

6

FINANCIAL CONTEXT - HOW ARE SMES FUNDING THEMSELVES? (PART 2)

THIS CHAPTER PROVIDES

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

KEY FINDINGS

In 2021 as a whole, there were slightly fewer Permanent non-borrowers than SMEs using external finance:

- 39% of SMEs met the definition of a Permanent non-borrower (PNB), an SME that is not using external finance and seem disinclined to do so, compared to the 43% using external finance.
- Pre-pandemic, 47-48% of SMEs typically met the definition of a PNB and the proportion in 2021 was lower for all size bands but markedly higher than previously seen for those with 50-249 employees as fewer of those SMEs reported using external finance.
- There are signs though of the usual trend re-asserting itself: in Q4 2021, 44% of SMEs met the definition of a PNB compared to 40% using external finance.

PNBs were performing well but were somewhat less ambitious, innovative or international than other SMEs:

- PNBs were more likely to have made a profit than their peers, and as likely to have a minimal or low risk rating and/or £10k+ in credit balances.
- Over recent years, a consistent 14% traded internationally and 35% had been innovative which currently places them somewhat behind their peers (20% and 44%) although this has not always been the case.
- Whilst PNBs were less likely to be planning to grow than their peers, this was by a smaller margin in 2021 (42% v 49%) than typically seen (in 2019 it was 40% v 60%) as both groups sought to recover from the pandemic (in 2020, 34% of PNBs planned to grow compared to 39% of their peers).

Attitudinally, SMEs remained self-reliant but there has been a small increase in the proportion happy to borrow to grow and 3 in 10 qualify as ‘Ambitious risk takers’:

- Most SMEs (85%) agreed that their plans were based on what they could afford themselves and a similar proportion (80%) said that they would accept slower growth rather than borrow to grow more quickly, with agreement declining slightly by size of SME (to 62% and 63% respectively of those with 50-249 employees).
- 36% were happy to borrow to grow, slightly higher than the 29% in 2019 and for all but the largest SMEs.
- 29% met the definition of an ‘Ambitious risk taker’, that is an SME that has both a long term ambition to be significantly bigger (42% of all SMEs) and is prepared to take risks to be successful (48% of all SMEs). This is a slightly higher proportion than pre-pandemic (24% in 2019), with Starts (54%) and those trading for 2-5 years (42%), SMEs with 50-249 employees (39%), a worse than average risk rating (37%) or in Wholesale/Retail (34%) all more likely to meet the definition.

THE NON-BORROWING SME

As the previous chapter reported, just over 4 in 10 SMEs (43% YEQ4 2021) 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.

From Q1 2018 the questions used to identify these SMEs changed slightly but the sentiment behind them remained the same as in previous waves. The definition of a PNB has not been adjusted for 2020 or 2021 to include the Covid specific finance questions detailed at the start of this report. Analysis of 2021 data showed that 4% of PNBs had received Covid related funding, the equivalent of 2% of all SMEs.

In 2021, 39% of all SMEs met the traditional definition of a Permanent non-borrower (PNB). They remained more likely to be found amongst the smaller SMEs (42% of 0 employee SMEs), but as larger SMEs became less likely to report using external funding, half of them now meet the definition:

- 42% of 0 employee SMEs met this non-borrowing definition
- 31% of 1-9 employee SMEs
- 27% of 10-49 employee SMEs
- 52% of 50-249 employee SMEs.

Amongst SMEs with employees, 31% met the definition of a Permanent non-borrower.

Over recent quarters, as use of external finance declined slightly, the proportion of PNBs increased to 44% in Q4 2021. The largest SMEs were more likely to meet the definition than previously seen:

Permanent non-borrowers									
Over time – all SMEs	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Row percentages	2019	2020	2020	2020	2020	2021	2021	2021	2021
All SMEs	45%	51%	41%	39%	32%	37%	38%	39%	44%
0 employee	47%	55%	44%	42%	34%	40%	41%	41%	47%
1-9 employees	39%	40%	31%	34%	26%	29%	30%	31%	34%
10-49 employees	33%	34%	28%	28%	22%	23%	24%	31%	30%
50-249 employees	24%	22%	17%	15%	21%	42%	51%	52%	62%

Across other demographics for 2021 as a whole:

- Half of SMEs in Health (47%) met the definition of a Permanent non-borrower, compared to 30% of those in Hotels & Restaurants.
- There was limited difference by risk rating (37-39%) with the slight exception of those with an average rating (43%). There was also little difference by age of business (36-42%).
- Those using a personal account for their business banking were no more likely to meet the definition than those using a business bank account (40% v 39%). This means that the equivalent of 4% of all SMEs were Permanent non-borrowers who used a personal bank account.

The table below looks at the longer term changes in the proportion of SMEs meeting the definition of a PNB by key business demographics:

- Between 2012 and 2015 the overall proportion of PNBs increased from a third (34%) to almost a half of all SMEs (47% in 2015) and was then stable to 2018 (48%). The figures since then have been somewhat lower at around 4 in 10 (39% for 2021 as a whole).
- Between 2015 and 2018, half of SMEs with 0 employees met the definition of a PNB. As for SMES overall, the proportion was lower from 2019 onwards (42% in 2021).
- Amongst SMEs with 1-9 employees, the proportion of PNBs increased to 36% in 2015 and was then stable until a further increase in 2018 to 44%. In 2019, the proportion was lower at 38%, and lower again for 2020 and 2021 (31% in 2021).
- A similar pattern was seen for those with 10-49 employees: 29% in 2015, stable until 2018 when 36% were PNBs then back to lower levels from 2019 (27% in 2021).
- The largest SMEs were always less likely to be a PNB. IN 2018 and 2019, 19% of these SMES met the definition of a PNB but since then the proportion has increased as use of external finance has declined, with 52% meeting the definition in 2021.
- Since 2018, all risk ratings have become less likely to meet the definition of a PNB. In 2021 there was little to choose between risk ratings with the slight exception of those with an average risk rating (43%).
- Health is the only sector where more SMEs met the definition of a PNB in 2021 (47%) than in 2018 (38%).

Permanent non-borrowers								
Over time – all SMEs								
Row percentages	2014	2015	2016	2017	2018	2019	2020	2021
All SMEs	43%	47%	47%	47%	48%	42%	41%	39%
0 emp	48%	51%	50%	51%	50%	44%	44%	42%
1-9 emps	33%	36%	38%	37%	44%	38%	32%	31%
10-49 emps	26%	29%	30%	27%	36%	31%	28%	27%
50-249 emps	26%	28%	26%	22%	19%	19%	32%	52%
Minimal external risk rating	41%	41%	42%	42%	45%	44%	40%	37%
Low	44%	38%	43%	42%	50%	41%	37%	39%
Average	45%	45%	46%	49%	49%	46%	42%	43%
Worse than average	43%	51%	48%	47%	47%	41%	40%	38%
Agriculture	40%	41%	40%	37%	41%	33%	36%	36%
Manufacturing	42%	43%	45%	42%	48%	42%	39%	38%
Construction	45%	52%	45%	48%	51%	41%	41%	41%
Wholesale/Retail	34%	38%	40%	39%	43%	33%	34%	34%
Hotels & Restaurants	39%	40%	43%	41%	46%	42%	33%	30%
Transport	40%	44%	45%	42%	45%	39%	35%	34%
Property/ Business Services	46%	48%	51%	52%	52%	50%	45%	45%
Health	54%	51%	56%	48%	38%	34%	49%	47%
Other Community	46%	47%	45%	50%	48%	42%	40%	34%

All SMEs Hartnett66

The proportions of SMEs that either used external finance or met the definition of a PNB have varied over time. Across SMEs as a whole, the ‘gap’ between those using finance and PNBs widened 2012 to 2015 and was then stable to 2018 before turning positive in 2019 as more SMEs used finance. Since then the ‘gap’ has remained small, with either slightly more SMES being PNBs, or, as in 2021, slightly more SMEs using finance.

Different patterns were seen over time by size of SME. 0 employee SMEs are the only group to consistently be more likely to meet the definition of a PNB than to be using external finance, but since 2019 the margins have been typically been narrow. Those with 10-249 employees have always been more likely to be using external finance, although the gap between the two groups has changed over time, and in 2021 for the first time the largest SMEs were more likely to be a PNB:

Use of external finance and PNBs								
Over time								
Row percentages	2014	2015	2016	2017	2018	2019	2020	2021
All SMEs:								
• Use external finance	37%	37%	37%	38%	36%	45%	37%	43%
• Permanent non-borrower	43%	47%	47%	47%	48%	42%	41%	39%
• 'Gap' finance to PNB	-6	-10	-10	-9	-12	+3	-4	+4
0 employees:								
• Use external finance	32%	32%	33%	34%	34%	43%	32%	38%
• Permanent non-borrower	48%	51%	50%	51%	50%	44%	44%	42%
• 'Gap' finance to PNB	-16	-19	-17	-17	-16	-1	-12	-4
1-9 employees:								
• Use external finance	49%	49%	46%	49%	42%	50%	49%	56%
• Permanent non-borrower	33%	36%	38%	37%	44%	38%	32%	31%
• 'Gap' finance to PNB	+16	+13	+8	+12	-2	+12	+17	+25
10-49 employees:								
• Use external finance	61%	60%	59%	64%	54%	60%	58%	62%
• Permanent non-borrower	26%	29%	30%	27%	36%	31%	28%	27%
• 'Gap' finance to PNB	+35	+31	+29	+37	+18	+29	+30	+35
50-249 employees								
• Use external finance	63%	61%	64%	73%	77%	77%	58%	37%
• Permanent non-borrower	26%	28%	26%	22%	19%	19%	32%	52%
• 'Gap' finance to PNB	+37	+33	+38	+51	+58	+58	+26	-15

All SMEs

Analysis by number of employees of these trends 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>Between 2012 and 2015, use of external finance in this group decreased and the proportion qualifying as a PNB increased, until there was a 19 percentage point difference between them in 2015 (32% v 51%). This ‘gap’ then varied relatively little until 2019 when, with more 0 employee SMEs using finance (43%) and fewer meeting the definition of a PNB (44%), there was no ‘gap’ for the first time since 2012.</p> <p>From 2019 the ‘gap’ has widened and then narrowed again due to changes in the proportion using external finance, as the proportion of PNBs stayed stable.</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%). Their use of finance then declined, and the proportion of PNBs increased, such that in 2018, there were slightly more SMEs with 1-9 employees meeting the definition of a PNB (44%) than using finance (42%). Since then, increased use of finance and fewer PNBs has seen the ‘gap’ reach 25 points in 2021.</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%). From 2012 to 2018, an increasing proportion of PNBs and reduced use of finance, reduced the ‘gap’ from 52 percentage points to 18. The gap has widened again since, with more use of finance and fewer SMEs, to 35 points in 2021.</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 meeting the definition of a PNB (15%), a gap of 58 points.</p> <p>Between 2012 and 2015, the gap narrowed to 33 points, as fewer of the largest SMEs used finance (61%) and more met the definition of a PNB (28%). That trend then reversed for 2017 to 2019 and a gap of 58 points was re-established as use of external finance increased. Since then, a decline in the use of finance and an increase in PNBs means that in 2021 for the first time, there were more PNBs than users of finance.</p>

SMEs can be placed in one of three groups: using finance, being a PNB or being “in the middle” ie not using finance now but showing some appetite, a group that might be considered a potential source of future users of external finance. Analysis has shown that, between 2012 and 2019 a declining proportion of SMEs were in this middle group (from 22% of all SMEs in 2012 to 13% in 2019). In 2020, the reduced use of finance saw this group back at 22% of SMEs and broadly similar in 2021 (18%).

PERMANENT NON-BORROWERS – 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:

Characteristics of PNBs								
Over time								
Row percentages	2014	2015	2016	2017	2018	2019	2020	2021
Made a profit:								
• PNBs	80%	82%	80%	83%	79%	83%	83%	71%
• Other SMEs	74%	78%	80%	82%	77%	81%	76%	62%
Hold £10k+ of credit balances:								
• PNBs	19%	23%	19%	23%	23%	28%	28%	35%
• Other SMEs	21%	25%	24%	27%	22%	21%	29%	32%
Minimal/Low risk rating:								
• PNBs	22%	21%	20%	20%	23%	22%	20%	20%
• Other SMEs	23%	28%	23%	23%	23%	24%	22%	22%
International								
• PNBs	12%	13%	11%	14%	14%	15%	14%	14%
• Other SMEs	19%	20%	16%	17%	16%	16%	18%	20%
Innovative								
• PNBs	31%	31%	32%	31%	30%	34%	35%	35%
• Other SMEs	42%	42%	41%	36%	35%	35%	47%	44%
Plan to grow								
• PNBs	40%	38%	36%	37%	41%	40%	34%	42%
• Other SMEs	52%	51%	50%	52%	56%	60%	39%	49%

All SMEs

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	2014 to 2020 the proportion of PNBs reporting making a profit was broadly stable (79-83%). Amongst non-PNBs the proportion making a profit increased to 82% in 2017, closing the gap to the PNBs, but has been a bit more variable since. In 2021, PNBs were less likely to have reported a profit than previously (71%) but they remained ahead of their non-PNB peers (62% down from 76%).
Credit balances	Up to 2017, both groups saw an increase in the proportion holding £10k or more of credit balances, and in 2018 there was nothing to choose between the two groups. Since then, the proportion of PNBs holding £10k or more has increased to 35% in 2021, with non PNB peers just behind at 32%.
Risk rating	The proportion of both groups with a minimal or low external risk rating has been stable over recent years.
International	With the exception of 2019, PNBs have been somewhat less likely than their non-PNB peers to be trading internationally (14% v 20% in 2021).
Innovation	With the exception of 2019, PNBs have always been somewhat less likely to be innovative. The gap narrowed 2016-2019 as fewer non-PNBs had been innovative and then widened again as non-PNBs reported higher levels of innovation in 2020 and 2021 (35% v 44%)
Plan to grow	With the exception of 2020, growth aspirations amongst PNBs have been broadly stable at around 4 in 10, somewhat lower than for non-PNBs where typically half have planned to grow. Both groups were less likely to predict growth in 2020 (34% and 39%) but by 2021, both groups were back to a more typical level of ambition (42% v 49%)

PNBs by their very definition were not using external finance, but if use of trade credit and injections of personal funds are considered then 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 39% of all SMEs to 20% YEQ4 2021.

These PNBs have indicated that they are unlikely to be interested in 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 70% of the remaining SMEs in 2021, back to levels seen 2015-2018 due to increased use of other forms of finance:

Use of external finance over time								
Over time – all SMEs excl PNBs								
	2014	2015	2016	2017	2018	2019	2020	2021
Use any external finance	65%	70%	70%	72%	70%	78%	61%	70%
• Use core finance	51%	55%	57%	57%	61%	67%	48%	51%
• Use other forms of finance	30%	32%	31%	33%	22%	27%	31%	40%
Do not use external finance	35%	30%	30%	28%	30%	22%	39%	30%

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 2021, in the order in which they were added to the SME Finance Monitor, with the overall ‘agree’ score in bold italics by each statement.

These statements shed some light on current demand for finance. Most SMEs (85%) 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. Two thirds felt they were being cautious due to future uncertainty while a third were happy to use finance to help the business grow.

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.

From Q3 2020, additional statements have been included to explore views around having the right finance in place for current trading conditions and these are summarised at the end of this section.

ATTITUDES TO FINANCE IN DETAIL – YEQ4 2021

Attitudes to finance YEQ4 2021	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
<i>Unweighted base:</i>	16,486	3313	5466	5260	2447
<i>Happy to use external finance to help the business grow and develop</i>	36%	34%	43%	50%	45%
Strongly agree	3%	3%	4%	3%	4%
Agree	34%	31%	39%	47%	40%
Neither/nor	14%	13%	15%	16%	32%
Disagree	40%	42%	35%	30%	20%
Strongly disagree	10%	11%	7%	3%	3%

[Continued](#)

Continued

<i>Current plans for the business are based on what we can afford ourselves</i>	85%	86%	84%	75%	62%
Strongly agree	26%	27%	25%	14%	10%
Agree	59%	59%	59%	62%	52%
Neither/nor	7%	7%	7%	12%	25%
Disagree	7%	6%	8%	12%	12%
Strongly disagree	1%	1%	1%	1%	1%
<i>Never think about whether we could/should use more external finance</i>	57%	59%	53%	45%	25%
Strongly agree	10%	11%	9%	4%	2%
Agree	46%	48%	44%	40%	23%
Neither/nor	16%	15%	18%	23%	44%
Disagree	25%	24%	27%	31%	29%
Strongly disagree	2%	2%	2%	2%	2%
<i>We will accept a slower rate of growth rather than borrowing to grow faster</i>	80%	80%	80%	74%	63%
Strongly agree	20%	21%	20%	10%	7%
Agree	59%	59%	60%	64%	55%
Neither/nor	12%	12%	12%	16%	28%
Disagree	7%	7%	8%	10%	9%
Strongly disagree	*	*	1%	*	1%
<i>As a business we are prepared to take risks to be more successful</i>	48%	46%	52%	53%	54%
Strongly agree	5%	5%	6%	4%	4%
Agree	43%	41%	46%	49%	50%
Neither/nor	14%	14%	14%	19%	29%
Disagree	32%	34%	29%	27%	15%
Strongly disagree	6%	6%	5%	2%	2%

Continued

Continued

<i>A further increase in the cost of credit would make us less likely to apply for new external finance</i>	59%	58%	63%	55%	49%
Strongly agree	13%	13%	14%	7%	5%
Agree	46%	45%	48%	48%	44%
Neither/nor	21%	21%	18%	23%	35%
Disagree	17%	17%	17%	19%	14%
Strongly disagree	4%	4%	3%	2%	2%
<i>Because the future feels uncertain, we are being very cautious with our plans for the business</i>	66%	65%	67%	63%	50%
Strongly agree	15%	15%	16%	11%	6%
Agree	50%	50%	50%	52%	43%
Neither/nor	12%	12%	11%	14%	26%
Disagree	21%	21%	20%	23%	23%
Strongly disagree	1%	1%	1%	1%	2%
<i>My impression is that it is quite difficult for businesses like ours to get external finance</i>	34%	35%	31%	21%	14%
Strongly agree	7%	8%	6%	2%	2%
Agree	27%	28%	25%	18%	13%
Neither/nor	35%	35%	33%	31%	45%
Disagree	29%	27%	34%	45%	36%
Strongly disagree	2%	2%	2%	3%	4%
<i>We have a long term ambition to be a significantly bigger business</i>	42%	39%	51%	56%	61%
Strongly agree	9%	8%	11%	8%	11%
Agree	33%	31%	39%	48%	50%
Neither/nor	13%	13%	13%	16%	25%
Disagree	35%	37%	30%	26%	13%
Strongly disagree	10%	11%	7%	2%	1%

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 2021:

YEQ4 21 – all SMEs % agreeing	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	16,486	3313	5466	5260	2447
Plans based on what can afford ourselves	85%	86%	84%	75%	62%
Accept slower growth rather than borrow	80%	80%	80%	74%	63%
Because the future feels uncertain, we are being very cautious with our plans for the business	66%	65%	67%	63%	50%
Increase in cost of credit would discourage application	59%	58%	63%	55%	49%
Never think about using (more) external finance	57%	59%	53%	45%	25%
As a business we are prepared to take risks to become more successful	48%	46%	52%	53%	54%
We have a long term ambition to be a significantly bigger business	42%	39%	51%	56%	61%
Happy to use finance to help business grow	36%	34%	43%	50%	45%
My impression is that it is quite difficult for businesses like ours to get external finance	34%	35%	31%	21%	14%

Q96 (238a5) All SMEs

- Smaller SMEs remained more likely than larger SMEs to express a willingness 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 willing to use external finance to help the business grow, to take risks to become more successful and to have a long term ambition to be larger still.
- The feeling that the future is uncertain applies across all size bands, but the largest SMEs remained somewhat less likely to agree.

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. They were though also slightly more likely to feel that it would be difficult for them to get finance and that an increase in the cost of credit would put them off applying, as agreement with both these statements increased by risk rating:

YEQ4 21 – all SMEs % agreeing	Total	Min	Low	Avg	Worse /Avg
Unweighted base:	16,486	3007	4494	4549	2867
Plans based on what can afford ourselves	85%	81%	85%	85%	85%
Accept slower growth rather than borrow	80%	80%	78%	79%	80%
Because the future feels uncertain, we are being very cautious with our plans for the business	66%	62%	66%	66%	66%
Increase in cost of credit would discourage application	59%	55%	58%	58%	60%
Never think about using (more) external finance	57%	54%	56%	57%	57%
As a business we are prepared to take risks to become more successful	48%	39%	42%	41%	55%
We have a long term ambition to be a significantly bigger business	42%	35%	35%	37%	51%
Happy to use finance to help business grow	36%	36%	36%	33%	39%
My impression is that it is quite difficult for businesses like ours to get external finance	34%	21%	26%	34%	39%

Q96 (238a5) All SMEs

There was some variation by sector:

- Those in the Health sector were somewhat less likely to feel the future was uncertain (especially in comparison to those in Hotels & Restaurants and Transport) but were also less likely to be prepared to take risks to be successful or to be happy to use finance to grow
- Those in Wholesale/Retail continued to be more likely to harbour an ambition to be significantly bigger, to be prepared to take risks to succeed and to be happy to use finance to help the business grow.

YEQ4 21 – all SMEs % agreeing	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWk	Other Comm
Unweighted base:	982	1704	2908	1859	1167	1601	3536	1039	1690
Plans based on what can afford ourselves	81%	85%	85%	86%	85%	83%	87%	84%	85%
Accept slower growth rather than borrow	78%	82%	79%	81%	76%	78%	82%	76%	78%
Future feels uncertain, we are being very cautious	62%	62%	61%	70%	73%	72%	63%	62%	69%
Increase in cost of credit would discourage application	61%	58%	57%	61%	57%	60%	60%	53%	59%
Never think about using (more) external finance	56%	57%	60%	55%	59%	54%	57%	56%	54%
We are prepared to take risks to become more successful	47%	49%	43%	51%	48%	53%	48%	35%	49%
Have long term ambition to be a significantly bigger business	35%	46%	35%	48%	39%	43%	46%	38%	45%
Happy to use finance to help business grow	43%	38%	34%	39%	35%	45%	34%	30%	36%
Impression is that it is quite difficult for businesses like ours to get external finance	29%	30%	30%	34%	37%	37%	33%	37%	39%

Q96 (238a5) All SMEs

Analysis by age of SME showed that the older SMEs were more likely to be feeling cautious while willingness to take risks and ambitions to grow significantly declined with age. Being happy to use finance to grow declined with age, but so too did the perception that such finance would be hard to come by:

YEQ4 21 – all SMEs % agreeing	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15 yrs+
<i>Unweighted base:</i>	882	1194	1447	2983	9980
Plans based on what can afford ourselves	85%	83%	87%	84%	85%
Accept slower growth rather than borrow	79%	78%	83%	80%	80%
Future feels uncertain, we are being very cautious	70%	66%	67%	66%	63%
Increase in cost of credit would discourage application	59%	61%	67%	59%	56%
Never think about using (more) external finance	54%	56%	56%	58%	58%
We are prepared to take risks to become more successful	67%	61%	49%	45%	35%
Have long term ambition to be a significantly bigger business	72%	58%	43%	37%	26%
Happy to use finance to help business grow	47%	45%	37%	36%	29%
Impression is that it is quite difficult for businesses like ours to get external finance	44%	39%	35%	32%	28%

Q96 (238a5) All SMEs

Analysis by use of external finance and plans to grow is shown below:

- Those using finance and those planning to grow shared many similar attitudes. Compared to their non-finance using / non-growing peers they were more likely to be prepared to take risks to be successful and happy to use finance to grow but would also be more put off by an increase in the cost of credit.
- Those using finance were the most likely to be feeling cautious about the future, while those with an ambition to grow in the next year were more likely to also have an ambition to be a significantly bigger business:

YEQ4 21 – all SMEs % agreeing	Use external finance	Do not use finance	Plan to grow	No plans to grow
Unweighted base:	8611	7875	7968	8518
Plans based on what can afford ourselves	84%	86%	85%	85%
Accept slower growth rather than borrow	78%	81%	81%	79%
Future feels uncertain, we are being very cautious	71%	62%	66%	65%
Increase in cost of credit would discourage application	63%	55%	63%	55%
Never think about using (more) external finance	52%	60%	54%	59%
We are prepared to take risks to become more successful	51%	45%	61%	36%
Have long term ambition to be a significantly bigger business	46%	40%	64%	23%
Happy to use finance to help business grow	47%	29%	46%	28%
Impression is that it is quite difficult for businesses like ours to get external finance	39%	30%	38%	30%

Q96 (238a5) All SMEs

The table below provides analysis by whether the SME met the definition of a PNB or not, and also just for those SMEs that have employees.

- Permanent non-borrowers were less likely to have an ambition to be much bigger, or to be prepared to take risks to be successful, although they were also less likely to feel the future was uncertain. They were less happy to use finance to grow, and more likely to say they never thought about finance, although they didn't necessarily think they would have difficulties getting it.
- Excluding the 0 employee SMEs increases the proportion of ambitious SMEs who are prepared to use finance and reduces the proportion that never think about using (more) finance.

YEQ4 21 – all SMEs

% agreeing	Total	PNBs	Not PNBs	All with employees
Unweighted base:	16,486	5712	10,774	13,173
Plans based on what can afford ourselves	85%	87%	84%	82%
Accept slower growth rather than borrow	80%	82%	78%	78%
Because the future feels uncertain, we are being very cautious with our plans for the business	66%	58%	70%	66%
Increase in cost of credit would discourage application	59%	54%	62%	61%
Never think about using (more) external finance	57%	65%	51%	51%
As a business we are prepared to take risks to become more successful	48%	42%	51%	52%
We have a long term ambition to be a significantly bigger business	42%	36%	47%	52%
Happy to use finance to help business grow	36%	23%	45%	44%
My impression is that it is quite difficult for businesses like ours to get external finance	34%	23%	41%	29%

Q96 (238a5) All SMEs

ATTITUDES TO FINANCE – AGREEMENT OVER TIME

With the changes and additions made to these statements, the potential for analysis over time varies somewhat, but is shown here, in time order, for half year periods from H2 2017 where available for each statement:

Attitudes to finance									
Over time – all SMEs									
All agreeing – row percentages	H2 17	H1 18	H2 18	H1 19	H2 19	H1 20	H2 20	H1 21	H2 21
Happy to use finance to help business grow	34%	33%	32%	29%	29%	30%	35%	37%	36%
Plans based on what can afford ourselves	82%	79%	81%	80%	81%	84%	86%	86%	84%
Accept slower growth rather than borrow	70%	73%	72%	73%	74%	79%	80%	82%	77%
Never think about using (more) external finance	52%	50%	49%	52%	49%	51%	52%	57%	57%
As a business we are prepared to take risks to become more successful	42%	43%	43%	41%	43%	42%	44%	46%	49%
Increase in cost of credit would discourage application	-	51%	52%	51%	53%	53%	61%	63%	54%
Future feels uncertain so we are being very cautious with our plans	-	51%	56%	54%	55%	65%	71%	68%	63%
Impression it is quite difficult for businesses like ours to get finance	-	38%	39%	42%	39%	37%	37%	36%	32%
Have long term ambition to be a significantly bigger business	38%	-	39%	38%	36%	37%	44%	43%	41%

Q96 (238a5) All SMEs -

The proportion happy to use finance to help the business grow declined steadily 2015-2019 but was somewhat higher from H2 2020 (35% and 36% in H2 21). The proportion with ambitions to be significantly bigger also increased in H2 20 and has remained at that level since, with a similar increase for those prepared to take risks in 2021. More SMEs were feeling uncertain (but fewer than at the peak in H2 20) and the barrier of an increase in the cost of credit is back down to 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:

Happy to use finance to help business grow							
Over time – all SMEs							
Row percentages % agree	2015	2016	2017	2018	2019	2020	2021
All SMEs	45%	43%	34%	32%	29%	33%	36%
0 emp	43%	41%	31%	30%	26%	29%	34%
1-9 emps	51%	49%	40%	38%	37%	42%	43%
10-49 emps	57%	52%	48%	45%	44%	49%	50%
50-249 emps	58%	51%	53%	57%	47%	48%	45%
Minimal external risk rating	48%	45%	35%	36%	33%	32%	36%
Low	45%	42%	35%	34%	34%	34%	36%
Average	45%	41%	31%	31%	25%	30%	33%
Worse than average	47%	45%	36%	34%	30%	34%	39%
Agriculture	51%	44%	37%	41%	34%	39%	43%
Manufacturing	48%	42%	35%	34%	35%	32%	38%
Construction	44%	46%	31%	29%	27%	28%	34%
Wholesale/Retail	51%	44%	39%	38%	36%	42%	39%
Hotels & Restaurants	47%	46%	38%	32%	32%	38%	35%
Transport	47%	43%	38%	35%	30%	34%	45%
Property/ Business Services	45%	42%	33%	30%	26%	31%	34%
Health	39%	43%	27%	32%	27%	27%	30%
Other Community	39%	39%	32%	31%	28%	33%	36%
PNB	36%	34%	22%	22%	17%	19%	23%
Not a PNB	53%	51%	44%	42%	38%	42%	45%
Use external finance	56%	54%	46%	44%	39%	46%	47%

Q96 (238a54) All SMEs

The table shows that 4 in 10 SMEs were happy to use finance to grow 2015-16 (43-45%) with the proportion then declining to 29% for 2019. It was slightly higher again in 2020 (33%) with a further slight increase in 2021 (to 36%), back in line with 2017. This was due to:

- Increased willingness to borrow amongst smaller SMEs, although those with 0 employees remained the least likely to be happy to borrow to grow (34%).
- Increased willingness to borrow across all risk ratings, albeit only a small increase for those with a low risk rating
- Increased willingness to borrow to grow across most sectors (notably Transport) and in particular amongst those already using external finance (47%).

NEW ATTITUDES TO FINANCE – HAVING THE RIGHT FINANCE AVAILABLE

Over the course of 2021, two additional attitude statements have been included, one for H1 2021 and the other for H2 2021, looking at the use of finance from different perspectives:

Attitudes to finance 2021	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
<i>H1 21: Worried whether have enough funding for next 6 months</i>	25%	26%	24%	16%	8%
Strongly agree	5%	5%	5%	3%	2%
Agree	20%	21%	19%	13%	6%
Neither/nor	9%	8%	9%	9%	19%
Disagree	52%	51%	54%	65%	59%
Strongly disagree	14%	14%	13%	10%	14%
<i>H2 21: We are very worried about the amount of debt the business has</i>	9%	8%	12%	8%	6%
Strongly agree	2%	2%	3%	1%	2%
Agree	7%	7%	9%	7%	4%
Neither/nor	12%	12%	11%	11%	18%
Disagree	54%	53%	55%	66%	61%
Strongly disagree	25%	26%	22%	14%	16%

Q96 All SMEs

In the first half of the year, a quarter of SMEs were worried about having enough finance in place. This question was also asked in Q4 2020 and across the 3 quarters this question was placed the proportion agreeing declined from 30% in Q4 2020 to 22% in Q2 2021, with a reduction seen in all size bands.

The second statement asks all SMEs if they are concerned about the amount of debt the business has. 1 in 10 were concerned, with relatively little variation by size of business.

- Analysis of those known to be using external finance increased the proportion concerned to 16%, with smaller users of finance more concerned: 16% of 0 employee SMEs using external finance and 17% of those with 1-9 employees were concerned, compared to 11% of users of finance with either 10-49 or 50-249 employees.
- Refining this to just those who have a business loan (ie the way Government backed support was delivered) increases concern to 25%, with 0 employee SMEs in this group the most concerned (27%) compared to 16% of those with 10-49 employees.

Further analysis by other key demographics, in the table below, showed that:

- In H1 2021 concern about having enough finance increased by risk rating to 30% of those with a worse than average rating. By sector it ranged from 15% in Agriculture to 33% in Hotels and Restaurants, reflecting the impact of the pandemic on that sector. Concern was also higher for Starts (33%) and then declined by age of business and was also higher for those currently using finance (32%) compared to those not using finance and those who met the definition of a PNB
- In H2 2021, 1 in 10 SMEs overall was worried about the amount of debt they had. This was somewhat higher for those with 1-9 employees, or a worse than average risk rating (both 12%). By sector it was again the Hotels and Restaurants sector that was most likely to be concerned (14%), with little variation by age of business
- Focussing on those currently using external finance increases the proportion worried about debt levels to 16%. Smaller SMEs using finance were more concerned than larger ones, and concern increased by risk rating to 23% of those with a worse than average rating. By sector, more than 1 in 5 in Hotels and Restaurants, Transport and Health were concerned, almost twice the level of some other sectors. There was no clear pattern by age of business, with those trading for 2-5 years the most concerned (22%).

Attitudes to finance Over time – all SMEs	H1: Worried enough finance in place	H2: Worried about amount of debt (All SMEs)	H2 worried about amount of debt (Finance users)
All SMEs	25%	9%	16%
0 emp	26%	8%	16%
1-9 emps	24%	12%	17%
10-49 emps	16%	8%	11%
50-249 emps	8%	6%	11%
Minimal external risk rating	13%	6%	8%
Low	19%	7%	10%
Average	23%	7%	15%
Worse than average	30%	12%	23%
Agriculture	15%	9%	12%
Manufacturing	22%	8%	13%
Construction	24%	8%	15%
Wholesale/Retail	24%	9%	11%
Hotels & Restaurants	33%	14%	20%
Transport	31%	11%	20%
Property/ Business Services	22%	7%	13%
Health	21%	9%	24%
Other Community	32%	11%	19%
Starts	33%	8%	18%
2-5 years	29%	12%	22%
6-9 years	27%	11%	15%
10-15 years	21%	11%	18%
More than 15 years	21%	8%	13%
Use external finance	32%	16%	16%
Do not use external finance	20%	4%	-
Permanent non-borrower	13%	3%	-

Q96 (238a54) All SMEs

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 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 4 in 10 SMEs (41%) were neither using external finance nor were happy to do so in future, but with variation by size of SME:

Combined analysis: Use of external finance and happiness to use in future

YEQ4 21 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50- 249 emps
Unweighted base:	16,486	3313	5466	5260	2447
Use external finance and happy to use in future	20%	17%	29%	36%	21%
Use external finance but not happy to use in future	23%	21%	27%	26%	16%
Do not use it but happy to use in future	16%	17%	15%	14%	23%
Do not use it and not happy to use in future	41%	45%	30%	24%	40%

Q15/Q96 (Q238a5) All SMEs

Taking these two issues in combination:

- 1 in 5 SMEs (20%) were using external finance and agreed that they would be happy to use it in future, increasing to a third 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 53% of all users of finance). Those with 1-9 (27%) or 10-49 employees (26%) were more likely to be in this group.
- 1 in 6 of all SMEs (16%) were not using external finance currently but agreed that they would be happy to use it to help the business develop and grow. This proportion also varied little by size of SME (14-17%) with the exception of those with 50-249 employees (23%).

- The remainder, 4 in 10 SMEs (41%), were non-users of finance who would not be happy to use it in future and this was more common amongst smaller SMEs (45% of those with 0 employees). Three-quarters of this group (74%) met the definition of a PNB.

When use of finance increased overall in 2019, so too did the group that was ‘using external finance but would not be happy to do so in future’ (from 20% to 28% of all SMEs). The smaller increase in use of finance 2020 to 2021 saw slightly more SMEs in the ‘using external finance and happy to use in future’ group as well as the ‘using external finance but would not be happy to do so in future’. Across all years the largest group of SMEs has been those that were not using finance and would not be happy to do so, now back in line with 2016:

Combined analysis: Use of external finance and happiness to use in future over time – all SMEs	2016	2017	2018	2019	2020	2021
Use external finance and happy to use in future	20%	18%	16%	18%	17%	20%
Use external finance but not happy to use in future	17%	21%	20%	28%	20%	23%
Do not use it but happy to use in future	23%	16%	16%	11%	16%	16%
Do not use it and not happy to use in future	40%	46%	47%	43%	48%	41%

Q15/Q96 (Q238a5) All SMEs

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 agreed with both statements.

In H2 2017, 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. 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 the trading conditions of the past two years, the same analysis for YEQ4 2021 showed very similar results: 42% agreed they wanted to be a bigger business and 48% that they were prepared to take risks, with 29% agreeing with both statements.

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

- 27% of 0 employee SMEs agreed with both statements, increasing by size to 39% of those with 50-249 employees.
- 54% of Starts and 42% of those trading for 2-5 years agreed with both statements, decreasing by age of SME to 15% of those trading for more than 15 years.

The table below shows the proportion of SMEs in each demographic that agreed with both statements and could be described as Ambitious risk-takers. This description has typically applied to a quarter of SMEs, with a slight increase in 2021 to 29% of SMEs. Since this metric was first recorded in H2 2017, those with 1-9 employees, a worse than average risk rating and those trading for up to 5 years have become more likely to meet the definition, counter-balanced by lower proportions of 50-249 employee SMEs and those using external finance.

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

Q96 (238a54) All SMEs