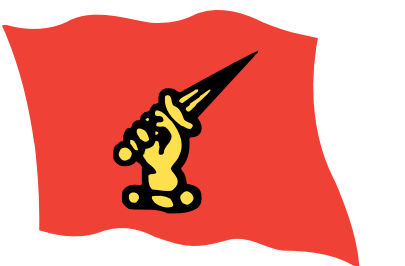


SME Confidence Tracker

Q3 2026



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Cautious optimism, constrained by costs



Derek Ryan

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"This continued cost pressure is reducing SMEs' appetite to invest in their businesses despite a latent desire to do so."

This summer was notable beyond the record temperatures that routinely hit the mid-30s. A new cabinet raised the heat on the UK's growth ambitions, and a better-than-expected GDP performance of 0.4 percent¹ for July struck a new tone for the UK economy as it entered the second half of the year with more momentum than many expected. July's GDP growth placed the UK as the joint second-best performer in the G7, behind Canada and alongside the US². It also points to a degree of confidence that the country is on course to meet the joint Treasury and OBR full-year 2026 growth forecast of 1.1 percent.

Our SME Confidence Tracker shows that small business owners too have responded in kind with green shoots of their own. While the SME Confidence Index remains markedly below the same period in 2025 (66), a marginal quarter-on-quarter increase to 52 indicates that confidence is improving.

While the early signs of recovery are encouraging, trading conditions for SMEs remain difficult. Costs remain the primary concern for most. From a 15-month low of 2.6 percent in June, inflation rose to 2.9 percent in July. According to business analyst Cornwall Insight's Business Energy Cost Forecast³,

energy costs have risen by around 25 percent since February, largely because of the continuing conflict in the Middle East. Though interest rates remained at 3.75 percent, following recent decisions by the Federal Reserve and the European Central Bank, many expect the Bank of England to follow suit with an increase before the end of the year.

This continued cost pressure is reducing SMEs' appetite to invest in their businesses despite a latent desire to do so. Furthermore, supply chain challenges that have become a standard feature of the trading environment in recent years remain. Almost six-in-ten SMEs (58%) have seen at least one supplier become insolvent or stop trading in the past six months and 55 percent have experienced the same for customers.

These challenges are compounded by the stubborn issue of late payment. Sixty percent of SMEs say customers are taking longer to pay than a year ago, and businesses are now owed an average of £72,000 in outstanding invoices, rising to £143,000 amongst mid-size businesses.

Emma Jones, the Small Business Commissioner said late payment is the single most significant drag on capacity for small firms. Having recently cleared its House of Lords Committee stage, the Commercial Payments Bill promises to ease this burden, but enactment and effective enforcement are separate things.

So, while the Bill is welcomed, equally, SMEs will need to find alternative ways to solve the cashflow conundrum if they are to achieve growth. Yet, among those using or seeking external financing, a quarter have had a funding application declined in the past six months, and almost a third have had credit lines reduced by lenders, tightening the squeeze on cashflow as costs continue to rise. Therefore, as well as tackling the root cause of cashflow challenges, the Government should explore measures to improve access to finance.

In the meantime, UK SME owners and decision makers wait to see whether the Autumn Budget will deliver more by way of support for them than was offered in the Spring. New Prime Minister, Andy Burnham and his Chancellor, John Healey clearly need to encourage and incentivise SMEs to commit to their own investment ambitions. Without this, they may see their target for 'growth in every postcode' turn to dust.

October 2026

1. Source: ONS 2. Source: House of Commons Library / OECD 3. Source: Cornwall Insight

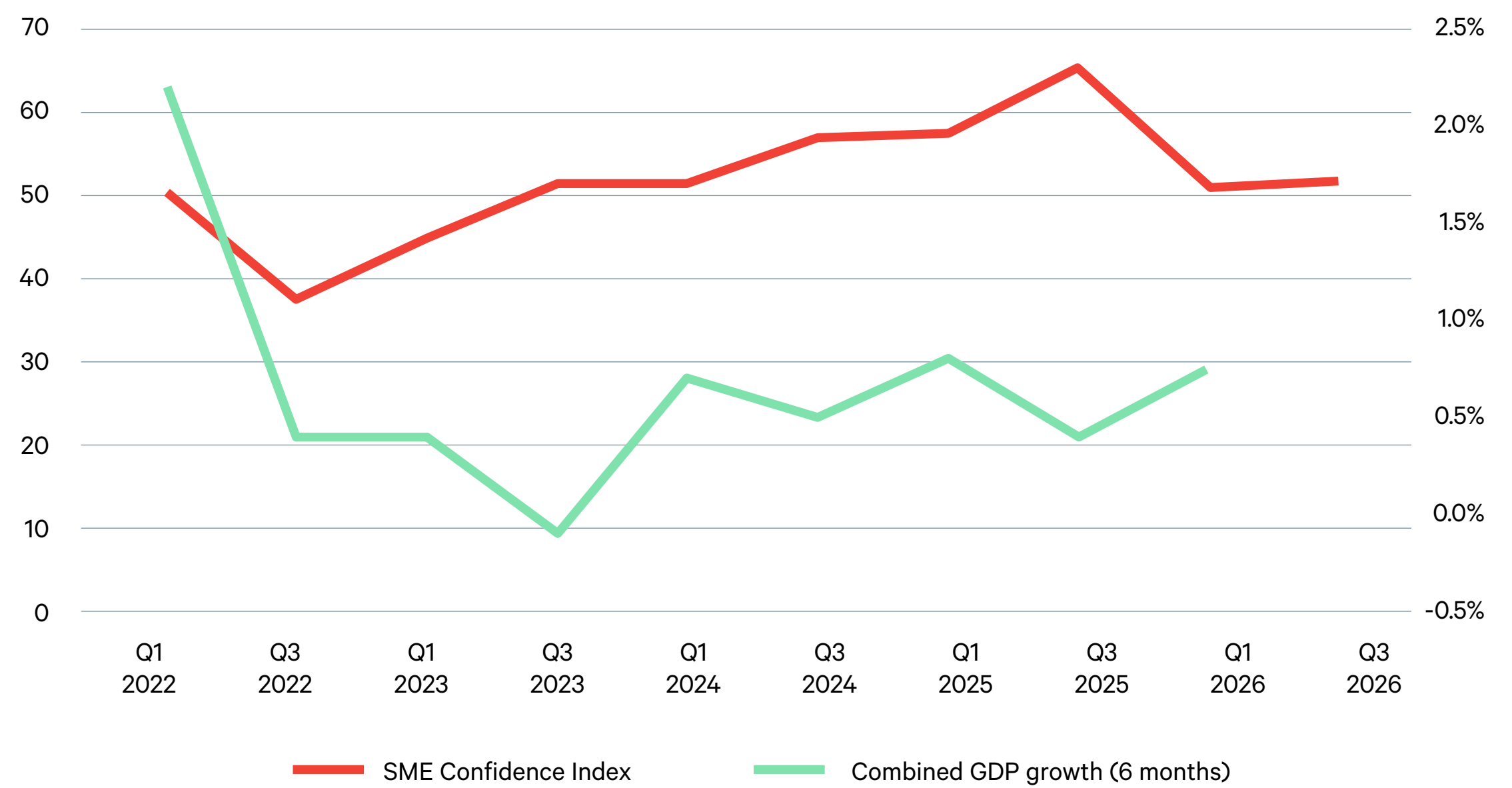
UK SME Confidence Index Q3 2026

Growth ambitions endure despite mounting financial pressure

The SME Confidence Index posted an overall score of 52, marginally higher than the 51 score in Q1 2026. A year ago, in Q3 2025, the equivalent reading was considerably more optimistic at 66. And while over half (57%) of small businesses report being profitable, this has also slipped significantly – down from 69 percent this time last year.

By way of contrast, the data highlights a robust sense of the potential for growth. Over half (54%) report an increase in sales over the last six months. A further 62 percent project that the next six months will also deliver a sales uplift. While there is evidently an appetite for expansion, most small businesses are hesitant to take action, specifically because of a combination of difficult homegrown and international trading conditions, domestic political upheaval, and still-volatile geopolitics.

SME Confidence Index vs GDP Growth



Proportion of SMEs planning to invest holds steady, but capex amounts dip

Despite caution around the economic outlook, SMEs have not entirely abandoned investment plans. Almost nine in ten (89%) expect to invest in at least one area over the next six months, marginally ahead of Q1 (88%). Digital and IT remains the leading priority at 38 percent, while investment intentions have also strengthened around new products and services (26%), premises (16%) and M&A (14%). This chimes with wider economic data showing that UK business investment increased by 1.7% in Q2 2026, although the Bank of England describes investment intentions as improving only tentatively and from a low base.

While the proportion of businesses looking to invest has edged up, data identifies a modest drop-off in planned investment levels for the next 12 months. The average total commitment sits at £216,468 – up from £205,915 in Q1 2026 but remaining 11 percent below Q3 2025's figure of £242,284. Additionally, SMEs are acutely conscious of the need to bide their time. Over half (54%) are holding off on any investment decisions until after the Autumn Budget, when the policy levers that will either help or hinder the economic backdrop are revealed.



Payment practices continue to squeeze cashflow

For SMEs already contending with a tough trading environment, late payment remains a stubborn drag on cashflow – and the data suggests the problem is deepening rather than easing. Delayed payments restrict the working capital businesses have available to meet day-to-day costs, invest and pursue growth opportunities, while also increasing their exposure when customers get into financial difficulty.

That pressure is increasingly visible in bad debt. Almost a third (32%) of SMEs have experienced bad debt in the past 12 months, up from 30 percent in Q1, while the average amount written off has risen to just over £30,000. With more than 55 percent of SMEs also reporting that a customer or supplier has become insolvent or ceased trading in the past six months, payment delays are not simply an administrative frustration – they can be an early warning of wider financial stress spreading through supply chains.

How much are UK SMEs owed in unpaid invoices in 2026?

Three in five SMEs (60%) say customers are taking longer to pay invoices than a year ago, and at the time of our Q3 2026 research, SMEs were owed an average of £72,462 in unpaid invoices, up 13 percent year-on-year.

The Commercial Payments Bill, which is designed to tighten payment terms, is still making its way through the legislative machine, and is not expected to come into force until 2027. Rather than wait for the

legislation, many SMEs are taking matters into their own hands.

Four in ten (40%) have shortened their payment terms in the past 12 months to protect cashflow, and 18 percent of those who haven't say they plan to do so in the next year. It's a pragmatic response to a problem that, for many, has become baked into how they do business.

What SMEs want from Government

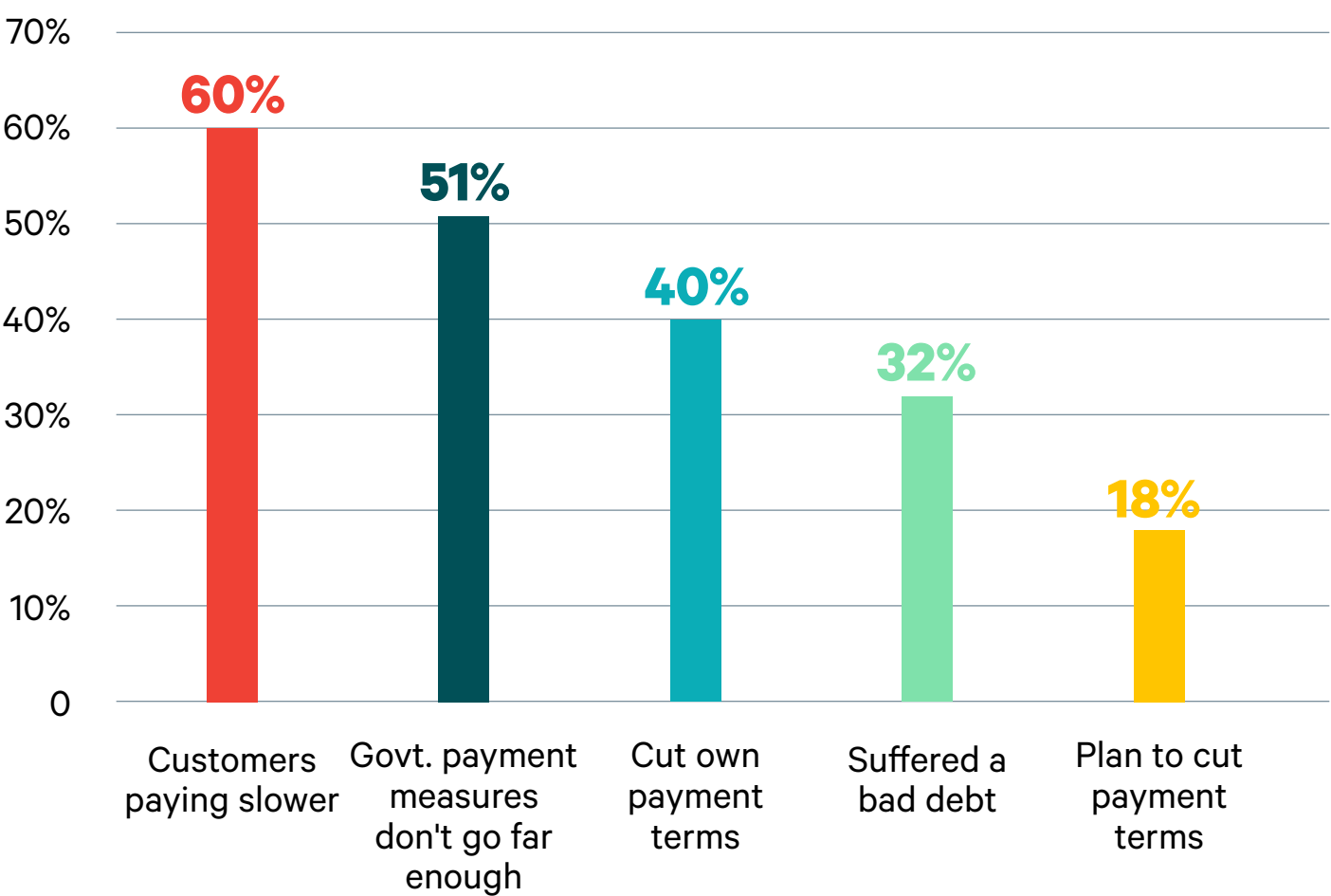
There's a clear appetite for Government to intervene more decisively. Over half (51%) say Government measures to reduce late payments do not go far enough to protect SMEs. Asked what they want before the end of this Parliament, 32 percent call for robust and effective late payment legislation.

With a new Government in place, many business leaders will be looking to Prime Minister Andy Burnham and Chancellor John Healey's inaugural Autumn Budget for tangible signs of support across the board. Top of the wish list are a cut in corporation tax (46%), freezing corporation tax (43%), pausing further increases to capital gains tax (41%), revoking the 2025 employer National Insurance increase (39%), and extending the retail, hospitality and leisure business rates cut to other sectors (36%).

The message is consistent with what SMEs have told us throughout our research – predictable costs and stability are what will free up the cashflow needed to invest and grow.



The cashflow squeeze facing UK SMEs



The funding awareness gap holding back SMEs

For many SMEs seeking to unlock working capital for growth and improve cashflow for day-to-day operations, access to finance remains a challenge. SME Confidence Tracker data for Q3 shows a two-sided problem: many firms are still struggling to get the finance they need, and when they go looking, many reach for what they know rather than what best suits their needs.

Among those using or considering finance options, a quarter (25%) of SMEs have had a funding application declined in the past six months, and almost a third (32%) have had credit lines reduced by lenders, tightening the squeeze on cashflow, payroll and growth plans as costs continue to rise.

Funding for growth and survival

For many SMEs, external finance isn't just a tool for expansion, but a genuine lifeline. While 43 percent seek it out to fund growth, a significant proportion turn to it out of necessity. Almost a quarter (23%) of SMEs rely on external finance to manage a backlog of outstanding invoices, one in five (20%) to pay suppliers, 18 percent to pay staff, 17 percent when debt becomes unmanageable and 9 percent simply to prevent bankruptcy.

The awareness gap

Yet businesses aren't always choosing the right funding for the job. Nearly eight in ten SMEs (78%) typically choose the option they understand best, while nearly half (47%) say they find it difficult to know which option is best for their business – a gap largely driven by limited awareness of alternative finance options, such as invoice and asset finance.

That gap is apparent in the data. Bank loans (86%) and credit cards (82%) are the best understood products, followed by Government loans (59%) and grants (57%). Understanding drops for alternative funding options: invoice finance (52%) and asset finance (52%). Take-up follows a similar pattern: 45 percent of current users of external finance rely on bank loans and 37 percent on credit cards, while only 23 percent use asset finance and 21 percent use invoice finance.

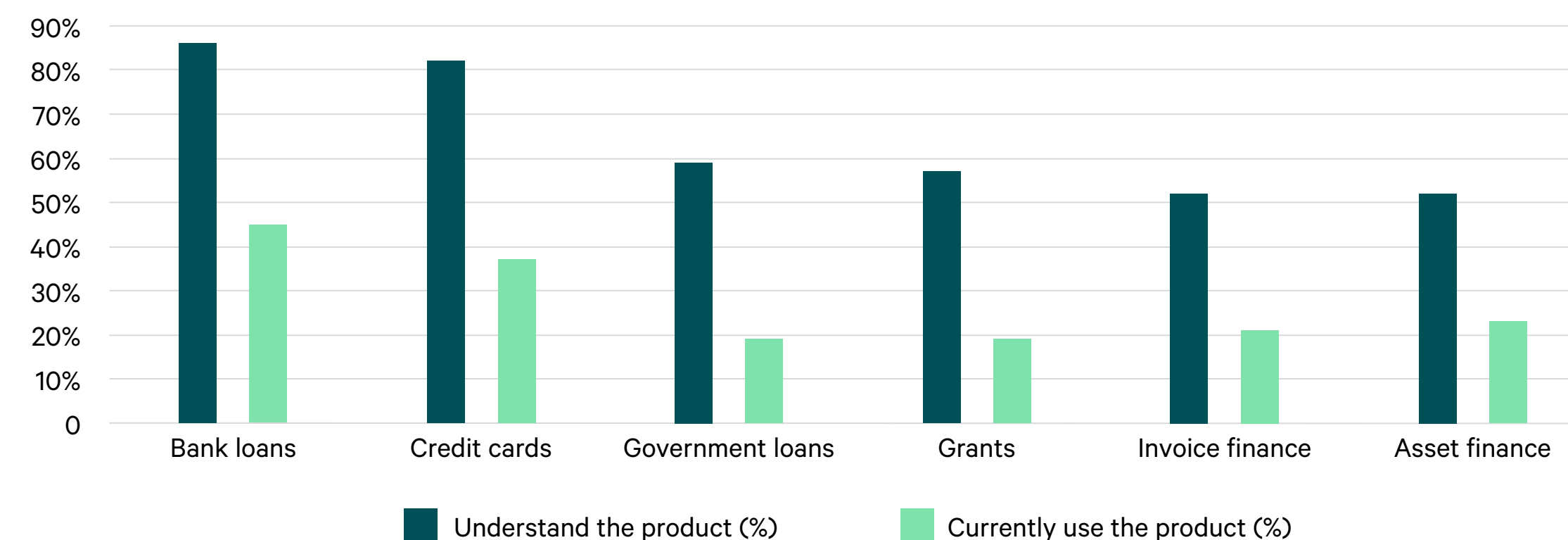
SMEs are aware of their knowledge gaps, and the majority call for greater support and guidance. Seventy percent of SMEs want better guidance from their bank, 68 percent from business support and advice organisations, and 67 percent from Government.

“This is a clear familiarity gap – not a suitability one. Invoice finance, for example, allows businesses to receive funding against outstanding customer invoices, bridging the gap between raising an invoice and getting paid. This is exactly the kind of tool that could ease the cashflow pressures described elsewhere in this report. In today's volatile market, where cashflow is under near-constant threat, understanding the full range of options on offer, including alternative finance, could be the difference between survival and growth.”



Derek Ryan
CEO, North West Europe, Bibby Financial Services

The awareness gap



Methodology

This study is based on research of more than 1,000 UK SME owners and decision makers across the manufacturing, construction, wholesale, transport and services sectors. Research was commissioned by BFS and conducted by independent specialists, Critical Research, in August 2026.

About Bibby Financial Services

Bibby Financial Services (BFS) is a leading family-owned financial services partner to over 8,000 businesses worldwide. We provide specialist working capital, asset finance and foreign exchange solutions helping businesses to grow and thrive in domestic and international markets. Formed in 1982, BFS is part of the Bibby Line Group (BLG), a diverse and forward-looking family business delivering personal, responsive and flexible customer solutions for over 215 years.

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