

An independent
report by BVA BDRc

SME Finance Monitor

Q4 2023 Report



UK
FINANCE



SME Finance Monitor

Q4 2023 Report

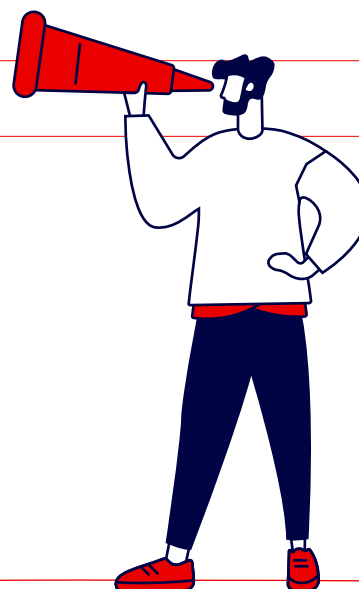


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Foreword





Foreword

Welcome to the full report of the SME Finance Monitor for Q4 2023. As we move further away from the immediate impact of the Covid-19 pandemic and Brexit, we continue to provide insight into the impact on SMEs of increased costs, a ‘technical’ recession and the UK’s new trading arrangements with the EU.

The survey was set up through the Business Finance Taskforce, which was itself established in July 2010 to review the key issue of bank finance and how the banks could help the UK to return to sustainable growth. It made a commitment to fund and publish an independent survey to identify (and track) demand for finance and how SMEs feel about borrowing – the SME Finance Monitor.

In 2023, the SME Finance Monitor aimed to survey 17,000 businesses about past borrowing events and future borrowing intentions, and despite challenges as SMEs faced into the current headwinds, this was achieved, albeit with a slight shortfall in interviews in Q3 2023 which was corrected in Q4 2023. It is the largest such survey in the UK and since the first report was published covering Q1-2 2011 has built into a robust and reliable independent data source for all parties interested in the issue of SME finance. In total, 51 waves of interviewing have been completed, with reporting every half year, following completion of the Q2 and Q4 fieldwork. Since 2020, this full report has been published annually, with a detailed chart pack produced after the completion of the Q2 and the Q4 fieldwork.

This extensive dataset is recognized by both public and private sector stakeholders as the de facto authority on access to finance conditions for SMEs, because it is seen as reliable, trustworthy, and, crucially, as independent. The Monitor is cited regularly in Parliament, in government led reviews, and in evidence to bodies such as the OECD, as well as forming the basis for policy discussions between the banks and DBT.

THE SURVEY STEERING GROUP COMPRISES REPRESENTATIVES OF THE FOLLOWING:

UK Finance
BVA BDRC
The British Business Bank
Dept. for Business and Trade
Make UK, the
manufacturers’ association
Federation of Small
Businesses
Confederation of British
Industry
Institute of Directors
British Chambers of
Commerce
HM Treasury
Barclays Bank
HSBC
Lloyds Banking Group
NatWest Group
Santander



The data provides both a clear view of how SMEs are feeling now, and, increasingly, how this has changed over time. It also provides analysis by size of SME and sector, as SMEs should not be seen as one homogenous group: in particular, the smallest SMEs with no employees can often report different views and experiences to their larger peers.

This is an independent report, and I am pleased to confirm that this latest version has once again been written and published by BVA BDRC, with no influence sought or applied by any member of the Steering Group.

Shiona Davies

Editor, The SME Finance Monitor

March 2024



1. Introduction



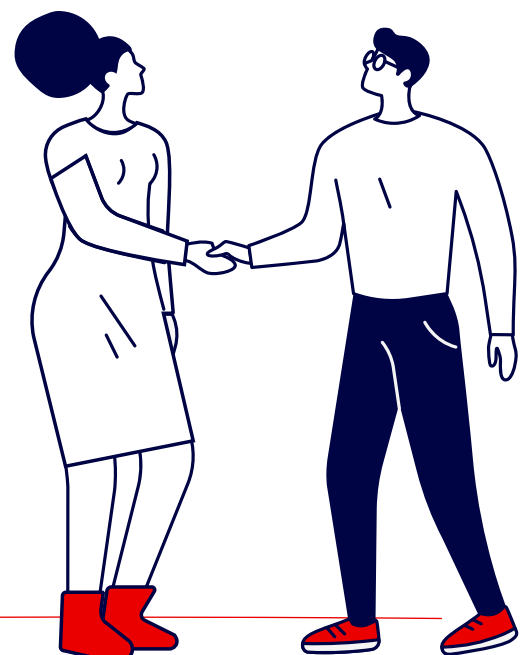


1. Introduction

The issue of SMEs and external finance has long provoked debate. Over time, the emphasis has moved from issues around access to finance to those around demand for finance amongst SMEs and the extent to which the right forms of funding have been available to those businesses looking to grow and invest. Both business confidence and appetite for borrowing have been affected by prevailing economic conditions, the new trading arrangements with the EU, the challenges of the pandemic and the war in Ukraine, with SMEs continuing to find themselves trading through uncertain times.

The Business Finance Taskforce was set up in July 2010 to review this key issue of bank finance and how the banks could help the UK to return to sustainable growth. It made a commitment to fund and publish an independent survey to identify (and track) demand for finance and how SMEs feel about borrowing. BVA BDRC was appointed to conduct this survey in order to provide a robust and respected independent source of information. BVA BDRC continues to maintain full editorial control over the findings presented in this report. In 2020 extra questions were included specifically around the pandemic and its impact on SMEs. In 2023 fewer such questions were still being asked, as the focus moved to the impact of current issues such as increasing costs.

For some time it has been demand as well as supply issues that have contributed to the continued lower levels of lending to SMEs and so the SME Finance Monitor questionnaire has evolved over time to capture more data in this area. In 2017, it was decided to re-design the core of the questionnaire for 2018, expanding the range of financial products and providers that SMEs could comment on. Where questions were retained from previous waves, they have been re-numbered and both the old and new numbers are shown in this report. Naturally, changes were required both during and since the pandemic, to allow us to understand the impact on SMEs, with some existing questions rested and new questions included. This means that not every question offers data for the full 4 quarters of 2023, but quarterly base sizes are typically robust enough to allow analysis at this level where required.



The majority of this report is based on a total of 17,010 interviews with SMEs, conducted across the four quarters of 2023 (all using the new questionnaire). Previous interviews conducted in 2011 (three waves) and the 4 waves in each of the years 2012 to 2022 are not in these *year-ending* results but they are still shown in this report where data is reported quarterly or annually over time, or by application date:

The YEQ4 2023 data therefore includes the following four waves:

- January-March 2023 – 4,252 interviews conducted, referred to as Q1 2023
- April-June 2023 – 4,253 interviews conducted, referred to as Q2 2023
- July-September 2023 – 3,910 interviews conducted, referred to as Q3 2023
- October-December 2023 – 4,595 interviews conducted, referred to as Q4 2023.

The structure of the SME market is such that each ‘All SME’ figure quoted will be heavily influenced by the views of those with 0 employees, who make up three quarters of the SME population. As the views of these smallest SMEs can differ markedly from their larger peers, an ‘All employers’ figure is now also reported for some key questions, that is those SMEs with 1-249 employees.

A further quarter of 4,250 interviews is being conducted January to March 2024.

The results from these most recent four waves have been combined as usual to cover a full 12 months of interviewing, and weighted to the overall profile of SMEs in the UK in such a way that it is possible to analyse results wave on wave where relevant – and the data reported for an individual quarter will be as originally reported. This combined dataset of 17,010 interviews is referred to as YEQ4 2023.

From 2016 to 2020 the overall sample size was 4,500 interviews per quarter (previously 5,000). From Q1 2021 the sample size was reduced slightly to 4,250 which still provides a robust base size for analysis, and a weighting review was also conducted (updating the previous one in 2016) but only very minor changes were made from Q3 2021. A similar weighting review has been conducted at the end of 2023 and further minor changes will be made to the weighting applied from Q1 2024, as well as slight adjustments to sub-sample base sizes to better reflect the SME population.



**The survey
questionnaire
is the most
comprehensive ever
on bank finance.**

The majority of reporting is based on interviews conducted in the year to Q4 2023. The exceptions to this rule are:

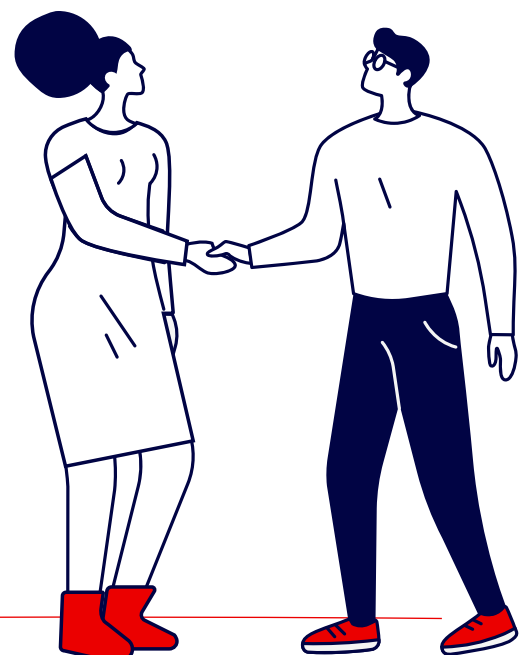
- Data on applications is based on when the application was made, rather than the date of interview, with questions revised for Q1 2018. Analysis in this report is based on all applications made and reported between Q1 2018 and Q4 2023, divided into 18-month periods. The latest period is Q3 2022 to Q4 2023, for which the data is still interim as respondents can identify a borrowing event up to 12 months after it happened.
- Where SMEs are asked about their planned future behaviour, and typically their expectations for the next 3 months, comparisons are typically made between individual quarters.
- For key questions summary tables are provided with annual figures over the longer term to set the current results in context. The charts in the final chapter of this report provide more detailed quarter on quarter data from the start of the Monitor.
- Where a new question has still captured similar data to previous versions then data over time has been provided as a comparison.

The structure of the SME market is such that each 'All SME' figure quoted will be heavily influenced by the views of those with 0 employees, who make up three quarters of the SME population. As the views of these smallest SMEs can differ markedly from their larger peers, an 'All employers' figure is now also reported for some key questions, that is those SMEs with 1-249 employees.

A further quarter of 4,250 interviews is being conducted January to March 2024.

A tenth edition of the annual report, published in Summer 2023, provided separate analysis at a regional level for an in-depth assessment of local conditions during 2021. A further regional report is planned for Spring 2024 to report on local conditions during 2023.

This report is based
on a dataset of
17,010
SMEs





2. Management summary





2. Management summary

Navigating the SME Finance Monitor

The 2024 SME Finance Monitor report provides an in-depth assessment of SMEs as they emerge from the pandemic years to take advantage of new opportunities but also to face challenges from both the economy and the impact of world events.

This **management summary** provides the key headlines on important contextual issues such as innovation and growth as well as on the focus of this report: the use of, and access to, external finance by SMEs.

More detailed headlines, also in a summary format, can be found in the **summaries** at the start of **each chapter** of this report, with each chapter then providing full data, over time and by key demographics, to give a full picture across the topics covered.

There is also an accompanying **chart pack** covering the key themes reported here.

Going into 2024, as one might hope, SMEs were in a more positive mood than they were during the pandemic although, having improved to 58% in 2022, the proportion in a 'good mood' has not moved on since, while a quarter felt that the future offered more threats than opportunities, now back to the same proportion that felt that way in Q4 2020. 18% of (typically smaller) SMEs described themselves as 'Struggling' with their monthly revenue not being enough to meet their needs, which is having an impact across their business, but 34% of (typically larger) SMEs felt 'Comfortable' or even 'Well off' and much less affected by economic and other events.

This report helps to explain the reasons behind these overall sentiments, remembering that SMEs are a diverse group, especially by size but also by age, sector and ambition and it is rare that all will share a view or experience to the same extent as their peers. Understanding these differences is key to understanding this important part of the economy and how they should be supported.



THIS SUMMARY COVERS

the key points from the main body of the report, providing the SME perspective on both access to finance and other challenges, as well as broader business demographics such as growth, profitability and ambition, for context.




SME Sentiment: SMEs remained in a more positive mood than during the pandemic, but not all were viewing the future with optimism and around 1 in 5 smaller and younger SMEs were ‘Struggling’.

59% 
were in a good mood,
unchanged from 2020

In Q2 2020 when this metric was first included, 25% of SMEs described themselves as being in a ‘good’ mood about their business.

Since Q4 2021, around 6 in 10 SMEs have been in a ‘good’ mood (59% in 2023 as a whole, increasing by size of SME from 58% of 0 employee SMEs to 79% of those with 50-249 employees).

28%
felt the future offered
more opportunities
than threats 

In Q4 2023, 28% of SMEs felt that the future offered mainly opportunities to them, and this was more likely to be the case for larger SMEs with 10-49 or 50-249 employees (38% and 37%).

At the other end of the scale, 25% of SMEs felt the future offered mainly threats, with a much clearer difference by size of SME, from 28% of those with 0 employees to 9% with 50-249 employees.

When this question was first asked in H2 2020, 22% felt the future offered mainly opportunities, increasing to 32% in 2021 and stable since (31% for 2023 as a whole).

However,
1 in 5
said they were
‘Struggling’

18% of SMEs described themselves as ‘Struggling’, ranging from 19% of those with 0 employees to 3% of those with 50-249 employees (where half were Well off / Comfortable).

Almost a quarter of Starts (22%) and those trading for 2-5 years (23%) were ‘Struggling’, along with a similar proportion in Hotels & Restaurants and Wholesale/Retail.

Compared to their peers, SMEs that were ‘Struggling’ were more likely to have been impacted by increasing costs (70% v 42% overall), less likely to feel the future offers opportunities (8% v 31%) and more likely to be using external finance (53% v 46% overall) including 23% still repaying government backed pandemic funding (v 18% overall).

They were also twice as likely as SMEs overall to be planning to apply for (more) finance (16% v 8%).



SME Context: Levels of profitability returned to pre-pandemic levels, credit balances remained stable, but increased costs, the economic climate and staff issues all continued to have an impact.

77%
of SMEs made a profit, back to pre-pandemic levels



In 2023, 77% of SMEs (excl DK answers) reported making a profit in the previous 12 months, increasing by size of SME from 76% of those with 0 employees to 91% of those with 50-249 employees.

This represents an increase in profitability post-pandemic (in 2021, 65% reported making a profit) back to levels seen pre-pandemic (78% reported a profit in 2018).

A stable 34%
of SMEs had £10,000 or more in credit balances



34% of SMEs in 2023 reported holding £10k or more in credit balances, increasing by size from 28% of those with 0 employees to 93% with 50-249 employees.

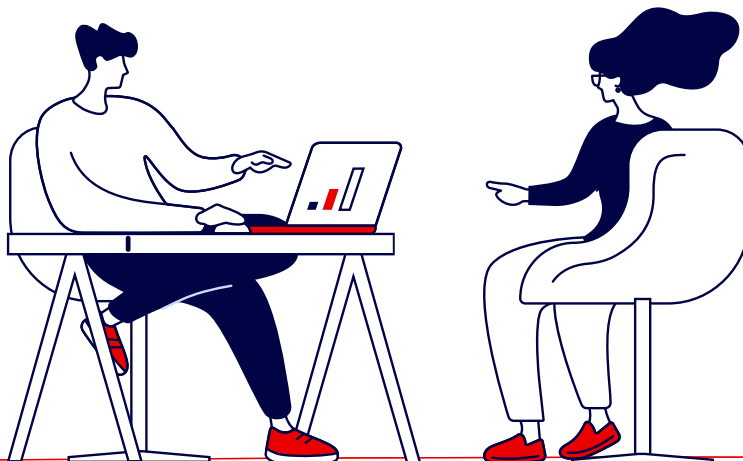
This proportion has been stable since 2021, following the increase seen from 23% to 33% of SMEs holding such sums between 2018 and 2021.

In 2023 the sums held were the equivalent of 29% of SME turnover on average, or 3.5 months 'cover'. This was slightly lower than the 36-37% seen across 2021 and 2022 due to an increase in average turnover while sums held remained more stable.

While a similar proportion had injected personal funds into the business

36% of SMEs reported an injection of personal funds into the business in 2023: 13% through choice and 23% through need. The smallest SMEs (39%) were more likely to report such an injection of funds than their peers (declining to 7% of those with 50-249 employees).

Since 2021, more than 1 in 3 SMEs have reported an injection of funds (34-37%) compared to around 1 in 4 pre-pandemic (24% in 2019), with smaller and younger SMEs always more likely to report such an injection.



The main future barrier for SMEs remained increasing costs which have already affected many of them



In Q4 2023, 36% of SMEs saw increasing costs as a major future barrier to their business while 41% reported having already been significantly impacted by increased costs (with a further 35% 'somewhat' impacted).

For 2023 as a whole, 55% of SMEs had either been significantly impacted and/or saw increasing costs as a major barrier and this was more likely to be the case for those with 1-9 or 10-49 employees (60% and 59%) and those in Hotels & Restaurants (74%) or Agriculture (64%).

This has been a key issue for SMEs since the metric was introduced in Q4 2021, but there has been no further increase in any overall impact in 2023 (from 54% in 2022).

And concern about the economic climate remained higher than pre-pandemic at

32%



32% of SMEs in 2023 saw the economic climate as a major future barrier with concerns higher amongst those in the Hotel & Restaurant sector (42%) while being less of an issue for the largest SMEs (19% of those with 50-249 employees).

Concern about the economic climate 'peaked' in 2020 at 36% before declining to a pre-pandemic level of 23% in 2021. Since then however concern has increased again, to 31% in 2022 and 32% in 2023.

31%
of employers were either struggling to recruit now or saw it as a future barrier



24% of employers had no plans to recruit in the next 12 months while as many, 23%, said they were struggling to hire the new staff they need. Analysis by size showed that those with more employees were much more likely to report recruitment struggles than a freeze (33% v 13% for employers with 50-249 employees).

Pre-pandemic, a stable 1 in 10 employers saw the recruitment and retention of staff as a major future barrier. In 2021 this increased to 18% of employers and again to 20% in 2023. It was particularly likely to be a barrier for those with 10-49 employees (26%) and those in the Health sector (28%) with limited variation across other demographics.

When those already struggling to recruit were taken into account, 31% of employers in 2023 were either already struggling to recruit and/or considered it a major future barrier.

1 in 5

SMEs traded internationally and reported more impact than their peers from the revised trading arrangements with the EU

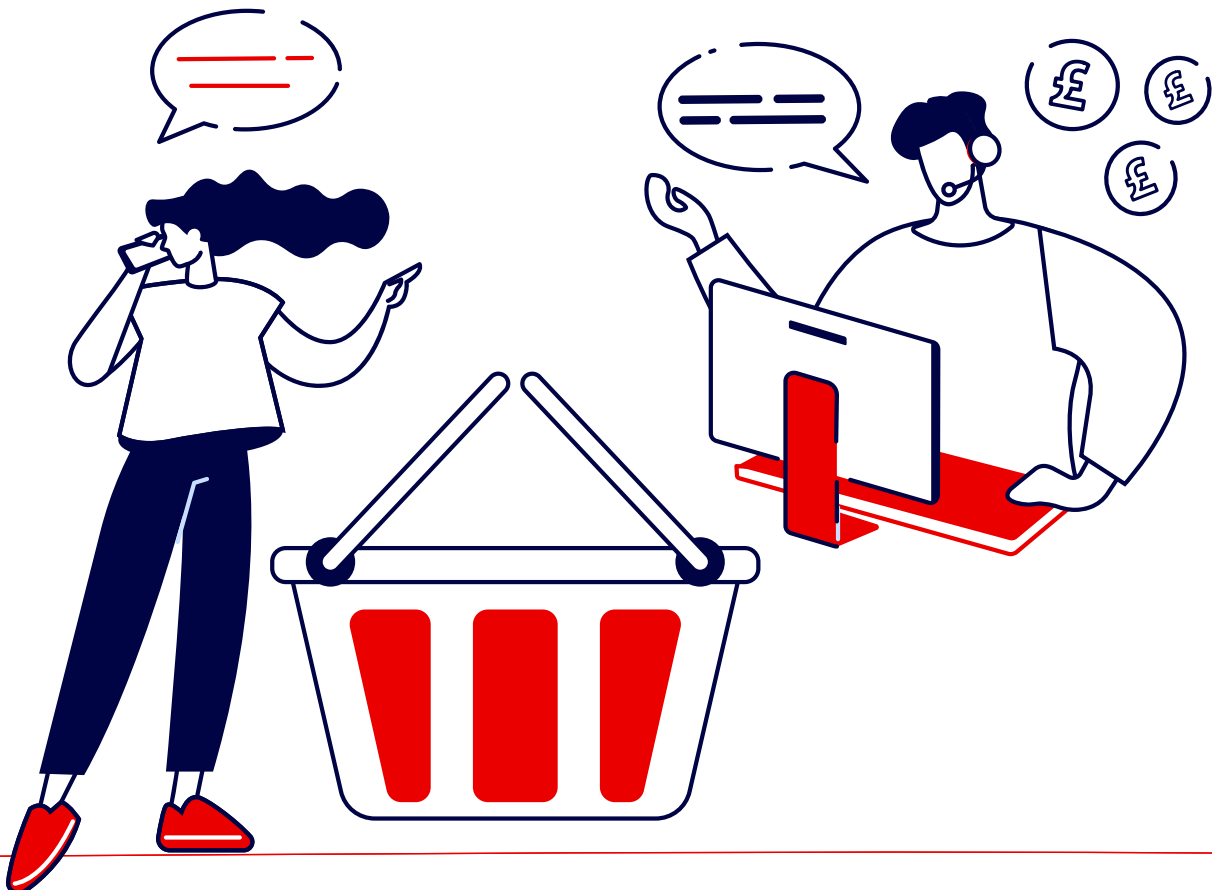
20% of all SMEs traded internationally (18% of those with 0 employees increasing with size to 39% of those with 50-249 employees). Whilst there has been little change year on year, the longer term trend is for a small but steady increase, from 14% trading internationally in 2016 to 20% currently, seen across all size bands.

A stable 10% of SMEs exported, increasing by size from 9% of those with 0 employees to 24% of those with 50-249 employees.


A quarter of these exporters (27%) said that half or more of their overall sales came from overseas with limited variation by size of exporter. A new question for 2023 found that 40% of exporters felt they were very or fairly reliant on their overseas sales to achieve their overall sales targets, meaning that overall, 4% of all SMEs rely on exports to achieve their sales targets.

In H2 2023, 34% of SMEs reported that the revised EU trading arrangements were having a negative impact on their business. Most, 64%, said that they had no impact, while 2% reported a positive impact and these proportions have changed very little since H2 2021.

Those who trade internationally were most likely to report a negative effect, notably those who are fully international (62%).



Growth and innovation: Past growth remained below pre-pandemic levels but growth aspirations were back to pre-pandemic levels, for smaller SMEs at least. Levels of innovation remained above pre-pandemic levels and overall over half of SMEs had either been, or planned to be, innovative.

29% 
of SMEs had grown, still below pre-pandemic levels

29% of SMEs in 2023 reported having grown, increasing by size from 26% of those with 0 employees to 48% with 10-49 employees and 45% with 50-249 employees – a marked increase for this latter group from the 25% that had grown in 2022.

Growth in 2023 was higher than the 18% reporting growth in 2021, however it was little changed from 2022 (27%) and remained below the 4 in 10 typically reporting growth pre-pandemic.

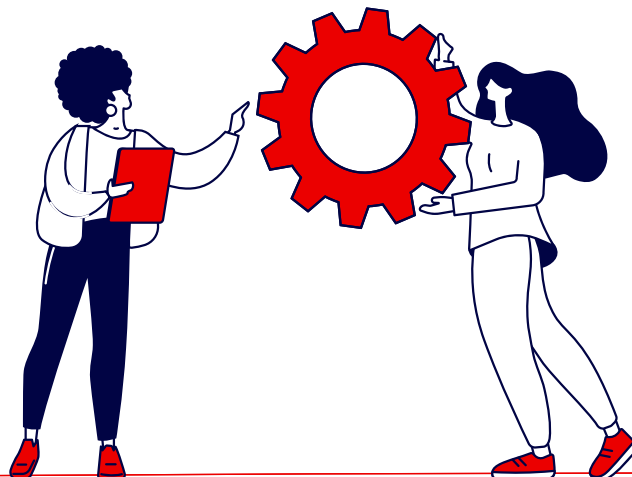
While declines remained higher than pre-pandemic 


Immediately pre-pandemic, around 1 in 5 SMEs reported a decline (19% in 2019). This then increased markedly to 56% in 2021 and whilst fewer SMEs reported a decline in 2023 (33%) this was little changed from 2022 (37%) and still clearly above pre-pandemic levels. It was more of an issue for the smallest SMEs where 37% reported a decline in 2023, reducing by size to 11% of those with 50-249 employees.

4 in 10
SMEs had been innovative, still above pre-pandemic levels

Levels of innovation increased during the pandemic (from 35% in 2019 to 42% in 2020) and have remained stable since. 42% of all SMEs in 2023 had innovated, increasing by size of business from 39% of those with 0 employees to 63% of those with 50-249 employees.

Looking forward, 36% of SMEs planned to innovate in future (Q2-Q4 23 when an additional question was asked). This means that overall, 55% of SMEs had either been, or planned to be, innovative and 24% met the criteria of a 'consistent innovator' who had both been innovative and planned to be so in the coming year.



46% 
**of SMEs in 2023
expected to grow in the
coming year, back to
pre-pandemic levels for
smaller SMEs**

46% of SMEs in 2023 planned to grow in the next 12 months, increasing by size of SME to 59% of those with 10-49 employees and 58% of those with 50-249 employees.

This was back in line overall with pre-pandemic levels (49% in 2018) and for those with 0 or 1-9 employees, but not for larger SMEs. In 2023, 59% of those with 10-49 employees planned to grow, down from 64% planning to do so in 2018 and for those with 50-249 employees the difference was more acute (58% from 79%).


24%
**of SMEs planned to both
grow and be innovative
in the coming year**

24% of all SMEs Q2-Q4 2023 planned both to grow and to be innovative in the coming year. Half of these 'ambitious innovators' were both small (0-9 employees) and young (trading for up to 5 years), twice the proportion amongst SMEs overall.

This group were more likely than their peers to be using finance and to have appetite for more, but also slightly more concerned it would be difficult for them to get funding.



Use of external finance: 1 in 5 SMEs were still repaying pandemic funding, helping to boost the proportion using finance in 2023 to 46% and reduce the Permanent non-borrowers with little apparent appetite for finance to 35%. Most of those concerned about repaying what they owed had yet to speak to their bank, despite most saying this was impacting their business and attitudinally SMEs remained cautious about finance.

46%
**of SMEs used external
finance in 2023,
including**
19% 
**still repaying
government backed
pandemic funding**

46% of SMEs were using external finance in 2023, increasing by size of SME from 42% of those with 0 employees to 69% of those with 10-49 employees.

This is based on the new definition which includes a better measure of those still repaying government backed pandemic funding, alongside core and other forms of finance.

In 2023, 19% of SMEs were still repaying government backed pandemic funding, two thirds of the 28% of SMEs that were granted such funding originally. This included 33% of all SMEs with 10-49 employees still repaying government backed funding, as were 29% of those with 1-9 employees, compared to 16% of the smallest SMEs with 0 employees and 12% of the largest SMEs with 50-249 employees.

31% of SMEs were using some form of 'core' finance, primarily credit cards (17%), a bank overdraft (13%) and/or a bank loan (11%), while 21% of SMEs were using some 'other' form of finance, primarily leasing/hp (10%).

1 in 3
**borrowers now using
more finance than
pre-pandemic**



In 2022, under the previous definition, 36% of SMEs were using external finance (increasing to 40% when adjusted as far as was possible at that stage for pandemic funding).

In 2023, under the new definition, 46% were using finance, with 41% using core/other forms of finance where the definition had not changed and 19% still repaying pandemic funding.

This increase 2022 to 2023 was caused both by the new pandemic funding element but also by an increase in the use of core finance and specifically in credit cards (11% to 17% of SMEs).

32% of borrowers were using more finance than they had been before the pandemic, with limited variation by size of SME. This is the equivalent of 12% of all SMEs, which is around half the 21% of SMEs using more finance when this question was first asked in 2021.

**A quarter of borrowers
had secured facilities,
including
1 in 6
with a personal
guarantee**



25% of borrowers said that some or all of their borrowing was secured. This increased both by size of borrower (from 23% of those with 0 employees to 44% of those with 50–249 employees) and by total sum borrowed (from 20% of those borrowing less than £25,000 to 58% of those borrowing more than £100,000).

In a new question for Q4 2023, 1 in 6 limited companies that were borrowing said there was a personal guarantee in place. Where the respondent had provided the guarantee, initial analysis suggested that 1 in 3 had given a guarantee for less than £25,000, a quarter had taken legal advice before signing and a similar proportion were worried about what giving the guarantee might mean for them (but half were not worried).

**15%
of borrowers were
concerned about
repaying the finance
they had, but over half
had no plans to speak to
their lender**

15% of borrowers were concerned about how they would repay the finance they had. This was more likely to be the case for smaller SMEs than larger, as well as those borrowing more than they had been pre-pandemic (27% and little changed over time) and those with pandemic funding still to repay (20%).

8 in 10 of those concerned said this had impacted their plans for the business, primarily how much they can grow the business (58% of those concerned) or invest in it (49%).

A minority (19%) of all those concerned about repaying their existing finance had already spoken to their lender (with two thirds satisfied with the outcome) and a further 18% planned to do so, leaving the largest group (63%) with no plans at all to speak to their lender.

Of those who hadn't (yet) spoken to their lender, around 3 in 10 thought it unlikely their lender would treat them fairly, offer practical help and/or be supportive and this was more likely to be the view of those with no plans to speak to their lender.



35% (£)
of SMEs met the revised definition of a Permanent non-borrower

The definition of a Permanent non-borrower was revised in 2023 to exclude anyone who had applied for government backed pandemic funding from the definition of SMEs with no apparent use/appetite for finance.

In 2023, under the new definition, 35% of SMEs met the definition of a PNB and this compares to 39-41% during the pandemic and 48% pre-pandemic in 2018.

The proportion of PNBs in 2023 declined by size from 37% of 0 employee SMEs to 20% of those with 10-49 employees and was 41% of those with 50-249 employees, who remained less likely to be using external finance than pre-pandemic. In contrast to recent years, in 2023 all sizes of SME were more likely to be using finance than to be a PNB.

PNBs were more likely than their peers to have made a profit, as likely to hold £10k or more of credit balances or have a minimal or low risk rating but less likely to be international, innovative or planning to grow.

Attitudinally, SMEs remained cautious about finance, but a stable 1 in 6 were 'Ambitious risk takers'

A consistent 87% of SMEs said their plans were based on what they could afford and a stable 62% were being cautious with their plans because the future felt uncertain.

55% felt put off from applying by the increase in interest rates and 35% of SMEs believed it would be quite difficult for a business like theirs to get finance, the latter more of an issue for small SMEs, those with a worse than average risk rating, those in Construction and Starts. It was also higher for those already using external finance.

33% of SMEs were happy to use finance to grow, increasing by size of SME and with limited change over time.

More broadly, 44% of SMEs were prepared to take risks to be successful and 40% had a long term ambition to be a significantly bigger business. Those who agreed with both statements are the "Ambitious risk takers" and 27% of SMEs in 2023 met that definition (little changed over time despite the challenges faced).



Appetite for finance: Whilst need for finance remained limited, there was a return to funding for business development rather than cash flow. The role of the main bank has reduced for those looking to meet that need and whilst the majority of larger, more experienced SMEs got the funding they wanted, smaller SMEs were less likely to end the process with a facility.

Few SMEs reported a need for funding, but there was more appetite for funding for business development



4% of SMEs in 2023 reported having had a funding need, with limited variation by size of SME (4-5%) with the exception of those with 50-249 employees (2%).

Need for funding was 4% when first asked in 2018, increasing in 2020 to 9% and again in 2021 to 12%. This was not maintained subsequently and the 4% figure in 2023 is back in line with pre-pandemic years.

In 2023, just over half of those with a need for funding (56%) said that it was for business development purposes, while 4 in 10 said the need was cash flow related (43%). These are similar proportions to those pre-pandemic, whereas during the pandemic most application (8 in 10) related to cash flow.

Those with a funding need were less likely to apply than previously, with the main bank playing less of a role in the process



Fewer SMEs in 2023 with a need for funding initially spoke to their main bank, or indeed any other provider or advisor (29% v 40% or more in previous years).

50% of those that did anything about their need for funding had a borrowing event somewhere, 19% decided to fund all or part of it themselves and 12% decided not to take any funding. 22% were still deciding what to do, twice the level typically seen.

Compared to previous years, fewer SMEs had a borrowing event (pre-pandemic around 6 in 10 did) and fewer had a borrowing event at the main bank (25% did, compared to 47% in 2022), the lowest level since 2019 when 29% had a borrowing event at the main bank.

Applications made Q3 2022 to Q4 2023 were typically for a loan, and made to a known provider though not always the main bank



48% of the applications reported were made to the main bank and a further 14% to another provider known to the business. 20% were made to a new provider, 9% to an online platform and 9% were made elsewhere.

41% of applications were for a bank loan (and a further 10% for a loan from another provider, recorded separately), a further decrease from the pandemic peak in the 18 months to Q4 2021 when 61% of all applications were for a bank loan. 18% were for a bank overdraft, up from 7%.

50%

of all applications made in the current period were successful



50% of applications reported resulted in a facility, 7% were offered something but chose not to take it and 43% were declined.

Application success increased markedly by size of SME from 40% of applications from those with 0 employees to 88% of the small group of applications from those with 50-249 employees.

Success rates were lower for first time applicants (37%) than for those who had borrowed before (73%), and for those applying to their main bank (42%) compared to another existing provider (77%) or a new provider (52%).

40% of those applying for a bank loan were successful, with 55% declined while 42% of those applying for a bank overdraft were successful, with 44% declined (and 14% turning down the facility offered to them). This contrasts with the 88% success rates for leasing/hp (base sizes preclude analysis of other products).

Those who were unsuccessful were typically told it was due to a lack of track record and/or current business performance with 6 in 10 seeing some action from the lender, whether to explain and/or ask for more information or offer the referral or appeals process.

After the 'boost' from the Government backed schemes, success rates declined, but this change did not affect all SMEs equally



Immediately prior to the pandemic, in the 18 months to Q4 2019, 71% of all applications were successful and 26% were declined.

The launch of government backed funding increased the success rates for the 18 months to Q4 2020 to 85% and the 18 months to Q4 2021 to 82%, with declines falling to 12% and 16% respectively.

In the next period, for the 18 months to Q4 2022, a lower proportion of applications were successful (59%), with 40% declined and the interim figures for the latest 18 months to Q4 2023 reinforced that position (50% successful and 43% declined).

Accepting that the pandemic distorted the market, a comparison between applications in the 18 months to Q4 2019 and the 18 months to Q4 2023 showed that success rates for applications from 0 employee SMEs have dropped more markedly, by 23 percentage points from 63% to 40%, than success rates for larger applicants. These too are lower (by between 6 and 14 points) but in all cases 7 in 10 or more were successful with their application in the current period.

Looking back, most SMEs have been Happy non-seekers of finance but future appetite for finance has increased



In the previous 12 months, 11% of SMEs had a borrowing event, 4% had wanted to apply but something stopped them (the Would-be seekers) and most, 85%, had been Happy non-seekers of finance.

Looking forward, 10% were planning to apply, 21% expected to be a Future would-be seeker and 69% expected to be a Future Happy non-seeker of finance.

There has been an increase in FWBS since the pandemic, with smaller SMEs continuing to be more likely to meet the definition. The key barrier to a future application remained a reluctance to borrow now, (74% of Future would-be seekers), predominantly because of the general economic climate rather than the predicted performance of the business in that environment.

Amongst those planning to apply,

7 in 10

wanted funding for business development while

3 in 10

were confident a bank would lend to them

In 2023, 68% of those planning to apply wanted the funds for business development, such as to fund expansion in the UK, while 34% were looking for funding to aid cashflow. During the pandemic, application plans were weighted in favour of cash flow, but the plans for 2023 were more in line with applications being planned in 2019.

For 2023 as a whole, 48% of all SMEs were confident of success if they were to apply for (possibly hypothetical) finance, lower than the 6 in 10 that were usually confident of success pre-pandemic. Future happy non-seekers, with no plans to apply, remained the most confident (53%) compared to 32% planning to apply for finance and 38% of Future Would-be seekers.





3. Using this report





3. Using this report

As well as the overall SME market, key elements have been analysed by a number of other factors where sample sizes permit. Typically, nothing will be reported on a base size of less than 100 – where this has been done an asterisk * highlights the care to be taken with a small base size. If appropriate, a qualitative or indicative assessment has been provided where base sizes are too small to report.

Much of the analysis is by size of business, based on the number of employees (excluding the respondent). This is because research has repeatedly shown that SMEs are not a homogenous group in their need for external finance, or their ability to obtain it, and that size of business can be a significant factor. The employee size bands used are the standard bands of 0 (typically a sole trader), 1-9, 10-49 and 50-249 employees.

Where appropriate, analysis has also been provided by sector, age of business or other relevant characteristics including external risk rating. This was supplied, for almost all completed interviews, by the sample providers Dun & Bradstreet and Experian. Risk ratings are not available for 11% of respondents, typically the smallest ones. Dun & Bradstreet and Experian use slightly different risk rating scales, and so the Experian scale has been matched to the Dun & Bradstreet scale as follows:

| D&B | Experian |
|-----------------|--|
| 1 Minimal | Very low/Minimum |
| 2 Low | Low |
| 3 Average | Below average |
| 4 Above average | Above Average/High/Maximum/Serious Adverse Information |



● Using this report

It is also possible to show many results by sector. The table below shows the share of each sector, from 3% (Agriculture) to 28% (Property/Business Services) of all SMEs, and the proportion in each sector in 2023 that are 0 employee SMEs.

| | Sector | % of all SMEs | % of sector that are 0 emp |
|----|---|---------------|----------------------------|
| AB | Agriculture, Hunting and Forestry; Fishing | 3% | 67% |
| D | Manufacturing | 5% | 73% |
| F | Construction | 18% | 83% |
| G | Wholesale and Retail Trade; Repairs | 10% | 57% |
| H | Hotels & Restaurants | 4% | 42% |
| I | Transport, Storage and Communication | 13% | 81% |
| K | Real Estate, Renting and Business Activities | 28% | 76% |
| N | Health and Social work | 7% | 87% |
| O | Other Community, Social and Personal Service Activities | 12% | 88% |

Analysis over time

This report is based predominantly on four waves of data gathered Q1 to Q4 2023. In all four waves, SMEs were asked about their past behaviour during the previous 12 months, so there is an overlap in the time period each wave has reported on. These year-ending figures are defined by the date of **interview**, i.e. all interviews conducted in the year concerned.

Where results can be shown by individual quarter over time, they have been, and this was especially important for years like 2020 and 2021 where trading conditions could change on an almost weekly basis. However, small sample sizes for some lines of questioning mean that in those instances data is reported based on four quarters combined (YEQ4 2023 in this report). This provides a robust sample size and allows for analysis by key sub-groups such as size, sector, or external risk rating.

Each report also comments on changes in demand for credit and the outcome of applications over time. Here, it is more appropriate to analyse results based on when the **application** was made, rather than when the interview was conducted. The extensive changes made to the questionnaire for Q1 2018 mean that base sizes for applications made were initially limited. In this report the most recent analysis is based on applications made between Q3 2022 and Q4 2023 and reported during that period.

The exception to the approach outlined above, apart from when a new question has been introduced, is in the latter stages of the report where SMEs were asked about their planned future behaviour. In these instances, where we are typically reporting expectations for the next three months, comparisons are made between individual quarters as each provides an assessment of SME sentiment for the coming months and the comparison is an appropriate one.

Not all of the previous quarters are shown in the standard quarterly tables in this report. Quarterly data prior to Q4 2021 is no longer routinely shown, nor is annual data prior to 2016, and subsequent reports will continue this policy of deleting the oldest wave before adding the latest.

However, a series of key charts have been developed and included in the final chapter of this report which show all results over a longer time for key metrics.

Definitions used in this report

Over time, a number of definitions have been developed for different SMEs and some standard terms are commonly used in this report. The most frequently used are summarised below:

SME size – this is based on the number of employees (excluding the respondent). Those with more than 249 employees were excluded from the research.

External risk profile – this is provided by the sample providers (Dun & Bradstreet and Experian). Risk ratings are not available for a minority of respondents, typically the smallest ones. D&B and Experian use slightly different risk rating scales, and so the Experian scale has been matched to the D&B scale as shown at the start of this chapter.

Fast growth – SMEs that report having grown by 20% or more each year, for each of the past 3 years (definition updated Q4 2012).

Use of external finance – SMEs were asked whether they were currently using any of the following forms of finance: Bank overdraft, Credit cards, Bank loan, Commercial mortgage, Leasing or hire purchase, Loans/equity from directors, Loans/equity from family and friends, Invoice finance, Grants, Loans from other 3rd parties, Export/import finance, crowd funding, asset based lending, or any other loan or overdraft facility. From Q1 2023 this has also included those still repaying Government backed pandemic funding.

Permanent non-borrower – SMEs that seem firmly disinclined to borrow because they meet all of the following conditions: are not currently using external finance, have not used external finance in the past 5 years, have had no borrowing events in the past 12 months, have not applied for any other forms of finance in the last 12 months, said that they had had no desire to borrow in the past 12 months and reported no inclination to borrow in the next 3 months. From Q1 2023 this has also excluded those who applied for/took pandemic funding.

Borrowing event – there are now 5 main types of borrowing event recorded on the SME Finance Monitor:

- Type 1a: Where a need for funding resulted in a borrowing event (involving any product and any provider).
- Type 1b: Where the SME had (also) applied for any other new or renewed facility, from a list of major products.
- Type 1c: Any other application made and not already mentioned.
- Where the SME's overdraft had been automatically renewed. Type 2/3 events: Where the SME or the finance provider had sought to cancel or re-negotiate a facility before it was due to be repaid.

Would-be seeker – those SMEs that had not had a borrowing event and said that something had stopped them applying for funding in the previous 12 months (definition revised in Q1 2018 – the question is now asked for all borrowing not just loans and overdrafts, but the question wording has not changed).

Happy non-seeker – those SMEs that had not had a borrowing event, and also said that nothing had stopped them applying for any (further) funding in the previous 12 months (definition revised in Q1 2018).

Issues – something that needed further discussion before a loan or overdraft facility was agreed, typically the terms and conditions (security, fee, or interest rate) or the amount initially offered by the bank.

Principle of borrowing – where an SME did not (or, looking ahead, will not) apply to borrow because they feared they might lose control of their business, or preferred to seek alternative sources of funding.

Process of borrowing – where an SME did not (or, looking ahead, will not) apply to borrow because they thought it would be too expensive, too much hassle etc.

Discouragement – where an SME did not (or, looking ahead, will not) apply to borrow because it had been put off, either directly (they made informal enquiries of the bank and felt put off) or indirectly (they thought they would be turned down by the bank so did not enquire). From 2022, this has also included those SMEs who ‘self-discouraged’ because they felt they already had as much borrowing as the business could take.

Major obstacle – SMEs were asked to rate the extent to which each of a number of factors were perceived as obstacles to their running the business as they would wish in the next 12 months, using a 1 to 10 scale. Ratings of 8-10 are classed as a major obstacle.

Future happy non-seekers – those that said they would not be applying to borrow (more) in the next three months because they said that they did not need to borrow (more) or already had the facilities they needed.

Future would-be seekers – those that felt that there were barriers that would stop them applying to borrow (more) in the next three months (such as discouragement, the economy or the principle or process of borrowing).

Average – the arithmetic mean of values, calculated by adding the values together and dividing by the number of cases.

Median – a different type of average, found by arranging the values in order and then selecting the one in the middle. The median is a useful number in cases where there are very large extreme values which would otherwise skew the data, such as a few very large loans or overdraft facilities.



4. The general context

THIS CHAPTER PRESENTS

an overview of the characteristics of SMEs in the UK. Unless otherwise stated, figures are based on all interviews conducted in the year ending Q4 2023 (YEQ4 23).





4. The general context

KEY FINDINGS

Levels of profitability are returning to pre-pandemic levels, with some respite for the previously struggling Transport and Hotel & Restaurant sectors, but not for younger SMEs:

- In 2023, 77% of SMEs (excl DK answers) reported making a profit in the previous 12 months, increasing by size of SME from 76% of those with 0 employees to 91% of those with 50-249 employees.
- This represents an increase in profitability post-pandemic (in 2021, 65% reported making a profit) with most back to levels seen pre-pandemic (78% reported a profit in 2018), although this was more the case for larger SMEs than smaller ones.
- The most recent increase from 73% reporting a profit in 2022 to 77% in 2023 was seen most markedly amongst the largest SMEs and also for the previously struggling Hotel & Restaurant and Transport sectors, bringing them more in line with their peers.
- 4 in 10 SMEs in H2 2023 said that improving profit margins was a key priority, a further decline, in challenging trading conditions, from the 58% of SMEs that saw this as a priority in 2021.

77%
of SMEs made
a profit

A stable 3 in 10 SMEs (excluding Starts) in 2023 reported having grown, above the 18% achieving growth in 2021, but not yet back to the 4 in 10 that typically grew pre-pandemic. Meanwhile 1 in 3 reported a decline, still firmly above pre-pandemic levels for smaller SMEs:

- 29% of SMEs in 2023 reported having grown, increasing by size from 26% of those with 0 employees to 48% with 10-49 employees and 45% with 50-249 employees – a marked increase for this latter group from the 25% that had grown in 2022. Those trading for 2-5 years were also more likely to have grown (42%), declining by age of SME to 25% of those trading for more than 15 years.



● The general context

- Growth in 2023 was higher than the 18% reporting growth in 2021, and with a further improvement for the previously struggling sectors of Hotels & Restaurants and Transport. However, it was little changed from 2022 (27%) remaining below the 4 in 10 typically reporting growth pre-pandemic and this is true across all main demographics.
- Immediately pre-pandemic around 1 in 5 SMEs reported a decline (19% in 2019). During the pandemic this increased markedly, to 56% in 2021 and whilst fewer SMEs are now reporting a decline (33% in 2023) this was little changed from 2022 (37%) and still clearly above pre-pandemic levels. It is more of an issue for the smallest SMEs where 37% reported a decline in 2023, reducing by size to 11% of those with 50-249 employees and it declines amongst 0 and 1-9 employee SMEs that are keeping the overall figure above pre-pandemic levels. Despite the trading challenges, the proportion of SMEs achieving scale.
- Despite the trading challenges, the proportion of SMEs achieving scale up growth (3 consecutive years of 20%+ growth in the last 10) has been stable since 2020 (24% in 2023) and slightly above the 20% seen immediately pre-pandemic. However, fewer SMEs now report that this level of growth was achieved in the last 3 years, with more citing pre-pandemic trading in the past 10 years.

Since 2021, a third of SMEs have held £10,000 or more of credit balances (34% in 2023), with larger SMEs more likely to hold such sums. In 2023 the sums held represented a slightly lower proportion of (increasing) turnover than was seen 2021-22:

- 34% of SMEs in 2023 reported holding £10k or more in credit balances, increasing by size from 28% of those with 0 employees to 93% with 50-249 employees. Those with a minimal risk rating or in Property/Business Services were more likely to hold such sums.
- This proportion has been stable since 2021, following the increase seen from 23% to 33% of SMEs holding such sums between 2018 and 2021.
- In 2023 the sums held were the equivalent of 29% of SME turnover on average, or 3.5 months 'cover'. This is slightly lower than the 36-37% seen across 2021 and 2022 due to an increase in average turnover while sums held remained more stable.

29%

had grown, still not back to the 4 in 10 that grew per-pandemic

There has been a small but steady increase in SMEs trading internationally. A stable 1 in 10 were exporting, with a quarter making half or more of all sales overseas and 4 in 10 saying they were reliant on overseas sales to achieve their overall targets:

- 20% of all SMEs were international, with the smallest SMEs less likely to trade overseas (18% of those with 0 employees increasing with size to 39% of those with 50-249 employees). Whilst there has been little change year on year, the longer term trend is for a small but steady increase, from 14% trading internationally in 2016 to 20% currently, seen across all size bands. Those in Wholesale/Retail and Manufacturing remained the most likely to be trading internationally.
- A stable 10% of SMEs exported, increasing by size from 9% of those with 0 employees to 24% of those with 50-249 employees.
- 27% of exporters said that half or more of their overall sales came from overseas with limited variation by size of exporter. This was slightly higher than previously seen (20% in 2022 and around 1 in 5 in most years) due to more smaller exporters saying exports made up more than half of their sales.
- A new question for 2023 found that 40% of exporters felt they were very or fairly reliant on their overseas sales to achieve their overall sales targets, increasing to 53% of exporters with 50-249 employees and 88% of those where exports made up more than half of their overall sales.

Levels of innovation and planning in 2023 were little changed from 2021, but there has been something of an increase in the proportion of SMEs with a qualified person in charge of the finances:

- 42% of all SMEs had innovated, increasing by size of business from 39% of those with 0 employees to 63% of those with 50-249 employees. During the pandemic, there was a marked increase in innovation, from 35% in 2019 to 42% in 2020 which has been maintained since.
- 54% of SMEs planned, increasing by size of business from 50% of those with 0 employees to most, 89%, of those with 50-249 employees. This has changed little in the past few years but remains somewhat lower than pre-pandemic (60% planned in 2019), due in part to fewer SMEs having a business plan.
- 33% of SMEs had a financially qualified person looking after their finances, increasing by size of SME: 29% of 0 employee SMEs had a financial specialist compared to 79% of those with 50-249 employees. There has been a steady increase in this proportion over time, from 23% having a finance specialist in 2016 to 33% in 2023.

More SMEs were trading internationally

The boost to levels of innovation during the pandemic has been maintained

1 in 4 employers were struggling to recruit, with a similar proportion reporting a recruitment freeze, but with key differences by size of employer. Of the 1 in 10 that employed staff from overseas, a minority reported issues with migration rules and/or retention of such staff:

- 24% of employers had no plans to recruit in the next 12 months while as many, 23%, said they were struggling to hire the new staff they need. Analysis by size showed that whilst smaller employers with 1-9 employees were as likely to have no plans to recruit as to be struggling to find staff, those with more employees were much more likely to report recruitment struggles than a freeze (33% v 13% for employers with 50-249 employees).
- The proportion with a recruitment freeze has increased slightly from H2 2022 when 17% reported a recruitment freeze, seen fairly evenly across most demographics. The proportion struggling to recruit was more stable overall (26% in H2 2022) and across most demographics, with the exception of the largest SMEs where the proportion struggling to recruit declined from 46% to 33%, albeit still above average.
- 11% of employees had staff from overseas, unchanged from 2022 but markedly lower than the 23% that had such staff in H2 2017 when this question was first asked. 16% of international employers felt that the rules on employing overseas staff were negatively impacting the business and 13% were struggling to retain overseas colleagues, both with limited variation by size of employer.

Levels of trust in the main bank appear unaffected by the pandemic. Very few SMEs had switched main bank in 2023, while 8% had an account away from the main bank. An increasing minority said they wished they had a more active relationship with their main bank:

- 57% of SMEs reported a high level of trust in their bank, increasing slightly by size to 64% of those with 50-249 employees (albeit this is down from 72% in 2022).
- Trust in the main bank increased during the pandemic (from 55% in 2019 to 60% in 2021 and 2022), particularly amongst smaller SMEs, with little change since and very few reported a low level of trust (13% in 2023).

33%

of larger employers were struggling to recruit the staff they need

1 in 4

SMEs wished they had a more active relationship with their bank

● The general context

- The proportion switching their main bank account also remained limited (3%) but a new question in H2 2023 showed that 8% of SMEs had accounts away from their main bank, with 6% of SMEs holding another current account and 2% holding a deposit account elsewhere. There was limited variation by size, but SMEs trading internationally were more than twice as likely to hold such accounts (16%).
- In Q1 2023, 18% of SMEs said they had a strong working relationship with their bank. The biggest single group, 55% of SMEs, said the relationship was fine, but transactional, which left 27% wishing they had an active relationship with their bank, up from 15% in 2020 and 20% in Q1 2022, having previously remained fairly stable.
- Those more likely to wish they had a more active relationship in Q1 2023 included those with 0 employees (29%), those with a minimal risk rating (32%), those planning to apply for finance (32%) and those trading for 6-9 years (36%).

Overall, 6 in 10 SMEs were in a good mood about their business, little changed from 2022 and a marked improvement on the pandemic years:

- 59% of SMEs were in a good mood about their business, increasing by size of SME from 58% of those with 0 employees to 79% of those with 50-249 employees.
- This was little changed from 2022 (when 58% were in a good mood) and maintains the progress seen from Q2 2020 when this question was first asked and 25% were in a good mood.

**A stable
6 in 10
were in a good mood
about their business**

However around 1 in 5 SMEs, especially those who were smaller or younger, described themselves as 'Struggling' and such SMEs were more likely to have been impacted by increased costs and less likely to feel the future offers opportunities. They were also more likely to be using external finance and to be planning to apply:

- In a new question for 2023, SMES rated themselves from 'Struggling' to 'Well off' based on the way in which their monthly revenue did or did not cover their needs.
- 18% of SMEs described themselves as 'Struggling' ranging from 19% of those with 0 employees to 3% of those with 50-249 employees (where half were Well off / Comfortable). Almost a quarter of Starts (22%) and those trading for 2-5 years (23%) were 'Struggling', along with a similar proportion in Hotels & Restaurants and Wholesale/Retail. Compared to their peers, SMEs that were 'Struggling' were more likely to have been impacted by increasing costs (70% v 42% overall), less likely to feel the future offers opportunities (8% v 31%) and more likely to be using external finance (53% v 46% overall) including 23% still repaying government backed pandemic funding (v 18% overall). They were also twice as likely as SMEs overall to be planning to apply for (more) finance (16% v 8%).

**Smaller and younger
SMEs are more likely
to be part of the
18%
of SMEs that were
'Struggling'**

4 The general context

This chapter presents an overview of the characteristics of SMEs in the UK. Unless otherwise stated, figures are based on the 17,010 interviews conducted in the year ending Q4 2023 (that is the four quarters of 2023). SMEs have faced a range of trading challenges since the SME Finance Monitor started back in 2011, as economic conditions varied, General Elections and the Brexit referendum were held and the UK left the EU, but perhaps nothing quite as all-encompassing as the Covid-19 pandemic which, from March 2020, saw a series of lockdowns and other restrictions across the UK and the wider world. As the immediate impact of the pandemic abated, SMEs faced new challenges around inflation, possible recession and the impact of conflicts in Ukraine and, more recently, the Middle East. Analysis of this data over time provides an indication of how SMEs have managed as trading conditions have changed.

Profitability

In Q4 2023, two thirds of SMEs (67%) reported making a profit in their most recent 12 month trading period. The proportion unable or unwilling to give an answer has varied over time (currently around 1 in 10) and once these answers had been excluded, three quarters of SMEs in Q4 2023 reported making a profit (76%), above levels in 2021-2022 and much closer to the 8 in 10 typically reported pre-pandemic:

| Business performance last 12 months | | | | | | | | | |
|-------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Over time | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| By date of interview | 2021 | 2022 | 2022 | 2022 | 2022 | 2023 | 2023 | 2023 | 2023 |
| Unweighted base: | 4085 | 4250 | 4250 | 4250 | 4252 | 4252 | 4253 | 3910 | 4595 |
| Made a profit | 53% | 57% | 62% | 60% | 60% | 61% | 70% | 68% | 67% |
| Broke even | 7% | 6% | 7% | 6% | 8% | 8% | 6% | 5% | 8% |
| Made a loss | 18% | 18% | 16% | 14% | 14% | 13% | 10% | 16% | 14% |
| DK/refused | 21% | 20% | 16% | 20% | 18% | 18% | 13% | 11% | 12% |
| Median profit made | £11k | £12k | £12k | £11k | £12k | £13k | £13k | £13k | £12k |
| Made profit (excl DK) | 68% | 70% | 73% | 75% | 73% | 74% | 81% | 76% | 76% |

Q115 (241) All SMEs/ * All SMEs making a profit and revealing the amount

Note that because consistently unprofitable SMEs tend to go out of business, there will be an element of 'survivorship bias in the profit figures, potentially underestimating the proportion of unprofitable businesses in the population.

4 The general context

For the period YEQ4 2023, 67% of all SMEs had been profitable. This increased to 77% once the DK answers were excluded, up from 65% in 2021 and much closer to the 79% recorded for YEQ4 2020. The proportion making a profit increased by size of SME (once the DK answers were removed), as did the amount of profit (or indeed loss) made, as the table below shows.

The median profit, where made, was £13k, and the median loss £4k. Both have increased slightly since 2019, when the median profit made was £9k and the median loss made was £2k:

| Business performance last 12 months | | | | | |
|-------------------------------------|---------------|-------------|-------------|--------------|--------------|
| YEQ4 23 – all SMEs | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
| Unweighted base: | 17,010 | 3472 | 6381 | 5267 | 1890 |
| Made a profit | 67% | 67% | 66% | 74% | 61% |
| Broke even | 7% | 7% | 7% | 3% | 2% |
| Made a loss | 13% | 14% | 12% | 6% | 4% |
| DK/refused | 13% | 13% | 15% | 17% | 33% |
| Made profit (excl DK) | 77% | 76% | 78% | 89% | 91% |
| Median profit made* | £13k | £11k | £26k | £109k | £294k |
| Median loss made* | £4k | £3k | £9k | £28k | £58k |

Q115 (241) All SMEs/ * All SMEs making a profit/loss and revealing the amount

Amongst SMEs with employees, 80% reported making a profit YEQ4 2023 (excluding the DK and refused answers), up from 71% in 2021, and again almost back to the 82% reporting making a profit YEQ4 2020.

4 The general context

Looking back over recent quarters, both overall and by size of SME, levels of profitability were somewhat higher in 2023 than in 2022, across all size bands, as the pandemic made less of an impact on annual results. Larger SMEs have consistently been more likely to be profitable than smaller ones, and this remained true in 2023:

| Made a profit in last 12 months | | | | | | | | | |
|---------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Over time | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Row percentages | 2021 | 2022 | 2022 | 2022 | 2022 | 2023 | 2023 | 2023 | 2023 |
| By date of interview | | | | | | | | | |
| All SMEs | 68% | 70% | 73% | 75% | 73% | 74% | 81% | 76% | 76% |
| 0 employee | 66% | 69% | 72% | 74% | 71% | 73% | 81% | 75% | 75% |
| 1-9 employees | 70% | 75% | 76% | 78% | 79% | 76% | 80% | 78% | 76% |
| 10-49 employees | 82% | 80% | 86% | 86% | 85% | 88% | 88% | 89% | 89% |
| 50-249 employees | 80% | 81% | 93% | 85% | 95% | 92% | 88% | 92% | 93% |

Q115 (241) All SMEs excluding DK

There continued to be some variation in profitability between sectors. YEQ4 2023, 80% of those in Property/Business Services and Construction made a profit compared to 66% in the Hotel & Restaurant sector that struggled so much in the pandemic (albeit this is higher than the 45% that made a profit in 2021):

| Business performance last 12 months | | | | | | | | | |
|-------------------------------------|-------------|-------------|-------------|----------------|---------------|-------------|--------------|--------------|---------------|
| YEQ4 23 – all SMEs | Agric | Mfg | Constr | Whle Retail | Hotel Rest | Trans | Prop/ Bus | Hlth SWrk | Other Comm |
| Unweighted base: | 983 | 1797 | 2737 | 2188 | 1177 | 1754 | 3682 | 984 | 1708 |
| Made a profit | 68% | 69% | 68% | 62% | 55% | 66% | 71% | 66% | 62% |
| Broke even | 9% | 9% | 7% | 8% | 10% | 8% | 5% | 8% | 7% |
| Made a loss | 12% | 11% | 10% | 15% | 18% | 12% | 13% | 11% | 17% |
| DK/refused | 11% | 11% | 15% | 15% | 16% | 14% | 11% | 15% | 15% |
| Made profit (excl DK) | 76% | 78% | 80% | 73% | 66% | 77% | 80% | 78% | 73% |
| Median profit made* | £12k | £11k | £14k | £11k | £11k | £12k | £15k | £11k | £10k |
| Median loss made* | £6k | £3k | £6k | £5k | £5k | £4k | £4k | £2k | £2k |

Q115 (241) All SMEs/ * All SMEs making a profit/loss and revealing the amount

4 The general context

Median profits reported for YEQ4 2023 (£13k overall) showed limited variation by sector (£10-12k) with the slight exception of Property/Business Services £15k and Construction £14k. Reported median losses for YEQ4 2023 were £4k overall, varying from £2-6k.

The table below takes a longer-term view of profitability (shown from 2016 and also excluding DK/refused answers) by key demographics. This shows that in pre-pandemic years a broadly stable 8 in 10 reported making a profit but in 2021 as the pandemic had more of an effect on annual results, the proportion reduced to 65% overall. There has been something of a recovery since, to 77% in 2023, much closer to typical pre-pandemic levels of profitability.

Larger SMEs and those with a minimal or low risk rating remained more likely to be profitable, as did those in Property/Business Services and Construction. The increase of 12 percentage points overall in the proportion making a profit between 2021 and 2023 was seen:

- Across all size bands but more markedly for those with 50-249 employees (+14 points to 91%)
- Across all risk ratings (+10 to +13)
- For those in the previous struggling Hotels & Restaurants and Transport sectors (+21 bringing them closer to the average) and for the Health sector (+20)
- PNBs remained more likely to have made a profit than non-PNBs but both saw a similar increase in the proportion making a profit 2021 to 2023
- Older SMEs have consistently been more likely to report a profit than younger ones. All saw a drop during the pandemic and whilst the proportion of older SMEs making a profit is now back in line with pre-pandemic years, it remains somewhat lower for those trading for up to 5 years.

4 The general context

| Made a profit in last 12 months | | | | | | | | |
|--|------------|------------|------------|------------|------------|------------|------------|------------|
| Over time (excl DK) | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| By date of interview – row percentages | | | | | | | | |
| All SMEs | 80% | 82% | 78% | 82% | 79% | 65% | 73% | 77% |
| 0 emp | 79% | 81% | 77% | 81% | 78% | 64% | 71% | 76% |
| 1-9 emps | 83% | 84% | 82% | 82% | 81% | 69% | 77% | 78% |
| 10-49 emps | 88% | 88% | 87% | 87% | 85% | 79% | 85% | 89% |
| 50-249 emps | 89% | 87% | 86% | 87% | 85% | 77% | 89% | 91% |
| Minimal external risk rating | 86% | 88% | 85% | 85% | 86% | 76% | 81% | 86% |
| Low | 86% | 90% | 84% | 88% | 87% | 73% | 81% | 86% |
| Average | 82% | 84% | 79% | 83% | 80% | 68% | 76% | 80% |
| Worse than average | 77% | 78% | 75% | 78% | 74% | 59% | 68% | 72% |
| Agriculture | 77% | 81% | 75% | 81% | 77% | 73% | 72% | 76% |
| Manufacturing | 81% | 83% | 81% | 81% | 81% | 68% | 76% | 78% |
| Construction | 81% | 86% | 79% | 85% | 80% | 70% | 77% | 80% |
| Wholesale/Retail | 82% | 79% | 75% | 76% | 78% | 65% | 71% | 73% |
| Hotels & Restaurants | 79% | 78% | 75% | 74% | 72% | 45% | 62% | 66% |
| Transport | 78% | 77% | 77% | 80% | 77% | 56% | 61% | 77% |
| Property/ Business Services | 81% | 84% | 80% | 84% | 83% | 70% | 79% | 80% |
| Health | 77% | 83% | 80% | 86% | 80% | 58% | 76% | 78% |
| Other | 79% | 79% | 78% | 78% | 73% | 65% | 70% | 73% |
| PNBs | 80% | 83% | 79% | 83% | 83% | 71% | 77% | 82% |
| All excl PNBs | 80% | 82% | 77% | 81% | 76% | 62% | 70% | 75% |
| Starts | 68% | 74% | 75% | 82% | 73% | 53% | 64% | 67% |
| 2-5 years trading | 80% | 80% | 76% | 76% | 79% | 66% | 68% | 70% |
| 6-9 years | 85% | 83% | 79% | 82% | 82% | 66% | 71% | 80% |
| 10-15 years | 83% | 88% | 79% | 85% | 83% | 69% | 79% | 81% |
| 15+ years | 84% | 85% | 80% | 83% | 80% | 69% | 76% | 81% |

Q115 (241) All SMEs excl DK

4 The general context

From Q1 2018, SMEs have been asked whether increasing their profit margin was a key priority for the business. This question was rested in H1 2023 to make space for other questions, but asked again in H2 2023, when 39% said it was a priority. This is lower than the 49% making it a priority for YE Q4 2022, which was itself lower than the 58% of SMEs in 2021 but back in line with the 39% of all SMEs making it a priority in 2019:

| Profit margins | Further analysis H2 2023 |
|---------------------------------|--|
| Size of SME | <p>SMEs with 50–249 employees remained the most likely to say improving profit margins was a priority, compared to 0 employee SMEs in particular, but all size bands were somewhat less likely to see it as a priority compared to 2021–22:</p> <p>37% of SMEs with 0 employees said it was a priority (from 47% in 2022)</p> <p>44% of SMEs with 1–9 employees (from 51%)</p> <p>55% of SMEs with 10–49 employees (from 52%)</p> <p>65% of SMEs with 50–249 employees said it was a priority (from 73%).</p> <p>46% of SMEs with employees said that improving profit margins was a key priority, down from 52% in 2022 and 66% in 2021 but in line with the 48% seeing it as a priority in 2019.</p> |
| Risk rating | <p>There was relatively little difference by risk rating in the proportion saying improving margins was a priority (39–42%) with the slight exception of those with an average risk rating (35%).</p> |
| Age of business | <p>Starts were no more likely than their peers to say this was a priority (43% in H2 2023), declining by age of business to 36% of those trading for more than 15 years. All age bands were somewhat less likely to say this was a priority in H2 2023 than they had been in 2021 or 2022, including Starts (43%, down from 57% in 2022 and 67% in 2021).</p> |
| Sector | <p>There was more slightly more variation by sector than was seen in 2022. Those in Manufacturing were the most likely to say that improving profit margins was a priority (51% and unchanged from 2022), compared to 23% in Health (half the 2022 level of 46%) and 36–44% for other sectors compared to 46–51% in 2022.</p> |
| PNBs, use of finance and growth | <p>Excluding the Permanent non-borrowers increased the proportion saying it was a priority to 44% (compared to 28% of PNBs), both lower than in 2022 (53% v 44%) or 2021 (61% v 53%).</p> <p>Improving profit margins was more of a priority for those using finance (44%), and those planning to grow in the next 12 months (50%), compared to 34% of those not using finance and 29% not planning to grow. As overall, all scores were lower than in 2021–22.</p> |
| Profitability | <p>Those who had made a profit in the last year were as likely to say that improving profit margins was a priority (39%) as those who had made a loss (39%) or those who had broken even (40%). These figures were also lower for all groups compared to 2021–22, but notably for those who had made a loss (60% had said it was a priority in 2021 compared to 46% in 2022 and 39% in H2 2023).</p> <p>Further analysis by size of SME also showed little difference by whether they had previously made a profit or loss.</p> |

4 The general context

The proportion of all SMEs saying that improving their profit margin was a priority initially increased over time, from 30% in 2018 to 58% in 2021, before declining to 49% in 2022, and 39% in H2 2023, back to 2019 levels. All sizes of SMEs were less likely to see this as a priority in 2023 compared to 2022, notably those with 0 or 1-9:

| Improving profit margins a priority | | | | | | |
|-------------------------------------|------------|------------|------------|------------|------------|------------|
| Over time | 2018 | 2019 | 2020 | 2021 | 2022 | H2 2023 |
| Row percentages | | | | | | |
| By date of interview | | | | | | |
| All SMEs | 30% | 39% | 52% | 58% | 49% | 39% |
| 0 employee | 28% | 36% | 49% | 55% | 47% | 37% |
| 1-9 employees | 34% | 47% | 60% | 65% | 51% | 44% |
| 10-49 employees | 40% | 53% | 69% | 69% | 52% | 55% |
| 50-249 employees | 51% | 42% | 66% | 80% | 73% | 65% |

Q84 (223) All SMEs

Sales growth

From Q4 2012, all SMEs that had been trading for 3 years or more were asked about their growth in the previous 12 months. From Q1 2018, the information collected on both past and future growth was extended to identify those growing or planning to grow by 40% or more (previously the highest growth rate recorded was 20% or more).

Those that had grown by 20% or more have continued to be asked whether they had also achieved this level of growth in each of the previous 2 years (part of the definition for scaleup growth described later in this chapter).

Pre-pandemic, typically around 4 in 10 SMEs (excluding Starts) reported that they had grown at all in the previous 12 months. When the pandemic started in 2020, the proportion reporting past growth initially held up (35% in Q1 and 33% in Q2) but declined more markedly from Q3 2020 (24%) as the pandemic made more of an impact on annual figures, to 13% in Q1 2021, the lowest levels seen on the SME Finance Monitor. By Q4 2021, the proportion reporting growth had increased somewhat to 25%, and while there has been some increase since, with 28% reporting growth in Q4 2022 and 30% in Q4 2023, this remains below pre-pandemic levels:

| Growth achieved in last 12 months | | | | | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| All SMEs excluding Starts By date of interview | Q4 2021 | Q1 2022 | Q2 2022 | Q3 2022 | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
| Unweighted base: | 3773 | 4025 | 3925 | 3876 | 3968 | 3937 | 4002 | 3699 | 4367 |
| Grown by more than 40% | 3% | 3% | 3% | 4% | 2% | 3% | 3% | 2% | 2% |
| Grown by 20-40% | 8% | 8% | 8% | 8% | 9% | 8% | 8% | 7% | 8% |
| Grown but by < 20% | 14% | 14% | 17% | 14% | 17% | 19% | 19% | 18% | 20% |
| Grown (any) | 25% | 24% | 29% | 26% | 28% | 30% | 30% | 28% | 30% |
| Stayed the same | 31% | 31% | 35% | 38% | 39% | 37% | 39% | 36% | 38% |
| Declined | 44% | 45% | 36% | 36% | 33% | 33% | 31% | 37% | 32% |

Q81 (245a) All SMEs trading for 3 years or more excl DK

Pre-pandemic in 2019, the proportion of SMEs (excluding Starts) reporting that they had declined in the previous 12 months was around 1 in 5. During the second half of 2020, as fewer SMEs reported having grown, the proportion reporting a decline increased more markedly, to 61% in Q4 2020 and remained at that level for the first half of 2021. Since then, the proportion reporting a decline has itself declined, to 33% by Q4 2022, with little further change in 2023 (32% in Q4) and therefore still above levels seen pre-pandemic.

4 The general context

29% of all SMEs (excluding Starts) had grown YEQ4 2023, increasing by size of SME. These larger SMEs were much less likely than their smaller peers to report a decline and as a result whilst SMEs overall were as likely to report a decline as to have grown, this was very much due to the performance of 0 employee SMEs:

| Growth achieved in last 12 months | | | | | |
|---------------------------------------|---------------|-------------|-------------|-------------|-------------|
| YEQ4 23 – all SMEs (excluding Starts) | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
| Unweighted base: | 16,005 | 3205 | 5951 | 5015 | 1834 |
| Grown by more than 40% | 3% | 2% | 3% | 3% | 2% |
| Grown by 20-40% | 8% | 7% | 11% | 14% | 13% |
| Grown by less than 20% | 19% | 17% | 22% | 32% | 30% |
| Grown (any) | 29% | 26% | 36% | 48% | 45% |
| Stayed the same size | 37% | 37% | 38% | 36% | 43% |
| Declined | 33% | 37% | 26% | 15% | 11% |
| Net change (grown – declined) | -4 | -11 | +10 | +33 | +34 |

Q81 (245a) All SMEs trading for 3 years or more excl DK

By sector, the proportion that had grown ranged from 23% in Health to 32% in Transport. Most sectors were more likely to have declined than grown, notably Health where 23% had grown and 38% had declined:

| Growth achieved in last 12 months | | | | | | | | | |
|-----------------------------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|-------------|
| YEQ4 23 – all SMEs | Agric | Mfg | Constr | Whle Retail | Hotel Rest | Trans | Prop/ Bus | Hlth SWrk | Other Comm |
| Unweighted base: | 944 | 1691 | 2597 | 2027 | 1080 | 1676 | 3487 | 929 | 1574 |
| Grown by more than 40% | 1% | 2% | 2% | 2% | 2% | 4% | 3% | 2% | 3% |
| Grown by 20-40% | 8% | 7% | 7% | 10% | 6% | 9% | 8% | 7% | 7% |
| Grown by less than 20% | 18% | 20% | 19% | 19% | 18% | 19% | 19% | 14% | 19% |
| Grown (any) | 27% | 29% | 29% | 31% | 26% | 32% | 29% | 23% | 30% |
| Stayed the same size | 47% | 33% | 44% | 35% | 37% | 34% | 38% | 39% | 30% |
| Declined | 26% | 38% | 27% | 34% | 37% | 34% | 32% | 38% | 40% |
| Net change | +1 | -9 | +2 | -3 | -11 | -2 | -3 | -15 | -10 |

Q81 (245a) All SMEs trading for 3 years or more excl DK

4 The general context

Analysis by age of business showed that those trading for 2-5 years were the most likely to have grown (42%) and the least likely to have declined (26%), giving a net 'score' of +16. The proportion that had grown declined by age of business to 25% of those trading for more than 15 years, while the around 1 in 3 in each of these older age bands had declined, leading to negative scores for those trading for 10 years or more:

| Growth achieved in last 12 months | | | | | |
|---------------------------------------|---------------|-------------|-------------|-------------|-------------|
| YEQ4 23 – all SMEs (excluding Starts) | Total | 2-5yrs | 6-9 yrs | 10-15 yrs | 15 yrs+ |
| Unweighted base: | 16,005 | 1317 | 1622 | 3132 | 9934 |
| Grown by more than 40% | 3% | 5% | 4% | 2% | 2% |
| Grown by 20-40% | 8% | 16% | 9% | 8% | 5% |
| Grown by less than 20% | 19% | 21% | 22% | 18% | 18% |
| Grown (any) | 29% | 42% | 35% | 28% | 25% |
| Stayed the same size | 37% | 32% | 32% | 35% | 41% |
| Declined | 33% | 26% | 33% | 36% | 34% |
| Net change (grown – declined) | -4 | +16 | +2 | -8 | -9 |

Q81 (245a) All SMEs trading for 3 years or more excl DK

4 The general context

Comparisons to previous years are provided later in this section, while the table below looks at growth patterns in 2023 by other key demographics:

| Business Growth | Further analysis (excluding Starts) YE Q4 23 |
|----------------------|---|
| Risk rating | <p>There was little to choose between risk ratings for the proportion growing by more than 40% (2-3%) or by 20-40% (6-9%). Overall, the proportion growing at all ranged from 27% for those with an average risk rating to 32% of those with low risk rating.</p> <p>There was slightly more variation in terms of the proportion that had declined, ranging from 26% of those with a minimal risk rating to 34% of those with either an average or worse than average risk rating.</p> <p>Overall those with a minimal (+3) or low (+1) risk rating had a positive net score, while those with an average (-7) or a worse than average rating (-3) had a negative net score</p> |
| Appetite for finance | <p>There was limited difference in growth by appetite for finance: 23% of Would-be seekers, who had wanted to apply but something had stopped them, reported having grown compared to 30% of those who reported a borrowing event in the 12 months prior to interview and 29% of those that had been a Happy non-seeker of finance. The Would-be seekers remained more likely to report a decline (49%) than those that reported an event (37%) or the Happy non-seekers (32%).</p> <p>As a result Would-be seekers had a net score of -26, compared to -7 for those reporting a borrowing event and -3 for those that had been a Happy non-seeker of finance.</p> <p>Permanent non-borrowers (with no immediate appetite for finance) were as likely to have grown by 20% or more as those who did not meet the definition (9% v 11%) and also to have grown at all (28% v 30% that did not meet the definition). PNBs were slightly less likely to have declined than their peers (30% v 35%), resulting in a net score of -2 compared to -5 for those who did not meet the definition.</p> |

4 The general context

The table below takes a longer term view of growth by key demographics and shows that:

- Pre-pandemic a broadly consistent 4 in 10 SMEs (excluding Starts) reported having grown in each period to 2019 (37%), reducing during the pandemic to 27% in 2020 and with a further reduction in 2021 to 18%.
- In 2022, there was an increase in the proportion that had grown, to 27%, and a further very slight increase to 2023 (29%), still clearly below pre-pandemic levels
- All groups were more likely to be reporting growth in 2023 than 2021 (29% v 18% overall), and this was especially true for larger SMEs with 10-49 or 50-249 employees, for the sectors that had struggled particularly in the pandemic of Transport and Hotels & Restaurants as well as those trading for between 2 and 9 years.
- Overall though, this performance left SMEs in 2023 10 points behind the proportion that had grown in 2018 (29% v 39% overall), with the 'gap' widest for those with 50-249 employees (despite the improvement in 2023) and for those in Health

4 The general context

| Growth achieved in last 12 months | | | | | | | | |
|--|------------|------------|------------|------------|------------|------------|------------|------------|
| All SMEs over time (excluding Starts) | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| By date of interview – row percentages | | | | | | | | |
| All SMEs (excl Starts) | 40% | 42% | 39% | 37% | 27% | 18% | 27% | 29% |
| 0 emp | 37% | 39% | 35% | 33% | 25% | 17% | 25% | 26% |
| 1-9 emps | 48% | 47% | 46% | 43% | 32% | 21% | 32% | 36% |
| 10-49 emps | 55% | 56% | 55% | 54% | 38% | 26% | 42% | 48% |
| 50-249 emps | 55% | 59% | 65% | 66% | 37% | 21% | 25% | 45% |
| Minimal external risk rating | 45% | 46% | 40% | 39% | 31% | 18% | 25% | 29% |
| Low | 43% | 43% | 41% | 39% | 31% | 19% | 27% | 32% |
| Average | 37% | 40% | 36% | 34% | 25% | 16% | 25% | 27% |
| Worse than average | 41% | 42% | 41% | 40% | 27% | 18% | 28% | 31% |
| Agriculture | 36% | 40% | 33% | 37% | 26% | 23% | 24% | 27% |
| Manufacturing | 45% | 41% | 41% | 35% | 33% | 21% | 29% | 29% |
| Construction | 36% | 41% | 34% | 34% | 23% | 16% | 23% | 29% |
| Wholesale/Retail | 47% | 45% | 45% | 41% | 33% | 20% | 29% | 31% |
| Hotels & Restaurants | 44% | 45% | 42% | 40% | 21% | 8% | 24% | 26% |
| Transport | 39% | 36% | 38% | 35% | 21% | 14% | 27% | 32% |
| Property/ Business Services | 41% | 43% | 40% | 37% | 30% | 21% | 29% | 29% |
| Health | 34% | 43% | 43% | 47% | 33% | 19% | 24% | 23% |
| Other | 42% | 42% | 41% | 36% | 28% | 16% | 28% | 30% |
| PNBs | 39% | 40% | 37% | 34% | 27% | 18% | 26% | 28% |
| All excl PNBs | 41% | 44% | 42% | 40% | 27% | 18% | 28% | 30% |
| 2-5 years trading | 47% | 53% | 58% | 53% | 40% | 25% | 38% | 42% |
| 6-9 years | 48% | 51% | 45% | 42% | 31% | 18% | 31% | 35% |
| 10-15 years | 39% | 41% | 35% | 39% | 27% | 18% | 27% | 28% |
| 15+ years | 34% | 34% | 31% | 29% | 22% | 16% | 23% | 25% |

Q81 (245a) All SMEs trading for 3 years or more excl DK

4 The general context

When the growth question was first asked in 2012, 21% of SMEs (excluding Starts) reported a decline in turnover. This proportion then declined itself to 12% in 2015 and remained around 1 in 10 until 2018 when 17% reported a decline. The table below shows the trend in declines in turnover since then by key demographics:

- In 2019, immediately before the pandemic, 19% reported a decline, increasingly markedly to 37% in 2020 and then to 56% in 2021 (when 18% reported having grown).
- In 2022, the proportion was back in line with 2020 at 37% but with only a slight improvement for 2023 (33%) the proportion of SMEs (excluding Starts) that have declined remains clearly above per-pandemic levels.
- Overall, the proportion of SMEs that have declined is 23 percentage points lower than it was at the peak in 2021 (33% v 56%), with the most marked improvements for larger SMEs, and also those in Hotels & Restaurants and Transport who struggled more in the pandemic and were much more likely to have reported a decline in 2021.
- Despite this improvement, levels of decline in 2023 remained 16 percentage points above those seen back in 2018. A similar 'gap' between 2018 and 2023 was seen across most demographics, with the exception of the larger SMEs where there is very little 'gap' and declines are now at a similar level to 2018, and those in the Hospitality and the Other Community sectors where the gap is wider at 22 percentage points.

4 The general context

| Declined in last 12 months | | | | | | |
|--|------------|------------|------------|------------|------------|------------|
| All SMEs over time (excluding Starts) | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| By date of interview – row percentages | | | | | | |
| All SMEs (excl Starts) | 17% | 19% | 37% | 56% | 37% | 33% |
| 0 emp | 19% | 21% | 39% | 57% | 40% | 37% |
| 1-9 emps | 12% | 15% | 34% | 52% | 31% | 26% |
| 10-49 emps | 8% | 10% | 28% | 44% | 20% | 15% |
| 50-249 emps | 13% | 8% | 28% | 41% | 16% | 11% |
| Minimal external risk rating | 13% | 15% | 29% | 50% | 28% | 26% |
| Low | 15% | 15% | 32% | 52% | 32% | 31% |
| Average | 18% | 23% | 41% | 57% | 39% | 34% |
| Worse than average | 17% | 18% | 38% | 58% | 38% | 34% |
| Agriculture | 14% | 14% | 28% | 38% | 29% | 26% |
| Manufacturing | 18% | 20% | 32% | 53% | 37% | 38% |
| Construction | 15% | 18% | 33% | 49% | 37% | 27% |
| Wholesale/Retail | 14% | 18% | 36% | 54% | 39% | 34% |
| Hotels & Restaurants | 15% | 20% | 52% | 77% | 44% | 37% |
| Transport | 19% | 19% | 47% | 64% | 42% | 34% |
| Property/ Business Services | 18% | 20% | 37% | 53% | 34% | 32% |
| Health | 14% | 8% | 35% | 56% | 34% | 38% |
| Other | 18% | 21% | 40% | 64% | 41% | 40% |
| PNBs | 15% | 17% | 32% | 49% | 34% | 30% |
| All excl PNBs | 18% | 21% | 41% | 60% | 40% | 35% |
| 2-5 years trading | 10% | 12% | 34% | 49% | 33% | 26% |
| 6-9 years | 15% | 13% | 38% | 62% | 40% | 33% |
| 10-15 years | 16% | 19% | 37% | 56% | 36% | 36% |
| 15+ years | 20% | 23% | 39% | 55% | 38% | 34% |

Q81 (245a) All SMEs trading for 3 years or more excl DK

Scaleup growth

In 2022, 11% of SMEs (excluding Starts) reported that they had grown by 20% or more in the previous 12 months, ranging from 9% of those with 0 employees to 17% of those with 10-49 employees. This proportion was up from 7% in 2021 and broadly in line with the 9% of SMEs typically reporting such levels of growth previously.

Amongst those who reported for YEQ4 2023 that they had grown by 20% or more, just under half (46%) went on to report that they had also achieved this level of growth for each of the two previous years (almost back in line with the 49% reported in 2020 and the 52% reported in 2019).

- This is the equivalent of 5% of all SMEs (excluding Starts) reporting having grown by 20% or more for the last 3 years (4% of 0 employee SMEs and 7-9% of those with employees)

From Q1 2018, an additional question has been asked of the remaining SMEs (excluding Starts) that had not achieved scale up growth in the last 3 years. This asked whether they had achieved scale up growth (3 consecutive years growth at 20% or more) at any time in the last 10 years.

- 20% of these SMEs said that they had, ranging by size from 15% of such SMEs with 50-249 employees to 24% of those with 1-9 employees.

This means that overall, 24% of all SMEs (excluding Starts) had achieved a period of scale up growth, either recently or in the last 10 years, a proportion unchanged from 2022 and in line with the 25% in 2021 and the 23% in 2020. Note though that most of these scaleups qualified due to their performance in the last 10 years rather than the last two (i.e. reflecting their performance pre-pandemic).

The table below shows the proportion of scaleups, using this revised definition, by key demographics from 2018:

- In 2023, SMEs with 1-9 or 10-49 employees remained the most likely to meet the definition of a scaleup. Over time, the largest SMEs with 50-249 employees have become somewhat more likely to meet the definition (now 21%) than previously.
- There remained little to choose by risk rating (22-25%).
- In previous years there had been no difference by whether the business met the definition of a Permanent non-borrower or not, but since 2020 PNBs have been somewhat less likely than their peers to have scaled (21% v 26% in 2023).
- With the exception of Agriculture (17%) and Hotels & Restaurants (19%) there was also limited difference by sector (20-26%).
- SMEs trading for 6-9 or 10-15 years remained the most likely to have scaled (29% and 30%) and above levels seen in 2018-19. The oldest SMEs were less likely to have scaled than their peers (21%), but this was a slightly higher proportion of these older SMEs than in 2018-19.

4 The general context

| Achieved scale up growth in last 10 years | | | | | | |
|---|------------|------------|------------|------------|------------|------------|
| All SMEs over time (excluding Starts) | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| By date of interview – row percentages | | | | | | |
| All SMEs (excl Starts) | 20% | 20% | 23% | 25% | 24% | 24% |
| 0 emp | 18% | 19% | 21% | 24% | 23% | 22% |
| 1-9 emps | 25% | 23% | 27% | 28% | 27% | 29% |
| 10-49 emps | 25% | 19% | 26% | 29% | 30% | 29% |
| 50-249 emps | 17% | 12% | 19% | 18% | 15% | 21% |
| Minimal external risk rating | 18% | 16% | 23% | 24% | 23% | 24% |
| Low | 20% | 20% | 23% | 24% | 24% | 22% |
| Average | 19% | 20% | 20% | 25% | 26% | 24% |
| Worse than average | 20% | 21% | 24% | 26% | 24% | 25% |
| Agriculture | 15% | 16% | 16% | 21% | 17% | 17% |
| Manufacturing | 23% | 21% | 21% | 23% | 25% | 20% |
| Construction | 19% | 18% | 22% | 24% | 24% | 25% |
| Wholesale/Retail | 21% | 20% | 24% | 25% | 24% | 25% |
| Hotels & Restaurants | 22% | 15% | 24% | 24% | 20% | 19% |
| Transport | 20% | 21% | 24% | 28% | 27% | 26% |
| Property/ Business Services | 21% | 23% | 23% | 25% | 24% | 26% |
| Health | 13% | 12% | 20% | 24% | 23% | 20% |
| Other | 18% | 19% | 24% | 25% | 28% | 23% |
| PNBs | 19% | 19% | 19% | 22% | 20% | 21% |
| All excl PNBs | 21% | 20% | 25% | 27% | 28% | 26% |
| 2-5 years trading | 25% | 22% | 24% | 22% | 22% | 23% |
| 6-9 years | 19% | 20% | 29% | 30% | 28% | 29% |
| 10-15 years | 22% | 24% | 25% | 29% | 30% | 30% |
| 15+ years | 17% | 17% | 19% | 23% | 22% | 21% |

Q81/83x All SMEs excl Starts

4 The general context

Analysis of these Scaleups showed that they remained more likely than their peers who hadn't scaled to have been innovative (56%), international (27%), or ambitious (51% planned to grow). They were also more likely than their peers to be using external finance (55%) and to have a future appetite for finance (10%), so were less likely to meet the definition of a Permanent non-borrower (28%):

| Profile of Scaleups | | | |
|-------------------------------------|---------------|-------------|---------------|
| YEQ4 23 – all SMEs excluding Starts | Total | Scaleup | Not scaleup |
| Unweighted base: | 16,440 | 4378 | 12,062 |
| Have employees | 25% | 30% | 23% |
| Use external finance | 49% | 55% | 47% |
| Permanent non-borrower | 33% | 28% | 34% |
| Innovative | 42% | 56% | 38% |
| International | 20% | 27% | 18% |
| Plan to grow | 39% | 51% | 35% |
| Plan to apply for finance | 7% | 10% | 6% |
| Future would-be seeker | 19% | 19% | 19% |
| Future happy non-seeker | 74% | 71% | 74% |

All SMEs trading for 3 years or more

Past and future growth comparisons

The Monitor records both past growth achieved and future growth expectations. This allows a comparison to be made between growth expectations recorded at a point in time and growth subsequently achieved, albeit that these are based on **different** samples of SMEs.

The table below shows the proportion of SMEs 3+ years old that predicted they would grow in the first time period, and compares it to the proportion of SMEs 3+ years old that reported having achieved growth in the second period. Historically, the predicted and actual growth figures were close, but unsurprisingly this has not been the case since 2020.

In 2023, SME growth continued to fall short of that predicted for them in 2022. In Q4 2023, 30% of those 3+ years old reported growth compared to the prediction of 36% from Q3 2022, and this 'gap' was experienced by both larger and smaller SMEs:

| Growth predictions against expectations | | | | | | |
|---|---------------------|--------------------|---------------------|--------------------|---------------------|--------------------|
| All SMEs excluding Starts By date of interview | All SMEs | All SMEs | 0-9 emps | 0-9 emps | 10-249 emps | 10-249 emps |
| | Predicted growth | Achieved growth | Predicted growth | Achieved growth | Predicted growth | Achieved growth |
| Predicted Q4 15/Achieved Q1 17 | 43% | 38% | 42% | 38% | 60% | 53% |
| Predicted Q4 16/Achieved Q1 18 | 42% | 42% | 41% | 41% | 61% | 57% |
| Predicted Q4 17/Achieved Q1 19 | 40% | 33% | 39% | 31% | 67% | 56% |
| Predicted Q4 18/Achieved Q1 20 | 44% | 34% | 42% | 33% | 67% | 50% |
| Predicted Q4 19/Achieved Q1 21 | 45% | 13% | 43% | 12% | 70% | 18% |
| Predicted Q4 20/Achieved Q1 22 | 37% | 24% | 36% | 24% | 46% | 36% |
| Predicted Q1 21/Achieved Q2 22 | 37% | 29% | 36% | 28% | 49% | 41% |
| Predicted Q2 21/Achieved Q3 22 | 48% | 26% | 47% | 26% | 58% | 41% |
| Predicted Q3 21/Achieved Q4 22 | 41% | 28% | 40% | 27% | 54% | 39% |
| Predicted Q4 21/Achieved Q1 23 | 36% | 30% | 35% | 29% | 55% | 47% |
| Predicted Q1 22/Achieved Q2 23 | 39% | 30% | 38% | 29% | 58% | 49% |
| Predicted Q2 22/Achieved Q3 23 | 38% | 28% | 37% | 27% | 58% | 47% |
| Predicted Q3 22/Achieved Q4 23 | 36% | 30% | 35% | 29% | 54% | 49% |

Q81 and 91 (225a and Q245a) All SMEs trading for 3 years or more excl DK

Financial Risk Profile

The main assessment of financial risk is the external risk rating supplied for the sample by ratings agencies Dun & Bradstreet and Experian. They use a range of business information to predict the likelihood of business failure and their ratings have been combined to a common 4 point scale from a minimal risk of failure to a worse than average risk of failure. Although not all SMEs receive this external risk rating, most do (89%) and it is commonly used and understood by lenders. It has thus been used in this report for all risk related analysis.

The overall risk profile over recent quarters is shown below. Typically 7% of SMEs had a minimal risk rating and this has changed very little over recent quarters. Just under half have typically had a worse than average risk rating – but the proportion has been closer to 40% in a number of recent quarters:

| External risk rating | | | | | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| All SMEs (where provided) over time By date of interview | Q4 2021 | Q1 2022 | Q2 2022 | Q3 2022 | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
| Unweighted base: | 3570 | 3880 | 3991 | 3982 | 3938 | 3985 | 3980 | 3639 | 4249 |
| Minimal risk | 6% | 7% | 7% | 6% | 8% | 8% | 8% | 7% | 7% |
| Low risk | 15% | 15% | 13% | 14% | 17% | 14% | 15% | 17% | 14% |
| Average risk | 38% | 37% | 35% | 33% | 32% | 31% | 34% | 34% | 35% |
| Worse than average risk | 41% | 41% | 45% | 46% | 43% | 47% | 43% | 42% | 44% |

All SMEs where risk rating provided

4 The general context

Looking over the longer term, the proportion of SMEs with a worse than average risk rating dropped to just below 50% for 2014 and has remained there since, with the 44% with such a rating in 2022 and 2023 at the lower end of the range seen in recent years. The proportion with a minimal or low external risk rating increased from 16% in 2012 to 25% in 2015 and has been broadly stable since, typically 21-22%:

| External risk rating | | | | | | | | |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| (Where provided) over time | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| By date of interview | | | | | | | | |
| Unweighted base: | 16,451 | 16,608 | 16,598 | 16,297 | 16,352 | 14,917 | 15,791 | 15,853 |
| Minimal risk | 7% | 6% | 7% | 7% | 6% | 7% | 7% | 7% |
| Low risk | 15% | 15% | 16% | 16% | 15% | 14% | 15% | 15% |
| Average risk | 29% | 33% | 30% | 33% | 32% | 37% | 34% | 33% |
| Worse than average risk | 49% | 45% | 47% | 44% | 47% | 42% | 44% | 44% |

All SMEs where risk rating provided

The risk ratings for YEQ4 2023 overall are shown below by size of SME and continue to report a better risk profile for larger SMEs. 7 in 10 SMEs with either 10-49 or 50-249 employees had a minimal or low risk rating compared to 16% of those with 0 employees:

| External risk rating | | | | | |
|--|---------------|-------------|-------------|-------------|-------------|
| YEQ4 23 – all SMEs where rating provided | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
| Unweighted base: | 15,853 | 3090 | 5770 | 5149 | 1844 |
| Minimal risk | 7% | 4% | 14% | 29% | 31% |
| Low risk | 15% | 12% | 21% | 40% | 40% |
| Average risk | 33% | 35% | 30% | 25% | 23% |
| Worse than average risk | 44% | 49% | 35% | 6% | 5% |

All SMEs where risk rating provided

Amongst SMEs with employees, 42% had a minimal or low external risk rating, 29% an average risk rating and 30% a worse than average risk rating.

4 The general context

There was notable variation in risk profile by sector. SMEs in Agriculture remained more likely than all other sectors to have a minimal or low risk rating (53% YEQ4 2023 including 37% with a minimal risk rating). Those in Health (45%) were also more likely than other sectors to have a minimal/low rating, compared to 14% in the Hotel & Restaurant sector, 16% in Construction and the Other Community sectors and 21-25% elsewhere:

| External risk rating | | | | | | | | | |
|-------------------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|-------------|
| YEQ4 23 | Agric | Mfg | Constr | Whle Retail | Hotel Rest | Trans | Prop/ Bus | Hlth SWrk | Other Comm |
| Unweighted base: | 900 | 1709 | 2596 | 2029 | 1076 | 1631 | 3415 | 930 | 1567 |
| Minimal risk | 37% | 8% | 4% | 8% | 4% | 8% | 6% | 13% | 5% |
| Low risk | 16% | 17% | 12% | 17% | 10% | 14% | 15% | 32% | 11% |
| Average risk | 29% | 31% | 29% | 33% | 43% | 30% | 36% | 22% | 42% |
| Worse than average risk | 18% | 44% | 55% | 42% | 43% | 49% | 43% | 33% | 42% |
| Total Min/Low | 53% | 25% | 16% | 25% | 14% | 22% | 21% | 45% | 16% |

All SMEs where risk rating provided

The table below shows the proportion with a worse than average risk rating over time, by key demographics. Between 2013 and 2019 the proportion of SMEs with a worse than average risk rating fell from 54% to 44% and has been fairly stable since. In 2023, as in 2022, 44% had such a risk rating:

- As with all metrics, the overall risk profile is driven by the ratings for 0 employee SMEs. Amongst this group the proportion with a worse than average risk rating has typically varied between 50% and 60% over time. Since 2021 it has been somewhat lower than previously seen and was unchanged at 49% in 2023.
- The proportion of 1-9 employee SMEs with a worse than average rating has been stable since 2014 at around a third (35% in 2023). Amongst those with 10-49 and 50-249 employees a more consistent decline in the proportion with a worse than average risk rating was seen between 2012 and 2016 from around 1 in 7 to around 1 in 14 of such SMEs. There has been little change since then and they remained the least likely to have this rating (6% and 5% in 2023).
- With only a few exceptions (including 2021), PNBs have typically been as likely as other SMEs to have a worse than average risk rating and this was also the case in 2023 when there was almost no gap between the two groups (45% v 44%).
- SMEs in Construction (55%) were the most likely to have this risk rating, up from 45% in 2021 but in line with earlier years. Those in Agriculture remained the least likely to have such a rating (18%) and less likely than they had been in recent years when typically a quarter had this rating.
- Younger SMEs remained more likely to have a worse than average risk rating.

4 The general context

| Worse than average external risk rating | | | | | | | | |
|---|------------|------------|------------|------------|------------|------------|------------|------------|
| All SMEs over time | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| By date of interview – row percentages | | | | | | | | |
| All SMEs | 49% | 45% | 47% | 44% | 47% | 42% | 44% | 44% |
| 0 emp | 56% | 50% | 53% | 50% | 53% | 47% | 49% | 49% |
| 1-9 emps | 35% | 37% | 36% | 33% | 33% | 32% | 33% | 35% |
| 10-49 emps | 7% | 7% | 6% | 5% | 5% | 4% | 5% | 6% |
| 50-249 emps | 5% | 4% | 5% | 5% | 3% | 5% | 6% | 5% |
| Agriculture | 28% | 30% | 32% | 26% | 25% | 24% | 24% | 18% |
| Manufacturing | 38% | 39% | 42% | 40% | 40% | 36% | 33% | 44% |
| Construction | 57% | 54% | 51% | 48% | 55% | 45% | 52% | 55% |
| Wholesale/Retail | 44% | 43% | 40% | 41% | 47% | 40% | 36% | 42% |
| Hotels & Restaurants | 43% | 46% | 47% | 43% | 41% | 35% | 45% | 43% |
| Transport | 62% | 56% | 49% | 54% | 52% | 43% | 54% | 49% |
| Property/ Business Services | 49% | 42% | 52% | 45% | 47% | 43% | 41% | 43% |
| Health | 33% | 32% | 36% | 30% | 29% | 34% | 33% | 33% |
| Other | 50% | 43% | 49% | 43% | 51% | 46% | 48% | 42% |
| PNBs | 51% | 46% | 46% | 42% | 46% | 39% | 44% | 45% |
| All excl PNBs | 47% | 45% | 48% | 45% | 47% | 43% | 44% | 44% |
| Starts | 77% | 68% | 67% | 62% | 67% | 65% | 72% | 74% |
| 2-5 years trading | 67% | 64% | 71% | 70% | 65% | 63% | 69% | 69% |
| 6-9 years | 50% | 48% | 51% | 48% | 51% | 47% | 44% | 47% |
| 10-15 years | 39% | 36% | 37% | 35% | 41% | 34% | 39% | 38% |
| 15+ years | 29% | 27% | 29% | 26% | 30% | 26% | 27% | 27% |
| Using external finance | 44% | 43% | 46% | 45% | 43% | 41% | 41% | 43% |
| Not using finance | 52% | 47% | 48% | 43% | 49% | 42% | 45% | 45% |

All SMEs where risk rating provided

Credit balances

Almost all SMEs held some credit balances (noting that from Q2 2020 the wording was changed slightly from balances ‘usually’ held to balances ‘currently’ held). YEQ4 2023, 3% did not hold any, and this proportion has changed relatively little over time. The table below shows the credit balances held, with clear differences by size of SME, with 7 in 10 of the smallest SMEs holding less than £10,000 of credit balances, while over 8 in 10 of those with 50-249 employees held more than £50,000:

| Credit balances held | | | | | |
|-------------------------|-------------|-------------|-------------|-------------|-------------|
| YEQ4 23 – all SMEs | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
| Unweighted base: | 7218 | 1827 | 2964 | 1962 | 465 |
| None | 3% | 3% | 3% | 4% | 2% |
| Less than £5,000 | 47% | 52% | 33% | 11% | 3% |
| £5,000 to £10,000 | 16% | 17% | 12% | 6% | 3% |
| £10,000 to £50,000 | 23% | 22% | 28% | 17% | 11% |
| More than £50,000 | 11% | 6% | 24% | 62% | 82% |

Q117 (244) All SMEs excluding DK/refused

Immediately pre-pandemic around a quarter of all SMEs held £10,000 or more of credit balances, increasing to a third in 2021 and stable since. Between 2012 and 2015 the average credit balance held increased from £25,000 to £39,000. Apart from a slight ‘dip’ in 2016 (£30k), it has remained broadly stable since at around £40,000, with the slight exception of 2022 (£48,000):

| Credit balances held | | | | | | | | |
|-----------------------------|---------------|---------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Over time – all SMEs | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| Unweighted base: | 10,730 | 10,950 | 9494 | 9641 | 8265 | 7283 | 6421 | 7218 |
| None | 3% | 4% | 4% | 4% | 6% | 6% | 3% | 3% |
| Less than £5,000 | 57% | 51% | 55% | 55% | 49% | 44% | 44% | 47% |
| £5,000 to £10,000 | 18% | 19% | 18% | 17% | 17% | 17% | 19% | 16% |
| £10,000 to £50,000 | 15% | 17% | 15% | 16% | 20% | 23% | 23% | 23% |
| More than £50,000 | 6% | 8% | 7% | 8% | 9% | 11% | 11% | 11% |
| Average balance held | £30k | £37k | £38k | £38k | £42k | £45k | £48k | £41k |

Q117 (244) All SMEs excluding DK/refused

4 The general context

Having increased to almost £3,500 for YEQ4 2022, the median value of credit balances held was somewhat lower YEQ4 2023 at £2,500, with variations seen as usual by size of SME:

- £2,300 for 0 employee SMEs
- £9,000 for 1-9 employee SMEs
- £62,000 for 10-49 employee SMEs
- £253,000 for 50-249 employee SMEs

The median value of credit balances continued to vary little by sector (£2-4k) with the slight exception of those in Property/Business Services (£5k).

Since 2021, a third of SMEs have held £10,000 or more of credit balances (34% in 2023). The table below shows, on an annual basis, the proportion of SMEs holding such credit balances, by key demographics and how this has changed over time:

- The proportion of all SMEs with £10,000+ of credit balances increased from 16% in 2012 to 24% in 2015 and remained broadly stable to 2019. The proportion then increased again, to 35% in 2022 which was maintained in 2023 (34%) with limited changes year on year by size band and the largest SMEs remaining the most likely to hold such balances.
- Those with a minimal risk rating were more likely to hold such sums (58%), down slightly from the 63% with such sums in 2021. The same pattern was seen for those with a low risk rating (48% from 54%). Whilst those with an average or worse than average risk were less likely than their peers to hold £10,000 or more of credit balances the 31% and 27% with such funds in 2023 were markedly higher than pre-pandemic (22% and 15% respectively in 2019).
- There was no clear pattern by sector. Those in Property/Business Services were the most likely to hold such sums in 2023 (41%) while those in the Other Community (22%) or Health (19%) sectors remained both less likely to hold such sums than their peers and also less likely than they had been to hold such sums in 2022. Those in Manufacturing and Wholesale/Retail also saw a more marked drop in credit balances in 2023 compared to 2022
- There remained limited difference by whether the SME was a PNB or not (both 34% in 2023). The proportion with such credit balances increases slightly by age of SME, but the differences were less marked than pre-pandemic when older SMEs were twice as likely as younger ones to hold such sums.

4 The general context

| Hold £10,000 or more | | | | | | | | |
|--|------------|------------|------------|------------|------------|------------|------------|------------|
| All SMEs over time (excl DK) | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| By date of interview – row percentages | | | | | | | | |
| All SMEs | 22% | 25% | 23% | 23% | 28% | 33% | 35% | 34% |
| 0 emp | 14% | 18% | 15% | 16% | 21% | 25% | 28% | 28% |
| 1-9 emps | 41% | 44% | 42% | 44% | 50% | 55% | 56% | 52% |
| 10-49 emps | 72% | 73% | 75% | 76% | 79% | 83% | 83% | 79% |
| 50-249 emps | 82% | 90% | 91% | 94% | 90% | 94% | 95% | 93% |
| Minimal external risk rating | 42% | 48% | 49% | 51% | 62% | 63% | 60% | 58% |
| Low | 46% | 45% | 41% | 43% | 52% | 54% | 53% | 48% |
| Average | 23% | 25% | 24% | 22% | 28% | 32% | 34% | 31% |
| Worse than average | 15% | 17% | 14% | 15% | 20% | 24% | 28% | 27% |
| Agriculture | 26% | 26% | 22% | 25% | 30% | 36% | 43% | 34% |
| Manufacturing | 25% | 29% | 28% | 28% | 29% | 34% | 39% | 28% |
| Construction | 17% | 21% | 18% | 18% | 23% | 31% | 30% | 37% |
| Wholesale/Retail | 34% | 36% | 33% | 27% | 35% | 43% | 40% | 32% |
| Hotels & Restaurants | 27% | 30% | 33% | 30% | 33% | 39% | 35% | 33% |
| Transport | 17% | 19% | 24% | 23% | 26% | 32% | 38% | 38% |
| Property/ Business Services | 25% | 29% | 26% | 28% | 34% | 38% | 37% | 41% |
| Health | 13% | 15% | 15% | 20% | 19% | 21% | 29% | 19% |
| Other Community | 18% | 25% | 15% | 17% | 25% | 25% | 27% | 22% |
| PNBs | 19% | 23% | 23% | 28% | 28% | 35% | 36% | 34% |
| All excl PNBs | 24% | 27% | 22% | 21% | 29% | 32% | 33% | 34% |
| Starts | 11% | 18% | 11% | 10% | 16% | 19% | 28% | 31% |
| 2-5 years trading | 15% | 21% | 18% | 19% | 24% | 30% | 31% | 28% |
| 6-9 years | 22% | 20% | 21% | 24% | 33% | 31% | 33% | 32% |
| 10-15 years | 24% | 30% | 28% | 29% | 28% | 37% | 34% | 34% |
| 15+ years | 31% | 32% | 31% | 32% | 36% | 40% | 39% | 37% |

Q117 (244) All SMEs excluding DK/refused

4 The general context

The table below shows, on an annual basis, the proportion of SMEs holding more than £10,000 in credit balances, by use of external finance:

- In 2017, 31% of those using external finance held £10k or more of credit balances compared to 22% of those not using finance.
- There was then more variation but both groups have seen an increase in the proportion holding such balances over time and in 2022 and 2023, the groups were as likely as each other to hold such sums.

| Hold £10,000 or more | | | | | | | | |
|--|------------|------------|------------|------------|------------|------------|------------|------------|
| All SMEs over time (excl DK) | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| By date of interview – row percentages | | | | | | | | |
| All SMEs | 22% | 25% | 23% | 23% | 28% | 33% | 35% | 34% |
| Using external finance | 27% | 31% | 23% | 21% | 33% | 36% | 35% | 35% |
| Not using finance | 19% | 22% | 22% | 26% | 25% | 31% | 34% | 33% |

Impact of £10,000 of credit balances

From Q3 2015, all SMEs holding £10,000 or more of credit balances have been asked whether holding such balances meant that the business had less of a need for external finance. For YEQ4 2023, almost 9 in 10 SMEs with such credit balances (86% excl DK) agreed that it did, with limited variation by size of SME (81-89%).

This was the equivalent of 14% of all SMEs saying their need for external finance was lower due to the £10,000 or more of credit balances they held, increasing to 1 in 5 SMEs with employees (but note the high proportion of “Don’t know”/”Refused” answers across the questions used to construct this table):

| Impact of £10k+ of credit balances | | | | | |
|---|---------------|-------------|-------------|-------------|-------------|
| YEQ4 2023 – all SMEs | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
| Unweighted base: | 17,010 | 3472 | 6381 | 5267 | 1890 |
| £10k+ reduces need for external finance | 14% | 13% | 19% | 23% | 20% |
| £10k+ does not reduce need for finance | 2% | 2% | 5% | 6% | 3% |
| Hold less than £10k of credit balances | 32% | 36% | 21% | 6% | 1% |
| No credit balances/DK/Refused | 52% | 50% | 56% | 65% | 76% |

Q118x (244x) All SMEs

Those currently using external finance were no more likely to say that these credit balances reduced their need for further finance (15%) than those not currently using finance (14%).

Both those SMEs with £10,000 or more of credit balances and those using trade credit were asked (separately) whether this reduced their need for external finance:

- Where available, having £10,000 or more in credit balances was more likely to reduce the SME’s need for finance (86% YEQ4 2023) than having access to trade credit (59% – of a different group of SMEs).
- Overall, 33% of SMEs YEQ4 2023 said that their need for finance was reduced either through credit balances or trade credit, increasing by size of SME (29% for 0 employee SMEs, 45% for those with 1-9 employees, 60% for those with 10-49 employees), with the slight exception of those with 50-249 employees (55%).
- This was more likely to be the case for those using any external finance currently (40% v 27% if not using), and for those in Manufacturing and Construction (both 44%) and for those with a minimal (48%) or low (43%) risk rating, but there was little difference by age of SME (30-35%)
- The proportion of SMEs reporting a reduction in need for finance has been around 3 in 10 since 2016 and the 2023 figure of 33% was in line with recent years (31-34% since 2020)

4 The general context

The table below shows the actual use of external finance amongst those SMEs that held £10,000 or more in credit balances, over time from 2016.

Between 2012 and 2015, SMEs with £10,000 or more of credit balances became less likely to also be using any external finance (51% to 44%). Since then around half of SMEs with such credit balances have also been using external finance, with the slight exceptions of 2018 and 2022, and in 2023 the proportion was in line at 51%:

| Use of finance over time | | | | | | | | |
|-----------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Over time | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| All with £10k+ in credit balances | | | | | | | | |
| Unweighted base: | 5228 | 5804 | 5046 | 5243 | 4653 | 4500 | 3883 | 4094 |
| Use any external finance | 46% | 49% | 44% | 49% | 49% | 52% | 44% | 51% |
| Use core finance | 36% | 38% | 37% | 41% | 38% | 41% | 34% | 36% |
| Do not use finance | 54% | 51% | 56% | 51% | 51% | 48% | 56% | 49% |

The 49% of SMEs with £10,000 or more of credit balances that did not use any external finance in 2023 was back in line with 2019-2021.

Credit balances as a proportion of turnover

Further analysis provides data on the amount of credit balances held as a percentage of the annual turnover of the SME, using the mid-points of the bands in which this information was collected. This metric provides a guide for how much ‘cover’ an SME might have, if there were to be an issue with sales or getting paid.

As the table below shows, SMEs in 2023 held (on average) credit balances that were the equivalent of 29% of their turnover (i.e. 3.5 months ‘cover’), this was somewhat lower than in 2021-2022 but broadly in line with 2020.

The proportion holding credit balances that were the equivalent of 10% or less of turnover increased from 41% in 2016 to 53% in 2019, before declining to 1 in 3 for 2021 and 2022, but was slightly higher again at 41% in 2023:

| % credit balances to turnover | | | | | | | |
|--------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Over time – all SMEs | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| Unweighted base: | 9795 | 8161 | 7706 | 6654 | 6124 | 5213 | 6153 |
| <5% | 25% | 23% | 22% | 21% | 18% | 17% | 21% |
| 5-10% | 21% | 26% | 31% | 20% | 16% | 18% | 20% |
| 11-20% | 37% | 34% | 31% | 37% | 37% | 36% | 34% |
| 21-50% | 8% | 8% | 7% | 11% | 13% | 12% | 14% |
| More than 50% | 9% | 9% | 9% | 10% | 16% | 17% | 11% |
| Average percentage held | 23% | 24% | 24% | 26% | 37% | 36% | 29% |

Q117 (244) / Q9 All SMEs excluding DK/refused

Smaller SMEs with fewer than 10 employees (and typically lower turnover) remained more likely to hold the equivalent of a higher percentage of turnover as credit balances:

- 0 employee SMEs held the equivalent of 30% of their turnover in credit balances
- 1-9 employee SMEs held the equivalent of 28%
- 10-49 employee SMEs held the equivalent of 23%
- 50-249 employee SMEs held the equivalent of 20% of their turnover in credit balances.

4 The general context

These average percentage figures were broadly stable 2016-2020, before the increase in 2021-2022. In 2023, there was more of a decline in the average percentages held by smaller SMEs with 0 or 1-9 employees, resulting in the lower percentage of 29% seen overall:

| % credit balances to turnover | | | | | | | |
|--|------------|------------|------------|------------|------------|------------|------------|
| Over time | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| Average percentage held | | | | | | | |
| All SMEs (excluding DK/refused) | 23% | 24% | 24% | 26% | 37% | 36% | 29% |
| 0 employee | 24% | 25% | 24% | 26% | 38% | 36% | 30% |
| 1-9 employees | 21% | 20% | 24% | 23% | 34% | 34% | 28% |
| 10-49 employees | 20% | 23% | 23% | 22% | 25% | 26% | 23% |
| 50-249 employees | 17% | 17% | 22% | 21% | 18% | 15% | 20% |

Q117 (244) / Q9 All SMEs excluding DK/refused

Further analysis showed that:

- In 2021 the increase in the percentage of turnover held as credit balances to 37% was due to both the increase in the proportion of SMEs with £10k+ of credit balances (23% in 2019 to 33% in 2021) as well as a reduction in average turnover over the same period (from £299k to £251k).
- In 2022, the proportion of SMEs holding £10,000 or more of credit balances increased slightly to 35%, but average and mean turnover were also slightly higher (£269k and £35k), resulting in little change in the average percentage held (36%).
- In 2023, the proportion of SMEs holding £10,000 or more of credit balances was stable at 34% while average and mean turnover increased again (£286k and £46k), resulting in a lower average percentage held of 29%.

How SMEs are managed

Interviews were conducted with the main financial decision maker. In many cases, this person was also the owner, managing director, or senior partner.

A series of questions collected information about the structure and control of the business. Those reported below (including planning, trading internationally, and having someone in charge of the finances who was qualified) reflect their contribution to other areas of analysis such as applications for finance.

The table below shows that typically around half of SMEs had undertaken any business planning, while around 1 in 5 SMEs trade internationally, with limited changes over time. Back in Q4 2020, 46% reported innovative activity, higher than had been previously seen, but by Q4 2021 this figure was back to 36% (more in line with earlier years), with no clear pattern since, but typically at around 4 in 10. The proportion with a business mentor increased from around 1 in 10 SMEs to around 1 in 6 in Q4 2021 with little change since, while a broadly stable 3 in 10 had a qualified person in charge of the finances:

| Over time – all SMEs | | | | | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| By date of interview | Q4 2021 | Q1 2022 | Q2 2022 | Q3 2022 | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
| Unweighted base: | 4085 | 4250 | 4250 | 4250 | 4252 | 4252 | 4253 | 3910 | 4595 |
| Planning (any) | 55% | 55% | 53% | 51% | 53% | 56% | 54% | 53% | 55% |
| - Produce regular management accounts | 44% | 45% | 44% | 41% | 45% | 47% | 45% | 45% | 45% |
| - Have a formal written business plan | 27% | 25% | 23% | 26% | 23% | 23% | 24% | 21% | 24% |
| International (any) | 19% | 20% | 19% | 19% | 18% | 18% | 22% | 20% | 19% |
| - Export goods or services | 11% | 12% | 10% | 10% | 11% | 9% | 11% | 11% | 10% |
| - Import goods or services | 13% | 14% | 14% | 14% | 13% | 14% | 17% | 14% | 14% |
| Innovation (any) | 36% | 42% | 38% | 42% | 37% | 41% | 40% | 45% | 42% |
| -New product or service (last 3 yrs) | 18% | 20% | 17% | 20% | 17% | 18% | 22% | 22% | 21% |
| -Improved aspect of business | 30% | 38% | 33% | 37% | 33% | 37% | 35% | 39% | 36% |
| Mentors | 16% | 15% | 13% | 14% | 15% | 13% | 15% | 14% | 15% |
| Have qualified person in charge of finances | 30% | 34% | 30% | 27% | 29% | 30% | 33% | 34% | 35% |

Q84/129 (223/251) All SMEs

4 The general context

The table below provides further analysis by key demographics for 2023 as a whole. Larger SMEs and those with a minimal risk rating remained more likely to undertake these activities:

| Business Formality | Further analysis YEQ4 2023 |
|--------------------|--|
| Planning | <p>54% of all SMEs planned, increasing by size of business from 50% of those with 0 employees to most, 89%, of those with 50-249 employees.</p> <p>Levels of planning declined by age of business: 65% of Starts planned, declining to 48% of those trading for more than 15 years.</p> <p>Those with a minimal risk rating were the most likely to be plan (62%), while those with an average risk rating remained less likely to do so (51%).</p> <p>Planning was undertaken by 62% of SMEs in the Wholesale/Retail sector, 61% in the Hotel & Restaurant sector and 60% in Manufacturing, compared to 48% of those in Construction and 51-57% of other sectors.</p> |
| International | <p>20% of all SMEs were international, with the smallest SMEs less likely to trade overseas (18% of those with 0 employees, 23% of those with 1-9 employees, 32% of those with 10-49 employees and 39% of those with 50-249 employees).</p> <p>Those trading for 6-9 (23%) or 10-15 years (22%) were slightly more likely to be international, compared to 15-20% of other SMEs</p> <p>Those with a minimal or low risk rating were slightly more likely to be international (24% and 23%) compared to 19% of those with an average or worse than average risk rating.</p> <p>SMEs in Manufacturing (28%) and Wholesale/Retail (29%) remained more likely to be international, while SMEs in Hotels & Restaurants and Agriculture (both 9%) remained less likely. Amongst other sectors 11-24% were international.</p> |
| Innovation | <p>42% of all SMEs had innovated, increasing by size of business from 39% of those with 0 employees to 49% of those with 1-9 employees, 61% of those with 10-49 employees and 63% of those with 50-249 employees.</p> <p>Those trading for between 2 and 9 years were the most likely to have been innovative (52-54%), compared to 42% of Starts, 44% of those trading for 10-15 years and 37% of those trading for more than 15 years.</p> <p>There were limited difference by risk rating (43-46%) with the slight exception of those with an average risk rating (40%)</p> <p>SMEs in Construction (31%) remained less likely to have innovated, compared to 49% in Property/Business Services. Amongst other sectors 36-46% had innovated.</p> |

Continued

Continued

| | |
|----------------------|---|
| Financial specialist | <p>33% of SMEs had a financially qualified person looking after their finances. This became more likely as size increased: 29% of 0 employee SMEs had a financial specialist compared to 42% of those with 1-9 employees, 59% of those with 10-49 employees and 79% of those with 50-249 employees.</p> <p>There remained limited variation by age of business (30% for Starts and 29% trading for 2-5 years then 34-35% for all other age groups).</p> <p>Financial specialists remained more likely amongst those with a minimal (44%) or low (37%) risk rating, compared to 32% of those with an average rating and 31% of those with a worse than average risk rating.</p> <p>By sector, those in Property/Business Services (40%) remained the most likely to have a financial specialist, compared to 24% in Construction and 30-35% elsewhere.</p> |
| Mentors | <p>14% of SMEs used a mentor for business help and advice.</p> <p>The use of mentors increased by size of SME from 13% of those with 0 employees to 17% of those with 1-9 employees, and 24% of those with either 10-49 employees or 50-249 employees.</p> <p>Younger SMEs were slightly more likely to have a mentor (18% of Starts and 17% of those trading 2-5 years) compared to 12-15% of older SMEs. There was relatively little variation by sector (13-16%) with the exception of the Transport sector where 11% reported that they had a mentor.</p> <p>The presence of mentors varied slightly by risk rating: from 14% of those with a minimal risk rating to 16% with a low rating, 11% of those with an average and 15% of those with a worse than average risk rating.</p> |

The smallest SMEs remained less likely to undertake any of these activities. For YEQ4 2023, excluding the 0 employee SMEs saw the proportion of SMEs (with employees) who:

- Plan increase from 54% of all SMEs to 70% of those with employees
- Trade internationally increase from 20% to 25%
- Innovate increase from 42% to 52%
- Have a mentor increase from 14% to 18%
- Have a qualified person in charge of the finances increase from 33% to 45%.

4 The general context

Taking a longer term view back to 2016:

- The proportion that planned has varied relatively little over time (52-57%) with the slight exception of 2019 (60%) when more SMEs had a business plan.
- The proportion of SMEs that were international has increased very slightly over time and the 20% for 2023 is at the top of the range seen
- The proportion of SMEs that had been innovative declined 2012-2018 (from 40% to 33%) but increased back to 42% in 2020 and has been broadly stable since (42% in 2023).
- 3 in 10 SMEs had a financial specialist, stable since 2020.
- The proportion with a business mentor increased to 17% in 2021 but has been somewhat lower since (14% in both 2022 and 2023):

| Business formality elements | | | | | | | | |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Over time – all SMEs By date of interview | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| Unweighted base: | 18,000 | 18,012 | 18,002 | 18,000 | 17,768 | 16,486 | 17,002 | 17,010 |
| Planning (any) | 55% | 57% | 56% | 60% | 52% | 55% | 53% | 54% |
| - Produce regular management accounts | 41% | 43% | 41% | 40% | 43% | 46% | 44% | 46% |
| - Have a formal written business plan | 33% | 31% | 29% | 32% | 22% | 25% | 24% | 23% |
| International (any) | 14% | 16% | 15% | 16% | 16% | 18% | 19% | 20% |
| - Export goods or services | 8% | 10% | 9% | 9% | 10% | 11% | 11% | 10% |
| - Import goods or services | 10% | 11% | 10% | 11% | 11% | 12% | 14% | 15% |
| Innovation (any) | 36% | 34% | 33% | 35% | 42% | 41% | 40% | 42% |
| -New product or service (last 3 yrs) | 14% | 14% | 15% | 15% | 17% | 20% | 19% | 21% |
| -Improved aspect of business | 32% | 30% | 28% | 30% | 38% | 35% | 35% | 37% |
| Other elements: | | | | | | | | |
| -Have qualified person in charge of finances | 23% | 24% | 25% | 27% | 29% | 30% | 30% | 33% |
| -Have a mentor | 12% | 11% | 10% | 11% | 15% | 17% | 14% | 14% |

Q84/129 (223/251) All SMEs

4 The general context

International trade and innovation are relevant factors in SME performance and their contribution to the wider economy. Further analysis of these activities has therefore been undertaken over time and by key demographics.

The table on the next page shows the proportion of SMEs trading internationally since 2016. Back in 2012, 10% traded internationally, increasing to 17% in 2015 and, after a period of stability, the proportion has been slightly higher from 2021 (20% in 2023)

| International | Further analysis over time |
|-----------------|---|
| Size of SME | Compared to 2020, all sizes of SMEs were somewhat more likely to be trading internationally in 2023, with the biggest change for 0 employee SMEs (14% to 18%), though the larger SMEs remained more likely to be trading internationally than their smaller peers (39% of those with 50-249 employees) |
| Risk rating | Those with a minimal risk rating remained slightly more likely to be trading internationally (24% and stable since 2020) though since 2020 the gap has narrowed to those with a minimal risk rating (up to 23%) and increases too for those with an average or worse than average risk rating (both 19% in 2023) |
| Sector | Those in Manufacturing and Wholesale/Retail have consistently been more likely to be trading internationally than their peers. In 2023, 29% of those in Wholesale/Retail were trading internationally (stable over time) along with 28% of those in Manufacturing (down from 34% in 2022 but more in line with previous years). There was also another small increase for the Transport sector (to 21%) while those in Hotels & Restaurants (9%), Construction (11%) and Agriculture (9%) remained the least likely to be trading overseas. |
| PNBs | PNBs have become slightly more likely to be trading internationally (17% in 2023), but remained less likely to do so than their non-PNB peers (21%) |
| Age of business | <p>After a dip in 2019, Starts have become increasingly likely to be trading internationally (18% in 2023).</p> <p>Meanwhile:</p> <p>Those trading for 2-5 years have become slightly less likely to be trading internationally (15% in 2023, down from 20% in 2020).</p> <p>Those trading for 6-9 years have seen some variation in levels of international trade (12-23%) with the 2023 figure at the top of this range</p> <p>Those trading for 10-15 years have also seen some variation over time but the 22% figure for 2022 and 2023 was the highest seen recently. Levels of international trade amongst the oldest SMEs have typically been much more consistent over time (15-18%) but the 20% seen for 2023 was somewhat higher than previously seen</p> |

4 The general context

| International trade | | | | | | | | |
|---|------------|------------|------------|------------|------------|------------|------------|------------|
| All SMEs over time | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| By date of interview – row percentages | | | | | | | | |
| All SMEs | 14% | 16% | 15% | 16% | 16% | 18% | 19% | 20% |
| 0 emp | 12% | 14% | 13% | 13% | 14% | 16% | 17% | 18% |
| 1-9 emps | 18% | 20% | 20% | 22% | 21% | 22% | 23% | 23% |
| 10-49 emps | 25% | 28% | 27% | 30% | 30% | 31% | 31% | 32% |
| 50-249 emps | 30% | 31% | 29% | 31% | 37% | 36% | 31% | 39% |
| Minimal external risk rating | 18% | 22% | 20% | 22% | 24% | 22% | 22% | 24% |
| Low | 18% | 19% | 20% | 18% | 20% | 18% | 22% | 23% |
| Average | 15% | 16% | 14% | 14% | 14% | 17% | 17% | 19% |
| Worse than average | 11% | 15% | 13% | 15% | 16% | 18% | 18% | 19% |
| Agriculture | 10% | 10% | 8% | 10% | 9% | 12% | 10% | 9% |
| Manufacturing | 23% | 27% | 26% | 24% | 28% | 29% | 34% | 28% |
| Construction | 5% | 5% | 5% | 5% | 6% | 9% | 9% | 11% |
| Wholesale/Retail | 25% | 27% | 26% | 28% | 27% | 30% | 30% | 29% |
| Hotels & Restaurants | 6% | 7% | 8% | 9% | 8% | 7% | 5% | 9% |
| Transport | 12% | 14% | 14% | 14% | 16% | 16% | 19% | 21% |
| Property/ Business Services | 16% | 21% | 19% | 19% | 21% | 20% | 22% | 24% |
| Health | 9% | 8% | 7% | 9% | 9% | 12% | 14% | 15% |
| Other Community | 17% | 18% | 15% | 17% | 17% | 21% | 18% | 18% |
| PNB | 11% | 14% | 14% | 15% | 14% | 14% | 15% | 17% |
| All excl PNBs | 16% | 17% | 16% | 16% | 18% | 20% | 22% | 21% |
| Starts | 12% | 14% | 10% | 9% | 14% | 16% | 19% | 18% |
| 2-5 years trading | 13% | 18% | 16% | 17% | 20% | 18% | 18% | 15% |
| 6-9 years | 12% | 13% | 16% | 18% | 19% | 21% | 16% | 23% |
| 10-15 years | 13% | 17% | 14% | 20% | 16% | 19% | 22% | 22% |
| 15+ years | 16% | 17% | 16% | 16% | 16% | 17% | 18% | 20% |

Q84 (223) All SMEs

4 The general context

The table below shows the proportion of SMEs that have innovated since 2016 (planned future innovation can be found in the Future chapter). The overall proportion of SMEs that had innovated declined from 40% in 2012 to 33% in 2018 followed by an increase in 2020 to 42%, and stable since (currently 42%):

| Innovation | Further analysis over time |
|-----------------|--|
| Size of SME | Larger SMEs remained more likely to have innovated than smaller ones. All sizes of SME were more likely to have reported being innovative in 2023 than they were in 2019, especially the large ones. That said, levels of innovations for those with 50-249 employees declined 2022 to 2023 from 71% to 63% |
| Risk rating | <p>There was limited difference in innovation by risk rating. Those with a minimal risk rating have typically been the most likely to have been innovative, increasing to 49% in 2020 and whilst levels of innovation were somewhat lower in 2021 and 2022 (44% then 40%) an increase to 46% in 2023 placed them once again slightly ahead of those with a low risk rating (a stable 45% in 2023).</p> <p>Over time the gap to those with an average or worse than average risk rating has narrowed with both slightly more likely to report innovation in 2023 (40% and 43%) than they were in 2022 (37% and 41%).</p> |
| Sector | <p>Those in Construction (31%) remained the least likely to have innovated and with little change over time.</p> <p>Of the two sectors most likely to have innovated in 2023, those in Property/Business Services (49%) showed an increase on the higher levels of innovation seen since 2020, while those in the 'Other Community' sector (46%) returned to levels of innovation seen in 2020 and 2021</p> |
| PNBs | A fairly stable 1 in 3 PNBs had innovated (33% in 2023). Amongst other SMEs the proportion has fluctuated over time with the 47% that reported being innovative in 2023 at the upper end of the range seen |
| Age of business | <p>Innovation amongst Starts has been volatile over time, falling to 20% in 2019 before increasing to 42% in 2021 and more stable since (42% in 2023).</p> <p>Those trading for 2-5 years were the most likely to report innovation in 2023 (54%), up from 48% in 2020 and the highest level seen in recent years. Those trading for 6-9 years were almost as likely to report innovation in 2023 (52%), at the upper end of the range seen in recent years and higher than pre-pandemic.</p> <p>Older SMEs trading for 10-15 or more than 15 years were somewhat less likely to report innovation than some of their younger peers (44% and 37% in 2023) but the figures were still somewhat higher than for these SMEs pre-pandemic.</p> |

4 The general context

| Innovation | | | | | | | | |
|---|------------|------------|------------|------------|------------|------------|------------|------------|
| All SMEs over time | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| By date of interview – row percentages | | | | | | | | |
| All SMEs | 36% | 34% | 33% | 35% | 42% | 41% | 40% | 42% |
| 0 emp | 33% | 31% | 29% | 31% | 39% | 38% | 36% | 39% |
| 1-9 emps | 44% | 42% | 40% | 43% | 50% | 47% | 49% | 49% |
| 10-49 emps | 53% | 51% | 51% | 51% | 60% | 60% | 59% | 61% |
| 50-249 emps | 56% | 60% | 55% | 50% | 63% | 64% | 71% | 63% |
| Minimal external risk rating | 42% | 40% | 39% | 39% | 49% | 44% | 40% | 46% |
| Low | 42% | 37% | 36% | 39% | 45% | 40% | 45% | 45% |
| Average | 34% | 31% | 31% | 33% | 40% | 37% | 37% | 40% |
| Worse than average | 36% | 35% | 33% | 35% | 42% | 45% | 41% | 43% |
| Agriculture | 33% | 34% | 31% | 30% | 41% | 39% | 37% | 36% |
| Manufacturing | 42% | 44% | 41% | 40% | 44% | 47% | 45% | 45% |
| Construction | 28% | 27% | 23% | 25% | 31% | 30% | 29% | 31% |
| Wholesale/Retail | 43% | 42% | 40% | 45% | 48% | 44% | 40% | 45% |
| Hotels & Restaurants | 45% | 39% | 39% | 43% | 50% | 46% | 45% | 45% |
| Transport | 35% | 31% | 28% | 30% | 38% | 34% | 34% | 37% |
| Property/ Business Services | 39% | 35% | 35% | 36% | 46% | 45% | 46% | 49% |
| Health | 34% | 30% | 32% | 34% | 47% | 41% | 45% | 43% |
| Other Community | 37% | 36% | 37% | 41% | 47% | 47% | 42% | 46% |
| PNB | 32% | 31% | 30% | 34% | 35% | 35% | 36% | 33% |
| All excl PNBs | 41% | 36% | 35% | 35% | 47% | 44% | 44% | 47% |
| Starts | 35% | 36% | 24% | 20% | 39% | 42% | 37% | 42% |
| 2-5 years trading | 41% | 41% | 39% | 43% | 48% | 52% | 45% | 54% |
| 6-9 years | 38% | 30% | 40% | 43% | 50% | 45% | 48% | 52% |
| 10-15 years | 36% | 35% | 33% | 42% | 46% | 41% | 46% | 44% |
| 15+ years | 35% | 31% | 32% | 34% | 38% | 36% | 36% | 37% |

Q84 (223) All SMEs

4 The general context

From Q1 2014 questions have been asked on an occasional basis about whether the business holds intellectual property or other knowledge assets on its balance sheet such as patents, copyrights, trademarks, or goodwill (back in H1 2014, 6% did).

The latest figures for YEQ4 2023 showed that 11% of all SMEs held intellectual property or other knowledge assets on their balance sheet, increasing slightly by size from 10% of 0 employee SMEs and 15% of those with 1-9 employees, to 20% of those with either 10-49 employees or 50-249 employees.

There was limited difference by age of business (8% of Starts and 10-13% of other age bands) and a decrease by risk rating (16% to 9%). Those in Property/Business Services were more likely to hold such assets (16%), compared to 6% of those in Construction and 9-12% of other sectors.

How SMEs are managed – UK and international staff

24% of SMEs have employees. During the pandemic, questions were asked of employers around the use of the furlough scheme and the prospect of redundancies. During 2020 and 2021, around 1 in 6 employers was either planning to, or had made, staff redundant. Since then, various changes have been made to these questions, but from Q1 2023 a common set of questions has been asked of all employers.

The results for 2023 are shown below. Whilst very few were planning redundancies (3%), 1 in 4 employers had no plans to recruit in the next 6 months (24%). At the other end of the scale, a similar proportion of SME employers (23%) were struggling to find the new staff needed, increasing to 1 in 3 of those with 10-249 employees:

| Actions taken with staff | | | | |
|---|---------------|-------------|-------------|-------------|
| YEQ4 2023 – all employers | Total | 1-9 emps | 10-49 emps | 50-249 emps |
| Unweighted base: | 13,538 | 6381 | 5267 | 1890 |
| We will probably make redundancies in next 6 months | 3% | 3% | 4% | 2% |
| We have no plans to recruit in next 6 months | 24% | 24% | 21% | 13% |
| Struggling to hire new staff needed | 23% | 21% | 36% | 33% |
| None of these | 54% | 55% | 45% | 56% |

NSTAFF All SMEs with employees

4 The general context

Whilst overall employers in 2023 were as likely to say that they had no plans to recruit (24%) as they were to say they were struggling to recruit the staff they needed (23%), larger employers were much more likely to be struggling to recruit than have no plans to recruit (33% v 13% for those with 50-249 employees).

The analysis below presents data for these two metrics over time (accepting the wording change from 'freeze' to 'no such plans to').

Amongst SME employers, the proportion experiencing any restriction on recruitment increased slightly from 17% in H2 2022 to 24% in 2023. This increase was seen fairly evenly across key demographics, with the exception of those in the Other Community sector (from 17% to 28%) and PNBs (11% to 21%). Those least likely to be experiencing a restriction in 2023 included the largest employers (13%), those in the Health sector (17%) and Starts (19%)

The proportion of SME employers struggling to recruit was broadly stable from H2 2022 (26%) to 2023 (23%) and across key demographics, with the exception of the largest SMEs where the proportion struggling to recruit declined from 46% to 33%, albeit still above average. Those least likely to be struggling to recruit included those with 1-9 employees (21%), employers with a worse than average risk rating (19%), in Wholesale/Retail (19%) or meeting the definition of a Permanent non-borrower (16%).

The analysis below, for H2 2022 and 2023, identifies the types of employer most likely to have no plans to recruit in the next 6 months (note that this was phrased as a freeze on recruitment in 2022) or to be struggling to recruit:

4 The general context

| Employment options | | | | |
|--|-----------------------------|----------------------------|--------------------------------|-----------------------------|
| All SMEs with employees 2023 By date of interview – row percentages | Recruitment freeze H2 22 | No plans to recruit* 23 | Struggling to recruit H2 22 | Struggling to recruit 23 |
| All with employees | 17% | 24% | 26% | 23% |
| 1-9 emps | 18% | 24% | 22% | 21% |
| 10-49 emps | 14% | 21% | 41% | 36% |
| 50-249 emps | 8% | 13% | 46% | 33% |
| Minimal external risk rating | 15% | 23% | 27% | 26% |
| Low | 15% | 24% | 30% | 27% |
| Average | 18% | 23% | 26% | 23% |
| Worse than average | 19% | 24% | 22% | 19% |
| Agriculture | 17% | 26% | 24% | 23% |
| Manufacturing | 16% | 24% | 27% | 23% |
| Construction | 15% | 23% | 30% | 27% |
| Wholesale/Retail | 21% | 23% | 19% | 19% |
| Hotels & Restaurants | 18% | 24% | 31% | 29% |
| Transport | 18% | 25% | 30% | 25% |
| Property/ Business Services | 16% | 23% | 25% | 21% |
| Health | 9% | 17% | 32% | 35% |
| Other | 17% | 28% | 26% | 20% |
| PNBs | 11% | 21% | 21% | 16% |
| All excl PNBs | 21% | 25% | 29% | 26% |
| Starts | 14% | 19% | 26% | 20% |
| 2-5 years trading | 16% | 24% | 27% | 23% |
| 6-9 years | 20% | 23% | 27% | 26% |
| 10-15 years | 17% | 24% | 25% | 23% |
| 15+ years | 18% | 25% | 26% | 24% |

NSTAFF All SMEs with employees

Staff from outside the UK

From Q3 2017, SMEs with employees have been asked whether they employed anyone from overseas, either from the EU or further afield. In 2023, as the table below shows, 1 in 10 did (11%), predominantly from the EU (9%). The largest SMEs remained much more likely to be employing any overseas staff and for these to include people from outside the EU:

| All SMEs with employees | | | | | |
|-----------------------------|---------------|-------------|-------------|-------------|--|
| YEQ4 23 | Total | 1-9 emps | 10-49 emps | 50-249 emps | |
| Unweighted base: | 13,538 | 6381 | 5267 | 1890 | |
| Employ any overseas staff: | 11% | 8% | 22% | 41% | |
| Employ staff from EU | 9% | 6% | 19% | 37% | |
| Employ other overseas staff | 5% | 4% | 11% | 27% | |

Q84 (223) All SMEs with employees

The 11% reported in 2023 was unchanged from 2022 but somewhat lower than the 15% of employers with overseas staff in 2021, when 9% were from the EU. Further analysis over time is provided later in this chapter.

4 The general context

There was no difference in international employees in 2023 by age of employer (10-11%). By sector, 17% of employers in the Health sector and 15% in Hotels & Restaurants had international employees, compared to 6% in Agriculture and 8-13% elsewhere. As the table below shows, those in the Health sector were the most likely to have any staff from outside the EU:

| Overseas staff | | | | | | | | | |
|---------------------------------|------------|-------------|-------------|-------------|------------|-------------|-------------|------------|-------------|
| All SMES with employees YEQ4 23 | Agric | Mfg | Constr | Whle Retail | Hotel Rest | Trans | Prop/ Bus | Hlth SWrk | Other Comm |
| Unweighted base: | 668 | 1527 | 2359 | 1699 | 937 | 1408 | 2852 | 786 | 1302 |
| Employ any overseas staff: | 6% | 12% | 9% | 8% | 15% | 13% | 11% | 17% | 9% |
| Employ staff from EU | 6% | 11% | 8% | 6% | 11% | 11% | 9% | 11% | 7% |
| Employ other overseas staff | 2% | 5% | 3% | 4% | 8% | 5% | 6% | 13% | 5% |

Q84/87/87a (223/223c) All SMES with employees

SMEs that trade internationally remained more likely to employ staff from overseas, typically from the EU, notably those that both import and export (these are typically larger SMEs).

| Overseas staff | | | | | |
|---------------------------------|---------------|-------------|-------------|-------------|-------------|
| All SMEs with employees YEQ4 23 | Total | Export only | Import only | Fully intl | Domestic |
| Unweighted base: | 13,538 | 695 | 1587 | 1486 | 9770 |
| Employ any overseas staff: | 11% | 15% | 15% | 21% | 9% |
| Employ staff from EU | 9% | 12% | 12% | 18% | 7% |
| Employ other overseas staff | 5% | 8% | 8% | 10% | 4% |

Q84/87/87a (223/223c) All SMES with employees

● 4 The general context

Analysis over time is provided below.

- When the questions about overseas staff were first asked in H2 2017, 23% of SMEs with employees had any overseas staff (22% from the EU and 4% from elsewhere). From 2018 to 2021 a stable 15-17% had overseas staff, but the figures for 2022 and 2023 were somewhat lower overall (11%) and across most demographics.
- The most likely to have overseas employees were those with 50-249 employees (41%). There was limited variation by sector (8% in Wholesale/Retail to 17% in Health) and no difference by PNB or age of SME, though until 2020 older SMEs were more likely to have such staff

4 The general context

| Employ overseas staff | | | | | | | |
|--|------------|------------|------------|------------|------------|------------|------------|
| All SMEs with employees over time | H2 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| By date of interview – row percentages | | | | | | | |
| All | 23% | 16% | 17% | 16% | 15% | 11% | 11% |
| 1-9 emps | 18% | 12% | 13% | 12% | 11% | 9% | 8% |
| 10-49 emps | 40% | 31% | 33% | 31% | 28% | 19% | 22% |
| 50-249 emps | 55% | 56% | 45% | 50% | 53% | 39% | 41% |
| Agriculture | 13% | 11% | 9% | 9% | 10% | 8% | 6% |
| Manufacturing | 28% | 18% | 16% | 19% | 16% | 13% | 12% |
| Construction | 20% | 12% | 14% | 12% | 11% | 9% | 9% |
| Wholesale/Retail | 20% | 15% | 15% | 13% | 12% | 10% | 8% |
| Hotels & Restaurants | 25% | 21% | 18% | 20% | 19% | 15% | 15% |
| Transport | 23% | 15% | 17% | 13% | 15% | 13% | 13% |
| Property/ Business Services | 23% | 16% | 18% | 18% | 16% | 10% | 11% |
| Health | 26% | 21% | 27% | 21% | 22% | 18% | 17% |
| Other Community | 23% | 15% | 15% | 16% | 14% | 10% | 9% |
| PNBs | 15% | 11% | 13% | 12% | 12% | 10% | 10% |
| Excl PNBs | 27% | 19% | 19% | 17% | 16% | 12% | 11% |
| Starts | 17% | 14% | 15% | 10% | 12% | 11% | 11% |
| 2-5 years trading | 27% | 14% | 16% | 14% | 15% | 10% | 10% |
| 6-9 years | 23% | 15% | 15% | 17% | 15% | 11% | 11% |
| 10-15 years | 25% | 18% | 18% | 17% | 15% | 11% | 11% |
| 15+ years | 22% | 16% | 17% | 17% | 15% | 11% | 11% |

Q84 (223) All SMEs with employees

4 The general context

As the table below shows, those trading internationally, especially those that are fully international, were more likely to employ staff from overseas:

| Employ overseas staff | | | | | | | |
|--|------------|------------|------------|------------|------------|------------|------------|
| All SMEs with employees over time | H2 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| By date of interview – row percentages | | | | | | | |
| All | 23% | 16% | 17% | 16% | 15% | 11% | 11% |
| Export only | 34% | 22% | 21% | 21% | 20% | 16% | 15% |
| Import only | 32% | 24% | 27% | 22% | 19% | 11% | 15% |
| Fully international | 48% | 32% | 35% | 32% | 31% | 21% | 21% |
| Domestic | 18% | 13% | 13% | 13% | 12% | 10% | 9% |

Further questions about managing international staff have been adjusted over time, with the latest changes made for Q1 2023.

When asked previously about how concerned they were about the impact on their business of possible changes to migration rules:

- Initially half of those employing overseas staff expressed concern (49% in 2018 and 51% in 2019).
- By Q4 2020 when this question was next asked, concern was slightly lower at 43%, and it was slightly lower again in Q4 2022 (37%).
- The current question asks whether rules on employing non-UK staff are negatively impacting the business. In 2023, 16% said that it was, suggesting that actual concern is lower than potential concern was, albeit the questions are not quite the same.
- In 2023 there was limited variation by size of employer (13-18%). Those international employers more likely to report a negative impact also included Starts (26% v 13-18% of older employers) and those in Health (29%), Hotels & Restaurants (27%) and Agriculture (25%) v 6-17% of other sectors. By levels of international trade, Export only SMEs were somewhat less likely to see the rules as a barrier (9%) than either other international SMEs or Domestic SMEs (15-17%).

4 The general context

Similarly, those employing overseas staff have previously been asked whether they were seeing an impact on the recruitment and retention of overseas staff:

- When this was first asked in H2 2020, a quarter (26%) were seeing an impact.
- By Q4 2020 when this question was next asked the proportion was higher at 40% but then back to 32% in Q4 2021.
- The current question asks whether they are struggling to retain staff who are non-UK nationals. In 2023, 13% said that they were, a lower figure although again the questions are not quite the same, and the latest iteration of the question does not include recruitment.
- In 2023 there was limited variation by size of business (8% of those with 10-49 employees to 15% of those with 1-9 employees).
- Those international employers more likely to report a struggle to retain also included Starts (24% v 8-19% of older employers) and those in Agriculture (21%), Health (20%) and Hotels & Restaurants (18%), v 7-13% of other sectors. As above, Export-only SMEs were less likely to report issues retaining such staff (7%) than either other international SMEs or Domestic SMEs (11-14%)

Exporting

10% of all SMEs were making sales outside the UK. The proportion of exporters has been fairly stable over time, between 8% and 11% of SMEs:

- Smaller SMEs were less likely to export, but the proportions have remained stable over time. In 2023, 9% of 0 employee SMEs and 13% of those with 1-9 employees were exporters. This increased to 19% of those with 10-49 employees, also little changed over time. There has been more variation over time amongst SMEs with 50-249 employees, with typically 1 in 5 trading internationally, increasing periodically to 1 in 4 in 2020 and 2021, and again in 2023 (24%).
- As in most previous years, those with a better risk rating were more likely to be exporting: 14% for those with a minimal rating, 11% for those with a low or average rating and 9% of those with a worse than average rating.
- The Manufacturing sector remained the most likely to be exporting, though somewhat less likely in 2023 (16%) than in 2022 when 22% were exporting, at the upper end of the range seen across previous years. Those in Construction, Hotels & Restaurants and Agriculture remained unlikely to be exporting (all 3%).
- In 2021, 11% of Starts exported, somewhat higher than previously seen, but by 2023 the proportion was somewhat lower at 9%, in line with those trading for 2-5 years (8%). There was little difference in the proportion of exporters amongst older businesses (10-11%) and this is also little changed over recent years.

4 The general context

Since Q2 2019 an additional question has been asked to clarify whether SMEs are exporting or not:

Can I just check about any export activity, by which I mean any goods or services sold by you to an individual or organisation based outside of the UK. This includes commissions, royalties and licences, and transactions you might make with any branch or subsidiary that you have that is located outside of the UK. This also includes sales to the Republic of Ireland. On that basis, in the past 3 years has your business exported any goods or services outside of the UK?

- Overall, a stable 9% of SMEs answered yes to this question in 2023, increasing by size of SME from 8% of those with 0 employees to 11% of those with 1-9 employees, 17% of those with 10-49 employees and 22% of those with 50-249 employees.
- Analysis showed that most, but not all, who answered yes to this new question had already answered yes to the standard exporter question used since SMEFM started, and vice versa. For the period this question has been asked, including it has increased the total proportion of SMEs claiming to export only slightly and in 2023 the increase was from 10% with the original question to 12% across both exporting questions (in line with previous years).
- In order to maintain continuity any SMEs who only answered yes to the new question were not asked the additional exporter questions in this section and do not appear in any of this analysis, including the table below.

4 The general context

| Exporting | | | | | | | | |
|---|-----------|------------|-----------|-----------|------------|------------|------------|------------|
| All SMEs over time | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| By date of interview – row percentages | | | | | | | | |
| All SMEs | 8% | 10% | 9% | 9% | 10% | 11% | 11% | 10% |
| 0 emp | 7% | 9% | 8% | 7% | 8% | 10% | 10% | 9% |
| 1-9 emps | 11% | 12% | 12% | 12% | 13% | 12% | 13% | 13% |
| 10-49 emps | 17% | 19% | 18% | 19% | 20% | 19% | 19% | 19% |
| 50-249 emps | 20% | 22% | 21% | 21% | 27% | 26% | 21% | 24% |
| Minimal external risk rating | 12% | 14% | 15% | 14% | 16% | 14% | 14% | 14% |
| Low | 12% | 13% | 12% | 10% | 12% | 11% | 14% | 11% |
| Average | 9% | 11% | 8% | 8% | 8% | 11% | 9% | 11% |
| Worse than average | 7% | 9% | 8% | 8% | 10% | 10% | 9% | 9% |
| Agriculture | 5% | 5% | 4% | 4% | 4% | 5% | 2% | 3% |
| Manufacturing | 16% | 19% | 18% | 16% | 16% | 18% | 22% | 16% |
| Construction | 2% | 1% | 2% | 2% | 2% | 3% | 2% | 3% |
| Wholesale/Retail | 12% | 16% | 13% | 13% | 14% | 14% | 14% | 13% |
| Hotels & Restaurants | 3% | 4% | 3% | 3% | 4% | 3% | 2% | 3% |
| Transport | 9% | 10% | 9% | 9% | 12% | 11% | 13% | 13% |
| Property/ Business Services | 11% | 15% | 14% | 13% | 15% | 14% | 15% | 14% |
| Health | 4% | 4% | 4% | 2% | 5% | 8% | 6% | 7% |
| Other Community | 12% | 12% | 10% | 9% | 10% | 14% | 10% | 10% |
| PNB | 7% | 9% | 10% | 9% | 10% | 9% | 9% | 10% |
| All excl PNBs | 9% | 11% | 9% | 9% | 10% | 12% | 12% | 11% |
| Starts | 7% | 8% | 6% | 3% | 8% | 11% | 10% | 9% |
| 2-5 years trading | 7% | 10% | 10% | 9% | 10% | 9% | 9% | 8% |
| 6-9 years | 6% | 8% | 10% | 10% | 12% | 12% | 9% | 11% |
| 10-15 years | 9% | 11% | 9% | 11% | 10% | 12% | 12% | 11% |
| 15+ years | 11% | 11% | 11% | 10% | 10% | 10% | 11% | 10% |

Q84 (223) All SMEs

4 The general context

As with other metrics, follow up questions to exporters have been revised and amended over the years. From Q1 2023 a simplified question about the proportion of sales made overseas has asked whether exports make up more or less than 50% of total sales. The table below shows the proportion achieving 50% or more of their sales overseas over time, with an increase to 27% of exporters in 2023 seen across all size bands led by those with 1-9 employees (21% to 29%):

| 50%+ sales made overseas | | | | | | | | |
|--|------------|------------|------------|------------|------------|------------|------------|------------|
| Over time – all exporters Row percentages | 2016 | 2017 | 2018 | 2019 | Q1 20* | 2021 | 2022 | 2023 |
| All exporters | 19% | 22% | 18% | 18% | 19% | 17% | 20% | 27% |
| 0 employee | 21% | 25% | 18% | 18% | 18% | 17% | 20% | 26% |
| 1-9 employees | 16% | 17% | 15% | 18% | 23% | 17% | 21% | 29% |
| 10-49 employees | 16% | 16% | 15% | 16% | 21% | 14% | 16% | 21% |
| 50-249 employees | 17% | 21% | 20% | 16% | 18% | 14% | 20% | 26% |

Q85 (223x) All SMEs who export, excluding DK/refused * limited base size, indicative data for Q1 2020 only

In 2023, 10% of all SMEs were exporters. This is made up of the equivalent of 2% of all SMEs where exports made up 50% or more of their sales, and 9% of all SMEs where exports made up less than 50% of their sales. 90% of all SMEs did not export.

In previous waves, all exporters were asked about the extent to which they were selling to the EU, with around 3 in 10 saying that all or the majority of their export sales were made to the EU, though the figure was somewhat lower in 2022 at 25%.

From Q1 2023, a new question has been asked of exporters, seeking to understand how reliant the business was on exports generally (to anywhere) to achieve their overall sales target, and thus potentially how vulnerable they might be to changes in the level of demand from overseas, or to the rules governing international trade.

4 The general context

As the table below shows, in 2023 40% of exporters were either very or fairly reliant on exports for their overall sales targets, the equivalent of 4% of all SMEs.

The largest exporters, with 50-249 employees were more likely to be reliant on exports to achieve their sales targets (53%) than smaller exporters (38-43%):

| All exporters | | | | | |
|---------------------------------|-------------|------------|------------|------------|-------------|
| YEQ4 23 | Total | 0 emps | 0-9 emps | 10-49 emps | 50-249 emps |
| Unweighted base: | 2482 | 301 | 820 | 994 | 367 |
| Very reliant on exports | 19% | 19% | 20% | 15% | 18% |
| Fairly reliant | 21% | 20% | 23% | 23% | 35% |
| Net very/fairly reliant: | 40% | 39% | 43% | 38% | 53% |
| Not very reliant | 25% | 24% | 25% | 31% | 26% |
| Not at all reliant on exports | 35% | 36% | 32% | 31% | 22% |

NEWQ86 All SMEs who export (from Q1 2023)

On limited base sizes in some instances, those exporters more likely to be very/fairly reliant on exports include those in Transport (54%) and the small group of exporters in Health (47%), those trading for 10-15 years (45%) and those who are fully International (46%) compared to those who export but do not import (34%).

As would be expected, those exporters where exports make up half or more of total sales were more reliant on exports to achieve their sales targets (88%) than those where exports make up a smaller proportion of turnover (25%).

4 The general context

Customers

From Q1 2018, SMEs have been asked whether they sold to consumers, to other businesses or to both businesses and consumers. These questions were also asked from Q2 2020 to Q3 2021, but have been included since Q4 2021, so the results for 2023 are reported below.

In line with previous years, 8 in 10 SMEs (79%) sold to consumers while 6 in 10 (63%) sold to other businesses. Smaller SMEs remained more likely to be selling to consumers than businesses, while the opposite was true for larger SMEs. 4 in 10 SMEs (42%) sold to both businesses and consumers with limited differences by size of business:

| All SMEs | | | | | |
|----------------------------------|---------------|-------------|-------------|-------------|-------------|
| YE Q4 23 | Total | 0 emps | 1-9 emps | 10-49 emps | 50-249 emps |
| Unweighted base: | 17,010 | 3472 | 6381 | 5267 | 1890 |
| Other businesses only | 21% | 19% | 23% | 33% | 41% |
| Consumers only | 37% | 39% | 33% | 20% | 13% |
| Both businesses and consumers | 42% | 41% | 44% | 47% | 46% |
| All selling to businesses | 63% | 61% | 67% | 80% | 87% |
| All selling to consumers | 79% | 81% | 77% | 67% | 59% |

Q13a (NEW) All SMEs

Those who only traded domestically were less likely than their international peers to be selling to other businesses, while those involved in exporting were less likely to be selling to consumers:

| Customer types | | | | | |
|----------------------------------|---------------|-------------|-------------|-------------------|---------------|
| All SMEs YE Q4 23 | Total | Export only | Import only | Import and export | Domestic |
| Unweighted base: | 17,010 | 845 | 1909 | 1637 | 12,619 |
| Other businesses only | 21% | 32% | 25% | 37% | 18% |
| Consumers only | 37% | 26% | 29% | 17% | 40% |
| Both businesses and consumers | 42% | 43% | 46% | 46% | 41% |
| All selling to businesses | 63% | 74% | 71% | 83% | 60% |
| All selling to consumers | 79% | 68% | 75% | 63% | 82% |

Q13a (NEW) All SMEs

4 The general context

There were some clear differences by sector, with the proportion selling to businesses varying from 27% in Health and 36% in Hotels & Restaurants to 78% in Property/Business Services. There was also variation in the proportion selling to consumers, which ranged from 63% in Property/Business Services to 98% in Hotels & Restaurants:

| Customer types | | | | | | | | | |
|----------------------------------|------------|-------------|-------------|----------------|---------------|-------------|--------------|--------------|---------------|
| All SMEs YEQ4 23 | Agric | Mfg | Constr | Whle Retail | Hotel Rest | Trans | Prop/ Bus | Hlth SWrk | Other Comm |
| Unweighted base: | 983 | 1797 | 2737 | 2188 | 1177 | 1754 | 3682 | 984 | 1708 |
| Other businesses only | 28% | 27% | 11% | 11% | 2% | 24% | 37% | 8% | 13% |
| Consumers only | 33% | 29% | 37% | 45% | 64% | 25% | 22% | 73% | 53% |
| Both businesses and consumers | 40% | 45% | 53% | 44% | 35% | 51% | 41% | 19% | 33% |
| All selling to businesses | 67% | 71% | 63% | 55% | 36% | 75% | 78% | 27% | 47% |
| All selling to consumers | 72% | 73% | 89% | 89% | 98% | 76% | 63% | 92% | 87% |

Q13a All SMEs

In previous waves, questions have been asked about the channels used to make sales and how many business customers an SME had. These are no longer asked and the most recent data can be found in the 2022 edition of this report.

Membership of business groups or industry bodies

SMEs were asked whether the owner, senior partner or majority shareholder belonged to any business groups or industry bodies.

In 2023, just over a quarter of SMEs (27%) said that this was the case (excluding DK answers) in line with previous years.

| Business Groups | Further analysis YEQ4 2023 |
|---------------------------------------|--|
| By size of SME | <p>Membership was more likely amongst those with 10-49 employees:</p> <ul style="list-style-type: none"> 26% of 0 employee businesses belonged to a business group/body 29% of 1-9 employee businesses 37% of 10-49 employee businesses 26% of 50-249 employee businesses. |
| By external risk rating | <p>Those with an average or worse than average risk rating remained somewhat less likely to belong to a business group (27% and 24% respectively), compared to those with a minimal or low risk rating (35% and 32% respectively).</p> |
| By sector | <p>Those in the Health sector remained more likely to belong to a business group (39%) along with those in Property/Business Services (34%) while those in Wholesale/Retail (16%) were less likely. Across other sectors, membership varied from 19-28%.</p> |
| PNBs and those using external finance | <p>Those currently using external finance were only slightly more likely to belong to such groups than those that did not use external finance (28% v 26%).</p> <p>There was also little difference by whether the SME met the definition of a Permanent non-borrower (26%) or not (28%).</p> |
| Age of SME | <p>Starts were slightly less likely to belong to a business group (21%), increasing by age of business to 3 in 10 of those trading for 10 years or more.</p> |

Q143 (Q265c) All SMEs excl DK

Business Ownership

In 2023, 75% of SME companies had one owner, declining by size from 92% of 0 employee companies to 22% of those with 50-249 employees. This means that of all SMEs, 85% were either sole proprietorships or companies with one owner, in line with 2021 and 2022, but higher than the 75% recorded in 2020.

SMEs with employees were also asked whether theirs was a family business. For YEQ4 2023, 69% of those with employees said that it was. This means that for SMEs as a whole:

- 16% had employees and were family owned
- 36% had employees and a different ownership structure
- 76% of all SMEs had no employees (so were not asked the question).

A broader question, which explored the extent to which the owner of the SME was also involved in other businesses, has not been asked since Q1 2020, and the most recent data can be found in the 2021 report.

The mood of SMEs v current trading conditions

This chapter now includes two more qualitative assessments of how SMEs were feeling when interviewed. The first has been asked since Q2 2020 with SMEs asked to give an overall score out of 10 for their current mood about their business, where 10 was ‘very good’. The second is a new question first asked in Q1 2023, which asks SMEs to classify themselves into one of four groups in terms of their overall financial situation.

These two questions provide an assessment of how SMEs felt at the time of interview and will be a reflection of some of the factors already reported such as growth and profitability. This therefore seems an appropriate place to include them rather than in the later chapter which looks more to the future.

SME ‘mood’ over recent quarters is shown below. The improvement in mood during 2021 (from 40% to 60% giving a score of 7+), was maintained, though not improved, in both 2022 and 2023 (57% gave a score of 7+ in Q4 2023):

| Mood of SMEs | | | | | | | | | |
|-------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| By date of interview | Q4 2021 | Q1 2022 | Q2 2022 | Q3 2022 | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
| Unweighted base: | 4085 | 4250 | 4250 | 4250 | 4252 | 4252 | 4253 | 3910 | 4595 |
| Score 9-10 Very good | 24% | 22% | 20% | 21% | 23% | 21% | 22% | 22% | 22% |
| Score 7-8 | 36% | 34% | 39% | 37% | 37% | 39% | 38% | 38% | 36% |
| Score 5-6 | 23% | 24% | 22% | 27% | 22% | 22% | 22% | 25% | 24% |
| Score 0-4 Very poor | 17% | 20% | 18% | 15% | 18% | 18% | 17% | 16% | 19% |
| Score 7+ | 60% | 56% | 59% | 58% | 60% | 60% | 61% | 60% | 57% |
| Net (7-10 – 0-4) | +43 | +36 | +41 | +43 | +42 | +42 | +44 | +44 | +38 |

CV1 All SMEs

The proportion in a very poor mood (scores 0-4) was 34% in Q1 2021 but has declined since. In 2023 around 1 in 6 rated their mood as very poor, with little change over the year.

4 The general context

Taking a slightly longer term view, the table below details 7-10 scores by key demographics across Q2 and Q4 2020 when this question was first asked during the pandemic and then for 2021, 2022 and 2023 as a whole:

- In Q2 2020 (April to June covering the first nationwide lockdown) a quarter of SMEs rated their mood as 'good' (25%). The most likely to be in a good mood were those with 50-249 employees (42%), in Agriculture (37%), with a minimal risk rating (37%) and PNBs (32%). This compared to a much less positive mood in Hotels & Restaurants (12%) and Transport (16%) who had been so immediately impacted by the pandemic. Those with plans to grow were also somewhat more likely to be in a 'good' mood (33% v 22% with no plans to grow).
- By Q4 2020, the proportion in a 'good' mood had increased to 41% overall, with an increase seen across all key demographics, with the exception again of Hotels & Restaurants (16%) and Transport (23%). Most likely to be in a 'good' mood were the largest SMEs (57%), those with a minimal risk rating (60%) and those in Agriculture (57%).
- In 2021, the proportion in a 'good' mood had increased again to 53%, with notable increases for those with 1-9 employees (to 58%), the struggling sectors of Hotels & Restaurants and Transport (to 44% and 41% though still below average), Starts and those trading for 2-5 years (to 60% and 53%).
- There was little subsequent change in overall mood in 2022, with 58% in a 'good' mood. There were though further increases year on year for those with 50-249 employees (to 80%), Hotels & Restaurants (to 54%), Health (to 63%), but also a decline in mood for those in Agriculture (to 54%). The most likely to be in a good mood in 2022 itself were larger SMEs with 10-49 or 50-249 employees (76% and 80%), PNBs compared to those who did not meet the definition (64% v 53%) and those with plans to grow compared to those with no such plans (63% v 55%).
- The proportion in a good mood in 2023 was unchanged at 59%, with minimal changes year on year by size of SME or risk rating. There were also minimal changes by sector with the exception of those in Construction (up 7 points to 72% in a good mood, the highest sector score) and Transport (also up 7 points to 55%) while for Hotels & Restaurants mood was down 6 points at 48%, the lowest sector and back closer to their mood in 2021.

4 The general context

| Business Mood 7-10 | | | | | |
|--|------------|------------|------------|------------|------------|
| Over time | Q2 2020 | Q4 2020 | 2021 | 2022 | 2023 |
| By date of interview – row percentages | | | | | |
| All SMEs | 25% | 41% | 53% | 58% | 59% |
| 0 emp | 24% | 39% | 50% | 56% | 58% |
| 1-9 emps | 26% | 41% | 58% | 62% | 62% |
| 10-49 emps | 34% | 55% | 70% | 76% | 77% |
| 50-249 emps | 42% | 57% | 68% | 80% | 79% |
| Minimal external risk rating | 36% | 60% | 62% | 66% | 66% |
| Low | 23% | 49% | 57% | 65% | 65% |
| Average | 27% | 38% | 52% | 59% | 60% |
| Worse than average | 23% | 39% | 50% | 55% | 58% |
| Agriculture | 37% | 57% | 63% | 54% | 57% |
| Manufacturing | 27% | 46% | 57% | 62% | 59% |
| Construction | 19% | 43% | 57% | 65% | 72% |
| Wholesale/Retail | 27% | 45% | 51% | 51% | 51% |
| Hotels & Restaurants | 12% | 16% | 44% | 54% | 48% |
| Transport | 16% | 23% | 41% | 48% | 55% |
| Property/ Business Services | 33% | 50% | 57% | 61% | 60% |
| Health | 28% | 37% | 50% | 63% | 63% |
| Other | 19% | 33% | 50% | 57% | 54% |
| PNBs | 32% | 48% | 60% | 64% | 68% |
| All excl PNBs | 20% | 37% | 48% | 53% | 55% |
| Starts | 28% | 35% | 53% | 60% | 63% |
| 2-5 years trading | 23% | 34% | 53% | 53% | 55% |
| 6-9 years | 21% | 48% | 49% | 57% | 57% |
| 10-15 years | 27% | 42% | 53% | 59% | 57% |
| 15+ years | 23% | 42% | 53% | 58% | 60% |
| Plan to grow | 33% | 46% | 57% | 63% | 65% |
| No plans to grow | 22% | 36% | 49% | 55% | 55% |

CV1 All SMEs

4 The general context

In a new question from Q1 2023, SMEs were asked which of the following best described their business currently:

- **Struggling:** Our monthly revenue does not meet our needs and the business has no savings or investments
- **Managing:** Our monthly revenue meets our needs but the business has no real savings or investments
- **Comfortable:** Our monthly revenue meets our needs and the business has some savings as a cushion
- **Well off:** Our monthly revenue more than meets our needs and the business has a decent sum in savings or investments

Overall a third of SMEs described themselves as Well off / Comfortable, increasing by size of SME from 32% of those with 0 employees to 38% of those with 1-9 employees and half (52%) of those with either 10-49 or 50-249 employees:

| SME status | | | | | |
|-----------------------------|---------------|-------------|-------------|---------------|----------------|
| All SMEs YEQ4 23 | Total | 0 emps | 1-9 emps | 10-49 emps | 50-249 emps |
| Unweighted base: | 16,884 | 3464 | 6369 | 5216 | 1835 |
| Struggling | 18% | 19% | 15% | 7% | 3% |
| Managing | 48% | 49% | 48% | 41% | 44% |
| Comfortable | 32% | 30% | 35% | 47% | 45% |
| Well off | 2% | 2% | 3% | 5% | 7% |
| Comfortable/Well off | 34% | 32% | 38% | 52% | 52% |

NEWCV8 (NEW) All SMEs excluding DK answers

Overall almost 1 in 5 SMEs described themselves as 'Struggling' and this was more likely to be the case for the smallest SMEs (19%), declining by size to 3% of those with 50-249 employees.

4 The general context

The table below shows this analysis by sector. SMEs in Property/Business Services were the most likely to be feeling Comfortable/Well off (39%), alongside those in Agriculture and Construction (both 37%). Meanwhile a quarter of those in the Hotel & Restaurant or Wholesale/Retail sectors said that they were Struggling (25% and 23%):

| SME status | | | | | | | | | |
|-------------------------|------------|-------------|-------------|----------------|---------------|-------------|--------------|--------------|---------------|
| All SMEs YEQ4 23 | Agric | Mfg | Constr | Whle Retail | Hotel Rest | Trans | Prop/ Bus | Hlth SWrk | Other Comm |
| Unweighted base: | 979 | 1780 | 2726 | 2170 | 1172 | 1746 | 3657 | 961 | 1693 |
| Struggling | 15% | 17% | 14% | 23% | 25% | 20% | 16% | 16% | 20% |
| Managing | 48% | 51% | 49% | 49% | 51% | 49% | 45% | 55% | 47% |
| Comfortable | 34% | 30% | 35% | 27% | 23% | 28% | 36% | 29% | 30% |
| Well off | 3% | 2% | 2% | 1% | 1% | 3% | 3% | 1% | 2% |
| Comfble/Well off | 37% | 32% | 37% | 28% | 24% | 31% | 39% | 30% | 32% |

NEWCV8 (NEW) All SMEs excluding DK answers

Other groups more likely to be Comfortable/Well off (34% overall) included:

- Those with a minimal risk rating (48%)
- Permanent non-borrowers (43% v 29% not meeting the definition)
- Those trading for more than 15 years (38%)
- 37% of SMEs that both import and export (v 32-35% of other groups)
- Those not currently using any external finance (38% v 29% using finance)

Other groups more likely to be Struggling (18% overall) included:

- 22% of Starts and 23% of those trading for 2-5 years
- 21% of those with a worse than average risk rating
- 22% of those who were not Permanent non-borrowers (v 11% meeting the definition)

4 The general context

As the table below shows, there are some clear differences in demographic profile between these four groups. Those who were Struggling are smaller, less likely to have grown or to have credit balances, but more likely to be using external finance, including repaying government backed pandemic funding (and to have an appetite to apply for more). 7 in 10 had been significantly impacted by increased costs and very few were in a good mood about their business or felt that the future offered opportunities:

| Profile by SME status | | | | | |
|----------------------------------|---------------|-------------|-------------|-------------|------------|
| YEQ4 23 – all SMEs | Total | Struggling | Managing | Comfortable | Well off |
| Unweighted base: | 17,010 | 1978 | 7671 | 6605 | 630 |
| Demographics: | | | | | |
| Have employees | 24% | 18% | 23% | 27% | 32% |
| Minimal/low risk rating | 22% | 17% | 21% | 27% | 39% |
| Trading for 10+ years | 61% | 53% | 60% | 64% | 76% |
| International | 20% | 22% | 18% | 19% | 30% |
| £10k+ credit balances | 34% | 15% | 29% | 49% | 63% |
| Sig. impacted by increased costs | 42% | 70% | 44% | 24% | 15% |
| Growth and innovation: | | | | | |
| Have grown | 29% | 12% | 24% | 43% | 68% |
| Plan to grow | 46% | 42% | 47% | 46% | 58% |
| Innovative (past or future) | 55% | 57% | 55% | 52% | 53% |
| Finance: | | | | | |
| Use external finance | 46% | 53% | 49% | 39% | 36% |
| Still repaying pandemic funding | 18% | 23% | 19% | 15% | 13% |
| Permanent non-borrower | 35% | 21% | 33% | 44% | 51% |
| Plan to apply for finance | 8% | 16% | 9% | 5% | 1% |
| Future would-be seeker | 19% | 32% | 21% | 11% | 6% |
| Future happy non-seeker | 72% | 52% | 71% | 84% | 93% |
| Mood: | | | | | |
| Mood 7-10 Good | 59% | 13% | 56% | 88% | 97% |
| Future offers opportunities | 31% | 8% | 24% | 50% | 73% |

NEWCV8 All SMEs

The bank relationship

In early Monitor reports analysis was provided on overall satisfaction with the main bank. On an annual basis from 2011, overall satisfaction improved very slightly (80-84%) and was consistently higher for larger SMEs.

From Q1 2016 this question was replaced by one that sought to understand the banking relationship in more detail, with SMEs asked which of three phrases best described their relationship with their main bank. Since then questions on switching and trust have also been added and are reported in this section.

Before exploring the banking relationship, previous reports have highlighted that only around 1% of SMEs reported using more than one business bank when asked which bank(s) they used. From Q3 2023 the question has been asked in a different way – SMEs were first asked which was their main bank and then whether they had any other current or deposit accounts that they used for the business, away from their main bank.

The initial results are reported below for H2 2023, and show a slightly higher proportion of SMEs using another bank when asked more directly in this question:

| Hold other accounts away from main bank | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|
| H2 23 all SMEs | Total | 0 emps | 1-9 emps | 10-49 emps | 50-249 emps |
| Unweighted base | 8505 | 1695 | 3336 | 2510 | 964 |
| Yes (any) | 8% | 7% | 9% | 11% | 9% |
| Yes – another current account | 6% | 5% | 6% | 6% | 7% |
| Yes – another deposit account | 2% | 2% | 3% | 4% | 2% |
| No other accounts | 92% | 93% | 91% | 89% | 91% |

Q24d All SMEs

Analysis by other demographics for H2 2023 showed that:

- Use of other accounts was higher for those trading internationally (16%), notably export-only SMEs (23%) compared to 6% of those only trading domestically.
- Use of other accounts declined slightly by risk rating from 10% of those with a minimal rating to 7% with a worse than average rating.
- There was little difference by age of SME, by sector it ranged from 4% in Construction to 13% in the Other Community sector.
- Those using finance were only very slightly more likely to have accounts elsewhere (9% v 7% of non-users of finance and 5% of PNBs).

Nature of the bank relationship

When asked about the nature of their relationship with their main bank, the most frequent answer in Q1 2023 (when this question was last asked), as in previous years, was that the relationship was fine but transactional (55%):

| Nature of relationship with main bank | | | | | |
|---|-------------|------------|-------------|-------------|-------------|
| Q1 23 all SMEs | Total | 0 emps | 1-9 emps | 10-49 emps | 50-249 emps |
| Unweighted base | 4252 | 850 | 1452 | 1450 | 500 |
| We have a strong working relationship with our bank and feel we can approach them whenever we need to | 18% | 16% | 20% | 34% | 41% |
| The relationship with our bank is fine but we really just use the bank for transactions so rarely need to approach them | 55% | 55% | 55% | 50% | 51% |
| We don't have an active working relationship with our bank and wish that we had one | 27% | 29% | 25% | 16% | 9% |

Q24a All SMEs

There were clear differences by size of SME:

- The proportion seeking a more active relationship with their bank declined by size from 29% of 0 employee SMEs to 9% of those with 50-249 employees.
- The opposite is true for those who say they have a strong working relationship, increasing from 16% of those with 0 employees to 41% of those with 50-249 employees.
- As a result there was limited difference by size in the proportion saying their relationship is fine but transactional (50-55%).

4 The general context

Differences were also seen by other demographics

- Excluding the Permanent non-borrowers did not change the proportion with a 'strong relationship' that much (to 19% v 16% of PNBs), with only a limited difference in terms of wanting a more active relationship (29% v 25% of PNBs).
- There was variation in the proportion of SMEs with a 'strong relationship' by age of SME with 22% of Starts having such a relationship, dropping to 13-16% of those trading for 2-15 years before a slight increase to 19% amongst the oldest SMEs. Meanwhile, the proportion wanting a more active relationship peaked at 36% for those trading for 6-9 years, and 30% for those trading 10-15 years, compared to 25-27% of other age groups.
- There was also variation in relationship by risk rating. In 2023, those with a minimal rating were less likely than previously to describe the relationship as 'strong' (15%) and more likely to wish they had a more active relationship (32%) and it was a similar story for those with an average risk rating (15% strong and 26% wish it was more active). Those with a low or worse than average risk rating were slightly more likely to have a strong relationship (both 20%) and again around a quarter wished their relationship was more active (23% and 28%)
- SMEs in Construction were the most likely to have an active relationship (23%) compared to 11% of those in the Other Community sector and 14-21% in other sectors. The wish for a more active relationship was strongest in the Other Community sector (32%) and in Agriculture (30%), compared to 22% in Hotels & Restaurants and 24-28% elsewhere
- Those who were either Export only or Import only were more likely to want a more active relationship (38% and 34% respectively) than either Fully international or Domestic only SMEs (both 26%)

Analysis by previous borrowing behaviour had previously shown that those who had reported a borrowing event and those who were 'Happy non-seekers' of finance were more likely to have a 'strong working relationship' than those who had been Would-be seekers of finance.

This was not the case in Q1 2023, with 10% of those that had reported a borrowing event saying they had a strong relationship (down from 23% in Q1 2022).

Meanwhile those that had been a Would-be seeker of finance were more likely to wish they had a more active relationship with their bank (47%) than their peers (27-28%), who were more likely to describe their relationship as 'transactional'

4 The general context

| Nature of relationship with main bank | | | | |
|---|-------------|--------------|------------|-------------|
| Q1 23 all SMEs | Total | Had an event | WBS | HNS |
| Unweighted base | 4252 | 422 | 72* | 3758 |
| We have a strong working relationship with our bank and feel we can approach them whenever we need to | 18% | 10% | 20% | 18% |
| The relationship with our bank is fine but we really just use the bank for transactions so rarely need to approach them | 55% | 61% | 33% | 55% |
| We don't have an active working relationship with our bank and wish that we had one | 27% | 28% | 47% | 27% |

Q24a All SMEs

Over time, a minority of SMEs have wished that they had a more active relationship with their bank, but this proportion has increased in recent years from 12% in 2016 to reach 27% in Q1 2023. In particular, smaller SMEs, those with a minimal external risk rating and those trading for 6–15 years have become increasingly likely recently to want a more active relationship, as the table below shows:

4 The general context

| Wish had more active relationship with bank | | | | | | | |
|---|------------|------------|------------|------------|------------|------------|------------|
| Over time | 2017 | 2018 | 2019 | 2020 | Q1 2021 | Q1 2022 | Q1 2023 |
| By date of interview – row percentages | | | | | | | |
| All SMEs | 14% | 15% | 11% | 15% | 17% | 20% | 27% |
| 0 emp | 15% | 15% | 12% | 15% | 18% | 21% | 29% |
| 1-9 emps | 13% | 13% | 11% | 13% | 13% | 19% | 25% |
| 10-49 emps | 8% | 8% | 8% | 8% | 9% | 12% | 16% |
| 50-249 emps | 6% | 8% | 6% | 4% | 4% | 4% | 9% |
| Minimal external risk rating | 9% | 8% | 11% | 13% | 11% | 16% | 32% |
| Low | 13% | 12% | 11% | 11% | 10% | 16% | 23% |
| Average | 14% | 15% | 11% | 15% | 15% | 22% | 26% |
| Worse than average | 16% | 16% | 11% | 15% | 22% | 18% | 28% |
| Use external finance | 14% | 12% | 10% | 15% | 15% | 21% | 27% |
| Have had borrowing event | 14% | 12% | 12% | 17% | 17% | 31% | 28% |
| Plan to apply for finance | 19% | 19% | 14% | 20% | 21% | 40% | 32% |
| PNBs | 13% | 14% | 11% | 13% | 18% | 18% | 25% |
| All excl PNBs | 15% | 15% | 12% | 15% | 16% | 22% | 29% |
| Starts | 18% | 16% | 11% | 13% | 19% | 32% | 27% |
| 2-5 years trading | 13% | 17% | 12% | 16% | 15% | 19% | 25% |
| 6-9 years | 12% | 15% | 7% | 13% | 15% | 12% | 36% |
| 10-15 years | 12% | 13% | 12% | 16% | 17% | 18% | 30% |
| 15+ years | 14% | 14% | 12% | 15% | 16% | 17% | 25% |

Q24a All SMEs

Switching main bank

A stable minority of SMEs (3% in 2023) had changed main bank in the past 3 years:

| Switching | Further analysis YEQ4 23 |
|----------------------|---|
| Size of SME | There was no variation by size (all 3% except 50-249 employees at 4%). |
| External risk rating | There was also little variation by risk rating (3-4%) |
| Age and sector | SMEs trading for 6-9 years were slightly more likely to have switched (6% v 3-5% of other age bands) There was little variation by sector (2-4%). |
| PNBs and finance | There was little variation in levels of switching once the Permanent non-borrowers were excluded (4% v 2% of PNBs), or by whether the SME was using finance (4%) or not (3%). |
| International trade | Those trading internationally remained slightly more likely to have switched – 6% of Fully international and of Export only SMEs had switched compared to 4% of Import only SMEs and 3% of SMEs that did not trade internationally. |

In Q1 2023, in contrast to other years, and on limited base sizes, those that reported changing bank were slightly less likely to report a strong relationship with their new bank (14% v 18% who had not switched) and more likely to wish they had a more active relationship (41% v 27% of those who hadn't changed).

Trust in banks

The issue of trust in the main bank has been investigated since 2018 (an additional question about broader trust in the banking industry was not asked in 2023). SMEs were asked to rate their level of trust on a scale from 1 (do not trust them at all) to 10 (trust them entirely).

In 2023, almost 6 in 10 SMEs (57%) gave a score of 8 to 10 for their level of trust in their own bank increasing to 64% of those with 50-249 employees. 1 in 10 SMEs overall (13%) gave a low trust score of 1-4 and this remained more likely to be the case for smaller SMEs:

| Trust in main bank | | | | | |
|---------------------------|---------------|-------------|-------------|-------------|-------------|
| YEQ4 23 all SMEs | Total | 0 emps | 1-9 emps | 10-49 emps | 50-249 emps |
| Unweighted base | 17,010 | 3472 | 6381 | 5267 | 1890 |
| High level of trust 8-10 | 57% | 57% | 57% | 62% | 64% |
| Medium level of trust 5-7 | 31% | 31% | 31% | 30% | 31% |
| Low level of trust 1-4 | 13% | 13% | 13% | 8% | 5% |

Q24b All SMEs

58% of SMEs with employees had a high level of trust in their main bank.

The table overleaf provides further analysis by key demographics over the years for which this data is available. In 2023, 57% of SMEs had a high level of trust in their main bank, down slightly from 60% in 2021 and 2022, and more in line with pre-pandemic levels of trust:

- The main change year on year by size of SME was amongst those with 50-249 employees where, in 2023, 64% had a high level of trust in 2023, down from 72% in 2022 and lower than previously seen
- There was little difference in levels of trust by risk rating (56-58%) with the slight exception of those with a minimal risk rating (52%). By age, levels of trust declined slightly for Starts to 62%, and for those trading for 6-9 years to 54%
- Levels of trust amongst those using finance increased to 61% in 2021, the highest level seen, but has declined somewhat since, to 56% in 2023 but still ahead of pre-pandemic years.
- Levels of trust amongst those that had a borrowing event, or those planning to apply, have been more volatile over time, with a further decline in 2023 for those that had a borrowing event, to 47%, while trust amongst those planning to apply was stable at 52%
- Slightly fewer of those meeting the definition of a Permanent non-borrower had a high level of trust in 2023 (59%) though still just ahead of those who did not meet the definition (56%).

4 The general context

| High level of trust in main bank (8-10) | | | | | | |
|---|------------|------------|------------|------------|------------|------------|
| Over time | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| By date of interview – row percentages | | | | | | |
| All SMEs | 55% | 55% | 54% | 60% | 60% | 57% |
| 0 emp | 54% | 54% | 54% | 60% | 60% | 57% |
| 1-9 emps | 56% | 55% | 54% | 59% | 59% | 57% |
| 10-49 emps | 63% | 66% | 62% | 65% | 63% | 62% |
| 50-249 emps | 72% | 70% | 69% | 67% | 72% | 64% |
| Minimal external risk rating | 58% | 59% | 58% | 59% | 62% | 52% |
| Low | 57% | 55% | 53% | 60% | 60% | 56% |
| Average | 54% | 54% | 55% | 60% | 62% | 58% |
| Worse than average | 53% | 54% | 54% | 61% | 60% | 58% |
| Starts | 50% | 46% | 59% | 67% | 67% | 62% |
| 2-5 years trading | 58% | 56% | 57% | 63% | 63% | 62% |
| 6-9 years | 52% | 60% | 53% | 60% | 59% | 54% |
| 10-15 years | 56% | 60% | 51% | 59% | 56% | 54% |
| More than 15 years | 56% | 57% | 53% | 57% | 58% | 55% |
| Use external finance | 51% | 51% | 52% | 61% | 59% | 56% |
| Have had borrowing event | 51% | 57% | 51% | 58% | 53% | 47% |
| Plan to apply for finance | 48% | 55% | 45% | 55% | 53% | 52% |
| PNBs | 59% | 60% | 56% | 61% | 62% | 59% |
| All excl PNBs | 50% | 52% | 53% | 60% | 58% | 56% |

Q24b All SMEs

4 The general context

There were clear differences in level of trust in main bank when analysed by the overall nature of the banking relationship (last asked in Q1 2023).

- Those who reported a strong working relationship with their main bank were more likely to have a high level of trust in them (85%).
- Those who wished that they had a more active relationship with their bank were less likely to have this high level of trust (33%) and almost as many had a low level of trust (26%).
- Those who had a ‘fine but transactional’ relationship were somewhere in between, with 57% having a high level of trust in their bank and 8% a low level of trust.

| Trust in bank Q1 23 all SMEs | Main bank | | |
|---------------------------------|-------------|-------------|-------------|
| | Strong | Trans'l | More active |
| Unweighted base | 1092 | 2258 | 902 |
| High level of trust 8-10 | 85% | 57% | 33% |
| Medium level of trust 5-7 | 11% | 35% | 41% |
| Low level of trust 1-4 | 4% | 8% | 26% |

Q24a/b All SMEs



5. Financial context

Part 1.

THIS CHAPTER PROVIDES

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





5. Financial context

Part 1.

KEY FINDINGS

Under the new definition, almost half of SMEs (46%) were using any external finance in 2023:

- 46% of SMEs were using external finance in 2023, increasing by size of SME from 42% of those with 0 employees to 69% of those with 10-49 employees. As has been seen from the pandemic onwards, the largest SMEs were no longer the most likely to be using external finance (47% in 2023).
- Those more likely to be using any finance in 2023 than their peers included those with a minimal risk rating (52%), those in Transport (53%) or Agriculture (52%) and those trading for 6-9 years (54%).

This included 1 in 5 SMEs still repaying government backed pandemic funding:

- The use of external finance calculation now includes a better assessment of those still repaying government backed pandemic funding alongside the traditional core and other forms of finance (where the definitions are unchanged).
- In 2023, 19% of SMEs were still repaying government backed pandemic funding, two thirds of the 28% of SMEs that were granted such funding originally.
- 33% of all SMEs with 10-49 employees were still repaying government backed funding, as were 29% of those with 1-9 employees, compared to 16% of the smallest SMEs with 0 employees and 12% of the largest SMEs with 50-249 employees.
- 30% of those trading for 6-9 years and 26% of those trading for 10-15 years also still had this finance to repay (due to their age relative to the pandemic, younger SMEs were less likely to have had, or be repaying, such funding).
- Those still repaying pandemic funding were slightly less likely to be in a good mood about their business (52%) and slightly more likely to be 'Struggling' (23%) than their peers.

46%
of SMEs were
using external
finance in 2023

1 in 5
SMEs were still
repaying government
backed pandemic
funding



Along with 3 in 10 using ‘core’ finance and 2 in 10 using ‘other’ forms of finance:

- 31% of SMEs were using some form of ‘core’ finance, primarily credit cards (17%), a bank overdraft (13%) and/or a bank loan (11%).
- Those with 10-49 employees were the most likely to be using core finance (52%), with higher use of all the main forms of finance in this category (credit cards 34%, a bank overdraft 19% and/or a bank loan 22%).
- 21% of SMEs were using some ‘other’ form of finance, primarily leasing/hp (10%), while 7% had received a loan from directors, friends or family.
- Those with 10-49 employees were again the most likely to be using other forms of finance (43%), with higher use of leasing/hp (33%) but not of loans from directors, friends or family (7%).
- A relatively stable 20% of SMEs only used core finance, while 10% of SMEs only used other forms of finance, up slightly from 5% in 2018.

The higher use of external finance in 2023 was a result of both the improved measurement of pandemic funding and increased use of core funding, with a third of finance users borrowing more than they were pre-pandemic:

- In 2022, under the previous definition, 36% of SMEs were using external finance (increasing to 40% when adjusted as far as was possible at that stage for pandemic funding).
- In 2023, under the new definition, 46% were using finance, with 41% using core/other forms of finance where the definition had not changed and 19% still repaying pandemic funding.
- This increase 2022 to 2023 was caused both by the new pandemic funding element but also by an increase in the use of core finance from 26% to 31%, driven by an increase in credit cards (11% to 17%). Use of other forms of finance was stable year on year (20% to 21%).
- Those more likely to be using core finance in 2023 compared to 2022 included the largest SMEs (25% to 33% for those with 50-249 employees), those in Agriculture (29% to 38%), Transport (27% to 34%) and Starts (14% to 21%).
- 32% of borrowers were using more finance than they had been before the pandemic, with limited variation by size of SME. This is the equivalent of 12% of all SMEs, half the proportion using more finance than pre-pandemic when this question was first asked in 2021 (21%).

1 in 3
borrowers were using
more finance than they
were pre-pandemic

Two thirds of those using external finance were borrowing less than £25,000, and half were borrowing on a fixed rate. A quarter said some or all of their facilities were secured, with initial analysis suggesting 1 in 6 had provided a personal guarantee. A quarter of SMEs had a facility for their business in a personal name:

- 67% of SMEs using finance were borrowing less than £25,000 in total. The 33% of all finance users borrowing more than this increased by size of borrower from 24% of those with 0 employees to 82% of those with 50-249 employees, and was also higher for those borrowing more than they had been pre-pandemic (43%) and/or still repaying pandemic funding, where 44% were borrowing more than £25,000
- 51% of borrowers said that some or all of their borrowing was on a fixed rate with limited difference by size or sector.
- 25% of borrowers said that some or all of their borrowing was secured. This increased both by size of borrower (from 23% of those with 0 employees to 44% of those with 50-249 employees) as well as by total sum borrowed (from 20% of those borrowing less than £25,000 to 58% of those borrowing more than £100,000).
- In a new question for Q4 2023, 1 in 6 limited companies that were borrowing said there was a personal guarantee in place. Where the respondent had provided the guarantee, initial analysis suggested that 1 in 3 had given a guarantee for less than £25,000, a quarter had taken legal advice before signing and a similar proportion were worried about what giving the guarantee might mean for them.
- Whilst 7% of SMEs used a personal bank account for their business banking (down from around 1 in 5 in the early days of the Monitor) 10% used a facility in a personal name for their business, the equivalent of 24% of all finance users, both driven by the smallest SMEs.

A consistent half of borrowers have facilities on a fixed rate

15% of borrowers (the equivalent of 6% of all SMEs) were concerned about repaying the finance they currently had, slightly lower than in 2021. 8 in 10 said this had impacted their plans for their business but over half had no plans to speak to their lender about their concerns, with some uncertainty about how the lender would respond:

- 15% of borrowers were concerned about how they would repay the finance they had. This was more likely to be the case for smaller SMEs (16% of those with 0 employees and 15% of those with 1-9 employees compared to 7% and 6% of those with 10-49 and 50-249 employees). A quarter of those borrowing more than they had been pre-pandemic had concerns (27% and little changed over time) as did 20% of those with pandemic funding still to repay.
- This is the equivalent of 6% of all SMEs, down from 9% in Q2-4 2021, with a more notable change for those in Hotels & Restaurants (8% from 15% but still above average), while those in Agriculture and those trading for 2-5 or 6-9 years were the most likely to be concerned in 2023 (9%).
- 8 in 10 of those concerned said this had impacted their plans for the business, primarily how much they can grow the business (58% of those concerned) or invest in it (49%). This is up from 7 in 10 of those concerned in H2 2022 and is the equivalent of 5% of all SMEs in 2023.
- 19% of all those concerned about repaying their existing finance had already spoken to their lender, with a further 18% planning to do so, leaving the largest group (63%) with no plans at all to speak to their lender.
- Almost all those who had already spoken to their lender had received help and typically agreed a repayment or re-financing plan, with two thirds satisfied with the outcome.
- Amongst those who had not already spoken to their lender, a quarter were sure that their lender would treat them fairly, offer practical help and/or be supportive, while around 4 in 10 were uncertain that these things would happen. Around 3 in 10 thought it unlikely that they would, and this was more likely to be the view of those with no plans to speak to their lender as well as those whose plans had already been impacted by their repayment concerns.

15%
of borrowers were worried about repaying, but over half of them had no plans to speak to their bank

Other sources of funding for SMEs in 2023 included injections of personal funds and trade credit. Together with the external finance detailed above, three quarters of SMEs were using any of the various forms of ‘Business Funding’:

- 36% of SMEs reported an injection of personal funds into the business in 2023, 13% through choice and 23% through need. The smallest SMEs (39%), those with a worse than average risk rating (46%), those in Transport (41%) and Starts (61%) or those trading for 2-5 years (45%) were more likely to report such an injection of funds than their peers.
- Since 2021, over 1 in 3 SMEs have reported an injection of funds (34-37%) compared to around 1 in 4 pre-pandemic (24% in 2019), with smaller and younger SMEs always more likely to report such an injection as were those that had been a ‘Would-be seeker of finance’.
- 39% of SMEs regularly bought on trade credit, and here it was the larger SMEs who were more likely to be doing so (22% of those with 0 employees to 75% of those with 50-249 employees).
- The proportion using trade credit increased from 34% in 2018 to 37% in 2019 as more SMEs with 1-9 employees accessed this credit. Since then the proportion of 0 and 1-9 employee SMEs using trade credit has remained broadly stable, but has increased for those with 10-49 or 50-249 employees.
- Taking any use of external finance, trade credit and/or injections of personal funds together saw 75% of SMEs in 2023 using any form of ‘Business Funding’. Those with 0 employees were the least likely to be using it (72%) compared to 90% of those with 10-49 employees, boosted by their higher use of external finance reported above.
- Since 2021, over 1 in 3 SMEs have reported an injection of funds (34-37%) compared to around 1 in 4 pre-pandemic (24% in 2019), with smaller and younger SMEs always more likely to report such an injection as were those that had been a ‘Would-be seeker of finance’.
- 39% of SMEs regularly bought on trade credit, and here it was the larger SMEs who were more likely to be doing so (22% of those with 0 employees to 75% of those with 50-249 employees).

1 in 3
SMEs reported an injection of personal funds, up from 1 in 4 pre-pandemic

- The proportion using trade credit increased from 34% in 2018 to 37% in 2019 as more SMEs with 1-9 employees accessed this credit. Since then the proportion of 0 and 1-9 employee SMEs using trade credit has remained broadly stable, but has increased for those with 10-49 or 50-249 employees.
- Taking any use of external finance, trade credit and/or injections of personal funds together saw 75% of SMEs in 2023 using any form of 'Business Funding'. Those with 0 employees were the least likely to be using it (72%) compared to 90% of those with 10-49 employees, boosted by their higher use of external finance reported above.

Financial context

This is the first of two chapters on external funding in its many forms. They reflect the changes made to the questionnaire from Q1 2018 including an extended list of the types of finance that SMEs could say they were using and some further changes from Q1 2023 to better reflect on-going repayment of pandemic-related funding.

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

Use of external finance – recent changes to the questionnaire

The 'External finance' metric now includes any use of three forms of finance:

- Any 'core' finance (loans, overdrafts and /or credit cards), a list unchanged from Q1 2018
- Any 'other' forms of finance such as leasing, invoice finance etc a list also unchanged from Q1 2018
- Those still repaying government backed pandemic funding – included from Q1 2023 following a change to the questionnaire, explained below

During the pandemic, questions about government backed pandemic related funding were asked separately to the main 'use of external finance' questions reported in this chapter (Q15 etc) in order to maintain consistency for these long running questions. This however gave rise to some anomalies, where some SMEs confirmed at the pandemic funding questions that they had a Government backed facility that had not yet been repaid but had not mentioned having a 'bank loan' or other facility at Q15. This may be because they saw the pandemic funding as something different to run of the mill borrowing, given it was Government backed and was not subject to the usual rules and process of application.

In 2022 the questions available to correct the data were not as tightly defined as those that have been included from Q1 2023, so they have been used for the 2022 data to suggest the 'correction' that might apply to use of finance (and the definition of a PNB) if pandemic funding is taken fully into account.

From Q1 2023, the questionnaire itself has been adjusted and the status of Government backed loans has been asked next to overall use of finance such that any SMEs still repaying a Government backed facility will automatically be considered to be 'Using external finance' and answer further questions accordingly.

In summary, all data from Q1 2023 onwards include pandemic funding in the "any use of external finance" calculation. Figures for 2022 on both the old and new basis of calculating use of finance have been provided based on the re-calculation described above, to help to bridge the 'gap' between old and new definitions of external finance.

Use of any external finance by key demographics

Use of external finance for YEQ4 2023, using the new definition for 2023 explained above, was 46%. The table below shows that those with 1-9 or 10-49 employees continued to be more likely to be using some form of external finance than their peers:

| Use of external finance in last 5 years | | | | | |
|---|---------------|-------------|-------------|-------------|-------------|
| YEQ4 23 – all SMEs | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
| Unweighted base: | 17,010 | 3472 | 6381 | 5267 | 1890 |
| Use any now | 46% | 42% | 58% | 69% | 47% |
| Traditional core/other finance | 41% | 37% | 51% | 63% | 44% |
| Any other finance | 19% | 16% | 28% | 31% | 12% |
| Used in past but not now | 3% | 3% | 2% | 2% | 3% |
| Not used at all | 51% | 55% | 40% | 29% | 50% |

Q14/15 All SMEs – new definition from Q1 2018 and revised for Q1 2023

As described above, the 2023 use of external finance figures include those still repaying pandemic funding. To smooth the transition from the old to the new definition of ‘Use of any external finance’ the table below provides:

- The ‘Use now (original figures)’ up to Q4 2022, which have been shared in previous reports using the methodology in place since the questionnaire was revised in 2018 (with no adjustment for pandemic funding).
- The ‘Use now (corrected)’ figures which are the original figure plus:
 - For Q4 2021 to Q4 2022, a ‘best efforts’ adjustment to include pandemic funding based on the questions then available.
 - From Q1 2023, the new pandemic funding question that provides a much clearer assessment of all external funding.

5 Financial context

As the table shows, using the original definition for Q4 2022 and the new definition for Q1 2023 sees a marked increase in use of finance from 34% to 41%. However, the adjusted Q4 2022 figure (including a best efforts pandemic funding adjustment) is higher at 39% resulting in a much smaller change to Q1 2023 of 2 percentage points:

| Use of external finance in last 5 years | | | | | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Over time – all SMEs By date of interview | Q4 2021 | Q1 2022 | Q2 2022 | Q3 2022 | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
| Unweighted base: | 4085 | 4250 | 4250 | 4250 | 4252 | 4252 | 4253 | 3910 | 4595 |
| Use now (corrected) | 43% | 45% | 41% | 38% | 39% | 41% | 44% | 51% | 49% |
| Use now (original figures) | 40% | 40% | 38% | 33% | 34% | n/a | n/a | n/a | n/a |
| Used in past, not now | 3% | 3% | 4% | 5% | 5% | 3% | 3% | 2% | 3% |
| Not used at all (corrected) | 53% | 52% | 55% | 57% | 56% | 55% | 53% | 47% | 48% |

Q14/15 All SMEs – ADJUSTED FIGURE FOR 2022 AND REVISED DEFINITION FROM Q1 2023

The corrected analysis is available for key subgroups for 2022 as a whole, so the usually quarterly tables below have been adjusted accordingly for this report, showing 2022 as a whole year (original and then adjusted) rather than by quarter. Quarterly analysis will resume for the next report to YEQ4 2024.

Across 2023, use of any finance increased from 41% to 49% and for all sizes of SME, notably the largest SMEs who had become less likely to be using external finance during the pandemic:

| Over time – all SMEs | | | | | | | |
|---|------------|------------|------------|------------|------------|------------|------------|
| By date of interview – row percentages | 2021 | 2022 | 2022* | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
| All SMEs | 43% | 36% | 40% | 41% | 44% | 51% | 49% |
| 0 emp | 38% | 32% | 37% | 37% | 39% | 47% | 44% |
| 1-9 emps | 56% | 47% | 52% | 53% | 57% | 61% | 61% |
| 10-49 emps | 62% | 57% | 62% | 66% | 69% | 67% | 73% |
| 50-249 emps | 37% | 32% | 36% | 41% | 46% | 45% | 55% |

Q14/15 All SMEs – * ADJUSTED FIGURE FOR 2022 AND REVISED DEFINITION FROM Q1 2023

5 Financial context

The table below shows use of finance by risk rating for recent quarters. All risk ratings saw an increase in use of finance between Q1 and Q3 2023, but more variability in Q4, with use of finance declining for those with a minimal or average risk rating, stable for those with a worse than average risk rating and increasing for those with a low risk rating, making them the most likely to be using external finance in Q4 2023:

| Currently use external finance | | | | | | | |
|--------------------------------|------------|------------|------------|------------|------------|------------|------------|
| Over time – all SMEs | 2021 | 2022 | 2022* | Q1 | Q2 | Q3 | Q4 |
| By date of interview | | | | | | | |
| – row percentages | | | | | | | |
| All SMEs | 43% | 36% | 40% | 41% | 44% | 51% | 49% |
| Minimal | 46% | 42% | 45% | 47% | 53% | 58% | 49% |
| Low | 47% | 40% | 46% | 44% | 41% | 54% | 62% |
| Average | 40% | 36% | 39% | 42% | 43% | 49% | 41% |
| Worse than average | 41% | 34% | 39% | 39% | 42% | 48% | 48% |

Q14/15 All SMEs, base varies slightly each quarter- * ADJUSTED FIGURE FOR 2022 AND REVISED DEFINITION FROM Q1 2023

Use of any finance amongst Starts has been volatile in 2023 (on limited base sizes by quarter) but they remained less likely than their peers to be using finance. All sizes of SMEs were more likely to be using external finance by the end of 2023 than they had been at the beginning:

| Currently use external finance | | | | | | | |
|--------------------------------|------------|------------|------------|------------|------------|------------|------------|
| Over time – all SMEs | 2021 | 2022 | 2022* | Q1 | Q2 | Q3 | Q4 |
| By date of interview | | | | | | | |
| – row percentages | | | | | | | |
| All SMEs | 43% | 36% | 40% | 41% | 44% | 51% | 49% |
| Starts | 33% | 26% | 28% | 29% | 30% | 42% | 35% |
| 2-5 years trading | 45% | 40% | 46% | 43% | 53% | 55% | 51% |
| 6-9 years | 49% | 39% | 45% | 52% | 48% | 58% | 58% |
| 10-15 years | 44% | 41% | 46% | 43% | 50% | 59% | 54% |
| More than 15 years | 44% | 37% | 42% | 44% | 45% | 49% | 50% |

Q14/15 All SMEs, base varies slightly each quarter- * ADJUSTED FIGURE FOR 2022 AND REVISED DEFINITION FROM Q1 2023

The table below shows use of external finance on an annual basis over the longer term, including an additional column with the adjusted figures for 2022, and the new definition for 2023. Typically around 4 in 10 SMEs have used external finance, with the 46% using finance under the new definition in 2023 at the top of the range seen:

- The difference between 2022 and 2022 adjusted is 4 percentage points (36% to 40%) with a similar uplift across all demographics with the slight exception of a 6 point uplift for those with a low risk rating, in Manufacturing, Hotels & Restaurants or trading for 2-5 or 6-9 years. Starts were less affected than their peers (+2) primarily due to many of these SMEs not being in existence when the funding was made available:
- All sizes of SMEs were more likely to be using external finance in 2023 than in 2022. 42% of 0 employee SMEs were using finance, back in line with 2019, increasing to 58% of those with 1-9 employees, a proportion last seen in 2021. Those with 10-49 employees were the most likely to be using finance (69%), the highest level seen for this group in recent years. Between 2019 and 2022 the largest SMEs became less likely to be using external finance, but the 47% seen in 2023 was higher than has been seen recently (36% in 2022) if not yet back to pre-pandemic levels.
- All risk ratings were more likely to be using finance in 2023 than in 2022. Those with a minimal risk rating were the most likely to be using external finance (52%), the highest level seen in recent years. Those with a low risk rating were also more likely to be using finance (50%) than previously. While use of finance was lower than their peers for those with an average or worse than average risk rating (both 44%) this was also higher than has been previously seen for these groups.
- SMEs in the Transport (53%) and Agriculture (52%) sectors were the most likely to be using finance, both a marked increase from 2022. For Transport this is higher than has been seen over recent years, whereas for Agriculture this is more in line with pre-pandemic use of finance. Those in Property/ Business Services also saw a marked increase in use of finance 2022 to 2023, moving them from below average to in line with their peers. Other sectors saw either much smaller or no change year on year.
- 1 in 3 SMEs can be described as Permanent non-borrowers (defined in the next chapter), with no use of, or apparent appetite for, finance. Once they were excluded, use of finance amongst remaining SMEs initially increased from 66% in 2012 to 78% in 2019, the highest proportion seen to date on the SME Finance Monitor. In 2020, the proportion dropped to 61%, the lowest level seen to date, but since then has been more in line with earlier years (71% in 2023).
- Starts remained less likely to be using external finance than their older peers. This has not always been the case – back in 2019 three quarters of Starts were using external finance, with the increase from 2018 due to more Starts with an overdraft or a credit card.

| Currently use external finance | | | | | | | | |
|--|------------|------------|------------|------------|------------|------------|------------|------------|
| Over time – all SMEs | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2022* | 2023* |
| By date of interview – row percentages | | | | | | | | |
| All SMEs | 38% | 36% | 45% | 37% | 43% | 36% | 40% | 46% |
| 0 emp | 34% | 34% | 43% | 32% | 38% | 32% | 37% | 42% |
| 1-9 emps | 49% | 42% | 50% | 49% | 56% | 47% | 52% | 58% |
| 10-49 emps | 64% | 54% | 60% | 58% | 62% | 57% | 62% | 69% |
| 50-249 emps | 73% | 77% | 77% | 58% | 37% | 32% | 36% | 47% |
| Minimal external risk rating | 48% | 46% | 46% | 41% | 46% | 42% | 45% | 52% |
| Low | 45% | 38% | 48% | 45% | 47% | 40% | 46% | 50% |
| Average | 37% | 35% | 41% | 36% | 40% | 36% | 39% | 44% |
| Worse than average | 36% | 35% | 46% | 34% | 41% | 34% | 39% | 44% |
| Agriculture | 50% | 46% | 56% | 44% | 45% | 39% | 42% | 52% |
| Manufacturing | 43% | 34% | 44% | 38% | 47% | 41% | 47% | 46% |
| Construction | 37% | 34% | 48% | 36% | 40% | 38% | 42% | 47% |
| Wholesale/Retail | 48% | 43% | 52% | 44% | 49% | 42% | 45% | 49% |
| Hotels & Restaurants | 43% | 39% | 48% | 48% | 55% | 40% | 46% | 47% |
| Transport | 40% | 37% | 46% | 43% | 47% | 36% | 41% | 53% |
| Property/ Business Services | 33% | 31% | 37% | 33% | 38% | 30% | 35% | 45% |
| Health | 41% | 49% | 56% | 28% | 34% | 30% | 33% | 33% |
| Other | 34% | 37% | 42% | 31% | 44% | 41% | 45% | 44% |
| All excl PNBs | 72% | 70% | 78% | 61% | 70% | 69% | 73% | 71% |
| Starts | 42% | 54% | 75% | 34% | 33% | 26% | 28% | 34% |
| 2-5 years trading | 33% | 32% | 36% | 38% | 45% | 40% | 46% | 50% |
| 6-9 years | 34% | 34% | 41% | 37% | 49% | 39% | 45% | 54% |
| 10-15 years | 41% | 34% | 38% | 35% | 44% | 41% | 46% | 52% |
| 15+ years | 39% | 30% | 37% | 38% | 44% | 37% | 42% | 47% |

Q14/15 All SMEs – *ADJUSTED FIGURE FOR 2022 AND REVISED DEFINITION FROM Q1 2023

Pandemic funding

As detailed at the start of this chapter, from Q1 2023 a revised question has clarified the current use of any government backed pandemic related funding. Those still repaying pandemic funding are automatically added to the ‘using external finance’ metric and those who applied (whether successful, already repaid or still repaying) can no longer be classed as a Permanent non-borrower.

As the table below shows:

- 29% of SMEs applied for government backed funding, almost all of them successfully (3% of applicants were unsuccessful, the equivalent of 1% of all SMEs). 28% of SMEs have or had a government backed facility, increasing to 48% of those with 10-49 employees.
- Most are still repaying this funding (68% of those who took a facility, the equivalent of 19% of all SMEs), with little variation in the proportion by size with the exception of the largest SMEs where 38% of those who took a facility were still repaying it.
- This means that 33% of all SMEs with 10-49 employees are currently repaying government backed funding, as are 29% of those with 1-9 employees, compared to 16% of those with 0 employees and 12% of those with 50-249 employees:

| Use of Government backed pandemic funding | | | | | |
|--|---------------|-------------|-------------|-------------|-------------|
| YEQ4 23 – all SMEs excl DK | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
| Unweighted base: | 15,992 | 3413 | 6135 | 4850 | 1594 |
| Applied for government backed funding | 29% | 25% | 40% | 48% | 32% |
| Took and repaid government backed funding | 9% | 8% | 11% | 15% | 20% |
| Took and still repaying | 19% | 16% | 29% | 33% | 12% |
| Applied but not successful | 1% | 1% | 1% | * | * |
| Did not apply for government backed pandemic funding | 71% | 75% | 60% | 52% | 68% |
| % of those with facility still repaying | 68% | 67% | 73% | 69% | 38% |

Qbb2ax All SMEs excl Dk from Q1 2023

5 Financial context

The table below provides analysis by risk rating and shows that those with a minimal or low risk rating were somewhat more likely to have applied for pandemic funding than those with an average or worse than average risk rating. Where such funding was taken, it is those with either a low or worse than average risk rating who are more likely to still be repaying the funding. Overall, 25% of those with a low risk rating are still repaying government backed funding, with little variation amongst the other risk ratings (17-19%):

| Use of Government backed pandemic funding | | | | | |
|--|---------------|-------------|-------------|-------------|-------------|
| YEQ4 23 – all SMEs excl DK | Total | Min | Low | Avge | WTA |
| Unweighted base: | 15,992 | 3086 | 4336 | 4282 | 3183 |
| Applied for government backed funding | 29% | 33% | 37% | 29% | 24% |
| Took and repaid government backed funding | 9% | 13% | 11% | 11% | 7% |
| Took and still repaying | 19% | 19% | 25% | 18% | 17% |
| Applied but not successful | 1% | 1% | 1% | * | 1% |
| Did not apply for government backed pandemic funding | 71% | 67% | 63% | 71% | 76% |
| % of those with facility still repaying | 68% | 59% | 69% | 62% | 71% |

Qbb2ax All SMEs excl Dk from Q1 2023

5 Financial context

The table below provides analysis by sector and shows limited variation in the proportion who applied for government backed funding, ranging from 33% in Transport to 27% in Property/ Business Services and Construction with the exception of Health (21%). Where such funding was taken, it is those in Agriculture who are more likely to still be repaying the funding (75%) compared to 62% in Property/Business Services and Health and 65-72% elsewhere. Overall, 1 in 5 of all SMEs in each sector are still repaying government backed funding, with the exception of Health (13%) and Property/Business Services (16%):

| Use of government backed funding | | | | | | | | | |
|----------------------------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|-------------|
| YEQ4 23 – all SMEs excl DK | Agric | Mfg | Constr | Whle Retail | Hotel Rest | Trans | Prop/ Bus | Hlth SWrk | Other Comm |
| Unweighted base: | 959 | 1670 | 2581 | 2054 | 1105 | 1666 | 3481 | 871 | 1605 |
| Applied | 29% | 29% | 27% | 30% | 32% | 33% | 27% | 21% | 29% |
| Took and repaid | 7% | 8% | 8% | 8% | 11% | 10% | 10% | 8% | 10% |
| Took, repaying | 21% | 20% | 19% | 21% | 20% | 23% | 16% | 13% | 19% |
| Unsuccessful | * | 1% | 1% | 1% | 1% | 1% | 1% | * | * |
| Did not apply | 71% | 71% | 73% | 70% | 68% | 67% | 73% | 79% | 71% |
| % still repaying | 75% | 71% | 70% | 72% | 65% | 70% | 62% | 62% | 66% |

Qbb2ax All SMEs excl Dk from Q1 2023

The analysis below by age of business reflects the facts that most Starts were not in existence when the government backed pandemic funding was available during 2020 and 2021, with 5% of Starts having applied for a government backed facility. The proportion then increases by age of business to 43% of those trading for 6-9 years, and 38% of those trading for 10-15 years before dropping slightly to 33% of those trading for more than 15 years.

Where such funding was taken, with the exception of the Starts, there is little difference in the proportion that is still be repaying the funding (66-72%). Overall, it is those trading for 6-9 or 10-15 years who are most likely to be repaying such funding (30% and 26% of all SMEs in each age group):

| Use of Government backed funding | | | | | |
|--|------------|-------------|-------------|-------------|-------------|
| YEQ4 23 – all SMEs excl DK | Starts | 2-5 yrs | 6-9 yrs | 10-15 yrs | 15 yrs+ |
| Unweighted base: | 548 | 1299 | 1576 | 3038 | 9531 |
| Applied for government backed funding | 5% | 27% | 43% | 38% | 33% |
| Took and repaid government backed funding | 2% | 7% | 12% | 11% | 11% |
| Took and still repaying | 2% | 18% | 30% | 26% | 21% |
| Applied but not successful | 1% | 1% | * | 1% | 1% |
| Did not apply for government backed funding | 95% | 73% | 57% | 62% | 67% |
| % of those with facility still repaying | 50% | 72% | 71% | 70% | 66% |

Qbb2ax All SMEs excl Dk from Q1 2023

This government backed funding is one of the three components of the revised ‘Using any external finance’ metric. Analysis showed that:

- 72% of those who took and are still repaying government backed funding were currently using some other form of finance (66% using core and 35% using other, potentially including some mentions of the government backed loan they subsequently confirmed they still had) and 45% were borrowing more than they used to pre-pandemic
- 45% of those who took but have repaid government backed funding were currently using some other finance (36% using core and 22% using other) and 13% are borrowing more than they used to
- 33% of those who did not apply for any government backed funding were currently using some other form of finance (22% using core and 18% using other) and 4% are borrowing more than they used to

Other metrics showed that:

- 15% of those still repaying this funding were planning to apply for finance in future, twice the level of those who had either repaid the funding (9%) or had not applied for any (6%).
- 52% of those still repaying this funding were in a 'good' mood about their business, compared to 59% of those who had repaid their funding and 61% of those who had not applied for any.
- 23% of those still repaying this funding described themselves as 'Struggling', compared to 17% of those who had repaid their funding and 16% of those who had not applied for any.

Summary use of core and other forms of finance

The overall use of finance figures already reported includes use of the 'core' forms of finance often provided by banks (overdrafts, loans (including commercial mortgages) and/or credit cards) and a range of 'other' forms of finance available to SMEs and these definitions have not changed in 2023. The 31% using core finance in 2023 is in line with most recent years with the exception of 2019 (39%) and 2022 (26%).

Detailed breakdowns by the types of products included in each definition are provided later in this chapter.

The analysis below shows the use of core and other forms of finance on an annual basis (note that this does not include the new question on pandemic related funding referenced earlier in this chapter).

As mentioned above, the 31% using core finance in 2023 was more in line with previous years, up slightly from 26% in 2022.

- The increase in use in core finance between 2022 and 2023 was seen across most demographics, but more markedly for those with 50-249 employees (25% to 33%), those with a minimal risk rating (31% to 37%) and those in Agriculture (29% to 38%), Transport (27% to 34%) and Property/Business Services (23% to 30%).
- Excluding the permanent non-borrowers increases the proportion of remaining SMEs using core finance. In 2023, 47% of remaining SMEs were using core finance, slightly lower than in 2022 (51%) due to there being more PNBs in the SME population in 2023 (see next chapter)
- Starts remained less likely to be using core finance than their older peers, though the proportion was higher in 2023 than in 2022

| Currently use any core finance | | | | | | | |
|--|------------|------------|------------|------------|------------|------------|------------|
| Over time – all SMEs | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| By date of interview – row percentages | | | | | | | |
| All SMEs | 31% | 32% | 39% | 29% | 31% | 26% | 31% |
| 0 emp | 27% | 29% | 37% | 24% | 26% | 23% | 28% |
| 1-9 emps | 39% | 36% | 42% | 39% | 43% | 36% | 39% |
| 10-49 emps | 53% | 46% | 52% | 48% | 51% | 48% | 52% |
| 50-249 emps | 64% | 70% | 71% | 50% | 30% | 25% | 33% |
| Minimal external risk rating | 39% | 41% | 40% | 32% | 37% | 31% | 37% |
| Low | 38% | 34% | 41% | 35% | 37% | 32% | 36% |
| Average | 30% | 31% | 35% | 28% | 29% | 26% | 31% |
| Worse than average | 28% | 30% | 39% | 27% | 29% | 25% | 27% |
| Agriculture | 40% | 40% | 48% | 35% | 35% | 29% | 38% |
| Manufacturing | 35% | 31% | 37% | 29% | 35% | 32% | 30% |
| Construction | 30% | 29% | 42% | 29% | 29% | 27% | 30% |
| Wholesale/Retail | 39% | 37% | 45% | 37% | 35% | 30% | 34% |
| Hotels & Restaurants | 36% | 36% | 42% | 38% | 41% | 29% | 31% |
| Transport | 29% | 30% | 38% | 32% | 35% | 27% | 34% |
| Property/ Business Services | 26% | 27% | 32% | 26% | 28% | 23% | 30% |
| Health | 36% | 45% | 52% | 22% | 22% | 21% | 23% |
| Other Community | 26% | 32% | 34% | 23% | 28% | 30% | 31% |
| All excl PNBs | 57% | 61% | 67% | 48% | 51% | 51% | 47% |
| Starts | 31% | 50% | 68% | 26% | 21% | 14% | 21% |
| 2-5 years trading | 22% | 25% | 28% | 29% | 32% | 29% | 27% |
| 6-9 years | 27% | 30% | 34% | 30% | 35% | 30% | 35% |
| 10-15 years | 35% | 28% | 32% | 27% | 33% | 32% | 36% |
| 15+ years | 33% | 27% | 32% | 30% | 33% | 29% | 33% |

Q15 All SMEs -new definition for Q1 2018

5 Financial context

The table below shows summary use of any of the 'other' forms of finance, by key demographics, over time. Overall usage changed very little between 2012 and 2020 (16-18%) with the exception of 2018 (12%) but was 24% in 2021. The figures since have been slightly lower (21% for 2023) but still at the top of the range seen across most previous years, with SMEs with 10-49 employees the most likely to be using such finance (43%) and a notable increase in use amongst those with 50-249 employees (to 31%):

| Currently use any 'other' finance | | | | | | | |
|--|------------|------------|------------|------------|------------|------------|------------|
| Over time – all SMEs | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| By date of interview – row percentages | | | | | | | |
| All SMEs | 18% | 12% | 16% | 18% | 24% | 20% | 21% |
| 0 emp | 14% | 9% | 13% | 15% | 21% | 17% | 18% |
| 1-9 emps | 25% | 18% | 22% | 27% | 33% | 28% | 28% |
| 10-49 emps | 40% | 28% | 33% | 37% | 45% | 39% | 43% |
| 50-249 emps | 44% | 49% | 33% | 36% | 28% | 22% | 31% |
| Minimal external risk rating | 25% | 14% | 20% | 22% | 26% | 26% | 25% |
| Low | 20% | 14% | 19% | 25% | 27% | 22% | 22% |
| Average | 15% | 11% | 13% | 18% | 23% | 20% | 19% |
| Worse than average | 17% | 12% | 16% | 16% | 24% | 19% | 21% |
| Agriculture | 26% | 15% | 24% | 22% | 28% | 24% | 24% |
| Manufacturing | 19% | 11% | 15% | 20% | 28% | 22% | 20% |
| Construction | 17% | 11% | 14% | 17% | 22% | 21% | 22% |
| Wholesale/Retail | 22% | 16% | 22% | 20% | 28% | 25% | 21% |
| Hotels & Restaurants | 18% | 12% | 17% | 26% | 38% | 25% | 19% |
| Transport | 22% | 14% | 20% | 25% | 27% | 21% | 28% |
| Property/ Business Services | 14% | 10% | 12% | 16% | 21% | 15% | 20% |
| Health | 15% | 12% | 12% | 14% | 19% | 17% | 11% |
| Other Community | 17% | 10% | 16% | 17% | 27% | 24% | 20% |
| All excl PNBs | 33% | 22% | 27% | 31% | 40% | 39% | 32% |
| Starts | 20% | 11% | 17% | 16% | 19% | 18% | 19% |
| 2-5 years trading | 18% | 15% | 17% | 21% | 26% | 22% | 27% |
| 6-9 years | 17% | 12% | 17% | 20% | 28% | 21% | 25% |
| 10-15 years | 17% | 12% | 15% | 18% | 26% | 23% | 21% |
| 15+ years | 16% | 10% | 15% | 18% | 25% | 19% | 20% |

Q15 All SMEs – new definition Q1 2018

Use of core and other forms of finance in combination

The table below shows how core and other forms of finance have been used individually or in combination by SMEs since 2016.

The proportion using only core forms of finance initially decreased from 26% in 2012 to 20% of SMEs in 2014. After a period of stability 2015-2017, sole use of core finance increased, reaching 29% in 2019. It has been somewhat lower since but the increase from 15% in 2022 to 20% in 2023 mirrors the increase in use of core finance overall (26% to 31%) :

| External finance currently used | | | | | | | | |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Over time – all SMEs | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| Unweighted base: | 18,000 | 18,012 | 18,002 | 18,000 | 17,768 | 16,486 | 17,002 | 17,010 |
| Only use core products | 21% | 21% | 25% | 29% | 18% | 18% | 15% | 20% |
| Only use other forms of finance | 7% | 8% | 5% | 6% | 8% | 12% | 10% | 10% |
| Use both forms of finance | 10% | 10% | 7% | 9% | 10% | 13% | 11% | 11% |
| Use none of these forms of finance | 62% | 62% | 64% | 55% | 63% | 57% | 64% | 59% |

Q15 All SMEs

Changes in the use of core finance have typically been the main contributor to the increase or decline in the proportion of SMEs using no finance at all, notably in 2019 and again in 2023. The proportions using only other forms of finance, or both other and core forms of finance, remained more stable, with the exception of 2021-2022, due to the increase in the use of grants at that time.

Detailed use of all forms of external finance

The table below shows the full list of the different types of ‘traditional’ funding covered on the SME Finance Monitor since Q1 2018 and being used by SMEs YEQ4 2023. It includes both the core forms of finance and the other forms of finance about which data has been collected, some of which may also be obtained from the bank. As a reminder, these figures have not been adjusted in the light of the additional questions around pandemic related funding. Credit cards are the most used form of ‘core’ funding, with Leasing/HP remaining the most used form of ‘other’ funding:

| External finance currently used | | | | | |
|--|---------------|-------------|-------------|-------------|-------------|
| YEQ4 23 – all SMEs | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
| Unweighted base: | 17,010 | 3472 | 6381 | 5267 | 1890 |
| Core products (any) | 31% | 28% | 39% | 52% | 33% |
| -Credit cards | 17% | 16% | 19% | 34% | 21% |
| -Bank overdraft | 13% | 12% | 15% | 19% | 13% |
| -Bank loan | 11% | 9% | 17% | 22% | 13% |
| -Commercial mortgage | 2% | 1% | 3% | 6% | 6% |
| -Any other loan | 2% | 1% | 2% | 2% | 1% |
| -Any other overdraft | * | * | * | * | - |
| Other forms of finance (any) | 21% | 18% | 28% | 43% | 31% |
| -Leasing or hire purchase | 10% | 8% | 16% | 33% | 23% |
| -Loans from directors, family & friends | 7% | 6% | 9% | 7% | 3% |
| -Equity from directors, family & friends | 2% | 2% | 3% | 3% | 1% |
| -Invoice finance | 1% | 1% | 2% | 6% | 9% |
| -Grants | 4% | 4% | 5% | 7% | 4% |
| -Crowd funding / peer to peer* | * | * | 1% | 1% | 1% |
| -Asset based lending* | * | * | 1% | 2% | 1% |
| -Selective/single invoice finance* | * | * | 1% | 1% | 1% |
| Any ‘traditional’ finance | 41% | 37% | 51% | 63% | 44% |
| None of these | 59% | 63% | 49% | 37% | 56% |

Q15 All SMEs – new definition from Q1 2018

● 5 Financial context

Amongst SMEs with employees, 52% were using external finance – 41% were using any form of core finance and 30% any of the other forms of finance listed.

SMEs that import and/or export were asked about use of Export/Import finance. YEQ4 2023, 1% of such SMEs used these products, with limited variation by size of SME (<1-4%).

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

The table below details the use of all of these forms of funding over recent quarters. Use of bank loans has been lower since the second half of 2022, with a marked increase in use of credit cards from Q2 2023, and a smaller increase in use of overdrafts. Meanwhile use of Grants, which increased during the pandemic, has now returned to pre-pandemic levels.

| Use of 'traditional' finance | | | | | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Over time – all SMEs | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| By date of interview | 2021 | 2022 | 2022 | 2022 | 2022 | 2023 | 2023 | 2023 | 2023 |
| Unweighted base: | 4085 | 4250 | 4250 | 4250 | 4252 | 4252 | 4253 | 3910 | 4595 |
| Core products (any)* | 29% | 28% | 28% | 24% | 25% | 26% | 31% | 34% | 33% |
| -Bank loan | 14% | 13% | 13% | 11% | 11% | 11% | 12% | 10% | 11% |
| -Bank overdraft | 11% | 12% | 10% | 8% | 9% | 11% | 13% | 17% | 13% |
| -Credit cards | 11% | 11% | 13% | 9% | 12% | 12% | 16% | 20% | 20% |
| -Comm. Mortgage | 1% | 2% | 1% | 1% | 2% | 2% | 2% | 2% | 2% |
| -Any other loan* | 3% | 2% | 4% | 2% | 2% | 3% | 1% | 1% | 1% |
| -Any other overdraft* | * | * | * | * | * | * | * | * | * |
| Other forms of finance (any)* | 23% | 24% | 21% | 18% | 18% | 18% | 20% | 23% | 22% |
| -Leasing, hire purchase or vehicle finance | 8% | 8% | 8% | 6% | 9% | 9% | 11% | 11% | 10% |
| -Grants | 11% | 13% | 9% | 8% | 6% | 5% | 4% | 4% | 4% |
| -Loans from directors/family/friends | 4% | 6% | 5% | 6% | 4% | 5% | 6% | 8% | 8% |
| -Equity from directors/family/friends | 1% | 2% | 2% | 1% | 2% | 1% | 2% | 2% | 2% |
| -Invoice finance | 2% | 1% | 1% | 1% | 1% | 1% | 2% | 2% | 1% |
| -Crowd funding/ peer to peer* | * | * | * | * | * | * | * | * | * |
| -Asset based lending* | * | * | * | * | * | * | * | 1% | * |
| -Selective/single invoice finance* | 1% | * | 1% | 1% | * | * | * | * | * |
| Any 'traditional' finance – all SMEs | 40% | 40% | 38% | 33% | 34% | 36% | 39% | 44% | 43% |

Q15 All SMEs – new definition Q1 2018

5 Financial context

The table below takes a longer term, annual view of the use of these individual finance products, back to 2016. In 2021, potentially boosted by pandemic related funding, use of bank loans/commercial mortgages reached 17% but has been somewhat lower since, albeit still ahead of pre-pandemic figures (12% in 2023), while the proportion using Grants dropped from 14% to 4% of SMEs. Use of credit cards increased to 17% in 2023, back to levels seen in 2019:

| Use of 'traditional' finance | | | | | | | | |
|---|------------|------------|------------|------------|------------|------------|------------|------------|
| Over time – all SMEs | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| By date of interview | | | | | | | | |
| Core products (any)* | 30% | 31% | 32% | 39% | 29% | 31% | 26% | 31% |
| -Bank overdraft | 16% | 18% | 19% | 23% | 13% | 11% | 10% | 13% |
| -Bank loan/Commercial mortgage | 7% | 6% | 9% | 9% | 12% | 17% | 13% | 12% |
| -Credit cards | 17% | 16% | 14% | 18% | 13% | 11% | 11% | 17% |
| -Any other loan* | - | - | 1% | 1% | 1% | 3% | 3% | 2% |
| -Any other overdraft* | - | - | * | * | * | * | * | * |
| Other forms of finance (any)* | 16% | 18% | 12% | 16% | 18% | 24% | 20% | 21% |
| -Leasing, hire purchase or vehicle finance | 7% | 9% | 7% | 11% | 9% | 9% | 8% | 10% |
| -Loans/Equity from directors/family/friends | 6% | 5% | 4% | 4% | 4% | 5% | 6% | 8% |
| -Invoice finance | 3% | 3% | 1% | 1% | 1% | 1% | 1% | 1% |
| -Grants | 2% | 2% | 1% | 1% | 8% | 14% | 9% | 4% |
| -Crowd funding/ peer to peer* | - | - | * | * | * | * | * | * |
| -Asset based lending* | - | - | * | * | * | * | * | * |
| -Selective/single invoice finance* | - | - | * | * | * | * | 1% | * |
| Any 'traditional' finance | 37% | 38% | 36% | 45% | 37% | 43% | 36% | 41% |

Q15 All SMEs – new definition Q1 2018

SMEs could use one or more of the forms of finance listed above, but over half used just one if they used any: 55% of those SMEs using any external finance were only using one of the forms of finance listed, the equivalent of 22% of all SMEs.

5 Financial context

The table below shows the number of forms of finance used by all SMEs for YEQ4 2023 (including the 59% using no external finance). Around 1 in 5 used one type of finance, with the slight exception of those with 1-9 employees where 26% used one form of finance. A quarter of those with 10-49 employees were using 3 or more forms of finance:

| Forms of external finance currently used | | | | | |
|--|---------------|-------------|-------------|-------------|-------------|
| YEQ4 23 – all SMEs | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
| Unweighted base: | 17,010 | 3472 | 6381 | 5267 | 1890 |
| None | 59% | 63% | 49% | 37% | 56% |
| 1 form of finance | 22% | 22% | 26% | 23% | 20% |
| 2 forms of finance | 11% | 9% | 14% | 17% | 9% |
| 3 forms of finance | 4% | 4% | 6% | 12% | 8% |
| 4 or more forms of finance | 3% | 2% | 5% | 12% | 8% |

62% of those using a single form of finance YEQ4 2023 were using one of the core products, including 27% using a credit card, 17% using an overdraft and 14% using a bank loan. 37% were using an 'other' product, including 15% using Leasing/HP, and 13% a loan/equity from friends, family or directors.

Moving from one to two forms of finance saw an increase in use of any core products from 62% to 90% and of other forms of finance from 37% to 56%. Individual products which saw the largest increase in usage included credit cards (27% to 50%), overdrafts (17% to 40%), loans/commercial mortgages (17% to 37%) and leasing (15% to 27%).

The table below shows how the number of products being used has changed over recent quarters. The proportion of SMEs using 2 or more forms of finance has typically varied very little (16-19% from Q3 2020 to Q2 2022) and was in line with this from Q2 2023 having been slightly lower in H2 2022:

| Number of forms of finance | | | | | | | | |
|----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Over time – all SMEs | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| By date of interview | 2022 | 2022 | 2022 | 2022 | 2023 | 2023 | 2023 | 2023 |
| Unweighted base: | 4250 | 4250 | 4250 | 4252 | 4252 | 4253 | 3910 | 4595 |
| No finance used | 60% | 62% | 67% | 66% | 64% | 61% | 56% | 57% |
| 1 form of finance | 22% | 21% | 18% | 19% | 21% | 21% | 23% | 26% |
| 2 or more forms of finance | 17% | 17% | 14% | 15% | 15% | 18% | 22% | 18% |

● 5 Financial context

1% of SMEs (YEQ4 2023) said that they were using an additional form of external finance not on the list detailed in full above, with no difference by size:

- Those using a specified form of finance were no more likely to also be using an additional form of finance (1% for those also using any of the specified forms of external finance and 1% for those not).
- This means that less than 1% of all SMEs are classed as non-users of finance in this report (because they do not use any of the specified forms of external finance) but said at this question that they were using some other form of finance. The form of funding used is not known.

External finance – amounts and rates

This new section provides some additional detail on the external finance currently being used by SMEs.

From Q1 2023, all SMEs using any external finance (including repaying pandemic funding) were asked if some or all of their borrowing was on a fixed rate. YEQ4 2023, 51% of finance users said that it was:

- There was little difference by size of SME (48-53%)
- There was also little difference by sector (46-53%) with the slight exception of Manufacturing (56%)
- Starts using external finance were less likely to have funding on a fixed rate (39%) with little difference amongst older SMEs (52-56%)
- Those borrowing £25k to £100k were slightly more likely to be on a fixed rate (59%) than those borrowing more than this (55%) or those borrowing less (50%)

From Q3 2022, SMEs using any external finance (except those only using grants and/or loans or equity from directors) have been asked how much they owed in total. This question was asked first across a range of bands and then narrower bands for those who were unable/ unwilling to give an answer (14% in 2023), and these follow up answers are included in the net codes in the table below.

Two thirds of SMEs using such finance owed up to £25,000 and this was more likely to be the case for smaller SMEs:

| Amount owed in total – all SMEs using relevant finance | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|
| YEQ4 23 | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
| Unweighted base: | 7639 | 1198 | 3044 | 2750 | 647 |
| Up to £5,000 | 32% | 37% | 21% | 15% | 10% |
| £5-10,000 | 15% | 17% | 10% | 4% | 2% |
| £10-25,000 | 20% | 21% | 19% | 9% | 6% |
| £25-50,000 | 17% | 15% | 24% | 19% | 11% |
| £50-100,000 | 8% | 5% | 12% | 18% | 14% |
| £100,000+ | 8% | 4% | 13% | 35% | 57% |
| Net: Borrowing up to £25,000 | 67% | 76% | 51% | 28% | 18% |
| Net: Borrowing more than £25,000 | 33% | 24% | 49% | 72% | 82% |

Q15za All SMEs using relevant forms of external finance excl DK. Net scores include prompted answers in narrower bands

Overall, 33% of SMEs using finance said they owed more than £25,000. This was more likely to be the case for larger SMEs (7 in 10 of those with 10-49 employees and 8 in 10 of those with 50-249 employees), as well as those with a minimal or low risk rating (45% and 41% respectively), and those in Agriculture (44%) or Hotels & Restaurants (47%). This is the equivalent of 13% of all SMEs owing £25,000 or more. Further detail is provided in the table below.

Other analysis showed that just over 4 in 10 of all those borrowing more than they were before the pandemic owed more than £25,000 (43%), compared to 33% borrowing less than they used to and 28% borrowing about the same. Amongst those still repaying government backed funding, 44% were borrowing more than £25,000 compared to 15% who had repaid their government backed funding and 5% who didn't apply for any of this funding.

Some limited analysis over time is now possible and is shown below. Overall:

- 33% of SMEs using finance said they owed more than £25,000, little changed from the 35% of finance users borrowing such sums in H2 2022 when this data was first collected. That said, finance users in Agriculture (64% to 44%) and Transport (48% to 34%) were less likely to be borrowing more than £25,000 in 2023 than in H2 2022, while those in the Other Community sector (17% to 26%) and those planning to apply for finance (31% to 40%) were somewhat more likely to be borrowing such sums.
- Use of external finance has increased over the course of 2023, and the proportion of all SMEs borrowing more than £25,000 has increased slightly from 9% to 13%, notably for larger SMEs (34% to 44% for those with 10-49 employees and 22% to 33% for those with 50-249 employees). A higher proportion of all SMEs in Property/Business Services (6% to 12%) and those trading for 6-9 years (8% to 16%) were also borrowing such sums in 2023.

5 Financial context

| Owe £25,000+ | | | | |
|--|----------------------------|---------------------------|-------------------|------------------|
| By date of interview – row percentages | All using finance H2 22 | All using finance 2023 | All SMEs H2 22 | All SMEs 2023 |
| All SMEs | 35% | 33% | 9% | 13% |
| 0 emp | 23% | 24% | 5% | 8% |
| 1-9 emps | 54% | 49% | 19% | 24% |
| 10-49 emps | 77% | 72% | 34% | 44% |
| 50-249 emps | 84% | 82% | 22% | 33% |
| Minimal external risk rating | 54% | 45% | 16% | 20% |
| Low | 54% | 41% | 16% | 18% |
| Average | 28% | 33% | 6% | 12% |
| Worse than average | 29% | 26% | 7% | 9% |
| Agriculture | 64% | 44% | 21% | 20% |
| Manufacturing | 33% | 34% | 10% | 13% |
| Construction | 26% | 27% | 7% | 11% |
| Wholesale/Retail | 47% | 38% | 14% | 16% |
| Hotels & Restaurants | 51% | 47% | 14% | 18% |
| Transport | 48% | 34% | 14% | 15% |
| Property/ Business Services | 27% | 34% | 6% | 12% |
| Health | 37% | 35% | 6% | 9% |
| Other | 17% | 26% | 4% | 9% |
| Starts | 33% | 32% | 5% | 8% |
| 2-5 years trading | 32% | 27% | 9% | 10% |
| 6-9 years | 31% | 34% | 8% | 16% |
| 10-15 years | 36% | 36% | 10% | 16% |
| 15+ years | 37% | 33% | 8% | 13% |
| Plan to apply | 31% | 40% | 21% | 26% |

Q15v a and b All SMEs using finance / All SMEs excl DK

External finance – security including personal guarantees

A quarter of SMEs with any borrowing (25%) said that some or all of their facilities were secured:

- This increased by size of borrower from 23% of those with 0 employees to 44% of those with 50-249 employees
- It was slightly more likely to be the case for borrowers in Agriculture (38%) or Hotels & Restaurants (33%) than in other sectors (22-27%)
- There were limited difference by age of SME (22-27%)
- Those borrowing more were more likely to have some or all of the borrowing secured, ranging from 20% of those borrowing less than £25,000 to 31% of those borrowing £25-£100,000 and 58% of those borrowing more than £100,000

In Q4 2023, additional questions around personal guarantees were asked to SMEs that were limited companies and using external finance. Base sizes are somewhat limited at this stage but initial analysis suggests that:

- 16% of these SMEs with finance had a personal guarantee in place – 13% given by the respondent and 3% given by someone else. This is the equivalent of around 7% of all limited companies and 3% of all SMEs
- Those more likely to have any guarantee in place included those with 1-9 (18%) or 10-49 employees (17%), or in Agriculture (28%) or Wholesale/Retail (23%), those trading for 2-5 years (24%) and those borrowing £25-100,000 (21%) or over £100k (23%)

Amongst those where the respondent themselves had given a personal guarantee (excluding DK answers):

- 1 in 3 (36%) said that the guarantee was for £25,000 or less, and this was more likely to be the case for those with up to 10 employees
- 28% took independent advice before signing the guarantee and this was more likely to be the case if the guarantee was for £25,000 or more (1 in 3) than if it was for a smaller amount (1 in 10)
- 24% were worried about the guarantee and what it might mean for them (scores 4-5) with limited difference by size of guarantee. Half were not concerned (49% scores 1-2) and a quarter were in the middle (26% score 3)

Change in use of external finance due to Covid-19

In a new question from Q1 2021, those using any form of external finance (excluding those only using grants or equity/loans from directors, family, or friends) were asked how their use of finance had changed as a result of the pandemic. From Q1 2023, this question has been simplified to ask if they are borrowing more, the same or less than they were pre-pandemic and the results for this new question in 2023 are shown below.

A third of SMEs using such finance were now using more than they had pre-pandemic, the equivalent of 1 in 8 of all SMEs, increasing to 1 in 6 of all those with 1-9 or 10-49 employees:

| Use of external finance compared to pre-Covid | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|
| YEQ4 23 – all SMEs using relevant finance | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
| Unweighted base: | 8568 | 1217 | 3265 | 3337 | 749 |
| Borrowing more than before | 32% | 33% | 32% | 28% | 26% |
| Using similar amounts to before | 51% | 50% | 52% | 57% | 57% |
| Borrowing less than we were | 17% | 18% | 17% | 14% | 16% |
| More use (all SMEs equivalent) | 12% | 11% | 16% | 18% | 11% |

Q14b All SMEs using relevant forms of external finance excl DK

The table below shows the change in use by sector.

- Amongst those using any relevant finance, those in the Other Community sector were the most likely to be using more finance than pre-pandemic (43%), with limited differences elsewhere (28-34%).
- As a proportion of all SMEs in that sector, the proportion using more ranged from 8% in Health to 16% in Transport and 10-15% elsewhere.
- Around a fifth of those in the Hotel & Restaurant sector (23%), Manufacturing (22%) and Health (20%) were using less external finance than before (14-18% elsewhere)

| Change in use of finance | | | | | | | | | |
|----------------------------------|------------|------------|-------------|-------------|------------|------------|-------------|------------|------------|
| YEQ4 23 – all SMEs using finance | Agric | Mfg | Constr | Whle Retail | Hotel Rest | Trans | Prop/ Bus | Hlth SWrk | Other Comm |
| Unweighted base: | 551 | 916 | 1583 | 1101 | 513 | 982 | 1768 | 379 | 775 |
| Borrowing more | 28% | 32% | 31% | 33% | 33% | 34% | 28% | 28% | 43% |
| Similar to before | 56% | 46% | 52% | 52% | 44% | 50% | 54% | 52% | 41% |
| Less than before | 16% | 22% | 17% | 14% | 23% | 15% | 18% | 20% | 15% |
| More use (all SMEs) | 13% | 12% | 12% | 14% | 13% | 16% | 10% | 8% | 15% |

Q14b All SMEs using relevant forms of external finance excl DK

The table below summarises the proportion of all SMEs now using more finance than before:

- Overall, the proportion of all SMEs using more finance than pre-pandemic declined from 21% in 2021 to 15% in 2022 and then to 12% in 2023. This trend was seen across all sizes of SME, notably those with 1-9 or 10-49 employees though they remained the most likely to be using more finance than before.
- Those in the Hotel & Restaurant and Transport sectors, more badly impacted by the pandemic, were the most likely to be using more external finance in 2021. Both saw notable declines in 2022, followed by a further decline in 2023 for the Hotel & Restaurant sector, bringing it line with SMEs overall (13%), but in Transport there was no further decline leaving them slightly above their peers at 16%. Those in Health are now the least likely to be using more finance than before the pandemic (8%) after marked declines in both 2022 and 2023.
- Analysis by age of SME showed that those trading for 6-9 years remained the most likely to be using more finance than before (21%) a drop of 7 percentage points since 2021 compared to 9 amongst SMEs overall, while those trading for 2-5 years have moved from above to in line with the peers over the same period
- The proportion borrowing more than they used to does not vary much by total amount owed: 29% of those who owe up to £25,000 are borrowing more than they used to compared to 43% owing £25-100,000 and 37% of those owing more than £100,000

| Using more finance than before | | | |
|--|------------|------------|------------|
| Over time – all SMEs | 2021 | 2022 | 2023* |
| By date of interview – row percentages | | | |
| All SMEs | 21% | 15% | 12% |
| 0 emp | 18% | 13% | 11% |
| 1-9 emps | 30% | 22% | 16% |
| 10-49 emps | 33% | 25% | 18% |
| 50-249 emps | 20% | 14% | 11% |
| Minimal external risk rating | 21% | 14% | 12% |
| Low | 24% | 17% | 15% |
| Average | 20% | 14% | 11% |
| Worse than average | 19% | 15% | 12% |
| Agriculture | 22% | 14% | 13% |
| Manufacturing | 24% | 16% | 12% |
| Construction | 17% | 14% | 12% |
| Wholesale/Retail | 23% | 17% | 14% |
| Hotels & Restaurants | 29% | 18% | 13% |
| Transport | 27% | 17% | 16% |
| Property/ Business Services | 17% | 12% | 10% |
| Health | 20% | 14% | 8% |
| Other | 20% | 18% | 15% |
| Starts | 13% | 6% | 4% |
| 2-5 years trading | 25% | 18% | 13% |
| 6-9 years | 28% | 19% | 21% |
| 10-15 years | 23% | 21% | 16% |
| 15+ years | 20% | 14% | 12% |
| All excl PNBs | 34% | 29% | 19% |

Q14bv2 All SMEs excl DK – slightly revised wording from Q1 2023

External finance – Repayment concerns

This section looks at all those who were concerned at all about their ability to meet repayments (whether through use of pandemic related funding or the usual external finance held) and the steps taken to resolve that concern. Since Q1 2023 concern has been based on a single question.

In 2022, the equivalent of 6% of all SMEs expressed concern about repaying current facilities at one or more of these questions, as reported below by key demographics, in line with 2022 (7%).

| Concerned about repayment | | | | | |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|
| All SMEs using finance YE Q4 23 | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
| Unweighted base: | 9383 | 1364 | 3651 | 3557 | 811 |
| Very concerned | 5% | 5% | 5% | 2% | 1% |
| Fairly concerned | 10% | 11% | 11% | 6% | 5% |
| Any concern | 15% | 16% | 15% | 7% | 6% |
| Not very concerned | 21% | 21% | 22% | 23% | 24% |
| Not at all concerned | 64% | 63% | 62% | 70% | 71% |
| Any concern (All SMEs) | 6% | 6% | 8% | 5% | 3% |

Bb2bb All SMEs using external finance

The table below shows levels of concern for Q2-4 2021 and for 2022 and 2023. Overall, concern was slightly lower in 2023 (6%) than in 2021 (9%), notably for those in Hotels & Restaurants (8% from 15% but still above average), while those in Agriculture or trading for 2-5 years or 6-9 years were the most likely to be concerned in 2023 (9%):

| Any repayment concern (all SMEs) | | | |
|--|-----------|-----------|-----------|
| Over time | 2021* | 2022 | 2023 |
| By date of interview – row percentages | | | |
| All SMEs | 9% | 7% | 6% |
| 0 emp | 8% | 7% | 6% |
| 1-9 emps | 11% | 9% | 8% |
| 10-49 emps | 7% | 7% | 5% |
| 50-249 emps | 3% | 2% | 3% |
| Minimal external risk rating | 6% | 4% | 3% |
| Low | 7% | 6% | 5% |
| Average | 8% | 7% | 6% |
| Worse than average | 10% | 9% | 7% |
| Agriculture | 9% | 8% | 9% |
| Manufacturing | 11% | 7% | 7% |
| Construction | 8% | 7% | 6% |
| Wholesale/Retail | 8% | 9% | 7% |
| Hotels & Restaurants | 15% | 11% | 8% |
| Transport | 12% | 9% | 8% |
| Property/ Business Services | 6% | 5% | 5% |
| Health | 8% | 8% | 4% |
| Other | 10% | 8% | 8% |
| All excl PNBs | 14% | 13% | 10% |
| Starts | 8% | 5% | 5% |
| 2-5 years trading | 11% | 12% | 9% |
| 6-9 years | 11% | 10% | 9% |
| 10-15 years | 10% | 10% | 7% |
| 15+ years | 7% | 6% | 5% |

Repcon/bb2bb All SMEs from Q2 2021

Further analysis showed higher levels of concern amongst those whose borrowing behaviour had been impacted by the pandemic:

- 29% of those borrowing more than pre-pandemic were concerned about repayment in 2021 and 27% in 2022 and 2023.
- Those whose borrowing had not changed much or had even reduced compared to pre-pandemic were less likely to be concerned than their peers (10% in 2023)
- Those still repaying pandemic funding were more likely to be concerned than their peers (20% in 2023):

| Any repayment concern (all SMEs) | | | |
|--|-----------|-----------|-----------|
| Over time | 2021* | 2022 | 2023 |
| By date of interview – row percentages | | | |
| All SMEs | 9% | 7% | 6% |
| Borrowed more in pandemic | 29% | 27% | 27% |
| Borrowing same/less in pandemic | 9% | 13% | 10% |
| Still repaying pandemic funding (2023) | - | - | 20% |
| Use only core finance | 20% | 17% | 15% |
| Use both core and other forms of finance | 21% | 24% | 19% |
| Use only other forms of finance | 7% | 8% | 6% |

Analysis by types of finance being used showed that:

- In 2023, those using both core and other forms of finance were slightly more likely to be concerned about repayment than their peers, but concern amongst this group was lower in 2023 (19%) than in previous years.
- Amongst those only using core finance, concern fell again in 2023 (15%) compared to 20% in 2021.
- Compared to their peers, concern was much lower for those only using other forms of finance (6% in 2023), and little changed from 2021.

Analysis by amount of borrowing showed that:

- In 2023, 12% of those borrowing up to £25,000 expressed concern about repaying what was owed (down from 18% in H2 2022).
- Those borrowing between £25,000 and £100,000 were more concerned than those borrowing less than this but concern was also slightly lower in 2023 (27%) than in H2 2022 (30%).
- Amongst those owing more than £100,000, concern was notably lower in 2023 (15%) than in 2022 (27%).

5 Financial context

In a new question from Q3 2022, those who were concerned about making their repayments were asked what impact, if any, this was having on their wider business. As the table below shows, in 2023 8 in 10 of those with repayment concerns reported an impact, primarily around business growth and having to be cautious with other plans. This is the equivalent of 5% of all SMEs having their plans affected:

| Impact of repayment concerns | | | |
|--|-------------|------------|------------|
| YEQ4 23 – all SMEs with concerns | Total | 0-9 emps | 10-49 emps |
| Unweighted base: | 1074 | 780 | 294 |
| Any impact | 81% | 81% | 76% |
| -How much can try to grow business | 58% | 58% | 52% |
| -More cautious about other aspects of business | 52% | 52% | 53% |
| -Extent to which can invest in business | 49% | 48% | 49% |
| -Extent to which can recruit/develop staff | 35% | 35% | 40% |
| -Extent to which can launch products etc | 36% | 37% | 34% |
| Not impacted on plans for business | 19% | 19% | 24% |

Qbb6 All SMEs with repayment concerns

Limited analysis is also now available over time and shows more SMEs saying their repayment concerns have had an impact, with more mentions of all the impacts tested, notably how much they can grow and /or invest in the business:

| Impact of repayment concerns | | |
|--|------------|-------------|
| All SMEs with concerns over time | H2 2022 | 2023 |
| Unweighted base: | 581 | 1074 |
| Any impact | 72% | 81% |
| -How much can try to grow business | 49% | 58% |
| -More cautious about other aspects of business | 44% | 52% |
| -Extent to which can invest in business | 36% | 49% |
| -Extent to which can recruit/develop staff | 29% | 35% |
| -Extent to which can launch products etc | 23% | 36% |
| Not impacted on plans for business | 28% | 19% |

Qbb6 All SMEs with repayment concerns

5 Financial context

Subsequent questions were then asked of those with concerns, about the actions they had taken, or planned to take. As the table below shows, 19% of concerned SMEs had already spoken to their lender and a further 18% planned to, with limited variation by size. Around 6 in 10 however had no plans to speak to their bank about their concerns, also with limited variation by size:

| Response to repayment concerns | | | | | |
|---------------------------------------|-------------|------------|------------|------------|-------------|
| YEQ4 23- All SMEs with concerns | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
| Unweighted base: | 1074 | 216 | 564 | 244 | 50* |
| Have spoken to lender | 19% | 18% | 20% | 30% | 20% |
| Have not spoken to lender but plan to | 18% | 17% | 19% | 14% | 19% |
| Have no plans to speak to lender | 63% | 65% | 61% | 56% | 61% |

Qbb4 All SMEs with repayment concerns

In 2023, 21% of those who reported a business impact due to their repayment concerns said that they had contacted their lender, compared to 9% of those who were concerned but did not report a business impact.

Amongst the small group that had contacted their lender:

- 56% of those who had contacted their lender had agreed a repayment/ re-financing plan, 8% were offered a repayment plan but chose not to take it and 10% were still discussing a plan. 4% were offered other help and advice, 17% said no help had been offered.
- Two thirds of those who had spoken to their lender were very satisfied (scores 7-10) with the response.

From Q1 2023, those with concerns who have not yet spoken to their lender (81% of all those with concerns, including those who don't currently plan to speak to their lender) were asked how they thought their lender would respond. As the table below shows, amongst these SMEs:

- As many thought it was 'unlikely' their lender would treat them fairly as thought they 'definitely' would (27% v 28%) with almost half unsure, a net score of +1
- 33% thought it was 'unlikely' their lender would offer practical help, compared to 24% who thought they 'definitely' would, with again almost half unsure, a net score of -9
- Similarly, 34% thought it was 'unlikely' their lender would be supportive, compared to 26% who thought they 'definitely' would, with 4 in 10 unsure, a net score of -8

| Response from lender | | | |
|---|-------------------------|---------------------------------|--------------------------|
| YEQ4 23- All SMEs with concerns who have not spoken to lender | Would be treated fairly | Bank would offer practical help | Bank would be supportive |
| Unweighted base: | 815 | 815 | 815 |
| Definitely | 28% | 24% | 26% |
| Maybe | 45% | 43% | 41% |
| Unlikely | 27% | 33% | 34% |
| Definitely - unlikely | +1 | -9 | -8 |

Qbb4a All SMEs with repayment concerns who have not yet spoken to their lender

Those with no plans to speak to their lender were more likely to say their lender would be ‘unlikely’ to be supportive and/or offer practical help than those who did plan to speak to their lender:

- 28% thought it unlikely their lender would treat them fairly (v 24% with plans to speak to the lender)
- 36% thought it unlikely their lender would offer them practical help (v 23% with plans to speak to the lender)
- 37% thought it unlikely their lender would be supportive (v 23% with plans to speak to the lender)

Those who said their repayment concerns had impacted their plans for the business were also more likely to think their lender would be ‘unlikely’ to be supportive and/or offer practical help:

- 30% thought it unlikely their lender would treat them fairly (v 19% plans not impacted)
- 35% thought it unlikely their lender would offer them practical help (v 27% plans not impacted)
- 36% thought it unlikely their lender would be supportive (v 27% plans not impacted)

Personal elements to business finance

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

Personal element – injections of personal funds

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

Over recent quarters around 1 in 3 SMEs has reported an injection of personal funds, and this was more likely to be because they had no choice:

| Personal funds in last 12 months | | | | | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Over time – all SMEs | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| By date of interview | 2021 | 2022 | 2022 | 2022 | 2022 | 2023 | 2023 | 2023 | 2023 |
| Unweighted base: | 4085 | 4250 | 4250 | 4250 | 4252 | 4252 | 4253 | 3910 | 4595 |
| Inject personal funds – you <u>chose</u> to do to help the business grow and develop | 12% | 13% | 11% | 14% | 13% | 14% | 12% | 13% | 14% |
| Inject personal funds – you felt you had no choice about this, that you had to do it | 23% | 26% | 22% | 20% | 19% | 22% | 24% | 23% | 22% |
| Any personal funds | 35% | 39% | 34% | 34% | 31% | 36% | 36% | 36% | 36% |
| Not something you have done | 65% | 61% | 66% | 66% | 69% | 64% | 64% | 64% | 64% |

Q15d All SMEs

5 Financial context

Taking a longer term view on an annual basis, between 2016 and 2019 the proportion reporting an injection of funds declined slightly to 24%. By 2021 it was back to 37% and has remained at a similar level since (36% in 2023):

| Personal funds in last 12 months | | | | | | | | |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Over time – all SMEs | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| Unweighted base: | 18,000 | 18,012 | 18,002 | 18,000 | 17,768 | 16,486 | 17,002 | 17,010 |
| Inject personal funds – you <u>chose</u> to do to help the business grow and develop | 17% | 16% | 16% | 13% | 13% | 11% | 13% | 13% |
| Inject personal funds – you felt you had no choice about this, that you <u>had</u> to do it | 11% | 13% | 13% | 11% | 19% | 26% | 22% | 23% |
| Any personal funds | 28% | 29% | 29% | 24% | 32% | 37% | 34% | 36% |
| Not something you have done | 72% | 71% | 71% | 76% | 68% | 69% | 66% | 64% |
| % ‘forced’ injections | 39% | 45% | 45% | 46% | 59% | 70% | 65% | 64% |

Q15d All SMEs from Q2 2012

The proportion of all injections of funds that were ‘forced’ declined from 58% in 2012 to 39% in 2016 but then increased slightly to 45% of all injections for 2017–2019, followed by another increase to 2021 (70%) and has been higher than previous seen since (64% in 2023).

5 Financial context

The more detailed analysis below is based on the combined results YEQ4 2023 to provide robust base sizes for key sub-groups. Smaller SMEs, especially those with no employees, remained much more likely to have received an injection of personal funds than their larger peers:

| Personal funds in last 12 months | | | | | |
|---|---------------|-------------|-------------|-------------|-------------|
| YEQ4 23 – all SMEs | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
| Unweighted base: | 17,010 | 3472 | 6381 | 5267 | 1890 |
| Inject personal funds – you <u>chose</u> to do to help the business grow and develop | 13% | 14% | 12% | 6% | 4% |
| Inject personal funds – you felt you had no choice about this, that you <u>had</u> to do it | 23% | 25% | 19% | 8% | 3% |
| Any personal funds | 36% | 39% | 31% | 14% | 7% |
| Not something you have done | 64% | 61% | 69% | 86% | 93% |

Q15d All SMEs

Amongst SMEs with employees, 28% reported any injection of personal funds – 11% who chose to do so and 17% who felt that they had no choice.

Injections of personal funds increased markedly with risk rating, from 15% of those with a minimal risk rating to 46% of those with a worse than average risk rating:

| Personal funds in last 12 months | | | | | |
|--|---------------|-------------|-------------|-------------|----------------|
| YEQ4 23– all SMEs | Total | Min | Low | Avge | Worse/ Avge |
| Unweighted base: | 17,010 | 3327 | 4683 | 4549 | 3294 |
| Inject personal funds – you <u>chose</u> to do to help the business grow and develop | 13% | 6% | 7% | 13% | 17% |
| Inject personal funds – you felt you had no choice about, that you <u>had</u> to do | 23% | 10% | 15% | 20% | 29% |
| Any personal funds | 36% | 15% | 22% | 33% | 46% |
| Not something you have done | 64% | 85% | 78% | 67% | 54% |

Q15d All SMEs

5 Financial context

There was limited variation in the proportion in each sector that had received any injection of funds, 32-38% with the exception of 41% in Transport and 40% in the Other Community sector. There was also little difference by sector in terms of those who felt they had no choice but to inject funds (19-24%) again with the exception of those in Transport and the Other Community sector (28% and 27% respectively):

| Personal funds in last 12 months | | | | | | | | | |
|----------------------------------|------------|-------------|-------------|----------------|---------------|-------------|--------------|--------------|---------------|
| YEQ4 23 – all SMEs | Agric | Mfg | Constr | Whle Retail | Hotel Rest | Trans | Prop/ Bus | Hlth SWrk | Other Comm |
| Unweighted base: | 983 | 1797 | 2737 | 2188 | 1177 | 1754 | 3682 | 984 | 1708 |
| <u>Chose</u> to inject | 13% | 13% | 11% | 13% | 13% | 13% | 14% | 14% | 13% |
| <u>Had</u> to inject | 19% | 23% | 22% | 24% | 24% | 28% | 19% | 20% | 27% |
| Any funds | 32% | 36% | 33% | 37% | 38% | 41% | 34% | 35% | 40% |
| Not put funds in | 68% | 64% | 67% | 63% | 62% | 59% | 66% | 65% | 60% |

Q15d All SMEs

The table below looks at the long term changes in injections of any personal funds, whether through choice or necessity, by key business demographics.

- After a dip in 2019 (24%), injections of personal funds increased again to 2021 (37%) and have remained higher since (36% in 2023).
- The most likely to report an injection of funds remained the smallest SMEs and those with a worse than average risk rating (both at higher levels than seen pre-pandemic).
- Excluding the PNBs increased the proportion receiving an injection of funds to 42% of remaining SMEs, in line with recent years and slightly above pre-pandemic levels
- Starts have always been the most likely to report an injection of personal funds. The 61% reporting such an injection in 2023 was at the top of the range seen but all ages of SMEs were more likely to have reported an injection of funds than they were immediately pre-pandemic

| Any personal funds in last 12 months | | | | | | | | |
|--------------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Over time – all SMEs | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| Row percentages | | | | | | | | |
| All SMEs | 28% | 29% | 29% | 24% | 32% | 37% | 34% | 36% |
| 0 emp | 29% | 31% | 29% | 25% | 34% | 40% | 37% | 39% |
| 1-9 emps | 24% | 28% | 27% | 23% | 29% | 31% | 28% | 31% |
| 10-49 emps | 13% | 14% | 13% | 13% | 15% | 14% | 13% | 14% |
| 50-249 emps | 9% | 7% | 6% | 5% | 9% | 8% | 5% | 7% |
| Minimal external risk rating | 13% | 12% | 14% | 11% | 18% | 16% | 15% | 15% |
| Low | 18% | 21% | 18% | 17% | 22% | 24% | 21% | 22% |
| Average | 25% | 25% | 26% | 23% | 30% | 35% | 33% | 33% |
| Worse than average | 33% | 38% | 34% | 29% | 37% | 47% | 42% | 46% |
| Agriculture | 27% | 27% | 28% | 28% | 31% | 32% | 37% | 32% |
| Manufacturing | 23% | 28% | 30% | 24% | 29% | 31% | 37% | 36% |
| Construction | 26% | 25% | 26% | 24% | 31% | 33% | 32% | 33% |
| Wholesale/Retail | 28% | 30% | 31% | 22% | 34% | 34% | 34% | 37% |
| Hotels & Restaurants | 30% | 34% | 31% | 30% | 39% | 44% | 36% | 38% |
| Transport | 31% | 37% | 24% | 24% | 38% | 46% | 36% | 41% |
| Property/ Business Services | 30% | 27% | 30% | 24% | 28% | 36% | 31% | 34% |
| Health | 24% | 29% | 21% | 17% | 30% | 37% | 38% | 35% |
| Other Community | 28% | 33% | 34% | 26% | 35% | 38% | 38% | 40% |
| PNBs | 20% | 21% | 20% | 18% | 22% | 27% | 26% | 25% |
| All excl PNBs | 35% | 37% | 36% | 29% | 39% | 44% | 42% | 42% |
| Starts | 46% | 49% | 49% | 33% | 47% | 62% | 57% | 61% |
| 2-5 years trading | 33% | 37% | 36% | 33% | 38% | 44% | 42% | 45% |
| 6-9 years | 26% | 23% | 25% | 20% | 31% | 34% | 32% | 35% |
| 10-15 years | 22% | 22% | 20% | 20% | 26% | 30% | 28% | 28% |
| 15+ years | 17% | 21% | 17% | 18% | 25% | 27% | 25% | 26% |

Q15d All SMEs

Returning to the current period, analysis showed that the youngest SMEs continued to be the most likely to have had an injection of personal funds. In all age groups such injections were more likely to have been a necessity than a choice, which is a change from previous years for Starts as typically they have been as likely to have chosen to inject funds as they were to have felt it was a necessity:

| Personal funds in last 12 months | | | | | |
|---|------------|-------------|-------------|-------------|---------------|
| YEQ4 23 – all SMEs | Starts | 2-5 yrs | 6-9 yrs | 10-15 yrs | 15 yrs+ |
| Unweighted base: | 570 | 1358 | 1657 | 3206 | 10,219 |
| Inject personal funds – you <u>chose</u> to do to help the business grow and develop | 26% | 17% | 12% | 9% | 8% |
| Inject personal funds – you felt you had no choice about this, that you <u>had</u> to do it | 35% | 28% | 23% | 19% | 17% |
| Any personal funds | 61% | 45% | 35% | 28% | 26% |
| Not something you have done | 39% | 55% | 65% | 72% | 74% |

Q15d All SMEs

Starts have always been more likely than their peers to report an injection of funds and whilst the figures have been somewhat volatile over time the 61% of Starts that had injected any personal funds in 2023 was in line with 2021.

Those using a personal account for their business banking remained more likely to have put personal funds in at all (44% v 35% of those with a business account YEQ4 2023).

SMEs currently using external finance were more likely to have also received an injection of personal funds (42% YEQ4 2023) than those not currently using external finance (31%) and were also more likely to say they had felt that there had been no choice (28% v 19%).

5 Financial context

Analysed by their overall financial behaviour in the previous 12 months, the small group of Would-be seekers (who had wanted to apply for finance but felt that something had stopped them) remained much more likely to have received an injection of personal funds (71%) and to say that they had had no choice (56%, but down from 66% of this group in 2021):

| Personal funds in last 12 months | | | | |
|--|---------------|--------------|-----------------|------------------|
| YEQ4 23 – all SMEs | Total | Had an event | Would-be seeker | Happy non-seeker |
| Unweighted base: | 17,010 | 2124 | 390 | 14,496 |
| Inject personal funds – you <u>chose</u> to do to help the business grow and develop | 13% | 12% | 15% | 13% |
| Inject personal funds – you felt you had no choice about, that you <u>had</u> to do | 23% | 36% | 56% | 20% |
| Any personal funds | 36% | 48% | 71% | 33% |
| Not something you have done | 64% | 52% | 29% | 67% |

Q15d All SMEs

Analysis of these groups over recent years showed a broadly stable position since 2021 after a marked increase in injections of funds between 2019 and 2021. Those that had been a Would-be seeker of finance have always been more likely than their peers to report an injection of personal funds, with a notable increase between 2019 and 2021 (60% to 75%) which was broadly maintained to 2023 (71%):

| Any personal funds in last 12 months | | | | | | |
|--------------------------------------|------------|------------|------------|------------|------------|------------|
| Over time – all SMEs | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| Row percentages | | | | | | |
| All SMEs | 29% | 24% | 32% | 37% | 34% | 36% |
| Had a borrowing event | 42% | 35% | 44% | 51% | 51% | 48% |
| Would-be seeker | 60% | 60% | 72% | 75% | 72% | 71% |
| Happy non-seekers | 25% | 21% | 29% | 32% | 31% | 33% |

Personal element – use of personal bank accounts

Most SMEs used a business bank account (93% excluding DK answers).

Of the 7% that used a personal account, almost all (96%) were 0 employee businesses. So, whilst 9% of 0 employee SMEs used a personal account for their business banking, amongst those with employees the figure was 1%.

In the early years of the SME Finance Monitor around 1 in 5 SMEs used a personal account. Since 2017, when 16% used a personal account, this proportion has declined and the 7% recorded for 2023 is the lowest to date.

YEQ4 2023, SMEs using a personal account were:

- As likely to be using any external finance (44% used external finance, compared to 46% of those using a business account), as likely to have had a borrowing event (12% v 11%), and also as likely to meet the definition of a PNB (33% v 35%).
- They were more likely to have put personal funds into the business (44% v 35% of those with a business account).

As the analysis below shows, in most years around 3 in 10 of those using a personal account have used any external finance, with the exception of 2019 (38%) and now 2023 (44%) when more of them were using core forms of finance. In previous years, SMEs using a personal account for their business banking had been less likely to be using external finance than those using a business account, but the gap narrowed in 2022 (33% v 37%) and there was almost no gap in 2023 (44% v 46%):

| External finance currently used | | | | | | | | |
|------------------------------------|------|------|------|------|------|------|------|------|
| Over time – all SMEs | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| Use business account: | | | | | | | | |
| Use core finance | 33% | 32% | 33% | 40% | 30% | 32% | 27% | 31% |
| Use any finance* | 40% | 40% | 38% | 46% | 38% | 43% | 37% | 46% |
| Use personal account for business: | | | | | | | | |
| Use core finance | 21% | 24% | 26% | 33% | 22% | 20% | 20% | 30% |
| Use any finance* | 26% | 30% | 29% | 38% | 29% | 35% | 33% | 44% |

Q15/Q24 All SMEs Use of any finance in 2023 includes still repaying pandemic funding

Personal element – finance facilities in a personal name

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

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

24% of SMEs using finance had any facility in a personal name (up from 16% in 2021), the equivalent of 10% of all SMEs (up from 7% in 2021). This varied by size of SME and was predominantly concentrated amongst the smaller SMEs using finance: 29% of finance users with 0 employees had some facility in their personal name (the equivalent of 10% of all 0 employee SMEs) compared to 4% of those with 50-249 employees. SMEs using finance who also had a worse than average risk rating were more likely to have a facility in a personal name (28%), than those with a minimal or low risk rating (11-16%):

| Have element of finance in personal name | | |
|--|------------------------|-------------------------------|
| YEQ4 23 – row percentages | Of those using finance | Equivalent % of all such SMEs |
| Total | 24% | 10% |
| 0 employees | 29% | 10% |
| 1-9 employees | 14% | 7% |
| 10-49 employees | 6% | 4% |
| 50-249 employees | 4% | 2% |
| Minimal risk rating | 11% | 5% |
| Low risk rating | 16% | 7% |
| Average risk rating | 22% | 8% |
| Worse than average risk rating | 28% | 11% |
| Use a personal bank account | 61% | 26% |
| Use a business bank account | 21% | 8% |

Q15bsu All SMEs using finance excluding DK

Those operating their business banking through a personal account were only slightly less likely to be using any finance at all. However, if they did use external finance, then 6 in 10 (61%) said that some or all of the facilities that they had were in their personal name. Those with a business account who used finance were much less likely to say that any of the facilities were in their personal name (21%).

As a result, amongst all SMEs, those using a personal account for their business were much more likely to have a facility in their personal name (26%) than those using a business account (8%), or SMEs overall (10%).

SMEs using loans, overdrafts or any other finance were asked about facilities in a personal name for each individual type of facility they held. In all instances, those with 0 employees were much more likely to have a facility in a personal name:

| Facilities in a personal name YEQ4 23 (excl DK) | |
|---|---|
| Overdrafts | <p>12% of all SMEs with an overdraft said it was in a personal name (in line with the 13% in 2022), of which 94% were 0 employee SMEs.</p> <p>11% said they had overdrafts in both personal and business names (up from 5% in 2021 and in line with the 13% in 2022).</p> <p>15% of 0 employee SMEs with an overdraft said that it was in a personal name (v 18% in 2022). This declined by size to 3% of those with 1-9 employees, <1% of those with 10-49 employees and none of those with 50-249 employees.</p> |
| Loans | <p>8% of all SMEs with a loan said it was in a personal name (unchanged from 2021 or 2022), of which 90% were 0 employee SMEs.</p> <p>9% said they had loans in both personal and business names (up from 4% in 2021 but unchanged from 2022).</p> <p>12% of 0 employee SMEs with a loan said that it was in a personal name (up slightly from 9% in 2022). This declined by size to 3% of those with 1-9 employees, and 1% of those with 10-49 employees or 50-249 employees.</p> |
| All other finance | <p>14% of SMEs using any other form of finance said it was in a personal name (unchanged from 2022), of which 91% were 0 employee SMEs.</p> <p>11% said they had facilities in both personal and business names (up from 5% in 2021 but in line with the 13% in 2022).</p> <p>19% of 0 employee SMEs using other forms of finance said that it was in a personal name (unchanged from 2021 or 2022). This declined by size to 5% of those with 1-9 employees, and 1% of those with 10-49 employees or 50-249 employees.</p> |

Trade credit

39% of SMEs regularly purchased products or services from other businesses on credit (YEQ4 2023), increasing by size of SME:

- 33% of those with 0 employees regularly purchased on credit
- 55% of those with 1-9 employees
- 76% of those with 10-49 employees
- 75% of those with 50-249 employees.

Pre-pandemic, overall use of trade credit increased slightly (31% in 2014 to 38% in 2021) and has been stable since. By size of SME, 0 employee SMEs remained less likely to be using trade credit than their peers (33% in 2023), while larger SMEs have become more likely to be using trade credit since 2019, now used by three quarters of those with either 10-49 or 50-249 employees:

| Currently use trade credit | | | | | | | | |
|--|------------|------------|------------|------------|------------|------------|------------|------------|
| Over time – all SMEs | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| By date of interview – row percentages | | | | | | | | |
| All SMEs | 33% | 35% | 34% | 37% | 36% | 38% | 37% | 39% |
| 0 emp | 28% | 29% | 29% | 30% | 30% | 31% | 31% | 33% |
| 1-9 emps | 45% | 49% | 48% | 53% | 53% | 54% | 53% | 55% |
| 10-49 emps | 59% | 64% | 62% | 66% | 70% | 75% | 73% | 76% |
| 50-249 emps | 59% | 69% | 67% | 59% | 72% | 64% | 67% | 75% |

Q14y All SMEs

58% of SMEs with employees used trade credit in 2023.

Those using external finance (loans, overdrafts etc) remained more likely to also be using trade credit (48% YEQ4 2023) than those who were not using any external finance (31%) and this was true across all size bands.

5 Financial context

SMEs that received trade credit were asked whether this meant that they had a reduced need for other forms of external finance. Almost 6 in 10 of them did (56%), with little difference by size, and this is the equivalent of 22% of all SMEs needing less external finance, as the table below shows:

| Impact of receiving trade credit | | | | | |
|---|---------------|-------------|-------------|-------------|-------------|
| YEQ4 23 – all SMEs | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
| Unweighted base: | 17,010 | 3472 | 6381 | 5267 | 1890 |
| Receive trade credit | 39% | 33% | 55% | 76% | 75% |
| Have less of a need for external finance | 22% | 18% | 33% | 47% | 46% |
| Do not have less of a need for external finance | 15% | 14% | 20% | 26% | 23% |
| Not sure | 1% | 1% | 2% | 3% | 6% |
| Do not receive trade credit | 61% | 67% | 45% | 24% | 25% |
| % of those with TC where it reduces need | 56% | 55% | 60% | 62% | 61% |

Q14y/y4 All SMEs

Around a quarter of all SMEs reported that their need for finance was reduced by trade credit (21-26%) with the figure for 2023 at the bottom of this range (22%). Larger SMEs were more likely to be using trade credit, with limited variation over time with the exception of those with 50-249 employees where the proportion increased from 28% in 2022 to 46% in 2023, back in line with 2020 levels:

| Trade credit reduced need for finance | | | | | | | | |
|--|------------|------------|------------|------------|------------|------------|------------|------------|
| Over time – all SMEs | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| By date of interview – row percentages | | | | | | | | |
| All SMEs | 23% | 24% | 23% | 26% | 24% | 24% | 21% | 22% |
| 0 emp | 20% | 20% | 18% | 22% | 19% | 20% | 17% | 18% |
| 1-9 emps | 31% | 33% | 33% | 38% | 35% | 34% | 30% | 33% |
| 10-49 emps | 41% | 48% | 44% | 49% | 47% | 44% | 41% | 47% |
| 50-249 emps | 39% | 52% | 52% | 45% | 48% | 38% | 28% | 46% |

Q14y/y4 All SMEs

Use and impact of trade credit by other key demographics

SMEs with a minimal or low external risk rating remained more likely to receive trade credit (55% and 48% respectively). 60% of those with a minimal risk rating who received trade credit said that it reduced their need for finance, declining slightly to 56% of those with a worse than average risk rating:

| Impact of receiving trade credit | | | | | |
|---|---------------|-------------|-------------|-------------|-------------|
| YEQ4 23 – all SMEs | Total | Min | Low | Avg | Worse/Avg |
| Unweighted base: | 17,010 | 3327 | 4683 | 4549 | 3294 |
| Receive trade credit | 39% | 55% | 48% | 38% | 34% |
| Have less of a need for external finance | 22% | 33% | 28% | 22% | 19% |
| Do not have less of a need for external finance | 15% | 21% | 18% | 15% | 14% |
| Not sure | 1% | 1% | 2% | 1% | 1% |
| Do not receive trade credit | 61% | 45% | 52% | 62% | 66% |
| % of those with TC where it reduces need | 56% | 60% | 58% | 58% | 56% |

Q14y/y4 All SMEs

With the exception of Starts (30%) there was limited difference in use of trade credit by age of SME (38-43%). Users of trade credit who had been trading for 6-9 years were the most likely to say it reduced their need for finance (66%):

| Impact of receiving trade credit | | | | | |
|---|------------|-------------|-------------|-------------|---------------|
| YEQ4 23 – all SMEs | Starts | 2-5 yrs | 6-9 yrs | 10-15 yrs | 15 yrs+ |
| Unweighted base: | 570 | 1358 | 1657 | 3206 | 10,219 |
| Receive trade credit | 30% | 38% | 38% | 41% | 43% |
| Have less of a need for external finance | 18% | 24% | 25% | 24% | 23% |
| Do not have less of a need for external finance | 11% | 14% | 13% | 16% | 18% |
| Not sure | 1% | 1% | 1% | 1% | 2% |
| Do not receive trade credit | 70% | 62% | 62% | 59% | 57% |
| % of those with TC where it reduces need | 60% | 63% | 66% | 59% | 53% |

Q14y/y4 All SMEs

SMEs in Manufacturing (60%) were the most likely to receive trade credit while those in Construction were the most likely to see their need for finance reduced (64% of those using trade credit):

| Trade credit in last 12 months | | | | | | | | | |
|---|------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|-------------|
| YEQ4 23 – all SMEs | Agric | Mfg | Constr | Whle Retail | Hotel Rest | Trans | Prop/ Bus | Hlth SWk | Other Comm |
| Unweighted base: | 983 | 1797 | 2737 | 2188 | 1177 | 1754 | 3682 | 984 | 1708 |
| Receive trade credit | 49% | 60% | 55% | 55% | 39% | 34% | 30% | 27% | 24% |
| Have less of a need for external finance | 26% | 36% | 35% | 34% | 22% | 19% | 15% | 12% | 13% |
| Do not have less of a need for external finance | 21% | 22% | 17% | 19% | 16% | 14% | 14% | 15% | 10% |
| Not sure | 1% | 2% | 2% | 2% | 2% | 1% | 1% | 1% | 1% |
| Do not receive TC | 51% | 40% | 45% | 45% | 61% | 66% | 70% | 73% | 76% |
| % where TC reduces need | 53% | 60% | 64% | 62% | 56% | 56% | 50% | 44% | 54% |

Q14y/y4 All SMEs

YEQ4 2023, SMEs using external finance (who were more likely to be using trade credit at all) remained more likely to say that they had less of a need for external finance as a result of trade credit (30%) than those not using external finance (16%) or SMEs overall (22%).

Both those SMEs with £10,000 or more of credit balances and those using trade credit were asked (separately) whether this reduced their need for external finance:

- Where available, having £10,000 or more in credit balances was more likely to reduce the SME’s need for finance (86% YEQ4 2023) than having access to trade credit (59% – of a different group of SMEs).
- Overall, 33% of SMEs YEQ4 2023 said that their need for finance was reduced either through credit balances or trade credit, increasing by size of SME (29% for 0 employee SMEs, 45% for those with 1-9 employees, 60% for those with 10-49 employees), with the slight exception of those with 50-249 employees (55%).
- This was more likely to be the case for those using any external finance currently (40% v 27% if not using), and for those in Manufacturing and Construction (both 44%) and for those with a minimal (48%) or low (43%) risk rating, but there was little difference by age of SME (30-35%)
- The proportion of SMEs reporting a reduction in need for finance has been around 3 in 10 since 2016 and the 2023 figure of 33% was in line with recent years (31-34% since 2020)

A wider definition of ‘total business funding’

The questions on trade credit and injections of personal funds allow for an analysis of the use of ‘total business funding’ by SMEs in a wider sense, i.e. including not only external finance but also trade credit and injections of personal funds. Note that the amount of trade credit received was not recorded, and that when last reported, the typical injection of personal funds was for a relatively small amount (often less than £5,000).

For YEQ4 2023:

- 46% of SMEs were using external finance as defined earlier in the chapter (i.e. loans, overdrafts, invoice finance etc), now including those repaying government backed pandemic funding.
- An additional 17% of SMEs were not using external finance but were receiving trade credit.
- And finally, a further 12% of SMEs were using neither external finance, nor trade credit, but had seen an injection of personal funds into the business (also defined earlier).

Widening the definition of external funding to include not only finance but also trade credit and personal funds thus increased the proportion of SMEs using business funding from 46% to 75%.

Analysis by year shows that the business funding figures were stable to 2018. It then increased to 74% in 2021, with more use of external finance and whilst this wasn’t maintained in 2022, the proportion using business funding was back to 75% in 2023, driven by increased use of external finance:

| Use of business funding | | | | | | | | |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Over time – all SMEs | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023* |
| Unweighted base: | 18,000 | 18,012 | 18,002 | 18,000 | 17,768 | 16,486 | 17,002 | 17,010 |
| Use external finance | 37% | 38% | 36% | 45% | 37% | 43% | 36% | 46% |
| Do not use finance but do use trade credit | 15% | 16% | 18% | 16% | 19% | 17% | 20% | 17% |
| Do not use the above but injected personal funds | 11% | 11% | 11% | 8% | 12% | 14% | 14% | 12% |
| Total business funding | 63% | 65% | 65% | 70% | 68% | 74% | 70% | 75% |

All SMEs

5 Financial context

Looking specifically at YEQ4 2023 in more detail, SMEs with 10-49 employees were more likely to be using business funding due to their higher use of external finance. Since 2019, SMEs with 50-249 employees have become more likely to mention trade credit in this context (36% in 2023 compared to 14% in 2019) which helped to compensate to some extent for lower use of external finance (47%) in their overall use of business funding (83%):

| Wider definition of business funding | | | | | |
|--|---------------|-------------|-------------|-------------|-------------|
| YEQ4 23- all SMEs | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
| Unweighted base: | 17,010 | 3472 | 6381 | 5267 | 1890 |
| Use external finance | 46% | 42% | 58% | 69% | 47% |
| Do not use finance but do use trade credit | 17% | 16% | 20% | 21% | 36% |
| Do not use the above but injected personal funds | 12% | 14% | 6% | 1% | 1% |
| Total business funding | 75% | 72% | 83% | 90% | 83% |

Q14y/y4 All SMEs

Analysis by other demographics showed that:

- Those with a minimal external risk rating were the most likely to be using business funding (80%), due primarily to more use of trade credit (23%). Amongst other risk ratings 72-75% were using business funding.
- Use of business funding declined by age of business, from 78% of Starts (where 27% reported an injection of personal funds in this context) to 72-73% of those trading for 10-15 or more than 15 years.
- The proportion using business funding varied from 64% in Health to 82% in Wholesale/Retail due to the latter's higher use of trade credit and to a lesser extent external finance.

If the revised external finance figures that include pandemic funding were applied to this analysis for 2022 the proportion of SMEs using any business funding would have increased only slightly from 70% to 71% of all SMEs.



6. Financial context

Part 2.

THIS CHAPTER PROVIDES

an overview of other aspects of external finance
– Permanent non-Borrowers and attitudes to
using finance.





Financial context

Part 2.

KEY FINDINGS

1 in 3 SMEs met the revised definition of a Permanent non borrower (an SME with little apparent appetite for finance) and this proportion has declined as use of finance increased:

- The definition of a PNB was revised in 2023 to exclude anyone who had applied for government backed pandemic funding. This change, coupled with the increase in use of core finance, has reduced the proportion of PNBs.
- In 2022, under the previous definition, 48% of SMEs were PNBs (decreasing only slightly to 46% when adjusted as far as was possible at that stage for pandemic funding). In 2023, under the new definition, 35% were PNBs compared to 39-41% during the pandemic and 48% pre-pandemic in 2018.
- The proportion of PNBs in 2023 declined by size from 37% of 0 employee SMEs to 20% of those with 10-49 employees, before increasing to 41% of those with 50-249 employees who remained less likely to be using external finance than pre-pandemic.
- Other SMEs more likely to meet the new definition of a PNB included Starts (43%) and those in the Health sector (47%).
- In contrast to recent years, in 2023 all sizes of SME were more likely to be using finance than to be a PNB (+11 for SMEs overall and increasing to +49 for those with 10-49 employees).
- PNBs were more likely than their peers to have made a profit, as likely to hold £10k or more of credit balances or have a minimal or low risk rating but less likely to be international, innovative or planning to grow.
- In 2023, 19% of SMEs were in a 'middle' group neither using finance nor meeting the definition of a PNB. Analysis showed that such SMEs were typically small, profitable and innovative but 1 in 4 felt they were currently 'Struggling'.

35%

of SMEs were Permanent non borrowers with no apparent appetite for finance – more likely to make a profit than their peers but less likely to be international, innovative or planning to grow.

In contrast to recent years, in 2023 all sizes of SME were more likely to be using finance than to be a PNB.



1 in 3 SMEs were happy to borrow to grow and a stable 1 in 4 met the definition of an Ambitious risk taker:

- 33% of SMEs were happy to use finance to grow, with limited change over time. Agreement increased from 30% of those with 0 employees to 48% with 10-49 employees and 43% of the largest SMEs, along with 40% in Transport, 48% of Starts and 44% of those planning to grow.
- 44% of SMEs were prepared to take risks to be successful and 40% had a long term ambition to be a significantly bigger business. Those who agree with both are the “Ambitious risk takers” and 27% of SMEs in 2023 met that definition (little changed over time), with those more likely to do so including those with 10-49 or 50-249 employees (36% and 37%), as well as Starts and those trading for 2-5 years (49% and 44%), compared to 20% of Permanent non borrowers.

Most SMEs continued to make plans based on what they could afford, with the future feeling uncertain for many. Half had been put off applying by the increases in interest rates and 1 in 3 thought it could be quite difficult for them to get finance:

- A consistent 87% of SMEs said their plans were based on what they could afford, and this was most likely to be the case for 0 employee SMEs (88%) declining by size to 65% of those with 50-249 employees, with limited difference by other demographics.
- A stable 62% were being cautious with their plans because the future felt uncertain, with limited variation by size (59-67%) with the exception of the largest SMEs (43%). Concern was also higher for those in Wholesale/Retail (72%), those with a worse than average risk rating (66%) and those using external finance (68%).
- It was a similar pattern by size in terms of discouragement due to higher interest rates (55% overall) and an issue for 54-59% of SMEs by size with the exception of the largest SMEs (43%). Amongst other groups likely to feel put off were those trading for 2-5 years (64%), those already using external finance (63%) and those in Hotels & Restaurants (61%).
- 35% of SMEs believed it would be quite difficult for a business like theirs to get finance and this was most likely to be the case for 0 employee SMEs (37% then declining by size to 14% of those with 50-249 employees) as well as those with a worse than average risk rating (40%), those in Construction (39%) and Starts (42%). It was also higher for those already using external finance (41%) and slightly higher for those planning to grow (37%).
- Back in 2019, 41% of SMEs thought it would be difficult for them to get finance. This proportion then declined to 31% in 2022 but was slightly higher again in 2023 at 35%.

Despite recent challenges a stable

1 in 4

SMEs can be described as 'Ambitious risk takers'

1 in 3

SMEs thought it would be difficult for them to get finance in future, especially smaller, younger SMEs and those who already have some finance

The non-borrowing SME – adjustments to definition

As the previous chapter reported, almost half of SMEs (46% YEQ4 2023) used external finance. Other data from this report allows for identification of those SMEs who seem firmly disinclined to borrow, defined as those that met **all** of the following conditions:

- Are not currently using external finance'
- Have not used external finance in the past 5 years.
- Have had no borrowing events in the past 12 months.
- Have not applied for any other forms of finance in the last 12 months.
- Reported no inclination to borrow in the past 12 months or next 3 months.
- Added from Q1 2023: Had not applied for government backed pandemic funding.

As discussed in the previous chapter, anomalies were discovered in 2022 around the recording of use of government backed pandemic funding. This had a knock on effect on the definition of Permanent non-borrowers, as those who had taken pandemic funding should be excluded from the PNB definition.

In 2022 the questions available to correct the data were not as tightly defined as those that have been included from Q1 2023, so they have been used for the 2022 data to suggest the 'correction' that might apply to the definition of a PNB (and use of external finance) if pandemic funding is taken fully into account.

From Q1 2023, the questionnaire itself has been adjusted and the status of Government backed loans has been asked next to overall use of finance such that any SMEs still repaying a Government backed facility will automatically be considered to be 'Using external finance' and answer further questions accordingly.

In summary, all data from Q1 2023 onwards include pandemic funding in the "any use of external finance" and PNB calculations.

To smooth the transition from the old to the new definition of 'Permanent non-borrower' the table below provides:

- The 'Yes (original figures)' for PNBs up to Q4 2022, which have been shared in previous reports using the methodology in place since the questionnaire was revised in 2018 (with no adjustment for pandemic funding)
- The 'Yes (corrected)' figures which are the original figure minus:
 - For Q4 2021 to Q4 2022, a 'best efforts' adjustment to exclude those who had taken pandemic funding based on the questions then available.
 - From Q1 2023, excluding those with pandemic funding at the new pandemic funding question that provides a much clearer assessment of all external funding.

6 Financial context

As the table shows, using the original definition for Q4 2022 and the new definition for Q1 2023 sees a marked decrease in PNBs from 51% to 40%. The adjusted Q4 2022 figure (including a best efforts pandemic funding adjustment) is slightly lower at 48% resulting in a slightly smaller change to Q1 2023 of 8 percentage points:

| Permanent non borrowers | | | | | | | | | |
|-------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Over time – all SMEs | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| By date of interview | 2021 | 2022 | 2022 | 2022 | 2022 | 2023 | 2023 | 2023 | 2023 |
| Unweighted base: | 4085 | 4250 | 4250 | 4250 | 4252 | 4252 | 4253 | 3910 | 4595 |
| Yes (corrected) | 42% | 43% | 44% | 48% | 48% | 40% | 35% | 31% | 33% |
| Yes (original figures) | 44% | 45% | 46% | 51% | 51% | n/a | n/a | n/a | n/a |
| No (corrected) | 58% | 57% | 56% | 52% | 52% | 60% | 65% | 69% | 67% |

Q14/15 All SMEs – ADJUSTED FIGURES FOR 2022 AND REVISED DEFINITION FROM Q1 2023

YEQ4 2023, 35% of SMEs met the new definition of a PNB:

- 37% of 0 employee SMEs met this non-borrowing definition
- 27% of 1-9 employee SMEs
- 20% of 10-49 employee SMEs
- 41% of 50-249 employee SMEs.

Amongst SMEs with employees, 27% met the definition of a Permanent non-borrower.

The corrected analysis is available for key subgroups for 2022 as a whole, so the usually quarterly tables below have been adjusted accordingly for this report, showing 2022 as a whole year (original and then adjusted) rather than by quarter. Quarterly analysis will resume for the next report to YEQ4 2024.

6 Financial context

The proportion of PNBs had increased to 2022 (48% under the old definition and 46% under the 'corrected' definition), including for the largest SMEs who had become the most likely to meet the definition. During 2023, increased use of external finance was accompanied by a decline in PNBs across all size bands:

| Over time – all SMEs | | | | | | | |
|----------------------|------------|------------|------------|------------|------------|------------|------------|
| Row percentages | 2021 | 2022 | 2022* | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
| All SMEs | 39% | 48% | 46% | 40% | 35% | 31% | 33% |
| 0 employee | 42% | 51% | 49% | 43% | 37% | 33% | 36% |
| 1-9 employees | 31% | 38% | 35% | 30% | 29% | 27% | 23% |
| 10-49 employees | 27% | 31% | 28% | 21% | 20% | 22% | 18% |
| 50-249 employees | 52% | 59% | 56% | 42% | 43% | 47% | 34% |

Disgeg *ADJUSTED FIGURES FOR 2022 AND REVISED DEFINITION FROM Q1 2023

Across other demographics for 2023 as a whole:

- Half of SMEs in Health (47%) met the definition of a Permanent non-borrower, compared to 30% of those in Transport and 31-36% in other sectors.
- There was limited difference in the proportion of PNBs between those with a minimal (33%) or low (32%) risk rating and those with an average or worse than average risk rating (both 36%)
- Starts were the most likely to meet the definition (43%), with limited variation elsewhere – 29-30% for those trading between 2 and 15 years and 35% of those trading for more than 15 years.
- Those using a personal account for their business banking were no more likely to meet the definition than those using a business bank account (33% v 35%). This means that the equivalent of 2% of all SMEs were Permanent non-borrowers who used a personal bank account.

6 Financial context

The table below shows the proportion of PNBs on an annual basis over the longer term allowing for analysis over time. This table includes an additional column with the adjusted figures for 2022, and the new definition for 2023:

- There has been some variation over time in the proportion of PNBs. Around half met the definition 2017 to 2018, reducing to around 4 in 10 for 2019 to 2021, then back to previous levels for 2022 before declining to one of the lowest levels seen in 2023, using the revised definition.
- The difference between 2022 and 2022 adjusted is 2 percentage points (48% to 46%) with a similar decline across all demographics with the slight exception of a 4 point reduction for those in Hotels & Restaurants. Starts were again less affected than their peers (-1) primarily due to many of these SMEs not being in existence when the funding was made available
- Until 2020, the proportion of PNBs decreased by size of SME. Between 2019 and 2021, the proportion of the largest SMEs meeting the definition increased from a fifth to a half, where it remained until 2023 (41%). The largest and smallest SMEs have been the most likely to meet the definition of a PNB since 2021, while those with 10-49 employees have typically been the least likely.
- There was little to choose in terms of risk rating (32-36%), with all less likely to be a PNB in 2023 than they were in 2022, and also than in previous years.
- All sectors were less likely to meet the definition of a PNB in 2023 than in 2022, though by varying degrees – the decrease was 16 percentage points for those in Property/Business Services and 14 percentage points for those in Transport and Agriculture, compared to 4 points in the Other Community sector
- There was previously relatively little variation by age of SME but since 2022 Starts have been somewhat more likely than their older peers to be a PNB

These PNBs have indicated that they are unlikely to be interested in future borrowing, based on their current views. At various stages in this report, therefore, we have provided an alternative to the ‘All SME’ figure, excluding these Permanent non-borrowers, which might be described as ‘All SMEs with a potential interest in external finance’.

As an example, if these PNBs were excluded from the ‘use of external finance’ table reported in the previous chapter, the proportion using external finance would increase to 71% of the remaining SMEs in 2023, in line with levels seen 2015-2018 and since 2021:

| Use of external finance over time | | | | | | | | | |
|-----------------------------------|------|------|------|------|------|------|------|-------|-------|
| Over time – all SMEs excl PNBs | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2022* | 2023* |
| Use any external finance | 70% | 72% | 70% | 78% | 61% | 70% | 69% | 66% | 71% |
| Use core finance | 57% | 57% | 61% | 67% | 48% | 51% | 51% | 49% | 47% |
| Use other forms of finance | 31% | 33% | 22% | 27% | 31% | 40% | 39% | 37% | 32% |
| Do not use external finance | 30% | 28% | 30% | 22% | 39% | 30% | 31% | 34% | 29% |

*new definition of PNB and use of finance

6 Financial context

| Permanent non-borrowers | | | | | | | | |
|------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Over time – all SMEs | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2022* | 2023* |
| Row percentages | | | | | | | | |
| All SMEs | 47% | 48% | 42% | 41% | 39% | 48% | 46% | 35% |
| 0 emp | 51% | 50% | 44% | 44% | 42% | 51% | 49% | 37% |
| 1-9 emps | 37% | 44% | 38% | 32% | 31% | 38% | 35% | 27% |
| 10-49 emps | 27% | 36% | 31% | 28% | 27% | 31% | 28% | 20% |
| 50-249 emps | 22% | 19% | 19% | 32% | 52% | 59% | 56% | 41% |
| Minimal external risk rating | 42% | 45% | 44% | 40% | 37% | 47% | 45% | 33% |
| Low | 42% | 50% | 41% | 37% | 39% | 47% | 44% | 32% |
| Average | 49% | 49% | 46% | 42% | 43% | 50% | 48% | 36% |
| Worse than average | 47% | 47% | 41% | 40% | 38% | 49% | 46% | 36% |
| Agriculture | 37% | 41% | 33% | 36% | 36% | 47% | 46% | 32% |
| Manufacturing | 42% | 48% | 42% | 39% | 38% | 41% | 38% | 32% |
| Construction | 48% | 51% | 41% | 41% | 41% | 48% | 45% | 36% |
| Wholesale/Retail | 39% | 43% | 33% | 34% | 34% | 43% | 41% | 31% |
| Hotels & Restaurants | 41% | 46% | 42% | 33% | 30% | 43% | 39% | 31% |
| Transport | 42% | 45% | 39% | 35% | 34% | 47% | 44% | 30% |
| Property/ Business Services | 52% | 52% | 50% | 45% | 45% | 54% | 51% | 35% |
| Health | 48% | 38% | 34% | 49% | 47% | 57% | 55% | 47% |
| Other Community | 50% | 48% | 42% | 40% | 34% | 40% | 39% | 35% |
| Starts | 42% | 31% | 17% | 39% | 41% | 53% | 52% | 43% |
| 2-5 years trading | 49% | 50% | 49% | 38% | 36% | 39% | 36% | 30% |
| 6-9 years | 49% | 49% | 44% | 41% | 36% | 48% | 45% | 29% |
| 10-15 years | 46% | 53% | 48% | 42% | 37% | 44% | 41% | 29% |
| 15+ years | 47% | 54% | 49% | 41% | 42% | 50% | 47% | 35% |

All SMEs – *ADJUSTED FIGURE FOR 2022 AND REVISED DEFINITION FROM Q1 2023

6 Financial context

The table below shows the proportion of SMEs using external finance and those meeting the definition of a PNB over time, and the 'gap' in size between them. Analysis between the adjusted 2022 figure and 2023 shows the 'gap' returning to positive territory (more SMEs using finance than meeting the definition of a PNB) for the first time since 2021 and at a higher level than previously seen (+11) due to the 0 and 50-249 employee SMEs being more likely to use finance than meet the definition of a PNB:

| Use of external finance and PNBs | | | | | | | | | |
|----------------------------------|------|------|------|------|------|------|------|-------|-------|
| Over time | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2022* | 2023* |
| Row percentages | | | | | | | | | |
| All SMEs: | | | | | | | | | |
| Use external finance | 37% | 38% | 36% | 45% | 37% | 43% | 36% | 40% | 46% |
| Permanent non-borrower | 47% | 47% | 48% | 42% | 41% | 39% | 48% | 46% | 35% |
| 'Gap' finance to PNB | -10 | -9 | -12 | +3 | -4 | +4 | -12 | -6 | +11 |
| 0 employees: | | | | | | | | | |
| Use external finance | 33% | 34% | 34% | 43% | 32% | 38% | 32% | 37% | 42% |
| Permanent non-borrower | 50% | 51% | 50% | 44% | 44% | 42% | 51% | 49% | 37% |
| 'Gap' finance to PNB | -17 | -17 | -16 | -1 | -12 | -4 | -19 | -12 | +5 |
| 1-9 employees: | | | | | | | | | |
| Use external finance | 46% | 49% | 42% | 50% | 49% | 56% | 47% | 52% | 58% |
| Permanent non-borrower | 38% | 37% | 44% | 38% | 32% | 31% | 38% | 35% | 27% |
| 'Gap' finance to PNB | +8 | +12 | -2 | +12 | +17 | +25 | +9 | +17 | +31 |
| 10-49 employees: | | | | | | | | | |
| Use external finance | 59% | 64% | 54% | 60% | 58% | 62% | 57% | 62% | 69% |
| Permanent non-borrower | 30% | 27% | 36% | 31% | 28% | 27% | 31% | 28% | 20% |
| 'Gap' finance to PNB | +29 | +37 | +18 | +29 | +30 | +35 | +26 | +34 | +49 |
| 50-249 employees | | | | | | | | | |
| Use external finance | 64% | 73% | 77% | 77% | 58% | 37% | 32% | 36% | 47% |
| Permanent non-borrower | 26% | 22% | 19% | 19% | 32% | 52% | 59% | 56% | 41% |
| 'Gap' finance to PNB | +38 | +51 | +58 | +58 | +26 | -15 | -27 | -20 | +6 |

All SMEs – *ADJUSTED FIGURE FOR 2022 AND REVISED DEFINITION FROM Q1 2023

Analysis by employees over time showed that:

| PNBs v use of external finance trends over time | |
|---|--|
| 0 employees | <p>In 2012, as many 0 employee SMEs were using external finance (38%) as met the definition of a PNB (37%).</p> <p>Since 2016, 0 employee SMEs have typically been more likely to be a PNB than to use external finance, with the 'gap' between them in the high teens, with the exception of 2019 and 2021 when an increase in use of external finance narrowed the gap considerably. In 2023 the gap was positive (+5) for the first time in recent years as more 0 employee SMEs used external finance and fewer met the definition of a PNB.</p> |
| 1-9 employees | <p>In 2012, SMEs with 1-9 employees were twice as likely to be using external finance (58%) as to be a PNB (25%).</p> <p>Since 2016, the 'gap' between users of finance and PNBs has widened then narrowed again. In 2021 the gap was the widest seen over this period at +25 and after narrowing slightly in 2022, was back to this level in 2023 under the new definition with a 'gap' of +31.</p> |
| 10-49 employees | <p>In 2012, SMEs with 10-49 employees were much more likely to be using external finance (70%) than they were to meet the definition of a PNB (18%).</p> <p>This has also remained the case since 2016, albeit by a narrower margin. Under the new definition in 2023, 7 in 10 were using finance and 2 in 10 were PNBs, widening the margin again to +49.</p> |
| 50-249 employees | <p>In 2012, like those with 10-49 employees, the largest SMEs with 50-249 employees were much more likely to be using finance (73%) than to be meeting the definition of a PNB (15%), a gap of 58 points.</p> <p>Since 2016, that gap initially increased back to 58 points in 2018 and 2019 but then declined again, such that in both 2021 and 2022, there were more of these largest SMEs meeting the definition of a PNB than using finance, with a gap of -27 / -20 in 2022. Under the new definition in 2023 the 'gap' has moved back into positive territory, albeit by a small margin (+6)</p> |

PNBs by their very definition were not using external finance, but if use of trade credit and injections of personal funds were taken into consideration then a consistent 49% of PNBs used any 'business funding'. If those who had injected personal funds and/or used trade credit were to be excluded from the PNB definition, the proportion of PNBs would reduce from 35% of all SMEs to 18% YE Q4 2023.

Permanent non-borrowers – other characteristics

The table below summarises the differences between those meeting the definition of a PNB and other SMEs on a range of key measures over time. Analysis showed that using the revised definition for 2022 did very little to these results (no more than the occasional change by 1 percentage point) and so the revised 2022 scores are not included here:

| Characteristics of PNBs | | | | | | | | |
|--------------------------------|------|------|------|------|------|------|------|-------|
| Over time | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023* |
| Row percentages | | | | | | | | |
| Made a profit: | | | | | | | | |
| PNBs | 80% | 83% | 79% | 83% | 83% | 71% | 77% | 82% |
| Other SMEs | 80% | 82% | 77% | 81% | 76% | 62% | 70% | 75% |
| Hold £10k+ of credit balances: | | | | | | | | |
| PNBs | 19% | 23% | 23% | 28% | 28% | 35% | 36% | 34% |
| Other SMEs | 24% | 27% | 22% | 21% | 29% | 32% | 33% | 34% |
| Minimal/Low risk rating: | | | | | | | | |
| PNBs | 20% | 20% | 23% | 22% | 20% | 20% | 21% | 21% |
| Other SMEs | 23% | 23% | 23% | 24% | 22% | 22% | 23% | 23% |
| International | | | | | | | | |
| PNBs | 11% | 14% | 14% | 15% | 14% | 14% | 15% | 17% |
| Other SMEs | 16% | 17% | 16% | 16% | 18% | 20% | 22% | 21% |
| Innovative | | | | | | | | |
| PNBs | 32% | 31% | 30% | 34% | 35% | 35% | 36% | 33% |
| Other SMEs | 41% | 36% | 35% | 35% | 47% | 44% | 44% | 47% |
| Plan to grow | | | | | | | | |
| PNBs | 36% | 37% | 41% | 40% | 34% | 42% | 36% | 41% |
| Other SMEs | 50% | 52% | 56% | 60% | 39% | 49% | 48% | 49% |

All SMEs * new definition from 2023

As the table above shows, there is no single consistent pattern of changes over time between PNBs and non-PNBs:

| PNB v non-PNB trends over time | |
|--------------------------------|--|
| Profitability | 2016 to 2019, there was typically little to choose in terms of levels of profitability between PNBs and their peers. In 2020, profitability was stable for PNBs but declined for other SMEs creating a 7 point 'gap'. In 2021, the impact of the pandemic was felt by both groups with fewer making a profit (71% PNBs v 62% others) and while both saw an increase for 2022 and then 2023 (82% v 75%) the 'gap' between them remained at 7 points. |
| Credit balances | Both groups have seen an increase in the proportion holding £10k in credit balances over time, but their position relative to each other has varied. In 2016-2017 PNBs were less likely to hold £10k+ in credit balances than their peers, but since then the groups have been close, or the PNBs have been ahead. In 2020, there was little to choose between the two groups (28% v 29% of other SMEs) and this remains the case (both 34% in 2023) |
| Risk rating | The proportion of each group with a minimal or low external risk rating has been stable over recent years, with little to choose between them (21% v 23% in 2023). |
| International | With the exception of 2019, PNBs have been somewhat less likely than their non-PNB peers to be trading internationally (17% v 21% in 2023), but both groups have seen a slight increase in the proportion trading internationally in recent years. |
| Innovation | In almost all years PNBs have been less likely to have been innovative than their peers (33% v 47% in 2023). The exception was 2019, but since then levels of innovation amongst PNBs have changed very little, while increasing for other SMEs. |
| Plan to grow | Prior to 2020, a stable 4 in 10 of PNBs had been planning to grow, then like all SMEs, in 2020 growth ambitions were lower (34%). Since then there has been an increase back closer to pre-pandemic levels (41% in 2023). Amongst non-PNBs, growth ambition has also increased since 2020 (to 49% in 2023) but this remains below the levels seen immediately pre-pandemic. |

The 'middle' group

Whether the proportion of SMEs meeting the definition of a PNB has been higher or lower than the proportion using external finance, the two groups do not add up to 100% of SMEs. There is a third group of SMEs that are “in the middle” i.e. not using finance now but showing some appetite, a group that might be considered a potential source of future users of external finance.

Around 1 in 6 SMEs were in this group 2015 to 2019 (13-16%), before increasing to 22% in 2020. In 2023, 19% of SMEs were in this middle group, who were neither using external finance, nor meeting the definition of a PNB with no obvious interest in finance.

The key way in which they qualified for this group was that half of them (49%) expected to be a Future Would-be seeker of finance in the coming year (v19% of SMEs overall), with 12% planning to apply (v 8% overall) leaving 39% expecting to be a future Happy non-seeker (v 72% of SMEs overall).

Analysis of the basic demographics of this group in 2023 showed these SMEs were small, profitable and innovative but 1 in 4 felt they were currently 'Struggling':

- 83% of them have 0 employees (v 76% of all SMEs).
- 74% made a profit (v 77% of all SMEs) and 31% held £10k of credit balances (v 34% of all SMEs).
- 59% either had or planned to be innovative and 28% were 'serial' innovators (v 55% and 24% of all SMEs).
- 55% were in a 'good' mood about their business (v 59% overall) and 30% saw the future offering more opportunities than threats (v 31% overall).
- A quarter (24%) did though feel they were 'Struggling' (v 18% overall) almost the same proportion as felt Comfortable/Well off (29% v 34% overall).

Attitudes to finance

Since Q3 2014 an increasing number of attitudinal statements have been included in the SME Finance Monitor to explore different aspects of demand for finance amongst SMEs. These are reported below in full for YEQ4 2023, in the order in which they were added to the SME Finance Monitor, with the overall ‘agree’ score in bold italics by each statement. In Q3 2023 the previous code ‘A further increase in the cost of credit would make us less likely to apply for new external finance’ was adjusted to read ‘The recent increase in interest rates has made us less likely to apply for external finance’

These statements shed some light on current demand for finance. Most SMEs (87%) continued to report that their plans were based on what they could afford, with 8 in 10 saying they would accept slower growth rather than borrowing to grow faster (81%). 6 in 10 felt they were being cautious due to future uncertainty (62%) while half that proportion, 3 in 10, were happy to use finance to help the business grow (33%).

Previous analysis revealed that a key predictor of attitudes towards, and future use of, finance was to be a current user of external finance. Summary analysis of these statements by use of finance as well as other key demographics is therefore provided later in this section, together with changes in levels of agreement over time.

Attitudes to finance in detail – YEQ4 23

| YEQ4 23 – All SMEs | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
|--|---------------|-------------|-------------|-------------|-------------|
| <i>Unweighted base:</i> | 17,010 | 3472 | 6381 | 5267 | 1890 |
| <i>Happy to use external finance to help the business grow and develop</i> | 33% | 30% | 40% | 48% | 43% |
| Strongly agree | 3% | 2% | 4% | 2% | 4% |
| Agree | 30% | 27% | 37% | 46% | 39% |
| Neither/nor | 15% | 14% | 15% | 19% | 36% |
| Disagree | 46% | 48% | 40% | 30% | 17% |
| Strongly disagree | 7% | 8% | 4% | 2% | 4% |

Continued

Continued

| | | | | | |
|---|------------|------------|------------|------------|------------|
| Current plans for the business are based on what we can afford without taking additional finance | 87% | 88% | 84% | 76% | 65% |
| Strongly agree | 16% | 18% | 13% | 9% | 14% |
| Agree | 70% | 70% | 71% | 68% | 51% |
| Neither/nor | 6% | 6% | 7% | 11% | 26% |
| Disagree | 6% | 6% | 8% | 12% | 9% |
| Strongly disagree | 1% | 1% | * | * | 1% |
| Never think about whether we could/should use more external finance | 54% | 56% | 50% | 41% | 26% |
| Strongly agree | 9% | 10% | 6% | 3% | 5% |
| Agree | 45% | 46% | 44% | 38% | 20% |
| Neither/nor | 16% | 15% | 18% | 23% | 42% |
| Disagree | 27% | 27% | 29% | 34% | 29% |
| Strongly disagree | 2% | 2% | 2% | 2% | 4% |
| We will accept a slower rate of growth rather than borrowing to grow faster | 81% | 82% | 80% | 76% | 59% |
| Strongly agree | 13% | 14% | 12% | 8% | 10% |
| Agree | 68% | 68% | 69% | 68% | 48% |
| Neither/nor | 12% | 11% | 11% | 15% | 33% |
| Disagree | 6% | 6% | 8% | 9% | 7% |
| Strongly disagree | 1% | 1% | 1% | * | 1% |
| As a business we are prepared to take risks to be more successful | 44% | 42% | 51% | 52% | 45% |
| Strongly agree | 4% | 4% | 5% | 3% | 5% |
| Agree | 40% | 38% | 47% | 49% | 40% |
| Neither/nor | 15% | 14% | 15% | 18% | 35% |
| Disagree | 37% | 39% | 31% | 29% | 17% |
| Strongly disagree | 4% | 4% | 3% | 1% | 3% |

Continued

Continued

| | | | | | |
|--|------------|------------|------------|------------|------------|
| <i>The recent increases in interest rates have made us less likely to apply for new external finance*</i> | 55% | 54% | 59% | 54% | 35% |
| Strongly agree | 9% | 10% | 8% | 5% | 7% |
| Agree | 46% | 44% | 51% | 49% | 29% |
| Neither/nor | 23% | 23% | 20% | 22% | 43% |
| Disagree | 20% | 20% | 20% | 22% | 19% |
| Strongly disagree | 2% | 3% | 2% | 1% | 3% |
| <i>Because the future feels uncertain, we are being very cautious with our plans for the business</i> | 62% | 62% | 67% | 59% | 43% |
| Strongly agree | 9% | 9% | 9% | 6% | 8% |
| Agree | 53% | 52% | 58% | 53% | 35% |
| Neither/nor | 14% | 14% | 12% | 16% | 32% |
| Disagree | 22% | 22% | 20% | 24% | 22% |
| Strongly disagree | 2% | 2% | 1% | 1% | 2% |
| <i>My impression is that it is quite difficult for businesses like ours to get external finance</i> | 35% | 37% | 32% | 20% | 14% |
| Strongly agree | 5% | 5% | 5% | 2% | 3% |
| Agree | 30% | 32% | 26% | 18% | 11% |
| Neither/nor | 38% | 39% | 36% | 35% | 45% |
| Disagree | 25% | 23% | 30% | 43% | 37% |
| Strongly disagree | 2% | 2% | 2% | 2% | 4% |
| <i>We have a long term ambition to be a significantly bigger business</i> | 40% | 37% | 48% | 56% | 60% |
| Strongly agree | 7% | 7% | 7% | 5% | 14% |
| Agree | 33% | 30% | 41% | 50% | 46% |
| Neither/nor | 12% | 11% | 12% | 14% | 28% |
| Disagree | 44% | 46% | 37% | 29% | 11% |
| Strongly disagree | 5% | 5% | 3% | 1% | 1% |

Q96 (238a5) All SMEs *previously “An increase in the cost of credit would make us less likely to apply for finance”

6 Financial context

This final statement was revised in Q1 2023, so a full year of data is now available for 2023. Debt covers more than just financial products, but analysis just amongst those SMEs currently using external finance is provided later in this chapter:

| <i>We are very worried about the amount the business owes overall, whether to banks or others</i> | 10% | 10% | 13% | 9% | 6% |
|---|------------|------------|------------|-----------|-----------|
| Strongly agree | 1% | 1% | 2% | 1% | 1% |
| Agree | 9% | 9% | 11% | 8% | 4% |
| Neither/nor | 13% | 13% | 11% | 12% | 28% |
| Disagree | 60% | 58% | 63% | 69% | 49% |
| Strongly disagree | 17% | 18% | 14% | 10% | 17% |

Q96 (238a5) All SMEs

Attitudes to finance – summary by key demographics

Summary analysis of attitudes is provided for key demographics including size. The statements have been ranked by overall levels of agreement for YEQ4 2023 and include the more recent statements ‘The recent increases in interest rates have made us less likely to apply for external finance’ and ‘We are very worried about the amount the business owes overall, whether to banks or others’:

| YEQ4 23 – all SMEs | | | | | |
|--|---------------|-------------|-------------|-------------|-------------|
| % agreeing | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
| Unweighted base: | 17,010 | 3472 | 6381 | 5267 | 1890 |
| Plans based on what can afford ourselves | 87% | 88% | 84% | 76% | 65% |
| Accept slower growth rather than borrow | 81% | 82% | 80% | 76% | 59% |
| Because the future feels uncertain, we are being very cautious with our plans for the business | 62% | 62% | 67% | 59% | 43% |
| Recent increases in interest rates make us less likely to apply for finance | 55% | 54% | 59% | 54% | 35% |
| Never think about using (more) external finance | 54% | 56% | 50% | 41% | 26% |
| As a business we are prepared to take risks to become more successful | 44% | 42% | 51% | 52% | 45% |
| We have a long term ambition to be a significantly bigger business | 40% | 37% | 48% | 56% | 60% |
| My impression is that it is quite difficult for businesses like ours to get external finance | 35% | 37% | 32% | 20% | 14% |
| Happy to use finance to help business grow | 33% | 30% | 40% | 48% | 43% |
| We are very worried about the amount the business owes | 10% | 10% | 13% | 9% | 8% |

Q96 (238a5) All SMEs

- Smaller SMEs remained somewhat more likely than larger SMEs to base plans on what could be afforded and to grow more slowly rather than borrow to grow.
- Smaller SMEs were also more likely to say they never thought about using (more) finance and to think it might be difficult to get finance if they did apply.
- Larger SMEs were more likely to be happy to use external finance to help the business grow and to have a long term ambition to be larger still. The largest SMEs were somewhat less likely to feel put off by increased interest rates or to feel cautious due to the future feeling uncertain

6 Financial context

The table below looks at attitudes to finance by external risk rating. There was relatively little variation by risk rating on a number of these statements, but those with a worse than average risk rating were more likely to agree that they were prepared to take risks to be successful and had ambitions to be bigger. The impression that it would be difficult to get finance increased with risk rating (25% to 40%) and there was a small increase in the proportion concerned about debt (7% to 12%):

| YEQ4 23 – all SMEs | | | | | |
|---|---------------|-------------|-------------|-------------|-------------|
| % agreeing | Total | Min | Low | Avge | Worse/Avge |
| Unweighted base: | 17,010 | 3327 | 4683 | 4549 | 3294 |
| Plans based on what can afford ourselves | 87% | 87% | 86% | 84% | 88% |
| Accept slower growth rather than borrow | 81% | 84% | 81% | 79% | 82% |
| Future feels uncertain, we are being very cautious with our plans | 62% | 63% | 61% | 58% | 66% |
| Recent increases in interest rates make us less likely to apply for finance | 55% | 55% | 52% | 51% | 58% |
| Never think about using (more) external finance | 54% | 56% | 53% | 56% | 53% |
| As a business we are prepared to take risks to become more successful | 44% | 39% | 40% | 39% | 51% |
| We have long term ambition to be significantly bigger | 40% | 30% | 33% | 33% | 50% |
| Impression difficult for businesses like ours to get external finance | 35% | 25% | 28% | 32% | 40% |
| Happy to use finance to help business grow | 33% | 31% | 27% | 29% | 38% |
| We are very worried about the amount the business owes | 10% | 7% | 10% | 9% | 12% |

Q96 (238a5) All SMEs

6 Financial context

There was some variation by sector, including:

- Those in the Health sector being more likely to say they never think about finance and less likely to be to be happy to use finance to grow, or to say an increase in interest rates has put them off applying or to be prepared to take risks to succeed
- Those in Transport being more prepared to take risks and/or to use finance to grow, while those in Wholesale/ Retail were more likely to be ambitious to be bigger but also more cautious about an uncertain future

| YEQ4 23 – all SMEs | | | | | | | | | |
|---|------------|-------------|-------------|----------------|---------------|-------------|--------------|-------------|---------------|
| % agreeing | Agric | Mfg | Constr | Whle Retail | Hotel Rest | Trans | Prop/ Bus | Hlth SWk | Other Comm |
| Unweighted base: | 983 | 1797 | 2737 | 2188 | 1177 | 1754 | 3682 | 984 | 1708 |
| Plans based on what can afford ourselves | 84% | 87% | 88% | 87% | 85% | 83% | 86% | 91% | 86% |
| Accept slower growth rather than borrow | 76% | 81% | 82% | 79% | 81% | 77% | 83% | 80% | 85% |
| Future feels uncertain, we are being very cautious with our plans | 66% | 66% | 61% | 72% | 69% | 63% | 59% | 61% | 61% |
| Increases in interest rates make us less likely to apply | 56% | 53% | 56% | 54% | 61% | 56% | 53% | 49% | 56% |
| Never think about using (more) external finance | 47% | 54% | 56% | 54% | 50% | 49% | 57% | 61% | 52% |
| As a business we are prepared to take risks to become more successful | 38% | 46% | 41% | 47% | 44% | 50% | 46% | 34% | 44% |
| We have long term ambition to be significantly bigger | 31% | 40% | 37% | 44% | 33% | 43% | 42% | 34% | 41% |
| Impression difficult for businesses like ours to get external finance | 30% | 33% | 39% | 33% | 38% | 35% | 31% | 36% | 38% |
| Happy to use finance to help business grow | 37% | 33% | 37% | 35% | 35% | 40% | 28% | 22% | 30% |
| We are very worried about the amount the business owes | 12% | 9% | 12% | 12% | 14% | 12% | 8% | 7% | 11% |

Q96 (238a5) All SMEs

6 Financial context

Agreement with a number of these statements declined as an SME gets older, with younger SMEs more likely to agree that they were prepared to take risks, wanted to be significantly bigger and were happy to borrow to grow, but also more likely to feel it might be difficult for them to get finance. Older SMEs were more likely to agree that they never think about using more finance, while those trading for 2 to 5 years were the most likely to feel potentially discouraged by the increase in interest rates:

| YEQ4 23 – all SMEs % agreeing | | | | | |
|--|------------|-------------|-------------|--------------|---------------|
| | Starts | 2-5 yrs | 6-9 yrs | 10-15 yrs | 15 yrs+ |
| Unweighted base: | 570 | 1358 | 1657 | 3206 | 10,219 |
| Plans based on what can afford ourselves | 88% | 87% | 85% | 87% | 86% |
| Accept slower growth rather than borrow | 78% | 85% | 85% | 82% | 81% |
| Because the future feels uncertain, we are being very cautious with our plans for the business | 65% | 66% | 63% | 65% | 60% |
| Recent increases in interest rates make us less likely to apply for finance | 55% | 64% | 59% | 57% | 51% |
| Never think about using (more) external finance | 49% | 50% | 53% | 53% | 59% |
| As a business we are prepared to take risks to become more successful | 60% | 57% | 50% | 45% | 33% |
| We have a long term ambition to be a significantly bigger business | 69% | 61% | 49% | 33% | 23% |
| My impression is that it is quite difficult for businesses like ours to get external finance | 41% | 42% | 35% | 36% | 30% |
| Happy to use finance to help business grow | 48% | 39% | 39% | 28% | 24% |
| We are very worried about the amount the business owes | 12% | 15% | 13% | 9% | 9% |

Q96 (238a5) All SMEs

Analysis by use of external finance and PNBs is shown below:

- The proportion agreeing that their plans are based on what they can afford, and they would rather grow more slowly than borrow to grow varied little by finance status, but many statements saw lower levels of agreement moving from finance users to PNBs including the future feeling uncertain, the impact of higher interest rates, being difficult to get finance, being happy to use finance to grow and concerns about the amount the business owes overall.
- The middle group (neither using finance nor a PNB) were typically also between the two other groups attitudinally, but were closer to users of finance for being less likely to say they never think about using finance, being prepared to take risks to be successful and having an ambition to be much bigger.

| YEQ4 23 – all SMEs % agreeing | | | |
|--|----------------------|----------------|-------------|
| | Use external finance | 'Middle group' | PNB |
| Unweighted base: | 9829 | 2423 | 4758 |
| Plans based on what can afford ourselves | 86% | 86% | 87% |
| Accept slower growth rather than borrow | 82% | 78% | 82% |
| Because the future feels uncertain, we are being very cautious with our plans for the business | 68% | 62% | 55% |
| Recent increases in interest rates make us less likely to apply for finance | 63% | 50% | 46% |
| Never think about using (more) external finance | 49% | 49% | 65% |
| As a business we are prepared to take risks to become more successful | 49% | 46% | 37% |
| We have a long term ambition to be a significantly bigger business | 44% | 42% | 33% |
| My impression is that it is quite difficult for businesses like ours to get external finance | 41% | 34% | 28% |
| Happy to use finance to help business grow | 43% | 30% | 20% |
| We are very worried about the amount the business owes | 17% | 7% | 3% |

Q96 (238a5) All SMEs

'Ambitious Risk takers' are those who agree both that they want to be a bigger business and that they are prepared to take risks to be successful. This group is described in more detail later in this chapter but it is worth noting here that in 2023, 29% of those neither using finance nor a PNB were ARTs, more in line with users of finance (31% ARTs) than PNBs (20% ARTs)

Analysis by growth plans is shown below:

- The proportion agreeing that their plans are based on what they can afford, that they would rather grow more slowly than borrow to grow and that the future felt uncertain, varied little by growth plans.
- Those with plans to grow were much more likely to be willing to take risks to be successful and to have a long term ambition to be bigger and also willing to use finance to help them grow, but slightly more likely to feel it might be difficult for them to get finance and to be put off by interest rate rises
- Excluding the 0 employee SMEs increased the proportion of all remaining SMEs that were prepared to take risks, had ambitions to be significantly bigger and were happy to use finance.

| YEQ4 23 – all SMEs % agreeing | | | |
|--|--------------|------------------|--------------------|
| | Plan to grow | No plans to grow | All with employees |
| Unweighted base: | 8341 | 8669 | 13,538 |
| Plans based on what can afford ourselves | 87% | 86% | 83% |
| Accept slower growth rather than borrow | 82% | 81% | 79% |
| Because the future feels uncertain, we are being very cautious with our plans for the business | 62% | 63% | 65% |
| Recent increases in interest rates make us less likely to apply for finance | 58% | 52% | 57% |
| Never think about using (more) external finance | 51% | 57% | 48% |
| As a business we are prepared to take risks to become more successful | 59% | 32% | 51% |
| We have a long term ambition to be a significantly bigger business | 64% | 20% | 49% |
| My impression is that it is quite difficult for businesses like ours to get external finance | 37% | 33% | 29% |
| Happy to use finance to help business grow | 44% | 23% | 42% |
| We are very worried about the amount the business owes | 12% | 9% | 12% |

Q96 (238a5) All SMEs

Attitudes to finance – agreement over time

With the changes and additions made to these statements over time, analysis has traditionally been reported in half-years:

| Attitudes to finance | | | | | | | | | |
|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Over time – all SMEs | H2 19 | H1 20 | H2 20 | H1 21 | H2 21 | H1 22 | H2 22 | H1 23 | H2 23 |
| All agreeing – row percentages | | | | | | | | | |
| Happy to use finance to help business grow | 29% | 30% | 35% | 37% | 36% | 30% | 32% | 32% | 33% |
| Plans based on what can afford ourselves | 81% | 84% | 86% | 86% | 84% | 86% | 85% | 86% | 87% |
| Accept slower growth rather than borrow | 74% | 79% | 80% | 82% | 77% | 80% | 78% | 81% | 82% |
| Never think about using (more) external finance | 49% | 51% | 52% | 57% | 57% | 55% | 51% | 54% | 55% |
| As a business we are prepared to take risks to become more successful | 43% | 42% | 44% | 46% | 49% | 47% | 45% | 45% | 44% |
| Increase in cost of credit/ interest rates less likely to apply* | 53% | 53% | 61% | 63% | 54% | 51% | 50% | 54% | 55% |
| Future feels uncertain so we are being very cautious | 55% | 65% | 71% | 68% | 63% | 64% | 62% | 63% | 62% |
| Impression it is quite difficult to get finance | 39% | 37% | 37% | 36% | 32% | 32% | 30% | 34% | 36% |
| Have long term ambition to be significantly bigger | 36% | 37% | 44% | 43% | 41% | 39% | 40% | 40% | 40% |
| We are very worried about the amount the business owes* | - | - | - | - | 9% | 10% | 9% | 11% | 10% |

Q96 (238a5) All SMEs -* slight changes to text from Q1 and Q3 2023

Analysis over time showed that:

- The proportion happy to use finance to help the business grow was around 3 in 10 pre-pandemic, increasing to 36-37% in 2021, before returning to the levels seen pre-pandemic (33% in H2 2023).
- Until H1 2021, around 4 in 10 SMEs felt that it might be difficult for them to get finance, declining to 30% in H2 2022, but back to 36% in H2 2023.
- The proportion prepared to take risks to be successful increased slightly to 49% in H2 2021 has returned to pre-pandemic levels (44% in H2 2023), while the proportion with a long term growth ambition remained fairly stable at 4 in 10 SMEs across this period.
- The proportion feeling the future was uncertain increased to 71% in H2 2020, and remained at that level at the start of 2021, before declining slightly to 62% in H2 2022 and stable since, still above pre-pandemic levels.

Being happy to borrow to grow can be seen as a key indicator of SME sentiment, so further detail has been provided for this statement over time by key demographics, followed by analysis of those who felt that it might be difficult for businesses like theirs to get finance.

4 in 10 SMEs were happy to use finance to grow 2015-16 (43-45%) with the proportion then declining to 29% for 2019. Since then around 1 in 3 has been happy to borrow to grow (33% in 2023) with the slight exception of 2021 when 36% were happy to borrow to grow. The change 2021 to 2023 was seen:

- Across all size bands, with those with 10-49 employees now the most likely to be happy to borrow to grow (48%).
- Across all but those with a worse than average risk rating, who remained the most likely to be happy to borrow to grow with a more marked decline for those with a low risk rating.
- Those in Transport were the most likely to be happy to borrow to grow (40%) recovering from a dip in 2022, while there was a further decline for those in Health to 22% happy to borrow to grow, the lowest level seen in recent years.
- The proportion happy to borrow to grow declined by age of SME, with a wider spread in recent years between Starts and older SMEs (48% to 24% in 2023).

| Happy to use finance to help business grow | | | | | | | | |
|--|------------|------------|------------|------------|------------|------------|------------|------------|
| Over time – all SMEs | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| Row percentages % agree | | | | | | | | |
| All SMEs | 43% | 34% | 32% | 29% | 33% | 36% | 31% | 33% |
| 0 emp | 41% | 31% | 30% | 26% | 29% | 34% | 28% | 30% |
| 1-9 emps | 49% | 40% | 38% | 37% | 42% | 43% | 38% | 40% |
| 10-49 emps | 52% | 48% | 45% | 44% | 49% | 50% | 47% | 48% |
| 50-249 emps | 51% | 53% | 57% | 47% | 48% | 45% | 48% | 43% |
| Minimal external risk rating | 45% | 35% | 36% | 33% | 32% | 36% | 32% | 31% |
| Low | 42% | 35% | 34% | 34% | 34% | 36% | 28% | 27% |
| Average | 41% | 31% | 31% | 25% | 30% | 33% | 27% | 29% |
| Worse than average | 45% | 36% | 34% | 30% | 34% | 39% | 35% | 38% |
| Agriculture | 44% | 37% | 41% | 34% | 39% | 43% | 36% | 37% |
| Manufacturing | 42% | 35% | 34% | 35% | 32% | 38% | 30% | 33% |
| Construction | 46% | 31% | 29% | 27% | 28% | 34% | 29% | 37% |
| Wholesale/Retail | 44% | 39% | 38% | 36% | 42% | 39% | 31% | 35% |
| Hotels & Restaurants | 46% | 38% | 32% | 32% | 38% | 35% | 32% | 35% |
| Transport | 43% | 38% | 35% | 30% | 34% | 45% | 29% | 40% |
| Property/ Business Services | 42% | 33% | 30% | 26% | 31% | 34% | 31% | 28% |
| Health | 43% | 27% | 32% | 27% | 27% | 30% | 28% | 22% |
| Other Community | 39% | 32% | 31% | 28% | 33% | 36% | 34% | 30% |
| PNB | 34% | 22% | 22% | 17% | 19% | 23% | 19% | 20% |
| Not a PNB | 51% | 44% | 42% | 38% | 42% | 45% | 41% | 39% |
| Starts | 48% | 38% | 35% | 32% | 39% | 47% | 42% | 48% |
| 2-5 years trading | 49% | 37% | 37% | 34% | 36% | 45% | 39% | 39% |
| 6-9 years | 47% | 33% | 35% | 27% | 37% | 37% | 34% | 39% |
| 10-15 years | 40% | 32% | 31% | 28% | 28% | 36% | 30% | 28% |
| 15+ years | 37% | 31% | 28% | 26% | 29% | 29% | 24% | 24% |

Q96 (238a54) All SMEs

Those already using external finance have consistently been more likely to agree that they would be happy to borrow to grow, as the table below shows:

| Happy to use finance to help business grow | | | | | | | | |
|--|------------|------------|------------|------------|------------|------------|------------|------------|
| Over time – all SMEs | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| Row percentages % agree | | | | | | | | |
| All SMEs | 43% | 34% | 32% | 29% | 33% | 36% | 31% | 33% |
| Those using external finance | 54% | 46% | 44% | 39% | 46% | 47% | 42% | 43% |

Analysis over time of those who thought they might find it difficult to get finance is shown below. When first asked in 2018, around 4 in 10 SMEs (38%) thought it might be difficult for them to get external finance, increasing to 49% of those already using external finance. Over time that proportion declined somewhat to 31% in 2022, and 37% of finance users. The figure for 2023 was slightly higher (35%), in line with 2021:

- Concern in 2023 was highest for the smallest SMEs (37%), those with a worse than average risk rating (40%) and those using external finance (41%).
- The increase 2022 to 2023 was seen more amongst those in Construction (29% to 39%) and Wholesale/Retail (26% to 33%).
- Younger SMEs remained more likely to feel that it would be difficult for them to get finance than their older peers, but the largest change 2022 to 2023 was an increases in concern amongst those trading for 10-15 years (29% to 36%).

| Impression it is difficult to get finance | | | | | | |
|---|------------|------------|------------|------------|------------|------------|
| Over time – all SMEs | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| Row percentages % agree | | | | | | |
| All SMEs | 38% | 41% | 37% | 34% | 31% | 35% |
| 0 emp | 40% | 43% | 38% | 35% | 32% | 37% |
| 1-9 emps | 34% | 36% | 36% | 31% | 29% | 32% |
| 10-49 emps | 28% | 27% | 28% | 21% | 20% | 20% |
| 50-249 emps | 20% | 34% | 24% | 14% | 11% | 14% |
| Minimal external risk rating | 27% | 31% | 26% | 21% | 19% | 25% |
| Low | 32% | 35% | 33% | 26% | 26% | 28% |
| Average | 36% | 39% | 37% | 34% | 29% | 32% |
| Worse than average | 43% | 45% | 39% | 39% | 36% | 40% |
| Agriculture | 35% | 41% | 34% | 29% | 30% | 30% |
| Manufacturing | 39% | 40% | 36% | 30% | 28% | 33% |
| Construction | 41% | 43% | 38% | 30% | 29% | 39% |
| Wholesale/Retail | 37% | 43% | 38% | 34% | 26% | 33% |
| Hotels & Restaurants | 39% | 45% | 42% | 37% | 35% | 38% |
| Transport | 38% | 40% | 40% | 37% | 33% | 35% |
| Property/ Business Services | 37% | 36% | 35% | 33% | 29% | 31% |
| Health | 33% | 42% | 31% | 37% | 37% | 36% |
| Other Community | 41% | 46% | 41% | 39% | 37% | 38% |
| PNB | 29% | 27% | 27% | 23% | 23% | 28% |
| Not a PNB | 47% | 51% | 44% | 41% | 39% | 39% |
| Starts | 53% | 62% | 44% | 44% | 36% | 41% |
| 2-5 years trading | 42% | 46% | 39% | 39% | 37% | 42% |
| 6-9 years | 36% | 40% | 37% | 35% | 35% | 35% |
| 10-15 years | 33% | 31% | 34% | 32% | 29% | 36% |
| 15+ years | 31% | 32% | 35% | 28% | 27% | 30% |

Q96 (238a54) All SMEs

Those already using external finance have typically been slightly more likely to agree that it could be difficult for them to get (more) finance and this was also true in 2023 (41% v 35%):

| Impression it is difficult to get finance | | | | | | |
|---|------------|------------|------------|------------|------------|------------|
| Over time – all SMEs | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| Row percentages % agree | | | | | | |
| All SMEs | 38% | 41% | 37% | 34% | 31% | 35% |
| Those using external finance | 49% | 53% | 43% | 39% | 37% | 41% |

The table below provides more detail on the latest attitude statement to be added (in Q3 2021) namely “We are very worried about the amount the business owes”. Overall, 10% of SMEs agreed with this statement, increasing to 17% of those currently using any external finance, so the analysis below focusses on that group of finance users, rather than SMEs more generally:

- 17% of those using finance in 2023 were worried about debt levels, stable from when this type of question was first asked in H1 2016. Concern in 2023 was highest for those trading for 2-5 years (24%, and up from 19% in 2022), alongside those in the Hotel & Restaurant (25%), and Other Community sectors (21%). Concern also remained higher amongst those with a worse than average risk rating (20%)
- Compared to H2 2021, finance users in Agriculture, Wholesale/Retail, Hotels & Restaurants were more concerned in 2023 than previously, while those in Health were less concerned

| Worried about amount of debt | | | |
|--|------------|------------|------------|
| Over time – all users of finance | H2 21 | 2022 | 2023 |
| All SMEs using external finance | 16% | 16% | 17% |
| 0 emp | 16% | 17% | 17% |
| 1-9 emps | 17% | 16% | 19% |
| 10-49 emps | 11% | 10% | 11% |
| 50-249 emps | 11% | 6% | 10% |
| Minimal external risk rating | 8% | 8% | 10% |
| Low | 10% | 14% | 13% |
| Average | 15% | 17% | 16% |
| Worse than average | 23% | 18% | 20% |
| Agriculture | 12% | 15% | 20% |
| Manufacturing | 13% | 13% | 17% |
| Construction | 15% | 13% | 17% |
| Wholesale/Retail | 11% | 15% | 19% |
| Hotels & Restaurants | 20% | 22% | 25% |
| Transport | 20% | 21% | 17% |
| Property/ Business Services | 13% | 13% | 13% |
| Health | 24% | 22% | 14% |
| Other Community | 19% | 17% | 21% |
| Starts | 18% | 21% | 21% |
| 2-5 years trading | 22% | 19% | 24% |
| 6-9 years | 15% | 24% | 19% |
| 10-15 years | 18% | 17% | 14% |
| More than 15 years | 13% | 11% | 15% |

Q96 (238a54) All SMEs

6 Financial context

Analysis for 2023 only (due to changes in the questionnaire) by different levels of finance being used also showed:

- Higher levels of concern amongst those now using more finance than pre-pandemic (29%), those who were also concerned about making future repayments (63%) and those borrowing more than £25,000 (26% of those borrowing between £25,000 and £100,000 and 22% of those borrowing more than £100,000).
- A quarter (23%) of those still repaying pandemic funding as part of their external finance were concerned about the amount of debt they had, twice the level of those using external finance but not repaying pandemic funding. Those still repaying pandemic funding make up 18% of all SMEs but make up 40% of those worried about how much debt the business has overall.

| Worried about amount of debt | |
|--|------------|
| Over time – all users of finance | 2023 |
| All SMEs using external finance | 17% |
| Borrowing up to £25k | 15% |
| Borrowing £25-100k | 26% |
| Borrowing more than £100k | 22% |
| Borrowing more than used to | 29% |
| Borrowing the same as used to | 11% |
| Borrowing less than used to | 19% |
| Concerned about repayment | 63% |
| Finance includes repaying pandemic funding | 23% |
| Finance does not include pandemic funding | 13% |

Attitudes to finance – more detailed analysis

Analysis of attitudes to finance in combination or by other behaviours provides further insight into SME sentiment.

Using and willing to use finance

To understand willingness to use external finance in more detail, additional analysis has been undertaken on this question.

The table below allocates all SMEs to one of four categories, depending on whether they were using external finance and/or whether they agreed that they would be happy to use external finance in the future to help the business develop and grow. This shows that almost half of SMEs (45%) were neither using external finance nor were happy to do so in future, with some variation by size of SME:

| Combined analysis: Use of external finance and happiness to use in future | | | | | |
|---|---------------|-------------|-------------|-------------|-------------|
| YEQ4 23 – all SMEs | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
| Unweighted base: | 17,010 | 3472 | 6381 | 5267 | 1890 |
| Use external finance and happy to use in future | 18% | 15% | 26% | 36% | 28% |
| Use external finance but not happy to use in future | 23% | 22% | 24% | 27% | 16% |
| Do not use it but happy to use in future | 15% | 15% | 14% | 13% | 15% |
| Do not use it and not happy to use in future | 45% | 48% | 35% | 24% | 41% |

Q15/Q96 (Q238a5) All SMEs

Taking these two issues in combination:

- 1 in 6 SMEs (18%) were using external finance and agreed that they would be happy to use it in future, ranging from 15% of those with 0 employees to 36% of those with 10-49 employees.
- The remaining users of finance, 23% of all SMEs, would not be happy to use finance in future (the equivalent of 56% of all users of finance). Those with 50-249 employees (16%) were less likely to be in this group.
- 1 in 7 of all SMEs (15%) were not using external finance currently but agreed that they would be happy to use it in future, with little difference by size of SME
- The remainder, almost half of SMEs (45%), were non-users of finance who would not be happy to use it in future and this was more common amongst 0 employee SMEs (48%).

Across the years shown below, around 4 in 10 of those using finance were happy to do so in future with the current proportion, 44%, in line with the range seen in recent years:

| Combined analysis: Use of external finance and happiness to use in future over time | | | | | | |
|---|------------|------------|------------|------------|------------|------------|
| All SMEs | 2018 | 2019 | 2020 | 2021 | 2022 | 2023* |
| Use external finance and happy to use in future | 16% | 18% | 17% | 20% | 15% | 18% |
| Use external finance but not happy to use in future | 20% | 28% | 20% | 23% | 21% | 23% |
| Do not use it but happy to use in future | 16% | 11% | 16% | 16% | 16% | 15% |
| Do not use it and not happy to use in future | 47% | 43% | 48% | 41% | 48% | 45% |
| % using who are happy to use again | 44% | 39% | 46% | 47% | 42% | 44% |

Q15/Q96 (Q238a5) All SMEs * new definition for external finance from Q1 2023

Combining growth ambitions and attitude to risk

When the attitude statement ‘We have a long term ambition to be a significantly bigger business’ was initially run in H2 2017, further analysis was done in combination with the statement ‘As a business we are prepared to take risks to become more successful’ to produce a profile of ‘Ambitious risk takers’ that is SMEs that agreed with both statements.

That H2 2017 analysis showed that 38% had agreed they wanted to be a bigger business and 42% that they were prepared to take risks, with 27% agreeing with both statements and thus being defined as “Ambitious risk takers”. Those SMEs that agreed with both statements were more likely to be using finance, to be innovative, international and to plan, to have grown and to be planning to grow. They could thus be seen as a key group of SMEs.

Despite recent challenging trading conditions, the same analysis for YEQ4 2023 showed very similar results: 40% agreed they wanted to be a bigger business and 44% were prepared to take risks, with 27% of SMEs agreeing with both statements.

Levels of agreement continued to increase by size of SME and decrease by age:

- 25% of 0 employee SMEs agreed with both statements, increasing by size to 37% of those with 50-249 employees.
- 49% of Starts and 44% of those trading for 2-5 years agreed with both statements, decreasing by age of SME to 14% of those trading for more than 15 years.

The table below shows the proportion of SMEs over time in each demographic that have agreed with both statements and could be described as Ambitious risk-takers. This description has typically applied to a quarter of SMEs (24-29%) and was 27% in 2023:

- Since H2 2017 when this metric was first asked there has been little change in the proportion of Ambitious risk takers overall, or for 0 employee SMEs. Those with 50-249 employees have though become steadily less likely to meet the definition, from 50% in H2 2017 to 38% in 2020 and 37% currently.
- Those with a worse than average risk rating remain the most likely to meet the definition (33%)
- Those in Agriculture, Hotels & Restaurants and Health have become somewhat less likely to meet the definition over recent years
- Younger SMEs were more likely to meet the definition - a steady increase over time for those trading for 2-5 years while Starts have been more volatile, ranging from 35% to 55% over time (currently 49%).
- Since H2 2018, those using external finance have been consistently slightly more likely to meet the definition of an Ambitious risk taker than their peers. In 2023, 31% met the definition compared to 20% of PNBs. 29% of those neither using finance nor a PNB were ARTs, more in line with finance users than PNBs

| Ambitious risk takers | | | | | | | |
|-----------------------------------|------------|------------|------------|------------|------------|------------|------------|
| Over time – all SMEs | H2 | H2 | 2019 | 2020 | 2021 | 2022 | 2023 |
| Row percentages % agree with both | 2017 | 2018 | | | | | |
| All SMEs | 27% | 25% | 24% | 27% | 29% | 28% | 27% |
| 0 emp | 25% | 23% | 21% | 25% | 27% | 26% | 25% |
| 1-9 emps | 30% | 30% | 29% | 33% | 35% | 33% | 33% |
| 10-49 emps | 39% | 37% | 35% | 36% | 36% | 36% | 36% |
| 50-249 emps | 50% | 50% | 42% | 38% | 39% | 46% | 37% |
| Minimal external risk rating | 24% | 22% | 22% | 23% | 21% | 18% | 19% |
| Low | 26% | 20% | 23% | 23% | 23% | 22% | 22% |
| Average | 20% | 22% | 20% | 23% | 22% | 21% | 22% |
| Worse than average | 31% | 28% | 27% | 31% | 37% | 36% | 33% |
| Agriculture | 26% | 16% | 22% | 25% | 23% | 19% | 19% |
| Manufacturing | 25% | 31% | 28% | 27% | 31% | 22% | 28% |
| Construction | 25% | 17% | 22% | 21% | 24% | 23% | 24% |
| Wholesale/Retail | 30% | 31% | 28% | 34% | 34% | 31% | 30% |
| Hotels & Restaurants | 32% | 24% | 25% | 27% | 29% | 29% | 23% |
| Transport | 28% | 24% | 22% | 27% | 30% | 27% | 31% |
| Property/ Business Services | 25% | 26% | 23% | 28% | 30% | 30% | 28% |
| Health | 28% | 23% | 21% | 24% | 24% | 31% | 20% |
| Other Community | 30% | 30% | 24% | 30% | 30% | 29% | 28% |
| Starts | 44% | 35% | 35% | 41% | 54% | 55% | 49% |
| 2-5 years trading | 32% | 38% | 34% | 37% | 42% | 42% | 44% |
| 6-9 years | 26% | 23% | 24% | 31% | 29% | 29% | 32% |
| 10-15 years | 23% | 24% | 21% | 23% | 24% | 25% | 22% |
| More than 15 years | 17% | 15% | 14% | 16% | 15% | 13% | 14% |
| PNB | 18% | 19% | 17% | 19% | 23% | 22% | 20% |
| Not a PNB | 35% | 30% | 28% | 32% | 32% | 33% | 31% |
| Use external finance | 38% | 31% | 29% | 31% | 31% | 31% | 31% |

Q96 (238a54) All SMEs



7. Need for funding

THIS CHAPTER PROVIDES

details on those SMEs that reported a funding need in 2023, including why the funding was needed and what steps were considered and taken to meet that need.





Need for funding.

KEY FINDINGS

A small minority reported having had a need for funding in the previous 12 months, well below levels seen during the pandemic but in line with pre-pandemic levels. In contrast to recent years, this need was slightly more likely to have been for business development rather than for cash flow purposes:

- 4% of SMEs in 2023 reported having had a funding need, with limited variation by size of SME (4-5%) with the exception of those with 50-249 employees (2%). Need for finance was marginally higher for younger SMEs (6-8% for those trading for up to 9 years) and also for those using external finance (7% v 2% of those not using funding).
- Need for funding was 4% when first asked in 2018, increasing in 2020 to 9% and again in 2021 to 12%. This was not maintained subsequently and the 4% figure in 2023 is back in line with pre-pandemic years.
- In 2023 just over half of those with a need for funding (56%) said that it was for business development purposes, primarily to invest in new plant and machinery (28% of those with a funding need).
- 4 in 10 said the need was cash flow related (43%), with most saying it was to boost working capital (31% of those with a funding need).
- This split between funding needed for business development and cash flow is very similar to those seen pre-pandemic – amongst those reporting a previous need for funding in 2018, 58% had wanted funds for business development and 42% for cash flow. This balance switched markedly in 2020 and 2021 (when 81% said their funding need related to cash flow compared to 24% for business development) but has now returned to the pre-pandemic position.
- 1 in 3 of those with a funding need (32%) felt they needed more than £25,000 of funding increasing to 78% of those with 10-249 employees.

More SMEs looking for funding had wanted it for Business Development, back to pre-pandemic levels



Most of those with a funding need took some initial action to meet this need. In 2023, as many looked online as spoke to an advisor/bank and there were also discussions within the business:

- 9 in 10 of those with a funding need took some initial action as a result.
- 29% had an informal chat with one or more of: their main bank (10%), another provider (15%) or an advisor (7%). Whilst this remained a key step, it was mentioned by fewer of those with a need for funding in 2023 than in previous years, when typically over 4 in 10 had an informal chat with someone. This was due to fewer SMEs approaching their main bank (in previous years at least 1 in 5 did this) notably the smaller SMEs with 0-9 employees (in 2023, 9% approached their main bank v 29% of those with 10-249 employees).
- 24% of those with a funding need looked online, whether for application advice (16%), to look for possible providers (9%) or comparison sites (4%). The proportion looking online has been more stable over time and favoured by smaller SMEs (24% v 13% with 10-249 employees in 2023).
- 19% discussed the need for funding within their business, slightly above the 14-15% that have done this in the past and favoured in 2023 by the larger SMEs (28% v 19% of those with 0-9 employees).
- Almost as many, 17%, considered funding the need from within the business/directors. This proportion has seen some variation over time, ranging from 10% to 23% since 2018.

Over half went on to consider applying for funding, and in the end half had a borrowing 'event' of some sort, with the main bank less involved in the process than previously seen, especially for smaller SMEs:

- 56% of those responding to a need for funding thought about applying for finance (including 30% considering applying to their main bank). Larger SMEs were more likely to consider applying somewhere (70% v 55% of smaller SMEs) but the proportions considering their main bank were more similar (38% v 30% of smaller applicants).
- Overall, the proportion that considered applying for finance was in line with 2022 (58%) but somewhat lower than pre-pandemic (67% in 2018) and markedly lower than during the exceptional circumstances of the pandemic (80% in 2021), due to fewer of these SMEs considering an application to their main bank, with the 30% figure in 2023 the lowest seen.

The main bank has played less of a role in meeting funding needs in 2023, notably for smaller SMEs

● Need for funding

- In the end, 50% of those responding to a need for funding had a borrowing event somewhere, 19% decided to fund all or part of it themselves and 12% decided not to take any funding. 22% were still deciding what to do, twice the level typically seen.
- Larger SMEs were more likely to have had a borrowing event somewhere (66% v 50% of smaller SMEs) and to have applied to their main bank (33% v 25% of smaller SMEs).
- Compared to previous years, fewer SMEs had a borrowing event (pre-pandemic around 6 in 10 did) and fewer had a borrowing event at the main bank (25% did, compared to 47% in 2022), the lowest level since 2019 when 29% had a borrowing event at the main bank. Applications to other providers have been more stable over time.
- For the first time in this report less than half of the initial group of SMEs with a need for funding ended up applying for finance.
- 45% of the SMEs that originally identified a need for funding ended up having a borrowing event compared to the more typical 54-58% prep-pandemic.
- Apart from the increase in those still making up their minds, one contributing factor is that fewer of the SMEs that considered self-funding decided in the end to apply for finance. 2018-2020 around a third of those considering self-funding went on to apply, compared to a quarter in 2021 and 2022, and a fifth in 2023.

Fewer than half of those who identified a need for funding went on to apply for finance

7 Need for funding

The middle section of the questionnaire, around applications made for finance, saw the most changes in the re-design for Q1 2018.

This is the first of the three revised chapters, looking at borrowing events in the wider finance market beyond loans and overdrafts:

- This chapter looks at whether SMEs had identified a need for external funding and what steps they took as a result of that need, including whether they applied for finance (a Type 1a borrowing event). This analysis is by interview date.
- Chapter 8 provides an overview of all borrowing ‘events’ (including Type 1a events), and the types of SME more or less likely to have had each of these events. This analysis is also by interview date.
- Chapter 9 looks specifically at the Type 1 borrowing events, the final outcome of the applications made and the impact of the application on the SME. This analysis is primarily based on all applications made between Q3 2022 and Q4 2023 and reported in interviews conducted in the same period (application data for Q2 2023 onwards is interim at this stage).

The definitions of all the borrowing events included in this report are provided at the start of the next chapter.

Having, and meeting, a need for funding

Rather than being asked directly about any applications made for loans and overdrafts, from Q1 2018 respondents have initially been asked about any need for external funding in the past 12 months, in addition to any finance they already used, and irrespective of whether they acted on that need or not. Those who went on to apply for finance as a result of this funding need are defined as having had a Type 1a borrowing event later in this report.

This chapter is based on those interviewed between Q1 2023 and Q4 2023 (YEQ4 2023) who reported a need for funding in the 12 months prior to interview (i.e. from Q1 2022 onwards).

Had a need for funding

Typically, only a small minority of SMEs each quarter reported a need for external funding in the previous 12 months. During the pandemic it increased to 15% in Q2 2021, the highest proportion seen to date, but from Q3 2021 was on the decline and in recent quarters 3-5% of SMEs have reported a need for finance with limited

| Had a funding need | | | | | | | | | |
|-----------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| By date of interview | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Over time – row percentages | 2021 | 2022 | 2022 | 2022 | 2022 | 2023 | 2023 | 2023 | 2023 |
| All SMEs | 8% | 9% | 6% | 6% | 4% | 3% | 5% | 4% | 5% |
| 0 employee | 8% | 9% | 5% | 7% | 4% | 3% | 5% | 4% | 4% |
| 1-9 employees | 10% | 7% | 7% | 6% | 5% | 3% | 5% | 5% | 6% |
| 10-49 employees | 4% | 6% | 6% | 6% | 4% | 4% | 4% | 5% | 6% |
| 50-249 employees | 4% | 2% | 3% | 5% | 3% | 1% | 2% | 1% | 4% |

Q25 All SMEs (new Q1 2018)

7 Need for funding

| Had a funding need | | | | | | |
|--|-----------|-----------|-----------|------------|-----------|-----------|
| By date of interview | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| Over time – row percentages | | | | | | |
| All SMEs | 4% | 3% | 9% | 12% | 6% | 4% |
| 0 employee | 4% | 2% | 8% | 11% | 6% | 4% |
| 1-9 employees | 5% | 6% | 10% | 14% | 6% | 5% |
| 10-49 employees | 6% | 5% | 10% | 12% | 6% | 5% |
| 50-249 employees | 3% | 3% | 8% | 6% | 3% | 2% |
| Minimal external risk rating | 3% | 2% | 5% | 7% | 3% | 3% |
| Low external risk rating | 4% | 4% | 8% | 11% | 4% | 4% |
| Average external risk rating | 3% | 3% | 8% | 10% | 6% | 4% |
| Worse than average external risk rating | 5% | 3% | 9% | 14% | 8% | 5% |
| Agriculture | 5% | 6% | 9% | 12% | 5% | 4% |
| Manufacturing | 3% | 2% | 7% | 13% | 9% | 4% |
| Construction | 3% | 3% | 6% | 10% | 7% | 5% |
| Wholesale/Retail | 6% | 5% | 8% | 12% | 6% | 6% |
| Hotels & Restaurants | 5% | 6% | 12% | 17% | 6% | 5% |
| Transport | 4% | 2% | 13% | 14% | 6% | 5% |
| Property/Business Services etc. | 4% | 3% | 9% | 9% | 5% | 4% |
| Health | 4% | 1% | 7% | 11% | 5% | 3% |
| Other Community | 4% | 5% | 10% | 14% | 10% | 4% |
| All SMEs excluding Permanent non-borrowers | 8% | 6% | 14% | 19% | 12% | 7% |
| Starts | 5% | 2% | 10% | 15% | 7% | 6% |
| 2-5 years trading | 6% | 5% | 11% | 15% | 9% | 8% |
| 6-9 years | 5% | 4% | 11% | 13% | 7% | 6% |
| 10-15 years | 3% | 4% | 8% | 12% | 8% | 4% |
| 15+ years | 3% | 3% | 7% | 9% | 5% | 3% |

Q25 All SMEs (new Q1 2018)

7 Need for funding

The table above looks at the results available over time from 2018 to 2023, across key demographics. It shows that:

- The increase in 2021 to 12% of all SMEs reporting a funding need was seen across all but the largest size band, and across all risk ratings and sectors, notably Manufacturing and Hotels & Restaurants.
- In 2023, the level of need was lower at 4% and back to 2018 levels, with the most notable decrease in need since 2021 amongst those in Hotels & Restaurants (down 12 points)
- Analysis by age of business showed limited need for funding in 2023, ranging from 8% of those trading for 2-5 years to 3% for those trading for more than 15 years.

Amongst those using finance, the proportion with a need for (further) finance increased to 1 in 5 in 2020 and 2021, but has declined since, now back to pre-pandemic levels (7%).

| Had a funding need | | | | | | |
|--------------------------------------|-----------|-----------|-----------|------------|-----------|-----------|
| By date of interview | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| Over time – row percentages | | | | | | |
| All SMEs | 4% | 3% | 9% | 12% | 6% | 4% |
| Current using external finance | 8% | 6% | 19% | 20% | 12% | 7% |
| Not currently using external finance | 2% | 1% | 2% | 5% | 3% | 2% |

All those who identified a funding need were then asked further questions about how the need arose and any actions they had taken as a result. The list of options regarding the purpose of the facility was extensively revised for Q1 2018:

- Back in Q2 2020 an additional code was included ‘To cope with the impact of the coronavirus pandemic’ later amended to ‘To cope with the impact of current trading conditions’.
- In Q3 2022, a new code was introduced to this question: “To fund something to reduce an environmental impact or to be more sustainable” and this is included for the first time below.

Due to the limited need for funding, analysis in this chapter is at the broader 0-9 and 10-249 employee level to ensure reasonably robust base sizes.

Why funding was required

The first table looks at why the funding was required, with cash flow support (31%) and investment in plant and machinery (28%) the top single mentions. Overall, 4 in 10 SMEs with a need for finance said that it was cashflow related in some way, while almost 6 in 10 were looking for funding for business development:

| Reason funding required | | | |
|---|------------|------------|-------------|
| YEQ4 23 all SMEs who had need for funding | Total | 0-9 emp | 10-249 emps |
| Unweighted base: | 722 | 442 | 280 |
| Cash flow related | 43% | 43% | 47% |
| Working capital to help with cash flow | 31% | 31% | 42% |
| To cover a short term funding gap | 16% | 16% | 18% |
| To cope with trading conditions | 12% | 12% | 10% |
| To help through trading difficulties | 15% | 15% | 11% |
| Business development related | 56% | 56% | 51% |
| Invest in new plant, machinery etc | 28% | 29% | 21% |
| To fund expansion in the UK | 17% | 17% | 18% |
| A new business opportunity | 13% | 13% | 8% |
| To fund R&D | 5% | 5% | 3% |
| To fund new premises | 3% | 3% | 4% |
| To take on staff | 6% | 6% | 4% |
| To fund expansion overseas | * | * | 1% |
| To fund something environmental | 1% | 1% | 2% |
| To take over another business | * | * | 1% |

Q26 All SMEs with a need for funding (new Q1 2018)

In addition, 1% of SMEs said that they were approached by a bank/other funder offering them finance.

7 Need for funding

Some data is now available over time in the table below. This shows how, as the pandemic took hold, the balance tipped towards needing funding for cash flow purposes (almost doubling from 49% in 2019 to 81% in 2020) and away from being business development related (from 58% in 2019 to 24% in 2020). From 2022 the balance started to move back the other way and in 2023 was back in line with 2019:

| Reason funding required | | | | | | |
|--|------------|------------|-------------|-------------|------------|------------|
| By date of interview | 2018 | 2019 | Q2-4 20 | 2021 | 2022 | 2023 |
| Over time | | | | | | |
| Unweighted base: | 807 | 739 | 1426 | 1849 | 946 | 722 |
| Cash flow related | 42% | 49% | 81% | 81% | 69% | 43% |
| Working capital to help with cash flow | 32% | 37% | 49% | 50% | 49% | 31% |
| To cope with trading conditions* | - | - | 33% | 30% | 20% | 12% |
| To cover a short term funding gap | 16% | 26% | 19% | 32% | 36% | 16% |
| To help through trading difficulties | 11% | 12% | 12% | 22% | 24% | 15% |
| Business development related | 58% | 58% | 24% | 24% | 37% | 56% |
| To fund expansion in the UK | 26% | 20% | 11% | 9% | 19% | 17% |
| Invest in new plant, machinery etc | 22% | 25% | 9% | 11% | 14% | 28% |
| A new business opportunity | 18% | 13% | 4% | 5% | 11% | 13% |
| To take on staff | 6% | 5% | 2% | 1% | 4% | 6% |
| To fund new premises | 5% | 7% | 1% | 2% | 3% | 3% |
| To fund R&D | - | - | 2% | 45 | 5% | 5% |
| To fund something environmental | - | - | - | - | - | 1% |
| To fund expansion overseas | 2% | 3% | 1% | 1% | 3% | * |
| To take over another business | 1% | 2% | 1% | * | * | * |

Q26 All SMEs with a need for funding (new Q1 2018) *prior to 2023 the impact of the pandemic

Amount of funding required

The next table looks at how much finance was thought to be required to meet the funding need. In Q3 2019 the bands for collecting this information were narrowed to provide more granularity and extended upwards to a top band of £5 million or more. The revised table is shown below (excluding the 6% of those with a need for finance in 2023 could not say how much they had wanted)

As might be expected, larger SMEs with a need for funding were more likely to be looking for more than £25,000 (78% of those with 10-249 employees) than smaller SMEs were (30% of those with 0-9 employees):

| Likely finance required | | | |
|---|------------|------------|-------------|
| YEQ4 23 all SMEs who had need for funding | Total | 0-9 emps | 10-249 emps |
| Unweighted base: | 662 | 413 | 249 |
| Less than £5,000 | 19% | 20% | 1% |
| £5,000 to £9,999 | 21% | 22% | 2% |
| £10,000 to £24,999 | 28% | 28% | 18% |
| £25,000 to £99,999 | 22% | 22% | 35% |
| £100,000-£999,999 | 7% | 6% | 39% |
| £1million+ | 3% | 3% | 4% |
| £25,000 or more | 32% | 30% | 78% |

Q27 All SMEs with a need for funding excluding DK (new Q1 2018)

Other SMEs with a need for funding who were more likely to be seeking £25,000 or more included:

- Those with an average risk rating (41%) compared to 30-34% of other risk ratings.
- Almost half of those trading for 10-15 years (46%), compared to 17% of Starts and 27-39% of other age bands.
- Half of those seeking funding in Agriculture (53%), Property/Business Services (53%) or Manufacturing (50%) compared to 14% in Health, 16% in Transport, and 20-35% elsewhere.
- There was a slight difference by purpose of borrowing: A third of those looking for funding for business development (35%) were seeking £25,000 or more compared to 30% looking for cash flow related funding.

The decision making process

Almost all those with a need for funding had taken some action as a result (89%). The actions have been grouped into themes, with the two most common single actions discussing the need within the management of the business (19%, and more likely amongst larger SMEs with a need for finance) and/or considering self-funding (17%).

The top mention in 2022 was an informal conversation with the main bank, but in 2023 mentions of this have declined from 23% to 10% overall, although it remains a key action for those with 10-249 employees (29%):

| Steps initially taken in funding decision process | | | |
|---|------------|------------|-------------|
| YEQ4 23 all SMEs who had need for funding | Total | 0-9 emps | 10-249 emps |
| Unweighted base: | 722 | 442 | 280 |
| Any action: | 89% | 89% | 96% |
| Spoke to main bank/provider/advisor | 29% | 29% | 50% |
| -Informal conversation with main bank | 10% | 9% | 29% |
| -Informal conversation with other provider | 15% | 15% | 18% |
| -Sought professional advice eg accountant | 7% | 7% | 13% |
| Looked online | 24% | 24% | 13% |
| -Looked online for possible finance providers | 9% | 9% | 5% |
| -Looked online for application advice | 16% | 9% | 29% |
| -Looked at comparison/satisfaction sites | 4% | 4% | 5% |
| Other actions: | | | |
| Discussed by management in the business | 19% | 19% | 28% |
| Considered funding within business/directors | 17% | 17% | 13% |
| Spoke to other business people | 5% | 5% | 6% |
| Prepared/reviewed plans and forecasts | 4% | 4% | 5% |
| Something else | 12% | 13% | 4% |
| Took no action | 11% | 11% | 4% |

Q28 NEW All SMEs with a need for funding (new Q1 2018)-

7 Need for funding

Overall, 3 in 10 of these SMEs (29%) spoke to someone about their need for funding, whether this was an advisor or an informal conversation with their bank or another provider, somewhat lower than the 43% who had spoken to someone in 2022:

- Such conversations increased by size of SME, from 29% of 0-9 employee SMEs with a need for funding, to 50% of those with 10-249 employees.
- There was also variation by risk rating, with 59% of those with a minimal risk rating having a conversation, compared to 31% of those with a low risk rating, 34% of those with an average risk rating and 29% of those with a worse than average risk rating.
- By sector, just 12% of those in the Other Community sector and 15% of those in Construction reported having a conversation, compared to 59% in Agriculture, 51% in Hotels & Restaurants and 27-44% elsewhere.
- There was also variation by age of SME: from 22% of Starts speaking to someone to 39% of those trading for 6-9 years.
- Where the SME wanted funding for cash flow, 23% reported having a conversation, a slightly lower proportion than when the funding was for business development purposes (33%).

The reduction in those that had spoken to someone (29%), means that in 2023 almost the same proportion, 24%, had looked online for providers, advice or price comparison sites (v 21% in 2022):

- Here it was the smaller SMEs with a need for finance who were the most likely to have looked online, with 24% of 0-9 employee SMEs looking online, decreasing by size of SME to 13% of those with 10-249 employees.
- Other demographics more likely to have looked online included those with an above average risk rating (31%), Starts (36%) and those trading for 2-5 years (30%) along with those in Transport (38%) or the Other Community sector (32%).
- Those where the funding was for business development were more likely to have looked online (32%) than those where it was for cash flow funding (12%).

Some analysis over time is now possible and shows that in each period the majority of SMEs with a need for funding took action, although the proportion has declined slightly in recent years to 89% in 2023.

- The proportion who spoke to an advisor or had an informal conversation with their bank or another provider about their need for funding initially increased from 41% in 2018 to 55% in 2020 due to more contact with the main bank but has declined again since (29% in 2023) as fewer conversations were had with the main bank and/or a professional advisor.
- Since 2020 around 1 in 4 applicants have looked online, whether for a finance provider, some advice or a comparison site

| Initial steps taken in funding decision process | | | | | | |
|---|------------|------------|-------------|-------------|------------|------------|
| All SMEs who had need for funding – over time | 2018 | 2019 | 2020* | 2021 | 2022 | 2023 |
| Unweighted base: | 807 | 739 | 1426 | 1849 | 946 | 722 |
| Any action: | 93% | 93% | 94% | 96% | 91% | 89% |
| Spoke to main bank/provider/advisor | 41% | 43% | 55% | 48% | 43% | 29% |
| -Informal conversation with main bank | 21% | 18% | 38% | 27% | 23% | 10% |
| -Informal conversation with other provider | 11% | 18% | 12% | 14% | 15% | 15% |
| -Sought professional advice eg accountant | 19% | 19% | 12% | 10% | 13% | 7% |
| Looked online | 20% | 30% | 24% | 25% | 21% | 24% |
| -Looked online for possible finance providers | 12% | 15% | 12% | 14% | 15% | 9% |
| -Looked online for application advice | 12% | 15% | 16% | 13% | 12% | 16% |
| -Looked at comparison/satisfaction sites | 7% | 11% | 6% | 3% | 6% | 4% |
| Other actions: | | | | | | |
| Discussed by management in the business | 14% | 15% | 14% | 10% | 15% | 19% |
| Considered funding within business/directors | 10% | 19% | 12% | 10% | 23% | 17% |
| Spoke to other business people | 11% | 10% | 8% | 8% | 7% | 5% |
| Prepared/reviewed plans and forecasts | 11% | 9% | 10% | 6% | 7% | 4% |
| Something else | 25% | 10% | 9% | 11% | 8% | 12% |
| Took no action | 7% | 7% | 6% | 4% | 9% | 11% |

Q28 NEW All SMEs with a need for funding (new Q1 2018) *asked in Q2-Q4 in 2020

7 Need for funding

Those who had taken any initial steps to meet their funding need were then asked which of a number of options they had considered. Almost 6 in 10 had considered making an application for finance (unchanged from 58% in 2022), with half of them considering applying to their bank:

| Steps considered in funding decision process | | | |
|---|------------|------------|-------------|
| YEQ4 23 all SMEs who took initial steps on need for funding | Total | 0-9 emps | 10-249 emps |
| Unweighted base: | 665 | 398 | 267 |
| Making an application | 56% | 55% | 70% |
| -Applying to main bank | 30% | 30% | 38% |
| -Applying to provider not currently using | 12% | 12% | 12% |
| -Applying to finance provider currently using | 10% | 9% | 27% |
| -Applying to an online finance platform | 7% | 7% | 3% |
| Finding some/all of the funding yourselves | 30% | 30% | 19% |
| Using a broker | 2% | 2% | 7% |
| None of these | 19% | 20% | 12% |

Q30 All SMEs with a need for funding who took action at Q28 (new Q1 2018)

Analysis amongst SMEs with a need for funding showed that:

- Over half of SMEs considered making an application for finance (56%), with larger SMEs more likely to have done so (70%). A significant minority considered self-funding (30%), and smaller SMEs were more likely to have done this.
- Consideration of an application varied by risk rating from 56% with an above average risk rating and 52% with an average risk rating, to 65% with a low risk rating and 71% of those with a minimal risk rating.
- 71% of those trading 2-5 years considered making an application. Older SMEs were somewhat less likely (48% if trading 10-15 years and 50% if trading more than 15 years)
- Those for whom the funding was for business development were slightly more likely to have considered an application (63%) than those looking for help with cash flow (41%).

7 Need for funding

Some analysis over time is now possible. During the pandemic the availability of Government-backed lending, typically provided through the main bank, was reflected in the higher proportion of SMEs with a need for funding who considered making an application to their main bank. In both 2022 and 2023, consideration of an application (anywhere) was somewhat lower, as fewer SMEs considered applying to their main bank:

| Steps considered in decision process: | | | | | | |
|---|------------|------------|-------------|-------------|------------|------------|
| All SMEs who took initial steps | 2018 | 2019 | 2020* | 2021 | 2022 | 2023 |
| Unweighted base: | 781 | 719 | 1380 | 1804 | 904 | 665 |
| Making an application | 67% | 63% | 81% | 80% | 58% | 56% |
| -Applying to main bank | 48% | 37% | 67% | 64% | 47% | 30% |
| -Applying to finance provider not currently using | 14% | 19% | 11% | 12% | 9% | 12% |
| -Applying to finance provider currently using | 12% | 17% | 8% | 6% | 9% | 10% |
| -Applying to an online finance platform | 10% | 9% | 6% | 5% | 7% | 7% |
| Finding some/all of the funding yourselves | 22% | 40% | 15% | 17% | 37% | 30% |
| Using a broker | 7% | 7% | 1% | 2% | 6% | 2% |
| None of these | 19% | 12% | 9% | 6% | 12% | 19% |

Q30 All SMEs with a need for funding who took action at Q28 (new Q1 2018) *Q2-Q4 only

Steps taken to meet funding need

The next table looks at the steps actually taken, rather than considered, by SMEs with a funding need. Half of those who did anything as a result of their need for funding, made an application for funding.

The most common borrowing ‘event’ was an application to the main bank. This was mentioned by half of those having any sort of borrowing ‘event’ and a quarter of the wider group taking any sort of action (both lower than in 2022):

| Steps taken in funding decision process | | | |
|--|------------|------------|-------------|
| YEQ4 23 all SMEs who had need for funding and took initial steps | Total | 0-9 emps | 10-249 emps |
| Unweighted base: | 665 | 398 | 267 |
| Had borrowing ‘event’ re need for finance | 50% | 50% | 66% |
| -Applied to main bank | 25% | 25% | 33% |
| -Applied to finance provider not currently using | 13% | 12% | 13% |
| -Applied to finance provider currently using | 11% | 11% | 25% |
| -Applied to an online finance platform | 3% | 3% | 5% |
| Decided to fund all or part of it yourselves | 19% | 19% | 19% |
| Decided not to take funding | 12% | 13% | 6% |
| Still deciding | 22% | 23% | 12% |

Q31 All SMEs with a need for funding who took action at Q28 (new Q1 2018)

Analysis of those taking action showed that:

- Borrowing ‘events’ increased by size of SME, as did applications to the main bank. 1 in 5 had self-funded in whole or part with no difference by size
- There were limited differences in borrowing ‘events’ by risk rating:
- 58% with a minimal risk rating had a borrowing event, as did 57% of those with a low risk rating and then 45% of those with an average risk rating and 53% of those with a worse than average risk rating.
- Those with a low risk rating were the most likely to have included an element of self-funding (39%), followed by those with an average rating (24%) and very few of those with either a minimal (7%) or worse than average (12%) rating.

7 Need for funding

- 57% of Starts reported a borrowing 'event', compared to 49-63% trading for 2-9 years and 40-41% of those trading for longer.
- Those looking for funding for business development were more likely to have had a borrowing event (56%) than those looking for cash flow funding (38%).
- The 50% with a borrowing 'event' shown above is the equivalent of 2% of all SMEs.

Analysis over time showed that:

- In 2018, 6 in 10 reported a borrowing 'event' increasing to 8 in 10 for 2020 and 2021, due to an increase in applications to the main bank during the pandemic.
- Since then there have been fewer applications overall (50% in 2023) or to the main bank (25% in 2023).
- The proportion of SMEs deciding to fund all or part of the need themselves was 12-13% in all years except 2019 and 2022 (29% in both years) while in 2023, 19% of SMEs self-funded.
- In 2023, 22% were still deciding what to do, the highest percentage seen.

| Steps taken in funding decision process | | | | | | |
|--|------------|------------|-------------|-------------|------------|------------|
| All SMEs who had need for funding and took initial steps – over time | 2018 | 2019 | 2020* | 2021 | 2022 | 2023 |
| Unweighted base: | 781 | 719 | 1380 | 1804 | 904 | 665 |
| Had borrowing 'event' re need for finance | 63% | 57% | 80% | 80% | 61% | 50% |
| -Applied to main bank | 40% | 29% | 65% | 61% | 47% | 25% |
| -Applied to finance provider not currently using | 14% | 16% | 11% | 13% | 10% | 13% |
| -Applied to finance provider currently using | 12% | 16% | 6% | 5% | 7% | 11% |
| -Applied to an online finance platform | 5% | 7% | 5% | 6% | 5% | 3% |
| Decided to fund all or part of it yourselves | 13% | 29% | 12% | 12% | 29% | 19% |
| Decided not to take funding | 12% | 11% | 5% | 5% | 10% | 12% |
| Still deciding | 16% | 11% | 5% | 5% | 7% | 22% |
| Borrowing event as % of all with original need for funding | 58% | 54% | 76% | 77% | 56% | 45% |

Q31 All SMEs with a need for funding who took action at Q28 (new Q1 2018) / All with need for funding *Q2-Q4 2020

To put this in context with other steps reported so far:

- Of those who had a need for finance, 45% went on to have a borrowing event, a lower percentage than was seen in 2020-21 (76-77%).
- Of those with a need who had taken some action, 51% went on to have a borrowing event.
- Of those with a need who considered applying for finance, 87% went on to do so.

7 Need for funding

The table below summarises how consideration of different options then leads to action, firstly for 2023

- **Considered applying (anywhere):** Almost all of those who had considered applying for finance from somewhere (the first column) went on to have a borrowing ‘event’ (87%). Those events were split evenly between the main bank and another provider, and 10% deciding to fund some or part of the need themselves:
- **Considered applying to main bank / other provider specifically:** Most of those who considered applying specifically to their main bank (in the second column below) went on to have a borrowing event (82%), and mostly at their main bank (73%). Similarly, most of those who had initially considered applying to a different provider (the third column) went on to do so (82%).
- **Considered self-funding:** Half of those who initially considered self-funding (fourth column) went on to do so (46%), while 18% of this group ended up applying for finance (potentially alongside the self-funding), typically at the main bank, but 1 in 3 decided not to take any extra funding and 17% were still deciding what to do.

| From consideration to action | | | | |
|--|------------------------|----------------------|----------------------|----------------------|
| YEQ4 23 all SMEs who had need for funding and took steps | Considered appln (any) | Considered main bank | Considered elsewhere | Considered self-fund |
| Had borrowing ‘event’ re need for finance | 87% | 82% | 91% | 18% |
| -Went on to apply to main bank | 44% | 73% | 11% | 13% |
| -Went on to apply elsewhere | 44% | 11% | 82% | 5% |
| Decided to fund all or part of it yourselves | 10% | 15% | 5% | 46% |
| Decided not to take funding | 2% | 3% | 3% | 32% |
| Still deciding | 8% | 11% | 4% | 17% |

Q30 and 31 All SMEs with a need for funding who took action at Q28 (new Q1 2018) / All with need for funding

7 Need for funding

The table overleaf reports on the transition from consideration to borrowing event over time amongst those who took steps in regard to a need for finance:

Considered applying (anywhere):

- The majority of SMEs who considered applying for finance (the first column below) had gone on to do so, especially in Q2-4 2020 and 2021, and remaining higher since (87% in 2023)
- Amongst this broader pool, the proportion who went on to apply to their main bank specifically initially declined 2018 to 2019 (55% to 41%) but then increased again and was 7 in 10 for 2020-2022. In 2023 the proportion was back in line with 2019 as more SMEs applied elsewhere (both 44%). 10% decided to fund part of all of the need themselves.

Considered applying to main bank / other provider specifically:

- In the second column, the majority of those who had considered applying to their main bank each year went on to have a borrowing event and to apply to their main bank, but the proportions in 2023 (82% and 73%) were somewhat lower than seen in recent years, with a small increase seen in self-funding.
- Of those who, in 2023, were initially considering applying to a different provider (column three), almost all made an application somewhere (91%). Most went on to apply to another provider (82%), with far fewer either applying to their main bank (11%) or self-funding (5%) than has been seen in other years.

Considered self-funding:

- Amongst those who initially considered self-funding (column four), the proportion that went on to do so increased from 46% in 2018 to 72% in 2022, but in 2023 was back at 46%, as 1 in 3 decided not to proceed with any funding and 1 in 6 were still deciding what to do.

Those who decided not to take finance and to put in the funds themselves or decided not to meet the funding need at all were asked further questions to determine if they had been a 'would-be seeker of finance' and this is reported in more detail in a later chapter. The outcome of these borrowing events to meet a funding need is explored in subsequent chapters. First the next chapter provides an overview of all the borrowing 'events' now captured on the SME Finance Monitor.

From consideration to action over time

| All SMEs who had need and took steps | Considered any appln | Considered main bank | Considered elsewhere | Considered self-fund |
|--|----------------------|----------------------|----------------------|----------------------|
| <i>Had borrowing 'event' re need for finance</i> | | | | |
| -2018 | 84% | 83% | 84% | 35% |
| -2019 | 79% | 77% | 78% | 31% |
| -Q2-Q4 2020 | 95% | 95% | 98% | 36% |
| -2021 | 94% | 95% | 92% | 26% |
| -2022 | 90% | 90% | 92% | 27% |
| -2023 | 87% | 82% | 91% | 18% |
| <i>Went on to apply to main bank</i> | | | | |
| -2018 | 55% | 76% | 18% | 22% |
| -2019 | 41% | 69% | 18% | 13% |
| -Q2-Q4 2020 | 78% | 92% | 41% | 32% |
| -2021 | 74% | 92% | 22% | 19% |
| -2022 | 72% | 85% | 42% | 20% |
| -2023 | 44% | 73% | 11% | 13% |
| <i>Went on to apply elsewhere</i> | | | | |
| -2018 | 35% | 15% | 79% | 23% |
| -2019 | 43% | 15% | 72% | 21% |
| -Q2-Q4 2020 | 24% | 11% | 81% | 19% |
| -2021 | 23% | 7% | 82% | 10% |
| -2022 | 25% | 14% | 72% | 14% |
| -2023 | 44% | 11% | 82% | 5% |
| <i>Decided to fund all or part of it yourselves</i> | | | | |
| -2018 | 9% | 11% | 12% | 46% |
| -2019 | 21% | 18% | 24% | 65% |
| -Q2-Q4 2020 | 4% | 4% | 9% | 66% |
| -2021 | 4% | 3% | 9% | 61% |
| -2022 | 14% | 11% | 22% | 72% |
| -2023 | 10% | 15% | 5% | 46% |

Q30 and 31 All SMEs with a need for funding who took action at Q28 (new Q1 2018) / All with need for funding

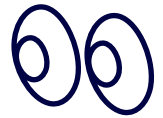


8. An overview of borrowing events

THIS CHAPTER PROVIDES

information on the number and range of borrowing events now captured on the SME Finance Monitor.





8. An overview of borrowing events.

KEY FINDINGS

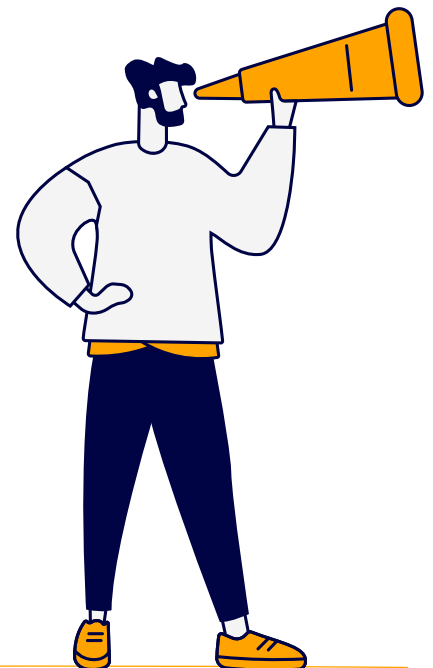
1 in 10 SMEs reported a borrowing event:

- 3% of SMEs reported an application for new or renewed funding (including those applying as a result of a need for funding) with limited variation by size of SME (3-5%) or other demographics. Half of these applications were for bank loans.
- 2% reported that a facility had been repaid or cancelled ahead of time, either at the request of the bank or the SME, again with limited variation.
- There was more variation in the proportion reporting the automatic renewal of an overdraft (6% overall), which was more likely to have been experienced by those with 10-49 employees (9%), those in Agriculture (10%) and those trading for more than 15 years (9%).
- Overall, 11% of SMEs reported any of these borrowing events, increasing to 15% of those with 10-49 employees, 17% of those in Agriculture and 13% of those trading for more than 15 years, all boosted by the automatic renewal of an overdraft.

This was in line with 2022 but lower than in previous years

- The 11% figure in 2023 is in line with 2022, but slightly lower than pre-pandemic (13-14%) or the pandemic peak of 17% in 2021.
- In 2018, 14% of SMEs reported a borrowing event. Whilst the proportion reporting a borrowing event in 2023 was 3 points lower at 11%, some demographics have seen more significant changes over time.
- This includes those with 50-249 employees: in 2018, 32% reported a borrowing event and this has declined steadily over time, including during the pandemic, to 7% in 2023.
- It also includes Starts: in 2018, 20% reported a borrowing event and this has declined steadily over time, including during the pandemic, to 6% in 2022 and 8% in 2023.

11%
of SMEs reported any borrowing event, slightly lower than pre-pandemic and notably so for the largest and youngest SMEs



8 Borrowing events

This is the second of three revised chapters looking at borrowing events in the wider finance market beyond loans and overdrafts:

The last chapter looked at whether SMEs had identified a need for external funding and what steps they took as a result of that need, including whether they applied for finance (a Type 1a borrowing event). This analysis is by interview date.

This chapter provides an overview of all borrowing 'events' (including Type 1a events), and the types of SME more or less likely to have had each of these events. This analysis is also by interview date.

The next chapter looks specifically at the Type 1 borrowing events, the final outcome of the applications made for finance and the impact of the application on the SME. This analysis is primarily based on all applications made between Q3 2022 and Q4 2023 and reported in interviews conducted in the same period (application data for Q2 2023 onwards is interim at this stage).

The information gathered on these events is not always directly comparable with that gathered for loans and overdrafts in earlier reports, but where possible historical data is shown for context. Before looking at the latest findings, the summary below looks at how borrowing events have been defined since changes were made to the questionnaire for 2018.

From Q1 2018, SMEs have been asked more broadly about borrowing events across a range of products and providers, not just loans and overdrafts. SMEs could have had one or more of these events, or none:

- Type 1a: Where a need for funding resulted in a borrowing event (involving any product and any provider) – reported in the previous chapter.
- Type 1b: Where the SME had (also) applied for any other new or renewed facility, from a list of major products.
- Type 1c: Any other application made and not already mentioned as a Type 1 a or b event.
- Where the SME's overdraft had been automatically renewed.
- Type 2/3 events: Where the SME or the finance provider had sought to cancel or re-negotiate a facility before it was due to be repaid.

Note that applications for a Government backed loan were not prompted for specifically at this stage but were included as 'bank loans' by some SMEs (though not all who took Government backed funding). Analysis of Government backed funding specifically is provided in the first of the finance chapters in terms of its impact on overall use of external finance. As these applications have become increasingly less likely to have taken place within the 12 months prior to interview, no other adjustments have been made to this section of the report.

Borrowing events in 12 months prior to interview

A stable 11% of SMEs YEQ4 2023 reported any borrowing event (down from 17% in 2020 and 2021, and slightly lower than the 13% in 2019). Over the course of 2023 the proportion reporting any borrowing event increased very slightly (from 8% in Q1 to 13% in Q4):

| Borrowing events in the previous 12 months | | | | | |
|--|---------------|-------------|-------------|-------------|-------------|
| YEQ4 23 all SMEs | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
| Unweighted base: | 17,010 | 3472 | 6381 | 5267 | 1890 |
| Type 1 event: | 3% | 3% | 4% | 5% | 3% |
| 1a: New application re need for funding | 2% | 2% | 3% | 3% | 1% |
| 1b: New/renewed application for specific finance | 1% | 1% | 1% | 2% | 2% |
| 1c: Any other new/renewed application | * | * | * | * | * |
| Type 2/3: Cancel/pay off by bank or SME | 3% | 3% | 2% | 2% | 1% |
| Automatic renewal of an overdraft | 6% | 6% | 6% | 9% | 4% |
| Any borrowing event | 11% | 11% | 12% | 15% | 7% |

Pastevt Q31/50/50a/70/71/75 (25/26) All SMEs – new definition from Q1 2018

SMEs with 10-49 employees remained slightly more likely than their peers to report a borrowing event (15%), with higher proportions reporting a Type 1 event for new/renewed finance and/or the automatic renewal of an overdraft facility.

8 Borrowing events

Borrowing events by key demographics

Analysis by risk rating showed limited variation. Those with a low risk rating were very slightly more likely to report a borrowing event of some kind:

| Borrowing events in the previous 12 months | | | | | |
|--|---------------|-------------|-------------|-------------|-------------|
| YEQ4 23 all SMEs | Total | Min | Low | Avge | Worse/Avge |
| Unweighted base: | 17,010 | 3327 | 4683 | 4549 | 3294 |
| Type 1 event | 3% | 2% | 3% | 3% | 4% |
| 1a: New application re need for funding | 2% | 1% | 2% | 1% | 3% |
| 1b: New/renewed application for specific finance | 1% | 1% | 1% | 2% | 1% |
| 1c: Any other new/renewed application | * | - | * | * | * |
| Type 2/3: Cancel/pay off by bank or SME | 3% | 2% | 2% | 2% | 3% |
| Automatic renewal of an overdraft | 6% | 7% | 8% | 6% | 5% |
| Any borrowing event | 11% | 11% | 13% | 11% | 11% |

Pastevt Q31/50/50a/70/71/75 (25/26) All SMEs – new definition from Q1 2018

Those in the Agriculture sector were more likely to have had any borrowing event (17%), and specifically an automatically renewed overdraft, with little variation otherwise by sector:

| Borrowing events in last 12 months | | | | | | | | | |
|------------------------------------|------------|-----------|------------|-------------|------------|------------|------------|-----------|------------|
| YEQ4 23 – all SMES | Agric | Mfg | Constr | Whle Retail | Hotel Rest | Trans | Prop/ Bus | Hlth SWrk | Other Comm |
| Unweighted base: | 983 | 1797 | 2737 | 2188 | 1177 | 1754 | 3682 | 984 | 1708 |
| Type 1 event | 4% | 2% | 3% | 5% | 4% | 3% | 4% | 1% | 2% |
| 1a: re need for funding | 2% | 1% | 2% | 3% | 2% | 2% | 2% | 1% | 1% |
| 1b: re specific finance | 1% | 1% | 1% | 2% | 1% | 1% | 2% | * | 1% |
| 1c: Any other | - | * | * | * | - | * | * | - | - |
| Type 2/3 | 4% | 2% | 3% | 2% | 2% | 3% | 2% | 3% | 3% |
| Auto renewal | 10% | 5% | 6% | 5% | 4% | 7% | 6% | 5% | 7% |
| Any borrowing event | 17% | 8% | 10% | 11% | 10% | 12% | 11% | 9% | 11% |

Pastevt Q31/50/50a/70/71/75 (25/26) All SMEs – new definition from Q1 2018

8 Borrowing events

Analysis by age of business showed limited differences by borrowing events from 8% of Starts to 13% of those trading for more than 15 years:

| Borrowing events in the previous 12 months | | | | | |
|--|------------|-------------|-------------|-------------|---------------|
| YEQ4 23 all SMEs | Starts | 2-5 yrs | 6-9 yrs | 10-15 yrs | 15 yrs+ |
| Unweighted base: | 570 | 1358 | 1657 | 3206 | 10,219 |
| Type 1 event | 5% | 6% | 4% | 3% | 2% |
| 1a: New application re need for funding | 3% | 4% | 3% | 2% | 1% |
| 1b: New/renewed application for specific finance | 3% | 2% | 2% | 1% | 1% |
| 1c: Any other new/renewed application | - | * | * | * | * |
| Type 2/3: Cancel/pay off by bank or SME | 2% | 3% | 3% | 2% | 3% |
| Automatic renewal of an overdraft | 1% | 3% | 5% | 6% | 9% |
| Any borrowing event | 8% | 11% | 9% | 10% | 13% |

Pastevt Q31/50/50a/70/71/75 (25/26) All SMEs – new definition from Q1 2018

Those using finance were much more likely to report a borrowing event (20%) than those not using finance (3%). Excluding the PNBs from the analysis increased the proportion of remaining SMEs with a borrowing event to 17%, with 5% having a Type 1 event:

| Borrowing events in the previous 12 months | | | | |
|--|---------------|-------------|-------------|---------------|
| YEQ4 23 all SMEs | Total | Use finance | No finance | All excl PNB |
| Unweighted base: | 17,010 | 9829 | 7181 | 12,252 |
| Type 1 event | 3% | 5% | 2% | 5% |
| 1a: New application re need for funding | 2% | 3% | 1% | 3% |
| 1b: New/renewed application for specific finance | 1% | 2% | 1% | 2% |
| 1c: Any other new/renewed application | * | * | * | * |
| Type 2/3: Cancel/pay off by bank or SME | 3% | 4% | 1% | 4% |
| Automatic renewal of an overdraft | 6% | 13% | - | 9% |
| Any borrowing event | 11% | 20% | 3% | 17% |

Pastevt Q31/50/50a/70/71/75 (25/26) All SMEs – new definition from Q1 2018

Borrowing events over time

There was a slight increase in borrowing events overall from 14% in 2018 to 17% in 2021, followed by a decline to 11% in 2022 and 2023.

As the table below shows, those already using external finance were more likely to report a borrowing event, though that proportion has declined steadily since 2020 (to 20% in 2023)

| Had any borrowing event | | | | | | |
|--------------------------------------|------------|------------|------------|------------|------------|------------|
| By date of interview | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| Over time – row percentages | | | | | | |
| All SMEs | 14% | 13% | 16% | 17% | 11% | 11% |
| Currently using external finance | 34% | 26% | 37% | 34% | 25% | 20% |
| Not currently using external finance | 3% | 3% | 5% | 4% | 3% | 3% |

The table below looks at borrowing events over time across all SMEs by different demographics:

- All sizes of SMEs were less likely to report a borrowing event in 2023 than 2021, notably those with 1-9 or 10-49 employees
- Compared to the peak in 2021, there were also some marked declines in borrowing events by sector, including Hotels & Restaurants (20% to 10%) and Transport (22% to 12%) whereas appetite for finance held up better for Agriculture (21% to 17%)
- There was limited variation by age of SME in 2023, with more of a decline since 2021 for those trading for 6-9 years (18% to 9%) or 10-15 years (19% to 10%)

8 Borrowing events

| Had any borrowing event | | | | | | |
|---------------------------------|------------|------------|------------|------------|------------|------------|
| By date of interview | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| Over time – row percentages | | | | | | |
| All SMEs | 14% | 13% | 16% | 17% | 11% | 11% |
| 0 employee | 13% | 12% | 15% | 15% | 11% | 11% |
| 1-9 employees | 17% | 17% | 21% | 22% | 12% | 12% |
| 10-49 employees | 21% | 21% | 24% | 22% | 13% | 15% |
| 50-249 employees | 32% | 21% | 17% | 11% | 7% | 7% |
| Minimal external risk rating | 17% | 13% | 16% | 15% | 8% | 11% |
| Low external risk rating | 16% | 15% | 18% | 19% | 13% | 13% |
| Average external risk rating | 15% | 13% | 16% | 16% | 10% | 11% |
| Worse than average risk rating | 12% | 13% | 16% | 16% | 12% | 11% |
| Agriculture | 19% | 20% | 22% | 21% | 12% | 17% |
| Manufacturing | 14% | 14% | 16% | 19% | 12% | 8% |
| Construction | 13% | 11% | 15% | 16% | 11% | 10% |
| Wholesale/Retail | 18% | 19% | 18% | 19% | 11% | 11% |
| Hotels & Restaurants | 14% | 14% | 20% | 20% | 11% | 10% |
| Transport | 15% | 14% | 20% | 22% | 11% | 12% |
| Property/Business Services etc. | 12% | 11% | 15% | 15% | 8% | 11% |
| Health | 15% | 11% | 12% | 12% | 10% | 9% |
| Other Community | 15% | 14% | 17% | 16% | 16% | 11% |
| All SMEs excluding PNBs | 27% | 22% | 28% | 28% | 21% | 17% |
| Starts | 20% | 13% | 14% | 14% | 6% | 8% |
| 2-5 years trading | 11% | 11% | 17% | 18% | 10% | 11% |
| 6-9 years | 11% | 10% | 18% | 18% | 12% | 9% |
| 10-15 years | 14% | 14% | 15% | 19% | 13% | 10% |
| 15+ years | 14% | 15% | 17% | 17% | 12% | 13% |

Borrowing events in past 12 months – By event type

11% of SMEs reported any form of borrowing event in the previous 12 months. This section looks at each type in turn. Due to limited base sizes, analysis by size is in 2 robust groups of 0-9 employees and 10-249 employees.

Type 1a/b applications for new/renewed funding

3% of all SMEs reported making an application for new/renewed funding whether as a result of a need for funding (2%) or some other new/renewed application (1%). 8 in 10 applicants only applied for one product and, as the table below shows, almost half of these applications were for a loan:

| Main types of finance applied for | | | |
|---|------------|------------|-------------|
| YEQ4 23 – all SMEs with Type 1a/b event | Total | 0-9 emps | 10-249 emps |
| Unweighted base: | 623 | 339 | 284 |
| Bank Loan | 46% | 46% | 44% |
| Bank Overdraft | 20% | 20% | 14% |
| Grants | 14% | 15% | 4% |
| Other loan | 9% | 10% | 3% |
| Leasing/hire purchase | 8% | 7% | 24% |
| Credit cards | 6% | 6% | 3% |
| Other overdraft | 2% | 2% | 1% |
| Commercial mortgage | 1% | 1% | 2% |
| Invoice finance (any) | 1% | 1% | 3% |

Q33/52s NEW All SMEs with a Type1a/b application (pastevt)

The next chapter provides more detail on these applications, at an application rather than applicant level.

Type 2 and Type 3 events

All SMEs were asked whether either of the following had happened to them:

- A bank sought to cancel or renegotiate a facility before it was due to be repaid.
- The SME decided to cancel or renegotiate a facility before it was due to be repaid.

In previous SME Finance Monitor reports, 1-2% of SMEs reported such an event.

As the table below shows, 3% of SMEs reported either of these events YEQ4 2023, with limited variation by size of SME:

| Type 2/3 events in the previous 12 months | | | | | |
|--|---------------|-------------|-------------|-------------|-------------|
| YEQ4 23 all SMEs | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
| Unweighted base: | 17,010 | 3472 | 6381 | 5267 | 1890 |
| Type 2/3: Cancel/pay off by bank or SME | 3% | 3% | 2% | 2% | 1% |
| -Bank sought to cancel/renegotiate | 1% | 1% | 1% | 1% | * |
| -SME sought to cancel/renegotiate | 1% | 1% | 1% | 2% | 1% |
| No Type 2/3 event | 97% | 97% | 98% | 98% | 99% |

Q75 (25/26) All SMEs – new definition from Q1 2018

There was no variation by risk rating (1-2%) or sector (1-2%). Excluding the PNBs increased the proportion of Type 2/3 events to 4% of remaining SMEs, 2% where the bank looked to make a change and 2% where the SME did so.

Automatic renewal of overdrafts

Overdrafts are usually granted for a period of 12 months or less, but it was apparent in early Monitor reports that not all those with an overdraft facility went on to report having had an overdraft ‘event’ in the 12 months prior to interview.

To explore this further, such SMEs were asked whether, in the previous 12 months, their bank had automatically renewed their overdraft facility at the same level, for a further period, without their having to do anything. This question was not changed in the Q1 2018 re-design and data over time is available.

Initially, around half of SMEs with an overdraft reported that it had been automatically renewed. From Q3 2018, there was then a decline to 32% for Q4 2019, but from 2020 over half of SMEs with an overdraft have said it had been automatically renewed (53% in Q4 2023). With more SMEs having an overdraft during 2023, this was the equivalent of 5-7% of all SMEs, in line with earlier waves:

| Experienced an automatic renewal in previous 12 mths | | | | | | | | | |
|--|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| By date of interview – over time | Q4 2021 | Q1 2022 | Q2 2022 | Q3 2022 | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
| Row percentages | | | | | | | | | |
| SMEs with overdraft | 57% | 55% | 63% | 51% | 54% | 46% | 48% | 46% | 53% |
| ‘All SMEs’ equivalent | 6% | 6% | 6% | 4% | 5% | 5% | 6% | 7% | 6% |

Q71/15 (15/ 26/26a) All SMEs who now have an overdraft excl DK/all SMEs

8 Borrowing events

The summary table below for YEQ4 2023 shows that amongst SMEs with an overdraft, 48% reported an automatic renewal and this was slightly more likely amongst those with 10-49 employees, or with a minimal or low external risk rating or those in the Other Community sector. The equivalent of 6% of all SMEs reported an automatic renewal (9% once the PNBs were excluded):

| Automatic renewals | | |
|--|--------------------|---------------------|
| YEQ4 23 – row percentages | All with Overdraft | All SMEs equivalent |
| All SMEs | 48% | 6% |
| 0 employee | 49% | 6% |
| 1-9 employees | 46% | 7% |
| 10-49 employees | 53% | 10% |
| 50-249 employees | 33% | 5% |
| Minimal external risk rating | 59% | 7% |
| Low external risk rating | 55% | 8% |
| Average external risk rating | 46% | 6% |
| Worse than average external risk rating | 47% | 5% |
| Agriculture | 51% | 10% |
| Manufacturing | 48% | 5% |
| Construction | 41% | 6% |
| Wholesale/Retail | 42% | 5% |
| Hotels & Restaurants | 35% | 4% |
| Transport | 49% | 7% |
| Property/Business Services etc. | 53% | 6% |
| Health | 53% | 5% |
| Other Community | 57% | 7% |
| All SMEs excluding Permanent non-borrowers | 48% | 9% |
| Current using external finance | 48% | 13% |

Pastevt Q31/50/50a/70/71/75 (25/26) All SMEs – new definition from Q1 2018



9. Outcome of Type 1 applications

THIS CHAPTER PROVIDES

more detail on the outcome of all Type 1a and Type 1b borrowing events for new/renewed finance, including the amount granted and whether security was required.



9. The outcome of Type 1 applications

KEY FINDINGS

Applications were typically made to a known provider, almost all were in the name of the business and 6 in 10 were from a first time applicant for that product, Bank loans remained the most popular product, but at lower levels than during the pandemic:

- 48% of the applications reported were made to the main bank and a further 14% to another provider known to the business. 20% were made to a new provider, 9% to an online platform and 9% were made elsewhere.
- The majority of applications (95%) were made in the name of the business, with little difference by size or where the application was being made. The majority of those made in a personal name were from 0 employee SMEs.
- 62% of applications involved a product that had not been applied for before by that SME, down from 70% in the 18 months to Q4 2021. This was more likely to be the case for applications made by 0 employee SMEs (67%), or those with 1-9 employees (51%) compared to 41% of those with 10-49 employees and 27% with 50-249 employees.
- 41% of applications were for a bank loan (and a further 10% for a loan from another provider, recorded separately), a further decrease from the pandemic peak in the 18 months to Q4 2021 when 61% of all applications were for a bank loan. 18% were for a bank overdraft, up from 7%.



THIS CHAPTER

is based on the 739 applications for new or renewed finance made and reported between Q3 2022 and Q4 2023 to date, rather than on respondents.

Bank loans remain a popular form of finance, though somewhat less popular than during the pandemic



● Outcome of Type 1 applications

Half of all applications resulted in a facility, with smaller SMEs and those borrowing for the first time less likely to have been successful in the current period:

- 50% of applications reported resulted in a facility, 7% were offered something but chose not to take it and 43% were declined.
- Application success increased markedly by size of SME from 40% of applications from those with 0 employees to 88% of the small group of applications from those with 50-249 employees.
- Success rates were also lower for first time applicants (37%) than those who had borrowed before (73%) and for those applying to their main bank (42%) compared to another existing provider (77%) or a new provider (52%).
- Where analysis by product applied for is possible, 40% of those applying for a bank loan were successful, with 55% declined and 42% of those applying for a bank overdraft were successful, with 44% declined (with 14% turning down the facility offered to them). This contrasts with the 88% success rates for leasing/hp.
- Those who were unsuccessful were typically told it was due to a lack of track record and/or current business performance with 6 in 10 seeing some action from the lender, whether to explain and/or ask for more information or offered the referral or appeal process. Base sizes preclude more analysis of these SMEs.

Most successful applications Q3 2022 to Q4 2023 were on a fixed rate, a quarter required security and a third received more than £25,000 in funding:

- 72% of successful applications were for funding on a fixed rate and this was slightly less likely to be the case for applications granted by the main bank (62%) or those granted to 0 employee SMEs (67%).
- 28% of successful applications required security and this was slightly more likely to be the case for applications granted by the main bank (36%) with limited variation by size of SME (27% to 35%).
- 34% of successful applications were for £25,000 or more and this was slightly less likely to be the case for applications granted by the main bank (24%) but with clear variation by size of SME (from 19% of successful applicants with 0 employees to 99% of those with 50-249 employees).

Half of all applications resulted in a facility, with smaller and first time applicants less likely to be successful

Most facilities were on a fixed rate, and a quarter were secured

● Outcome of Type 1 applications

Satisfaction with the application process is understandably closely linked to the outcome. 9 in 10 of those who were offered what they wanted were satisfied compared to 1 in 10 of those declined, half of whom had not expanded as they wished and/or found running the business more of a struggle:

- 88% of those who received the funding they wanted were satisfied with the outcome of their application. The largest SMEs, most of whom had been successful were also more likely to have been satisfied (87%).
- Overall, 37% of all applicants were either very satisfied with the outcome or said the outcome had not resulted in an adverse impact for the business, increasing by size from 25% of those with 0 employees (more likely to have been declined) to 7 in 10 of those with 10-49 or 50-249 employees (71% and 72%).
- The most frequently mentioned negative impact (as in previous Monitor reports) was that running the business was more of a struggle, and this was mentioned mainly by those with 0 or 1-9 employees (39% and 21% of all applicants in those size bands).
- Amongst those declined, very few (6%) were either very satisfied with the outcome or said the outcome had not resulted in an adverse impact for the business. 56% had not expanded the business as they would have liked and 50% felt running the business was more of a struggle

Pre-pandemic around 7 in 10 applications for finance were successful. The government backed funding boosted this during the pandemic to over 8 in 10 and an adjustment post pandemic was to be expected but has not impacted all applications in the same way.

- Immediately prior to the pandemic in the 18 months to Q4 2019, 71% of all applications were successful and 26% were declined. The launch of government backed funding increased the success rates for the 18 months to Q4 2020 to 85% and the 18 months to Q4 2021 to 82%, with declines falling to 12% and 16% respectively
- In the next period, for the 18 months to Q4 2022, 59% of applications were successful, with 40% declined and the interim figures for the latest 18 months to Q4 2023 reinforce that position (50% successful and 43% declined)

Over half of those declined had not expanded the business as they would have wished

Larger SMEs have been much less affected by the decline in success rates post pandemic than smaller ones

● Outcome of Type 1 applications

- Comparing the applications that were successful in the 18 months to Q4 2019 to those that were successful in the 18 months to Q4 2023 showed that:
 - Success rates for applications from 0 employee SMEs have dropped more markedly, by 23 percentage points from 63% to 40%, than success rates for larger applicants. These too are lower (-6 points for 1-9 employees, -14 points for 10-49 employees and -10 points for 50-249 employees) but in all cases 7 in 10 or more were successful with their application in the current period.
 - Success rates for both bank loans and bank overdrafts were significantly lower than in the 18 months to Q4 2019. Those for bank overdrafts have dropped more markedly (down 34 points from 76% to 42%) than those for bank loans (down 20 points from 60% to 40%) and this was in contrast to Leasing/HP where the success rate was unchanged at 88% in both periods.

Success rates for the smallest SMEs have been most affected post-pandemic

9 Outcome of Type 1 applications

This is the final of the three revised chapters looking at all borrowing events in the wider finance market beyond loans and overdrafts. It looks at the application process, the final outcome of these Type 1 borrowing events and the impact on the SME of the outcome of the application(s) made. The new questionnaire was designed to provide an overall view of all applications for finance (across providers and products) and how successful these applications were, with some analysis now possible by specific type of provider and product.

The outcome of all Type 1a/1b new and renewed applications

Those who had applied for a facility to meet a finance need and those who reported making any other application for new or renewed finance were asked a series of questions about this/these application(s), including their outcome.

Compared to reports before 2018, this section:

- Has been expanded to include applications across a wider range of products and providers aside from the main bank to provide a more holistic view of finance applied for.
- Has been simplified in terms of the number of questions asked about each application.
- Applications reported from 2020-2022 are likely to include some (but not all) of the applications made to Government backed lending schemes. Their impact on this broader analysis of all applications can be seen in the higher overall success rates enjoyed in 2020-21.

Unlike the previous chapters, the analysis below is based on the total number of Type 1a and 1b applications made, as one SME could make several applications for different products and to different providers.

The first half of this chapter presents the overall application success rates and impact of the application, across all applications made, with some analysis by size of SME and finance provider. The second half of the chapter provides this data by individual product, where base sizes permit.

Prior to Q1 2018, application data was reported in 18 month periods by application (not interview) date. When the questionnaire was updated in Q1 2018, the application data effectively started to build again from scratch, as both the questions asked, and the products covered, had changed. So the 2018 reports included all applications reported to date, then as cumulative base sizes increased, in 2019 analysis in this chapter was based on 2 years of applications.

From the 2020 report it was possible once again to report on 18 month periods, the latest of which is Q3 2022 to Q4 2023. As applicants can report on applications made up to 12 months previously, data for applications made from Q1 2023 onwards is interim at this stage.

All applications made – context

739 Type 1a or Type 1b applications for new or renewed finance in the previous 12 months have so far been recorded being made between Q3 2022 and Q4 2023 is reported below. Half of Type 1 applications were made to the main bank, while 6 in 10 were first time applications for a particular product. Most were in the name of the business:

| All Type 1a/1b applications made Q3 22 to Q4 23 | |
|---|--|
| Size of applicant | <p>Of the 739 applications recorded:</p> <p>71% of applications were made by 0 employee SMEs</p> <p>24% by those with 1-9 employees</p> <p>4% by those with 10-49 employees</p> <p>1% by those with 50-249 employees.</p> <p>0 employee SMEs make up 75% of all SMEs and 71% of all applications.</p> |
| Where applied | <p>Two thirds of applications were to a known provider: 48% were made to the main bank, and a further 14% to another existing provider.</p> <p>20% were made to a new provider, 9% to an online platform and 9% were made elsewhere.</p> |
| Date of application | <p>Respondents were asked when their application had been made. This can then be compared to an even distribution of applications over time (based on how often each quarter had been available as an eligible answer). The impact of the government backed schemes was seen in this analysis last year when a ‘spike’ in applications was reported for H2 2020.</p> <p>If the current group of applications had been evenly distributed, half (50%) would have been made in H2 2022, a third (35%) in H1 2023 and the remainder (15%) in H2 2023. In fact the proportion of applications in H2 2022 was lower than expected (38% v 50%), with slightly more in H1 2023 (41% v 35%) and also in H2 2023 (21% v 15%).</p> |
| Business name | <p>The majority of applications (95%) were made in the name of the business, with little difference by size or where the application was being made.</p> <p>77% of the applications made in a personal name were made by SMEs with 0 employees.</p> |
| First time applicants | <p>62% of applications involved a product that had not been applied for before by that SME, down from 70% in the 18 months to Q4 2021. This was more likely to be the case for applications made by 0 employee SMEs (67%), or those with 1-9 employees (51%) compared to 41% of those with 10-49 employees and 27% with 50-249 employees.</p> <p>Those applying to their main bank (64%) or a new provider (73%) were more likely to be applying for the first time than those applying to another existing provider (39%).</p> |

9 Outcome of Type 1 applications

As the table below shows, 4 in 10 of all Type 1 applications made in this period were for a bank loan. This was a further reduction on the 61% in the Q3 2020 to Q4 2021 report, reflecting the impact of the Government backed loan schemes during that period. Overdrafts saw a further slight increase in applications (from 7% to 18% of applications made):

| Key products | |
|--------------------------------------|------------|
| All applications made Q3 22 to Q4 23 | Total |
| Unweighted base: | 739 |
| Bank Loan | 41% |
| Bank Overdraft | 18% |
| Other loan | 10% |
| Leasing/hire purchase | 6% |
| Credit cards | 5% |
| Other overdraft | 2% |
| Commercial mortgage | 1% |
| Invoice finance | 1% |

All applications for finance– new definition from Q1 2018. Applications made Q3 2022 to Q4 2023 and reported by Q4 2023

9 Outcome of Type 1 applications

All applications made – the final outcome

SMEs were asked about the final outcome of these applications.

10% of applications had not received a response from the lender at the time of interview and have been excluded from this chapter.

50% of the applications made Q3 2022 to Q4 2023 and reported by Q4 2023 resulted in a facility, increasing markedly for those with employees:

| All applications with a response | | | | | |
|--|------------|------------|------------|------------|-------------|
| Q3 22-Q4 23 | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
| Unweighted base: | 661 | 96* | 265 | 243 | 57* |
| Offered facility wanted and took it | 44% | 33% | 66% | 69% | 88% |
| Offered facility after issues | 2% | 2% | 3% | 3% | - |
| Took a different product from provider | 3% | 5% | 1% | - | - |
| Have facility | 50% | 40% | 70% | 72% | 88% |
| Offered facility but declined to take it | 7% | 8% | 6% | 4% | 2% |
| Turned down for facility | 43% | 52% | 24% | 24% | 10% |

Q39/57 Applications made Q3 2022 to Q4 2023 and reported by Q4 2023 excluding those waiting to hear *CARE re small base sizes

Further information on the applications that did not result in the facility requested is somewhat limited at this stage:

- 6 applications (<1%) resulted in the applicant taking a different product to the one applied for, typically a bank loan, a loan from the directors or a credit card (and such applications are included in the success rate above).
- There were also a few occasions where something was offered but it was declined (7%, or 34 applications). Typically this was because the facility was seen as being too expensive, with a few mentions of having too many terms and conditions, or taking too long.
- The applications that were turned down for a facility are reported on later in this chapter.

9 Outcome of Type 1 applications

On limited base sizes, applications (for any product) made to either the main bank or a new provider remained less likely to be successful (42% and 52%) than those made to an existing provider who was not the main bank (77%). Overall, 54% of all applications that had received a response had been made to the main bank, but main bank applications represented a lower proportion, 45%, of those that were successful:

| All applications Q3 22-Q4 23 | | | | |
|--|------------|------------|-------------------|--------------|
| | Total | Main bank | Existing provider | New provider |
| Unweighted base: | 661 | 294 | 201 | 111 |
| Offered facility wanted and took it | 44% | 36% | 63% | 52% |
| Offered facility after issues | 2% | 1% | 8% | 1% |
| Took a different product from provider | 3% | 4% | 7% | - |
| Have facility | 50% | 42% | 77% | 52% |
| Offered facility but declined to take it | 7% | 7% | 7% | 7% |
| Turned down for facility | 43% | 51% | 17% | 41% |

Q39/57 Applications made Q3 2022 to Q4 2023 and reported by Q4 2023 excluding those waiting to hear

Those applying for a product for the first time were less likely to end the process with a facility (unlike first time applications made during the pandemic which were as likely to be successful):

| All applications Q3 22-Q4 23 | | | |
|--|------------|------------|----------------|
| | Total | First time | Not first time |
| Unweighted base: | 661 | 250 | 393 |
| Offered facility wanted and took it | 44% | 32% | 65% |
| Offered facility after issues | 2% | 1% | 4% |
| Took a different product from provider | 3% | 4% | 3% |
| Have facility | 50% | 37% | 73% |
| Offered facility but declined to take it | 7% | 7% | 8% |
| Turned down for facility | 43% | 56% | 19% |

Q39/57 Applications made Q3 2022 to Q4 2023 and reported by Q4 2023 excluding those waiting to hear

The success rate reported for first time applicants (37%) is at the lower end of the 40-60% reported for first time loan and overdraft applicants in earlier Monitor reports and markedly lower than the 84% success rate reported for all applications in the 18 months to Q4 2021, likely to have been affected by the schemes run with Government support.

All applications – The final outcome over time

The table below shows overall success rates across six 18 month periods, running from Q3 of one year to Q4 of the next, starting with Q3 2017 to Q4 2018 and continuing to the latest period Q3 2022 to Q4 2023.

These success rates are all based on an 18 month period, in order to link to previously available data and they are based entirely on data collected in interviews conducted from Q1 2018 using the new questionnaire. Data on applications collected in 2017 using the previous questionnaire is not included here.

Data for applications made in 2023 is still interim at this stage as further data about such applications will be gathered in 2024. A summary table of success rates for different products and providers is provided at the end of this chapter.

The table shows half of applications in the latest period resulted in a facility, slightly lower than the previous 18 months to Q4 2022 (59%) and markedly lower than seen prior to and during the pandemic (in the 18 months to both Q4 2020 and to Q4 2021, 8 in 10 applications were successful):

| Outcome by application period | | | | | | |
|--|---------------|-----------------|-----------------|-----------------|----------------|-----------------|
| | Q317- Q418 | Q3 18- Q4 19 | Q3 19- Q4 20 | Q3 20- Q4 21 | Q3 21-Q4 22 | Q3 22-Q4 23* |
| Unweighted base: | 1620 | 1552 | 3698 | 2245 | 1078 | 661 |
| Offered facility wanted and took it | 70% | 65% | 83% | 79% | 54% | 44% |
| Offered facility after issues | 6% | 4% | 2% | 3% | 4% | 2% |
| Took a different product from provider | 1% | 2% | * | * | * | 3% |
| Have facility | 77% | 71% | 85% | 82% | 59% | 50% |
| Offered facility but declined to take it | 5% | 4% | 2% | 2% | 1% | 7% |
| Turned down for facility | 18% | 26% | 12% | 16% | 40% | 43% |

Q39/57 All applications reported excluding those waiting to hear

*interim data

More analysis of applicants, applications and success rates over time can be found later on in this chapter.

9 Outcome of Type 1 applications

All applications – Nature of facility granted

Of the 661 applications with a response, 482 were successful and resulted in a facility. Further details about these successful applications, in terms of the size of the facility, whether security was required and whether they were on a fixed or variable interest rate, are provided here.

1 in 3 successful facilities were for more than £25,000 (34%). As would be expected, this increases by size of applicant, with 1 in 5 of successful facilities for those with 0 employee SMEs being for more than £25,000 compared to almost all of those with 50-249 employees:

| All successful applications | | | | | |
|--|------------|------------|------------|------------|-------------|
| Q3 22-Q4 23 – size of facility granted | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
| Unweighted base: | 482 | 49* | 185 | 198 | 50* |
| Less than £5,000 | 17% | 24% | 10% | 2% | - |
| £5,000 to £24,999 | 44% | 50% | 43% | 14% | 1% |
| £25,000 to £99,999 | 23% | 15% | 33% | 36% | 22% |
| £100,000 or more | 8% | 2% | 8% | 35% | 69% |
| Don't remember | 8% | 8% | 6% | 13% | 8% |
| £25,000+ excl DK | 34% | 19% | 43% | 81% | 99% |

Q41/59 All successful applications made Q322 to Q423 and reported to Q4 23

The proportion granted a facility of £25,000 or more also varied by provider (on limited base sizes) from a quarter of successful applications at the main bank (24%) to almost half of those at a new provider (46%):

| All successful applications | | | | |
|--|------------|------------|-------------------|--------------|
| Q3 22-Q4 23 – size of facility granted | Total | Main bank | Existing provider | New provider |
| Unweighted base: | 482 | 175 | 180 | 87* |
| Less than £5,000 | 17% | 23% | 8% | 12% |
| £5,000 to £24,999 | 44% | 47% | 52% | 40% |
| £25,000 to £99,999 | 23% | 16% | 22% | 41% |
| £100,000 or more | 8% | 7% | 11% | 4% |
| Don't remember | 8% | 7% | 6% | 3% |
| £25,000+ excl DK | 34% | 24% | 36% | 46% |

Q41/59 All successful applications made Q322 to Q423 and reported to Q4 23

9 Outcome of Type 1 applications

The table below provides further information on the applications that were successful, with 28% requiring security and 7 in 10 being on a fixed interest rate:

Successful applications for finance made Q3 22-Q4 23

| | |
|---------------|---|
| Security | <p>28% of all successful applications (excluding DK answers) required security, up from 14% for the 18 months to Q4 2021, but still lower than the more typical 4 in 10 pre-pandemic.</p> <p>There was some variation by provider type, ranging from 17% of applications to an existing provider, to 29% to a new provider and 36% to the main bank.</p> <p>Security also increased slightly by size of applicant: 28% of applications made by SMEs with 0 employees required security, 27% of those with 1-9 employees, 35% with 10-49 employees and 33% of those with 50-249 employees.</p> |
| Interest rate | <p>72% of successful applications were on a fixed interest rate (excluding DK answers), down from 8 in 10 in the last two reports.</p> <p>Again there was some difference by provider type from 89% of applications to an existing provider, to 71% to a new provider and 62% to the main bank.</p> <p>There was though no clear pattern by size of applicant: 67% of applications made by SMEs with 0 employees were on a fixed rate, 76% of those with 1-9 employees, 84% with 10-49 employees and 72% of those with 50-249 employees.</p> |

Q42/60 and Q43/61 All successful applications made Q321 to Q422 and reported to Q422 excluding DK

All applications – those that were unsuccessful

43% of all applications made Q3 2022 to Q4 2023 were declined (excluding those waiting to hear). On limited base sizes:

- 0 employee SMEs made up 68% of applications but 82% of declines
- Those applying to their main bank made up 54% of applications and 64% of declines.

From Q3 2018 those declined have been asked what reasons were given by the provider for the decline. Of 141 declined applications Q3 2022 to Q4 2023, the key reasons were:

- A lack of track record (25%)
- Current business performance (22%)
- A poor credit rating or credit issues (10%)
- The provider didn’t think they could afford it (6%)
- A lack of available security (3%)
- 14% said they were not given a reason.

Any applicants who were declined by their main bank were asked further questions about the way the decline was handled. This question was asked once to each SME, rather than for each main bank decline (if they had more than one). This means that base sizes will not tally exactly with previous analysis, and with 88 SMEs having been turned down by their main bank, only limited analysis is available:

| Unsuccessful applications for finance made Q3 22-Q4 23 | |
|--|---|
| Bank response | <p>35% of these unsuccessful applicants said that the bank explained to them why it could not offer them the facility they had applied for.</p> <p>8% were asked to supply more information, and 12% were referred to an external source of advice.</p> <p>62% said that the bank had taken one or more of these actions (including on appeals or referrals described below).</p> |
| Referrals | <p>14% of these SMEs (11 applicants) said that they were offered the opportunity to have their application referred to an online platform. Most did not take up the option, of those who did the most common response was they were referred but were not successful</p> |
| Appeals | <p>38% of these applicants said they were made aware of their bank’s appeals process (a higher proportion than typically seen). No further information is available on the outcome of any appeal made.</p> |

Q46/64 and Q47/65 All unsuccessful applicants for finance at main bank made Q321 to Q422 and reported by Q422

9 Outcome of Type 1 applications

All applications – impact of the overall process

All those who had applied for finance to meet a need for funding or who reported making any other application for new or renewed finance were then asked some further questions about the impact of this/these application(s) on the SME. This was asked once for all the Type 1a applications they had made and once for all the Type 1b applications.

Satisfaction in previous periods had been around 8 in 10 but fell to 6 in 10 for the last report and again to 5 in 10 here, a direct impact of the lower success rates.

| All applications | | | | | |
|--|------------|------------|------------|------------|-------------|
| Q3 22-Q4 23 – Application outcome satisfaction | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
| Unweighted base: | 661 | 96* | 265 | 243 | 57* |
| Very satisfied | 27% | 16% | 47% | 51% | 64% |
| Fairly satisfied | 23% | 26% | 19% | 18% | 23% |
| Satisfied | 50% | 42% | 65% | 68% | 87% |
| Not very satisfied | 11% | 11% | 12% | 14% | 3% |
| Not at all satisfied | 34% | 41% | 20% | 15% | 9% |
| Don't know | 5% | 6% | 3% | 3% | 1% |

Q48/66 All applications made Q322 to Q423 and reported to Q423 excluding those waiting to hear

9 Outcome of Type 1 applications

Applications from smaller SMEs were less likely to be rated as satisfactory, having been more likely to be declined and the table below demonstrates the clear difference in satisfaction between those applications approved and those declined, from 88% satisfaction amongst those offered what they wanted, to 10% for those who were turned down, little changed from the last report:

| All applications | | | | |
|---|------------|---------------------|--------------|-------------|
| Q3 22-Q4 23- Application outcome satisfaction | Total | Offered what wanted | After issues | Turned down |
| Unweighted base: | 661 | 453 | 23* | 142 |
| Very satisfied | 27% | 53% | | 2% |
| Fairly satisfied | 23% | 35% | | 8% |
| Satisfied | 50% | 88% | | 10% |
| Not very satisfied | 11% | 2% | | 21% |
| Not at all satisfied | 34% | 1% | | 69% |
| Don't know | 5% | 9% | | * |

Q48/66 All applications made Q322 to Q423 and reported to Q423 excluding those waiting to hear

9 Outcome of Type 1 applications

Those applications where the applicant had been less than 'very satisfied' with the outcome were asked whether there had been any negative impact on the running of their business as a result of these applications not being entirely satisfactory.

In order to present the views of all applicants, the table below also includes those who were very satisfied with the outcome of their application (and so were not asked the follow up question) and shows that 1 in 3 (37%) were either very satisfied with the outcome of their application or said that there had been no negative impact, with the larger SMEs more likely to be in this category:

| All applications | | | | | |
|--|------------|------------|------------|------------|-------------|
| Q3 22-Q4 23- Impact of application outcome | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
| Unweighted base: | 661 | 96* | 265 | 243 | 57* |
| Very satisfied | 27% | 16% | 47% | 51% | 64% |
| No adverse impact | 10% | 9% | 12% | 20% | 8% |
| Very satisfied / no adverse impact | 37% | 25% | 59% | 71% | 72% |
| Running the business more of a struggle | 33% | 39% | 21% | 18% | 10% |
| Not expanded as would have liked | 28% | 33% | 18% | 12% | 7% |
| Not improved business as would have liked | 18% | 20% | 14% | 10% | 4% |
| Made spending cuts | 15% | 16% | 13% | 9% | 7% |
| Deferred expenditure/investment | 12% | 14% | 8% | 7% | 5% |
| Made staff redundant | 2% | * | 6% | 7% | 12% |
| Other negative impact | 7% | 8% | 6% | 1% | 2% |
| Don't know | 5% | 6% | 3% | 3% | 1% |

Q48/66 and Q49/67 All applications made Q322 to Q423 and reported to Q423 excluding those waiting to hear

The most frequently mentioned negative impact (as in previous Monitor reports) was that running the business was more of a struggle, and this was mentioned mainly by those with 0 or 1-9 employees. Smaller SMEs were less likely to have been satisfied with the outcome of their application and also gave a wider range of answers about the impact on their business, including not expanding and/or improving the business as they would have hoped.

9 Outcome of Type 1 applications

The table below shows how impact varied by application outcome:

- 67% of applications where the SME had been offered what they wanted were either very satisfactory or had caused no adverse effects. 1 in 5 of this group still found running their business to be more of a struggle.
- Those who had been declined were much less likely to say either that the outcome was very satisfactory or that it had caused no adverse effects (6%). 50% reported that running the business was now more of a struggle, 56% had not expanded and 34% had not improved the business as they wanted.

| All applications | | | | |
|---|------------|---------------------|--------------|-------------|
| Q3 22-Q4 23 – Impact of application outcome | Total | Offered what wanted | After issues | Turned down |
| Unweighted base: | 661 | 453 | 23* | 142 |
| Very satisfied | 27% | 53% | | 2% |
| No adverse impact | 10% | 14% | | 4% |
| Very satisfied / no adverse impact | 37% | 67% | | 6% |
| Running the business more of a struggle | 33% | 19% | | 50% |
| Not expanded as would have liked | 28% | 3% | | 56% |
| Not improved business as would have liked | 18% | 4% | | 34% |
| Made spending cuts | 15% | 3% | | 26% |
| Deferred expenditure/investment | 12% | 2% | | 25% |
| Made staff redundant | 2% | 1% | | 3% |
| Other negative impact | 7% | 1% | | 12% |
| Don't know | 5% | 9% | | * |

Q48/66 and Q49/67 All applications made Q322 to Q423 and reported to Q423 excluding those waiting to hear

The application process – by product

This section analyses the data available on applications made by the product that was applied for. 70% of applications involved one of 4 products: predominantly a bank loan (41%), then an overdraft (18%), leasing/hp (6%), or credit card (5%) and the analysis in this section covers the first 3 of these products where sample sizes are sufficiently robust.

Bank loans and overdrafts were more likely to be from a first-time applicant than applications for leasing/hp, which were slightly more likely to have been made in a personal name:

| All applications | | | |
|----------------------------|------------|------------|------------|
| Q3 22-Q4 23 | Bank OD | Bank Loan | Leasing hp |
| Unweighted base: | 129 | 277 | 132 |
| Applied in personal name | 1% | 5% | 12% |
| Applied for the first time | 66% | 61% | 41% |

Analysis of when these applications took place gives an indication of any change in the types of products being applied for (and/or the incentives for applying for a specific product) by comparing the proportion of applications made in a given period to a representative spread of applications over time based on how many times each quarter has featured in the questionnaire.

In the current period, a representative spread of applications would be 50% in H2 2022, 35% in H1 2023 and 15% in H2 2023, which overdrafts followed fairly closely, while loans were more likely to have featured in H1 2023 and Leasing in H2 2023:

- Half of overdraft applications across this period (48%) were made in H2 2022, in line with an even distribution (50%). A similar proportion (42%) were made in H1 2023 (v 35% in an even distribution) and 11% were made in H2 2023 (close to an even distribution of 15%).
- 4 in 10 loan applications across this period (42%) were made in H2 2022, slightly below an even distribution (50%). Half (48%) were made in H1 2023 (v 35% in an even distribution) and 10% were made in H2 2023 (close to an even distribution of 15%).
- 3 in 10 leasing/hp applications across this period (32%) were made in H2 2022, below an even distribution (50%). 4 in 10 (40%) were made in H1 2023 (v 35% in an even distribution) and 27% were made in H2 2023 (higher than an even distribution of 15%).

9 Outcome of Type 1 applications

In terms of the final outcome, almost all leasing/hp applications were successful, compared to 4 in 10 bank overdraft and bank loan applications:

| All applications | | | |
|--|------------|------------|------------|
| Q3 22-Q4 23 | Bank OD | Bank Loan | Leasing hp |
| Unweighted base: | 120 | 252 | 126 |
| Offered facility wanted and took it | 36% | 33% | 82% |
| Offered facility after issues | 1% | 2% | 6% |
| Took a different product from provider | 5% | 5% | - |
| Have facility | 42% | 40% | 88% |
| Offered facility but declined to take it | 14% | 5% | 11% |
| Turned down for facility | 44% | 55% | 1% |

Q39/57 All applications made Q322 to Q423 and reported to Q423 excluding those waiting to hear

Those applying for a bank loan were now more likely to be declined (55%) than those applying for a bank overdraft (44%). As previously, almost no applications for leasing/HP were declined.

9 Outcome of Type 1 applications

The final outcome over time – by product

The table below shows overall success rates across six 18 month periods, starting with Q3 2017 to Q4 2018 and continuing to the latest period Q3 2022 to Q4 2023 where the data is still interim.

Data is shown below for overdrafts, loans and leasing/hp. Sample sizes for commercial mortgages and credit cards are not robust enough to be reported.

The table for bank overdrafts shows a decline in success rates to 42% for the 18 months to Q4 2023:

| All applications outcome | | | | | | |
|---|---------------|---------------|---------------|---------------|---------------|----------------|
| by date of application | Q317- Q418 | Q318- Q419 | Q319- Q420 | Q320- Q421 | Q321- Q422 | Q322- Q423* |
| Unweighted base: | 466 | 329 | 273 | 178 | 159 | 120 |
| Offered facility wanted and took it | 71% | 65% | 69% | 59% | 46% | 36% |
| Offered facility after issues | 6% | 7% | 2% | 2% | 2% | 1% |
| Took a different product | 2% | 4% | 2% | - | - | 5% |
| Have facility | 79% | 76% | 73% | 61% | 48% | 42% |
| Offered facility but declined to take | 5% | 3% | 2% | 3% | 3% | 14% |
| Turned down for facility | 16% | 21% | 24% | 36% | 49% | 44% |
| Success if facility from main bank | 79% | 77% | 74% | 64% | 46% | 36% |

Q39/57 All Applications reported Q118 to Q423 excluding those waiting to hear. *interim data

Most overdraft applications were made to the main bank and the success rates for such applications have broadly matched those of applications overall, albeit somewhat lower than the current success rate (36% v 42% on a limited sample and interim data)

9 Outcome of Type 1 applications

The table for bank loans shows the impact of the government backed pandemic funding in 2020-2021, increasing bank loan success rates to almost 9 in 10. Since then success rates have declined to 4 in 10 for the latest period:

| All applications outcome | | | | | | |
|---|---------------|---------------|---------------|---------------|---------------|----------------|
| by date of application | Q317- Q418 | Q318- Q419 | Q319- Q420 | Q320- Q421 | Q321- Q422 | Q322- Q423* |
| – Bank loan | | | | | | |
| Unweighted base: | 461 | 465 | 2399 | 1395 | 511 | 252 |
| Offered facility wanted and took it | 61% | 57% | 86% | 81% | 52% | 33% |
| Offered facility after issues | 2% | 2% | 2% | 3% | 3% | 2% |
| Took a different product | 2% | 1% | * | 1% | 1% | 5% |
| Have facility | 65% | 60% | 88% | 85% | 56% | 40% |
| Offered facility but declined to take | 6% | 7% | 1% | 2% | 1% | 5% |
| Turned down for facility | 28% | 33% | 10% | 14% | 45% | 55% |
| Success if facility from main bank | 66% | 61% | 90% | 87% | 52% | 36% |

Q39/57 All Applications reported Q118 to Q423 excluding those waiting to hear. *interim data

The success rates for loan applications made to the main bank followed the same pattern, but as with overdrafts, success rates in the latest period are somewhat lower at the main bank than for loan applications overall.

9 Outcome of Type 1 applications

The table for leasing and hp shows almost all applications resulted in a facility. There are too few applications made to the main bank to analyse at that level:

| All applications outcome | | | | | | |
|--|---------------|---------------|---------------|---------------|---------------|----------------|
| by date of application – Leasing/HP | Q317- Q418 | Q318- Q419 | Q319- Q420 | Q320- Q421 | Q321- Q422 | Q322- Q423* |
| Unweighted base: | 220 | 262 | 200 | 129 | 125 | 126 |
| Offered facility wanted and took it | 91% | 84% | 88% | 89% | 88% | 82% |
| Offered facility after issues | 3% | 3% | 1% | 7% | 9% | 6% |
| Took a different product | * | 1% | * | * | - | - |
| Have facility | 94% | 88% | 89% | 96% | 97% | 88% |
| Offered facility but declined to take | 2% | 2% | 2% | 2% | 1% | 11% |
| Turned down for facility | 3% | 10% | 8% | 2% | 3% | 1% |

Q39/57 All Applications reported Q118 to Q423 excluding those waiting to hear. *interim data

9 Outcome of Type 1 applications

Nature of facility granted – by product

Leasing/HP facilities were the most likely to have been granted for £25,000 or more, followed by bank loans. Most bank overdrafts granted were for a smaller sum:

| Size of facility granted | | | |
|---|------------|------------|------------|
| All successful applications Q3 22–Q4 23 | Bank OD | Bank Loan | Leasing hp |
| Unweighted base: | 71* | 162 | 118 |
| Less than £5,000 | 22% | 10% | 8% |
| £5,000 to £24,999 | 42% | 53% | 34% |
| £25,000 to £99,999 | 15% | 26% | 35% |
| £100,000 or more | 3% | 6% | 11% |
| Don't remember | 18% | 5% | 12% |
| £25,000+ excl DK | 22% | 33% | 52% |

Q41/59 All successful applications made Q321 to Q422 and reported to Q422

The table below provides further information on the applications that were successful, with 1 in 4 requiring security and 7 in 10 being on a fixed interest rate:

| Successful applications made Q3 22–Q4 23 | |
|--|--|
| Security | 28% of all successful applications (excluding DK answers) required security. 22% of bank overdrafts, 34% of leasing/hp facilities, and 36% of bank loans were secured. For loans, this was a further increase from 24% in the last report and 10% in the one before that, likely to be a reflection of the unsecured nature of government backed pandemic funding. |
| Interest rate | 7 in 10 successful applications were on a fixed interest rate (72% excluding DK answers). 99% of leasing/hp facilities were on a fixed rate, compared to 67% of bank loans (down from 94% last time) and 57% of bank overdrafts (stable). |

Q42/60 and Q43/61 All successful applications made Q322 to Q423 and reported to Q423

9 Outcome of Type 1 applications

Impact of process – by product

The outcomes of 5 in 10 of all applications were satisfactory (50% overall, down from 59% in the last report). Satisfaction was lower for both overdrafts and loans (both 41% v 54-57% last time) but remained higher for leasing/hp (90% compared to 93% last time):

| Application outcome satisfaction | | | |
|----------------------------------|------------|------------|------------|
| All applications Q3 22–Q4 23 | Bank OD | Bank Loan | Leasing hp |
| Unweighted base: | 120 | 252 | 126 |
| Very satisfied | 10% | 24% | 59% |
| Fairly satisfied | 31% | 17% | 30% |
| Satisfied | 41% | 41% | 90% |
| Not very satisfied | 12% | 16% | 4% |
| Not at all satisfied | 29% | 42% | 1% |
| Don't know | 19% | 1% | 5% |

Q48/66 All Applications made Q322 to Q423 and reported to Q423 excluding those waiting to hear

9 Outcome of Type 1 applications

As the table below shows:

- A quarter of overdraft applications and a third of loan applications were rated very satisfactory/no adverse effect, both lower than in the last report where around half gave this rating. Those applying for leasing/hp were more likely to give these ratings than their peers (64%) and this was an improvement on the previous report (when half gave the rating).
- The most common barriers were that running the business was more of a struggle (especially for overdraft applicants) and issues expanding and or improving the business (mentioned slightly less by those who applied for an overdraft but they were more likely to be unable to provide an answer).

| Impact of application outcome | | | |
|---|------------|------------|------------|
| All applications Q3 22-Q4 23 | Bank OD | Bank Loan | Leasing hp |
| Unweighted base: | 120 | 252 | 126 |
| Very satisfied | 10% | 24% | 59% |
| No adverse impact | 13% | 10% | 5% |
| Very satisfied / no adverse impact | 23% | 34% | 64% |
| Running the business more of a struggle | 41% | 31% | 27% |
| Not expanded as would have liked | 18% | 36% | 5% |
| Not improved business as would have liked | 14% | 20% | 3% |
| Made spending cuts | 17% | 15% | 2% |
| Deferred expenditure/investment | 9% | 14% | 3% |
| Made staff redundant | 2% | 2% | 2% |
| Other negative impact | 2% | 10% | * |
| Don't know | 19% | 1% | 5% |

Q48/66 and Q49/67 All Applications made Q322 to Q423 and reported to Q423 excluding those waiting to hear

9 Outcome of Type 1 applications

Success rates over time – a summary

It is now possible to provide a summary table of success rates over time for different types of application:

- The overall success rate initially declined to 71% in the 18 months to Q4 2019, but during the pandemic increased to 85% for the 18 months to Q4 2020 and remained at a similar level for the 18 months to Q4 2021 (82%).
- As the Government backed schemes ended, both the number of applications and their success rates declined, reaching 50% in the 18 months to Q4 2023 (interim data).
- These more recent declines in success rates were seen to some degree across all provider types and products:

| All applications success rates | | | | | | |
|--------------------------------|---------------|---------------|---------------|---------------|----------------|----------------|
| by date of application | Q317- Q418 | Q318- Q419 | Q319- Q420 | Q320- Q421 | Q321- Q422* | Q322- Q423* |
| Unweighted base (all): | 1620 | 1552 | 3698 | 2245 | 1078 | 661 |
| All applications | 77% | 71% | 85% | 82% | 59% | 50% |
| -All applications at main bank | 74% | 69% | 88% | 84% | 52% | 42% |
| -All applications elsewhere | 82% | 72% | 81% | 80% | 68% | 58% |
| -All overdraft applications | 79% | 76% | 73% | 61% | 48% | 42% |
| -All loan applications | 65% | 60% | 88% | 85% | 56% | 40% |
| -All leasing/hp applications | 94% | 88% | 89% | 96% | 97% | 88% |

Q39/57 All Applications reported Q118 to Q422 excluding those waiting to hear. *interim data

9 Outcome of Type 1 applications

A comparison instead between pre-pandemic applications (the 18 months to Q4 2019) with the two latest 18 months to Q4 2022 and Q4 2023 may provide better insight into what is affecting the current success rate. As the table below shows:

- Across the three time periods, these three types of application (overdrafts, loans and leasing/hp) have made up a stable three-quarters of applications between them.
- The balance between the three has changed slightly – loans used to make up a third of applications, but in the two most recent periods they made up half of applications. The proportion of overdrafts has only changed slightly to 1 in 5, and there has also been a decline in the proportion of leasing/hp applications, which remain a minority.
- Success rates for loans have dropped from 60% to 40% across the period where they have made up an increasing proportion of applications, thus the reduction in success rate has had more of an impact on the overall success rate than it would have previously done.
- The next largest group, overdrafts, have also seen a marked decline in success rates from 76% to 42%, also lowering the overall success rate. Meanwhile the most successful applications, for leasing and hp, now make up a smaller proportion of all applications, limiting their impact on the overall success rate.

| Typed of application | | | |
|---|-------------|-------------|--------------|
| by date of application | Q318-Q419 | Q321-Q422 | Q3 22-Q4 23* |
| Unweighted base: | 1552 | 1078 | 661 |
| All applications successful | 71% | 59% | 50% |
| % overdrafts successful | 76% | 48% | 42% |
| % loans successful | 60% | 56% | 40% |
| % leasing/hp successful | 88% | 97% | 88% |
| % of applications that were overdrafts | 28% | 19% | 22% |
| % of applications that were loans | 37% | 51% | 47% |
| % of applications that were leasing /hp | 12% | 5% | 6% |

9 Outcome of Type 1 applications

Similar analysis can be done looking at the sizes of SMEs that were applying for finance and the relative change in decline rates, as shown in the table below.

This shows that:

- 0 employee SMEs have always made up the largest group of applications, but this proportion is higher in recent periods (74% and 66%) than previously (55%). Given their success rates have been the most affected over time (63% to 40%) that has had a significant impact on overall success rates.
- Those with employees have seen a much smaller decline in success rates, but as they now make up a smaller proportion of all applications, the impact is limited.

| | % of applications | | | Success rate | | |
|-----------------------------------|-------------------|---------------|---------------|---------------|---------------|---------------|
| | Q318- Q419 | Q321- Q422 | Q322- Q423 | Q318- Q419 | Q321- Q422 | Q322- Q423 |
| Unweighted base (overall): | 1552 | 1078 | 661 | 1552 | 1078 | 661 |
| All applications | 100% | 100% | 100% | 71% | 59% | 50% |
| 0 employee | 55% | 74% | 66% | 63% | 52% | 40% |
| 1-9 employees | 35% | 23% | 25% | 76% | 74% | 70% |
| 10-49 employees | 10% | 3% | 6% | 86% | 87% | 72% |
| 50-249 employees | * | * | 3% | 98% | 94% | 88% |



10. Not looking to borrow

THIS CHAPTER LOOKS

at those that had not had a borrowing event, to explore whether they wanted to apply for finance in the previous 12 months and any barriers to applying.





10. Not looking to borrow

KEY FINDINGS

As in previous years, most SMEs had been a Happy non seeker of finance, with only a small minority meeting the definition of a Future would be seeker who had felt unable to apply when they wanted to

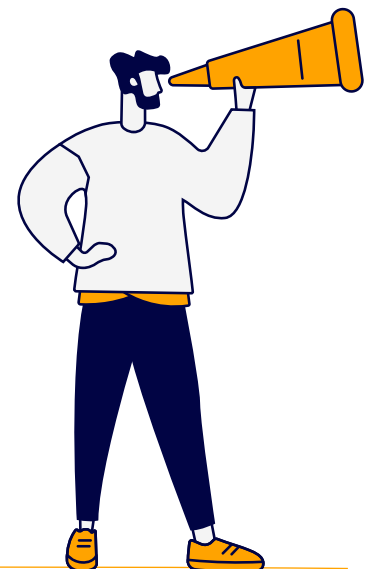
- SMEs continue to be divided into 3 groups based on their behaviour in the 12 months prior to interview. 11% had a borrowing event, 4% had wanted to apply but something stopped them (the Would-be seekers) and most, 85%, had been Happy non-seekers of finance. Note that in 2023, 40% of HNS were using external finance, the metric being derived from applications for finance, not use.
- Since 2016, 8 in 10 or more of all SMEs have met the definition of a Happy non-seeker of finance and they have been seen fairly consistently across all sizes, sectors and ages of SME.

The Would-be seekers represent an element of unmet demand for funding, with the process of borrowing the main barrier to an application

- Since 2021, 3-4% of SMEs have met the definition of a Would-be seeker of finance, a slight increase on the 1-2% from 2016-2020
- In 2023, those more likely to be a WBS included those in the Hotel & Restaurant and Other Community sectors (6% and 8%) and those trading for 2-5 years (8%).
- Since 2018, the most mentioned barrier to an application has been the process of borrowing, given as the main reason in 2023 by 42% of Would-be seekers. This is a net score made up of a number of individual factors of which the most mentioned was thinking it would be too expensive, given as the main reason by 25% of all WBS.

Most SMEs have been Happy non-seekers of finance

The small group of Would-be seekers have typically been put off by the process of borrowing, including the expense



● Not looking to borrow

- This is followed by discouragement, given as the main reason in 2023 by 23% of Would-be seekers, with the main contributor indirect discouragement where the SME assumed they would be turned down as so does not approach the bank (15% of WBS). In a new code for 2023, 4% of WBS felt discouraged because they were already borrowing as much as they felt they could
- Almost as many WBS (21%) gave the principle of borrowing as their main barrier, including 11% of WBS who preferred to use other forms of finance
- Finally, 8% felt this was not the right time to apply due to the economic climate. Whilst this has never been a key barrier for those looking back to past behaviour, it continues to a major barrier for Future would-be seekers

These Would-be seekers were more likely than their peers to be ‘Ambitious risk takers’ but also more likely to feel it would be difficult for them to get finance.

- Attitudes to finance amongst Would-be seekers were typically similar to those that had reported a borrowing event, whilst Happy non-seekers appeared less engaged with finance (57% never thought about using more finance)
- Half of both those reporting an event and WBS were happy to borrow to grow (51% and 55%) but the recent increases in interest rates was making them less likely to apply (65% and 63%). In addition, WBS remained the most likely to say they felt it would be difficult for a business like theirs to get finance (55% v 47% of those reporting a borrowing event).
- Would-be seekers were though more likely than their peers to agree that they were prepared to take risks to be successful (58%) and/or that they had a long term ambition to be significantly bigger (58%) and were therefore more likely to meet the definition of an ‘Ambitious risk taker’ (42%), compared to 32% of those that reported a borrowing event and 26% of Happy non-seekers.

Half of Would-be seekers felt the increase in interest rates had made them less likely to apply

As already detailed in this report, a minority of SMEs reported any borrowing event in the 12 months prior to interview. This chapter looks in more detail at those that had not had a borrowing event, to explore whether they had wanted to apply for finance in the previous 12 months, and any barriers to such an application being made. Because this chapter covers those that have not had a borrowing event, analysis continues to be based on the date of interview.

Definitions over time

From Q1 2018, the scope of the SME Finance Monitor was widened to include more products than just loans and overdrafts. The definitions in this chapter have also been widened to cover all external funding, but the structure of the three groups remains essentially the same:

- **Had an event:** those SMEs reporting a Type 1 new or renewed borrowing event in the previous 12 months, or an automatic renewal of an overdraft facility, or any Type 2 or 3 borrowing event where either the bank or the SME was looking to reduce or repay an existing facility. These events were described in more detail in Chapter 8.
- **Would-be seekers:** those SMEs that not had a borrowing event of any kind and said something had stopped them applying for finance in the previous 12 months.
- **Happy non-seekers:** those SMEs that had not had a borrowing event of any kind, but said that nothing had stopped them applying for finance in the previous 12 months. Note that a proportion of Happy non-seekers use finance, as the metric is defined on borrowing ‘event’ not use of finance.

Where applicable, data is shown over time, accepting the changes made to the definitions in Q1 2018. Note too that an application for pandemic related funding at that specific question is not included within the “Had an event” definition, so as to keep comparability with pre Covid metrics. As time moves on, it becomes less likely that a pandemic borrowing event happened within the 12 months prior to interview and so the analysis in this chapter has not been adjusted to take such borrowing into account in any way.

To what extent do SMEs have an unfulfilled wish to borrow?

The table below details how many SMEs have met each of the three definitions over time. Whilst the nature of the events changed slightly from Q1 2018, data is still comparable.

The proportion of SMEs reporting an event was 13% in Q4 2023, somewhat higher than in other recent quarters (and 11% for 2023 as a whole, unchanged from 2022). Most SMEs continued to meet the definition of a Happy non-seeker of finance (81% in Q4 2023, somewhat lower than seen in other recent quarters), while the proportion of Would-be seekers remained low (6% in Q4 2023):

| Any events | | | | | | | | | |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Over time – all SMEs | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| By date of interview | 2021 | 2022 | 2022 | 2022 | 2022 | 2023 | 2023 | 2023 | 2023 |
| Unweighted base: | 4085 | 4250 | 4250 | 4250 | 4252 | 4252 | 4253 | 3910 | 4595 |
| Have had an event | 14% | 14% | 12% | 9% | 9% | 8% | 11% | 11% | 13% |
| -New or (auto) renewed facility | 11% | 13% | 10% | 8% | 7% | 7% | 9% | 10% | 10% |
| -Type 2 or 3 events | 4% | 2% | 2% | 1% | 2% | 2% | 3% | 2% | 3% |
| Would-be seekers | 4% | 3% | 2% | 2% | 3% | 3% | 4% | 3% | 6% |
| Happy non-seekers | 82% | 83% | 86% | 89% | 88% | 89% | 85% | 86% | 81% |

Pastevt /Past fin All SMEs NEW DEFINITION Q1 2018

Happy non-seekers can, and do, use external finance as the definition is based on borrowing events in the previous 12 months, not on use of finance per se:

- From 2015 to 2018 around a quarter of Happy non-seekers had been using external finance, then from 2019 to 2022 it was somewhat higher at 30-38% (with the exception of 2020 at 27%).
- In 2023 , with the new definition of using external finance, 40% of Happy non-seekers were using external finance, with 25% using core finance and 18% other forms of finance.

Permanent non-borrowers are by definition part of the Happy non-seekers group. The impact on the analysis above once these PNBs are removed is discussed later in the chapter.

Analysis by key demographics

In 2023, the largest SMEs with 50-249 employees remained the least likely to have had an event and the most likely to be a Happy non-seeker of finance:

| Any events | | | | | |
|-------------------------|---------------|-------------|-------------|-------------|-------------|
| YEQ4 23 All SMES | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
| Unweighted base: | 17,010 | 3472 | 6381 | 5267 | 1890 |
| Have had an event | 11% | 11% | 12% | 15% | 7% |
| Would-be seekers | 4% | 4% | 3% | 1% | 1% |
| Happy non-seekers | 85% | 85% | 85% | 84% | 92% |

Pastfin All SMEs

Overall, 12% of SMEs with employees had experienced a borrowing event. 3% met the definition of a Would-be seeker of finance, with the largest group, as overall, the Happy non-seekers (85%).

There was relatively little variation by risk rating, with the majority of SMEs in each category meeting the definition of a Happy non-seeker. Those with a worse than average risk rating were the most likely to meet the definition of a Would-be seeker of finance, but it was still a small minority (5%) of such SMEs:

| Any events | | | | | |
|-------------------------|---------------|-------------|-------------|-------------|-------------|
| YEQ4 23 All SMES | Total | Min | Low | Avge | Worse/ Avge |
| Unweighted base: | 17,010 | 3327 | 4683 | 4549 | 3294 |
| Have had an event | 11% | 11% | 13% | 11% | 11% |
| Would-be seekers | 4% | 3% | 2% | 3% | 5% |
| Happy non-seekers | 85% | 86% | 85% | 86% | 84% |

Pastfin All SMEs

10 Not looking to borrow

The proportion of SMEs reporting a borrowing event ranged by sector from 8% in Manufacturing to 17% of those in Agriculture. The proportion of Would-be seekers varied relatively little by sector (2-6%) with the exception of the Other Community sector (8%). In all sectors the majority had been Happy non-seekers of finance:

| Any events | | | | | | | | | |
|-------------------------|------------|-------------|-------------|----------------|---------------|-------------|--------------|--------------|---------------|
| All SMEs YEQ4 23 | Agric | Mfg | Constr | Whle Retail | Hotel Rest | Trans | Prop/ Bus | Hlth SWrk | Other Comm |
| Unweighted base: | 983 | 1797 | 2737 | 2188 | 1177 | 1754 | 3682 | 984 | 1708 |
| Have had an event | 17% | 8% | 10% | 11% | 10% | 12% | 11% | 9% | 11% |
| Would-be seekers | 4% | 4% | 3% | 5% | 6% | 2% | 3% | 3% | 8% |
| Happy non-seekers | 80% | 88% | 87% | 84% | 85% | 85% | 86% | 88% | 81% |

Pastfin All SMEs

Analysis by age of SMEs showed that, as overall, most SMEs had been a Happy non-seeker of finance. The youngest SMEs (Starts and those trading for 2-5 years) were slightly more likely to have been a 'Would-be seeker' of finance than their peers:

| Any events | | | | | |
|-------------------------|------------|-------------|-------------|--------------|---------------|
| All SMEs YEQ4 23 | Starts | 2-5 yrs | 6-9 yrs | 10-15 yrs | 15+ yrs |
| Unweighted base: | 570 | 1358 | 1657 | 3206 | 10,219 |
| Have had an event | 8% | 11% | 9% | 10% | 13% |
| Would-be seekers | 6% | 8% | 4% | 2% | 3% |
| Happy non-seekers | 85% | 82% | 87% | 88% | 85% |

Pastfin All SMEs

Those currently using external finance were no more or less likely to have been a Would-be seeker (5% v 3% not using external finance) but remained much more likely to have had an event (20% v 3% of SMEs not using external finance).

Analysis over time

The table below takes a longer-term annual view back to 2016. The proportion of Happy non-seekers of finance increased steadily to 85% in 2019, and has been stable since, with the slight exception of 2021 (79%) :

| Any events | | | | | | | | |
|-------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Over time – all SMEs | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| Unweighted base: | 18,000 | 18,102 | 18,002 | 18,000 | 17,768 | 16,486 | 17,002 | 17,010 |
| Have had an event | 13% | 15% | 14% | 13% | 16% | 17% | 11% | 11% |
| Would-be seekers | 2% | 2% | 2% | 1% | 2% | 4% | 3% | 4% |
| Happy non-seekers | 84% | 83% | 83% | 85% | 82% | 79% | 87% | 85% |

Pastfin All SMEs

Analysis of SMEs with employees showed that

- From 2012 to 2019 they became less likely to have had an event (from 33% in 2012 to 17% in 2019). Events were then stable for 2020 and 2021 at 22%, before a marked decline in 2022 to 12%, with no change in 2023 (12%).
- The proportion of Would-be seekers of finance also declined to 2019 (8% to 1%) and has been fairly stable since (3% in 2023).
- In 2022, the marked drop in events and little change in Would-be seekers resulted in a marked increase in Happy non-seekers (to 86%) with little change in 2023 (85%).

The impact on these longer term trends once the Permanent non-borrowers are excluded is reported later in this chapter.

Taking a longer term view of Would-be seekers, the proportion declined from 10% of all SMEs in 2012 to 2% in 2016 and has remained broadly stable since (4% in 2023). 0 employee SMEs, younger SMEs and those with a worse than average risk rating have typically been more likely to have been a Would-be seeker of finance:

10 Not looking to borrow

| Would-be seekers | | | | | | | | |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Over time – row percentages | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| By date of interview | | | | | | | | |
| All SMEs | 2% | 2% | 2% | 1% | 2% | 4% | 3% | 4% |
| 0 employee | 2% | 2% | 2% | 1% | 2% | 5% | 3% | 4% |
| 1-9 employees | 3% | 2% | 2% | 2% | 2% | 3% | 2% | 3% |
| 10-49 employees | 1% | 1% | 1% | 1% | 1% | 1% | 1% | 1% |
| 50-249 employees | 1% | * | 1% | 1% | * | * | * | 1% |
| Minimal external risk rating | 2% | 1% | 1% | 1% | 1% | 1% | 1% | 3% |
| Low external risk rating | 1% | 1% | 1% | 1% | 1% | 1% | 2% | 2% |
| Average external risk rating | 2% | 2% | 1% | 2% | 2% | 3% | 2% | 3% |
| Worse than average external risk rating | 3% | 3% | 2% | 2% | 2% | 7% | 4% | 5% |
| Agriculture | 2% | 2% | 1% | 1% | 2% | 2% | 2% | 4% |
| Manufacturing | 3% | 2% | 2% | 2% | 3% | 5% | 3% | 4% |
| Construction | 2% | 2% | 2% | 1% | 1% | 3% | 2% | 3% |
| Wholesale/Retail | 3% | 3% | 1% | 1% | 2% | 4% | 2% | 5% |
| Hotels & Restaurants | 4% | 3% | 3% | 3% | 2% | 2% | 2% | 6% |
| Transport | 3% | 3% | 1% | 2% | 2% | 4% | 2% | 2% |
| Property/Business Services etc. | 2% | 3% | 2% | 1% | 2% | 3% | 2% | 3% |
| Health | 1% | 1% | 2% | 1% | 3% | 7% | 5% | 3% |
| Other Community | 2% | 2% | 2% | 2% | 3% | 7% | 4% | 8% |
| All excluding PNBs | 4% | 4% | 3% | 2% | 3% | 7% | 5% | 6% |
| Starts | 4% | 5% | 2% | 1% | 4% | 11% | 4% | 6% |
| 2-5 years trading | 3% | 2% | 3% | 3% | 3% | 5% | 5% | 8% |
| 6-9 years | 2% | 2% | 1% | 1% | 2% | 2% | 4% | 4% |
| 10-15 years | 2% | 1% | 2% | 1% | 1% | 3% | 2% | 2% |
| 15+ years | 2% | 2% | 1% | 1% | 1% | 2% | 1% | 3% |

Pastfin All SMEs base size varies by category

Barriers to application for Would-be seekers

SMEs that were identified as Would-be seekers (i.e. they had wanted to apply for finance in the 12 months prior to their interview but felt that something had stopped them) were asked about the barriers to making such an application.

These are reported below, firstly in terms of how frequently they were mentioned at all and secondly how frequently they were nominated as the main barrier.

The reasons have been grouped into themes, and respondents could initially nominate as many reasons as they wished for not having applied when they wanted to. Recently three new statements have been added:

- Q2 22: We are already borrowing as much as we feel we can (Discouraged)
- Q1 23: We were worried about the impact of increasing interest rates (Process of borrowing)
- Q3 23: Banks don't lend to businesses like ours for environmental or ethical reasons (Discouraged)

The first two of these are now included in the tables below. The third was mentioned by 1% of Would-be seekers in H2 2023.

The reasons given YEQ4 2023 (excluding DK answers) were:

Process of borrowing – those who did not want to apply because they thought it would be too expensive, too much hassle etc. This was given as a reason by 45% of all Would-be seekers YEQ4 2023, little changed from 2022 (47%) and slightly lower than in 2019 (52%).

Discouragement – those that had been put off, either directly (they made informal enquiries of the bank and were put off) or indirectly (they thought they would be turned down by the bank so did not ask), or because they felt they were borrowing as much as they could. This was given as a reason by 23% of all Would-be seekers YEQ4 2023, down from 32% in 2022 and still less of an issue than in earlier years (50% in 2017)

Principle of borrowing – those that did not apply because they feared they might lose control of their business, or preferred to seek alternative sources of funding. This was given as a reason by 26% of all Would-be seekers YEQ4 2023, slightly lower than the 32% in 2022 having been stable since 2020.

Current economic climate – those that felt that it had not been the right time to borrow. This was given as a reason by 11% of all Would-be seekers YEQ4 2023, slightly lower than in 2022 (17%) and more in line with 2020-2021 (11-14%).

10 Not looking to borrow

Accepting the changes made to the way in which Would-be seekers have been defined over time, the table below shows, on an annual basis from 2017, any mentions of each of the four key themes by Would-be seekers:

| All reasons for not applying for finance | | | | | | | |
|--|------------|------------|------------|------------|------------|------------|------------|
| Over time – all Would-be seekers | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| Unweighted base: | 277 | 225 | 190 | 221 | 279 | 219 | 365 |
| Discouraged (any) | 50% | 29% | 26% | 29% | 34% | 32% | 23% |
| Issues with process of borrowing | 48% | 37% | 52% | 46% | 42% | 47% | 45% |
| Issues with principle of borrowing | 19% | 29% | 37% | 28% | 32% | 32% | 26% |
| Economic climate | 9% | 19% | 17% | 11% | 14% | 17% | 11% |

Q32/77 and Q32b/77b (210/210a) All Would-be seekers SMEs that wished they had applied for finance excl DK

- From 2015 to 2017, the two most mentioned reasons for not applying were discouragement (almost all of it indirect) and the process of borrowing.
- In 2018, discouragement, the process of borrowing and the principle of borrowing were mentioned more equally, then from 2019 to date the process of borrowing has been most mentioned by Would-be seekers, with discouragement and the principle of borrowing in equal second place.
- In 2023, the process of borrowing remained top (45%) with slightly fewer mentions of the principle of borrowing (26%, now in second place) or discouragement (23% in third)

10 Not looking to borrow

The table below details all the reasons for not applying for finance YEQ4 2023 that are included in the summary categories above. An additional question was asked of those giving more than one reason, asking them to nominate the main reason for not applying and these are also shown in the table below:

| All Would-be seekers YEQ4 23 excluding DK | All reasons | Main reason |
|---|-------------|-------------|
| Unweighted base: | 365 | 324 |
| Issues with process of borrowing | 45% | 42% |
| -Thought would be too expensive | 28% | 25% |
| -Would be too much hassle | 10% | 5% |
| -Would be asked for too much security | 6% | 4% |
| -Too many terms and conditions | 4% | 2% |
| -Did not want to go through process | 4% | 4% |
| -Forms too hard to understand | 1% | * |
| - Worried about the impact of increasing interest rates | 9% | 5% |
| Discouraged (any) | 23% | 23% |
| -Indirect (thought would be turned down) | 16% | 15% |
| -Direct (put off by bank) | 5% | 4% |
| -Already borrowing as much as feel we can | 4% | 4% |
| Issues with principle of borrowing | 26% | 21% |
| -Prefer other forms of finance | 13% | 11% |
| -Not lose control of business | 5% | 3% |
| -Can raise personal funds if needed | 5% | 3% |
| -Go to family and friends | 6% | 4% |
| Economic climate | 11% | 8% |
| -Not the right time to apply | 11% | 8% |

Q32/77 and Q32b/77b (210/210a) All Would-be seekers SMEs that wished they had applied for finance excl DK

10 Not looking to borrow

Analysis of the main reasons for not applying for finance showed that:

- 42% gave the process of borrowing as their main reason for not seeking finance, typically the expense.
- 23% gave discouragement as their main reason, most of it indirect where the SME assumes they will not be successful and so does not apply.
- 21% of Would-be seekers cited the principle of borrowing as their main reason, typically a preference for other forms of finance.
- 8% cited the economic climate, down from 17% in 2018 (and still the highest level recorded to date). As reported later, this remained lower than when SMEs looked forward, where three quarters of Future would-be seekers gave the economic climate (or their performance in that climate) as the reason why they wouldn't be applying for finance in future.

Would-be seekers – attitudes to finance

Earlier in this report a series of attitude statements about external finance showed key variations by different demographics. These statements are repeated here for YEQ4 2023 analysed by recent borrowing behaviour, to provide additional insight into those who had, or had not, applied for finance.

The table below shows little difference by group in regards to plans being based on what they can afford and growing more solely rather than borrowing to grow faster, but there were clearer differences on other statements:

- Happy non-seekers were more likely than their peers to never think about using (more) finance (57%)
- They were less likely than their peers to feel the future was uncertain (61%), that the increase in interest rates had put them off applying for finance (53%), that they would be happy to borrow to grow (29%), or that they were worried about what the business owed (8%). For all these metrics there were higher, and similar, levels of agreement amongst those that had either had a borrowing event or been a would-be seeker.
- Would-be seekers were more likely than their peers to agree that they were prepared to take risks to be successful (58%) and/or that they had a long term ambition to be significantly bigger (58%). As a result they were more likely to meet the definition of an 'Ambitious risk taker' (42%), compared to 32% of those that reported a borrowing event and 26% of Happy non-seekers.
- Would-be seekers remained the most likely to say they felt it would be difficult for a business like theirs to get finance (55%).

10 Not looking to borrow

| Attitudes to finance | | | |
|--|--------------|-----------------|------------------|
| YEQ4 23 – all SMEs | Had an event | Would-be seeker | Happy non-seeker |
| Unweighted base: | 2124 | 390 | 14,496 |
| Plans based on what can afford ourselves | 83% | 86% | 87% |
| Accept slower growth rather than borrow | 79% | 80% | 82% |
| Because the future feels uncertain, we are being very cautious with our plans for the business | 72% | 73% | 61% |
| Recent increases in interest rates make us less likely to apply for finance | 65% | 63% | 53% |
| Never think about using (more) external finance | 40% | 41% | 57% |
| As a business we are prepared to take risks to become more successful | 49% | 58% | 43% |
| We have a long term ambition to be a significantly bigger business | 48% | 58% | 38% |
| My impression is that it is quite difficult for businesses like ours to get external finance | 47% | 55% | 32% |
| Happy to use finance to help business grow | 51% | 52% | 29% |
| We are very worried about the amount the business owes | 27% | 23% | 8% |

Q96 (238a5) All SMEs

The effect of the Permanent non-borrower

In 2023, 35% of all SMEs met the definition of a Permanent non-borrower (based on the adjusted definition from Q1 2023 described earlier in this report, excluding those who applied for pandemic funding). If such SMEs were excluded from the analysis in this chapter (because there is no indication from their answers that they will borrow), the population of SMEs would reduce to around 4 million from just under 6 million.

17% of this group of SMEs excluding PNBs reported a borrowing event, compared to 11% of SMEs overall:

| Any events | | |
|-------------------------|---------------|--------------------|
| YEQ4 23 – all SMES | All SMEs | All SMEs excl. PNB |
| Unweighted base: | 17,010 | 12,252 |
| Have had an event | 11% | 17% |
| Would-be seekers | 4% | 6% |
| Happy non-seekers | 85% | 77% |

Pastfin All SMEs

The proportion of Happy non-seekers reduced from 85% to 77% of non-PNBs but remained the largest group and 6% met the definition of a Would-be seeker, compared to 4% of all SMEs.

The table below shows the pattern over recent quarters, once the PNBs had been excluded. During 2023 there was a slight increase in the proportion reporting a borrowing event from 14% in Q1 to 19% in Q4, still somewhat below levels in 2021-22:

| Any events | | | | | | | | | |
|--------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| All SMES, excluding PNBs – over time | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| By date of interview | 21 | 22 | 22 | 22 | 22 | 23 | 23 | 23 | 23 |
| Unweighted base: | 2490 | 2561 | 2494 | 2425 | 2554 | 2942 | 3033 | 2840 | 3437 |
| Have had an event | 24% | 26% | 23% | 18% | 17% | 14% | 17% | 17% | 19% |
| Would-be seekers | 8% | 5% | 4% | 4% | 6% | 5% | 5% | 4% | 9% |
| Happy non-seekers | 68% | 69% | 73% | 78% | 76% | 82% | 78% | 79% | 71% |

Pastfin All SMEs excluding PNBs

10 Not looking to borrow

On an annual basis, the proportion of SMEs (excluding the PNBs) reporting a borrowing event had been fairly stable until the lower proportions seen more recently in 2019 (22%) and 2022 (21%), with a further decline in 2023 (17%).

The proportion of Would-be seekers declined significantly 2012-16 (15% to 4%) and has remained fairly stable since (6% in 2023). As a result, the proportion of Happy non-seekers, which had been around 7 in 10 since 2016, has increased somewhat to 77% in 2023:

| Any events | | | | | | | | |
|--------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Over time – excl PNBs | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| Unweighted base: | 11,634 | 11,940 | 11,294 | 12,147 | 12,010 | 10,774 | 10,034 | 12,252 |
| Have had an event | 25% | 28% | 27% | 22% | 28% | 28% | 21% | 17% |
| Would-be seekers | 4% | 4% | 3% | 2% | 3% | 7% | 5% | 6% |
| Happy non-seekers | 70% | 67% | 68% | 74% | 69% | 66% | 74% | 77% |

Pastfin All SMEs excl PNBs



11. The future

THIS CHAPTER PROVIDES

more detail 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.





11. The future

KEY FINDINGS

Almost 6 in 10 were planning growth related activities in Q4 2023, including 41% looking to be innovative and 23% looking to reduce their carbon footprint:

- 36% of SMEs in Q4 2023 were looking to significantly improve an aspect of the business which, along with the 21% looking to develop a new product or service, meant that 41% of SMEs were planning to be innovative.
- 24% were looking to invest in plant and machinery and almost as many, 23%, were planning to take significant steps to reduce their carbon footprint.
- Overall, 58% of SMEs in Q4 2023 were planning one or more of the activities measured, increasing to 86% of those with 50-249 employees, 79% of those trading for 2-5 years, 77% of those planning to grow and 72% in the Health sector.

Over half of SMEs reported any past or planned innovation while 1 in 4 can be classed as a 'consistent innovator' having both been, and planning to be, innovative:

- From Q2 2023 it has been possible to track future innovation alongside past innovation. This identified that for the period Q2-Q4 2023 combined, 43% of SMEs had been innovative and 36% planned to be.
- Overall, 55% of SMEs had either been or planned to be innovative and 24% met the criteria of a 'consistent innovator' who has both been innovative and planned to be so in the coming year.
- SMEs more likely to meet this 'consistent innovator' definition included those with 50-249 employees (43%) and those trading for 2-5 years (38%), along with 37% of those planning to grow and 46% of those planning to apply for finance.

A quarter of SMEs are looking to take measures to reduce their carbon footprint

Over half of SMEs have either been innovative or plan to be in the coming year

Almost half of SMEs planned to grow in the coming year, back in line with pre-pandemic levels for the smaller but not the larger SMEs. 1 in 5 SMEs (excluding Starts) had both grown in the previous year and planned to grow again, while linking growth to innovation showed 1 in 4 SMEs planning both future growth and future innovation, with a focus on smaller and younger SMEs:

- 46% of SMEs in 2023 planned to grow in the next 12 months, increasing by size of SME to 59% of those with 10-49 employees and 58% of those with 50-249 employees. Other SMEs more likely to be planning to grow included those with a worse than average risk rating (55%), Starts (73%) and those trading for 2-5 years (62%).
- This is back in line overall with pre-pandemic levels (49% planned to grow in 2018) but while growth aspirations were back in line for those with 0 or 1-9 employees, this was not the case for larger SMEs. In 2023, 59% of those with 10-49 employees planned to grow, down from 64% planning to do so in 2018 and for those with 50-249 employees the difference is more acute with 58% planning to grow in 2023 compared to 79% in 2018.
- Linking past and future growth (excluding Starts who are not asked the past growth question) showed that 19% of these SMEs had both grown in the last year and planned to grow again. This proportion increased by size of SME (from 16% of 0 employee SMEs to 25% of those with 1-9 employees, 35% of those with 10-49 employees and 34% of those with 50-249 employees) but declined by age (from 33% of those trading 2-5 years to 15% of those trading for more than 15 years).
- Linking future growth with future innovation revealed that 24% of all SMEs Q2-Q4 2023 planned both to grow and to be innovative in the coming year (and in fact 69% of them had also been innovative previously, making many of them 'consistent innovators'). Half of these 'ambitious innovators' were both small (0-9 employees) and young (trading for up to 5 years), twice the proportion amongst SMEs overall. This group were more likely than their peers to be using finance and to have appetite for more, but also slightly more concerned it would be difficult for them to get funding.

Half of SMEs plan to grow in the year ahead, back to pre-pandemic levels for smaller SMEs but not the larger ones

Smaller and younger SMEs are more likely to be an 'ambitious innovator' planning both to be innovative and to grow in the coming year

In Q4 2023, the key barrier for SMEs remained increasing costs, with over half of SMEs either already significantly impacted by increasing costs or expecting to be:

- In Q4 2023, 36% of SMEs saw increasing costs as a major barrier to their business while 41% reported having already been significantly impacted by increased costs.
- For 2023 as a whole, 55% of SMEs had either been significantly impacted and/or saw increasing costs as a major barrier and this was more likely to be the case for those with 1-9 or 10-49 employees (60% and 59%), those in Hotels & Restaurants (74%) or Agriculture (64%), and those trading for 2-5 years (60%).
- This has been a key issue for SMEs since the metric was introduced in Q4 2021, but the impact is currently stable – after increasing from 46% in Q4 2021 to 54% in 2022, the proportion of SMEs that had either been significantly impacted and/or saw increasing costs as a major barrier was unchanged at 55% in 2023.

Other key barriers in 2023 included the economic climate and, for employers, the recruitment and retention of staff, while there has been little change in either those seeing access to finance as a barrier or feeling the new EU trading arrangements have had a negative impact:

- 32% of SMEs in 2023 saw the economic climate as a major future barrier with concerns higher amongst those in the Hotel & Restaurant sector (42%) and those trading for 6-9 years (40%) while being less of an issue for the largest SMEs (19% of those with 50-249 employees).
- Concern about the economic climate ‘peaked’ in 2020 at 36% before declining to a pre-pandemic level of 23% in 2021. Since then however concern has increased again, to 31% in 2022 and 32% in 2023.
- Most demographics were still somewhat less concerned about the economic climate in 2023 than they had been in 2020, notably those with 50-249 employees (19% from 29%) and the Health sector (32% from 40%). However those in Agriculture (28% from 27%), Wholesale/Retail (37% from 36%) and those trading for 6-9 years (40% from 36%) were as, or more, concerned in 2023 as they were in 2020.

Half of SMEs have either been significantly affected by increasing costs or see it as a major future barrier

**A consistent
1 in 3
SMEs report a negative impact to the new EU trading arrangements, typically in the supply chain, but two thirds have not been impacted at all**

- Pre-pandemic, a stable 1 in 10 employers saw the recruitment and retention of staff as a major barrier. In 2021 this increased to 18% of employers and again to 20% in 2023. It was particularly likely to be a barrier for those with 10-49 employees (26%) and those in the Health sector (28%) with limited variation across other demographics.
- When those already struggling to recruit were taken into account, 31% of employers in 2023 were either already struggling to recruit and/or considered it a major future barrier.
- A minority of SMEs (7% in 2023) saw access to finance as a major barrier, though it was somewhat more of an issue for those in Wholesale/Retail (11%) or Hotels & Restaurants (10%) as well as for Starts (11%) and those trading for 2-5 years (13%). This proportion has changed very little overall since 2019 (7-8% in each year).
- In H2 2023, 34% of SMEs reported that the revised EU trading arrangements were having a negative impact on their business. Most, 64%, said that they had no impact, while 2% reported a positive impact and these proportions have changed very little since H2 2021.
- Those most likely to report a negative impact included all those with employees (40-43% compared to 32% of 0 employee SMEs), alongside those in Wholesale/Retail (41%) and Transport (42%) as well as those who trade internationally, notably those who are fully international (62%). The main negative impact has been with the supply chain.

In Q4 2023, similar proportions of SMEs expected to have a need for more finance in the coming months (12%), and/or to apply or renew funding (10%) or to reduce the finance they used (12%). More, predominantly the smallest SMEs, expected an injection of personal funds into the business (20%):

- There was little variation by size in the proportion expecting a need for finance or planning to apply/renew with the exception of the largest SMEs who were less likely to be expecting either of these (6% and 8%).
- Those with 10-49 employees were the most likely to be planning to reduce the amount of external finance they were using (17%), while the smallest SMEs were the most likely to be planning an injection of personal funds (22%), declining by size of SME to 3% of those with 50-249 employees.

In the coming year, twice as many SMEs expect to inject personal funds into their business as to apply for finance.

● The future

- Across 2023 as a whole, 8% of SMEs thought they would apply/renew in the coming months, unchanged from 2022 but slightly lower than pre-pandemic (10% in 2018) or the pandemic 'peak' of 13% in 2020.
- Compared to 2018, future appetite for finance in 2023 was lower for all sizes of SME except 0 employees but most notably for those with 50-249 employees (5% from 17%), as well as those in Manufacturing (8% from 13%) and Health (6% from 12%). Appetite for finance amongst Starts and those trading for 2-5 years has remained more stable (13% and 11% respectively in both years).

The majority of those planning to apply said they would be looking for funding for business development, now back to pre-pandemic levels:

- 68% of those planning to apply/renew said they would want the funding for business development purposes, typically for plant and machinery (31%, the highest proportion to date) or to fund UK expansion (25%).
- 34% of those planning to apply/renew said they would want the funding for cash flow purposes, with most (31%) looking for working capital to boost cash flow. There were fewer mentions than previously of needing funding to cope with trading conditions – in 2020, 18% of those looking to apply/renew wanted the funding for this purpose, declining to 4% in 2023.
- In 2020, the pandemic placed a strong emphasis on future funding for cashflow (76% cashflow v 27% business development). This has gradually rebalanced since, such that the splits in 2022 and 2023 were in line with pre-pandemic 2018, when 68% of those looking to apply/renew wanted the funds for business development and 38% for cashflow.
- These are of course predictions for how future funding would be used and analysis showed that after the immediate impact of the pandemic in 2020, from 2021 increasing numbers of SMEs were predicting they would use funding for business development but that this did not actually happen in a meaningful way until 2023.

Future funding is more likely to be earmarked for plant and machinery than has been previously seen.

However, confidence that the bank would lend remained lower than previously seen:

- In 2023, 32% of those planning to apply/renew were confident that their bank would agree. Almost as many, 29%, were not confident and 38% were in the middle as neither confident nor not confident.
- This 'middle' group has increased in size over time (from around a quarter prior to 2020). As the proportion 'not confident' has remained fairly stable, this increase in the middle group has resulted in lower levels of confidence, declining from around half of those planning to apply prior to 2020 to a third in 2022 and 2023.
- Across all SMEs in 2023, irrespective of their application plans, 48% were confident of success with a potentially hypothetical application. Those planning to apply are now the least confident of success (32%) compared to 38% of Future would-be seekers and 53% of Future happy non seekers.
- The overall level of confidence of 48% is 10 points lower than in 2018 (58%), with a more marked decline for those planning to apply (54% to 32%) than for FWBS (46% to 38%) or FHNS (60% to 53%).
- In Q4 2023, aside from the 10% planning to apply, 21% of SMEs expected to be a Future would-be seeker of finance and as before the majority, 69%, expected to be a Future happy non-seeker of finance.
- SMEs with 0 or 1-9 employees remained more likely to expect to be a FWBS (both 21%) than their larger peers (15% and 8%) and those in Wholesale/Retail and Hotels & Restaurants were also more likely to be in this category (25% and 28%).
- The key barrier to a future application remained a reluctance to borrow now, the main reason for not applying for 74% of Future would-be seekers, predominantly because of the general economic climate rather than the predicted performance of the business in that environment. This has consistently been a key barrier to application but the proportion mentioning it has increased from half of FWBS to three-quarters between 2017 and 2020, and has remained stable since. This is the equivalent of 15% of all SMEs in 2023 put off a future application for finance by the current economic conditions.
- There has been marked variation in the proportion of Future would-be seekers over time (while the proportion of past would-be seekers remained lower and much more stable).
- Between 2012 and 2018, the proportion of FWBs halved from 23% to 10%. In 2020 it increased back up to 21% and has been at that level since, with the exception of 2022 (14%).

A third of those planning to apply were confident their lender would agree, with another third not sure what the response would be

Overall, when looking forward, almost as many SMEs see the future offering mostly threats as mostly opportunities, but with key differences by size:

- In Q4 2023, 28% of SMEs felt that the future offered mainly opportunities to them, and this was more likely to be the case for larger SMEs with 10-49 or 50-249 employees (38% and 37%).
- At the other end of the scale, 25% of SMEs felt the future offered mainly threats, with a much clearer difference by size of SME, from 28% of those with 0 employees to 9% with 50-249 employees.
- When this question was first asked in H2 2020, 22% felt the future offered mainly opportunities, increasing to 32% in 2021 and stable since (31% for 2023 as a whole). Whilst there was little change overall between 2022 and 2023, the largest SMEs have become less likely to feel the future offered opportunities (33% from 47% in 2022).

In contrast to those looking back, Future would-be seekers see the economic climate as the key barrier to a future application

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 changes in SME sentiment over time.

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 2023 data gathered between October and December 2023. After a series of increases in interest rates to 5.25% in Q3, there were no further increases in Q4 and the rate of inflation for the year to December was 4%, compared to almost 11% a year earlier. However overall growth remained limited and it subsequently transpired that the UK was technically in recession in Q3 and Q4 2023, as conflicts in Ukraine and the Middle East made the headlines.

SMEs that trade internationally will have potentially seen the most impact on their trade post-Brexit and with the new EU trading arrangements in place, so this chapter also includes a summary of how such SMEs have been feeling since the referendum result and the new trading arrangements established.

This chapter starts with one of the questions added during the pandemic around the future offering threats or opportunities.

Assessing the future

In Q3 2020, a new question was added to explore the extent to which SMEs saw the future as being full of threats (score 1) or full of opportunities (score 10) for their business. The table below shows the scores in Q4 of 2020, 2021 and 2022 and then the four quarters of 2023, and the variability in scores since this question was first asked:

- Back in Q4 2020, 24% of SMEs saw the future as more opportunities than threats, the same proportion (25%) as saw more threats than opportunities.
- By Q4 2021, the balance had moved in favour of opportunities (36%) rather than threats (18%) and this was still broadly the case in Q4 2022 (27% v 16%) as more SMEs (57%) gave a middle score of 5-6.
- In Q4 2023, that ‘middle’ score was used by fewer SMEs (45%), with slightly more mentions of threats (25%) and a similar proportion seeing mainly opportunities (28%).

| Future offers threats/opportunities | | | | | | | |
|-------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| By date of interview | Q4 20 | Q4 21 | Q4 22 | Q1 23 | Q2 23 | Q3 23 | Q4 23 |
| Unweighted base: | 4252 | 4085 | 4252 | 4252 | 4253 | 3910 | 4595 |
| 9-10 All opportunities | 10% | 16% | 10% | 11% | 9% | 10% | 8% |
| 7-8 | 14% | 20% | 17% | 17% | 22% | 25% | 20% |
| 5-6 | 50% | 46% | 57% | 50% | 45% | 44% | 45% |
| 1-4 All threats | 25% | 18% | 16% | 21% | 25% | 21% | 25% |
| Score 7-10 on opportunities | 24% | 36% | 27% | 29% | 31% | 35% | 28% |

CV7 All SMEs

The larger the SME the more likely they were to see the future offering opportunities and the less likely they were to see threats:

| Future offers threats/opportunities | | | | | | |
|-------------------------------------|-------------|------------|-------------|-------------|-------------|--|
| Q4 23 All SMEs | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps | |
| Unweighted base: | 4595 | 996 | 1942 | 1097 | 560 | |
| 9-10 All opportunities | 8% | 8% | 8% | 8% | 10% | |
| 7-8 | 20% | 19% | 24% | 29% | 27% | |
| 5-6 | 45% | 45% | 46% | 49% | 54% | |
| 1-4 All threats | 25% | 28% | 22% | 14% | 9% | |
| Score 7-10 on opportunities | 28% | 27% | 32% | 38% | 37% | |

CV7 All SMEs

11 The future

There was only limited variation by age of SME, for either threats or opportunities:

| Future offers threats/opportunities | | | | | |
|-------------------------------------|------------|------------|------------|------------|-------------|
| Q4 23 All SMEs | Starts | 2-5 yrs | 6-9 yrs | 10-15 yrs | 15 yrs+ |
| Unweighted base: | 147 | 387 | 454 | 814 | 2793 |
| 9-10 All opportunities | 8% | 9% | 9% | 5% | 9% |
| 7-8 | 22% | 18% | 20% | 20% | 20% |
| 5-6 | 42% | 51% | 47% | 46% | 45% |
| 1-4 All threats | 29% | 23% | 23% | 28% | 26% |
| Score 7-10 on opportunities | 30% | 27% | 30% | 26% | 29% |

CV7 All SMEs

Whereas by sector, the opportunities score ranged from 22% in Transport to 32% in Construction, and the threats from 19% in Agriculture to 32% in Transport:

| Extent of obstacles in next 12 months | | | | | | | | | |
|---------------------------------------|------------|------------|------------|-------------|------------|------------|------------|------------|------------|
| Q4 23 – all SMEs | Agric | Mfg | Constr | Whle Retail | Hotel Rest | Trans | Prop/ Bus | Hlth SWrk | Other Comm |
| Unweighted base: | 324 | 402 | 892 | 553 | 355 | 519 | 758 | 335 | 457 |
| 9-10 All opportunities | 8% | 6% | 10% | 8% | 8% | 8% | 6% | 20% | 7% |
| 7-8 | 16% | 23% | 23% | 19% | 22% | 14% | 26% | 11% | 16% |
| 5-6 | 57% | 47% | 44% | 41% | 40% | 45% | 46% | 48% | 47% |
| 1-4 All threats | 19% | 24% | 24% | 31% | 30% | 32% | 23% | 21% | 30% |
| Score 7-10 on opportunities | 24% | 29% | 32% | 27% | 30% | 22% | 31% | 31% | 23% |

CV7 All SMEs

11 The future

The table below shows the annual position over time by key demographics for those saying the future presents more opportunities than threats (scores 7-10). This is shown for H2 2020 (when this question was first asked), then 2021 to 2023.

Overall the opportunities score increased from 22% of SMEs in H2 2020 to 32% in 2021, with little further change since (31% for 2023).

Whilst there was no change in the opportunities score overall 2022 to 2023 (30% to 31%) there were some changes within sub-groups:

- A further increase in scores for those with 10-49 employees in 2023 (31% to 36%), now the highest of the size bands, while the score for those with 50-249 employees declined by a similar amount (47% to 33%)
- An increase in score for Construction (27% to 36%) and now the sector most likely to see the future offering more opportunities than threats
- An increase too for PNBs (32% to 37%) putting them clearly ahead of their peers (27% in 2023)
- While those trading between 2 and 15 years were somewhat less likely to see opportunities in 2023 than in 2022, the opposite was true for those trading for more than 15 years (26% to 30%), bringing them back in line with the average

| Opportunities (7-10) over time | | | | |
|--|------------|------------|------------|------------|
| By date of interview – row percentages | H2 2020 | 2021 | 2022 | 2023 |
| All SMEs | 22% | 32% | 30% | 31% |
| 0 emp | 22% | 33% | 30% | 30% |
| 1-9 emps | 22% | 32% | 32% | 31% |
| 10-49 emps | 21% | 32% | 31% | 36% |
| 50-249 emps | 20% | 31% | 47% | 33% |
| Minimal external risk rating | 24% | 30% | 29% | 31% |
| Low | 21% | 27% | 30% | 30% |
| Average | 20% | 29% | 29% | 32% |
| Worse than average | 23% | 37% | 32% | 31% |
| Agriculture | 19% | 28% | 28% | 25% |
| Manufacturing | 22% | 32% | 29% | 32% |
| Construction | 21% | 32% | 27% | 36% |
| Wholesale/Retail | 20% | 28% | 29% | 25% |
| Hotels & Restaurants | 14% | 25% | 26% | 24% |
| Transport | 15% | 29% | 25% | 28% |
| Property/ Business Services | 25% | 37% | 36% | 33% |
| Health | 19% | 39% | 34% | 31% |
| Other | 28% | 31% | 30% | 28% |
| Starts | 26% | 44% | 37% | 37% |
| 2-5 years trading | 25% | 35% | 33% | 30% |
| 6-9 years | 20% | 32% | 30% | 28% |
| 10-15 years | 23% | 30% | 31% | 26% |
| 15+ years | 18% | 27% | 26% | 30% |
| PNBs | 22% | 35% | 32% | 37% |
| All excl PNBs | 21% | 31% | 29% | 27% |

CV7 All SMEs

Growth related activities planned for next 12 months

A number of activities, listed below, could be associated with growing a business and also with SMEs willingness to invest. From Q2 2023 this has also included part of the traditional definition of innovation ‘significantly improving some aspect of the business’ to allow for a net ‘Future innovation’ code to be calculated that matches questions asked about past behaviour.

In Q4 2023, almost 6 in 10 of all SMEs (not just those planning to grow) planned to undertake at least one of these activities in the following year, increasing by size of SME:

| Planned activities in next 12 mths | | | | | |
|---|-------------|------------|-------------|-------------|-------------|
| Q4 23 All SMEs | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
| Unweighted base: | 4595 | 996 | 1942 | 1097 | 560 |
| Significantly improve an aspect of the business | 36% | 33% | 42% | 48% | 53% |
| Invest in new plant, machinery, premises | 24% | 22% | 27% | 38% | 37% |
| Sig. steps to reduce business carbon footprint | 23% | 20% | 30% | 44% | 55% |
| Take on more staff | 21% | 17% | 31% | 55% | 62% |
| Develop a new product or service | 21% | 21% | 23% | 24% | 31% |
| Start to sell, or sell more, overseas | 7% | 7% | 7% | 10% | 12% |
| Some other major expenditure | 8% | 7% | 10% | 16% | 15% |
| Any of these | 58% | 54% | 66% | 83% | 86% |
| None of these | 42% | 46% | 34% | 17% | 14% |

Q90 (240w) All SMEs

In Q4 2023, 1 in 3 SMEs said they were planning to significantly improve an aspect of the business (the new code). Analysis showed that without that code, the proportion of SMEs mentioning any of the other activities would have been 52%, instead of the 58% shown above.

Other analysis showed that in Q4 2023

- Those in Health were the most likely to be planning activity (72%), compared to 50% in Transport, 51% in Construction and 55-65% elsewhere.
- Permanent non-borrowers were somewhat less likely to be planning such activities (46%) and excluding them increased the proportion planning to take any action to 64% of remaining SMEs.

11 The future

Those trading for 2-5 years were the most likely to be planning any activity in Q4 2023. Activity then declined by age of business to half of those trading for more than 10 years, up from 1 in 3 in Q4 2022. Whilst these figures have been boosted by the new code, without it almost half of these larger SMEs would still have had some activities planned:

| Planned activities in next 12 mths | | | | | |
|---|------------|------------|------------|------------|-------------|
| Q4 23 All SMEs | Starts | 2-5 yrs | 6-9 yrs | 10-15 yrs | 15 yrs+ |
| Unweighted base: | 147 | 387 | 454 | 814 | 2793 |
| Significantly improve an aspect of the business | 43% | 58% | 38% | 31% | 28% |
| Invest in new plant, machinery, premises | 31% | 36% | 22% | 19% | 20% |
| Sig. steps to reduce business carbon footprint | 20% | 31% | 21% | 20% | 23% |
| Take on more staff | 25% | 35% | 29% | 17% | 16% |
| Develop a new product or service | 26% | 29% | 26% | 16% | 18% |
| Start to sell, or sell more, overseas | 10% | 11% | 5% | 8% | 5% |
| Some other major expenditure | 6% | 15% | 10% | 6% | 8% |
| Any of these | 59% | 79% | 63% | 53% | 52% |
| None of these | 41% | 21% | 37% | 47% | 48% |

Q90 (240w) All SMEs

11 The future

Key differences in levels of planned activity were seen by future plans for both growth and finance. Those planning to grow in the next 12 months and those with any future appetite for finance were much more likely to be planning any of these activities than their peers (77% and 84% respectively):

| Planned activities in next 12 mths | | | | | |
|--|--------------|------------------|---------------|------------|-------------|
| Q4 23 All SMEs | Plan to grow | No plans to grow | Plan to apply | FWBS | FHNS |
| Unweighted base: | 2252 | 2343 | 466 | 849 | 3280 |
| Significantly improve aspect of the business | 52% | 20% | 55% | 42% | 31% |
| Invest in new plant, machinery, premises | 33% | 15% | 49% | 27% | 19% |
| Sig. steps to reduce business carbon footprint | 30% | 16% | 36% | 21% | 21% |
| Take on more staff | 35% | 8% | 45% | 20% | 18% |
| Develop a new product or service | 32% | 11% | 34% | 21% | 20% |
| Start to sell, or sell more, overseas | 12% | 3% | 10% | 6% | 11% |
| Some other major expenditure | 12% | 4% | 12% | 10% | 7% |
| Any of these | 77% | 39% | 84% | 60% | 53% |
| None of these | 23% | 61% | 16% | 40% | 47% |

Q90 (240w) All SMEs

11 The future

Analysis of planned activities over time (in Q4 of each year since Q4 2017) shows how the proportion planning any activity has increased over time. This is partly as a result of the inclusion of 2 additional statements included here from Q4 2021 and Q4 2023. Without them, planned activities would have been 52% in Q4 2023, instead of the 58% shown below:

| Planned activities | | | | | | | |
|---------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| By date of interview | Q4 17 | Q4 18 | Q4 19 | Q4 20 | Q4 21 | Q4 22 | Q4 23 |
| All SMEs – over time | | | | | | | |
| Unweighted base: | 4500 | 4500 | 4500 | 4252 | 4085 | 4252 | 4595 |
| Take on more staff | 19% | 17% | 18% | 21% | 26% | 20% | 21% |
| Sig. steps to reduce carbon f'print | - | - | - | - | 25% | 17% | 23% |
| Invest in new plant etc | 18% | 13% | 13% | 21% | 20% | 17% | 24% |
| Develop a new product or service | 16% | 15% | 14% | 21% | 18% | 16% | 21% |
| Start to sell, or sell more, overseas | 7% | 7% | 5% | 7% | 6% | 4% | 7% |
| Some other major expenditure | 6% | 4% | 6% | 11% | 11% | 6% | 8% |
| Sig improve aspect of the business | - | - | - | - | - | - | 36% |
| Any of these | 42% | 34% | 35% | 47% | 59% | 45% | 58% |
| None of these | 58% | 66% | 65% | 53% | 41% | 55% | 42% |

Q90 (240w) All SMEs

The table overleaf provides analysis of any activity planned on an annual basis, over time, with H2 2020 and H2 2021 used to represent SME views in those years, as this question was not asked consistently every quarter during the pandemic. The latest period is based on Q2-Q4 2023 when the new innovation statement was asked:

- Around 4 in 10 of all SMEs have typically planned any of the activities listed. The increase to 57% for H2 2021 was due in part to the inclusion of the carbon footprint measure. In 2023 the proportion was boosted by the introduction of the 'Significantly improve an aspect of the business' metric, without it the proportion would have been unchanged from 2022 (at 48%).
- Larger SMEs and those with a minimal risk rating were more likely to be planning any activity than in 2022, and remained ahead of their peers
- SMEs in Hotels & Restaurants (59%) and Manufacturing (57%) were more likely to be planning activity, compared to 50-55% of other sectors
- PNBS and older SMEs remained less likely than their peers to be planning any activity

11 The future

| Plan any activity | | | | | | | |
|------------------------------|------------|------------|------------|------------|------------|------------|------------|
| Over time – row percentages | H2 17 | 2018 | 2019 | H2 20 | H2 21* | 2022 | Q2-4 23* |
| All SMEs | 42% | 38% | 37% | 44% | 57% | 48% | 54% |
| 0 emp | 38% | 34% | 33% | 41% | 54% | 44% | 50% |
| 1-9 emps | 50% | 46% | 45% | 52% | 65% | 58% | 62% |
| 10-49 emps | 63% | 58% | 55% | 57% | 75% | 72% | 77% |
| 50-249 emps | 60% | 58% | 63% | 58% | 71% | 78% | 84% |
| Minimal external risk rating | 42% | 40% | 40% | 44% | 56% | 53% | 62% |
| Low | 44% | 39% | 40% | 46% | 53% | 48% | 53% |
| Average | 35% | 34% | | 38% | 52% | 43% | 47% |
| Worse than average | 45% | 40% | 40% | 49% | 63% | 51% | 57% |
| Agriculture | 38% | 37% | 34% | 47% | 56% | 49% | 54% |
| Manufacturing | 54% | 46% | 42% | 45% | 65% | 54% | 57% |
| Construction | 36% | 30% | 29% | 40% | 52% | 44% | 50% |
| Wholesale/Retail | 48% | 44% | 46% | 52% | 60% | 50% | 53% |
| Hotels & Restaurants | 42% | 38% | 36% | 41% | 64% | 52% | 59% |
| Transport | 40% | 33% | 31% | 42% | 52% | 44% | 52% |
| Property/ Business Services | 41% | 40% | 39% | 44% | 57% | 50% | 55% |
| Health | 44% | 36% | 36% | 49% | 56% | 51% | 53% |
| Other | 43% | 41% | 40% | 44% | 60% | 47% | 55% |
| Starts | 56% | 42% | 40% | 58% | 77% | 63% | 66% |
| 2-5 years trading | 48% | 49% | 48% | 52% | 65% | 59% | 69% |
| 6-9 years | 37% | 41% | 38% | 48% | 59% | 47% | 59% |
| 10-15 years | 38% | 36% | 38% | 38% | 53% | 46% | 50% |
| 15+ years | 34% | 30% | 29% | 35% | 46% | 40% | 45% |
| PNBs | 36% | 32% | 30% | 34% | 46% | 39% | 40% |
| All excl PNBs | 47% | 43% | 42% | 50% | 64% | 57% | 60% |
| Plan to grow | 61% | 55% | 52% | 67% | 76% | 70% | 74% |
| Plan to apply for finance | 62% | 62% | 59% | 66% | 76% | 73% | 80% |

Q90 (240w) All SMEs *additional metric introduced

11 The future

Analysed as a group for Q2-4 2023, the 54% of SMEs that were planning to take any of these actions in the next 12 months were:

- Innovative and international: They were more likely to be international (25% v 15% of those not planning any activities) and/or to have been innovative (58% v 25%).
- Ambitious: They were more likely to have grown (36% v 22%) and to be planning to grow (63% v 25%), to have employees (29% v 18%), a mentor (20% v 8%), to plan (60% v 47%). They were also more likely to be ambitious risk takers (39% v 14%).
- Users of finance: They were more likely to be using finance (55% v 40%) and to plan to apply in future (14% v 4%) and were less likely to be a PNB (25% v 42%). They were more likely to be happy to borrow to grow (44% v 20%), but also slightly more likely to feel it might be difficult for them to get finance (37% v 33%).
- To have a broadly positive outlook: They were slightly more likely to feel the future offered opportunities (33% v 29%), but no more likely than their peers to be in a good mood overall about their business (60% v 58%), or to describe themselves as Comfortable/Well off (33% v 36%).
- They also had concerns: They were more worried than their peers about increasing costs (42% v 33%), the current economic climate (35% v 30%) and political uncertainty (25% v 19%).

Innovation – past and future

The addition of the new metric ‘planning to significantly improve an aspect of the business’ allows for consistent analysis of SME innovation (developing a new product or service and/or making a significant improvement) in both the past and planned for the future.

The table below summarises key groups, detailing for Q2 to Q4 2023 the proportion that have been innovative in the recent past (43%) and the proportion that plan to be in future (36%). Taken together, 55% of SMEs have some involvement in innovation, whether past or future, and 24% are consistently innovative (innovation in both the past and planned for the future):

- Larger SMEs (43% of those with 50-249 employees)
- Those in Property/Business Services (29%) and the Other Community sector (30%) compared to 14% in Construction and 17% in Agriculture.
- Those who plan to grow (37%) and notably those planning to apply for finance (46%) compared to those who met the definition of a PNB (13%).
- Those trading for 2-5 years (38%), especially compared to those who have been trading for more than 15 years (17%).

11 The future

| Any innovation | | | | |
|------------------------------|------------|------------|----------------|-----------------------|
| Q2-Q4 23– row percentages | Have | Plan to | Any innovation | Consistent innovation |
| All SMEs | 43% | 36% | 55% | 24% |
| 0 emp | 40% | 33% | 52% | 22% |
| 1-9 emps | 50% | 42% | 63% | 29% |
| 10-49 emps | 62% | 47% | 72% | 37% |
| 50-249 emps | 63% | 58% | 78% | 43% |
| Minimal external risk rating | 45% | 37% | 58% | 23% |
| Low | 45% | 34% | 55% | 24% |
| Average | 40% | 32% | 50% | 22% |
| Worse than average | 43% | 39% | 58% | 24% |
| Agriculture | 34% | 30% | 48% | 17% |
| Manufacturing | 43% | 38% | 58% | 23% |
| Construction | 31% | 27% | 43% | 14% |
| Wholesale/Retail | 45% | 38% | 57% | 26% |
| Hotels & Restaurants | 46% | 38% | 60% | 24% |
| Transport | 37% | 33% | 49% | 20% |
| Property/ Business Services | 50% | 39% | 60% | 29% |
| Health | 44% | 34% | 54% | 23% |
| Other | 48% | 45% | 62% | 30% |
| PNBs | 32% | 24% | 43% | 13% |
| All excl PNBs | 48% | 41% | 60% | 29% |
| Starts | 43% | 49% | 63% | 29% |
| 2-5 years trading | 56% | 51% | 70% | 38% |
| 6-9 years | 51% | 41% | 62% | 30% |
| 10-15 years | 46% | 31% | 53% | 23% |
| 15+ years | 37% | 27% | 47% | 17% |
| Plan to grow | 55% | 53% | 71% | 37% |
| Plan to apply for finance | 64% | 59% | 78% | 46% |

Q84/Q90 (240w) All SMEs being or planning to be innovative

Growth ambitions for next 12 months

All SMEs were asked about their growth ambitions for the next 12 months. From Q1 2018, the information collected on both past and future growth was extended to identify those that had grown/planned to grow by 40% or more (previously the highest growth rate recorded was 20% or more). In Q2 2020, the answer categories were extended again, to provide further granularity on those expecting to get smaller or to sell/close the business and these are reported below for Q4 2023.

In Q4 2023, the smallest SMEs were less likely to be planning to grow than their peers, while 9% of SMEs thought they would get significantly smaller or close/sell the business, most of them with 0 employees:

| Plans to grow in next 12 mths | | | | | |
|-----------------------------------|-------------|------------|-------------|-------------|-------------|
| Q4 23 only | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
| Unweighted base: | 4595 | 996 | 1942 | 1097 | 560 |
| Grow by more than 40% | 6% | 5% | 7% | 4% | 2% |
| Grow by 20-40% | 15% | 16% | 15% | 12% | 12% |
| Grow by less than 20% | 28% | 26% | 32% | 44% | 48% |
| All with objective to grow | 49% | 47% | 54% | 60% | 62% |
| Stay the same size | 38% | 39% | 36% | 35% | 36% |
| Become smaller by less than 50% | 4% | 4% | 4% | 3% | 1% |
| Become smaller by more than 50% | 1% | 1% | * | * | - |
| Plan to sell/pass on the business | 2% | 2% | 3% | 1% | 1% |
| Plan to close the business | 6% | 7% | 2% | * | * |

Q91 (225) All SMEs

Growth ambitions in Q4 2023 amongst other sub-groups included:

- 84% of ‘Ambitious risk takers’ planning to grow, including 45% by 20% or more.
- 66% of those planning any of the growth activities detailed above planning to grow, compared to 26% of those with no such plans.
- Excluding the PNBs increased the proportion planning to grow only slightly to 50% (compared to 47% of PNBs).

11 The future

Combining past and future growth for SMEs in 2023 (where answers are available to both questions, so excluding Starts who were not asked about growth in the previous year) gives some key categories of SME.

19% of SMEs (excluding Starts) had grown in the previous year and planned to grow again:

- This increased by size of SME from 16% of 0 employee SMEs to 25% of those with 1-9 employees, 35% of those with 10-49 employees and 34% of those with 50-249 employees.
- And decreased by age of business from 33% of those trading 2-5 years to 15% of those trading for more than 15 years.
- There was limited difference by risk rating (17-21%).
- And also limited difference by sector (15-21%).
- Those using external finance were slightly more likely to be in this category (22%) than those not using finance (16%) or PNBs (17%).
- 42% of those who described themselves as 'Well off' were in this category, declining to 8% of those who were 'Struggling'.

At the other end of the scale, 20% of SMEs (excluding Starts) had declined in the previous year and were either expecting to decline again or stay the same size they now were:

- This decreased by size of SME from 22% of 0 employee SMEs to 15% of those with 1-9 employees, 8% of those with 10-49 employees and 7% of those with 50-249 employees.
- And increased by age of business from 10% of those trading 2-5 years to 22% of those trading for 10-15 years and 21% of those trading for more than 15 years.
- There was limited difference by risk rating (16-22%).
- And also limited difference by sector (18-23%).
- Those using external finance were slightly less likely to be in this category (18%) than those not using finance (21%) or PNBs (20%).
- 5% of those who described themselves as 'Well off' were in this category, increasing to 40% of those who were 'Struggling'.

Analysis over recent years, reported below, shows how the proportion that have grown and plan to grow again increased from 11% in 2021 to 17% in 2022 and then 19% in 2023, with increases across all size bands but more notably for those with 10-49 or 50-249 employees.

11 The future

Meanwhile the proportion that had declined and did not expect to grow next year decreased in a similar way from 31% in 2021 to 22% in 2022 and then 20% in 2023, with similar decreases across all size bands.

| Growth in combination | | | |
|-----------------------------|---------------|---------------|---------------|
| All SMEs excluding Starts | 2021 | 2022 | 2023 |
| Unweighted base: | 14,662 | 15,087 | 15,241 |
| Grow and grow again | | | |
| All SMEs excl Starts | 11% | 17% | 19% |
| 0 emps | 10% | 15% | 16% |
| 1-9 emps | 14% | 22% | 25% |
| 10-49 emps | 19% | 30% | 35% |
| 50-249 emps | 15% | 18% | 34% |
| Declined and not grow | | | |
| All SMEs excl Starts | 31% | 22% | 20% |
| 0 emps | 33% | 25% | 22% |
| 1-9 emps | 26% | 17% | 15% |
| 10-49 emps | 20% | 10% | 8% |
| 50-249 emps | 22% | 8% | 7% |

Growth ambitions over time

The next section looks at growth aspirations over time, initially by quarter and then over the longer term on an annual basis.

The pandemic naturally affected growth aspirations. While around half of SMEs expected to grow pre-pandemic, in Q2 2020 just 24% expected to grow as the impact of the pandemic was initially felt.

Optimism did return and by Q2 2021, 52% were planning to grow. However, this was not then maintained in 2022, with growth ambitions declining to 40% in Q4 2022, before building back up to 49% in Q4 2023:

| Growth in next 12 mths | | | | | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| All SMEs– over time By date of interview | Q4 2021 | Q1 2022 | Q2 2022 | Q3 2022 | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
| Unweighted base: | 4085 | 4250 | 4250 | 4250 | 4252 | 4252 | 4253 | 3910 | 4595 |
| Grow by 20% or more* | 21% | 15% | 17% | 20% | 19% | 23% | 20% | 20% | 21% |
| Grow by 40% + | 6% | 6% | 5% | 7% | 5% | 8% | 7% | 7% | 6% |
| Grow by 20–40% | 16% | 9% | 12% | 12% | 14% | 15% | 13% | 13% | 15% |
| Grow by less than 20%* | 23% | 29% | 24% | 23% | 21% | 24% | 24% | 26% | 28% |
| All with objective to grow | 44% | 45% | 41% | 42% | 40% | 46% | 43% | 45% | 49% |
| Stay the same size | 43% | 43% | 46% | 43% | 47% | 44% | 45% | 42% | 38% |
| Become smaller | 6% | 5% | 6% | 7% | 6% | 5% | 5% | 7% | 5% |
| Plan to sell/pass on/close | 6% | 8% | 7% | 7% | 6% | 4% | 6% | 7% | 8% |

Q91 (225) All SMEs

The table on the next page summarises these growth plans by key demographics over recent quarters, including by size of SME. Comparing Q4 2023 (49% planning to grow) to the position 12 months earlier in Q4 2022 (40%) showed:

- An increase in ambition across all size bands, notably the largest SMEs (48% to 62%) and across all risk ratings.
- Notable increases for Construction (29% to 45%), bringing them closer to their peers, and for Health (42% to 58%), moving them above the average.
- A notable increase for those trading 2–5 years (52% to 70%).
- PNBs saw an increase in ambition (35% to 47%), narrowing the gap to their peers who saw a smaller increase (45% to 50%).

11 The future

| Objective to grow (any) in next 12 months | | | | | | | | | |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Over time – row percentages | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| By date of interview | 2021 | 2022 | 2022 | 2022 | 2022 | 2023 | 2023 | 2023 | 2023 |
| All SMEs | 44% | 45% | 41% | 42% | 40% | 46% | 43% | 45% | 49% |
| 0 employee | 42% | 43% | 37% | 40% | 38% | 46% | 41% | 43% | 47% |
| 1-9 employees | 48% | 50% | 52% | 50% | 46% | 48% | 51% | 50% | 54% |
| 10-49 employees | 57% | 59% | 60% | 56% | 54% | 58% | 59% | 58% | 60% |
| 50-249 employees | 49% | 53% | 51% | 50% | 48% | 53% | 58% | 60% | 62% |
| Minimal external risk rating | 44% | 38% | 39% | 31% | 33% | 38% | 38% | 39% | 39% |
| Low external risk rating | 32% | 38% | 44% | 42% | 31% | 39% | 36% | 37% | 41% |
| Average external risk rating | 39% | 44% | 34% | 37% | 29% | 41% | 38% | 39% | 41% |
| Worse than average risk rating | 51% | 48% | 48% | 47% | 52% | 53% | 53% | 54% | 60% |
| Agriculture | 35% | 30% | 37% | 25% | 29% | 33% | 35% | 28% | 32% |
| Manufacturing | 57% | 34% | 36% | 42% | 51% | 49% | 46% | 47% | 49% |
| Construction | 34% | 37% | 36% | 35% | 29% | 40% | 38% | 52% | 45% |
| Wholesale/Retail | 43% | 49% | 38% | 47% | 41% | 45% | 44% | 48% | 50% |
| Hotels & Restaurants | 41% | 44% | 41% | 37% | 38% | 33% | 39% | 31% | 37% |
| Transport | 41% | 39% | 38% | 38% | 42% | 51% | 41% | 38% | 41% |
| Property/Business Services etc. | 50% | 50% | 47% | 52% | 41% | 50% | 50% | 43% | 52% |
| Health | 39% | 59% | 34% | 44% | 42% | 51% | 41% | 46% | 58% |
| Other Community | 51% | 47% | 46% | 40% | 48% | 47% | 44% | 50% | 58% |
| All Permanent non-borrowers | 40% | 37% | 33% | 38% | 35% | 44% | 36% | 37% | 47% |
| All excluding PNBs | 47% | 51% | 47% | 47% | 45% | 48% | 48% | 48% | 50% |
| Starts | 76% | 69% | 53% | 67% | 71% | 78% | 66% | 71% | 76% |
| 2-5 years trading | 58% | 55% | 60% | 58% | 52% | 61% | 60% | 53% | 70% |
| 6-9 years | 47% | 50% | 52% | 47% | 39% | 45% | 52% | 55% | 52% |
| 10-15 years | 36% | 43% | 41% | 37% | 38% | 36% | 38% | 41% | 43% |
| More than 15 years | 29% | 30% | 29% | 27% | 24% | 31% | 30% | 31% | 32% |

Q91 (225) All SMEs base size varies by category

11 The future

Whilst the quarterly analysis shows how growth ambitions were affected in the immediate aftermath of the pandemic, the variability in predicted growth quarter on quarter can make trends harder to discern. The table below looks at annual growth plans since 2016.

Back in 2015, 45% of SMEs were planning to grow. This proportion then started to increase gradually, reaching 52% in 2019. The pandemic then knocked ambition back to 37% for 2020 and it has been more variable since, though at levels closer to those pre-pandemic (46% in 2023).

Analysis of the changes 2022 to 2023 by key demographics showed that:

- The increase overall 2022 to 2023 was seen across all size bands but notably for those with 50-249 employees (51% to 58%). Those with 10-49 or 50-249 employees remained more likely than their smaller peers to be expecting to grow (59% and 58% compared to 44% and 51%) but these larger SMEs were not yet as likely to grow as they had typically been pre-pandemic.
- There was little variation by risk rating, with the exception of those with a worse than average rating, who remained more likely to be planning to grow than their peers (up from 49% to 55% and compared to 38-39% for other risk ratings)
- By sector the key increases 2022 to 2023 were in Construction (34% to 44%) and in Manufacturing (41% to 48%). The most likely to be planning to grow in 2023 were those in the Other Community, Health and Property/Business Services sectors (all 49-50%), compared to those in the Hotel & Restaurant sector (down from 40% to 35%, back to 2020 levels).
- PNBs were less likely to be planning to grow (41%) than their peers (49%), but the gap has narrowed somewhat from 12 percentage points in 2022 to 8 in 2023.
- In 2023, younger SMEs were both more likely to be planning to grow than they had been in 2022 (65% to 73%) and also more likely than their peers as growth ambition declined by age to 31% of those trading for more than 15 years.

11 The future

| Objective to grow (any) in next 12 months | | | | | | | | |
|---|------------|------------|------------|------------|------------|------------|------------|------------|
| Over time | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| By date of interview – row percentages | | | | | | | | |
| All SMEs | 43% | 45% | 49% | 52% | 37% | 46% | 42% | 46% |
| 0 emp | 40% | 41% | 46% | 49% | 35% | 45% | 39% | 44% |
| 1-9 emps | 52% | 53% | 55% | 56% | 42% | 51% | 49% | 51% |
| 10-49 emps | 59% | 64% | 64% | 66% | 46% | 56% | 57% | 59% |
| 50-249 emps | 58% | 69% | 79% | 76% | 45% | 47% | 51% | 58% |
| Minimal external risk rating | 39% | 42% | 47% | 53% | 33% | 40% | 35% | 38% |
| Low | 42% | 43% | 43% | 48% | 35% | 38% | 38% | 38% |
| Average | 39% | 41% | 43% | 44% | 34% | 44% | 36% | 39% |
| Worse than average | 49% | 49% | 54% | 59% | 42% | 53% | 49% | 55% |
| Agriculture | 34% | 35% | 40% | 46% | 33% | 39% | 30% | 32% |
| Manufacturing | 43% | 44% | 56% | 52% | 37% | 50% | 41% | 48% |
| Construction | 35% | 35% | 39% | 44% | 31% | 38% | 34% | 44% |
| Wholesale/Retail | 51% | 51% | 55% | 61% | 45% | 48% | 44% | 46% |
| Hotels & Restaurants | 48% | 47% | 48% | 53% | 35% | 43% | 40% | 35% |
| Transport | 43% | 44% | 45% | 48% | 30% | 43% | 39% | 43% |
| Property/ Business Services | 46% | 48% | 53% | 52% | 41% | 51% | 48% | 49% |
| Health | 41% | 46% | 53% | 62% | 41% | 47% | 45% | 49% |
| Other | 47% | 48% | 49% | 51% | 40% | 50% | 45% | 50% |
| PNBs | 36% | 37% | 41% | 40% | 34% | 42% | 36% | 41% |
| All excl PNBs | 50% | 52% | 56% | 60% | 39% | 49% | 48% | 49% |
| Starts | 61% | 63% | 71% | 80% | 52% | 70% | 65% | 73% |
| 2-5 years trading | 51% | 56% | 63% | 63% | 48% | 60% | 56% | 62% |
| 6-9 years | 41% | 43% | 48% | 52% | 42% | 49% | 47% | 51% |
| 10-15 years | 41% | 41% | 43% | 45% | 33% | 41% | 40% | 40% |
| More than 15 years | 31% | 33% | 33% | 34% | 26% | 33% | 28% | 31% |

Q91 (225) All SMEs

Future innovation and growth

The extension of the future innovation question from Q2 2023 allows for additional analysis of those SMEs that are both planning to grow and plan to be innovative. Q2 to Q4 2023, 24% of SMEs met this definition, two thirds of whom (69%) has also been innovative in the past.

Given the focus on growth in the economy, this group has been analysed to see what type of SME is both planning to grow and to innovate in the coming year, on the basis that innovation will be a key contributor to growth. Details of those group of 'ambitious innovators' are provided below to help interested parties understand this potentially important group better.

Half of 'ambitious innovators' (48%) had 0-9 employees and had been trading for up to 5 years (v 29% of SMEs overall Q2-Q4 2023) and so will face the challenges associated with smaller and younger SMEs reported elsewhere.

More detailed analysis showed that:

- Most of them were small: 72% had 0 employees, slightly lower than for SMEs overall (76%).
- 1 in 3 were a Start-up: 33% had been trading for up to 2 years (v 20% overall), while 40% had been trading for more than 10 years (v 61% overall).
- They were more likely to have a worse than average risk rating: This will also be age/size related, but 52% had a worse than average risk rating (v 43% overall).
- They were slightly less likely to have made a profit, though most had: 74% v 78% of all SMEs made a profit.
- But as likely to hold £10k+ of credit balances (34% v 36% overall)
- As likely to be led by a woman (27% v 25% overall) and more likely to be led by someone from an ethnic minority (14% v 9% overall).
- Slightly more likely to be trading internationally (26% v 20% overall).

In terms of their business performance they were:

- More concerned about both the economic climate (37% v 33% overall) and increasing costs (45% v 38% overall).
- Slightly more likely to be in a good mood about their business (62% v 59% overall) and to feel the future offers opportunities (34% v 31% overall).
- And significantly more likely to be an Ambitious risk taker (51% v 27% overall).

11 The future

In terms of finance:

- They were more likely to be using external finance: 57% were using any form of external finance (v 48% overall), but there was no difference in the proportion repaying government backed pandemic finance (19% v 20% overall).
- They were more likely to have appetite for (more) finance: 18% planned to apply for finance (v 9% overall) and 23% expected to be a Future would-be seeker (v 21% overall).
- They were though slightly more likely to see access to finance as a future barrier (11% v 8% overall) and to feel that it could be difficult for them to get finance (40% v 36% overall).

It is worth noting that, compared to their peers with 10-249 employees, the smaller SMEs within this group of 'ambitious innovators' were:

- Less likely to have made a profit (73% v 89% of larger SMEs in this group) or to hold £10k or more of credit balances (34% v 87%)
- Less likely to be in a 'good' mood about their business (60% v 80%)
- More likely to have a worse than average risk rating (55% v 6%)
- More likely to be concerned about the economic climate (38% v 28%) and/or increasing costs (45% v 36%)
- But just as likely, attitudinally, to be an Ambitious risk taker (51% v 52%)

In terms of their plans for finance, smaller 'Ambitious innovators' were:

- Less likely to be currently using finance (56% v 72% of those in this group with 10-249 employees), or to be repaying government backed finance (19% v 30%).
- They were though slightly more likely to be planning to apply for finance (19% v 13%).
- However, they were also more likely to think it could be difficult for them to get finance (41% v 22%).

This is the first time this combined analysis has been available, and it will be updated and refined in future reports.

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:

- Two changes were made for Q1 2017: ‘Changes in the value of sterling’ replaced ‘The quality of management and leadership in the business’ and the existing code ‘Legislation and regulation’ was extended to include ‘red tape’.
- In Q2 2020 a new barrier was added ‘The impact of the coronavirus pandemic’ which was included until the end of 2022 before being deleted from Q1 2023
- In Q4 2021, two new statements were added to reflect changes in trading conditions, namely “Supply chain issues” and “Increasing costs” and have been added to this chapter.
- In 2022, the metric ‘Availability of relevant advice’ was deleted.

The new metric ‘Increasing costs’ has been the key barrier to SMEs since its introduction in Q4 2021, while the ‘Impact of Covid’ barrier was initially significant but then declined in importance during 2021 and 2022, prior to being deleted.

From Q1 2021, SMEs have also been asked about the impact on their business of the new trading arrangements with the EU and this is reported at the end of this Barriers section.

Obstacles in Q4 23

The analysis below looks in detail at the barriers perceived in Q4 2023, by size of SME and ranked in order of mean score:

| Extent of obstacles in next 12 months | | | | | |
|--|-------------|------------|-------------|-------------|-------------|
| Q4 23 – all SMEs | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
| Unweighted base: | 4595 | 996 | 1942 | 1097 | 560 |
| Increasing costs | 6.0 | 5.9 | 6.5 | 6.3 | 5.9 |
| - 8-10 major obstacle | 36% | 34% | 42% | 36% | 31% |
| - 5-7 moderate obstacle | 36% | 35% | 35% | 43% | 43% |
| - 1-4 minor obstacle | 28% | 29% | 22% | 21% | 25% |
| The current economic climate | 5.7 | 5.6 | 6.0 | 5.7 | 5.1 |
| - 8-10 major obstacle | 32% | 32% | 35% | 26% | 19% |
| - 5-7 moderate obstacle | 35% | 34% | 36% | 44% | 47% |
| - 1-4 minor obstacle | 32% | 33% | 26% | 29% | 33% |
| Political uncertainty/future govt policy | 4.8 | 4.7 | 5.2 | 4.7 | 4.2 |
| - 8-10 major obstacle | 24% | 24% | 25% | 19% | 12% |
| - 5-7 moderate obstacle | 29% | 27% | 35% | 37% | 41% |
| - 1-4 minor obstacle | 42% | 44% | 35% | 41% | 46% |
| Legislation, regulation, red tape | 4.6 | 4.5 | 4.8 | 5.0 | 4.3 |
| - 8-10 major obstacle | 23% | 23% | 24% | 22% | 13% |
| - 5-7 moderate obstacle | 26% | 24% | 32% | 36% | 40% |
| - 1-4 minor obstacle | 48% | 50% | 42% | 39% | 44% |
| Cash flow/issues with late payment | 3.7 | 3.6 | 4.0 | 4.1 | 3.3 |
| - 8-10 major obstacle | 15% | 15% | 15% | 15% | 9% |
| - 5-7 moderate obstacle | 22% | 21% | 26% | 29% | 22% |
| - 1-4 minor obstacle | 61% | 63% | 57% | 55% | 68% |
| Supply chain issues | 3.4 | 3.2 | 3.8 | 4.0 | 3.7 |
| - 8-10 major obstacle | 12% | 12% | 13% | 12% | 11% |
| - 5-7 moderate obstacle | 21% | 19% | 26% | 30% | 28% |
| - 1-4 minor obstacle | 65% | 67% | 59% | 56% | 60% |

Continued

11 The future

Continued

| | | | | | |
|----------------------------------|-----|-----|-----|-----|-----|
| Changes in the value of sterling | 3.3 | 3.2 | 3.6 | 3.5 | 3.3 |
| - 8-10 major obstacle | 11% | 10% | 12% | 10% | 7% |
| - 5-7 moderate obstacle | 21% | 20% | 25% | 27% | 29% |
| - 1-4 minor obstacle | 64% | 65% | 59% | 61% | 62% |
| Recruiting/retaining staff | 2.8 | 2.4 | 4.0 | 5.0 | 4.5 |
| - 8-10 major obstacle | 11% | 8% | 18% | 25% | 19% |
| - 5-7 moderate obstacle | 14% | 11% | 23% | 31% | 34% |
| - 1-4 minor obstacle | 72% | 78% | 56% | 43% | 46% |
| Access to external finance | 2.7 | 2.6 | 3.0 | 2.9 | 2.2 |
| - 8-10 major obstacle | 8% | 7% | 10% | 7% | 4% |
| - 5-7 moderate obstacle | 16% | 15% | 17% | 18% | 11% |
| - 1-4 minor obstacle | 72% | 73% | 69% | 71% | 82% |

The changes in the impact of these barriers over time is reported later in this chapter.

Obstacles to running the business – by key demographics

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, ranked for Q4 2023. This shows the continued impact of increasing costs as a barrier:

| Extent of obstacles in next 12 months | | | | | |
|---|-------------|------------|-------------|---------------|----------------|
| Q4 23– all SMEs 8-10 impact score | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
| Unweighted base: | 4595 | 996 | 1942 | 1097 | 560 |
| Increasing costs | 36% | 34% | 42% | 36% | 31% |
| The current economic climate | 32% | 32% | 35% | 26% | 19% |
| Political uncertainty/future govt policy | 24% | 24% | 25% | 19% | 12% |
| Legislation, regulation and red tape | 23% | 23% | 24% | 22% | 13% |
| Cash flow/issues with late payment | 15% | 15% | 15% | 15% | 9% |
| Supply chain issues | 12% | 12% | 13% | 12% | 11% |
| Changes to value of sterling | 11% | 10% | 12% | 10% | 7% |
| Recruiting/retaining staff | 11% | 8% | 18% | 25% | 19% |
| Access to external finance | 8% | 7% | 10% | 7% | 4% |
| Any of top 3 (Costs, economy, political uncertainty) | 51% | 50% | 55% | 47% | 37% |

Q93 (227a) All SMEs

The top 2 major obstacles (increased costs and the current economic climate) were the top issues for all sizes of SME, but the economic climate was somewhat less likely to be seen as an 8-10 barrier by those with 50-249 employees (19%) than by their peers (26-35%).

51% of SMEs nominated one or more of the 3 key challenges – increased costs, the economic climate and/or political uncertainty. This was slightly more likely to be the case for smaller SMEs, notably those with 1-9 employees (55%), than for those with 10-49 or 50-249 employees (47% and 37%) .

11 The future

Analysis by risk rating showed that:

- Those with a worse than average risk rating were somewhat more likely than their peers to be concerned about increasing costs (39%) and/or the economic climate (37%) with 55% concerned about one of the top 3 barriers. They were also more concerned than their peers about cash flow/late payment (20%) and access to finance (11%).
- It was those with an average risk rating that were somewhat less likely to be concerned about any of the top 3 factors (41%).

| Extent of obstacles in next 12 months | | | | | |
|--|-------------|------------|-------------|-------------|---------------|
| Q4 23 – all SMEs 8-10 impact score | Total | Min | Low | Avg | Worse/ Avg |
| Unweighted base: | 4595 | 830 | 1199 | 1264 | 956 |
| Increasing costs | 36% | 34% | 36% | 29% | 39% |
| The current economic climate | 32% | 31% | 31% | 24% | 37% |
| Political uncertainty/future govt policy | 24% | 30% | 24% | 20% | 26% |
| Legislation, regulation and red tape | 23% | 26% | 24% | 20% | 25% |
| Cash flow/issues with late payment | 15% | 13% | 12% | 12% | 20% |
| Supply chain issues | 12% | 10% | 13% | 11% | 12% |
| Changes to value of sterling | 11% | 8% | 10% | 8% | 14% |
| Recruiting/retaining staff | 11% | 15% | 14% | 9% | 12% |
| Access to external finance | 8% | 5% | 5% | 5% | 11% |
| Any of top 3 | 51% | 53% | 49% | 41% | 55% |

Q93 (227a) All SMEs where risk rating known

11 The future

Analysis by age of business showed that:

- Starts were slightly more concerned than their peers about the current economic climate (39%) and legislation & regulation (30%) and these were as/more important to them than increasing costs (33%), which was the top barrier for other SMEs.
- The oldest SMEs were somewhat less likely to see these as barriers (48% cited any of the top 3), with increasing costs their top barrier (34%).
- It was often those trading for 2-5 years who were the most likely to see barriers (55% cited any of the top 3) notably increasing costs (43%), cashflow (21%), recruiting and retaining staff (17%) and access to finance (15%).

| Extent of obstacles in next 12 months | | | | | |
|--|------------|------------|------------|--------------|-------------|
| Q4 23 – all SMEs 8-10 impact score | Starts | 2-5 yrs | 6-9 yrs | 10-15 yrs | 15 yrs+ |
| Unweighted base: | 147 | 387 | 454 | 814 | 2793 |
| Increasing costs | 33% | 43% | 40% | 38% | 34% |
| The current economic climate | 39% | 34% | 32% | 34% | 28% |
| Political uncertainty/future govt policy | 23% | 26% | 24% | 24% | 24% |
| Legislation, regulation and red tape | 30% | 27% | 16% | 21% | 22% |
| Cash flow/issues with late payment | 17% | 21% | 15% | 18% | 12% |
| Supply chain issues | 13% | 15% | 13% | 12% | 11% |
| Changes to value of sterling | 13% | 10% | 10% | 13% | 9% |
| Recruiting/retaining staff | 11% | 17% | 12% | 9% | 10% |
| Access to external finance | 12% | 15% | 6% | 6% | 5% |
| Any of top 3 | 51% | 55% | 55% | 52% | 48% |

Q93 (227a) All SMEs

11 The future

In Q4 2023 those with plans to grow were typically as likely as those with no such plans to see these as barriers (with 52% mentioning any of the top 3, compared to 49% of those with no plans to grow). The exceptions were cash flow and staff which those with plans to grow remained somewhat more likely to mention as barriers.

Those who met the definition of a Permanent non-borrower were somewhat less likely to see any of these as barriers (41% mentioned any of the top 3), compared to those using finance (57% mentioned any of the top 3), with the economic climate seen as a particular challenge for this latter group (43%):

| Extent of obstacles in next 12 months | | | | | |
|--|-------------|-----------------|---------------------|-------------|------------------|
| Q4 23 – all SMEs 8-10 impact score | Total | Plan to grow | No plans to grow | PNB | Using finance |
| Unweighted base: | 4595 | 2252 | 2343 | 1158 | 2796 |
| Increasing costs | 36% | 36% | 35% | 27% | 43% |
| The current economic climate | 32% | 32% | 32% | 24% | 37% |
| Political uncertainty/future govt policy | 24% | 23% | 25% | 18% | 29% |
| Legislation, regulation and red tape | 23% | 23% | 23% | 18% | 26% |
| Cash flow/issues with late payment | 15% | 19% | 11% | 10% | 20% |
| Supply chain issues | 12% | 13% | 11% | 12% | 13% |
| Changes to value of sterling | 11% | 13% | 9% | 9% | 13% |
| Recruiting/retaining staff | 11% | 14% | 8% | 8% | 14% |
| Access to external finance | 8% | 10% | 5% | 5% | 11% |
| Any of top 3 | 51% | 52% | 49% | 41% | 57% |

Q93 (227a) All SMEs

11 The future

Compared to those expecting to be Future happy non-seekers of finance, those with any appetite to apply for new/renewed facilities in the next three months were much more likely to see each of these issues as major obstacles, notably the top 3 issues (64% any top 3 issue v 45% of Future happy non-seekers).

The Future happy non-seeker category shown below 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 adjusted Future happy non-seeker definition in the final column below, resulting in a slight increase in most individual scores and in the “Top 3” score from 45% to 48%:

| Extent of obstacles in next 12 months | | | | |
|--|-------------|--------------------------|---------------|-------------------------|
| Q4 23 – all SMEs 8-10 impact score | Total | Plan to apply or FWBS | Future HNS | Future HNS excl. PNB |
| Unweighted base: | 4595 | 1315 | 3280 | 2122 |
| Increasing costs | 36% | 47% | 31% | 35% |
| The current economic climate | 32% | 44% | 27% | 30% |
| Political uncertainty/future govt policy | 24% | 37% | 18% | 19% |
| Legislation, regulation and red tape | 23% | 31% | 20% | 22% |
| Cash flow/issues with late payment | 15% | 24% | 11% | 13% |
| Supply chain issues | 12% | 15% | 11% | 9% |
| Changes to value of sterling | 11% | 16% | 9% | 9% |
| Recruiting/retaining staff | 11% | 15% | 9% | 10% |
| Access to external finance | 8% | 15% | 5% | 5% |
| Any of top 3 | 51% | 64% | 45% | 48% |

Q93 (227a) All SMEs

11 The future

Analysis by sector showed some clear differences:

- Previous reports have highlighted how the Hotel & Restaurant and Transport sectors were particularly badly affected by the pandemic and these two sectors remained more likely to cite any of the Top 3 as a barrier (61% and 63%), and notably increasing costs (54% and 50%), compared to 29% in Health.
- For some sectors, the current economic climate was perceived as more of a barrier than increasing costs, including Manufacturing, Wholesale/Retail and Health. Costs and the economy were though the top 2 barriers for all sectors except Agriculture and Transport (where 38% and 34% cited legislation/regulation)
- Those in Property/Business Services and Health were somewhat less likely than their peers to nominate any of the top 3 as major barriers (44% and 41%)

Extent of obstacles in next 12 months

| Q4 23 – all SMEs 8-10 impact scores | Agric | Mfg | Constr | Whle Retail | Hotel Rest | Trans | Prop/ Bus | Hlth SWrk | Other Comm |
|--|------------|------------|------------|----------------|---------------|------------|--------------|--------------|---------------|
| Unweighted base: | 324 | 402 | 892 | 553 | 355 | 519 | 758 | 335 | 457 |
| Increasing costs | 42% | 31% | 36% | 37% | 54% | 50% | 30% | 29% | 32% |
| Economic climate | 28% | 37% | 28% | 41% | 41% | 34% | 30% | 34% | 29% |
| Political uncertainty | 21% | 23% | 23% | 23% | 27% | 32% | 22% | 27% | 23% |
| Legislation etc | 38% | 30% | 20% | 22% | 23% | 34% | 22% | 28% | 13% |
| Cash flow/ late pyt | 10% | 20% | 15% | 16% | 9% | 22% | 11% | 14% | 19% |
| Supply chain issues | 9% | 17% | 11% | 16% | 13% | 16% | 6% | 23% | 13% |
| Changes to sterling | 10% | 14% | 7% | 16% | 10% | 15% | 8% | 8% | 14% |
| Staff issues | 10% | 9% | 11% | 11% | 14% | 12% | 9% | 20% | 8% |
| Access to finance | 5% | 5% | 7% | 11% | 13% | 12% | 5% | 12% | 7% |
| Any of top 3 | 57% | 57% | 49% | 54% | 61% | 63% | 44% | 41% | 51% |

Q93 (227a) All SMEs

Obstacles to running the business – over time

The summary tables below show the proportion of SMEs that rated each factor a major obstacle, firstly across the most recent nine quarters of the Monitor, and then on a longer term basis across the last 8 years.

The first table shows:

- The immediate and sustained impact of increasing costs as a barrier from its first appearance in Q4 2021, albeit concern in Q4 2023 was somewhat lower than recently seen.
- The increase in concern around the current economic climate to 35% in Q4 2022 that has been broadly maintained since.
- The increase in the proportion seeing political uncertainty as a barrier in Q4 2022 that has not been maintained (albeit with a slight increase in Q4 2023), with concern around supply chains also ebbing:

| Extent of obstacles in next 12 months | | | | | | | | | |
|---------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| All SMEs over time 8-10 impact score | Q4 21 | Q1 22 | Q2 22 | Q3 22 | Q4 22 | Q1 23 | Q2 23 | Q3 23 | Q4 23 |
| By date of interview | | | | | | | | | |
| Unweighted base: | 4085 | 4250 | 4250 | 4250 | 4252 | 4252 | 4253 | 3910 | 4595 |
| Increasing costs | 34% | 38% | 40% | 37% | 41% | 40% | 39% | 39% | 36% |
| Economic climate | 21% | 27% | 30% | 31% | 35% | 30% | 31% | 35% | 32% |
| Political uncertainty | 21% | 21% | 17% | 21% | 27% | 20% | 21% | 21% | 24% |
| Legislation etc | 21% | 23% | 20% | 18% | 18% | 17% | 21% | 21% | 23% |
| Supply chain issues | 23% | 20% | 19% | 17% | 17% | 16% | 15% | 12% | 12% |
| Changes in sterling | 8% | 10% | 10% | 12% | 16% | 12% | 13% | 12% | 11% |
| Cash flow/ late pay | 13% | 11% | 10% | 12% | 11% | 11% | 12% | 14% | 15% |
| Staff issues | 12% | 9% | 13% | 12% | 10% | 10% | 14% | 12% | 11% |
| Access to finance | 7% | 8% | 6% | 6% | 6% | 7% | 7% | 8% | 8% |

Q93 (227a) All SMEs

11 The future

Taking a longer term view back to 2016 helps to identify changes over time, including the impact of the two latest statements introduced in Q4 2021:

- The proportion seeing the current economic climate as a barrier started to increase from 2016 (to 21% in 2019), before the larger increase caused by the pandemic in 2020, to 36%. In 2021 fewer, 23%, saw it as a barrier, only slightly above the position immediately pre-pandemic, but the proportion has since increased again to 31% for 2022 and 32% in 2023.
- After an initial period of stability, the proportion seeing political uncertainty /future government policy as a barrier increased to 24% in 2019 and 2020 (as the UK negotiated to leave the EU). From 2021, 1 in 5 have seen it as a barrier, in line with 2018.
- The proportion seeing legislation, regulation and red-tape as a barrier was around 1 in 10 until 2017 and from 2018 has been seen as a barrier by 1 in 5 SMEs.
- The proportion of all SMEs seeing recruitment and retention of staff as a barrier increased from 7% in 2020 to 12% in 2023. Analysis amongst existing employers is provided later in this chapter

| Extent of obstacles in next 12 months | | | | | | | | |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Over time – all SMEs 8-10 impact score | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| Unweighted base: | 18,000 | 18,012 | 18,002 | 18,000 | 17,768 | 16,486 | 17,002 | 17,010 |
| Increasing costs | - | - | - | - | - | - | 39% | 38% |
| Economic climate | 12% | 14% | 17% | 21% | 36% | 23% | 31% | 32% |
| Political uncertainty | 10% | 14% | 19% | 24% | 24% | 19% | 21% | 22% |
| Legislation etc | 10% | 15% | 19% | 19% | 21% | 21% | 20% | 20% |
| Supply chain issues | - | - | - | - | - | - | 18% | 14% |
| Changes in sterling | - | 11% | 12% | 14% | 9% | 9% | 12% | 12% |
| Cash flow/late pay | 7% | 9% | 13% | 13% | 15% | 12% | 11% | 13% |
| Staff issues | 6% | 6% | 7% | 8% | 7% | 10% | 11% | 12% |
| Access to finance | 5% | 5% | 5% | 7% | 8% | 8% | 7% | 7% |

Q93 (227a) All SMEs

All these barriers have been mentioned more by SMEs since the pandemic, notably the current top 4 (costs, economic climate, political uncertainty and legislation/red tape) with a 'gap' opening up between mentions of these (by at least 1 in 5 of SMEs) and the other barriers.

11 The future

Another longer term view back to 2016 is provided below, this time excluding the Permanent non-borrowers. This typically increased the 8-10 impact scores for individual measures by 3 percentage points or so:

| Extent of obstacles in next 12 months | | | | | | | | |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Over time – all SMEs excl PNBs 8-10 impact score | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| Unweighted base: | 11,634 | 11,940 | 11,294 | 12,147 | 12,010 | 10,774 | 10,034 | 12,252 |
| Increasing costs | - | - | - | - | - | - | 46% | 43% |
| Current economic climate | 15% | 17% | 21% | 25% | 41% | 27% | 37% | 36% |
| Political uncertainty | 13% | 17% | 22% | 28% | 28% | 21% | 26% | 24% |
| Legislation etc | 12% | 18% | 22% | 22% | 25% | 24% | 24% | 22% |
| Supply chain issues | - | - | - | - | - | - | 21% | 14% |
| Changes in sterling | - | 16% | 16% | 18% | 10% | 11% | 15% | 13% |
| Cash flow/late pyt | 9% | 14% | 20% | 19% | 19% | 15% | 15% | 16% |
| Staff issues | 7% | 9% | 9% | 10% | 8% | 12% | 16% | 14% |
| Access to finance | 8% | 7% | 8% | 10% | 12% | 11% | 10% | 10% |

Q93 (227a) All SMEs excluding PNBs

Given the current economic situation, with a General Election due at some stage in the coming months, the tables below provide a snapshot over time for the barriers of the current economic climate and Political uncertainty/ government policy, including by quarter for 2023.

More in depth analysis is then provided for four barriers with particular resonance for this report, including access to finance.

11 The future

Overall, the proportion of SMEs seeing the current economic climate as a barrier increased slightly to 2019, followed by a larger increase due to Covid in 2020, across all size bands. Levels of concern were lower in 2021, notably for the largest SMEs, but increased again in 2022, especially for smaller SMEs, though not yet back to pandemic levels. By the end of 2023, those with 1-9 employees were the most concerned about the economic climate (35%), not far short of their levels of concern in 2020 (37%):

| The current economic climate | | | | | | | | | | |
|------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| 8-10 impact score | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
| Row percentages | | | | | | | | | | |
| All SMEs | 14% | 17% | 21% | 36% | 23% | 31% | 30% | 31% | 35% | 32% |
| 0 employees | 13% | 17% | 20% | 36% | 23% | 31% | 30% | 31% | 36% | 32% |
| 1-9 employees | 16% | 18% | 22% | 37% | 24% | 32% | 31% | 31% | 34% | 35% |
| 10-49 employees | 14% | 16% | 20% | 34% | 21% | 27% | 24% | 25% | 27% | 26% |
| 50-249 employees | 13% | 13% | 25% | 29% | 13% | 18% | 18% | 17% | 20% | 19% |

Q93 (227a) All SMEs

Political uncertainty became somewhat more of a barrier to 2019, across all size bands. There was no change in 2020 (24%) and since then around 1 in 5 have seen this as a barrier, albeit with a slight increase in Q4 2023 to 24%, due to more of the smallest SMEs seeing this as a barrier:

| Political uncertainty | | | | | | | | | | |
|-----------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| 8-10 impact score | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
| Row percentages | | | | | | | | | | |
| All SMEs | 14% | 19% | 24% | 24% | 21% | 21% | 20% | 21% | 21% | 24% |
| 0 employees | 13% | 18% | 23% | 24% | 21% | 21% | 20% | 21% | 20% | 24% |
| 1-9 employees | 17% | 21% | 27% | 25% | 18% | 22% | 20% | 21% | 24% | 25% |
| 10-49 employees | 15% | 18% | 26% | 22% | 20% | 17% | 15% | 17% | 17% | 19% |
| 50-249 employees | 14% | 13% | 31% | 19% | 12% | 10% | 10% | 11% | 11% | 12% |

Q93 (227a) All SMEs

Detailed analysis of 4 key barriers

This section provides more detailed analysis over time of four key metrics:

- The current economic climate - an important bell weather for SMEs
- Access to finance -the key focus of this study
- Recruiting and retaining staff – an increasing barrier for employers
- Increasing costs – analysed alongside the impact increased costs has already had

The current economic climate

The table below shows the recent ‘peak’ on the current economic climate as a barrier, reaching 36% in 2020. It declined as a barrier in 2021, to 23%, but was back at 3 in 10 for 2022 and 2023 (32% in 2023), almost back to the pandemic peak.

- The ‘gap’ between 2020 and 2023 was narrower for those with 0 or 1-9 employees (3-4 percentage points below 2020) than for larger SMEs (8-10 percentage points below).
- All risk ratings were less likely to see the economic climate as a barrier in 2023 compared to 2020, but by only 2 percentage points for those with a minimal risk rating, compared to 7 percentage points for those with an average risk rating.
- Those in Agriculture and Wholesale/Retail were as likely to see the economic climate as a barrier in 2023 as they had been back in 2020, whereas there was a still a ‘gap’ of 6-8 percentage points for those in Health, Manufacturing, Transport and Property/Business Services.
- There is a mixed picture by age of SME – Starts were much less likely to see the economic climate as a barrier in 2023 than in 2020, as to a lesser extent were those trading for more than 10 years. Those trading for 2-5 or 6-9 years were somewhat more likely to see the economic climate as a barrier in 2023 than in 2020.
- Both PNBs and those who don’t meet the definition were less likely to see the economic climate as a barrier in 2023 than in 2020.

11 The future

| Current economic climate 8-10 | | | | | | |
|---------------------------------|------------|------------|------------|------------|------------|------------|
| Over time - row percentages | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| All SMEs | 17% | 21% | 36% | 23% | 31% | 32% |
| 0 employee | 17% | 20% | 36% | 23% | 31% | 32% |
| 1-9 employees | 18% | 22% | 37% | 24% | 32% | 33% |
| 10-49 employees | 16% | 20% | 34% | 21% | 27% | 26% |
| 50-249 employees | 13% | 25% | 29% | 13% | 18% | 19% |
| Minimal external risk rating | 17% | 12% | 31% | 21% | 26% | 29% |
| Low external risk rating | 17% | 22% | 34% | 22% | 30% | 30% |
| Average external risk rating | 16% | 19% | 36% | 23% | 29% | 29% |
| Worse than average risk rating | 18% | 21% | 38% | 24% | 33% | 34% |
| Agriculture | 17% | 19% | 27% | 21% | 33% | 28% |
| Manufacturing | 20% | 23% | 36% | 20% | 34% | 29% |
| Construction | 15% | 19% | 32% | 17% | 30% | 29% |
| Wholesale/Retail | 21% | 24% | 36% | 25% | 36% | 37% |
| Hotels & Restaurants | 18% | 23% | 44% | 28% | 37% | 42% |
| Transport | 13% | 22% | 38% | 32% | 33% | 32% |
| Property/Business Services etc. | 19% | 18% | 37% | 21% | 26% | 31% |
| Health | 14% | 23% | 40% | 26% | 31% | 32% |
| Other Community | 20% | 22% | 37% | 24% | 33% | 33% |
| PNBs | 13% | 15% | 28% | 17% | 24% | 24% |
| All excl PNBs | 21% | 25% | 41% | 27% | 37% | 36% |
| Starts | 19% | 27% | 42% | 25% | 30% | 34% |
| 2-5 years trading | 18% | 18% | 33% | 23% | 37% | 36% |
| 6-9 years | 19% | 18% | 36% | 23% | 32% | 40% |
| 10-15 years | 17% | 20% | 36% | 25% | 31% | 32% |
| 15+ years | 16% | 19% | 34% | 21% | 29% | 29% |

Q93 (227a) All SMEs

Access to finance

Access to finance is the key theme of this report but an issue that has been less likely than others to be rated a barrier by SMEs (5-8% annually since 2015):

| Access to finance 8-10 | | | | | | |
|---------------------------------|------|------|------|------|------|------|
| Over time – row percentages | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| 0 employee | 5% | 7% | 9% | 9% | 7% | 7% |
| 1-9 employees | 6% | 6% | 8% | 7% | 7% | 8% |
| 10-49 employees | 5% | 5% | 6% | 5% | 5% | 5% |
| 50-249 employees | 4% | 9% | 5% | 4% | 3% | 4% |
| Minimal external risk rating | 3% | 4% | 5% | 4% | 3% | 5% |
| Low external risk rating | 5% | 6% | 6% | 5% | 4% | 5% |
| Average external risk rating | 5% | 6% | 7% | 7% | 6% | 6% |
| Worse than average risk rating | 6% | 8% | 10% | 11% | 8% | 9% |
| Agriculture | 4% | 8% | 6% | 7% | 6% | 6% |
| Manufacturing | 6% | 5% | 9% | 7% | 8% | 6% |
| Construction | 5% | 8% | 9% | 6% | 7% | 8% |
| Wholesale/Retail | 5% | 6% | 10% | 10% | 8% | 11% |
| Hotels & Restaurants | 7% | 6% | 10% | 7% | 7% | 10% |
| Transport | 6% | 8% | 12% | 12% | 8% | 9% |
| Property/Business Services etc. | 4% | 5% | 6% | 7% | 5% | 6% |
| Health | 4% | 10% | 7% | 8% | 8% | 6% |
| Other Community | 7% | 7% | 9% | 10% | 7% | 8% |
| PNBs | 2% | 2% | 3% | 3% | 2% | 4% |
| All excl PNBs | 8% | 10% | 12% | 11% | 10% | 10% |
| Starts | 9% | 14% | 11% | 15% | 10% | 11% |
| 2-5 years trading | 6% | 8% | 10% | 11% | 10% | 13% |
| 6-9 years | 5% | 4% | 8% | 8% | 8% | 8% |
| 10-15 years | 3% | 5% | 6% | 8% | 6% | 6% |
| 15+ years | 4% | 4% | 7% | 5% | 5% | 5% |

Q93 (227a) All SMEs

11 The future

The table shows those in Wholesale/Retail, Hotels & Restaurants and younger SMEs were the most likely to be concerned about access to finance and all at higher levels than previously seen.

Amongst those now using more finance than pre-pandemic, 16% saw access to finance as a barrier in both 2023, compared to 7-8% of those using the same amount of finance as before.

Recruitment and retention of staff (SME employers)

Moving on to the third barrier, the table below shows that the proportion of SME employers seeing 'recruiting and retaining staff' as a barrier changed very little up until 2021 (to 18%), with a further slight increase in 2022 and stable in 2023 (20%). 1 in 5 employers now cite this as a barrier, increasing to around a quarter of those with 10-49 employees and those in Health.

Compared to employers in 2020, all groups in 2023 were more likely to see staff recruitment and retention as an issue, notably those with 10-49 employees, those with a minimal risk rating, those in Construction or Health and Starts.

Analysis earlier in this report showed that 1 in 5 employers (21%) were currently struggling to hire the staff they need. Across that question and this one, 31% of employers were either already struggling to recruit and/or saw recruitment and retention as an 8-10 barrier, and this was more likely to be the case for those with 10-49 employees (43%).

11 The future

| Staff issues 8-10 (employers) | | | | | | |
|---------------------------------|------------|------------|------------|------------|------------|------------|
| Over time - Row percentages | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| All employers | 12% | 12% | 11% | 18% | 21% | 20% |
| 1-9 employees | 11% | 12% | 11% | 17% | 19% | 19% |
| 10-49 employees | 15% | 15% | 14% | 23% | 30% | 26% |
| 50-249 employees | 10% | 12% | 12% | 15% | 22% | 17% |
| Minimal external risk rating | 12% | 13% | 10% | 19% | 24% | 21% |
| Low external risk rating | 13% | 13% | 13% | 19% | 23% | 21% |
| Average external risk rating | 11% | 11% | 12% | 17% | 19% | 19% |
| Worse than average risk rating | 11% | 11% | 10% | 18% | 18% | 19% |
| Agriculture | 10% | 15% | 13% | 19% | 19% | 20% |
| Manufacturing | 14% | 13% | 9% | 17% | 22% | 17% |
| Construction | 14% | 13% | 13% | 23% | 26% | 23% |
| Wholesale/Retail | 9% | 11% | 11% | 15% | 15% | 18% |
| Hotels & Restaurants | 14% | 15% | 14% | 26% | 25% | 23% |
| Transport | 12% | 11% | 12% | 19% | 21% | 20% |
| Property/Business Services etc. | 12% | 11% | 10% | 15% | 19% | 19% |
| Health | 11% | 15% | 14% | 22% | 29% | 28% |
| Other Community | 11% | 15% | 12% | 16% | 20% | 19% |
| PNBs | 9% | 10% | 8% | 14% | 14% | 14% |
| All excl PNBs | 14% | 14% | 13% | 20% | 25% | 22% |
| Starts | 10% | 10% | 9% | 21% | 17% | 20% |
| 2-5 years trading | 12% | 13% | 13% | 20% | 23% | 22% |
| 6-9 years | 13% | 13% | 12% | 18% | 23% | 21% |
| 10-15 years | 11% | 13% | 11% | 19% | 21% | 20% |
| 15+ years | 12% | 12% | 12% | 17% | 21% | 19% |

Q93 (227a) All SMEs with employees

The impact of increasing costs (current and future)

As reported above, ‘increasing costs’ has been a major barrier for SMEs since it was first included in Q4 2021:

| Increasing costs 8-10 | | | |
|---------------------------------|------------|------------|------------|
| Row percentages | Q4 2021 | 2022 | 2023 |
| All SMEs | 34% | 39% | 38% |
| 0 employee | 33% | 37% | 38% |
| 1-9 employees | 36% | 45% | 42% |
| 10-49 employees | 39% | 44% | 37% |
| 50-249 employees | 26% | 38% | 30% |
| Minimal external risk rating | 37% | 37% | 36% |
| Low external risk rating | 32% | 39% | 36% |
| Average external risk rating | 31% | 38% | 33% |
| Worse than average risk rating | 35% | 41% | 42% |
| Agriculture | 46% | 51% | 44% |
| Manufacturing | 35% | 48% | 37% |
| Construction | 37% | 44% | 41% |
| Wholesale/Retail | 40% | 47% | 39% |
| Hotels & Restaurants | 46% | 59% | 57% |
| Transport | 49% | 49% | 45% |
| Property/Business Services etc. | 22% | 27% | 30% |
| Health | 29% | 30% | 32% |
| Other Community | 30% | 32% | 43% |
| PNBs | 27% | 31% | 29% |
| All excl PNBs | 40% | 46% | 43% |
| Starts | 38% | 38% | 41% |
| 2-5 years trading | 38% | 40% | 44% |
| 6-9 years | 37% | 40% | 42% |
| 10-15 years | 30% | 40% | 39% |
| 15+ years | 32% | 39% | 35% |

Q93 (227a) All SMEs

11 The future

While the overall proportion seeing increasing costs as a barrier is little changed 2022 to 2023, there have been some changes by sub-group, with larger SMEs, those in Agriculture, Manufacturing and Wholesale/Retail somewhat less likely to see costs as a barrier in 2023, but with an increase in levels of concern amongst those in the Other Community sector and those trading for 2-5 years. PNBs remained less likely to see this as a barrier than their peers.

A second question asked SMEs how recent cost increases had already impacted them, if at all, with most SMEs having already been impacted:

- three-quarters had been significantly (41%) or somewhat (35%) impacted while a quarter (24%) were not at all impacted.
- Analysis by size showed that those with 1-9 employees were more likely to have been significantly impacted:

| Impact of recent cost increases | | | | | |
|---------------------------------|-------------|------------|-------------|-------------|-------------|
| Q4 23– all SMEs | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
| Unweighted base: | 4595 | 996 | 1942 | 1097 | 560 |
| Significantly impacted | 41% | 40% | 46% | 44% | 43% |
| Somewhat impacted | 35% | 35% | 36% | 43% | 42% |
| Not really impacted at all | 24% | 25% | 18% | 13% | 15% |
| Impacted to some extent | 76% | 75% | 82% | 87% | 85% |

CV3b All SMEs

The table below shows the proportion of SMEs in key groups who have been ‘significantly impacted’ by increasing costs over time. There was an increase from Q4 2021, when this question was first asked (34%), to 41% of SMEs in 2022 being ‘seriously impacted’ with little change in 2023 (42%):

- Those with 1-9 or 10-49 employees were more likely to have been significantly impacted (both 48% in 2023).
- Those in the Hotel & Restaurant sector remained the most likely to have been significantly impacted (62%). Those in Transport and Agriculture were also more likely to have been significantly impacted, although for the latter the figure in 2023 (52%) was somewhat lower than in 2022 (62%). There was also a decline in impact for those in Manufacturing (50% in 2022 to 43% in 2023) and in Construction (49% to 42%).
- All ages of SME have become more likely to have been significantly impacted by increased costs with little to choose between them in 2023.
- In Q4 2021, PNBs were less likely to have been significantly impacted than their peers (25% v 41%) but the gap has narrowed somewhat since (now 34% to 46%).

11 The future

| Significantly impacted | | | |
|---------------------------------|------------|------------|------------|
| Row percentages | Q4 2021 | 2022 | 2023 |
| All SMEs | 34% | 41% | 42% |
| 0 employee | 33% | 38% | 40% |
| 1-9 employees | 37% | 48% | 48% |
| 10-49 employees | 42% | 50% | 48% |
| 50-249 employees | 25% | 46% | 43% |
| Minimal external risk rating | 36% | 44% | 43% |
| Low external risk rating | 37% | 43% | 44% |
| Average external risk rating | 27% | 38% | 37% |
| Worse than average risk rating | 36% | 43% | 43% |
| Agriculture | 49% | 62% | 52% |
| Manufacturing | 39% | 50% | 43% |
| Construction | 45% | 49% | 42% |
| Wholesale/Retail | 42% | 49% | 48% |
| Hotels & Restaurants | 36% | 60% | 62% |
| Transport | 47% | 51% | 51% |
| Property/Business Services etc. | 21% | 27% | 32% |
| Health | 22% | 26% | 33% |
| Other Community | 25% | 32% | 43% |
| PNBs | 25% | 32% | 34% |
| All excl PNBs | 41% | 48% | 46% |
| Starts | 29% | 38% | 41% |
| 2-5 years trading | 38% | 44% | 44% |
| 6-9 years | 30% | 43% | 44% |
| 10-15 years | 33% | 43% | 42% |
| 15+ years | 36% | 40% | 41% |

CV3b All SMEs

11 The future

Taking impact and future impact together showed that:

- Amongst those that had rated 'Increasing costs' as an 8-10 barrier in the section above, 65% said that they had already been significantly impacted by increased costs with just 9% reporting no impact.
- The position was broadly reversed for those who had scored 'Increasing costs' as not much of a barrier (1-4), where 15% said that they had already been significantly impacted and 52% not really impacted at all.

The table below summarises the overall impact of increased costs from Q4 2021 and Q4 2022 by key demographics. It shows the overall impact of either of the following:

- 'Increasing costs' as an 8-10 barrier.
- Having already been 'significantly' impacted by increasing costs.

In Q4 2021, 46% of SMEs were either already significantly impacted by increased costs or saw increasing costs as a major barrier, increasing to 54% in 2022 and 55% in 2023. Those more likely to report an increase between Q4 2021 and 2023 (of 9 percentage points overall) included:

- Those with 50-249 employees (37% to 53%) moving them from below to in line with the average.
- Those in Hotels & Restaurants (57% to 74% and now the most likely to be affected) and the Other Community sector (38% to 60%).
- Starts (46% to 58%) and those trading for 6-9 years (45% to 57%).

11 The future

| Any cost impact | | | |
|---------------------------------|------------|------------|------------|
| Row percentages | Q4 2021 | 2022 | 2023 |
| All SMEs | 46% | 54% | 55% |
| 0 employee | 45% | 51% | 54% |
| 1-9 employees | 51% | 61% | 60% |
| 10-49 employees | 55% | 63% | 59% |
| 50-249 employees | 37% | 58% | 53% |
| Minimal external risk rating | 50% | 56% | 54% |
| Low external risk rating | 45% | 56% | 55% |
| Average external risk rating | 42% | 52% | 49% |
| Worse than average risk rating | 49% | 56% | 59% |
| Agriculture | 63% | 72% | 64% |
| Manufacturing | 50% | 64% | 57% |
| Construction | 54% | 62% | 58% |
| Wholesale/Retail | 54% | 63% | 59% |
| Hotels & Restaurants | 57% | 76% | 74% |
| Transport | 63% | 64% | 63% |
| Property/Business Services etc. | 33% | 40% | 45% |
| Health | 38% | 41% | 44% |
| Other Community | 38% | 45% | 60% |
| PNBs | 37% | 45% | 45% |
| All SMEs excl PNBs | 54% | 64% | 61% |
| Starts | 46% | 50% | 58% |
| 2-5 years trading | 51% | 56% | 60% |
| 6-9 years | 45% | 55% | 57% |
| 10-15 years | 45% | 56% | 55% |
| 15+ years | 47% | 53% | 52% |

Q93 (227a) / CV3a / CV3b All SMEs – significantly impacted or seen as 8-10 future barrier

11 The future

Between Q1 and Q3 2023, those who had been 'significantly impacted' by increasing costs were asked which two from a list of costs had most affected them. As the table below shows, a quarter said that all of those mentioned had affected them equally, with the cost of energy and the cost of stock/business purchases the key individual 'Top 2' mentions:

| Type of costs causing impact | | | | | |
|--|---------------|-------------|-------------|-------------|-------------|
| Q1-Q3 23 all SMEs significantly impacted | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
| Unweighted base: | 10,331 | 1846 | 3652 | 3671 | 1162 |
| Energy costs | 42% | 42% | 40% | 38% | 43% |
| Stock and other business purchases | 40% | 40% | 40% | 38% | 23% |
| Rent, rates and other running costs | 21% | 22% | 16% | 11% | 12% |
| Cost of finance | 5% | 5% | 4% | 3% | 3% |
| All of these equally | 25% | 24% | 28% | 31% | 38% |

CV3d All SMEs significantly impacted by increased costs excl DK

The equivalent of 15% of all SMEs had been significantly affected by increased energy costs (including those who said all the costs affected them equally).

As might be expected there were some clear differences by sector, including energy costs which were cited by twice as many of those significantly affected in the Health sector as in Construction:

| Type of costs causing impact | | | | | | | | | |
|--|------------|-------------|-------------|-------------|------------|-------------|-------------|------------|-------------|
| Q1-Q3 23 all SMEs significantly impacted | Agric | Mfg | Constr | Whle Retail | Hotel Rest | Trans | Prop/ Bus | Hlth SWrk | Other Comm |
| Unweighted base: | 582 | 1219 | 1569 | 1399 | 757 | 1035 | 2189 | 527 | 1054 |
| Energy costs | 45% | 33% | 30% | 42% | 59% | 43% | 43% | 60% | 45% |
| Stock etc | 46% | 48% | 55% | 52% | 35% | 29% | 31% | 26% | 39% |
| Running costs | 14% | 19% | 16% | 19% | 9% | 25% | 22% | 26% | 24% |
| Cost of finance | 6% | 3% | 5% | 3% | 5% | 5% | 5% | 4% | 7% |
| All of these equally | 24% | 31% | 27% | 24% | 28% | 23% | 25% | 18% | 26% |

CV3d All SMEs significantly impacted by increased costs excl DK

11 The future

SMEs with employees had an additional cost category available to them 'Staff costs' and this was a top 2 issue for 16% of employers, increasing to a quarter of those with 10-249 employees and 6 in 10 of larger employers when the 'all equally' answers were added in:

| Type of costs causing impact | | | | |
|---|-------------|-------------|-------------|-------------|
| Q1-Q3 23 all employers significantly impacted | Total | 1-9 emps | 10-49 emps | 50-249 emps |
| Unweighted base: | 8485 | 3652 | 3671 | 1162 |
| Energy costs | 40% | 40% | 38% | 43% |
| Stock and other business purchases | 39% | 40% | 38% | 23% |
| Staff costs | 16% | 14% | 25% | 23% |
| Rent, rates and other running costs | 15% | 16% | 11% | 12% |
| Cost of finance | 4% | 4% | 3% | 3% |
| All of these equally | 28% | 28% | 31% | 38% |

CV3d All SMEs significantly impacted by increased costs excl DK

Staff costs were mentioned more as a Top 2 issue by those in Property/Business Services and Health (both 21%) and Transport (20%). Taking into account the 'all equally' answers, staff costs ranged as an issue from 52% in Health to 39% in Agriculture and Manufacturing.

The impact of the new EU trading arrangements

From Q1 2021 all SMEs have been asked about the impact on running their business of the new trading arrangements in place with the EU following the end of the transition period on the 31st of December 2020.

The table below shows the change in impact scores since Q4 2021 and how during 2023, the overall negative impact score remained broadly stable, ending the year at 33% of SMEs, with 64% reporting no impact and 3% a positive impact:

| Impact on running business | | | | | | | | | |
|------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| All- over time | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| By date of interview | 2021 | 2022 | 2022 | 2022 | 2022 | 2023 | 2023 | 2023 | 2023 |
| Unweighted base: | 4021 | 4171 | 4063 | 4041 | 4050 | 4081 | 4161 | 3823 | 4484 |
| Very positive impact | 1% | * | * | * | * | * | * | * | * |
| Positive impact | 2% | 2% | 2% | 1% | 1% | 2% | 2% | 2% | 3% |
| No impact | 62% | 62% | 66% | 69% | 64% | 62% | 66% | 63% | 64% |
| Negative impact | 25% | 29% | 24% | 24% | 25% | 29% | 26% | 26% | 24% |
| Very negative impact | 9% | 7% | 8% | 6% | 9% | 7% | 7% | 9% | 9% |
| Total positive | 3% | 2% | 2% | 1% | 1% | 2% | 2% | 2% | 3% |
| Total negative | 34% | 35% | 32% | 29% | 35% | 36% | 32% | 35% | 33% |
| Net positive-negative | -31 | -33 | -30 | -28 | -34 | -34 | -30 | -33 | -30 |

Q84c All SMEs excluding DK

The tables below shows the full answers for various demographics for H2 2023, to maximise base sizes. It shows that overall the most common answer continued to be ‘no impact’ (64%) while those SMEs who reported any impact were much more likely to report a negative impact (34%) than a positive one (2%).

11 The future

Analysis by size for H2 2022 showed that SMEs with employees were the most likely have experienced a negative impact than those with 0 employees:

| Impact on running business | | | | | |
|------------------------------|-------------|-------------|-------------|-------------|-------------|
| H2 23– all SMEs | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
| Unweighted base: | 8307 | 1673 | 3265 | 2451 | 918 |
| Very positive impact | * | * | 1% | * | * |
| Positive impact | 2% | 2% | 3% | 2% | 1% |
| No impact | 64% | 66% | 56% | 58% | 55% |
| Negative impact | 25% | 23% | 31% | 33% | 35% |
| Very negative impact | 9% | 9% | 10% | 7% | 8% |
| Total positive | 2% | 2% | 3% | 2% | 2% |
| Total negative | 34% | 32% | 41% | 40% | 43% |
| Net positive-negative | -32 | -30 | -38 | -38 | -41 |

Q84c All SMEs excluding DK

11 The future

Analysis by sector showed very few SMEs in any sector reporting a positive impact, with the main difference being between the proportion saying there have been no impact and those reporting a negative impact. The net score ranged from -22 in Health (76% no impact) to -39 in Wholesale/Retail (57% no impact):

| Impact on running business | | | | | | | | | |
|------------------------------|------------|------------|-------------|----------------|---------------|------------|--------------|--------------|---------------|
| H2 23– all SMEs | Agric | Mfg | Constr | Whle Retail | Hotel Rest | Trans | Prop/ Bus | Hlth SWrk | Other Comm |
| Unweighted base: | 524 | 788 | 1530 | 1051 | 558 | 869 | 1649 | 511 | 827 |
| Very positive impact | 1% | * | 1% | 1% | * | 1% | * | * | * |
| Positive impact | 4% | 2% | 1% | 1% | 2% | 5% | 2% | 1% | 1% |
| No impact | 59% | 59% | 69% | 57% | 65% | 53% | 65% | 76% | 67% |
| Negative impact | 29% | 29% | 23% | 31% | 23% | 25% | 26% | 19% | 23% |
| Very negative impact | 7% | 10% | 7% | 10% | 10% | 17% | 7% | 4% | 9% |
| Total positive | 5% | 3% | 2% | 2% | 3% | 6% | 2% | 1% | 1% |
| Total negative | 36% | 39% | 29% | 41% | 32% | 42% | 33% | 23% | 32% |
| Net positive-negative | -31 | -36 | -27 | -39 | -29 | -36 | -31 | -22 | -31 |

Q84c All SMEs excluding DK

11 The future

Analysis for different SME demographics over time shows the overall change in the net impact score from -22 to -31 during 2021, with little overall change since. Those in Wholesale/Retail and Hotels & Restaurants reported an improved net score in H2 2023, as did SMEs that were not PNBs, but the net scores worsened for the largest SMEs, those in Transport and those in Agriculture:

| Net positive-negative impact score | | | | | | |
|------------------------------------|------------|------------|------------|------------|------------|------------|
| All- over time | H1 | H2 | H1 | H2 | H1 | H2 |
| By date of interview | 2021 | 2021 | 2022 | 2022 | 2023 | 2023 |
| All SMEs | -22 | -31 | -32 | -31 | -32 | -32 |
| 0 employee | -20 | -29 | -30 | -29 | -30 | -30 |
| 1-9 employees | -28 | -35 | -37 | -37 | -38 | -38 |
| 10-49 employees | -31 | -42 | -41 | -40 | -39 | -38 |
| 50-249 employees | -31 | -39 | -40 | -35 | -37 | -41 |
| Minimal external risk rating | -22 | -29 | -30 | -29 | -28 | -32 |
| Low external risk rating | -24 | -31 | -32 | -36 | -34 | -35 |
| Average external risk rating | -22 | -29 | -31 | -28 | -32 | -32 |
| Worse than average risk rating | -23 | -31 | -31 | -30 | -32 | -31 |
| Agriculture | -24 | -26 | -29 | -31 | -24 | -31 |
| Manufacturing | -36 | -34 | -35 | -39 | -35 | -36 |
| Construction | -21 | -31 | -32 | -33 | -28 | -27 |
| Wholesale/Retail | -41 | -48 | -49 | -42 | -43 | -39 |
| Hotels & Restaurants | -16 | -32 | -35 | -33 | -35 | -29 |
| Transport | -17 | -29 | -28 | -30 | -32 | -36 |
| Property/Business Services etc. | -19 | -25 | -27 | -27 | -30 | -31 |
| Health | -15 | -28 | -30 | -22 | -21 | -22 |
| Other Community | -20 | -29 | -28 | -27 | -36 | -31 |
| Objective to grow | -25 | -33 | -32 | -31 | -33 | -32 |
| No objective to grow | -19 | -28 | -33 | -30 | -31 | -31 |
| All SMEs excluding PNBs | -25 | -36 | -34 | -34 | -37 | -32 |

Q84c All SMEs excluding DK

11 The future

SMEs trading internationally are potentially more likely to be impacted by the change in trading arrangements (given the importance of trading with the EU) and this is supported by the analysis below, albeit the net scores for those trading internationally in 2023 are an improvement on H2 2022:

| Net positive-negative impact score | | | | | | |
|---------------------------------------|------------|------------|------------|------------|------------|------------|
| All- over time | H1 | H2 | H1 | H2 | H1 | H2 |
| By date of interview, row percentages | 2021 | 2021 | 2022 | 2022 | 2023 | 2023 |
| All SMEs | -22 | -31 | -32 | -31 | -32 | -32 |
| Trade internationally | -43 | -47 | -47 | -58 | -50 | -45 |
| Domestic SMEs | -18 | -27 | -28 | -24 | -28 | -28 |

Q84c All SMEs excluding DK

SMEs who said they had been ‘negatively affected by the changes have been asked what in particular had affected them. Initially, in Q3 2021 this was asked as an open ended question for those ‘very negatively’ affected and from Q4 2021 those answers were used to create a series of pre codes, grouped under 4 key themes.

From Q1 2023, SMEs reporting any negative impact (not just very negative) have been asked which of the 4 headlines themes has been an issue for them. For context, in 2022 amongst those very negatively affected, 70% cited supply chain issues (the top issue for both larger and smaller SMEs), 42% issues with paperwork, 24% issues with customers and 13% issues with staff

The analysis below is based on the 34% of SMEs reporting a negative impact in 2023 as a whole, to allow for more robust analysis:

Of the four groups of impacts identified:

- For 7 in 10 of those negatively affected, the key issue was the supply chain (69%). This was the most mentioned issue for both larger and smaller SMEs and mentioned by a similar proportion of International and Domestic only SMEs (68% and 70%). It was more likely to be an issue for those in Construction (88%), Wholesale/Retail (82%) and Manufacturing (82%)
- 3 in 10 of these SMEs (30%) cited issues with paperwork. This increased as an issue by size of SME, and, for the largest SMEs negatively affected, was almost as much of a barrier as supply chain issues (43% v 56%). It was also more of an issue for those in Transport (41%) and those trading internationally (52%)
- The same proportion of those negatively affected reported issues with customers (31%) and this remained more of an issue for the smallest SMEs negatively affected (33% of those with 0 employees declining to 18% of those with 50-249 employees). This was the second most mentioned issue for Domestic only SMEs (27% v 39% trading internationally)
- Finally, with the new style of question, less than 1% mentioned issues recruiting and retaining staff from the EU.

11 The future

The tables below provide complete analysis by size and sector and the relative importance of each issue to those negatively affected by the change in EU trading arrangements:

| Main reasons for negative impact | | | | | |
|-----------------------------------|-------------|-------------|-------------|-------------|-------------|
| 2023 all SMEs negatively impacted | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
| Unweighted base: | 6274 | 1103 | 2455 | 2045 | 671 |
| Supply chain issues | 69% | 69% | 69% | 69% | 56% |
| Paperwork/regulation | 30% | 28% | 33% | 39% | 43% |
| Customers | 31% | 33% | 27% | 22% | 18% |
| Staff | * | * | * | * | * |
| Other issues | 9% | 9% | 8% | 7% | 3% |

Q84d All SMEs excluding DK

| Main reasons for negative impact | | | | | | | | | |
|----------------------------------|------------|------------|------------|-------------|------------|------------|-------------|------------|------------|
| 2023– all impacted | Agric | Mfg | Constr | Whle Retail | Hotel Rest | Trans | Prop/ Bus | Hlth SWrk | Other Comm |
| Unweighted base: | 352 | 823 | 909 | 1037 | 463 | 639 | 1222 | 277 | 552 |
| Supply chain issues | 70% | 82% | 88% | 82% | 68% | 67% | 54% | 59% | 66% |
| Paperwork/regulation | 29% | 34% | 15% | 39% | 12% | 41% | 33% | 18% | 30% |
| Customers | 18% | 22% | 19% | 27% | 25% | 39% | 38% | 31% | 33% |
| Staff | * | * | * | * | * | 1% | * | * | * |
| Other issues | 12% | 5% | 4% | 7% | 5% | 9% | 11% | 10% | 12% |

Q84c All SMEs excluding DK

A full analysis of the impact on international SMEs is provided in the summary section at the end of this chapter.

Financial requirements in the next 3 months

SMEs were asked to consider their financial plans over the next 3 months. No changes were made to this question for the revised questionnaire from Q1 2018.

The proportion planning to apply/renew has been around 1 in 10 since the start of 2018, and in 2022 and 2023 it fluctuated between 6-10%. The proportion planning to inject personal funds decreased to 13% in Q1 2023 but was back at 20% by the end of the year:

| % likely in next 3 months | | | | | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| All SMEs – over time By date of interview | Q4 2021 | Q1 2022 | Q2 2022 | Q3 2022 | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
| Unweighted base: | 4085 | 4250 | 4250 | 4250 | 4252 | 4252 | 4253 | 3910 | 4595 |
| Will have a need for (more) external finance | 7% | 8% | 7% | 6% | 7% | 6% | 9% | 8% | 12% |
| Will apply for more external finance | 5% | 7% | 6% | 4% | 5% | 6% | 8% | 5% | 8% |
| Renew existing borrowing at same level | 6% | 4% | 5% | 3% | 4% | 2% | 4% | 3% | 3% |
| Any apply/renew | 10% | 10% | 9% | 7% | 8% | 6% | 10% | 7% | 10% |
| Reduce the amount of external finance used | 12% | 12% | 10% | 9% | 10% | 9% | 12% | 10% | 12% |
| Inject personal funds into business | 21% | 19% | 17% | 16% | 16% | 13% | 16% | 17% | 20% |

Q99 (229) All SMEs

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 2021 | Q1 2022 | Q2 2022 | Q3 2022 | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
| Unweighted base: | 2939 | 3025 | 3130 | 3093 | 3181 | 3193 | 3090 | 3012 | 3182 |
| Any new equity | 2% | 2% | 3% | 3% | 4% | 3% | 4% | 2% | 4% |

Q99_6 (229) All companies

11 The future

In Q4 2023, as in previous quarters, there continued to be a difference in future appetite for finance by size of business:

- Those with up to 49 employees were more likely to be planning to apply/renew (10-13%) than the largest SMEs (8%).
- Those with 10-49 employees were the most likely to be planning to reduce the amount of external finance they were using (17%).
- The smallest SMEs were the most likely to be planning an injection of personal funds (22%), declining by size of SME to 3% of those with 50-249 employees.

| % likely in next 3 months | | | | | |
|--|-------------|------------|-------------|-------------|-------------|
| Q4 23 – all SMEs | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
| Unweighted base: | 4595 | 996 | 1942 | 1097 | 560 |
| Will have a need for (more) external finance | 12% | 12% | 12% | 10% | 6% |
| Will apply for more external finance | 8% | 7% | 9% | 9% | 6% |
| Renew existing borrowing at same level | 3% | 3% | 4% | 7% | 3% |
| Any apply/renew | 10% | 10% | 11% | 13% | 8% |
| Reduce the amount of external finance used | 12% | 11% | 14% | 17% | 11% |
| Inject personal funds into business | 20% | 22% | 14% | 9% | 3% |

Q99 (229) All SMEs

Amongst SMEs with employees, 12% believed they would have a need for (more) external finance, 12% had plans to apply/renew in the next 3 months, and the same proportion (13%) planned to inject personal funds into the business.

Analysis for H2 2023 by current use of finance showed a clearer difference between those borrowing something compared to those not borrowing:

- 6% of those not using finance expected to have a need for finance compared to 13% already borrowing, increasing from 12% to 21% by amount borrowed.
- 4% of those not using finance were likely to apply for/renew finance compared to 13% already borrowing, increasing from 13% to 21% by amount.
- 16% of those not using finance were likely to inject personal funds compared to 21% already borrowing, with little variation by amount borrowed (17-21%).

11 The future

Before looking at future applications for finance in more detail, the analysis below explores the role of injections of personal funds for SMEs:

- Between 2014 and 2018, just under 1 in 3 SMEs reported making an injection of personal funds.
- This dropped slightly to 24% in 2019 before increasing sharply, reaching 37% in 2021, 34% in 2022 and 36% in 2023.
- Over the same period, the proportion planning to inject funds initially declined to 12% in 2018 and 2019, before increasing to 20% in 2021. In both 2022 and 2023, 17% planned to inject funds:

| Injections of personal funds past and future | | | | | | | | |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Over time – All SMEs | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| Unweighted base: | 18,000 | 18,012 | 18,002 | 18,000 | 17,768 | 16,486 | 17,002 | 17,010 |
| Have injected personal funds | 28% | 29% | 29% | 24% | 32% | 37% | 34% | 36% |
| Plan to inject personal funds | 15% | 13% | 12% | 12% | 19% | 20% | 17% | 17% |

Q15d/Q99-5 (229-5) All companies

The table below shows how the injections of personal funds past and future have combined over recent quarters:

- From Q2 2022 to Q2 2023, around 1 in 10 SMEs had both injected personal funds and planned to do so again, slightly lower than previously seen. This proportion then increased in the second half of 2023, reaching 16% in Q4.
- A stable 4% of SMEs planning to inject funds having not previously done so, continuing the trend of most of those planning a future injection having done so previously.
- The largest group was those that had neither injected funds nor planned to do so, which remained at 6 in 10 of all SMEs.

| Injections of personal funds | | | | | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Over time – All SMEs | Q4 2021 | Q1 2022 | Q2 2022 | Q3 2022 | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
| Unweighted base: | 4085 | 4250 | 4250 | 4250 | 4252 | 4252 | 4253 | 3910 | 4595 |
| Have injected personal funds and likely to do so again | 14% | 14% | 12% | 11% | 10% | 10% | 12% | 13% | 16% |
| Have not put in personal funds but likely to do so | 6% | 5% | 5% | 5% | 5% | 3% | 4% | 4% | 4% |
| Have injected personal funds but unlikely to do so again | 20% | 24% | 22% | 23% | 21% | 26% | 25% | 23% | 19% |
| Have not put in personal funds and not likely to do so | 59% | 57% | 61% | 61% | 63% | 60% | 60% | 60% | 61% |

Q99 (229)/Q15d-d2 All SMEs

Analysis of injections of personal funds in 2023 as a whole showed that:

- The proportion that had both injected funds and were planning to inject them again (13% overall) declined by size of SMEs from 14% to 1% while the proportion that had neither injected funds nor had any plans to do so (60% overall) increased by size from 58% to 93%
- Those more likely to have both injected funds and to be planning to inject them again (13% overall) also included Starts (22%) and those with plans to apply for finance (33%).
- Those more likely to have neither injected funds nor be planning to do so (60% overall) also included those with a minimal risk rating (82%) and PNBs (72%).

11 The future

Turning back to future applications for external finance, the Q4 2023 figure of 10% planning to apply/renew is in line with Q4 2021 and somewhat higher than other recent quarters. Future demand for finance did increase slightly during the pandemic Q2 2020 to Q1 2021 (12-16%), but expected demand has been somewhat lower since:

| % likely to apply or renew in next 3 months | | | | | | | | | |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Over time – row percentages By date of interview | Q4 2021 | Q1 2022 | Q2 2022 | Q3 2022 | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
| All SMEs | 10% | 10% | 9% | 7% | 8% | 6% | 10% | 7% | 10% |
| 0 employee | 9% | 10% | 9% | 6% | 7% | 6% | 10% | 6% | 10% |
| 1-9 employees | 16% | 12% | 11% | 10% | 10% | 8% | 11% | 12% | 11% |
| 10-49 employees | 9% | 10% | 11% | 12% | 10% | 8% | 10% | 11% | 13% |
| 50-249 employees | 5% | 5% | 4% | 6% | 4% | 4% | 5% | 3% | 8% |
| Minimal external risk rating | 8% | 6% | 8% | 4% | 5% | 5% | 6% | 6% | 4% |
| Low external risk rating | 5% | 7% | 8% | 5% | 4% | 5% | 7% | 5% | 9% |
| Average external risk rating | 10% | 8% | 10% | 7% | 9% | 5% | 8% | 5% | 12% |
| Worse than average risk rating | 10% | 9% | 11% | 8% | 8% | 8% | 14% | 10% | 10% |
| Agriculture | 17% | 14% | 9% | 5% | 14% | 7% | 11% | 8% | 13% |
| Manufacturing | 12% | 10% | 9% | 6% | 16% | 5% | 8% | 4% | 14% |
| Construction | 6% | 6% | 9% | 8% | 8% | 4% | 6% | 11% | 9% |
| Wholesale/Retail | 12% | 15% | 9% | 9% | 6% | 8% | 9% | 10% | 11% |
| Hotels & Restaurants | 14% | 15% | 5% | 10% | 11% | 5% | 8% | 10% | 14% |
| Transport | 13% | 12% | 10% | 3% | 8% | 10% | 19% | 4% | 11% |
| Property/Business Services etc. | 10% | 10% | 9% | 5% | 4% | 6% | 10% | 5% | 7% |
| Health | 2% | 8% | 6% | 10% | 3% | 1% | 11% | 4% | 6% |
| Other Community | 11% | 8% | 14% | 7% | 13% | 10% | 9% | 7% | 15% |
| Objective to grow | 14% | 15% | 15% | 9% | 11% | 9% | 17% | 11% | 14% |
| No objective to grow | 7% | 6% | 6% | 5% | 5% | 4% | 5% | 4% | 6% |
| All SMEs excluding PNBs | 18% | 19% | 17% | 13% | 15% | 11% | 16% | 10% | 15% |

Q99 (229) All SMEs base size varies by category

11 The future

The variability in predicted appetite for finance quarter on quarter makes trends harder to discern, so the table below looks at annual appetite for finance since 2018 by key business demographics. It shows around 1 in 10 SMEs overall planning to apply (10-13%) dropping to 8% for both 2022 and 2023, somewhat lower than usually seen.

Compared to 2020, when 13% planned to apply, appetite for finance has dropped across all size bands but notably for those with employees, as well as for those with a minimal risk rating, those in the Hotel & Restaurant sector and those that did not meet the definition of a PNB.

Amongst those planning to grow, future appetite for finance has typically been somewhat higher than for SMEs overall and this was also the case in 2023, with 13% of those with growth ambitions having an appetite for finance (also unchanged from 2022).

11 The future

| Likely to apply | | | | | | |
|--|------------|------------|------------|------------|-----------|-----------|
| By date of interview – row percentages | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| All SMEs | 10% | 11% | 13% | 10% | 8% | 8% |
| 0 emp | 9% | 10% | 12% | 9% | 8% | 8% |
| 1-9 emps | 13% | 15% | 17% | 14% | 10% | 10% |
| 10-49 emps | 15% | 15% | 16% | 11% | 11% | 10% |
| 50-249 emps | 17% | 17% | 12% | 5% | 5% | 5% |
| Minimal external risk rating | 10% | 10% | 11% | 10% | 6% | 5% |
| Low | 11% | 12% | 14% | 8% | 6% | 6% |
| Average | 9% | 10% | 12% | 10% | 8% | 7% |
| Worse than average | 10% | 11% | 14% | 11% | 9% | 11% |
| Agriculture | 11% | 15% | 14% | 12% | 11% | 10% |
| Manufacturing | 13% | 12% | 14% | 10% | 10% | 8% |
| Construction | 8% | 10% | 12% | 8% | 8% | 8% |
| Wholesale/Retail | 11% | 15% | 17% | 11% | 10% | 10% |
| Hotels & Restaurants | 10% | 13% | 20% | 12% | 10% | 10% |
| Transport | 11% | 13% | 18% | 14% | 8% | 11% |
| Property/ Business Services | 9% | 9% | 11% | 9% | 7% | 7% |
| Health | 12% | 9% | 10% | 8% | 7% | 6% |
| Other | 10% | 12% | 14% | 13% | 11% | 10% |
| All excl PNBs | 19% | 19% | 22% | 17% | 16% | 13% |
| Starts | 13% | 13% | 15% | 13% | 11% | 13% |
| 2-5 years trading | 11% | 13% | 15% | 12% | 11% | 11% |
| 6-9 years | 8% | 10% | 13% | 12% | 10% | 9% |
| 10-15 years | 10% | 11% | 12% | 10% | 9% | 7% |
| More than 15 years | 9% | 10% | 12% | 8% | 6% | 6% |

Q99 (229) All SMEs

11 The future

Previous analysis has shown that those already using external finance were more likely to consider applying for (more) finance than those not currently using it, and in 2023, 17% of SMEs currently using external finance planned to apply for more, compared to 5% of those not currently using finance. Taking current and planned use of finance together showed that:

- 6% of all SMEs in 2023 were both using finance and planned to apply for more, twice as many as the 3% not currently using finance but planning to apply for some.
- 35% were using finance but had no plans to apply for more, back in line with 2021. The largest group of SMEs (57%) remained those that neither used finance nor had plans to apply for any.
- This means that of the 8% of SMEs planning to apply for finance in 2023, most (67%) were already using it.

| Plans to apply/renew v use of external finance | | | | | | | |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Over time – all SMEs | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| Unweighted base: | 18,012 | 18,002 | 18,000 | 17,768 | 16,486 | 17,002 | 17,010 |
| Use external finance and plan to apply | 9% | 7% | 8% | 9% | 8% | 6% | 6% |
| Use external finance, no plans to apply | 29% | 29% | 37% | 28% | 35% | 30% | 35% |
| Do not use finance but plan to apply | 3% | 3% | 3% | 4% | 3% | 3% | 3% |
| Do not use finance, no plans to apply | 59% | 61% | 52% | 59% | 55% | 61% | 57% |
| % of future applicants using finance | 78% | 70% | 73% | 69% | 73% | 67% | 67% |

Q15 and futfin All SMEs

11 The future

From 2014 to 2017, the proportion of SMEs planning to reduce the amount of finance they used was stable (7-8%). As the table below shows:

- This proportion of all SMEs planning to reduce their use of finance then increased from 7% in 2017 to 15% in 2019. Since then the proportion has been a stable 1 in 10 (11% for 2023), still slightly higher than earlier years.
- This is due to the smallest and largest SMEs being less likely to say they would reduce their use of finance (10% and 8% in 2023), whereas those with 1-9 or 10-49 employees remained as likely as in 2019 to be planning to reduce their use of finance.

| Planning to reduce finance used | | | | | | |
|---------------------------------|------------|------------|-----------|------------|------------|------------|
| Row percentages | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| All SMEs | 12% | 15% | 8% | 10% | 10% | 11% |
| 0 employees | 11% | 15% | 7% | 9% | 9% | 10% |
| 1-9 employees | 12% | 14% | 9% | 13% | 13% | 13% |
| 10-49 employees | 14% | 16% | 9% | 11% | 15% | 15% |
| 50-249 employees | 38% | 21% | 5% | 4% | 8% | 8% |

Q99 All SMEs

Future funding requirements

The list of options for why a new/renewed facility was required was extensively revised for Q1 2018. The new list is shown below, now split into the two groups (Cash flow and Business development) also used earlier in this report to analyse a past need for funding.

- Back in Q2 2020 an additional code was included 'To cope with the impact of the coronavirus pandemic' later amended to 'To cope with the impact of current trading conditions'.
- In Q3 2022, to match changes made to reasons for seeking finance in the past, a new code was introduced to this question: "To fund something to reduce an environmental impact or to be more sustainable".

During the pandemic more funding was needed for cashflow purposes with a decline in funding for business development. Since then the position has adjusted back to a certain extent. During 2023, the proportion thinking their future facility would be for cash flow fluctuated around 1 in 3 of those planning to apply/renew, while the proportion mentioning business development followed the same pattern as in 2022, starting the year at 73% and ending it lower at 64%:

| Use of new/renewed facility | | | | | | | | |
|---|------------|------------|------------|------------|------------|------------|------------|------------|
| All planning to seek/renew Over time excl DK By date of interview | Q1 2022 | Q2 2022 | Q3 2022 | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
| Unweighted base: | 389 | 409 | 353 | 345 | 302 | 363 | 335 | 464 |
| Cash flow related | 35% | 48% | 34% | 47% | 27% | 41% | 34% | 32% |
| Working capital to help cash flow* | 27% | 39% | 29% | 41% | 26% | 40% | 27% | 29% |
| Cover short term funding gap | 17% | 18% | 10% | 13% | 3% | 6% | 12% | 6% |
| Help through trading difficulties | 8% | 7% | 8% | 9% | 2% | 7% | 6% | 5% |
| To cope with trading conditions | 9% | 4% | 1% | 6% | * | 8% | 3% | 3% |
| Business development related | 72% | 71% | 65% | 60% | 73% | 70% | 65% | 64% |
| To fund UK expansion | 30% | 27% | 27% | 34% | 39% | 23% | 14% | 26% |
| Plant & machinery | 33% | 25% | 26% | 22% | 22% | 39% | 37% | 24% |
| A new business opportunity | 24% | 24% | 18% | 10% | 7% | 15% | 8% | 10% |
| Take on staff | 19% | 20% | 12% | 6% | 15% | 7% | 11% | 6% |
| Fund new premises | 8% | 7% | 13% | 6% | 5% | 10% | 10% | 7% |
| Fund expansion overseas | 11% | 5% | 8% | 5% | 2% | 1% | 2% | 5% |
| Take over another business | 1% | 2% | * | 1% | * | * | 1% | * |
| To fund something environmental | - | - | 3% | 5% | 1% | * | 3% | 1% |
| To fund R&D | 6% | 12% | 5% | 1% | 4% | 7% | 5% | 2% |

Q100 (230) All planning to apply for/renew facilities in next 3 months. EXCL DK New codes from Q1 2018 * previously impact of Covid

The longer term view back to 2016, below, shows:

- The increase in finance being sought for cash flow purposes to 76% in 2020, followed by a steady decline to 34% in 2023, back in line with 2018.
- Meanwhile, applications for funding for business development increased from 27% in 2020 to 68% in 2022 and 68% in 2023, also back in line with 2018

11 The future

| Use of new/renewed facility | | | | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| All planning to seek/renew – over time | 2016 | 2017 | 2018 | 2019 | 2020* | 2021 | 2022 | 2023 |
| Unweighted base: | 2563 | 2616 | 2420 | 2567 | 2100 | 1712 | 1496 | 1464 |
| Cash flow related | - | - | 38% | 43% | 76% | 52% | 41% | 34% |
| Working capital to help cash flow | - | - | 26% | 34% | 52% | 35% | 34% | 31% |
| Cover short term funding gap | - | - | 11% | 11% | 18% | 22% | 15% | 7% |
| Help through trading difficulties | - | - | 9% | 9% | 11% | 12% | 8% | 5% |
| To cope with trading conditions | - | - | - | - | 18% | 12% | 5% | 4% |
| Business development related | - | - | 68% | 64% | 27% | 53% | 68% | 68% |
| To fund UK expansion | 28% | 23% | 26% | 26% | 9% | 22% | 29% | 25% |
| Plant & machinery | 21% | 20% | 26% | 27% | 12% | 23% | 27% | 31% |
| A new business opportunity | - | - | 18% | 14% | 6% | 9% | 20% | 11% |
| Take on staff | - | 9% | 12% | 16% | 4% | 10% | 15% | 9% |
| Fund new premises | 8% | 7% | 6% | 7% | 3% | 6% | 9% | 8% |
| Fund expansion overseas | 5% | 4% | 5% | 4% | 1% | 3% | 7% | 2% |
| Take over another business | - | - | 2% | 2% | 1% | 1% | 1% | * |
| To fund something environmental | - | - | - | - | - | - | - | 1% |
| To fund R&D | - | - | - | - | 1% | 6% | 6% | 4% |

Q100 (230) All planning to apply for/renew facilities in next 3 months excl DK. New codes from Q1 2018 *Q2-4 only

Amongst SMEs planning to apply/renew, those with 50-249 employees were more likely than their peers to be looking for funding for a business opportunity (79% v 61-69% of smaller SMEs) and less likely to be looking for support with cash flow (19% v 32-41% of smaller SMEs)

11 The future

Earlier in this report data was provided for those who had reported a past need for finance in the previous 12 months. Combining it with this data on future appetite for finance allows for some ‘time-lapse’ analysis, similar to that reported earlier for predicted and actual growth. This compares the expectations for applications for the following year with the actual applications reported by the end of that year (by a different group of SMEs):

Between 2018 and 2020, the proportion of future applicants predicting that they would need finance for cashflow increased from 38% to 76%, reflecting the challenges of the pandemic, and the proportion who actually needed funding for that purpose also increased from 49% to 81%.

Between 2021 and 2023, the proportion predicting they would need finance for cash flow purposes declined to 35%, back in line with 2018. The proportion actually needed funding for cash flow was a little slower to adjust but by 2022/2023 the figures were in line (41% predicted v 43% actual)

| Use of new/renewed facility | | | | |
|--|--------------------|-----------------|---------------------|------------------|
| All who have or plan to seek/renew – over time | Predicted cashflow | Actual cashflow | Predicted Bus Dvlpt | Actual Bus Dvlpt |
| 2018 actual | - | 42% | - | 58% |
| Predicted 2018, 2019 actual | 38% | 49% | 68% | 58% |
| Predicted 2019, 2020 actual | 43% | 81% | 64% | 24% |
| Predicted 2020, 2021 actual | 76% | 81% | 27% | 24% |
| Predicted 2021, 2022 actual | 52% | 69% | 53% | 37% |
| Predicted 2022, 2023 actual | 41% | 43% | 68% | 56% |
| Predicted 2023, 2024 actual | 35% | | 67% | |

Business development followed a similar pattern but in reverse, declining from 68% of predictions in 2018 to 27% in 2020, then building back up to 67% in 2023. In reality, actual funding for business development was quicker to decline (as in 2019 no one would have forecast the pandemic in 2020) and slower to build back, though the 2022/2023 figures do show a narrowing gap (68% predicted v 56% actual)

The prediction for those seeking funding into 2024 is similar to the predictions for 2023, with 67% of applications business development related compared to 35% for cashflow purposes.

Since Q1 2023, questions around the type of finance those planning to apply would consider for their new/renewed funding have no longer been asked. The latest data on these questions can be found in the 2022 report.

Application confidence

Those planning to apply for new and/or renewed finance were asked how confident they were that their main bank would agree to their request.

There has been a slight change in the routing to this question, introduced in Q1 2023:

- Until the end of 2022, the question was asked specifically of those with plans to apply/renew who were planning to apply for typical bank products (loan, commercial mortgage, overdraft, leasing, invoice finance and/or credit cards), about 70% of those with plans to apply/renew.
- Meanwhile those planning to apply/renew who were either only considering one of the other forms of finance specified, or who did not nominate any form of finance, were asked an alternative question, which was also asked of those with no plans to apply.
- Since Q1 2023, all those with plans to apply/renew have been asked this first question and it is only those with no plans at all that have been asked the second question.
- The overall confidence metric, also reported below, that is based on all SMEs (whatever their application plans) is unaffected by this change

Up to 2020 the levels of confidence for those planning to apply for bank products and those planning to apply for something else, were very similar. In 2021 and 2022 those planning to apply for something else were somewhat more confident of success (41% v 33% in 2022). In theory therefore, including the ‘apply for something else’ group into the analysis below, should increase confidence levels.

As the table below shows, confidence in 2023 was typically lower than previously seen, the exception being Q2 when 47% were confident (and fewer gave a neutral answer):

| Confidence bank would lend | | | | | | | | | |
|--|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| All planning to seek finance Over time by date of interview | Q4 2021 | Q1 2022 | Q2 2022 | Q3 2022 | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
| Unweighted base: | 246 | 255 | 265 | 227 | 222 | 302 | 366 | 341 | 466 |
| Very confident | 15% | 4% | 12% | 12% | 26% | 8% | 21% | 14% | 9% |
| Fairly confident | 26% | 13% | 23% | 30% | 19% | 20% | 26% | 12% | 16% |
| Overall confidence | 41% | 17% | 35% | 42% | 46% | 28% | 47% | 26% | 25% |
| Neither/nor | 37% | 65% | 31% | 29% | 29% | 40% | 32% | 37% | 43% |
| Not confident | 22% | 18% | 34% | 30% | 25% | 32% | 21% | 37% | 32% |
| Net confidence (confident – not confident) | +19 | -1 | +1 | +12 | +21 | -4 | +26 | -11 | -7 |

Q103 (238) All SMEs seeking new/renewing finance in next 3 months - New definition from Q1 2023 includes all those planning to apply/renew

11 The future

Confidence amongst prospective applicants with employees was 33% in Q4 2023, having been stable at 38-39% during the year.

Analysis over time by key sub-groups shows some fluctuations, in part due to the limited number of respondents answering this question. As the table below shows, the change in definition in 2023 has not altered the pattern of larger SMEs and those with a better risk rating being more likely to be confident of success:

| 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 |
| Q4 2018 | 48% | 47% | 74% | 68% | 42% |
| Q4 2019 | 62% | 61% | 75% | 73% | 60% |
| Q4 2020 | 41% | 40% | 59% | 70% | 36% |
| Q4 2021 | 41% | 40% | 63% | 59% | 42% |
| Q1 2022 | 17% | 15% | 53% | 40% | 17% |
| Q2 2022 | 35% | 34% | 53% | 28% | 36% |
| Q3 2022 | 42% | 41% | 55% | 50% | 40% |
| Q4 2022 | 46% | 45% | 55% | 54% | 39% |
| Q1 2023 | 28% | 26% | 52% | 29% | 28% |
| Q2 2023 | 47% | 46% | 60% | 81% | 42% |
| Q3 2023 | 26% | 24% | 58% | 37% | 23% |
| Q4 2023 | 25% | 24% | 48% | 30% | 20% |

Q103 (238) All SMEs seeking new/renewing finance in next 3 months. New definition from Q1 2023 includes all those planning to apply/renew

11 The future

Up until 2019, half or more of future applicants were confident of success. Confidence then dropped to 4 in 10 for 2020 and 2021, and 3 in 10 for both 2022 and 2023, as the proportion in the 'neither/nor' category increased. In most years, around a quarter of those planning to apply have not been confident of success and this was also the case in 2023, unaffected by the change in definition:

| Confidence bank would agree to lend | | | | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|------------|-------------|
| All planning to apply – over time | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023* |
| Unweighted base: | 1467 | 1648 | 1551 | 1707 | 1830 | 1160 | 969 | 1475 |
| Very confident | 23% | 14% | 18% | 16% | 11% | 10% | 12% | 13% |
| Fairly confident | 32% | 36% | 36% | 40% | 31% | 28% | 20% | 19% |
| Overall confidence | 55% | 50% | 54% | 56% | 42% | 38% | 33% | 32% |
| Neither/nor | 25% | 24% | 22% | 24% | 33% | 34% | 41% | 38% |
| Not confident | 21% | 26% | 25% | 20% | 26% | 29% | 26% | 29% |
| Net confidence (confident – not confident) | +34 | +24 | +29 | +36 | +16 | +9 | +7 | +3 |

Q103 (238) All SMEs seeking new/renewing finance in next 3 months *definition slightly revised in Q1 2023

Confidence for 2023 as a whole was 32% and lower for smaller would-be applicants and those with an average or worse than average risk rating. All groups were less confident that they were in 2021, with those with a minimal or low risk rating seeing the largest change 2021 to 2023 (55% to 45%):

| Confidence bank would agree to lend | | | | | | | | | |
|-------------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| All planning to apply – over time | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| Row percentages | | | | | | | | | |
| All | 53% | 55% | 50% | 54% | 56% | 42% | 38% | 33% | 32% |
| 0-9 employees | 52% | 53% | 49% | 52% | 54% | 41% | 37% | 32% | 31% |
| 10-49 employees | 70% | 75% | 72% | 69% | 74% | 59% | 59% | 54% | 54% |
| Minimum/Low risk rating | 66% | 74% | 68% | 67% | 61% | 53% | 55% | 42% | 45% |
| Average/WTA risk rating | 48% | 51% | 48% | 49% | 53% | 39% | 35% | 33% | 29% |

Q103 (238) All SMEs seeking new/renewing finance in next 3 months *definition slightly revised in Q1 2023

Those planning to renew have typically been more confident of success than those planning to apply for a new facility. In H2 2023 the 'gap' remained somewhat narrower than earlier years, with both groups less confident than previously seen:

11 The future

In H2 2023, 2 in 10 of those planning to apply for new facilities were confident of success (20%). This is half the level in H2 2022 (40%) and lower than most previous years (in H2 2019, 6 in 10 were confident of success). Since Q2 2021 the proportion 'not confident' of success has increased steadily from 20% to 37% in H2 2023.

1 in 3 of those planning to renew were confident of success (34%), another significant change from H2 2022 (53%) and again lower than the levels of confidence more typically seen in this group, of between 6 and 7 in 10. Since Q2 2021 the proportion 'not confident' of success has increased steadily from 15% to 31% in H2 2023.

Application confidence – further analysis

In a question asked from Q1 2016, all other SMEs were asked how confident they would be of their bank saying yes if they were to apply. From Q1 2023, to match the changes above, this is asked just to those with no plans to apply for anything.

The table below shows the results for Q4 2023 when half were confident of success with a hypothetical application. This 'hypothetical' confidence increased by size of SME from 45% of those with no employees to 75% of those with 50-249 employees:

| Confidence bank would say yes if asked | | | | | |
|---|-------------|------------|-------------|------------|-------------|
| Q4 23 – Those with no plans to apply | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
| Unweighted base: | 4129 | 912 | 1736 | 958 | 523 |
| Very confident | 24% | 21% | 32% | 38% | 32% |
| Fairly confident | 24% | 24% | 25% | 32% | 43% |
| Overall confidence | 48% | 45% | 57% | 70% | 75% |
| Neither/nor | 32% | 33% | 28% | 20% | 18% |
| Not confident | 20% | 22% | 14% | 10% | 7% |
| Net confidence (confident – not confident) | +28 | +23 | +43 | +60 | +68 |

Q106 (239b) All SMEs not seeking new/renewing finance from bank in next 3 months. Definition adjusted in Q1 2023

11 The future

The table below summarises the confidence of all SMEs in Q4 2023, based on their future application plans. This shows that:

- Those planning to apply/renew were the least confident of the three groups that they would be successful (25%), with 43% unsure of the bank's response
- Future would-be seekers of finance were slightly more confident of success (35%)
- The largest group, the Future happy non-seekers (those who had no need or plans to apply) were the most confident that if they were to approach their bank they would be successful (52%).

| Confidence bank would say yes if asked | | | |
|---|-----------------------|------------|-------------|
| Q4 23 – all SMEs | All planning to apply | Future WBS | Future HNS |
| Unweighted base: | 466 | 849 | 3280 |
| Very confident | 9% | 18% | 26% |
| Fairly confident | 16% | 17% | 27% |
| Overall confidence | 25% | 35% | 52% |
| Neither/nor | 43% | 37% | 30% |
| Not confident | 32% | 29% | 18% |
| Net confidence (confident – not confident) | -7 | +6 | +34 |

Q103/106 (238/ 239b) All SMEs

Across all SMEs (those planning to apply and those answering hypothetically) around half have typically been confident in recent quarters (46% in Q4 2022). As the table below shows:

- The most confident have usually been the Future happy non-seekers, although the 52% confident in both Q4 2022 and Q4 2023 were the lowest seen recently (57% were confident in Q4 2021).
- Those planning to apply (now combined into one answer to reflect the change in the way the question is asked) have seen varying levels of confidence. In 2023, with the exception of Q2, confidence was lower at around 25%, back to levels last seen in Q2 2022.
- Confidence amongst Future would-be seekers declined during 2021 to 34% in Q4, but having recovered somewhat in 2022 (41% in Q4 2022) it has been more variable in 2023 (35% in Q4 2023).

| Confidence bank would say yes | | | | | | | | | |
|-------------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Over time | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Row percentages | 2021 | 2022 | 2022 | 2022 | 2022 | 2023 | 2023 | 2023 | 2023 |
| All SMEs | 52% | 51% | 52% | 52% | 50% | 48% | 50% | 49% | 46% |
| Planning to apply (any): | 42% | 25% | 38% | 42% | 40% | 28% | 47% | 26% | 25% |
| -Planning to apply to bank | 41% | 17% | 35% | 42% | 46% | - | - | - | - |
| -Others planning to apply | 44% | 47% | 44% | 43% | 31% | - | - | - | - |
| No plans – Future would-be seekers | 34% | 39% | 36% | 42% | 41% | 41% | 39% | 40% | 35% |
| No plans – Future happy non-seekers | 57% | 57% | 57% | 54% | 52% | 51% | 54% | 55% | 52% |

Q103/106 (238/239b) All SMEs

The summary table below shows that, on an annual basis, overall confidence amongst all SMEs decreased from 65% in 2016 to 51% in 2020 with a further slight decline to 48% in 2023 (this analysis has not been impacted by the questionnaire changes from Q1 2023 as it brings together answers from all SMEs):

- Confidence continues to be higher amongst larger SMEs, with little change from 2022. Confidence amongst 0 employee SMEs remained lower than their peers, with the biggest change in confidence in 2023 for those with 1-9 employees, to 54%.
- Those with a worse than average risk rating have always been less confident of success than their peers (44% in 2023), with the biggest change year on year for those with a minimal risk rating (to 61%) or an average risk rating (to 49%)
- There was little to choose in terms of confidence by sector in 2023, with the exception of Agriculture (58%) and, at the other end of the scale, Health (41%) with the other sectors 45-50%. The biggest change in confidence year on year was in Hotels & Restaurants (to 45%), and Manufacturing (to 48%)
- Confidence increased by age of SME from 41% of Starts to 53% of those trading for more than 15 years. It is though those trading for more than 10 years who saw more of change in confidence 2022 to 2023
- Confidence amongst those meeting the definition of a Permanent non-borrower (and therefore very unlikely to apply for finance) continued to hold up better (53%) than for those who did not meet the definition (46%).

11 The future

| Confidence bank will say yes (whether planning to apply or not) | | | | | | |
|---|------------|------------|------------|------------|------------|------------|
| Over time | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| By date of interview – row percentages | | | | | | |
| All SMEs | 58% | 59% | 51% | 51% | 51% | 48% |
| 0 emp | 55% | 57% | 48% | 48% | 48% | 46% |
| 1-9 emps | 65% | 64% | 60% | 59% | 59% | 54% |
| 10-49 emps | 73% | 74% | 71% | 70% | 69% | 68% |
| 50-249 emps | 80% | 77% | 72% | 75% | 75% | 75% |
| Minimal external risk rating | 70% | 71% | 69% | 68% | 68% | 61% |
| Low | 67% | 68% | 60% | 62% | 59% | 56% |
| Average | 61% | 58% | 53% | 48% | 55% | 49% |
| Worse than average | 51% | 54% | 45% | 47% | 45% | 44% |
| Agriculture | 63% | 67% | 57% | 58% | 56% | 58% |
| Manufacturing | 61% | 60% | 55% | 50% | 54% | 48% |
| Construction | 60% | 65% | 51% | 55% | 55% | 50% |
| Wholesale/Retail | 62% | 59% | 56% | 60% | 55% | 48% |
| Hotels & Restaurants | 58% | 57% | 51% | 48% | 53% | 45% |
| Transport | 58% | 57% | 51% | 45% | 51% | 49% |
| Property/ Business Services | 54% | 57% | 54% | 51% | 52% | 50% |
| Health | 57% | 61% | 46% | 46% | 44% | 41% |
| Other Community | 54% | 54% | 44% | 45% | 44% | 45% |
| PNBs | 57% | 60% | 56% | 55% | 54% | 53% |
| All excl PNBs | 58% | 58% | 48% | 48% | 49% | 46% |
| Starts | 60% | 61% | 48% | 38% | 40% | 41% |
| 2-5 years trading | 51% | 53% | 46% | 45% | 46% | 43% |
| 6-9 years | 56% | 56% | 50% | 52% | 48% | 48% |
| 10-15 years | 57% | 59% | 49% | 52% | 53% | 49% |
| More than 15 years | 60% | 62% | 57% | 58% | 58% | 53% |

Q103/106 (238/239b) All SMEs

11 The future

Analysis by future plans showed that:

- For 2023, the new combined confidence figure for all those planning to apply/renew was 32%, down from an equivalent figure for 2022 of 35% and more significantly from an equivalent combined figure of 41% in 2021.
- As a result, Future would-be seekers, whose level of confidence is little changed since 2019, were now more confident of hypothetical success than those planning to apply (38% v 32% in 2023).
- However the most confident remained those expecting to be a Happy non-seeker of finance (53%), little changed from 2022 but lower than the 6 in 10 more typically seen to 2021.

| Confidence bank will say yes (whether planning to apply or not) | | | | | | |
|---|------------|------------|------------|------------|------------|------------|
| Over time | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| By date of interview – row percentages | | | | | | |
| All SMEs | 58% | 59% | 51% | 51% | 51% | 48% |
| Planning to apply (to bank) | 54% | 56% | 42% | 38% | 33% | 32% |
| Planning to apply (elsewhere) | 54% | 54% | 43% | 48% | 41% | |
| Future would-be seeker | 46% | 40% | 40% | 35% | 40% | 38% |
| Future happy non-seeker | 60% | 63% | 57% | 57% | 55% | 53% |

Q103/106 (238/239b) All SMEs

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

In Q4 2023, 10% of all SMEs reported plans to apply for, or renew, facilities in the following 3 months, leaving the majority (90%) with no immediate plans. Analysis showed that overall, 49% of all SMEs in Q4 2023 neither used external finance nor had any immediate plans to apply for any.

On an annual basis, the proportion neither using finance nor planning to apply for it increased from 50% of SMEs in 2011 to 60% for 2014 and was then stable (58-61%) to 2018. Since then it has been more variable, ranging between 52% (2019 and 2023) and 61% (2022).

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 that met 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 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 finance that they had not applied for.

There have been no changes over time to these definitions, and these questions continue to be asked in the same way as they were in 2017 and previous waves.

11 The future

The picture for recent quarters is reported below. 7 in 10 SMEs in Q4 2023 met the definition of a Future happy non-seeker (69%) and they remained the largest group, but with an increase in Future would-be seekers over the course of the year from 14% in Q1 to 21% in Q4 2023:

| Future finance plans | | | | | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| All SMEs – over time By date of interview | Q4 2021 | Q1 2022 | Q2 2022 | Q3 2022 | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
| Unweighted base: | 4085 | 4250 | 4250 | 4250 | 4252 | 4252 | 4253 | 3910 | 4595 |
| Plan to apply/renew | 10% | 10% | 9% | 7% | 8% | 6% | 10% | 7% | 10% |
| Future would-be seekers – with identified need | 1% | * | 1% | 1% | 1% | * | 1% | 2% | 2% |
| Future would-be seekers – no immediate identified need | 13% | 13% | 13% | 12% | 13% | 14% | 20% | 20% | 19% |
| Future happy non-seekers | 76% | 76% | 76% | 80% | 78% | 79% | 69% | 72% | 69% |

Q99/104 (230/239) All SMEs

Amongst SMEs with employees in Q4 2023, 12% had plans to apply/renew while 19% met the definition of a Future would-be seeker. The Future happy non-seekers remained the largest group at 69%.

In most years since 2016, around 1 in 3 Future happy non-seekers have reported using external finance (31% in 2022) with the exception of 2019 (42% using finance) and 2021 (38% using finance). The figure for 2023 was also at the top of the range seen (42%).

11 The future

The table below shows the changes in the relative sizes of these groups over recent years:

- Future demand for finance had been broadly stable (10-14% 2015-2021) but the 8% in both 2022 and 2023 was somewhat lower than usually seen.
- More markedly, the proportion of Future would-be seekers, having halved between 2012 and 2019 (23% to 11%), was back to 1 in 5 in 2020 and in most years since then (19% in 2023).
- This change in FWBS affected the proportion of Future happy non-seekers but they remained the largest group (72% of all SMEs in 2023).

| Future finance plans | | | | | | | | |
|--------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Over time – all SMEs | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| Unweighted base: | 18,000 | 18,012 | 18,002 | 18,000 | 17,768 | 16,486 | 17,002 | 17,010 |
| Plan to apply/renew | 12% | 12% | 10% | 11% | 13% | 10% | 8% | 8% |
| Future would-be seekers | 13% | 10% | 13% | 11% | 21% | 19% | 14% | 19% |
| Future happy non-seekers | 76% | 78% | 77% | 78% | 65% | 71% | 78% | 72% |

Q99/104 (230/239) All SMEs

Amongst SMEs with employees:

- The proportion planning to apply/renew, having been higher and broadly stable 2018-2021 (13-16%) was somewhat lower in 2022 and 2023 (10%).
- Over the same time period, the proportion of Future would-be seekers had been more variable, from 18% for 2020 to 13% in 2022. The figure for 2023, 17%, was at the top of the range seen.
- This initially left the Future happy non-seekers of finance as an increasingly large group (increasing to 76% in 2018 and 75% for 2019). It has been more variable since, from 66% in 2020 to 76% in 2022 and back to 73% in 2023.

11 The future

Currently a third 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:

- Excluding the PNBs results in a higher proportion of remaining SMEs planning to apply (15% in Q4 2023).
- There were also fewer Future happy non-seekers (54%) who did though remain the largest single group, ahead of the Future would-be seekers (28%).

| Future finance plans | | | | | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| SMEs excluding PNB – over time | Q4 2021 | Q1 2022 | Q2 2022 | Q3 2022 | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
| By date of interview | | | | | | | | | |
| Unweighted base: | 2490 | 2561 | 2494 | 2425 | 2554 | 2942 | 3033 | 2840 | 3437 |
| Plan to apply/renew | 18% | 19% | 17% | 13% | 15% | 11% | 16% | 10% | 15% |
| Future would-be seekers – with identified need | 2% | 1% | 2% | 3% | 2% | 1% | 2% | 2% | 3% |
| Future would-be seekers – no immediate identified need | 23% | 24% | 25% | 25% | 27% | 24% | 30% | 29% | 28% |
| Future happy non-seekers | 57% | 57% | 56% | 59% | 55% | 65% | 52% | 59% | 54% |

Q99/104 (230/239) All SMEs excluding the Permanent non-borrowers

Looking over the longer term, once the PNBs were excluded:

- The proportion planning to apply was around 1 in 5 until 2021 but has declined since then. The 13% seen in 2023 was the lowest in recent years.
- The proportion of Future would-be seekers declined from 35% in 2012 to 19% in 2017. It then increased to 36% in 2020 and has been around 3 in 10 since (30% in 2023).
- The largest group remained the Future happy non-seekers of finance. This group increased from 44% of these SMEs in 2012 to 61% in 2019. It was 42% in 2020 due to the increase in FWBS, but as any appetite for finance declined from 2021, this group increased to 57% of these SMEs in both 2022 and 2023.

| Future finance plans | | | | | | | | | |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|--|
| Over time – all SMEs excluding PNBs | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | |
| Unweighted base: | 11,634 | 11,940 | 11,294 | 12,147 | 12,010 | 10,774 | 10,034 | 12,252 | |
| Plan to apply/renew | 23% | 22% | 19% | 19% | 22% | 17% | 16% | 13% | |
| Future would-be seekers | 23% | 19% | 24% | 20% | 36% | 31% | 27% | 30% | |
| Future happy non-seekers | 54% | 59% | 57% | 61% | 42% | 52% | 57% | 57% | |

Q99/104 (230/239) All SMEs excluding PNBs

Future would-be seekers

The Future would-be seekers are a group of interest as they represent a measure of future ‘unmet’ demand for funding. Since Q4 2021 the proportion has increased by 7 percentage points to 21%, primarily amongst smaller SMEs, those in Wholesale/Retail and Hotels & Restaurants and across all risk ratings:

| Future would-be seekers | | | | | | | | | |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Over time – row percentages By date of interview | Q4 2021 | Q1 2022 | Q2 2022 | Q3 2022 | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
| All SMEs | 14% | 13% | 14% | 13% | 15% | 15% | 21% | 21% | 21% |
| 0 employee | 15% | 14% | 15% | 13% | 14% | 15% | 22% | 23% | 21% |
| 1-9 employees | 11% | 13% | 12% | 14% | 17% | 16% | 18% | 17% | 21% |
| 10-49 employees | 10% | 10% | 11% | 12% | 16% | 14% | 13% | 13% | 15% |
| 50-249 employees | 11% | 8% | 8% | 10% | 10% | 10% | 10% | 6% | 8% |
| Minimal external risk rating | 10% | 9% | 7% | 10% | 9% | 19% | 14% | 13% | 17% |
| Low external risk rating | 11% | 10% | 10% | 17% | 13% | 14% | 16% | 17% | 20% |
| Average external risk rating | 14% | 14% | 14% | 12% | 13% | 14% | 21% | 21% | 18% |
| Worse than average rating | 17% | 14% | 17% | 14% | 15% | 14% | 23% | 25% | 21% |
| Agriculture | 11% | 10% | 16% | 15% | 10% | 16% | 14% | 26% | 19% |
| Manufacturing | 14% | 14% | 12% | 18% | 17% | 13% | 28% | 30% | 22% |
| Construction | 14% | 17% | 12% | 14% | 10% | 11% | 20% | 15% | 20% |
| Wholesale/Retail | 12% | 16% | 13% | 11% | 14% | 20% | 19% | 28% | 25% |
| Hotels & Restaurants | 16% | 17% | 17% | 13% | 20% | 21% | 26% | 27% | 28% |
| Transport | 12% | 12% | 12% | 16% | 18% | 15% | 24% | 16% | 19% |
| Property/Business Services | 12% | 8% | 15% | 12% | 15% | 12% | 17% | 22% | 20% |
| Health | 13% | 12% | 11% | 9% | 13% | 21% | 29% | 16% | 15% |
| Other Community | 23% | 19% | 20% | 14% | 16% | 17% | 21% | 26% | 23% |
| All SMEs excluding PNBs | 25% | 24% | 27% | 27% | 30% | 24% | 32% | 31% | 31% |

Q99/104 (230/239) All SMEs * shows overall base size, which varies by category

11 The future

To understand this further, the table below shows all the reasons given by Future would-be seekers in Q4 2023 for thinking that they would not apply for finance in the next three months.

The reasons have also been grouped into the themes used earlier in this report, and respondents could initially nominate as many reasons as they wished for not having applied when they wanted to. Three new statements have been added to match those available to past Would-be seekers:

- Q2 22: We are already borrowing as much as we feel we can (Discouraged)
- Q1 23: We are worried about the impact of increasing interest rates (Process of borrowing)
- Q3 23: Banks don't lend to businesses like ours for environmental or ethical reasons (Discouraged)

The key reason remained a reluctance to borrow (76%), either due to the current economic climate (64%) or the predicted performance of the business (12%):

- Larger Future would-be seekers with 10-249 employees were more likely to mention the performance of the business (33%) than smaller FWBS (12%)
- Across the other main themes, 9% mentioned the process of borrowing (mainly the perceived cost), 8% felt discouraged (most of it indirect) and 7% mentioned the principle of borrowing (typically not losing control of the business) All were mentioned slightly more by smaller FWBS with 0-9 employees

11 The future

| Reasons for not applying (all mentions) | | | |
|---|------------|------------|-------------|
| Q4 23 - Future would-be seekers | Total | 0-9 emps | 10-249 emps |
| Unweighted base: | 849 | 623 | 226 |
| Reluctant to borrow now (any) | 76% | 75% | 87% |
| -Prefer not to borrow in economic climate | 64% | 65% | 54% |
| -Predicted performance of business | 12% | 12% | 33% |
| Issues with <i>principle</i> of borrowing | 7% | 7% | 3% |
| -Not lose control of business | 4% | 4% | 2% |
| -Can raise personal funds if needed | 2% | 2% | 1% |
| -Prefer other forms of finance | 1% | 1% | * |
| -Go to family and friends | 1% | 1% | 1% |
| Issues with <i>process</i> of borrowing | 9% | 9% | 7% |
| -Thought would be too expensive | 7% | 7% | 4% |
| -Would be too much hassle | 2% | 2% | 2% |
| -We are worried about the impact of increasing interest rates | 2% | 2% | 1% |
| -Bank would want too much security | 1% | 1% | 1% |
| -Too many terms and conditions | 1% | 1% | 1% |
| -Did not want to go through process | * | * | 1% |
| -Forms too hard to understand | 1% | 1% | - |
| Discouraged (any) | 8% | 8% | 6% |
| -Indirect (Think I would be turned down) | 6% | 6% | 5% |
| -Direct (Put off by bank) | 1% | 1% | 1% |
| -We are already borrowing as much as we feel we can | 1% | 1% | - |
| -Banks don't lend to business like ours for environmental/ethical reasons | 1% | 1% | * |

Q104 (239) Future would-be seekers SMEs

11 The future

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 single/main reasons given over time are shown below.

In 2023, FWBS continued to cite a reluctance to borrow now as their main reason for not applying for finance (74% in Q4 2023), but with slightly fewer such SMEs citing their own performance in that climate (12% in Q4 2023 compared to 19% in Q4 2021):

| Main reason for not applying | | | | | | | | | |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Future would-be seekers – over time | Q4 2021 | Q1 2022 | Q2 2022 | Q3 2022 | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
| By date of interview | | | | | | | | | |
| Unweighted base: | 460 | 472 | 474 | 511 | 624 | 605 | 673 | 613 | 849 |
| Reluctant to borrow now (any) | 80% | 74% | 82% | 68% | 79% | 75% | 68% | 80% | 74% |
| -Prefer not to borrow in econ. climate | 61% | 58% | 72% | 60% | 68% | 61% | 60% | 74% | 63% |
| -Predicted performance of business | 19% | 16% | 10% | 8% | 10% | 14% | 8% | 6% | 12% |
| Issues with process of borrowing | 10% | 10% | 5% | 13% | 8% | 9% | 12% | 5% | 8% |
| Discouraged (any) | 4% | 9% | 4% | 9% | 6% | 10% | 6% | 6% | 7% |
| -Direct (Put off by bank) | 1% | 1% | * | * | - | * | * | 1% | 1% |
| -Indirect (Think would be turned down) | 3% | 8% | 4% | 8% | 6% | 10% | 6% | 4% | 6% |
| -Already borrowing as much as can | - | - | - | 1% | * | * | - | 1% | 1% |
| -Banks don't lend to business like ours | - | - | - | - | - | - | - | - | * |
| Issues with principle of borrowing | 3% | 5% | 5% | 1% | 3% | 2% | 9% | 2% | 6% |

Q105 (239/239a) Future would-be seekers SMEs

The proportion citing 'Discouragement' as their main reason for not applying in future has been less than 1 in 10 and has remained at this level in 2023, unaffected by the introduction of the new codes.

11 The future

Analysis over the longer term had previously shown a steady decline to 2017 in the proportion mentioning a reluctance to borrow (to 50%), but mentions have increased since (74% in 2023) and it remained the most common reason for not planning to apply. Over time, mentions of discouragement initially increased (to 22% in 2017) but then declined again and have been below 10% since 2020:

| Main reason for not applying | | | | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Future would-be seekers – over time | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| Unweighted base: | 1967 | 1416 | 1700 | 1779 | 3157 | 2484 | 2081 | 2740 |
| Reluctant to borrow now (any) | 57% | 50% | 57% | 63% | 77% | 75% | 76% | 74% |
| Issues with <u>process</u> of borrowing | 16% | 14% | 20% | 12% | 8% | 9% | 9% | 8% |
| Discouraged (any) | 15% | 22% | 13% | 12% | 7% | 8% | 7%* | 7%* |
| Issues with <u>principle</u> of borrowing | 4% | 3% | 3% | 4% | 4% | 5% | 4% | 5% |

Q105 (239/239a) Future would-be seekers SMEs * does not include bank not lending for environmental/ethical reasons

These reasons remain in contrast to those given by past Would-be seekers where there was a more even spread of reasons for not applying, but the process of borrowing was the top mention.

11 The future

Further analysis of the main reasons given by Future would-be seekers, including by size and risk rating, is based on the latest quarter (Q4 2023), and includes the new answer options.

Three-quarters of Future would-seekers gave a reluctance to borrow as their main reason for not planning to apply for finance.

- This was slightly more likely to be the case for larger FWBS with 10-249 employees (87%) and they were also more likely to cite the predicted performance of the business (32%) than their smaller peers (11%)
- Similar proportions of FWBS cited discouragement or the process / principle of borrowing, all less than 10% of FWBS with slightly more mentions for smaller SMEs

| Main reason for not applying | | | |
|---|------------|------------|-------------|
| Q4 23 - Future would-be seekers | Total | 0-9 emps | 10-249 emps |
| Unweighted base: | 849 | 623 | 226 |
| Reluctant to borrow now (any) | 74% | 74% | 87% |
| -Prefer not to borrow in economic climate | 63% | 63% | 54% |
| -Predicted performance of business | 12% | 11% | 32% |
| Issues with process of borrowing | 8% | 8% | 5% |
| Discouraged (any) | 7% | 7% | 5% |
| -Direct (Put off by bank) | 1% | 1% | - |
| -Indirect (Think I would be turned down) | 6% | 6% | 5% |
| -Already borrowing as much as can | 1% | 1% | - |
| -Banks don't lend to business like ours for environmental/ethical reasons | * | * | * |
| Issues with principle of borrowing | 6% | 6% | 2% |

Q105 (239/239a) Future would-be seekers SMEs

Amongst Future would-be seekers with employees, 75% mentioned a reluctance to borrow compared to 9% citing the process of borrowing, 8% mentioning discouragement and 5% the principle of borrowing.

11 The future

The table below shows the main reasons given for not applying in Q4 2023 by risk rating, with a 'reluctance to borrow now' still the main barrier across the risk ratings. Discouragement was slightly more likely to be a factor for those with a minimal or low risk rating (11% v 6%), while the principle of borrowing was mentioned slightly more by those with an average or worse than average risk rating (7% v 2%):

| Main reason for not applying | | | |
|---|------------|------------|-------------------|
| Q4 23 - Future would-be seekers | Total | Min/Low | Avg/ Worse Avg |
| Unweighted base: | 849 | 335 | 440 |
| Reluctant to borrow now (any) | 74% | 72% | 74% |
| -Prefer not to borrow in economic climate | 63% | 59% | 62% |
| -Predicted performance of business | 12% | 13% | 12% |
| Issues with process of borrowing | 8% | 9% | 8% |
| Discouraged (any) | 7% | 11% | 6% |
| -Direct (Put off by bank) | 1% | 3% | * |
| -Indirect (Think I would be turned down) | 6% | 5% | 6% |
| -Already borrowing as much as can | 1% | 3% | * |
| -Banks don't lend to business like ours for environmental/ethical reasons | * | - | * |
| Issues with principle of borrowing | 6% | 2% | 7% |

Q105 (239/239a) Future would-be seekers SMEs

11 The future

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.

The sample size of those with an identified need for finance is limited, but some analysis on an annual basis is possible (but does not include the latest new code as it has not yet been asked for a full year):

- The small group that had a need for finance identified have typically given a range of reasons for not applying. In 2020 the main focus was on a reluctance to borrow in the current climate (68%) but that has been mentioned less since and was the main reason for just a quarter of this group in 2023 (27%), with more mentions of the process and principle of borrowing (23% and 18%) and fewer mentions of discouragement (16%), with 16% giving another or no answer.
- Amongst those with no immediate need for finance, a reluctance to borrow remained the main reason for not applying for finance (77% in 2023, unchanged since 2020).

| Main reason for not applying | | | | | | | | |
|---|----------------|------------|------------|------------|-------------------|-------------|-------------|-------------|
| Future would-be seekers – over time | Immediate need | | | | No immediate need | | | |
| | 2020 | 2021 | 2022 | 2023 | 2020 | 2021 | 2022 | 2023 |
| Unweighted base: | 259 | 134 | 81* | 121 | 2898 | 2350 | 2000 | 2619 |
| Reluctant to borrow now (any) | 68% | 48% | 51% | 27% | 78% | 77% | 78% | 77% |
| Issues with <u>process</u> of borrowing | 3% | 14% | 7% | 23% | 8% | 8% | 9% | 7% |
| Discouraged (any) | 16% | 28% | 25% | 16% | 6% | 6% | 5% | 6% |
| Issues with <u>principle</u> of borrowing | 9% | 1% | 11% | 18% | 4% | 5% | 3% | 4% |

Q105 (239/239a) Future would-be seekers SMEs

11 The future

To put all these results in context, the table below shows the equivalent figures for each reason amongst all SMEs in Q4 2023.

The equivalent of 15% of all SMEs would have liked to apply for new/renewed facilities in the next 3 months but were reluctant to borrow, mainly because of the current climate (13% of all SMEs).

The table also shows the equivalent proportion of SMEs excluding the Permanent non-borrowers. Of those SMEs that might be interested in seeking finance (i.e. once the PNBs were excluded), 23% were reluctant to borrow now, mostly due to the current economic climate (19%):

| Reasons for not applying | | | |
|---|-------------|-------------|--------------------|
| Q4 23 – Future would-be seekers | Main reason | All SMEs | All SMEs excl. PNB |
| Unweighted base: | 849 | 4595 | 3437 |
| Reluctant to borrow now (any) | 74% | 15% | 23% |
| -Prefer not to borrow in economic climate | 63% | 13% | 19% |
| -Predicted performance of business | 12% | 2% | 4% |
| Issues with process of borrowing | 8% | 2% | 3% |
| Discouraged (any) | 7% | 1% | 2% |
| -Direct (Put off by bank) | 1% | * | * |
| -Indirect (Think I would be turned down) | 6% | 1% | 2% |
| -Already borrowing as much as can | 1% | * | * |
| -Banks don't lend to business like ours for environmental/ethical reasons | * | * | * |
| Issues with principle of borrowing | 6% | 1% | 2% |

Q105 (239/239a) Future would-be seekers SMEs

How have international SMEs responded to current conditions?

When the Q4 2023 interviews were conducted, UK SMEs were negotiating the after-effects of the pandemic, the UK being outside the EU as well as the impact of higher costs and war in Ukraine and the Middle East. As highlighted at the start of this chapter, those SMEs that trade internationally are potentially more likely to have felt an impact on their business, whether from a change in the value of sterling or the impact of the change in terms upon which the UK now trades with other countries.

This section summarises how international SMEs have felt from 2016 onwards, split into three groups based on the ways in which they trade internationally alongside their domestic trade. The sizes of these groups have changed very little since 2016, and in 2023:

- Export-only: 5% of SMEs exported but did not import (with no difference by size 5-6%).
- Import-only: 9% of SMEs imported but did not export (increasing by size of SME from 9% to 15%).
- Fully international: 5% of SMEs both imported and exported (increasing by size of SME from 4% to 19%).
- Domestic only: 80% of SMEs only traded domestically (decreasing by size of SME from 82% to 61%).

Key results for Q4 2023 are shown below. Analysis showed that:

- Fully international SMEs were more likely to be planning to grow (69%) than their other international peers, and to be planning to apply for finance (14%). However, they were also more concerned than their peers about the barriers of increasing costs (43%), political uncertainty (34%) and the value of sterling (32%), as well as reporting a negative impact from leaving the EU (62%)
- Import only SMEs were more likely to be Struggling (16%) than their other international peers and, with the fully international SMEs, more likely to see the economic climate as a barrier (37% and 35%)

| Future outlook summary table | | | | |
|---|-------------|------------|------------|------------|
| Q4 23– all SMEs row percentages | All SMEs | Export | Import | Both |
| Unweighted base: | 4595 | 212 | 519 | 439 |
| Plan to grow | 49% | 54% | 51% | 69% |
| Struggling | 18% | 8% | 16% | 11% |
| Increasing costs 8-10 barrier | 36% | 25% | 31% | 43% |
| Supply chain issues 8-10 barrier | 12% | 11% | 15% | 14% |
| Economic climate 8-10 barrier | 32% | 24% | 37% | 35% |
| Political uncertainty 8-10 barrier | 24% | 26% | 31% | 34% |
| Sterling 8-10 barrier | 11% | 12% | 12% | 32% |
| Negative impact of leaving EU (excl DK) | 33% | 41% | 48% | 62% |
| Plan to apply for finance | 10% | 6% | 12% | 14% |
| Future would-be seeker of finance | 21% | 16% | 18% | 14% |

The table below shows how these views have changed over recent quarters. With relatively limited base sizes there is some natural volatility quarter to quarter, so the table focuses on Q4 of each year from 2019:

- Growth plans for SMEs overall remained fairly consistent across these quarters, but were somewhat higher in Q4 2023, due in part to more Export-only SMEs planning to grow, though it is the fully international SMEs that remained the most likely to be planning to grow (69%).
- Future appetite for finance has been limited for SMEs overall. SMEs with an element of importing to their business have typically been more likely to be planning to apply for finance and this was also true in Q4 2023 (14% for those fully international), at slightly higher levels than in Q4 2022.
- Concern about the economic climate has varied over time, with 1 in 3 of all SMEs concerned in Q4 2023. Whilst this was in line with Q4 2022 overall, concern amongst export-only SMEs was notably lower (24% from 48%) and back in line with previous periods. This was also the case for import-only SMEs (37% from 58%), but there was little change for fully international SMEs (35% from 34%).
- Around a quarter of SMEs have been concerned about political uncertainty in each period. In Q4 2022, SMEs with an element of importing to their business reported higher concern than their peers (42% for Import-only and 36% for fully international) and these groups remained more concerned than their peers in Q4 2023, albeit at lower levels (31% and 34%).
- International SMEs have been more likely than SMEs overall to rate the value of sterling as a potential barrier, most notably in Q4 2022 when 45% of import-only SMEs saw this as a barrier. Levels of concern were somewhat lower in Q4 2023, but fully international SMEs remained more concerned than their peers (32%).

| Future outlook summary table | | | | | |
|-----------------------------------|---------|---------|---------|---------|---------|
| Over time – all SMEs | Q4 2019 | Q4 2020 | Q4 2021 | Q4 2022 | Q4 2023 |
| Plan to grow | | | | | |
| All SMEs | 53% | 42% | 44% | 40% | 49% |
| Export only | 57% | 53% | 42% | 38% | 54% |
| Import only | 56% | 57% | 53% | 52% | 51% |
| Import and export | 73% | 52% | 66% | 64% | 69% |
| Plan to apply for finance | | | | | |
| All SMEs | 9% | 14% | 10% | 8% | 10% |
| Export only | 11% | 11% | 9% | 7% | 6% |
| Import only | 16% | 28% | 14% | 10% | 12% |
| Import and export | 24% | 15% | 13% | 10% | 14% |
| Economic climate 8-10 | | | | | |
| All SMEs | 20% | 36% | 21% | 35% | 32% |
| Export only | 23% | 27% | 25% | 48% | 24% |
| Import only | 31% | 49% | 22% | 58% | 37% |
| Import and export | 38% | 45% | 26% | 34% | 35% |
| Political uncertainty 8-10 | | | | | |
| All SMEs | 24% | 27% | 21% | 27% | 24% |
| Export only | 24% | 25% | 20% | 28% | 26% |
| Import only | 32% | 30% | 21% | 42% | 31% |
| Import and export | 43% | 34% | 24% | 36% | 34% |
| Changes in sterling 8-10 | | | | | |
| All SMEs | 15% | 8% | 8% | 16% | 11% |
| Export only | 17% | 5% | 21% | 26% | 12% |
| Import only | 29% | 18% | 20% | 45% | 12% |
| Import and export | 35% | 20% | 14% | 36% | 32% |

The second table, below, takes a longer term view back to 2016 where data exists and key highlights for each international group for 2023 are detailed here:

| International | Summary analysis over time |
|-------------------|--|
| Export only | <p>In 2023, export-only SMEs were:</p> <p>As likely to be planning to grow (52%) as in 2022 but still below pre-pandemic levels and also below the growth aspirations of their fully international peers</p> <p>Increasingly less likely to be planning to apply for finance (7%)</p> <p>As likely to see the economic climate as a barrier (31%) as in 2022, still below 2020 levels and also below their international peers</p> <p>Increasingly likely to see political uncertainty as a barrier (27%) back to levels seen in 2020 and in line with their international peers</p> <p>Less likely than their peers to see the value of sterling as a barrier (14%), relatively stable over time</p> |
| Import only | <p>In 2023, import-only SMEs were:</p> <p>Less likely to be planning to grow (50%) than in 2022, below pre-pandemic levels and also below the growth aspirations of their fully international peers</p> <p>Increasingly less likely to be planning to apply for finance (9%)</p> <p>Less likely to see the economic climate as a barrier (35%) than in 2022, still below 2020 levels but in line with their fully international peers</p> <p>Less likely to see political uncertainty as a barrier (25%) than in 2022, with scores fluctuating over time but currently in line with their international peers</p> <p>Less likely to see the value of sterling as a barrier (18%) than they were in 2022, again with some fluctuation over time</p> |
| Import and export | <p>In 2023, fully international SMEs were:</p> <p>The most likely to be planning to grow (63%) slightly higher than in 2022 and closer to pre-pandemic levels</p> <p>The most likely to be planning to apply for finance (16%), unchanged from 2022</p> <p>Slightly more likely than their peers to see the economic climate as a barrier (37%) unchanged from 2022, and just below 2020 levels</p> <p>As likely to see political uncertainty as a barrier (28%) as in 2022, and still below the 42% who saw this as a barrier in 2019</p> <p>The most likely to see the value of sterling as a barrier (32%), unchanged from 2022</p> |

| Future outlook summary table | | | | | | | | |
|---|------|------|------|------|------|------|------|------|
| Over time – all SMEs | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| Plan to grow | | | | | | | | |
| All SMEs | 43% | 45% | 49% | 51% | 37% | 46% | 42% | 46% |
| Export only | 49% | 58% | 56% | 56% | 41% | 49% | 51% | 52% |
| Import only | 63% | 63% | 64% | 61% | 50% | 57% | 54% | 50% |
| Import and export | 70% | 67% | 64% | 60% | 51% | 64% | 60% | 63% |
| Plan to apply for finance | | | | | | | | |
| All SMEs | 12% | 12% | 10% | 11% | 13% | 10% | 8% | 8% |
| Export only | 19% | 13% | 10% | 13% | 13% | 9% | 8% | 7% |
| Import only | 19% | 17% | 17% | 18% | 20% | 14% | 11% | 9% |
| Import and export | 25% | 18% | 17% | 21% | 17% | 11% | 16% | 16% |
| Economic climate 8-10 barrier | | | | | | | | |
| All SMEs | 12% | 14% | 17% | 21% | 36% | 23% | 31% | 32% |
| Export only | 17% | 20% | 20% | 23% | 41% | 23% | 32% | 31% |
| Import only | 16% | 21% | 25% | 28% | 43% | 24% | 42% | 35% |
| Import and export | 21% | 21% | 22% | 30% | 41% | 31% | 38% | 37% |
| Political uncertainty 8-10 barrier | | | | | | | | |
| All SMEs | 10% | 14% | 19% | 24% | 24% | 19% | 21% | 22% |
| Export only | 10% | 23% | 25% | 29% | 28% | 20% | 23% | 27% |
| Import only | 16% | 19% | 25% | 32% | 31% | 25% | 33% | 25% |
| Import and export | 20% | 26% | 29% | 42% | 28% | 25% | 29% | 28% |
| Value of sterling 8-10 barrier | | | | | | | | |
| All SMEs | - | 11% | 12% | 14% | 9% | 9% | 12% | 12% |
| Export only | - | 14% | 15% | 18% | 10% | 14% | 11% | 14% |
| Import only | - | 25% | 22% | 21% | 18% | 16% | 28% | 18% |
| Import and export | - | 29% | 28% | 34% | 21% | 20% | 32% | 32% |

Additional analysis of more recent and topical issues is provided below, with fully international SMEs remaining more likely to report a negative impact from the new EU trading arrangements:

| Current issues | Summary analysis |
|-------------------|---|
| Export only | <p>In 2023, export-only SMEs were:</p> <p>Less likely than their international peers to see a negative impact from the new EU trading arrangements, reported by a stable 41% in 2023</p> <p>More likely than in 2022 to see increasing costs as a major barrier (39%), bringing them in line with their international peers</p> <p>Increasingly less likely to see supply chain issues as a major barrier (12%) and below their international peers</p> |
| Import only | <p>In 2023, import-only SMEs were:</p> <p>As likely as they were in 2022 to report a negative impact from the new EU trading arrangements (51%), leaving them between export-only and fully international SMEs</p> <p>Less likely than in 2022 to see increasing costs as a major barrier (39%), bringing them back in line with their international peers</p> <p>Less likely to see supply chain issues as a major barrier (21%) than in 2022, bringing them back in line with their fully international peers</p> |
| Import and export | <p>In 2023, fully international SMEs were:</p> <p>Slightly less likely than they were in 2022 to report a negative impact from the new EU trading arrangements (62%), but still more likely than their international peers</p> <p>As likely as in 2022 to see increasing costs as a major barrier (41%), in line with their international peers</p> <p>As likely to see supply chain issues as a major barrier (21%) as in 2022 now in line with their import-only peers</p> |

| Current issues summary table | | | |
|--|------|------|------|
| Over time – all SMEs | 2021 | 2022 | 2023 |
| Negative impact of new EU trading | | | |
| All SMEs | 29% | 33% | 34% |
| Export only | 38% | 40% | 41% |
| Import only | 48% | 55% | 51% |
| Import and export | 58% | 67% | 62% |
| Increasing costs 8-10* | | | |
| All SMEs | 34% | 39% | 38% |
| Export only | 18% | 28% | 39% |
| Import only | 34% | 46% | 39% |
| Import and export | 49% | 39% | 41% |
| Supply chain issues 8-10* | | | |
| All SMEs | 23% | 18% | 14% |
| Export only | 21% | 15% | 12% |
| Import only | 33% | 31% | 21% |
| Import and export | 36% | 24% | 21% |

*data for 2021 is for Q4 only



12. Awareness of taskforce



and other initiatives.

THIS FINAL SECTION OF THE REPORT

looks at awareness amongst SMEs of some of the Business Finance Taskforce commitments, together with other relevant initiatives.





12. Awareness of initiatives

KEY FINDINGS

3 in 10 SMEs in Q4 2023 had heard of either Pay as you Grow or the Recovery Loan scheme, increasing to 4 in 10 of those still repaying Government backed funding:

- 29% of SMEs in Q4 2023 had heard of either Pay as you Grow (25%) and/or the Recovery Loan scheme (12%) increasing by size of SME to 37% of those with 10-49 employees.
- Awareness of Pay as you Grow was higher for those in Wholesale/Retail (31%) and those trading for 6-9 years (32%) while awareness of the Recovery Loan Scheme was higher for those with 10-49 employees (22%), and also those trading for 6-9 years (18%).
- 39% of those still repaying government back funding were aware of Pay as you Grow and 15% were aware of the Recovery Loan Scheme. 43% were aware of either or both of these, compared to 33% of those who had repaid such funding and 25% who hadn't applied for it.
- By comparison, 36% of SMEs in Q4 2023 were aware of the Financial Services Compensation Scheme while 13% were aware of the Standards of Lending Practice and 9% of the SME Finance Charter, all somewhat higher for those with 10-49 employees.

Awareness of wider forms of funding such as Venture Capital, crowd funding and peer to peer lending has increased over time, but usage of the latter forms of finance remained limited:

- Two thirds (65%) of SMEs excluding PNBs were aware of any of a range of forms of finance; Venture Capital (53%), Equity crowd funding platforms (50%), Peer to peer lending platforms (39%) and/or Business Angels (32%).
- Overall awareness varied little by size of SME, with the slight exception of those with 10-49 employees (72% aware of any). Since Q4 2018, awareness of any of these forms of funding has

Almost half of those still repaying pandemic funding were aware of Pay as you Grow and/or the Recovery Loan Scheme

Awareness of initiatives

increased from around a half (53% in Q4 2018) to two thirds (65% in both Q4 2022 and Q4 2023).

- 55% were aware of one or more of the ‘platforms’ but use remained limited (less than 1%) while 17% of those aware said they would consider using this form of finance in the future, in line with recent years but lower than the 1 in 3 aware who would consider them pre-pandemic.

1 in 5 SMEs were aware of the British Business Bank, increasing by size of SME and interest in finance:

- In 2023, 18% of SMEs were aware of the British Business Bank and/or its Finance Hub.
- Awareness was higher for those with 10-49 employees (25%), those in Property/Business Services (23%) and those trading for 10-15 years (22%).
- Excluding the PNBs (given the BBB focus on funding) also increases awareness to 19% (v 16% of PNBs).
- Awareness was slightly lower in 2023 than previous years. In 2020 a quarter of SMEs were aware of BBB, declining to a fifth in 2021-22 and now 18%.

12 Awareness of taskforce and other initiatives

In October 2010, the Business Finance Taskforce agreed to a range of initiatives with the aim of supporting SMEs in the UK. This final section of the report looks at awareness amongst SMEs of some of those commitments, together with other relevant initiatives.

This part of the survey has been revised several times as new initiatives were developed. Then, in order to create space for the Covid related questions, many of these core tracking questions were rested from Q2 2020. This chapter provides details of those core measures that remain, as well as other newer initiatives that have been added to the questionnaire.

Awareness of British Business Bank

The table below details awareness of the British Business Bank. Awareness was somewhat lower at the end of 2023 (17%) than at the end of 2022 (23%):

| Awareness of BBB | | | | | | | | |
|-----------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Over time – all SMEs | Q1 2022 | Q2 2022 | Q3 2022 | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
| Unweighted base: | 4250 | 4250 | 4250 | 4252 | 4252 | 4253 | 3910 | 4595 |
| The British Business Bank* | 18% | 20% | 19% | 21% | 19% | 18% | 17% | 17% |
| The BBB's Finance Hub | 8% | 9% | 12% | 12% | 12% | 9% | 8% | 10% |
| Aware of BBB / Finance hub | 19% | 20% | 20% | 23% | 20% | 19% | 17% | 17% |

QAw1 from Q2 2020

As the table below shows:

- Awareness in 2023 was slightly lower than in 2022 and across all demographics, with slightly more of a drop in awareness amongst those with a minimal risk rating (to 17%), and those in Construction (to 12%).
- Overall, awareness was higher amongst larger SMEs with 10-249 employees, those in Wholesale/Retail or Property/Business Service, with limited differences by risk rating or age of SME or once the PNBs were excluded.

12 Awareness of taskforce and other initiatives

| Any awareness of BBB: | | | | | |
|--|------------|------------|------------|------------|------------|
| Over time | Q3 2020 | Q4 2020 | 2021 | 2022 | 2023 |
| By date of interview – row percentages | | | | | |
| All SMEs | 24% | 26% | 22% | 21% | 18% |
| 0 emp | 22% | 24% | 20% | 20% | 17% |
| 1-9 emps | 29% | 31% | 26% | 22% | 20% |
| 10-49 emps | 34% | 34% | 29% | 25% | 25% |
| 50-249 emps | 39% | 35% | 30% | 19% | 22% |
| Minimal external risk rating | 28% | 31% | 22% | 23% | 17% |
| Low | 25% | 30% | 20% | 22% | 19% |
| Average | 27% | 23% | 22% | 20% | 19% |
| Worse than average | 21% | 28% | 23% | 20% | 18% |
| Agriculture | 18% | 22% | 21% | 18% | 14% |
| Manufacturing | 19% | 25% | 24% | 17% | 14% |
| Construction | 20% | 23% | 16% | 18% | 12% |
| Wholesale/Retail | 34% | 31% | 24% | 19% | 22% |
| Hotels & Restaurants | 26% | 26% | 24% | 16% | 17% |
| Transport | 32% | 18% | 20% | 21% | 19% |
| Property/ Business Services | 25% | 32% | 26% | 26% | 23% |
| Health | 22% | 15% | 19% | 13% | 9% |
| Other | 15% | 31% | 22% | 19% | 19% |
| PNBs | 22% | 23% | 19% | 19% | 16% |
| All excl PNBs | 25% | 28% | 24% | 22% | 19% |
| Starts | 27% | 35% | 24% | 22% | 18% |
| 2-5 years trading | 24% | 27% | 21% | 21% | 18% |
| 6-9 years | 29% | 24% | 23% | 21% | 19% |
| 10-15 years | 21% | 21% | 22% | 21% | 22% |
| 15+ years | 23% | 24% | 21% | 19% | 17% |

AW1 and BBB1 All SMEs

12 Awareness of taskforce and other initiatives

The rest of this chapter looks at the awareness of other initiatives that have been included in 2023. Changes were made during the year, but all were asked in Q4 2023 and so are reported on that basis here.

Awareness of support initiatives Q4 23

Respondents were prompted with the names of a range of different initiatives relating to pandemic funding. As the table below shows, 29% of SMEs in Q4 2023 were aware of either or both of these specific schemes, with lower awareness for the largest and smallest SMEs:

| Awareness of funding initiatives | | | | | |
|----------------------------------|-------------|------------|-------------|-------------|-------------|
| Q4 23 – all SMEs | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
| Unweighted base: | 4595 | 996 | 1942 | 1097 | 560 |
| Pay as you Grow | 25% | 23% | 28% | 28% | 17% |
| The Recovery Loan scheme | 12% | 11% | 15% | 22% | 16% |
| Either of these | 29% | 27% | 33% | 37% | 22% |
| Neither of these | 71% | 73% | 67% | 63% | 78% |

AW1c56 All SMEs

Awareness of either of these initiatives was higher for those still repaying government backed pandemic finance (43% - 39% Pay as you Grow and 15% the Recovery Loan scheme), compared to 33% awareness amongst those who have repaid the finance they took and 25% amongst those who didn't apply.

Amongst those with employees, 34% were aware of either of these initiatives, while amongst those using external finance, 31% had heard of either initiative (27% Pay as you Grow and 12% the Recovery Loan scheme).

12 Awareness of taskforce and other initiatives

A number of schemes have been developed to support SMEs in their relationships with their bank, including, from Q3 2023, the Financial Services Compensation Scheme:

| Awareness of support initiatives | | | | | |
|--|-------------|------------|-------------|-------------|-------------|
| Q4 23 – all SMEs | Total | 0 emp | 1-9 emps | 10-49 emps | 50-249 emps |
| Unweighted base: | 4595 | 996 | 1942 | 1097 | 560 |
| The SME Finance Charter | 9% | 9% | 9% | 16% | 13% |
| The Standards of Lending Practice | 13% | 13% | 11% | 20% | 17% |
| The Financial Services Compensation Scheme | 36% | 37% | 30% | 41% | 34% |

AW1 All SMEs

Amongst those using external finance, 36% had heard of the Financial Services Compensation Scheme, 13% had heard of the Standards of Lending Practice and 9% had heard of the SME Finance Charter.

Awareness of ALL initiatives by key groups

The table below brings together all the initiatives available to all SMEs by key demographics and shows limited variations with few consistent patterns across the various initiatives tested:

- SMEs were typically most likely to be aware of the Financial Compensation Scheme (36%) with awareness higher for those with a minimal risk rating (46%) or in Property/Business Services (49%).
- A quarter were aware of Pay as you Grow (25%), increasing to 31% in Wholesale/Retail and 32% of those trading for 6-9 years.
- Awareness of the Recovery Loan Scheme was at half this level (12%), but higher for those with 10-49 employees (22%) and again those trading for 6-9 years (18%).
- Overall awareness of the Standards of Lending was at a similar level (13%), increasing to 20% of those with 10-49 employees.
- Finally, 1 in 10 was aware of the SME Finance Charter (9%), increasing to 16% of those with 10-49 employees and/or trading for 6-9 years.

12 Awareness of taskforce and other initiatives

Awareness of ALL initiatives by key groups

The table below brings together all the initiatives available to all SMEs by key demographics:

| Any awareness: | | | | | |
|------------------------------|---------------|------------|------------|-------------------|-------------|
| Q4 23 row percentages | Finl Compn | PayGr | Recy Ln | Lending Sta'ds | SME Charter |
| All SMEs | 36% | 25% | 12% | 13% | 9% |
| 0 emp | 37% | 23% | 11% | 13% | 9% |
| 1-9 emps | 30% | 28% | 15% | 11% | 9% |
| 10-49 emps | 41% | 28% | 22% | 20% | 16% |
| 50-249 emps | 34% | 17% | 16% | 17% | 13% |
| Minimal external risk rating | 46% | 22% | 16% | 10% | 9% |
| Low | 40% | 28% | 12% | 15% | 10% |
| Average | 34% | 25% | 15% | 16% | 11% |
| Worse than average | 34% | 23% | 10% | 9% | 7% |
| Agriculture | 30% | 16% | 7% | 8% | 5% |
| Manufacturing | 34% | 16% | 9% | 10% | 6% |
| Construction | 33% | 21% | 9% | 9% | 9% |
| Wholesale/Retail | 29% | 31% | 14% | 14% | 10% |
| Hotels & Restaurants | 28% | 29% | 10% | 12% | 9% |
| Transport | 31% | 27% | 17% | 11% | 6% |
| Property/ Business Services | 49% | 26% | 14% | 16% | 11% |
| Health | 33% | 20% | 4% | 9% | 4% |
| Other Community | 28% | 25% | 15% | 14% | 12% |
| Starts | 31% | 25% | 7% | 12% | 7% |
| 2-5 years trading | 36% | 22% | 14% | 14% | 9% |
| 6-9 years | 37% | 32% | 18% | 14% | 16% |
| 10-15 years | 39% | 29% | 14% | 11% | 9% |
| 15+ years | 37% | 21% | 12% | 13% | 8% |

AW1 All SMEs

12 Awareness of taskforce and other initiatives

The table below looks at awareness by future plans around growth and finance, as well as current use of finance:

- Those with plans to grow in the coming year were no more likely to be aware of these initiatives than those with no such plans.
- Those with plans to apply for finance were slightly more likely to be aware of Pay as you Grow as were those who did not meet the definition of a PNB, and specifically those using external finance.
- Future would-be seekers of finance were more likely to be aware of the Standards of Lending.

| Awareness: | | | | | |
|----------------------------|------------|------------|------------|----------------|-------------|
| Q4 23 row percentages | Finl Compn | PayGr | Recy Ln | Lending Sta'ds | SME Charter |
| All SMEs | 36% | 25% | 12% | 13% | 9% |
| Plan to grow | 33% | 25% | 13% | 13% | 9% |
| No plans to grow | 38% | 24% | 11% | 13% | 9% |
| Plan to apply for finance | 35% | 34% | 10% | 13% | 7% |
| Future would-be seekers | 36% | 28% | 13% | 19% | 9% |
| Future Happy non-seekers | 36% | 22% | 12% | 11% | 9% |
| PNBs | 35% | 20% | 12% | 10% | 9% |
| All excl PNBs | 36% | 27% | 12% | 14% | 9% |
| All using external finance | 36% | 27% | 12% | 13% | 9% |

AW1 All SMEs

In addition, Exporters were asked if they were aware of the General Export Facility from UK Export Finance. In 2023 as a whole:

- 14% of exporters had heard of this facility (from 24% in H2 2022 and more in line with the 19% aware in H2 2021).
- Awareness was lower for 0 employee exporters (11%) then varied little by size of exporter (21-22% of those with employees)
- Of the two main international sectors, 19% of exporters in Wholesale/Retail were aware of the General Export Facility and 20% of those in Manufacturing.
- Those who were importing as well as exporting (typically larger SMEs) were as aware (15%) as those who only exported (13%).
- Awareness levels were the slightly higher amongst exporters using external finance (16%) than for those who weren't (12%).

Crowd Funding and other forms of finance

Questions on crowd funding have been through several iterations in the SME Finance Monitor since they were originally included in Q2 and Q3 2012, when awareness of the concept was 18%.

The question was revised most recently in Q1 2017 when SMEs were asked specifically if they were aware of either ‘equity crowd funding platforms’ or ‘peer to peer lending platforms’. Since 2021 this question has been asked in Q4 only due to space being needed for more topical questions.

The table below looks at awareness of these two forms of funding plus some others which were also included in the questionnaire when that change was made. Results are shown here for Q4 2023 with the PNBs excluded as has been standard practice in the past.

Awareness was highest for Venture Capital and equity crowd funding (around half of these SMEs), with around 4 in 10 aware of either peer-to-peer lending or Business Angels. Overall, two thirds had heard of one or more of these forms of funding:

| Awareness of finance sources | | | | | |
|-------------------------------|-------------|------------|-------------|---------------|----------------|
| All SMEs excl PNBs Q4 23 | Total | 0 emps | 1-9 emps | 10-49 emps | 50-249 emps |
| Unweighted base: | 3327 | 624 | 1445 | 909 | 349 |
| Venture Capital | 53% | 53% | 52% | 59% | 56% |
| Equity crowd funding platform | 50% | 50% | 50% | 58% | 52% |
| Peer to peer lending platform | 39% | 38% | 39% | 46% | 45% |
| Business Angels | 32% | 32% | 32% | 33% | 36% |
| Any of these | 65% | 64% | 66% | 72% | 65% |
| Not aware | 35% | 36% | 34% | 28% | 35% |

Q111 (238a3x) All SMEs excl PNBs and DK

Amongst those with employees, 67% were aware of one or more of the forms of funding tested.

12 Awareness of taskforce and other initiatives

The table below shows awareness of crowd funding/ peer to peer lending over time, initially under a more generic question and then (from Q1 2017) calculated as awareness of either 'equity crowd funding platforms' and/or 'peer to peer lending platforms'. Given the reduced frequency with which this question is asked, the analysis focusses on Q4 of each year for which comparable data is available.

Overall awareness of these forms of funding has been around 6 in 10 since Q4 2019, rising to two thirds in Q4 2022 and Q4 2023, primarily due to increased awareness amongst smaller SMEs and an increase in awareness for those with 50-249 employees back to levels seen pre-pandemic. Those planning to apply for finance however, were less likely to be aware in Q4 2023 than they were in Q4 2022:

| Crowd funding/peer to peer lending | | | | | | |
|------------------------------------|------------|------------|------------|------------|------------|------------|
| All SMEs excl PNBs | Q4 2018 | Q4 2019 | Q4 2020 | Q4 2021 | Q4 2022 | Q4 2023 |
| Row percentages | | | | | | |
| All | 53% | 57% | 59% | 58% | 65% | 65% |
| 0 emps | 54% | 59% | 57% | 57% | 66% | 64% |
| 1-9 emps | 50% | 50% | 63% | 60% | 62% | 66% |
| 10-49 emps | 57% | 56% | 65% | 62% | 68% | 72% |
| 50-249 emps | 68% | 64% | 59% | 51% | 44% | 65% |
| All planning to apply | 61% | 66% | 60% | 61% | 72% | 58% |

Q111 (238a3) All SMEs excl PNBs *Question changed in Q1 2017

12 Awareness of taskforce and other initiatives

The table below provides more specific detail on use, awareness and consideration of 'crowd funding' i.e. equity crowd funding platforms and/or peer to peer lending, for Q4 2023. Very few SMEs were using this form of finance (<1%) while 1 in 10 would consider using it in future (17% of those aware, the equivalent of 9% of all SMEs excluding the PNBs):

| Awareness and use of crowd funding | | | | | |
|--|-------------|------------|-------------|---------------|----------------|
| All SMEs excl PNBs Q4 23 | Total | 0 emps | 1-9 emps | 10-49 emps | 50-249 emps |
| Unweighted base: | 3327 | 624 | 1445 | 909 | 349 |
| Aware of 'crowd funding' | 55% | 54% | 56% | 64% | 58% |
| Using crowd funding | * | * | * | * | * |
| Unsuccessfully applied for crowd funding | * | * | * | * | * |
| Would consider applying in future | 9% | 9% | 9% | 6% | 8% |
| Would not consider applying | 45% | 44% | 46% | 57% | 49% |
| Not aware | 45% | 46% | 44% | 36% | 42% |
| % aware who would consider | 17% | 17% | 17% | 12% | 16% |

Q111/112 (238a3x4) All SMEs excl PNBs

There was little difference in awareness of future consideration by size of SME.

12 Awareness of taskforce and other initiatives

As the table below shows:

- Awareness has been stable since H2 2019 at just over half of SMEs, excluding the PNBs (55% in Q4 2023).
- The proportion of SMEs who would consider applying for such finance increased to 20% in H2 2019 but has been lower since, and was 9% in Q4 2023.
- As a result, 17% of SMEs aware of crowd funding in Q4 2023 said they would consider it as a form of funding, still somewhat lower than the 1 in 3 more commonly seen up to H2 2019.

| Awareness and use of crowd funding | | | | | | | |
|------------------------------------|-------------|-------------|-------------|--------------|-------------|-------------|-------------|
| All SMEs excl PNBs Over time | H2 2017 | H2 2018 | H2 2019 | Q1&4 2020 | Q4 2021 | Q4 2022 | Q4 2023 |
| Unweighted base: | 5891 | 5691 | 6085 | 5855 | 2416 | 2484 | 3327 |
| Aware of crowd funding | 44% | 47% | 52% | 52% | 58% | 56% | 55% |
| Would consider applying in future | 13% | 15% | 20% | 10% | 13% | 11% | 9% |
| % aware who would consider | 30% | 32% | 38% | 19% | 22% | 20% | 17% |

Q111/112 (238a3) All SMEs excl PNBs



13. Graphs and charts

THIS CHAPTER PRESENTS

some of the key data in graphical form to provide
data on longer term trends.

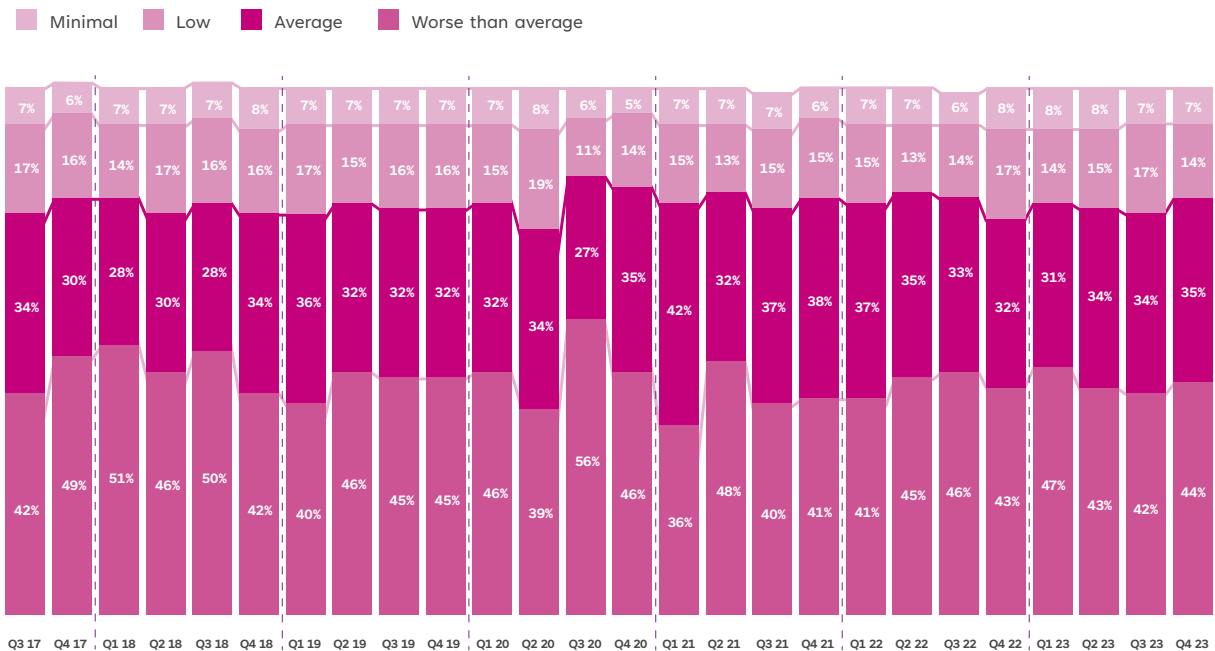


Much of the data in this report is provided and analysed over time, typically by quarter. After more than 10 years of the SME Finance Monitor, the tables containing data for each quarter have become too large to fit comfortably on a page. The main tables therefore show the most recent quarters only and a series of summary tables have been developed for key questions to show longer terms trends on an annual basis. This chapter also provides longer trend data, but this time quarter by quarter for key questions from 2012.

Charts reflecting data reported in Chapter 4

External risk rating from D&B or Experian

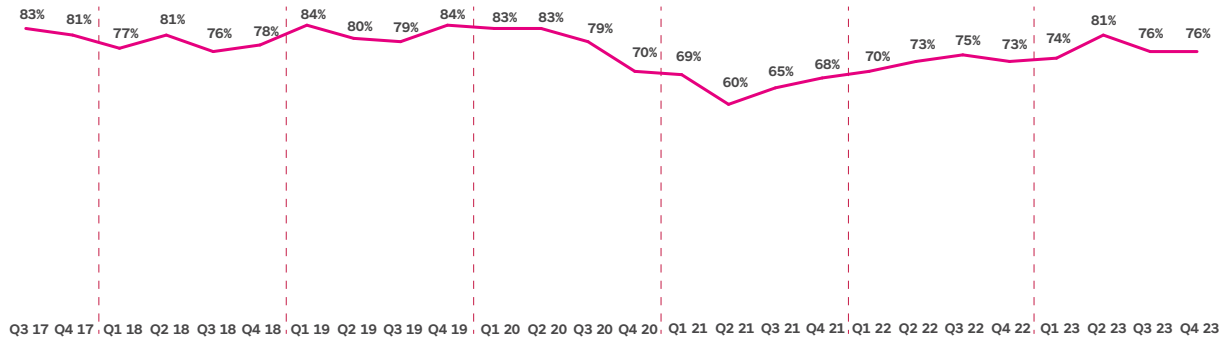
Time Series: Risk rating per quarter



Risk rating

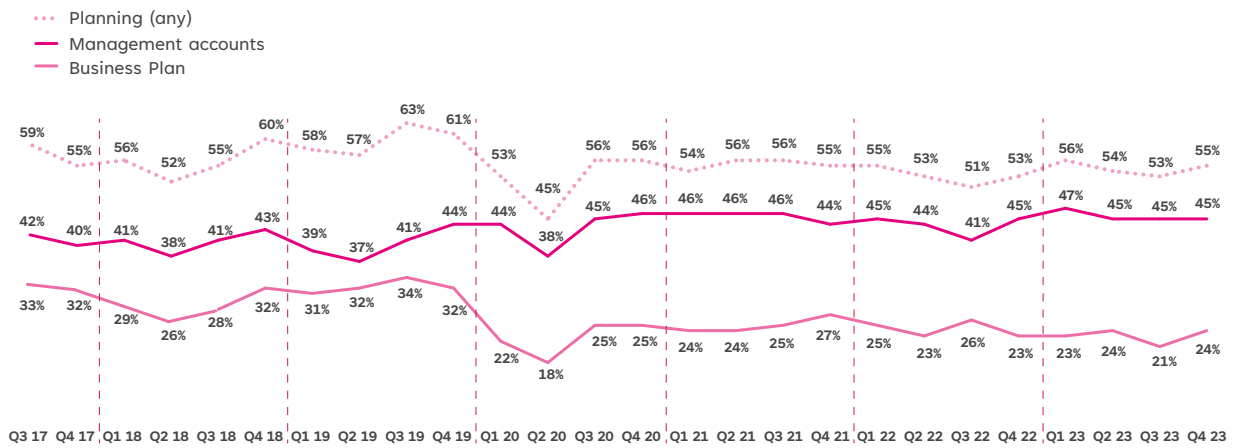
% that made a net profit during last 12 month financial period

Time series: Reported profitability in past 12 months, per quarter, excluding DK



Proportion preparing management accounts/business plans

Time series: Business planning



Q223

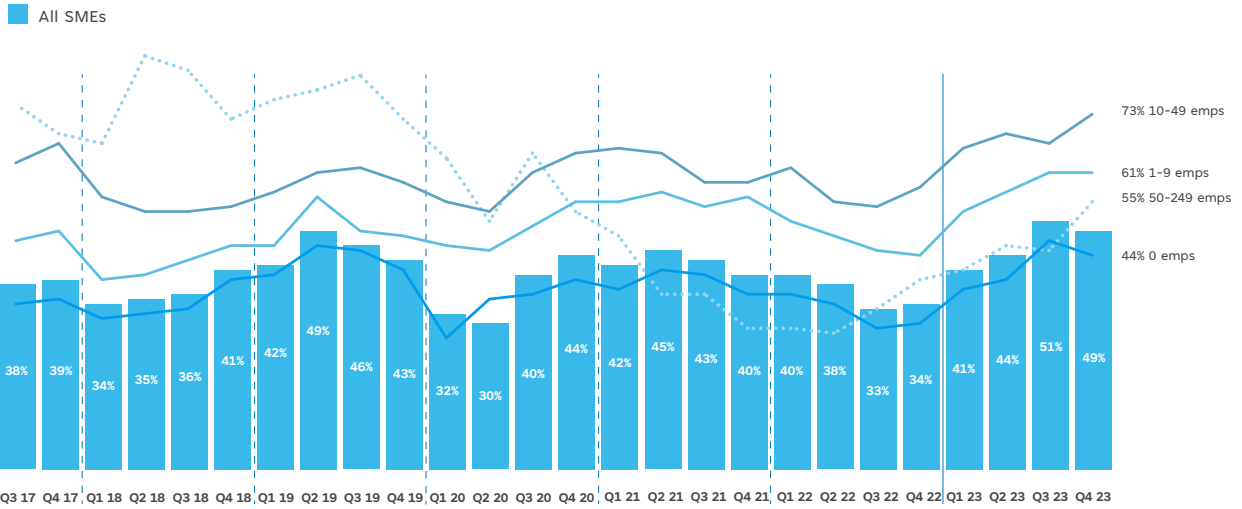
Charts reflecting data reported in Chapter 5/6

Use of any listed forms of external finance currently – by size

Time Series: Use of external finance per quarter

Use of any listed forms of external finance currently – by size

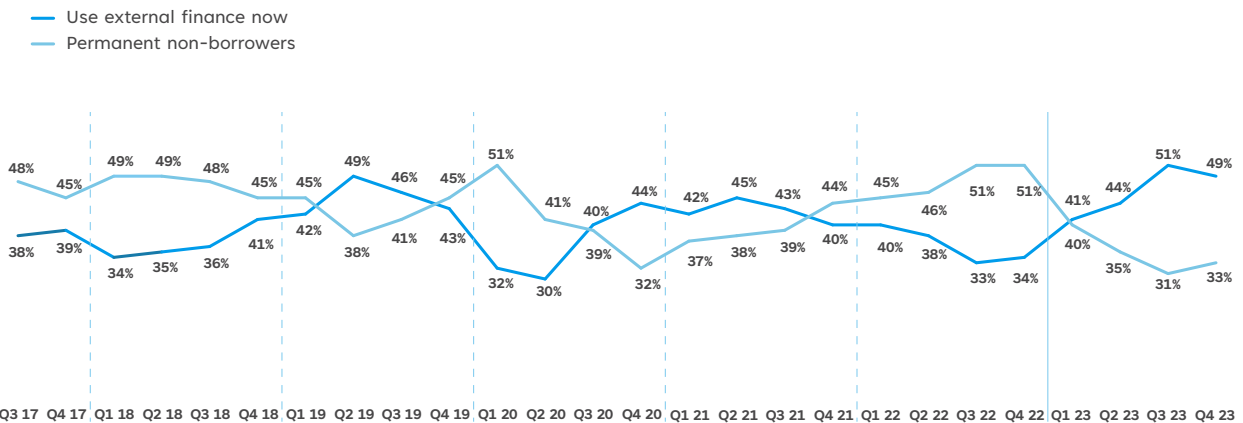
Time series: Use of external finance per quarter



From Q1 2023 this has included a more accurate assessment of SMEs repaying government backed pandemic funding.

Proportion using external finance v those who meet definition of Permanent non-borrower

Time series: Permanent non-borrowers and users of external finance



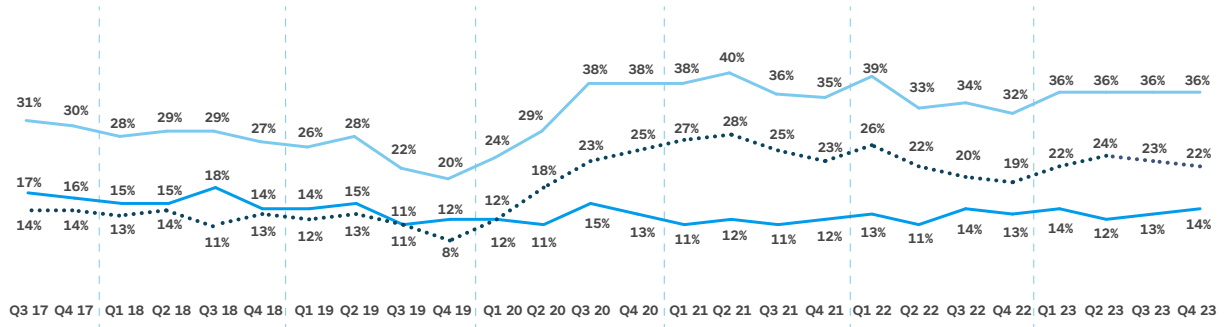
Q15/14 and others

From Q1 2023 use of external finance has included a more accurate assessment of SMEs repaying government backed pandemic funding, and the definition of PNBs has been adjusted to exclude those who applied for such funding.

Proportion injecting personal funds into the business in last 12 months

Time series: Injections of personal funds

- Any injection of funds
- Chose to inject funds
- Felt had to inject funds

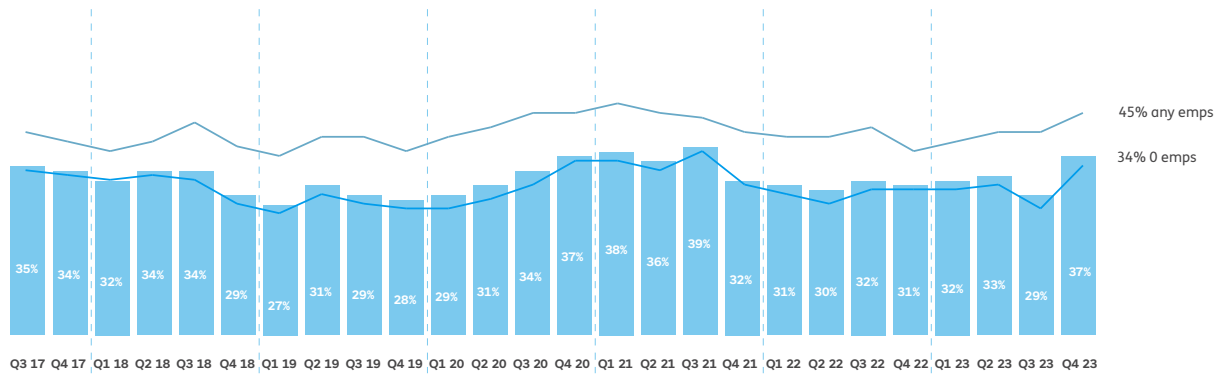


Q15/14 and others

Happy to borrow to grow

Time Series: % agree that happy to use finance to help business grow

All



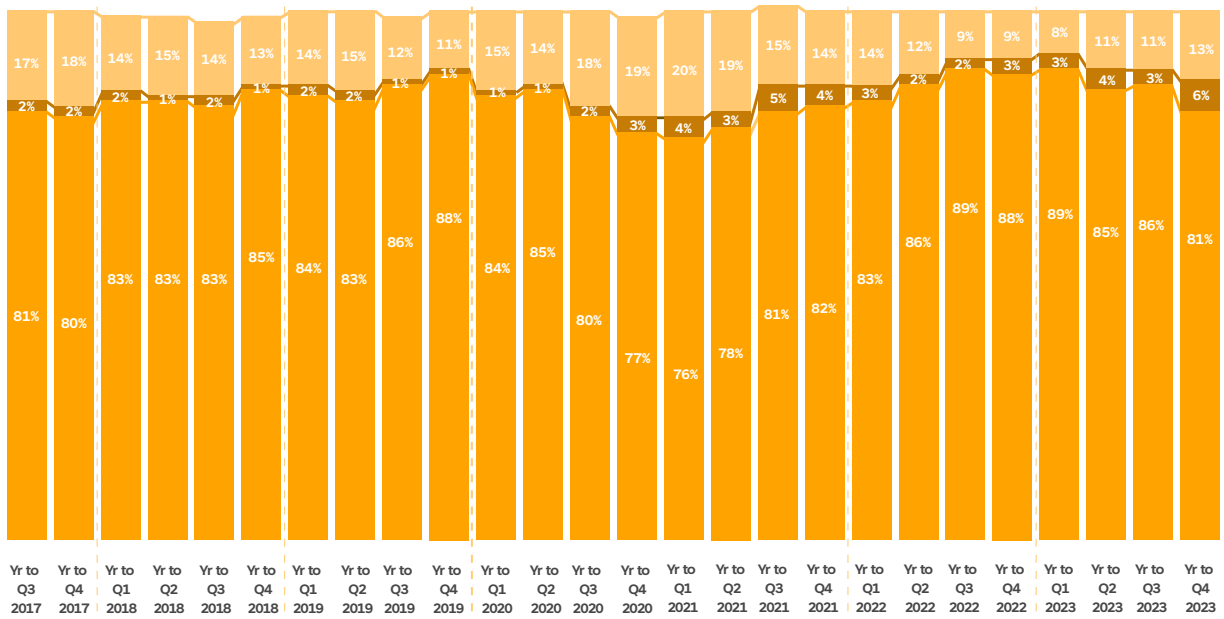
Q238

Charts reflecting data reported in Chapter 10

Classification of respondents based on borrowing behaviour in 12 months prior to interview

Time series: Borrowing profile in 12 months prior to interview

- Had any event
- Would be seekers
- Happy non-seekers

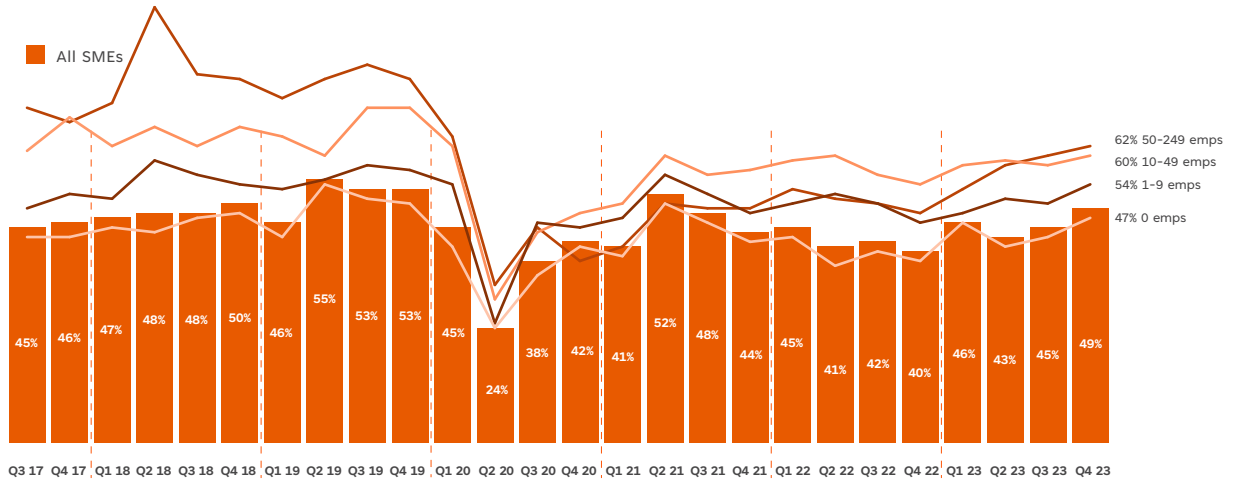


Q115/209

Charts reflecting data reported in Chapter 11

Plan to grow moderately/substantially in next 12 months

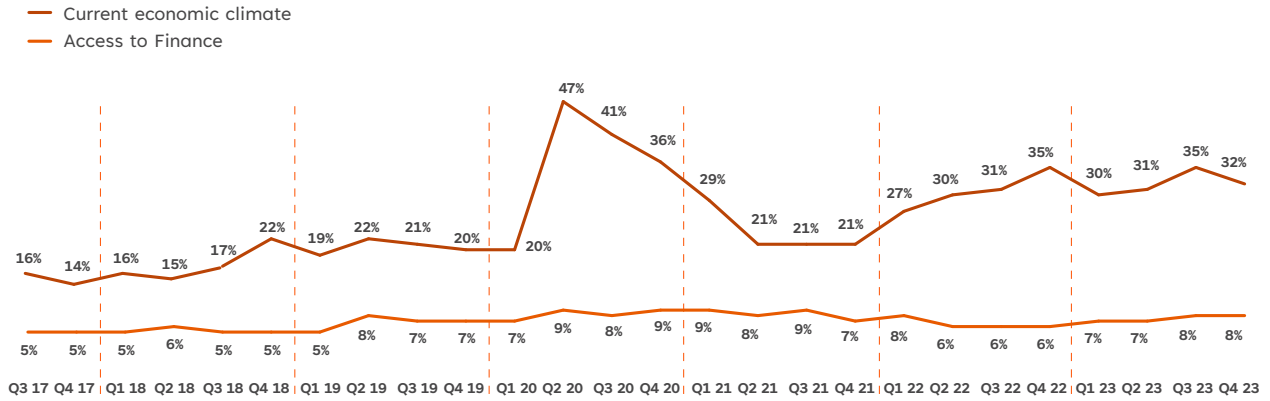
Time series: Plan to grow



Q26/Q225

Obstacles perceived to running business – Current economic climate and access to finance

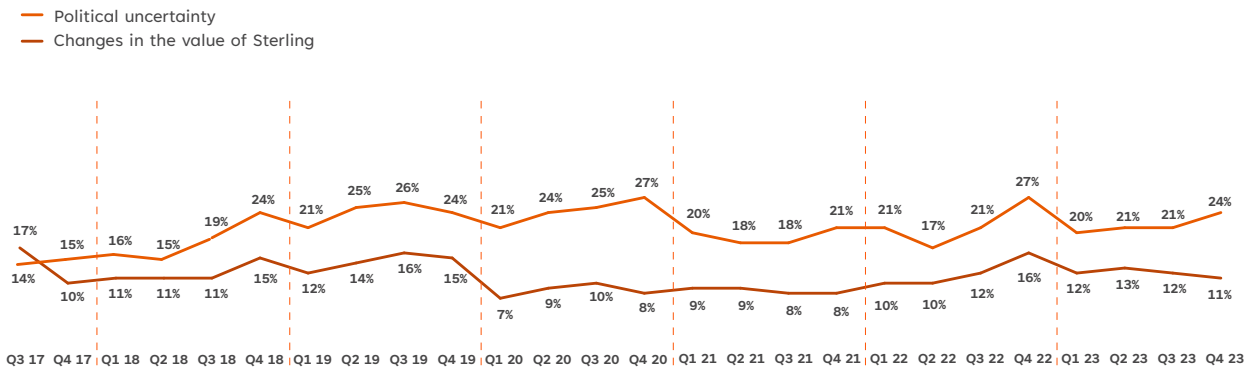
Time series: 8-10 major obstacle



Q227

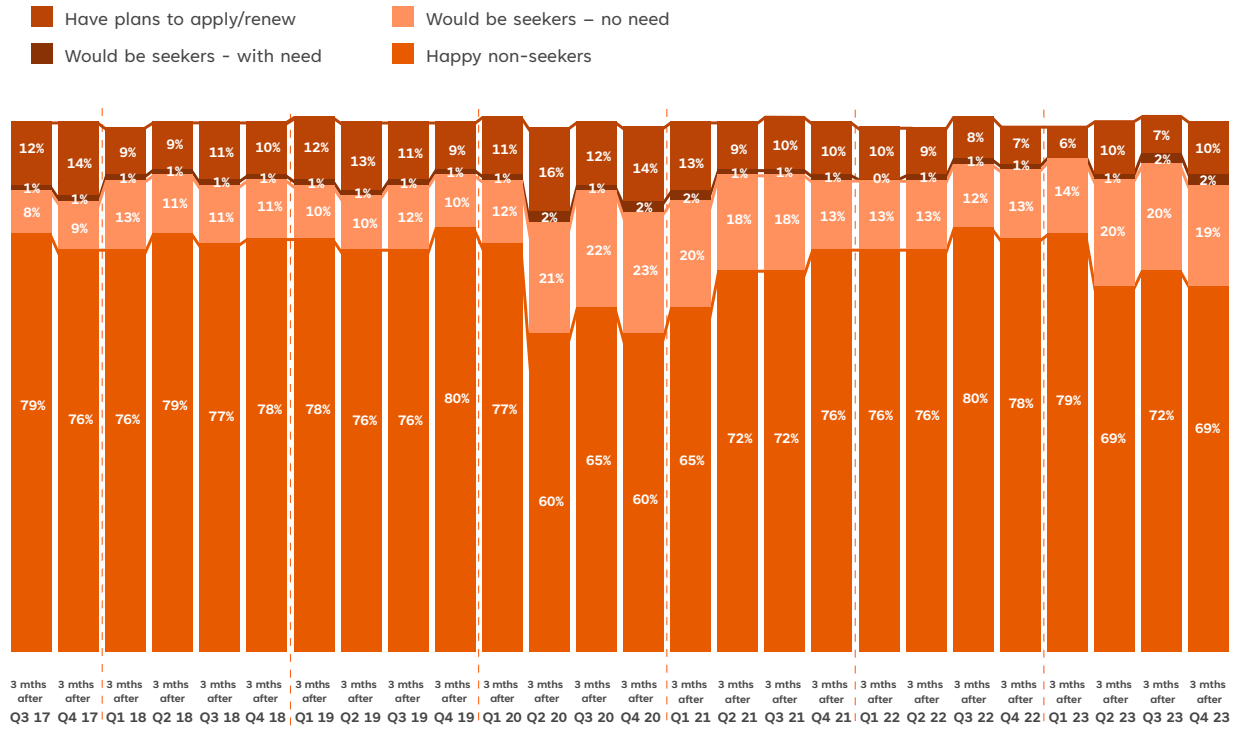
Obstacles perceived to running business – Political uncertainty and changes in the value of sterling

Time series: 8-10 major obstacle



Classification of respondents based on expected borrowing behaviour in 3 months after interview

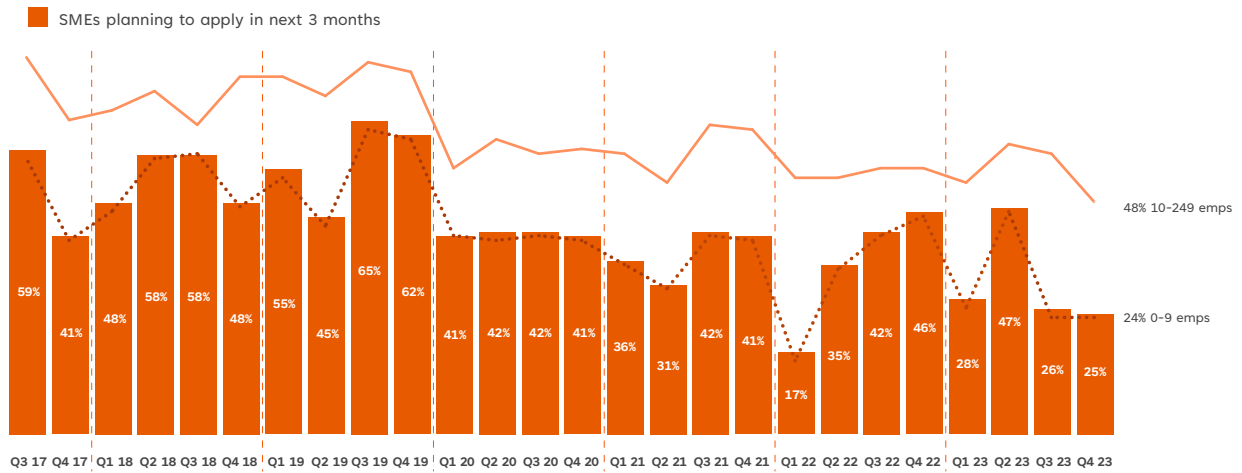
Time series: Anticipated borrowing profile for next 3 months



Q229

Confidence amongst those planning to apply for finance in 3 months after interview that bank will agree to request

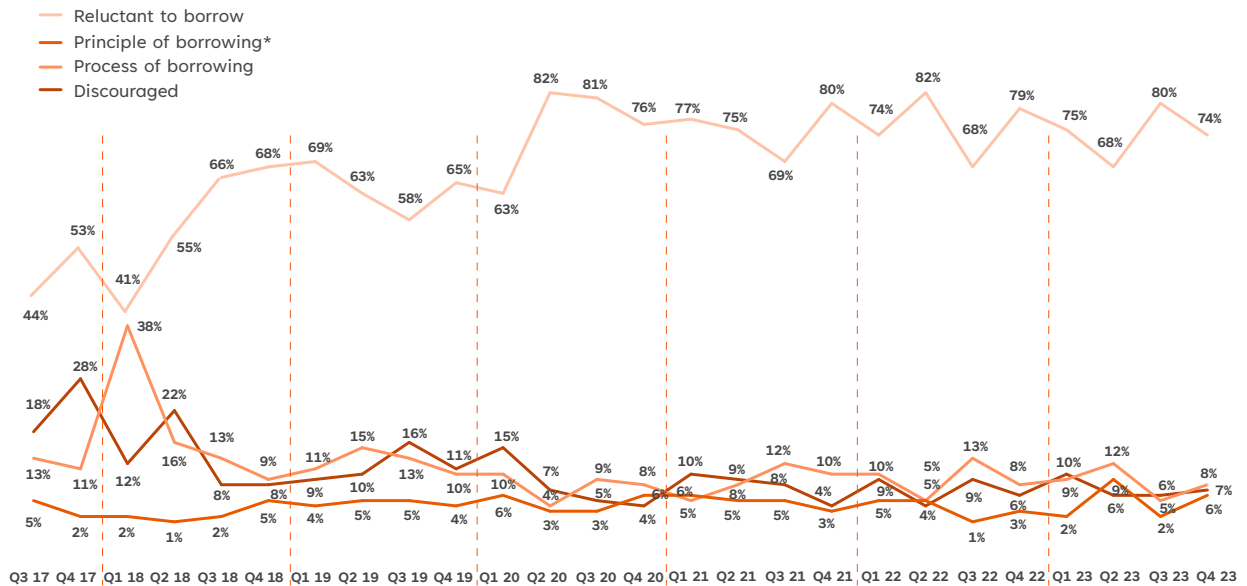
Time series: Confident bank will agree to facility next 3 months



Q238

Main barriers for Future would-be seekers

Time series: Main reason for not seeking borrowing amongst Future would-be seekers



*principle of borrowing no longer includes 'prefer not to borrow'



14. Technical appendix

THIS CHAPTER COVERS

the technical elements of the report – sample size
and structure.



Eligible SMEs

In order to qualify for interview, SMEs had to meet the following criteria in addition to the quotas by size, sector and region:

- not 50%+ owned by another company
- not run as a social enterprise or as a not for profit organisation
- turnover of less than £25m.
- The respondent was the person in charge of managing the business’s finances. No changes have been made to the screening criteria in any of the waves conducted to date.

Sample structure

Quotas were set overall by size of business, by number of employees, as shown below. The classic B2B sample structure over-samples the larger SMEs compared to their natural representation in the SME population, in order to generate robust sub-samples of these bigger SMEs. Fewer interviews were conducted with 0 employee businesses to allow for these extra interviews. This has an impact on the overall weighting efficiency (once the size bands are combined into the total), which is detailed later in this chapter.

The sample design shown below was adopted from 2021 (based on 2020 BEIS data), and the sample sizes shown were achieved once the Q4 2022 interviewing was complete. The total annual sample size has reduced over time from 20,000 interviews a year (up to 2015) to 17,000 a year currently and the data is grossed to a total of 5,920,715 SMEs.

| Business size | | | |
|-------------------|---------------|-------------------|-------------|
| | % of universe | Total sample size | % of sample |
| Total | 100% | 17,000 | 100% |
| 0 employee (resp) | 76% | 3400 | 21% |
| 1-9 employees | 19% | 5500 | 32% |
| 10-49 employees | 4% | 5500 | 32% |
| 50-249 employees | 1% | 2600 | 15% |

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Overall quotas were set by sector and region as detailed below. In order to ensure a balanced sample, these overall region and sector quotas were then allocated within employee size band to ensure that SMEs of all sizes were interviewed in each sector and region.

| Business sector* | | | |
|--------------------------------------|---------------|-------------------|-------------|
| (SIC 2007 in brackets) | % of universe | Total sample size | % of sample |
| AB Agriculture etc. (A) | 3% | 1200 | 7% |
| D Manufacturing (C) | 5% | 1400 | 8% |
| F Construction (F) | 18% | 3000 | 18% |
| G Wholesale etc. (G) | 10% | 1700 | 10% |
| H Hotels etc. (I) | 4% | 1200 | 7% |
| I Transport etc. (H&J) | 13% | 1900 | 11% |
| K Property/Business Services (L,M,N) | 28% | 3400 | 20% |
| N Health etc. (Q) | 7% | 1400 | 8% |
| O Other (R&S) | 12% | 1800 | 11% |

Quotas were set overall to reflect the natural profile by sector, but with some amendments to ensure that a robust sub-sample was available for each sector. Thus, fewer interviews were conducted in Construction and Property/Business Services to allow for interviews in other sectors to be increased, in particular for Agriculture and the Hotel & Restaurant sector.

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A similar procedure was followed for the regions and devolved nations:

| Region | % of universe | Total sample size | % of sample |
|------------------|---------------|-------------------|-------------|
| London | 19% | 2000 | 12% |
| South East | 16% | 2000 | 12% |
| South West | 9% | 1500 | 9% |
| East | 10% | 1500 | 9% |
| East Midlands | 7% | 1200 | 7% |
| North East | 3% | 1000 | 6% |
| North West | 9% | 1500 | 9% |
| West Midlands | 8% | 1400 | 8% |
| Yorks & Humber | 7% | 1300 | 8% |
| Scotland | 6% | 1500 | 9% |
| Wales | 3% | 1100 | 6% |
| Northern Ireland | 2% | 1000 | 6% |

Weighting

The weighting regime was initially applied separately to each quarter. The four most recent quarters were then combined and grossed to the total of 5,920,715 SMEs, based on BEIS 2020 SME data.

This ensured that each individual wave is representative of all SMEs while the total interviews conducted in a 4-quarter period gross to the total of all SMEs.

The table below shows the new weighting being applied to interviews from 2021 onwards:

| | | 0 | 1-49 | 50-249 | Total |
|----|---|---------------|---------------|--------------|--------|
| AB | Agriculture, Hunting and Forestry; Fishing | 1.87% | 0.93% | 0.01% | 2.81% |
| D | Manufacturing | 3.80% | 1.31% | 0.10% | 5.21% |
| F | Construction | 15.00% | 2.98% | 0.01% | 17.99% |
| G | Wholesale and Retail Trade; Repairs | 5.69% | 4.22% | 0.09% | 10.00% |
| H | Hotels & Restaurants | 1.7% | 2.28% | 0.05% | 4.03% |
| I | Transport, Storage and Communication | 10.65% | 2.38% | 0.15% | 13.18% |
| K | Real Estate, Renting and Business Activities | 21.02% | 6.45% | 0.17% | 27.64% |
| N | Health and Social work | 6.00% | 0.87% | 0.01% | 6.88% |
| O | Other Community, Social and Personal Service Activities | 10.74% | 1.50% | 0.02% | 12.26% |
| | | 76.47% | 22.92% | 0.61% | |

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An additional weight then split the 1-49 employee band into 1-9 and 10-49 overall:

- 0 employee 76.47%
- 1-9 employees 19.37%
- 10-49 employees 3.55%
- 50-249 employees 0.61%

Overall rim weights were then applied for regions:

| Region | % of universe |
|------------------|---------------|
| London | 18.96% |
| South East | 15.58% |
| South West | 9.41% |
| East | 10.0% |
| East Midlands | 6.64% |
| North East | 2.73% |
| North West | 9.39% |
| West Midlands | 8.08% |
| Yorks & Humber | 7.06% |
| Scotland | 6.19% |
| Wales | 3.49% |
| Northern Ireland | 2.48% |

Finally, a weight was applied for Starts (Q13 codes 1 or 2) set, after consultation with stakeholders at 20%.

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The up-weighting of the smaller SMEs and the down-weighting of the larger ones has an impact on weighting efficiency. Whereas the efficiency is 77% or more for the individual employee bands, the overall efficiency is reduced to 28% by the employee weighting, and this needs to be considered when looking at whether results are statistically significant. The table below is based on the new sample design of 17,000 interviews per year:

| Business size | | | | |
|-------------------|-------------|----------------------|-----------------------|-------------------------|
| | Sample size | Weighting efficiency | Effective sample size | Significant differences |
| Total | 17,000 | 28% | 4760 | +/-2% |
| 0 employee (resp) | 3400 | 79% | 2686 | +/-3% |
| 1-9 employees | 5500 | 77% | 4235 | +/-2% |
| 10-49 employees | 5500 | 78% | 4290 | +/-2% |
| 50-249 employees | 2600 | 82% | 2132 | +/-3% |

Analysis techniques

CHAID (or Chi-squared Automatic Interaction Detection) is an analytical technique, which uses Chi-squared significance testing to determine the most statistically significant differentiator on some target variable from a list of potential discriminators. It uses an iterative process to grow a 'decision tree', splitting each node by the most significant differentiator to produce another series of nodes as the possible responses to the differentiator. It continues this process until either there are no more statistically significant differentiators, or it reaches a specified limit. When using this analysis, we usually select the first two to three levels to be of primary interest.

14 Technical appendix

This report is the largest and most detailed study of SMEs' views of bank finance ever undertaken in the UK. More importantly, this report is one of a series of regular reports. So not only is it based on a large enough sample for its findings to be robust, but over time the dataset has been building into a hugely valuable source of evidence about what is really happening in the SME finance market.

A report such as this can only cover the main headlines emerging from the results. Information within this report and extracts and summaries thereof are not offered as advice and must not be treated as a substitute for financial or economic advice. This report represents BVA BDRC's interpretation of the research information and is not intended to be used as a basis for financial or investment decisions. Advice from a suitably qualified professional should always be sought in relation to any particular matter or circumstance.



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