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MANAGEMENT SUMMARY

THIS REPORT COVERS

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.

This data was collected January-December 2021, as the UK continued to deal with the impact of the pandemic, the new trading arrangements with the EU, and increasing costs. The SME Finance Monitor questionnaire has continued to adapt to these new issues, along with the impact on longer standing metrics such as growth and appetite for finance.

Challenges remained for SMEs: Whilst the impact of Covid 19 had started to wane, it remained a key issue especially for those in the Hotel & Restaurant and Transport sectors. In Q4 2021, SMEs saw increasing costs as just as much of a barrier as the pandemic and an increasing minority considered the new trading arrangements with the EU to have had a negative impact on their business. 1 in 5 SMEs were using more finance now than before the pandemic and there were some concerns about ability to repay facilities.

A reducing minority of SMEs expected their income to be severely reduced by Covid

When the pandemic started to take effect in Q2 2020, 6 in 10 SMEs expected their revenue to either disappear or drop by 50% or more. By Q4 2020, this had halved to 30%, and a year later in Q4 2021, 14% of SMEs expected revenue to be badly affected, with as many SMEs, 18%, expecting their revenue to be higher than before the pandemic.

Larger SMEs were much less likely to expect revenue to be badly affected (5% of those with 10-49 employees and 2% of those with 50-249 employees) and there was limited variation by sector (8-18%) with the exception of the Hotel & Restaurant sector, where 25% expected a significantly lower revenue (albeit this was an improvement on Q4 2020 when 57% expected such a reduction).

Over half of SMEs were focussed on the future rather than dealing with the pandemic

In Q4 2021, 53% of SMEs were focussed on the future for their business rather than coping with the impact of the pandemic, up from 36% in Q4 2020. The proportion concentrating entirely on the pandemic has halved from 28% to 15% over the same period.

The proportion focussed on the future varied relatively little by size of SME (from 52% of those with 0 employees to 61% of those with 50-249 employees). Those in Manufacturing (66%) and Property/Business Services (60%) were the most likely to be focussed on the future, compared to 36% in the Hotel & Restaurant sector, 42% in Transport and 46-57% across other sectors.

Overall, the pandemic was still a barrier to running the business, but to a lesser degree than previously seen

Back in Q2 2020, 68% of SMEs rated the pandemic a major barrier to the future running of their business and it remained the top barrier in Q4 2021, but for 34% of SMEs. There was little difference by size of SME (31-34%) with the exception of those with 50-249 employees (19%) but there was more variation by sector: Those in Agriculture were less likely to see the pandemic as a barrier (17%), compared to 53% in the Hotel & Restaurant sector, 44% in Health, 43% in Transport and 26-40% elsewhere.

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In Q4 2021, as many saw increased costs as a barrier, with 1 in 3 already seeing a significant impact and not necessarily able to pass this on to customers

In Q4 2021, 'increased costs' was added as a potential future barrier and, like the pandemic, was rated as a major barrier by 34% of SMEs, again with little difference by size of SME (33-39%) with the exception of those with 50-249 employees (25%).

An additional question in Q4 2021 sought to understand the impact increased costs were already having on SMEs. 34% said that they were already having a 'significant impact', with those with 10-49 employees (42%), those that both import and export (44%) and those in either Agriculture (49%) or Transport (47%) the most likely to have been significantly impacted.

Overall, two thirds of SMEs were already seeing an impact of some sort. Almost half of them (43%, the equivalent of 29% of all SMEs) said that they expected to pass on all or most of the increase to customers. At the other extreme, 17% (12% of all SMEs) said that they would like to pass on the increase but didn't think that they could.

An increasing minority felt the new trading arrangements with the EU had had a negative effect on their business, notably those who both import and export

Many SMEs felt that the new trading arrangements with the EU had had no effect on their business (62% in Q4 2021). However, over the course of 2021, the proportion reporting a negative effect increased from 22% in Q1 to 34% in Q4.

Most likely to report a negative effect were those with 10-49 employees (45%), all SMEs trading internationally but most notably those that both import and export (66%) and those in Wholesale/Retail (52%).

7 in 10 of those who had been very negatively affected (8% of all SMEs in H2 2021) cited supply chain issues, with increased prices, goods being harder to source and more issues trading in and out of the UK.

More broadly, 23% of all SMEs in Q4 2021 cited supply chain issues as a major barrier to their business.

1 in 5 SMEs were now borrowing more than before the pandemic and had concerns about making repayments on their borrowing

21% of SMEs in 2021 were borrowing more than they had before the pandemic: 11% had started borrowing, 7% had taken on additional facilities and 3% were making more use of existing facilities.

Those with 1-9 (30%) or 10-49 (33%) employees were more likely to be borrowing (more), as were those in the Hotel & Restaurant (29%) or Transport (27%) sectors, compared to 17-24% elsewhere.

33% of new borrowers were worried about repaying their facilities, as were 32% of those who had taken on new facilities. Overall, the equivalent of 8% of all SMEs expressed concern about repayments.

SMEs have a range of resources available to help them deal with current challenges. Levels of profitability and growth had started to recover but remained below pre-pandemic levels. More SMEs held £10,000 or more of credit balances, use of trade credit was stable, but there had been more ‘forced’ injections of personal funds. An increasing minority of SMEs had a business mentor and levels of innovation remained above pre-pandemic levels. Overall, SMEs mood about their business continued to improve and more now saw opportunities rather than threats in their future.

An increased proportion of SMEs made a profit during 2021, although still below pre-pandemic levels	Pre-pandemic, 8 in 10 SMEs typically reported making a profit. Towards the end of 2020 this proportion started to decline and was 60% in Q2 2021 before increasing slightly to 68% in Q4 and 65% for 2021 as a whole. An increasing proportion of SMEs saw improving profit margins as a priority (58% in 2021 compared to 39% in 2019).
The proportion growing in the last 12 months also started to increase, but again remained below pre-pandemic levels	18% of SMEs (excluding Starts) reported having grown in 2021 as a whole, still below the more usual 4 in 10 pre-pandemic, but with an increase during 2021 from 13% in Q1 to 25% in Q4. Those most likely to report growth in 2021 included those with 10-49 employees (26%) and in Agriculture (23%), compared to just 8% in the Hotel & Restaurant sector. As fewer SMEs reported having grown, the proportion reporting a decline increased sharply from 21% in 2019 (which was itself higher than the 11-15% seen 2014-2017) to 56% in 2021. There was though a marked reduction during 2021 in the proportion reporting a decline from 64% in Q1 to 44% in Q4 2021.
More SMEs had used innovation to improve their business and an increasing minority had a business mentor	Pre-pandemic, around 1 in 3 SMEs reported having been innovative (35% in 2019) but this was higher in 2020 (42%) and 2021 (41%) and across all size bands, as SMEs found ways to improve business processes (38%) and/or launch a new product or service (20%). 17% of SMEs had a business mentor, a small but steady increase from the 12% that had one in 2016.
The proportion holding £10,000 or more in credit balances continued to increase	Pre-pandemic the proportion of SMEs holding £10,000 or more in credit balances increased from 16% in 2012 to 23% in 2019. During 2020 and 2021 the proportion continued to increase, reaching 35% for Q4 2021 and 33% for the year as a whole. There remained a marked difference in the proportion holding such sums by size of SME, from 25% of those with 0 employees to 94% of those with 50-249 employees.
Almost 3 in 10 SMEs received an injection of personal funds	Around a quarter of SMEs reported an injection of funds pre-pandemic, but during 2020 and 2021 this proportion increased, reaching 37% for 2021 as a whole, with most (26% of all SMEs) saying that this was something they felt they ‘had’ to do, up from 11% in 2019.

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SMEs are known for their optimism and their business mood has improved steadily since Q2 2020, as has the proportion who thought the future offered opportunities rather than threats

In Q4 2021, 60% of SMEs rated their mood about their business as 'good', a further improvement from the 25% in a good mood in Q2 2020. All sizes of SME had seen an improvement in mood over time, with those most likely to be in a good mood including those with 10-49 (74%) or 50-249 (72%) employees, those in Manufacturing (68%) or in Property/Business Services (67%), compared to half of those in the Hotel & Restaurant, Transport or Wholesale/Retail sectors.

36% of SMEs felt the future offered more opportunities than threats, twice the level who thought the opposite (18%). This positive view was consistent across sizes of SME (32-36%) and seen most strongly in Health (46%) and Property/Business Services (41%), compared to 23% of those in the Hotel & Restaurant sector or Wholesale/Retail.

A consistent proportion of SMEs met the definition of an Ambitious risk taker

SMEs that agreed both that they had an ambition to be a significantly bigger business and that they were prepared to take risks to be successful are known as 'Ambitious risk takers'. In 2021, 29% of SMEs met this definition and this is, if anything, slightly higher than pre-pandemic (24% in 2019). 27% of 0 employee SMEs met the definition compared to 35-38% of those with employees. By sector, they ranged from 34% of those in Wholesale/Retail to 23% in Agriculture.

Funding is another resource and use of external finance has returned to pre-pandemic levels (43%), with more use of business loans and grants. During 2020 and 2021, need for funding, especially for cash flow, increased and the Government backed schemes appear to have resulted in both more loan applications overall and higher success rates for those applications. Those who sought pandemic funding specifically, almost all from their main bank, were very likely to have been successful and over half had now spent all or most of the funds received.

Use of external finance returned to 2019 levels overall but with a slightly different mix of products	<p>43% of SMEs used external finance in 2021, back in line with 2019 (45%) after slightly lower use in 2020 (37%). The increase in use was seen more amongst smaller SMEs, with the largest SMEs less likely to be using external finance than previously (37%), and the highest use was amongst those with 10-49 employees (62%) and those in the Hotel & Restaurant sector (55%).</p> <p>A consistent 31% of SMEs were using one or more of the core forms of finance, but since 2019 the balance has changed with more use of bank loans and less use of overdrafts. Use of other forms of finance has been boosted to 24% by increased use of grants.</p>
More SMEs reported a need for funding in 2021	<p>In 2021, 12% reported a need for funding, up from 9% in 2020 and 3% in 2019, with the increase seen across all size bands and most sectors (and to 17% of those in the Hotel & Restaurant sector). Most of those with a need for funding went on to take some action to meet that need.</p>
Most of those with a need for funding went on to apply, typically to their main bank	<p>In 2021, as in 2020, most of those with a need for funding needed cash flow support (81%) compared to 24% seeking funds for business development. Pre-pandemic in 2019, the need for funding was much more balanced (49% for cash flow and 58% for business development).</p> <p>Amongst those who took some action, 80% applied for finance and 64% applied to their main bank.</p>
Recent success rates have been higher than pre-pandemic, due to more loans being granted	<p>Overall application success rates across all products increased from 7 in 10 immediately pre-pandemic (71% for Q3 18-Q4 19) to more than 8 in 10 since (85% Q3 20 -Q4 21). This was due to increased success rates for bank loans (from around 6 in 10 to 8 in 10), with success rates for overdrafts declining somewhat from three quarters to two thirds of applications.</p>
Applications for pandemic funding were mostly made to the main bank and were almost always successful	<p>Most of those who applied for pandemic related funding applied to their main bank (almost all under a Government backed scheme), and over 90% of those who did so were successful. In Q4 2021, just over half of those with a new facility said that all or most of the funds had been spent and this was more likely to be the case for smaller SMEs who were also more worried about repaying the facility</p>
Overall though, most SMEs had been a Happy non-seeker of finance in 2021 and 4 in 10 were Permanent non-borrowers	<p>17% of SMEs reported a borrowing event in 2021, slightly higher than pre-pandemic (13% in 2019) but declining during 2021 from 20% in Q1 to 14% in Q4. Very few had been a Would-be seeker of finance (4%), leaving the largest group as usual the Happy non-seekers (79%).</p> <p>39% of SMEs in 2021 met the definition of a Permanent non-borrower who seem firmly disinclined to use finance, somewhat lower than the 47-48% of SMEs typically meeting the definition pre-pandemic, as well as below the proportion using external finance (43%).</p>

Looking forward, SMEs were expecting to grow but recruitment may present some issues. Future appetite for finance declined slightly over 2021, back to pre-pandemic levels, with more of those planning to apply looking for funding for business development. Whilst success rates remained high, confidence that a future application would be successful remained at the lower levels seen in 2020.

6 in 10 SMEs were planning an activity that could be linked to growth

In H2 2021, 27% of SMEs were planning to take action to reduce their carbon footprint and almost as many (26%) were planning to take on staff. Both were more likely amongst larger SMEs, with 4 in 10 of those with 10-49 or 50-249 employees planning to tackle their carbon footprint and over 5 in 10 planning to recruit more staff.

20% of all SMEs were planning to invest in plant/machinery or premises and 19% were looking to develop a new product or service.

Overall, 57% were planning one or more of the activities listed, increasing to 75% of those with 10-49 employees, 71% of those with 50-249 employees and 76% of those with plans to grow.

Whilst recruitment was on the agenda, an increasing proportion of SMEs saw recruiting and retaining staff as a major barrier

After a long period of stability (6-8% saw recruiting and retaining staff as a major barrier 2016-2020), 2021 saw a notable increase in the proportion of SMEs seeing this as a major barrier. In Q4 2021 it had become a major barrier for a quarter of employers, and 1 in 3 of those who had 10-49 employees.

Across 2021 as a whole 18% of employers saw it as a major barrier (up from 11% in 2020) and amongst those with ambitions to recruit more staff, 27% saw it as a barrier (up from 17% in 2020).

The traditional 'Top 3' future barriers were less in evidence in 2021

With the pandemic, increasing costs and supply chain issues topping the list of future barriers, fewer SMEs mentioned the previous Top 3 barriers, with 4 in 10 SMEs mentioning any of them, compared to 5 in 10 in 2020.

23% saw the current economic climate as a barrier, down from 36% in 2020 and almost back in line with 2019 (21%).

19% saw political uncertainty and government policy as a major barrier, back in line with 2018, having been 24% in both 2019 and 2020.

21% rated legislation, regulation and red tape as a major barrier in 2021, unchanged since 2018, but still higher than 2016 when 10% saw this as a major barrier.

In all instances, those with 50-249 employees were less likely than their peers to see these as major barriers, while 50% of those in the Transport sector mentioned one or more of them.

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<p>After a marked increase in Future would-be seekers in 2020, future appetite for finance was lower in 2021 and they continued to see the current climate as the main barrier to application</p>	<p>In 2020, 21% of SMEs had been ‘Future would-be seekers of finance’ thinking that something would get in the way of a future application, up from 10-13% pre-pandemic. In 2021, 19% met the definition of a FWBS, but over the course of the year, that proportion declined from 22% in Q1 to 14% in Q4, much closer to pre-pandemic levels.</p> <p>In Q4 2021, 8 in 10 FWBS cited the current economic climate as the main barrier to a future application. This is in contrast to past Would-be seekers, who mentioned the process (36%) and discouragement (34%) much more than the economic climate (5%).</p>
<p>10% planned to apply, with more appetite for funding for business development</p>	<p>The proportion planning to apply for new/renewed finance increased only slightly 2019 to 2020 (11% to 13%) and was back in line with 2019 in 2021 (10%).</p> <p>In 2021, 53% of those planning to apply wanted funding for business development, twice the proportion in 2020 (27%) and closer to 2019 (64%), as fewer SMEs said their wanted funding for cash flow support (52% from 76% in 2020).</p>
<p>7 in 10 SMEs expected to be a Happy non-seeker of finance</p>	<p>With the increased future appetite for finance in 2020, fewer SMEs met the definition of a Happy non-seeker of finance (65%) but in 2021 as appetite declined, 71% met the definition, closer to pre-pandemic levels (78% in 2019).</p>
<p>SMEs remained less confident of success with a future application than current success rates might suggest</p>	<p>51% of all SMEs, whatever their plans, were confident of success in 2021, unchanged from 2020 but lower than the 6 in 10 who were confident pre-pandemic.</p> <p>In Q4 2021, 41% of those planning to apply for bank finance were confident of success, compared to 44% planning to apply elsewhere. Happy non-seekers of finance remained more confident of success with a hypothetical application (57%) and the Future would-be seekers were the least confident (34%).</p> <p>All these success rates though remained lower than the actual success rates currently being reported.</p>