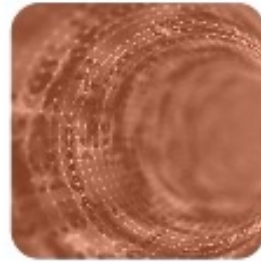


13. The future



This chapter reports

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



Key findings

In Q2 2017, 45% of SMEs were planning to grow in the coming year ranging from 41% of those with 0 employees to 72% of those with 50-249 employees.

- This was broadly in line with recent quarters but the longer term trend is for a slight decline in the proportion planning to grow, from 49% in 2013 to 44% in the first half of 2017
- This is due to declining growth plans amongst 0 employee SMEs (46% to 40%). Amongst those with employees growth ambitions increased in the first half of 2017 and were in line with 2013
- Almost all of those planning to grow expected to do so by selling more in the UK (97%). 13% planned to sell more abroad, almost all of them already export (65% of exporters that were planning to grow were planning to sell more overseas).

There are now three key barriers to business, scoring 8-10:

- 'Legislation, regulation and red tape' mentioned by 14% of SMEs in Q2 2017
- 'The current economic climate' and 'Political uncertainty and future government policy', both mentioned by 13% of SMEs in Q2 2017
- A quarter of SMEs in Q2 2017 (27%) mentioned one or more of these three factors as barriers, increasing slightly by size of SME (26% of 0 employee SMEs to 34% of those with 50-249 employees)
- A new barrier, 'Changes in the value of sterling' was mentioned by 10% of all SMEs, 23% of those with 50-249 employees and by 26% of those who both import and export.



Legislation has been cited fairly consistently by SMEs over time (between 10% and 14% since 2012). Concerns about the economy declined from a peak of 34% in 2012 to 13% in 2015 and but have remained stable since. Political uncertainty was asked for the first time in 2015 (10%) and concern has increased slightly since.

Over the course of 2016 and the first half of 2017:

- Larger SMEs have become somewhat more concerned about the economic climate. International SMEs have always been more concerned about the economy than domestic SMEs, with levels of concern peaking in Q4 2016 (where around 3 in 10 cited this is a major barrier) but abating somewhat subsequently
- SMEs with employees have become more concerned about political uncertainty. So too have international SMEs, but concern in Q2 2017 was somewhat lower than was seen in other recent quarters

In Q2 2017, 12% of SMEs planned to apply for finance in the coming 3 months, with relatively little difference by size, with the exception of those with 50-249 employees where 23% planned to apply. 10% of SMEs were Future would-be seekers of finance and the largest group, 79%, were the Future happy non-seekers

- Future appetite for finance has declined somewhat over time (from 14% in 2012 to 11% in the first half of 2017)
- The proportion of Future would-be seekers has also declined (from 23% in 2012 to 10% in the first half of 2017). A reluctance to borrow in the current climate remained the key barrier for Future would-be seekers (39% in Q2 2017), especially for those with 10-249 employees.
- Discouragement (most of it indirect) was a barrier for 25% of FWBS while 19% cited the process of borrowing
- The largest group of SMEs, the Future happy non-seekers, has increased in size over time (from 63% in 2012 to 79% in the first half of 2017).



Amongst those planning to apply for finance, confidence of success was stable (55% in Q2 2017) and remains higher than in 2012-14 (but lower than current success rates)

- Confidence amongst those with no plans to apply to a bank about a hypothetical application, remained somewhat higher (62%), due to higher confidence amongst larger SMEs and those expecting to be Future happy non-seekers.
- Overall confidence amongst all SMEs (whatever their plans) was 63% for the first half of 2017, in line with the first half, but somewhat lower than the second half, of 2016 (67%), due to changes in confidence amongst smaller SMEs.

Demand for finance remains a key issue and 4 in 10 SMEs (41%) said they would approach their bank for finance if offered a business opportunity that required funding. Almost as many, 38% of all SMEs, said that they would look to self-fund the opportunity. 1 in 5 (18%) were concerned about the risks of taking on debt

- Larger SMEs were more likely to approach the bank (38% for 0 employee SMEs, increasing to 61% of those with 50-249 employees), as were younger SMEs. Those already using external finance were also more likely to approach their bank (51%) than those not using finance (35%)
- Self-funding did not vary much by size of business (32-39%) or by age of business and was more common for those not using finance and/or expecting to be a Future happy non-seeker
- Concerns about the risks of taking on debt were more common amongst smaller SMEs (19% of those with 0 employees compared to 11% of those with 10-49 or 50-249 employees).



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 Q2 2017 data gathered between April and June 2017, during which time a snap General Election was held, resulting in a hung parliament.

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 post the referendum result.



Growth plans for next 12 months

SMEs were asked about their growth plans for the next 12 months. Around 4 in 10 SMEs have planned to grow in each quarter. Growth predictions in Q2 and Q3 2016 (immediately pre and post Brexit) were somewhat lower (41%) than had been seen at the end of 2015, but have recovered somewhat since (45% in Q2 2017).

Note that 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%’.

Since that change, the *net* growth figures have 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 in next 12 mths

All SMEs– over time By date of interview	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017
Unweighted base:	5001	5004	5003	4500	4500	4500	4500	4500	4507
Grow by 20% or more*	6%	24%	24%	21%	16%	16%	19%	15%	17%
Grow by less than 20%*	37%	24%	23%	24%	25%	25%	28%	28%	28%
All with objective to grow	43%	48%	47%	45%	41%	41%	47%	43%	45%
Stay the same size	47%	43%	43%	46%	47%	51%	44%	45%	45%
Become smaller	4%	4%	4%	5%	6%	4%	4%	6%	5%
Plan to sell/pass on/close	6%	4%	5%	4%	5%	4%	5%	5%	5%

Q225 All SMEs *definition changed for Q3 2015

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, but has declined slightly subsequently (45% for Q2 2017). As the table later in this section shows, it was the smaller SMEs who drove this change.

The proportion of SMEs *predicting* growth, and 20%+ growth in particular, has typically been somewhat higher than the proportion *achieving* that level of growth.



In Q2 2017, the largest SMEs were more likely to be planning to grow at all (72% v 41% of those with 0 employees), but the proportion planning to grow by 20% or more was lower than for other size bands (12%):

Plans to grow in next 12 mths		0	1-9	10-49	50-249
Q2 17 only	Total	emp	emps	emps	emps
<i>Unweighted base:</i>	4507	904	1452	1451	700
Grow by 20% or more	17%	16%	22%	20%	12%
Grow by less than 20%	28%	25%	32%	45%	60%
<i>All with objective to grow</i>	45%	41%	54%	65%	72%
Stay the same size	45%	48%	39%	32%	25%
Become smaller	5%	5%	3%	2%	2%
Plan to sell/pass on/close	5%	6%	4%	1%	1%

Q225 All SMEs New Question wording in Q3 2015

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

- For SMEs with 0 employees around 4 in 10 have been planning to grow
- Amongst SMEs with 1-9 employees the proportion planning to grow was 57% in Q4 2015, declining to 48% by Q3 2016 but then increasing back to previous levels (54% currently)
- From Q3 2015 a fairly consistent 6 in 10 SMEs with 10-49 employees have planned to grow.
- Similarly since Q3 2015, around 6 in 10 SMEs with 50-249 employees have been planning to grow, albeit in the most recent quarter 72% of those interviewed expected to grow.



Objective to grow (any) in next 12 months

Over time – row percentages By date of interview	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017
All SMEs	43%	49%	47%	45%	41%	41%	47%	43%	45%
0 employee	39%	46%	43%	41%	38%	37%	44%	39%	41%
1-9 employees	53%	54%	57%	55%	50%	48%	56%	56%	54%
10-49 employees	67%	61%	60%	58%	60%	57%	61%	62%	65%
50-249 employees	71%	64%	58%	56%	60%	57%	61%	64%	72%
Minimal external risk rating	44%	42%	38%	35%	36%	45%	41%	41%	47%
Low external risk rating	44%	47%	42%	44%	37%	41%	46%	39%	44%
Average external risk rating	37%	43%	41%	38%	35%	39%	43%	42%	42%
Worse than average external risk rating	48%	54%	54%	51%	51%	41%	51%	50%	48%
Agriculture	33%	40%	31%	34%	28%	37%	37%	28%	38%
Manufacturing	57%	53%	45%	43%	52%	41%	37%	38%	46%
Construction	31%	35%	42%	40%	33%	30%	37%	32%	33%
Wholesale/Retail	47%	60%	52%	54%	49%	50%	53%	54%	51%
Hotels & Restaurants	40%	48%	51%	49%	50%	45%	46%	52%	47%
Transport	46%	45%	44%	43%	43%	43%	43%	48%	42%
Property/Business Services etc.	48%	56%	46%	46%	40%	42%	56%	45%	50%
Health	43%	51%	46%	38%	39%	39%	45%	37%	43%
Other Community	47%	47%	59%	50%	45%	42%	51%	53%	52%
All Permanent non-borrowers	36%	42%	39%	39%	33%	35%	38%	35%	38%
All excluding PNBs	50%	54%	53%	50%	49%	46%	53%	51%	51%

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 H1 2017 were somewhat less likely to be predicting growth (44% v 49%) but this was due to the growth predictions of those with 0 employees (40% in H1 2017). Amongst those with employees, growth aspirations were higher in H1 2017 than in 2016 (57% v 53% for those with any employees) and back to the levels seen in 2013 (a similar pattern was seen for past growth):

Objective to grow (any) in next 12 months					
Over time					H1
By date of interview – row percentages	2013	2014	2015	2016	2017
All	49%	47%	45%	43%	44%
0 emp	46%	43%	42%	40%	40%
1-9 emps	54%	56%	54%	52%	55%
10-49 emps	59%	67%	63%	59%	64%
50-249 emps	67%	71%	66%	58%	68%
Minimal external risk rating	45%	45%	40%	39%	43%
Low	45%	45%	44%	42%	41%
Average	41%	42%	39%	39%	42%
Worse than average	54%	52%	51%	49%	49%
Agriculture	43%	37%	34%	34%	33%
Manufacturing	51%	55%	49%	43%	42%
Construction	41%	37%	35%	35%	32%
Wholesale/Retail	51%	54%	53%	51%	52%
Hotels & Restaurants	46%	45%	46%	48%	49%
Transport	48%	37%	44%	43%	45%
Property/ Business Services	53%	49%	48%	46%	47%
Health	49%	49%	48%	41%	40%
Other	52%	57%	50%	47%	52%
PNBs	43%	40%	38%	36%	36%
All excl PNBs	52%	52%	51%	50%	51%

Q225 All SMEs



97% of those planning to grow said they would achieve this by selling more to existing markets in the UK (the equivalent of 42% 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 Q2 17	All planning to grow	All SMEs
<i>Unweighted base:</i>	2467	4507
Sell in the UK	97%	42%
<i>Increase sales in existing markets in UK</i>	90%	39%
<i>Sell in new markets in UK</i>	25%	11%
Sell overseas	13%	6%
<i>Increase sales in existing markets overseas</i>	11%	5%
<i>Sell in new markets overseas</i>	7%	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 Q2 2017, 67% reported that they planned to grow compared to 42% 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: 66% of exporters interviewed in Q2 2017 planned to grow compared to 42% of non-exporters.
- Amongst SMEs with 10-249 employees: 78% of exporters interviewed in Q2 2017 planned to grow compared to 63% 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%) were planning to sell more overseas, just 4% of those who were not exporting planned to look overseas:

How plan to grow Q2 17	All planning to grow who export	All planning to grow who do not export
Unweighted base:	412	2055
Sell in the UK	91%	98%
<i>Increase sales in existing markets in UK</i>	87%	90%
<i>Sell in new markets in UK</i>	38%	23%
Sell overseas	65%	4%
<i>Increase sales in existing markets overseas</i>	60%	2%
<i>Sell in new markets overseas</i>	30%	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	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Row percentages	2015	2015	2015	2016	2016	2016	2016	2017	2017
Exporters	61%	69%	66%	60%	59%	62%	58%	59%	67%
Non-exporters	41%	46%	44%	43%	40%	39%	46%	42%	42%

Q225 All SMEs



The second table is based on those planning to grow and summarises how this growth is to be achieved (excluding 'Don't know' answers). Existing markets remained the main target for both exporters and non-exporters, with exporters much more likely than non-exporters to be contemplating new markets overseas:

How plan to grow

By date of interview	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Row percentages	2015	2015	2015	2016	2016	2016	2016	2017	2017
In existing markets:									
<i>Exporters</i>	90%	86%	93%	92%	88%	86%	88%	88%	96%
<i>Non-exporters</i>	87%	90%	89%	92%	89%	92%	87%	93%	91%
New UK markets:									
<i>Exporters</i>	34%	41%	25%	38%	35%	32%	36%	31%	38%
<i>Non-exporters</i>	20%	21%	27%	19%	22%	18%	23%	16%	23%
New overseas markets:									
<i>Exporters</i>	19%	26%	13%	33%	29%	24%	37%	25%	30%
<i>Non-exporters</i>	4%	3%	3%	3%	5%	3%	3%	4%	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 44%), and for non-exporters (48% to 42%). Meanwhile, ambition amongst exporters has remained higher but has varied over time (60-65%).

Amongst exporters planning to grow, the proportion planning to do so in new overseas markets (not necessarily within the EU) declined between 2013 and 2015 (30% to 20%) but has since recovered.

Growth plans					
Over time					
By date of interview					
Row percentages	2013	2014	2015	2016	H1 2017
All SMEs:					
Plan to grow	49%	47%	45%	43%	44%
<i>New markets overseas (of those planning to grow)</i>	7%	6%	6%	7%	10%
Exporters:					
Plan to grow	60%	63%	65%	60%	63%
<i>New markets overseas (of those planning to grow)</i>	30%	26%	20%	31%	27%
Non exporters:					
Plan to grow	48%	45%	43%	42%	42%
<i>New markets overseas (of those planning to grow)</i>	4%	3%	4%	4%	3%

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, detailed in previous reports. In Q1 2017, two further changes were made:

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

The latest data was collected during and immediately after the General Election campaign. At an overall level there has been relatively 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 little

change in the views of 0 employee SMEs. Amongst larger SMEs and/or those who are international, both of these factors have been mentioned more as major obstacles recently, although views remain somewhat volatile as is reported later in this section.



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

- The three top issues in Q2 2017 were **Legislation, regulation and red tape**, rated a major obstacle by 14% of SMEs, and the **current economic climate** and **political uncertainty/government policy** both rated a major obstacle by 13% of SMEs.
- The new factor, **changes in the value of sterling**, was rated a major obstacle by 10% of SMEs and was a key obstacle for the largest SMEs.
- **Cash flow and issues with late payment** was rated a major obstacle by 8% of SMEs.
- 7% rated **recruiting and retaining staff** as a major obstacle.
- 4% of SMEs rated **availability of relevant advice** for their business as a major obstacle for the year ahead.
- The same proportion, 4%, saw **access to external finance** as a major obstacle.

The analysis below looks in detail at the barriers perceived in Q2 2017, by size of SME, ranked by mean score. Details of how these views have changed over time are provided later in this chapter.

Extent of obstacles in next 12 months		0	1-9	10-49	50-249
Q2 17 – all SMEs	Total	emp	emps	emps	emps
Unweighted base:	4507	904	1452	1451	700
The current economic climate (mean score)	4.0	3.9	4.3	4.4	4.7
- 8-10 major obstacle	13%	12%	14%	14%	15%
- 5-7 moderate obstacle	32%	31%	36%	37%	41%
- 1-4 minor obstacle	52%	53%	47%	46%	41%
Legislation, regulation and red tape	3.8	3.6	4.4	4.3	4.7
- 8-10 major obstacle	14%	12%	17%	15%	16%
- 5-7 moderate obstacle	26%	24%	31%	31%	39%
- 1-4 minor obstacle	58%	61%	48%	50%	43%
Political uncertainty/future govt policy	3.7	3.6	4.2	4.2	4.9
- 8-10 major obstacle	13%	12%	16%	14%	19%
- 5-7 moderate obstacle	26%	25%	28%	31%	39%
- 1-4 minor obstacle	57%	59%	50%	49%	38%

Continued



Continued

Changes in the value of sterling	3.0	2.9	3.5	3.7	4.5
- 8-10 major obstacle	10%	9%	13%	13%	23%
- 5-7 moderate obstacle	18%	17%	21%	25%	25%
- 1-4 minor obstacle	68%	71%	62%	57%	49%
Cash flow/issues with late payment	2.9	2.8	3.1	3.1	3.1
- 8-10 major obstacle	8%	8%	9%	8%	6%
- 5-7 moderate obstacle	17%	16%	19%	19%	21%
- 1-4 minor obstacle	73%	74%	69%	70%	71%
Availability of relevant advice	2.4	2.3	2.6	2.4	2.5
- 8-10 major obstacle	4%	4%	5%	3%	2%
- 5-7 moderate obstacle	14%	13%	16%	15%	19%
- 1-4 minor obstacle	79%	80%	76%	79%	76%
Recruiting/retaining staff	2.3	2.0	3.2	3.9	4.3
- 8-10 major obstacle	7%	5%	11%	13%	13%
- 5-7 moderate obstacle	10%	7%	18%	29%	36%
- 1-4 minor obstacle	79%	84%	67%	56%	49%
Access to external finance	2.1	2.1	2.4	2.2	2.4
- 8-10 major obstacle	4%	4%	5%	4%	1%
- 5-7 moderate obstacle	11%	10%	12%	11%	18%
- 1-4 minor obstacle	82%	83%	78%	81%	78%
None of these are major obstacles	64%	66%	58%	59%	55%

Q227a All SMEs

SMEs with employees were somewhat more likely to rate some of the following as major obstacles:

- 17% rated legislation and regulation as a major obstacle, compared to 12% of those with no employees
- 16% rated political uncertainty as a major obstacle, compared to 12% of those with no employees
- 12% rated recruiting and retaining staff as a major obstacle, compared to 5% of those with no employees.



In Q2 2017, 64% of SMEs did not rate any of these factors as a major obstacle (scoring 8-10).

All those who did not score 8-10 for *any* of these factors were asked if there were any barriers missing from the list. Almost all (95%) said that there weren't. The top other mention was terrorism (3%).

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

Extent of obstacles in next 12 months

Q2 17 – all SMEs 8-10 impact score	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	4507	904	1452	1451	700
Legislation, regulation and red tape	14%	12%	17%	15%	16%
The current economic climate	13%	12%	14%	14%	15%
Political uncertainty/future govt policy	13%	12%	16%	14%	19%
Changes to value of sterling	10%	9%	13%	13%	23%
Cash flow/issues with late payment	8%	8%	9%	8%	6%
Recruiting/retaining staff	7%	5%	11%	13%	13%
Availability of relevant advice	4%	4%	5%	3%	2%
Access to external finance	4%	4%	5%	4%	1%
None of these rated a major obstacle	64%	66%	58%	59%	55%

Q227a All SMEs

This shows that the top 3 major obstacles (the economic climate, political uncertainty and legislation) were key issues for all sizes of SMEs but mentioned more by the larger SMEs. A quarter of SMEs in Q2 2017 (27%) mentioned one or more of these three factors as barriers,

increasing slightly by size of SME (26% of 0 employee SMEs to 34% of those with 50-249 employees). The new barrier, changes to the value of sterling, was mentioned more by larger SMEs and was the number one barrier for those with 50-249 employees (23%).



Analysis by risk rating showed the same three key obstacles. Those with a better external risk rating were slightly more concerned about legislation, regulation and red tape while those with a worse risk rating were slightly more concerned about the economic climate. Concerns about political uncertainty or changes in the value of sterling did not vary much by risk rating:

Extent of obstacles in next 12 months

Q2 17 – all SMEs 8-10 impact score	Total	Min	Low	Avg	Worse/ Avg
Unweighted base:	4507	750	1343	1037	982
Legislation, regulation and red tape	14%	15%	16%	14%	13%
The current economic climate	13%	10%	12%	13%	13%
Political uncertainty/future govt policy	13%	14%	12%	14%	13%
Changes to value of sterling	10%	9%	11%	9%	11%
Cash flow/issues with late payment	8%	6%	7%	6%	9%
Recruiting/retaining staff	7%	9%	8%	6%	6%
Availability of relevant advice	4%	3%	5%	4%	4%
Access to external finance	4%	3%	4%	2%	5%
None of these rated a major obstacle	64%	68%	64%	63%	63%

Q227a All SMEs for whom risk ratings known



The table below shows that in Q2 2017, there were some differences in perceived obstacles between those with plans to grow and those with no plans, albeit there were no differences for two of the main issues, legislation and the current economic climate. Those planning to grow were more concerned about most other issues and overall 42% nominated at least one

major obstacle compared to 32% 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 73% said that none of them were.

Extent of obstacles in next 12 months

Q2 17 – all SMEs 8-10 impact score	Total	Plan to grow	No plans to grow	PNB	Not PNB
Unweighted base:	4507	2558	1949	1469	3038
Legislation, regulation and red tape	14%	13%	14%	11%	15%
The current economic climate	13%	13%	12%	8%	16%
Political uncertainty/future govt policy	13%	15%	12%	11%	16%
Changes to value of sterling	10%	13%	8%	5%	15%
Cash flow/issues with late payment	8%	10%	6%	3%	12%
Recruiting/retaining staff	7%	8%	6%	4%	9%
Availability of relevant advice	4%	5%	4%	3%	6%
Access to external finance	4%	5%	3%	1%	7%
None of these rated a major obstacle	64%	58%	68%	73%	56%

Q227a All SMEs



Those planning to apply for new/renewed facilities in the next three months, or who would have liked to, were much more likely to see these issues as major obstacles, including access to finance. 57% nominated at least one major obstacle, compared to 31% of Future happy non-seekers:

Extent of obstacles in next 12 months

Q2 17 – all SMEs 8-10 impact score	Total	Plan to apply or FWBS	Future HNS	Future HNS excl. PNB
Unweighted base:	4507	1033	3474	2005
Legislation, regulation and red tape	14%	20%	12%	12%
The current economic climate	13%	21%	10%	12%
Political uncertainty/future govt policy	13%	19%	12%	14%
Changes to value of sterling	10%	20%	8%	11%
Cash flow/issues with late payment	8%	16%	6%	9%
Recruiting/retaining staff	7%	12%	5%	7%
Availability of relevant advice	4%	7%	4%	4%
Access to external finance	4%	14%	1%	2%
None of these rated a major obstacle	64%	43%	69%	64%

Q227a All SMEs

The Future happy non-seeker category described above includes those SMEs that met the definition of a Permanent non-borrower, which indicates that they are not using finance nor are they likely 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.



Of the top 3 obstacles, legislation was more of an obstacle for those in Agriculture and Wholesale/Retail, while the economic climate and political uncertainty were both more of an obstacle for those in the Other community sector:

Extent of obstacles in next 12 months

Q2 17 – all SMEs 8-10 impact scores	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	302	376	800	450	300	502	902	375	500
Legislation, regulation and red tape	20%	17%	11%	20%	17%	12%	13%	7%	13%
The current economic climate	11%	11%	8%	15%	12%	12%	15%	10%	16%
Political uncertainty	18%	14%	6%	14%	14%	11%	15%	12%	21%
Changes to sterling	15%	10%	4%	15%	10%	13%	9%	11%	14%
Cash flow/issues with late payment	9%	9%	9%	10%	6%	7%	9%	5%	6%
Recruiting/retaining staff	8%	11%	4%	11%	9%	9%	6%	4%	5%
Availability of relevant advice	4%	4%	4%	6%	5%	8%	3%	4%	4%
Access to external finance	3%	4%	3%	6%	8%	5%	3%	5%	3%
None of these rated a major obstacle	56%	62%	73%	56%	63%	65%	61%	73%	58%

Q227 All SMEs

73% of SMEs in Construction or Health said that none of these represented a major barrier to them. There was relatively little variation by sector, with those in the Agriculture and Wholesale/Retail sectors the most likely to nominate at least one major obstacle (44% 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. There is now little to choose between the top 3 barriers (legislation, the current economic climate and political uncertainty):

Extent of obstacles in next 12 months

All SMEs over time

8-10 impact score

By date of interview

	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17
Unweighted base:	5001	5004	5003	4500	4500	4500	4500	4500	4507
Legislation, regs and red tape	11%	13%	10%	11%	11%	8%	10%	15%	14%
The current economic climate	14%	13%	13%	13%	13%	10%	13%	11%	13%
Political uncertainty	9%	10%	9%	10%	10%	10%	12%	14%	13%
Changes in sterling	-	-	-	-	-	-	-	11%	10%
Cash flow/issues with late payment	9%	9%	8%	8%	7%	6%	5%	8%	8%
Recruiting/retaining staff*	6%	6%	8%	6%	6%	5%	6%	5%	7%
Availability of relevant advice	4%	6%	5%	4%	4%	4%	6%	3%	4%
Access to external finance	5%	6%	6%	5%	5%	4%	5%	4%	4%
None of these rated a major obstacle	68%	64%	66%	67%	68%	74%	70%	66%	64%

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	H1 2017
Unweighted base:	20,055	20,036	20,055	20,046	18,000	9,007
Legislation, regulation and red tape	13%	13%	12%	11%	10%	14%
The current economic climate	34%	27%	17%	13%	12%	12%
Political uncertainty/future govt policy	-	-	-	10%	10%	14%
Changes in sterling	-	-	-	-	-	10%
Cash flow/issues with late payment	13%	11%	9%	9%	7%	8%
Recruiting/retaining staff	3%	3%	5%	6%	6%	6%
Availability of relevant advice	6%	6%	5%	5%	4%	4%
Access to external finance	11%	10%	7%	6%	5%	4%

Q227a All SMEs

This shows the marked decline in the proportion of SMEs citing the current economic climate as a barrier, such that it is now no more of a barrier than legislation and regulation or political uncertainty, where scores have remained more stable (albeit with an increase in H1 2017).

The 2016 data was gathered during and immediately after the EU referendum campaign and the 2017 data during a General Election campaign, both of which may affect perceptions about the future. The table below shows the changes since 2015 for two key barriers, the economic climate and political uncertainty, by size of SME. Analysis for those engaged in international trade is provided at the end of this chapter.



Political uncertainty is now more of a barrier than it was in 2015, and across all size bands. Scores “peaked” around Q4 2016-Q1 2017 and were little changed in Q2 2017, with the exception of those with 50-249 employees:

**Political uncertainty and future
govt policy**

8-10 impact score Row percentages	2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017
All SMEs	9%	10%	10%	10%	12%	14%	13%
0 employees	9%	9%	9%	9%	11%	13%	12%
1-9 employees	12%	12%	14%	12%	17%	16%	16%
10-49 employees	9%	10%	12%	11%	15%	14%	14%
50-249 employees	7%	10%	16%	15%	15%	14%	19%

Q227a All SMEs

The current economic climate is as much of a barrier now as it was in 2015, overall and for SMEs with up to 10 employees. Larger SMEs are now more concerned about the economic climate than they were in 2015, but the scores did not increase in Q2 2017 itself:

The current economic climate

8-10 impact score Row percentages	2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017
All SMEs	13%	13%	13%	10%	13%	11%	13%
0 employees	12%	12%	13%	9%	13%	11%	12%
1-9 employees	14%	14%	14%	14%	16%	13%	14%
10-49 employees	10%	11%	13%	10%	14%	14%	14%
50-249 employees	8%	12%	14%	13%	13%	17%	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 the proportion of such SMEs citing it as a barrier has changed little in recent quarters.



Access to finance – 8-10 impact scores

Over time – row percentages	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
By date of interview	15	15	15	16	16	16	16	17	17
All SMEs	5%	6%	6%	5%	5%	4%	5%	4%	4%
0 employee	4%	5%	5%	5%	5%	4%	4%	4%	4%
1-9 employees	6%	8%	8%	6%	6%	5%	7%	5%	5%
10-49 employees	4%	6%	5%	5%	4%	3%	5%	5%	4%
50-249 employees	3%	2%	2%	2%	2%	3%	4%	4%	1%
Minimal external risk rating	5%	3%	3%	2%	2%	6%	2%	1%	3%
Low external risk rating	2%	5%	3%	3%	4%	2%	4%	4%	4%
Average external risk rating	4%	5%	5%	5%	3%	5%	4%	4%	2%
Worse than average external risk rating	5%	6%	8%	5%	8%	5%	6%	4%	5%
Agriculture	5%	4%	6%	5%	4%	8%	1%	4%	3%
Manufacturing	4%	4%	6%	6%	5%	3%	2%	4%	4%
Construction	3%	5%	5%	3%	5%	3%	4%	5%	3%
Wholesale/Retail	6%	9%	5%	4%	7%	3%	4%	6%	6%
Hotels & Restaurants	6%	8%	10%	9%	6%	8%	9%	8%	8%
Transport	5%	7%	9%	9%	8%	5%	4%	4%	5%
Property/Business Services etc.	5%	6%	6%	4%	3%	3%	6%	3%	3%
Health	2%	3%	5%	4%	7%	5%	5%	1%	5%
Other Community	6%	5%	4%	4%	4%	6%	6%	3%	3%
Use external finance	7%	8%	8%	7%	6%	4%	6%	7%	7%
Plan to borrow/FWBS	13%	13%	14%	14%	13%	11%	13%	13%	14%
Future Happy non-seekers	2%	3%	3%	2%	2%	2%	2%	2%	1%
All SMEs excluding PNBs	8%	9%	9%	8%	8%	7%	7%	6%	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. With the exception of Q4 2015 when 16% planned to apply, the proportion planning to apply/renew has changed relatively little over time, with 12% planning to apply after Q2 2017:

% likely in next 3 months									
All SMEs – over time	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
By date of interview	2015	2015	2015	2016	2016	2016	2016	2017	2017
Unweighted base:	5001	5004	5003	4500	4500	4500	4500	4500	4507
Will have a need for (more) external finance	7%	9%	10%	11%	9%	7%	7%	7%	8%
Will apply for more external finance	6%	7%	8%	9%	7%	6%	7%	6%	6%
Renew existing borrowing at same level	7%	8%	10%	8%	7%	7%	7%	6%	8%
Any apply/renew	11%	12%	16%	14%	11%	11%	11%	10%	12%
Reduce the amount of external finance used	8%	8%	9%	8%	7%	7%	7%	4%	7%
Inject personal funds into business	14%	18%	17%	17%	15%	14%	15%	12%	13%

Q229 All SMEs

SMEs have typically been somewhat more likely to identify a need for finance than to think they would apply for it. The predicted level of applications/renewals in the coming quarter has consistently been higher than the actual level of applications/renewals reported subsequently (by different SMEs). Whilst 11% of SMEs in the second half of 2016 said that they *planned* to apply for finance, 4% of those interviewed in 2017 to date reported a loan or overdraft 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	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017
Unweighted base:	2794	2876	2997	2670	2833	2839	2714	2846	2753
Any new equity	2%	3%	5%	3%	4%	3%	4%	2%	4%

Q229 All companies

In Q2 2017 as in previous quarters, there continued to be a difference in future appetite for finance by size of business. Appetite was lower amongst those with 0 employees and these SMEs remained more likely to anticipate an injection of personal funds (14%) than an

application for new/renewed finance (11%). The largest SMEs with 50-249 employees reported increased appetite for finance in Q2 2017 (23%), a significant increase compared to the 12-14% seen in previous quarters, but due almost entirely to 19% of them planning to renew an existing facility:

% likely in next 3 months

Q2 17 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	4507	904	1452	1451	700
Will have a need for (more) external finance	8%	7%	10%	7%	9%
Will apply for more external finance	6%	5%	9%	7%	8%
Renew existing borrowing at same level	8%	7%	9%	11%	19%
Any apply/renew	12%	11%	14%	15%	23%
Reduce the amount of external finance used	7%	6%	8%	8%	10%
Inject personal funds into business	13%	14%	13%	5%	3%

Q229 All SMEs

Amongst SMEs with employees, 14% had plans to apply/renew in the next 3 months and 10% believed they would have a need for (more) external finance.



Before looking at future applications for finance in more detail, the analysis below explores the role of personal funding of SMEs. Between 2012 and 2014 there was a decline in the proportion of SMEs that had injected personal funds, from 43% to 29%. Since then, each year around 3 in 10 have reported an injection of funds. Having been stable for a while, the proportion of SMEs planning to inject personal funds in the 3 months after interview has seen a further slight decline in H1 2017, to 13%:

Injections of personal funds past and future						
Over time – All SMEs	2012	2013	2014	2015	2016	H1 2017
Unweighted base:	20,055	20,036	20,055	20,046	18,000	9,007
Have injected personal funds	43%	38%	29%	28%	28%	29%
Plan to inject personal funds	24%	20%	16%	16%	15%	13%

Q 15d/Q229-5 All companies

The table below shows how the injections of personal funds past and future have combined. Over recent quarters around two thirds of SMEs had neither put in funds, nor thought it likely they would do so (68% in Q2 2017). Meanwhile a fairly stable 1 in 10 SMEs had both put in funds in the past *and* planned to do so in future (9% in Q2 2017):

Injections of personal funds									
Over time – All SMEs	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017
Unweighted base:	5001	5004	5003	4500	4500	4500	4500	4500	4507
Have injected personal funds and likely to do so again	9%	12%	11%	11%	9%	8%	10%	9%	9%
Have not put in personal funds but likely to do so	5%	6%	6%	6%	6%	6%	5%	3%	4%
Have injected personal funds but unlikely to do so again	17%	18%	18%	18%	16%	17%	21%	20%	18%
Have not put in personal funds and not likely to do so	69%	64%	65%	64%	69%	69%	65%	68%	68%

Q229/Q15d-d2 All SMEs



Turning back to future applications for external finance, from Q2 2016 there has been little variation overall in the proportion of SMEs planning to apply/renew:

% likely to apply or renew in next 3 months

Over time – row percentages By date of interview	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017
All SMEs	11%	12%	16%	14%	11%	11%	11%	10%	12%
0 employee	9%	11%	14%	14%	10%	10%	10%	8%	11%
1-9 employees	16%	16%	20%	16%	15%	14%	14%	16%	14%
10-49 employees	19%	17%	20%	20%	16%	13%	16%	16%	15%
50-249 employees	15%	12%	13%	14%	13%	12%	13%	12%	23%
Minimal external risk rating	9%	11%	19%	12%	10%	11%	10%	9%	9%
Low external risk rating	14%	14%	14%	14%	13%	11%	13%	13%	13%
Average external risk rating	12%	13%	16%	12%	10%	11%	9%	8%	9%
Worse than average external risk rating	11%	11%	16%	15%	14%	12%	10%	11%	13%
Agriculture	18%	19%	18%	15%	13%	17%	15%	12%	11%
Manufacturing	16%	16%	17%	16%	15%	11%	11%	7%	20%
Construction	10%	11%	12%	17%	8%	9%	11%	10%	7%
Wholesale/Retail	10%	15%	19%	14%	12%	14%	12%	13%	11%
Hotels & Restaurants	14%	14%	20%	17%	13%	13%	11%	15%	13%
Transport	12%	14%	14%	14%	16%	15%	14%	13%	12%
Property/Business Services etc.	11%	12%	15%	12%	10%	9%	12%	7%	11%
Health	6%	8%	12%	11%	11%	8%	9%	9%	11%
Other Community	9%	12%	19%	17%	15%	11%	8%	13%	15%
Objective to grow	15%	17%	23%	21%	18%	15%	14%	16%	18%
No objective to grow	8%	8%	9%	9%	7%	8%	9%	5%	6%
All SMEs excluding PNBs	21%	23%	28%	28%	22%	22%	19%	19%	21%

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 marginally lower in H1 2017 than in previous years due primarily to the 0 employee SMEs. Those with 50-249 employees reported an increased appetite for finance in H1 2017 but as already reported this was due to higher anticipated levels of renewals:

% likely to apply or renew in next 3 months						
Over time						H1
By date of interview – row percentages	2012	2013	2014	2015	2016	2017
All	14%	14%	13%	13%	12%	11%
0 emp	12%	12%	11%	12%	11%	9%
1-9 emps	20%	19%	20%	17%	15%	15%
10-49 emps	21%	17%	18%	19%	16%	16%
50-249 emps	19%	16%	14%	14%	13%	17%
Minimal external risk rating	16%	12%	13%	13%	11%	9%
Low	17%	13%	14%	15%	13%	13%
Average	13%	13%	12%	14%	10%	8%
Worse than average	15%	14%	14%	12%	13%	12%
Agriculture	18%	16%	15%	18%	15%	11%
Manufacturing	16%	13%	16%	16%	13%	13%
Construction	14%	13%	11%	11%	11%	8%
Wholesale/Retail	16%	18%	19%	15%	13%	12%
Hotels & Restaurants	17%	15%	16%	16%	14%	14%
Transport	14%	16%	15%	13%	15%	12%
Property/ Business Services	12%	13%	11%	13%	11%	9%
Health	11%	12%	11%	9%	10%	10%
Other	16%	12%	14%	13%	12%	14%
All excl PNBs	21%	23%	24%	25%	23%	20%

Q229 All SMEs

Amongst those planning to grow, future appetite for finance is somewhat higher (17% in H1 2017) and has changed very little over time (17-19% since 2013).



Previous analysis has shown that those already using external finance were more likely to consider applying for finance than those not currently using it. The table below shows that around 1 in 10 of all SMEs both used finance and planned to apply in the next 3 months (9% in H1 2017) and this has declined very slightly since 2012. In H1 2017, a further 2% of all

SMEs were not using external finance but had plans to apply, slightly lower than the 4% seen in previous years.

This means that most of those planning to apply for finance were already using it (82%), back to the levels seen 2012-2014:

Plans to apply v use of external finance						H1
Over time – all SMEs	2012	2013	2014	2015	2016	2017
Unweighted base:	20,055	20,036	20,055	20,046	18,000	9,007
Use external finance and plan to apply	11%	10%	10%	10%	8%	9%
Use external finance, no plans to apply	33%	30%	27%	27%	29%	29%
Do not use finance but plan to apply	3%	3%	3%	4%	4%	2%
Do not use finance, no plans to apply	53%	56%	60%	59%	59%	60%
% of future applicants using finance	79%	77%	77%	71%	67%	82%

Q15 and futfin All SMEs

Analysis of the H1 2017 results by size of SME showed that the proportion of SMEs both using finance and planning to apply increased by size of SME as did the proportion of future applicants already using finance:

- 7% of 0 employee SMEs were using external finance and planned to apply for more and 78% of all future applicants were already using finance
- 12% of 1-9 employee SMEs were using external finance and planned to apply for more and 80% of all future applicants were already using finance
- 15% of 10-49 employee SMEs were using external finance and planned to apply for more and 94% of all future applicants were already using finance
- 16% of 50-249 employee SMEs were using external finance and planned to apply for more and 94% of all future applicants were already using finance.



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).

In Q1 2017 some additional codes were added covering borrowing in order to take on new staff, run a marketing campaign or develop a new product/service and the proportion of potential applicants mentioning these reasons for borrowing (around 1 in 10 each) are reported below for the first time:

Use of new/renewed facility

All planning to seek/renew

Over time excl DK By date of interview	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017
Unweighted base:	747	761	850	750	642	549	622	606	686
Working capital	57%	57%	57%	56%	60%	66%	67%	63%	52%
Plant & machinery	22%	25%	28%	24%	21%	18%	19%	21%	19%
UK growth	25%	30%	28%	30%	23%	29%	31%	23%	32%
Premises	10%	7%	8%	11%	7%	5%	6%	8%	5%
New products or services	5%	7%	6%	12%	9%	7%	8%	5%	8%
Growth overseas	5%	4%	8%	6%	4%	4%	7%	3%	5%
Hiring staff**	-	-	-	-	-	-	-	9%	9%
Marketing campaign**	-	-	-	-	-	-	-	9%	9%
Developing new product/service**	-	-	-	-	-	-	-	6%	11%

Q230 All planning to apply for/renew facilities in next 3 months. ** new for 2017 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 2016-17:

Use of new/renewed facility						H1
All planning to seek/renew- over time	2012	2013	2014	2015	2016	2017
<i>Unweighted base:</i>	3717	3316	3310	3200	2563	1292
Working capital	63%	62%	57%	59%	62%	57%
Plant & machinery	27%	27%	26%	25%	21%	20%
UK growth*	21%	28%	30%	28%	28%	28%
Premises	7%	7%	10%	7%	8%	6%
New products or services	10%	9%	9%	7%	9%	6%
Growth overseas*	3%	5%	6%	6%	5%	4%
Hiring staff**	-	-	-	-	-	9%
Marketing campaign**	-	-	-	-	-	9%
Developing new product/service**	-	-	-	-	-	8%

Q230 All planning to apply for/renew facilities in next 3 months excl DK. *Growth replaced expansion in Q2 2013 ** new for 2017

In H1 2017, 18% of future applicants mentioned one or more of the new purpose of borrowing codes and 12% mentioned either developing or launching a new product or service.



The table below details what types of finance those planning to apply would consider for their new/renewed funding. From Q1 2016 data has been collected at a headline level rather than for each possible type of finance.

Consideration over time of any of the core lending products (overdrafts, loans and/or

credit cards) and/or other forms of borrowing, is shown below for those planning to apply, using the new summary categories introduced from Q1 2016. It shows consideration of core finance increasing slightly in recent quarters (to 61% in Q2 2017) after previous declines:

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

Over time	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
By date of interview	2015	2015	2016	2016	2016	2016	2017	2017
Unweighted base:	776	891	771	672	554	639	616	698
Core product (loan, O/D, credit card)	61%	57%	52%	52%	47%	55%	55%	61%
Commercial mortgage	9%	10%	18%	16%	14%	16%	13%	12%
Leasing/invoice finance	28%	29%	23%	16%	15%	16%	18%	15%
Other	49%	49%	30%	22%	21%	26%	22%	19%
None of these	25%	28%	33%	41%	45%	32%	34%	32%

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

In all quarters consideration has been highest for the core products. In Q2 2017, 61% of future applicants were considering a core form of finance, compared to 19% considering any of the other forms of finance.

The proportion saying ‘none of these’ had been stable at around 1 in 4 but was higher after the new format question was introduced at the start of 2016 (37% for 2016 as a whole). Early indications for 2017 are that the proportion has stabilised at around a third of future applicants.

These undecided potential applicants were asked whether this was because they had not decided what they might use or because they were considering another form of finance not listed. In H1 2017, 67% said that they had not decided, while 33% were considering another form of finance, up from 20% in 2015.

Amongst all potential applicants in H1 2017, 67% were considering one or more of the forms of finance listed, 11% were considering another form of finance and 22% hadn’t yet decided what they might use.



The table below shows levels of consideration in Q2 2017 by the size of SME considering funding.

% of those seeking/renewing finance would consider funding		0	1-9	10-49	50-249
Q2 17	Total	emp	emps	emps	emps
Unweighted base:	698	94*	206	231	167
Core product (loan, od, credit card)	61%	66%	51%	47%	65%
Commercial mortgage	12%	9%	18%	14%	20%
Leasing/invoice finance	15%	15%	16%	15%	20%
Other	19%	17%	26%	13%	7%
None of these	32%	31%	35%	38%	29%

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. Core finance is the most likely source of funding to be considered in all size bands, but larger SMEs are more likely to also consider commercial mortgages and leasing/invoice finance.

Amongst SMEs with employees, 51% would consider one or more core products for their future lending, 17% a commercial mortgage, 16% leasing or invoice finance and 23% some other form of funding. 36% said they would not consider any of these.



Application confidence

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

In Q1 2017, 49% of prospective applicants were confident of success, the lowest level recorded since Q1 2016. In Q2 2017, confidence was slightly higher (55%) and also in line with the equivalent quarter of 2016:

Confidence bank would lend									
All planning to seek finance Over time by date of interview	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17
Unweighted base:	494	522	586	433	377	295	362	389	437
Very confident	25%	28%	21%	23%	22%	23%	22%	17%	14%
Fairly confident	24%	32%	31%	25%	31%	38%	37%	32%	41%
Overall confidence	49%	60%	52%	48%	53%	61%	59%	49%	55%
Neither/nor	22%	17%	24%	33%	22%	20%	22%	22%	21%
Not confident	28%	23%	24%	19%	25%	19%	19%	28%	23%
Net confidence (confident – not confident)	+21	+37	+28	+29	+26	+42	+40	+21	+32

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

Confidence amongst prospective applicants with employees was 59% in Q2 2017.



As the table below shows, the lower confidence in Q1 2017 was due primarily to a drop in confidence amongst those with an average or worse than average risk rating, while those with 10-249 employees led the increase in confidence in Q2 2017:

Overall confidence bank would lend

All planning to seek finance – over time By date of interview	Total	0-9 emps	10-249 emps	Min/low	Av/Worse than ave
Q1 2015	49%	49%	66%	71%	38%
Q2 2015	49%	48%	77%	63%	45%
Q3 2015	60%	60%	66%	67%	55%
Q4 2015	52%	52%	71%	57%	52%
Q1 2016	48%	47%	73%	71%	41%
Q2 2016	53%	51%	74%	83%	47%
Q3 2016	61%	60%	81%	71%	59%
Q4 2016	59%	58%	74%	71%	60%
Q1 2017	49%	48%	66%	74%	44%
Q2 2017	55%	54%	79%	69%	51%

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



Over the longer term, there was a steady increase in levels of confidence between 2012 and 2016, with just over half of prospective applicants confident their bank will agree:

Confidence bank would agree to lend						H1
All planning to apply – over time	2012	2013	2014	2015	2016	2017
Unweighted base:	2933	2477	2337	2194	1467	826
Very confident	15%	14%	24%	24%	23%	16%
Fairly confident	27%	25%	23%	29%	32%	37%
Overall confidence	42%	39%	47%	53%	55%	53%
Neither/nor	23%	30%	24%	21%	25%	22%
Not confident	35%	31%	29%	26%	21%	26%
Net confidence (confident – not confident)	+10	+8	+18	+27	+34	+27

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

The improvement in overall confidence between 2012 and 2016 was seen equally amongst larger and smaller potential applicants and also those with a minimal/low risk or an average or worse than average risk rating:

Confidence bank would agree to lend						H1
All planning to apply – over time	2012	2013	2014	2015	2016	2017
Row percentages	2012	2013	2014	2015	2016	2017
All	42%	39%	47%	53%	55%	53%
0-9 employees	41%	37%	46%	52%	53%	51%
10-49 employees	58%	60%	66%	70%	75%	73%
Minimum/Low risk rating	57%	67%	65%	66%	74%	72%
Average/WTA risk rating	40%	35%	45%	48%	51%	48%

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

Those planning to renew remained more confident of success than those planning to apply for a new facility. Analysis shows that in H1 2017, 6 in 10 of those planning to renew were confident (58%) compared to 4 in 10 of those planning to apply for new facilities (40%).



In both instances larger SMEs were more confident of success. Analysis over time shows improvements in confidence for both renewals and new money between 2014 and 2016 but somewhat lower levels of confidence in the first half of 2017:

- For renewals confidence was 56% for 2014, increasing to 67% for 2016, but 58% for the first half of 2017
- For new facilities confidence was 39% for 2014, increasing to 46% for 2016, but 40% for the first half of 2017.

These levels of confidence remained in contrast to the actual outcome of applications. The success rate for renewals in the last 18 months was 96% while for new funds the success rate in the same period was 63%.

In a new question asked for the first time in Q1 2016, all other SMEs were asked how confident they would be of their bank saying yes if they were to apply. The table below shows the results for Q2 2017, when 6 in 10 were confident of success with a hypothetical application. This ‘hypothetical’ confidence increased by size of SME from 59% of those with no employees to 85% of those with 50-249 employees:

Confidence bank would say yes if asked		0	1-9	10-49	50-249
All not planning to apply to bank Q2 17	Total	emp	emps	emps	emps
<i>Unweighted base:</i>	4070	839	1333	1316	582
Very confident	28%	25%	33%	51%	51%
Fairly confident	34%	34%	33%	29%	34%
<i>Overall confidence</i>	62%	59%	66%	80%	85%
Neither/nor	24%	24%	23%	14%	10%
Not confident	15%	16%	10%	6%	5%
<i>Net confidence (confident – not confident)</i>	+47	+43	+56	+74	+80

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



Included in the table above are those who planned to renew/apply but then did not nominate any bank products (or indeed any products) for consideration. The table below summarises the confidence of all SMEs in Q2 2017, whether they were planning to apply to a bank (55% confident), apply but for another form of finance (50%), not apply because they were a Would-be seeker of finance (37%) or not apply because they were a Future happy non-seeker of finance (65%):

Confidence bank would say yes if asked	All planning to apply to bank	All others planning to apply	Future WBS	Future HNS
Q2 17 – all SMEs				
<i>Unweighted base:</i>	437	261	335	3474
Very confident	14%	22%	11%	30%
Fairly confident	41%	28%	26%	35%
<i>Overall confidence</i>	55%	50%	37%	65%
Neither/nor	21%	37%	23%	23%
Not confident	23%	14%	40%	11%
<i>Net confidence (confident – not confident)</i>	+32	+36	-3	+54

Q238/ 239b All SMEs

Those who had no need or plans to apply (the Future happy non-seekers) remained the most confident that if they were to approach their bank they would be successful (65%). Around half of those planning to apply for a non-bank product were confident (in line with those planning to apply for a bank product) while Future would-be seekers of finance were somewhat less confident.



This hypothetical confidence question has only been asked since Q1 2016 so trend data is somewhat limited. The table below shows that across all SMEs (those planning to apply and those answering hypothetically) confidence improved during 2016 (60% to 68%) but then returned to previous levels in 2017:

Confidence bank would say yes						
Over time	Q1	Q2	Q3	Q4	Q1	Q2
Row percentages	2016	2016	2016	2016	2017	2017
<i>All SMEs (planning to apply or not)</i>	60%	64%	67%	68%	64%	61%
Planning to apply to bank	48%	53%	61%	59%	49%	55%
Others planning to apply	49%	66%	56%	51%	67%	50%
No plans – Future would-be seekers	38%	48%	53%	57%	51%	37%
No plans – Future happy non-seekers	66%	68%	70%	72%	66%	65%

Q238/239b All SMEs

The drop in confidence between Q4 2016 (68%) and Q2 2017 (61%) was due primarily to lower levels of confidence amongst Future would-be seekers (57% to 37%).

The summary table below shows overall confidence (whether the SME plans to apply or not) for other key groups by half year period. Overall confidence was somewhat higher in the second half of 2016 (67%) compared to either H1 2016 (62%) or H1 2017 (63%). This was due primarily to changes in confidence amongst those with 0 employees as amongst those with employees overall confidence changed relatively little across the three time periods.

Larger SMEs and those with a minimal or low risk rating were more confident of success, as were those in Agriculture (70% in H1 17), with little variation otherwise by sector (61-65%). Permanent non-borrowers were initially more confident than other SMEs but this was not the case in the first half of 2017.



Confidence bank will say yes (whether planning to apply or not)			
Over time	H1	H2	H1
By date of interview – row percentages	2016	2016	2017
All	62%	67%	63%
0 emp	59%	66%	60%
1-9 emps	69%	71%	67%
10-49 emps	80%	81%	79%
50-249 emps	84%	86%	84%
Minimal external risk rating	71%	76%	72%
Low	72%	74%	71%
Average	66%	68%	61%
Worse than average	58%	64%	60%
Agriculture	68%	73%	70%
Manufacturing	65%	69%	61%
Construction	61%	69%	63%
Wholesale/Retail	68%	72%	64%
Hotels & Restaurants	59%	65%	65%
Transport	59%	64%	61%
Property/ Business Services	62%	68%	62%
Health	61%	68%	61%
Other	63%	62%	63%
PNBs	67%	68%	62%
All excl PNBs	57%	67%	62%

Q238/239b All SMEs



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

In Q2 2017, 12% of all SMEs reported plans to apply for, or renew, facilities in the following 3 months, leaving the majority (88%) with no such plans. 57% 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 and 60% for H1 2017).

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 a wider group than the Would-be seekers of the past 12 months, *all* of whom reported having an identified need for a loan or overdraft that they had not applied for.

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



The picture for recent quarters is reported below. 8 in 10 SMEs in Q2 2017 met the definition of a Future happy non-seeker and they remain the largest group:

Future finance plans									
All SMEs– over time	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
By date of interview	2015	2015	2015	2016	2016	2016	2016	2017	2017
Unweighted base:	5001	5004	5003	4500	4500	4500	4500	4500	4507
Plan to apply/renew	11%	12%	16%	14%	11%	11%	11%	10%	12%
Future would-be seekers – with identified need	*	1%	1%	1%	1%	1%	1%	1%	1%
Future would-be seekers – no immediate identified need	10%	11%	11%	11%	12%	11%	13%	10%	9%
Happy non-seekers	79%	76%	73%	74%	76%	77%	75%	80%	79%

Q230/239 All SMEs

Amongst SMEs with employees in Q2 2017, 14% had plans to apply/renew while 9% met the definition of a Future would-be seeker. The Future happy non-seekers remained the largest group at 77%.

35% of Future happy non-seekers in Q2 2017 were using external finance (31% for 2016). This matches the 35% of those who had been a Happy non-seeker of funds in the past 12 months.



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 (21% in Q2 2017) and fewer Future happy non-seekers (61% – although they remain the largest single group, as overall):

Future finance plans

SMEs excluding PNB

– over time

By date of interview	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017
Unweighted base:	3195	3258	3338	2854	3008	2755	3017	3011	3038
Plan to apply/renew	21%	23%	28%	28%	22%	22%	19%	19%	21%
Future would-be seekers – with identified need	1%	2%	1%	2%	1%	2%	1%	1%	2%
Future would-be seekers – no immediate identified need	20%	20%	19%	22%	22%	22%	22%	18%	16%
Happy non-seekers	58%	55%	52%	49%	55%	55%	58%	62%	61%

Q230/239 All SMEs excluding the Permanent non-borrowers

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



Future demand for finance has declined slightly since 2012 (14% to 11%). More markedly, the proportion of Future would-be seekers has halved in that time, and so the proportion of Future happy non-seekers has increased:

Future finance plans						H1
Over time – all SMEs	2012	2013	2014	2015	2016	2017
Unweighted base:	20,055	20,036	20,055	20,046	18,000	9007
Plan to apply/renew	14%	14%	13%	13%	12%	11%
Future would-be seekers	23%	18%	16%	11%	13%	10%
Happy non-seekers	63%	68%	71%	76%	76%	79%

Q230/239 All SMEs

Amongst SMEs with employees, the proportion planning to apply/renew is higher but has also declined over time. In H1 2017, 15% of SMEs with employees were planning to apply, down from 20% for 2012. Over the same time period, the proportion of Future would-be seekers also declined (from 20% to 9%), leaving the Future happy non-seekers of finance as an increasingly large group (60% to 76%)

Once the Permanent non-borrowers were excluded, more of the remaining SMEs were planning to apply or renew. The proportion increased slightly between 2012 and 2015 (21% to 25%) before returning to 2012 levels by the first half of 2017 (20%). The proportion of Future would-be seekers has fallen steadily (35% to 19%), as the proportion of Future happy non-seekers has increased (44% to 61%):

Future finance plans						H1
Over time – all SMEs excluding PNBs	2012	2013	2014	2015	2016	2017
Unweighted base:	15,312	14,578	13,613	13,011	11,634	6049
Plan to apply/renew	21%	23%	24%	25%	23%	20%
Future would-be seekers	35%	30%	28%	21%	23%	19%
Happy non-seekers	44%	47%	49%	54%	54%	61%

Q230/239 All SMEs



The Future would-be seekers are a group of interest as they represent a measure of ‘unmet’ demand. The table below looks at this group over recent quarters. The proportion of FWBS was lower in H1 2017 than in 2016, with 50-249 employee SMEs and those in Manufacturing in particular less likely to meet the definition.

Future would-be seekers

Over time – row percentages By date of interview	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017
All SMEs	11%	12%	12%	12%	12%	12%	14%	10%	10%
0 employee	11%	13%	12%	12%	13%	12%	14%	11%	10%
1-9 employees	10%	10%	11%	10%	13%	10%	13%	10%	10%
10-49 employees	7%	7%	9%	9%	8%	8%	9%	6%	6%
50-249 employees	8%	7%	9%	11%	14%	10%	12%	10%	4%
Minimal external risk rating	9%	11%	7%	12%	11%	8%	9%	6%	11%
Low external risk rating	9%	9%	15%	10%	6%	9%	7%	8%	7%
Average external risk rating	11%	11%	12%	14%	11%	11%	14%	11%	9%
Worse than average external risk rating	11%	13%	10%	11%	14%	13%	17%	10%	11%
Agriculture	8%	7%	11%	17%	11%	12%	10%	7%	13%
Manufacturing	13%	10%	7%	11%	12%	19%	10%	12%	5%
Construction	13%	13%	10%	12%	17%	11%	11%	10%	9%
Wholesale/Retail	12%	15%	15%	11%	13%	13%	11%	9%	14%
Hotels & Restaurants	12%	13%	13%	11%	14%	9%	13%	15%	7%
Transport	12%	7%	12%	12%	14%	14%	16%	12%	10%
Property/Business Services	10%	11%	11%	10%	10%	8%	17%	9%	10%
Health	15%	15%	18%	14%	11%	13%	11%	8%	7%
Other Community	3%	10%	13%	14%	10%	13%	15%	12%	10%
All SMEs excluding PNBs	21%	22%	21%	23%	24%	22%	19%	19%	18%

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 Q2 2017 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), predominantly due to the general economic climate:

Reasons for not applying (all mentions)		0-9	10-249
All Future would-be seekers Q2 17	Total	emps	emps
Unweighted base:	335	218	117
Reluctant to borrow now (any)	39%	38%	72%
-Prefer not to borrow in economic climate	26%	25%	57%
-Predicted performance of business	14%	14%	17%
Issues with <u>principle</u> of borrowing	3%	3%	6%
-Not lose control of business	*	*	2%
-Can raise personal funds if needed	*	*	6%
-Prefer other forms of finance	2%	2%	-
-Go to family and friends	1%	1%	2%
Issues with <u>process</u> of borrowing	23%	24%	13%
-Would be too much hassle	7%	7%	6%
-Thought would be too expensive	12%	12%	4%
-Bank would want too much security	2%	2%	4%
-Too many terms and conditions	5%	5%	1%
-Did not want to go through process	*	-	*
-Forms too hard to understand	*	*	3%
Discouraged (any)	26%	27%	14%
-Direct (Put off by bank)	3%	3%	4%
-Indirect (Think I would be turned down)	24%	24%	12%

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 39%, remained the main reason for not applying for external finance in Q2 2017, but at lower levels than were seen in a ‘spike’ immediately post Brexit. There were more mentions in Q2 2017 of the process of borrowing and also of discouragement (most of it indirect):

Main reason for not applying

Future would-be seekers – over time	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
By date of interview	15	15	15	16	16	16	16	17	17
Unweighted base:	455	445	525	466	520	457	524	419	335
Reluctant to borrow now (any)	55%	58%	52%	44%	56%	71%	58%	63%	39%
-Prefer not to borrow in economic climate	34%	36%	34%	21%	40%	49%	23%	41%	25%
-Predicted performance of business	22%	22%	19%	23%	16%	22%	35%	22%	13%
Issues with <u>principle</u> of borrowing	7%	3%	1%	4%	4%	3%	6%	2%	2%
Issues with <u>process</u> of borrowing	18%	17%	22%	19%	22%	11%	13%	11%	19%
Discouraged (any)	9%	18%	15%	23%	12%	9%	16%	16%	25%
-Direct (Put off by bank)	3%	*	*	3%	2%	*	2%	*	2%
-Indirect (Think I would be turned down)	6%	18%	15%	20%	10%	9%	14%	16%	23%
None of these	11%	4%	10%	10%	6%	1%	4%	1%	1%

Q239/239a Future would-be seekers SMEs



Analysis over the longer term from 2013 shows a decline in the proportion mentioning a reluctance to borrow now, although it remained the most mentioned reason. There have been more mentions in the first half of 2017 of discouragement:

Main reason for not applying						H1
Future would-be seekers – over time	2013	2014	2015	2016	2017	
<i>Unweighted base:</i>	3241	2765	1939	1967	754	
Reluctant to borrow now (any)	64%	59%	55%	57%	51%	
Discouraged (any)	14%	13%	14%	15%	21%	
Issues with <u>process</u> of borrowing	12%	15%	18%	16%	15%	
Issues with <u>principle</u> of borrowing	3%	4%	5%	4%	2%	
Other	2%	3%	1%	2%	1%	

Q239/239a Future would-be seekers SMEs

These reasons remain in contrast to those given by past Would-be seekers where the economic climate 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:

- Discouragement and a reluctance to borrow in the current economic climate have taken it in turns to be the key barrier for those with a need for finance identified (each mentioned by around a third of this group)
- Those with no identified need were much more likely to cite a reluctance to borrow in the current economic climate (mentioned by around 6 in 10 of this group) and less likely to mention any of the other potential barriers

With the reducing proportion of Future would-be seekers the sample size of those with an identified need for finance has fallen below the threshold required and so this analysis will not be run until base sizes increase.



Further analysis of all Future would-be seekers including by size and risk rating, is based on the latest quarter (Q2 2017).

A ‘reluctance to borrow now’ , especially in the current economic climate, was the top reason given, particularly for the larger SMEs:

Main reason for not applying

Future would-be seekers by size Q2 17	Total	0-9 emps	10-249 emps
Unweighted base:	335	218	117
Reluctant to borrow now (any)	39%	38%	71%
-Prefer not to borrow in economic climate	25%	24%	54%
-Predicted performance of business	13%	13%	17%
Issues with <u>principle</u> of borrowing	2%	2%	3%
Issues with <u>process</u> of borrowing	19%	20%	10%
Discouraged (any)	25%	26%	11%
-Direct (Put off by bank)	2%	2%	3%
-Indirect (Think I would be turned down)	23%	23%	9%

Q239/239a Future would-be seekers SMEs

Excluding the Future would-be seekers with 0 employees saw 58% of FWBS with employees citing a reluctance to borrow now, and discouragement and the process of borrowing being cited by 15% each.



The table below shows the main reasons given for not applying in Q2 2017 split by risk rating. A 'reluctance to borrow now' remained the main barrier across the risk ratings, but those with an average or worse than average rating were more likely to mention discouragement (28%) or the process of borrowing (20%) than those with a minimal or low risk rating:

Main reason for not applying

Future would-be seekers by risk rating Q2 17	Total	Min/Low	Average/ Worse Avg
Unweighted base:	335	115	177
Reluctant to borrow now (any)	39%	59%	39%
-Prefer not to borrow in economic climate	25%	33%	27%
-Predicted performance of business	13%	26%	12%
Issues with <u>principle</u> of borrowing	2%	3%	2%
Issues with <u>process</u> of borrowing	19%	7%	20%
Discouraged (any)	25%	8%	28%
-Direct (Put off by bank)	2%	*	1%
-Indirect (Think I would be turned down)	23%	8%	27%

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 Q2 2017.

4% 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 Q2	All SMEs excl. PNB
Q2 17 – Future would-be seekers			
<i>Unweighted base:</i>	335	4507	3038
Reluctant to borrow now (any)	39%	4%	7%
- <i>Prefer not to borrow in economic climate</i>	25%	2%	4%
- <i>Predicted performance of business</i>	13%	1%	3%
Issues with <u>principle</u> of borrowing	2%	*	*
Issues with <u>process</u> of borrowing	19%	2%	3%
Discouraged (any)	25%	2%	4%
- <i>Direct (Put off by bank)</i>	2%	*	*
- <i>Indirect (Think I would be turned down)</i>	23%	2%	4%

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), 7% were put off by the current economic climate (including their current performance in that climate).



Attitudes to seeking finance in future

This report has already highlighted lower levels of demand for finance and some attitudinal reluctance towards using external finance. In order to try to understand barriers to application in more detail, new confidence questions were added from Q1 2016 and in Q1 2017 another new question was included about how to fund a future business opportunity, all asked of all SMEs. These sought to explore the extent to which a lack of knowledge or understanding of financial products or a reluctance to take on finance for a business opportunity might present a barrier to SMEs accessing finance.

The confidence 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 Q2 2017 around two thirds of 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 Q2 2016 by size of SME. Larger SMEs remained more confident about assessing the advantages and disadvantages of financial products offered by their own bank:

Confidence assessing financial products from own bank

Q2 17 – all SMEs excl DK	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
<i>Unweighted base:</i>	4455	889	1433	1436	697
Very confident	25%	23%	28%	39%	39%
Fairly confident	40%	40%	40%	38%	43%
<i>Overall confidence</i>	65%	63%	68%	77%	82%
Not sure	26%	28%	24%	17%	14%
Not confident	9%	9%	8%	6%	3%

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 remained somewhat lower than for assessing such products from their own bank (57% v 65% for SMEs as a whole):

Confidence assessing financial products from another bank

Q2 17 – all SMEs excl DK	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	4439	888	1421	1433	697
Very confident	20%	18%	23%	32%	35%
Fairly confident	37%	37%	38%	35%	44%
Overall confidence	57%	55%	61%	67%	79%
Not sure	32%	34%	30%	25%	17%
Not confident	10%	11%	10%	8%	4%

Q240i All SMEs excluding DK

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

Confidence putting together application for finance to other bank

Q2 17– all SMEs excl DK	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	4432	889	1415	1432	696
Very confident	20%	18%	24%	33%	38%
Fairly confident	37%	37%	38%	36%	41%
Overall confidence	57%	55%	62%	69%	79%
Not sure	30%	32%	26%	23%	17%
Not confident	12%	14%	11%	8%	5%

Q240i All SMEs excluding DK



The summary table below shows firstly how confidence varied by future plans for finance. 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					
Q2 17 – all SMEs excl DK	Total	Plan to apply	FWBS	FHNS	All excl PNB
Unweighted base (overall – will vary):	4507	698	335	3474	3038
Confident assessing products at main bank	65%	66%	58%	65%	65%
• <i>Very confident</i>	25%	22%	14%	26%	22%
• <i>Fairly confident</i>	40%	44%	44%	39%	43%
Confident assessing products at other bank	57%	56%	47%	58%	56%
• <i>Very confident</i>	20%	16%	10%	22%	17%
• <i>Fairly confident</i>	37%	40%	37%	36%	39%
Confident applying for finance to another bank	57%	56%	46%	59%	56%
• <i>Very confident</i>	20%	18%	10%	22%	18%
• <i>Fairly confident</i>	37%	38%	36%	37%	38%

Q240i All SMEs excluding DK

The table also shows the impact of excluding the Permanent non-borrowers who appear to have little interest in applying for finance. Once excluded, levels of confidence amongst remaining SMEs is in line with SMEs overall, meaning that PNBs must be 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 confidence slightly lower in the first half of 2017 (57%) due to lower confidence amongst 0 employee SMEs and Future would-be seekers. Confidence amongst those with plans to apply has varied over time.



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	Q1 2017	Q2 2017
All SMEs	60%	59%	60%	61%	57%	57%
0 employee	59%	57%	59%	60%	55%	55%
1-9 employees	64%	62%	62%	64%	63%	62%
10-49 employees	69%	66%	73%	68%	71%	69%
50-249 employees	77%	73%	73%	75%	74%	79%
Minimal external risk rating	61%	59%	61%	70%	60%	58%
Low external risk rating	63%	61%	66%	60%	68%	60%
Average external risk rating	58%	56%	64%	57%	57%	57%
Worse than average external risk rating	62%	60%	56%	63%	55%	57%
Agriculture	53%	62%	58%	64%	46%	64%
Manufacturing	48%	57%	64%	60%	55%	47%
Construction	52%	61%	53%	58%	57%	53%
Wholesale/Retail	67%	58%	63%	63%	61%	61%
Hotels & Restaurants	56%	51%	53%	62%	59%	56%
Transport	59%	50%	66%	55%	50%	53%
Property/Business Services	69%	61%	67%	65%	63%	63%
Health	57%	51%	63%	58%	54%	67%
Other Community	62%	66%	47%	61%	55%	49%
All SMEs excluding PNBs	58%	57%	59%	63%	57%	56%
All SMEs using core finance	57%	59%	62%	66%	62%	60%
All planning to apply for finance	64%	53%	47%	58%	63%	56%
Future would-be seekers	49%	56%	52%	51%	43%	46%

Q240i All SMEs



In a new question asked for the first time in Q1 2017, SMEs were asked to imagine that a promising new business opportunity had presented itself but that extra funds were required in order for them to take up the opportunity.

In this scenario, 4 in 10 said that they would be likely to approach their bank about borrowing the funds to take up this opportunity, increasing by size of SME:

Likelihood to approach bank about funding

H1 17 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	9007	1804	2902	2901	1400
Very likely	13%	11%	17%	19%	24%
Fairly likely	28%	27%	31%	33%	37%
Overall likely	41%	38%	48%	52%	61%
Not very likely	25%	26%	23%	23%	19%
Not at all likely	34%	36%	28%	25%	20%

Q238a6i All SMEs

Analysis of these initial results showed that:

- Younger SMEs were somewhat more likely to say they would approach their bank (47% of Starts would approach the bank compared to 36% of those trading for 15 years or more)
- There was little difference by risk rating (39-42%).
- By sector, those in Wholesale/Retail (47%), Agriculture and Transport (both 46%) were the most likely to contact the bank while those in Construction (35%) and Health (36%) were the least likely.
- Those already using external finance were more likely to approach their bank (51%) than those who weren't (35%).
- Two thirds of those with plans to apply in the next 3 months said they would approach the bank (68%) compared to 39% of Future would-be seekers and 37% of future happy non-seekers.
- Permanent non-borrowers were less likely to approach their bank (32%).



All those who were unlikely to approach their bank were asked why this was. Respondents could cite several reasons and these have been grouped into themes in the table below. The largest group (63%) said that they would find the funds from within the business or from the directors and this was more likely to be the case for larger SMEs:

Reasons would not approach bank		0	1-9	10-49	50-249
All who would not approach bank H1 17		emp	emps	emps	emps
Total					
Unweighted base:	4577	1116	1495	1402	564
Business/directors will fund	63%	63%	63%	73%	82%
- <i>Would look to fund from inside business</i>	61%	60%	60%	71%	78%
- <i>Owners/directors would fund it themselves</i>	7%	7%	9%	8%	14%
Concerns about risk/debt	30%	31%	28%	23%	28%
- <i>Don't want debt even for good opportunity</i>	16%	16%	14%	12%	9%
- <i>Don't want risk of borrowing</i>	10%	10%	10%	8%	17%
- <i>We won't take an opportunity that needs finance</i>	9%	10%	9%	6%	5%
Bank issues (not lending etc)	8%	7%	10%	8%	3%
- <i>Don't think bank would agree to lend</i>	5%	5%	6%	3%	2%
- <i>Prefer to speak to another provider</i>	2%	1%	2%	4%	1%
- <i>Have a poor relationship with the bank</i>	1%	1%	2%	2%	1%

Q238a6b All SMEs not approaching bank about opportunity



The table below summarises these key themes and also includes those likely to approach the bank, to give an overall view across all SMEs. It shows smaller SMEs more concerned about risk or taking on debt and so not approaching the bank. Amongst the largest SMEs most of those not planning to approach the bank said that they would self-fund:

Likelihood to approach bank about funding

H1 17 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	9007	1804	2902	2901	1400
Likely to approach bank	41%	38%	48%	52%	61%
Unlikely - Business/directors will fund	38%	39%	33%	35%	32%
Unlikely - Concerns about risk/debt	18%	19%	14%	11%	11%
Unlikely - Bank issues (not lending etc)	5%	5%	5%	4%	1%

Q238a6i All SMEs

Self-funding was also more likely amongst those with a better external risk rating (44% of those with a minimal risk rating v 36% of those with a worse than average rating).

As the table below shows, the older the SME, the more likely they were to nominate self-funding and the less likely they were to think they would approach their bank. Concerns about risk, or about the bank, varied very little by age:

H1 17 – all SMEs	Starts	2-5 years	6-9 years	10-15 years	15 years+
Unweighted base:	902	861	935	1503	4806
Likely to approach bank	47%	45%	40%	41%	36%
Unlikely - Business/directors will fund	31%	35%	41%	39%	41%
Unlikely - Concerns about risk/debt	18%	16%	20%	18%	18%
Unlikely - Bank issues (not lending etc)	6%	6%	3%	2%	5%

Q238a6i All SMEs

Those not currently using any external finance and those expecting to be a Future happy non-seeker were more likely to self-fund (both 42%) than Future would-be seekers (28%) or those already planning to apply for finance (17%).

The proportion planning to self-fund did not vary greatly by sector (31-40%).



How have international SMEs responded to current conditions?

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

This section summarises how international SMEs have felt during 2016 and 2017 to date in comparison to 2015. SMEs have been split into three groups, based on the ways in which they trade internationally alongside their domestic trade. Note that in Q2 2017 84% of SMEs only traded domestically (decreasing by size of SME from 86% to 68%):

- 5% export but do not import (with little variation by size of SME)
- 7% import but do not export (increasing slightly by size of SME from 6% to 10%)
- 5% both import and export (increasing by size of SME from 4% to 19%).

Key results for Q2 2017 are shown below:

Future outlook summary table

Q2 17- all SMEs row percentages	All SMEs	Export	Import	Both
Unweighted base:	4507	203	358	377
Plan to grow	45%	65%	61%	69%
Economic climate 8-10 barrier	13%	22%	19%	19%
Political uncertainty 8-10 barrier	13%	19%	20%	29%
Sterling 8-10 barrier	10%	17%	20%	26%
Plan to apply for finance	12%	21%	12%	18%
Future would-be seeker of finance	10%	10%	16%	11%

International SMEs of any kind are more likely to be planning to grow but also have concerns. In particular, those who both import and export are more likely to be planning to grow (69%) but are also more likely to be concerned about political uncertainty (29%) and changes in the value of sterling (26%).



The tables below show how these views have changed over different time periods. The first shows that compared to the end of 2016, exporters in 2017 were more likely to be planning to grow and/or apply for finance, all international SMEs are more concerned about the economic climate and those who both import and export have more concerns about political uncertainty and the value of sterling:

Future outlook summary table

Over time – all SMEs	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17
Plan to grow						
• All SMEs	45%	41%	41%	47%	43%	45%
• Export only	48%	52%	54%	40%	52%	65%
• Import only	63%	59%	59%	70%	65%	61%
• Import and export	70%	66%	70%	75%	67%	69%
Plan to apply for finance						
• All SMEs	14%	11%	11%	11%	10%	12%
• Export only	18%	19%	21%	16%	10%	21%
• Import only	24%	18%	19%	17%	13%	12%
• Import and export	26%	31%	22%	18%	18%	18%
Economic climate 8-10 barrier						
• All SMEs	13%	13%	10%	13%	11%	13%
• Export only	9%	19%	13%	27%	14%	22%
• Import only	10%	13%	18%	24%	10%	19%
• Import and export	13%	20%	20%	35%	18%	19%
Political uncertainty 8-10 barrier						
• All SMEs	10%	10%	10%	12%	14%	13%
• Export only	7%	7%	12%	15%	25%	19%
• Import only	14%	7%	16%	26%	19%	20%
• Import and export	10%	19%	21%	32%	21%	29%
Changes in sterling 8-10 barrier						
• All SMEs	-	-	-	-	11%	10%
• Export only	-	-	-	-	16%	17%
• Import only	-	-	-	-	25%	20%
• Import and export	-	-	-	-	27%	26%



The second table takes a longer term view back to 2013 where data exists. This shows the following patterns:

- **Exporters** have always been more likely to be planning to grow than SMEs generally but ambition dipped in 2016, before recovering in H1 2017. Their appetite for finance peaked at 22% in 2015 but is currently 15%, only slightly ahead of the market. They have become increasingly worried about political uncertainty, but concerns about the economic climate are currently stable
- **Importers** have also always been more likely to be planning to grow than SMEs generally, and a stable 6 in 10 have been planning to grow. Their appetite for finance has declined since 2014 and is currently in line with SMEs overall. Levels of concern about both the economic climate and political uncertainty are currently stable
- **Those who import and export** have also always been more likely to be planning to grow than SMEs generally, and since 2014 a stable 7 in 10 have been planning to grow. They have more of an appetite for finance than SMEs generally but it has varied over time and is somewhat lower in H1 2017 than in 2016. Like exporting SMEs, their concern about political uncertainty continues to increase but levels of concern about the economic climate are currently stable.



Future outlook summary table					H1
Over time – all SMEs	2013	2014	2015	2016	2017
Plan to grow					
• All SMEs	49%	47%	45%	43%	44%
• Export only	54%	56%	59%	49%	58%
• Import only	63%	65%	62%	63%	63%
• Import and export	66%	69%	72%	70%	68%
Plan to apply for finance					
• All SMEs	14%	13%	13%	12%	11%
• Export only	19%	20%	22%	19%	15%
• Import only	19%	24%	19%	19%	12%
• Import and export	21%	24%	19%	25%	18%
Economic climate 8-10 barrier					
• All SMEs	27%	17%	13%	12%	12%
• Export only	29%	14%	19%	17%	18%
• Import only	26%	20%	12%	16%	15%
• Import and export	24%	15%	17%	21%	19%
Political uncertainty 8-10 barrier					
• All SMEs	-	-	9%	10%	14%
• Export only	-	-	9%	10%	22%
• Import only	-	-	11%	16%	20%
• Import and export	-	-	8%	20%	25%



As reported earlier, from Q3 2016 exporters have been asked the extent to which they sell to the EU. Analysis for H1 2017 shows that those who make all or the majority of their international sales to the EU are more concerned than other exporters:

- 37% of those who make all or the majority of their international sales to the EU nominate political uncertainty as a major barrier (compared to 18% of those making some sales to the EU and 19% of those making no sales).
- 35% of those who make all or the majority of their international sales to the EU nominate changes in the value of sterling as a major barrier (compared to 18% of those making some sales to the EU and 9% of those making no sales).
- 29% of those who make all or the majority of their international sales to the EU nominate the current economic climate as a major barrier (compared to 14% of those making either some or no sales to the EU).
- 12% of those who make all or the majority of their international sales to the EU plan to apply for finance (compared to 17% of those making some sales to the EU and 21% of those making no sales).
- 57% of those who make all or the majority of their international sales to the EU expect to grow (compared to 68% of those making some sales to the EU and 57% of those making no sales).

More analysis will be provided as base sizes increase.