

# Access to Finance Spotlight: North East findings

# Contents

---

Key Findings	3
Demand for finance	4
Supply of finance	5
Finance ecosystem	5
ESG and net zero	6

---

This summary presents insights on the North East<sup>1</sup> and is aimed at helping to support localised activity and inform future policies across the UK.<sup>2</sup> The North East slide deck provides additional insights and data visualisations which you may wish to view alongside this summary.

## Key Findings

- Respondents in the North East were slightly more likely than the UK average to **describe SMEs as not well-equipped to reduce their debt burden** over the next 12-18 months.
- Nine in ten respondents in the North East agreed that **SMEs will require additional debt finance due to the Covid-19 pandemic during the next 12-18 months**.
- Respondents in the region were **more likely than the UK average to identify gaps in the supply of debt finance** in their region. Less than half of respondents expect the supply of debt finance to increase over the next 12-18 months

### SME context: British Business Bank's SME Finance Survey 2020

The pandemic had a major impact on SMEs. The SME Finance Survey provides some valuable context from the perspective of SMEs themselves for the findings presented here.<sup>3</sup>

In the North East, 56% of SMEs contracted over the past 12 months, 34% stayed the same and only 7% grew, in line with the UK overall (58%, 32% and 9%, respectively).

Moving out of the pandemic, there was some optimism with 21% of SMEs in the North East expecting to grow over the next 12 months. However, 4% of SMEs expected to close or sell the business during the same time period. This was in line with the UK overall (21% and 4%, respectively).

In terms of demand, 64% of North East SMEs said they had sought some sort of external finance support, including government grant funding, in the past three years (60% in the UK overall). This represents a large increase in the use of external finance from 2019 (43% in the North East, 44% in the UK overall).

---

<sup>1</sup> Excluding the Tees Valley.

<sup>2</sup> Findings are based on an online survey of 511 finance intermediaries (of whom 45 operated in the North East) and 36 in-depth online interviews (of which 3 related to the North East). Fieldwork took place between 23<sup>rd</sup> February and 21<sup>st</sup> March 2021. The research was conducted by Ipsos MORI, on behalf of the British Business Bank. For more information, please see the annex of the UK findings report.

<sup>3</sup> The SME Finance Survey 2020 was conducted by Ipsos MORI, on behalf of the British Business Bank, between 27<sup>th</sup> August and 25<sup>th</sup> November 2020. It was a telephone survey of 4,125 SMEs (of which 214 were from the North East).

## Demand for finance

In the North East, respondents thought **demand for finance in the region was strong** across all development stages, with **65% saying demand exceeded supply**.

“I would say there is a difference between rural and urban and I would say in the North East you've got certain areas where there is more concentration of larger businesses, I mean Newcastle in particular.”

Financial advice respondent, North East

A majority of respondents in the North East also felt **SMEs would require additional finance due to the Covid-19 pandemic during the next 12-18 months**, especially debt finance (91%) growth stage equity (71%) and alternative finance (64%). This was similar to the UK overall.

Opinion in the North East was fairly **split about whether SMEs had taken on too much debt due to the Covid-19 pandemic**, with 39% agreeing, 35% being neutral and 13% disagreeing. It also seemed that **respondents were more pessimistic than SMEs themselves about SMEs' ability to reduce their debt**. While 77% of respondents felt SMEs were not well-equipped to reduce their debt burden over the next 12-18 months, according to the SME Finance Survey, only 20% of North East SMEs that sought finance in 2020 were concerned about their ability to make full repayments.

“I think undoubtedly there's going to be a demand for finance. I think that a lot of businesses have got through with the government aid, particularly the furlough scheme. When that ends, I think a lot of businesses have got a tough decision to make and carrying on from there, for a lot of them, it will be necessary to obtain alternative finance to keep their businesses going. So yes, I do see a demand.”

Financial advice respondent, North East

As in the UK overall, **the top three barriers to SMEs' demand for finance identified by respondents in the North East were lack of awareness of finance options available (73%), access to the supply of finance (60%), and aversion to taking on finance (49%)**.

Interestingly, respondents in the North East were **significantly less likely than the UK average to identify lack of trust in finance providers (2% versus 19% respectively) or EU Exit (4% versus 17% respectively) to be among the top three biggest barriers to demand to finance**.

## Supply of finance

Despite a majority of respondents in the North East expecting SMEs to require additional finance, 76% agreed that **there were gaps in the supply of finance for SMEs in their region whatever their stage of development.**

Respondents were **significantly more likely to identify gaps in debt finance** than the UK average (65% versus 48% respectively). Additionally, despite the high demand for debt finance, **less than half (44%) of respondents in the North East expected an increase in debt finance supply over the next 12 to 18 months.**

“I still think there's a degree of the banks not wanting to lend, and business owners being aware that the criteria are pretty tough.”

Financial advice respondent, North East

## Finance ecosystem

**Respondents in the North East were slightly more likely than the UK average to say that the ecosystem in their region is adequate to support start-ups**, with 58% saying it was adequate compared to 45% in the UK overall. In line with UK-wide findings, around half of respondents thought the ecosystem was adequate to support SMEs surviving in uncertain times (53% adequate versus 42% inadequate) or scale ups (58% adequate versus 42% inadequate), while seven in ten said the same for SMEs consolidating success (69% adequate versus 27% inadequate).

**Respondents in the North East thought that most SMEs were well-informed about debt finance as an option** (68%) or about a specific provider of debt finance (68%). This may explain why debt finance was the most commonly cited type of finance among those respondents who expected additional finance to be needed during the next 12-18 months, due to the pandemic.

However, **most respondents in the North East felt SMEs were unlikely to be well-informed about options available for equity and alternative finance.** The SME Finance Survey 2020 also found SMEs generally had a low awareness of alternative finance, although awareness has been increasing over the past five years. Nonetheless, participants in the qualitative research highlighted lack of knowledge about finance as a particular concern.

“It's quite difficult for individual businesses to know everything. So the LEPs and the growth hubs are important, and I think that they do fantastic work, but it's the issue of - do businesses know where to go to find help? I think traditionally, they would probably tend to go to either their bank manager or their accountant, particularly the smaller businesses.”

Research respondent, North East

## ESG and net zero

Respondents across the North East were **split on the importance of net zero and ESG**, with 26% and 40% respectively saying these were relevant to SMEs, similar to the UK overall. Respondents in the qualitative interviews suggested ESG and net zero were regarded as issues in their infancy for SMEs.

“When it comes down to the cost, I just think that every business owner wants to be seen to be doing something. But if you're running a business, you're running a business to make money, and if there's going to be a huge cost to those sort of things it's not going to be something that they'll focus on.”

Financial Advice Respondent, North East

Finally, there was **little confidence among respondents in the North East (and the UK as a whole) that SMEs would have good access to finance to realise their ESG and/or net zero goals.**



**British Business Bank plc**

Steel City House  
West Street  
Sheffield S1 2GQ

t. +44 (0)114 206 2131

e. [info@british-business-bank.co.uk](mailto:info@british-business-bank.co.uk)

**[british-business-bank.co.uk](http://british-business-bank.co.uk)**

Publication date: July 2021

British Business Bank plc is a public limited company registered in England and Wales, registration number 08616013, registered office at Steel City House, West Street, Sheffield, S1 2GQ. It is a development bank wholly owned by HM Government. British Business Bank plc and its subsidiaries are not banking institutions and do not operate as such. They are not authorised or regulated by the Prudential Regulation Authority (PRA) or the Financial Conduct Authority (FCA). A complete legal structure chart for the group can be found at [www.british-business-bank.co.uk](http://www.british-business-bank.co.uk)