5. Financial context – how are SMEs funding themselves? (Part 1)

This chapter provides

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

Key findings

38% of SMEs used external finance in 2017, almost unchanged from the 37% that used finance 2014-2016, and still below the 44% using finance in 2012:

- Use of finance increased significantly by size of business (34% of those with 0 employees to 73% of those with 50-249 employees)
- Whilst use of finance was higher in 2017 than in 2016 amongst those with employees, it remained below 2012 levels with the exception of those with 50-249 employees
- 31% of SMEs in 2017 used one or more of the core forms of finance: 18% used an overdraft, 16% credit cards and 6% a bank loan or commercial mortgage. A quarter of core finance users (typically those with 0 employees) had one or more facilities in a personal name
- 18% used one or more of the 'other' forms of finance recorded, of which the most common was leasing /HP (9%), which is typically financed away from the main bank.

3 in 10 SMEs (29%) had received an injection of personal funds in the previous 12 months:

- This was slightly more likely to have been a choice (16%) than feeling that it had to be done (13%)
- The proportion of SMEs receiving an injection of funds has been stable since 2014 but remained lower than previously seen (43% reported an injection of funds in 2012)
- Half of all Starts had received an injection of funds as had 7 in 10 of those who met the definition of a Would-be seeker of finance.

Financial context

This is the first of what are now two chapters on current use of external finance, in its many forms, and attitudes towards finance.

This chapter covers the use of the various financial products included in the SME Finance Monitor and the role of personal finance (whether as a borrowing facility or an injection of personal funds). The second chapter covers some of the wider context, including the Permanent non-Borrowers, use of trade credit and attitudes to finance.

Use of external finance – an overview

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

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

Use of external finance for YEQ4 2017 was 38%, virtually unchanged from the 37% reported from 2014 to 2016. This was though lower than in earlier years (in 2012, 44% of SMEs used external finance) and more details on use of finance over time are provided later in this chapter.

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

Use of external finance in last 5 years YEQ4 17 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,012*	*3607*	*5804*	*5801*	*2800*
Use now	38%	34%	49%	64%	73%
Used in past but not now	3%	3%	3%	3%	2%
Not used at all	59%	63%	48%	33%	26%

Q14/15 All SMEs

Analysis by recent quarter showed use of external finance in Q4 2017 itself was 39%, in line with Q2 and Q3 2017:

Use of external finance in last 5 years

Over time – all SMEs By date of interview	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Unweighted base:	*5003*	*4500*	*4500*	*4500*	*4500*	*4500*	*4507*	*4505*	*4500*
Use now	40%	33%	36%	34%	46%	36%	40%	38%	39%
Used in past but not now	2%	2%	3%	3%	2%	4%	3%	3%	3%
Not used at all	57%	65%	61%	63%	52%	61%	56%	59%	58%

Q14/15 All SMEs

As the table below shows, the 'spike' in Q4 2016 (when 46% were using external finance) was due to higher reported levels of usage of external finance amongst smaller SMEs which was not maintained for the 0 employee SMEs into 2017. Amongst those with 10-49 employees usage was somewhat higher in Q4 2017 (67%) while those with 50-249 employees saw an increase in the use of finance to Q2 2017 (to 76%) which has been partially maintained since:

Currently use external finance

Over time – all SMEs By date of interview – row percentages	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
All	40%	33%	36%	34%	46%	36%	40%	38%	39%
0 emp	35%	28%	31%	31%	44%	31%	35%	34%	35%
1-9 emps	53%	44%	50%	42%	50%	47%	52%	47%	49%
10-49 emps	59%	60%	61%	53%	61%	63%	64%	63%	67%
50-249 emps	63%	63%	64%	64%	66%	71%	76%	75%	69%

Q14/15 All SMEs

The table below shows use of finance by risk rating for recent quarters. Those with a minimal or low risk rating remained somewhat more likely to be using external finance:

Currently use external finance

Over time – all SMEs By date of interview – row percentages	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
All	40%	33%	36%	34%	46%	36%	40%	38%	39%
Minimal	49%	40%	48%	41%	52%	47%	50%	44%	49%
Low	50%	40%	50%	39%	46%	43%	49%	47%	42%
Average	40%	36%	35%	40%	46%	33%	39%	34%	40%
Worse than average	36%	28%	33%	31%	43%	33%	38%	38%	37%

Q14/15 All SMEs, base varies slightly each quarter

Overall use of external finance in 2017 was stable after previous declines. The table below shows use declining from 44% in 2012 to 37% in 2014 and remaining stable since. SMEs with employees were more likely to be using finance in 2017 than they were in 2016 but all size bands were less likely to be using external finance in 2017 than they were in 2012, with the exception of those with 50-249 employees where use of finance was back to 2012 levels at 73%.

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

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

Q14/15 All SMEs

Use of core forms of finance

The overall use of finance figures already reported included use of the 'core' forms of finance often provided by banks (overdrafts, loans and/or credit cards). The table below shows the use of these forms of finance specifically across recent quarters. Typically 3 in 10 SMEs had used one or more forms of core finance, with the exception of Q4 2016 where 38% had used these forms of finance (boosting overall use of finance to 46% for that quarter, but not maintained subsequently):

Use of external finance

Over time – all SMEs By date of interview	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Unweighted base:	*5003*	*4500*	*4500*	*4500*	*4500*	*4500*	*4507*	*4505*	*4500*
Bank overdraft	17%	14%	16%	14%	20%	13%	19%	21%	19%
Bank loan/Commercial mortgage	8%	6%	6%	6%	9%	5%	7%	7%	6%
• *Bank loan*	*6%*	*5%*	*4%*	*5%*	*7%*	*4%*	*6%*	*6%*	*5%*
• *Comm. Mortgage*	*2%*	*2%*	*3%*	*1%*	*2%*	*2%*	*2%*	*2%*	*2%*
Credit cards	17%	15%	17%	17%	21%	17%	18%	15%	16%
Any core products – all SMEs	***32%***	***25%***	***30%***	***29%***	***38%***	***27%***	***32%***	***32%***	***31%***

Q15 All SMEs

The table above also shows that use of core finance (including commercial mortgages) was relatively stable in 2017. A longer term view in the table below shows how use of *any* of these forms of core finance declined from 36% in 2012 to 29% in 2014 and has been stable since. Within that stable position overall however, use of core finance amongst those with 50-249 employees has increased (to 64% in 2017), back to levels seen in 2013.

As with use of finance overall, these trends can be attributed in large part to the increase in Permanent non-borrowers. Once they were excluded use of core finance, having initially declined from 54% in 2012 to 51% in 2014, was at 57% for 2017.

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

Q15 All SMEs

Use of all forms of external finance

The table below shows the full list of the different types of funding covered on the SME Finance Monitor and being used by SMEs YEQ4 2017. It includes both the core forms of finance already reported and the other forms of finance on which data has been collected, some of which may also be obtained from the bank.

Larger businesses continued to make use of a wider range of forms of funding:

External finance currently used YEQ4 17 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,012*	*3607*	*5804*	*5801*	*2800*
Core products (any)	**31%**	**27%**	**39%**	**53%**	**64%**
-Bank overdraft	18%	16%	22%	28%	38%
-Credit cards	16%	14%	20%	33%	42%
-Bank loan	5%	4%	8%	14%	23%
-Commercial mortgage	2%	1%	3%	7%	14%
Other forms of finance (any)	**18%**	**14%**	**25%**	**40%**	**44%**
-Leasing or hire purchase	9%	7%	13%	27%	34%
-Loans from directors, family & friends	4%	3%	7%	7%	5%
-Equity from directors, family & friends	2%	1%	3%	4%	4%
-Invoice finance	3%	2%	5%	10%	12%
-Grants	2%	2%	3%	5%	6%
-Loans from other 3rd parties	2%	2%	3%	5%	3%
Any of these	***38%***	***34%***	***49%***	***64%***	***73%***
None of these	***62%***	***66%***	***51%***	***36%***	***27%***

Q15 All SMEs

Amongst SMEs with employees, 52% were using external finance – 42% were using any form of core finance and 28% any of the other forms of finance listed.

SMEs that import and/or export were asked about use of Export/Import finance. YEQ4 2017, 1% of such SMEs used these products, with limited variation by size of business (1-2%).

The table below details the use of <u>all</u> of these forms of funding over recent quarters. The proportion of SMEs with an overdraft was typically somewhat higher in 2017 than in 2016:

Use of external finance

Over time – all SMEs By date of interview	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Unweighted base:	*5003*	*4500*	*4500*	*4500*	*4500*	*4500*	*4507*	*4505*	*4500*
Core products (any)	32%	25%	30%	29%	38%	27%	32%	32%	31%
-Bank overdraft	17%	14%	16%	14%	20%	13%	19%	21%	19%
-Bank loan/Commercial mortgage	8%	6%	6%	6%	9%	5%	7%	7%	6%
-Bank loan	*6%*	*5%*	*4%*	*5%*	*7%*	*4%*	*6%*	*6%*	*5%*
-Comm. Mortgage	*2%*	*2%*	*3%*	*1%*	*2%*	*2%*	*2%*	*2%*	*2%*
-Credit cards	17%	15%	17%	17%	21%	17%	18%	15%	16%
Other forms of finance (any)	19%	15%	15%	14%	22%	17%	17%	17%	19%
-Leasing, hire purchase or vehicle finance	8%	7%	8%	6%	7%	8%	9%	10%	9%
-Loans from directors/family/friends*	8%	4%	5%	3%	8%	4%	4%	4%	5%
-Equity from directors/family/friends*	3%	2%	2%	2%	3%	1%	2%	1%	2%
-Invoice finance	2%	2%	2%	3%	4%	4%	3%	2%	3%
-Grants	2%	2%	1%	2%	5%	2%	2%	2%	3%
-Loans from other third parties	2%	2%	1%	1%	2%	2%	2%	2%	3%
Any form of finance – all SMEs	*40%*	*33%*	*36%*	*34%*	*46%*	*36%*	*40%*	*38%*	*39%*

Q15 All SMEs

The table below takes a longer term annual view of the use of these individual finance products, back to 2012. It shows how use of overdrafts was slightly higher in 2017 at 18% than the 16% seen consistently during 2014-16, while use of loans showed more of a long term decline (from 10% in 2012 to 6% in 2017):

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

Q14/15 All SMEs

The table below shows any use of the 'other' forms of finance, by key demographics over time. Usage has changed very little since 2012 (16-18%) due to consistent use amongst 0 employee SMEs. Amongst larger SMEs usage dipped slightly in 2016 (for those with 50-249 employees the 'dip' was in 2015 and 2016) but increased again in 2017. As already reported, the Permanent non-borrowers have had a significant effect on the trends in use of overall finance and core finance and this was also true for the long terms trends in the use of 'other' forms of finance:

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

Q15 All SMEs

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

The results for 2017 for the new question are shown below and were consistent with previous data – 79% were using "another provider" for this finance, compared to 75% YEQ4 2016 asked the previous question.

For YEQ4 2017 leasing, HP and vehicle finance was obtained as follows:

- 17% all from the main bank/banking group
- 5% some of it from the main bank/banking group
- 79% all from another finance provider (including another bank).

As the table below shows, the largest SMEs were more likely to use their main bank for at least some of this finance:

Source of leasing/vehicle finance YEQ4 17 – all SMEs using such finance	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*3722*	*257*	*851*	*1623*	*991*
Any main bank/banking group	21%	20%	20%	28%	40%
-All through main bank / banking group	*17%*	*17%*	*14%*	*20%*	*22%*
-Some through main bank / banking group	*5%*	*3%*	*5%*	*7%*	*18%*
All through other provider	79%	80%	80%	72%	60%

Q14x2 All SMEs using leasing or vehicle finance

Use of core and other forms of finance in combination

The table below shows how core and other forms of finance have been used individually or in combination since 2012. The proportion using only core forms of finance initially decreased from 26% to 20% of SMEs between 2012 and 2014 and has been stable since (21% in 2017):

External finance currently used Over time - all SMEs	2012	2013	2014	2015	2016	2017
Unweighted base:	***20,055***	***20,036***	***20,055***	***20,046***	***18,000***	***18,102***
Only use core products	26%	23%	20%	20%	21%	21%
Only use other forms of finance	8%	9%	8%	8%	7%	8%
Use both forms of finance	10%	9%	9%	9%	10%	10%
Use none of these forms of finance	56%	59%	63%	63%	62%	62%

Q15 All SMEs

The decline in the use of core finance was the main contributor to an increase in those using no finance as the proportions using only other forms of finance, or both other and core forms of finance, have been more stable over the whole period.

SMEs could use one or more of the forms of finance listed above, but most used just one if they used any (57% of SMEs using *any* external finance were only using one of the forms of finance listed, while 5% used 4 or more types of finance).

The table below shows the number of forms of finance used by all SMEs (including those using no external finance). Around a quarter of all SMEs in each size band used just one form of external finance. While almost none of the smallest SMEs (1%) were using 4 or more forms of finance, this proportion increased to 16% of those with 50-249 employees:

Forms of external finance currently used YEQ4 17 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,012*	*3607*	*5804*	*5801*	*2800*
None	62%	66%	51%	36%	27%
1 form of finance	22%	21%	26%	27%	21%
2 forms of finance	10%	9%	13%	18%	21%
3 forms of finance	4%	3%	6%	10%	15%
4 or more forms of finance	2%	1%	4%	10%	16%

4% of SMEs (YEQ4 2017) said that they were using an additional form of external finance not on the list detailed in full above. This was slightly higher for those with 50-249 employees (7%) or in the Health sector (8%) but did not vary much by risk rating (3-4%), or by sector (3-5%), and has varied little over time.

There was a difference in use of these other forms of finance by whether the SME was also using one of the *specified* forms of external finance (7% for those also using any of the specified forms of external finance and 1% for those not). This means that 1% of **all** SMEs are classed as non-users of finance in this report (because they do not use any of the specified forms of external finance) but said at this question that they were using some other form of finance. The form of funding used is not known.

Personal elements to business finance

For smaller SMEs in particular there can be a 'blurring' between business and personal finance. This next section looks at the various ways in which personal funds have been used by SMEs.

Injections of personal funds

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

The table below shows that in Q4 2017, 3 in 10 SMEs (30%) reported an injection of personal funds and that this was slightly more likely to have been a choice (16%) than something they felt they had to do (14%). These figures are in line with other recent quarters:

Personal funds in last 12 months

Over time – all SMEs By date of interview	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Unweighted base:	*5003*	*4500*	*4500*	*4500*	*4500*	*4500*	*4507*	*4505*	*4500*
Inject personal funds – you chose to do to help the business grow and develop	15%	17%	14%	17%	20%	17%	15%	17%	16%
Inject personal funds – you felt you had no choice about this, that you had to do it	14%	13%	11%	8%	11%	12%	13%	14%	14%
Any personal funds	*29%*	*30%*	*25%*	*25%*	*31%*	*29%*	*28%*	*31%*	*30%*
Not something you have done	71%	70%	75%	75%	69%	71%	72%	69%	70%

Q15d All SMEs

The more detailed analysis below is based on the combined results YEQ4 2017 to provide robust base sizes for key sub-groups. Smaller SMEs, with fewer than 10 employees, remained much more likely to have received an injection of personal funds:

Personal funds in last 12 months YEQ4 17 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,012*	*3607*	*5804*	*5801*	*2800*
Inject personal funds – you chose to do to help the business grow and develop	16%	17%	16%	8%	5%
Inject personal funds – you felt you had no choice about this, that you had to do it	13%	14%	12%	6%	2%
Any personal funds	*29%*	*31%*	*28%*	*14%*	*7%*
Not something you have done	71%	69%	72%	86%	93%

Q15d All SMEs

Amongst SMEs with employees, 25% reported any injection of personal funds – 14% who chose to do so and 11% who felt that they had no choice.

Analysis by external risk rating showed that those with a worse than average external risk rating were three times as likely to have received an injection of personal funds (38%), as those with a minimal external risk rating (12%):

Personal funds in last 12 months YEQ4 17 – all SMEs	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*18,012*	*3086*	*5460*	*4186*	*3876*
Inject personal funds – you chose to do to help the business grow and develop	16%	7%	12%	13%	21%
Inject personal funds – you felt you had no choice about, that you had to do	13%	5%	9%	12%	17%
Any personal funds	*29%*	*12%*	*21%*	*25%*	*38%*
Not something you have done	71%	88%	79%	75%	62%

Q15d All SMEs

Analysis by sector showed 37% of those in Transport had received an injection of funds compared to 25% of those in Construction. There was relatively little variation across the other sectors (27-34%):

Personal funds in last 12 months

YEQ4 17 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	*1202*	*1501*	*3200*	*1800*	*1200*	*2004*	*3603*	*1502*	*2000*
Chose to inject	16%	17%	13%	18%	20%	17%	16%	17%	17%
Had to inject	11%	11%	12%	12%	14%	20%	11%	12%	16%
Any funds	*27%*	*28%*	*25%*	*30%*	*34%*	*37%*	*27%*	*29%*	*33%*
Not put funds in	73%	72%	75%	70%	66%	63%	73%	71%	67%

Q15d All SMEs

A longer term look at the injection of personal funds shows how this became less likely between 2012 and 2014 (from 43% to 29% reporting an injection), and has been stable since. This was due predominantly to a drop in the proportion feeling that they *had* to inject funds (from 25% in 2012 to 15% in 2014 and 13% in 2017):

Personal funds in last 12 months

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

Q15d All SMEs from Q2 2012

The proportion of *all* injections of funds that were “forced” fell from 58% of all injections in 2012 to 39% in 2016 but increased slightly to 45% for 2017.

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

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

Q15d All SMEs from Q2 2012

Returning to the current period, analysis by age of SME for YEQ4 2017 showed that the youngest, start-up businesses continued to be the most likely to have had an injection of personal funds (49%), and that this was more likely to have been a choice (28%) than a necessity (21%). For older businesses, an injection of personal funds was less likely to have happened at all but where it had, a higher proportion of those injections were felt to have been a necessity:

Personal funds in last 12 months YEQ4 17 – all SMEs	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15 yrs+
Unweighted base:	*1822*	*1704*	*1994*	*2986*	*9506*
Inject personal funds – you chose to do to help the business grow and develop	28%	21%	12%	10%	12%
Inject personal funds – you felt you had no choice about this, that you had to do it	21%	15%	12%	11%	10%
Any personal funds	***49%***	***36%***	***24%***	***21%***	***22%***
Not something you have done	51%	64%	76%	79%	78%

Q15d All SMEs

Starts have always been more likely to report an injection of funds. In 2012, 68% of Starts reported receiving an injection of funds, dropping to 43% in 2015 but then increasing slightly to 46% in 2016 and 49% in 2017.

Those using a *personal* account for their business banking were slightly more likely to have put personal funds in at all (35% v 29% of those with a business account YEQ4 2017).

SMEs currently using external finance were more likely to have received an injection of personal funds (37% YEQ4 2017) than those not currently using external finance (25%) and were also more likely to say they had felt that there had been no choice (19% v 10%).

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

Personal funds in last 12 months YEQ4 17 – all SMEs	Total	Had an event	Would-be seeker	Happy non-seeker
Unweighted base:	*18,012*	*3752*	*285*	*13,975*
Inject personal funds – you chose to do to help the business grow and develop	16%	17%	34%	15%
Inject personal funds – you felt you had no choice about, that you had to do	13%	26%	38%	10%
Any personal funds	*29%*	*43%*	*72%*	*25%*
Not something you have done	71%	57%	28%	75%

Q15d All SMEs

As already reported, the proportion of SMEs that had seen an injection of personal funds has declined from 43% when the question was first asked in 2012 to its current 29% for 2017:

- This was also true amongst those that had had a borrowing event (from 52% in 2012 to 43% in 2017) and amongst Happy non-seekers (37% to 25%).
- However, there has been an increase in injections of personal funds amongst the small group of Would-be seekers of finance, (62% in 2012 to 72% in 2017) and so this group was much more likely than its peers to have seen an injection of personal funds.

Use of personal accounts and accounts at other banks

Most SMEs used a business bank account (84% excluding DK answers).

Of the 16% that used a personal account, almost all (93%) were 0 employee businesses. So whilst 20% of 0 employee SMEs used a personal account for their business banking, amongst those with employees the figure was 5%.

SMEs more likely to be using a personal account included those in the Health sector (24%) and Starts (21%).

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

YEQ4 2017, SMEs using a personal account were:

- Less likely to be using external finance (30% used external finance, compared to 40% of those using a business account) and somewhat less likely to have applied for new or renewed facilities (3% v 5%).
- Somewhat more likely to have put personal funds into the business (35% v 29% of those with a business account) or to be a Permanent non-borrower (51% v 46%).

In 2017, 99% of SMEs reported that they only used one bank for their business banking, with little difference by size. Multi-banking remained rare in this market:

Use one bank Over time - row percentages	2012	2013	2014	2015	2016	2017
All	99%	99%	99%	98%	99%	99%
0 emps	99%	99%	99%	99%	99%	99%
1-9 emps	98%	99%	98%	98%	99%	98%
10-49 emps	97%	98%	97%	97%	97%	98%
50-249 emps	97%	98%	97%	98%	97%	97%

Core finance facilities in a personal name

From Q4 2012 those using core finance were asked whether any of those facilities were in their personal name, rather than that of the business. For YEQ4 2017, a quarter of those using such facilities (26%) said that one or more facilities were in their personal name, the equivalent of 7% of **all** SMEs having a facility in their personal name (or 14% of SMEs excluding the Permanent non-borrowers). This varied relatively little across the quarters in which the question has been asked.

As the table below shows, the incidence of core facilities in a personal name varied by size of business and was predominantly concentrated amongst the smaller SMEs. Amongst SMEs with loans, overdrafts and/or credit cards, a third of those with 0 employees had some facility in their personal name (32%) compared to 4% of those with 50-249 employees. SMEs with these facilities, and who also had an average or worse than average risk rating, were more likely to have a facility in their own name (29% and 27%), than those with a minimal or low risk rating (15% and 17%) but the equivalent figures for **all** SMEs continued to show relatively little difference by risk rating:

Have element of core facility in personal name YEQ4 17 – row percentages	Of those with an overdraft, loan or credit card	Equivalent % of all SMEs
Total	**26%**	**7%**
0 employees	32%	8%
1-9 employees	17%	6%
10-49 employees	8%	4%
50-249 employees	4%	3%
Minimal risk rating	15%	5%
Low risk rating	17%	6%
Average risk rating	29%	8%
Worse than average risk rating	27%	7%

Q15bbb All SMEs with one of these facilities

Those operating their business banking through a personal account were less likely to be using any core finance (24% for YEQ4 2017, compared to 32% of those operating through a business bank account). However, if they *did* use the relevant forms of external finance, then almost all (82%) said that some or all of the loan, overdraft or credit card facilities that they had were in their personal name. Those with a business account who used these facilities were much less likely to say that any of the facilities were in their personal name (18%).

As a result, amongst all SMEs, those using a personal account for their business were three times as likely to have a facility in their personal name as those using a business account (19% of all those using a personal account had a facility in their personal name compared to 5% of all those using a business account).

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

Facilities in a personal name YEQ4 2017 (excl DK)

Overdrafts	14% of all SMEs with an overdraft said it was in a personal name, of which 84% were 0 employee SMEs. 5% said they had overdrafts in both personal and business names. 18% of 0 employee SMEs with an overdraft said that it was in a personal name. This declined by size to 8% of those with 1-9 employees, 3% of those with 10-49 employees and <1% of those with 50-249 employees.
Loans	14% of all SMEs with a loan said it was in a personal name, of which 71% were 0 employee SMEs. 5% said they had loans in both personal and business names. 18% of 0 employee SMEs with a loan said that it was in a personal name. This declined by size to 12% of those with 1-9 employees, 3% of those with 10-49 employees and 1% of those with 50-249 employees.
Credit cards	26% of all SMEs with a credit card said it was in a personal name, of which 83% were 0 employee SMEs. 6% said they had credit cards in both personal and business names. 33% of 0 employee SMEs with a credit card said that it was in a personal name. This declined by size to 15% of those with 1-9 employees, 3% of those with 10-49 employees and 1% of those with 50-249 employees.

The ‘interweaving’ of business and personal funds – a summary

A number of questions explored the use of personal funds and/or personal borrowing by SMEs. For YEQ4 2017, 4 in 10 SMEs (42%) reported having one or more of these personal ‘elements’ to their business. This was in line with recent years (42% in both 2014 and 2015) but lower than in either 2012 (54%) or 2013 (53%), as fewer smaller SMEs with less than 10 employees reported that they had any personal element to their business. The table below shows how smaller SMEs, those with a worse than average risk rating and those in the Transport sector remained the most likely to have a personal element to their business:

Had any personal element

Row percentages	YEQ4 17
All SMEs	**42%**
0 employee	46%
1-9 employees	33%
10-49 employees	17%
50-249 employees	8%
Minimal external risk rating	21%
Low external risk rating	28%
Average external risk rating	40%
Worse than average external risk rating	51%
Agriculture	37%
Manufacturing	38%
Construction	42%
Wholesale/Retail	38%
Hotels & Restaurants	42%
Transport	49%
Property/Business Services etc.	38%
Health	46%
Other Community	46%

Amongst SMEs with employees, 29% had a personal element to their business.