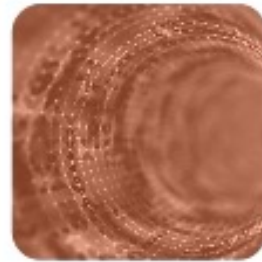


# 13. The future



## **This chapter reports**

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



## Key findings

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

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

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

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



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

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

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

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



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

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

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

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



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

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



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

This chapter reports on growth objectives and perceived barriers to future business performance. It then explores SMEs' intentions for the next 3 months in terms of finance and the reasons why SMEs think that they will/will

not be applying for new/renewed finance in that time period.

Most of this chapter therefore is based on Q4 2017 data gathered between October and December 2017, after the General Election and during the first stage of Brexit negotiations.

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



## Growth plans for next 12 months

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

### Growth in next 12 mths

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

Q225 All SMEs \*definition changed for Q3 2015



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

<b>Plans to grow in next 12 mths</b>		<b>0</b>	<b>1-9</b>	<b>10-49</b>	<b>50-249</b>
<b>Q4 17 only</b>	<b>Total</b>	<b>emp</b>	<b>emps</b>	<b>emps</b>	<b>emps</b>
<b><i>Unweighted base:</i></b>	<b>4500</b>	<b>900</b>	<b>1450</b>	<b>1450</b>	<b>700</b>
Grow by 20% or more	19%	19%	20%	21%	12%
Grow by less than 20%	27%	24%	32%	47%	55%
<b><i>All with objective to grow</i></b>	<b>46%</b>	<b>43%</b>	<b>52%</b>	<b>68%</b>	<b>67%</b>
Stay the same size	44%	45%	42%	30%	30%
Become smaller	6%	7%	3%	2%	1%
Plan to sell/pass on/close	5%	6%	3%	1%	1%

Q225 All SMEs New Question wording in Q3 2015

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

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





### Objective to grow (any) in next 12 months

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

Q225 All SMEs base size varies by category

The variability in predicted growth quarter on quarter makes trends harder to discern. The table below looks at annual growth plans since 2013 (due to previous changes to the question in Q4 2012) by key business demographics.



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

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

Q225 All SMEs



88% of those planning to grow said they would achieve this by selling more to existing markets in the UK (the equivalent of 39% of all SMEs). Overall, more SMEs planned to grow by selling to new markets in the UK (11% of all SMEs) than overseas (3%):

<b>How plan to grow</b> <b>Q4 17</b>	<b>All planning to grow</b>	<b>All SMEs</b>
<b><i>Unweighted base:</i></b>	<b>2443</b>	<b>4500</b>
Sell in the UK	97%	43%
<i>Increase sales in existing markets in UK</i>	88%	39%
<i>Sell in new markets in UK</i>	24%	11%
Sell overseas	11%	5%
<i>Increase sales in existing markets overseas</i>	8%	4%
<i>Sell in new markets overseas</i>	6%	3%

Q226 All SMEs planning to grow excluding DK/All SMEs

Exporters remained more likely to be predicting growth than their domestic peers and in Q4 2017, 59% reported that they planned to grow compared to 44% of non-exporters. Exporters were typically larger SMEs but both larger and smaller exporters were more likely to report planned growth than their peers:

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



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

<b>How plan to grow</b> Q4 17	<b>All planning to grow who export</b>	<b>All planning to grow who do not export</b>
<b>Unweighted base:</b>	<b>365</b>	<b>2078</b>
Sell in the UK	88%	98%
<i>Increase sales in existing markets in UK</i>	80%	89%
<i>Sell in new markets in UK</i>	30%	23%
Sell overseas	52%	5%
<i>Increase sales in existing markets overseas</i>	47%	2%
<i>Sell in new markets overseas</i>	27%	3%

Q226 All SMEs planning to grow excluding DK

The tables below summarise these differences between exporters and non-exporters over recent quarters. The first table below shows that exporters were more likely to be planning to grow each quarter (around 6 in 10) than those that do not export (around 4 in 10), albeit the current 'gap' between them (15 percentage points) was somewhat smaller than the more typical 20 percentage point gap usually seen:

#### **Objective to grow (any) in next 12 months**

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

Q225 All SMEs



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

### How plan to grow

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

Q226 All SMEs planning to grow excluding DK



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

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

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

Q225/226 All SMEs planning to grow excluding DK

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



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

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

Q240w All SMEs from Q3 2017

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

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

Q240w All SMEs from Q3 2017



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

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

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

Q240w All SMEs from Q3 2017

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

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





## Obstacles to running the business in the next 12 months

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

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

Over time, some amendments have been made to the list of possible obstacles tested, including two changes for Q1 2017:

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

The data for 2017 was collected during and immediately after the General Election campaign and then as the UK dealt with a hung parliament and the conclusion of the first round of Brexit negotiations. At an overall level there were no dramatic changes in the proportion of SMEs rating either the current economic climate or ‘Political uncertainty and

future government policy’ as major obstacles, although both have increased very slightly over time. Amongst larger SMEs and/or those who are international, both of these factors were mentioned more as major obstacles during 2017, although views remained somewhat volatile as is reported later in this section.



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

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

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

<b>Extent of obstacles in next 12 months</b>		0	1-9	10-49	50-249
Q4 17 – all SMEs	Total	emp	emps	emps	emps
<b>Unweighted base:</b>	<b>4500</b>	<b>900</b>	<b>1450</b>	<b>1450</b>	<b>700</b>
The current economic climate (mean score)	4.0	3.9	4.5	4.4	4.1
- 8-10 major obstacle	14%	13%	20%	14%	11%
- 5-7 moderate obstacle	32%	32%	31%	37%	37%
- 1-4 minor obstacle	51%	53%	46%	45%	51%
Legislation, regulation and red tape	3.8	3.6	4.3	4.4	4.2
- 8-10 major obstacle	15%	14%	19%	17%	14%
- 5-7 moderate obstacle	24%	23%	28%	33%	34%
- 1-4 minor obstacle	57%	60%	49%	47%	51%
Political uncertainty/future govt policy	3.8	3.6	4.2	4.3	4.5
- 8-10 major obstacle	15%	14%	19%	15%	11%
- 5-7 moderate obstacle	26%	25%	26%	32%	40%
- 1-4 minor obstacle	56%	58%	50%	47%	44%

Continued



Continued

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

Q227a All SMEs

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

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



In Q4 2017, 61% of SMEs did not rate 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 also summarised below:

**Extent of obstacles in next 12 months**

Q4 17 – all SMEs 8-10 impact score	Total	0 emp	1-9 emps	10-49 emps	50- 249 emps
<b>Unweighted base:</b>	<b>4500</b>	<b>900</b>	<b>1450</b>	<b>1450</b>	<b>700</b>
Legislation, regulation and red tape	15%	14%	19%	17%	14%
Political uncertainty/future govt policy	15%	14%	19%	15%	11%
The current economic climate	14%	13%	20%	14%	11%
Changes to value of sterling	10%	8%	15%	14%	9%
Cash flow/issues with late payment	9%	9%	11%	9%	7%
Recruiting/retaining staff	8%	7%	10%	11%	8%
Access to external finance	5%	5%	5%	4%	2%
Availability of relevant advice	4%	4%	5%	4%	2%
<b>None of these rated a major obstacle</b>	<b>61%</b>	<b>63%</b>	<b>55%</b>	<b>60%</b>	<b>69%</b>

Q227a All SMEs

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

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

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



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

**Extent of obstacles in next 12 months**

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

Q227a All SMEs for whom risk ratings known

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



The table below shows that in Q4 2017, there were clear differences in perceived obstacles between those with plans to grow and those with no plans, albeit there were no differences on the main issue, legislation and regulation. Overall 46% of those planning to grow nominated at least one major obstacle compared to 33% of those with no plans to grow.

This table also shows that clear differences were seen on all factors depending on whether the SME was a Permanent non-borrower or not. PNBs remained less likely to see any of these issues as major barriers and 71% said that none of them were.

### Extent of obstacles in next 12 months

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

Q227a All SMEs

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



Those planning to apply for new/renewed facilities in the next three months, or who would have liked to, were much more likely to see these issues as major obstacles, including access to finance. 57% nominated at least one major obstacle, compared to 33% of Future happy non-seekers:

<b>Extent of obstacles in next 12 months</b>		<b>Plan to apply or FWBS</b>	<b>Future HNS</b>	<b>Future HNS excl. PNB</b>
<b>Q4 17 – all SMEs</b>	<b>Total</b>			
<b>8-10 impact score</b>				
<b><i>Unweighted base:</i></b>	<b>4500</b>	<b>1031</b>	<b>3469</b>	<b>1970</b>
Legislation, regulation and red tape	15%	21%	13%	15%
Political uncertainty/future govt policy	15%	23%	12%	14%
The current economic climate	14%	21%	12%	14%
Changes to value of sterling	10%	15%	8%	11%
Cash flow/issues with late payment	9%	18%	7%	11%
Recruiting/retaining staff	8%	15%	6%	9%
Access to external finance	5%	11%	3%	5%
Availability of relevant advice	4%	9%	3%	4%
<b><i>None of these rated a major obstacle</i></b>	<b>61%</b>	<b>43%</b>	<b>67%</b>	<b>60%</b>

**Q227a All SMEs**

The Future happy non-seeker category described above includes those SMEs that met the definition of a Permanent non-borrower, which indicates that they were not using finance nor were they likely to borrow. Such SMEs have been excluded from the Future happy non-seeker

definition in the final column above, with a modest impact on the scores.

Those with a future appetite for finance were more likely to mention any of the top 3 barriers (39%) than Happy non-seekers were (26% and 28% once the PNBs were excluded).



Those in Agriculture (51%) and Wholesale/Retail (50%) were the most likely to nominate at least one barrier as a major obstacle while those in the Other Community (33%) and Construction (34%) sectors were the least likely to nominate any barriers:

### Extent of obstacles in next 12 months

Q4 17 – all SMEs 8-10 impact scores	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
<b>Unweighted base:</b>	<b>300</b>	<b>375</b>	<b>800</b>	<b>450</b>	<b>300</b>	<b>500</b>	<b>900</b>	<b>375</b>	<b>500</b>
Legislation, regulation and red tape	25%	14%	16%	15%	21%	12%	15%	14%	12%
Political uncertainty	22%	14%	11%	16%	20%	12%	19%	11%	10%
The current economic climate	15%	15%	7%	24%	23%	12%	14%	20%	14%
Changes to sterling	11%	11%	4%	23%	17%	13%	7%	8%	9%
Cash flow/issues with late payment	10%	9%	10%	9%	6%	7%	10%	13%	9%
Recruiting/retaining staff	12%	10%	8%	10%	12%	8%	5%	6%	9%
Access to external finance	7%	5%	3%	3%	6%	8%	5%	9%	5%
Availability of relevant advice	2%	5%	6%	3%	6%	5%	4%	2%	5%
<b>None of these rated a major obstacle</b>	<b>49%</b>	<b>58%</b>	<b>66%</b>	<b>50%</b>	<b>53%</b>	<b>61%</b>	<b>64%</b>	<b>55%</b>	<b>67%</b>

#### Q227 All SMEs

Of the top 3 obstacles, legislation and political uncertainty were more of an obstacle for those in Agriculture, as was also the case for those in Hotels and Restaurants, who were also more likely to nominate the economic climate along with those in Wholesale/Retail.

40% of SMEs in the Hotel and Restaurant sector mentioned one or more of these top 3 barriers, along with 37% of those in the Wholesale/retail sector and in Agriculture, compared to 21% in the Other Community sector. Mentions in other sectors varied between 24% and 34%.





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

The summary table below shows the proportion of SMEs that rated each factor a major obstacle across the most recent nine waves of the Monitor. In Q4 2017 there was little to choose between the top 3 barriers (legislation, the current economic climate and political uncertainty):

### Extent of obstacles in next 12 months

All SMEs over time

8-10 impact score

By date of

interview

	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17	Q3 17	Q4 17
<b>Unweighted base:</b>	<b>5003</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>	<b>4507</b>	<b>4505</b>	<b>4500</b>
Legislation, regs and red tape	10%	11%	11%	8%	10%	15%	14%	15%	15%
Political uncertainty	9%	10%	10%	10%	12%	14%	13%	14%	15%
The current economic climate	13%	13%	13%	10%	13%	11%	13%	16%	14%
Changes in sterling	-	-	-	-	-	11%	10%	15%	10%
Cash flow/issues with late payment	8%	8%	7%	6%	5%	8%	8%	12%	9%
Recruiting/retaining staff*	8%	6%	6%	5%	6%	5%	7%	6%	8%
Access to external finance	6%	5%	5%	4%	5%	4%	4%	5%	5%
Availability of relevant advice	5%	4%	4%	4%	6%	3%	4%	5%	4%
<b>None of these rated a major obstacle</b>	<b>66%</b>	<b>67%</b>	<b>68%</b>	<b>74%</b>	<b>70%</b>	<b>66%</b>	<b>64%</b>	<b>62%</b>	<b>61%</b>

#### Q227 All SMEs

The proportion saying that “none of these” were a barrier has declined over time, from around 7 in 10 to around 6 in 10 (the last additional barrier (sterling) was introduced in Q1 2017).

The proportion mentioning any of the top 3 barriers was stable in 2016 (22% for the year as a whole) but increased steadily during 2017 from 26% in Q1 to 29% in Q3 and Q4. Excluding the 0 employee SMEs increased the proportion mentioning any of these barriers in 2016 to 26% and the increase in 2017 was from 31% in Q1 to 35% in Q4.



The table below provides a longer term view back to 2012 to help identify changes over time:

<b>Extent of obstacles in next 12 months</b>						
<b>Over time – all SMEs</b>						
<b>8-10 impact score</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>Unweighted base:</b>	<b>20,055</b>	<b>20,036</b>	<b>20,055</b>	<b>20,046</b>	<b>18,000</b>	<b>18,012</b>
Legislation, regulation and red tape	13%	13%	12%	11%	10%	15%
The current economic climate	34%	27%	17%	13%	12%	14%
Political uncertainty/future govt policy	-	-	-	10%	10%	14%
Changes in sterling	-	-	-	-	-	11%
Cash flow/issues with late payment	13%	11%	9%	9%	7%	9%
Recruiting/retaining staff	3%	3%	5%	6%	6%	6%
Availability of relevant advice	6%	6%	5%	5%	4%	4%
Access to external finance	11%	10%	7%	6%	5%	5%

**Q227a All SMEs**

This shows the marked decline in the proportion of SMEs citing the current economic climate as a barrier between 2012 and 2015, such that it is now no more of a barrier than legislation and regulation or political uncertainty, where scores have increased somewhat in 2017 after a period of stability.

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



Political uncertainty remained more of a barrier than it was in 2015, across all size bands. Compared to Q4 2016, SMEs with 0 or 1-9 employees were more likely to cite it as a major barrier in Q4 2017, while there was little variation for those with 10-49 employees and those with 50-249 employees ended the year less likely to be concerned:

**Political uncertainty  
and future govt policy**

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

Q227a All SMEs

Overall, the proportion of SMEs seeing the current economic climate as a barrier has been stable since 2015. Compared to Q4 2016, those with 0 employees were as likely to cite it as a barrier in Q4 2017 (having briefly become more concerned in Q3 2017), while those with 1-9 employees were more concerned. There was little variation over time for those with 10-49 employees while those with 50-249 employees became less concerned during 2017:

**The current economic  
climate**

8-10 impact score Row percentages	2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
<b>All SMEs</b>	<b>13%</b>	<b>13%</b>	<b>13%</b>	<b>10%</b>	<b>13%</b>	<b>11%</b>	<b>13%</b>	<b>16%</b>	<b>14%</b>
0 employees	12%	12%	13%	9%	13%	11%	12%	16%	13%
1-9 employees	14%	14%	14%	14%	16%	13%	14%	18%	20%
10-49 employees	10%	11%	13%	10%	14%	14%	14%	13%	14%
50-249 employees	8%	12%	14%	13%	13%	17%	15%	10%	11%

Q227a All SMEs



Access to finance is the key theme of this report but an issue that has been less likely to be rated a barrier by SMEs over time. The table below shows these changes over recent quarters.

### Access to finance – 8-10 impact scores

Over time – row percentages	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
By date of interview	15	16	16	16	16	17	17	17	17
<b>All SMEs</b>	<b>6%</b>	<b>5%</b>	<b>5%</b>	<b>4%</b>	<b>5%</b>	<b>4%</b>	<b>4%</b>	<b>5%</b>	<b>5%</b>
0 employee	5%	5%	5%	4%	4%	4%	4%	5%	5%
1-9 employees	8%	6%	6%	5%	7%	5%	5%	4%	5%
10-49 employees	5%	5%	4%	3%	5%	5%	4%	4%	4%
50-249 employees	2%	2%	2%	3%	4%	4%	1%	4%	2%
Minimal external risk rating	3%	2%	2%	6%	2%	1%	3%	3%	3%
Low external risk rating	3%	3%	4%	2%	4%	4%	4%	5%	4%
Average external risk rating	5%	5%	3%	5%	4%	4%	2%	3%	4%
Worse than average external risk rating	8%	5%	8%	5%	6%	4%	5%	7%	6%
Agriculture	6%	5%	4%	8%	1%	4%	3%	7%	7%
Manufacturing	6%	6%	5%	3%	2%	4%	4%	5%	5%
Construction	5%	3%	5%	3%	4%	5%	3%	7%	3%
Wholesale/Retail	5%	4%	7%	3%	4%	6%	6%	4%	3%
Hotels & Restaurants	10%	9%	6%	8%	9%	8%	8%	4%	6%
Transport	9%	9%	8%	5%	4%	4%	5%	8%	8%
Property/Business Services etc.	6%	4%	3%	3%	6%	3%	3%	3%	5%
Health	5%	4%	7%	5%	5%	1%	5%	5%	9%
Other Community	4%	4%	4%	6%	6%	3%	3%	5%	5%
Use external finance	8%	7%	6%	4%	6%	7%	7%	9%	8%
Plan to borrow/FWBS	14%	14%	13%	11%	13%	13%	14%	14%	11%
Future Happy non-seekers	3%	2%	2%	2%	2%	2%	1%	3%	3%
All SMEs excluding PNBs	9%	8%	8%	7%	7%	6%	7%	9%	8%

Q227a\_2 All SMEs, base sizes vary



## Financial requirements in the next 3 months

SMEs were asked to consider their financial plans over the next 3 months. With the slight exception of Q4 2015 when 16% planned to apply, the proportion planning to apply/renew has changed relatively little over time, with 14% planning to apply after Q4 2017:

<b>% likely in next 3 months</b>									
<b>All SMEs – over time</b>	<b>Q4</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
<b>By date of interview</b>	<b>2015</b>	<b>2016</b>	<b>2016</b>	<b>2016</b>	<b>2016</b>	<b>2017</b>	<b>2017</b>	<b>2017</b>	<b>2017</b>
<b>Unweighted base:</b>	<b>5003</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>	<b>4507</b>	<b>4505</b>	<b>4500</b>
Will have a need for (more) external finance	10%	11%	9%	7%	7%	7%	8%	9%	10%
Will apply for more external finance	8%	9%	7%	6%	7%	6%	6%	6%	8%
Renew existing borrowing at same level	10%	8%	7%	7%	7%	6%	8%	8%	8%
<b>Any apply/renew</b>	<b>16%</b>	<b>14%</b>	<b>11%</b>	<b>11%</b>	<b>11%</b>	<b>10%</b>	<b>12%</b>	<b>12%</b>	<b>14%</b>
Reduce the amount of external finance used	9%	8%	7%	7%	7%	4%	7%	8%	8%
Inject personal funds into business	17%	17%	15%	14%	15%	12%	13%	13%	15%

### Q229 All SMEs

SMEs were typically somewhat more likely to identify a need for finance than to think they would apply for it. The predicted level of applications/renewals in the coming quarter has consistently been higher than the actual level of applications/renewals reported

subsequently (by different SMEs). Whilst 11% of SMEs in the second half of 2016 said that they *planned* to apply for finance, 5% of those interviewed in 2017 to date reported a loan or overdraft borrowing event in the previous 12 months.



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

**% likely in next 3 months**

All companies- over time By date of interview	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
<b>Unweighted base:</b>	<b>2997</b>	<b>2670</b>	<b>2833</b>	<b>2839</b>	<b>2714</b>	<b>2846</b>	<b>2753</b>	<b>2948</b>	<b>2709</b>
Any new equity	5%	3%	4%	3%	4%	2%	4%	4%	5%

Q229 All companies

In Q4 2017 as in previous quarters, there continued to be a difference in future appetite for finance by size of business. Appetite was lower amongst those with 0 employees compared to those with 1-9 or 10-49 employees and these smaller SMEs remained more likely to anticipate an injection of personal funds (15%) than an application for new/renewed finance (13%). The largest SMEs

with 50-249 employees reported an increased appetite for finance in Q2 2017 (23%), a significant increase compared to the 12-14% seen in previous quarters (but due almost entirely to 19% of them planning to renew an existing facility) but this was not maintained in Q4 2017, where 12% planned to apply and 23% planned to reduce the amount of finance being used:

**% likely in next 3 months**

Q4 17 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
<b>Unweighted base:</b>	<b>4500</b>	<b>900</b>	<b>1450</b>	<b>1450</b>	<b>700</b>
Will have a need for (more) external finance	10%	10%	10%	11%	9%
Will apply for more external finance	8%	8%	9%	8%	7%
Renew existing borrowing at same level	8%	8%	10%	13%	8%
<b>Any apply/renew</b>	<b>14%</b>	<b>13%</b>	<b>16%</b>	<b>18%</b>	<b>12%</b>
Reduce the amount of external finance used	8%	8%	9%	15%	23%
Inject personal funds into business	15%	15%	15%	7%	3%

Q229 All SMEs

Amongst SMEs with employees, 16% had plans to apply/renew in the next 3 months and 10% believed they would have a need for (more) external finance.



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

<b>Injections of personal funds past and future</b>						
Over time – All SMEs	2012	2013	2014	2015	2016	2017
<b>Unweighted base:</b>	<b>20,055</b>	<b>20,036</b>	<b>20,055</b>	<b>20,046</b>	<b>18,000</b>	<b>18,012</b>
Have injected personal funds	43%	38%	29%	28%	28%	29%
Plan to inject personal funds	24%	20%	16%	16%	15%	13%

Q 15d/Q229-5 All companies

The table below shows how the injections of personal funds past and future have combined. Over recent quarters around two thirds of SMEs had neither put in funds, nor thought it likely they would do so (66% in Q4 2017). Meanwhile a fairly stable 1 in 10 SMEs had both put in funds in the past *and* planned to do so in future (10% in Q4 2017):

<b>Injections of personal funds</b>									
Over time – All SMEs	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
<b>Unweighted base:</b>	<b>5003</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>	<b>4507</b>	<b>4505</b>	<b>4500</b>
Have injected personal funds and likely to do so again	11%	11%	9%	8%	10%	9%	9%	10%	10%
Have not put in personal funds but likely to do so	6%	6%	6%	6%	5%	3%	4%	4%	4%
Have injected personal funds but unlikely to do so again	18%	18%	16%	17%	21%	20%	18%	21%	20%
Have not put in personal funds and not likely to do so	65%	64%	69%	69%	65%	68%	68%	66%	66%

Q229/Q15d-d2 All SMEs



Turning back to future applications for external finance, the Q4 2017 figure of 14% was slightly higher than seen in recent quarters (10-12% since Q2 2016), due to increased appetite amongst those with 10-49 employees and/or a minimal external risk rating. Excluding the PNBs also revealed an increase in appetite for finance amongst remaining SMEs (to 26% in Q4 2017):

**% likely to apply or renew in next 3 months**

Over time – row percentages By date of interview	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
All SMEs	16%	14%	11%	11%	11%	10%	12%	12%	14%
0 employee	14%	14%	10%	10%	10%	8%	11%	11%	13%
1-9 employees	20%	16%	15%	14%	14%	16%	14%	13%	16%
10-49 employees	20%	20%	16%	13%	16%	16%	15%	16%	18%
50-249 employees	13%	14%	13%	12%	13%	12%	23%	19%	12%
Minimal external risk rating	19%	12%	10%	11%	10%	9%	9%	9%	16%
Low external risk rating	14%	14%	13%	11%	13%	13%	13%	13%	14%
Average external risk rating	16%	12%	10%	11%	9%	8%	9%	11%	12%
Worse than average external risk rating	16%	15%	14%	12%	10%	11%	13%	13%	16%
Agriculture	18%	15%	13%	17%	15%	12%	11%	7%	16%
Manufacturing	17%	16%	15%	11%	11%	7%	20%	10%	20%
Construction	12%	17%	8%	9%	11%	10%	7%	11%	12%
Wholesale/Retail	19%	14%	12%	14%	12%	13%	11%	14%	15%
Hotels & Restaurants	20%	17%	13%	13%	11%	15%	13%	11%	21%
Transport	14%	14%	16%	15%	14%	13%	12%	11%	16%
Property/Business Services etc.	15%	12%	10%	9%	12%	7%	11%	12%	12%
Health	12%	11%	11%	8%	9%	9%	11%	16%	15%
Other Community	19%	17%	15%	11%	8%	13%	15%	13%	12%
Objective to grow	23%	21%	18%	15%	14%	16%	18%	17%	19%
No objective to grow	9%	9%	7%	8%	9%	5%	6%	7%	10%
All SMEs excluding PNBs	28%	28%	22%	22%	19%	19%	21%	23%	26%

Q229 All SMEs base size varies by category





The variability in predicted appetite for finance quarter on quarter makes trends harder to discern. The table below looks at annual appetite for finance since 2012 by key business demographics. This shows that overall appetite for finance in 2017 was in line with previous years but with an increased appetite for finance for those with 50-249 employees:

<b>% likely to apply or renew in next 3 months</b>						
<b>Over time</b>						
<b>By date of interview – row percentages</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
All	14%	14%	13%	13%	12%	12%
0 emp	12%	12%	11%	12%	11%	11%
1-9 emps	20%	19%	20%	17%	15%	15%
10-49 emps	21%	17%	18%	19%	16%	16%
50-249 emps	19%	16%	14%	14%	13%	17%
Minimal external risk rating	16%	12%	13%	13%	11%	11%
Low	17%	13%	14%	15%	13%	13%
Average	13%	13%	12%	14%	10%	10%
Worse than average	15%	14%	14%	12%	13%	13%
Agriculture	18%	16%	15%	18%	15%	11%
Manufacturing	16%	13%	16%	16%	13%	14%
Construction	14%	13%	11%	11%	11%	10%
Wholesale/Retail	16%	18%	19%	15%	13%	13%
Hotels & Restaurants	17%	15%	16%	16%	14%	15%
Transport	14%	16%	15%	13%	15%	13%
Property/ Business Services	12%	13%	11%	13%	11%	11%
Health	11%	12%	11%	9%	10%	13%
Other	16%	12%	14%	13%	12%	13%
All excl PNBs	21%	23%	24%	25%	23%	22%

Q229 All SMEs

Amongst those planning to grow, future appetite for finance was somewhat higher (18% in 2017) and has changed very little over time (17-19% since 2013).



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

since 2012. In 2017, a further 3% of all SMEs were not using external finance and this has changed very little over time.

This means that most of those planning to apply for finance were already using it (78%), back to the levels seen 2012-2014:

<b>Plans to apply v use of external finance</b>						
<b>Over time – all SMEs</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b><i>Unweighted base:</i></b>	<b>20,055</b>	<b>20,036</b>	<b>20,055</b>	<b>20,046</b>	<b>18,000</b>	<b>18,012</b>
Use external finance and plan to apply	11%	10%	10%	10%	8%	9%
Use external finance, no plans to apply	33%	30%	27%	27%	29%	29%
Do not use finance but plan to apply	3%	3%	3%	4%	4%	3%
Do not use finance, no plans to apply	53%	56%	60%	59%	59%	59%
<b><i>% of future applicants using finance</i></b>	<b>79%</b>	<b>77%</b>	<b>77%</b>	<b>71%</b>	<b>67%</b>	<b>78%</b>

Q15 and futfin All SMEs

Analysis of the 2017 results showed that the proportion of SMEs that were both using finance and planning to apply increased by size of SME. The proportion of future applicants that were already using finance also increased by size of SME from 75% to 97%:

- 8% of 0 employee SMEs were using external finance and planned to apply for more and 75% of all future applicants were already using finance
- 12% of 1-9 employee SMEs were using external finance and planned to apply for more and 82% of all future applicants were already using finance
- 15% of 10-49 employee SMEs were using external finance and planned to apply for more and 92% of all future applicants were already using finance
- 17% of 50-249 employee SMEs were using external finance and planned to apply for more and 97% of all future applicants were already using finance.



Amongst those planning to apply or renew in the next 3 months, working capital was the most frequently mentioned purpose of future funding over recent quarters.

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

### Use of new/renewed facility

#### All planning to seek/renew

Over time excl DK

By date of interview

Q4 2015    Q1 2016    Q2 2016    Q3 2016    Q4 2016    Q1 2017    Q2 2017    Q3 2017    Q4 2017

	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
<b>Unweighted base:</b>	<b>850</b>	<b>750</b>	<b>642</b>	<b>549</b>	<b>622</b>	<b>606</b>	<b>686</b>	<b>657</b>	<b>667</b>
Working capital	57%	56%	60%	66%	67%	63%	52%	68%	67%
Plant & machinery	28%	24%	21%	18%	19%	21%	19%	20%	20%
UK growth	28%	30%	23%	29%	31%	23%	32%	19%	20%
Premises	8%	11%	7%	5%	6%	8%	5%	5%	11%
New product or service launch	6%	12%	9%	7%	8%	5%	8%	4%	11%
Growth overseas	8%	6%	4%	4%	7%	3%	5%	2%	4%
Hiring staff**	-	-	-	-	-	9%	9%	7%	10%
Marketing campaign**	-	-	-	-	-	9%	9%	6%	12%
Developing new product/service**	-	-	-	-	-	6%	11%	5%	8%

Q230 All planning to apply for/renew facilities in next 3 months. \*\* new for 2017 NOW EXCL DK



A longer term view back to 2012 showed relatively little variation in the proposed purpose of future funding, with slightly fewer mentions of funding for plant and machinery in 2016-17:

<b>Use of new/renewed facility</b>						
<b>All planning to seek/renew- over time</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b><i>Unweighted base:</i></b>	<b>3717</b>	<b>3316</b>	<b>3310</b>	<b>3200</b>	<b>2563</b>	<b>2616</b>
Working capital	63%	62%	57%	59%	62%	63%
Plant & machinery	27%	27%	26%	25%	21%	20%
UK growth*	21%	28%	30%	28%	28%	23%
Premises	7%	7%	10%	7%	8%	7%
New product or service launch	10%	9%	9%	7%	9%	7%
Growth overseas*	3%	5%	6%	6%	5%	4%
Hiring staff**	-	-	-	-	-	9%
Marketing campaign**	-	-	-	-	-	9%
Developing new product/service**	-	-	-	-	-	7%

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

In 2017, 17% of future applicants mentioned one or more of the new purpose of borrowing codes and 11% mentioned either developing or launching a new product or service.



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

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

cards) and/or other forms of borrowing, is shown below for those planning to apply, using those new summary categories. It shows consideration of core finance was fairly stable (54%) but at lower levels than previously seen (in H2 2015 6 in 10 were considering core finance):

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

Over time	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
By date of interview	2016	2016	2016	2016	2017	2017	2017	2017
<b>Unweighted base:</b>	<b>771</b>	<b>672</b>	<b>554</b>	<b>639</b>	<b>616</b>	<b>698</b>	<b>667</b>	<b>687</b>
Core product (loan, O/D, credit card)	52%	52%	47%	55%	55%	61%	54%	54%
Commercial mortgage	18%	16%	14%	16%	13%	12%	24%	15%
Leasing/invoice finance	23%	16%	15%	16%	18%	15%	22%	16%
Other	30%	22%	21%	26%	22%	19%	27%	30%
<b>None of these</b>	<b>33%</b>	<b>41%</b>	<b>45%</b>	<b>32%</b>	<b>34%</b>	<b>32%</b>	<b>37%</b>	<b>32%</b>

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

In all quarters consideration was highest for the core products. In Q4 2017, 54% of future applicants were considering a core form of finance, compared to 30% considering any of the other forms of finance.

The proportion saying ‘none of these’ was previously stable at around 1 in 4 but increased after the new format question was introduced at the start of 2016 (37% for 2016 as a whole). It has been more stable in 2017 at around a third of future applicants.

These undecided potential applicants were asked whether this was because they had not decided what they might use or because they were considering another form of finance not listed. In 2017, 69% said that they had not decided, while 31% were considering another form of finance, up from 20% in 2015.

Amongst all potential applicants in 2017, 67% were considering one or more of the forms of finance listed, 11% were considering another form of finance and 23% hadn’t yet decided what they might use.



The table below shows levels of consideration in Q4 2017 by the size of SME considering funding.

**% of those seeking/renewing finance would consider funding**

Q4 17	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
<b>Unweighted base:</b>	<b>687</b>	<b>116</b>	<b>219</b>	<b>269</b>	<b>83*</b>
Core product (loan, od, credit card)	54%	57%	48%	46%	63%
Commercial mortgage	15%	13%	21%	15%	22%
Leasing/invoice finance	16%	15%	17%	21%	31%
Other	30%	29%	32%	25%	22%
<b>None of these</b>	<b>32%</b>	<b>31%</b>	<b>32%</b>	<b>38%</b>	<b>29%</b>

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

The balance between consideration of core and other forms of funding changed by size of SME. Core finance was the most likely source of funding to be considered in all size bands, but larger SMEs were more likely to also consider commercial mortgages and leasing/invoice finance.

Amongst SMEs with employees, 48% would consider one or more core products for their future lending, 20% a commercial mortgage, 18% leasing or invoice finance and 31% some other form of funding. 33% said they would not consider any of these.



## Application confidence

Those planning to apply via loan, overdraft, leasing, invoice finance and/or credit cards were asked how confident they were that their bank would agree to their request (note that this excludes those planning to apply who were either only considering one of the other forms of

finance specified or who did not nominate any form of finance).

There has been significant variation in levels of confidence during 2017, with fewer SMEs now “very confident” of success:

### Confidence bank would lend

All planning to seek finance Over time by date of interview	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	15	16	16	16	16	17	17	17	17
<b>Unweighted base:</b>	<b>586</b>	<b>433</b>	<b>377</b>	<b>295</b>	<b>362</b>	<b>389</b>	<b>437</b>	<b>421</b>	<b>401</b>
Very confident	21%	23%	22%	23%	22%	17%	14%	12%	14%
Fairly confident	31%	25%	31%	38%	37%	32%	41%	47%	27%
<b>Overall confidence</b>	<b>52%</b>	<b>48%</b>	<b>53%</b>	<b>61%</b>	<b>59%</b>	<b>49%</b>	<b>55%</b>	<b>59%</b>	<b>41%</b>
Neither/nor	24%	33%	22%	20%	22%	22%	21%	26%	26%
Not confident	24%	19%	25%	19%	19%	28%	23%	15%	33%
<b>Net confidence (confident – not confident)</b>	<b>+28</b>	<b>+29</b>	<b>+26</b>	<b>+42</b>	<b>+40</b>	<b>+21</b>	<b>+32</b>	<b>+44</b>	<b>+8</b>

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

Confidence amongst prospective applicants with employees was 53% in Q4 2017.



As the table below shows, the lower confidence in Q4 2017 was seen amongst both larger and smaller potential applicants and more acutely amongst those with an average or worse than average risk rating:

**Overall confidence bank would lend**

All planning to seek finance – over time  
By date of interview

	Total	0-9 emps	10-249 emps	Min/low	Av/Worse than avge
Q1 2015	49%	49%	66%	71%	38%
Q2 2015	49%	48%	77%	63%	45%
Q3 2015	60%	60%	66%	67%	55%
Q4 2015	52%	52%	71%	57%	52%
Q1 2016	48%	47%	73%	71%	41%
Q2 2016	53%	51%	74%	83%	47%
Q3 2016	61%	60%	81%	71%	59%
Q4 2016	59%	58%	74%	71%	60%
Q1 2017	49%	48%	66%	74%	44%
Q2 2017	55%	54%	79%	69%	51%
Q3 2017	59%	57%	78%	72%	61%
Q4 2017	41%	40%	65%	58%	37%

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





Over the longer term, the steady increase in levels of confidence seen between 2012 and 2016 was not maintained in 2017:

<b>Confidence bank would agree to lend</b>						
All planning to apply – over time	2012	2013	2014	2015	2016	2017
<b>Unweighted base:</b>	<b>2933</b>	<b>2477</b>	<b>2337</b>	<b>2194</b>	<b>1467</b>	<b>1648</b>
Very confident	15%	14%	24%	24%	23%	14%
Fairly confident	27%	25%	23%	29%	32%	36%
<b>Overall confidence</b>	<b>42%</b>	<b>39%</b>	<b>47%</b>	<b>53%</b>	<b>55%</b>	<b>50%</b>
Neither/nor	23%	30%	24%	21%	25%	24%
Not confident	35%	31%	29%	26%	21%	26%
<b>Net confidence (confident – not confident)</b>	<b>+10</b>	<b>+8</b>	<b>+18</b>	<b>+27</b>	<b>+34</b>	<b>+24</b>

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

The drop in overall confidence in 2017 was seen across all sizes of business:

<b>Confidence bank would agree to lend</b>						
All planning to apply – over time	2012	2013	2014	2015	2016	2017
Row percentages	2012	2013	2014	2015	2016	2017
<b>All</b>	<b>42%</b>	<b>39%</b>	<b>47%</b>	<b>53%</b>	<b>55%</b>	<b>50%</b>
0-9 employees	41%	37%	46%	52%	53%	49%
10-49 employees	58%	60%	66%	70%	75%	72%
Minimum/Low risk rating	57%	67%	65%	66%	74%	68%
Average/WTA risk rating	40%	35%	45%	48%	51%	48%

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

Those planning to renew remained more confident of success than those planning to apply for a new facility. Analysis showed that in 2017, 6 in 10 of those planning to renew were confident (61%) compared to 4 in 10 of those planning to apply for new facilities (39%).



In both instances larger SMEs were more confident of success. Analysis over time showed improvements in confidence for those seeking both a renewal or new money between 2014 and 2016 but somewhat lower levels of confidence in 2017:

- For renewals confidence was 56% for 2014, increasing to 67% for 2016, but 61% for 2017
- For new facilities confidence was 39% for 2014, increasing to 46% for 2016, but was back to 39% for 2017.

These levels of confidence remained in contrast to the actual outcome of applications. The success rate for renewals in the last 18 months was 97% while for new funds the success rate in the same period was 63%.

In a new question asked for the first time in Q1 2016, all other SMEs were asked how confident they would be of their bank saying yes if they

were to apply. The table below shows the results for Q4 2017, when 6 in 10 were confident of success with a hypothetical application (compared to 4 in 10 of those planning to apply to a bank). This 'hypothetical' confidence increased by size of SME from 59% of those with no employees to 84% of those with 50-249 employees:

**Confidence bank would say yes if asked**

All not planning to apply to bank Q4 17

	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
<b>Unweighted base:</b>	<b>4099</b>	<b>832</b>	<b>1326</b>	<b>1297</b>	<b>644</b>
Very confident	28%	24%	36%	48%	47%
Fairly confident	34%	35%	29%	33%	37%
<b>Overall confidence</b>	<b>62%</b>	<b>59%</b>	<b>65%</b>	<b>81%</b>	<b>84%</b>
Neither/nor	25%	26%	25%	13%	12%
Not confident	14%	14%	10%	5%	4%
<b>Net confidence (confident – not confident)</b>	<b>+48</b>	<b>+45</b>	<b>+55</b>	<b>+76</b>	<b>+80</b>

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



Included in the table above are those who planned to renew/apply but then did not nominate any bank products (or indeed any products) for consideration. The table below summarises the confidence of all SMEs in Q4 2017, whether they were planning to apply to a bank (41% confident), apply but for another

form of finance (61%), or not apply because they were a Would-be seeker of finance (43%). The largest group, those who had no need or plans to apply (the Future happy non-seekers) remained the most confident that if they were to approach their bank they would be successful (64%):

<b>Confidence bank would say yes if asked</b>	<b>All planning to apply to bank</b>	<b>All others planning to apply</b>	<b>Future WBS</b>	<b>Future HNS</b>
<b>Q4 17 – all SMEs</b>				
<b><i>Unweighted base:</i></b>	<b>401</b>	<b>286</b>	<b>344</b>	<b>3,469</b>
Very confident	14%	28%	17%	29%
Fairly confident	27%	33%	26%	35%
<b><i>Overall confidence</i></b>	<b>41%</b>	<b>61%</b>	<b>43%</b>	<b>64%</b>
Neither/nor	26%	19%	34%	25%
Not confident	33%	20%	23%	11%
<b><i>Net confidence (confident – not confident)</i></b>	<b>+8</b>	<b>+41</b>	<b>+20</b>	<b>+53</b>

Q238/ 239b All SMEs



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

<b>Confidence bank would say yes</b>								
Over time	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Row percentages	2016	2016	2016	2016	2017	2017	2017	2017
<b>All SMEs</b>	<b>60%</b>	<b>64%</b>	<b>67%</b>	<b>68%</b>	<b>64%</b>	<b>61%</b>	<b>62%</b>	<b>60%</b>
Planning to apply to bank	48%	53%	61%	59%	49%	55%	59%	41%
Others planning to apply	49%	66%	56%	51%	67%	50%	74%	61%
No plans – Future would-be seekers	38%	48%	53%	57%	51%	37%	37%	43%
No plans – Future happy non-seekers	66%	68%	70%	72%	66%	65%	65%	64%

Q238/239b All SMEs

On an annual basis, overall confidence amongst all SMEs decreased slightly from 65% in 2016 to 62% in 2017. This was driven by the Future happy non-seekers as the largest group, where confidence has moved from 69% to 65%. Those planning to apply to a bank (55% to 50%) and Future would-be seekers (50% to 42%) were less confident in 2017 than in 2016. The only group to see an increase in confidence was those planning to apply (but not to a bank) where confidence was 55% in 2016 and 63% in 2017.

The summary table below shows overall confidence (whether the SME planned to apply or not) for other key groups by year. In addition

to the Future happy non-seekers mentioned above, the lower level of confidence in 2017 (62%) was due primarily to changes in confidence amongst smaller SMEs (62% to 59% for those with 0 employees and 70% to 66% for those with 1-9 employees).

Larger SMEs and those with a minimal or low risk rating remained more confident of success, as were those in Agriculture (67% in 2017) and Wholesale/Retail (66%), with little variation otherwise by sector (59-63%). Permanent non-borrowers were initially more confident than other SMEs (68% v 62% in 2016) but this was not the case in 2017 (63% v 61%).



<b>Confidence bank will say yes (whether planning to apply or not)</b>		
<b>Over time</b>		
<b>By date of interview – row percentages</b>	<b>2016</b>	<b>2017</b>
All	65%	62%
0 emp	62%	59%
1-9 emps	70%	66%
10-49 emps	80%	79%
50-249 emps	85%	84%
Minimal external risk rating	73%	73%
Low	73%	70%
Average	67%	61%
Worse than average	61%	58%
Agriculture	71%	67%
Manufacturing	67%	61%
Construction	65%	62%
Wholesale/Retail	70%	66%
Hotels & Restaurants	62%	63%
Transport	61%	59%
Property/ Business Services	65%	62%
Health	64%	59%
Other	62%	59%
PNBs	68%	63%
All excl PNBs	62%	61%

Q238/239b All SMEs



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

In Q4 2017, 14% of all SMEs reported plans to apply for, or renew, facilities in the following 3 months, leaving the majority (86%) with no such plans. 58% of all SMEs neither used external finance nor had any immediate plans to apply for any.

On an annual basis, the proportion neither using nor planning to apply for finance increased from 50% of SMEs in 2011 to 60% for 2014 and has been stable since (58-59%).

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

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

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

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

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

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



The picture for recent quarters is reported below. Three quarters of SMEs in Q4 2017 met the definition of a Future happy non-seeker and they remained the largest group:

### Future finance plans

All SMEs- over time By date of interview	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
<b>Unweighted base:</b>	<b>5003</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>	<b>4507</b>	<b>4505</b>	<b>4500</b>
Plan to apply/renew	16%	14%	11%	11%	11%	10%	12%	12%	14%
Future would-be seekers - with identified need	1%	1%	1%	1%	1%	1%	1%	1%	1%
Future would-be seekers - no immediate identified need	11%	11%	12%	11%	13%	10%	9%	8%	9%
Happy non-seekers	73%	74%	76%	77%	75%	80%	79%	79%	76%

Q230/239 All SMEs

Amongst SMEs with employees in Q4 2017, 16% had plans to apply/renew while 9% met the definition of a Future would-be seeker. The Future happy non-seekers remained the largest group at 75%.

33% of Future happy non-seekers in Q4 2017 were using external finance (31% for 2016).



Around half of SMEs can be described as Permanent non-borrowers based on their past and indicated future behaviour. The table below shows future plans over recent quarters once this group was excluded, resulting in a higher proportion planning to apply (26% in Q4 2017) and fewer Future happy non-seekers (55% – although they remained the largest single group, as overall):

### Future finance plans

#### SMEs excluding PNB

– over time

By date of interview

	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
<b>Unweighted base:</b>	<b>3338</b>	<b>2854</b>	<b>3008</b>	<b>2755</b>	<b>3017</b>	<b>3011</b>	<b>3038</b>	<b>2890</b>	<b>3001</b>
Plan to apply/renew	28%	28%	22%	22%	19%	19%	21%	23%	26%
Future would-be seekers – with identified need	1%	2%	1%	2%	1%	1%	2%	2%	2%
Future would-be seekers – no immediate identified need	19%	22%	22%	22%	22%	18%	16%	15%	17%
Happy non-seekers	52%	49%	55%	55%	58%	62%	61%	59%	55%

Q230/239 All SMEs excluding the Permanent non-borrowers

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





Future demand for finance has declined slightly since 2012 (14% to 12% in both 2016 and 2017). More markedly, the proportion of Future would-be seekers halved in that time, and so the proportion of Future happy non-seekers increased:

<b>Future finance plans</b>						
Over time – all SMEs	2012	2013	2014	2015	2016	2017
<b>Unweighted base:</b>	<b>20,055</b>	<b>20,036</b>	<b>20,055</b>	<b>20,046</b>	<b>18,000</b>	<b>18,012</b>
Plan to apply/renew	14%	14%	13%	13%	12%	12%
Future would-be seekers	23%	18%	16%	11%	13%	10%
Happy non-seekers	63%	68%	71%	76%	76%	78%

Q230/239 All SMEs

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

Once the Permanent non-borrowers were excluded, more of the remaining SMEs were planning to apply or renew. The proportion increased slightly between 2012 and 2015 (21% to 25%) before returning to 2012 levels by 2017 (22%). The proportion of Future would-be seekers fell steadily (35% to 19%), as the proportion of Future happy non-seekers increased (44% to 59%):

<b>Future finance plans</b>						
Over time – all SMEs excluding PNBs	2012	2013	2014	2015	2016	2017
<b>Unweighted base:</b>	<b>15,312</b>	<b>14,578</b>	<b>13,613</b>	<b>13,011</b>	<b>11,634</b>	<b>11,940</b>
Plan to apply/renew	21%	23%	24%	25%	23%	22%
Future would-be seekers	35%	30%	28%	21%	23%	19%
Happy non-seekers	44%	47%	49%	54%	54%	59%

Q230/239 All SMEs



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

### Future would-be seekers

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

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



To understand this further, the table below shows all the reasons given by Future would-be seekers in Q4 2017 for thinking that they would not apply for finance in the next three months. It highlights their continued reluctance to borrow in the current environment, mainly due to the general economic climate:

<b>Reasons for not applying (all mentions)</b>		<b>0-9</b>	<b>10-249</b>
<b>All Future would-be seekers Q4 17</b>	<b>Total</b>	<b>emps</b>	<b>emps</b>
<b>Unweighted base:</b>	<b>344</b>	<b>238</b>	<b>106</b>
<b>Reluctant to borrow now (any)</b>	53%	53%	58%
-Prefer not to borrow in economic climate	31%	31%	42%
-Predicted performance of business	21%	21%	16%
<b>Issues with <u>principle</u> of borrowing</b>	3%	3%	5%
-Not lose control of business	*	*	3%
-Can raise personal funds if needed	2%	2%	1%
-Prefer other forms of finance	*	*	-
-Go to family and friends	1%	1%	1%
<b>Issues with <u>process</u> of borrowing</b>	13%	13%	17%
-Would be too much hassle	4%	4%	6%
-Thought would be too expensive	6%	6%	7%
-Bank would want too much security	2%	2%	1%
-Too many terms and conditions	1%	1%	2%
-Did not want to go through process	*	*	-
-Forms too hard to understand	2%	1%	8%
<b>Discouraged (any)</b>	28%	28%	22%
-Direct (Put off by bank)	3%	4%	2%
-Indirect (Think I would be turned down)	26%	26%	21%

Q239 Future would-be seekers SMEs



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

A reluctance to borrow, at 53%, remained the main reason for not applying for external finance in Q4 2017, but the proportion citing it as their main reason has varied (39% to 71% and currently 53%). Mentions of discouragement have also varied over recent quarters and in Q4 2017 was at one of the higher levels seen (28%):

### Main reason for not applying

Future would-be seekers – over time	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17	Q3 17	Q4 17
<b>By date of interview</b>	<b>15</b>	<b>16</b>	<b>16</b>	<b>16</b>	<b>16</b>	<b>17</b>	<b>17</b>	<b>17</b>	<b>17</b>
<b>Unweighted base:</b>	<b>525</b>	<b>466</b>	<b>520</b>	<b>457</b>	<b>524</b>	<b>419</b>	<b>335</b>	<b>318</b>	<b>344</b>
Reluctant to borrow now (any)	52%	44%	56%	71%	58%	63%	39%	44%	53%
-Prefer not to borrow in economic climate	34%	21%	40%	49%	23%	41%	25%	33%	31%
-Predicted performance of business	19%	23%	16%	22%	35%	22%	13%	11%	21%
Issues with <u>principle</u> of borrowing	1%	4%	4%	3%	6%	2%	2%	5%	2%
Issues with <u>process</u> of borrowing	22%	19%	22%	11%	13%	11%	19%	13%	11%
Discouraged (any)	15%	23%	12%	9%	16%	16%	25%	18%	28%
-Direct (Put off by bank)	*	3%	2%	*	2%	*	2%	*	2%
-Indirect (Think I would be turned down)	15%	20%	10%	9%	14%	16%	23%	18%	26%
<b>None of these</b>	<b>10%</b>	<b>10%</b>	<b>6%</b>	<b>1%</b>	<b>4%</b>	<b>1%</b>	<b>1%</b>	<b>3%</b>	<b>1%</b>

Q239/239a Future would-be seekers SMEs



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

<b>Main reason for not applying</b>					
<b>Future would-be seekers – over time</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b><i>Unweighted base:</i></b>	<b>3241</b>	<b>2765</b>	<b>1939</b>	<b>1967</b>	<b>1416</b>
Reluctant to borrow now (any)	64%	59%	55%	57%	50%
Discouraged (any)	14%	13%	14%	15%	22%
Issues with <u>process</u> of borrowing	12%	15%	18%	16%	14%
Issues with <u>principle</u> of borrowing	3%	4%	5%	4%	3%
Other	2%	3%	1%	2%	1%

Q239/239a Future would-be seekers SMEs

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

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

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

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



Further analysis of all Future would-be seekers including by size and risk rating, is based on the latest quarter (Q4 2017).

A ‘reluctance to borrow now’, especially in the current economic climate, was the top reason, given by half of these SMEs. Just over a quarter mentioned discouragement (most of it indirect) and this was more likely to be the case for smaller Future would-be seekers:

**Main reason for not applying**

Future would-be seekers by size Q4 17	Total	0-9 emps	10-249 emps
<b>Unweighted base:</b>	<b>344</b>	<b>238</b>	<b>106</b>
Reluctant to borrow now (any)	53%	53%	58%
-Prefer not to borrow in economic climate	31%	31%	42%
-Predicted performance of business	21%	21%	16%
Issues with <u>principle</u> of borrowing	2%	2%	4%
Issues with <u>process</u> of borrowing	11%	11%	12%
Discouraged (any)	28%	28%	19%
-Direct (Put off by bank)	2%	2%	2%
-Indirect (Think I would be turned down)	26%	26%	17%

Q239/239a Future would-be seekers SMEs

Amongst Future would-be seekers with employees 50% mentioned a reluctance to borrow now, compared to 24% mentioning discouragement and 16% the process of borrowing.



The table below shows the main reasons given for not applying in Q4 2017 by risk rating. A ‘reluctance to borrow now’ remained the main barrier across the risk ratings. Those with an average or worse than average rating were more likely to mention discouragement (31%) than those with a minimal or low risk rating (22%):

### Main reason for not applying

Future would-be seekers by risk rating Q4 17	Total	Min/Low	Average/ Worse Avg
<b>Unweighted base:</b>	<b>344</b>	<b>121</b>	<b>187</b>
Reluctant to borrow now (any)	53%	63%	50%
-Prefer not to borrow in economic climate	31%	41%	30%
-Predicted performance of business	21%	23%	20%
Issues with <u>principle</u> of borrowing	2%	4%	2%
Issues with <u>process</u> of borrowing	11%	10%	10%
Discouraged (any)	28%	22%	31%
-Direct (Put off by bank)	2%	11%	1%
-Indirect (Think I would be turned down)	26%	11%	29%

Q239/239a Future would-be seekers SMEs



To put all these results in context, the table below shows the equivalent figures for each reason amongst all SMEs in Q4 2017.

5% of all SMEs would have liked to apply for new/renewed facilities in the next 3 months but thought they would be unlikely to do so because of the current climate or the performance of their business:

<b>Reasons for not applying</b> Q4 17 – Future would-be seekers	Main reason	All SMEs	All SMEs excl. PNB
<b>Unweighted base:</b>	<b>344</b>	<b>4500</b>	<b>3001</b>
Reluctant to borrow now (any)	53%	5%	10%
-Prefer not to borrow in economic climate	31%	3%	6%
-Predicted performance of business	21%	2%	4%
Issues with <u>principle</u> of borrowing	2%	*	*
Issues with <u>process</u> of borrowing	11%	1%	2%
Discouraged (any)	28%	1%	5%
-Direct (Put off by bank)	2%	*	*
-Indirect (Think I would be turned down)	26%	1%	5%

Q239/239a Future would-be seekers SMEs

The table above also shows the equivalent proportion of SMEs *excluding* the Permanent non-borrowers. Of those SMEs that *might* be interested in seeking finance (once the PNBs were excluded), 10% were put off by the current economic climate (including their current performance in that climate).





## Attitudes to seeking finance in future

This report has already highlighted lower levels of demand for finance and some attitudinal reluctance towards using external finance. In order to try to understand barriers to application in more detail, new confidence questions have been added:

- From Q1 2016 all SMEs were asked how confident they were in their future ability put together an application for finance from someone other than their main bank (as this would be likely to require more information about the business and its finances than an application made to an existing bank). Additional questions covering confidence assessing the advantages and disadvantages of finance products offered by either their own bank or another bank were included until Q2 2017.
  - When the full question was last asked in Q2 2017, 65% of SMEs were confident in their future ability to assess the advantages and disadvantages of finance products offered by their own bank and 57% were confident about the same thing at another bank.
- In Q1 2017 new questions were added about how to fund a future business opportunity, asked of all SMEs. These sought to explore the extent to which an aversion to risk or a preference to self-fund might present a barrier to SMEs accessing finance

Analysis of levels of confidence in putting together an application for finance to a bank other than their own continued to show that those with 10-249 employees were notably more confident:

### Confidence putting together application for finance to other bank

Q4 17- all SMEs excl DK	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
<b>Unweighted base:</b>	<b>4436</b>	<b>886</b>	<b>1427</b>	<b>1429</b>	<b>694</b>
Very confident	25%	22%	29%	41%	40%
Fairly confident	39%	40%	34%	34%	40%
<b>Overall confidence</b>	<b>64%</b>	<b>62%</b>	<b>63%</b>	<b>75%</b>	<b>80%</b>
Not sure	26%	27%	28%	19%	18%
Not confident	10%	11%	9%	6%	2%

Q240i All SMEs excluding DK



The summary table below shows firstly how confidence varied by future plans for finance. Future would-be seekers continued to be somewhat less confident, which may help explain why they have identified as a Future would-be seeker:

<b>Confidence summary table</b>					
Q4 17 – all SMEs excl DK	Total	Plan to apply	FWBS	FHNS	All excl PNB
<b>Unweighted base (overall – will vary):</b>	<b>4500</b>	<b>674</b>	<b>338</b>	<b>3424</b>	<b>2963</b>
<b>Confident applying for finance to another bank</b>	<b>64%</b>	<b>65%</b>	<b>52%</b>	<b>64%</b>	<b>64%</b>
• <i>Very confident</i>	25%	25%	24%	24%	26%
• <i>Fairly confident</i>	39%	40%	28%	40%	38%

Q240i All SMEs excluding DK

The table also shows the impact of excluding the Permanent non-borrowers who appear to have little interest in applying for finance. Once excluded, levels of confidence amongst remaining SMEs were in line with SMEs overall, meaning that PNBs were as confident as their peers about assessing banks or applying for finance. This is therefore unlikely to be a reason why they are not using finance.

The table overleaf shows the proportion of SMEs that were confident that they could apply to another bank, by key groups, over time. Across 2016, a steady 6 in 10 SMEs (60%) reported feeling confident that they could apply to another bank. Confidence was slightly lower in the first half of 2017 (57%) due to lower confidence amongst 0 employee SMEs and Future would-be seekers, but improved in the second half of the year so that for 2017 as a whole confidence was 59%.



## Confident putting together application for finance to another bank

Over time – row percentages

By date of interview

2016

2017

	2016	2017
<b>All SMEs</b>	<b>60%</b>	<b>59%</b>
0 employee	59%	57%
1-9 employees	63%	64%
10-49 employees	69%	72%
50-249 employees	74%	77%
Minimal external risk rating	63%	63%
Low external risk rating	63%	67%
Average external risk rating	59%	59%
Worse than average external risk rating	60%	56%
Agriculture	59%	59%
Manufacturing	57%	56%
Construction	56%	58%
Wholesale/Retail	63%	62%
Hotels & Restaurants	56%	60%
Transport	58%	56%
Property/Business Services	65%	64%
Health	57%	59%
Other Community	59%	54%
All SMEs excluding PNBs	59%	60%
All SMEs using core finance	62%	64%
All planning to apply for finance	56%	62%
Future would-be seekers	52%	47%

Q240i All SMEs



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

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

### Likelihood to approach bank about funding

YEQ4 17 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
<b>Unweighted base:</b>	<b>18,012</b>	<b>3607</b>	<b>5804</b>	<b>5801</b>	<b>2800</b>
Very likely	11%	9%	14%	17%	21%
Fairly likely	26%	25%	29%	33%	37%
<b>Overall likely</b>	<b>37%</b>	<b>34%</b>	<b>43%</b>	<b>50%</b>	<b>58%</b>
Not very likely	26%	27%	23%	24%	23%
Not at all likely	36%	38%	33%	26%	19%

Q238a6i All SMEs

Analysis of these results for 2017 as a whole showed that:

- Younger SMEs were somewhat more likely to say they would approach their bank (44% of Starts would approach the bank, decreasing by age to 32% of those trading for 15 years or more)
- There was a slight increase in likelihood to approach by risk rating (35% of those with a minimal external risk rating to 39% of those with a worse than average risk rating).
- By sector, those in Wholesale/Retail (43%) and Transport (42%) were the most likely to contact the bank while those in Construction and Health (both 32%) were the least likely.
- Those already using external finance were more likely to approach their bank (47%) than those who weren't (31%).
- Two thirds of those with plans to apply in the next 3 months said they would approach the bank (65%) compared to 35% of Future would-be seekers and 33% of Future happy non-seekers.
- Permanent non-borrowers were less likely to approach their bank (28% v 45% of those who were not PNBs).



Analysis showed that SMEs were more likely to say they would approach their bank in Q1 and Q2 2017 (39% and 42%) than they were in Q3 and Q4 (33% and 34%). The next table looks at this trend by half-year so as to maximise base sizes:

<b>Likely will approach bank</b>			
Over time		H1	H2
By date of interview – row percentages		2017	2017
All		41%	33%
0 emp		38%	31%
1-9 emps		48%	38%
10-49 emps		52%	49%
50-249 emps		61%	54%
Minimal external risk rating		39%	31%
Low		39%	33%
Average		41%	32%
Worse than average		42%	36%
Agriculture		46%	33%
Manufacturing		42%	36%
Construction		35%	29%
Wholesale/Retail		47%	40%
Hotels & Restaurants		42%	38%
Transport		46%	39%
Property/ Business Services		41%	32%
Health		36%	29%
Other		38%	32%
All excl PNBs		48%	42%
All using external finance		51%	44%
All planning to apply for finance		68%	62%
Future would-be seekers		39%	30%
Future happy non-seekers		37%	29%

Q238a6i All SMEs



The table above shows that appetite to approach the bank for finance was lower in H2 2017 across all size bands and risk ratings, but dropped slightly less for those already planning to apply (from 68% to 62%).

All those who were unlikely to approach their bank were asked why this was. Respondents could cite several reasons and these have been grouped into themes in the table below. The largest group (62%) said that they would find the funds from within the business or from the directors and this was more likely to be the case for larger SMEs:

<b>Reasons would not approach bank</b>		<b>0</b>	<b>1-9</b>	<b>10-49</b>	<b>50-249</b>
<b>All who would not approach bank YEQ4 2017</b>	<b>Total</b>	<b>emp</b>	<b>emps</b>	<b>emps</b>	<b>emps</b>
<b>Unweighted base:</b>	<b>9725</b>	<b>2360</b>	<b>3286</b>	<b>2883</b>	<b>1196</b>
Business/directors will fund	62%	61%	65%	70%	77%
- <i>Would look to fund from inside business</i>	60%	59%	62%	67%	74%
- <i>Owners/directors would fund it themselves</i>	6%	6%	8%	7%	9%
Concerns about risk/debt	31%	32%	26%	23%	26%
- <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%	9%	7%	12%
- <i>We won't take an opportunity that needs finance</i>	10%	11%	9%	8%	7%
Bank issues (not lending etc)	7%	6%	8%	8%	4%
- <i>Don't think bank would agree to lend</i>	4%	4%	5%	3%	2%
- <i>Prefer to speak to another provider</i>	1%	1%	2%	4%	2%
- <i>Have a poor relationship with the bank</i>	1%	1%	2%	2%	*

Q238a6b All SMEs not approaching bank about opportunity



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

#### Likelihood to approach bank about funding

YEQ4 17 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
<b>Unweighted base:</b>	<b>18,012</b>	<b>3607</b>	<b>5804</b>	<b>5801</b>	<b>2800</b>
Likely to approach bank	37%	34%	43%	50%	58%
Unlikely - Business/directors will fund	39%	40%	37%	35%	32%
Unlikely - Concerns about risk/debt	19%	21%	15%	12%	11%
Unlikely - Bank issues (not lending etc)	4%	4%	5%	4%	2%

#### Q238a6i All SMEs

Self-funding was also more likely amongst those with a better external risk rating (45% of those with a minimal risk rating v 38% of those with an average or worse than average rating).

As the table below shows, the proportion of SMEs with concerns about the risks of borrowing varies little by age of business (18-21%). The older the business the less likely they were to approach the bank and the more likely to self-fund:

#### Likelihood to approach bank about funding

YEQ4 17 – all SMEs	Starts	2-5 years	6-9 years	10-15 years	15 years+
<b>Unweighted base:</b>	<b>1822</b>	<b>1704</b>	<b>1994</b>	<b>2986</b>	<b>9506</b>
Likely to approach bank	44%	41%	36%	38%	32%
Unlikely – Business/directors will fund	35%	37%	39%	40%	41%
Unlikely – Concerns about risk/debt	18%	19%	21%	19%	20%
Unlikely – Bank issues (not lending etc)	5%	5%	3%	3%	5%

#### Q238a6i All SMEs

The proportion planning to self-fund did not vary greatly by sector (34-41%).



Those already using external finance were more likely to approach their bank (47%) with most of the rest opting to self-fund (31%). The proportion concerned about the risks of borrowing were the same as for SMEs overall (18% v 19% overall).

As the table below shows, those already planning to apply for finance in the next 3

months were more likely to approach their bank (65%). Future would-be seekers of finance were less likely to approach their bank (35%) and almost as many (29%) were concerned about the risks of borrowing, while Future happy non-seekers were the most likely to say they would self-fund (44%):

<b>Likelihood to approach bank about funding</b>		<b>Plan to</b>			<b>All excl</b>
<b>YEQ4 17 – all SMEs</b>	<b>Total</b>	<b>apply</b>	<b>FWBS</b>	<b>FHNS</b>	<b>PNB</b>
<b>Unweighted base:</b>	<b>18,012</b>	<b>2668</b>	<b>1416</b>	<b>13,928</b>	<b>11,940</b>
Likely to approach bank	37%	65%	35%	33%	45%
Unlikely – Business/directors will fund	39%	18%	27%	44%	31%
Unlikely – Concerns about risk/debt	19%	11%	29%	19%	18%
Unlikely – Bank issues (not lending etc)	4%	8%	10%	3%	6%

Q238a6i All SMEs

The table also shows the impact of excluding the Permanent non-borrowers, increasing the proportion that would approach the bank and reducing the proportion that would self-fund.

As this is a new question for 2017, limited data over time is available. As already reported,

fewer SMEs thought they would approach their bank in H2 2017 compared to H1 and, as the table below shows, there was a consequent rise in the proportion who planned to self-fund or who felt put off by the risks of borrowing:

<b>Likelihood to approach bank about funding</b>		<b>H1 2017</b>	<b>H2 2017</b>
<b>All SMEs over time</b>			
<b>Unweighted base:</b>		<b>9007</b>	<b>9005</b>
Likely to approach bank		41%	33%
Unlikely – Business/directors will fund		38%	40%
Unlikely – Concerns about risk/debt		18%	21%
Unlikely – Bank issues (not lending etc)		5%	4%

Q238a6i All SMEs





## How have international SMEs responded to current conditions?

The EU referendum took place at the end of June 2016 but the terms under which Brexit will take place are still to be negotiated and agreed. As highlighted at the start of this chapter, those

SMEs that trade internationally are potentially more likely to anticipate an impact on their business, not least because of the change in the value of sterling since the vote.

This section summarises how international SMEs have felt during 2016 and 2017 in comparison to 2015. SMEs have been split into three groups, based on the ways in which they trade internationally alongside their domestic trade. Note that in 2017 as a whole 84% of SMEs only traded domestically (decreasing by size of SME from 86% to 69%):

- 5% export but do not import (with little variation by size of SME)
- 6% import but do not export (increasing slightly by size of SME from 5% to 9%)
- 5% both import and export (increasing by size of SME from 4% to 17%).

Key results for Q4 2017 are shown below:

### Future outlook summary table

Q4 17- all SMEs row percentages	All SMEs	Export	Import	Both
<b>Unweighted base:</b>	<b>4500</b>	<b>209</b>	<b>307</b>	<b>310</b>
Plan to grow	46%	51%	66%	66%
Economic climate 8-10 barrier	14%	24%	22%	29%
Political uncertainty 8-10 barrier	15%	20%	15%	34%
Sterling 8-10 barrier	10%	13%	25%	31%
Plan to apply for finance	14%	13%	18%	29%
Future would-be seeker of finance	10%	13%	16%	7%

International SMEs of any kind were more likely to be planning to grow but also to have concerns. While those who both import and export were more likely to be planning to grow (66%) and to apply for finance (29%) they were also more likely to be concerned about the current economic climate (29%), political uncertainty (34%) and changes in the value of sterling (31%).



The tables below show how these views have changed over time. There was variation quarter to quarter but those who import or are fully international remained more ambitious but more worried about changes to sterling and all international SMEs were more concerned than their domestic peers about the economic climate:

<b>Future outlook summary table</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
<b>Over time – all SMEs</b>	<b>16</b>	<b>16</b>	<b>16</b>	<b>16</b>	<b>17</b>	<b>17</b>	<b>17</b>	<b>17</b>
<b>Plan to grow</b>								
• All SMEs	45%	41%	41%	47%	43%	45%	45%	46%
• Export only	48%	52%	54%	40%	52%	65%	65%	51%
• Import only	63%	59%	59%	70%	65%	61%	58%	66%
• Import and export	70%	66%	70%	75%	67%	69%	67%	66%
<b>Plan to apply for finance</b>								
• All SMEs	14%	11%	11%	11%	10%	12%	12%	14%
• Export only	18%	19%	21%	16%	10%	21%	8%	13%
• Import only	24%	18%	19%	17%	13%	12%	23%	18%
• Import and export	26%	31%	22%	18%	18%	18%	10%	29%
<b>Economic climate 8-10 barrier</b>								
• All SMEs	13%	13%	10%	13%	11%	13%	16%	14%
• Export only	9%	19%	13%	27%	14%	22%	22%	24%
• Import only	10%	13%	18%	24%	10%	19%	30%	22%
• Import and export	13%	20%	20%	35%	18%	19%	19%	29%
<b>Political uncertainty 8-10 barrier</b>								
• All SMEs	10%	10%	10%	12%	14%	13%	14%	15%
• Export only	7%	7%	12%	15%	25%	19%	26%	20%
• Import only	14%	7%	16%	26%	19%	20%	22%	15%
• Import and export	10%	19%	21%	32%	21%	29%	22%	34%
<b>Changes in sterling 8-10 barrier</b>								
• All SMEs	-	-	-	-	11%	10%	15%	10%
• Export only	-	-	-	-	16%	17%	12%	13%
• Import only	-	-	-	-	25%	20%	29%	25%
• Import and export	-	-	-	-	27%	26%	32%	31%



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

- **Exporters** have always been more likely to be planning to grow than SMEs generally but ambition dipped in 2016, before recovering in 2017. Their appetite for finance peaked at 22% in 2015 but is currently 13%, in line with the market. They have become more worried about political uncertainty in 2017, while concerns about the economic climate have increased more steadily since 2015
- **Importers** have also always been more likely to be planning to grow than SMEs generally, and a stable 6 in 10 have been planning to grow. Their appetite for finance has declined since 2014 but remains ahead of SMEs overall. Levels of concern about both the economic climate and political uncertainty have increased somewhat since 2015
- **Those who import and export** have also always been more likely to be planning to grow than SMEs generally, and since 2014 a fairly stable 7 in 10 have been planning to grow. They have more of an appetite for finance than SMEs generally but it has varied over time and was somewhat lower in 2017 than in 2016. Their concern about political uncertainty continues to increase but levels of concern about the economic climate have increased more slowly since 2014



## Future outlook summary table

Over time – all SMEs

### Plan to grow

	2013	2014	2015	2016	2017
• All SMEs	49%	47%	45%	43%	45%
• Export only	54%	56%	59%	49%	58%
• Import only	63%	65%	62%	63%	63%
• Import and export	66%	69%	72%	70%	67%

### Plan to apply for finance

• All SMEs	14%	13%	13%	12%	12%
• Export only	19%	20%	22%	19%	13%
• Import only	19%	24%	19%	19%	17%
• Import and export	21%	24%	19%	25%	18%

### Economic climate 8-10 barrier

• All SMEs	27%	17%	13%	12%	14%
• Export only	29%	14%	19%	17%	20%
• Import only	26%	20%	12%	16%	21%
• Import and export	24%	15%	17%	21%	21%

### Political uncertainty 8-10 barrier

• All SMEs	-	-	9%	10%	14%
• Export only	-	-	9%	10%	23%
• Import only	-	-	11%	16%	19%
• Import and export	-	-	8%	20%	26%



From Q3 2016 exporters were asked the extent to which they sell to the EU. The table below looks at how the views of exporters have changed since that time, depending on the extent to which they exported to the EU. For those making all or most of their sales to the

EU, the position was relatively stable, with the exception of appetite for finance, which declined (as it has for all groups). During 2017, those who did no trade with the EU became more concerned about political instability and changes in the value of sterling:

### Future outlook summary table

Over time – Exporters	H2 16	H1 17	H2 17
<b>Plan to grow</b>			
• All/most sales to EU	54%	57%	60%
• Some sales to EU	64%	68%	66%
• No sales to EU	54%	57%	56%
<b>Plan to apply for finance</b>			
• All/most sales to EU	20%	12%	14%
• Some sales to EU	19%	17%	14%
• No sales to EU	20%	21%	16%
<b>Economic climate 8-10 barrier</b>			
• All/most sales to EU	26%	29%	25%
• Some sales to EU	21%	14%	20%
• No sales to EU	29%	14%	30%
<b>Political uncertainty 8-10 barrier</b>			
• All/most sales to EU	31%	37%	33%
• Some sales to EU	17%	18%	21%
• No sales to EU	14%	19%	30%
<b>Changes in sterling 8-10 barrier</b>			
• All/most sales to EU	-	35%	27%
• Some sales to EU	-	18%	21%
• No sales to EU	-	9%	21%