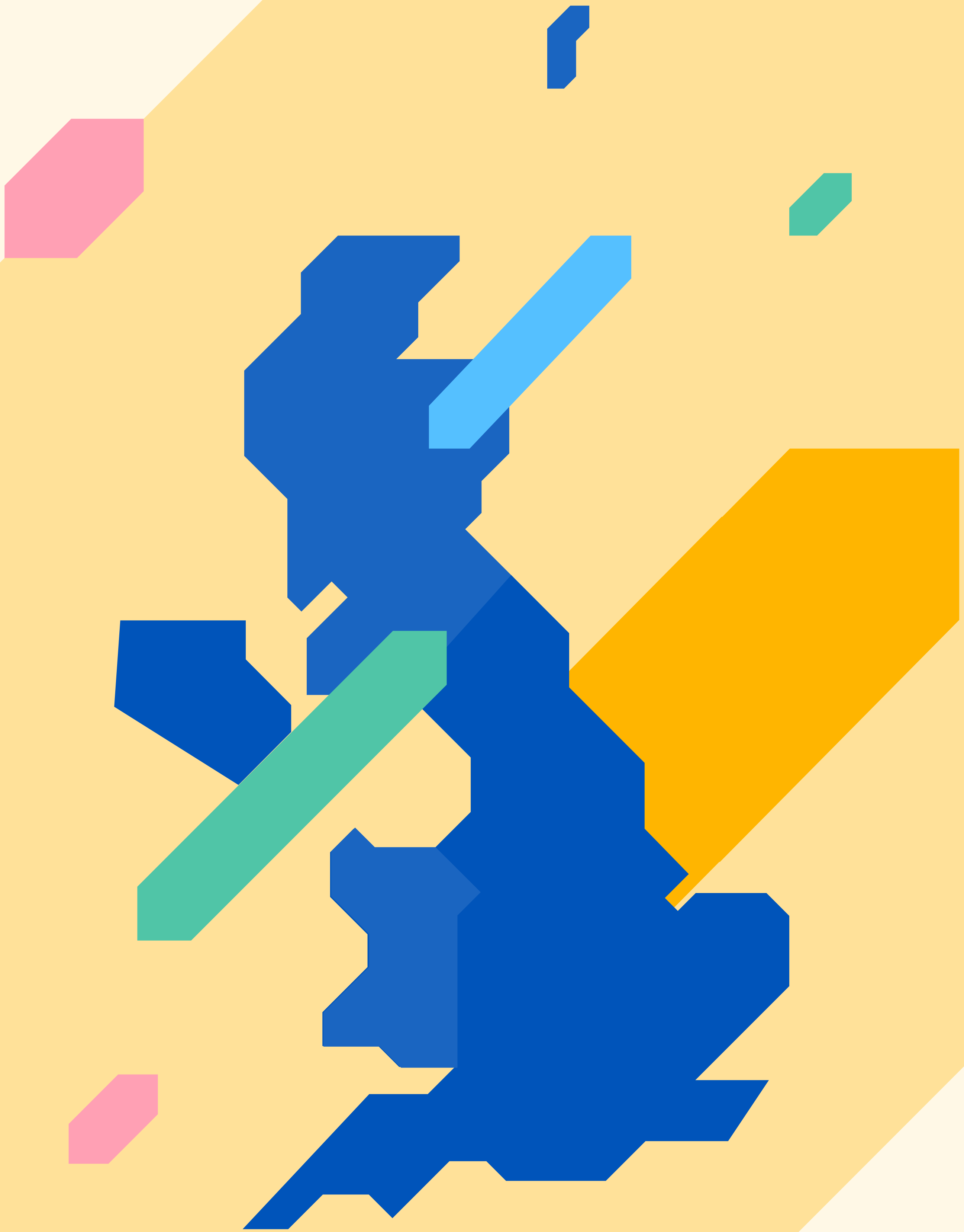


British Business Bank

Nations and Regions Tracker

Small Business Finance Markets 2024

10 years of impact

british-business-bank.co.uk

Contents

Foreword

To drive sustainable growth and prosperity, businesses in every nation and region of the UK need to thrive. The purpose of the British Business Bank is to break down barriers to finance for smaller businesses so that access to finance is a level playing field for all entrepreneurs – whomever they are, wherever they are from.

The British Business Bank's fourth Nations and Regions Tracker presents a snapshot of the UK's small business finance markets, covering the latest developments in the supply and demand of finance across the UK as well as the Bank's own activity outside London and the South East.

The report finds that the proportion of smaller businesses using external finance grew last year, marking a reversal from the decline seen in 2022. Although market conditions remained challenging across the UK Nations and regions for both equity and debt finance, the analysis reveals a rather resilient landscape, with encouraging signs of improvement in the first half of 2024. We will monitor closely these developments as smaller businesses continue to navigate an uncertain outlook.

This report reflects the Bank's vital role as the government's centre of expertise on smaller business finance, as well as our commitment to generating insights that empower us to better help our customers – the UK's smaller businesses – to prosper and grow, no matter who they are or where in the UK they are based. This remains a priority as we continue working with the new Government on its growth agenda, including the setting up of a new investment vehicle that will boost growth and unlock opportunities in growth companies across the UK.

In 2023/24 we achieved a significant milestone by completing the roll out of the next generation of six new Nations and Regions Investment Funds, covering all four Nations of the UK for the first time. Once fully deployed, these funds will bring £1.6bn in dedicated finance to smaller businesses across the Devolved Nations as well as the South West, Midlands and North of England. The Nations and Regions Investment Funds' potential to generate impact is promising, as the six funds build on the proven success of the legacy regional funds, which have been operating successfully since 2017. The two main outcomes we aim to deliver via these new funds are to support businesses with our investments while also building up investment capability across the Nations and regions. We further expect these funds not only to put in place effective support for local business talent, but also to generate attractive returns in the future.

Another noteworthy achievement in 2023/24 was the Start Up Loans programme surpassing the £1bn funding milestone since inception, directly supporting over 105,000 business ideas. This UK-wide programme continues to play a crucial role in helping unlock finance for entrepreneurs throughout the Nations and regions, with 85% of loans going to entrepreneurs outside London.

In addition, our Regional Angels Programme continues to deliver considerable benefits to smaller businesses all across the UK, notably by helping tackle regional imbalances in access to seed and early-stage equity finance. The programme has been successful in increasing the amount of capital available to smaller businesses with high-growth potential through angel networks, with 85% of RAP capital invested into companies based outside of London.

Alongside our investment programmes, the Bank's UK Network also retains an important role in helping us further our regional impact, both by gathering intelligence regarding the challenges affecting smaller businesses across the UK and by nurturing strong engagement and collaboration with local stakeholders.

As the Bank reaches its first ten years of operation, we celebrate these achievements while also looking forward to building on these by becoming even more centred on the needs of our customers and by unlocking institutional investment to companies all around the country.

I hope you find this report informative and will use it to stimulate further discussion from businesses, the finance community and all those with a stake in the UK economy. We look forward to any feedback on how we can best deliver on our UK-wide mission in a way that addresses the specific opportunities and challenges confronting smaller businesses across the Nations and regions.

Louis Taylor
Chief Executive Officer

Executive summary

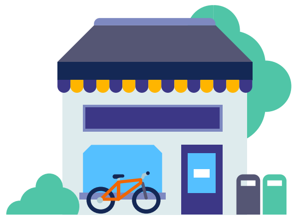
Ensuring that businesses across the UK benefit from access to external finance is crucial to supporting business investment, resilience and productivity in the overall economy. External finance enables businesses to be created, to innovate and grow, or simply to manage the challenges of uncertain trading conditions. As such, it can give entrepreneurs and businesses options they wouldn't otherwise have.

Trends in smaller businesses' external finance use and borrowing intentions in 2023 indicated a tentative recovery across most UK Nations and regions

External finance usage among UK smaller businesses showed a recovery in 2023. Overall, the share of smaller businesses using external finance grew by 10 percentage points to 46%, from 36% in 2022, marking a turnaround from the previous year's decline (by seven percentage points, from 43% in 2021). Wales recorded the highest finance usage (53%) and the largest year-on-year increase on this measure (16 percentage points), while the Midlands, North East, South East, and Northern Ireland also performed well. However, Scotland, Yorkshire and The Humber, and the South West saw below average growth rates in external finance usage.

Amongst all the main finance types, credit cards saw the largest increase in usage between 2022 (11%) and 2023 (17%), followed by bank overdrafts (13% in 2023) and leasing, hire purchase and vehicle finance (12%), though grants and bank loans experienced a downturn. Regional variations included considerable credit card usage growth in the North East and South East, while bank loans saw positive trends in a few areas (the North East, London, the South West, and Northern Ireland) despite a UK-wide decline in usage.

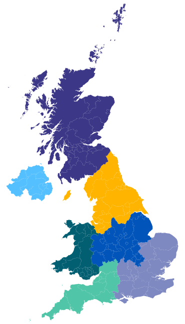
Borrowing intentions in 2023 also suggested a modest improvement in future demand for external finance across most Nations and regions, especially the North East and Scotland, though Northern Ireland and Wales saw a considerable drop in the share of SMEs planning to borrow.



Smaller businesses' broader attitudes to external finance in 2023 reflected cautious optimism in the economy and ongoing challenges

Growing external finance usage in 2023 reflected cautious optimism about the economy among smaller businesses, alongside persistent challenges such as high operational and borrowing costs as well as ongoing economic uncertainty. These challenges may also have reinforced investment disparities across UK Nations and regions, with fewer than half (44%) of businesses pursuing investments between 2021 and 2023, and about a quarter of those that had done so (24%) reporting underinvestment during this period.

Although more businesses were re-engaging with external finance in 2023, uncertainties in the economic environment remained a key barrier to addressing investment gaps and backlogs across the UK, especially in the East of England, Wales and West Midlands. More widely, between 55% and 67% of smaller businesses across the UK (61% overall) still perceived trading conditions as unfavourable on balance in 2023. High input costs continued to constrain cash flow, particularly for businesses outside the South and East of England (76% overall), while many expressed negative perceptions of their probability of success in securing finance as well as difficulty in accessing the required finance on affordable terms.



Geographical differences were driven by variations in businesses' willingness to use finance as well as local trading conditions

Smaller businesses' finance usage patterns across the UK also continued to reflect geographical disparities in underlying business characteristics in 2023. One of these characteristics was their confidence in their ability and skills to secure external finance, which showed variations across the UK. The Bank's 2023 Business Finance Survey indicated that smaller businesses in Northern Ireland were the most confident on this measure (77%), whereas confidence was considerably lower than the UK average (60%) in Scotland (52%) and the South East (53%).

A further relevant characteristic showing location-based variations was whether businesses were innovation active, given the role of external finance in supporting growth-oriented activities. Based on BFS 2023 data, innovation-active businesses are more likely to apply for finance than their inactive counterparts, particularly in England, yet this pattern does not hold in the Devolved Nations. Further exploration is needed to understand the underlying reasons for these differences in finance accessibility across the UK.

Demand for loans & overdrafts from major banks remained subdued in 2023, but the rate of decline had eased across all UK Nations and regions

Data from UK Finance confirms that the geographical distribution of core debt products such as loans and overdrafts from the UK's largest SME lenders is more balanced than other finance types, even though Northern Ireland, Scotland and the North East tend to show higher concentration of this finance type per 10,000 SMEs than other parts of the UK due to the local predominance of sectors with high propensity to use finance (e.g. agriculture, manufacturing). However, focusing solely on regional level analyses may overlook specific access to finance challenges faced by certain types of businesses, such as rural firms and those located in high-deprivation areas.

In 2023, the pressures on smaller businesses from a still difficult trading environment, combined with increased caution from lenders, continued to constrain core lending activity throughout the UK. The number and value of loans and overdrafts secured by smaller businesses from major banks continued to fall in 2023, but the rate of decline seen in 2022 had eased across most UK Nations and regions. By Q1, the volume and value of loans and overdrafts secured by smaller businesses stabilised, reaching (respectively) 21,709 and £3.9bn, after plummeting to a record low during 2022, but remained well below pre-pandemic levels. Only Northern Ireland, Scotland, the East Midlands and Yorkshire and the Humber saw an increase in volume. All other parts of the UK experienced declines (9% overall), albeit at a reduced rate compared to 2022 (55% overall). Their overall value also decreased by 18% in the UK as a whole.

However, H1 2024 shows a more favourable landscape, with a 21% increase on H1 2023 in the volume of approved applications across Great Britain, indicating a tentative improvement in the SME core debt market.

Trends in the use of non-core debt finance options such as asset finance were also encouraging. Based on the Bank's programme data, use of asset finance among smaller businesses in 2023 remained stable and well spread across the UK Nations and regions.

Equity deal numbers declined across all Nations and regions in 2023, though activity was stabilising in H1 2024

UK Nations and regions outside London continue to be largely underrepresented in equity investment. London's dominance in equity funding remained stark in 2023, capturing 49% of the UK's deal count (63% of its total investment value) and showing an average concentration of equity deals and investment value per high growth enterprise (0.5 deals and £3.9m between 2021 and 2023) that dwarfed that of the UK as a whole (0.24 deals and £1.4m).

Some locations outside London, like Scotland and the East of England, show relatively strong performance in generating equity deals, while others, particularly Yorkshire and the Midlands, were lagging, reflecting the continued imbalance in equity funding across the UK. These disparities result from various business and geography-specific factors that go beyond SME concentration alone, including proximity to investors and the local presence of thriving innovation clusters.

The latest available data indicates equity activity remains on a downward trend throughout the UK, though there are promising signs of recovery. In 2023, equity deal activity declined across all UK Nations and regions, with London experiencing a significant drop in both the number and value of deals of 28% and 48%, respectively. Outside London, deals fell by 22% overall, but Wales (-8%) and the East Midlands (-9%) fared slightly better. Only Wales saw the total investment value of local equity deals increase by 23% (due to a few high-value deals), while this continued falling in all other Nations and regions of the UK. Seed stage activity in particular was more significantly impacted in areas outside London, which saw a 35% decrease in the number of deals at this stage and a 36% decrease in their total value in 2023 (compared with 25% and 26% in the capital, respectively).

In the first half of 2024, the data suggests a continued decline in deal volumes and values in most areas of the UK, though there are further signs of stabilisation. Equity funding for smaller businesses rose by 7% in Q1 2024 compared to Q1 2023, despite a 16% drop in overall deal numbers. This growth continued in Q2 2024, particularly in London, while other parts of the UK saw less substantial increases. While deal volumes still displayed mixed trends across the UK this year, the North East and Scotland performed particularly well on this measure in H1 2024 overall, experiencing an increase of 7% and 6% (respectively) in the number of deals relative to H1 2023.

The British Business Bank continues to drive significant impact through programmes that benefit smaller businesses outside London

In 2023, the British Business Bank continued to invest in programmes that remain crucial in helping smaller businesses across the UK access both debt and equity finance, especially during challenging economic conditions. Our recently published Impact Report shows that 84% of the businesses supported by the Bank in 2023 have been outside of London (19,400 businesses), and 59% of the overall additional jobs created are also expected to benefit other Nations and regions.

The Bank's geographically-focused funds, which include the £1.6bn Nations and Regions Investment Funds (NRIF) and their predecessor programmes (NPIF I, MEIF I and CIoSIF[1]) provide the most significant contribution to bridging access to finance gaps across the UK. Via these programmes, the Bank invested £152m in debt finance and £236m in equity finance during 2023, for an overall total investment of £388m benefitting hundreds of companies based outside the capital.

The positive impact of the Bank's geographically-focused funds on regional equity markets has also been complemented by the £441m in investments facilitated by the Regional Angels Programme in 2023, while regional debt markets further benefitted from the wide reach of other UK-wide Bank programmes, such as Start-Up Loans (SUL). In financial year 2023/24 the Bank's SUL programme awarded nearly £125m in loans to 9,776 entrepreneurs – of whom 85% were based outside London – and celebrated its first unicorn.

Although it's early to assess the full impact of the six new funds deployed via NRIF, their broader geographic reach – covering all four Nations of the UK for the first time – and the evidence of the positive impact achieved by the three previously established regional funds they build on suggests they have the potential to make a significant contribution to reducing barriers to finance for smaller businesses across the UK.

Introduction

This is the Bank's fourth annual Nations and Regions Tracker, designed to complement our flagship Small Business Finance Markets report with analysis that illuminates the geographic patterns seen in UK small business finance.

Our understanding of small business finance markets across the UK draws on both the latest available data and the intelligence we obtain through our UK Network and as an active participant in finance markets.

This knowledge base is central to being the centre of expertise on smaller business finance markets for government. It is also used to shape our business plan and in the design of our programmes and products. As such, it informs our objective of Unlocking Potential: unlocking growth by ensuring entrepreneurs can access the finance they need regardless of where and who they are.[2]

Structure of the report

The report is divided into three chapters. **Chapter 1** presents an overview of finance markets in the Devolved Nations and regions of the UK, utilising industry data and our own management information to give as complete a picture as possible. The overview explains which forms of finance are most used across the UK and delves into some of the geographic imbalances and recent trends in usage we see.

Chapters 2 and 3 provide more in-depth analysis on, respectively, debt and equity finance markets, highlighting recent trends in smaller businesses' use of these forms of finance across the UK Nations and regions.

As a complement to the main report, we have produced bespoke briefings for the Devolved Nations and regional factsheets for the nine English regions. These set out for each Nation and region in the UK the data points needed to understand finance markets in that location and provide an overview of how these have changed since our third report.

Throughout the report, we refer interchangeably to businesses with 0-249 employees as 'smaller businesses' or 'Small and Medium Enterprises (SMEs)', depending on the context and the definition provided in the data source.

1

Nations and regions market overview

- External finance use among smaller businesses recovered in 2023 across most UK Nations and regions
- Use of credit cards and bank overdrafts saw the largest increase, whereas use of grants and term loans continued to decline throughout the UK
- Borrowing intentions also suggest future demand for finance has slightly improved across most UK Nations and regions
- Smaller businesses' finance attitudes reflect cautious optimism in the economy, but also ongoing challenges across the UK Nations and regions
- Business characteristics – such as innovation activity and knowledge/capacity to access external finance – contribute to geographical differences in external finance usage

External finance use among smaller businesses recovered in 2023 across most UK Nations and regions

External finance use among UK smaller businesses was trending upward in 2023, peaking in the third quarter (Q3) at 54%, and falling back slightly to 49% in Q4 (Figure 1.1). Usage rates rose by 10 percentage points (ppts) overall, from 36% in 2022 to 46% in 2023, reversing the sharply declining trend observed in the previous year (by seven ppts, from 43% in 2021).

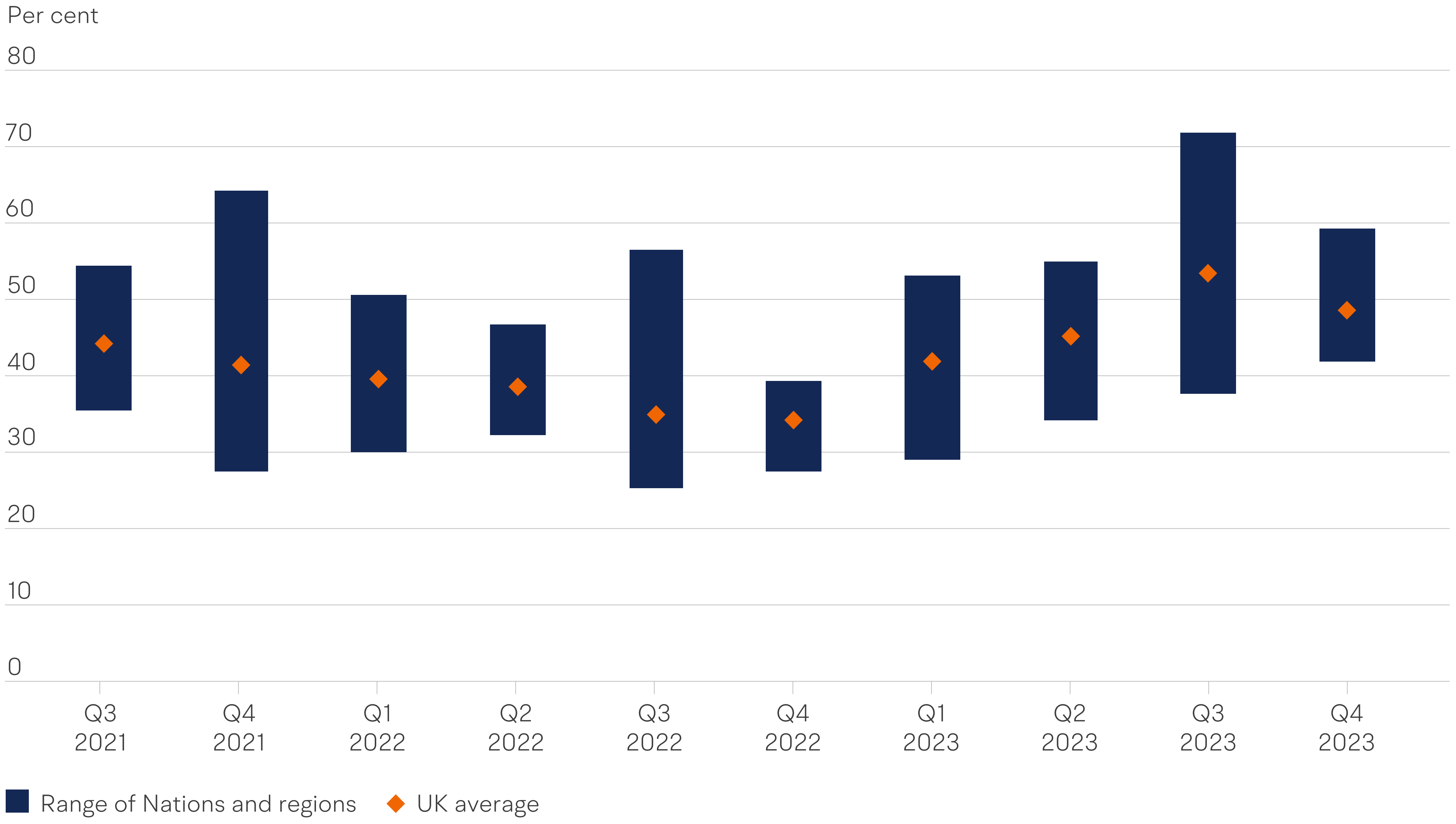
The regional trends for this measure consistently showed a stable or upward trajectory (Figure 1.2).

Wales had the highest use of external finance of all UK Nations and regions in 2023 (53%) and experienced the largest increase on this measure (16 ppts) from the previous year. External finance usage rates also grew faster than the UK average in five other Nations and regions, namely the West Midlands (14 ppts), the East Midlands, Northern Ireland (both 13 ppts), the North East and the South East (both 12 ppts).

Figure 1.1

Proportion of smaller businesses currently using external finance

Source: British Business Bank analysis of UK Finance/BVA BDRC SME Finance Monitor, (unweighted quarterly n=3,888–4,595)



In contrast, Scotland (46%), Yorkshire and The Humber (44%) and the South West (45%) still saw their share of smaller businesses using external finance increase, but by less than the UK average over this period. The East of England was the only region that did not see growth on this measure compared to 2022 (41%); usage rates in this region had proven particularly resilient in the previous year relative to all other parts of the UK, which might explain the lack of a rebound.

Figure 1.2

Proportion of smaller businesses using external finance by UK Nation and region: 2023 value and % change from 2022

Source: British Business Bank analysis of UK Finance/BVA BDRC SME Finance Monitor (unweighted n=17,002 for 2022; 17,010 for 2023)

Nation/Region	Proportion of smaller businesses using external finance (2023)	Change from 2022 (percentage points)
Wales	53%	16
North East	52%	12
Northern Ireland	51%	13
West Midlands	49%	14
East Midlands	48%	13
South East	47%	12
Scotland	46%	8
London	45%	10
South West	45%	8
North West	45%	10
Yorkshire and the Humber	44%	6
East of England	41%	-
UK	**46%**	**10**

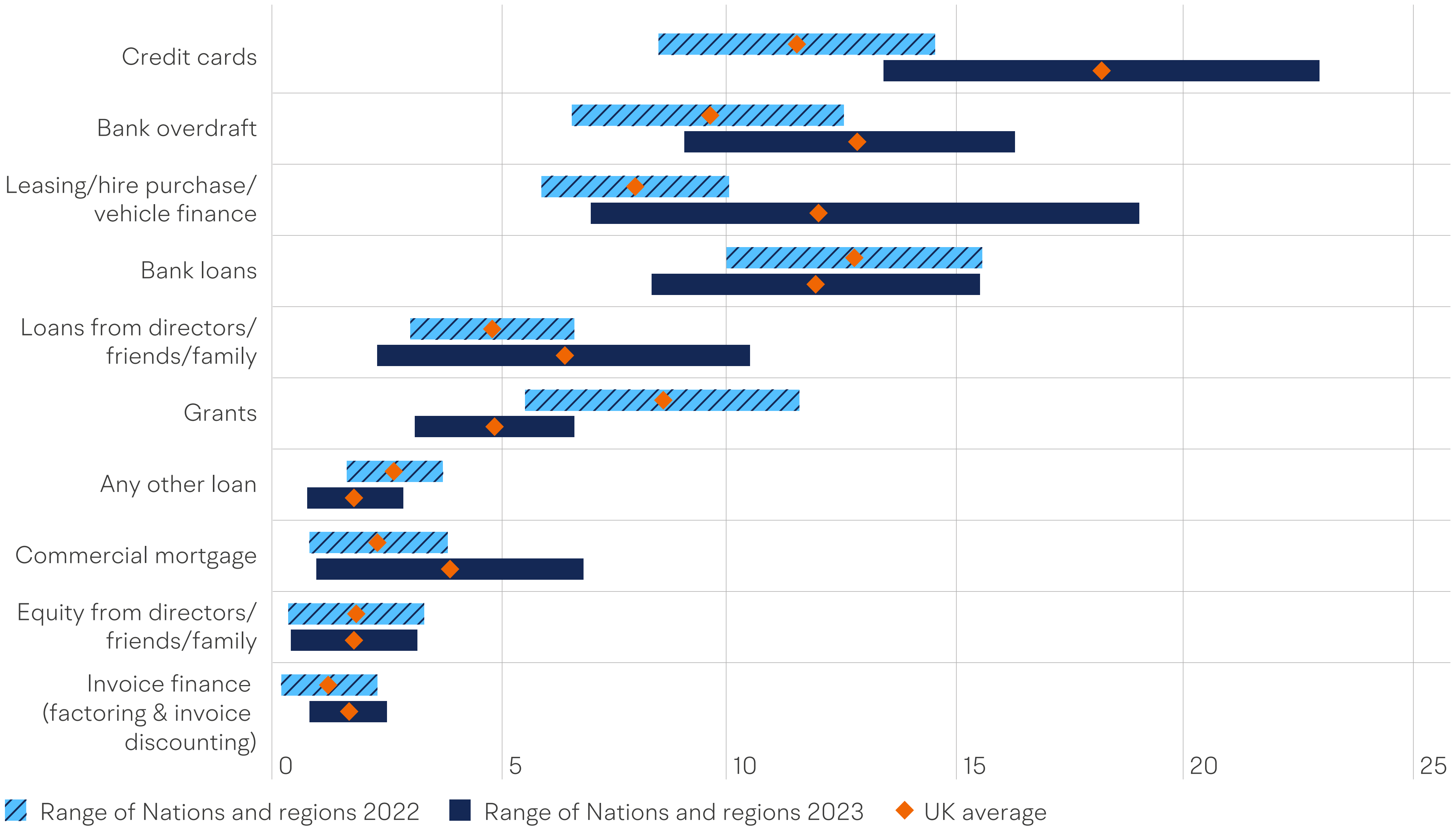
Use of credit cards and bank overdrafts saw the largest increase, whereas use of grants and term loans continued to decline throughout the UK

The trends for different types of finance generally reflect the overall improvement in smaller businesses' external finance usage between 2022 and 2023, although with some exceptions (Figure 1.3). Credit cards saw the largest increase in usage rates at the UK level (6 ppts), and were also the most used form of funding over the period (17%), followed by bank overdrafts (13%). The third most frequently used type of finance among smaller businesses was leasing, hire purchase and vehicle finance (12%), which in 2023 overtook bank loans (11%). Most other finance types saw stable usage rates at the UK level. However, some deviated from this positive trend, with grants and bank loans experiencing a decline of 5 and 1 percentage points respectively.

Figure 1.3

Use of external finance by type, 2022-2023

Source: British Business Bank analysis of UK Finance/BVA BDRC SME Finance Monitor (unweighted n=17,002 for 2022; 17,010 for 2023)



Regional trends in smaller businesses' use of different finance types showed some variations as well. Credit card use grew most significantly in the North East and South East, increasing by 11 ppts (to 23% and 21% in 2023 respectively), while growth was modest in Scotland, Northern Ireland (3 ppts to 15% and 16% in 2023 respectively) and the East of England (2 ppts to 17% in 2023). Although use of bank loans generally declined among SMEs across the UK, it was on a positive trajectory in four Nations and regions including the North East, London, the South West and Northern Ireland.

In addition, some Nations and regions stood out for their notable shifts in the usage of certain types of finance. For instance, the most significant growth in usage of bank overdrafts among smaller businesses occurred in Wales (6 ppts, to 16% in 2023) the West Midlands and the South East (5 ppts, to 16% and 15% in 2023 respectively). The North East experienced the largest increase in use of leasing, hire purchase and vehicle finance (11 ppts, to 19% in 2023), with the East Midlands also seeing notable gains (5 ppts, to 14% in 2023). Conversely, use of grants saw a marked decrease especially in the East of England (-8 ppts to 4% in 2023) and in Scotland (-7 ppts to 5% in 2023), although all Nations and regions reported a decline of at least 4 ppts.

Borrowing intentions also suggest future demand for finance has slightly improved across most UK Nations and regions

The overall uptick in smaller businesses' demand for external finance was also broadly reflected in their borrowing intentions, although the improvement in this data was far less stark.

In 2023, the proportion of smaller businesses that self-described as future happy non-seekers of finance (i.e. businesses that did not need to borrow (more) or already had the facilities they needed) was either declining or stable across every Nation and region of the UK except Northern Ireland where it grew by 10 percentage points, signalling there were proportionally more businesses contemplating the use of finance in most Nations and regions relative to the previous year (Figure 1.4).

Meanwhile, most parts of the UK also saw the proportion of SMEs planning to borrow/renew in 2023 hold steady or rise, particularly in the North East and Scotland where this share increased to 11% (from 7% in 2022). There were however two exceptions to this trend – Northern Ireland and Wales, where this proportion fell noticeably (from 15% and 10% respectively to 5%) over the same period.

In addition, the proportion of would be seekers of finance (i.e. businesses that reported they might need finance, but felt there were barriers that would stop them applying to borrow (more)) among UK smaller businesses (19%) was 5 ppts higher than in the previous year at the UK level and had grown in all UK Nations and regions from 2022, except in Northern Ireland and the West Midlands (both at 19%), where it had remained stable.

The trends revealed by other data also suggest caution in managing finances was as prevalent in 2023 as it was the year before, at the height of economic uncertainty. For instance, the proportion of smaller businesses agreeing that they would be happy to use external finance in order to grow and develop was only marginally higher in 2023 (33%) than in 2022 (31%) at the UK level, and even slightly declining in the West Midlands and Wales.[3]

Smaller businesses' finance attitudes reflect cautious optimism in the economy, but also ongoing challenges across the UK Nations and regions

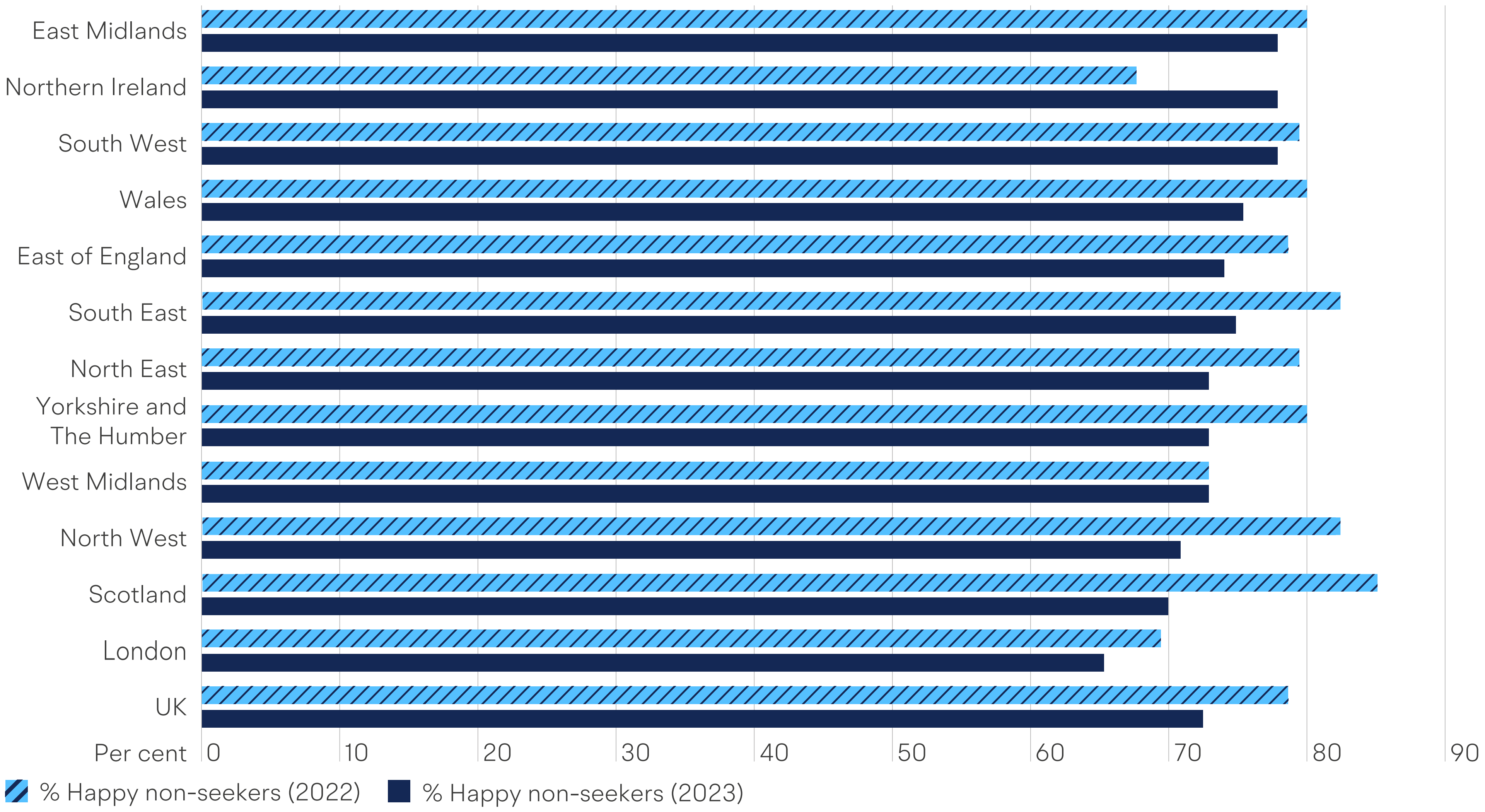
Reducing barriers to external finance across the UK is essential for unlocking business investment, especially in the wake of the economic turbulence experienced by businesses in the aftermath of the Covid-19 crisis. As covered in the Bank's latest Small Business Finance Markets[4] report, the high cost of borrowing and ongoing uncertainty about the UK economic outlook continued to hinder smaller businesses' demand for finance (particularly loans) in 2023.

Economic uncertainty makes it harder for businesses, particularly the smaller ones, to commit to growth-oriented investments and pursue ambitious long term objectives. However, these pressures do not affect all smaller businesses equally. Factors such as business location, sector and other characteristics can influence the extent to which a business is exposed to difficult trading conditions and its propensity to invest in maintaining or enhancing its competitiveness in those scenarios.

Figure 1.4

Smaller businesses self-describing as future happy non-seekers of finance, 2022-2023

Source: British Business Bank analysis of UK Finance/BVA BDRC SME Finance Monitor (unweighted n=17,002 for 2022; 17,010 for 2023)



A 2023 joint survey by DBT and the Bank of England provides insights into smaller businesses' investment patterns over the 2021-2023 period, revealing notable geographical variations (Figure 1.5). In 2023, fewer than half in all Nations and regions except the South West and the West Midlands had made any investments over the preceding three years. Of those, around a quarter (24%) felt they had not invested enough over the same period, peaking in London (34%), Yorkshire and The Humber (32%) and Wales (30%).

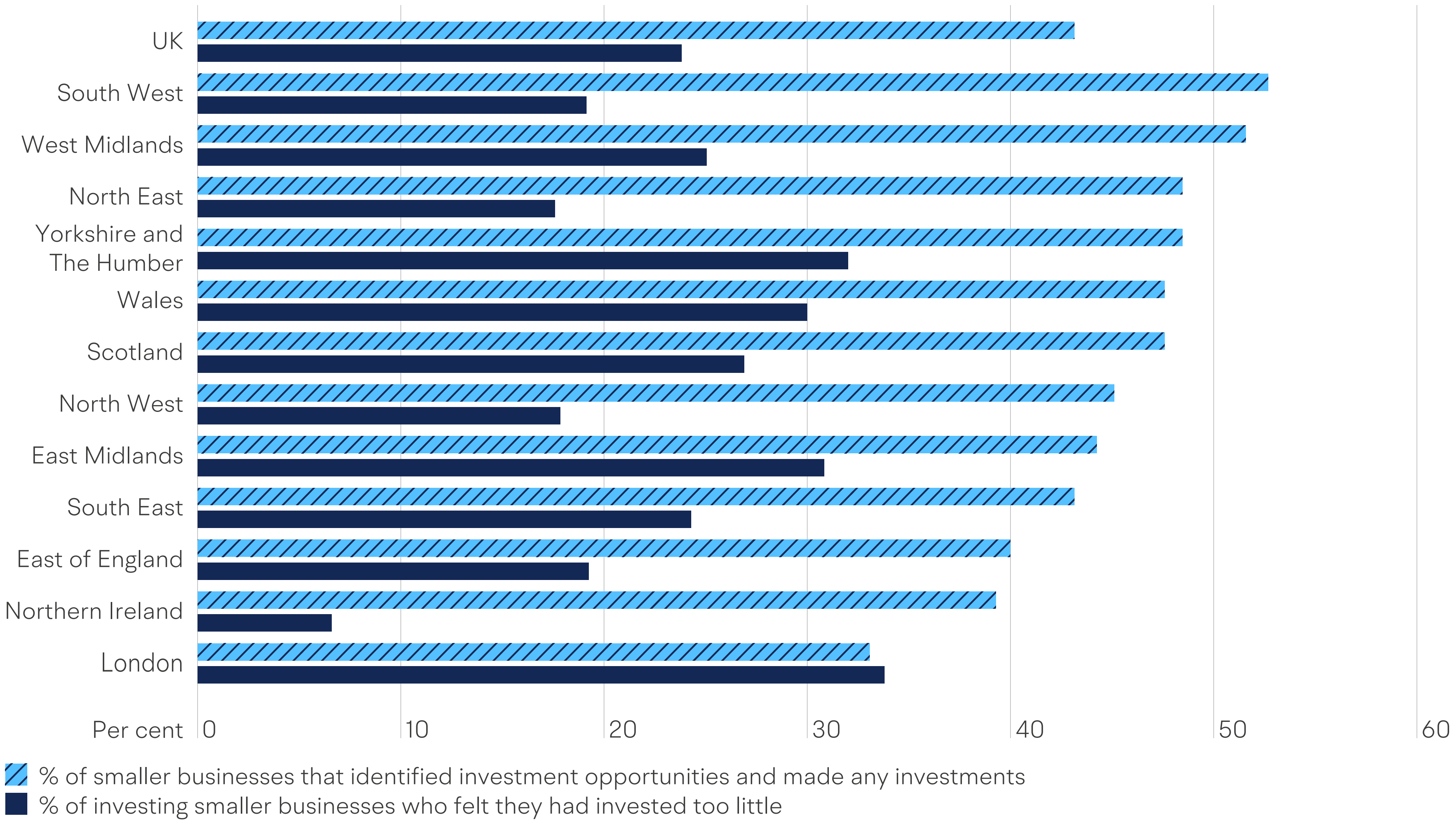
With the relative stabilisation of the economic outlook over the past year or so, it is not surprising that more smaller businesses have been seeking to make investments that they were unable to afford in previous years, and increasing numbers might have sought to cover these requirements by accessing external finance in 2023. However, there were also signs that this cautious optimism among smaller businesses could have been influenced in part by remaining challenges and uncertainties in their economic outlook.

The evidence from the DBT/BoE survey shows that uncertainty in the economic environment remained a concern for investing businesses in 2023, with this being expressed as the single biggest barrier to investment for

Figure 1.5

Selected smaller businesses' investment patterns in 2023 by UK Nation/region

Source: British Business Bank analysis of DBT/BoE Finance and Investment Decisions Survey 2023 (unweighted n=2,845;1,353)



nearly 15% of businesses across the UK that believed they had underinvested over the preceding three years (Figure 1.6). Notably, the East of England and the West Midlands reported rates well above the UK average, with 28% and 23% of businesses, respectively, citing this issue. Among the Devolved Nations, a fifth or more businesses in both Wales and Scotland expressed this view, highlighting the widespread nature of such uncertainty.

Smaller businesses' views of the trading environment marginally improved in 2023, in step with the easing of inflationary pressures that marred the previous year.[5] However, on the whole, most smaller businesses in the UK (61%) believed current trading conditions offered relatively more threats than opportunities, with around two thirds sharing this sentiment in the South West, Wales, Northern Ireland and the North East (Figure 1.7). Businesses in Yorkshire and The Humber, the Midlands and the East of England displayed a slightly more optimistic outlook, but were still more likely to perceive threats as outweighing opportunities overall.

Figure 1.6

Uncertainty about the economic environment as an investment barrier for smaller businesses in 2023

Source: DBT/BoE Finance and Investment Decisions Survey 2023 (unweighted n=624)

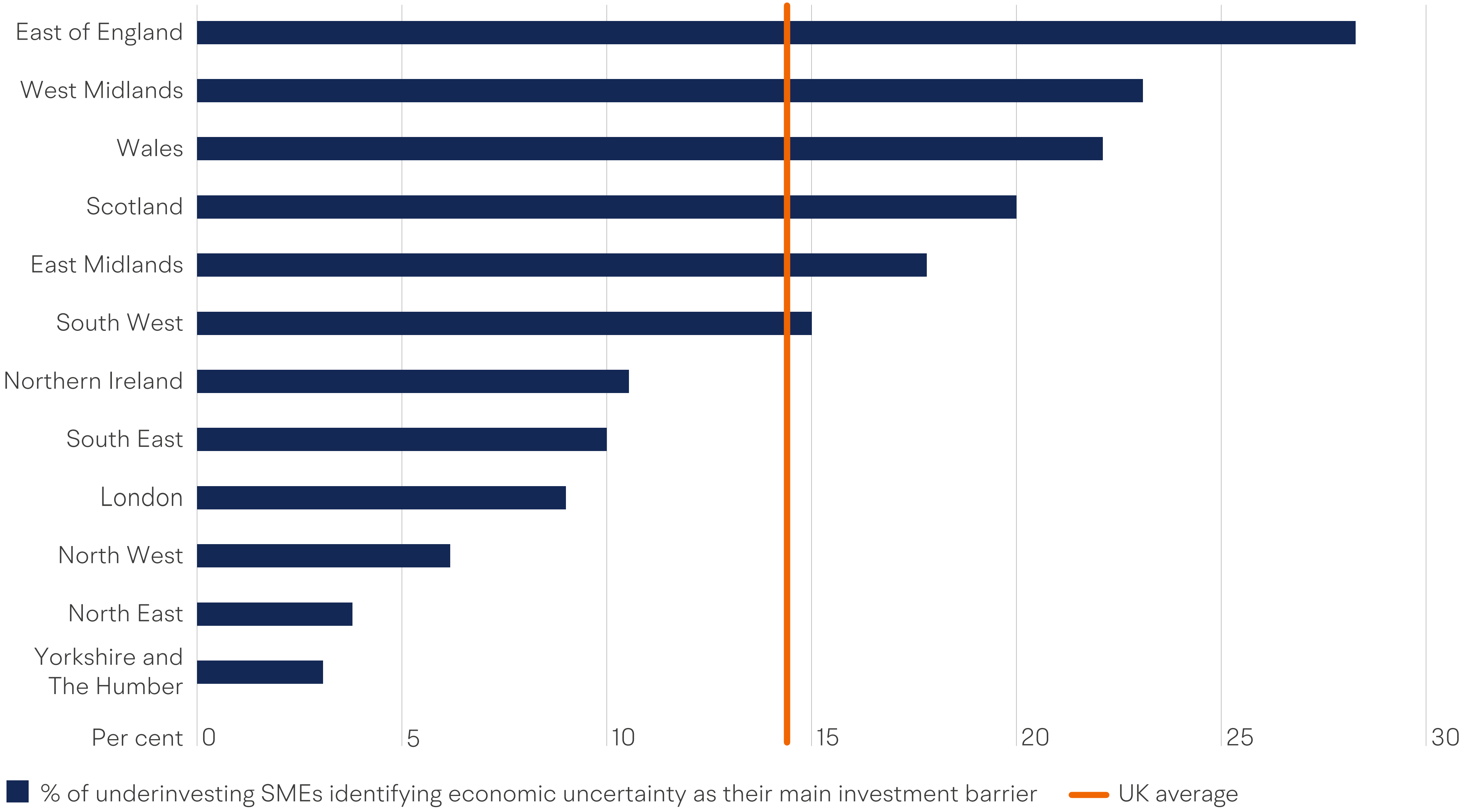
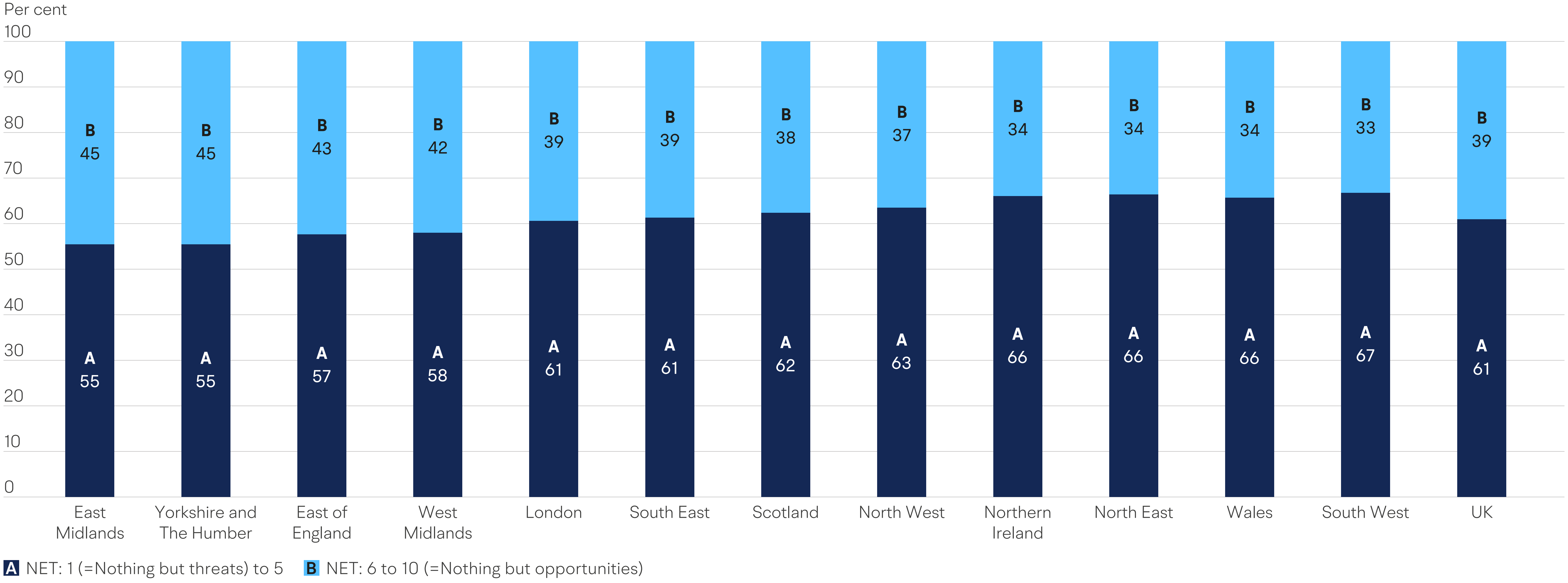


Figure 1.7

Smaller businesses' perceptions of threats and opportunities in the trading environment in 2023

Source: British Business Bank analysis of UK Finance/BVA BDRC SME Finance Monitor (unweighted n=17,010)



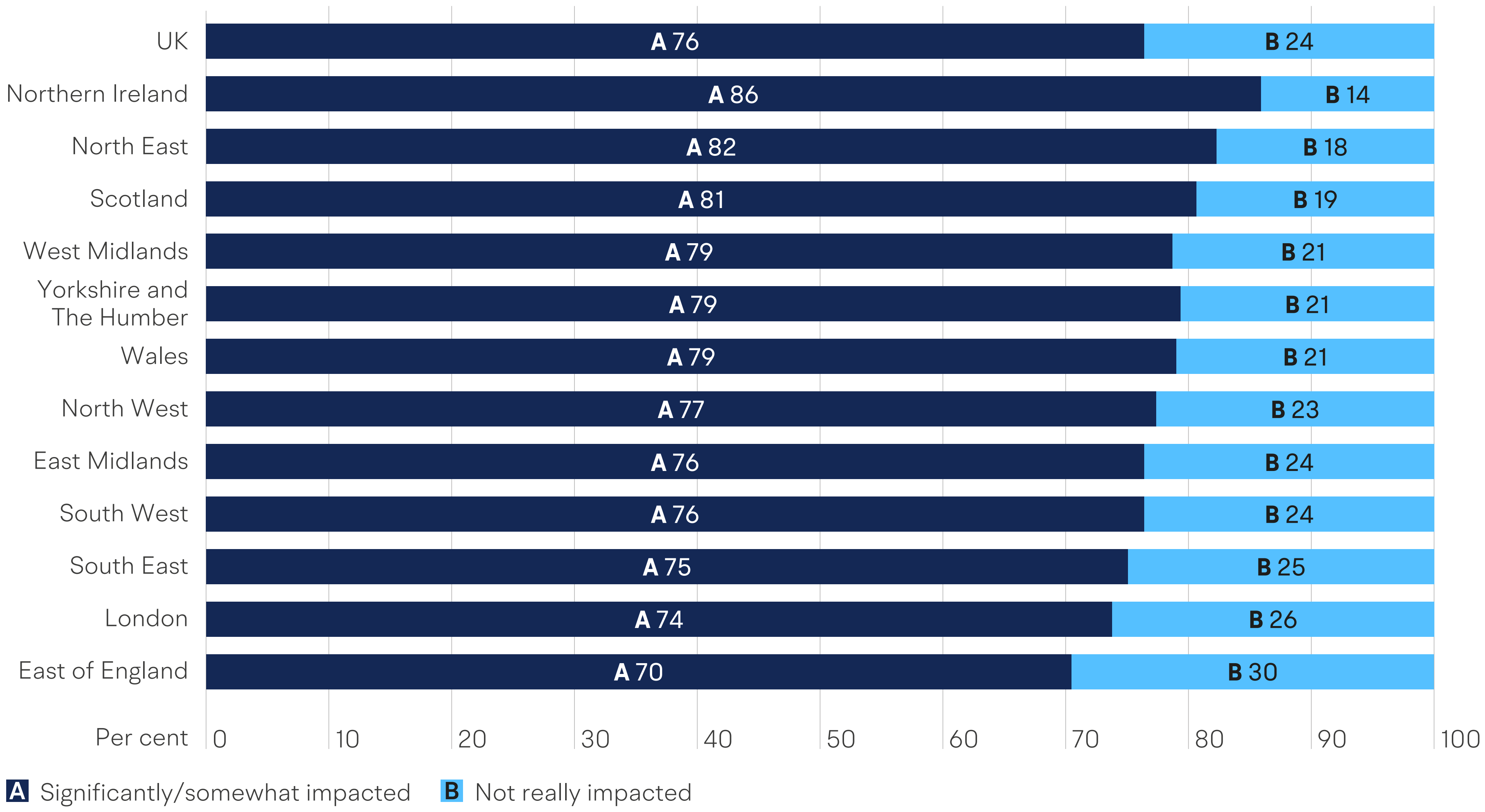
There is also evidence that high input costs may have continued to strain the cash flow of many smaller businesses in 2023, particularly those located outside the South and East of England. According to data from the SME Finance Monitor, in that year a considerable share of businesses across the UK (76% overall) still felt that they were affected by costs increases in recent months, and those in the Midlands, North of England and the Devolved Nations were the most likely to express this view (Figure 1.8). Although the working capital needs of smaller businesses remained elevated in 2023,[6] the ongoing high cost pressures seem to have had a dampening effect on growth in the overall demand for finance.

According to recent input price inflation data, cost pressures have continued to affect producers throughout the UK into the current year. Annual producer price inflation (PPI) for inputs in June was down by 0.4% from the previous month, but despite falling for the 13th consecutive month, it remained much higher than in early 2021.[7]

Figure 1.8

Smaller businesses impacted by rising costs over recent months in 2023

Source: British Business Bank analysis of UK Finance/BVA BDRC SME Finance Monitor (unweighted n=17,002 for 2022; 17,010 for 2023)

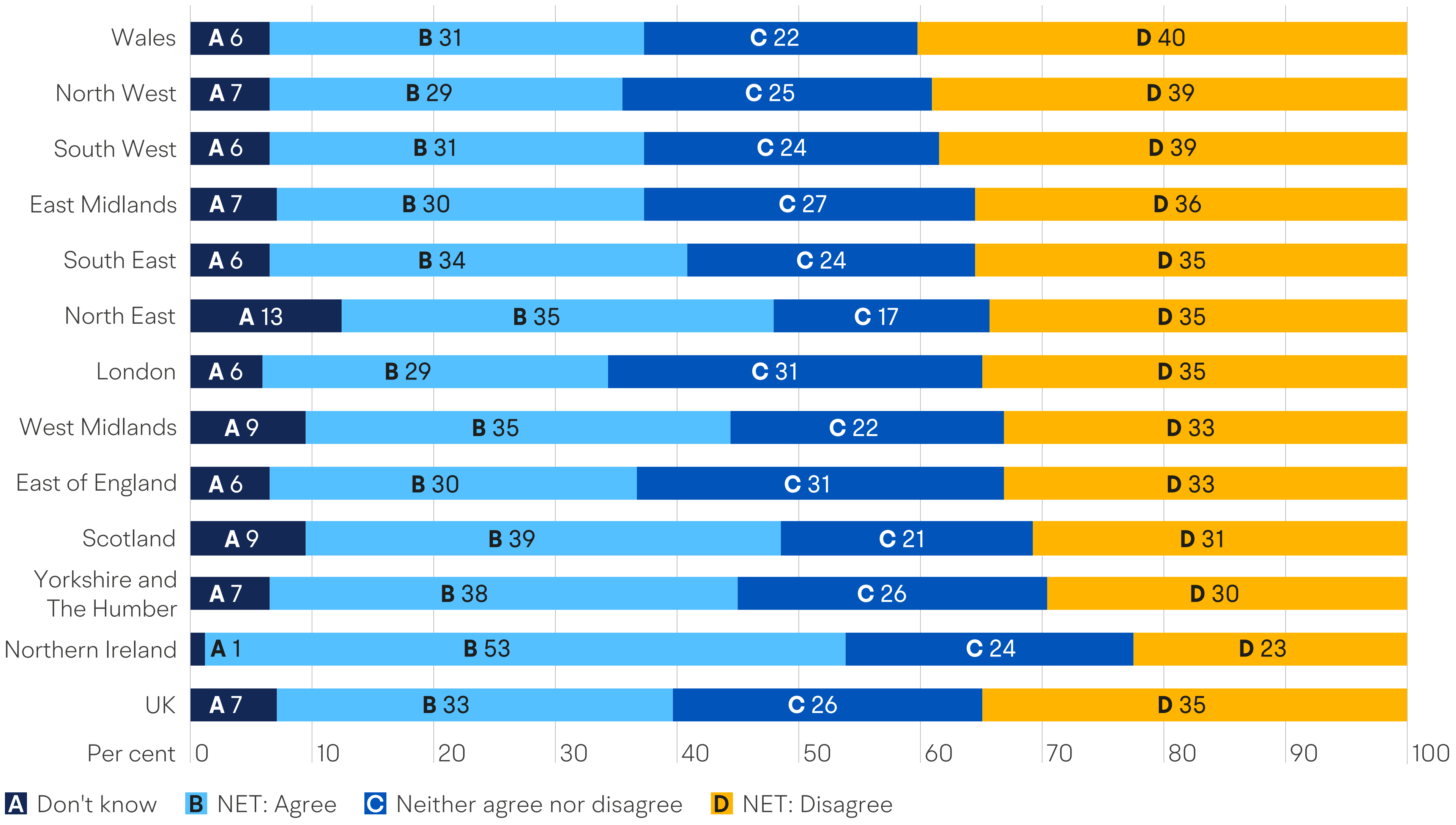


These concerns about the economic outlook continued to shape smaller businesses' perceptions of their ability to access external finance to different degrees across the UK, particularly debt products. Wales, the North West and the South West stand out due to their relatively high share of smaller businesses (around 4 in 10) that felt they would not be able to access the finance they needed at a reasonable rate of interest (Figure 1.9). Similarly, there are parts of the UK – notably Wales, Scotland and London – where 1 in 5 or more smaller businesses were reluctant to seek external finance because they believed their application would be rejected (Figure 1.10). Northern Ireland stands out for having the highest confidence levels on this measure in 2023; according to similar data previously collected for the Bank's Devolved Nations survey, confidence in obtaining finance was similar (51%) among Northern Irish smaller businesses in 2022, suggesting relatively high performance is a more persistent feature of that particular finance ecosystem.[8] Chapter 2 illustrates in more detail how these perceptions are reflected in the supply and demand for core debt finance across the UK.

Figure 1.9

Smaller businesses agreeing they could borrow as much as they needed at a reasonable rate of interest in 2023

Source: British Business Bank analysis of DBT/BoE Finance and Investment Decisions Survey 2023 (unweighted n=2,845)



Business characteristics – such as innovation activity and knowledge/capacity to access external finance – contribute to geographical differences in external finance usage

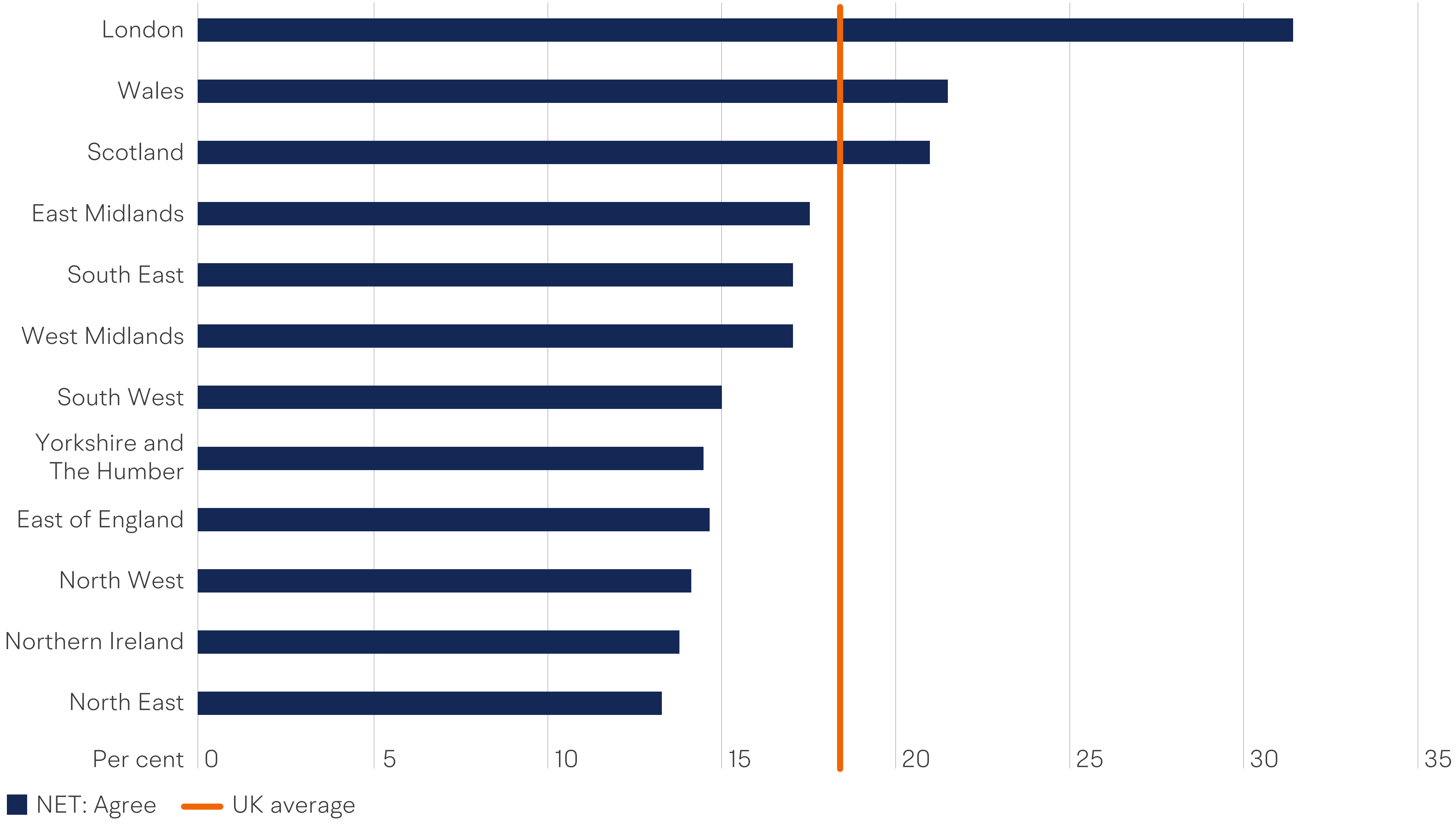
Smaller businesses' perceptions of their ability to access the finance they need on affordable terms are influenced not only by broader economic context, but also by more embedded business characteristics that shape their willingness and capacity to navigate finance options. While many businesses may feel indifferent or pessimistic about securing affordable finance due to their current performance and/or the prevailing borrowing conditions, others might fail to engage due to a more permanent capacity issue i.e. a lack of the necessary knowledge and skills.

According to the Bank's latest Business Finance Survey, smaller businesses' confidence in their ability and skills to obtain external finance can vary substantially across the UK (Figure 1.11). Smaller businesses in Northern Ireland displayed the highest confidence levels. Similarly, Wales (which had the highest use of external finance in 2023), the East of England and Yorkshire and The Humber also ranked relatively high on this measure. In contrast, although slightly more than half of smaller businesses

Figure 1.10

Smaller businesses agreeing they did not apply for finance because they expected a rejection in 2023

Source: British Business Bank analysis of DBT/BoE Finance and Investment Decisions Survey 2023 (unweighted n=2,845)



in Scotland (52%) and the South East (53%) felt confident in their ability and skills to obtain finance, their overall confidence levels were much lower than in the aforementioned Nations and regions, as well as the UK average.

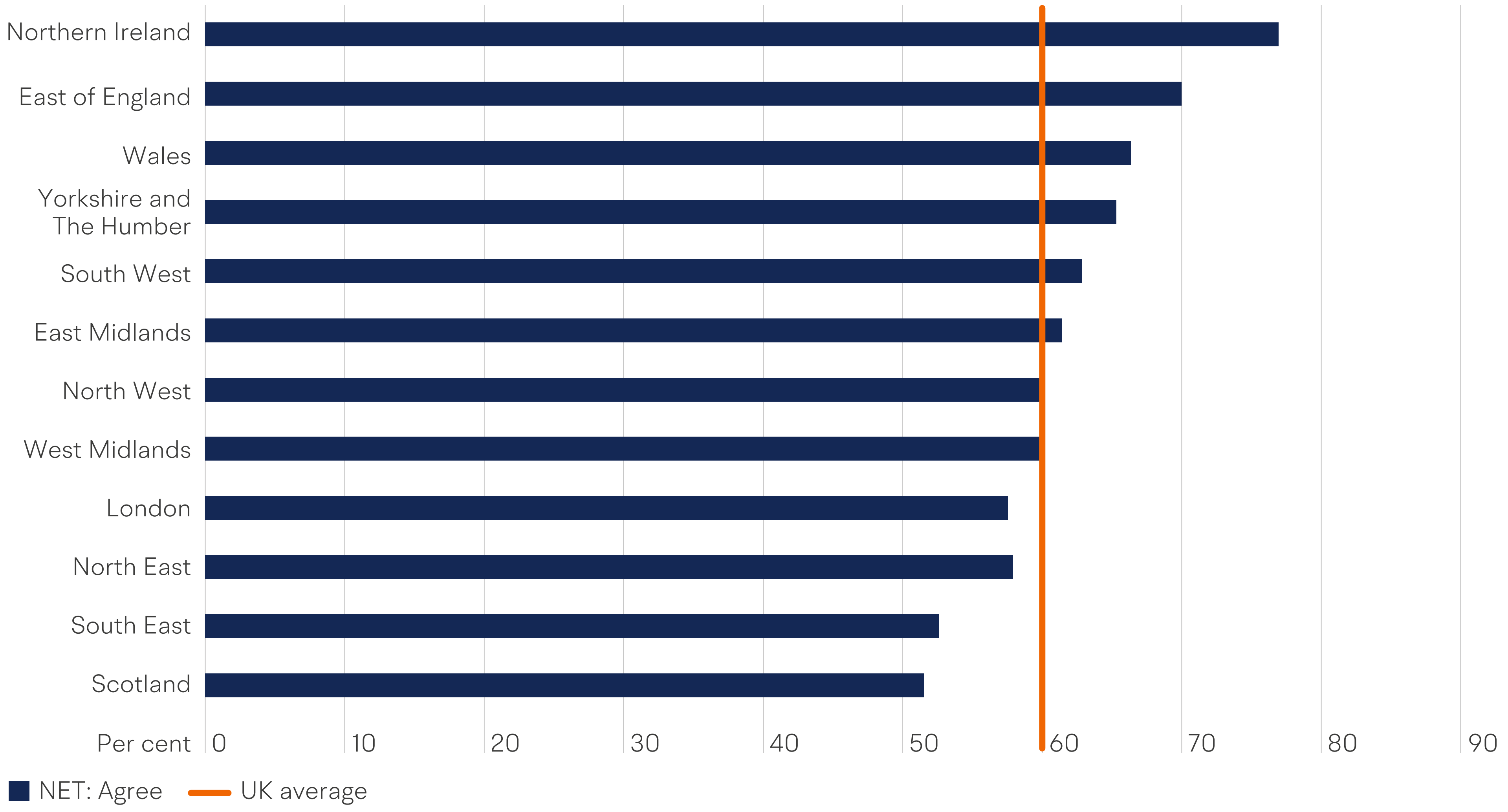
Various business characteristics contribute to variations in external finance attitudes and capacity across the UK. These encompass a wide combination of factors that may differ based on location, including their predominant business activity sectors and the markets those businesses serve, affecting their inclination to engage in growth-oriented activities. One of these is innovation activities, which often require support via external finance. The Bank's latest Business Finance Survey gathered information on respondents' innovation activity, facilitating a comparison of attitudes towards external finance between those that are innovation active and those that are not.

The survey suggests that in 2023, innovation-active businesses were generally much more likely to have applied for finance in the previous three years compared with their innovation-inactive counterparts (Figure 1.12), with 58% of the former reporting this compared to 36% of the latter. This trend was consistent across

Figure 1.11

Proportion of smaller businesses that reported feeling confident in their ability and skills to obtain external finance in 2023

Source: British Business Bank Business Finance Survey 2023 (unweighted n=822)



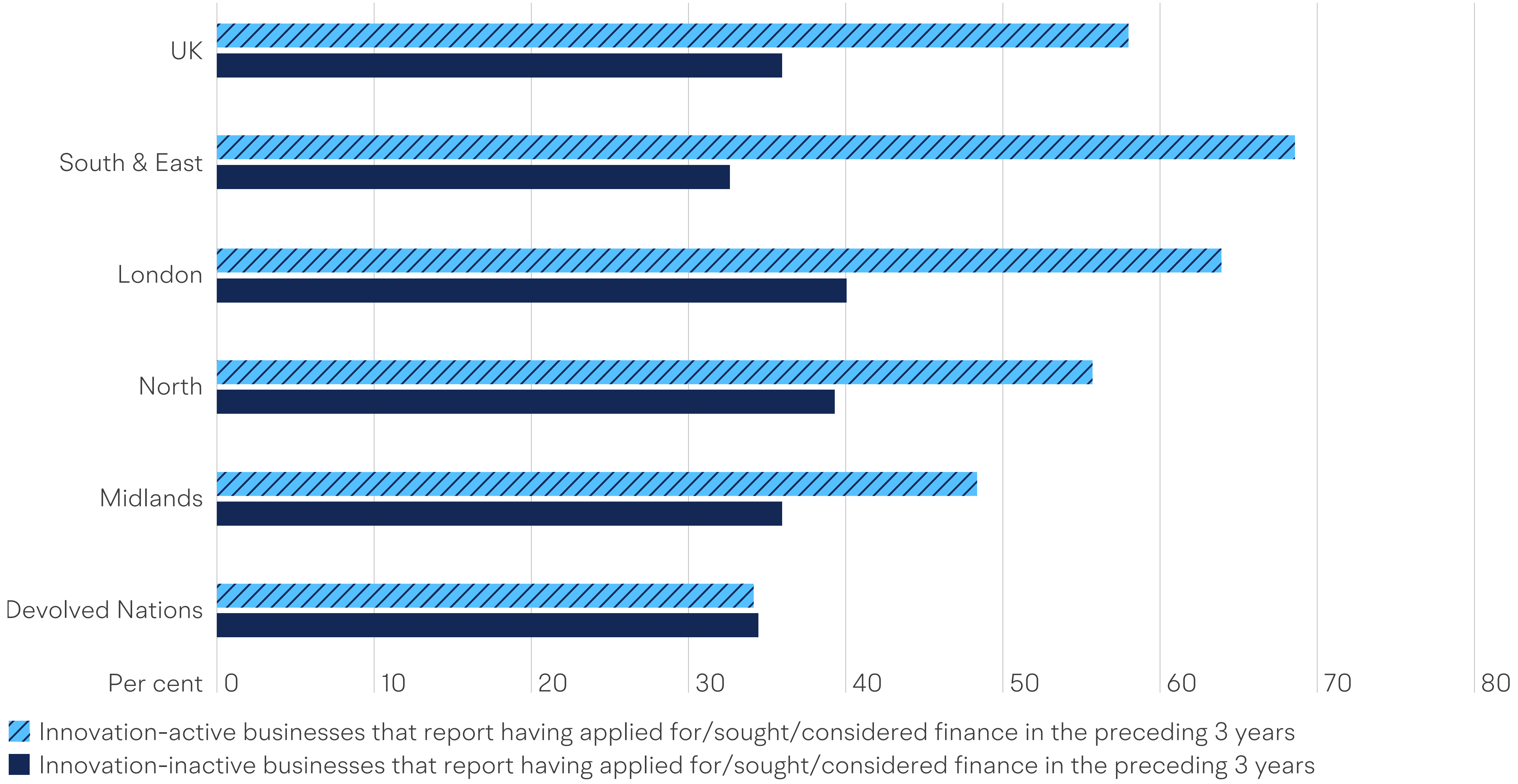
England, with the largest difference observed in the South and the Eastern regions. Nevertheless, the share of smaller businesses that had recently engaged with external finance were virtually the same between innovation active and inactive businesses in the Devolved Nations (34%), highlighting a different dynamic there. It would be worthwhile exploring whether this different dynamic in Scotland, Wales and Northern Ireland is simply shaped by other business characteristics, or by specific barriers that innovation-active businesses face in those locations.

Differences related to the size composition of businesses in different locations could partially explain this anomaly. For instance, a recent report from the Enterprise Research Centre found that smaller firms, comprised of micro and small businesses, were more inclined to use internal funds to support innovation, at a rate of 66% and 73% respectively.[9] On the contrary, larger firms demonstrated greater preference for a wider range of sources, notably loans and equity finance. Regarding the latter, there was a particularly marked disparity in usage rates, as more than 12% of larger firms utilised equity as opposed to between 1-3% of smaller firms, thereby highlighting its disposition towards more established businesses.[10]

Figure 1.12

Proportion of smaller businesses that reported having engaged with finance in the last three years by innovation activity in 2023

Source: British Business Bank Business Finance Survey 2023 (unweighted n=571 for innovation-inactive businesses; 249 for innovation-active businesses)



2

Nations and regions debt market trends

- Regional finance flows are more balanced for debt than for other finance types, but localised shortages can arise
- Demand for loans and overdrafts from major banks remained subdued in 2023, but the steep decline seen in 2022 has eased across all UK Nations and regions
- Use of asset finance in 2023 remained stable and well spread across the UK Nations and regions, based on the Bank's programme data
- The Bank helps facilitate smaller businesses' access to debt finance wherever they are, and whatever their barriers may be

Regional finance flows are more balanced for debt than for other finance types, but localised shortages can arise

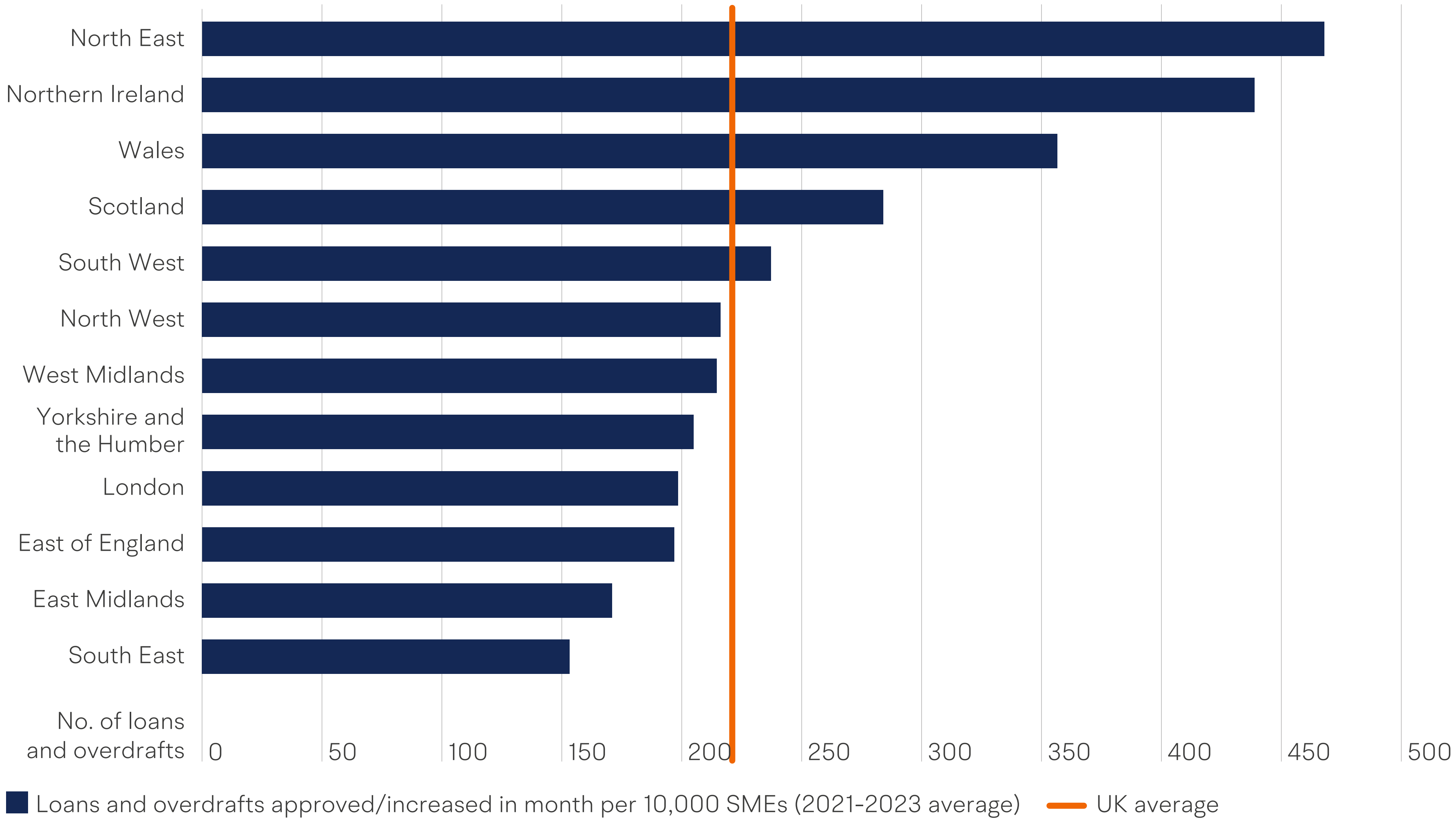
The latest SBFM highlights the importance of addressing regional disparities in smaller businesses' access to external finance, with gaps that have proven to be persistent over the past decade.

This observation holds true for debt finance markets. Even though the regional distribution of core debt finance forms such as terms loans and bank overdrafts is much less unbalanced than that of other finance types, there is also evidence of location-specific imperfections that may affect the use of any finance types by specific subsets of the business population found across the whole of the UK.

Figure 2.1

Number of loan and overdraft facilities per 10,000 SMEs, by UK Nation and region

Source: British Business Bank analysis of data from UK Finance and DBT's Business Population Estimates



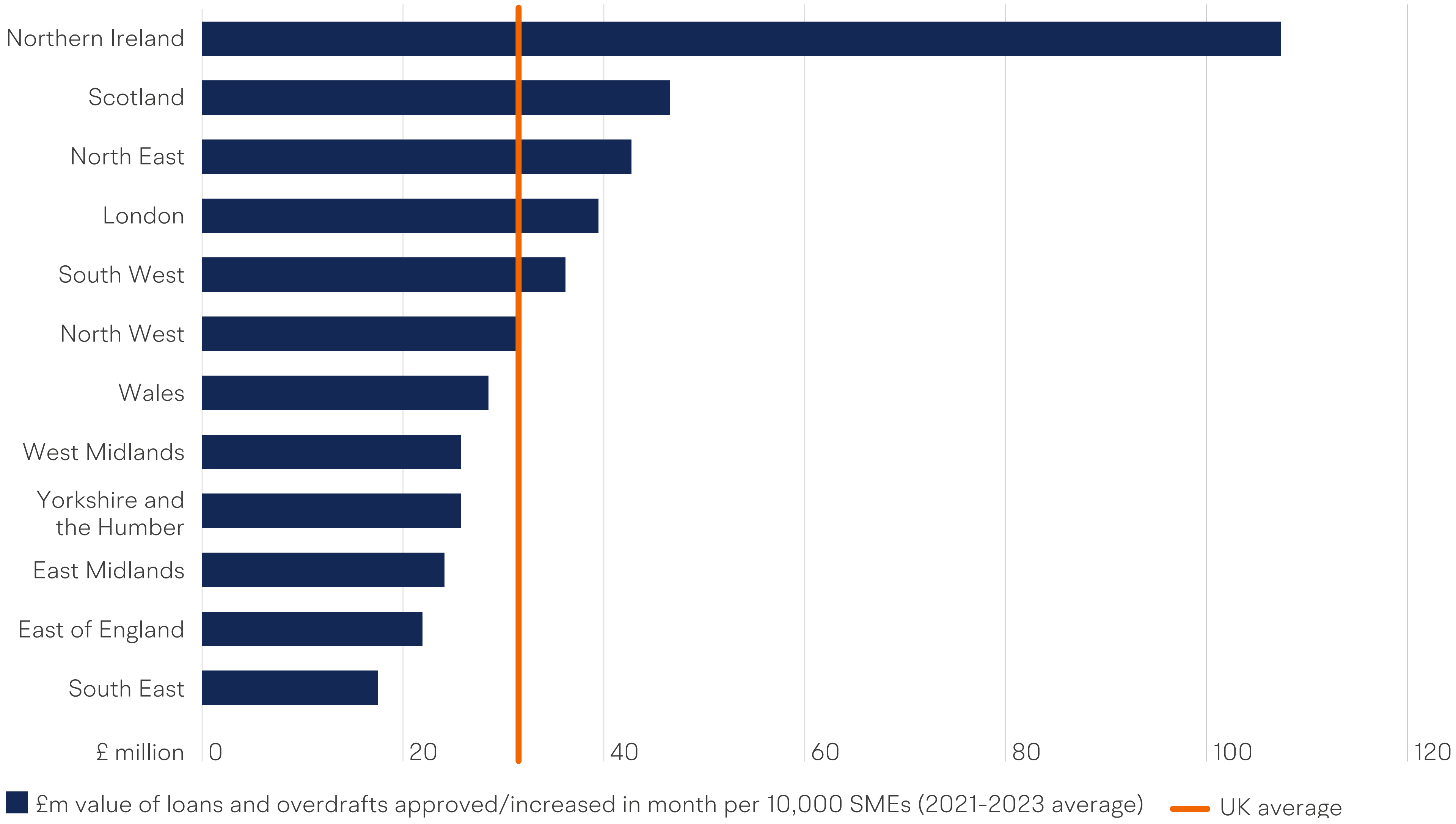
One way to assess the supply and demand for core debt products in each UK Nation and region is through the data collected by UK Finance, which provides a regional breakdown of loans and overdrafts[11] secured by smaller businesses from the UK's seven largest SME lenders (which we also refer to as 'major banks').[12] While this data does not capture regional debt markets comprehensively, it encompasses a large share of supply and demand for core debt products in the UK Nations and regions.[13]

Combining this information with data on the scale of the SME population in each Nation and region allows for an understanding of which parts of the UK have the highest level of bank lending activity when adjusted for business population size. An examination of the average number and volume of loans and overdrafts between 2021 and 2023 per 10,000 SMEs highlights that Northern Ireland, Scotland and the North East outperform the UK average (221 and £32m) on both measures, suggesting that the local smaller businesses have a greater concentration of lending than would be implied by their share of the UK SME population.

Figure 2.2

Value (£m) of loan and overdraft facilities per 10,000 SMEs, by UK Nation and region

Source: British Business Bank analysis of data from UK Finance and DBT's Business Population Estimates



This largely reflects the composition of local businesses rather than serving as a standalone indicator of finance access challenges, in that these Nations and regions typically have proportionally more businesses in sectors that have high propensity to use finance, such as primary, manufacturing and distribution. According to the 2023 DBT Business Population Estimates, 39% of SMEs in Northern Ireland operate in those sectors, also supported by evidence from the British Business Bank's 2023 Business Finance Survey which found that they had external finance application rates of 33% or higher. Northern Ireland's high value on both measures also reflects in part a greater coverage of SME lenders in the data.

Box 1: Access to finance gaps at the sub-regional level

A regional level assessment of the supply and demand for finance is often insufficient to understand the challenges businesses may face in specific geographies within the Nations and Regions of the UK. This is particularly applicable to debt finance, where these nuances may not emerge in a pan-regional analysis of finance markets.

For instance, previous Bank research has highlighted the greater challenges experienced by rural businesses in accessing appropriate finance. Looking at propensity to seek finance through the lens of rurality, it is observed that a larger share of urban businesses, albeit only 5 percentage points more, have engaged with finance in some capacity (applied for, sought, considered) compared to rural ones. This is consistent with the greater ease of access to finance in urban regions, but also surprising given the predominance of high finance use sectors in rural areas. The Bank's previous analysis on rural firms also highlighted their greater tendency to inject personal cash into their business, as well as a lower propensity by the smaller firms to have a trained financial decision maker, compared to their counterparts in urban areas.

A further place-based factor shaping local access to finance in the Nations and regions relates to whether businesses are located in a high-deprivation area, as covered in the 2022 edition of this report. That analysis suggested that smaller businesses in deprived areas were more inclined to seek finance; this is also confirmed by applying a deprivation lens to similar, more recent data as shown in Figure 2A. The figure shows that a greater proportion of businesses in highly deprived areas[14] have had exposure to finance in that manner, signalling a strong appetite for finance in these areas. However, our previous research into this issue also illustrated that – despite their higher demand for growth-oriented finance, these businesses were more likely to feel discouraged from applying (26% v. 22%), to show lower awareness of non-core finance options and display behaviours and characteristics associated with increased barriers in accessing finance, such as having low credit balances, reporting a profit and being Ethnic Minority-led.

This underscores the importance of recognising that localised gaps can exist even in seemingly well-developed regional debt markets, and that public policy interventions such as those taken forward by the Bank should continue to take gaps that do not follow a stark regional divide into account.

Demand for loans and overdrafts from major banks remained subdued in 2023, but the steep decline seen in 2022 has eased across all UK Nations and regions

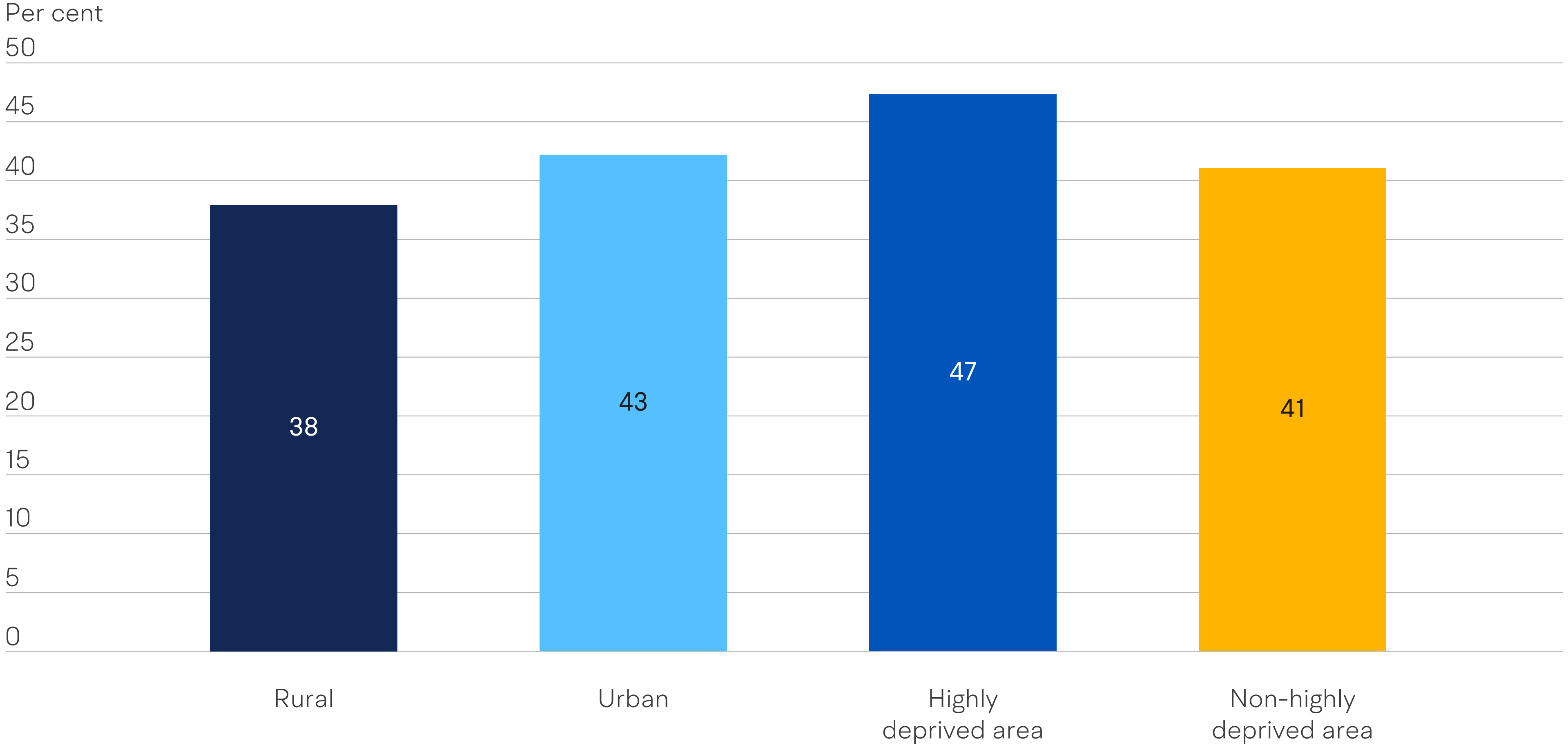
The UK Finance data on loans and overdrafts confirms that lingering concerns regarding the trading environment and the cost of borrowing continued to constrain smaller businesses' demand for core debt finance in 2023 across all UK Nations and regions, albeit to a lesser degree than in previous years.

At the UK level, the number of SME loans and overdrafts from the seven largest banks began to stabilise in Q1 2023 reaching (respectively) 21,709 and £3.9bn after plummeting to a record low during 2022. Despite this, volumes remained well below their 2019 quarterly averages (66,931 and £6.4bn) and a further decline was observed again in the remaining three quarters of 2023. In real terms, the changes in the value of loans and overdrafts at the end of 2023 corresponded to a fall of 18% relative to the previous year, and of 51% on 2019.

Figure 2A

Smaller businesses' propensity to engage with finance by rurality and deprivation in 2023*

Source: British Business Bank Finance Survey 2023 (unweighted n=1,162 for urban businesses; 411 for rural businesses and n=1,510 for businesses in non-highly deprived areas; 213 for businesses in highly deprived areas)



* These results describe business responses to the following question: "Have you applied for, sought or considered any type of finance in the past three years?"

These changes in SME loan applications over the last two years have largely been driven by small businesses, while demand among medium businesses has remained more resilient. This can also be seen from the evolution of the average size of approved facilities between 2022 and 2023, which, overall, declined by 4% in Great Britain and 1% in Northern Ireland. For small businesses in Great Britain, the drop was more pronounced, falling by 12% to £52k from £59k in the previous year, while the decline on the same measure was only 4% for applications from medium businesses (going from £472k in 2022 to £454k in 2023).

The overall number of loans and overdrafts in 2023 fell by 9% overall on 2022, indicating an improvement from the much more substantial rate of decline seen in the previous year (55%). Looking across the UK Nations and regions, only Northern Ireland, the South East and – to a lesser extent – East Midlands and Yorkshire and The Humber saw a stable or positive trajectory in the volume of loans and overdrafts approved/increased between 2022 and 2023 (Figure 2.3). All other parts of the UK saw a reduction in both over the same period, even though the rate of decline has markedly diminished relative to the previous year. In 2022, the drop in the number of approved SME loans and overdrafts applications ranged from 35% to over 60%, reflecting the winding down of pandemic-related support over the previous year. One year later, the rate of year-on-year change in this measure ranged from -37% in the North East up to +10% in the South East.

Likewise, the associated real terms value of those applications fell by 18% overall in 2023, marking a less steep year-on-year rate of decline than in 2022, when it had dropped by 25% UK-wide. Yorkshire and The Humber (8%) and the South East (21%) were the only parts of the UK that saw an uplift on this measure in 2023.

The slow recovery of core debt market activity seems to be driven not only by subdued demand from smaller businesses, but also greater caution from lenders. The BoE's agents reported during 2023 that banks were more prudent about approving new lending to smaller businesses, applying stricter affordability tests to loan applications and showing a preference for lending to financially stable businesses.[15] Meanwhile, many prospective borrowers were still struggling to meet the lenders' affordability tests due to persisting challenges in the smaller business community, such as high borrowing costs, wider pressures on their financial viability, and the need to service pre-existing Covid-related debt.

The SME core debt market landscape in the first six months of 2024 looks more promising across Great Britain, while equivalent data from Northern Ireland was not yet available at the time of publication. The current year started with a relatively strong first quarter in terms of the volume of approved/increased loans and overdrafts applications (up 27% from the previous quarter) and a stable trend in the related value, which remained at just under £4bn.[16] The change in the volume of applications was positive across all Nations and regions but the North East, showing the largest increase in the South East, while trends continued to be mixed across the UK in terms of the value of those applications. When complemented with the data from Q2 2024, the numbers show there has been a considerable overall uptick in debt activity in the first half of this year (H1 2024), compared to the same period last year. Both the volume and value of SME loans and overdrafts rose on H1 2023, by 21% and 8% respectively, with all Nations and regions of Great Britain showing an increase in both except the North East (-24% and -5%).

Figure 2.3

Change in number of loans and overdrafts approved/increased in month between 2022 and 2023, by UK Nation and region

Source: British Business Bank analysis of UK Finance data

Figure 2.3 (Continued)

Change in value (real terms) of loans and overdrafts approved/increased in month between 2022 and 2023, by UK Nation and region

Source: British Business Bank analysis of UK Finance data

Use of asset finance in 2023 remained stable and well spread across the UK Nations and regions, based on the Bank's programme data

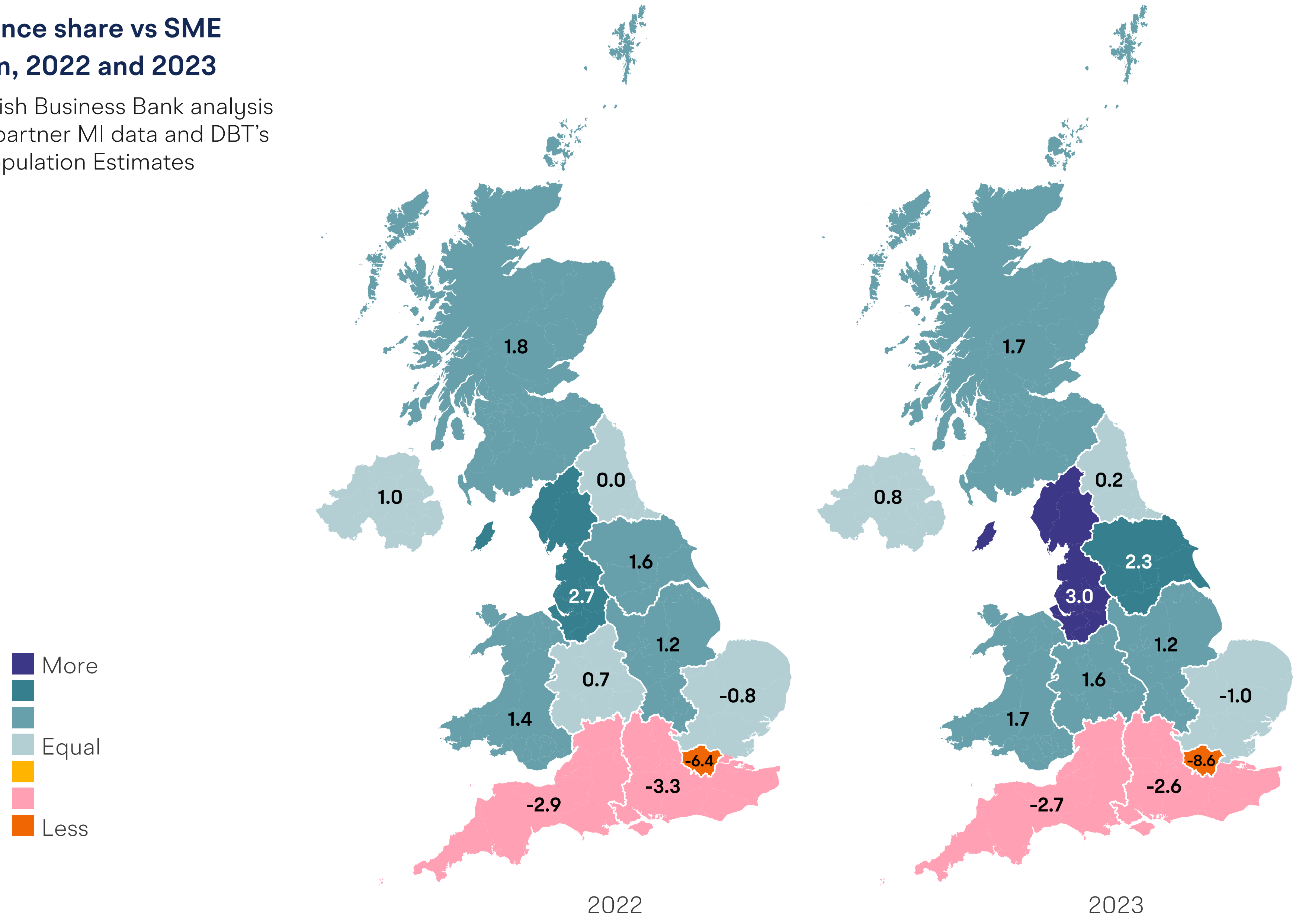
A variety of debt-based products are available to smaller businesses beyond core debt finance. These are generally categorised under 'alternative finance', with asset finance being the most commonly utilised option among smaller businesses. These finance forms are often less evenly distributed across the UK than mainstream bank lending. Therefore, a better understanding on the geographical spread of alternative finance options such as asset finance is important to build a more comprehensive picture of debt markets in the Nations and regions.

In the absence of industry figures, the best proxy we have for the reach of asset finance is via the Bank's own activities (Figure 2.4).[17] This evidence suggests that asset finance facilitated via British Business Bank and British Business Investments programmes continues to be well spread around the UK. In 2023, eight of the 12 Nations and regions receive a higher percentage of asset finance than their share of the SME population published in the 2023 UK Business Population Estimates.

Figure 2.4

Asset finance share vs SME population, 2022 and 2023

Source: British Business Bank analysis of delivery partner MI data and DBT's Business Population Estimates



Of the four regions that received a lower share of asset finance, the East of England was closest to parity. On average, over the last five years, this region has received a little under 11% of our asset finance facilitated despite it falling from 12% in 2021 to 9% in 2023, which was below its 10% share of the UK's SMEs.

The four other regions which received a lower share of asset finance, London, the South East and South West, have done so throughout the last five years. London received 10% asset finance facilitated in 2023, down from a peak of 12% in 2022. This was the largest fall seen across the 12 Nations and regions, even though it mainly reflects a trend of convergence back to London's average share over the previous five years (11%). Despite this, London remains the most underweight as it is home to an estimated 19% of the UK SME population.

The fact that London and the South of England still receive a far smaller proportion of asset finance compared to their SME share is a result of structural factors including the sectoral composition of those SMEs, the greater diversity of finance available within London and 'headquarter' effects (whereby the data is skewed by the many companies that are registered in London, but mainly operate in other places). Nevertheless, a comparison of volumes of asset finance facilitated in 2022 and 2023 also suggests an upturn in the use of this finance form in the South East (4%) and the South West (1%).

Overall, the volume of asset finance facilitated by the Bank in 2023 remained relatively stable compared to 2022, with only a slight decline of 2%. Unlike the previous year, where the largest increase in asset finance facilitated by the Bank was in the capital, this year the most positive trends were observed in other parts of the UK and particularly the West Midlands (9%), Yorkshire & The Humber (6%), the North East and Wales (both 5%). This is a positive sign that despite looming pressures and uncertainties in the economy, demand for this type of finance among smaller businesses has remained resilient across the UK.

The Bank helps facilitate smaller businesses' access to debt finance wherever they are, and whatever their barriers may be

In the current environment of low growth, it remains crucial for smaller firms to access the finance they need from the banking sector to maintain cash flow and, where possible, shift from a survival to a growth-oriented long-term plan for their business. The British Business Bank continues to support bank lending to smaller businesses across the UK through its existing programmes including the Growth Guarantee Scheme, ENABLE Guarantee programme, ENABLE Build programme and its geographically-focused programmes, which include the six Nations and Regions Investment Funds (NRIF) and their three predecessor programmes. Through these, the Bank invested £152m in debt finance and smaller loans benefitting over 120 companies in the North of England, the Midlands, the South West and the Devolved Nations in 2023.

The Bank also operates the Start-Up Loans programme. This has proven beneficial for addressing a significant market failure around debt finance for early-stage businesses across the country, which tend to be viewed as too risky by high street lenders despite their growth potential.

Through the Start Up Loans programme, the Bank awarded 9,776 loans worth a total of approximately £125m in the 2023-24 financial year, taking the total lending since the programme's inception past the £1bn mark. Of these, 85% went to entrepreneurs located outside London (84% based on the total amount lent). The loans disproportionately benefitted underrepresented entrepreneur groups in finance access such as female entrepreneurs, who made up around 4 in 10 loan awards outside London in 2023-24, and those from ethnic minority groups, representing nearly 1 in 5 recipients. The SUL programme now counts its first unicorn (i.e. a privately owned start-up business with a value of over $1bn), the Manchester-based sportswear manufacturer Castore.

3

Nations and regions equity market trends

- UK Nations and regions outside London continue to be largely underrepresented in UK equity activity
- The number of announced equity deals declined across all UK Nations and regions in 2023, though activity levels were stabilising in H1 2024
- Seed stage deals experienced the strongest decline in areas outside London in 2023
- The Bank remains a key contributor to addressing equity market gaps outside the capital

UK Nations and regions outside London continue to be largely underrepresented in UK equity activity

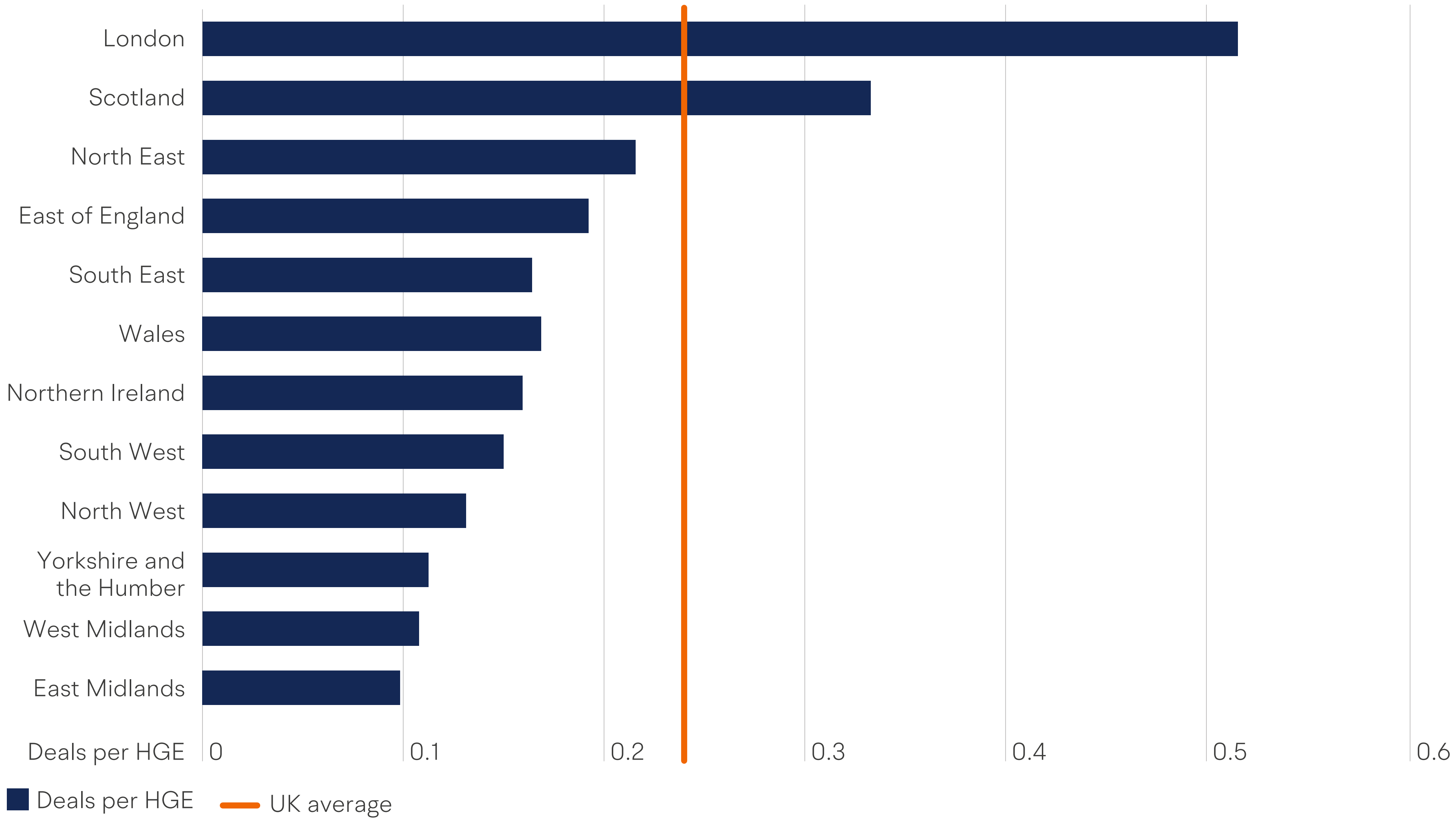
Although core debt products are relatively well matched to SME populations across the UK Nations and regions, equity funding is much less evenly distributed. London historically attracts by far the largest share of equity investment, both in terms of deal numbers and investment amounts.

The disparities in equity investment levels observed across the UK, and particularly between the capital and the rest of the country, cannot be solely attributed to the distribution of the SME or high growth enterprise population. Instead, these imbalances arise mainly from other business characteristics and the specific spatial dynamics of equity investment, which contribute to market imperfections. In particular, proximity of businesses to equity investors and the presence of innovation-led clusters can be key determinants of the level of investment any Nation or region of the UK is able to attract.[18]

Figure 3.1

Number of announced equity deals per High Growth Enterprise (HGE), by UK Nation and region

Source: British Business Bank analysis of data from Beauhurst and ONS Business Demography

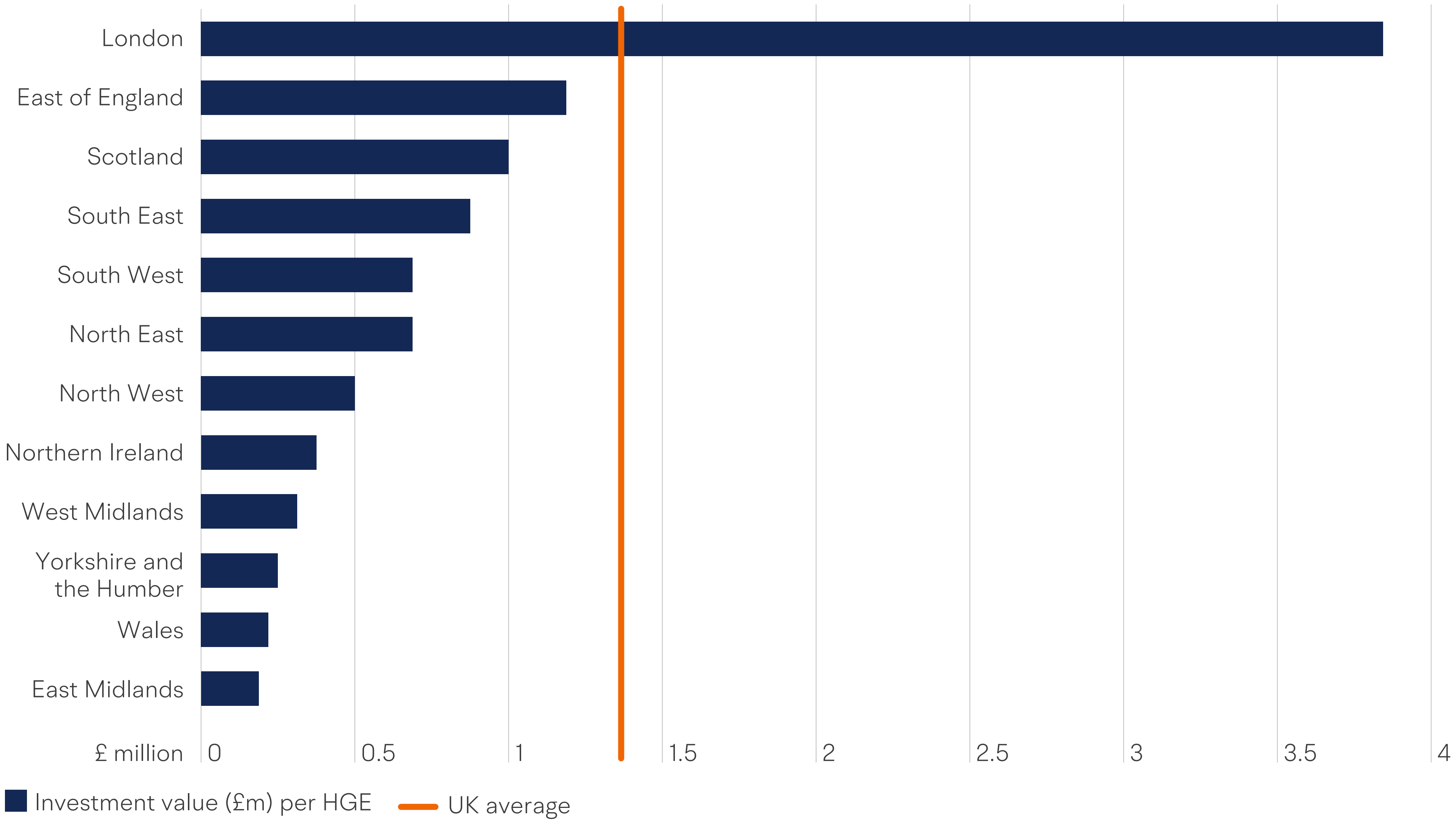


London's dominance is clearly illustrated in Figures 3.1 and 3.2, which show the capital had an average of 0.5 deals and £3.9m investment value per high-growth enterprise[19] over the period 2021-2023, which was about three times the corresponding UK averages (0.24 and £1.4m respectively). When examining the rest of the UK, some Nations and regions, such as Scotland (based on deal numbers) and the East of England (based on investment value), perform better than others – being slightly overrepresented and underrepresented respectively, thanks to the presence of thriving innovation clusters such as Edinburgh and Cambridge. While established and emerging clusters also exist elsewhere in the UK, they mostly continue to perform well below the top clusters, led by the South of England-based Golden Triangle. This is reflected in their underrepresentation in UK equity deals and investment value, most notably for Yorkshire and the Humber and the Midlands.

Figure 3.2

Value (£m) of announced equity deals per High Growth Enterprise (HGE), by UK Nation and region

Source: British Business Bank analysis of data from Beauhurst and ONS Business Demography



The number of announced equity deals declined across all UK Nations and regions in 2023, though activity levels were stabilising in H1 2024

The 2024 Small Business Equity Tracker reported that in 2023, 1,041 deals worth £5.56bn were invested in companies based in London (Figure 3.3). This represented a decline of 28% in deal numbers and of 48% in deal value compared to the year before. This was in line with trends seen across the overall UK market, for which deal numbers and investment fell by 25% and 48%, respectively. Despite the sharp reduction in activity in 2023, London still represented 49% of the UK's overall deal count and 63% of its total investment value for the year.

Outside London, the number of deals in 2023 fell by 22% on an annual basis to 1,098 deals, while total investment fell by 48% over the same period to £3.27bn. This indicates that, on a volume basis, equity finance was slightly more resilient in these areas when compared to London. No region or Devolved Nation saw an increase in the number of deals in 2023, though Wales and the East Midlands were the most resilient, with declines of 8% and 9% respectively. On a value

Figure 3.3

Number and value of announced equity deals by UK Nation/region, 2022-2023

Source: British Business Bank analysis of Beauhurst data

Nation/Region	Number of deals (2023)	% change vs 2022	Investment value £bn (2023)	% change vs 2022
London	1,041	-28%	5.56	-48%
South East	196	-26%	0.87	-56%
Scotland	169	-21%	0.40	-50%
East of England	150	-21%	0.86	-21%
South West	117	-23%	0.27	-67%
North West	114	-31%	0.23	-67%
Yorkshire and the Humber	74	-17%	0.15	-36%
West Midlands	71	-21%	0.12	-48%
Wales	67	-8%	0.11	23%
East Midlands	58	-9%	0.11	-6%
North East	58	-23%	0.09	-40%
Northern Ireland	24	-33%	0.08	-24%
UK	**2,152**	**-25%**	**8.84**	**-48%**

basis, Wales was the only area which experienced an increase in total investment (of 23%), which was driven largely by a handful of high value deals.

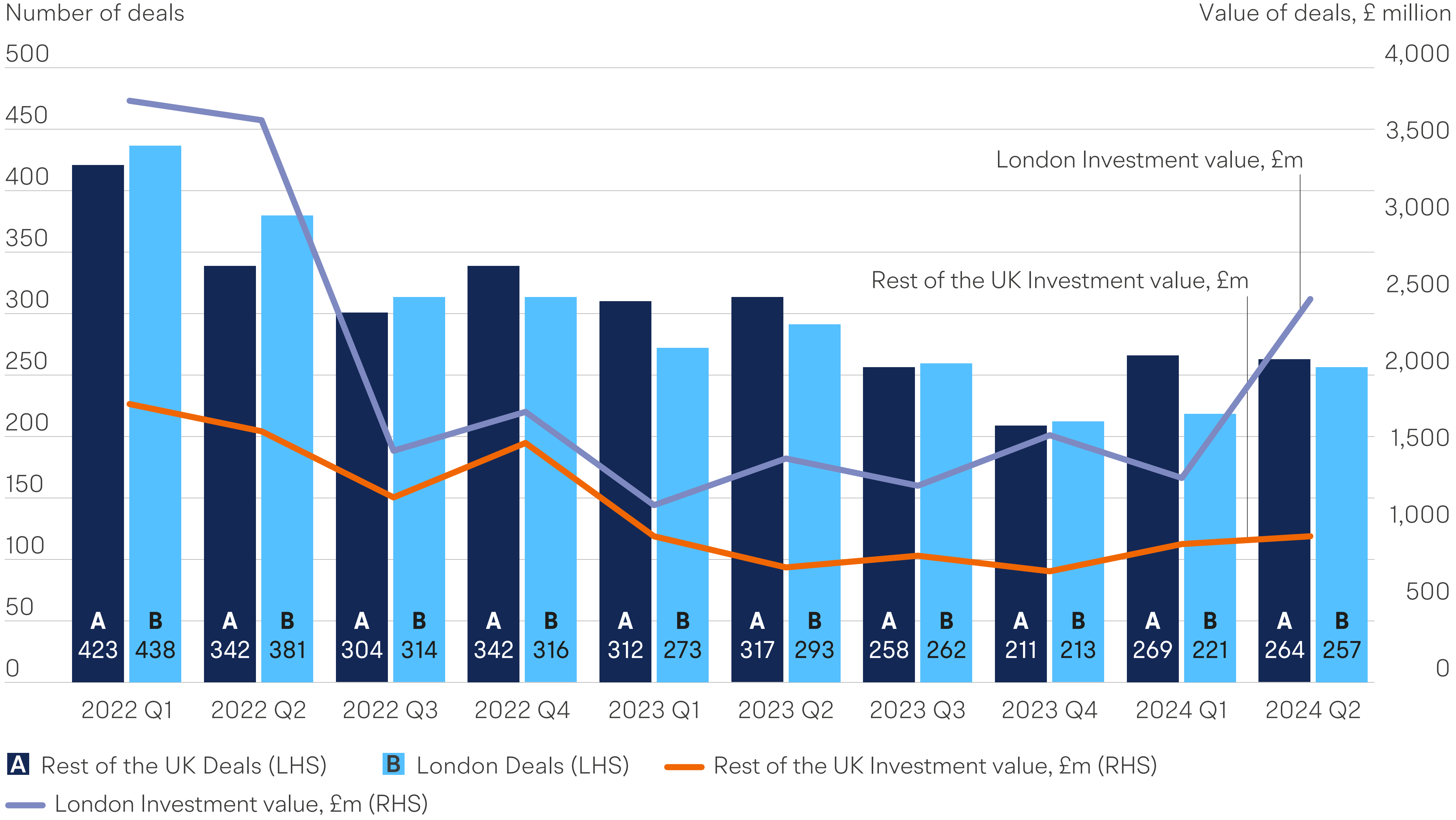
Data for the first half of 2024 suggests that deal volumes and values are still declining throughout the UK, but stabilising around more sustainable activity levels following two atypical years (Figure 3.4). Areas outside London saw a stronger rebound in both equity deal volumes and investment value than the capital in Q1 2024, while the latter had a more pronounced positive trend in the second quarter.

In the UK as a whole, smaller businesses raised 7% more in equity funding in Q1 2024 compared to Q1 2023. The overall number of deals was still down by 16% over this period, but 14% higher than in the previous quarter. The data for Q2 2024 shows that investment value has continued to grow, although London saw a more pronounced increase in this measure (70% relative to Q2 2023) than the rest of the UK (27%). Likewise, deal volumes in Q2 2024 kept falling compared to the same quarter of the previous year in the UK as a whole (-15%), but the decline was less severe in the capital (-12%) than elsewhere (-17%). The Q2 2024 deal numbers also represented an increase of 16% in London from the

Figure 3.4

Number and value of announced equity deals, London v. rest of the UK

Source: British Business Bank analysis of Beauhurst data



previous quarter, in contrast to a 2% fall for areas outside the capital (and a 6% rise in the UK as a whole). In H1 2024 overall, the North East and Scotland were the only parts of the UK experiencing an increase (of 7% and 6% respectively) relative to H1 2023, but deal activity was up in most Nations and regions when compared with H2 2023.

Taken together, this indicates that while equity activity has been on a general downward trend since mid-2022, the data for this year continues to show promising signs of recovery. Yet, it will be crucial to closely monitor developments in equity markets outside London, where the rebound in the first part of this year appears more muted.

Box 2: Equity market trends across England's Combined Authority Areas

Combined authorities (CAs) serve as pivotal centres for decentralised decision making on local economic development. As such they're an important part of the landscape of policy making that influences local investment ecosystems, including in the realm of equity.

Of the ten CA areas in England (Figure 3A), Cambridge & Peterborough was the largest in terms of both the absolute number of deals and the related investment value. Cambridge & Peterborough also had the most resilient activity levels in the past year, experiencing the smallest decline in deal numbers between 2022 and 2023 (-5%) and a slight increase in investment value (2%), against an average fall across the Combined Authorities of (respectively) 22% and 34% over the same period.

The negative trend in deals was much more pronounced in Greater Manchester (-34%) and South Yorkshire (-32%) and was steepest in the Tees Valley (-50%) and the York & North Yorkshire (-67%) CA areas. Reductions in deal numbers ranged between -15% and -20% for all other CA areas except West Yorkshire, which defied the overall negative trend with a remarkable 41% increase in deal volumes. In terms of investment value, trends were similarly mixed across the 10 CA areas. Only Cambridge & Peterborough and Tees Valley reported growth on this measure, while all others saw declines of between -8% and -78%.

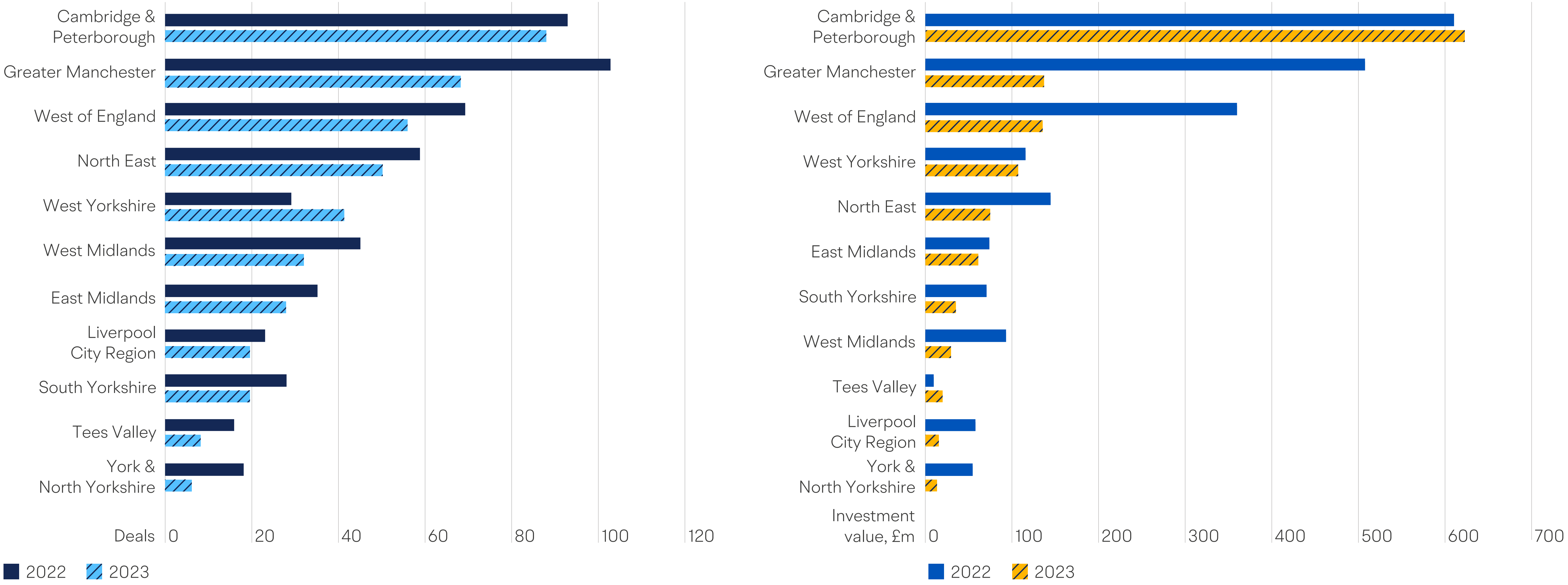
This illustrates how levels of equity activity tend to be variable across the combined authorities (mainly due to the highly variable scale of CAs) and volatile over time, even though the areas hosting larger and more established equity clusters have slightly more stable activity levels.

An examination of equity deals and investment value per 10,000 active enterprises in 2023 also indicates that Cambridge & Peterborough and the West of England had by far the highest intensity of activity when adjusted for size of the business population. The former had on average 23 deals worth £58m per 10,000 active enterprises, the latter 15 deals worth £61m. CA areas in the North East and North West lagged at a considerable distance behind the first two, with 6 to 10 deals per 10,000 businesses while those in Yorkshire and The Humber and in the Midlands ranked at the bottom, recording 4 or fewer. This underscores the stark disparities in the critical mass of equity investment occurring across these local investment ecosystems.

Figure 3A

Number and investment value (£m) of announced equity deals by Combined Authority area, 2022-2023

Source: British Business Bank analysis of Beauhurst data



Seed stage deals experienced the strongest decline in areas outside London in 2023

In 2023, Nations and regions outside of London witnessed a 35% decrease in the number of seed stage deals and a 36% decrease in their total value. In the capital region, the decline in seed stage activity equated to 25% and 26% respectively.

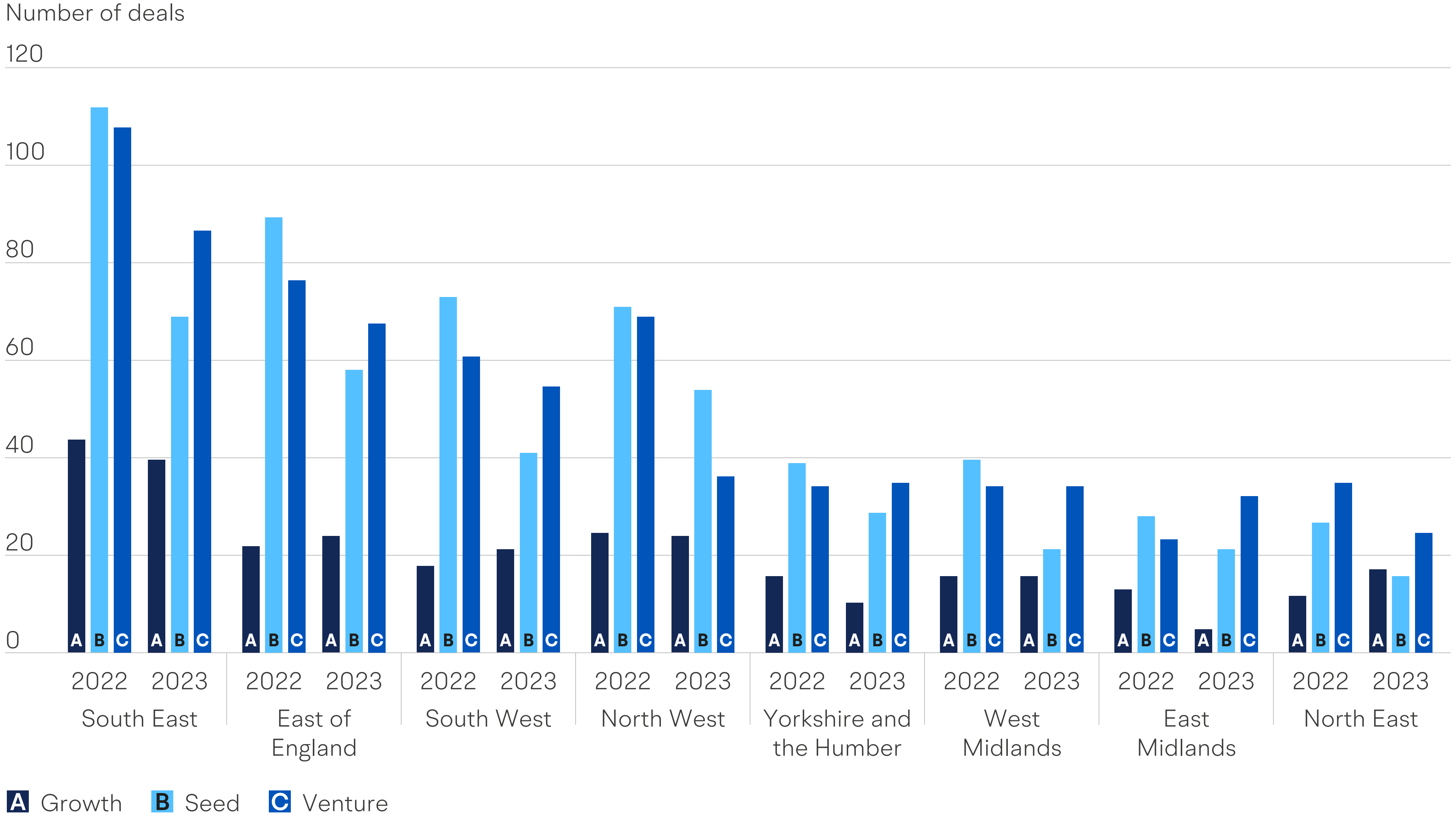
While the number of growth stage deals in London fell by 35%, the amount raised fell by nearly double the amount (63%). On the other hand, although regions outside London only saw a marginal 1% decline in growth-stage deal numbers between 2022 and 2023, the value of these deals decreased by 45% in total.

Overall, seed stage deals have been consistently declining across all parts of the UK between 2022 and 2023 (Figure 3.5 and 3.6). Northern Ireland experienced the largest fall in deals at this stage over the period, while the South West, West Midlands and the North East also recorded a drop larger than 40%. Despite this, the Bank's latest Equity Tracker report also presented evidence that the decline in seed stage deals was showing signs of slowing down at the UK level in the second half of 2023.[20]

Figure 3.5

Number of announced equity deals by stage, 2022-23 – English regions outside London

Source: British Business Bank analysis of Beauhurst data



Additionally, the report found that seed stage activity had been more resilient in terms of the average deal sizes and company evaluations than activity at other stages.[21]

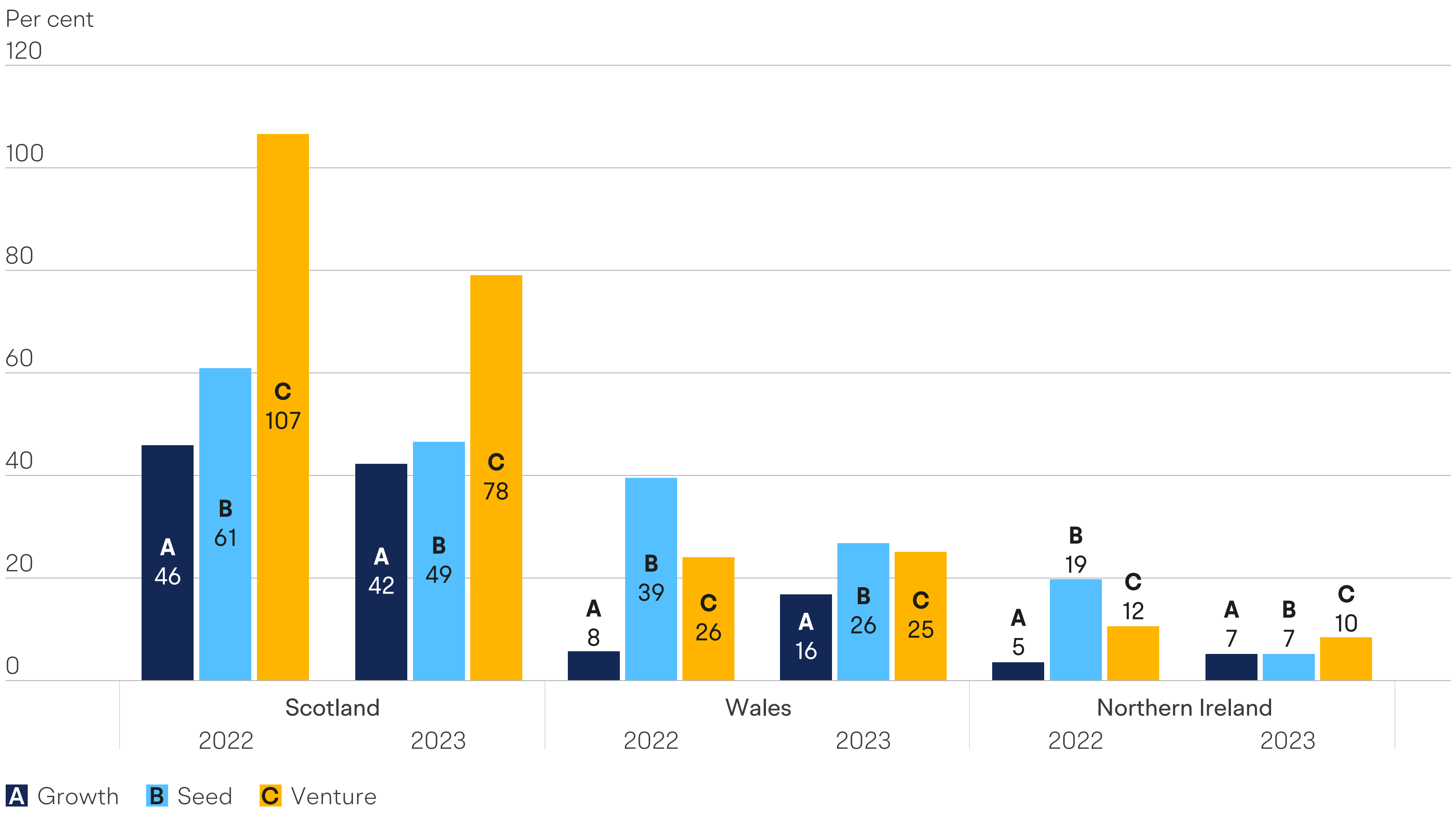
The trajectory of venture stage deals at the regional level was generally aligned with the reduction seen across the whole of the UK, apart from the East and West Midlands and Yorkshire and the Humber. Trends at the growth stage were more mixed, with five out of 12 UK Nations and regions (East of England, North East, South West, Northern Ireland and Wales) bucking the negative overall trend; the steepest declines at this stage occurred in the East Midlands and in Yorkshire and the Humber.

As of the first half of 2024, there has been a continued decline in the volume of growth and venture stage deals compared with the same period last year, affecting both the capital and the rest of the UK. This period also saw an increase in the value of deals at growth and venture stages in London, and rising value for venture stage deals outside London too. Conversely, there was a modest recovery in both volume and value of seed stage deals in the rest of the UK, whereas the capital continued to see a fall.

Figure 3.6

Number of announced equity deals by stage, 2022-23 – Devolved Nations

Source: British Business Bank analysis of Beauhurst data



The Bank remains a key contributor to addressing equity market gaps outside the capital

The Bank's equity programmes contribute significantly to addressing imbalances in access to finance between the capital and the rest of the UK.

In 2023 alone, the Bank's geographically-focused programmes injected £236m of equity investment into over 200 companies located outside of the capital. This is the combined result of investments made via CIoSIF, MEIF I and NPIF I (which ended their investment phase in early 2024) and the Bank's new £1.6bn Nations and Regions Investment Funds (NRIF). The Regional Angels Programme also complemented these investments by facilitating an investment flow of around £441m over the same period all over the UK, supporting 137 companies.

MEIF I and NPIF I have been pivotal in supporting businesses at the very frontier of innovation, such as academic spinouts, wherever they are in the UK. As reported in the Bank's latest Equity Tracker report, the regional programmes made up 17% of the 160 spinout deals supported by the Bank during 2021-2023.[22]

NRIF has recently completed its kick off phase, with the last of the six funds (NPIF II) being launched in March 2024. These new geographically focused funds can still support companies through both equity and debt investments, with an increased focus on the former compared with their predecessor funds. While it is relatively early to assess the impact of NRIF, this boost to equity investment, combined with an extended geographic coverage, makes the Bank well placed to support even greater impact in equity markets across the UK.

Endnotes and acknowledgements

Endnotes

1. Northern Powerhouse Investment Fund I (NPIF I); Midlands Engine Investment Fund I (MEIF I); Cornwall and Isles of Scilly Investment Fund (CIoSIF). These have been operated by the Bank since 2017 and have reached the end of their investment phase in Financial Year 2023/24
2. British Business Bank (2024) Annual reports and accounts 2024.
3. The sub-regional changes in this measure are reported in the English regions factsheets and Devolved Nation briefing notes documents published alongside this report.
4. British Business Bank (2024) Small Business Finance Markets 2023/24 Report.
5. In June 2024, headline CPI inflation was 2%, in line with BoE target for second consecutive month & well down from recent peak in Oct 2022.
6. See British Business Bank (2024) Small Business Finance Markets 2023/24 Report.
7. Source: British Business Bank analysis of data from Office for National Statistics, Producer Price Inflation, UK: June 2024.
8. British Business Bank (2024) Northern Ireland SME Access to Finance Report.
9. Enterprise Research Centre (2024) Innovation state of the Nation Survey 2023.
10. ibid.
11. These UK-wide figures represent British Business Bank estimates obtained by combining two separate UK Finance datasets, one focusing on Great Britain and the other on Northern Ireland. This mainly serves the purpose of providing as comprehensive a picture of UK core debt activity as possible. Please note however that the two datasets present some differences in terms of data definitions, methodology, provider coverage and timing of the data collection. For further details, please visit the UK Finance website.
12. For Great Britain, this includes: Barclays Bank UK; Danske Bank; HSBC UK; Lloyds Banking Group; NatWest Group; Santander UK; Virgin Money UK. For Northern Ireland, lender coverage is more comprehensive and includes: Bank of Ireland, Danske Bank; First Trust Bank; Ulster Bank; Barclays, HSBC, RBS and Santander.
13. As noted in the Bank's 2023/24 Small Business Finance Markets Report, the share of the market accounted for by the UK's five largest banks has been declining since 2021, reaching 41% in 2023.
14. These areas are classified as being within the top 15% of overall IMD (Index of Multiple Deprivation) scores, a metric covering areas at the local authority level.
15. See also British Business Bank (2024) Small Business Finance Markets 2023/24 Report.
16. Please note that data for Q1 and Q2 2024 excludes Northern Ireland, as this is published separately and not available at the time of writing.
17. Previous consultations with industry players have indicated that the Bank's portfolio is broadly representative of the wider asset finance market in terms of regional distribution. However, these figures must be interpreted cautiously, as the Bank's objective to reduce regional imbalances in smaller business access to finance makes it core committed to achieving a broad geographical spread of investment across the UK than the wider market.
18. A comprehensive analysis of the role of travel distance between investors and investees in equity transactions is provided in British Business Bank (2021) Regions and Nations Tracker: Small Business Finance Markets 2021.
19. An enterprise with an average annualised growth greater than 20 % per year over a three-year period, based on the ONS definition.
20. British Business Bank (2024) Small Business Equity Tracker 2024.
21. ibid.
22. British Business Bank (2024) Small Business Equity Tracker 2024.

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