indirect (Think I would be turned down)	9%	7%	11%	16%	18%	15%	8%	11%
None of these	10%	9%	7%	7%	9%	8%	1%	2%

Q239/239a Future would-be seekers SMEs



Further analysis of all Future would-be seekers including by size and risk rating, is based on the latest quarter (Q4 2016).

A ‘reluctance to borrow now’ was the top reason given, for both larger and smaller SMEs:

Main reason for not applying

Future would-be seekers by size Q4 16	Total	0-9 emps	10-249 emps
Unweighted base:	524	302	202
Reluctant to borrow now (any)	58%	58%	60%
-Prefer not to borrow in economic climate	23%	23%	20%
-Predicted performance of business	35%	35%	39%
Issues with <u>principle</u> of borrowing	6%	6%	4%
Issues with <u>process</u> of borrowing	13%	13%	12%
Discouraged (any)	16%	16%	13%
-Direct (Put off by bank)	2%	2%	4%
-Indirect (Think I would be turned down)	14%	14%	10%

Q239/239a Future would-be seekers SMEs

Excluding the Future would-be seekers with 0 employees makes relatively little difference to the overall picture above. 61% of FWBS with employees cited a reluctance to borrow now, with 24% citing the current climate and 37% their own performance. 16% cited discouragement.



The table below shows the main reasons given for not applying in Q4 2016 split by risk rating. A 'reluctance to borrow now' remained the main barrier across the risk ratings:

Main reason for not applying

Future would-be seekers by risk rating Q4 16	Total	Min/Low	Avg	Worse/ Avg
Unweighted base:	524	202	120	152
Reluctant to borrow now (any)	58%	60%	68%	56%
-Prefer not to borrow in economic climate	23%	21%	29%	24%
-Predicted performance of business	35%	38%	39%	32%
Issues with <u>principle</u> of borrowing	6%	3%	7%	6%
Issues with <u>process</u> of borrowing	13%	17%	15%	13%
Discouraged (any)	16%	16%	8%	16%
-Direct (Put off by bank)	2%	1%	*	2%
-Indirect (Think I would be turned down)	14%	15%	8%	14%

Q239/239a Future would-be seekers SMEs



To put all these results in context, the table below shows the equivalent figures for each reason amongst all SMEs in Q4 2016.

8% of all SMEs would have liked to apply for new/renewed facilities in the next 3 months but thought they would be unlikely to do so because of the current climate or the performance of their business:

Reasons for not applying	Main reason	All SMEs Q4	All SMEs excl. PNB
Q4 16 – Future would-be seekers			
<i>Unweighted base:</i>	524	4500	3017
Reluctant to borrow now (any)	58%	8%	14%
- <i>Prefer not to borrow in economic climate</i>	23%	3%	5%
- <i>Predicted performance of business</i>	35%	5%	8%
Issues with <u>principle</u> of borrowing	6%	1%	1%
Issues with <u>process</u> of borrowing	13%	2%	3%
Discouraged (any)	16%	2%	4%
- <i>Direct (Put off by bank)</i>	2%	*	*
- <i>Indirect (Think I would be turned down)</i>	14%	2%	3%

Q239/239a Future would-be seekers SMEs

The table above also shows the equivalent proportion of SMEs *excluding* the Permanent non-borrowers. Of those SMEs that *might* be interested in seeking finance (once the PNBs had been excluded), 14% were put off by the current economic climate (including their current performance in that climate).



Attitudes to seeking finance in future

This report has already highlighted lower levels of demand for finance and some attitudinal reluctance towards using external finance. In order to try to understand barriers to application in more detail, new questions were added from Q1 2016 and asked of all SMEs. These sought to explore the extent to which a lack of knowledge or understanding of financial products might present a barrier to SMEs.

The new questions asked SMEs how confident they were in their future ability to assess the advantages and disadvantages of finance products offered by either their own bank or another bank, or to put together an application for finance from someone other than their main

bank (as this would be likely to require more information about the business and its finances than an application made to an existing bank).

In Q4 2016 around 7 in 10 SMEs felt confident about assessing their own bank's products and services, while 6 in 10 were confident about assessing or approaching another bank for finance.

The tables below show levels of confidence in Q4 2016 by size of SME. Larger SMEs were more confident about assessing the advantages and disadvantages of financial products offered by their own bank:

Confidence assessing financial products from own bank

Q4 16 – all SMEs excl DK	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	4467	892	1443	1437	695
Very confident	27%	25%	33%	35%	41%
Fairly confident	41%	41%	38%	42%	38%
Overall confidence	68%	66%	71%	77%	79%
Not sure	24%	25%	21%	18%	19%
Not confident	8%	8%	7%	5%	2%

Q240i All SMEs excluding DK



Larger SMEs were also more confident about assessing the advantages and disadvantages of financial products offered by other banks, but across all groups, levels of confidence were somewhat lower than for assessing such products from their own bank (62% v 68% for SMEs as a whole):

Confidence assessing financial products from another bank

Q4 16 – all SMEs excl DK	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	4446	889	1431	1431	695
Very confident	23%	22%	28%	29%	36%
Fairly confident	39%	40%	37%	41%	36%
Overall confidence	62%	62%	65%	70%	72%
Not sure	28%	29%	25%	24%	25%
Not confident	9%	10%	10%	7%	3%

Q240i All SMEs excluding DK

Levels of confidence in putting together an application for finance to a bank other than their own were similar to those reported above for the assessment of products at another bank:

Confidence putting together application for finance to other bank

Q4 16 – all SMEs excl DK	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	4440	883	1433	1432	692
Very confident	24%	23%	28%	29%	38%
Fairly confident	37%	37%	36%	39%	37%
Overall confidence	61%	60%	64%	68%	75%
Not sure	27%	28%	24%	24%	22%
Not confident	12%	12%	11%	8%	4%

Q240i All SMEs excluding DK



The summary table below shows firstly how confidence varied by future plans for finance. Future happy non-seekers were the most confident about assessing products from their own bank or making an application to a bank other than their own. In each instance, Future would-be seekers were somewhat less confident, which may help explain why they were identified as a Future would-be seeker:

Confidence summary table		Plan to			All excl
Q4 16 – all SMEs excl DK	Total	apply	FWBS	FHNS	PNB
Unweighted base (overall – will vary):	4500	639	524	3337	3017
Confident assessing products at main bank	68%	62%	59%	71%	69%
• <i>Very confident</i>	27%	20%	19%	30%	25%
• <i>Fairly confident</i>	41%	42%	40%	41%	44%
Confident assessing products at other bank	62%	62%	57%	63%	64%
• <i>Very confident</i>	23%	19%	17%	25%	22%
• <i>Fairly confident</i>	39%	43%	40%	38%	42%
Confident applying for finance to another bank	61%	58%	51%	63%	63%
• <i>Very confident</i>	24%	20%	15%	26%	23%
• <i>Fairly confident</i>	37%	38%	36%	37%	40%

Q240i All SMEs excluding DK

The table also shows the impact of excluding the Permanent non-borrowers who appear to have little interest in applying for finance. Amongst those with some interest in finance, confidence is only slightly higher than it is for SMEs overall, meaning that PNBs must be almost as confident as their peers about assessing banks or applying for finance. This is therefore unlikely to be a reason why they are not using finance.

The table overleaf shows the proportion of SMEs that were confident that they could apply

to another bank, by key groups, over time. This statement has been chosen for further analysis as it helps inform the debate about SMEs ‘shopping around’ for finance. Across 2016, a steady 6 in 10 SMEs reported feeling confident that they could apply to another bank, with varying levels of confidence amongst those actually planning to apply. Amongst those already using a ‘core’ form of finance (ie loans, overdrafts and/or credit cards) confidence increased during 2016 from 57% in Q1 to 66% in Q4.



Confident putting together application for finance to another bank

Over time – row percentages By date of interview	Q1 2016	Q2 2016	Q3 2016	Q4 2016
All SMEs	60%	59%	60%	61%
0 employee	59%	57%	59%	60%
1-9 employees	64%	62%	62%	64%
10-49 employees	69%	66%	73%	68%
50-249 employees	77%	73%	73%	75%
Minimal external risk rating	61%	59%	61%	70%
Low external risk rating	63%	61%	66%	60%
Average external risk rating	58%	56%	64%	57%
Worse than average external risk rating	62%	60%	56%	63%
Agriculture	53%	62%	58%	64%
Manufacturing	48%	57%	64%	60%
Construction	52%	61%	53%	58%
Wholesale/Retail	67%	58%	63%	63%
Hotels & Restaurants	56%	51%	53%	62%
Transport	59%	50%	66%	55%
Property/Business Services	69%	61%	67%	65%
Health	57%	51%	63%	58%
Other Community	62%	66%	47%	61%
All SMEs excluding PNBs	58%	57%	59%	63%
All SMEs using core finance	57%	59%	62%	66%
All planning to apply for finance	64%	53%	47%	58%
Future would-be seekers	49%	56%	52%	51%

Q240i All SMEs



How have international SMEs responded in 2016?

The referendum took place at the end of June 2016 but the terms under which Brexit will take place are still to be negotiated and agreed. As highlighted at the start of this chapter, those SMEs that trade internationally are potentially more likely to anticipate an impact on their business, not least because of the change in the value of sterling since the vote.

This section summarises how international SMEs have felt during 2016 in comparison to 2015. SMEs have been split into three groups, based on the extent to which they trade internationally alongside their domestic trade. Note that 86% of SMEs only trade domestically (decreasing by size of SME from 88% to 70%):

- 4% export but do not import (with little variation by size of SME)
- 5% import but do not export (increasing slightly by size of SME from 5% to 9%)
- 4% both import and export (increasing by size of SME from 3% to 16%).

Key results for Q4 2016 are shown below:

Future outlook summary table

Q4 16 – all SMEs row percentages	Total	Export	Import	Both
Unweighted base:	4500	173	311	320
Plan to grow	47%	40%	70%	75%
Plan to apply for finance	11%	16%	17%	18%
Economic climate 8-10 barrier	13%	27%	24%	35%
Political uncertainty 8-10 barrier	12%	15%	26%	32%
Future would-be seeker of finance	14%	7%	22%	14%

Those who both import and export are the most likely to be planning to grow (75%) but are also more likely to be concerned about the economic climate (35%) and political uncertainty (32%).



The table below shows how these views changed during 2016 and how they compare to 2015. The ratings from SMEs overall have changed relatively little over time but those with an international element showed more signs of change during 2016:

Future outlook summary table

Over time – all SMEs	2015	Q1 16	Q2 16	Q3 16	Q4 16	2016
Plan to grow						
• All SMEs	45%	45%	41%	41%	47%	43%
• Export only	59%	48%	52%	54%	40%	49%
• Import only	62%	63%	59%	59%	70%	63%
• Import and export	72%	70%	66%	70%	75%	70%
Plan to apply for finance						
• All SMEs	13%	14%	11%	11%	11%	12%
• Export only	22%	18%	19%	21%	16%	19%
• Import only	19%	24%	18%	19%	17%	19%
• Import and export	19%	26%	31%	22%	18%	25%
Economic climate 8-10 barrier						
• All SMEs	13%	13%	13%	10%	13%	12%
• Export only	19%	9%	19%	13%	27%	17%
• Import only	12%	10%	13%	18%	24%	16%
• Import and export	17%	13%	20%	20%	35%	21%
Political uncertainty 8-10 barrier						
• All SMEs	9%	10%	10%	10%	12%	10%
• Export only	9%	7%	7%	12%	15%	10%
• Import only	11%	14%	7%	16%	26%	16%
• Import and export	8%	10%	19%	21%	32%	20%

Those who only export were less likely to be planning to grow in 2016 (49%) than in 2015 (59%) with lower scores seen throughout 2016. Their concern about the economic climate and political uncertainty increased in the latter half of 2016 but the year on year figures are broadly stable, as is their appetite for finance.



Those who only import have similar growth aspirations for 2016 as a whole as they did in 2015 with no clear pattern over time. They have become more concerned about the economic climate and political uncertainty and somewhat less likely over the course of the year to plan to apply for finance.

Those who both import and export have similar growth aspirations for 2016 as 2015, but again, have become more concerned about the economic climate and political uncertainty over the course of the year. They were more likely to be planning to apply for finance in 2016 as a whole (25%) than in 2015 (19%), but over the course of the year their appetite for finance declined somewhat.