2. Management summary

This report covers

the borrowing process from the SME's perspective, with detailed information about those who have, or would have liked to have been, through the process of borrowing loan or overdraft funding for their business. It also provides broader context information about SMEs including growth, profitability and perceived barriers to running the business.

SMEs remained more likely to meet the definition of a Permanent non-borrower (47%) than to be using external finance (38%). Demand for finance remained muted and most SMEs had been a Happy non-seeker of finance in the previous 12 months:

Overall use of external finance was stable	In 2017, 38% of SMEs were using some form of external finance, with 31% using core finance (loans, overdrafts and credit cards) and 18% one of the other forms of finance recorded. Overall use of finance was in line with 2014-16 (37%) and continued to be higher amongst larger SMEs (34% of those with 0 employees to 73% of those with 50-249 employees).
Almost half of SMEs met the definition of a Permanent non-borrower	47% of SMEs in 2017 met the definition of a Permanent non-borrower who was not using external finance and showed little appetite to do so. This proportion is unchanged since 2015. 0 employee SMEs remained the most likely to be a PNB (51%) while the proportion of the largest SMEs meeting the definition (21%) has declined somewhat since 2015 (when 28% were PNBs). Excluding the PNBs sees 72% of remaining SMEs using external finance, the highest proportion to date.
Demand for new or renewed finance remained limited	In 2017, 5% of SMEs reported having applied for new or renewed loan or overdraft facilities (4% for an overdraft and 2% for a loan). This is in line with 2016 but half the level seen in 2012 (11%). There were some early signs of increased demand in 2017 – in Q4 2017 7% reported making an application in the previous 12 months and there have been slightly more applications in 2017 to date than expected from an even distribution of events.
8 in 10 SMEs had been Happy non-seekers of finance	With 15% of SMEs reporting any kind of borrowing event and 2% being Would-be seekers of finance, the largest group of SMEs remained the Happy non-seekers (83% of SMEs in 2017, in line with 2016 and up from 68% in 2012). Would-be seekers were typically ambitious and prepared to use finance to help the business grow. Their main barriers to application were discouragement (47% of WBS) and the process of borrowing (29% of WBS). Happy non-seekers were attitudinally more risk averse and happy to grow slowly rather than borrowing to grow more quickly.

Levels of profitability, growth and credit balances are stable. Attitudinally, SMEs remain more likely to be self-reliant than willing to borrow to grow and awareness of equity finance is low. However, a quarter are both ambitious and prepared to take risks to succeed, and being willing to use finance to grow is a key predictor of being in this group:

Most SMEs reported making a profit	82% of SMEs reported making a profit (2017) and this proportion has increased steadily over time, from 69% in 2012. There was relatively little difference in profitability by size of SME (81-88%) but larger SMEs made larger profits.
4 in 10 SMEs (excl Starts) had grown	In 2017, 42% of SMEs reported having grown and this has changed little over time (Since 2012, between 39% and 42% have grown).
A quarter of SMEs hold £10,000 or more in credit balances	Almost all SMEs held some credit balances and the average amount held in 2017 was £37,000. On average SMEs held the equivalent of a quarter of their turnover as credit balances. 25% of SMEs held £10,000 or more in credit balances and most of them said this reduced their need for external finance.
A third of SMEs received Trade Credit	35% of SMEs in 2017 received trade credit (up slightly from 2014, when 31% received trade credit). Larger SMEs remained more likely to receive such credit (69% of those with 50-249 employees). 7 in 10 of the SMEs that received trade credit said that it reduced their need for external finance. This is the equivalent of 24% of all SMEs.
A stable 3 in 10 reported an injection of personal funds into the business	29% of SMEs in 2017 reported an injection of personal funds into the business in the previous 12 months. This was slightly more likely to have been a choice (16%) rather than something they felt they had to do (13%). Half of all Starts had received an injection of personal funds, as had 7 in 10 of those who had been Would-be seekers of finance.
Two thirds of SMEs use 'Business Funding'	Combining the use of external finance with trade credit and personal injections of funds sees 65% of SMEs using 'Business Funding' and this has remained fairly stable over time. Business Funding increased by size of SME (from 61% of those with 0 employees to 89% of those with 50-249 employees) with the biggest uplift between external finance and business funding for those with 0 employees (34% to 61%).
Not all SMEs would speak to their bank if a new opportunity required funding	Given a (hypothetical) business opportunity that required funding, 37% of SMEs in 2017 said that they would approach their bank for funding. Just as many (39%) said they would not approach the bank because the business or the directors would provide the funding. 19% would not approach the bank because of fears over the risks associated with debt. This was more of a concern for smaller businesses but varied very little by age of business.

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There is a continued attitude of self-reliance amongst SMEs but ambitious risk-takers see the benefits of finance	82% of SMEs said their plans were based on what they could afford and 70% would rather grow more slowly than borrow to grow faster. A declining proportion of SMEs were happy to use finance to grow (34% in 2017, down from 45% in 2015). New questions for H2 2017 showed that 38% of SMEs had ambitions to be a significantly bigger business (increasing to 68% of those with 50-249 employees) and a similar proportion (42%) were prepared to take risks to become more successful. Both these attitudes were seen more strongly amongst younger businesses. A quarter of all SMEs (27%) agreed with both of the new statements ie that they were ambitious and prepared to take risks. These were more likely to be younger, innovative businesses and a willingness to borrow to grow was a key predictor of membership of this group.
6 in 10 companies said they knew nothing about equity finance	Very few companies (3% in H2 2017) were using or planning to use equity finance. Most, 62%, said that they did not know anything about this type of finance. Use/planned use of equity finance was slightly higher for larger SMEs (6% of those with 50-249 employees), while the proportion that knew nothing about this type of finance declined somewhat by size (from 62% of those with 0 employees to 52% of those with 50-249 employees). 22% of companies did not think it was a suitable form of finance for them and this did not vary much by size of business.

Most of those who applied for a loan or overdraft in the last 18 months ended the process with a facility. Slightly lower success rates for those applying for the first time have resulted in a somewhat lower overall success rate for new money:

80% of all recent applications were successful	80% of loan and overdraft applications made in the 18 months to Q4 2017 resulted in a facility. This was in line with the 82% reported for the 18 months to Q4 2015 and remains ahead of the 68% success rates across 2012-2013.
Renewals remained more likely to be successful than new money	97% of applications for a loan or overdraft renewal made in the 18 months to Q4 2017 resulted in a facility and this is little changed over time. 63% of new money loan and overdraft applications made in the 18 months to Q4 2017 resulted in a facility. This was lower than was seen for the 18 months to Q4 2015 (70%) but remained ahead of the 18 months to Q4 2013 (49%).
First time applicants were less likely to end the process with a facility	Within the current success rate for new money applications, the success rate for those who have borrowed before was stable (78%). It is the success rate for first time applicants which has declined (currently 50% compared to 60% for applications in the 18 months to Q4 2015). First time applicant success rates do though remain above the 4 in 10 seen in the 18 months to both Q4 2012 and Q4 2013.
More than 8 in 10 overdraft applications were successful	For the 18 months to Q4 2017, 85% of all overdraft applicants ended the process with a facility: 76% were offered what they wanted and took it, while 9% took the overdraft after issues. 3% took another form of funding and 11% of applicants ended the process with no facility. The overdraft success rate is currently stable. 0 employee applicants remained less likely to be successful (81%) than those with employees (92-97%) but their success rates have improved over time (70% were successful in the 18 months to Q4 2012).
Almost 7 in 10 loan applications were successful	For the 18 months to Q4 2017, 67% of all loan applicants ended the process with a facility: 58% were offered what they wanted and took it, while 9% took the overdraft after issues. 7% took another form of funding and 26% of applicants ended the process with no facility. This overall loan success rate was somewhat lower than the 74% success rate for the 18 months to both Q4 2015 and Q4 2016. It remained though somewhat higher than the 58% success rate recorded for the 18 months to both Q4 2012 and Q4 2013.

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Almost all facilities were in place 'in good time'

87% of overdrafts and 67% of loans were in place within 2 weeks.

Almost all successful applicants agreed that the facility had been put in place in good time (92% for overdrafts and 95% for loans) with those waiting more than 2 weeks for an overdraft, or more than 4 weeks for a loan, less likely to agree.

Over time the proportion of facilities agreed within 2 weeks has increased for loans (55% in the 18 months to Q4 2014 to 67% currently) and the proportion agreeing their loan was in place in good time has also increased (86% to 95%). There was a smaller increase in 2 week facilities for overdraft applicants (83% to 87%) and a slight decline in the proportion in place in good time (96% to 92%).

Looking forward, there were more concerns about the economic climate and political uncertainty, especially for international SMEs. There were signs of planned growth and a range of business activities being undertaken, while appetite for finance remained stable:

SMEs were somewhat more likely to identify barriers to running the business	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%) in Q4 2017. 29% of SMEs 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 for very few SMEs (5% in 2017 unchanged from 2016).
SMEs with employees are more likely to be planning future growth	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, planned 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 in 2017 were in line with, or higher than they were in 2012. Almost all those planning to grow (97% in Q4 2017) planned to sell more in the UK. 11% planned to sell more overseas, almost all of them current exporters.
4 in 10 SMEs are planning some significant activity in the year ahead	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, to 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 and these activities were also being planned by 61% of those planning to grow, and similarly by 62% of those planning to apply for finance.

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Future appetite for finance remains broadly stable but confidence of success dipped at the end of 2017	The proportion of SMEs planning to apply for finance increased during 2017 from 10% in Q1 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. Annual appetite for finance increased by size of SME from 11% of 0 employee SMEs to 17% of those with 50-249 employees. Most of those planning to apply were already using external finance (78%), a higher proportion than in either 2015 or 2016. 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 risk rating. Hypothetical confidence amongst those with no plans to apply remained higher (62% in Q4 2017).
1 in 10 SMEs would like to apply for finance but think something will stop them	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. 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).
International SMEs remained ambitious but with concerns	International SMEs are potentially more likely to be affected by the current Brexit negotiations. In 2017, compared to domestic SMEs: Those who export were more likely to be planning to grow (58%). They had become more concerned about political uncertainty (23%) and less likely to be planning to apply for finance (13%). Those who import were also more likely to be planning to grow (63%). Their appetite for finance had declined slightly over time (17%) and they had become more concerned about the economic climate (21%) and political uncertainty (19%). Those who both import and export were the most likely to be planning to grow (67%). Their appetite for finance has varied over time (currently 18%) and they were the most concerned about political uncertainty (26%).