

# 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 2022 almost half of SMEs met the definition of a Permanent non-borrower, back to levels seen prior to 2018:

- 48% of SMEs met the definition of a Permanent non-borrower (PNB), an SME that is not using external finance and appears disinclined to do so.
- This is higher than the 4 in 10 typically meeting the definition 2019-2021, driven by the smallest and largest SMEs, and wider use of external finance during the pandemic, but in line with SMEs up to 2018.
- As detailed in the previous chapter, adjusting for those repaying pandemic related funding would increase the proportion using finance to 40% of SMEs and reduce the PNBs to 46%. This adjustment has not been used elsewhere in this report.

Analysis of PNBs in 2022 showed that they remained more likely to have made a profit but less likely than their peers to be innovative, ambitious or international:

- 77% of PNBs in 2022 reported having made a profit, compared to 70% of their peers. Back in 2019, there was little difference between the two groups in terms of profitability (83% v 81%) but non-PNB profitability was more affected during the pandemic, dropping to 62% in 2021 with a more modest decline for PNBs (to 71%).
- In 2019, PNBs (34%) were as likely as their peers (35%) to have been innovative, having previously been less likely. Since then, innovation amongst non-PNBs has increased and was 44% in 2022, while there has been little change for PNBs (36% in 2022), re-establishing the previous ‘gap’ between them.
- PNBs had always been less likely to be planning to grow than their peers (40% v 60% in 2019). The impact of the pandemic narrowed this gap in 2020 to 5 points (34% v 39%), but as with innovation, non-PNBs have since become more likely to be planning to grow and the ‘gap’ has been re-established (36% v 48% in 2022).

- The proportion of PNBs trading internationally has been 14-15% since 2017. Since 2019, the proportion of non-PNBs trading internationally has increased from 16% to 22%, placing them ahead of PNBs again

Attitudinally, SMEs remained more likely to be cautious, making plans based on what they could afford, while 1 in 3 was willing to borrow to grow. Fewer now thought it would be difficult for them to get finance and the proportion of ‘Ambitious risk takers’ has been maintained:

- 85% of SMEs in 2022 agreed that their plans were based on what they could afford, with little variation by demographics.
- Meanwhile 31% agreed that they were happy to borrow to grow, increasing to 47-48% of those with 10-49 or 50-249 employees, 42% of Starts, 42% of those already using external finance and 41% of those planning to grow. This was somewhat lower than in 2021 (36%) but in line with most years since 2017.
- Back in 2018-2019, around 4 in 10 SMEs felt that it could be difficult for them to get external finance, but that proportion then declined over time and was 31% in 2022. Smaller and younger SMEs, those in the Health and Other Community sectors and those already using external finance were more likely to feel that they would struggle to get finance.
- SMEs that agreed both that they wanted to be a significantly bigger business and also that they were prepared to take risks to succeed are known as ‘Ambitious risk takers’. They made up 28% of SMEs in 2022, little changed from 2020 (27%) and slightly above pre-pandemic levels (24% in 2019). The largest SMEs (46%) and Starts (55%) were the most likely to meet the definition in 2022.
- 16% of those using external finance in 2022 agreed that they were worried about the amount of debt the business had, and this was more likely to be the case for smaller and younger SMEs using finance, as well as those in the Hotel & Restaurant, Transport and Health sectors. This is the equivalent of 9% of all SMEs, unchanged from when this question was first asked in H2 2021.

## THE NON-BORROWING SME

As the previous chapter reported, just over 1 in 3 SMEs (36% YE Q4 2022) 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.

This definition of a PNB has not been adjusted to include the Covid specific finance questions detailed elsewhere in this report. As detailed in the previous chapter, analysis has shown that not all SMEs that had taken a Government backed facility had previously mentioned using finance and this also impacts the definition of a PNB. Analysis from Q3 2021, when the questions required for this analysis were first asked, shows a slightly larger adjustment to the figures for use of external finance and PNBs in the second half of 2022 than in previous quarters:

<b>Use of external finance and PNBs</b>	<b>Q3</b>	<b>Q4</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
<b>Over time – all SMEs By date of interview</b>	<b>2021</b>	<b>2021</b>	<b>2022</b>	<b>2022</b>	<b>2022</b>	<b>2022</b>
<b><i>Unweighted base:</i></b>	<b>3888</b>	<b>4085</b>	<b>4250</b>	<b>4250</b>	<b>4250</b>	<b>4252</b>
Use external finance (original)	43%	40%	40%	38%	33%	34%
<i>Use external finance (corrected)</i>	47%	43%	45%	41%	38%	39%
Permanent non-borrower (original)	39%	44%	45%	46%	51%	51%
<i>Permanent non-borrower (corrected)</i>	37%	42%	43%	44%	48%	48%

Allfin/Allfin2 All SMEs

In 2022 as a whole, 48% of all SMEs met the traditional definition of a Permanent non-borrower (PNB) - if adjusted as above the figure would be 46%. Given the relatively small change on an annual basis to the size of each of these groups, none of the PNB data used in this report has been amended unless specifically stated. Corrected data from new questions in 2023 will now start to feed in and analysis showed that in H2 2022 those meeting the revised definitions gave very similar answers (within 1-2%) on key metrics such as growth, credit balances, attitudes to finance and future barriers.

PNBs remained more likely to be found amongst the smaller SMEs (51% of 0 employee SMEs), but as larger SMEs became less likely to report using external funding, over half of them met the definition in 2022:

- 51% of 0 employee SMEs met this non-borrowing definition
- 38% of 1-9 employee SMEs
- 31% of 10-49 employee SMEs
- 59% of 50-249 employee SMEs.

Amongst SMEs with employees, 38% met the definition of a Permanent non-borrower.

Over recent quarters, as use of external finance declined slightly, the proportion of PNBs increased to 51% in the second half of 2022. In Q2 2022, 64% of the largest SMEs met the definition, the highest level seen to date, but by the end of the year this was somewhat lower at 53% as this group started to make more use of external finance:

#### Permanent non-borrowers

Over time – all SMEs	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Row percentages	2020	2021	2021	2021	2021	2022	2022	2022	2022
All SMEs	32%	37%	38%	39%	44%	45%	46%	51%	51%
0 employee	34%	40%	41%	41%	47%	48%	49%	54%	55%
1-9 employees	26%	29%	30%	31%	34%	37%	38%	40%	39%
10-49 employees	22%	23%	24%	31%	30%	29%	32%	33%	29%
50-249 employees	21%	42%	51%	52%	62%	60%	64%	59%	53%

Across other demographics for 2022 as a whole:

- Over half of SMEs in Health (57%) and in Property/Business Services (54%) met the definition of a Permanent non-borrower, compared to 40% of those in the Other Community sector and 41-48% in other sectors.
- Those with a minimal or low risk rating were slightly less likely to meet the definition (both 47%) than those with an average (50%) or worse than average (49%) risk rating.
- Starts were the most likely to meet the definition (53%), with those trading for 2-5 years the least likely (39%) and 44-50% for the other age bands.
- Those using a personal account for their business banking were slightly more likely to meet the definition than those using a business bank account (52% v 48%). This means that the equivalent of 5% 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. Prior to the data in this table, between 2012 and 2015 the overall proportion of PNBs increased from a third (34%) to almost a half of all SMEs (47% in 2015):

- Since 2015 and including 2022, just shy of half of all SMEs met the definition of a PNB (47-48%). The exception to this was 2019 to 2021, when the increased use of finance meant fewer PNBs (39-42%).
- Analysis of 0 employee SMEs followed a similar pattern and they have usually been the most likely to meet the definition of a PNB (51% in 2022).
- Amongst SMEs with 1-9 employees, around 4 in 10 have met the definition of a PNB since 2015, with the slight exception of 2018 (44%) and again 2020-21 (31-32%).
- Amongst those with 10-49 employees a broadly stable 3 in 10 have met the definition of a PNB (27-31%) with the slight exception of 2018 (36%).
- The largest SMEs were traditionally less likely to be a PNB. Between 2015 and 2019 the proportion meeting the definition declined from 28% to 19%, but has increased again since, reaching 59% in 2022. As described above, there are signs of this starting to decline again, as use of finance amongst this group increased towards the end of 2022.
- Unlike some previous years, there was little to choose in terms of risk rating (47-50%), with all more likely to be a PNB in 2022 than they were in 2021, and at the higher end of the range of scores seen since 2015.
- All sectors were more likely to meet the definition of a PNB in 2022 than in 2021, though by a narrow margin for Manufacturing (38% to 41% and one of the sectors least likely to be a PNB). Those in Health remained the most likely to be a PNB (57%).

<b>Permanent non-borrowers</b>								
Over time – all SMEs								
Row percentages	2015	2016	2017	2018	2019	2020	2021	2022
All SMEs	47%	47%	47%	48%	42%	41%	39%	48%
0 emp	51%	50%	51%	50%	44%	44%	42%	51%
1-9 emps	36%	38%	37%	44%	38%	32%	31%	38%
10-49 emps	29%	30%	27%	36%	31%	28%	27%	31%
50-249 emps	28%	26%	22%	19%	19%	32%	52%	59%
Minimal external risk rating	41%	42%	42%	45%	44%	40%	37%	47%
Low	38%	43%	42%	50%	41%	37%	39%	47%
Average	45%	46%	49%	49%	46%	42%	43%	50%
Worse than average	51%	48%	47%	47%	41%	40%	38%	49%
Agriculture	41%	40%	37%	41%	33%	36%	36%	47%
Manufacturing	43%	45%	42%	48%	42%	39%	38%	41%
Construction	52%	45%	48%	51%	41%	41%	41%	48%
Wholesale/Retail	38%	40%	39%	43%	33%	34%	34%	43%
Hotels & Restaurants	40%	43%	41%	46%	42%	33%	30%	43%
Transport	44%	45%	42%	45%	39%	35%	34%	47%
Property/ Business Services	48%	51%	52%	52%	50%	45%	45%	54%
Health	51%	56%	48%	38%	34%	49%	47%	57%
Other Community	47%	45%	50%	48%	42%	40%	34%	40%

#### All SMEs

For most years during this period, the proportion of SMEs meeting the definition of a PNB has been higher than the proportion using external finance, but this leaves 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. Since then the group has returned to its more typical proportion (16% in 2022).

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, with a wider margin re-established in 2022. Those with 10-249 employees have always been more likely to be using external finance, while in 2021 for the first time the largest SMEs were more likely to be a PNB, and this remained the case in 2022:

<b>Use of external finance and PNBs</b>								
<b>Over time</b>								
<b>Row percentages</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>All SMEs:</b>								
• Use external finance	37%	37%	38%	36%	45%	37%	43%	36%
• Permanent non-borrower	47%	47%	47%	48%	42%	41%	39%	48%
• 'Gap' finance to PNB	-10	-10	-9	-12	+3	-4	+4	-12
<b>0 employees:</b>								
• Use external finance	32%	33%	34%	34%	43%	32%	38%	32%
• Permanent non-borrower	51%	50%	51%	50%	44%	44%	42%	51%
• 'Gap' finance to PNB	-19	-17	-17	-16	-1	-12	-4	-19
<b>1-9 employees:</b>								
• Use external finance	49%	46%	49%	42%	50%	49%	56%	47%
• Permanent non-borrower	36%	38%	37%	44%	38%	32%	31%	38%
• 'Gap' finance to PNB	+13	+8	+12	-2	+12	+17	+25	+9
<b>10-49 employees:</b>								
• Use external finance	60%	59%	64%	54%	60%	58%	62%	57%
• Permanent non-borrower	29%	30%	27%	36%	31%	28%	27%	31%
• 'Gap' finance to PNB	+31	+29	+37	+18	+29	+30	+35	+26
<b>50-249 employees</b>								
• Use external finance	61%	64%	73%	77%	77%	58%	37%	32%
• Permanent non-borrower	28%	26%	22%	19%	19%	32%	52%	59%
• 'Gap' finance to PNB	+33	+38	+51	+58	+58	+26	-15	-27

All SMEs

If the revised finance and PNB definitions were used for 2022, the ‘gap’ overall would reduce from -12 to -6, with the biggest change by size band for the 1-9 employee SMEs, moving from +9 to +17.

Analysis of the traditional definitions 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 2015, 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 2022 the gap was -19.</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 2015, 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 but in 2022 it had narrowed again to +9, as more SMEs met the definition of a PNB.</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 2015, albeit by a narrower margin, with around 6 in 10 using finance and 3 in 10 meeting the definition of a PNB. In 2022 the gap was +26.</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>Since 2015, that gap has increased back to 58 points in 2018 and 2019 and then declined again, such that in both 2021 and 2022, there were more of these largest SMEs meeting the definition of a PNB, with a gap of -27 in 2022.</p>

## 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:

<b>Characteristics of PNBs</b>								
<b>Over time</b>								
<b>Row percentages</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Made a profit:								
• PNBs	82%	80%	83%	79%	83%	83%	71%	77%
• Other SMEs	78%	80%	82%	77%	81%	76%	62%	70%
Hold £10k+ of credit balances:								
• PNBs	23%	19%	23%	23%	28%	28%	35%	36%
• Other SMEs	25%	24%	27%	22%	21%	29%	32%	33%
Minimal/Low risk rating:								
• PNBs	21%	20%	20%	23%	22%	20%	20%	21%
• Other SMEs	28%	23%	23%	23%	24%	22%	22%	23%
International								
• PNBs	13%	11%	14%	14%	15%	14%	14%	15%
• Other SMEs	20%	16%	17%	16%	16%	18%	20%	22%
Innovative								
• PNBs	31%	32%	31%	30%	34%	35%	35%	36%
• Other SMEs	42%	41%	36%	35%	35%	47%	44%	44%
Plan to grow								
• PNBs	38%	36%	37%	41%	40%	34%	42%	36%
• Other SMEs	51%	50%	52%	56%	60%	39%	49%	48%

All SMEs

As mentioned earlier, analysis of this data for 2022 by the revised PNB definition changed the scores by very little and the revised definitions have not been used in the analysis reported here.

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	2015 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 (77% v 70%) the 'gap' between them remained.
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) but since then PNBs have become slightly more likely to hold £10k or more of credit balances (36% v 33% of other SMEs).
Risk rating	With the exception of 2015, the proportion of both groups with a minimal or low external risk rating has been stable over recent years, with little to choose between them (21% v 23% in 2022).
International	With the exception of 2019, PNBs have been somewhat less likely than their non-PNB peers to be trading internationally (15% v 22% in 2022), with little change in the proportion that are international over time.
Innovation	Levels of innovation amongst PNBs have been broadly stable since 2019 with around 1 in 3 being innovative (36% in 2022). Amongst other SMEs, levels of innovation declined somewhat to 2019 (35%) but increased to 47% in 2020 and have remained above 40% since (44% in 2022). In almost all years this has meant that PNBs have been less likely to have been innovative than their peers (36% v 44% in 2022).
Plan to grow	Prior to 2020, a stable 4 in 10 of PNBs had been planning to grow, then like all SMEs growth ambitions were lower (34% in 2020). These recovered back to usual levels in 2021 (42%) but were somewhat lower in 2022 (36%). Other SMEs have been more likely to be planning to grow than PNBs for a number of years. In 2020, the 'gap' between the two groups narrowed to 5 points due to much lower ambition amongst the non-PNBs, but their ambition has increased since at a faster rate than PNBs, reaching 48% in 2022 (v 36% of PNBs).

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 48% of all SMEs (traditional definition) to 25% YEQ4 2022 (or 24% if the revised PNB definition is used).

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 69% of the remaining SMEs in 2022, in line with levels seen 2015-2018 and 2021:

<b>Use of external finance over time</b>								
<b>Over time – all SMEs excl PNBs</b>								
	2015	2016	2017	2018	2019	2020	2021	2022
Use any external finance	70%	70%	72%	70%	78%	61%	70%	69%
• <i>Use core finance</i>	55%	57%	57%	61%	67%	48%	51%	51%
• <i>Use other forms of finance</i>	32%	31%	33%	22%	27%	31%	40%	39%
Do not use external finance	30%	30%	28%	30%	22%	39%	30%	31%

## 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 2022, 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 3 in 10 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.

## ATTITUDES TO FINANCE IN DETAIL – YEQ4 2022

Attitudes to finance YEQ4 2022	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
<i>Unweighted base:</i>	<b>17,002</b>	<b>3279</b>	<b>5802</b>	<b>5668</b>	<b>2253</b>
<i>Happy to use external finance to help the business grow and develop</i>	<b>31%</b>	<b>28%</b>	<b>38%</b>	<b>47%</b>	<b>48%</b>
Strongly agree	3%	2%	3%	3%	4%
Agree	28%	26%	35%	44%	44%
Neither/nor	14%	13%	16%	20%	33%
Disagree	44%	46%	38%	30%	16%
Strongly disagree	11%	13%	8%	3%	3%

Continued

Continued

<b><i>Current plans for the business are based on what we can afford without taking additional finance</i></b>	<b>85%</b>	<b>86%</b>	<b>84%</b>	<b>75%</b>	<b>67%</b>
Strongly agree	23%	24%	20%	10%	9%
Agree	63%	62%	64%	65%	57%
Neither/nor	7%	7%	8%	13%	25%
Disagree	7%	6%	8%	11%	8%
Strongly disagree	1%	1%	1%	*	*
<b><i>Never think about whether we could/should use more external finance</i></b>	<b>53%</b>	<b>54%</b>	<b>51%</b>	<b>43%</b>	<b>25%</b>
Strongly agree	11%	13%	8%	4%	3%
Agree	42%	41%	43%	40%	23%
Neither/nor	17%	16%	19%	24%	38%
Disagree	27%	27%	27%	31%	35%
Strongly disagree	3%	3%	3%	1%	2%
<b><i>We will accept a slower rate of growth rather than borrowing to grow faster</i></b>	<b>79%</b>	<b>79%</b>	<b>80%</b>	<b>74%</b>	<b>61%</b>
Strongly agree	17%	18%	16%	9%	7%
Agree	62%	61%	64%	65%	55%
Neither/nor	12%	12%	12%	18%	31%
Disagree	8%	8%	8%	9%	6%
Strongly disagree	1%	1%	1%	*	1%
<b><i>As a business we are prepared to take risks to be more successful</i></b>	<b>46%</b>	<b>44%</b>	<b>52%</b>	<b>51%</b>	<b>54%</b>
Strongly agree	5%	5%	6%	4%	3%
Agree	40%	39%	46%	47%	51%
Neither/nor	16%	15%	16%	21%	30%
Disagree	33%	35%	27%	27%	13%
Strongly disagree	6%	6%	4%	2%	2%

Continued

Continued

<b><i>A further increase in the cost of credit would make us less likely to apply for new external finance</i></b>	<b>51%</b>	<b>49%</b>	<b>57%</b>	<b>54%</b>	<b>38%</b>
Strongly agree	10%	10%	10%	5%	4%
Agree	41%	39%	47%	49%	33%
Neither/nor	23%	24%	20%	24%	38%
Disagree	22%	22%	19%	21%	22%
Strongly disagree	4%	5%	4%	2%	2%
<b><i>Because the future feels uncertain, we are being very cautious with our plans for the business</i></b>	<b>63%</b>	<b>62%</b>	<b>65%</b>	<b>60%</b>	<b>43%</b>
Strongly agree	13%	14%	12%	7%	5%
Agree	50%	49%	54%	54%	38%
Neither/nor	15%	15%	14%	16%	31%
Disagree	21%	21%	19%	23%	24%
Strongly disagree	2%	2%	2%	1%	1%
<b><i>My impression is that it is quite difficult for businesses like ours to get external finance</i></b>	<b>31%</b>	<b>32%</b>	<b>29%</b>	<b>20%</b>	<b>11%</b>
Strongly agree	6%	7%	4%	2%	2%
Agree	25%	26%	25%	17%	9%
Neither/nor	36%	36%	35%	35%	40%
Disagree	30%	29%	33%	43%	46%
Strongly disagree	3%	3%	3%	3%	3%
<b><i>We have a long term ambition to be a significantly bigger business</i></b>	<b>40%</b>	<b>37%</b>	<b>47%</b>	<b>56%</b>	<b>66%</b>
Strongly agree	8%	8%	8%	7%	8%
Agree	32%	29%	39%	49%	58%
Neither/nor	14%	14%	16%	16%	24%
Disagree	38%	40%	32%	27%	9%
Strongly disagree	8%	9%	5%	2%	1%

Q96 (238a5) All SMEs

This final statement was added in Q3 2021, so a full year of data is now available for 2022. Debt covers more than just financial products, but analysis just amongst those SMEs currently using external finance is provided later in this chapter:

<b><i>We are very worried about the amount of debt the business has</i></b>	<b>9%</b>	<b>9%</b>	<b>11%</b>	<b>8%</b>	<b>4%</b>
Strongly agree	2%	2%	2%	1%	1%
Agree	7%	7%	9%	7%	3%
Neither/nor	14%	15%	13%	13%	23%
Disagree	57%	56%	59%	67%	61%
Strongly disagree	20%	21%	18%	12%	12%

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 2022:

YEQ4 22 – all SMEs % agreeing	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
<b>Unweighted base:</b>	<b>17,002</b>	<b>3279</b>	<b>5802</b>	<b>5668</b>	<b>2253</b>
Plans based on what can afford ourselves	85%	86%	84%	75%	67%
Accept slower growth rather than borrow	79%	79%	80%	74%	61%
Because the future feels uncertain, we are being very cautious with our plans for the business	63%	62%	65%	60%	43%
Never think about using (more) external finance	53%	54%	51%	43%	25%
Increase in cost of credit would discourage application	51%	49%	57%	54%	38%
As a business we are prepared to take risks to become more successful	46%	44%	52%	51%	54%
We have a long term ambition to be a significantly bigger business	40%	37%	47%	56%	66%
My impression is that it is quite difficult for businesses like ours to get external finance	31%	32%	29%	20%	11%
Happy to use finance to help business grow	31%	28%	38%	47%	48%
We are very worried about the amount of debt the business has	9%	9%	11%	8%	4%

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 and to have a long term ambition to be larger still. They were also slightly more likely to be prepared to take risks to grow.
- 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. The impression that it would be difficult to get finance increased with risk rating (19% to 36%) and there was a small increase in the proportion concerned about debt (6% to 10%):

YEQ4 22 – all SMEs					
% agreeing	Total	Min	Low	Avg	Worse /Avg
<b>Unweighted base:</b>	<b>17,002</b>	<b>3390</b>	<b>4804</b>	<b>4454</b>	<b>3143</b>
Plans based on what can afford ourselves	85%	83%	86%	87%	86%
Accept slower growth rather than borrow	79%	79%	80%	80%	78%
Because the future feels uncertain, we are being very cautious with our plans for the business	63%	60%	62%	62%	65%
Never think about using (more) external finance	53%	53%	55%	54%	52%
Increase in cost of credit would discourage application	51%	50%	49%	51%	53%
As a business we are prepared to take risks to become more successful	46%	37%	42%	38%	54%
We have a long term ambition to be a significantly bigger business	40%	30%	32%	33%	49%
My impression is that it is quite difficult for businesses like ours to get external finance	31%	19%	26%	29%	36%
Happy to use finance to help business grow	31%	32%	28%	27%	35%
We are very worried about the amount of debt the business has	9%	6%	8%	9%	10%

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 but more likely to say they never think about finance and less likely to be to be happy to use finance to grow
- Those in Wholesale/Retail were more likely to be uncertain about the future, but continued to be more likely to harbour an ambition to be significantly bigger.
- This in Agriculture were more likely to be happy to borrow to grow, albeit less likely to want to be a significantly bigger business in the longer term.

YEQ4 22 – all SMEs % agreeing	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWk	Other Comm
<b>Unweighted base:</b>	<b>869</b>	<b>2224</b>	<b>2724</b>	<b>2158</b>	<b>1049</b>	<b>1485</b>	<b>3506</b>	<b>1029</b>	<b>1958</b>
Plans based on what can afford ourselves	88%	86%	86%	83%	81%	84%	86%	86%	86%
Accept slower growth rather than borrow	81%	81%	79%	79%	80%	77%	79%	77%	79%
Future feels uncertain, we are being very cautious with our plans	68%	61%	61%	70%	67%	68%	61%	57%	59%
Never think about using (more) external finance	50%	53%	56%	53%	56%	50%	54%	59%	47%
Increase in cost of credit would discourage application	53%	48%	49%	53%	54%	47%	51%	52%	53%
As a business we are prepared to take risks to become more successful	39%	40%	42%	51%	45%	46%	49%	45%	47%
We have long term ambition to be significantly bigger	29%	34%	33%	46%	40%	38%	42%	41%	44%
Impression difficult for businesses like ours to get external finance	30%	28%	29%	26%	35%	33%	29%	37%	37%
Happy to use finance to help business grow	36%	30%	29%	31%	32%	29%	31%	28%	34%
We are very worried about the amount of debt the business has	10%	11%	8%	9%	12%	10%	8%	9%	9%

Q96 (238a5) All SMEs

Agreement with a number of these statements declined as the SME got 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 9 years were the most likely to feel potentially discouraged by an increase in the cost of credit:

YEQ4 22 – all SMEs % agreeing	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15 yrs+
<b>Unweighted base:</b>	<b>743</b>	<b>1297</b>	<b>1584</b>	<b>3323</b>	<b>10,055</b>
Plans based on what can afford ourselves	84%	85%	88%	84%	86%
Accept slower growth rather than borrow	75%	79%	83%	78%	80%
Because the future feels uncertain, we are being very cautious with our plans for the business	64%	64%	67%	63%	60%
Never think about using (more) external finance	49%	50%	54%	54%	55%
Increase in cost of credit would discourage application	49%	55%	53%	51%	50%
As a business we are prepared to take risks to become more successful	67%	57%	50%	47%	32%
We have a long term ambition to be a significantly bigger business	69%	58%	43%	36%	22%
My impression is that it is quite difficult for businesses like ours to get external finance	36%	37%	35%	29%	27%
Happy to use finance to help business grow	42%	39%	34%	30%	24%
We are very worried about the amount of debt the business has	10%	13%	13%	10%	6%

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 happy to use finance to grow (and less likely to say they never think about using more finance) but also more likely to be put off by an increase in the cost of credit and slightly more likely to feel it would be hard for them to get credit.
- Those using finance were the most likely to be feeling cautious about the future and worried about the amount of debt they had, while those with an ambition to grow in the next year were more likely to be prepared to take risks and to want to be a significantly bigger business:

YEQ4 22 – all SMEs % agreeing	Use external finance	Do not use finance	Plan to grow	No plans to grow
<b>Unweighted base:</b>	<b>7816</b>	<b>9186</b>	<b>8063</b>	<b>8939</b>
Plans based on what can afford ourselves	85%	85%	86%	85%
Accept slower growth rather than borrow	79%	79%	80%	78%
Because the future feels uncertain, we are being very cautious with our plans	68%	60%	64%	62%
Never think about using (more) external finance	50%	55%	50%	55%
Increase in cost of credit would discourage application	60%	46%	55%	48%
As a business we are prepared to take risks to become more successful	49%	44%	61%	35%
We have a long term ambition to be a significantly bigger business	44%	37%	64%	22%
My impression is that it is quite difficult for businesses like ours to get external finance	37%	28%	34%	29%
Happy to use finance to help business grow	42%	25%	41%	23%
We are very worried about the amount of debt the business has	16%	5%	10%	8%

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 feel they needed to be cautious, but more likely to say they never thought about using finance, which may be why they were less likely to be put off by an increase in the cost of credit or feel it would be difficult for them to get credit.
- Those who did not meet the definition of a PNB were more ambitious long term, more willing to take risks and happier to borrow to grow.
- Excluding the 0 employee SMEs increased the proportion of remaining SMEs that were prepared to take risks, had ambitions to be significantly bigger and were happy to use finance.

YEQ4 22 – all SMEs % agreeing	Total	PNBs	Not PNBs	All with employees
<b>Unweighted base:</b>	<b>17,002</b>	<b>6968</b>	<b>10,034</b>	<b>13,723</b>
Plans based on what can afford ourselves	85%	86%	84%	82%
Accept slower growth rather than borrow	79%	80%	78%	78%
Because the future feels uncertain, we are being very cautious with our plans for the business	63%	58%	67%	64%
Never think about using (more) external finance	53%	57%	50%	50%
Increase in cost of credit would discourage application	51%	43%	58%	56%
As a business we are prepared to take risks to become more successful	46%	41%	50%	52%
We have a long term ambition to be a significantly bigger business	40%	33%	46%	49%
My impression is that it is quite difficult for businesses like ours to get external finance	31%	23%	39%	27%
Happy to use finance to help business grow	31%	19%	41%	40%
We are very worried about the amount of debt the business has	9%	3%	15%	10%

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. Analysis is now available from H2 2018 for all but the most recent statement:

<b>Attitudes to finance</b>									
<b>Over time – all SMEs</b>									
<b>All agreeing – row percentages</b>	<b>H2 18</b>	<b>H1 19</b>	<b>H2 19</b>	<b>H1 20</b>	<b>H2 20</b>	<b>H1 21</b>	<b>H2 21</b>	<b>H1 22</b>	<b>H2 22</b>
Happy to use finance to help business grow	32%	29%	29%	30%	35%	37%	36%	30%	32%
Plans based on what can afford ourselves	81%	80%	81%	84%	86%	86%	84%	86%	85%
Accept slower growth rather than borrow	72%	73%	74%	79%	80%	82%	77%	80%	78%
Never think about using (more) external finance	49%	52%	49%	51%	52%	57%	57%	55%	51%
As a business we are prepared to take risks to become more successful	43%	41%	43%	42%	44%	46%	49%	47%	45%
Increase in cost of credit would discourage application	52%	51%	53%	53%	61%	63%	54%	51%	50%
Future feels uncertain so we are being very cautious	56%	54%	55%	65%	71%	68%	63%	64%	62%
Impression it is quite difficult to get finance	39%	42%	39%	37%	37%	36%	32%	32%	30%
Have long term ambition to be significantly bigger	39%	38%	36%	37%	44%	43%	41%	39%	40%
We are very worried about the amount of debt the business has	-	-	-	-	-	-	9%	10%	9%

Q96 (238a5) All SMEs -

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 (32% in H2 2022).
- Until H1 2021, around 4 in 10 SMEs felt that it might be difficult for them to get finance, but this proportion has declined since, to 30% in H2 2022.
- The proportion prepared to take risks to be successful increased slightly to 49% in H2 2021, and had remained somewhat higher than typical pre-pandemic levels (45% in H2 2022), while the proportion with a long term growth ambition remained fairly stable at 4 in 10 SMEs during 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, 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.

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 increased to 36% in 2021 but this was not maintained in 2022 (31%). This most recent decline 2021 to 2022 was due to:

- A lower proportion of smaller SMEs being happy to borrow to grow, slightly countered by the largest SMEs being happier to borrow to grow than before (48%).
- Fewer SMEs being happy to borrow to grow across all risk ratings, especially those with a low risk rating.
- Fewer SMEs being happy to borrow to grow across all sectors, especially Transport (45% to 29%), with smaller declines for other sectors such as Health, the Other Community sector or Hotels & Restaurants.

<b>Happy to use finance to help business grow</b>								
Over time – all SMEs								
Row percentages % agree	2015	2016	2017	2018	2019	2020	2021	2022
All SMEs	45%	43%	34%	32%	29%	33%	36%	31%
0 emp	43%	41%	31%	30%	26%	29%	34%	28%
1-9 emps	51%	49%	40%	38%	37%	42%	43%	38%
10-49 emps	57%	52%	48%	45%	44%	49%	50%	47%
50-249 emps	58%	51%	53%	57%	47%	48%	45%	48%
Minimal external risk rating	48%	45%	35%	36%	33%	32%	36%	32%
Low	45%	42%	35%	34%	34%	34%	36%	28%
Average	45%	41%	31%	31%	25%	30%	33%	27%
Worse than average	47%	45%	36%	34%	30%	34%	39%	35%
Agriculture	51%	44%	37%	41%	34%	39%	43%	36%
Manufacturing	48%	42%	35%	34%	35%	32%	38%	30%
Construction	44%	46%	31%	29%	27%	28%	34%	29%
Wholesale/Retail	51%	44%	39%	38%	36%	42%	39%	31%
Hotels & Restaurants	47%	46%	38%	32%	32%	38%	35%	32%
Transport	47%	43%	38%	35%	30%	34%	45%	29%
Property/ Business Services	45%	42%	33%	30%	26%	31%	34%	31%
Health	39%	43%	27%	32%	27%	27%	30%	28%
Other Community	39%	39%	32%	31%	28%	33%	36%	34%
PNB	36%	34%	22%	22%	17%	19%	23%	19%
Not a PNB	53%	51%	44%	42%	38%	42%	45%	41%
Use external finance	56%	54%	46%	44%	39%	46%	47%	42%

Q96 (238a54) All SMEs

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 of debt the business has” for both all SMEs and those currently using external finance:

- Amongst all SMEs, a consistent 1 in 10 was concerned about the amount of debt they had. The most likely to be concerned in 2022 were those trading for 2-5 or 6-9 years (both 13%) and those in the Hotel & Restaurant sector (12%). The biggest change between H2 2021 and 2022 was for those in Manufacturing, up 3 points to 11% concerned.
- Focussing on those currently using external finance increases the proportion worried about debt levels to 16%, again unchanged from H2 2021. Concern was highest for those trading for 6-9 years (24%, and up from 15% in H2 2021), alongside those in the Hotel & Restaurant, Transport and Health sectors (all 21-22%).

Analysis for 2022 by different levels of finance being used also showed:

- Higher levels of concern amongst those now using more finance than pre-pandemic (25%), especially those borrowing for the first time (29%) and those who had taken on extra facilities (30%).
- Half of those who were concerned about making future repayments were also concerned about the amount of debt they had (53%) compared to 7% of those using finance but not concerned about making repayments.
- In H2 2022, 13% of those owing up to £25k were very worried about the amount of debt the business had, increasing to 30% of those owing between £25,000 and £100,000 and 26% of those owing more than £100,000.

<b>Worried about amount of debt</b>				
<b>Over time – all SMEs</b>	<b>H2 21 (All SMEs)</b>	<b>2022 (All SMEs)</b>	<b>H2 21 (Finance users)</b>	<b>2022 (Finance users)</b>
All SMEs	9%	9%	16%	16%
0 emp	8%	9%	16%	17%
1-9 emps	12%	11%	17%	16%
10-49 emps	8%	8%	11%	10%
50-249 emps	6%	4%	11%	6%
Minimal external risk rating	6%	6%	8%	8%
Low	7%	8%	10%	14%
Average	7%	9%	15%	17%
Worse than average	12%	10%	23%	18%
Agriculture	9%	10%	12%	15%
Manufacturing	8%	11%	13%	13%
Construction	8%	8%	15%	13%
Wholesale/Retail	9%	9%	11%	15%
Hotels & Restaurants	14%	12%	20%	22%
Transport	11%	10%	20%	21%
Property/ Business Services	7%	8%	13%	13%
Health	9%	9%	24%	22%
Other Community	11%	9%	19%	17%
Starts	8%	10%	18%	21%
2-5 years	12%	13%	22%	19%
6-9 years	11%	13%	15%	24%
10-15 years	11%	10%	18%	17%
More than 15 years	8%	6%	13%	11%

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/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 (48%) were neither using external finance nor were happy to do so in future, but with some variation by size of SME:

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

YEQ4 22 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
<b>Unweighted base:</b>	<b>17,002</b>	<b>3279</b>	<b>5802</b>	<b>5668</b>	<b>2253</b>
Use external finance and happy to use in future	15%	12%	23%	31%	20%
Use external finance but not happy to use in future	21%	20%	24%	27%	12%
Do not use it but happy to use in future	16%	16%	16%	16%	27%
Do not use it and not happy to use in future	48%	52%	38%	26%	40%

Q15/Q96 (Q238a5) All SMEs

Taking these two issues in combination:

- 1 in 6 SMEs (15%) were using external finance and agreed that they would be happy to use it in future, ranging from 12% of those with 0 employees to 31% of those with 10-49 employees.
- The remaining users of finance, 21% of all SMEs, would not be happy to use finance in future (the equivalent of 58% of all users of finance). Those with 10-49 employees (27%) 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 in future, with the largest SMEs more likely to be in this category (27%)
- The remainder, almost half of SMEs (48%), were non-users of finance who would not be happy to use it in future and this was more common amongst 0 employee SMEs (52%).

Across the years shown below, around 4 in 10 of those using finance were happy to do so in future with the current proportion, 42%, at the lower end of the range seen. When use of finance increased in 2019, more SMEs went into the “using but would not use in future” category rather than into “using and happy to do so in future” reducing the proportion of finance users happy to use finance again to 39%:

<b>Combined analysis: Use of external finance and happiness to use in future over time – all SMEs</b>	2017	2018	2019	2020	2021	2022
Use external finance and happy to use in future	18%	16%	18%	17%	20%	15%
Use external finance but not happy to use in future	21%	20%	28%	20%	23%	21%
Do not use it but happy to use in future	16%	16%	11%	16%	16%	16%
Do not use it and not happy to use in future	46%	47%	43%	48%	41%	48%
<b>% using who are happy to use again</b>	<b>46%</b>	<b>44%</b>	<b>39%</b>	<b>46%</b>	<b>47%</b>	<b>42%</b>

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 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 2022 showed very similar results: 40% agreed they wanted to be a bigger business and 46% were prepared to take risks, with 28% of SMEs agreeing with both statements.

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

- 26% of 0 employee SMEs agreed with both statements, increasing by size to 46% of those with 50-249 employees (a marked increase on the 2021 figure).
- 55% of Starts and 42% of those trading for 2-5 years agreed with both statements, decreasing by age of SME to 13% of those trading for more than 15 years.

The table below shows the proportion of SMEs 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, with a slight increase since 2021 to 1 in 3 SMEs. Since this metric was first recorded in H2 2017, those with 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 (albeit with an improvement in 2022).

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

Q96 (238a54) All SMEs