Scottish Enterprise

British Business Bank

Scotland SME Access to Finance Report

Sub-National and Devolved Nation analysis

Contents

Partner Overview

About British Business Bank

The British Business Bank is the UK government's economic development bank. Established in November 2014, its mission is to drive sustainable growth and prosperity across the UK and to enable the transition to a net zero economy, by improving access to finance for smaller businesses.

Its remit is to design, deliver and efficiently manage UK-wide smaller business access to finance programmes for the UK government. The British Business Bank's core programmes support over £12.4bn of finance to more than 90,000 smaller businesses (figures as at end March 2023).

As well as increasing the supply and diversity of finance for UK smaller businesses through its programmes, the Bank works to raise awareness and understanding of finance options available to smaller businesses.

Annual research publications include Small Business Finance Markets Report, Small Business Equity Tracker and Nations and Regions Tracker.

The British Business Bank Finance Hub provides independent and impartial information to businesses about finance options, featuring short films, expert guides, checklists and articles from finance providers to help make their application a success.

About Scottish Enterprise

Scottish Enterprise is Scotland's national and international economic development agency and a non-departmental public body of the Scottish Government.

To deliver a significant, lasting effect on the economy, we work effectively with partners in the public and private sectors to identify and take advantage of the best opportunities.

We're committed to growing the Scottish economy for the benefit of all, helping create more quality jobs and a brighter future for every region. We support thousands of companies the length and breadth of the country, helping catalyse the changes in our economy that will have a long-term positive impact on Scotland's business competitiveness around the world. In doing so, we're creating significantly more, better jobs, helping people fulfil their potential.

We will focus on high-growth opportunities where companies in Scotland are best placed to compete internationally, as well as strengthening our underlying performance in important areas critical to driving our nation's future competitiveness. Our strategic ambition is to drive up levels of innovation, business investment and internationalisation.

Our Scottish Enterprise international arm, Scottish Development International, promotes Scotland as a place for investment and trade. Securing more international trade and investment is vitally important in helping to create a more dynamic and globally competitive economy in Scotland.

Project Overview

Devolved Nation project overview

The make-up of sub-national economies can vary significantly within a particular nation. Factors such as location (urban, rural and coastal), the background of business owners (gender, age and ethnicity), the local business base, the size/maturity of businesses, and the sectoral make up all impact the nature of sub-national economies. This project seeks to understand the extent to which these differing characteristics affect or influence attitudes towards the use of external finance amongst the SME population.

Having supported the Northern Ireland Enterprise Barometer [1] since 2021, the British Business Bank has worked with Enterprise Northern Ireland to better understand the differences between sub-national access to finance economies and developed bespoke interventions accordingly. This pilot project seeks to adopt a similar approach across Scotland and Wales, whilst simultaneously undertaking a Devolved Nations comparison.

Carrying out access to finance surveys with nearly 500 SME respondents and applying quotas to ensure the sample is representative each devolved nation, the British Business Bank is working alongside Scottish Enterprise, Economic Intelligence Wales and Enterprise Northern Ireland to produce three nation specific sub-regional access to finance reports. Please click for the Northern Ireland and Wales reports.

Scotland methodology

The survey findings build on 500 online responses from SMEs located in Scotland.

The survey fieldwork targeted small and medium sized businesses (SMEs) with employees of up to 250, sourced by a combination of issuing the survey via Panelbase's panel of businesses and contact details of SMEs sourced from Experian. Email invites were sent to individuals identified as owners, directors or senior decision-makers in their business.

The online survey questionnaire was administered by the Diffley Partnership during October and November 2023, and represents the third wave of the Understanding Business survey. This survey was launched earlier in 2023 to provide a quarterly, high-quality measure of sentiment across Scotland's business environment, in all sectors and across all parts of the country.

Table 1 shows the geographical and business size profile of the sample. The six regions included are described in the next section.

Table 1

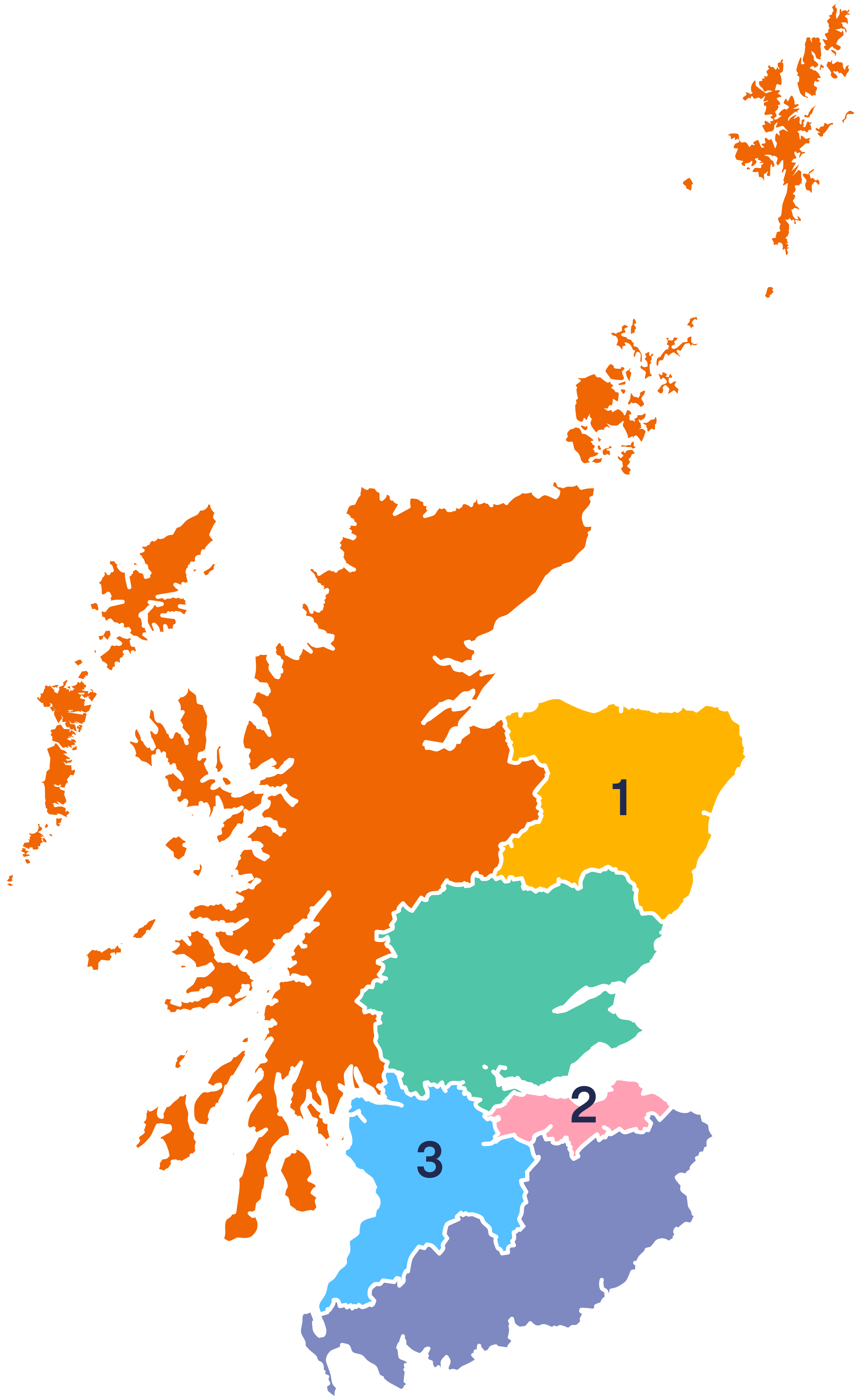
SME sample composition by region and employee size band

Source: British Business Bank analysis of data from the Diffley Partnership and Scottish Government

		Sample composition by employee size band			
Area	**Sample size in this region***	**0**	**1-9**	**10-49**	**50-249**
Aberdeen and North East	44 (14% v. 9%)	5%	34%	45%	16%
Edinburgh and Lothians	110 (17% v. 22%)	12%	42%	21%	25%
Glasgow and Strathclyde	215 (35% v. 43%)	7%	31%	36%	26%
Highlands and Islands	37 (11% v.7%)	14%	57%	19%	11%
Scotland South	23 (7% v. 5%)	17%	35%	35%	13%
Tayside, Central and Fife	71 (18% v. 14%)	11%	31%	35%	23%
Total	500	9%	36%	32%	23%

* The values in brackets represent, respectively, the sample shares of SMEs in each region and the corresponding share in the Scottish SME population as a whole (as of March 2022). The latter figures were sourced from Scottish Government, "Businesses in Scotland: 2022".

Regional Overview



Data set is split by regional area, of which there are 6 and we have grouped them into the following sub-regions:

Sub-region	Local Authority	Colour
1. Aberdeen and North East	Aberdeen City, Aberdeenshire, Moray	Yellow
2. Edinburgh and Lothians	City of Edinburgh, East Lothian, Midlothian, West Lothian	Pink
3. Glasgow and Strathclyde	East Ayrshire, East Dunbartonshire, East Renfrewshire, Glasgow City, Inverclyde, North Ayrshire, North Lanarkshire, Renfrewshire, South Ayrshire, South Lanarkshire, West Dunbartonshire	Blue
4. Highlands and Islands	Argyll and Bute, Eilean Siar (Western Isles), Highland, Orkney, Shetland	Orange
5. Scotland South	Dumfries and Galloway, Scottish Borders	Lilac
6. Tayside, Central and Fife	Angus, Clackmannashire, Dundee City, Falkirk, Fife, Perth and Kinross, Stirling	Green

1. Aberdeen and North East

The North East, featuring three councils including the city of Aberdeen, is best known for the central role it plays in Europe's oil and gas sector. As such, the North East is a buoyant economy that has a regional GVA per capita and average earnings that are consistently among the highest in the UK. [2] However, the region is much more than oil and gas. Home to over 490,000 people, it also has a strong reputation in sectors such as life sciences and food and drink. Over half of all of Scotland's distilleries are located in Moray, for instance. [3]

2. Edinburgh and Lothians

At the centre of this region is Edinburgh, the capital city of Scotland, while the Lothians encompasses the surrounding areas. Home to the Scottish Parliament, Edinburgh is often regarded as one of the world's best cities to visit. Economically, financial services are an important source of growth and jobs for the region – 30,000 people work in this sector alone – as are tourism, hospitality, creative industries, and professional services. The region is home to four universities, including one which is ranked as one of the top 50 universities in the world (University of Edinburgh), which contribute to a vibrant and buoyant entrepreneurial tech ecosystem.

3. Glasgow and Strathclyde

Like Edinburgh's role in the Lothians, Glasgow is at the heart of this region and comprises the country's largest population of over 635,000 people. The region is one of the largest city region economies in the UK, with a total of 11 local authority areas, and it has a growing business base in areas like finance, technology and space. A key factor in this growth is its world-class universities. Overall, the region generates over a third of all the jobs for the Scottish economy and a third of the country's GVA. [4]

4. Highlands and Islands

The Highlands and Islands is a vast region characterised by its landscapes and diverse economy. The area stretches across large parts of Scotland including Highland Perthshire, the region's only city (Inverness), and the Shetland Isles in the far north. Featuring three island areas and two mainland councils, one of which is the largest mainland authority in the UK, the region is known for its strengths in primary sectors such as agriculture, food and drink, and tourism. Complementing these strengths are emerging sectors in the shape of renewables and space.

5. Scotland South

The South of Scotland is a rural region comprising Dumfries and Galloway and the Scottish Borders. Situated south of the Central Belt and extending to the border with England, the region covers more than 170 miles and is home to over 260,000 people – many of which live in small towns and villages spread throughout the region. Well-known for its market towns, rurality and history, the region's economy is diverse and home to sectors such as agriculture, tourism, renewables, manufacturing and the creative industries. [5]

6. Tayside, Central and Fife

In a vast area spanning three cities, five universities and seven local authority areas, this region is highly diverse and economically vibrant. The region is a mix of urban and rural and is home to the cities of Dundee, Perth, and Stirling. As a result, the regional economy is multifaceted with key industries ranging from sectors such as agriculture, fishing, tourism and manufacturing, to emerging sectors like life sciences and renewable energy. Dundee, for instance, is a well-regarded hub for gaming, life sciences and digital media.

Executive Summary

Overall findings

62% of SMEs in Scotland were using external finance at the time of the survey. Credit cards were the most used finance type (30%), followed by business overdrafts (21%) and Covid-19 loans (18%). Nine in ten SMEs that were using debt finance regarded their current level of debt as manageable.

38% reported experiencing barriers to accessing finance. The key types of barriers related to their ability to obtain/repay finance (37%), time/complexity of finance applications (21%) and poor perceptions of/relationships with finance providers (16%).

Just under four in ten (39%) anticipated requiring additional financing over the next 12 months. Of those, 60% expected requiring £50k or less, whereas just over one quarter (26%) estimated their need at £50k to £250k, and only around 14% had a larger additional financing requirement. Just under seven in ten (68%) said they were confident they could obtain the additional financing needed.

46% of SMEs with additional financing needs over the next 12 months anticipated accessing loan products. Grants and business overdrafts were also relatively popular (at 22% and 24% respectively).

44% of those SMEs intended to use the additional financing required for capital expenditure, while 40% mentioned they would use this for working capital purposes. Other planned uses, such as investment in research/process improvements/significant maintenance, and in actions relating to environmental sustainability, were selected by 33% and 12% of respondents respectively.

45% of SMEs in Scotland expected their business to remain stable over the next year, whereas almost four in ten expected it to grow (38%). The remaining businesses anticipated a contraction (12%) or difficult trading conditions/risk of closure (5%).

62%

of Scottish SMEs reported using finance

38%

experienced barriers to accessing finance

39%

requiring additional financing over the next 12 months

68%

requiring finance felt confident about securing it

Sub-national findings

Across the six regions of Scotland considered in this report, the Highlands and Islands region generally had lower external finance use among local businesses (54%) than the rest of the nation. Respondents based in this region were also more inclined to expect their business to contract in the year ahead (28%) compared with their counterparts in the other regions.

Aberdeen and North East was the region where SMEs were least inclined to recognise barriers to finance, with the majority reporting that they didn't need finance (11%) or that no barrier applied to them (50%).

The overall proportion of businesses that anticipated needing additional financing over the next 12 months did not differ in a statistically significant way across the six regions. However, among those that responded affirmatively to that question, SMEs located in Aberdeen and North East and Glasgow and Strathclyde were more likely to report, respectively, a higher and lower appetite for additional financing below £10k relative to other regions, while those based in Edinburgh and Lothians and Scotland South had a greater preference for additional financing of £250k and above.

In terms of businesses' finance type preferences for meeting their additional financing requirements, Glasgow and Strathclyde showed a relatively low (and statistically significant) to anticipate accessing business loans or credit cards.

The intended use of any additional financing required was more skewed towards working capital for SMEs located in Edinburgh and Lothians than elsewhere, whereas businesses located in Glasgow and Strathclyde had a lower propensity to access finance for the purpose of refinancing existing debt.

54%

of Highlands and Islands based SMEs were using finance

Aberdeen and North East based SMEs were least inclined to recognise any barriers to finance

Devolved Nations comparison

Of the three devolved nations in the UK, Scotland had the highest proportion of businesses using any external finance at 62%. In contrast, the proportion of businesses that regarded their current level of debt as manageable in Scotland at 90% was broadly in line with the other nations (89% in Northern Ireland and 92% in Wales).

Scotland also had the highest proportion of SMEs reporting they experienced any barriers to finance at 38%, compared with 20% in Wales and 21% in Northern Ireland.

Its overall proportion of SMEs that anticipated requiring additional financing over the next 12 months was significantly higher than Wales, but similar to Northern Ireland. Differences could also be seen in the size of the additional financing required, particularly relative to Northern Ireland, where businesses were less likely to anticipate accessing more than £50k than in both Wales and Scotland.

SMEs in Scotland were less inclined to anticipate accessing business loans or grants for meeting their finance needs over the next year than those in Wales and Northern Ireland, and more inclined to use credit cards or business overdrafts for this purpose.

Scotland-based SMEs also stood out in terms of the proportion of respondents that intended to use any additional financing sought for investment in research/process improvement/significant maintenance. This was far greater in Scotland (33%) than in Northern Ireland (24%) or Wales (14%). There were also differences with Northern Ireland on the proportion of SMEs that anticipated using finance to decarbonise their operations across the devolved nations, with 12% of SMEs in Scotland selecting this option compared to 4% in Northern Ireland.

Businesses' confidence in their ability to access any additional financing required over the next year in Scotland was at broadly similar levels as in Wales, whilst Northern Ireland lagged the other devolved nations on this measure.

Scotland compared favourably with Wales on the proportion of businesses expecting to grow over the next year (38% and 22% respectively). That said, both nations lagged Northern Ireland considerably on this measure with 54% of SMEs expecting growth.

Scotland's proportion of SMEs using finance was

62%,

the highest of all devolved nations

Scotland had a higher proportion of SMEs facing barriers to finance (38%) than Northern Ireland (21%) and Wales (20%)

Data Analysis

1. External finance usage
2. Barriers to external finance
3. Debt manageability
4. Future finance needs
5. Future finance needs (type)
6. Future finance needs (purpose)
7. Future finance needs (confidence)
8. Anticipated business performance

1. External finance usage

The overall proportion of SMEs using external finance was 62% in Scotland as a whole (Figure B1.1). The small differences observed across the six regions of Scotland were not found to be statistically significant, except for the Highlands and Islands at 54%, where businesses appeared less likely to report they were using external finance than their counterparts elsewhere.

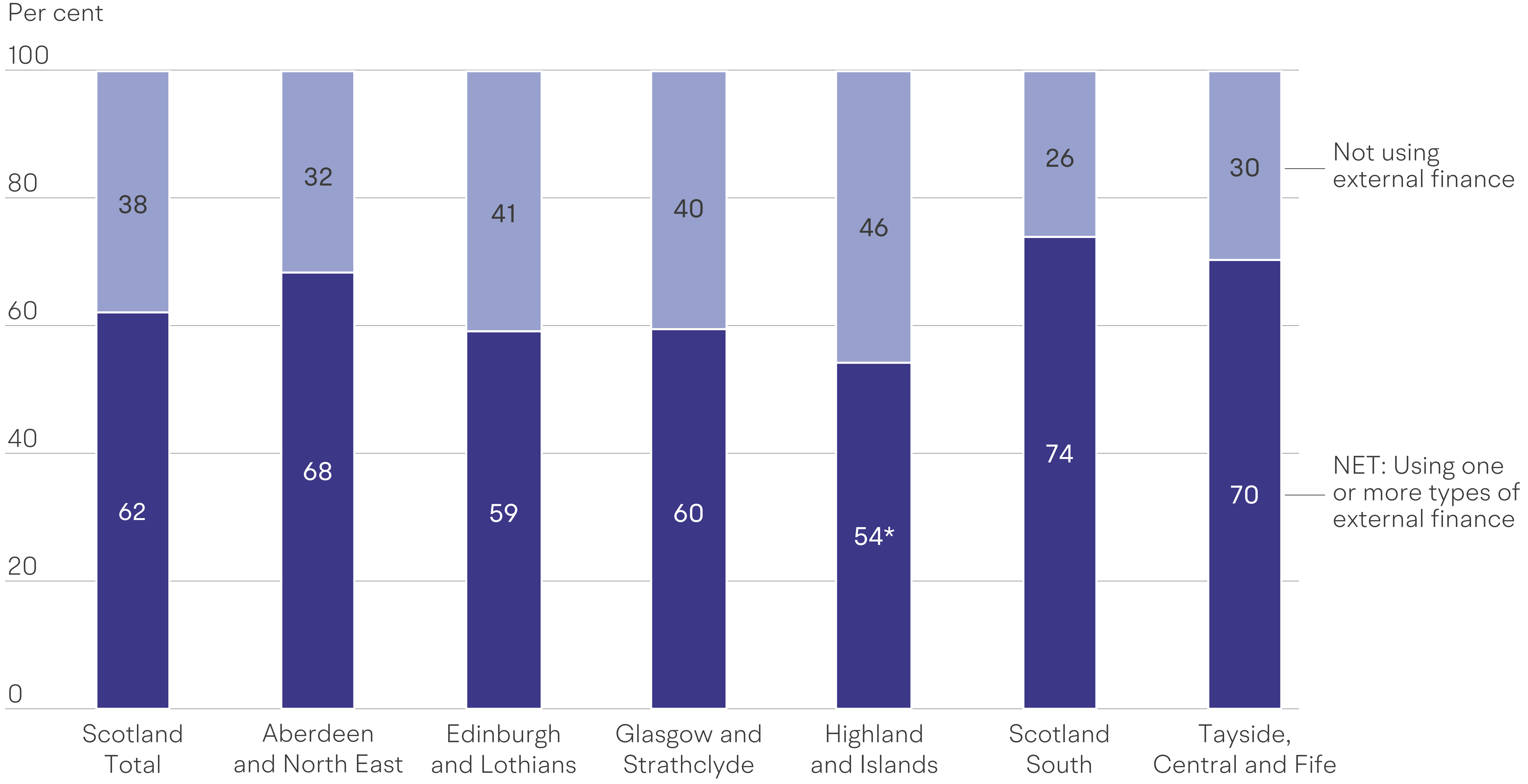
This is an interesting finding because previous British Business Bank research found that rural SMEs were using external finance in greater proportions than urban businesses in 2020. [6] Indeed, this finding is reinforced in the results for Scotland South which shows a higher proportion of SMEs using external finance (74%).[7] It is also interesting to note that, compared to some results elsewhere in Scotland, use of external finance by SMEs in Edinburgh and Lothians and Glasgow and Strathclyde – areas with buoyant debt and equity markets – are lower (59% and 60% respectively).

While differences can also be seen in usage levels for different external finance types in different parts of the nation, these do not pass our tests for statistical significance (Figure B1.2).

Figure B1.1

Use of external finance among businesses based in Scotland, by region

Unweighted sample sizes: 500 (Scotland Total), 44 (Aberdeen and North East), 110 (Edinburgh and Lothians), 215 (Glasgow and Strathclyde), 37 (Highland and Islands), 23 (Scotland South), 71 (Tayside, Central and Fife).

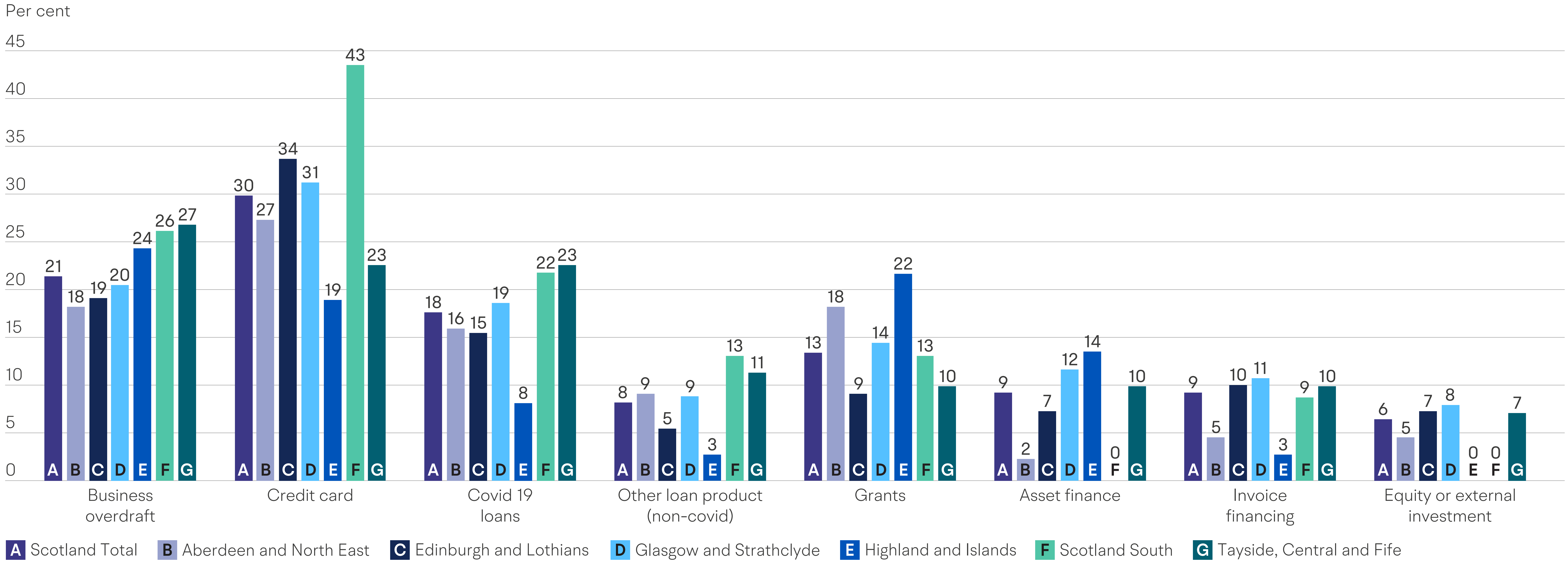


*Correlation is significant at the 0.05 level.

Figure B1.2

Use of external finance among businesses based in Scotland, by region and by finance type

Unweighted sample sizes: 500 (Scotland Total), 44 (Aberdeen and North East), 110 (Edinburgh and Lothians), 215 (Glasgow and Strathclyde), 37 (Highland and Islands), 23 (Scotland South), 71 (Tayside, Central and Fife).



That said, these differences provide useful insights into finance use patterns in the Highlands and Islands region, where there is statistically robust evidence of lower external finance use compared to the rest of Scotland. Businesses in this region have particularly low usage rates than other businesses on Covid-19 loans, other loan products, credit cards and invoice financing.

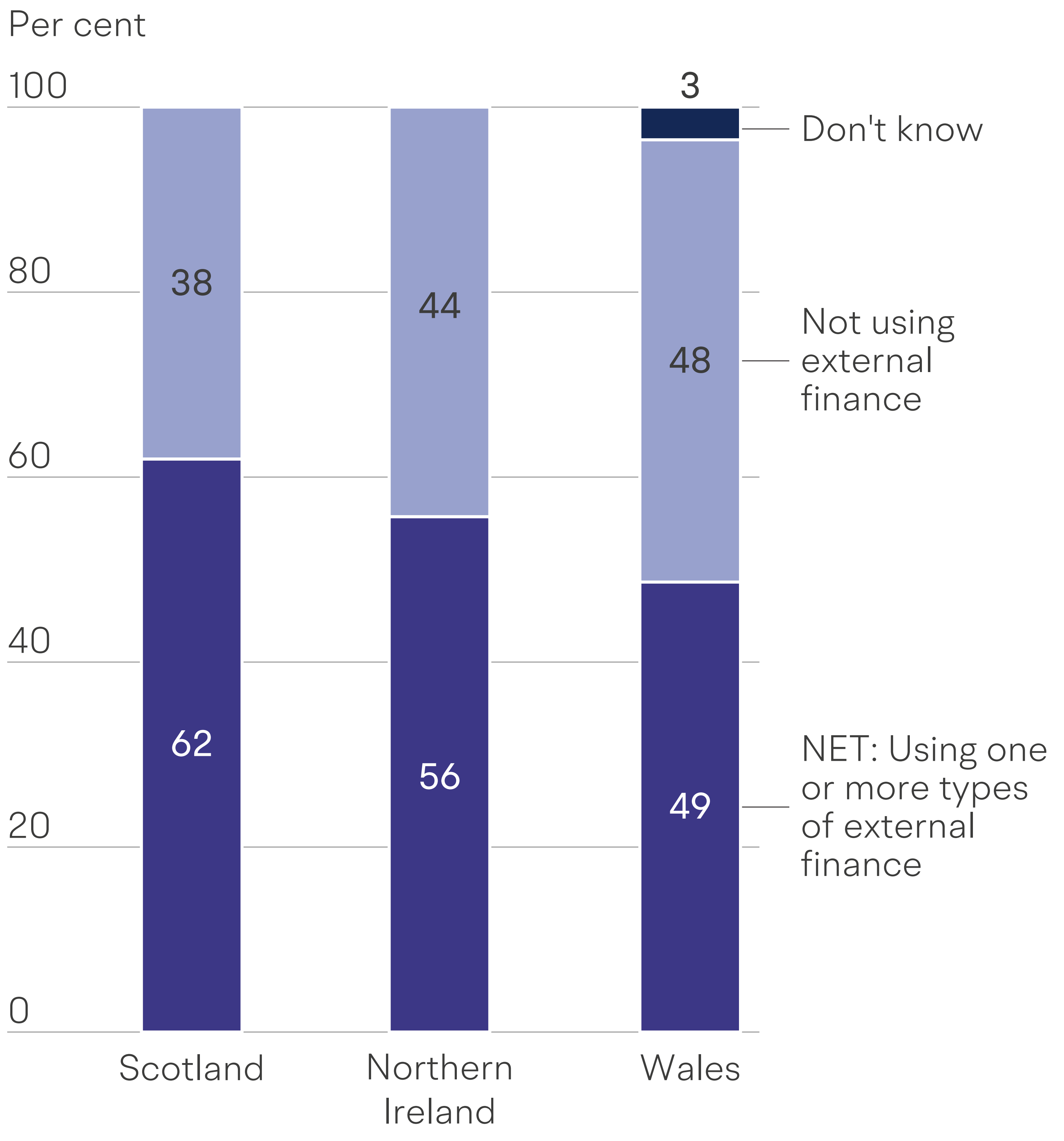
Looking at the results from a Scotland wide perspective (Figure B1.2), credit cards are the most used type of external finance (30%), followed by business overdrafts (21%) and Covid-19 loans (18%). Equity finance, as is the case in the rest of UK, remains a product type used by a small minority of SMEs (6%).

Of the three devolved nations, Scotland had the highest proportion of businesses using any external finance at 62% (Figure B1.3). This figure is 6 percentage points higher than SMEs in Northern Ireland (56%) and 13 percentage points higher than SMEs in Wales (49%).

Figure B1.3

Use of external finance among businesses based in Scotland, Northern Ireland and Wales

Unweighted sample sizes: 500 (Scotland), 695 (Northern Ireland), 498 (Wales).

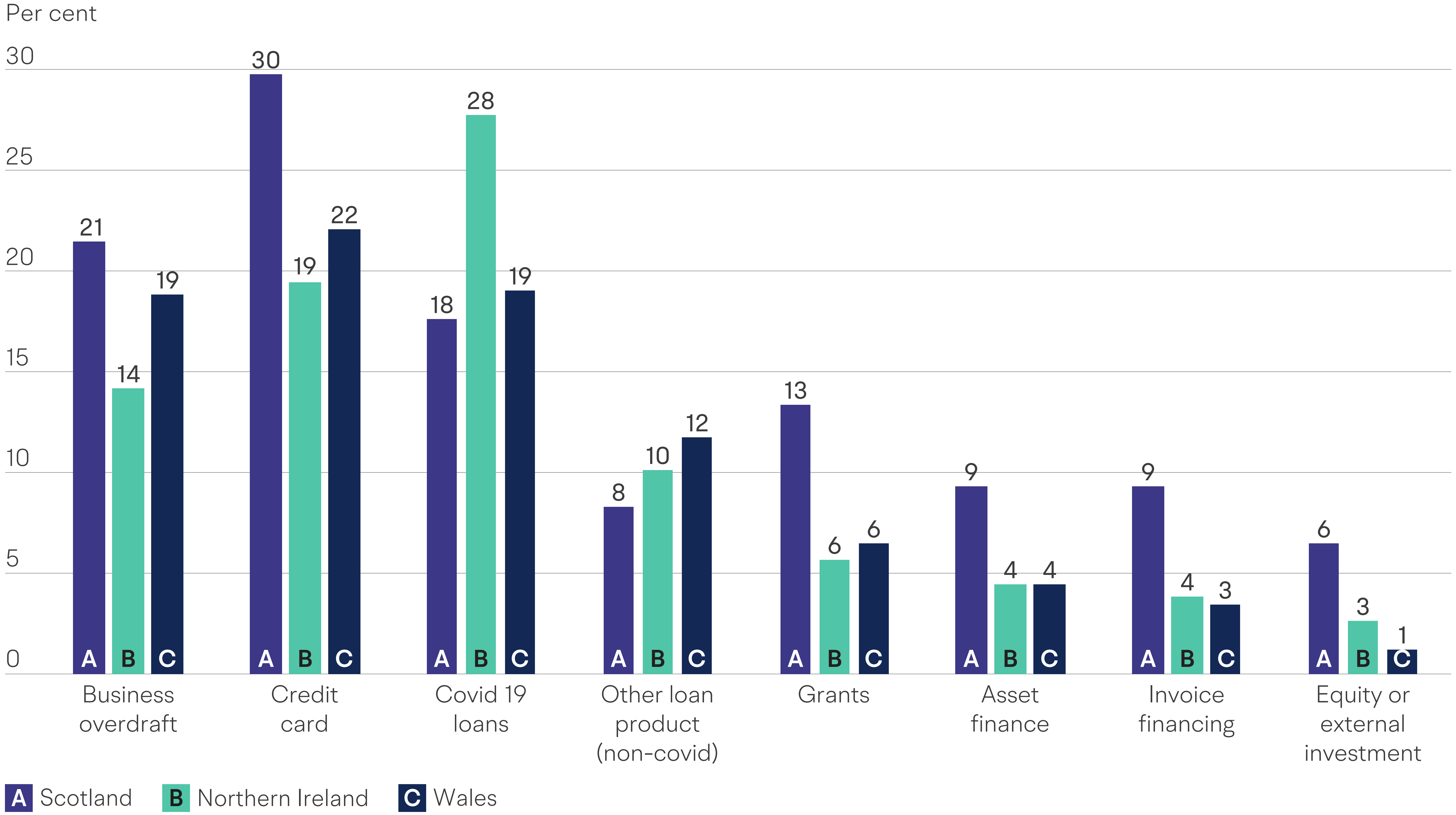


Barring a few exceptions (specifically, Covid-19 loans and other loan products), Scotland-based businesses generally had much higher usage rates than their counterparts in Wales and Northern Ireland across most finance types (Figure B1.4). The gaps in usage rates between Scotland and other devolved nations were particularly evident in credit cards (11 percentage points higher in Scotland than in Northern Ireland), asset finance (more than double the rate in Scotland compared to the other devolved nations) and equity finance (six times the rate in Scotland compared to Wales). This latter point illustrates the strength of the private equity market in Scotland, especially the country's angel investment community, as well as an increasingly dynamic entrepreneurial ecosystem.

Figure B1.4

Use of external finance among businesses based in Scotland, Northern Ireland and Wales, by finance type

Unweighted sample sizes: 500 (Scotland), 695 (Northern Ireland), 498 (Wales).



Business characteristics associated with higher use of external finance across Scotland include:

- **Larger employee/turnover size:** businesses with more than one employee and turnover above £200k were more likely to report using external finance, as well as invoice and asset finance specifically, than smaller businesses. Conversely, sole traders and businesses with fewer than 2 employees or turnover of up to £200k were less likely to use any type of finance at all, as well as Covid-19 loans and many of the finance types generally preferred by larger businesses (such as equity finance or other external investment, asset finance and grants).
- **Expected growth:** Scotland-based SMEs that expected to grow significantly over the next year also tended to show higher overall use of external finance and of invoice financing in particular.
- **Sectoral patterns:** some sectors had higher external finance usage rates than others. In particular, mining & quarrying businesses (corresponding to Section B of the Office for National Statistics SIC 2007 Classification[8]) show greater use of other loan products (alongside accommodation and food service activities) than other businesses, while electricity, gas, steam and air conditioning supply businesses have higher usage rates on business overdrafts (alongside agriculture, forestry and fishing) and equity. In contrast, the arts, entertainment and recreation and the professional, scientific and technical activities sectors showed a (statistically significant) negative correlation with use of external finance, with the former also reporting lower usage of Covid-19 loans specifically. Other sectors displayed more mixed patterns. For instance, construction businesses had greater propensity to use Covid-19 loans compared with other sectors, but lower propensity to use other loan products. Similarly, businesses in wholesale trade, water supply, sewerage and waste management, and human health & social work were more inclined than others to use specific types of finance (respectively, invoice finance and grants), although their overall propensity to use finance was not particularly high.
- **Minority ethnic group respondents:** businesses represented by respondents from an ethnic minority background showed higher finance use in general as well as greater propensity to use asset finance, invoice financing and other loan products relative to other businesses.
- **All male or mixed gender management team:** unlike these businesses, those with all female management teams were less inclined to use finance in general, and when they did, their propensity to use specific types of finance varied. For example, they were less inclined than other businesses to use overdrafts, but more inclined to use credit cards. Conversely, businesses with all male management teams showed the highest propensity to use Covid-19 loans.

Although no statistically significant differences were identified in terms of the general finance use patterns across different business age brackets, some types of finance – namely, Covid-19 loans and invoice financing – were more likely to be reported by businesses more than 10 and 5 years old respectively than younger businesses.

2. Barriers to external finance

As shown in Figure B2.1, 38% of businesses in Scotland mentioned they experienced barriers to accessing finance, with the rest of the respondents mentioning “None” (36%), “No need for finance/not applicable” (22%) or “Don’t know” (2%). Aberdeen and North East was the only region where SMEs’ views differed in a statistically significant way from the rest of the nation. Businesses based here were more likely to say they didn’t need finance (11%) or that no barrier applied to them (50%), than to identify specific barriers. This is an interesting finding given the dominance of the oil and gas sector in this region – a sector known for its growth focused companies and use of external finance.

As can be seen in Figure B2.2, the types of barriers identified by businesses varied widely. Of these, the most frequently reported were:

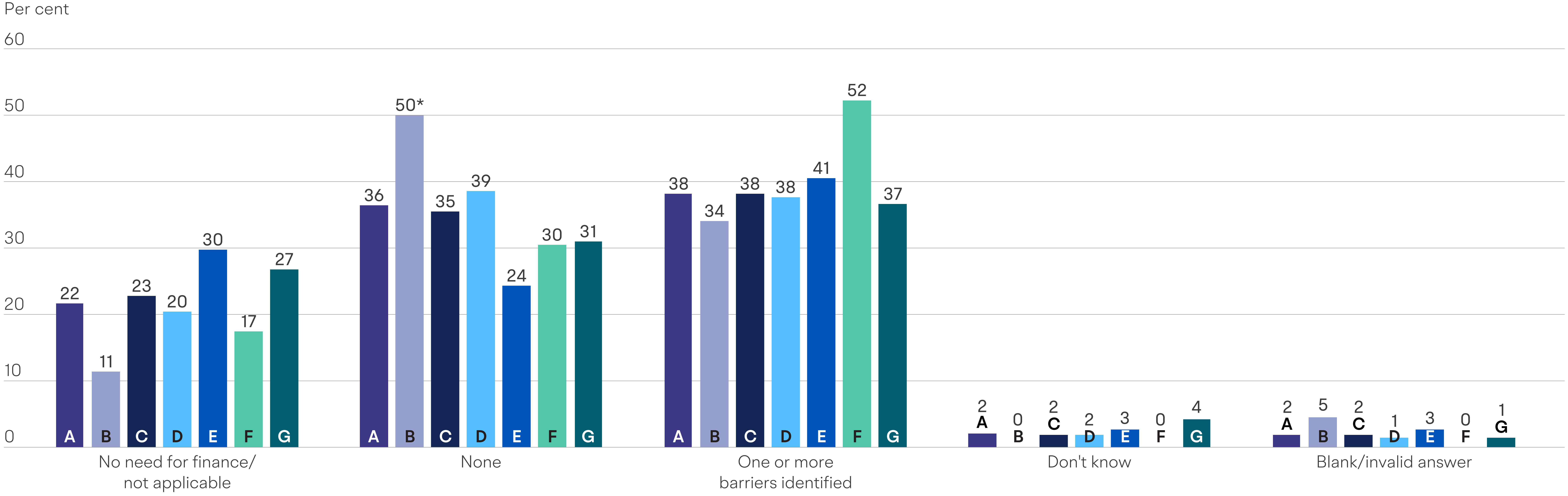
- **Ability to obtain/repay finance** (37%): the key barriers under this theme related to a lack of confidence in obtaining or repaying finance, typically driven by business characteristics/performance or past rejection. These encompass: (High) Interest rates; Ineligibility/rejected; issues with overdraft; issues related to being self-employed; irregular cash flow/turnover; and difficult for small company/low turnover.
- **Time/complexity of finance applications** (21%): this theme brought together barriers that related to the effort involved in seeking finance for a small business including: bureaucracy / red tape / paperwork / too complex / request too much information; time/takes too long; and difficulties with online banking/applications.
- **Poor perceptions of/relationships with finance providers** (16%): the key barriers mentioned in this context related to negative perceptions or past experiences of interacting with finance providers, such as: lack of (local) bank / banks closing / can’t see a manager / speak face to face; reluctance to lend / lack of finance; lack of communication; and general negative comments about high street banks (unhelpful, lack of knowledge etc.)

A smaller proportion of respondents also cited other/not further specified barriers (14%) which related to a lack of awareness or availability of finance options/support (7%) and the positive/negative impact of Covid-19 loans on their appetite for seeking further finance (4%). Businesses in the Highlands and Islands region were particularly likely to report a barrier under the lack of awareness or availability of finance options/support theme – a finding that perhaps can be explained by the region’s distinct and highly remote geography. Indeed, it was for this very reason that the British Business Bank ran a debt finance roadshow in Inverness with alternative lenders in October 2023 – in partnership with the Highland Council, FSB and the Highlands and Islands Enterprise (HIE).

Figure B2.1

Barriers to external finance access among businesses based in Scotland, by region

Unweighted sample sizes: 500 (Scotland Total), 44 (Aberdeen and North East), 110 (Edinburgh and Lothians), 215 (Glasgow and Strathclyde), 37 (Highland and Islands), 23 (Scotland South), 71 (Tayside, Central and Fife).



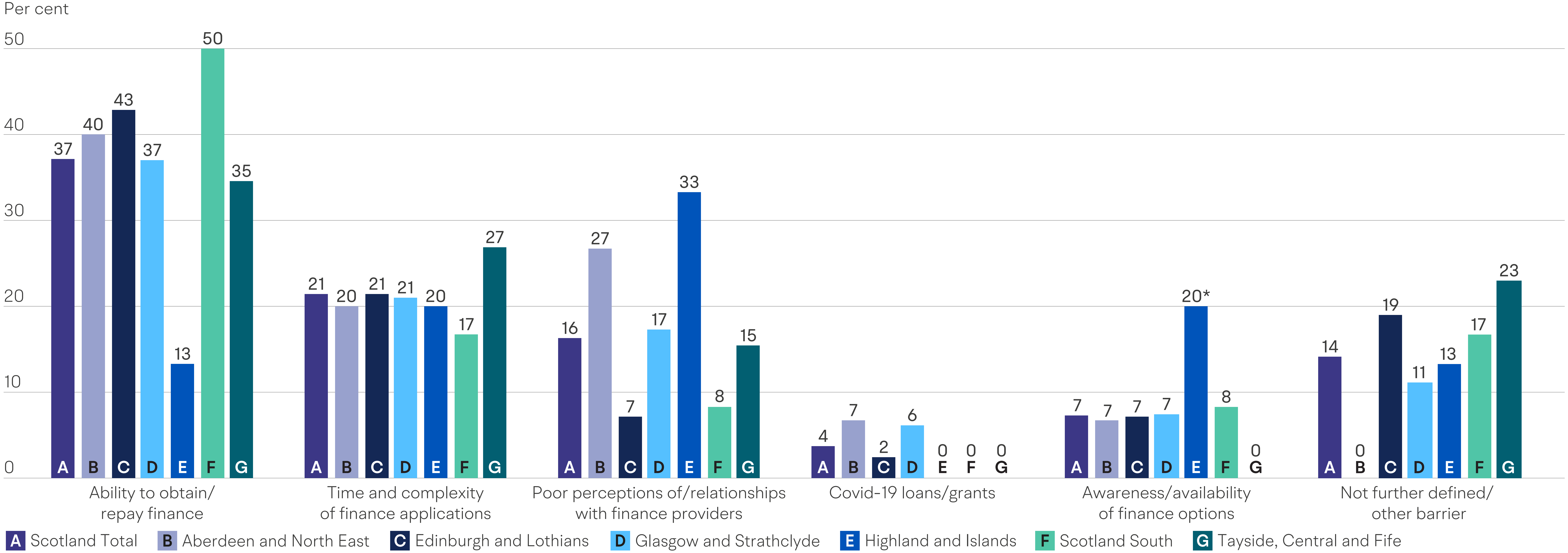
A Scotland Total B Aberdeen and North East C Edinburgh and Lothians D Glasgow and Strathclyde E Highland and Islands F Scotland South G Tayside, Central and Fife

*Correlation is significant at the 0.05 level.

Figure B2.2

Barriers to external finance access among businesses based in Scotland, by region and theme

Unweighted sample sizes: 191 (Scotland Total), 15 (Aberdeen and North East), 42 (Edinburgh and Lothians), 81 (Glasgow and Strathclyde), 15 (Highland and Islands), 12 (Scotland South), 26 (Tayside, Central and Fife)



*Correlation is significant at the 0.05 level.

Business characteristics associated with higher propensity to identify barriers include:

- **Larger employee/turnover size:** businesses with more than one employee and turnover above £200k were more likely to report at least one barrier to accessing external finance than smaller businesses.
- **Sectoral patterns:** businesses operating in the real estate sector had higher propensity to identify barriers to external finance than their counterparts in other sectors, particularly those falling under the ability to obtain/repay finance theme. In contrast, the arts, entertainment and recreation and the other service activities sectors showed a (statistically significant) positive correlation with the no need for finance/not applicable answer option. Other sector specific patterns were also identified at the level of individual themes. For instance, businesses in the transport and storage sector were the most inclined to mention barriers related to poor perceptions of/relationships with finance providers, while those in the wholesale trade and administrative and support services sector had the strongest preference for barriers related to the time/complexity of finance applications and awareness/availability of finance options Across all sectors, retail businesses were also more inclined to report the impact of Covid-19 support on their appetite for external finance.
- **Minority ethnic group respondents:** businesses represented by respondents from an ethnic minority background showed a higher propensity to identify barriers to finance, relative to other businesses.

Scotland was far ahead of the other devolved nations in terms of the share of SMEs reporting barriers to finance (Figure B2.3), with 38% compared with 20% in Wales and 21% in Northern Ireland – a finding that, in part, will likely be influenced by the fact that SMEs in Scotland were more likely to be using finance in the first place. Nevertheless, the response patterns of businesses that did report at least one barrier were not substantially different across the three nations (Figure B2.4).

Figure B2.3

Barriers to external finance access among businesses based in Scotland, Northern Ireland and Wales

Unweighted sample sizes: 500 (Scotland), 695 (Northern Ireland), 498 (Wales).

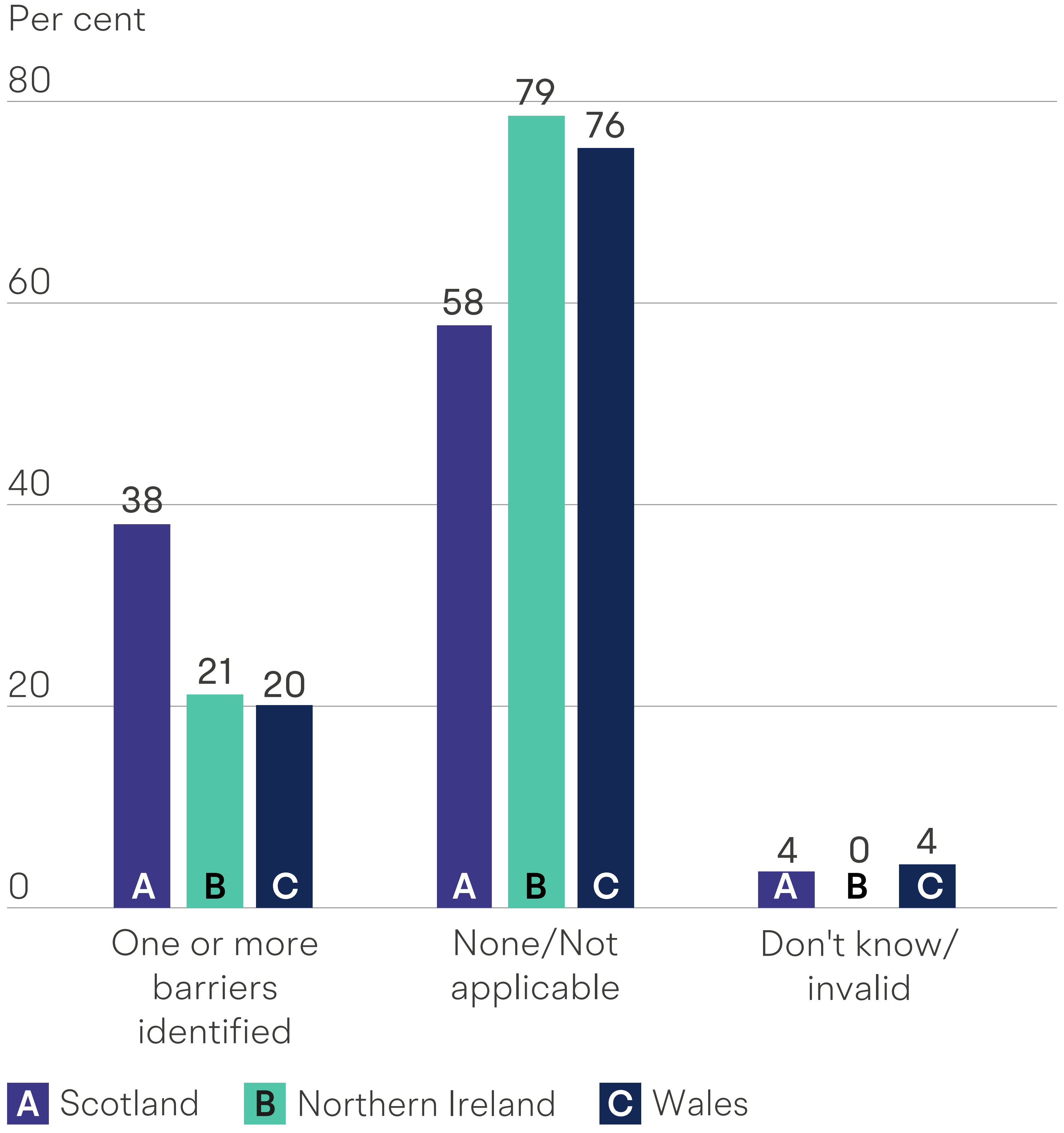
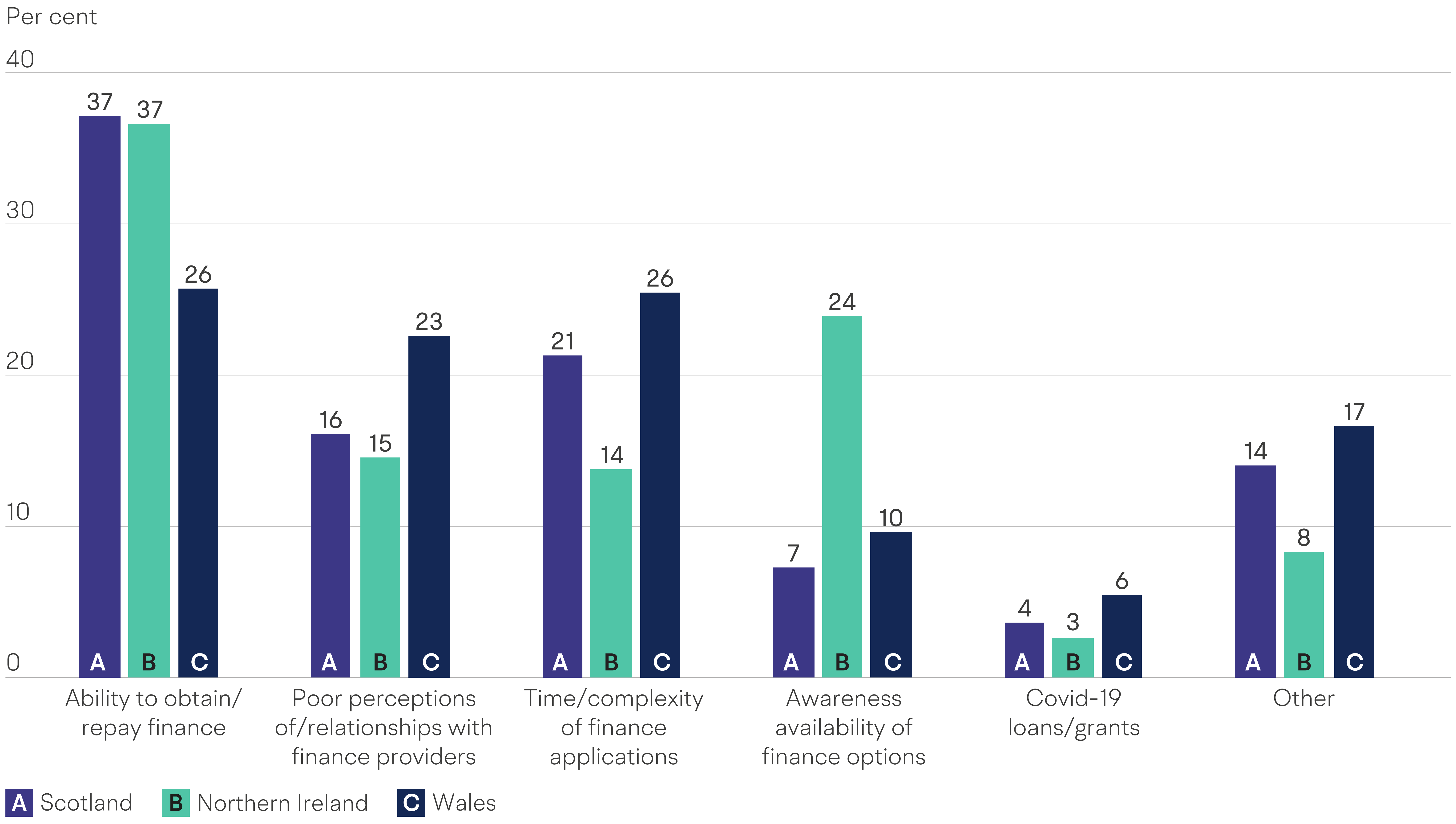


Figure B2.4

Barriers to external finance access among businesses based in Scotland, Northern Ireland and Wales, by theme

Unweighted sample sizes: 191 (Scotland), 109 (Northern Ireland), 101 (Wales).



3. Debt manageability

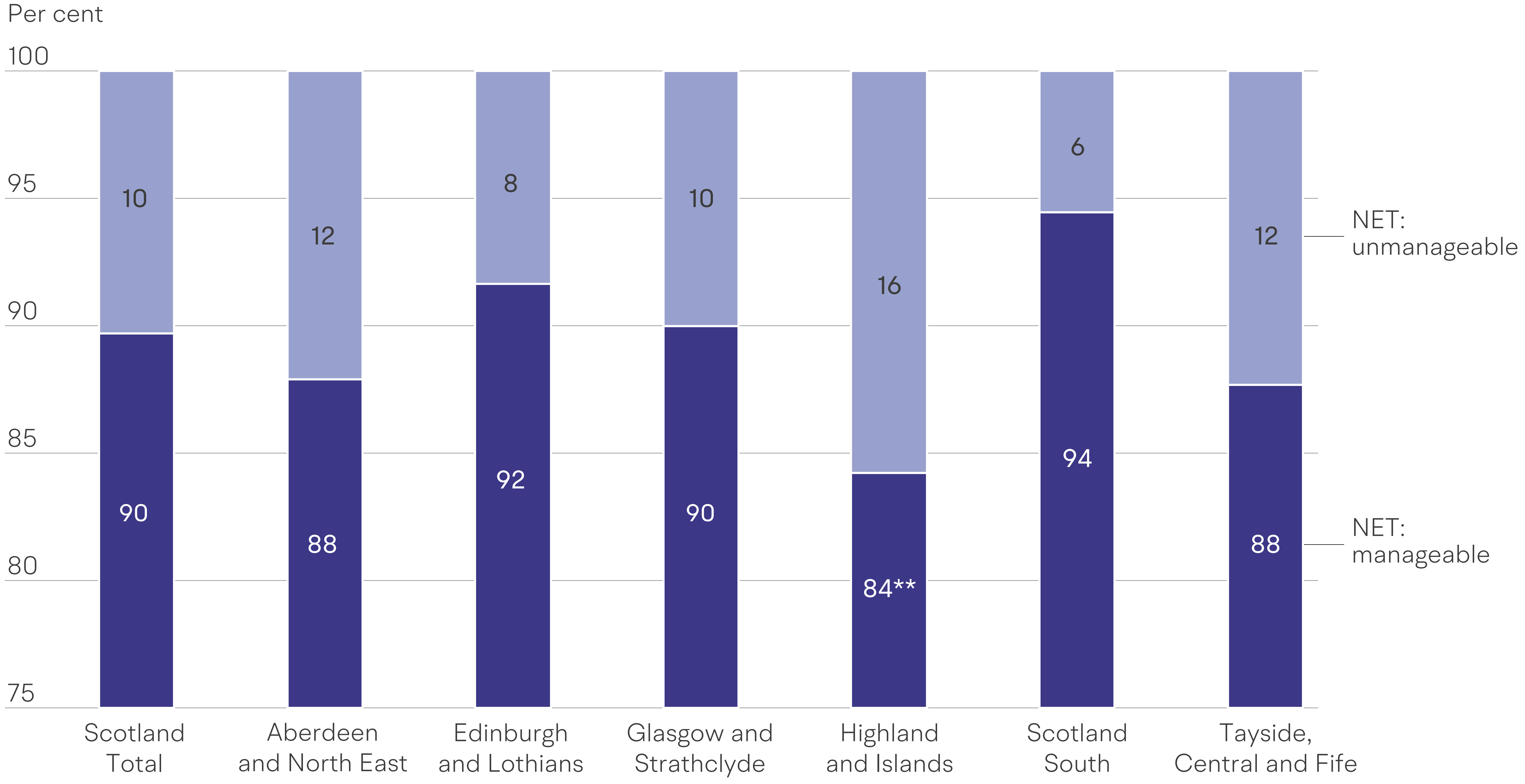
This question was asked to all survey respondents. Those that were not using debt finance at the time of the survey were given the opportunity to select a dedicated option ("the business has no debt"). To enable a clearer comparison, in Figure B3.1, we remove the latter group from our calculations, expressing the results as a share of all respondents that reported having debt at the time of the survey.

According to this data, 9 in 10 businesses in Scotland regarded their current level of debt as manageable, with no statistically significant variation across different parts of the nation (Figure B3.1). This proportion was also broadly in line with the other devolved nations (Figure B3.2). Interestingly, in the 2023 Intermediary Survey (summarised later in the report) over two thirds of stakeholders perceived businesses to not be well equipped to reduce their debt burden, perhaps suggesting the types of businesses engaged with these intermediaries were those not needing additional support and guidance. Indeed, it is well-known in the Scottish market and elsewhere that distressed companies will be highly reluctant to seek the views of external parties such as accountants.

Figure B3.1

Perceptions of current debt level manageability among businesses based in Scotland, by region

Unweighted sample sizes: 359 (Scotland Total), 33 (Aberdeen and North East), 72 (Edinburgh and Lothians),160 (Glasgow and Strathclyde), 19 (Highland and Islands), 18 (Scotland South), 57 (Tayside, Central and Fife).



**Correlation is significant at the 0.01 level.

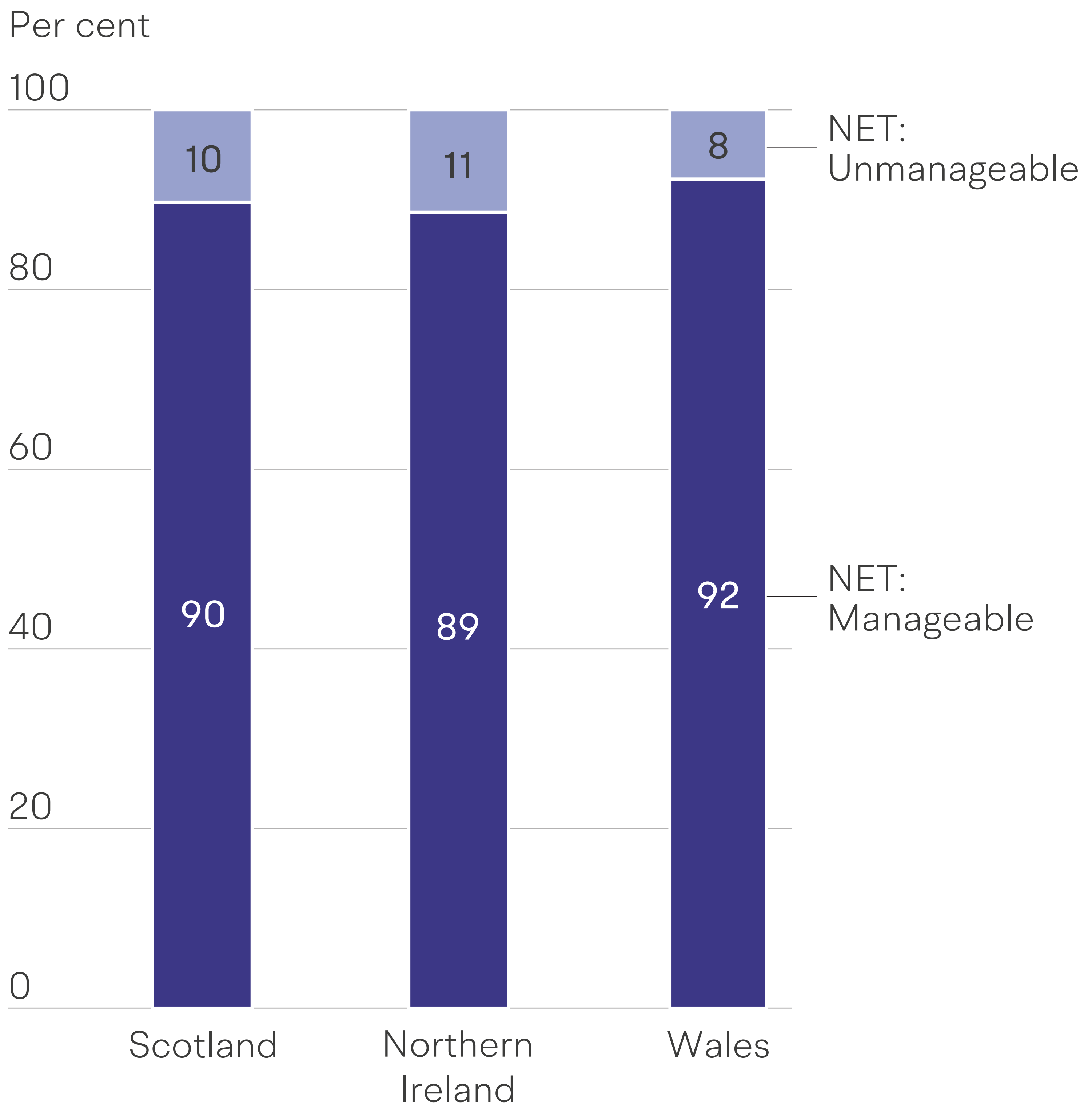
Business characteristics associated with more positive perceptions of debt manageability include:

- **Larger employee/turnover size:** businesses in the highest turnover (over £500k) and employment bands (25+ employees) were more likely to describe their debt as manageable. The reverse is true for sole traders, businesses with turnover of less than £200k and those with fewer than 4 employees.
- **Sectoral patterns:** businesses operating in the real estate, financial and insurance, mining and quarrying sectors were more inclined to regard their current level of debt as manageable than other businesses, while arts, entertainment and recreation and other service activities businesses showed the opposite tendency.
- **All male or mixed gender management team:** businesses led by these teams were more inclined to regard their current level of debt as manageable than those led by all-female teams.

Figure B3.2

Perceptions of current debt level manageability among businesses based in Scotland, Northern Ireland and Wales

Unweighted sample sizes: 359 (Scotland), 427 (Northern Ireland), 262 (Wales).



4. Future finance needs

Overall, just under four in ten SMEs in Scotland (39%) reported requiring additional financing over the next 12 months, with no statistically significant differences detected across different regions (Figure B4.1).

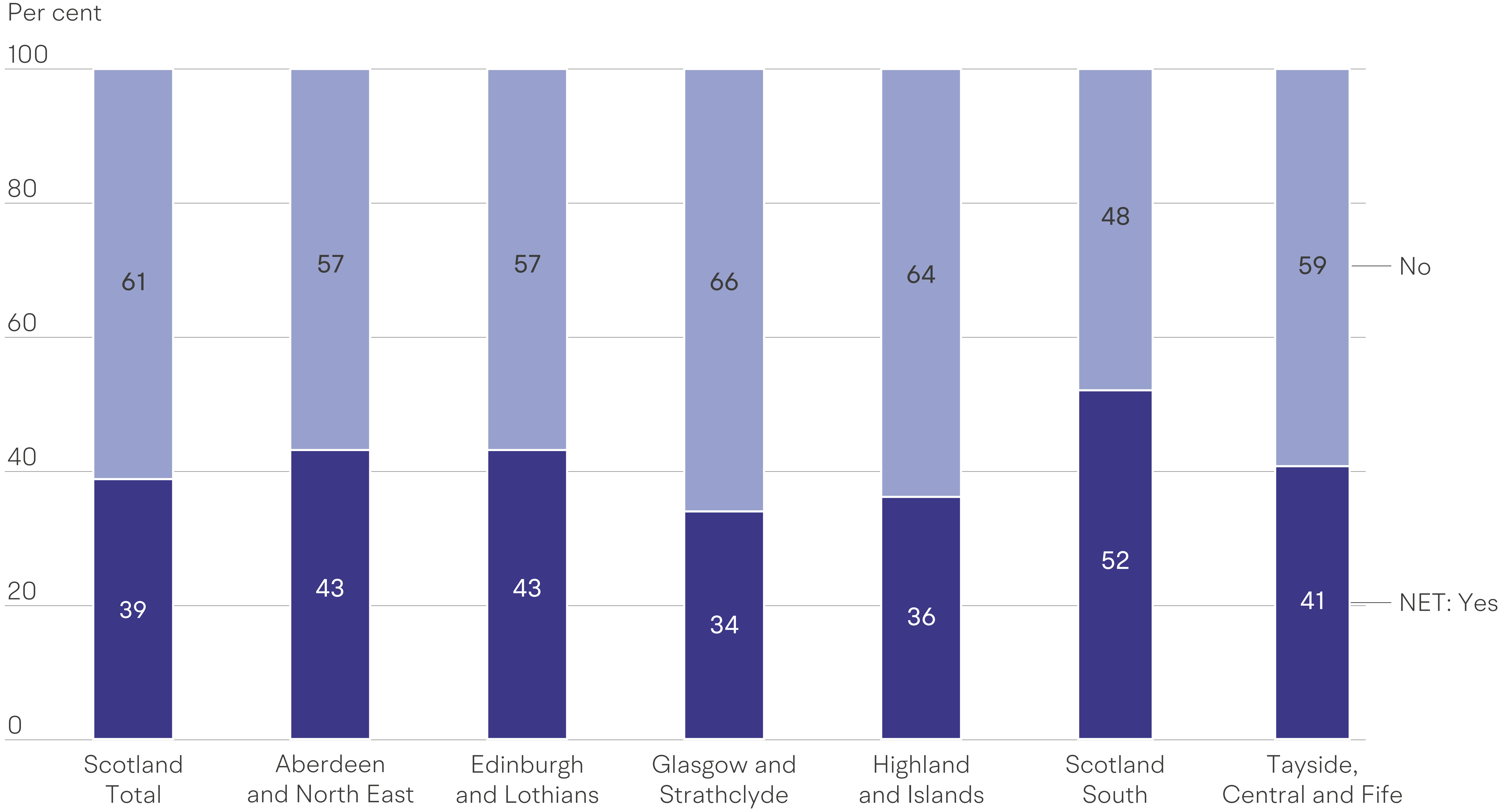
Business characteristics associated with greater appetite for additional financing include:

- **Larger employee/turnover size:** businesses with more than 1 employee and turnover at or above £200k were more likely to anticipate needing external finance. A reverse relationship existed for businesses with turnover of £200k or less.
- **Established less than 10 years ago:** these businesses were more likely to say they would need external finance in the future. Conversely, those established more than 10 years ago were less likely to report this.
- **Minority ethnic group respondents:** businesses represented by respondents from an ethnic minority background showed a higher propensity to identify an additional financing need over the next 12 months, relative to other businesses.

Figure B4.1

Proportion of SMEs in Scotland that anticipate needing additional financing over the next year, by region

Unweighted sample sizes: 498 (Scotland Total), 44 (Aberdeen and North East), 109 (Edinburgh and Lothians), 215 (Glasgow and Strathclyde), 36 (Highland and Islands), 23 (Scotland South), 71 (Tayside, Central and Fife).



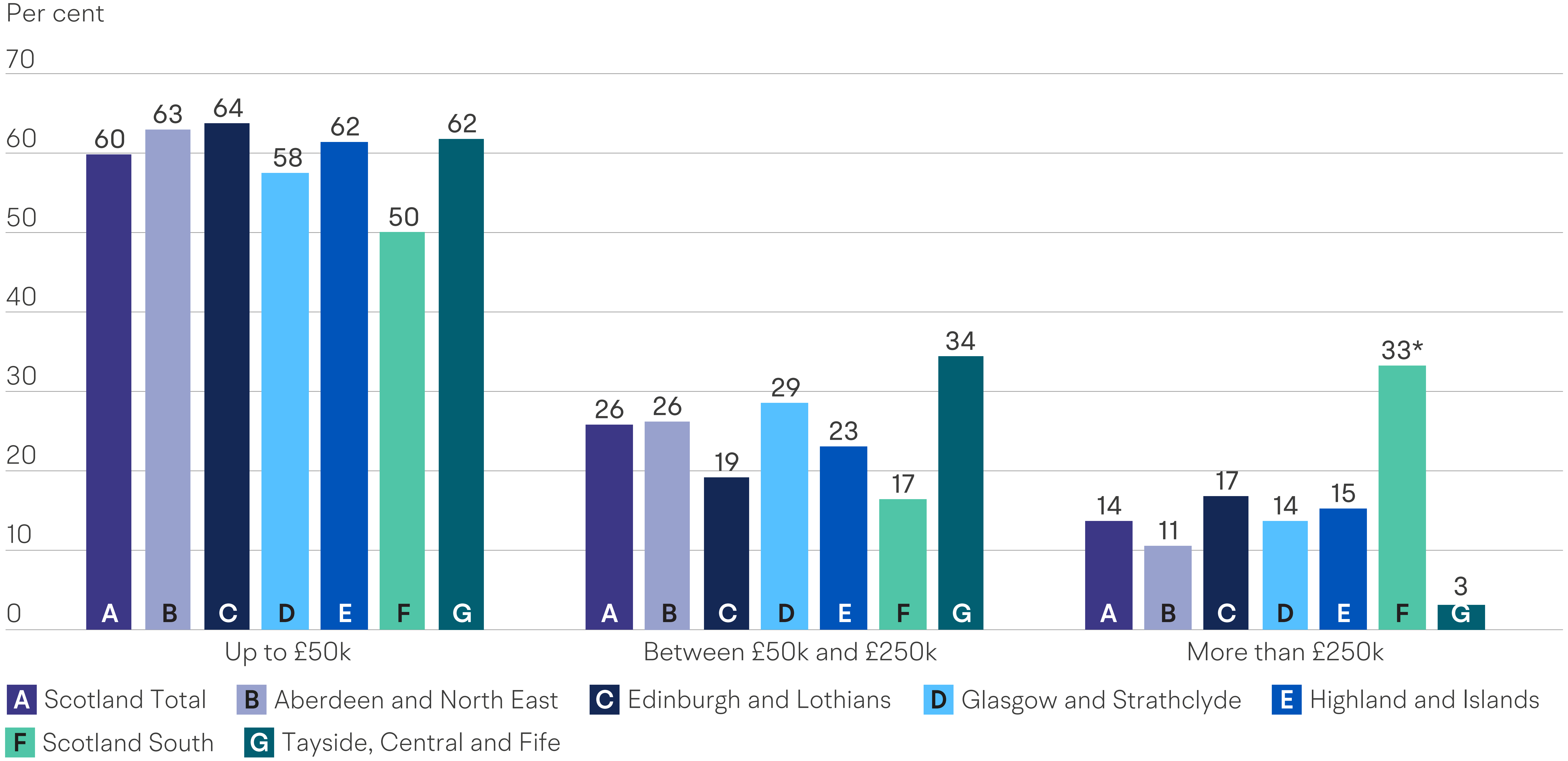
- **Sectoral patterns:** businesses operating in the mining and quarrying, electricity, gas, steam and air conditioning supply, retail, health and social work sectors were more likely to identify an additional financing requirement for the next 12 months. This contrasts with arts, entertainment and recreation, since businesses in this sector were less likely to anticipate needing finance over the same period.

The question also captured the scale of the additional financing potentially required by businesses, using six bands. In the analysis below, these six bands have been merged into three bands to boost the sample size for each option and align with the pattern of the responses received. Overall, the majority of businesses in Scotland (60%) reported requiring £50k or less in additional financing, whereas just over one quarter estimated their need at between £50k and £250k; only around 14% had a higher additional financing requirement (Figure B4.2).

Figure B4.2

Size of financing requirement of SMEs in Scotland that anticipate needing additional financing over the next year, by region

Unweighted sample sizes: 193 (Scotland Total), 19 (Aberdeen and North East), 47 (Edinburgh and Lothians), 73 (Glasgow and Strathclyde), 13 (Highland and Islands), 12 (Scotland South), 29 (Tayside, Central and Fife).



*Correlation is significant at the 0.05 level

Across the six regions considered in this report, the ones that showed statistically significant differences with the rest of the nation on this measure are:

- Aberdeen and North East Scotland and Glasgow and Strathclyde, with local businesses reporting, respectively, a higher and lower preference for additional financing below £10k.
- Edinburgh and the Lothians and Scotland South, where businesses had a higher propensity to select ticket sizes of £250k and above.

When compared with the other devolved nations, Scotland's overall proportion of SMEs that anticipated requiring additional financing over the next 12 months was significantly higher than Wales, but similar to Northern Ireland (Figure B4.3). Differences can also be seen in the size of the additional financing required, particularly with Northern Ireland, where businesses were less likely to anticipate accessing more than £50k than in both Wales and Scotland (Figure B4.4).

Figure B4.3

Proportion of SMEs in Scotland, Northern Ireland and Wales that anticipate needing additional financing over the next year

Unweighted sample sizes: 498 (Scotland), 673 (Northern Ireland), 498 (Wales).

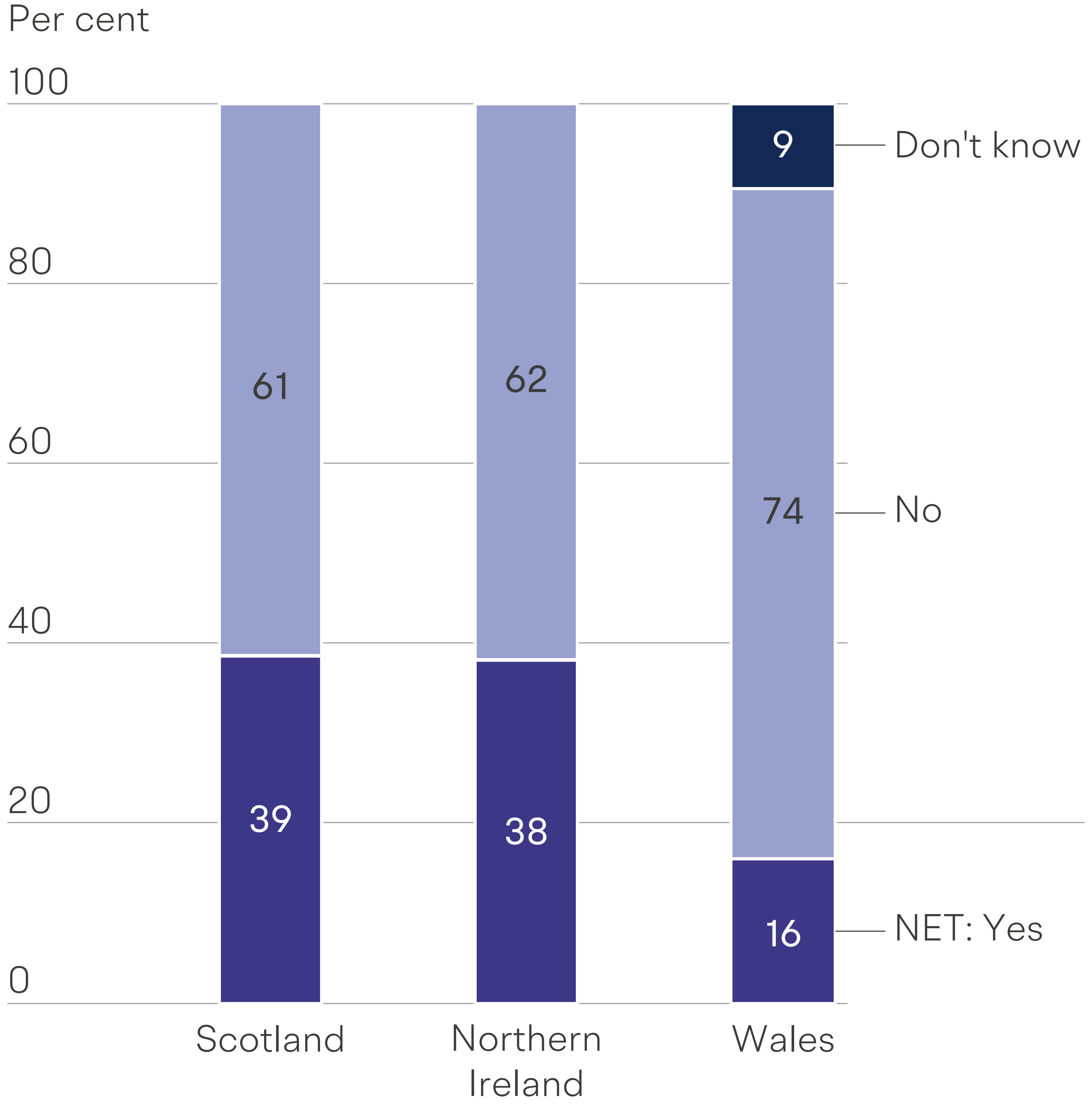
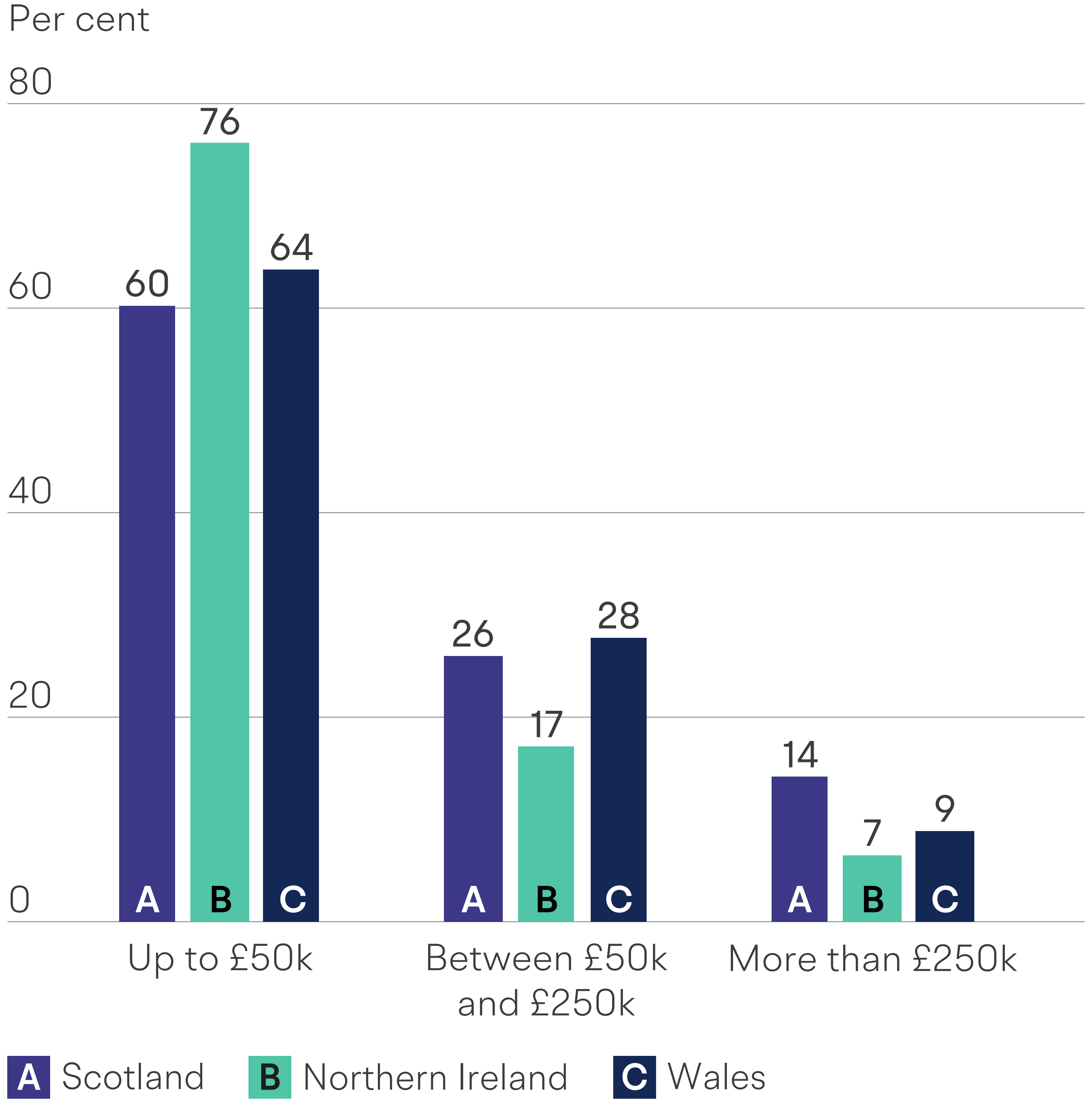


Figure B4.4

Size of financing requirement of SMEs in Scotland, Northern Ireland and Wales that anticipate needing additional financing over the next year

Unweighted sample sizes: 193 (Scotland), 377 (Northern Ireland), 84 (Wales).



5. Future finance needs by type

46% of SMEs in Scotland that had additional financing over the next 12 months anticipated accessing loan products (Figure B5.1). Grants and business overdrafts were also relatively popular compared with other finance types, but these finance types were cited by a lower proportion of businesses (22% and 24% respectively).

Glasgow and Strathclyde was the only region with statistically significant differences relative to the rest of Scotland, since businesses located there had a lower tendency to anticipate accessing business loans or credit cards. Credit cards and asset, invoicing and equity finance were each selected by one fifth of businesses or fewer. in this region.

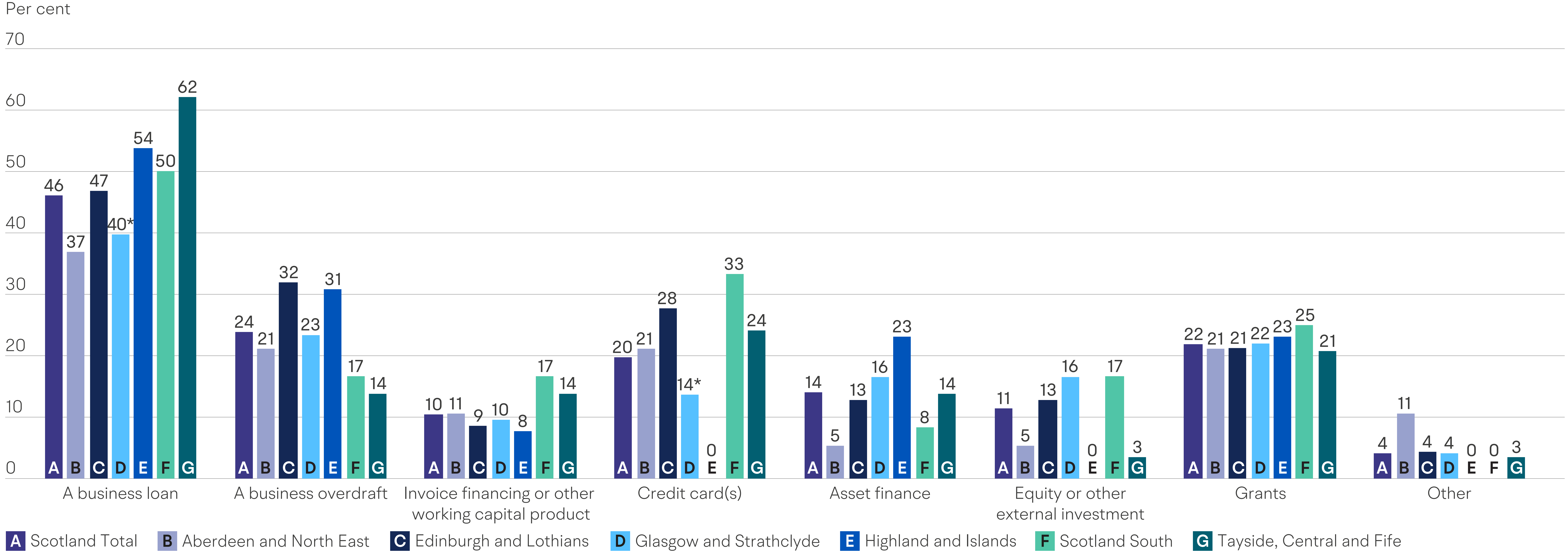
Business characteristics associated with greater appetite for specific forms of additional financing include:

- **Larger employee/turnover size:** businesses with more than 1 employee and turnover at or above £200k were more likely to anticipate accessing business loans. A reverse relationship existed for businesses with turnover of £200k or less.
- **Sectoral patterns:** agriculture, forestry and fishing businesses were more likely than others to anticipate accessing business overdrafts (alongside manufacturing), credit cards (alongside water supply, sewerage and waste management and retail trade) and invoice financing (alongside mining and quarrying, motor trade and information and communication). Manufacturing was also one of two sectors where businesses most frequently anticipated accessing asset finance (jointly with electricity, gas, steam and air conditioning supply).
- **Established less than 10 years ago:** these businesses were more likely to say they would access business loans or credit cards in the future. Conversely, those established more than 10 years ago were less likely to report this.
- **All male or mixed gender management team:** unlike these businesses, those with all- female management teams were less inclined to report they expected accessing business loans, compared with these groups.
- **Minority ethnic group respondents:** businesses represented by respondents from an ethnic minority background showed higher propensity to anticipate accessing business loans, credit cards or asset finance over the next 12 months, relative to other businesses.

Figure B5.1

Types of finance type sought by SMEs in Scotland that anticipate needing additional financing over the next year, by region

Unweighted sample sizes: 193 (Scotland Total), 19 (Aberdeen and North East), 47 (Edinburgh and Lothians), 73 (Glasgow and Strathclyde), 13 (Highland and Islands), 12 (Scotland South), 29 (Tayside, Central and Fife).



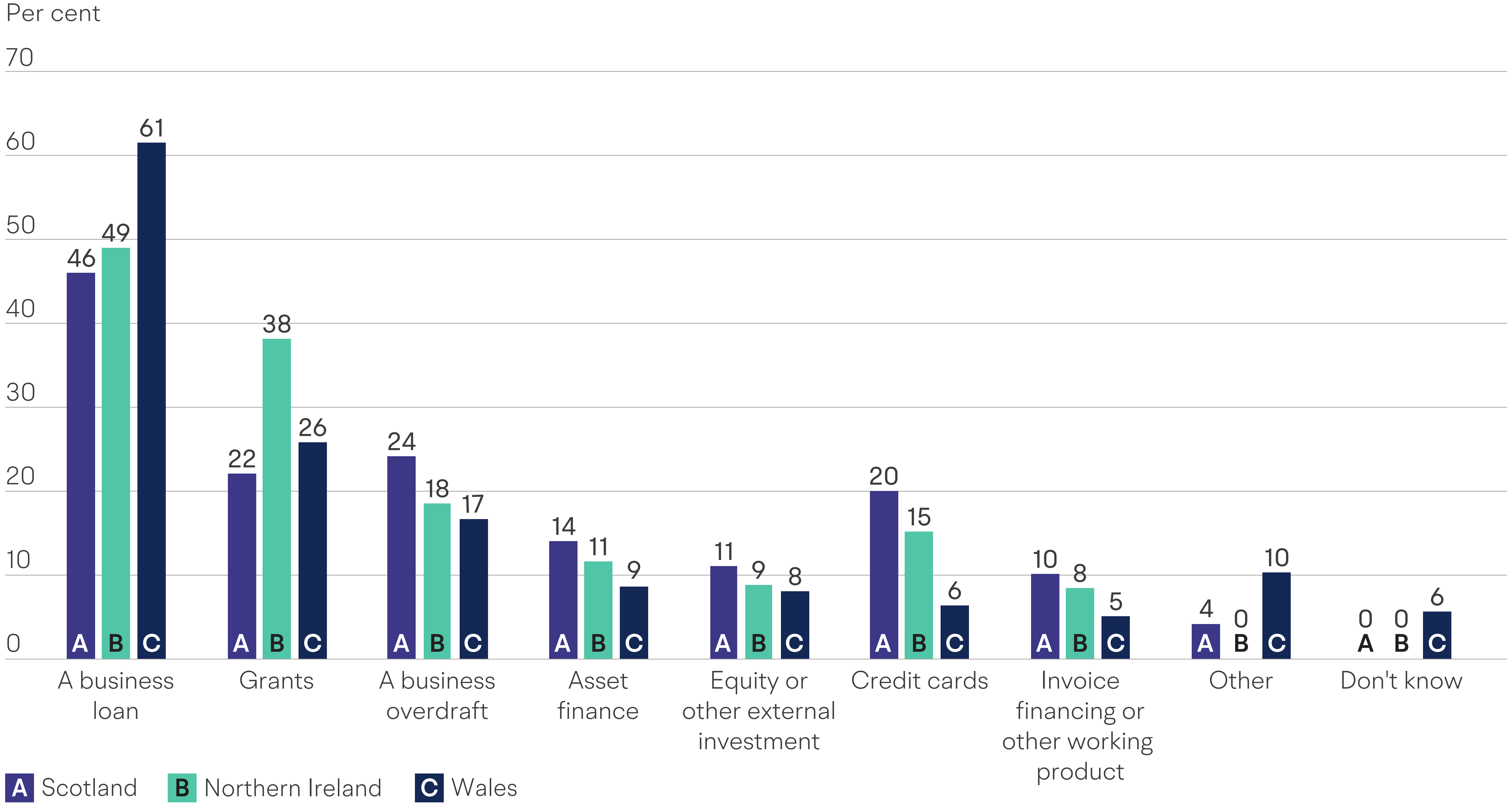
*Correlation is significant at the 0.05 level.

Compared with their counterparts in the other devolved nations, SMEs in Scotland were less inclined to anticipate accessing business loans or grants for meeting their finance needs over the next year, and more inclined to use credit cards or business overdrafts for this purpose (Figure B5.2).

Figure B5.2

Types of finance sought by SMEs in Scotland, Northern Ireland and Wales that anticipate needing additional financing over the next year

Unweighted sample sizes: 193 (Scotland), 377 (Northern Ireland), 84 (Wales).



6. Future finance needs by purpose

In Scotland as a whole, 44% of SMEs that had an additional financing requirement in the next 12 months intended to use this for capital expenditure, while 40% mentioned they would use this for working capital (Figure B6.1). Other planned uses, such as investment in research/process improvements/significant maintenance, and in actions relating to environmental sustainability, were selected by 33% and 12% of respondents respectively, with one in ten also mentioning refinancing or managing existing debt. Statistically significant differences were identified on this question for two of the six regions of Scotland:

- Edinburgh and the Lothians, where businesses were more likely to use additional financing for working capital purposes than their counterparts in the rest of Scotland.
- Glasgow and Strathclyde, where businesses had a lower propensity to access finance for the purpose of refinancing existing debt, than businesses based elsewhere in the nation.

Scotland-based SMEs were broadly similar to their counterparts in Northern Ireland and Wales in terms of the intended purposes of any additional financing sought, except for investment in research/process improvement/significant maintenance. This latter use, as can be seen in Figure B6.2, was selected by a far greater proportion of respondents in Scotland than elsewhere (33% in Scotland compared to 14% in Wales). There were also notable differences in the anticipated use of finance to decarbonise operations, with 12% of SMEs in Scotland selecting this option compared to 4% in Northern Ireland and 14% in Wales.

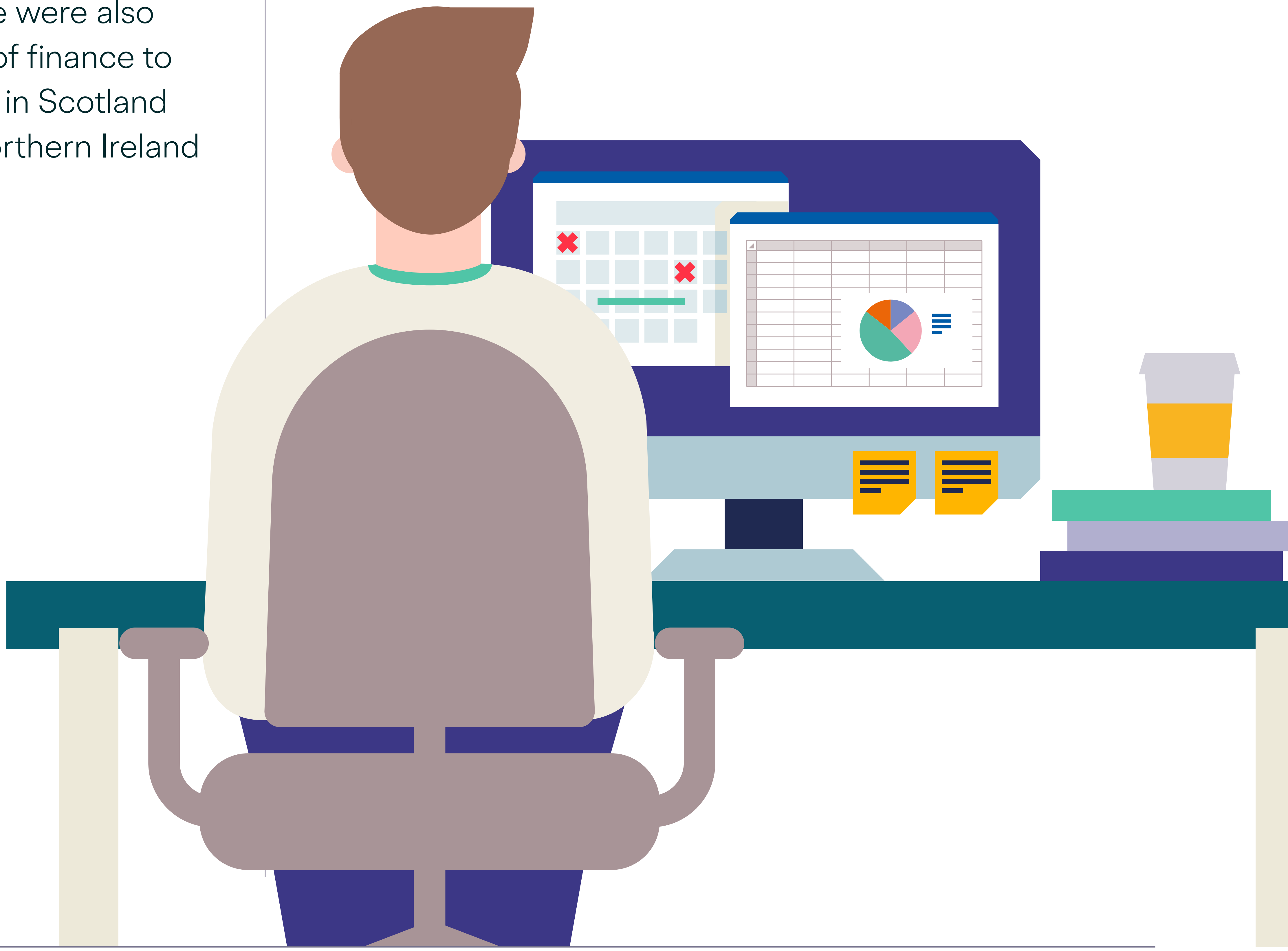
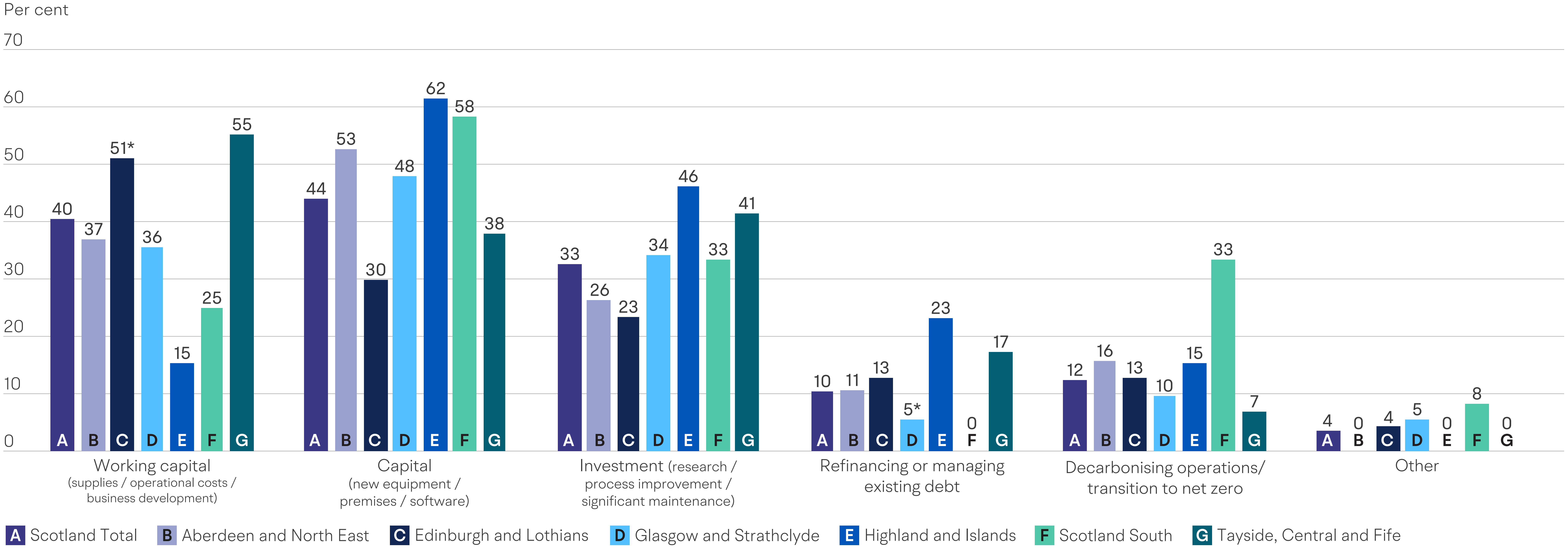


Figure B6.1

Planned use of finance by SMEs in Scotland that anticipate needing additional financing over the next year, by region [19]

Unweighted sample sizes: 193 (Scotland Total), 19 (Aberdeen and North East), 47 (Edinburgh and Lothians), 73 (Glasgow and Strathclyde), 13 (Highland and Islands), 12 (Scotland South), 29 (Tayside, Central and Fife).



*Correlation is significant at the 0.05 level.

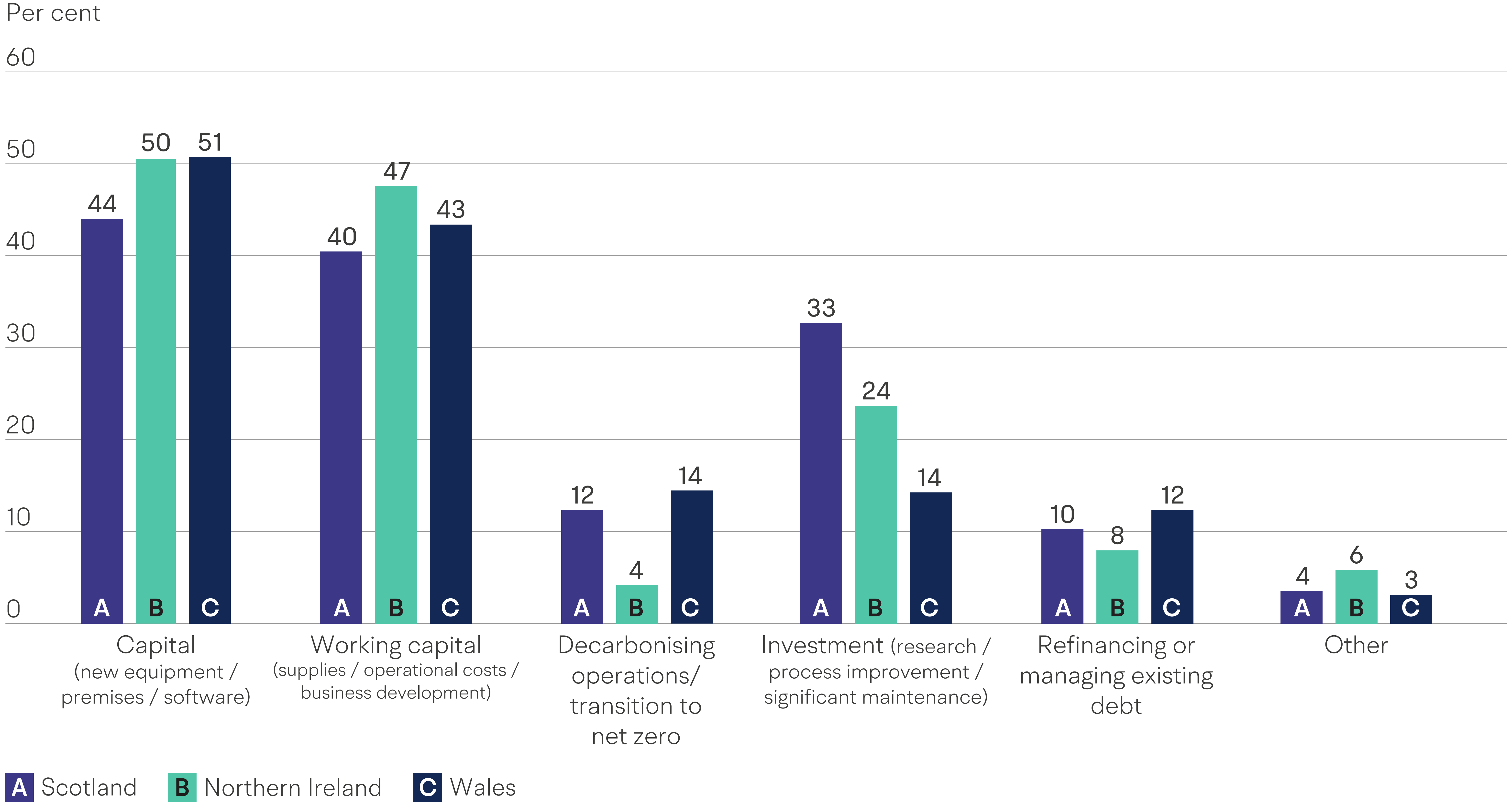
Business characteristics associated with a greater inclination to select specific additional financing purposes include:

- **Sectoral patterns:** businesses in the agriculture, forestry and fishing and mining and quarrying sectors were more likely than others to anticipate accessing additional financing for capital investment purposes. Other sectors also showed statistically significant patterns in their responses to this question. For instance, human health and social work businesses had a greater propensity to anticipate using additional financing for investment in research and development/process improvement/significant maintenance, as well as for refinancing/managing existing debt (alongside retail trade).
- **Established less than 10 years ago:** these businesses were more likely to say they would access additional financing for working capital purposes or for the purpose of investment in research and development/process improvement/significant maintenance or decarbonising their operations/supporting their transition to net zero. Conversely, those established more than 10 years ago were less likely to report this.

Figure B6.2

Planned use of finance by SMEs in Scotland, Northern Ireland and Wales that anticipate needing additional financing over the next year

Unweighted sample sizes: 193 (Scotland), 377 (Northern Ireland), 84 (Wales).



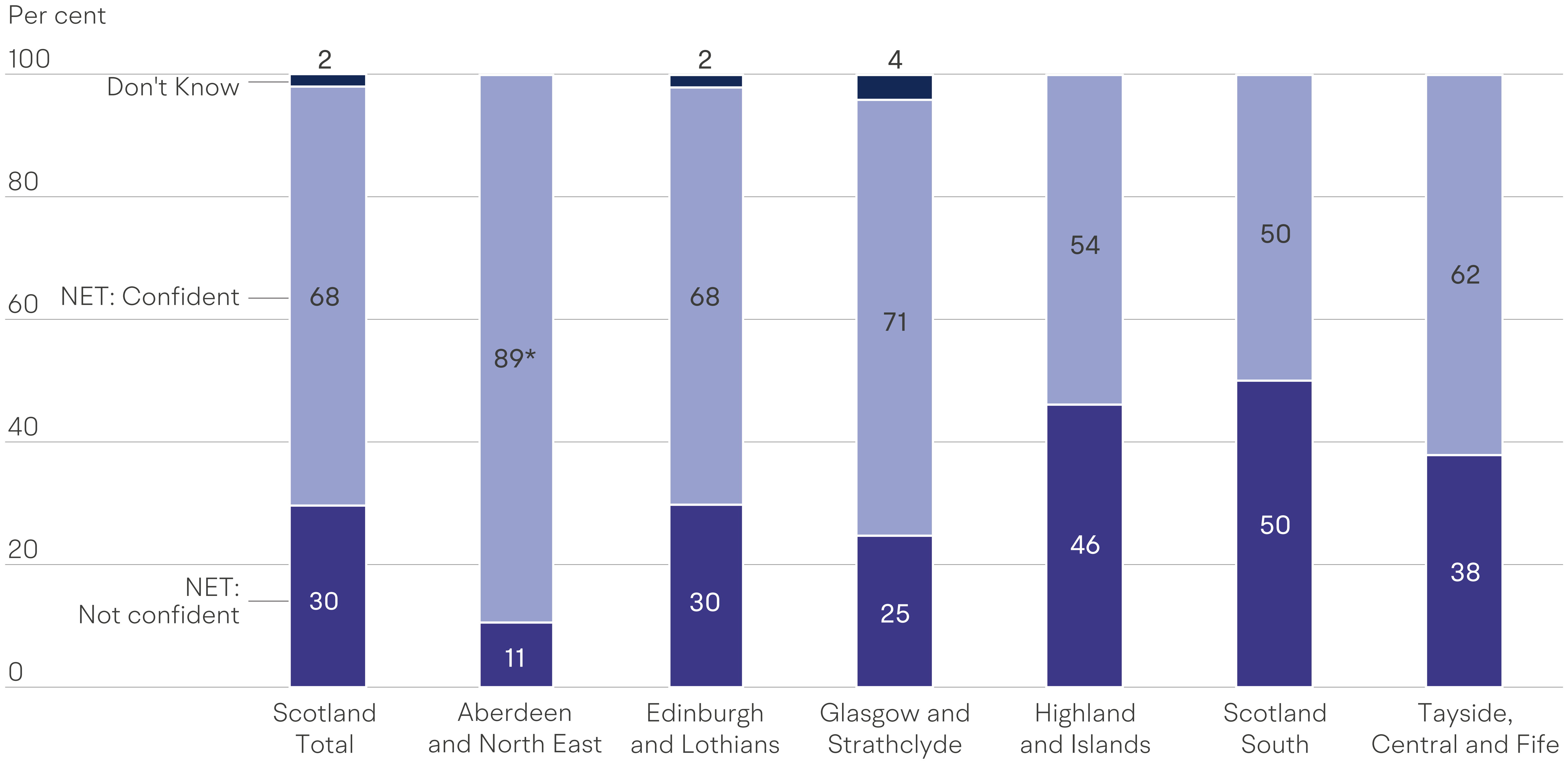
7. Future finance needs by confidence levels

SMEs' confidence in accessing additional finance did not differ in a statistically significant way across the six regions (Figure B7.1). In Scotland as a whole, just under seven in ten said they were confident they could obtain the additional financing needed over the next year. Confidence levels in Scotland were broadly similar to Wales, whilst Northern Ireland lagged behind the other devolved nations on this measure (Figure B7.2).

Figure B7.1

Confidence in accessing additional financing for SMEs in Scotland that anticipate needing it over the next year, by region

Unweighted sample sizes: 193 (Scotland Total), 19 (Aberdeen and North East), 47 (Edinburgh and Lothians), 73 (Glasgow and Strathclyde), 13 (Highland and Islands), 12 (Scotland South), 29 (Tayside, Central and Fife).



*Correlation is significant at the 0.05 level.

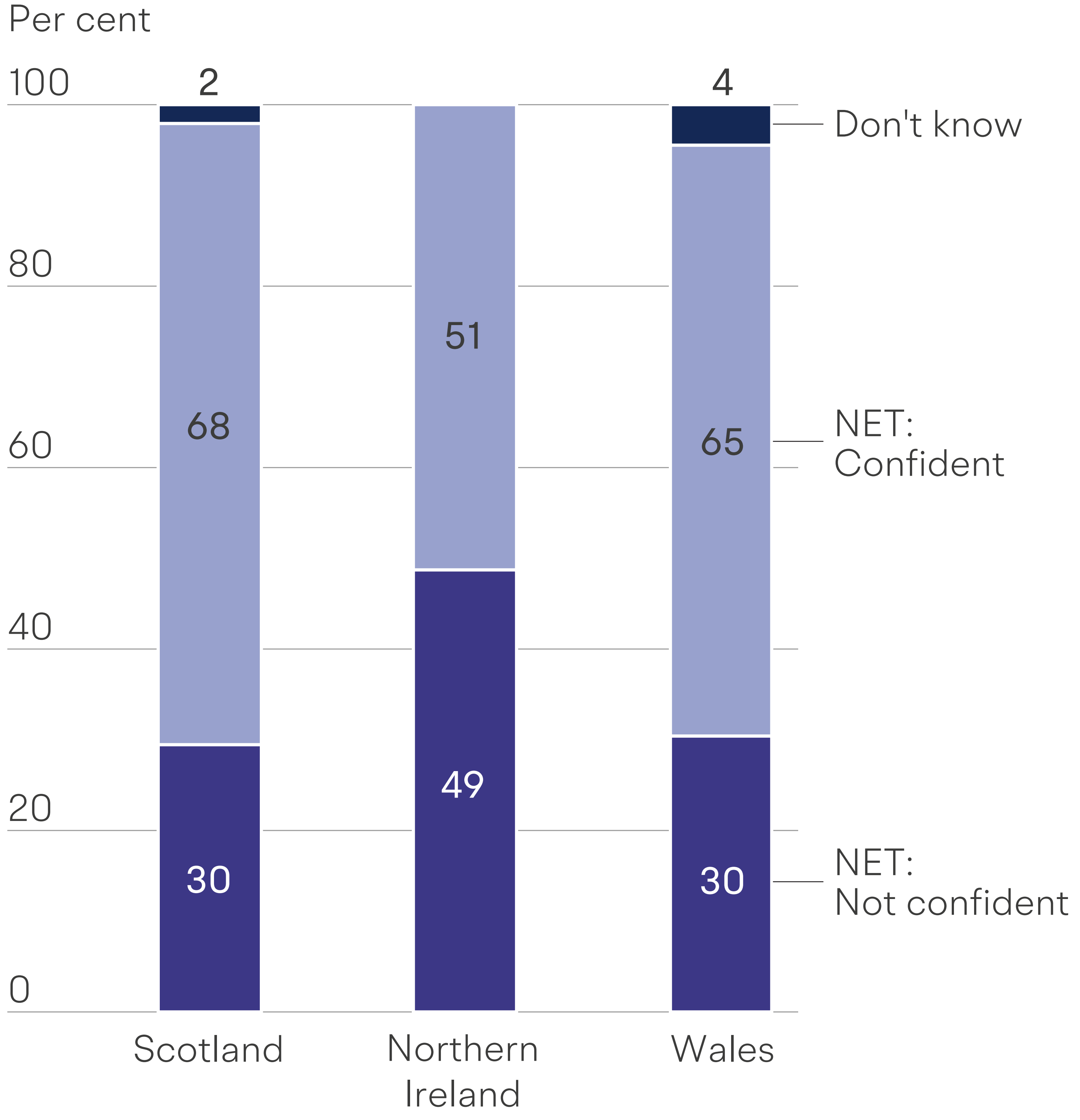
Business characteristics associated with a greater confidence in obtaining additional financing include:

- **Larger employee/turnover size:** businesses with 2 or more employees and turnover of £200k or more were generally more confident in their ability to secure the additional financing needed over the coming year, compared with smaller businesses.
- **Established less than 10 years ago:** these businesses were more likely to say they would access additional financing for working capital purposes or for the purpose of investment in research and development/process improvement/significant maintenance or decarbonising their operations/supporting their transition to net zero. Conversely, those established more than 10 years ago were less likely to report this.

Figure B7.2

Confidence in accessing additional financing for SMEs in Scotland, Northern Ireland and Wales that anticipate needing it over the next year

Unweighted sample sizes: 193 (Scotland), 377 (Northern Ireland), 84 (Wales) .



8. Anticipated business performance

At the national level, as can be seen in Figure B8.1, just under half (45%) of businesses in Scotland expected stability, whereas almost four in ten expected growth (38%). The remaining businesses expected a contraction (12%) or difficult trading conditions/risk of closure (5%). SMEs' general business performance expectations over the year ahead did not differ in a statistically significant way across the regions except for the Highlands and Islands. In this region, a higher share (28%) of SMEs expected a contraction over the next year compared with their counterparts elsewhere (for instance, 11% in Tayside, Central and Fife).

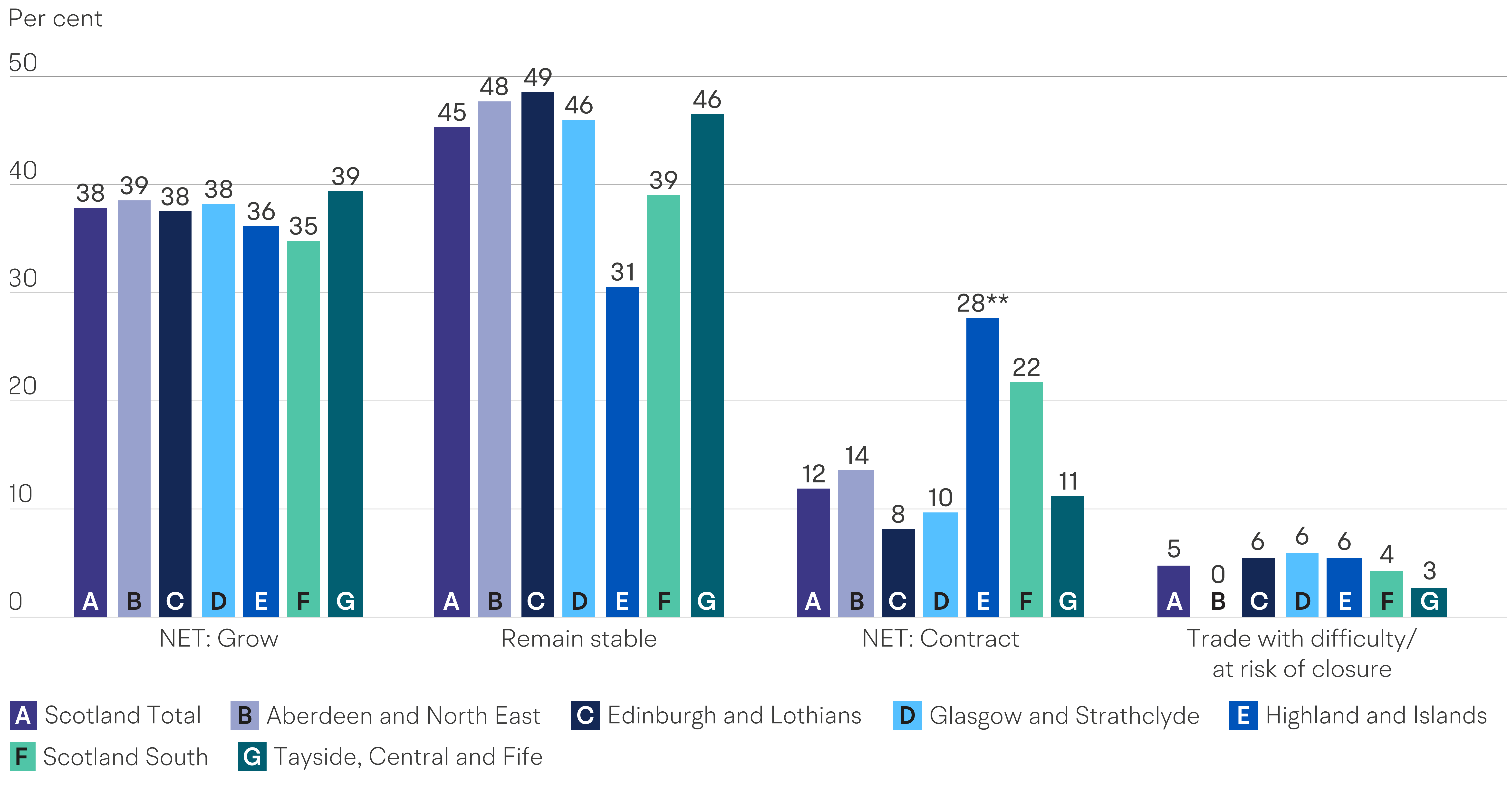
Business characteristics associated with better perceived growth prospects include:

- **Larger employee/turnover size:** businesses with 2 or more employees and turnover of £200k or more were generally more confident in their ability to expand (significantly or moderately) over the coming year, compared with smaller businesses.
- **Sectoral patterns:** businesses in the information and communication sector were generally more likely to expect to grow over the next 12 months. In contrast, accommodation and food service businesses showed the greatest propensity to anticipate trading difficulties/ being at risk of closure.

Figure B8.1

Expected performance over the next 12 months of SMEs in Scotland, by region

Unweighted sample sizes: 498 (Scotland Total), 44 (Aberdeen and North East), 109 (Edinburgh and Lothians), 215 (Glasgow and Strathclyde), 36 (Highland and Islands), 23 (Scotland South), 71 (Tayside, Central and Fife).



**Correlation is significant at the 0.01 level.

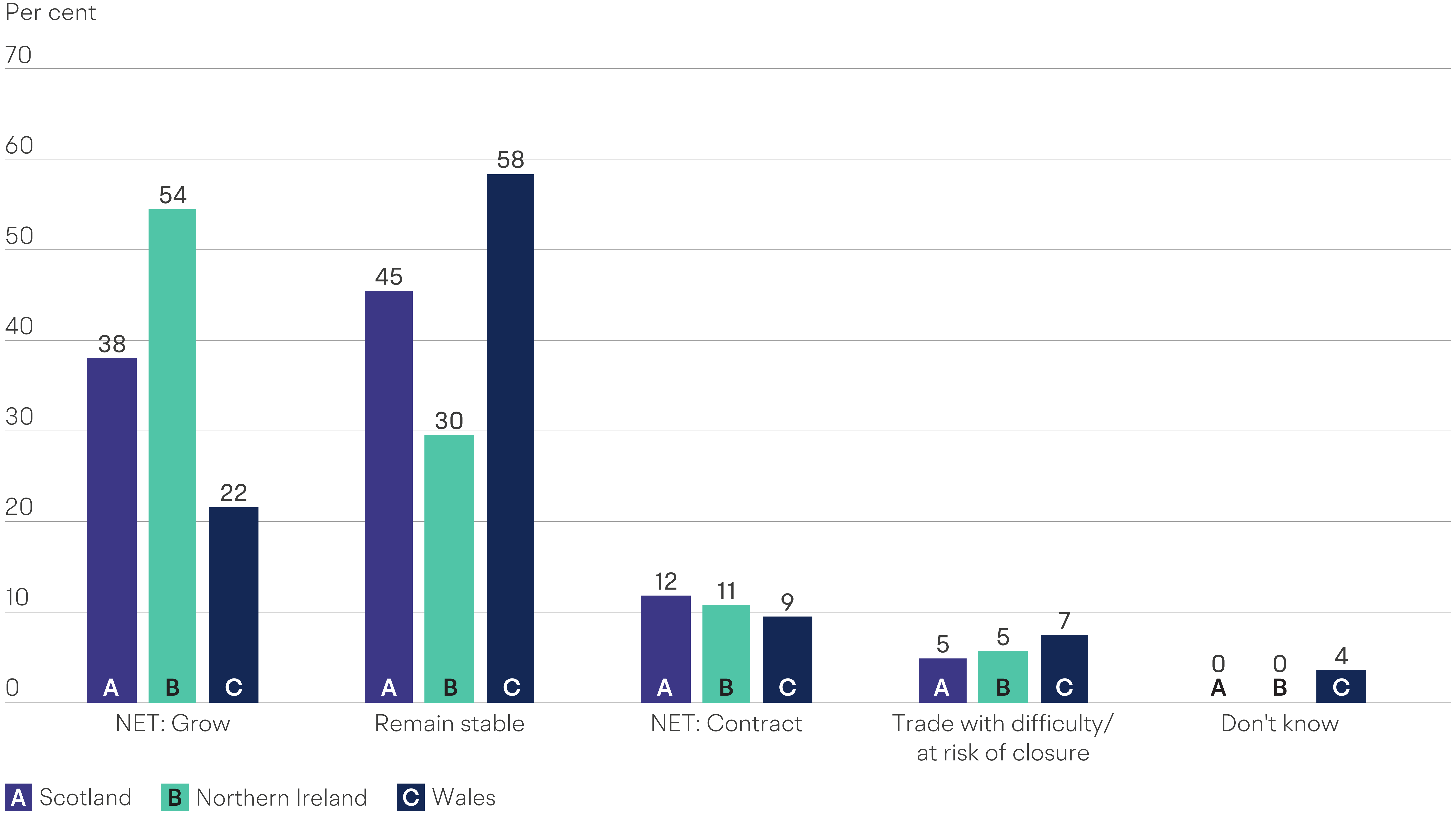
- **Established less than 10 years ago:** these businesses were more likely to anticipate growth over the next year, particularly those established less than 2 years ago. Conversely, those established more than 10 years ago were less likely to report this.

As can be seen in Figure B8.2, Scotland compared favourably with Wales on the proportion of businesses expecting to grow over the next year (38% and 22% respectively). That said, both nations lagged Northern Ireland considerably on this measure with 54% of SMEs expecting growth. This difference is due to proportionally more businesses in Scotland expecting to remain stable (45%), compared with the latter (30% in Northern Ireland). It may also be influenced by the fact that the overall sample size in Northern Ireland was larger, and that the latter survey targeted a more dynamic group of businesses (businesses recruited through Enterprise Northern Ireland's networks) than the general SME population. Nevertheless, Scotland has a broadly similar proportion of SMEs expecting negative performance (a contraction or difficult trading conditions/risk of closure).

Figure B8.2

Expected performance over the next 12 months of SMEs in Scotland, Northern Ireland and Wales

Unweighted sample sizes: 498 (Scotland), 695 (Northern Ireland), 498 (Wales).



Scotland Intermediary Survey Summary

In late 2023, the British Business Bank's UK Network team conducted a survey with intermediaries [9] to better understand SME access to finance perceptions across the regions and nations of the UK. Note that this survey was a separate piece of work from the research summarised above and was conducted solely by the British Business Bank. In total, the survey collected 725 unweighted responses, of which 63 were from Scotland. Headline statistics can be found in the infographic (B9).

The UK Network team are the eyes and ears of the British Business Bank, working with stakeholders and SMEs to better understand and support the local access to finance ecosystems and help small businesses be better informed of their finance options.

Figure B9

Summary of Scotland intermediary research

70%
(UK avg: 60%) SMEs' lack of awareness of finance options available remains the biggest barrier to demand

87%
(UK avg: 81%) gaps in finance supply for SMEs, regardless of their development stage

48%
(UK avg: 55%) There is not adequate finance support for those looking to start their own business

66%
(UK avg: 75%) SMEs are not well-informed about early stage equity

82%
(UK avg: 75%) SMEs are not well-informed about alternative finance

62%
(UK avg: 67%) of SMEs are not well-equipped to reduce their debt burden in the next 12-18 months

During a period of economic uncertainty, the 2023 intermediary survey provided a snapshot of the access to finance market in Scotland. This survey found that the top three access to finance barriers were: lack of awareness of finance options (70%), access to supply of finance (51%), and aversion to taking on finance (37%). Interestingly, these findings differ from the UK results with intermediaries outside of Scotland ranking the cost of finance as the third top barrier (46%) compared to Scotland which placed this issue in fourth place (29%). That said, SMEs in Scotland were believed to be less aware of their finance options (70%) compared to the UK figure (60%).

The theme of awareness was a key strand throughout this survey, with SMEs in Scotland considered to be largely uninformed about a range of finance options. Indeed, over three quarters of SMEs were perceived to be not well-informed about alternative forms of finance (82% compared to a UK figure of 75%). A similar pattern was highlighted in other finance options, too, namely later stage equity (83%), early stage equity (66%) and debt (45%) – findings which align with the UK picture.

In addition, and as highlighted above, over half of intermediaries (51%) ranked access to supply of finance as a key barrier for SMEs. Indeed, intermediaries highlighted finance supply gaps irrespective of the development stage of the company (87%). These gaps were perceived to be most severely felt when accessing early stage equity (67%) and growth stage equity (51%), closely followed by debt (51%). It is hoped that the commitments made by BBB in the Scottish market during 2023 – for instance, the launch of the £150m Investment Fund for Scotland [10] as well as a raft of announcements made by British Business Investments into angel groups and debt funds – will help offset these challenges in the coming years.

Despite intermediaries highlighting a range of access to finance barriers and a lack of awareness and understanding of finance options within the SME community, the survey found a strong anticipated demand for finance across various products if a recession occurs. This demand was perceived to be strongest for debt finance (86%) as well as for early stage and growth stage equity (68% respectively).

The juxtaposition between intermediaries highlighting strong demand for finance on the one hand, while insufficient supply on the other hand, is an appropriate point to conclude this section. Indeed, these two facets of SME finance markets – supply and demand – are at the heart of the British Business Bank's mission and as such we will continue to simultaneously diversify the funding landscape whilst continuing to provide free education opportunities via our Finance Hub [11] and the events we organise in Scotland.

Acknowledgements

This report, along with its accompanying analysis, was produced by the British Business Bank in collaboration with Scottish Enterprise.

We would like to thank co-authors Martina Tortis, in the British Business Bank's Economics Team, and Susan Nightingale and Barry McCulloch in the British Business Bank's UK Network Team. We would also like to thank our partners Scottish Enterprise, as well as the Diffley Partnership for the fieldwork conducted for this report.

Annex 1:

Question set and variables analysed

Table 2

Question set and variables analysed

Variable name/Survey question	Description
Q1. Is your business currently using any of the following finance options?	Whether the business was using any of the following finance types at the time of the survey: asset finance; business overdrafts; Covid-19 loans; credit cards; grants; invoice financing; other loan products; none of the above.
Q2. What, if any, difficulties or barriers (actual or perceived) have you experienced when accessing finance?	Any access to finance barriers the business had experienced; answers were collected in an open-ended format
Q3. How would you describe the current level of debt in your business?	The extent to which the business regarded their level of debt as manageable at the time of the survey, rated on a 4-point scale from: 1= Very unmanageable to 4= Very manageable. An additional option was provided for businesses that had no debt at the time ("business has no debt").
Q4. Are you likely to require additional financing for your business, during the next 12 months?	Whether the business anticipated a finance need over the 12 months following the survey, including an estimated size range (less than £10k; £10-£50k; £100k to £250k; £250k to £1m; more than £1m).
Q5. What type of finance do you anticipate accessing?	Whether the business anticipated using any of the following finance types to meet their additional financing needs: asset finance; business overdrafts; business loans; credit cards; grants; invoice financing or other working capital product; other.
Q6. What do you plan to use this finance for?	Whether the business anticipated using any of the additional financing accessed for the following purposes: working capital (supplies / operational costs / business development); capital (new equipment / premises / software); investment (research / process improvement / significant maintenance); refinancing or managing existing debt; decarbonising operations/transition to net zero; other.
Q7. How confident are you that you will be able to access additional financing for your business?	Confidence in the business's ability to access the additional financing required, rated on a 4-point scale from 1= Not at all confident to 4= Very confident.
Q8. How do you anticipate your business will perform during the year ahead?	Whether the business anticipated their performance over the 12 months following the survey to fit one of the following categories: grow significantly; grow moderately; remain stable; contract moderately; contract significantly; trade with difficulty; at risk of closure.

Table 2 (continued)

Variable name/Survey question	Description
Local Authority	The local authority in which the business was located at the time of the survey. This information was then used to assign respondents to one of six geographical regions within Scotland: Aberdeen and the North East; Edinburgh and Lothians; Glasgow & Strathclyde; Highlands and Islands; Scotland South; and Tayside, Central and Fife. For further information, see the relevant section of the report.
Number of employees	Range for all part time and full-time employees permanently employed at the business's named location, excluding the respondent (0; 1; 2-4; 5-9;10-19; 20-24; 25-49; 50-249).
Activity group	The business's main sector of operation at the time of the survey, based on the SIC 2007 section classification).
Turnover	Turnover range (less than £200k; £200k-£500k; £500k-£1m; £1m-5m; £5m or more).
When started	The age range of the business at the time of the survey, measured in calendar years (0-2 years ; 2.1-5 years; 5.1-10 years; 10+ years)+
Business structure	The responding business's legal status (sole trader; partnership; limited company).
Gender (respondent)	The respondent's gender (male; female; other).
Gender (management team)	Gender mix among the responding business's Owners/Partners/Directors team (all male, all female, mixed; other).
Ethnic group	The respondent's ethnic group (white; mixed or multiple ethnic groups; Asian or Asian British; Black African, Caribbean or Black British; other ethnic group).

Annex 2:

Methodological caveats

This survey provides a larger sample of responses for Scotland than would be possible to collect via UK-wide surveys (which have bigger constraints in terms of the extent of the fieldwork they can complete in any individual UK Nation and region). As such, it provides unprecedented opportunities to analyse the Scottish SME finance landscape at a very granular level.

Despite this large sample size, the data is still subject to a range of limitations. Firstly, the more granular the analysis, the greater the risk of drawing suboptimal conclusions based on insufficient sample sizes. For instance, disaggregating a question with six answer options across six regions of Scotland can result in the 500 responses being broken down into 36 data points, some or all of which may contain less than 10 responses each. This can make interpretation of the data at such granular levels uncertain.

To help interpretation, we therefore test all of our comparisons for statistical significance (using the Spearman's Rho test) and share this information as appropriate throughout the analysis. We describe comparisons as statistically significant when we can establish (with a reasonable level of confidence) that any differences detected across categories in the survey sample reflects genuine differences in the business population, rather than "noise" from sampling imperfections or other sources of survey bias. This has important implications for navigating report. In particular, charts should always be considered alongside the accompanying commentary and data annotation, since those will clarify which of the differences in values that are visible in the chart are likely to reflect genuine differences in the SME population, and which are not.

A second key limitation concerns the representativeness of the socio-demographic and business characteristics we capture. While the survey has been carefully designed to be as representative of Scotland-based SMEs as possible, the concentration of some characteristics such as turnover, gender and ethnic group in the sample may not be fully aligned with the wider SME population. Sample size and data anonymisation considerations also limited the extent to which we could present meaningful results disaggregated by variables collecting personal sensitive information. For this reason, in the report we take a selective approach to presenting results broken down by these variables, focusing on questions where the data collected met our quality standards (e.g. in terms sample size or statistical significance of correlations).

Caveats also apply to the comparisons with similar surveys from the other devolved nations of the UK. While we have made every effort to collect data in a consistent way across Wales, Northern Ireland and Scotland, there are some slight methodological differences in the design, sampling and administration of each survey, which make it essential for readers to review the "project methodology" section included at the beginning of each report. As a result, we take a cautious approach to comparing results across the three nations, focusing on the broader differences only.

End Notes

1. www.enterpriseni.com/pages/ni-enterprise-barometer
2. See: Economy (investaberdeen.co.uk)
3. See: Visit Moray Speyside - The Official Website for Moray & Speyside
4. The information used in this section is from Invest Glasgow: Invest Glasgow | Invest in Scotland | World Changing Glasgow
5. The information used in this section is from South of Scotland Enterprise: The South of Scotland region (southofscotlandenterprise.com)
6. See: Regions and Nations Tracker 2021 - British Business Bank (british-business-bank.co.uk)
7. Caution is advised when interpreting this finding because of the small sample sizes for this region.
8. See: www.ons.gov.uk/methodology/classificationsandstandards/ukstandardindustrialclassificationofeconomicactivities/uksic2007
9. Defined as accountants, solicitors, business advisers and so on.
10. See: Investment Fund for Scotland
11. See: Finance Hub - British Business Bank (british-business-bank.co.uk)

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