An independent report by BVA BDRC

SME Finance Monitor

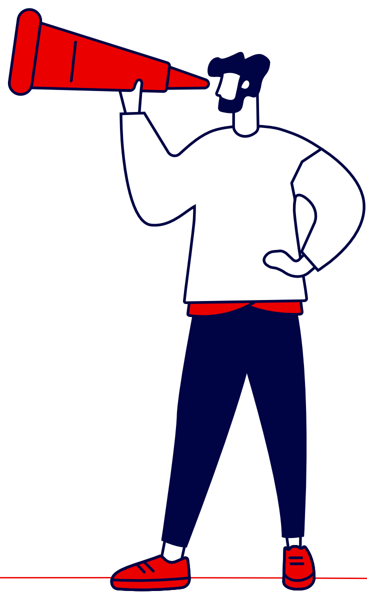
Q4 2023 Report Highlights

SME Finance Monitor

Q4 2023 Report Highlights

Shiona Davies
Director
shiona.davies@bva-bdrc.com

Contents



Navigating the SME Finance Monitor

The Chapter Summaries …

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

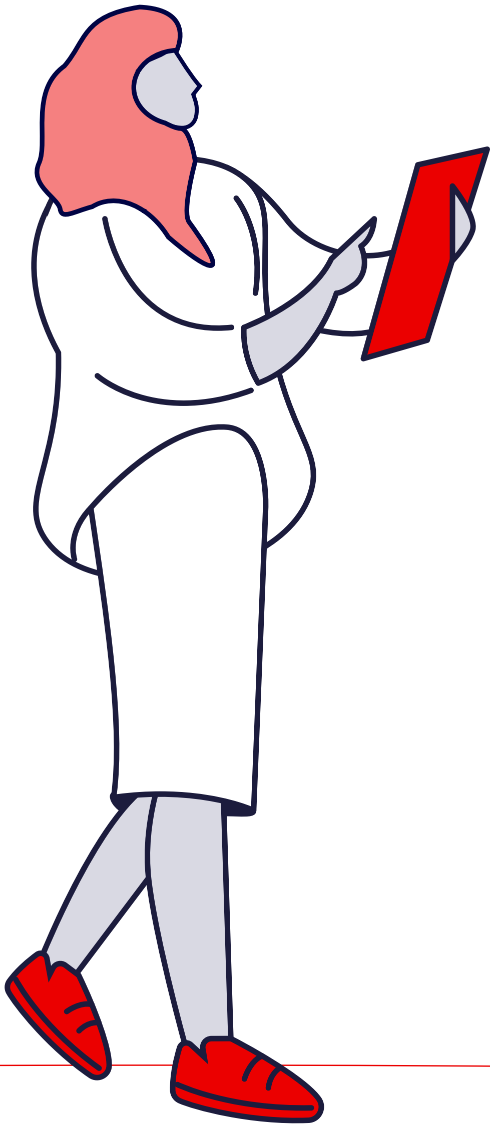
There are a number of ways you can access this information, depending on the data you need and the level of detail required. They can all be found at www.bva-bdrc.com/sme-finance-monitor/

1. The **management summary** provides the key headlines on important contextual issues such as innovation and growth as well as on the focus of this report: the use of, and access to, external finance by SMEs.
2. More detailed headlines, also in a summary format, can be found in the chapter summaries at the start of each chapter of the full report. These summaries have been gathered together into a separate **chapter summaries** document you are reading now.
3. The **full report** (which includes the management summary and chapter summaries) provides a series of chapters on different themes and full data, over time and by a range of business demographics, to give a full picture across the topics covered.
4. There is an accompanying **chart pack** covering the key themes reported here, with reporting by size and sector.

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

34%
of (typically larger) SMEs felt 'Comfortable' or even 'Well off'

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



4. The general context

THIS CHAPTER PRESENTS

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

4. The general context

KEY FINDINGS

77%

of SMEs made a profit

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

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

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

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

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

29%

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

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

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

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

More SMEs were trading internationally

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

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

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

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

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

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

33%
of larger employers were struggling to recruit the staff they need

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

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

1 in 4
SMEs wished they had a more active relationship with their bank

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

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

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

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

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

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

Smaller and younger SMEs are more likely to be part of the

18%

of SMEs that were 'Struggling'

5.Financial context £

Part 1.

THIS CHAPTER PROVIDES

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

5.Financial context Part 1.

KEY FINDINGS

46%
of SMEs were using external finance in 2023

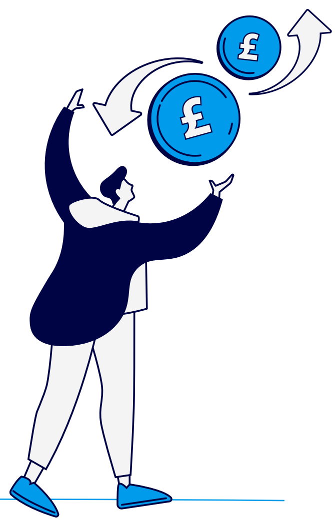
Under the new definition, almost half of SMEs (46%) were using any external finance in 2023:

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

1 in 5
SMEs were still repaying government backed pandemic funding

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

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



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

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

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

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

1 in 3

borrowers were using more finance than they were pre-pandemic

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

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

A consistent half of borrowers have facilities on a fixed rate

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

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

15%

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

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

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

1 in 3

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

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

6. Financial context

Part 2.

THIS CHAPTER PROVIDES

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

bva Bdrc

Financial context Part 2.

KEY FINDINGS

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

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

35%

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

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

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

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

Despite recent challenges a stable 1 in 4 SMEs can be described as 'Ambitious risk takers'

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

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

1 in 3 SMEs thought it would be difficult for them to get finance in future, especially smaller, younger SMEs and those who already have some finance

7. Need for funding

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

Need for funding.

KEY FINDINGS

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

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

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

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

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

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

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

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

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

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

8. An overview of borrowing events

THIS CHAPTER PROVIDES

information on the number and range of borrowing events now captured on the SME Finance Monitor.

8. An overview of borrowing events.

KEY FINDINGS

1 in 10 SMEs reported a borrowing event:

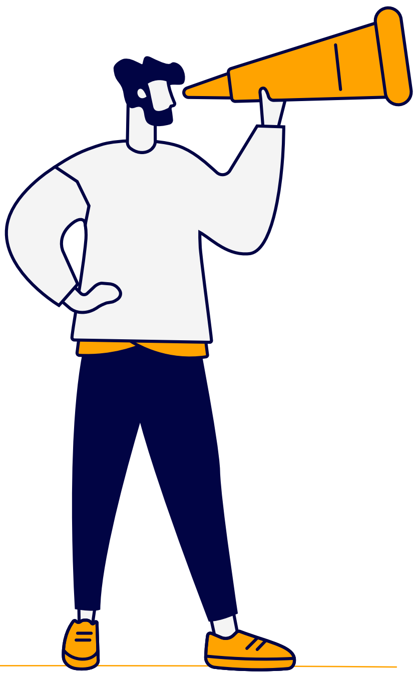
- 3% of SMEs reported an application for new or renewed funding (including those applying as a result of a need for funding) with limited variation by size of SME (3-5%) or other demographics. Half of these applications were for bank loans.
- 2% reported that a facility had been repaid or cancelled ahead of time, either at the request of the bank or the SME, again with limited variation.
- There was more variation in the proportion reporting the automatic renewal of an overdraft (6% overall), which was more likely to have been experienced by those with 10-49 employees (9%), those in Agriculture (10%) and those trading for more than 15 years (9%).
- Overall, 11% of SMEs reported any of these borrowing events, increasing to 15% of those with 10-49 employees, 17% of those in Agriculture and 13% of those trading for more than 15 years, all boosted by the automatic renewal of an overdraft.

11%

of SMEs reported any borrowing event, slightly lower than pre-pandemic and notably so for the largest and youngest SMEs

This was in line with 2022 but lower than in previous years

- The 11% figure in 2023 is in line with 2022, but slightly lower than pre-pandemic (13-14%) or the pandemic peak of 17% in 2021.
- In 2018, 14% of SMEs reported a borrowing event. Whilst the proportion reporting a borrowing event in 2023 was 3 points lower at 11%, some demographics have seen more significant changes over time.
- This includes those with 50-249 employees: in 2018, 32% reported a borrowing event and this has declined steadily over time, including during the pandemic, to 7% in 2023.
- It also includes Starts: in 2018, 20% reported a borrowing event and this has declined steadily over time, including during the pandemic, to 6% in 2022 and 8% in 2023.



9. Outcome of Type 1 applications

THIS CHAPTER PROVIDES
more detail on the outcome of all Type 1a and Type 1b borrowing events for new/renewed finance, including the amount granted and whether security was required.

bva Bdrc

9. The outcome of Type 1 applications

KEY FINDINGS

Applications were typically made to a known provider, almost all were in the name of the business and 6 in 10 were from a first time applicant for that product, Bank loans remained the most popular product, but at lower levels than during the pandemic:

- 48% of the applications reported were made to the main bank and a further 14% to another provider known to the business. 20% were made to a new provider, 9% to an online platform and 9% were made elsewhere.
- The majority of applications (95%) were made in the name of the business, with little difference by size or where the application was being made. The majority of those made in a personal name were from 0 employee SMEs.
- 62% of applications involved a product that had not been applied for before by that SME, down from 70% in the 18 months to Q4 2021. This was more likely to be the case for applications made by 0 employee SMEs (67%), or those with 1-9 employees (51%) compared to 41% of those with 10-49 employees and 27% with 50-249 employees.
- 41% of applications were for a bank loan (and a further 10% for a loan from another provider, recorded separately), a further decrease from the pandemic peak in the 18 months to Q4 2021 when 61% of all applications were for a bank loan. 18% were for a bank overdraft, up from 7%.

THIS CHAPTER

is based on the 739 applications for new or renewed finance made and reported between Q3 2022 and Q4 2023 to date, rather than on respondents.

Bank loans remain a popular form of finance, though somewhat less popular than during the pandemic

Half of all applications resulted in a facility, with smaller SMEs and those borrowing for the first time less likely to have been successful in the current period:

- 50% of applications reported resulted in a facility, 7% were offered something but chose not to take it and 43% were declined.
- Application success increased markedly by size of SME from 40% of applications from those with 0 employees to 88% of the small group of applications from those with 50-249 employees.
- Success rates were also lower for first time applicants (37%) than those who had borrowed before (73%) and for those applying to their main bank (42%) compared to another existing provider (77%) or a new provider (52%).
- Where analysis by product applied for is possible, 40% of those applying for a bank loan were successful, with 55% declined and 42% of those applying for a bank overdraft were successful, with 44% declined (with 14% turning down the facility offered to them). This contrasts with the 88% success rates for leasing/hp.
- Those who were unsuccessful were typically told it was due to a lack of track record and/or current business performance with 6 in 10 seeing some action from the lender, whether to explain and/or ask for more information or offered the referral or appeal process. Base sizes preclude more analysis of these SMEs.

Half of all applications resulted in a facility, with smaller and first time applicants less likely to be successful

Most successful applications Q3 2022 to Q4 2023 were on a fixed rate, a quarter required security and a third received more than £25,000 in funding:

- 72% of successful applications were for funding on a fixed rate and this was slightly less likely to be the case for applications granted by the main bank (62%) or those granted to 0 employee SMEs (67%).
- 28% of successful applications required security and this was slightly more likely to be the case for applications granted by the main bank (36%) with limited variation by size of SME (27% to 35%).
- 34% of successful applications were for £25,000 or more and this was slightly less likely to be the case for applications granted by the main bank (24%) but with clear variation by size of SME (from 19% of successful applicants with 0 employees to 99% of those with 50-249 employees).

Most facilities were on a fixed rate, and a quarter were secured

Satisfaction with the application process is understandably closely linked to the outcome. 9 in 10 of those who were offered what they wanted were satisfied compared to 1 in 10 of those declined, half of whom had not expanded as they wished and/or found running the business more of a struggle:

Over half of those declined had not expanded the business as they would have wished

- 88% of those who received the funding they wanted were satisfied with the outcome of their application. The largest SMEs, most of whom had been successful were also more likely to have been satisfied (87%).
- Overall, 37% of all applicants were either very satisfied with the outcome or said the outcome had not resulted in an adverse impact for the business, increasing by size from 25% of those with 0 employees (more likely to have been declined) to 7 in 10 of those with 10-49 or 50-249 employees (71% and 72%).
- The most frequently mentioned negative impact (as in previous Monitor reports) was that running the business was more of a struggle, and this was mentioned mainly by those with 0 or 1-9 employees (39% and 21% of all applicants in those size bands).
- Amongst those declined, very few (6%) were either very satisfied with the outcome or said the outcome had not resulted in an adverse impact for the business. 56% had not expanded the business as they would have liked and 50% felt running the business was more of a struggle

Pre-pandemic around 7 in 10 applications for finance were successful. The government backed funding boosted this during the pandemic to over 8 in 10 and an adjustment post pandemic was to be expected but has not impacted all applications in the same way.

Larger SMEs have been much less affected by the decline in success rates post pandemic than smaller ones

- Immediately prior to the pandemic in the 18 months to Q4 2019, 71% of all applications were successful and 26% were declined. The launch of government backed funding increased the success rates for the 18 months to Q4 2020 to 85% and the 18 months to Q4 2021 to 82%, with declines falling to 12% and 16% respectively
- In the next period, for the 18 months to Q4 2022, 59% of applications were successful, with 40% declined and the interim figures for the latest 18 months to Q4 2023 reinforce that position (50% successful and 43% declined)

- Comparing the applications that were successful in the 18 months to Q4 2019 to those that were successful in the 18 months to Q4 2023 showed that:
  - Success rates for applications from 0 employee SMEs have dropped more markedly, by 23 percentage points from 63% to 40%, than success rates for larger applicants. These too are lower (-6 points for 1-9 employees, -14 points for 10-49 employees and -10 points for 50-249 employees) but in all cases 7 in 10 or more were successful with their application in the current period.
  - Success rates for both bank loans and bank overdrafts were significantly lower than in the 18 months to Q4 2019. Those for bank overdrafts have dropped more markedly (down 34 points from 76% to 42%) than those for bank loans (down 20 points from 60% to 40%) and this was in contrast to Leasing/HP where the success rate was unchanged at 88% in both periods.

Success rates for the smallest SMEs have been most affected post-pandemic

10. Not looking to borrow

THIS CHAPTER LOOKS at those that had not had a borrowing event, to explore whether they wanted to apply for finance in the previous 12 months and any barriers to applying.

10. Not looking to borrow

KEY FINDINGS

As in previous years, most SMEs had been a Happy non seeker of finance, with only a small minority meeting the definition of a Future would be seeker who had felt unable to apply when they wanted to

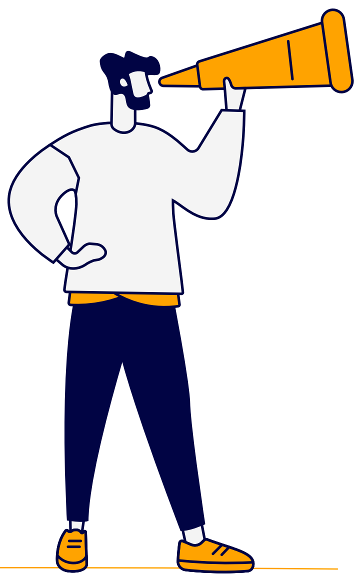
- SMEs continue to be divided into 3 groups based on their behaviour in the 12 months prior to interview. 11% had a borrowing event, 4% had wanted to apply but something stopped them (the Would-be seekers) and most, 85%, had been Happy non-seekers of finance. Note that in 2023, 40% of HNS were using external finance, the metric being derived from applications for finance, not use.
- Since 2016, 8 in 10 or more of all SMEs have met the definition of a Happy non-seeker of finance and they have been seen fairly consistently across all sizes, sectors and ages of SME.

Most SMEs have been Happy non-seekers of finance

The Would-be seekers represent an element of unmet demand for funding, with the process of borrowing the main barrier to an application

- Since 2021, 3-4% of SMEs have met the definition of a Would-be seeker of finance, a slight increase on the 1-2% from 2016-2020
- In 2023, those more likely to be a WBS included those in the Hotel & Restaurant and Other Community sectors (6% and 8%) and those trading for 2-5 years (8%).
- Since 2018, the most mentioned barrier to an application has been the process of borrowing, given as the main reason in 2023 by 42% of Would-be seekers. This is a net score made up of a number of individual factors of which the most mentioned was thinking it would be too expensive, given as the main reason by 25% of all WBS.

The small group of Would-be seekers have typically been put off by the process of borrowing, including the expense



- This is followed by discouragement, given as the main reason in 2023 by 23% of Would-be seekers, with the main contributor indirect discouragement where the SME assumed they would be turned down as so does not approach the bank (15% of WBS). In a new code for 2023, 4% of WBS felt discouraged because they were already borrowing as much as they felt they could
- Almost as many WBS (21%) gave the principle of borrowing as their main barrier, including 11% of WBS who preferred to use other forms of finance
- Finally, 8% felt this was not the right time to apply due to the economic climate. Whilst this has never been a key barrier for those looking back to past behaviour, it continues to a major barrier for Future would-be seekers

These Would-be seekers were more likely than their peers to be 'Ambitious risk takers' but also more likely to feel it would be difficult for them to get finance.

- Attitudes to finance amongst Would-be seekers were typically similar to those that had reported a borrowing event, whilst Happy non-seekers appeared less engaged with finance (57% never thought about using more finance)
- Half of both those reporting an event and WBS were happy to borrow to grow (51% and 55%) but the recent increases in interest rates was making them less likely to apply (65% and 63%). In addition, WBS remained the most likely to say they felt it would be difficult for a business like theirs to get finance (55% v 47% of those reporting a borrowing event).
- Would-be seekers were though more likely than their peers to agree that they were prepared to take risks to be successful (58%) and/or that they had a long term ambition to be significantly bigger (58%) and were therefore more likely to meet the definition of an 'Ambitious risk taker' (42%), compared to 32% of those that reported a borrowing event and 26% of Happy non-seekers.

Half of Would-be seekers felt the increase in interest rates had made them less likely to apply

11. The future

THIS CHAPTER PROVIDES
more detail on growth plans and perceived barriers to that growth. It then explores SMEs' intentions for the next 3 months, in terms of finance and the reasons why SMEs think that they will/will not be applying for new/renewed finance in that time period.

11. The future

KEY FINDINGS

Almost 6 in 10 were planning growth related activities in Q4 2023, including 41% looking to be innovative and 23% looking to reduce their carbon footprint:

- 36% of SMEs in Q4 2023 were looking to significantly improve an aspect of the business which, along with the 21% looking to develop a new product or service, meant that 41% of SMEs were planning to be innovative.
- 24% were looking to invest in plant and machinery and almost as many, 23%, were planning to take significant steps to reduce their carbon footprint.
- Overall, 58% of SMEs in Q4 2023 were planning one or more of the activities measured, increasing to 86% of those with 50-249 employees, 79% of those trading for 2-5 years, 77% of those planning to grow and 72% in the Health sector.

A quarter of SMEs are looking to take measures to reduce their carbon footprint

Over half of SMEs reported any past or planned innovation while 1 in 4 can be classed as a 'consistent innovator' having both been, and planning to be, innovative:

- From Q2 2023 it has been possible to track future innovation alongside past innovation. This identified that for the period Q2-Q4 2023 combined, 43% of SMEs had been innovative and 36% planned to be.
- Overall, 55% of SMEs had either been or planned to be innovative and 24% met the criteria of a 'consistent innovator' who has both been innovative and planned to be so in the coming year.
- SMEs more likely to meet this 'consistent innovator' definition included those with 50-249 employees (43%) and those trading for 2-5 years (38%), along with 37% of those planning to grow and 46% of those planning to apply for finance.

Over half of SMEs have either been innovative or plan to be in the coming year

Almost half of SMEs planned to grow in the coming year, back in line with pre-pandemic levels for the smaller but not the larger SMEs. 1 in 5 SMEs (excluding Starts) had both grown in the previous year and planned to grow again, while linking growth to innovation showed 1 in 4 SMEs planning both future growth and future innovation, with a focus on smaller and younger SMEs:

- 46% of SMEs in 2023 planned to grow in the next 12 months, increasing by size of SME to 59% of those with 10-49 employees and 58% of those with 50-249 employees. Other SMEs more likely to be planning to grow included those with a worse than average risk rating (55%), Starts (73%) and those trading for 2-5 years (62%).
- This is back in line overall with pre-pandemic levels (49% planned to grow in 2018) but while growth aspirations were back in line for those with 0 or 1-9 employees, this was not the case for larger SMEs. In 2023, 59% of those with 10-49 employees planned to grow, down from 64% planning to do so in 2018 and for those with 50-249 employees the difference is more acute with 58% planning to grow in 2023 compared to 79% in 2018.
- Linking past and future growth (excluding Starts who are not asked the past growth question) showed that 19% of these SMEs had both grown in the last year and planned to grow again. This proportion increased by size of SME (from 16% of 0 employee SMEs to 25% of those with 1-9 employees, 35% of those with 10-49 employees and 34% of those with 50-249 employees) but declined by age (from 33% of those trading 2-5 years to 15% of those trading for more than 15 years).
- Linking future growth with future innovation revealed that 24% of all SMEs Q2-Q4 2023 planned both to grow and to be innovative in the coming year (and in fact 69% of them had also been innovative previously, making many of them 'consistent innovators'). Half of these 'ambitious innovators' were both small (0-9 employees) and young (trading for up to 5 years), twice the proportion amongst SMEs overall. This group were more likely than their peers to be using finance and to have appetite for more, but also slightly more concerned it would be difficult for them to get funding.

Half of SMEs plan to grow in the year ahead, back to pre-pandemic levels for smaller SMEs but not the larger ones

Smaller and younger SMEs are more likely to be an 'ambitious innovator' planning both to be innovative and to grow in the coming year

In Q4 2023, the key barrier for SMEs remained increasing costs, with over half of SMEs either already significantly impacted by increasing costs or expecting to be:

- In Q4 2023, 36% of SMEs saw increasing costs as a major barrier to their business while 41% reported having already been significantly impacted by increased costs.
- For 2023 as a whole, 55% of SMEs had either been significantly impacted and/or saw increasing costs as a major barrier and this was more likely to be the case for those with 1-9 or 10-49 employees (60% and 59%), those in Hotels & Restaurants (74%) or Agriculture (64%), and those trading for 2-5 years (60%).
- This has been a key issue for SMEs since the metric was introduced in Q4 2021, but the impact is currently stable – after increasing from 46% in Q4 2021 to 54% in 2022, the proportion of SMEs that had either been significantly impacted and/or saw increasing costs as a major barrier was unchanged at 55% in 2023.

Half of SMEs have either been significantly affected by increasing costs or see it as a major future barrier

Other key barriers in 2023 included the economic climate and, for employers, the recruitment and retention of staff, while there has been little change in either those seeing access to finance as a barrier or feeling the new EU trading arrangements have had a negative impact:

- 32% of SMEs in 2023 saw the economic climate as a major future barrier with concerns higher amongst those in the Hotel & Restaurant sector (42%) and those trading for 6-9 years (40%) while being less of an issue for the largest SMEs (19% of those with 50-249 employees).
- Concern about the economic climate 'peaked' in 2020 at 36% before declining to a pre-pandemic level of 23% in 2021. Since then however concern has increased again, to 31% in 2022 and 32% in 2023.
- Most demographics were still somewhat less concerned about the economic climate in 2023 than they had been in 2020, notably those with 50-249 employees (19% from 29%) and the Health sector (32% from 40%). However those in Agriculture (28% from 27%), Wholesale/Retail (37% from 36%) and those trading for 6-9 years (40% from 36%) were as, or more, concerned in 2023 as they were in 2020.

A consistent

1 in 3

SMEs report a negative impact to the new EU trading arrangements, typically in the supply chain, but two thirds have not been impacted at all

- Pre-pandemic, a stable 1 in 10 employers saw the recruitment and retention of staff as a major barrier. In 2021 this increased to 18% of employers and again to 20% in 2023. It was particularly likely to be a barrier for those with 10-49 employees (26%) and those in the Health sector (28%) with limited variation across other demographics.
- When those already struggling to recruit were taken into account, 31% of employers in 2023 were either already struggling to recruit and/or considered it a major future barrier.
- A minority of SMEs (7% in 2023) saw access to finance as a major barrier, though it was somewhat more of an issue for those in Wholesale/Retail (11%) or Hotels & Restaurants (10%) as well as for Starts (11%) and those trading for 2-5 years (13%). This proportion has changed very little overall since 2019 (7-8% in each year).
- In H2 2023, 34% of SMEs reported that the revised EU trading arrangements were having a negative impact on their business. Most, 64%, said that they had no impact, while 2% reported a positive impact and these proportions have changed very little since H2 2021.
- Those most likely to report a negative impact included all those with employees (40-43% compared to 32% of 0 employee SMEs), alongside those in Wholesale/Retail (41%) and Transport (42%) as well as those who trade internationally, notably those who are fully international (62%). The main negative impact has been with the supply chain.

In Q4 2023, similar proportions of SMEs expected to have a need for more finance in the coming months (12%), and/or to apply or renew funding (10%) or to reduce the finance they used (12%). More, predominantly the smallest SMEs, expected an injection of personal funds into the business (20%):

- There was little variation by size in the proportion expecting a need for finance or planning to apply/renew with the exception of the largest SMEs who were less likely to be expecting either of these (6% and 8%).
- Those with 10-49 employees were the most likely to be planning to reduce the amount of external finance they were using (17%), while the smallest SMEs were the most likely to be planning an injection of personal funds (22%), declining by size of SME to 3% of those with 50-249 employees.

In the coming year, twice as many SMEs expect to inject personal funds into their business as to apply for finance.

- Across 2023 as a whole, 8% of SMEs thought they would apply/renew in the coming months, unchanged from 2022 but slightly lower than pre-pandemic (10% in 2018) or the pandemic 'peak' of 13% in 2020.
- Compared to 2018, future appetite for finance in 2023 was lower for all sizes of SME except 0 employees but most notably for those with 50-249 employees (5% from 17%), as well as those in Manufacturing (8% from 13%) and Health (6% from 12%). Appetite for finance amongst Starts and those trading for 2-5 years has remained more stable (13% and 11% respectively in both years).

The majority of those planning to apply said they would be looking for funding for business development, now back to pre-pandemic levels:

- 68% of those planning to apply/renew said they would want the funding for business development purposes, typically for plant and machinery (31%, the highest proportion to date) or to fund UK expansion (25%).
- 34% of those planning to apply/renew said they would want the funding for cash flow purposes, with most (31%) looking for working capital to boost cash flow. There were fewer mentions than previously of needing funding to cope with trading conditions – in 2020, 18% of those looking to apply/renew wanted the funding for this purpose, declining to 4% in 2023.
- In 2020, the pandemic placed a strong emphasis on future funding for cashflow (76% cashflow v 27% business development). This has gradually rebalanced since, such that the splits in 2022 and 2023 were in line with pre-pandemic 2018, when 68% of those looking to apply/renew wanted the funds for business development and 38% for cashflow.
- These are of course predictions for how future funding would be used and analysis showed that after the immediate impact of the pandemic in 2020, from 2021 increasing numbers of SMEs were predicting they would use funding for business development but that this did not actually happen in a meaningful way until 2023.

Future funding is more likely to be earmarked for plant and machinery than has been previously seen.

However, confidence that the bank would lend remained lower than previously seen:

- In 2023, 32% of those planning to apply/renew were confident that their bank would agree. Almost as many, 29%, were not confident and 38% were in the middle as neither confident nor not confident.
- This 'middle' group has increased in size over time (from around a quarter prior to 2020). As the proportion 'not confident' has remained fairly stable, this increase in the middle group has resulted in lower levels of confidence, declining from around half of those planning to apply prior to 2020 to a third in 2022 and 2023.
- Across all SMEs in 2023, irrespective of their application plans, 48% were confident of success with a potentially hypothetical application. Those planning to apply are now the least confident of success (32%) compared to 38% of Future would-be seekers and 53% of Future happy non seekers.
- The overall level of confidence of 48% is 10 points lower than in 2018 (58%), with a more marked decline for those planning to apply (54% to 32%) than for FWBS (46% to 38%) or FHNS (60% to 53%).
- In Q4 2023, aside from the 10% planning to apply, 21% of SMEs expected to be a Future would-be seeker of finance and as before the majority, 69%, expected to be a Future happy non-seeker of finance.
- SMEs with 0 or 1-9 employees remained more likely to expect to be a FWBS (both 21%) than their larger peers (15% and 8%) and those in Wholesale/Retail and Hotels & Restaurants were also more likely to be in this category (25% and 28%).
- The key barrier to a future application remained a reluctance to borrow now, the main reason for not applying for 74% of Future would-be seekers, predominantly because of the general economic climate rather than the predicted performance of the business in that environment. This has consistently been a key barrier to application but the proportion mentioning it has increased from half of FWBS to three-quarters between 2017 and 2020, and has remained stable since. This is the equivalent of 15% of all SMEs in 2023 put off a future application for finance by the current economic conditions.
- There has been marked variation in the proportion of Future would-be seekers over time (while the proportion of past would-be seekers remained lower and much more stable).
- Between 2012 and 2018, the proportion of FWBs halved from 23% to 10%. In 2020 it increased back up to 21% and has been at that level since, with the exception of 2022 (14%).

A third of those planning to apply were confident their lender would agree, with another third not sure what the response would be

Overall, when looking forward, almost as many SMEs see the future offering mostly threats as mostly opportunities, but with key differences by size:

- In Q4 2023, 28% of SMEs felt that the future offered mainly opportunities to them, and this was more likely to be the case for larger SMEs with 10-49 or 50-249 employees (38% and 37%).
- At the other end of the scale, 25% of SMEs felt the future offered mainly threats, with a much clearer difference by size of SME, from 28% of those with 0 employees to 9% with 50-249 employees.
- When this question was first asked in H2 2020, 22% felt the future offered mainly opportunities, increasing to 32% in 2021 and stable since (31% for 2023 as a whole). Whilst there was little change overall between 2022 and 2023, the largest SMEs have become less likely to feel the future offered opportunities (33% from 47% in 2022).

In contrast to those looking back, Future would-be seekers see the economic climate as the key barrier to a future application

12. Awareness of taskforce

and other initiatives.

THIS FINAL SECTION OF THE REPORT looks at awareness amongst SMEs of some of the Business Finance Taskforce commitments, together with other relevant initiatives.

12. Awareness of initiatives

KEY FINDINGS

3 in 10 SMEs in Q4 2023 had heard of either Pay as you Grow or the Recovery Loan scheme, increasing to 4 in 10 of those still repaying Government backed funding:

- 29% of SMEs in Q4 2023 had heard of either Pay as you Grow (25%) and/or the Recovery Loan scheme (12%) increasing by size of SME to 37% of those with 10-49 employees.
- Awareness of Pay as you Grow was higher for those in Wholesale/Retail (31%) and those trading for 6-9 years (32%) while awareness of the Recovery Loan Scheme was higher for those with 10-49 employees (22%), and also those trading for 6-9 years (18%).
- 39% of those still repaying government back funding were aware of Pay as you Grow and 15% were aware of the Recovery Loan Scheme. 43% were aware of either or both of these, compared to 33% of those who had repaid such funding and 25% who hadn't applied for it.
- By comparison, 36% of SMEs in Q4 2023 were aware of the Financial Services Compensation Scheme while 13% were aware of the Standards of Lending Practice and 9% of the SME Finance Charter, all somewhat higher for those with 10-49 employees.

Awareness of wider forms of funding such as Venture Capital, crowd funding and peer to peer lending has increased over time, but usage of the latter forms of finance remained limited:

- Two thirds (65%) of SMEs excluding PNBs were aware of any of a range of forms of finance; Venture Capital (53%), Equity crowd funding platforms (50%), Peer to peer lending platforms (39%) and/or Business Angels (32%).
- Overall awareness varied little by size of SME, with the slight exception of those with 10-49 employees (72% aware of any). Since Q4 2018, awareness of any of these forms of funding has

Almost half of those still repaying pandemic funding were aware of Pay as you Grow and/or the Recovery Loan Scheme

increased from around a half (53% in Q4 2018) to two thirds (65% in both Q4 2022 and Q4 2023).

- 55% were aware of one or more of the 'platforms' but use remained limited (less than 1%) while 17% of those aware said they would consider using this form of finance in the future, in line with recent years but lower than the 1 in 3 aware who would consider them pre-pandemic.

1 in 5 SMEs were aware of the British Business Bank, increasing by size of SME and interest in finance:

- In 2023, 18% of SMEs were aware of the British Business Bank and/or its Finance Hub.
- Awareness was higher for those with 10-49 employees (25%), those in Property/Business Services (23%) and those trading for 10-15 years (22%).
- Excluding the PNBs (given the BBB focus on funding) also increases awareness to 19% (v 16% of PNBs).
- Awareness was slightly lower in 2023 than previous years. In 2020 a quarter of SMEs were aware of BBB, declining to a fifth in 2021-22 and now 18%.