5. Financial context – how are SMEs funding themselves?

This chapter provides

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

Key findings

37% of SMEs in 2016 were using external finance

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

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

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

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

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

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

Use of external finance

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

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

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

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

Use of external finance in last 5 years

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

Q14/15 All SMEs

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

Currently use external finance

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

Q14/15 All SMEs

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

Currently use external finance

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

Q14/15 All SMEs , base varies slightly each quarter

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

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

Q14/15 All SMEs

Use of core forms of finance

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

Use of external finance

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

Q15 All SMEs

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

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

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

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

Q15 All SMEs

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

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

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

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

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

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

Q15bbb All SMEs with one of these facilities

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

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

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

Facilities in a personal name YEQ4 2016 (excl DK)

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

Any use of external finance

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

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

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

Q15 All SMEs

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

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

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

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

External finance currently used

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

Q15 All SMEs

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

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

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

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

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

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

Q14x1 All SMEs using leasing or vehicle finance

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

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

Use of external finance

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

Q15 All SMEs

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

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

Q15 All SMEs

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

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

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

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

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

The impact of crowd funding and alternative finance

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

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

More analysis will be provided over time.

Injections of personal funds

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

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

Personal funds in last 12 months

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

Q15d All SMEs

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

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

Q15d All SMEs from Q2 2012

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

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

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

Q15d All SMEs from Q2 2012

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

Personal funds in last 12 months

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

Q15d All SMEs from Q2 2012

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

Personal funds in last 12 months Over time – all SMEs	2012*	2013	2014	2015	2016
Unweighted base:	*15,032*	*20,036*	*20,055*	*20,046*	*18,000*
Inject personal funds – you chose to do to help the business grow and develop	17%	19%	14%	14%	17%
Inject personal funds – you felt you had no choice about this, that you had to do it	25%	20%	15%	13%	11%
Any personal funds	*43%*	*38%*	*29%*	*28%*	*28%*
Not something you have done	57%	62%	71%	72%	72%

Q15d All SMEs from Q2 2012

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

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

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

Q15d All SMEs from Q2 2012

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

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

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

Q15d All SMEs from Q2 2012

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

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

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

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

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

Q15d All SMEs

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

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

Use of personal accounts and accounts at other banks

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

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

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

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

YEQ4 2016, SMEs using a personal account were:

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

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

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

The ‘interweaving’ of business and personal funds

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

Had any personal element

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

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

Use of trade credit

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

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

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

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

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

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

Q14y/y4 All SMEs

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

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

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

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

Q14y/y4 All SMEs from Q3 2014

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

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

Q14y/y4 All SMEs from Q3 2014

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

Trade credit in last 12 months

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

Q14y/y4 All SMEs from Q3 2014

The non-borrowing SME

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

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

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

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

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

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

Permanent non-borrowers

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

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

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

Use of external finance in last 5 years

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

Q14/15 All SMEs

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

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

All SMEs

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

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

All SMEs from 2012

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

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

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

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

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

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

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

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

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

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

A wider definition of 'Total business funding'

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

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

For YEQ4 2016:

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

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

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

Q15d All SMEs from Q2 2012

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

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

Q14y/y4 All SMEs from Q3 2014

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

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

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

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

Attitudes to finance

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

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

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

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

Q238a5 All SMEs from Q3 2014

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

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

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

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

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

Q238a5 All SMEs from Q3 2014

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

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

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

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

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

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

Q15/Q238a5 All SMEs

The analysis shows that:

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

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

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

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

Q238a5 All SMEs from Q3 2015

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

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

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

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

Q238a5 All SMEs from Q1 2016

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

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

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

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

Q238a5 All SMEs from Q1 2016

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

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

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

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

Q238a5 All SMEs from H214

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

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

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

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

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

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

Q238a5 All SMEs from Q3 2015

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

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

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

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

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

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

Q238a5 All SMEs from Q3 2015 using external finance

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

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