Nations and Regions Tracker: Small Business Finance Markets 2022

British Business Bank

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're from.

The British Business Bank's second Nations and Regions Tracker provides a snapshot of the UK's finance markets, covering the supply and demand of finance and the Bank's own regional activity.

While the proportion of smaller businesses using external finance has declined recently, the use of debt finance remains reasonably well spread across the UK, albeit with some local variations. Equity finance, on the other hand, remains concentrated in London, although we report promising signs of growth in early-stage equity finance across the rest of the UK in 2021. We will monitor closely how this development continues in the current challenging market conditions.

Each year this report takes a deep dive into some of the specific financial challenges facing smaller businesses, including challenges specific to a region. Breaking down barriers to finance is a key pillar of the British Business Bank's strategic plan, and so the first theme in this report takes a closer look at entrepreneurs whose businesses are based in the most deprived areas of the UK. They are often more ambitious and more willing to use finance to grow. Unfortunately, we also find they are less likely to apply for finance and more likely to be turned down if they do.

In response, the British Business Bank is improving access-to-finance conditions for businesses in the UK's most deprived areas. The Bank's Start Up Loans programme and three regional investment funds have a strong track record in providing finance to deprived areas, and a higher proportion of Start Up Loans and regional funds recipients are based in deprived areas of the UK than the wider business population.

The Bank will launch a series of new Nations and Regions Investment Funds which will deliver a £1.6bn commitment of new funding to drive sustainable economic growth. The new funds will increase the supply and diversity of early-stage finance for UK smaller businesses, providing finance to firms that might otherwise not receive investment.

As part of this new programme, the Bank will be establishing investment funds in each of the Devolved Nationsand the South West for the first time, as well as an expanded Northern Powerhouse Investment Fund to include the North East.

This year, reflecting our new mission, which has sustainable growth at its core, we have also put a focus on the net zero challenges and opportunities for smaller businesses in the UK's nations and regions. The latest data shows that often those areas with the greatest reliance on the highest-emitting industries are also those with the lowest economic output.

Without sufficient finance, both for new-to-market innovation and the adoption of net zero technologies across the UK, investment will be constrained, leading to lower regional and national growth. However, this report finds, promisingly, that equity finance flows have the potential to form new clusters around net zero innovation in several nations and regions of the UK, including Warwickshire, Oxfordshire, Cheshire East, Sheffield, Glasgow, and Bristol.

Our Nations and Regions Tracker is now a core part of our annual research report programme alongside our Small Business Finance Markets report and Small Business Equity Tracker, and their insights are fundamental to delivering our objectives.

I hope this report will stimulate further thinking and feedback from businesses, the finance community and all those with a stake in the UK economy. With our UK Network, we look forward to discussing how we can provide further support in tackling regional and national imbalances in access to finance and enabling the transition to a greener economy.

Louis Taylor
Chief Executive Officer

Executive Summary

External finance can be an important tool for businesses at all stages of development. During times of great uncertainty, but also times of opportunity as the UK looks towards a net zero future, it is more important than ever that SMEs have and are aware of finance options available to them. Whether borrowing to keep going or drive growth and innovation, external finance can give entrepreneurs and businesses options they wouldn't otherwise have.

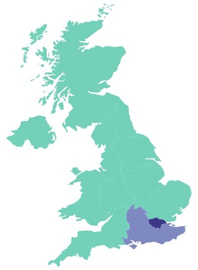
External finance is an important tool for business growth and stability, but usage has fallen in the last year

38% of SMEs were using external finance in the second quarter of 2022, down from 45% a year earlier. Usage fell in nine of the 12 UK nations and regions between Q2 2021 and Q2 2022. Finance usage has dropped markedly in specific areas of the UK since before the pandemic, most notably in Northern Ireland which had the highest proportion of firms using finance between 2017 and 2020, peaking at 69% in 2019 but falling to 36% in the four quarters to Q2 2022.

Debt products continue to be the most widely used finance type, however the makeup of debt products has shifted slightly in the wake of the Covid-19 pandemic. Bank loans are now the most used external finance product, with a big uptick in usage in 2021 due to the prevalence of the covid loan schemes. Usage of credit cards and overdrafts, the most widely used products in 2020, fell in 2021 though recent data has seen these and other cashflow finance options rebound as businesses seek to prepare for a challenging economic environment.

Historically the distribution of bank lending at a regional/ national level has been roughly in line with the business population and Covid-19 does not to appear to have altered this pattern. However, slight deviations do exist in several nations and regions of the UK which can have material impacts on available capital due to the size of overall SME bank lending flows which were £57.7bn in 2021.

Evidence from the Bank's portfolio suggests asset finance, the most widely used 'alternative finance type and a key tool for business investment, is also highly geographically diverse. Offering asset finance via the covid loans schemes has increased and broadened usage of asset finance via our programmes around the UK.



Promising growth in early-stage equity finance, but markets remain highly concentrated in London and the Greater South East

Promising signs emerged in early-stage equity finance, where the pace of growth in investment in the nations and regions outside of London in 2021 was much stronger than in the capital. Seed stage investment increased by 88% outside of London in 2021, whereas in London it fell by 22%. Seed stage investment is key to building the pipeline of investable opportunities to drive larger quantities of later stage capital investment in the future.

However, London, the South East and East of England have historically attracted a much higher proportion of equity finance flows than their share of the UK's high growth business population. This picture did not improve in 2021 with £11.9bn of equity investment across 1,286 deals in London-based SMEs, representing 66% of overall UK SME equity investment and 49% of deals. London's share of equity deals increased by three percentage points compared to 2020, whilst its investment share stayed flat due to the strong non-London early-stage activity.

The increase in London's share of equity deals was driven by stronger growth in London than the rest of the UK rather than a contraction elsewhere. In fact, every region and nation outside of London except the West Midlands saw increased SME equity investment in 2021 compared to 2020.

Businesses in the UK's most deprived areas face greater challenges in accessing external finance

Deprived areas exist, to varying degrees, in every region and nation of the UK, and are characterised by lower incomes and employment rates, and worse educational and health outcomes. These areas are highly localised, often bordering much more affluent areas, and are concentrated in the UK's urban centres. Although bank lending flows are shown to be widely distributed across the UK, specific characteristics of deprived areas and the firms within them result in increased barriers to accessing finance.

Evidence suggests that businesses in the most deprived areas of the UK have a greater appetite for external finance but are more likely to be deterred from applying. A lower proportion of businesses from 'highly deprived areas' reporting an external finance need went on to apply. Furthermore, those applied also faced higher rejection rates. 15% of businesses in 'highly deprived areas' applying for finance between 2019 and 2021 were turned down, compared to 11% elsewhere.

Certain business characteristics, such as credit score, availability of collateral and/ or credit balance, and even size and sector, affect lending decisions. Previous research has suggested that firms in the UK's most deprived areas differ on some of these important characteristics and that this is likely driving the differences in rejection rates. However, features of deprived geographies themselves could affect important lending characteristics, especially collateral and credit scores and as such being based in these geographies can increase access to finance barriers.

The scale of the net zero challenge varies widely between different UK nations and regions, but it will also bring opportunity, attract investment and spark innovation

SME greenhouse gas emissions vary between the different UK nations and regions, driven partially by structural differences in the sector mix of the business population as well as geographic factors, such as, natural resources, population and business density. The scale of the challenge faced by businesses to transition to net zero will therefore reflect this and differs from place to place.

Total SME emissions in 2020 were highest in Wales, while those in London and the North East emitted the least. Per business, SMEs in Wales and Northern Ireland emitted the most on average, while those in London and the South East emitted the least. These rankings tend to hold consistently across the different sectors analysed, which suggests that sector mix does not tell the whole story and there is also a place-based element to SME emissions. The costs of transitioning to net zero are likely to be higher in regions with highest emissions, suggesting there will be greater need for external finance. This may prove to be more of an obstacle to reducing emissions in some places than others, reflecting geographic imbalances in access to finance for SMEs.

However, transitioning to net zero will require developing and commercialising new technologies. It will require innovation, necessitate investment, and lead to new jobs. Analysis of SME equity deals reveals that £6.9bn has been invested in sectors facilitating the transition to net zero since 2011, more than half of which occurred in the four most recent quarters to Q2 2022.

Equity finance in net zero sectors is less concentrated in London than the overall equity finance market, with 33% of net zero investment between 2011 and Q2-2022 taking place in London, compared to 63% across all other sectors. These equity finance flows have the potential to form new clusters around net zero innovation in several regions of the UK, such as Scotland and the West Midlands. Such clusters would attract increasing numbers of skilled workers, other firms, and finance providers.

Addressing geographic disparities in finance access to drive sustainable growth remains critical to the Bank's mission, especially as we help fund the innovation and adoption net zero technologies

The Bank's mission includes driving sustainable growth and prosperity across the UK and enabling the transition to a net zero economy by improving access to finance for smaller businesses. Reducing geographic finance disparities is becoming increasingly important as the net zero transition becomes more prominent. The Bank's equity programmes are already playing an important role in funding the frontier technologies which will power the transition, and 76% of recipients in net zero-aligned sectors were based outside of London. Over the next couple of years, the Bank will be launching its Nations and Regions Investment Funds to further support SMEs in less-developed ecosystems access the finance they need to grow.

Introduction

This is the Bank's second 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 delivering on our objective to be 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, particularly those that aim to reduce imbalances in access to finance for smaller businesses across the UK.

Structure of the Report

The report is divided into two sections. Part A begins with an overview of finance markets in the 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.

The next two chapters of part A provide in-depth analysis on two important topics facing the UK and for which the Bank has a role to play. The first is an exploration of the challenges faced in accessing finance in 'deprived areas' and looks at what may be driving the different outcomes. The second looks at how individual nations and regions are beginning their net zero journeys from different starting points, the impact this could have on levelling up, both positively and negatively, and the role investment in innovation has to play.

Part B of the report sets out for each region and nation in the UK the datapoints needed to understand finance markets in that location and gives an idea of how many of these have changed since our first report.

Section 1

Nations and regions market overview

- Just under four in ten SMEs were using external finance in early 2022
- Core debt products remain the most used and widely available across the UK nations and regions
- Asset finance is the most used alternative finance and available across the UK
- Equity finance remains concentrated in London
- Spending Review 2021 boosted the Bank's regional programmes

External finance can be an important tool for businesses at all stages of development.

Whether borrowing funds to start up, securing investment to expand or establishing working capital facilities to manage the uncertainties of trading, external finance can give entrepreneurs and businesses options they wouldn't otherwise have. Despite this, at the end of Q2 2022, 46% of SMEs were permanent non-borrowers (PNBs) which are firms with no apparent appetite for finance and are defined by not using external finance and showing no inclination to do so.

Just under four in ten SMEs were using external finance in early 2022

Across the UK, 38% of SMEs reported they were using finance at the end of Q2 2022, down from 45% at the end of Q2 2021. However, using four quarter averages to increase sample sizes, we can see this varies from region to region and nation to nation (Figure 1.1). This likely reflects varying business demographic characteristics within nations and regions but may also in some cases be a function of the availability of various types of finance.

Figure 1.1

Proportion of SMEs currently using external finance

Source: BVA BDRC SME Finance Monitor, four quarter averages

Northern Ireland had reported the highest use of external finance from 2017-2020. This was despite a drop of 15 percentage points from 69% in 2019 to 44% in 2020 as Covid-19 and the related government support changed the SME finance landscape. However, 2021 saw Northern Ireland drop to 5th (out of 12). Wales reported the highest usage of external finance at 50%, up from 42% in 2020. Scotland, London and the South East all reported the lowest usage in 2021 at 40%.

Pre-Covid, the range between the nations or regions use of finance had reached nearly 30%. The events of 2020 saw this close considerably to 10%, driven by larger falls in usage in many of the nations and regions that had reported the highest usage in 2019. Despite an increase in usage across all nations and regions with the exception of the East Midlands in 2021, the range remained broadly unchanged. This was because the upper range remained well below pre-Covid levels with only three regions or nations reporting higher usage than in 2019.

The decreasing number of SMEs using finance in Q2 2022, compared to Q2 2021, likely reflects the end of the more generous government guaranteed loan schemes, a significant number of SMEs repaying the loans early and the end of the non-repayable finance programmes the UK government ran during the Covid crisis.

The proportion of PNBs also increased in Q2 2022 to 46%, up from 38% in Q2 2021. The proportion of PNBs has increased slightly again to 47% in the three months to July 2022, the highest seen post pandemic, back in line with 2015-2018. As the use of finance has further decreased to 37%, the gap between the two is now 10 percentage points, the widest since 2018.

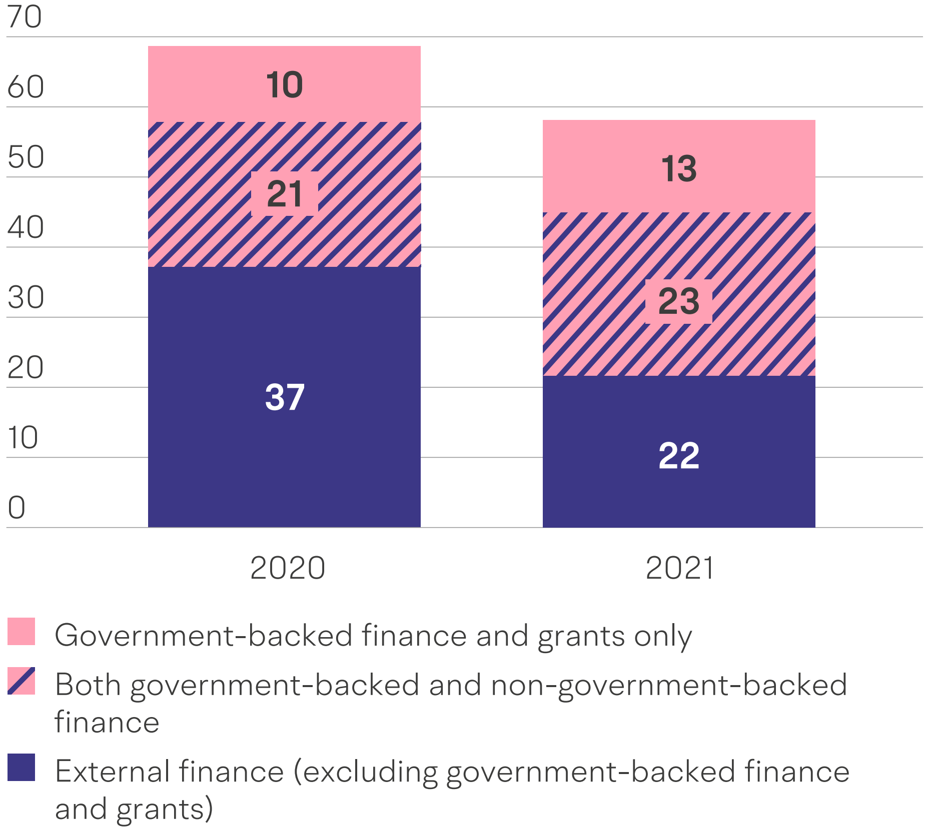
Core debt products remain the most used and widely available across the UK nations and regions

The Bank's Business Finance Survey, undertaken in Q4 2021, looks at SME use of external finance. The number of businesses who were using some form of repayable external finance or grant funding dropped from 67% in 2020 to 59% in 2021. This was driven by a noticeable drop in the proportion of businesses who were using only non-government-backed repayable external finance in 2021, down 15 percentage points to 22%.

Figure 1.2

SMEs use of government-backed finance and grants

Source: British Business Bank Business Finance Survey – Ipsos MORI. Base = all businesses (n= 2,804), *note: may not sum due to rounding **note: Government grants include government or local government grants, i.e. government funding that is not paid back, and other government-backed finance directly funded by Government



However, the proportion of smaller firms using a combination of government-backed and non-government-backed repayable finance as well as grant funding increased slightly from 21% to 23%. Furthermore, the number of SMEs relying solely on government-backed finance and grants increased from 10% to 13% (Figure 1.2).

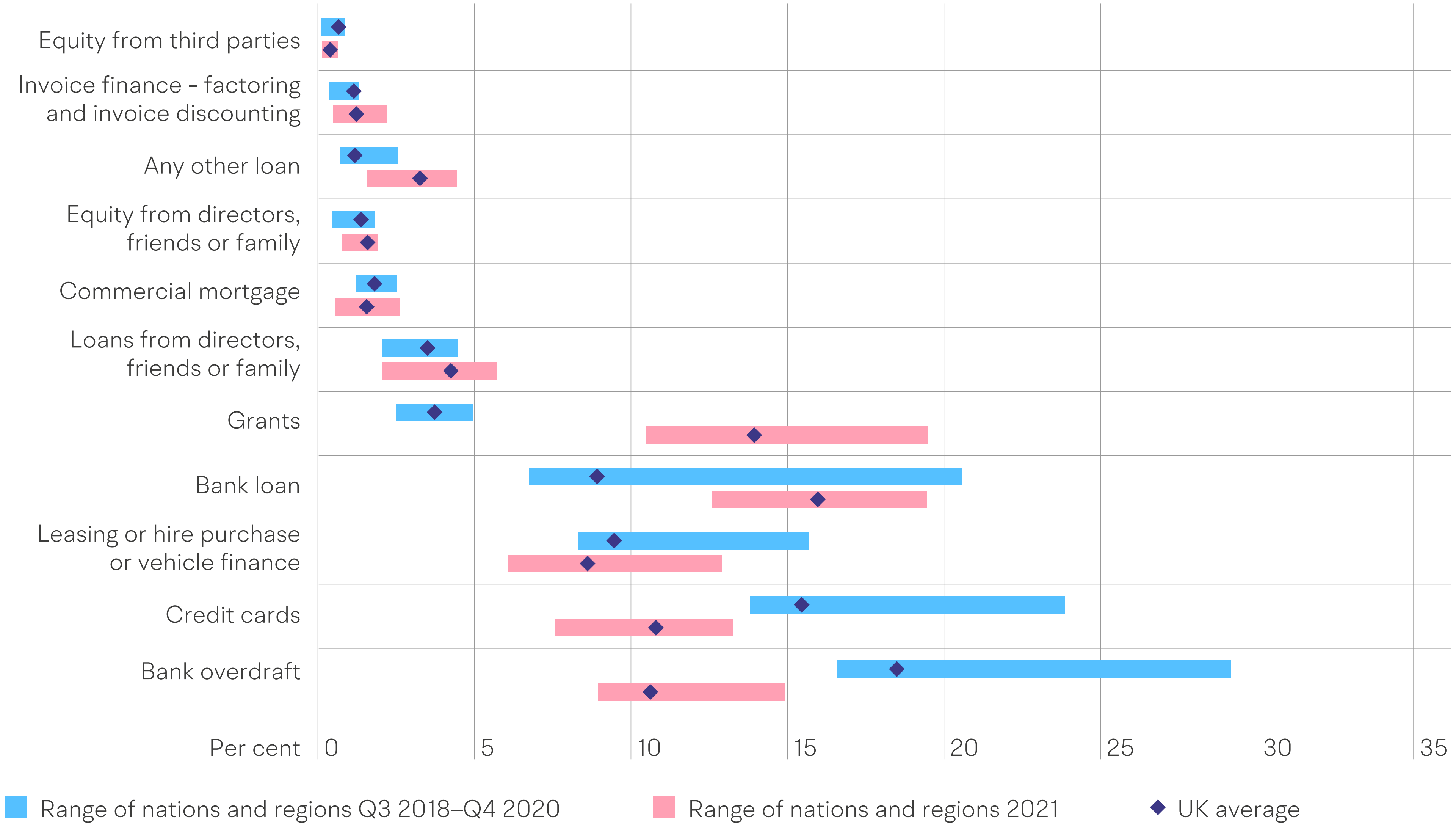
Last year's tracker noted that when looking at the 10 quarters running to the end of 2020, debt products remained the most widely used although overdrafts and credit cards were typically more popular than bank loans and this was the case for all parts of the UK. Northern Ireland topped the range for all four of the most common finance types with the East of England (overdrafts, credit cards and bank loans) and South East (leasing) sitting at the bottom during the period covered.

The prevalence of government-backed repayable finance changed this picture in 2021 (Figure 1.3). Bank loans (16%) were reported as being the most used external repayable finance type in the 2021 full year SME Finance Monitor results, with credit cards (11%) and overdrafts (11%) falling back in to second and third place. Furthermore, Northern Ireland no longer topped the range for the four most used finance types.

Figure 1.3

Use of external finance by type

Source: BVA BDRC SME Finance Monitor



Late 2021 and early 2022 UK level data has suggested a resurgence in the usage of overdrafts by SMEs though, in part driven by the increased need for working capital as the economic picture deteriorated and input costs have increased. Q2 2022 Bank of England data shows the stock of overdrafts is now at £9.6bn (s.a.), 14.3% higher than June 2021 while gross bank lending in H1 2022 was £30.9bn (s.a.), up only 2.4% from H1 2021.

Although bank lending has a similar degree of concentration to the business population, this does not mean that there is a perfectly even spread. For example, several regions had shares of business term lending at least one percentage point below their shares of the business population in 2018 to 2019. These deviations are meaningful given the status of bank loans as one of the most widely relevant finance products.

2020 and 2021 has seen relatively little change in the pattern of bank lending as measured by the UK Finance SME lending within postcodes data. The only real changes appear to be in Northern Ireland, the South West and London.[1] The first two are both receiving around one percentage point less in the share of bank lending than they did pre-Covid, though both still receive a higher share than they have of the SME population.

London is now receiving around one and half percentage points more than it did pre-Covid and is also above its share of SMEs.

It should be noted no region or nation is receiving less bank lending than pre-Covid. Indeed, due to the Covid loan schemes bank lending to SMEs grew greatly in all nations and regions in 2020. However, lending to London SMEs has grown at a quicker rate than nearly all other regions or nations across 2020 and 2021.

The data produced by UK Finance only covers seven lenders and there are some additional caveats around reporting with that. Given the prominent role a wider range of lenders played during 2020 and 2021 it is worth also looking at our own data covering the Coronavirus Business Interruption Loan Scheme (CBILS), Bounce Back Loan Scheme (BBLS) and more recently the Recovery Loan Scheme (RLS) for a fuller picture.

The Bank's data can be looked at either via number of loans or via the value of loans taken by SMEs in each region (Figure 1.4). This shows the that the regional spread of both the combined volume of loans and the value of loans from CBILS, BBLS and RLS broadly matches the latest BEIS business population estimates.[2]

Figure 1.4

Value and volume shares of loans under CBILS, BBLS and RLS, percentage point difference from share of SMEs, and average loan size (£)

Source: British Business Bank analsys of delivery partner MI

Region	Volume	Value	Average loan
East Midlands	-0.2	-0.1	46,229
East of England	-0.5	-0.5	45,928
London	1.6	3.6	50,723
North East	0.3	0.0	41,182
North West	1.1	0.9	45,249
Northern Ireland	0.5	0.5	47,139
Scotland	-0.1	-0.5	43,184
South East	-1.6	-1.5	46,520
South West	-1.2	-1.7	43,138
Wales	0.1	-0.5	39,231
West Midlands	0.0	0.0	46,007
Yorkshire and The Humber	-0.3	-0.5	44,932

All nations and regions' volume and value shares are within half a percentage point of each other with the exception of London and Wales. London received 20.3% of all deals but 22.3% of the value of all deals reflecting the fact London had the highest average loan at just over £50,000. In contrast Wales received 3.8% of deals but only 3.2% of the value and had the lowest average loan size at just over £39,000. The average UK loan was £46,180.

Asset finance is the most used alternative finance and available across the UK

Whilst the distribution of bank lending mostly matches that of SMEs this is not the case for many other types of finance. For example, in our 2021 Nations and regions tracker we reported that Yorkshire and the Humber accounted for just 4.9% of private debt activity and 1.5% of equity activity in 2019 despite hosting 7.2% of the SME population. Unfortunately, there is little data for many types of finance making it hard to understand the full picture in each region.

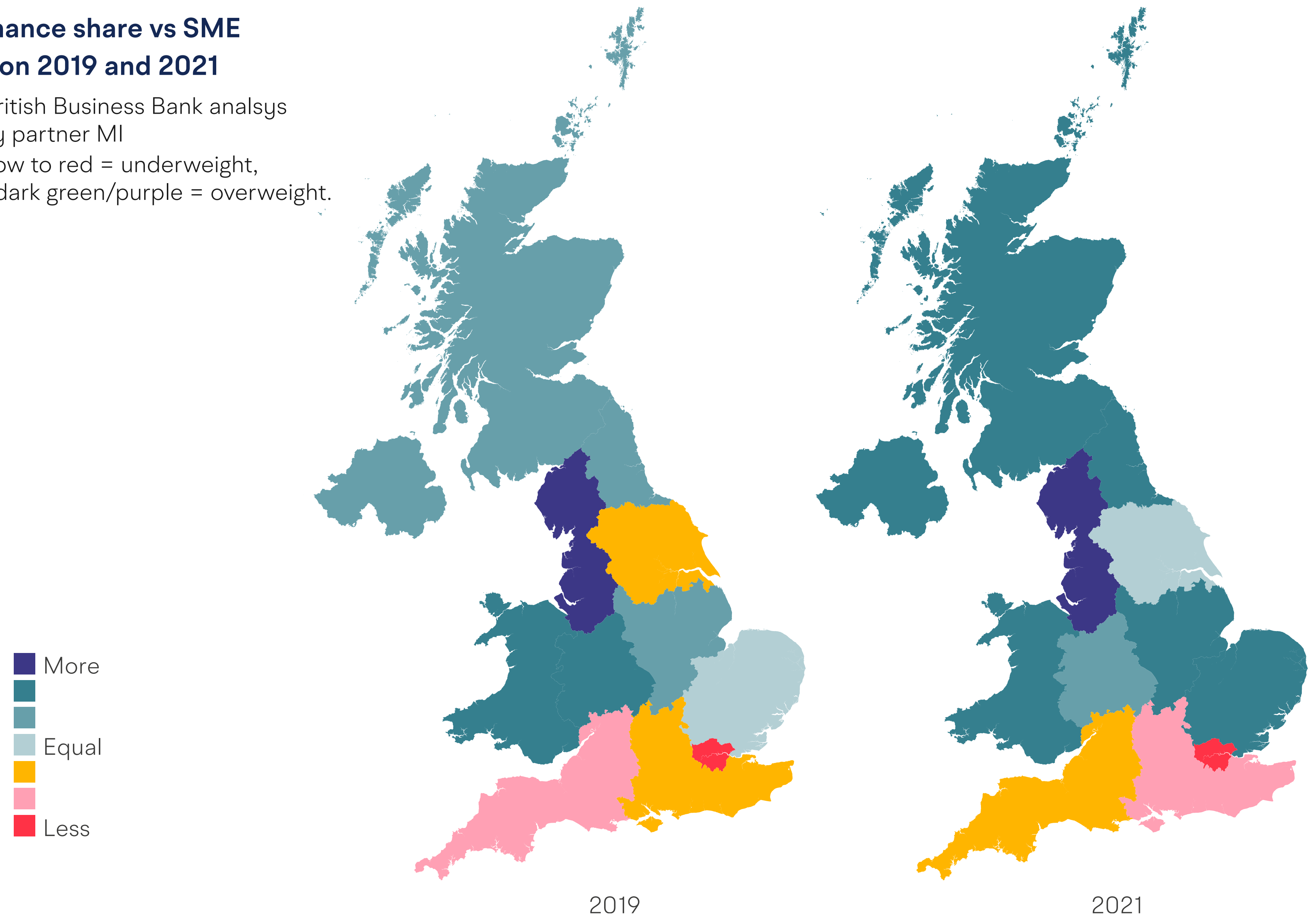
Asset finance is the most used 'alternative' finance product UK wide. In this report we have used the management information we receive from our delivery partners to proxy how asset finance is distributed.

Figure 1.5

Asset finance share vs SME population 2019 and 2021

Source: British Business Bank analsys of delivery partner MI

Note: Yellow to red = underweight, Green to dark green/purple = overweight.



Aggregating this data from across all our relevant programmes and delivery partners we found that both pre and post-Covid the regional split of British Business Bank facilitated asset finance was broadly in line with SME distribution for many regions and devolved nations but with some interesting differences.

London for example, received only 10% of the total asset finance we facilitated in 2019, well below London's SME share of 19.1% of the SME population (Figure 1.5). The South West, South East and Yorkshire and the Humber also received less than their share of SMEs. Rather than this suggesting a lack of asset finance availability in these regions it likely reflects differing business demographics and the availability of other types of finance.

All remaining regions and devolved nations, 8 out of 12, received a share in line with their SME share or above. The North West topped the table with just under three percentage points percentage points above their SME share, followed by Wales and the West Midlands.

This pattern predominately continued throughout 2020 and 2021, though with significantly higher volumes. All regions that entered 2020 either under or overrepresented remained as such, with the exception of Yorkshire and the Humber. This region's share of the asset finance facilitated via our programmes increased from 5% in 2019 to 9% in 2021 and is now around 1.5% above its share of SMEs. Of the other three regions that had asset finance shares lower than their SME share London has remained flat, the South West has increased its share by two percent while the South East has lost around one percent.

In Q1 2022 volumes have fallen across all nations and regions compared to the previous quarter and in fact all quarters since the onset of Covid-19 in the UK. However, in total the UK volume remained just under 50% above all pre-Covid quarters and Q2 (April-June) 2020, with each individual region and nations' volumes above pre-Covid peaks.

While it is difficult to verify how reflective of the wider industry our delivery partner numbers are we have previously sense checked by speaking with several of our delivery partners and confirming the finance they provide utilising our support is reflective of their wider book

Equity finance remains concentrated in London

Although the debt products we have covered so far are relatively well matched to SME populations across the UK, equity certainly is not. London historically attracts by far the largest share of equity investment both in terms of deal numbers and values.

The 2022 Equity tracker reported that in 2021, 1,286 deals worth £11.9bn took place in London, 49% of the UK's total number of SME equity deals and 66% of total investment (Figure 1.6).[3] London's share of deals increased by three percentage points whilst its share of investment remained unchanged compared to 2020. This was driven by stronger growth in London compared to the rest of the UK, rather than a decline in activity in the other regions and devolved nations, but none the less reversed recent improvements in the spread of equity finance.

In total there were 1,330 deals worth £6.2bn in the English regions outside of London and in the devolved nations. This is an 11% increase in the number of deals and an 88% increase in the investment value. Every region in England saw increased number of deals while in the devolved nations, Northern Ireland was the only one to experience an increase.

Every English region and devolved nation apart from the West Midlands also had an increase in equity investment in 2021. The South West, Northern Ireland and the North West were the three areas with the largest increases in investment in 2021, increasing by 357%, 240% and 213% respectively.

Looking at investment at the seed and venture stage combined, English regions outside of London and devolved nations grew 107% on 2020, substantially more than the 36% growth in London. Looking at the seed stage in isolation, the amount of seed stage investment in London in 2021 declined by 22%, with seed stage investment in English regions outside of London and the devolved nations increasing by 88%.

Early Q2 2022 data suggests that, despite the poor global economic conditions, equity investment in the UK is so far holding up in both number of deals and investment value in the first half of the year. There is sizable variation within nations and regions, however, given the data limitations at this stage of the year, and the low number of deals in some nations and regions this is not unusual.

Another sign of the increasing strength of the overall UK equity ecosystem outside of London and the expanding pipeline is the increasing number of angels outside of London. The number of deals involving an angel outside of London increased 21% to 373 between 2020 and 2021, whilst the value of those deals increased by 87%

Figure 1.6

Number and value of announced SME equity deals by region and nation

Source: British Business Bank analysis of Beauhurst data

Regions and devolved administrations	Number of deals (2021)	% change compared to year ago	Investment Value (2021)	% change compared to year ago
London	1,286	23%	£11.9bn	89%
South East	269	24%	£1.6bn	59%
East of England	169	14%	£1.4bn	91%
North West	160	26%	£872m	213%
South West	130	49%	£821m	357%
Scotland	223	-19%	£549m	74%
West Midlands	68	13%	£338m	-12%
Yorkshire & the Humber	86	18%	£179m	13%
East Midlands	50	32%	£154m	92%
North East	76	6%	£150m	58%
Northern Ireland	39	44%	£88m	240%
Wales	60	-22%	£83m	44%

reaching £1bn. Business angels are a vital part of equity ecosystems, providing finance and support to start-ups at their earliest stages. It is therefore encouraging to see angel activity continue to increase.

However, as noted in the recent Climate for angel investing report there remains a deep concentration of angel investors in the London, Oxford, Cambridge triangle.[4] London based angels on their own accounted for 44% of all respondents. As reported in the UK Business Angel Market 2020 report investors tend to invest in their own home region which highlights the importance of developing angel investment groups outside of London, Oxford and Cambridge and is the major reason for the British Business Bank's Regional Angel Programme.[5]

Spending Review 2021 boosted the Bank's regional programmes

Since our formation in 2014, improving opportunities for UK entrepreneurs and businesses has been at the heart of our mission. Our national programmes continue to achieve regional impact. For example, at the start of 2022, our Start Up Loans programme passed two milestones, delivering over 90,000 loans and providing over £800m of funding across the UK since 2012 (see data annexes for more details). However, we realise more needs to be done and this has led us to develop products with a specific aim of improving financial imbalances.

During our last Nations and regions tracker we reported than our Regional Angel Programme (RAP) had helped improve UK wide access to angel investment through sizeable commitments to eight deliver partners who in turn have already made more than 250 investments. As of the end of May 2022 this had increased to ten delivery partners and 350 SMEs benefitting from investment.

As a result, at the Spending Review 2021 we successfully bid for an additional £150m over three years to continue the programme at its current pace of delivery, as necessitated by current market conditions and enabled by a strong pipeline of potential delivery partners. This is designed to unlock £50m a year for investment alongside further new delivery partners each year. These delivery partners will invest the RAP capital alongside at least the same amount from the delivery partner's private sector sources, resulting in at least £300m of early-stage equity finance to growing SMEs across the whole of the UK.

Furthermore, at the Spending Review 2021 the government announced £1.6bn of new funding for a series of investment funds across the country, as we extend and develop our UK and Regional Funds. While building on the success of these funds, we will also be expanding the coverage of funds in England and, for the first time, setting up new investment funds in Scotland, Wales and Northern Ireland.

This is to be split as follows:

- £660m for the Northern Powerhouse Investment Fund, including an expansion into the North East of England
- £400m for the Midlands Engine Investment Fund
- £200m to provide a new fund for businesses in the South West of England, building on the Cornwall and Isles of Scilly Investment Fund.
- £150m to provide a new fund for Scottish businesses
- £130m to provide a new fund for Welsh businesses
- £70m to expand provision for businesses in Northern Ireland

We will take forward the Nations and Regions Investment Funds. In doing so, we will work with key stakeholders to determine the best way of delivering this increased support, helping to break down barriers to accessing finance across the UK.

Section 2

Use of finance in deprived areas

- Deprived areas can be found across the UK, but are particularly concentrated in built-up, urban geographies
- Businesses in 'highly deprived areas' have a greater appetite for external finance but are more likely to be deterred from applying and more likely to be rejected
- Differences in business characteristics could explain this discrepancy, however, features of deprived locations are also likely to contribute, and themselves drive characteristic differentials
- Businesses located in highly deprived areas have been more impacted by the Covid-19 pandemic and recent macroeconomic climate
- The British Business Bank continues to partner with lenders committed to improving access-to-finance conditions for businesses in the UK's most deprived areas

Deprived areas are characterised by lower incomes, lower employment rates, higher instances of crime and residents typically face worse educational and health outcomes. These areas are the most in need of 'Levelling Up', and the Levelling Up White Paper sets out how tackling spatial inequality across the UK is critical in improving outcomes for both people and businesses. This section considers whether businesses and entrepreneurs within such localities face increased difficulties in accessing finance.

Typically, studies looking into geographical finance disparities focus on specialised finance forms such as Venture Capital which, as section one of this report shows, are highly spatially concentrated. As more broadly used finance products such as bank lending are widely available, less focus has been given to the spatial differentials in accessing core debt products. Analysis at regional or national level shows that bank lending is fairly evenly distributed across the UK. However, this may mask a more complex picture at a sub-regional level.

Particular characteristics of deprived areas may mean that market failures affect the ability of firms within them to access external finance. Collateral is often required in bank lending transactions to overcome information asymmetries, however property values are likely to be lower in highly deprived areas. Characteristics of entrepreneurs themselves may also differ, which may affect the demand and supply of finance to these firms.

The analysis in this section focusses on the 15% most deprived UK areas, as defined using Indices of multiple deprivation (IMD), henceforth referred to as 'highly deprived areas'. For Northern Ireland and Scotland there are no comparable IMD metrics available so it is assumed that the 15% most deprived areas on each country's individual IMD measure are in the UK's most deprived 15% of areas overall (see Box: Measuring deprivation).[6]

To carry out this analysis we use ten quarters of data from BVA BDRC's SME Finance Monitor (SME FM), between Q3 2019 and Q4 2021, supplemented with the IMD data outlined in the data overview section. Overall, there are 42,594 survey responses from businesses that have been classified based on the deprivation level of their location across the ten-quarter period.

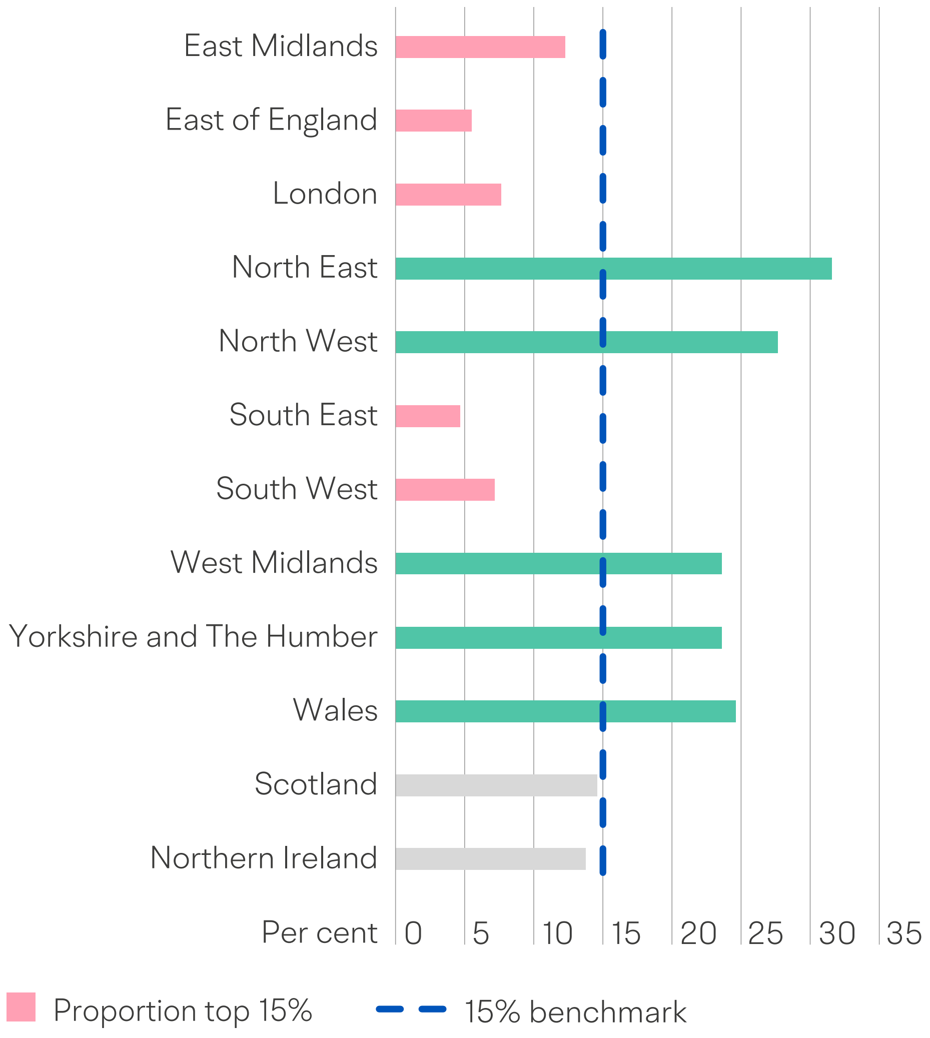
Deprived areas can be found across the UK, but are particularly concentrated in built-up, urban geographies

In every region and nation of the UK there are 'deprived' areas. They are often very localised and border much

Figure 2.1

Proportion of population in the '15% most deprived UK areas', by ITL1

Source: ONS, Scottish Index of Multiple Deprivation, NISRA



more affluent areas. The relative level of deprivation varies widely between the regions of England and in Wales. As shown by figure 2.1, the South East is the least deprived region overall, with only 5% of the population living in 'highly deprived areas'. At the other end of the scale, 31% of people in the North East live in such areas. Across the whole of England and Wales, the East Midlands is the only geography outside of southern England with lower-than-average deprivation.

Overall, 9% of SME Finance Monitor respondents were located in the most deprived 15% of areas in the UK. If this is reflective of the wider SME population, it means over 480,000 SMEs are located in such areas.[7]

Figure 2.2 maps sub-regional deprivation across the UK, showing the proportion of people in each ITL3 area living in the UK's 15% most deprived geographies. Deprived areas are prevalent in every region and nation of the UK, and are typically found in larger, urban areas. As shown in figure 2.3, a very small percentage of the rural communities of England, Wales, Scotland and Northern Ireland live in areas classified as 'highly deprived'. In fact, 96% of individuals living in 'highly deprived areas' are in urban geographies.

Figure 2.2

Proportion of population in top 15% most deprived 'combined' UK areas, by ITL3

Source: ONS, Scottish Index of Multiple Deprivation, NISRA

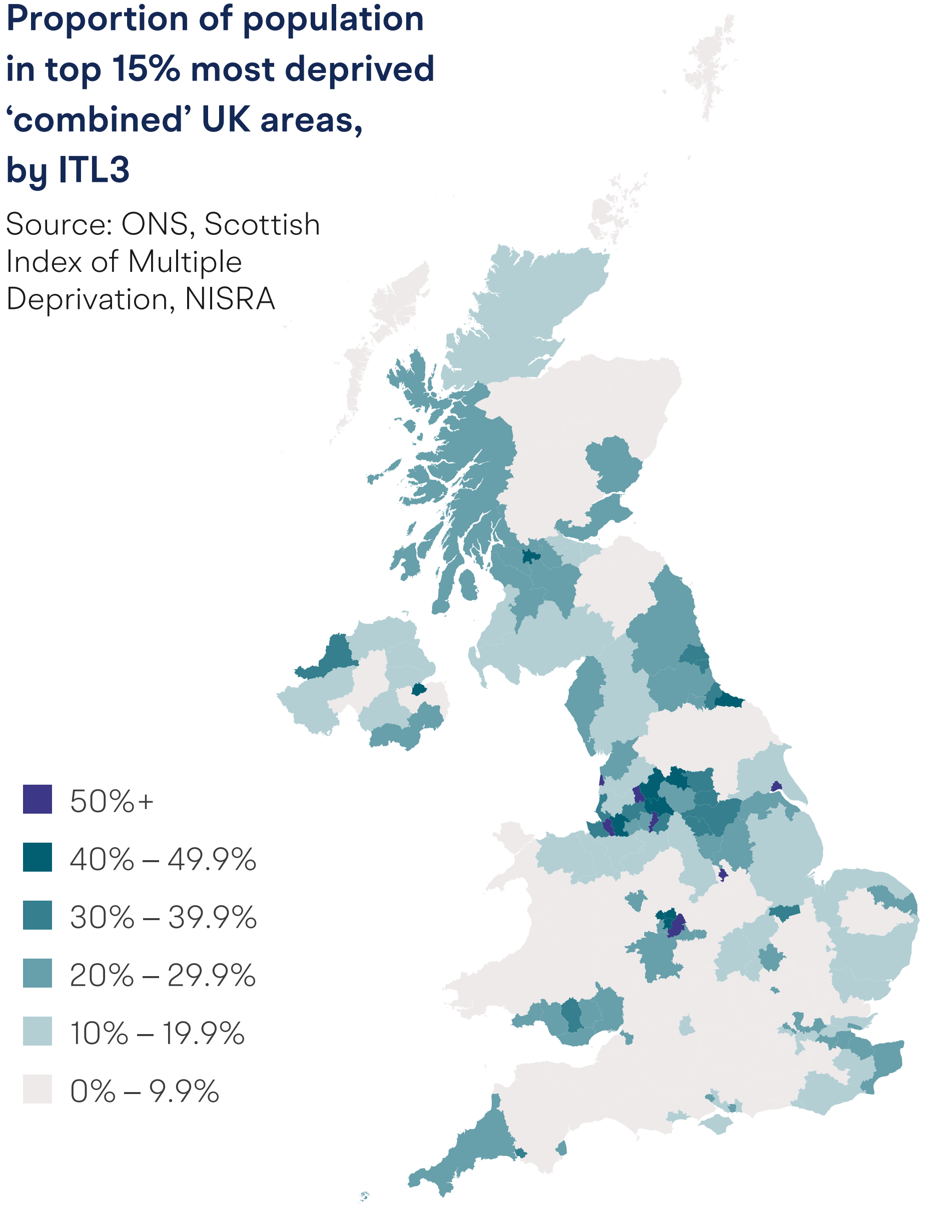
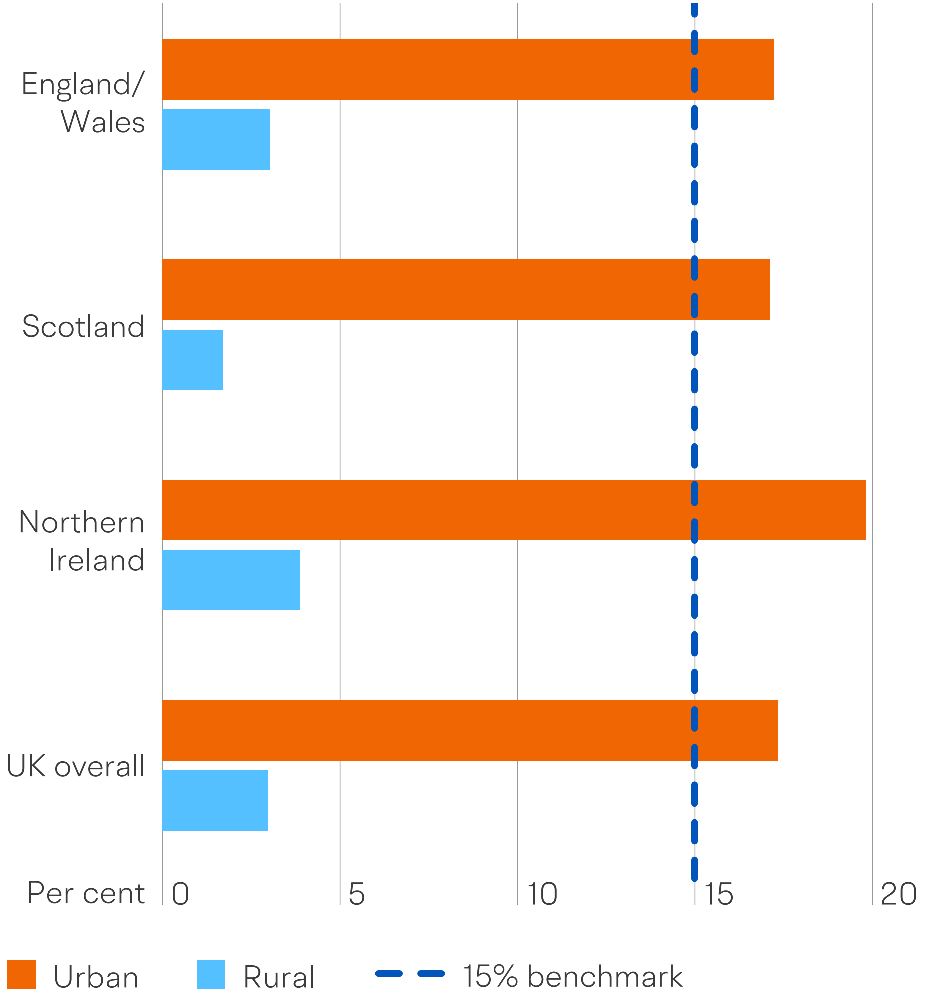


Figure 2.3

Proportion of population living in 'highly deprived areas', by urban/ rural classification

Source: Defra, Scottish Index of Multiple Deprivation, NISRA and ONS



Box: Measuring deprivation

Many factors contribute to the scale of deprivation within an area and therefore to quantify deprivation a ‘basket’ measure is typically used, often named a ‘Multiple Deprivation Index’. Key variables considered include; income levels, employment levels, and health, education and crime metrics. Each UK nation includes different measures and weights and therefore no recognised, single, pan-UK deprivation measure exists. However, the ONS has done some work to create a comparable measure across England and Wales using just the income and employment metrics. Table 1 outlines the measures included in the Multiple Deprivation Indices of each UK nation.

Three Indices of Multiple Deprivation (IMD) are used within this section, highlighted in blue in table 1.

- For geographic areas within England and Wales, the pan-England/ Wales Income Employment deprivation measure is used to allow more robust comparison between the geographies
- For Scotland and Northern Ireland, the IMDs published by each individual government are used.

Table 1

Comparison of the measures and relative weights included in the Multiple Deprivation Indices of the UK

Source: ONS, Scottish Index of Multiple Deprivation, Northern Ireland Multiple Deprivation Measure 2017, Indices of Deprivation 2019: income and employment domains combined for England and Wales

Measure	England	Wales	Scotland	Northern Ireland	England/ Wales Income Employment
Income	22.5%	25%	28%	23.5%	50%
Employment	22.5%	25%	28%	23.5%	50%
Health	13.5%	15%	14%	14%	
Education	13.5%	15%	14%	14%	
Barriers to housing and services	9.3%				
Proximity to services		10%			
Geographic access			9%	10%	
Housing			2%	5%	
Living environment	9.3%	5%			
Physical environment				5%	
Crime	9.3%	5%	5%	5%	

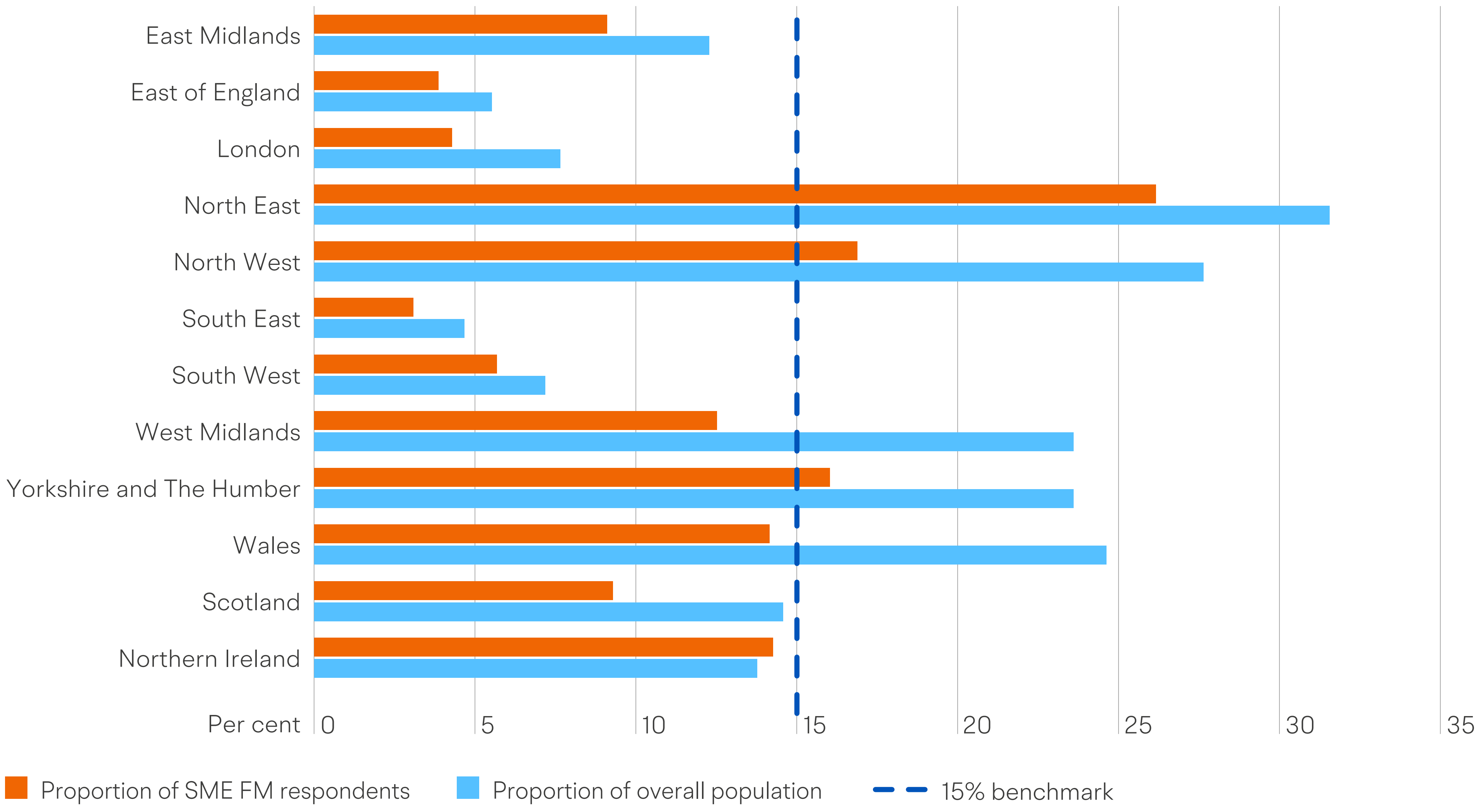
Figure 2.4 compares the proportion of SME FM respondent businesses that are in 'highly deprived' areas with the proportion of the population in those areas, by UK region and nation. For every region and nation of the UK except Northern Ireland the proportion of businesses in 'highly deprived' areas is lower than the population benchmark.

Although SME FM respondents are only a subsample of the overall business population, this analysis suggests that businesses are less likely than people to locate in the most deprived areas of the UK. It should be noted that throughout the rest of this chapter deprivation level is assigned based on business location, however business owners and workers may be located elsewhere, in areas with different levels of deprivation.

Figure 2.4

Proportion of SME FM respondent businesses in top 15% most deprived UK areas compared to proportion of population, by region

Source: BVA BDRC SME Finance Monitor, ONS, Scottish Index of Multiple Deprivation, NISRA



Businesses in ‘highly deprived areas’ have a greater appetite for external finance but are more likely to be deterred from applying and more likely to be rejected

Deprivation levels do not appear to hugely impact the tendency for businesses to report having a finance need, apart from during a handful of time periods as explored later in this section. However, a higher proportion of businesses located in ‘highly deprived areas’ are happy to use external finance to help their business grow and develop, 36% compared to 33% (Figure 2.5). Findings for businesses in 'highly deprived areas' that are statistically significant from other businesses are flagged with arrows on the charts.

Furthermore, 48% of businesses from ‘highly deprived areas’ had a long-term ambition to be significantly larger, compared to 40% of businesses in less deprived areas, and a higher proportion of businesses also reported that they were happy to take risks to become more successful. Combined, one might expect these factors to lead to greater usage of external finance within highly deprived areas.

Figure 2.5

Attitudes to finance and growth, by deprivation level of business location

Source: BVA BDRC SME Finance Monitor, ONS, Scottish Index of Multiple Deprivation, NISRA

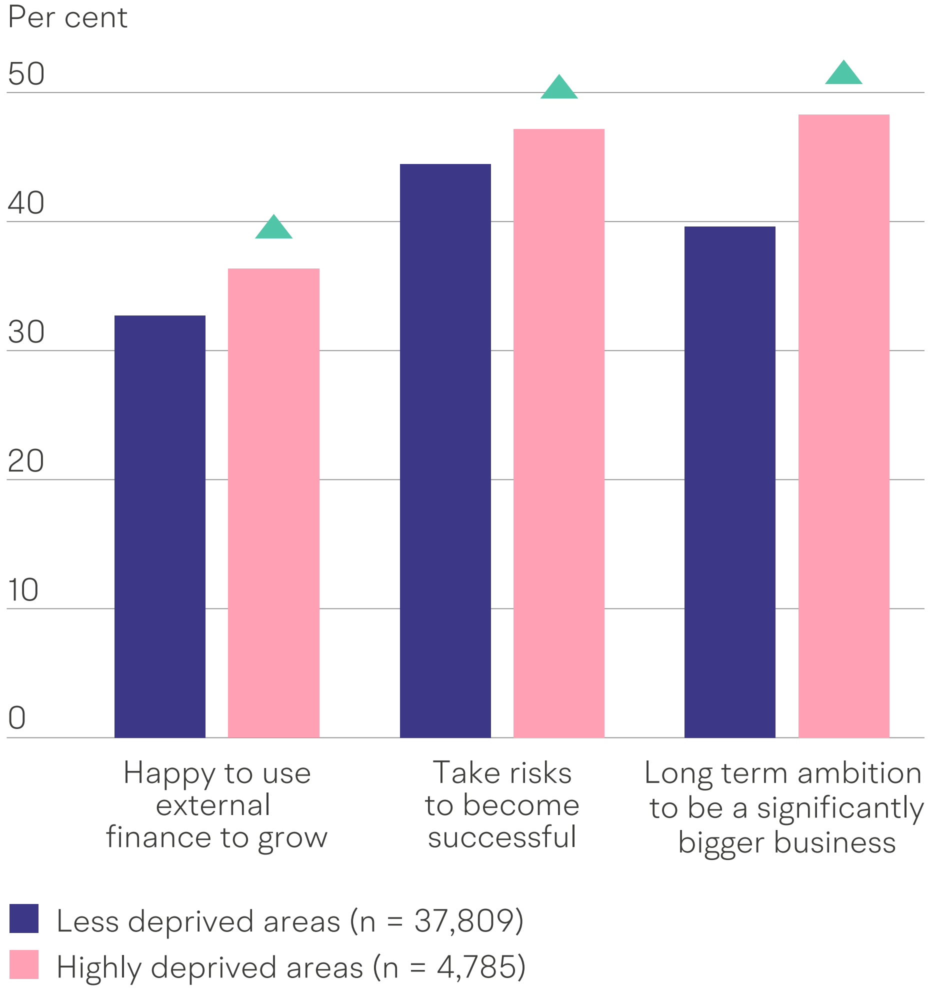
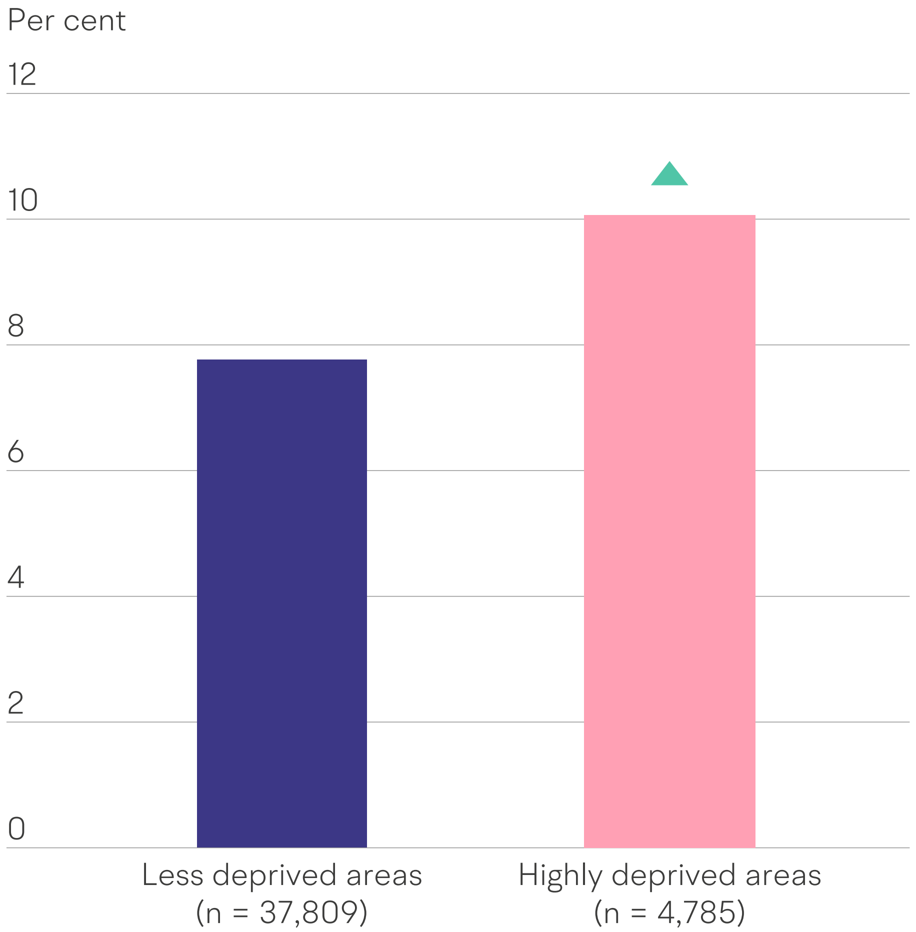


Figure 2.6

Proportion of businesses that view access to external finance as an obstacle to the business over the next 12 months, by deprivation level of business location

Source: BVA BDRC SME Finance Monitor, ONS, Scottish Index of Multiple Deprivation, NISRA



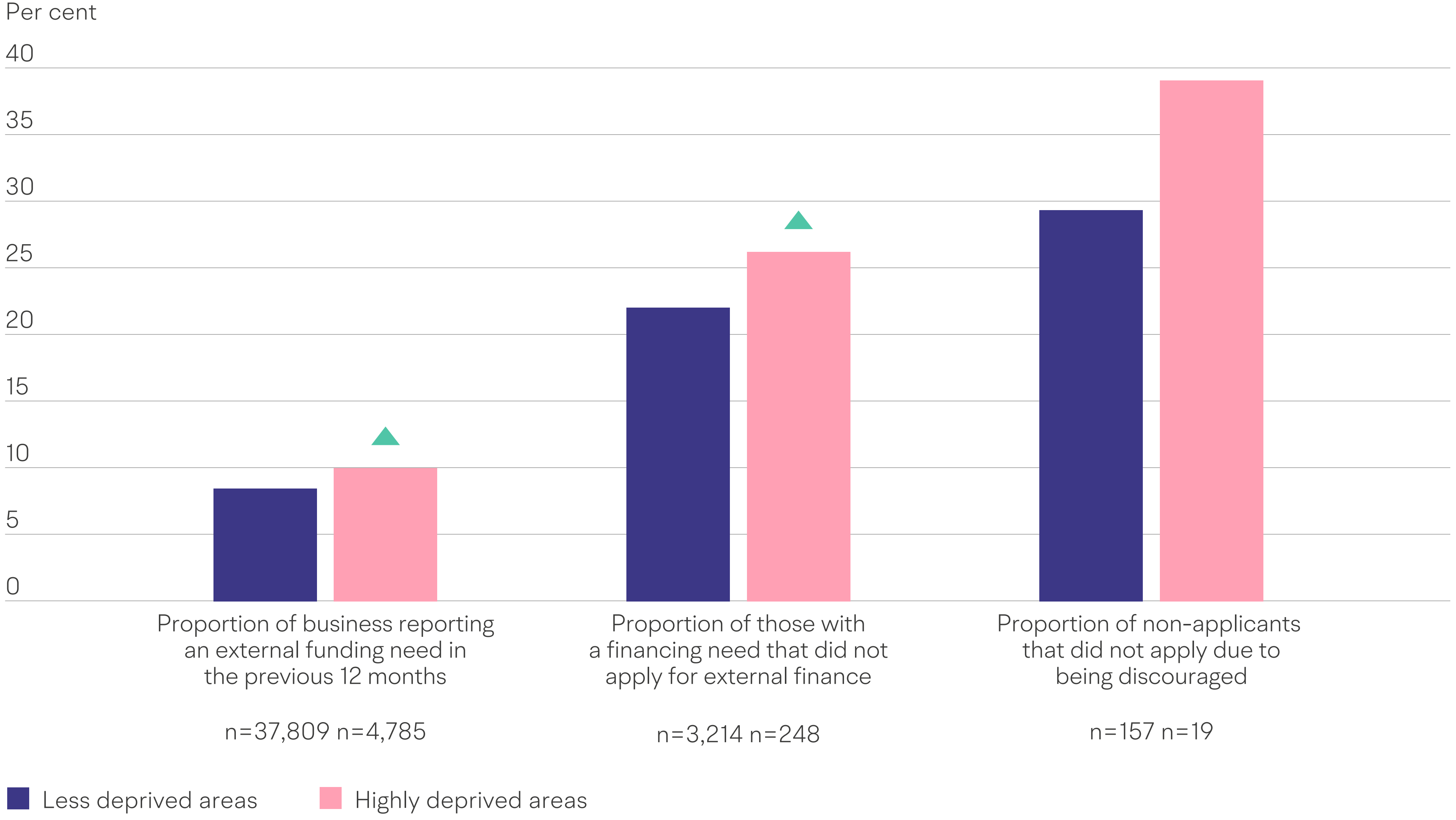
However, despite higher levels of openness and ambition, businesses located in the UK's most deprived areas were more likely to view finance as an obstacle (Figure 2.6). 10% of businesses in 'highly deprived areas' reported access to external finance as an obstacle to the business compared to 8% of businesses in less deprived areas.

These obstacles or deterrents appear to be leading to a lower proportion of businesses in 'highly deprived areas' with a finance need actually applying for finance. 26% of businesses in 'highly deprived' areas reporting a finance need did not go on to apply, compared to 22% in less deprived areas. The third column in figure 2.7 shows the proportion of non-appliers that did not apply due to feeling discouraged, however sample sizes were too small to find statistically significant differences.

Figure 2.7

Finance need, application and discouragement, by deprivation level of business location

Source: BVA BDRC SME Finance Monitor, ONS, Scottish Index of Multiple Deprivation, NISRA



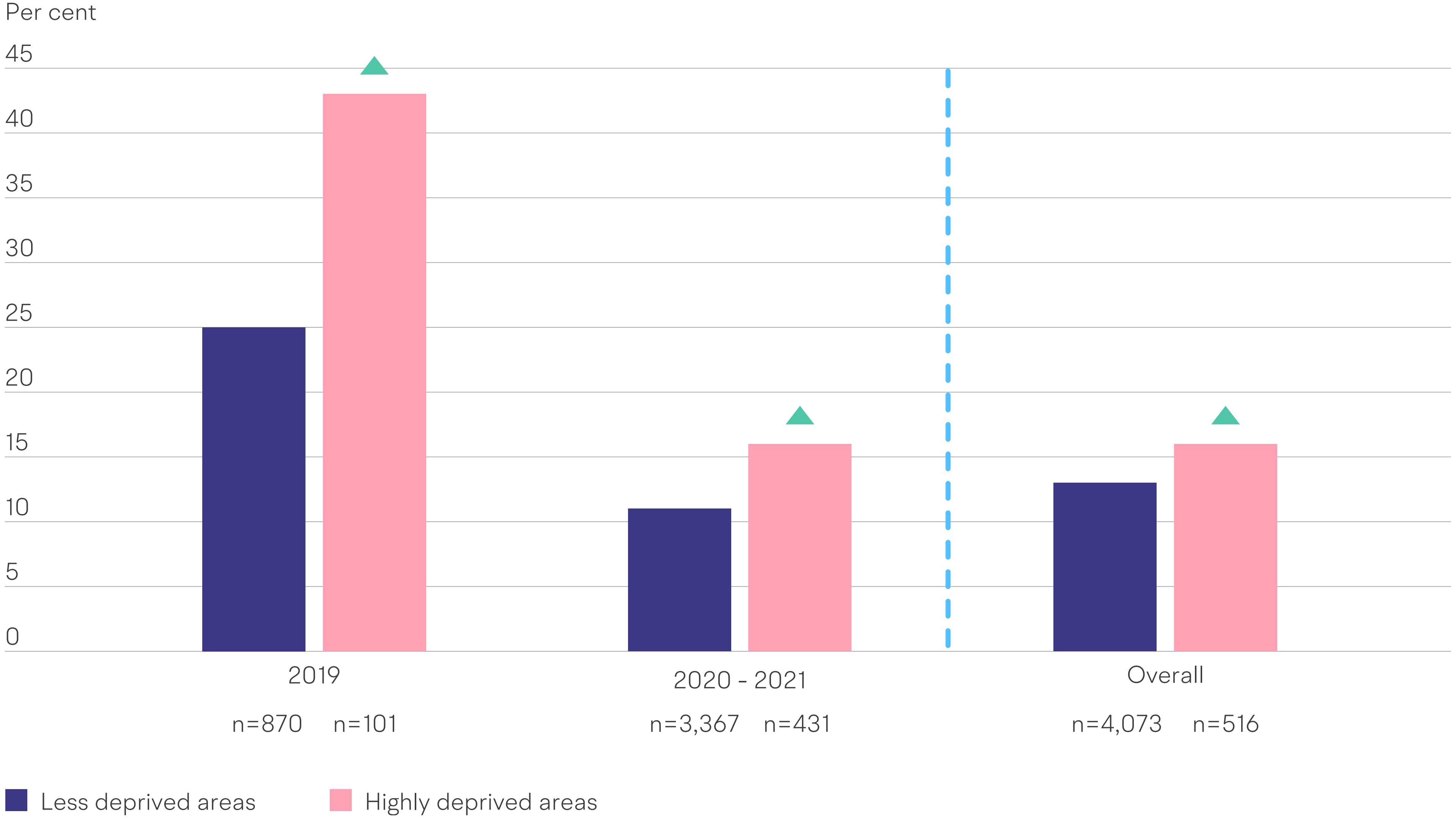
Perhaps of greater concern and potentially an attributing deterrent, not only are businesses based in 'highly deprived' areas more likely to be deterred from applying for finance, rejection rates for those that do are higher. In 2019, before the onset of the Covid-19 pandemic, 43% of businesses from 'highly deprived areas' that applied for finance were turned down, compared to 25% of those from less deprived areas.

Rejection rates in 2020/21 were much lower, driven by the covid loan schemes, and the gap in rejection rates fell. However, significant differences remained with 16% of businesses in 'highly deprived areas' applying for finance getting turned down compared to 11% in less deprived areas.

Figure 2.8

Proportion of applicants that were turned down[8], by deprivation level of business location

Source: BVA BDRC SME Finance Monitor, ONS, Scottish Index of Multiple Deprivation, NISRA



Differences in business characteristics could explain this discrepancy, however, features of deprived locations are also likely to contribute, and themselves drive characteristic differentials

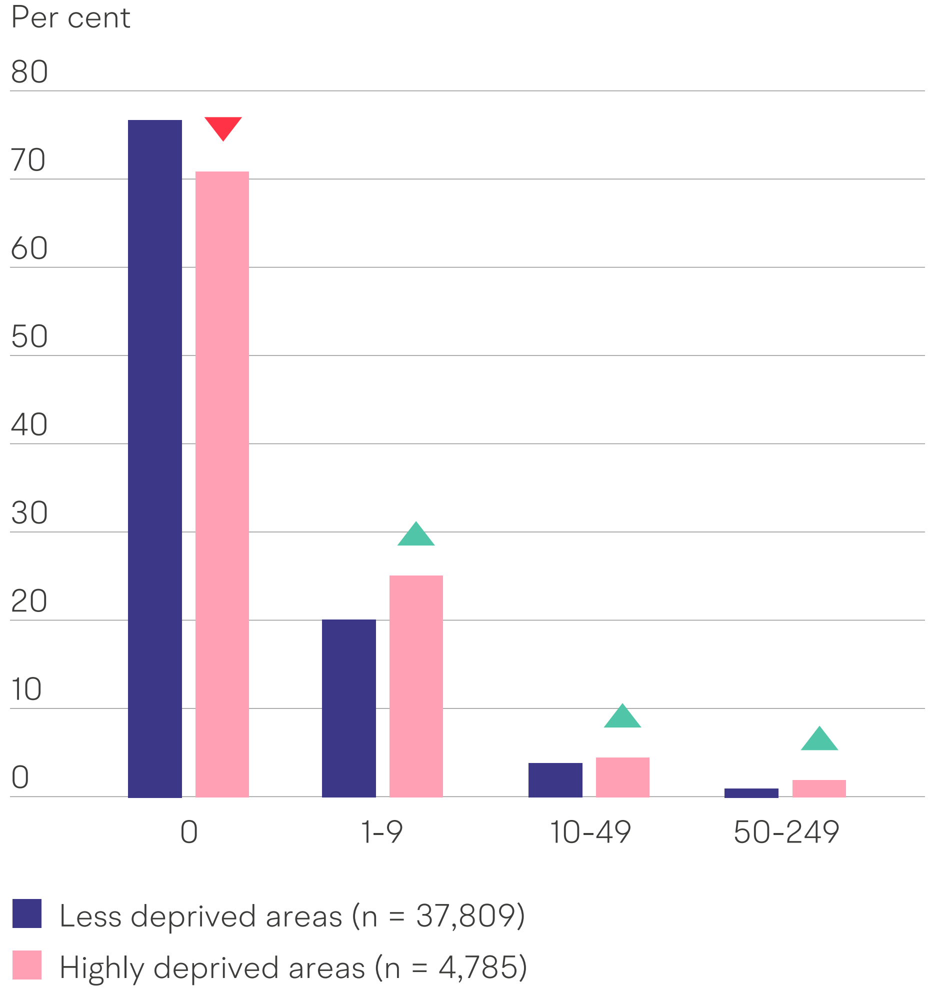
Previous research has found little evidence that businesses in 'highly deprived areas' find it harder to obtain finance when accounting for differences in characteristics.[9] A number of financial characteristics are important to lending decisions, such as profitability, credit rating, cash balances and other assets, and historic performance. Research also suggests that other business characteristics, such as sector, size and demographic of the leadership team may also impact the ability of companies to raise finance. If firms in 'highly deprived areas' differ from other firms in terms of their underlying characteristics, this could explain some of the observed differences in outcomes.

Businesses located in 'highly deprived areas' are smaller than those in less deprived areas on average (Figure 2.9). 76% of businesses in 'highly deprived' areas reported having zero employees, compared to 71% of businesses located in less deprived areas. The opposite is true at the other employment bands, with a higher proportion of firms in less deprived areas reporting either 1-9, 10-49 or 50-249 employees. Smaller businesses have traditionally found it more difficult to access finance, driven by market failures which can incentivise lenders to invest in larger, more established, companies.

Figure 2.9

Number of employees by deprivation level of business location

Source: BVA BDRC SME Finance Monitor, ONS, Scottish Index of Multiple Deprivation, NISRA



Businesses located in 'highly deprived' areas also have a different sectoral mix to those in less deprived areas. As shown by figure 2.10, there are statistically significant differences in all but two sectors. Most notably a much higher proportion of businesses in 'highly deprived areas' are in the Wholesale/ Retail sector (17%) compared to less deprived areas (10%). Conversely, a lower proportion operate in the Real Estate, Renting and Business Activities and Agriculture, Hunting and Forestry, Fishing sectors.

Figure 2.10

Primary activity by deprivation level of business location

Source: BVA BDRC SME Finance Monitor, ONS, Scottish Index of Multiple Deprivation, NISRA

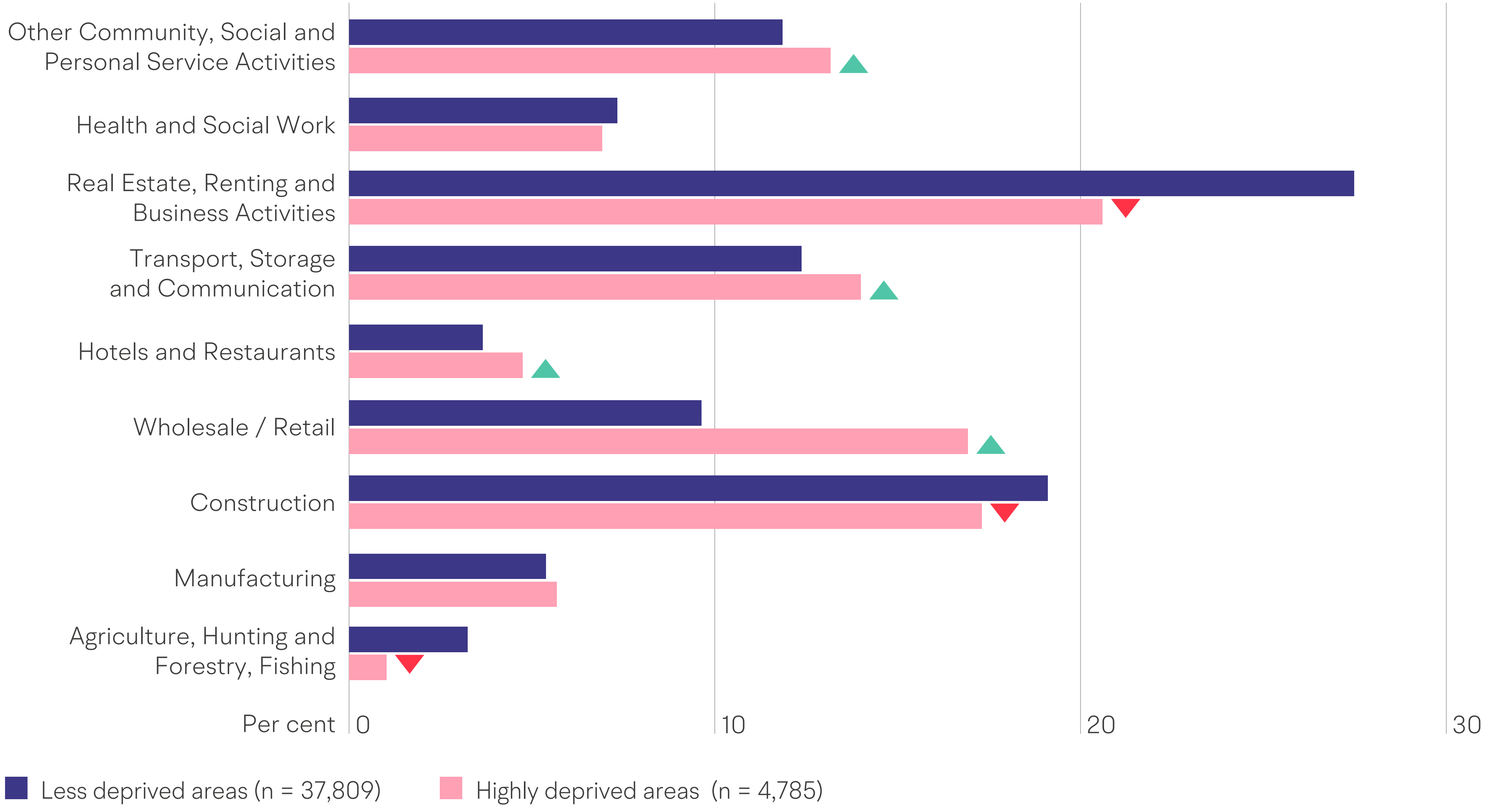


Figure 2.11 considers some other important business characteristics that might affect success rates in applications for finance, demonstrating significant differences in various areas. Firstly, 28% of businesses in 'highly deprived areas' had a formal business plan, higher than the 25% in less deprived areas. However, these businesses are less likely to has reported a profit in the previous 12 months and a lower proportion had at least £10k in credit balances. Less profitable businesses with smaller amounts of liquidity are likely to be less attractive lending options, which may mean these businesses find it more difficult to access external finance.

In terms of the leadership team of responding businesses, a much higher proportion of businesses in 'highly deprived areas' are ethnic minority-led[10] at 13%, compared to 7% in less deprived areas. This is an important consideration, as evidence from the Bank's Small Business Finance Markets 2021 report found that ethnic minority-led firms are more open to using finance and have stronger growth ambitions than White-led firms but may face barriers in getting it.[11]

Figure 2.11

Business characteristics, formal business plan, profitability and credit balances, by deprivation level of business location

Source: BVA BDRC SME Finance Monitor, ONS, Scottish Index of Multiple Deprivation, NISRA

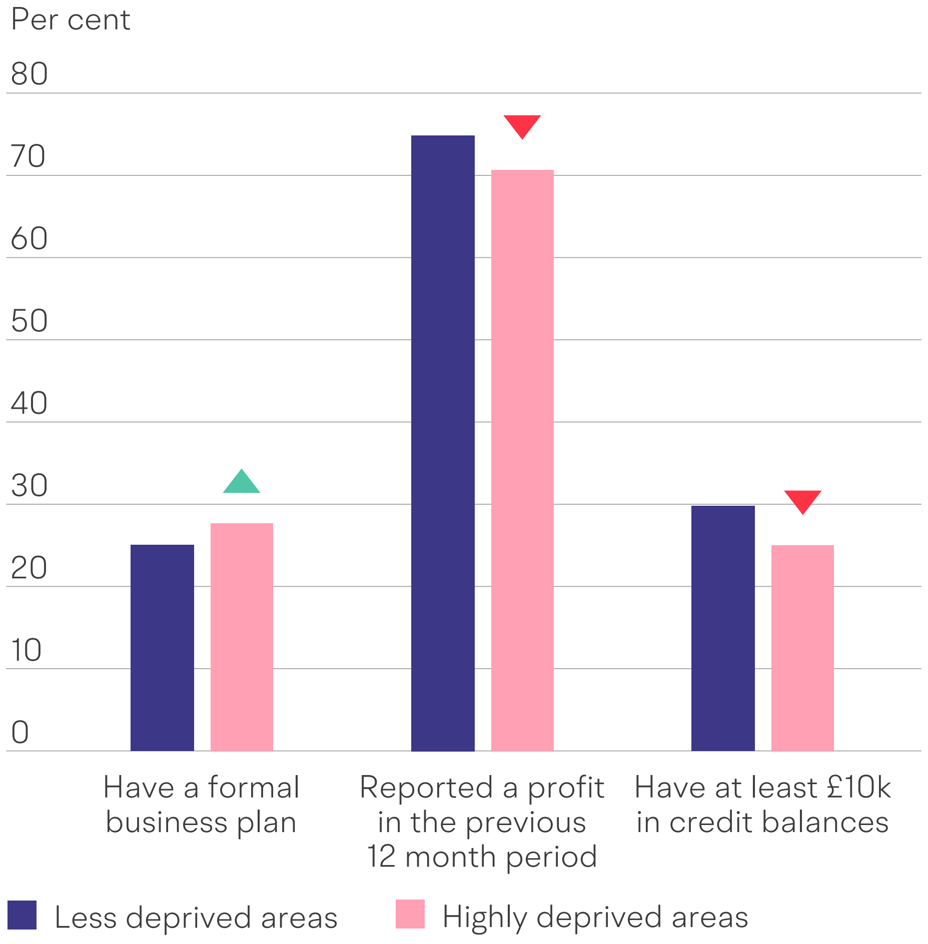
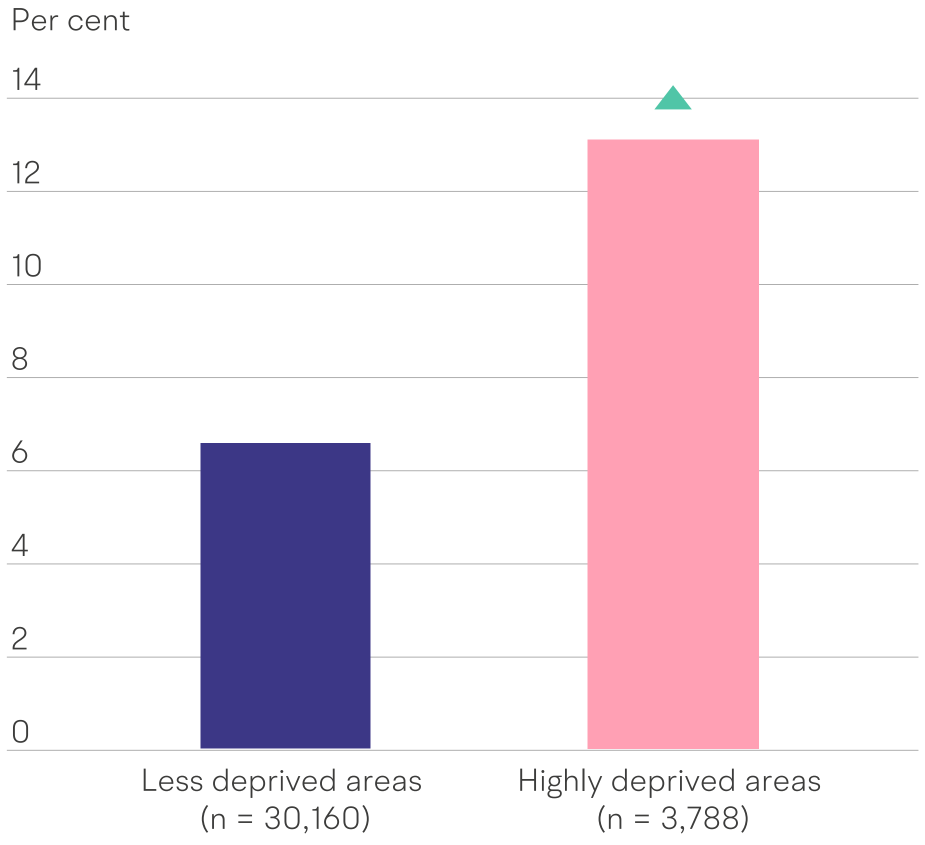


Figure 2.12

Proportion of businesses that are Ethnic Minority-led, by deprivation level of business location

Source: BVA BDRC SME Finance Monitor, ONS, Scottish Index of Multiple Deprivation, NISRA



Overall, there are key differences in the underlying characteristics of firms located in 'highly deprived areas' compared to those located elsewhere which could be impacting their ability to access external finance. However, the observed characteristics found to be driving the difference in accessing finance could be related to the business' location.

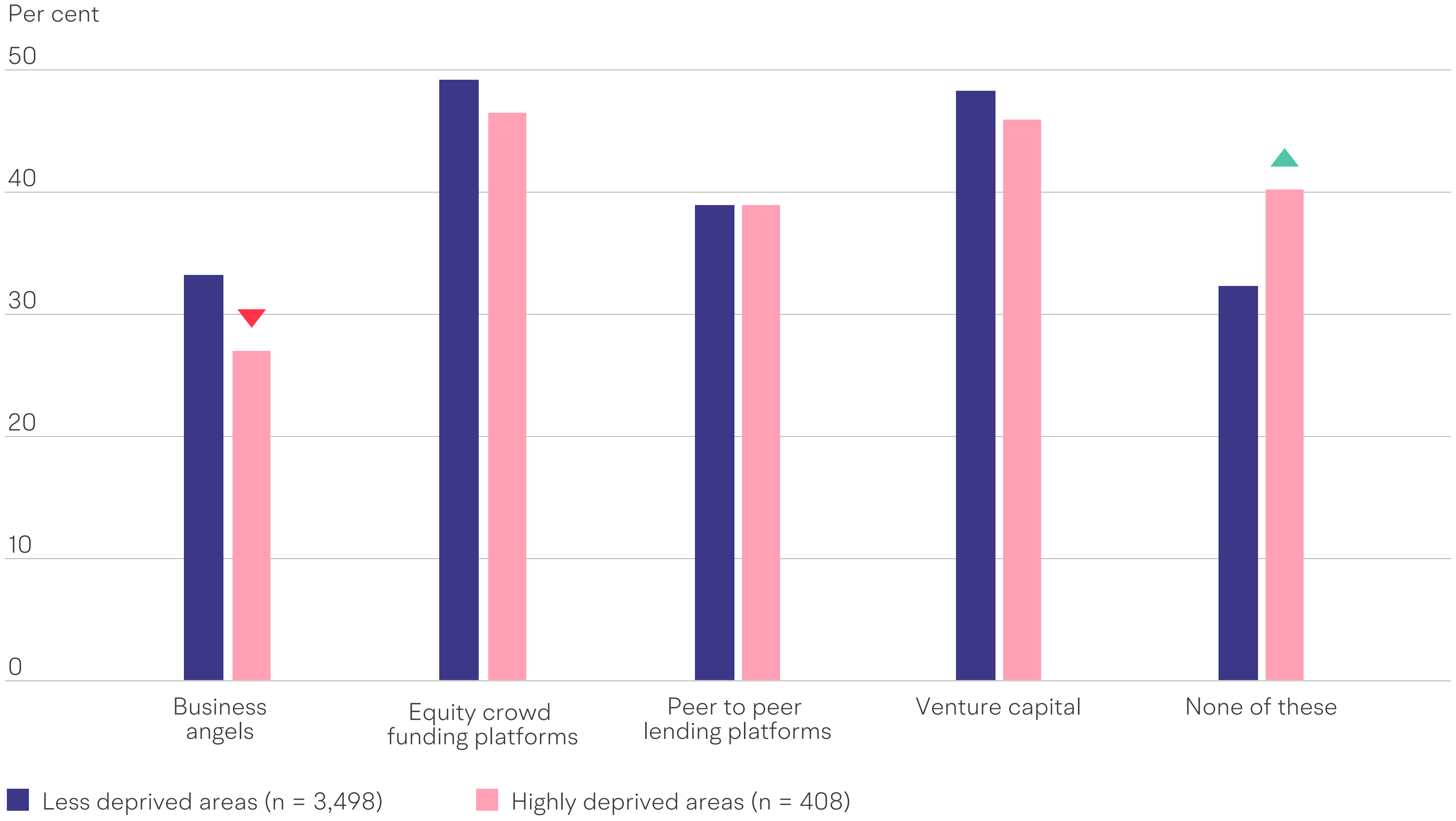
For example, availability of collateral is a key factor in many credit decisions. Given evidence suggests that property prices are typically lower in deprived areas[12] this could mean two business owners with identical properties but in areas with differing deprivation levels could differing lending decision outcomes.

Furthermore, businesses located in 'highly deprived areas' were also less aware of many non-core finance options available to them. 40% of businesses in 'highly deprived areas' reported having no awareness of any of the finance types mentioned in figure 2.13 compared to 32% in less deprived areas.

Figure 2.13

Proportion of respondents aware of different finance types, by deprivation level of business location

Source: BVA BDRC SME Finance Monitor, ONS, Scottish Index of Multiple Deprivation, NISRA



Therefore, even if gaps in provision are primarily characteristic-related, it does not necessarily mean that businesses in 'highly deprived areas' do not face greater challenges than those in less deprived areas of the UK in obtaining finance.

Businesses located in highly deprived areas have been more impacted by the Covid-19 pandemic and recent macroeconomic climate

Over the ten-quarter period from Q3 2019 to Q4 2022, just 34% of businesses from 'highly deprived areas' were classified as 'permanent non-borrowers', compared to 41% of businesses from less deprived areas. Therefore, despite the barriers above, these businesses were more likely to be using finance during the period. However, as figure 2.14 shows, this difference primarily emerges from Q2 2020, i.e. after the onset of the Covid-19 pandemic. Significant differences in the proportion of 'permanent non-borrowers' do not exist in the Q4 2019 and Q1 2020 waves of the survey.

Figure 2.14

Proportion of businesses that are 'permanent non-borrowers'[13], by deprivation level of business location

Source: BVA BDRC SME Finance Monitor, ONS, Scottish Index of Multiple Deprivation, NISRA

Businesses in 'highly deprived areas' may have been using finance out of necessity as opposed to growth during the pandemic and more recently. Figure 2.15 confirms this, showing that the difference in firms reporting having had a finance need in the previous 12 months over the full survey period is primarily driven by a large spike in the Q1 2021 survey wave. This is the cohort reporting their finance need over the full pandemic period from Q1 2020 – Q1 2021. In this quarter, 27% of businesses in 'highly deprived areas' reported having a finance need, nearly double the 14% in less deprived areas. In Q2 and Q3 2021 the lines converge again, and the proportion of highly deprived businesses reporting a finance need in Q3 2021 was lower than those in less deprived areas.

However, in Q4 2021, the proportion of businesses in 'highly deprived areas' reporting having had a financing need increased substantially, from 7% to 12%, whilst for businesses in less deprived areas it decreased from 9% to 7%. This suggests the increasing impact of supply shocks in Q4, driving up input costs, and drops in demand due to reductions in disposable income may have more acutely affected businesses in 'highly deprived areas'. As shown earlier in this section these

Figure 2.15

Proportion of businesses reporting a financing need, by deprivation level of business location

Source: BVA BDRC SME Finance Monitor, ONS, Scottish Index of Multiple Deprivation, NISRA

businesses had lower credit balances and less access to finance for working capital, meaning they were less able to absorb cost increases.

Furthermore, individuals in deprived areas are less likely to have sufficient savings or access to credit to smooth their consumption over time. Consumer demand in 'highly deprived areas' could therefore be more affected by inflationary pressures, impacting local business.

The increased challenges firms in 'highly deprived areas' faced during the Covid-19 pandemic is also reflected in figure 2.16, which looks at the proportion of firms reporting they had no choice but to inject personal funds in the preceding 12-month period. In Q3 and Q4 2019 the trend for businesses in 'highly deprived areas' and less deprived areas was similar. However, over the course of the pandemic a difference emerged, with a larger proportion of businesses in 'highly deprived areas' having to inject personal funds, before converging again more recently in Q3 and Q4 2021. Over the full period, 16% of respondents in 'highly deprived areas' reported having had to inject personal funds, compared to 13% in less deprived areas, driven primarily by differences during the pandemic period.

Figure 2.16

Proportion of businesses that had no choice but to inject personal funds, by deprivation level of business location

Source: BVA BDRC SME Finance Monitor, ONS, Scottish Index of Multiple Deprivation, NISRA

Figure 2.17 shows the proportion of businesses that are happy to use finance to grow and develop. As discussed earlier in the section more businesses in 'highly deprived areas' were happy to use finance to grow. This was true in the five quarters from Q1 2020 to Q1 2021. However, in recent waves the proportion of respondents in 'highly deprived areas' that report being happy to use finance to grow and develop has fallen markedly, from 47% in Q1 2021 to 35% in Q2 2021 and stayed consistently low since.

In fact, in Q3 2021 a lower proportion of businesses in 'highly deprived areas' were happy to use finance to grow than in less deprived areas, the only period where this occurs in the dataset. Macroeconomic uncertainty, plus the debt hangover from Covid-19 which may be more severe for firms in 'highly deprived areas' who were more likely to use finance, may have dampened attitudes towards finance usage.

The British Business Bank continues to partner with lenders committed to improving access-to-finance conditions for businesses in the UK's most deprived areas

Community Development Finance Institutions (CDFI's) are key components of the finance ecosystems in such

Figure 2.17

Proportion of businesses that are happy to use finance to grow and develop, by deprivation level of business location

Source: BVA BDRC SME Finance Monitor, ONS, Scottish Index of Multiple Deprivation, NISRA

areas, with nearly half of CDFI lending going to the UK's 35% most deprived areas. Evidence suggests CDFI's outperform banks in lending to such areas. The Bank is committed to helping businesses and entrepreneurs access the finance they need to grow, and has partnered with CDFI's in various programmes, including NPIF and MEIF, Start Up Loans, and RLS.

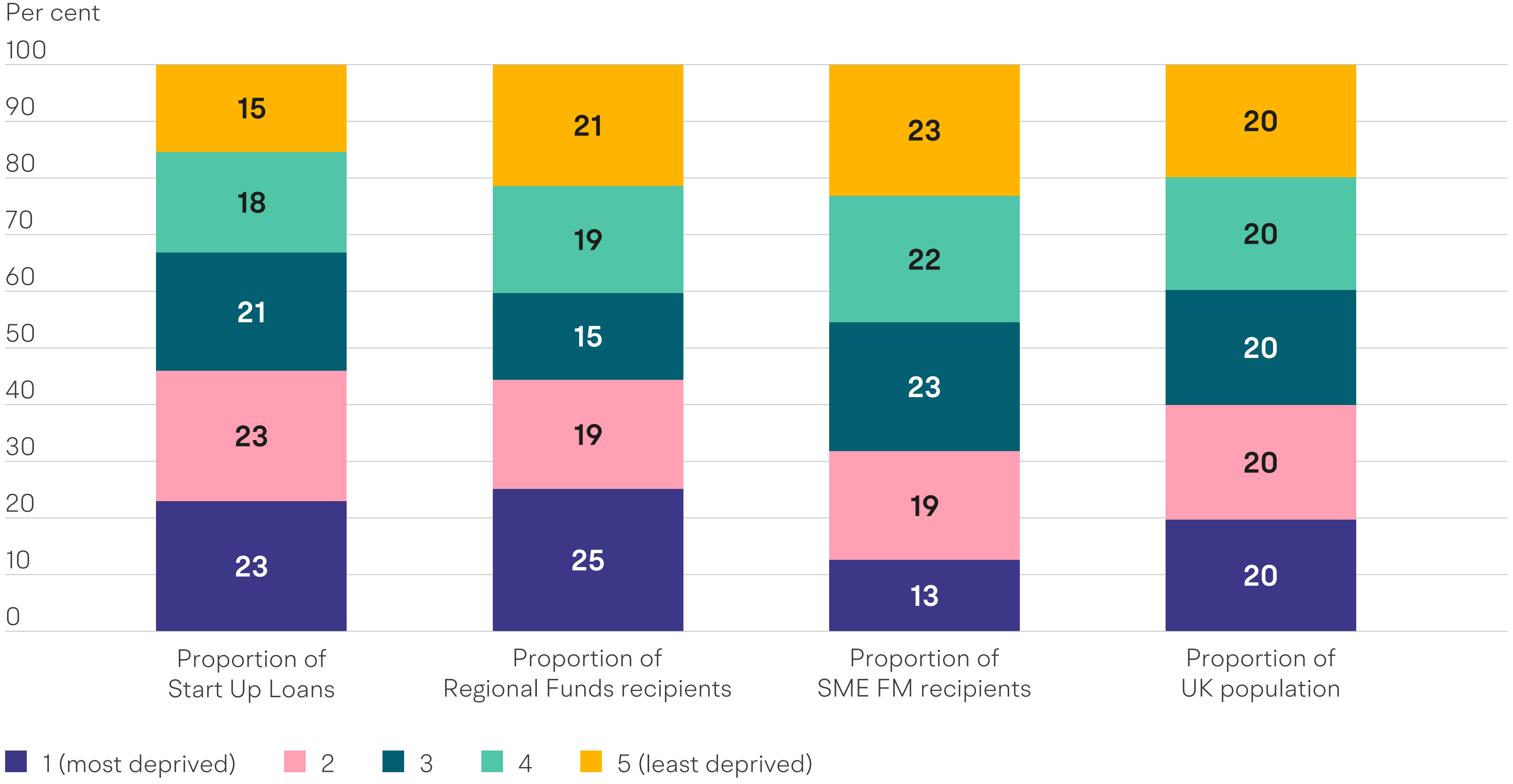
As shown by figure 2.18, Start Up Loans have a strong track record in providing finance to deprived areas. A higher proportion of Start Up Loans and regional funds recipients are in deprived areas of the UK than the wider business population as estimated using SME Finance Monitor data as well as the wider resident population.

At Spending Review 2021, the Bank received an additional £1.6bn to launch the Nations and Regions Investment Funds across the UK, and also funding for 11,000 Start Up Loans per year for the next three years. The Bank will therefore continue to support businesses and individuals in deprived areas of the UK access the capital they need.

Figure 2.18

Deprivation quintile distribution of Start Up Loans and Regional Funds recipients compared to SME FM business population and wider residential population

Source: British Business Bank Management Information, BVA BDRC SME Finance Monitor, ONS, Scottish Index of Multiple Deprivation, NISRA



Section 3

Net zero challenges and opportunities for smaller businesses in the UK's nations and regions

- The scale of the net-zero challenge differs in each of the UK's nations and regions
- SME greenhouse gas emissions in 2020 were highest in Wales and Northern Ireland, lowest in London
- Geographic disparities in access to finance could impact SMEs' transition speed and ability to achieve net zero
- The transition will require innovation and investment as new industries develop
- Businesses in net zero sectors are more likely to receive equity finance than others in the same place
- The British Business Bank's programmes support SMEs as both innovators and adopters of net zero technologies all over the UK

The scale of the net-zero challenge differs in each of the UK's nations and regions

Since 1990 the UK has almost halved its greenhouse gas emissions and as such is almost half-way to ending the UK's domestic contribution to man-made climate change. In 2019 the UK became the first major economy in the world to legislate a binding target to reach net zero emissions by 2050.[14] This will pose more of a challenge for some businesses than others.

Emissions are not evenly distributed throughout the UK, a reflection of the fact that different places specialise in different economic activities, some of which inherently generate more emissions than others. Geographic factors such as having a lower share of the population living in large urban centres and the location of natural resources also have an impact. How exposed SMEs are to the net zero transition in the UK's nations and regions depends on a mix of the sector composition and these place-based factors.

In research published last year, the British Business Bank estimated that in 2019, smaller businesses accounted for around a third of the UK's total greenhouse gas emissions, (29%-36%)[15], with 90% of this emitted by SMEs in just a few sectors. These sectors were agriculture, forestry, and fishing; utilities; transportation and storage; and manufacturing, though they only made up 14% of the SME population. The other 86% generated just 10% of SME emissions. The sector composition of the underlying business population in each region or nation therefore explains a large amount of the variation seen in SME emissions between them.

This analysis has been updated to reflect the latest local authority emissions data released by BEIS, which covers 2020. Emissions are allocated on an "end user" basis, where they are distributed according to the point of emission, except energy and waste management which are assigned to the point where energy is consumed and where the waste is created respectively.

From this dataset, we consider the following National Communication sectors as capturing businesses' emissions: agriculture; industry; waste management; transport and commercial. The BEIS regional estimates for transport exclude emissions generated by air travel, and as a result are generated mostly by road use.
The end user assignment of emissions does not separate

public, private, industrial and commercial road use, and it is beyond the scope of this report to attempt to do so. For this reason alone, the transport sector has been excluded from the analysis, although it is one of the highest-emitters and will play a significant role in setting the pace of the UK's net zero transition.

BEIS estimates are calculated for the entire business population. We have adjusted these to just capture SMEs' share of emissions by sector using SMEs' share of turnover in a sector in 2020 as a proxy for their share of emissions. In a small number of cases, this was not fully available in BEIS data due to being disclosive. In these cases estimates are based on available data, such as employment and business population.

There isn't an exact correspondence between the National Communication sectors used to assign emissions and the SIC codes used in business population data. Some simplifying assumptions were used to reconcile the turnover and emissions data in the two datasets. Emissions arising from the use of energy, for example, are assigned to the end users in other sectors, rather than the energy suppliers that receive the associated revenues.

Although activity in 2020 may not have been representative of a typical year, due to large portions of it spent operating under lockdown restrictions, the 2020 estimates are the latest data point available. Furthermore, they include regional estimates of methane gas and nitrous oxide emissions for the first time, expressed in the equivalent amount of carbon dioxide (CO_2e) to account for the different warming effects of each gas. The rest of the Kyoto basket gases, known as fluorinated gases, are still yet to be integrated into the regional data. Nevertheless, this gives a clearer picture of SME emissions, especially in the agricultural sector, which according to ONS calculations is the most emissions intensive sector by SIC code[16].

As highlighted in last year's tracker, the importance of the agricultural sector, generally comprising high emitting and low GVA activities, varies markedly between the UK's constituent nations which means the addition of this data will have more of an impact on estimates for the devolved nations. This represents one of the largest differences in the scale of the net zero challenge between these places and the rest of the UK, although the whole nation relies on this output.

SME greenhouse gas emissions in 2020 were highest in Wales and Northern Ireland, lowest in London

SME emissions excluding transport were highest in Wales in 2020, at close to 11,000 kilo tonnes (kt) of CO_2e, with the agriculture, forestry and fishing sector contributing the most (Figure 3.1). Wales accounts for 12% of the UK's total SME emissions, but just 2% of the revenue generated by SMEs (excluding transport). This is followed by Scotland, Yorkshire and The Humber and the North West, with emissions close to 10,000kt CO_2e, 11% of emissions compared to 5%, 6% and 8% of SME revenues respectively.

Emissions were lowest in London and the North East, at close to 4,000kt, or 4% of total emissions, compared to 2% of turnover in the North East and 33% in London. In the North East, these are generated primarily by industry and waste management, with a sizable share from agriculture, while London is unique in that most emissions are generated by commercial activities, and there are hardly any from agriculture, forestry and fishing.

While the distribution largely reflects the sector mix of the underlying business population in each region or nation, scaling by business population suggests that sector mix does not tell the whole story.

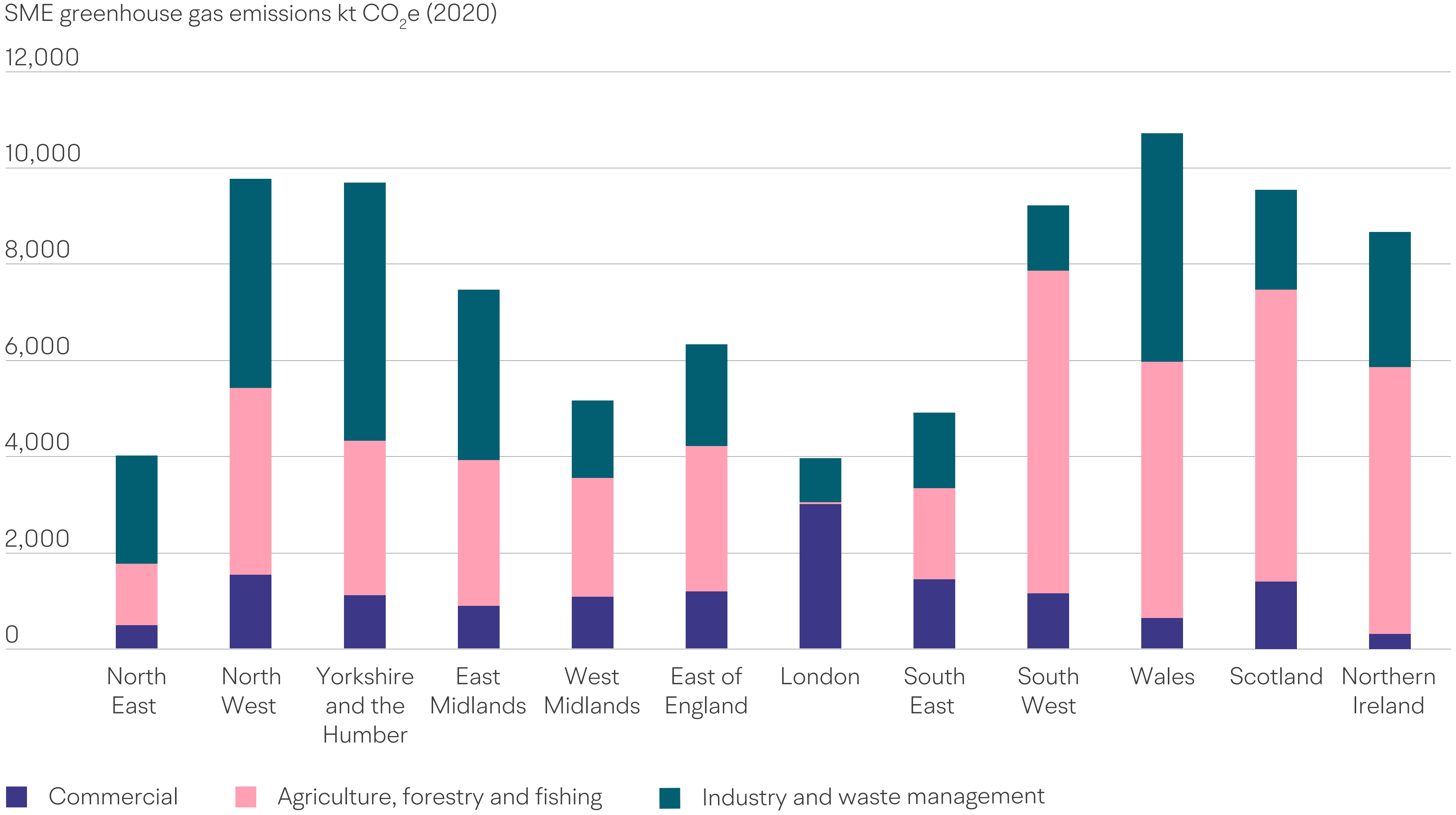
Businesses in the agriculture, fishing, and forestry sector tended to emit the most on average in 2020 but there was signification variation in these averages, from 63tonnes (t) CO_2e per business in London, to 362t CO_2e in Wales.

This likely reflects differences in emissions intensity of different subsectors within a sector. For example, the production of one kg of pork generates 12.3 kg of CO_2e compared to 99.5kg of CO_2e per kg of beef[17].

Figure 3.1

Estimated SME greenhouse gas emissions by region and nation (kt CO_2e) - 2020

Source: British Business Bank analysis of BEIS data



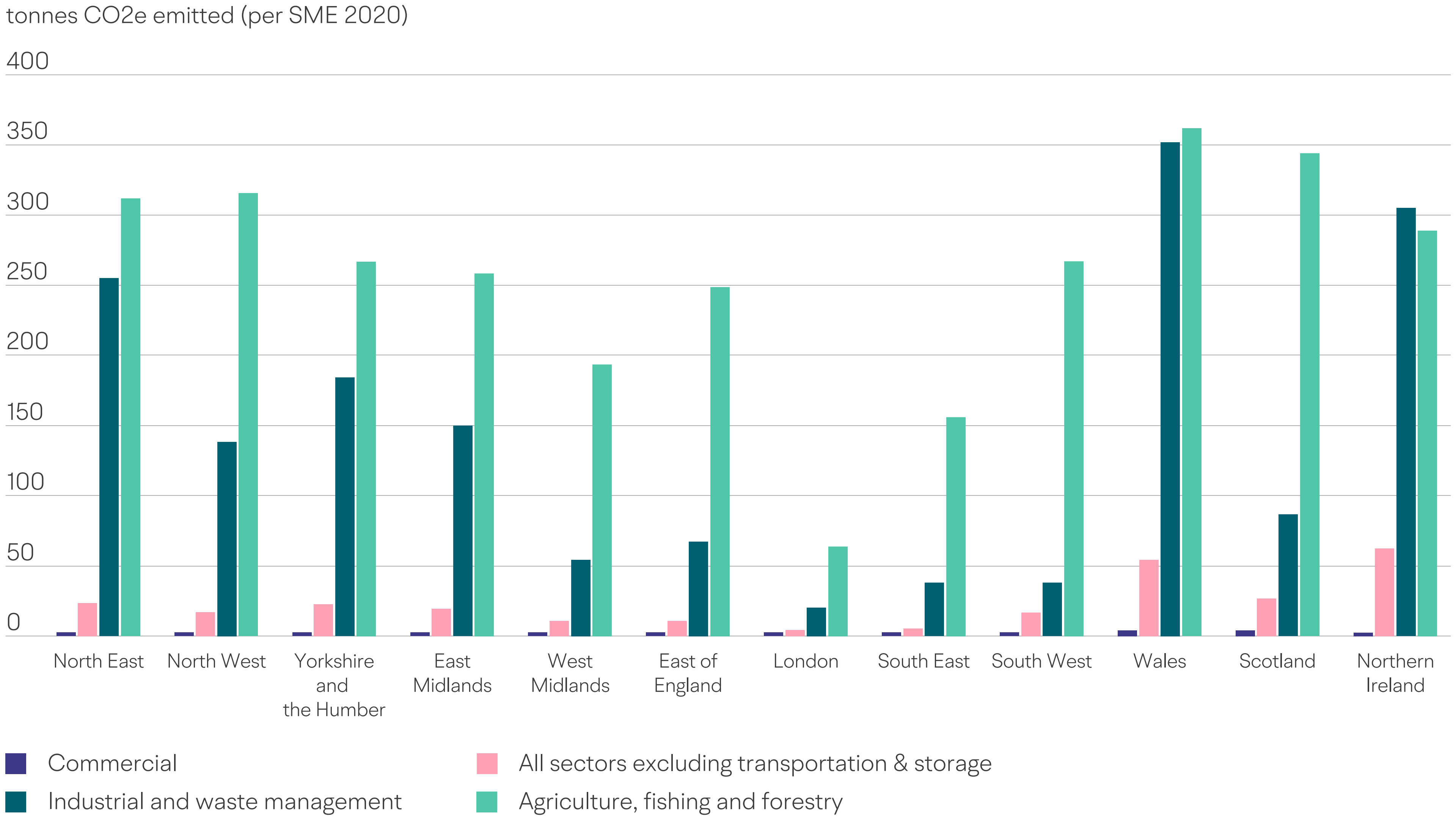
Average greenhouse gas emissions per SME are highest in Northern Ireland and Wales at 63t and 55t respectively (Figure 3.2). This reflects a high level of activity in both high emitting sectors, and relatively high levels of average emissions in these sectors too. This is followed by Scotland, the North East, Yorkshire and the Humber and the East Midlands which all have average SME emissions of 20-26t. Here, emissions are largely driven by one high-emitting sector which makes up a large share of activity, although in the East Midlands it is split between two.

London and the South East's SMEs emitted the least on average in 2020, at just 3t and 5t respectively, driven by having the largest share of activity in the lowest emitting "all other commercial activities" group, as well as lower than average emissions in the high-emitting sectors. Emissions in the East of England (11t), West Midlands (11t) and South West (16t) were slightly higher, reflecting relatively low average emissions in the industrial & waste management and agricultural sectors, balanced out by having quite a large share of activity taking place there compared to London and the South East.

Figure 3.2

Average SME greenhouse gas emissions excluding transportation & storage (tonnes CO_2e) – 2020

Source: British Business Bank analysis of BEIS data



Geographic disparities in access to finance could impact SMEs' transition speed and ability to achieve net zero

SMEs that are unable to transition their business models and operations to a low-carbon economy at sufficient pace to keep up with regulation or their competitors may face significant challenges. These could include being locked out of supply chains or losing market share as a result of customer preferences changing and placing a higher value on goods and services that help them to minimise their own carbon footprints. Furthermore, they may be unable to secure investment as more financial institutions start reflecting ESG into their lending decisions.

Ensuring that these businesses can access the skills, support and finance to drive change, no matter where they are located, is therefore crucial to supporting a just transition to net zero. A just transition is an inclusive one, ensuring that people and places are not left behind, where the whole country has equal access to the growth and employment opportunities that it offers. Such a transition could provide hope to many economic actors, avoiding the potential stranding of workers, communities, and businesses that could result from the shift to a net zero economy.

Figure 3.3

Average SME greenhouse gas emissions to GVA by region and nation

Source: British Business Bank analysis of BEIS data, ONS

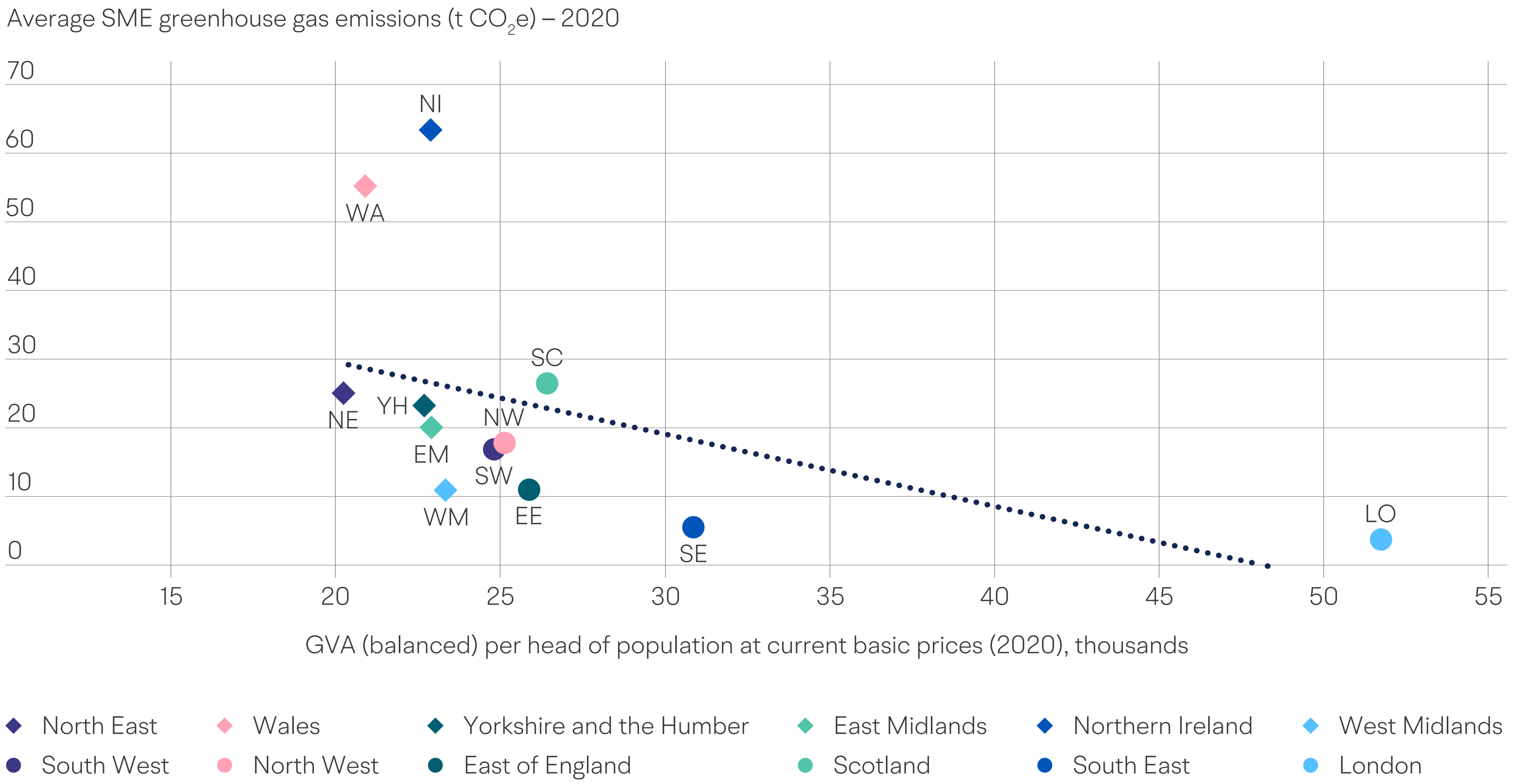


Figure 3.3 shows the negative relationship between emissions and GVA at region and nation level and suggests that some of the nations and regions with the lowest GVAs may also have the highest dependence on high-emission industries and the longest road to net zero.

The British Business Bank's 2021 Net Zero Survey[18] found that the most frequently cited barriers to SMEs' adoption of net zero actions were costs (35%) and feasibility (32%). Upfront capital costs were the most common individual barrier, cited by 21% of respondents, but the proportion in London was significantly lower at 15%.

The second and third most common barriers related to feasibility, and there are no geographic concentrations at a region or nation level. After these, the most cited barrier was lack of available cash or finance. This was mentioned by 11% of respondents across the UK, but just 6% of those in London and the East of England.

It is important that SMEs in all nations and regions of the UK are able to access the finance they need to reduce their emissions. This would leave them better placed to take advantage of the opportunities offered by the transition to net zero and minimise the associated costs, which could help to drive local economic growth and employment.

Transitioning to net zero will require innovation and investment as new industries develop

While the above centres around the ability of SMEs to fund the adoption of greener practices and technologies, there is also the need to innovate and create the new processes and technologies that will drive reduced emissions. The Resolution Foundation's analysis of the Sixth Carbon Budget by the Climate Change Committee shows that an estimated extra £13.5bn of investment is needed in 2022 to meet the UK's climate change goals, rising to over £50bn annually by 2030.[19]

If this investment materialises, depending on how it is distributed around the UK, it would give the potential for the net zero transition to act as a tailwind to levelling up. This could spark virtuous circles of capital accumulation as skilled workers, businesses, and sources of finance cluster into centres of net zero innovation, generating the kind of positive agglomeration effects already visible in some of the UK's most vibrant business centres.

Beauhurst tracks the UK's high-growth or ambitious enterprises, based on meeting a variety of triggers, and uses detailed sector classifications which can be used as an indication of where activity in potential net zero growth industries is developing. Industries that are likely to see growth related to the net zero transition have been scoped using the following Beauhurst sector classifications and buzzwords: clean technology, hybrid and electric vehicles, biomass and biofuels, artificial meat and meat substitutes, and smart energy.

Collectively referred to as net zero sectors, these businesses received £6.9n of equity investment between 2011 and Q2 2022. This is equal to 8% of the total invested in UK SMEs across 1,307 publicly announced deals, a 7% share.

Since 2018, growth in net zero equity investment has outpaced wider UK SME equity markets. In 2018, net zero deals and investment represented 5% and 5% of overall UK equity deals and investment respectively. In every year since, net zero sectors have growth as a proportion of deals, rising to 12% of all equity deals and 23% of investment completed in 2022.

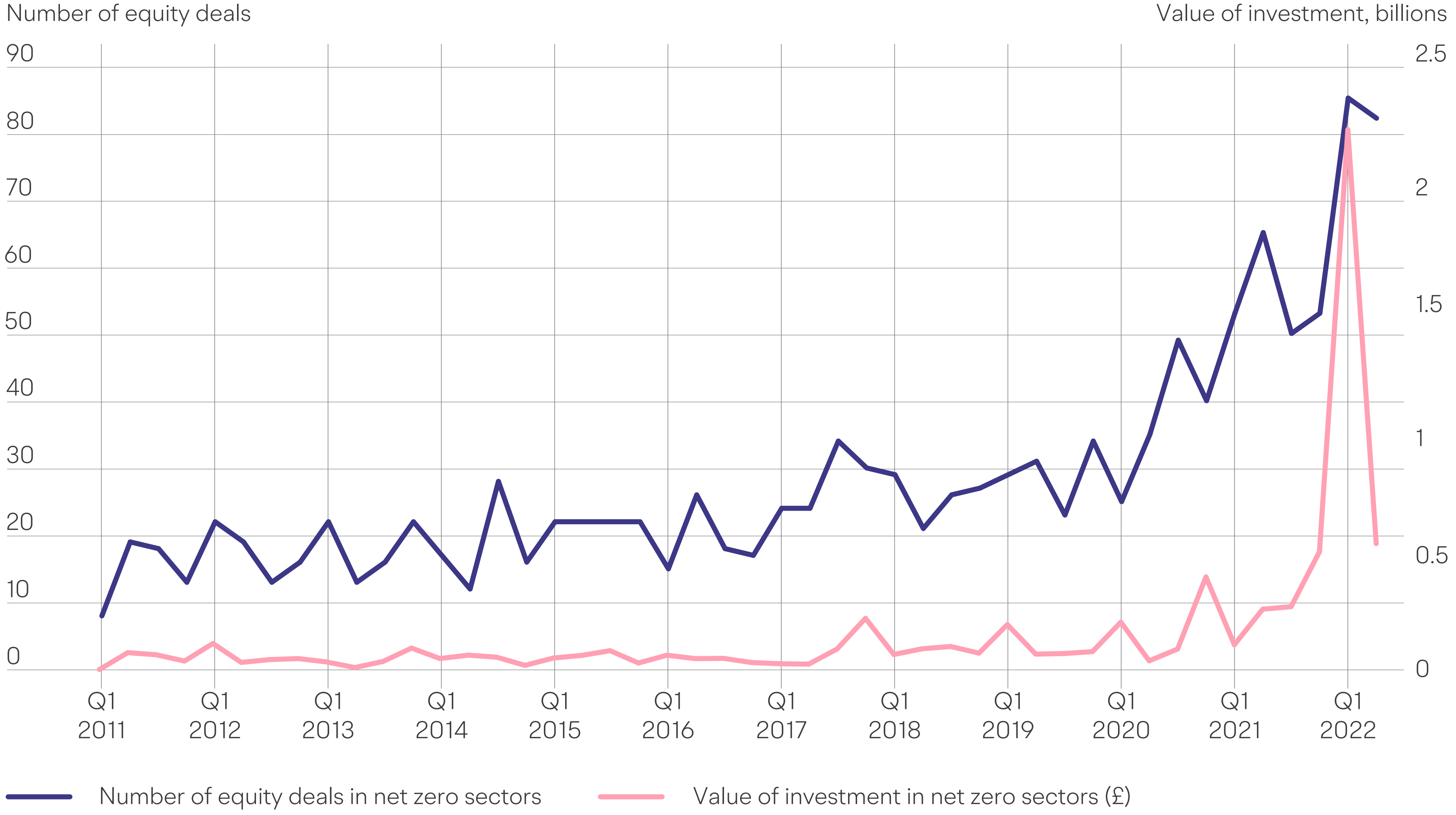
The spike in Q1 2022 was driven by one deal worth £1.7bn, the second largest publicly announced equity deal recorded for an SME in the Beauhurst database. Britishvolt intends to use this finance to build a factory capable of mass-producing electric car batteries in Northumberland.

The manufacture of electric vehicles, and the associated supply chain, is just one example of the kinds of opportunities that will accompany the transition to net zero and serves to highlight how it could help to deliver levelling up. This is also an example of an activity that is driven by net zero, which would be captured as part of the high-emitting industrial sector in the BEIS data and demonstrates why looking only at emissions does not tell the whole story.

Figure 3.4

Quarterly number of equity deals and value of equity investment in net zero sectors 2011 - Q2 2022

Source: Beauhurst



Businesses in net zero sectors are more likely to receive equity finance than others in the same place

Across the UK, 23% of the businesses Beauhurst tracks as high-growth or ambitious SMEs in sectors excluding net zero have received first-round equity financing, but only London (32%), the North East (28%), and Scotland (23%) are at or above this average. For net zero sectors, the highest proportion securing first rounds could be found not in London, but in the North East, on 67%. Across net zero sectors, the UK average for tracked businesses getting a first equity round is 50%, more than double the 23% across all other sectors, with five regions or devolved nations at or above average.

In most nations and regions, the proportion of businesses receiving follow-on rounds, as a proportion of those with a first, is also higher in net zero sectors.

The gap is widest in the South East, where 59% of net zero businesses with a first equity round went on to secure follow-on finance compared to 35% of those in other sectors, and the North East, where the proportions are 46% and 32% respectively. The proportions securing follow-on in Wales and Northern Ireland were slightly lower in net zero sectors, although neither falls below four-fifths. Overall, this indicates that the transition to net zero should support increased equity activity in all the UK's regions and devolved nations.

While net zero equity markets remain geographically imbalanced, with London making up 24% of the population of Beauhurst-tracked businesses but receiving 31% of the deals and 33% of investment (Figure 3.6), this is still less concentrated than the total SME equity distribution. Excluding net zero sectors, London accounts for 32% of those tracked businesses compared to 47% of the deals and 63% of investment.

The North East is the only example of a region or nation where the net zero share of deals or investment are at or above the share of the business population, without the same thing also being true when looking at all other sectors. The North East received 28% of net zero investment on 6% of deals and 4% of the tracked business population, compared to just 1% of the total investment in all other sectors.

In most other nations and regions, the share of net zero deals and investment is below the share of Beauhurst tracked businesses, as is typically seen in UK SME equity markets outside London. The exceptions to this, which again mirrors what is typically seen outside net zero sectors, are deal shares in the East of England, Wales and Scotland, which are at or above the respective shares of Beauhurst tracked businesses. This suggests that although businesses in net zero sectors outside London are seeing more success than their counterparts in other sectors, they are still coming up against similar place-based challenges when trying to access equity finance.

Figure 3.5

Proportion of tracked businesses securing a first-round of equity finance and proportion of those that go on to secure follow-on funding 2011 - Q2 2022

Source: Beauhurst

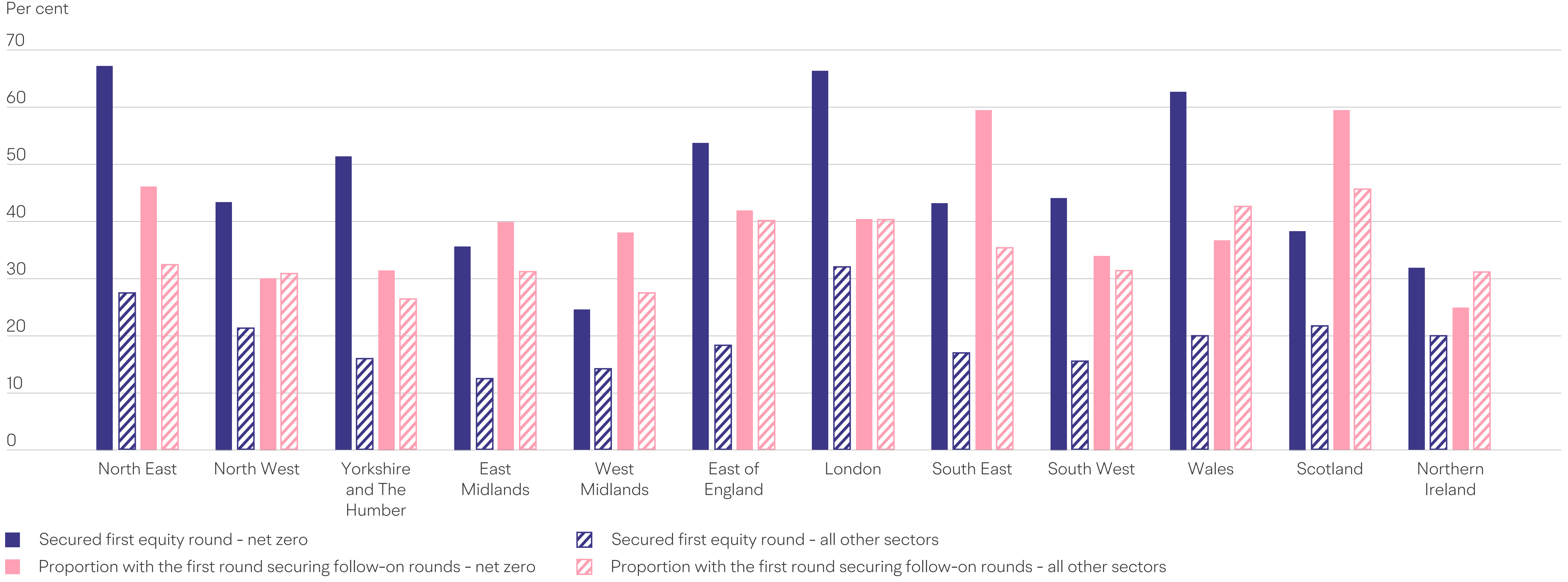
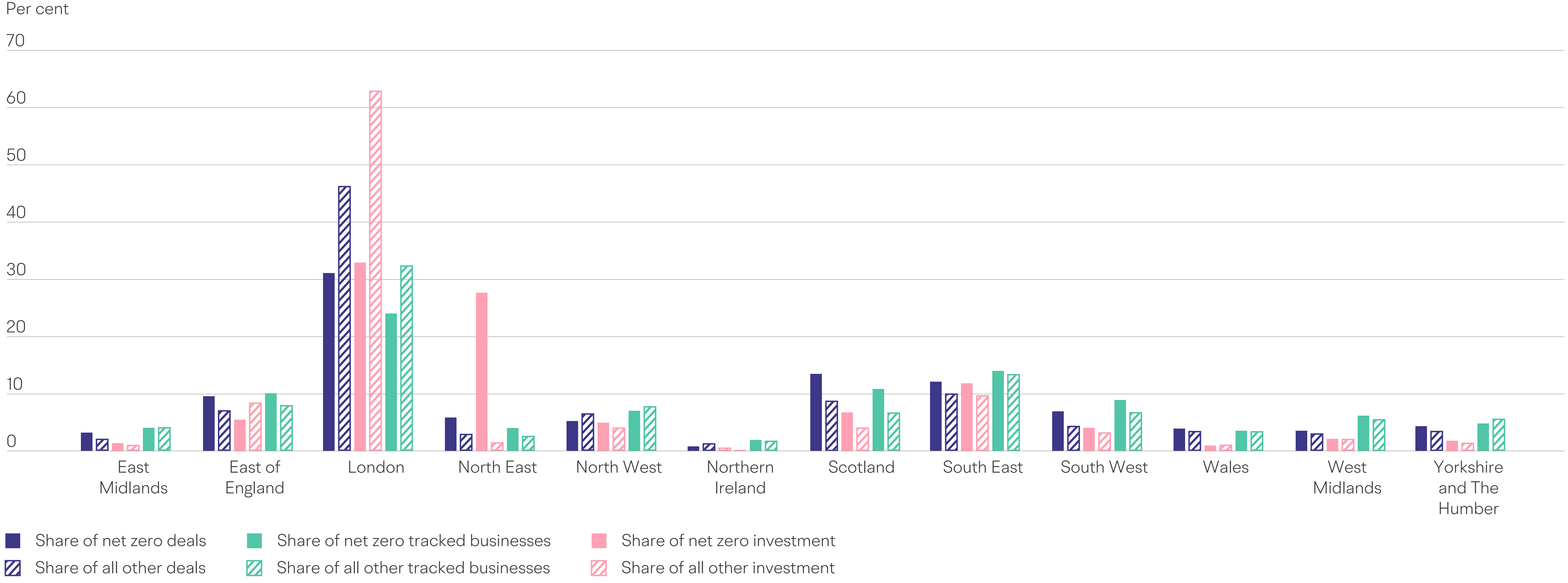


Figure 3.6

Proportion of tracked businesses, equity deals and investment in net zero sectors compared to all others 2011 - Q2 2022

Source: Beauhurst



Indeed, many places saw no net zero equity activity at all between 2011 and Q2 2022, with 53 of the UK's 179 ITL3 areas (30%) recording no net zero equity deals in the Beauhurst database. Furthermore, the mean per capita GVA in the places with net zero equity deals was higher, at £32k compared to £22k in places without net zero equity deals. The largest equity clusters identified through analysis of equity deals and investment were mostly all in places with above average productivity (Figure 3.7).

However, there are also clear examples of where investors are considering opportunities in places outside the traditional core cities in each region and nation. While our analysis shows potential clusters of net zero activity identified in many of the same high-productivity places that equity has historically clustered in, it also finds some in towns or cities outside of traditional equity hotspots (Figure 3.8).

Figure 3.7

Map of potential existing and future net zero clusters

Source: Beauhurst, Innovate UK

City of Edinburgh

GVA per head (2020) = £46k

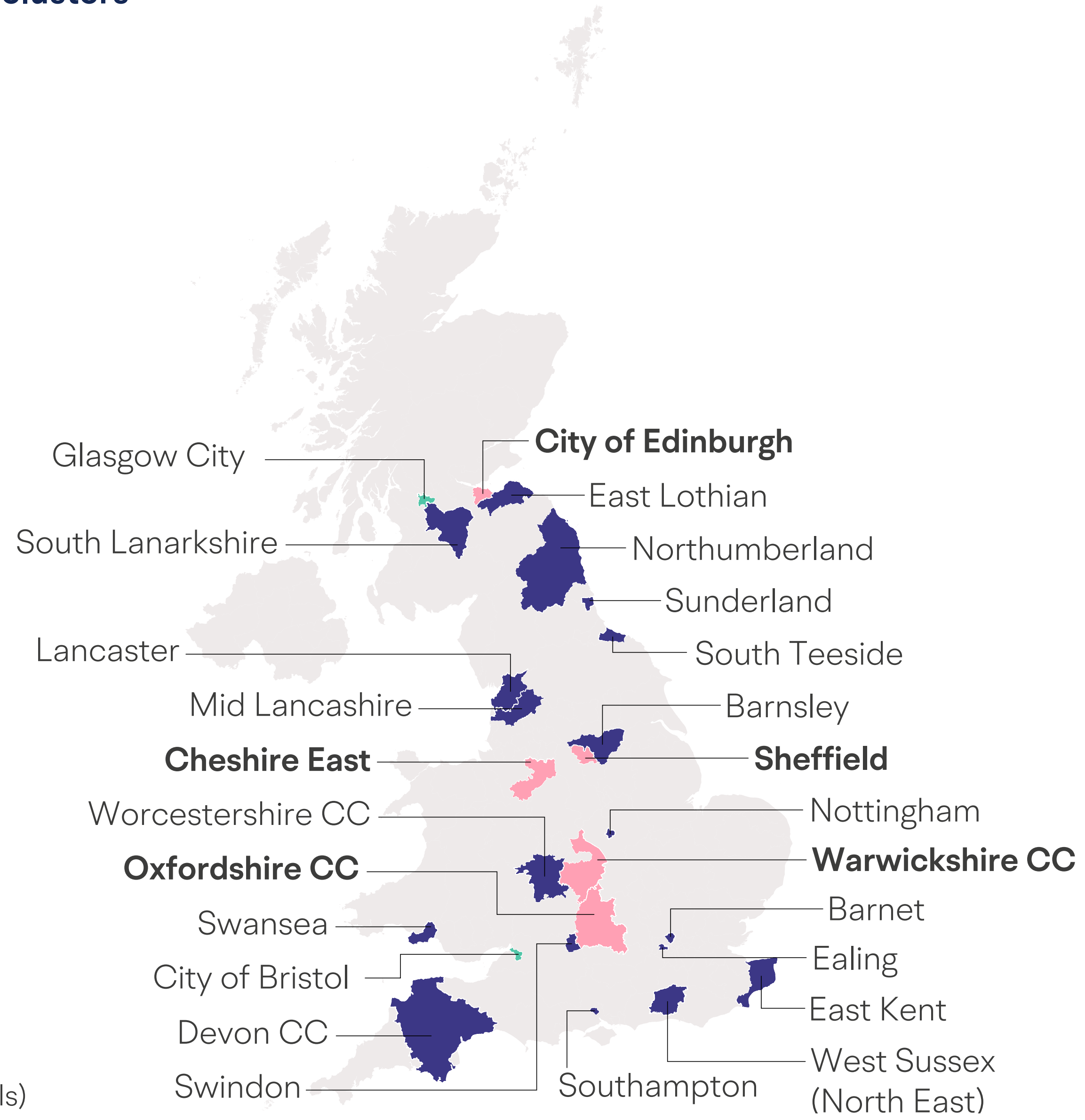
- 92 net zero deals (12%) - #1 local authority
- £186m invested (16%)

- Accounts for 52% of net zero deals and 41% of investment in Scotland

- Govt invested in 16% of deals
- Angels invested in 38% of deals

- 8% of deals went to IUK-funded businesses
- 17% went to spinouts

- Almost half of deals are in renewables, rest are mixed



- Large net zero cluster (>100 deals in total)
- Potential larger cluster (>100 deals)
- Potential future clusters (between 50 and 100 deals)

Figure 3.7 continued

Map of potential existing and future clusters identified using Beauhurst data

Source: Beauhurst, Innovate UK

Oxfordshire County Council

GVA per head (2020) = £34k

- 56 net zero deals (10%)
- £450m invested (11%)

- Accounts for 36% of net zero deals and 55% of investment in South East

- Govt invested in 9% of deals
- Angels invested in 25% of deals

- 84% of deals went to IUK-funded businesses
- 56% went to spinouts

- Half of deals in renewables, fifth in autos, rest are mixed

Sheffield

GVA per head (2020) = £22k

- 23 net zero deals (20%)
- £35m invested (22%)

- Accounts for 40% of net zero deals and 25% of investment in Yorkshire and the Humber

- Govt invested in 49% of deals (incl NPIF)
- Angels invested in 22% of deals

- 74% of deals went to IUK-funded businesses
- 17% went to spinouts

- 2/3 of deals in renewables, 1/3 automotive

Cheshire East

GVA per head (2020) = £38k

- 12 net zero deals (9%)
- £175m invested (53%)

- Accounts for 18% of net zero deals and 51% of investment in North West

- Govt invested in 17% of deals
- Angels invested in none

- 67% of deals went to IUK-funded businesses
- 58% went to spinouts

- More than half of deals in materials technology, for one business

Warwickshire County Council

GVA per head (2020) = £32k

- 29 deals (22%)
- £55m invested (11%)

- 62% of net zero deals and 33% of investment in the West Midlands

- Govt invested in 25% of deals (inc MEIF)
- Angels invested in 45% of deals

- 55% of deals went to IUK-funded businesses
- 17% went to spinouts

- Just over half of deals were in the auto sector, fifth are in renewables, rest are mixed

Glasgow City

GVA per head (2020) = £35k

- 23 net zero deals (8% of total)
- £114m invested (34% of total)

- Accounts for 13% of net zero deals and 25% of investment in Scotland

- Accounts for 16% of all deals and 10% of investment in Scotland

City of Bristol

GVA per head (2020) = £34k

- 20 net zero deals (7% of total)
- £173m invested (13% of total)

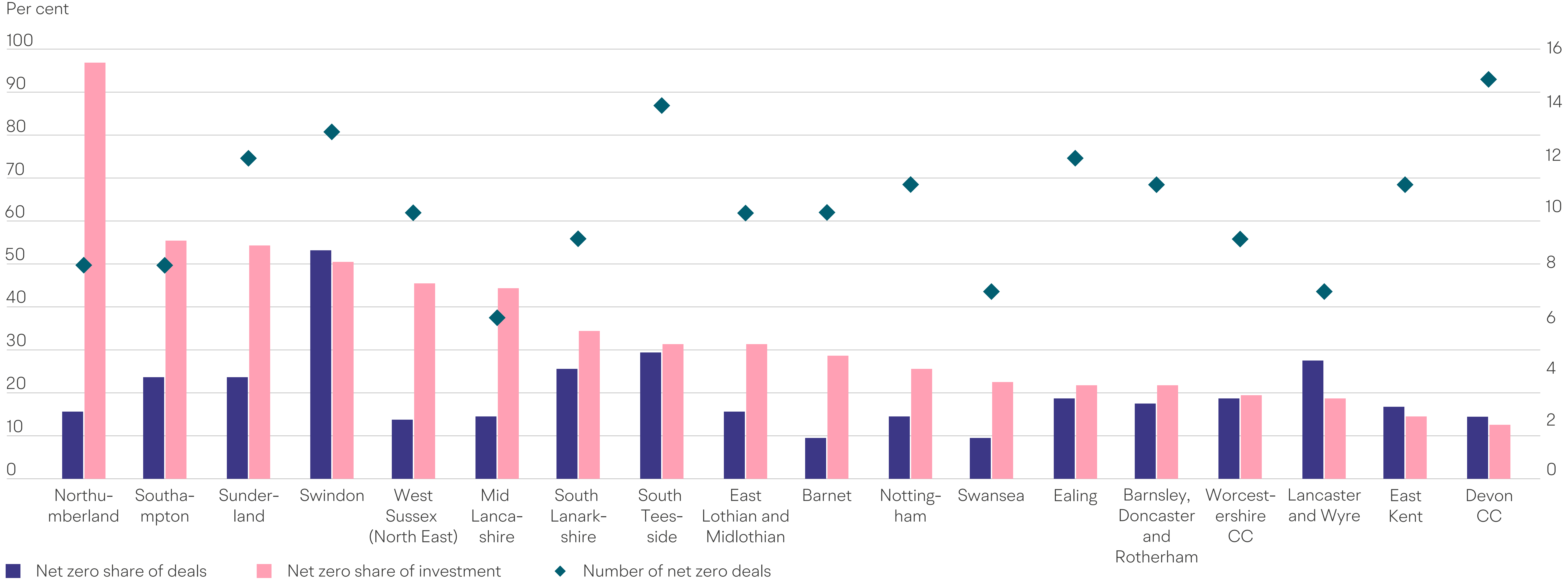
- Accounts for 22% of net zero deals and 66% of investment in the South West

- Accounts for 34% of all deals and 53% of investment in the South West

Figure 3.8

Number of net zero deals and net zero sectors' share of total deals and investment in potential clusters

Source: Beauhurst



The British Business Bank’s programmes support SMEs as both innovators and adopters of net zero technologies all over the UK

The British Business Bank aims to support SMEs all over the country to access the finance they need to execute their plans, achieve sustainable growth, and transition successfully to net zero. British Business Bank funds and programmes that have invested in the net zero deals identified in Beauhurst include: the Enterprise Capital Fund, British Patient Capital, the UK Innovation Investment Fund, Angel CoFund, Aspire Fund, the Midlands Engine Investment Fund, the Northern Powerhouse Investment Fund, the Regional Angels Programme and Managed Funds Programme. Most of these deals (76%) took place outside London, which is slightly above the UK average for net zero sectors (69%) and mirrors exactly London’s share of the underlying tracked business population.

This highlights the Bank’s commitment to supporting net zero innovation wherever it occurs in the UK at the same time as trying to address geographic imbalances in UK equity markets. The Bank’s debt and equity programmes have also been used by businesses to adopt greener technology and reduce their impact on the environment. An independent evaluation of the Northern Powerhouse Investment Fund found that 32% of recipients surveyed (out of 274) stated that the finance had already helped their business to reduce its environmental impact, and 44% expected it to do so within the next three years. Of the 168 recipients surveyed that had used the finance to introduce new products or services, or expected to within three years, 48% expected these to lead to reduced carbon emissions, and 52% expected them to lead to environmental benefits more broadly[20].

A similar evaluation of the Midlands Engine Investment Fund found that 30% of businesses surveyed (out of 170) reduced their environmental impact using the finance, and 49% expected to do so within three years. Of the 146 that used the finance to introduce new products or services, or expected to within three years, 48% expected these to lead to reduced carbon emissions, and 58% expected them to lead to environmental benefits more broadly. 21 recipients of finance from the Cornwall and Isles of Scilly Investment Fund were also surveyed, ten of whom had used the finance to reduce their environmental impact. 12 of the businesses surveyed have already used the finance to introduce products or services that they expected to lead to reduced emissions or other environmental benefits or expect to in the next three years. This suggests that some of the demand for the Bank’s new Nations and Regions Investment Funds will likely come from net zero innovators, as well as SMEs funding the adoption of this technology.

Data annexes

North East

Measure	Period	Value	Change on previous year	Share of UK total / quotient of UK measure in reference year
Economic Context				
Resident adult population [i]	Mid-year 2021	2,203,353	0%	4%
Smaller business population [ii]	Start of 2021	154,075	-5%	3%
Firms per 10,000 adults	Start of 2021	700	-6%	0.68
Employment (thousands)	Start of 2021	479	-2%	3%
Turnover (£m)	Start of 2021	47,135	-1%	2%
High growth businesses	2020	325	-11%	3%
Gross Value Added (£m)	2020	54,592	-3%	3%
Gross Value Added per head of population (£)	2020	20,364	-3%	0.68
Finance Ecosystem				
Equity investors	2021	9		1%
Bank and building society branches	2021	315	-11%	4%
Firms in Business Services	2021	7,970	0%	2%
Finance Demand				
Proportion of SMEs Willing to Use Finance to Grow	2021	32%	-2pp	
Proportion of SMEs that View Finance as a Major Obstacle	2021	8.1%	-1pp	
Proportion of SMEs with a Formal Business Plan	2021	24%	1pp	
Proportion of SMEs aware of the British Business Bank	2021	22%	-1pp	

Measure	Period	Value	Change on previous year	Share of UK total / quotient of UK measure in reference year
Finance Supply				
SME loans and overdrafts approved	2021-22 FY	6,737	-94%	6%
SME loans and overdrafts approved (£m)	2021-22 FY	761	-81%	4%
Equity deals	2021-22 FY	73	-6%	3%
Equity deals (£m)	2021-22 FY	1,862	1659%	9%
EIS funds raised	2020-21 FY	50	-17%	1%
EIS funds raised (£m)	2020-21 FY	15	-12%	1%
SEIS funds raised	2020-21 FY	20	-33%	1%
SEIS funds raised (£m)	2020-21 FY	2	-33%	1%
British Business Bank Activity				
Number of Companies Benefiting from British Business Bank interventions [iii]	2021-22 FY	1,885		6%
Number of Start Up Loans offered	2021-22 FY	397	-30%	4%
Value of Start Up Loans offered (£)	2021-22 FY	5,292,709	-23%	4%
Number of Recovery Loans offered	Q2 2021-Q2 2022	644		3%
Value of Recovery Loans offered (£)	Q2 2021-Q2 2022	116,339,008		3%

North West

Measure	Period	Value	Change on previous year	Share of UK total / quotient of UK measure in reference year
Economic Context				
Resident adult population [i]	Mid-year 2021	5,957,266	0%	11%
Smaller business population [ii]	Start of 2021	527,455	-6%	9%
Firms per 10,000 adults	Start of 2021	885	-6%	0.86
Employment (thousands)	Start of 2021	1,644	-3%	10%
Turnover (£m)	Start of 2021	193,331	3%	8%
High growth businesses	2020	1,300	-2%	11%
Gross Value Added (£m)	2020	186,859	-3%	10%
Gross Value Added per head of population (£)	2020	25,363	-3%	0.85
Finance Ecosystem				
Equity investors	2021	27		3%
Bank and building society branches	2021	905	-9%	10%
Firms in Business Services	2021	37,135	-2%	9%
Finance Demand				
Proportion of SMEs Willing to Use Finance to Grow	2021	35%	0pp	
Proportion of SMEs that View Finance as a Major Obstacle	2021	6.8%	-3pp	
Proportion of SMEs with a Formal Business Plan	2021	25%	-2pp	
Proportion of SMEs aware of the British Business Bank	2021	23%	-5pp	

Measure	Period	Value	Change on previous year	Share of UK total / quotient of UK measure in reference year
Finance Supply				
SME loans and overdrafts approved	2021-22 FY	9,988	-93%	9%
SME loans and overdrafts approved (£m)	2021-22 FY	1,742	-75%	9%
Equity deals	2021-22 FY	147	1%	6%
Equity deals (£m)	2021-22 FY	742	61%	3%
EIS funds raised	2020-21 FY	190	-10%	5%
EIS funds raised (£m)	2020-21 FY	89	-3%	6%
SEIS funds raised	2020-21 FY	95	-17%	5%
SEIS funds raised (£m)	2020-21 FY	8	-11%	5%
British Business Bank Activity				
Number of Companies Benefiting from British Business Bank interventions [iii]	2021-22 FY	7,559		12%
Number of Start Up Loans offered	2021-22 FY	1,307	-3%	13%
Value of Start Up Loans offered (£)	2021-22 FY	15,972,236	3%	12%
Number of Recovery Loans offered	Q2 2021-Q2 2022	2,155		10%
Value of Recovery Loans offered (£)	Q2 2021-Q2 2022	455,548,904		10%

Yorkshire and the Humber

Measure	Period	Value	Change on previous year	Share of UK total / quotient of UK measure in reference year
Economic Context				
Resident adult population [i]	Mid-year 2021	4,474,428	0%	8%
Smaller business population [ii]	Start of 2021	412,935	-2%	7%
Firms per 10,000 adults	Start of 2021	923	-3%	0.90
Employment (thousands)	Start of 2021	1,238	-1%	8%
Turnover (£m)	Start of 2021	137,956	2%	6%
High growth businesses	2020	890	-2%	7%
Gross Value Added (£m)	2020	126,306	-3%	7%
Gross Value Added per head of population (£)	2020	22,855	-3%	0.77
Finance Ecosystem				
Equity investors	2021	12		2%
Bank and building society branches	2021	655	-7%	7%
Firms in Business Services	2021	22,470	-2%	6%
Finance Demand				
Proportion of SMEs Willing to Use Finance to Grow	2021	32%	-1pp	
Proportion of SMEs that View Finance as a Major Obstacle	2021	8.8%	0pp	
Proportion of SMEs with a Formal Business Plan	2021	25%	2pp	
Proportion of SMEs aware of the British Business Bank	2021	25%	-4pp	

Measure	Period	Value	Change on previous year	Share of UK total / quotient of UK measure in reference year
Finance Supply				
SME loans and overdrafts approved	2021-22 FY	7,038	-93%	7%
SME loans and overdrafts approved (£m)	2021-22 FY	1,071	-76%	6%
Equity deals	2021-22 FY	88	1%	3%
Equity deals (£m)	2021-22 FY	229	15%	1%
EIS funds raised	2020-21 FY	90	-14%	2%
EIS funds raised (£m)	2020-21 FY	38	-17%	2%
SEIS funds raised	2020-21 FY	60	-14%	3%
SEIS funds raised (£m)	2020-21 FY	5	0%	3%
British Business Bank Activity				
Number of Companies Benefiting from British Business Bank interventions [iii]	2021-22 FY	5,162		8%
Number of Start Up Loans offered	2021-22 FY	1,018	8%	10%
Value of Start Up Loans offered (£)	2021-22 FY	12,780,600	16%	10%
Number of Recovery Loans offered	Q2 2021-Q2 2022	1,602		8%
Value of Recovery Loans offered (£)	Q2 2021-Q2 2022	355,211,840		8%

East Midlands

Measure	Period	Value	Change on previous year	Share of UK total / quotient of UK measure in reference year
Economic Context				
Resident adult population [i]	Mid-year 2021	3,963,265	1%	7%
Smaller business population [ii]	Start of 2021	366,885	-7%	7%
Firms per 10,000 adults	Start of 2021	926	-8%	0.90
Employment (thousands)	Start of 2021	1,139	-3%	7%
Turnover (£m)	Start of 2021	130,135	3%	6%
High growth businesses	2020	770	-9%	6%
Gross Value Added (£m)	2020	112,184	-2%	6%
Gross Value Added per head of population (£)	2020	23,057	-3%	0.77
Finance Ecosystem				
Equity investors	2021	11		1%
Bank and building society branches	2021	555	-8%	6%
Firms in Business Services	2021	23,015	-2%	6%
Finance Demand				
Proportion of SMEs Willing to Use Finance to Grow	2021	40%	11pp	
Proportion of SMEs that View Finance as a Major Obstacle	2021	7.4%	-2pp	
Proportion of SMEs with a Formal Business Plan	2021	24%	1pp	
Proportion of SMEs aware of the British Business Bank	2021	23%	-3pp	

Measure	Period	Value	Change on previous year	Share of UK total / quotient of UK measure in reference year
Finance Supply				
SME loans and overdrafts approved	2021-22 FY	5,525	-93%	5%
SME loans and overdrafts approved (£m)	2021-22 FY	889	-77%	5%
Equity deals	2021-22 FY	45	-2%	2%
Equity deals (£m)	2021-22 FY	92	-43%	0%
EIS funds raised	2020-21 FY	80	7%	2%
EIS funds raised (£m)	2020-21 FY	33	50%	2%
SEIS funds raised	2020-21 FY	50	11%	2%
SEIS funds raised (£m)	2020-21 FY	4	0%	2%
British Business Bank Activity				
Number of Companies Benefiting from British Business Bank interventions [iii]	2021-22 FY	4,283		7%
Number of Start Up Loans offered	2021-22 FY	595	-3%	6%
Value of Start Up Loans offered (£)	2021-22 FY	7,779,467	-4%	6%
Number of Recovery Loans offered	Q2 2021-Q2 2022	1,515		7%
Value of Recovery Loans offered (£)	Q2 2021-Q2 2022	311,125,165		7%

West Midlands

Measure	Period	Value	Change on previous year	Share of UK total / quotient of UK measure in reference year
Economic Context				
Resident adult population [i]	Mid-year 2021	4,791,343	1%	9%
Smaller business population [ii]	Start of 2021	445,060	-8%	8%
Firms per 10,000 adults	Start of 2021	929	-8%	0.90
Employment (thousands)	Start of 2021	1,323	-5%	8%
Turnover (£m)	Start of 2021	155,151	1%	7%
High growth businesses	2020	865	-10%	7%
Gross Value Added (£m)	2020	140,282	-4%	7%
Gross Value Added per head of population (£)	2020	23,530	-4%	0.79
Finance Ecosystem				
Equity investors	2021	9		1%
Bank and building society branches	2021	730	-7%	8%
Firms in Business Services	2021	25,370	-2%	6%
Finance Demand				
Proportion of SMEs Willing to Use Finance to Grow	2021	34%	-1pp	
Proportion of SMEs that View Finance as a Major Obstacle	2021	8.5%	1pp	
Proportion of SMEs with a Formal Business Plan	2021	24%	-1pp	
Proportion of SMEs aware of the British Business Bank	2021	23%	-2pp	

Measure	Period	Value	Change on previous year	Share of UK total / quotient of UK measure in reference year
Finance Supply				
SME loans and overdrafts approved	2021-22 FY	8,579	-93%	8%
SME loans and overdrafts approved (£m)	2021-22 FY	1,309	-78%	7%
Equity deals	2021-22 FY	62	-7%	2%
Equity deals (£m)	2021-22 FY	333	18%	2%
EIS funds raised	2020-21 FY	120	-14%	3%
EIS funds raised (£m)	2020-21 FY	42	-25%	3%
SEIS funds raised	2020-21 FY	70	-18%	3%
SEIS funds raised (£m)	2020-21 FY	4	-33%	2%
British Business Bank Activity				
Number of Companies Benefiting from British Business Bank interventions [iii]	2021-22 FY	5,612		9%
Number of Start Up Loans offered	2021-22 FY	859	-4%	8%
Value of Start Up Loans offered (£)	2021-22 FY	11,357,362	-2%	9%
Number of Recovery Loans offered	Q2 2021-Q2 2022	1,879		9%
Value of Recovery Loans offered (£)	Q2 2021-Q2 2022	349,077,021		8%

East of England

Measure	Period	Value	Change on previous year	Share of UK total / quotient of UK measure in reference year
Economic Context				
Resident adult population [i]	Mid-year 2021	5,051,203	1%	9%
Smaller business population [ii]	Start of 2021	566,980	-5%	10%
Firms per 10,000 adults	Start of 2021	1,123	-6%	1.09
Employment (thousands)	Start of 2021	1,584	-3%	10%
Turnover (£m)	Start of 2021	191,514	-1%	8%
High growth businesses	2020	1,070	-4%	9%
Gross Value Added (£m)	2020	163,602	-4%	8%
Gross Value Added per head of population (£)	2020	26,096	-4%	0.88
Finance Ecosystem				
Equity investors	2021	47		6%
Bank and building society branches	2021	735	-9%	8%
Firms in Business Services	2021	37,475	-3%	9%
Finance Demand				
Proportion of SMEs Willing to Use Finance to Grow	2021	34%	5pp	
Proportion of SMEs that View Finance as a Major Obstacle	2021	7.6%	1pp	
Proportion of SMEs with a Formal Business Plan	2021	25%	7pp	
Proportion of SMEs aware of the British Business Bank	2021	22%	0pp	

Measure	Period	Value	Change on previous year	Share of UK total / quotient of UK measure in reference year
Finance Supply				
SME loans and overdrafts approved	2021-22 FY	10,418	-93%	10%
SME loans and overdrafts approved (£m)	2021-22 FY	1,442	-77%	8%
Equity deals	2021-22 FY	166	-7%	6%
Equity deals (£m)	2021-22 FY	1,312	41%	6%
EIS funds raised	2020-21 FY	290	-15%	8%
EIS funds raised (£m)	2020-21 FY	137	-11%	8%
SEIS funds raised	2020-21 FY	120	-25%	6%
SEIS funds raised (£m)	2020-21 FY	11	-15%	6%
British Business Bank Activity				
Number of Companies Benefiting from British Business Bank interventions [iii]	2021-22 FY	6,343		10%
Number of Start Up Loans offered	2021-22 FY	833	-9%	8%
Value of Start Up Loans offered (£)	2021-22 FY	10,754,184	-9%	8%
Number of Recovery Loans offered	Q2 2021-Q2 2022	2,074		10%
Value of Recovery Loans offered (£)	Q2 2021-Q2 2022	424,007,747		9%

London

Measure	Period	Value	Change on previous year	Share of UK total / quotient of UK measure in reference year
Economic Context				
Resident adult population [i]	Mid-year 2021	7,149,281	0%	13%
Smaller business population [ii]	Start of 2021	1,041,805	-8%	19%
Firms per 10,000 adults	Start of 2021	1,457	-8%	1.42
Employment (thousands)	Start of 2021	2,902	-3%	18%
Turnover (£m)	Start of 2021	768,480	3%	33%
High growth businesses	2020	2,695	1%	22%
Gross Value Added (£m)	2020	470,285	-3%	24%
Gross Value Added per head of population (£)	2020	52,239	-3%	1.76
Finance Ecosystem				
Equity investors	2021	581		73%
Bank and building society branches	2021	1,440	-7%	16%
Firms in Business Services	2021	114,315	-4%	28%
Finance Demand				
Proportion of SMEs Willing to Use Finance to Grow	2021	43%	6pp	
Proportion of SMEs that View Finance as a Major Obstacle	2021	11.8%	3pp	
Proportion of SMEs with a Formal Business Plan	2021	29%	6pp	
Proportion of SMEs aware of the British Business Bank	2021	20%	-5pp	

Measure	Period	Value	Change on previous year	Share of UK total / quotient of UK measure in reference year
Finance Supply				
SME loans and overdrafts approved	2021-22 FY	17,281	6%	16%
SME loans and overdrafts approved (£m)	2021-22 FY	4,444	3%	24%
Equity deals	2021-22 FY	1,350	6%	52%
Equity deals (£m)	2021-22 FY	13,428	-5%	63%
EIS funds raised	2020-21 FY	1,805	6%	49%
EIS funds raised (£m)	2020-21 FY	836	3%	52%
SEIS funds raised	2020-21 FY	1,055	6%	52%
SEIS funds raised (£m)	2020-21 FY	93	-5%	54%
British Business Bank Activity				
Number of Companies Benefiting from British Business Bank interventions [iii]	2021-22 FY	8,182		13%
Number of Start Up Loans offered	2021-22 FY	1,763	-11%	17%
Value of Start Up Loans offered (£)	2021-22 FY	22,503,519	-10%	18%
Number of Recovery Loans offered	Q2 2021-Q2 2022	3,652		18%
Value of Recovery Loans offered (£)	Q2 2021-Q2 2022	1,082,239,466		24%

South East

Measure	Period	Value	Change on previous year	Share of UK total / quotient of UK measure in reference year
Economic Context				
Resident adult population [i]	Mid-year 2021	7,442,850	0%	14%
Smaller business population [ii]	Start of 2021	874,035	-6%	16%
Firms per 10,000 adults	Start of 2021	1,175	-6%	1.14
Employment (thousands)	Start of 2021	2,400	-3%	15%
Turnover (£m)	Start of 2021	319,812	2%	14%
High growth businesses	2020	1,715	-7%	14%
Gross Value Added (£m)	2020	287,359	-3%	15%
Gross Value Added per head of population (£)	2020	31,176	-4%	1.05
Finance Ecosystem				
Equity investors	2021	42		5%
Bank and building society branches	2021	1,155	-8%	13%
Firms in Business Services	2021	69,345	-3%	17%
Finance Demand				
Proportion of SMEs Willing to Use Finance to Grow	2021	33%	4pp	
Proportion of SMEs that View Finance as a Major Obstacle	2021	7.2%	0pp	
Proportion of SMEs with a Formal Business Plan	2021	23%	5pp	
Proportion of SMEs aware of the British Business Bank	2021	20%	-1pp	

Measure	Period	Value	Change on previous year	Share of UK total / quotient of UK measure in reference year
Finance Supply				
SME loans and overdrafts approved	2021-22 FY	10,733	-94%	10%
SME loans and overdrafts approved (£m)	2021-22 FY	1,447	-82%	8%
Equity deals	2021-22 FY	243	-7%	9%
Equity deals (£m)	2021-22 FY	1,400	-2%	7%
EIS funds raised	2020-21 FY	555	-18%	15%
EIS funds raised (£m)	2020-21 FY	242	-16%	15%
SEIS funds raised	2020-21 FY	310	9%	15%
SEIS funds raised (£m)	2020-21 FY	27	13%	16%
British Business Bank Activity				
Number of Companies Benefiting from British Business Bank interventions [iii]	2021-22 FY	8,494		14%
Number of Start Up Loans offered	2021-22 FY	1,261	-7%	12%
Value of Start Up Loans offered (£)	2021-22 FY	16,389,584	-5%	13%
Number of Recovery Loans offered	Q2 2021-Q2 2022	3,113		15%
Value of Recovery Loans offered (£)	Q2 2021-Q2 2022	602,145,867		13%

South West

Measure	Period	Value	Change on previous year	Share of UK total / quotient of UK measure in reference year
Economic Context				
Resident adult population [i]	Mid-year 2021	4,664,909	1%	9%
Smaller business population [ii]	Start of 2021	521,750	-7%	9%
Firms per 10,000 adults	Start of 2021	1,118	-8%	1.09
Employment (thousands)	Start of 2021	1,457	-4%	9%
Turnover (£m)	Start of 2021	138,606	2%	6%
High growth businesses	2020	990	-4%	8%
Gross Value Added (£m)	2020	141,281	-4%	7%
Gross Value Added per head of population (£)	2020	24,965	-4%	0.84
Finance Ecosystem				
Equity investors	2021	18		2%
Bank and building society branches	2021	710	-11%	8%
Firms in Business Services	2021	30,155	-2%	7%
Finance Demand				
Proportion of SMEs Willing to Use Finance to Grow	2021	35%	4pp	
Proportion of SMEs that View Finance as a Major Obstacle	2021	6.7%	0pp	
Proportion of SMEs with a Formal Business Plan	2021	22%	-1pp	
Proportion of SMEs aware of the British Business Bank	2021	20%	1pp	

Measure	Period	Value	Change on previous year	Share of UK total / quotient of UK measure in reference year
Finance Supply				
SME loans and overdrafts approved	2021-22 FY	11,429	-91%	11%
SME loans and overdrafts approved (£m)	2021-22 FY	2,092	-71%	11%
Equity deals	2021-22 FY	128	31%	5%
Equity deals (£m)	2021-22 FY	990	251%	5%
EIS funds raised	2020-21 FY	180	-27%	5%
EIS funds raised (£m)	2020-21 FY	67	-29%	4%
SEIS funds raised	2020-21 FY	115	-26%	6%
SEIS funds raised (£m)	2020-21 FY	8	-33%	5%
British Business Bank Activity				
Number of Companies Benefiting from British Business Bank interventions [iii]	2021-22 FY	5,640		9%
Number of Start Up Loans offered	2021-22 FY	918	-14%	9%
Value of Start Up Loans offered (£)	2021-22 FY	10,591,201	-15%	8%
Number of Recovery Loans offered	Q2 2021-Q2 2022	1,672		8%
Value of Recovery Loans offered (£)	Q2 2021-Q2 2022	307,493,503		7%

Wales

Measure	Period	Value	Change on previous year	Share of UK total / quotient of UK measure in reference year
Economic Context				
Resident adult population [i]	Mid-year 2021	2,606,856	1%	5%
Smaller business population [ii]	Start of 2021	207,170	-1%	4%
Firms per 10,000 adults	Start of 2021	794	-1%	0.77
Employment (thousands)	Start of 2021	635	-1%	4%
Turnover (£m)	Start of 2021	57,196	2%	2%
High growth businesses	2020	440	-4%	4%
Gross Value Added (£m)	2020	66,591	-3%	3%
Gross Value Added per head of population (£)	2020	21,010	-4%	0.71
Finance Ecosystem				
Equity investors	2021	5		1%
Bank and building society branches	2021	450	-9%	5%
Firms in Business Services	2021	9,995	-4%	2%
Finance Demand				
Proportion of SMEs Willing to Use Finance to Grow	2021	38%	0pp	
Proportion of SMEs that View Finance as a Major Obstacle	2021	6.1%	-4pp	
Proportion of SMEs with a Formal Business Plan	2021	24%	-2pp	
Proportion of SMEs aware of the British Business Bank	2021	14%	-11pp	

Measure	Period	Value	Change on previous year	Share of UK total / quotient of UK measure in reference year
Finance Supply				
SME loans and overdrafts approved	2021-22 FY	7,348	-93%	7%
SME loans and overdrafts approved (£m)	2021-22 FY	697	-80%	4%
Equity deals	2021-22 FY	53	-34%	2%
Equity deals (£m)	2021-22 FY	91	35%	0%
EIS funds raised	2020-21 FY	80	0%	2%
EIS funds raised (£m)	2020-21 FY	33	-21%	2%
SEIS funds raised	2020-21 FY	35	17%	2%
SEIS funds raised (£m)	2020-21 FY	3	0%	2%
British Business Bank Activity				
Number of Companies Benefiting from British Business Bank interventions [iii]	2021-22 FY	3,326		5%
Number of Start Up Loans offered	2021-22 FY	396	-24%	4%
Value of Start Up Loans offered (£)	2021-22 FY	4,882,027	-18%	4%
Number of Recovery Loans offered	Q2 2021-Q2 2022	687		3%
Value of Recovery Loans offered (£)	Q2 2021-Q2 2022	139,925,771		3%

Scotland

Measure	Period	Value	Change on previous year	Share of UK total / quotient of UK measure in reference year
Economic Context				
Resident adult population [i]	Mid-year 2021	4,549,217	0%	8%
Smaller business population [ii]	Start of 2021	341,560	-8%	6%
Firms per 10,000 adults	Start of 2021	750	-8%	0.73
Employment (thousands)	Start of 2021	1,106	-4%	7%
Turnover (£m)	Start of 2021	116,102	1%	5%
High growth businesses	2020	745	-7%	6%
Gross Value Added (£m)	2020	145,245	-3%	7%
Gross Value Added per head of population (£)	2020	26,572	-3%	0.89
Finance Ecosystem				
Equity investors	2021	26		3%
Bank and building society branches	2021	790	-7%	9%
Firms in Business Services	2021	20,710	-6%	5%
Finance Demand				
Proportion of SMEs Willing to Use Finance to Grow	2021	37%	7pp	
Proportion of SMEs that View Finance as a Major Obstacle	2021	6.0%	-2pp	
Proportion of SMEs with a Formal Business Plan	2021	27%	4pp	
Proportion of SMEs aware of the British Business Bank	2021	22%	-5pp	

Measure	Period	Value	Change on previous year	Share of UK total / quotient of UK measure in reference year
Finance Supply				
SME loans and overdrafts approved	2021-22 FY	7,851	-93%	7%
SME loans and overdrafts approved (£m)	2021-22 FY	1,563	-70%	8%
Equity deals	2021-22 FY	213	-26%	8%
Equity deals (£m)	2021-22 FY	688	77%	3%
EIS funds raised	2020-21 FY	185	-14%	5%
EIS funds raised (£m)	2020-21 FY	70	-21%	4%
SEIS funds raised	2020-21 FY	75	15%	4%
SEIS funds raised (£m)	2020-21 FY	6	50%	3%
British Business Bank Activity				
Number of Companies Benefiting from British Business Bank interventions [iii]	2021-22 FY	3,951		6%
Number of Start Up Loans offered	2021-22 FY	714	-13%	7%
Value of Start Up Loans offered (£)	2021-22 FY	8,494,470	-1%	7%
Number of Recovery Loans offered	Q2 2021-Q2 2022	1,145		6%
Value of Recovery Loans offered (£)	Q2 2021-Q2 2022	227,481,558		5%

Northern Ireland

Measure	Period	Value	Change on previous year	Share of UK total / quotient of UK measure in reference year
Economic Context				
Resident adult population [i]	Mid-year 2021	1,499,694	0%	3%
Smaller business population [ii]	Start of 2021	123,530	-17%	2%
Firms per 10,000 adults	Start of 2021	824	-17%	0.80
Employment (thousands)	Start of 2021	423	-5%	3%
Turnover (£m)	Start of 2021	54,413	2%	2%
High growth businesses	2020	285	8%	2%
Gross Value Added (£m)	2020	43,664	-1%	2%
Gross Value Added per head of population (£)	2020	23,035	-1%	0.77
Finance Ecosystem				
Equity investors	2021	7		1%
Bank and building society branches	2021	365	-1%	4%
Firms in Business Services	2021	5,355	3%	1%
Finance Demand				
Proportion of SMEs Willing to Use Finance to Grow	2021	43%	8pp	
Proportion of SMEs that View Finance as a Major Obstacle	2021	10.1%	1pp	
Proportion of SMEs with a Formal Business Plan	2021	25%	0pp	
Proportion of SMEs aware of the British Business Bank	2021	18%	1pp	

Measure	Period	Value	Change on previous year	Share of UK total / quotient of UK measure in reference year
Finance Supply				
SME loans and overdrafts approved	2021-22 FY	5,099	-85%	5%
SME loans and overdrafts approved (£m)	2021-22 FY	1,346	-45%	7%
Equity deals	2021-22 FY	40	43%	2%
Equity deals (£m)	2021-22 FY	101	234%	0%
EIS funds raised	2020-21 FY	40	0%	1%
EIS funds raised (£m)	2020-21 FY	11	-8%	1%
SEIS funds raised	2020-21 FY	20	0%	1%
SEIS funds raised (£m)	2020-21 FY	2	0%	1%
British Business Bank Activity				
Number of Companies Benefiting from British Business Bank interventions [iii]	2021-22 FY	2,213		4%
Number of Start Up Loans offered	2021-22 FY	148	-7%	1%
Value of Start Up Loans offered (£)	2021-22 FY	1,781,381	2%	1%
Number of Recovery Loans offered	Q2 2021-Q2 2022	338		2%
Value of Recovery Loans offered (£)	Q2 2021-Q2 2022	63,118,257		1%

Endnotes

1. https://www.ukfinance.org.uk/data-and-research/data/sme-lending-within-uk-postcodes
2. https://www.gov.uk/government/statistics/business-population-estimates-2021
3. Small Business Equity Tracker 2022
4. Climate for Angel Investing Report 2022
5. UK Business Angel Market 2020
6. Research comparing relative deprivation across the UK shows that deprivation levels in Scotland and England are very similar, meaning the 15% most deprived Scottish areas are likely to be in the 15% most deprived overall UK areas. Northern Ireland is much more deprived than England or Scotland on average, therefore only classifying areas in the top 15% of most deprived Northern Irish areas as being in the '15% most deprived UK areas' will likely miss other deprived geographies.
7. British Business Bank analysis of BVA BDRC SME Finance Monitor and BEIS Business Population Estimates, estimates as at the start of 2022.
8. Note that proportions are of those applicants that have heard back, i.e. excluding 'unknowns' still waiting to hear application outcomes.
9. Neil Lee: Do SMEs in deprived areas find it harder to access finance? Evidence from the UK Small Business Survey
10. This analysis follows the definitions captured within the source data. As a result, Ethnic Minority-led businesses excludes those led by White minorities which are included in the White-led group. Proportions are of respondents providing ethnicity information, i.e. excluding non-responses.
11. British Business Bank – Small Business Finance Markets 2021
12. Social Mobility Commission - The long shadow of deprivation: Differences in opportunities across England
13. Permanent non-borrowers are those SMEs that are not using finance and have shown no appetite to do so.
14. Net Zero Strategy: Build Back Greener, HMG (2021)
15. Small businesses and net zero - British Business Bank (british-business-bank.co.uk)
16. Atmospheric emissions: greenhouse gas emissions intensity by industry (ONS)
17. Carbon footprints: food and farming | AHDB
18. Small businesses and net zero - British Business Bank (british-business-bank.co.uk)
19. Growing_clean_report.pdf (resolutionfoundation.org)
20. Northern Powerhouse Investment Fund Interim Evaluation Report - Research Report (british-business-bank.co.uk)

British Business Bank plc
Steel City House
West Street
Sheffield S1 2GQ

t. 0114 206 2131
e. info@british-business-bank.co.uk

british-business-bank.co.uk

Publication date: November 2022