

5 FINANCIAL CONTEXT - HOW ARE SMES FUNDING THEMSELVES? (PART 1)

THIS CHAPTER PROVIDES

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

KEY FINDINGS

External finance: 36% of SMEs were using external finance in 2018, almost unchanged from 2017 (38%) and increasing by size of SME from 34% of those with 0 employees to 77% of those with 50-249 employees

- During 2018, use of finance Q1 to Q3 was lower than previously seen (34-36%) but then higher in Q4 2018 (41%) due to increased use amongst smaller SMEs, and more use of core products (overdrafts and credit cards)

Forms of finance: 32% of all SMEs were using one or more forms of core finance (loans, overdrafts or credit cards). Back in 2012, 36% of SMEs were using core finance, declining to 29% in 2014 before increasing again slightly to the current 32%

- Use of core finance amongst the largest SMEs has increased over recent years from 53% in 2015 to 70% in 2018 and amongst the smallest SMEs from 25% to 29% over the same time frame. For those with 1-9 or 10-49 employees the proportion has declined steadily over time, to 36% and 46% respectively in 2018
- 19% of SMEs were using a bank overdraft (up from 16% 2014-2016), 9% a bank loan/commercial mortgage (up slightly from 7% 2014-2016) and 14% a credit card (down slightly from 16-17% in recent years)
- 25% of all SMEs were only using core finance and amongst SMEs using only one form of external finance, 81% were using a core product
- Use of other forms of finance remained lower than previously seen (12% in 2018 compared to 16-18% previously)

Injections of personal funds: 29% of SMEs reported an injection of personal funds into the business (16% as a choice to help the business grow and 13% where they felt they had to do it) and this has been stable over recent years

- Personal injections remained much more common amongst smaller SMEs (29% with 0 employees and 27% with 1-9 employees) than larger ones (13% with 10-49 employees and 6% with 50-249 employees) and also amongst younger SMEs

Personal finances: 14% of SMEs used a personal bank account for their business banking, slightly lower than previously seen. 94% of those with a personal bank account were 0 employee SMEs

- 19% of those using any form of finance said some /all of it was in a personal name (the equivalent of 7% of all SMEs). This was much more likely to be the case for smaller SMEs (23% of 0 employee SMEs using finance) than those with employees (1% of those with 50-249 employees)
- Around 1 in 10 loans and overdrafts were in a personal name, with the vast majority being for 0 employee SMEs

FINANCIAL CONTEXT

This is the first of what are now two chapters on external finance, in its many forms. This chapter reflects the changes made to the questionnaire from Q1 2018 with an extended list of the types of finance that SMEs could say they were using.

This first chapter covers current use of external finance as well as the role of personal finance (whether as a borrowing facility or an injection of personal funds), The second financial context chapter covers some of the wider context, including the Permanent non-Borrowers, use of trade credit and attitudes to finance.

USE OF EXTERNAL FINANCE – AN OVERVIEW

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

- Which of a specified list of sources they were currently using.
- If they were not using finance currently whether they had used any form of external finance in the past 5 years.

From Q1 2018, in addition to the forms of finance that have been recorded since the start of the SME Finance Monitor, SMEs were also asked whether they were using any of the following forms of finance:

- Finance through crowd funding or peer to peer lending
- Asset based lending
- Selective or single invoice finance
- Any other loan
- Any other overdraft facility.

Use of these other forms of finance is reported below but was limited. Overall 2% of SMEs reported using any of these new forms of finance, with little variation by size with the exception of the largest SMEs, where 15% of those with 50-249 employees were using one or more (with 10% making use of ‘other loans’ and 4% ‘Asset based lending’).

The new definition of use of external finance, including these additional codes, has been used in all analysis from Q1 2018 onwards, unless otherwise stated.

Use of external finance for YEQ4 2018 was 36%, virtually unchanged from the 37-38% reported annually from 2014 to 2017. This was though lower than in earlier years (in 2012, 44% of SMEs used external finance) and more details on use of finance over time are provided later in this chapter.

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

Use of external finance in last 5 years YEQ4 18 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	18,002	3602	5800	5800	2800
Use now	36%	34%	42%	54%	77%
Used in past but not now	3%	2%	3%	3%	2%
Not used at all	61%	64%	55%	43%	22%

Q14/15 All SMEs - new definition from Q1 2018

Analysis by recent quarter showed that for Q1-3 2018 use of external finance was somewhat lower than seen in 2017 (despite additional types of finance being included). In Q4 2018, 41% reported using external finance. There was a similar 'uptick' in Q4 2015 and Q4 2016 that was not maintained in subsequent quarters:

Use of external finance in last 5 years									
Over time – all SMEs By date of interview	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Unweighted base:	4500	4500	4507	4505	4500	4500	4500	4502	4500
Use now	46%	36%	40%	38%	39%	34%	35%	36%	41%
Used in past but not now	2%	4%	3%	3%	3%	2%	2%	2%	3%
Not used at all	52%	61%	56%	59%	58%	64%	63%	61%	56%

Q14/15 All SMEs - new definition from Q1 2018

As the table below shows, the increase in Q4 2018 was due to more of the smaller SMEs using external finance while the largest SMEs with 50-249 employees were somewhat less likely to be using finance than they had been in Q2 and Q3 2018:

Currently use external finance

Over time – all SMEs

By date of interview – row percentages	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018
All	46%	36%	40%	38%	39%	34%	35%	36%	41%
0 emp	44%	31%	35%	34%	35%	31%	32%	33%	39%
1-9 emps	50%	47%	52%	47%	49%	39%	40%	43%	46%
10-49 emps	61%	63%	64%	63%	67%	56%	53%	53%	54%
50-249 emps	66%	71%	76%	75%	69%	67%	85%	82%	72%

Q14/15 All SMEs - new definition from Q1 2018

The table below shows use of finance by risk rating for recent quarters. Those with a minimal risk rating remained somewhat more likely to be using external finance, but usage in Q4 2018 was higher than in Q3 across all risk ratings:

Currently use external finance

Over time – all SMEs

By date of interview – row percentages	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018
All	46%	36%	40%	38%	39%	34%	35%	36%	41%
Minimal	52%	47%	50%	44%	49%	47%	45%	42%	48%
Low	46%	43%	49%	47%	42%	41%	32%	37%	45%
Average	46%	33%	39%	34%	40%	35%	36%	32%	37%
Worse than average	43%	33%	38%	38%	37%	29%	34%	37%	42%

Q14/15 All SMEs , base varies slightly each quarter- new definition from Q1 2018

During 2018 Starts became increasingly likely to be using external finance, to 70% in Q4 itself and this will be monitored going forward. Use of finance was also higher for other young businesses, trading for less than 10 years:

Currently use external finance

Over time – all SMEs

By date of interview – row percentages	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018
All	46%	36%	40%	38%	39%	34%	35%	36%	41%
Starts	48%	33%	39%	46%	48%	36%	58%	54%	70%
2-5 years	41%	37%	33%	34%	29%	31%	27%	32%	38%
6-9 years	51%	34%	35%	34%	34%	32%	36%	31%	39%
10-15 years	42%	39%	44%	37%	43%	32%	32%	35%	35%
More than 15 years	46%	36%	44%	38%	39%	35%	26%	32%	30%

Q14/15 All SMEs , base varies slightly each quarter- new definition from Q1 2018

The table below shows use of external finance over time, declining from 44% in 2012 to 37% in 2014 and then remaining stable. Use of finance in 2018 was 36%, with lower use of finance amongst SMEs with 1-9 or 10-49 employees compared to 2017.

Almost half of SMEs can be described as Permanent non-borrowers (defined in the next chapter), with no use of, or apparent appetite for, finance. They have become an increasing proportion of SMEs over time and, once they were excluded, use of finance amongst remaining SMEs increased rather than decreased between 2012 and 2017, from 65% to 72%, the highest level seen to date. It was then just slightly lower in 2018 (70%) in line with the slightly lower use of finance amongst SMEs overall.

The 2018 figures include the extra forms of external finance detailed at the start of this chapter. Analysis showed that less than 1% of all SMEs were using only the new forms of finance and none of the other forms of finance that have been tracked over time. This means that including the new forms of finance has had a minimal impact on the overall use of finance.

Currently use external finance							
Over time – all SMEs							
By date of interview – row percentages	2012	2013	2014	2015	2016	2017	2018
All	44%	41%	37%	37%	37%	38%	36%
0 emp	38%	35%	32%	32%	33%	34%	34%
1-9 emps	58%	55%	49%	49%	46%	49%	42%
10-49 emps	70%	67%	61%	60%	59%	64%	54%
50-249 emps	73%	73%	63%	61%	64%	73%	77%
Minimal external risk rating	57%	50%	44%	47%	45%	48%	46%
Low	52%	51%	40%	47%	44%	45%	38%
Average	46%	42%	36%	38%	39%	37%	35%
Worse than average	41%	38%	35%	32%	34%	36%	35%
Agriculture	51%	44%	43%	44%	46%	50%	46%
Manufacturing	49%	44%	44%	39%	39%	43%	34%
Construction	41%	38%	33%	33%	38%	37%	34%
Wholesale/Retail	56%	50%	50%	45%	45%	48%	43%
Hotels & Restaurants	53%	47%	42%	44%	42%	43%	39%
Transport	47%	41%	38%	38%	36%	40%	37%
Property/ Business Services	41%	39%	34%	35%	33%	33%	31%
Health	32%	31%	28%	33%	32%	41%	49%
Other	38%	42%	33%	39%	38%	34%	37%
All excl PNBs	66%	68%	65%	70%	70%	72%	70%

Q14/15 All SMEs – new definition from Q1 2018

SUMMARY USE OF CORE AND OTHER FORMS OF FINANCE

The overall use of finance figures already reported include use of the ‘core’ forms of finance often provided by banks (overdrafts, loans and/or credit cards) and a range of ‘other’ forms of finance available to SMEs.

Detailed breakdowns by type of product are provided later in this chapter.

The changes to the forms of finance recorded from Q1 2018 still allow the previous ‘core’ net figures to be calculated and the new codes for use of ‘other’ loans and overdrafts can then be added to make the ‘new core definition’ shown below. The changes have had little impact on the net use of core finance products (from 35% to 36% in Q4 2018).

The longer term view provided in the table below shows how use of *any* of these forms of core finance declined from 36% in 2012 to 29% in 2014 and has since increased very slightly (32% for 2018).

Within the relatively stable position overall however, use of core finance amongst those with 50-249 employees has increased to 70% in 2018, while use of core finance amongst those with 0 employees declined from 31% in 2012 to 25% in 2014 and 2015 but has since increased again to 29% in 2018. Those with 1-9 or 10-49 employees have seen a steadier decline in the use of core finance over time (48% in 2012 to 36% in 2018 for those with 1-9 employees and 62% to 46% for those with 10-49 employees).

As with use of finance overall, these trends have been affected by the increase in Permanent non-borrowers. Once they were excluded, use of core finance increased from 51% in 2014 to 61% in 2018:

Currently use any core finance							
Over time – all SMEs							
By date of interview – row percentages	2012	2013	2014	2015	2016	2017	2018
All	36%	32%	29%	30%	30%	31%	32%
0 emp	31%	27%	25%	25%	27%	27%	29%
1-9 emps	48%	44%	40%	40%	37%	39%	36%
10-49 emps	62%	57%	50%	50%	50%	53%	46%
50-249 emps	67%	64%	55%	53%	57%	64%	70%
Minimal external risk rating	48%	42%	35%	39%	39%	39%	41%
Low	46%	43%	34%	39%	38%	38%	34%
Average	39%	34%	30%	31%	33%	30%	31%
Worse than average	31%	28%	26%	24%	26%	28%	30%
Agriculture	44%	37%	36%	36%	36%	40%	40%
Manufacturing	40%	35%	37%	31%	33%	35%	31%
Construction	34%	31%	25%	26%	32%	30%	29%
Wholesale/Retail	47%	39%	41%	36%	39%	39%	37%
Hotels & Restaurants	45%	38%	34%	37%	33%	36%	36%
Transport	36%	30%	29%	29%	28%	29%	30%
Property/ Business Services	33%	31%	26%	29%	27%	26%	27%
Health	25%	24%	22%	26%	27%	36%	45%
Other	30%	32%	25%	29%	30%	26%	32%
All excl PNBs	54%	53%	51%	55%	57%	57%	61%

Q15 All SMEs -new definition for Q1 2018

The table below shows summary use of the ‘other’ forms of finance, by key demographics, over time. Usage changed very little between 2012 and 2017 (16-18%) due to consistent use amongst 0 employee SMEs. However, in 2018, with a revised questionnaire, usage was somewhat lower, both overall and for SMEs with fewer than 50 employees. This will be monitored going forward:

Currently use other forms of finance							
Over time – all SMEs							
By date of interview – row percentages	2012	2013	2014	2015	2016	2017	2018
All	18%	18%	17%	17%	16%	18%	12%
0 emp	14%	14%	13%	13%	14%	14%	9%
1-9 emps	27%	27%	25%	26%	23%	25%	18%
10-49 emps	39%	39%	37%	37%	33%	40%	28%
50-249 emps	46%	50%	40%	36%	35%	44%	49%
Minimal external risk rating	26%	23%	21%	22%	20%	25%	14%
Low	21%	22%	18%	22%	20%	20%	14%
Average	17%	16%	15%	15%	16%	15%	11%
Worse than average	19%	17%	18%	15%	16%	17%	12%
Agriculture	20%	22%	21%	22%	24%	26%	15%
Manufacturing	19%	22%	17%	18%	18%	19%	11%
Construction	15%	14%	15%	13%	15%	17%	11%
Wholesale/Retail	23%	22%	21%	22%	19%	22%	16%
Hotels & Restaurants	23%	21%	20%	19%	20%	18%	12%
Transport	20%	22%	20%	20%	20%	22%	14%
Property/ Business Services	17%	16%	15%	15%	14%	14%	10%
Health	15%	13%	13%	15%	12%	15%	12%
Other	15%	18%	15%	19%	17%	17%	10%
All excl PNBs	27%	29%	30%	32%	31%	33%	22%

Q15 All SMEs – new definition Q1 2018

USE OF CORE AND OTHER FORMS OF FINANCE IN COMBINATION

The table below shows how core and other forms of finance have been used individually or in combination since 2012. The figures for 2018 reflect the new list of products now being used. The proportion using only core forms of finance initially decreased from 26% in 2012 to 20% of SMEs in 2014. After a period of stability 2015-2017, sole use of core finance was somewhat higher in 2018 (25%):

External finance currently used							
Over time - all SMEs	2012	2013	2014	2015	2016	2017	2018
Unweighted base:	20,055	20,036	20,055	20,046	18,000	18,012	18,002
Only use core products	26%	23%	20%	20%	21%	21%	25%
Only use other forms of finance	8%	9%	8%	8%	7%	8%	5%
Use both forms of finance	10%	9%	9%	9%	10%	10%	7%
Use none of these forms of finance	56%	59%	63%	63%	62%	62%	64%

Q15 All SMEs

Between 2012 and 2017, the decline in the use of core finance was the main contributor to the increase in the proportion of SMEs using no finance at all, as the proportions using only other forms of finance, or both other and core forms of finance, remained more stable.

In 2018 however, both the proportion using only core finance and the proportion using no finance at all increased slightly, with a slight decline in the proportions using only other forms of finance (from 8% to 5%), or both other and core forms of finance (from 10% to 7%).

DETAILED USE OF ALL FORMS OF EXTERNAL FINANCE

The table below shows the full list of the different types of funding covered on the SME Finance Monitor since Q1 2018 and being used by SMEs. It includes both the core forms of finance and the other forms of finance on which data has been collected, some of which may also be obtained from the bank. Larger businesses continued to make use of a wider range of forms of funding:

External finance currently used YEQ4 18 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	18,002	3602	5800	5800	2800
Core products (any)	32%	29%	36%	46%	70%
-Bank overdraft	19%	18%	21%	25%	46%
-Credit cards	14%	13%	16%	25%	38%
-Bank loan	7%	6%	10%	15%	32%
-Commercial mortgage	2%	1%	4%	6%	10%
-Any other overdraft*	*	*	*	*	2%
-Any other loan*	1%	1%	1%	1%	10%
Other forms of finance (any)	12%	9%	18%	28%	49%
-Leasing or hire purchase	7%	5%	12%	21%	43%
-Loans from directors, family & friends	3%	2%	5%	5%	9%
-Equity from directors, family & friends	1%	1%	2%	2%	4%
-Invoice finance	1%	1%	1%	3%	6%
-Grants	1%	1%	2%	2%	6%
-Crowd funding / peer to peer*	*	*	*	*	*
-Asset based lending*	*	*	*	1%	4%
-Selective/single invoice finance*	*	*	*	1%	1%
Any of these	36%	34%	42%	54%	77%
None of these	64%	66%	58%	46%	23%

Q15 All SMEs – new definition from Q1 2018*

Amongst SMEs with employees, 45% were using external finance – 39% were using any form of core finance and 21% any of the other forms of finance listed.

SMEs that import and/or export were asked about use of Export/Import finance. YEQ4 2018, 1% of such SMEs used these products, with limited variation by size of business (1-3%).

SMEs that are companies were also asked about use of equity from other third parties such as Business Angels. 1% were using such finance, with little variation by size, age or risk rating, or over time.

The table below details the use of all of these forms of funding over recent quarters. Since the new definitions were introduced in Q1 2018, use of ‘other’ forms of finance has been fairly stable but at somewhat lower levels than previously seen. Use of ‘core forms of finance was stable until Q4 when 36% reported using such finance, with higher use of overdrafts and credit cards.

Use of external finance

Over time – all SMEs By date of interview	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Unweighted base:	4500	4500	4507	4505	4500	4500	4500	4502	4500
Core products (any)*	38%	27%	32%	32%	31%	29%	31%	32%	36%
-Bank overdraft	20%	13%	19%	21%	19%	16%	18%	20%	22%
-Bank loan/Commercial mortgage	9%	5%	7%	7%	6%	9%	8%	9%	9%
-Bank loan	7%	4%	6%	6%	5%	7%	7%	8%	8%
-Comm. Mortgage	2%	2%	2%	2%	2%	2%	2%	2%	2%
-Credit cards	21%	17%	18%	15%	16%	12%	14%	14%	16%
-Any other overdraft*	-	-	-	-	-	*	*	*	*
-Any other loan*	-	-	-	-	-	*	1%	1%	1%
Other forms of finance (any)*	22%	17%	17%	17%	19%	12%	10%	12%	13%
-Leasing, hire purchase or vehicle finance	7%	8%	9%	10%	9%	8%	7%	7%	8%
-Loans from directors/family/friends	8%	4%	4%	4%	5%	3%	2%	3%	3%
-Equity from directors/family/friends	3%	1%	2%	1%	2%	1%	1%	1%	2%
-Invoice finance	4%	4%	3%	2%	3%	1%	1%	1%	1%
-Grants	5%	2%	2%	2%	3%	1%	1%	1%	1%
-Crowd funding/ peer to peer*	-	-	-	-	-	*	*	*	*
-Asset based lending*	-	-	-	-	-	*	*	*	*
-Selective/single invoice finance*	-	-	-	-	-	*	*	*	1%
Any form of finance* – all SMEs	46%	36%	40%	38%	39%	34%	35%	36%	41%

Q15 All SMEs – new definition Q1 2018

The table below takes a longer term annual view of the use of these individual finance products, back to 2012. In 2018, SMEs were as likely to be using ‘core’ finance as they were in 2017 and somewhat less likely to report using ‘other’ forms of finance (12% from 18% in 2017):

Use of forms of finance							
Over time – all SMEs							
By date of interview	2012	2013	2014	2015	2016	2017	2018
Core products (any)*	36%	32%	29%	30%	30%	31%	32%
-Bank overdraft	22%	18%	16%	16%	16%	18%	19%
-Bank loan/Commercial mortgage	10%	8%	7%	7%	7%	6%	9%
-Credit cards	18%	18%	15%	16%	17%	16%	14%
-Any other overdraft*	-	-	-	-	-	-	*
-Any other loan*	-	-	-	-	-	-	1%
Other forms of finance (any)*	18%	18%	17%	17%	16%	18%	12%
-Leasing, hire purchase or vehicle finance	6%	8%	7%	7%	7%	9%	7%
-Loans/Equity from directors/family/friends	6%	9%	8%	8%	6%	5%	4%
-Invoice finance	3%	2%	3%	2%	3%	3%	1%
-Grants	1%	1%	2%	2%	2%	2%	1%
-Crowd funding/ peer to peer*	-	-	-	-	-	-	*
-Asset based lending*	-	-	-	-	-	-	*
-Selective/single invoice finance*	-	-	-	-	-	-	*
Any Finance	44%	41%	37%	37%	37%	38%	36%

Q15 All SMEs - new definition Q1 2018

SMEs could use one or more of the forms of finance listed above, but most used just one if they used any (62% of SMEs using any external finance were only using one of the forms of finance listed, while 6% used 4 or more types of finance).

The table below shows the number of forms of finance used by all SMEs (including the 64% using no external finance). As this count is affected by the expanded list of products available for inclusion, data is shown for 2018 based on this new list (albeit the figures are not that different to those reported for 2017).

With the exception of those with 50-249 employees, just under a quarter of SMEs in each size band used just one form of external finance. While almost none of the smallest SMEs (1%) were using 4 or more forms of finance, this proportion increased to 22% of those with 50-249 employees:

Forms of external finance currently used			0	1-9	10-49	50-249
YEQ4 2018 – all SMEs		Total	emp	emps	emps	emps
Unweighted base:		18,002	3602	5800	5800	2800
None		64%	66%	58%	46%	23%
1 form of finance		22%	22%	23%	24%	19%
2 forms of finance		9%	8%	11%	14%	20%
3 forms of finance		3%	2%	4%	9%	16%
4 or more forms of finance		2%	1%	4%	7%	22%

81% of those using a single form of finance were using one of the core products: 43% were using an overdraft, while 24% were using a credit card and 14% a loan/commercial mortgage.

2% of SMEs (YEQ4 2018) said that they were using an additional form of external finance not on the list detailed in full above, increasing slightly by size (6% of those with 50-249 employees):

- There was a difference in use of these other forms of finance by whether the SME was also using one of the *specified* forms of external finance (5% for those also using any of the specified forms of external finance and 1% for those not).
- This means that less than 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.

USE OF LEASING, HP AND VEHICLE FINANCE

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

The results for YEQ4 2018 for the new question are shown below. 33% of SMEs used their main bank to some extent for this finance, up slightly from 27% YEQ2 2018. The largest SMEs remained more likely to use their main bank for at least some of this finance:

Source of leasing/vehicle finance	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
YEQ4 18 – all SMEs using such finance					
Unweighted base:	3590	209	796	1324	1261
Any main bank/banking group	33%	33%	32%	34%	39%
-All through main bank / banking group	26%	28%	23%	24%	21%
-Some through main bank / banking group	7%	5%	9%	11%	18%
All through other provider	67%	67%	68%	66%	61%

Q15c (14x2) All SMEs using leasing or vehicle finance

PERSONAL ELEMENTS TO BUSINESS FINANCE

For smaller SMEs in particular there can be a ‘blurring’ between business and personal finance. This next section looks at the various ways in which personal funds have been used by SMEs, whether as finance for the business or through the use of a personal bank account. Most of this section of the questionnaire was unaffected by the changes made in Q1 2018.

PERSONAL ELEMENT - 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 2018, just over a quarter SMEs (27%) reported an injection of personal funds and that this was as likely to have been a choice (14%) as something they felt they had to do (13%). These figures are in line with the other quarters of 2018:

Personal funds in last 12 months

Over time – all SMEs By date of interview	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Unweighted base:	4500	4500	4507	4505	4500	4500	4500	4502	4500
Inject personal funds – you <u>chose</u> to do to help the business grow and develop	20%	17%	15%	17%	16%	15%	15%	18%	14%
Inject personal funds – you felt you had no choice about this, that you <u>had</u> to do it	11%	12%	13%	14%	14%	13%	14%	11%	13%
Any personal funds	31%	29%	28%	31%	30%	28%	29%	29%	27%
Not something you have done	69%	71%	72%	69%	70%	72%	71%	71%	73%

Q15d All SMEs

A longer term look at the injection of personal funds shows how such injections became less likely between 2012 and 2014 (from 43% to 29% reporting an injection. This was due predominantly to a drop in the proportion feeling that they had to inject funds (from 25% in 2012 to 13% in 2015). From 2015 onwards, the proportion injecting personal funds has been stable (28-29%):

Personal funds in last 12 months							
Over time – all SMEs	2012*	2013	2014	2015	2016	2017	2018
Unweighted base:	15,032	20,036	20,055	20,046	18,000	18,012	18,002
Inject personal funds – you <u>chose</u> to do to help the business grow and develop	17%	19%	14%	14%	17%	16%	16%
Inject personal funds – you felt you had no choice about this, that you <u>had</u> to do it	25%	20%	15%	13%	11%	13%	13%
Any personal funds	43%	38%	29%	28%	28%	29%	29%
Not something you have done	57%	62%	71%	72%	72%	71%	71%

Q15d All SMEs from Q2 2012

The proportion of *all* injections of funds that were ‘forced’ fell from 58% in 2012 to 39% in 2016 but then increased slightly to 45% of injections for both 2017 and 2018.

The more detailed analysis below is based on the combined results YEQ4 2018 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		0	1-9	10-49	50-249
YEQ4 18 – all SMEs	Total	emp	emps	emps	emps
Unweighted base:	18,002	3602	5800	5800	2800
Inject personal funds – you <u>chose</u> to do to help the business grow and develop	16%	16%	15%	7%	4%
Inject personal funds – you felt you had no choice about this, that you <u>had</u> to do it	13%	13%	12%	6%	2%
Any personal funds	29%	29%	27%	13%	6%
Not something you have done	71%	71%	73%	87%	94%

Q15d All SMEs

Amongst SMEs with employees, 24% reported any injection of personal funds – 13% who chose to do so and 11% who felt that they had no choice.

Analysis by external risk rating showed that injections of personal funds increased with risk rating, from 14% of those with a minimal risk rating to 34% of those with a worse than average risk rating:

Personal funds in last 12 months					
YEQ4 18 – all SMEs	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	18,002	3160	5423	3997	4018
Inject personal funds – you <u>chose</u> to do to help the business grow and develop	16%	8%	9%	15%	19%
Inject personal funds – you felt you had no choice about, that you <u>had</u> to do	13%	6%	9%	11%	15%
Any personal funds	29%	14%	18%	26%	34%
Not something you have done	71%	86%	82%	74%	66%

Q15d All SMEs

By sector, 21% of those in Health sector and 24% of those in Transport had seen an injection of funds, compared to 34% of those in the Other Community sector (and 26-31% in the other sectors):

Personal funds in last 12 months									
YEQ4 18 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	1200	1500	3200	1800	1200	2001	3599	1502	2000
<u>Chose</u> to inject	15%	16%	13%	17%	17%	13%	18%	12%	18%
<u>Had</u> to inject	13%	14%	13%	14%	14%	11%	12%	9%	16%
Any funds	28%	30%	26%	31%	31%	24%	30%	21%	34%
Not put funds in	72%	70%	74%	69%	69%	76%	70%	79%	66%

Q15d All SMEs

The table below looks at the long term changes in injections of any personal funds, whether through choice or necessity, by these key business demographics. Injections of personal funds have been stable at around 3 in 10 since 2014, with larger SMEs, those with a minimal risk rating and those who met the definition of a Permanent non-borrower always less likely to report an injection of funds:

Any personal funds in last 12 months							
Over time – all SMEs							
Row percentages	2012*	2013	2014	2015	2016	2017	2018
All	43%	38%	29%	28%	28%	29%	29%
0 emp	45%	40%	30%	29%	29%	31%	29%
1-9 emps	39%	36%	29%	26%	24%	28%	27%
10-49 emps	22%	19%	17%	16%	13%	14%	13%
50-249 emps	13%	11%	9%	8%	9%	7%	6%
Minimal external risk rating	20%	16%	17%	17%	13%	12%	14%
Low	29%	22%	21%	19%	18%	21%	18%
Average	36%	33%	25%	24%	25%	25%	26%
Worse than average	51%	46%	36%	33%	33%	38%	34%
Agriculture	41%	38%	27%	26%	27%	27%	28%
Manufacturing	42%	31%	30%	27%	23%	28%	30%
Construction	44%	38%	29%	25%	26%	25%	26%
Wholesale/Retail	43%	37%	27%	27%	28%	30%	31%
Hotels & Restaurants	47%	41%	33%	29%	30%	34%	31%
Transport	44%	40%	30%	31%	31%	37%	24%
Property/ Business Services	42%	41%	29%	27%	30%	27%	30%
Health	43%	37%	29%	27%	24%	29%	21%
Other	41%	37%	31%	34%	28%	33%	34%
PNBs	33%	29%	19%	19%	20%	21%	20%
All excl PNBs	48%	44%	37%	35%	35%	37%	36%

Q15d All SMEs

Returning to the current period, analysis by age of SME for YEQ4 2018 showed that the youngest, start-up businesses continued to be the most likely to have had an injection of personal funds (49%), and that this was more likely to have been a choice (29%) than a necessity (20%). For older businesses, an injection of personal funds was less likely to have happened at all but, where it had, a higher proportion of those injections were felt to have been a necessity:

Personal funds in last 12 months		2-5	6-9	10-15	15
YEQ4 18 – all SMEs	Starts	yrs	yrs	yrs	yrs+
Unweighted base:	1815	1722	2219	3072	9174
Inject personal funds – you <u>chose</u> to do to help the business grow and develop	29%	20%	13%	10%	9%
Inject personal funds – you felt you had no choice about this, that you <u>had</u> to do it	20%	17%	13%	10%	8%
Any personal funds	49%	37%	26%	20%	17%
Not something you have done	51%	63%	74%	80%	83%

Q15d All SMEs

Starts have always been more likely to report an injection of funds. In 2012, 68% of Starts reported receiving an injection of funds, dropping to 43% in 2015 but then starting to increase again to 49% in 2017 and 2018.

Those using a *personal* account for their business banking were slightly more likely to have put personal funds in at all (36% v 27% of those with a business account YEQ4 2018).

SMEs currently using external finance were more likely to have received an injection of personal funds (36% YEQ4 2018) than those not currently using external finance (23%) and were also more likely to say they had felt that there had been no choice (18% v 9%).

Analysed by their overall financial behaviour in the previous 12 months, the small group of Would-be seekers (who had wanted to apply for finance but felt that something had stopped them) remained much more likely to have received an injection of personal funds:

Personal funds in last 12 months		Had an event	Would-be seeker	Happy non-seeker
YEQ4 18 – all SMEs	Total			
Unweighted base:	18,002	3666	208	14,059
Inject personal funds – you <u>chose</u> to do to help the business grow and develop	16%	19%	25%	15%
Inject personal funds – you felt you had no choice about, that you <u>had</u> to do	13%	22%	34%	10%
Any personal funds	29%	41%	59%	25%
Not something you have done	71%	59%	41%	75%

Q15d All SMEs

As already reported, the proportion of SMEs that had seen an injection of personal funds declined from 43% when the question was first asked in 2012 to 29% in 2014 and has been stable since.

- Amongst those that had had a borrowing event, injections fell from 52% in 2012 to 41% in 2018 and amongst Happy non-seekers from 37% to 25% over the same period.
- However, there was an increase in injections of personal funds amongst the small group of Would-be seekers of finance, from 62% in 2012 to 72% in 2017 making this group more likely than its peers to have seen an injection of personal funds, albeit this was not maintained in 2018 (59%).

PERSONAL ELEMENT - USE OF PERSONAL BANK ACCOUNTS

Most SMEs used a business bank account (86% excluding DK answers).

Of the 14% that used a personal account, almost all (94%) were 0 employee businesses. So, whilst 17% of 0 employee SMEs used a personal account for their business banking, amongst those with employees the figure was 3%.

SMEs more likely to be using a personal account included those in the Health sector (20%), Starts (17%) and those trading for 2-5 years (18%). Those with a minimal or low external risk rating were less likely to be using a personal account (both 6%) as were those in Wholesale/Retail (4%).

In most years around 1 in 5 SMEs used a personal account, the slight exception being 2014 when 1 in 7 SMEs used them. The figures for 2017 (16%) and 2018 (14%) were at the lower end of the range seen.

YEQ4 2018, SMEs using a personal account were:

- Less likely to be using external finance (29% used external finance, compared to 38% of those using a business account) and somewhat less likely to have had a borrowing event (10% v 15%).
- Somewhat more likely to have put personal funds into the business (36% v 27% of those with a business account) or to be a Permanent non-borrower (51% v 47%).

PERSONAL ELEMENT - FINANCE FACILITIES IN A PERSONAL NAME

Those using core finance have previously been asked whether any of those loan, overdraft or credit card facilities were in their personal name, rather than that of the business. In 2017, a quarter of those using such facilities (26%) said that one or more facilities were in their personal name. This varied relatively little across the quarters in which the question was asked.

From Q1 2018, the question was broadened. SMEs were still asked about the loans and/or overdrafts they used but were then asked about any other forms of finance, not just credit cards specifically. As a result, the figures below are the proportion of all those using finance who have a facility in their personal name, not just those using 'core' finance as previously. As core forms of finance are more likely to be in a personal name than other forms of finance, all the percentages are lower.

As the table below shows, 19% of SMES using finance had any facility in a personal name, the equivalent of 7% of all SMEs. This varied by size of SME and was predominantly concentrated amongst the smaller SMEs: amongst SMEs using finance, almost a quarter of those with 0 employees had some facility in their personal name (23%) compared to 1% of those with 50-249 employees. SMEs using finance and who also had an average or worse than average risk rating, were more likely to have a facility in a personal name (20% and 23%), than those with a minimal or low risk rating (8% and 10%):

Have element of finance in personal name

YEQ4 18 – row percentages	Of those using finance	Equivalent % of all SMEs
Total	19%	7%
0 employees	23%	7%
1-9 employees	13%	6%
10-49 employees	5%	3%
50-249 employees	1%	1%
Minimal risk rating	8%	3%
Low risk rating	10%	4%
Average risk rating	20%	7%
Worse than average risk rating	23%	8%
Use a personal bank account	77%	22%
Use a business bank account	12%	4%

Q15bsu All SMEs using finance excluding DK

Those operating their business banking through a personal account were less likely to be using any finance (29% for 2018, compared to 38% of those operating through a business bank account). However, if they *did* use external finance, then the majority (77%) said that some or all of the facilities that they had were in their personal name. Those with a business account who used finance were much less likely to say that any of the facilities were in their personal name (12%).

As a result, amongst all SMEs, those using a personal account for their business were much more likely to have a facility in their personal name (22%) than those using a business account (4%), or SMEs overall (7%).

SMEs using loans, overdrafts or any other finance were also asked about facilities in a personal name for each individual type of facility they held. 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 2018 (excl DK)

Overdrafts	<p>11% of all SMEs with an overdraft said it was in a personal name, of which 90% were 0 employee SMEs. 4% said they had overdrafts in both personal and business names.</p> <p>14% of 0 employee SMEs with an overdraft said that it was in a personal name. This declined by size to 4% of those with 1-9 employees, 2% of those with 10-49 employees and 1% of those with 50-249 employees.</p>
Loans	<p>11% of all SMEs with a loan said it was in a personal name, of which 81% were 0 employee SMEs. 3% said they had loans in both personal and business names.</p> <p>14% 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.</p>
All other finance	<p>18% of SMEs using any other form of finance said it was in a personal name, of which 84% were 0 employee SMEs. 5% said they had facilities in both personal and business names.</p> <p>24% of 0 employee SMEs using other forms of finance said that it was in a personal name. This declined by size to 11% of those with 1-9 employees, 2% of those with 10-49 employees and <1% of those with 50-249 employees.</p>