From barriers to breakthrough

WHAT'S BLOCKING GROWTH? - THE EVIDENCE

The message from business is clear: confidence has collapsed. The ICAEW Business Confidence Monitor shows a sharp downturn since the 2024 rise for many businesses in Employers' national insurance contributions (NIC). Employers' NIC is, quite simply, a tax on jobs, and businesses now fear there are more tax hikes to come.

That fear is choking off investment, hiring, and innovation. Unless government shows it is firmly on the side of enterprise, Britain risks sleepwalking into stagnation.

There are three reasons why the prospect of sustained growth seems far away:

1. BUSINESSES FACE TOO MUCH UNCERTAINTY

- **Tax volatility**: Frequent rule changes and mixed messages on tax make planning impossible.
- **Global headwinds**: Volatile geopolitics, cyber threats, and climate uncertainty add to the chill. Government initiatives come and go, leaving firms wary of long-term investment.

2. IT'S TOO DIFFICULT TO DO BUSINESS

- **A byzantine VAT system exhausts entrepreneurs**: outdated complexity in VAT rules creates costly disputes and threshold cliff-edges act as a hidden tax on innovation and growth.
- **HMRC service standards**: Too much time is wasted on the phone to HMRC rather than driving business growth. There has been years of underinvestment in HMRC systems.
- **Company accounts**: Cut the clutter and duplication in company reports; focus on what investors need, not compliance that attempts to serve other purposes.

3. IT'S TOO EXPENSIVE TO DO BUSINESS

- **Business rates inflexibility encumbers expansion**: Bills don't flex with performance, punishing investment and upgrades.
- **It's positive that the UK has the joint highest VAT threshold in the OECD**, but the ongoing freeze is pushing more and more productive businesses above it.
- **Red tape**: Overlapping, duplicative rules make compliance costly and innovation harder.

Other cost pressures add to the pain: Soaring energy costs, skills shortages, tough finance markets for SMEs, and late payments.

The result? Businesses hesitate to invest, hire, or innovate. They don't believe government 'has their back'. If that continues, the UK will increasingly lose competitiveness, jobs, and growth.

THEME 1 — BUSINESSES FACE TOO MUCH UNCERTAINTY

Problem: Businesses can't plan to grow if they fear tax hikes will make them unprofitable

Mid-year rule changes, reversals, and inconsistent communication make planning impossible. These frequent and poorly signposted shifts undermine confidence and make it extremely difficult for firms to plan effectively, particularly when making long-term investment or hiring decisions. The lack of a stable fiscal calendar means businesses are often forced to react to changes with little notice, diverting resources from growth and innovation to compliance and risk management. This volatility disproportionately affects SMEs, which typically lack the capacity to absorb or adapt to rapid policy shifts. The lack of a coherent and predictable tax framework erodes trust, discourages investment, and hampers productivity across the economy.

Evidence

- **29% of businesses cited the tax burden as a growing challenge** in Q3 2024, a joint record high for our BCM survey. By early 2025, this figure had surged to 56%, marking an unprecedented level of concern among ICAEW members. BCM for Q2 2025 shows that 55% of businesses cite the tax burden as a growing challenge.
- **Business confidence fell sharply** in both Q3 2024 and Q1 2025, which we attribute to the decline in uncertainty around tax policy, including fears of mid-year changes and reversals.
- **Companies reported reluctance to invest**, citing the unpredictability of future tax liabilities and the lack of clarity around upcoming fiscal events.

Solution

- **Businesses need certainty: no more business tax hikes this Parliament**. Government needs to balance the books. That looks irreconcilable, unless we open the "too difficult" box and address three long-standing barriers to growth that can also broaden the tax base:
  - Business Rates: a tax on premises expansion and productivity investment.
  - VAT rules: a de facto tax on innovation and growth.
  - Employment status: stifling complexity around status deters hiring for temporary contracts.
- **Publish the long-term Tax Road Map**: Although the publication of a corporate tax roadmap in October 2024 was helpful, what businesses really need is a Business Tax Roadmap that covers all taxes and duties. Use the Roadmap to lock in the CT commitments already made (25% cap, permanent full expensing/R&D) and set firm, dated milestones for the remainder: business-rates replacement; a VAT reform strategy; employment-tax reform; improving HMRC standards and introducing advanced rulings to improve certainty.
- **Stick to a Single Annual Fiscal Event**: The government should confirm its manifesto commitment to **one major fiscal event per year**, ideally the Autumn Budget where all significant tax and spending decisions are announced. This would replace the current system of multiple fiscal events (eg, Spring statement, Autumn Budget, and other announcements), which contributes to uncertainty and planning difficulties for businesses.

Problem: SMEs need to a clear path to sustainability, they don't know where to start

Sustained UK growth now depends on sustainability: climate and nature shocks are already eroding productivity and resilience. Only low-carbon, resource-efficient, nature-positive growth can be durable.

Net zero is a competitiveness issue: unmanaged transition risks may lead to stranded assets, job losses and instability. Integrating sustainability across policy, while helping SMEs adapt, turns risk and the adoption of new technology into higher-value, resilient growth.

Evidence

- **Costs of inaction**: Research estimates a 19% global GDP hit from existing emissions; UK losses of ≥7.4% of GDP by 2100 from climate change, and ~12% from nature degradation.
- **Transition dynamics**: Missing the 2030 halving of emissions and nature-loss reversal raises systemic risk; a slow EV shift could lose ~400,000 jobs, while a faster transition could create ~160,000.
- **Growth opportunity already visible**: The UK net-zero sector grew 10.1% (2023–24) to £83.1bn GVA and 951k jobs (each worth ~£105.5k in value); SMEs (99% of firms) must be supported to enable them to fully capture new opportunities.

Solution

Accelerate the sustainable economic transition

- **Whole-economy transition plan**: integrate climate, nature and circularity with the delivery of the Industrial Strategy, with clear, time-bound targets and accountability.
- **Embed sustainability in fiscal policy**: hard-wire climate, nature and circularity into budgetary decision-making (including public procurement) and Green Book appraisal, supporting sustainable growth whilst delivering value for money and improving transparency.
- **Align capital with the green transition**: complete the plan to require credible TPT-aligned transition plans from large firms and FIs.

Optimise green growth opportunities

- **Improve access to finance:** adapt start-up loans to incorporate incentives conditional on having a simple net-zero plan, with clear integrated guidance.
- **Green skills and competitiveness:** Prioritise development of green skills across the UK – especially in the financial sector – to help maintain a leading position against growing international competition.
- **Build markets for nature-based solutions:** convene investors/developers to create a pipeline of investable NBS projects at scale, unlocking private capital and regional jobs.

Supporting business sustainability

- **Boost uptake of existing help:** embed signposting to the UK Business Climate Hub and similar resources within government enterprise and growth campaigns.
- **Local sustainability champions for SMEs:** designate an SME sustainability and net-zero lead within growth hubs to help broker green funding and signpost firms to advice.

Problem: Economic uncertainty affects the appetite to invest for the future

SMEs in particular are hit hardest by economic volatility because they operate with thin margins and smaller reserves, leaving little room to absorb wider economic shocks. The latest ICAEW Business Confidence Monitor (July 2025) shows inflation and rising input costs squeezing cashflow, while over half of businesses cite tax and regulatory burdens as major pressures. Higher interest rates have raised the cost of borrowing, and supply chain disruptions have driven exporter confidence down to –6.1, with manufacturing and engineering confidence falling to –14.0. As a result, domestic and export growth expectations are at five-year lows, and firms are scaling back capital investment and R&D, leaving SMEs with almost no buffer to fund long-term growth.

Evidence

- **Costs are rising** – over half of businesses (55%) report the tax burden as a growing challenge, while input price inflation, especially fuel and food, continues to climb (BCM July 2025).
- **Borrowing is more expensive** – higher interest rates are pushing up the cost of credit, making access to finance harder just as SMEs need support to manage volatility (BCM July 2025).
- **Demand growth is slowing** – domestic sales growth expectations are just 4.1% and export sales growth 3.5%, both at five-year lows (BCM, Q2 2025).
- **Exporter confidence is falling** – global supply chain pressures, including US tariffs, have driven exporter confidence down to –6.1 (BCM July 2025).
- **Investment and innovation are stalling** – capital expenditure and R&D growth projections remain weak, with many firms delaying or scaling back long-term plans (BCM National, 2025).

Solution

- **Stabilise costs and policy signals**: simplify and modernise taxes (employment status; VAT; and business rates reform programmes) and commit to multi-year fiscal and regulatory frameworks. This would counter rising costs and uncertainty, which the BCM shows are major drags on SME confidence (55% cite the tax burden; regulation remains a top challenge).
- **Improve finance and support access**: as above use the *Business Growth Service* as a one-stop hub for advice, funding schemes, and investment readiness. This would simplify the fragmented support landscape and help SMEs secure affordable finance at a time when higher interest rates make borrowing harder.
- **Boost trade and supply-chain resilience**: provide tailored export support, including simpler customs/VAT processes and diversification incentives. With BCM data showing exporter confidence at –6.1 and manufacturing at –14.0, reducing barriers to trade would directly support growth in the sectors most exposed to global shocks.

Problem: Constant policy change chills investment

Britain's business policy has too often shifted with the political weather, chilling investment and growth; businesses told us they need a stable, decade-long framework, not moving goalposts. Fragmented, sometimes contradictory signals (eg. Level 7 apprenticeship funding) scatter effort across departments and blunt otherwise good ideas. Add an unclear split between Westminster and devolved governments, and firms don't know who to engage or when. That stalls plans.

Evidence

- **Frequent shifts deter investment:** in our 2024 response to the Government consultation on the Industrial Strategy, we found that that "policies and incentives that change too frequently … deter businesses from investing and stifle economic growth," urging a stable, decade-long framework.
- **Risk of scattered initiatives:** we also found that overlapping or misaligned actions across government departments, such as inconsistent policy signals (e.g., Level 7 apprenticeship funding decisions) that undermine growth strategies.
- **Central–local policy mismatch:** ICAEW stressed the need for clear "rules of engagement" between Westminster and devolved administrations, noting that uncertainty over which level of government to engage with hinders business planning.

Solution

- Commit to existing policies by following through on its existing policy commitments, completing ongoing projects, and allocating sufficient resources to both government departments and the private sector.
- Place the Industrial Strategy Advisory Council on a legislative footing to ensure continuity and reduce the risk of strategy reversal by future administrations.
- Introduce clear "rules of engagement" between Westminster and devolved administrations to reduce and prevent uncertainty.

Problem: The rapid escalation of cyber threats particularly ransomware is exposing a critical vulnerability in UK businesses

Many are not prepared to defend against or recover from such attacks. Cybercriminals are increasingly targeting firms with weak cyber hygiene and conducting schemes that exploit human nature and basic technical vulnerabilities such as outdated systems and weak passwords. For many businesses, the absence of dedicated cybersecurity teams, and basic cyber hygiene including robust data backup infrastructure, and incident response plans means that a single attack can result in severe financial loss, operational disruption, and reputational damage. The complexity and cost of cyber insurance, coupled with limited awareness of available government support, further compound the risk. As digital dependency grows, the gap between threat exposure and business resilience continues to widen—posing a systemic risk to productivity, trust, and economic stability. In fact, the UK Home Office considers ransomware to be the greatest of all serious and organised cybercrime threats.

Evidence

- **Cyber Security Breaches Survey 2025**
- **Businesses face uphill battle on cyber threat awareness | ICAEW**
- **You’ve been hacked: should you pay ransomware attackers? | ICAEW**
- The Q2 2025 BCM does not isolate cybersecurity as a standalone indicator, however it does reflect broader concerns about digitalisation, automation, and risk management. Businesses are increasingly turning to technology to manage costs, but ICAEW members have flagged integration challenges, talent gaps, and exposure to digital threats as key issues

Solution

- **Establish a National Cyber Resilience Fund for SMEs**: Create a targeted funding programme to help small and mid-sized businesses invest in essential cybersecurity infrastructure—such as secure cloud systems, data backup solutions, and staff training. This could be delivered through local enterprise partnerships or industry bodies.
- **Enhance Cybersecurity Education and Awareness**: Fund sector-specific training programmes and awareness campaigns- to improve digital literacy and cyber risk understanding among business leaders and staff.
- **Incentivise Cyber Insurance Uptake**: Offer tax relief or premium subsidies for businesses that invest in comprehensive cyber insurance, particularly those in high-risk sectors or with limited internal capacity. Many insurance providers require a level of cyber control and therefore this measure can help with both prevention and recovery.

THEME 2: IT'S TOO DIFFICULT TO DO BUSINESS

Problem: VAT is so complicated even a viral M&S strawberry sandwich triggers confusion

VAT is vital but needlessly complex. The UK's many VAT zero rates/exemptions create costly borderline calls, illustrated by HMRC v Innovative Bites Ltd [2025] EWCA Civ 293 over 'Mega Marshmallows', a ~£500k dispute about zero-rated food vs standard-rated confectionery. The Court of Appeal's broad test, any 'sweetened prepared food normally eaten with the fingers' is confectionery unless that result would be 'absurd', risks sweeping in quirky products (eg, an M&S strawberries-and-crème 'sandwich') unless classed as cake or deemed absurd. These grey areas force firms to hire VAT specialists for routine launches, burden the courts, divert HMRC in classification fights, and food is only one of ~50 categories with reduced rates or exemptions.

Evidence

- **A system that's "old and outdated"**: after 50 years, VAT design choices have ossified, leaving rules that no longer fit today's economy. Why the UK must reform VAT | ICAEW
- **Multiple rates and exemptions**: four VAT categories (20%, 5%, 0% and exempt) create complexity and disputes (notably on food), with evidence that reduced rates don't deliver fairness to consumers. Why previous efforts to simplify VAT have failed | ICAEW
- **Path dependency & resistance to change**: historic choices, special-interest lobbying and public biases (status-quo, loss aversion) make simplification politically hard; even modest reforms (eg, the 2012 "pasty tax") trigger backlash. ICAEW
- **Business "lock-in"**: firms have invested in processes and tech tuned to the current rules and often push back on reforms that would invalidate those investments. ICAEW
- **Administrative burden and risk on businesses**: complexity raises the risk borne by businesses who effectively collect VAT for government. Why the UK must reform VAT | ICAEW
- **Digitalisation lag**: Digitalisation has stalled relative to international best practice; awaiting outcome of e-invoicing/real-time reporting consultation. ICAEW
- **Inconsistent experience across taxpayers**: smaller, less-digitally-confident businesses face anxiety and costs; larger businesses struggle to justify further change amid delays. ICAEW
- **Revenue inefficiency**: a significant VAT 'tax gap' exists, at least partly due to complexity.
- **Registration-threshold cliff edge**: the high £90,000 threshold causes 'bunching' just below it and discourages growth; ICAEW discusses smoothing or rethinking entry into VAT. ICAEW

Solution

Redesign the VAT system for the 21st century
- **Use post-Brexit flexibility** to redesign a more consistent, modern VAT. ICAEW
- **Broaden the VAT base / simplify rates** (move toward fewer rates; review zero/reduced rates) — framed as the logical end-state and a simplifier. The policy adviser's perspective on VAT
- **Raise the VAT registration threshold** to £150,000 by the end of this parliament.

Take advantage of modern technology
- **Commit to e-invoicing and real-time reporting (by 2030) with a clear roadmap** so businesses can plan investments. ICAEW
- **Leverage digital reporting to narrow the VAT gap** (explicit goal of the programme). ICAEW
- **Coordinate with international initiatives** (eg, EU ViDA) aim for interoperable rules. ICAEW

Tackle delivery blockers
- **Adopt "evolution, not revolution"**: phase reforms; prioritise politically-deliverable steps; time and message changes well. Build a coalition of stakeholders, at home and abroad. ICAEW
- **Improve the user experience and agent capabilities**: expand what agents can do; give clearer, tailored guidance for different taxpayer types. ICAEW

Problem: Poor HMRC service is wasting small businesses' time and money.

Small firms are facing long delays, unanswered queries, and inconsistent advice from HMRC. Getting basic tax issues resolved can take weeks or months, forcing businesses to spend more on accountants and staff time just to stay compliant. This service gap pulls owners and finance teams away from running their business, undermining productivity and slowing growth. Despite the Government's push to cut regulatory burdens, HMRC is not included in its red tape reform programme, leaving a critical blocker untouched.

Evidence

- HMRC service delays and inefficiencies cost UK small businesses £24.8bn a year in lost time and money: an average of £4,500 per firm (FSB, April 2025).
- The FSB estimates that improving HMRC service could cut this burden by £1,500 per business, saving the economy over £8bn annually (FSB, April 2025).
- Businesses cite long call wait times, slow correspondence, and inconsistent answers as major pain points, with some tax disputes taking up to 12 months to resolve (Treasury Committee 24).
- Where businesses use agents to act on their behalf, agents also face difficulties contacting HMRC and, if they do get through, they often cannot resolve their client's query on the first attempt (Tackling HMRC's customer service challenge, ICAEW and CIOT, 11 December 2024).

Solution

- **Introduce an external tracking mechanism**: to allow taxpayers and agents to track that HMRC has received their correspondence; which team the correspondence has been allocated to; and to check progress, including being able to view status updates.
- **Review and improve internal tracking mechanisms**: to tackle lost correspondence, inconsistencies and repetition, saving time.
- **Ensure there are appropriate routes to escalate complex cases**: to help resolve problems more effectively without prolonged and repeated interaction with HMRC customer service. The personal tax query resolution service is a good start.
- **Improve individual ownership of work**: to improve resolution rates, building trust and reducing further contact.
- **Improve education and training of HMRC staff:** to increase consistency and resolution rates, building trust and reducing 'answer shopping' by getting things right first time.
- **Invest in customer service staffing:** to increase capacity and output, easing the burden on existing HMRC customer service staff and reducing backlogs and delays.
- **Maintain investment in legacy systems:** to ensure that taxpayers and agents who have no choice but to use legacy systems receive a sufficient level of customer service and functionality.
- **Identify and plug gaps in digital services:** to ensure HMRC's investment is targeted at making meaningful changes to the digital services that taxpayers and agents want and need. Agents need to be able to see and do everything that their clients can.
- **Increase the use of secure email for agent communication:** to help meet agent demand for digital communications.
- **Co-create and continually improve digital services:** by working collaboratively with taxpayers and agents to better inform design and testing, and make vital changes post-implementation to ensure digital systems work.

Problem: businesses owing tax to HMRC pay a higher interest rate than it pays in return.

Evidence

Late-payment interest due to HMRC = Bank Rate **+4pp**; repayment interest due from HMRC = Bank Rate **–1pp** with a 0.5% floor; currently 8.0% vs 3.0% from 27 Aug 2025.

Solution

Reduce the disparity in HMRC interest rates. The rate of late payment interest was increased by 1.5 percentage points from April 2025. While we understand that HMRC is looking for levers to reduce the intractable amount of tax debt that built up during the pandemic, if businesses cannot afford to pay their taxes, they will also not be able to afford to pay an increased amount of interest. By contrast, businesses are complaining about the increased time that it is taking HMRC to process tax refunds. While we recognise that checks are necessary to protect against fraud, HMRC should also be financially incentivised to resolve repayments promptly.

Problem: UK businesses struggle to navigate a confusing, uncoordinated support system

Government support is fragmented across departments and regions, with multiple portals, criteria, and processes leaving SMEs unaware of or unable to access vital schemes. This disjointed system means too many firms miss out on vital opportunities to invest, innovate and expand.

Evidence

- **UK business support is spread across departments and regions**, with many small, short-lived initiatives lacking coherence. Multiple portals and differing local authority processes delayed schemes like the Restart Grant (ICAEW Insights). Reflecting this fragmentation, only 26% of SME employers sought external advice or information in 2023.
- **Complex rules and delays excluded many firms**, (eg, the Kickstart Scheme's 30-job minimum threshold, regional disparities that cut funding by a third in some areas, and long grant processing times that worsened SME cashflow) (ICAEW Insights). Broader finance access is also deteriorating: loan approval rates for SMEs fell below 50% in 2023 (down from 67% in 2018), while banks closed 140,000 SME accounts that year.
- **Many SMEs remain unaware of or overwhelmed by support**: small firms report "hours Googling" grants, manufacturers seek clearer guidance from councils, and uptake of Help to Grow has been low (ICAEW Insights). Despite government grants totalling £153 billion in 2023–24, the existence of 1,847 separate schemes has contributed to underutilisation and confusion. Help to Grow Digital saw 830 vouchers redeemed against a target of 100,000 (1,507 applications were received).

Solution

Smart signposting with an SME passport

- **Create an "SME passport"** (using the Business Growth Service) to provide UK-wide and local support through a single portal, show live eligibility and availability and partner with private providers to enable key business functions to be completed in the portal with a service guarantee.

Simpler applications by design

- **Standardise and simplify applications** (forms, criteria, timelines) across departments; co-design schemes with sector councils; publish clear processing speed/consistency KPIs.

Promote and incentivise to improve take-up

- **Run readiness programmes** through BGS backed with vouchers so SMEs can buy accredited advice, target and promote to increase uptake, especially in IS-8; raise Start-Up Loan limits.

<u>Problem: Annual reports are so long investors can't find the information they need</u>
Businesses face growing demands to disclose non-financial information within their annual report. While these disclosures aim to enhance transparency and accountability, their nature and volume is obscuring the core purpose of the report as well as creating additional burden.

The annual report should provide material information that is useful to existing and potential investors, creditors and other lenders in making decisions relating to the provision of resources to the entity. Where non-financial information serves broader public policy objectives rather than providing material information to the primary users, that information should be presented outside of the annual report, allowing the annual report to focus on its intended audience.

Evidence

Complexity and duplication

- **Piecemeal development**: A patchwork regime developed over time has resulted in duplicative and overlapping requirements. Similar requirements appear in multiple sections (strategic, directors' and remuneration reports)
- **Complicated thresholds**: Multiple and inconsistent scoping rules make requirements difficult for companies to navigate without specialist advice. Creates uncertainty and extra work.

Fragmentation and lack of coherence

- **Multiple frameworks**: Multinational businesses must navigate UK and other sustainability frameworks, which can be costly and resource-intensive.
- **Uncertainty on ISSB adoption**: The lack of clarity, until recently, on scope and timing of UK SRS implementation has been making it difficult for businesses to plan and prioritise.

Lack of clear purpose and scope

- **Blurred role of the annual report**: Investor-focused reports are crowded with policy-driven disclosures. This information may be needed, but it should be segregated from investor reports.
- **Difficult materiality judgments**: With unclear objectives, companies over-disclose to mitigate risk.

Solutions

Establish principles

- **Clarify purpose**: Clarify the annual report's purpose; that will then guide decisions on what non-financial information to disclose, and where it should be placed.
- **Match with the intended audience**: focusing on matching the purpose of the disclosure of information with its intended audience will improve the quality and accessibility of information.
- **Disclosure options outside of the annual report:** options might include an annual-return style document, filed at Companies House, web-based portal.

Streamline

- **Build on the threshold uplift**: Simplify and reduce the number of different thresholds for clarity and easier scoping.
- **Eliminate duplication**: Rationalise overlapping and duplicative reporting requirements

Align

- **Endorse UK SRS**: adopt the ISSB's globally recognised baseline for sustainability reporting by endorsing UK SRS.
- **Proportionate SME framework in sustainability reporting**: Work with ISSB/ARGA to develop a scaled approach for smaller businesses, similar to the approach taken in financial reporting.
- **Equivalence in sustainability reporting**: work with the EU towards equivalence between UK SRS and CSRD.

Problem: UK businesses are missing out on a massive digital dividend

SMEs struggle with poor connectivity, siloed data, high costs, and a lack of digital skills. Fragmented initiatives mean many miss out on the benefits of digital transformation.

- Poor connectivity and outdated systems hinder productivity and competitiveness. The UK lacks a cohesive approach to smart data sharing, which would allow businesses to benefit from sector-wide insights and innovation.
- Businesses often struggle to understand and implement new technologies due to limited guidance, support, and access to skills.

Evidence

- **Businesses highlight patchy connectivity and siloed systems** (ICAEW Insights). Official data show uneven access and take-up: only 63% of UK SMEs are within reach of full-fibre (just 51% in rural areas), with 5G present at 42% of urban sites vs 16% of rural. Adoption of key platforms is incomplete (69% cloud, 61% specialised software; AI only 9% of firms in 2023). The government estimates wider data mobility could increase GDP by £27.8 billion per year.

- **Cost, complexity and a confusing market slow uptake**. Business leaders report big licence fees and difficulty choosing AI tools (ICAEW Insights). Statistics: firms most often cite difficulty identifying use cases (39%), then cost (21%) and lack of AI expertise (16%) as barriers.

- **Skills and security gaps expose SMEs**. Employers say curricula aren't delivering workplace AI skills, while SMEs are on the front line of cyber risk (ICAEW Insights). Statistics: digital skills were lacking in 32% of skill-shortage vacancies, with basic digital skills making up 48% of those digital gaps; in the last year, yet only 12% were aware of the NCSC 10 Steps and 3% adhere to Cyber Essentials.

Solution

Patchy connectivity and siloed systems

- **Deliver Smart Data across sectors**: set common APIs/standards, a clear rollout timetable, and governance. Prioritise use-cases that unlock SME data flow (eg, finance, energy, tax/e-invoicing).

Cost, complexity and a confusing market

- **Encourage and facilitate the use of standards**: use outcome-based standards/certifications and tools such as regulatory sandboxes so regulators can observe and learn and firms can experiment without freezing innovation; publish cross-regulator guidance in one place.

- **Create an SME passport as a single Business Support Portal** within the new Business Growth Service: a true one-stop shop that routes queries/applications to the right bodies and reuses data already provided: don't front-end immature systems with an LLM.

Skills & security gaps exposing SMEs

- **Upskill at scale, with lighter admin**: expand digital/AI bootcamps and simplify and implement the AI Upskilling Fund (small, fast grants or matched vouchers; micro-credentials employers recognise).

- **Cut duplication in reporting—and penalties**: "tell government once" via common data layers; align incident/cyber reporting to avoid multiple fines for the same event.

THEME 3 — IT'S TOO EXPENSIVE TO DO BUSINESS

Problem: Business rates block expansion. they don't fall when trade does and rise when you invest.

Business rates burden firms with large, impenetrable costs; fixed from day one, slow to adjust, and often discouraging investment and improving productivity. They make expansion riskier than it needs to be, unlike VAT or Corporation Tax, which flex with performance. Successive Governments have gone some way to improving business rates, with further improvements announced in the 2024 Autumn Budget, but more needs to be done to improve the system and encourage greater investment and help raise productivity.

Evidence

- **Business rates set a *de facto* revenue floor that doesn't flex with performance**
  Rates are a largely fixed cost: In 2025/26 the standard multiplier is 55.5p per £1 of RV.
  A £100k-RV unit attracts a charge of **£55.5k/year**, meaning businesses must generate £185k in sales at 30% gross margin just to cover the rates bill.
  Other taxes flex with income: VAT scales with output, Corporation Tax scales with profit. Business rates however, do not directly reflect performance.
  ICAEW warns, 'liabilities don't scale with profitability', making taking on new premises risky.
- **Valuation lags current conditions and limited appeal options magnify risk**
  The 2023 revaluation took effect in **April 2023** but was based on **April 2021** data, leaving bills detached from today's reality.
  If business deteriorates, there's little relief unless physical or location factors change.
- **Investing in productivity improvements often raises bills**
  Some Plant & machinery (P&M) is included in rateable value. In 2019 the **Treasury Committee** found this was unfair on manufacturing businesses.
  A **Make UK survey** found 42% of manufacturers would invest more if P&M were excluded.
  At **Tata Steel Port Talbot**, a £185m furnace upgrade led to a £400k/year rates jump.

But business rates do have advantages as a source of taxation

- **They tax the immovable**: You can't take land and buildings offshore, making the base hard to avoid and stable for revenue.
- **Simple to collect**: Property location is fixed.
- **Big revenue**: Business rates raised £31.8bn in 2024/25, a major chunk of non-VAT revenue.

Solution

We welcome the government's recent announcement on business rates. It's a step in the right direction, and shows recognition of the need for reform of the system to incentivise growth.

That is why we are calling for replacing the business rates system with a pro growth and productivity system that **incentivises the improvement of business premises** and **encourages investment in green infrastructure**.

<u>Problem: Britain's worker status uncertainty puts the brakes on hiring and expansion.</u>

Employers' NI is a de-facto payroll tax on jobs, raising hiring costs and damping growth, long recognised by ICAEW as such since the 1980s reforms. **Opacity erodes trust**: two parallel charges on similar income hide true marginal rates and fuel uncertainty about government intentions. **The split is artificial and distortionary**, driving status arbitrage (employment vs self-employment/PSC/dividends). **It's not even tax-efficient for government**: complexity and loopholes leave revenue on the table as well as adding costs and burdens for honest employers.

Evidence

- **Disparity in employment tax rates and rules drives arbitrage:** while it is for the government to set tax rates, there are clear incentives for workers to not be classified as employees for tax purposes. The myriad rules that try to 'fix' behavioural distortions are not business friendly. Engagers, workers and agencies have to negotiate IR35, off-payroll working, managed service company legislation, agency legislation, and from 2026, the new umbrella company legislation. This complicates compliance but still leaves workers (mainly low-income workers) at risk of unknowingly becoming caught up in tax avoidance.
- **Employment status needs clarity:** the fact that there are three employment status types from an employment law perspective but just two for tax is confusing. As highlighted by the plethora of cases, determining a person's status for tax is not straightforward and the courts reach different conclusions based on small points of detail. This does not assist engagers and workers to get things right.
- The snapshot of HMRC compliance activity at 31 March 2025 shows that the tax under consideration relating to employment issues across its large business compliance and wealthy individuals and mid-sized business compliance was around £6.5bn (almost 10% of the total).

Solution

The upcoming consultation on employment status should be taken as an opportunity to also reform employment status for tax and to consider the potential for alignment of status for tax and employment law.

- **Consult on the potential benefits of a statutory test for tax employment status** to introduce certainty and reduce the costs associated with arguing over legal interpretation.
- **Consult on wider reforms** that take account of how differences in rates and the tax treatment of expenses drive behaviour and whether they are fit for purpose in the current business landscape.

Problem: Regulatory overlap and duplication is wasting time and money

There are too many overlapping regulations. There's no permanent mechanism for businesses to report regulatory barriers or inefficiencies. Regulators tend to default to risk aversion, stifling innovation and experimentation.

Evidence

- Government itself says: "Over time, billions of pounds of regulatory cost have contributed to our economy being less competitive and less attractive for new investment than it could be". Some studies suggest red-tape costs could be 3-4% of GDP, or around £70bn.
- **43%** of businesses report regulatory requirements as a *rising* challenge (BCM Q2 2025); in **Construction** it hits a **survey record 57%**, with planning delays a key concern. **58%** in Banking/Finance/Insurance also cite this as rising.
- At an ICAEW-led roundtable held in September 2024, participants emphasized the sheer volume of ongoing rulemaking, the absence of effective post-implementation review processes (especially for existing "stock" regulation), and challenges in early evaluation of new rules.

Solution

Cut overlap and duplication in regulations and reduce complexity

- **Set expectations** with formal guidance or legislation that defines "regulator" and embeds both conduct and design principles for use in new or reformed regulators.
- **Ensure accountability** with a standardised KPI taxonomy covering timeliness, clarity, innovation, compliance burden, and stakeholder satisfaction. Enable independent body review.

Surface duplication and barriers faster

- **Establish a 'Report a Regulation' portal**. A single-entry point for firms to flag duplications, unclear guidance, or process delays. Auto-route cases to the right regulator; publish a triage status board with SLAs. Link to KPI taxonomy. Enable the public to see who regulates what.

Shift from default risk aversion to smart experimentation

- **Support the Regulatory Innovation Office** to encourage system-wide adoption of risk appetite/innovation statements, and a common sandbox playbook. Enable independent assessment of how effectively regulators encourage innovation.

Overly complex regulation in financial services is hinder investment and growth

A strong, competitive financial services sector matters for the whole UK economy: it underpins investment, jobs and innovation across every region. The government's focus on cutting compliance costs is welcome, but this must be achieved by making things simpler – through reducing duplication and streamlining oversight – not simply by lowering standards.

Evidence

- **58%** of Banking/Finance/Insurance firms cite regulation as a growing challenge — highest of any sector in the BCM in Q2 2025, the highest of any sector, well above the 43% UK average.
- Complaints to the ombudsman over debanking have surged **69% since 2020/21**, with **81% of those being business-related** this year.

Solution

- **Clarify roles and responsibilities** across regulators to cut duplication and overlap.
- **Streamline data collection** with coordination between regulators and sunsetting for reporting.
- **Simplify and consolidate rules** to be proportionate, transparent and easier to navigate.

Problem: Energy costs are so high the UK is uncompetitive with the rest of the world
Rising and volatile energy prices erode margins. The UK is a high-cost place to do business. Energy costs are some of the highest in the developed world. SMEs lack leverage to negotiate fair contracts or reliable incentives to invest in efficiency.

Evidence

- **Escalating and unstable costs**: SMEs from pubs to rural boutiques report energy bills rising faster than they can absorb, with some unable to even secure supplier quotes (ICAEW Insights). UK business electricity prices nearly doubled between 2021 and 2023 and, despite easing through 2024–25, remain about 75 % higher than early-2021 levels.
- **Planning and investment barriers**: Business networks and advisors highlight that short-term relief schemes and volatile markets deter efficiency investment, while unclear frameworks on renewables leave SMEs without a pathway (ICAEW Insights). A BEIS (now DESNZ) behavioural research report found that potential changes to business rates are the single greatest barrier to SMEs adopting rooftop solar PV, directly hindering renewable uptake.
- **Cashflow and contract pressures**: Entrepreneurs stress that delayed government support, high standing charges, and complex tariffs worsen already critical liquidity problems, limiting SMEs' ability to negotiate or plan long term (ICAEW Insights). Ofgem reports that 64 % of businesses experienced rising energy bills, with 76 % responding by cutting usage, and many facing difficulties negotiating or securing affordable contracts.

Solution

- **Explore collective buying power for SMEs**. Crown Commercial Service (CCS) runs huge, well-governed energy buying frameworks and risk-managed trading for the public sector. Pilot a voluntary "SME cohort" inside a CCS framework operated by local authorities/Growth Hubs.
- **Make non-domestic quotes truly comparable** with a standardised one-page quote format.
- **Ensure SME access to suitable tariffs**, including at least one smart-meter time-of-use tariff, and one with a capped standing charge so low-usage or seasonal SMEs aren't penalised.
- **Encourage rooftop solar** and onsite generation by providing business rates certainty, removing residual planning friction, and better promoting existing capital-allowance rules.

Problem: Even large firms struggle hiring key digital talent, it's even harder for SMEs

While shortages have eased since the unusual post-pandemic period, persistent shortfalls in key digital skills, and growth sectors like construction, and specialist engineering constrain SMEs. Training pipelines and frameworks lag industry needs, and the apprenticeship levy is hard to use. Visa rules restrict access to overseas talent that could plug gaps. SMEs lack time, capacity, and HR expertise to train and retain staff amid wage competition.

Evidence

- **Hiring gaps:** An ICAEW member reports even large regulated firms being unable to find AI-regulatory skills, it's tougher for SMEs; other members report struggling to "get the right skills", and engineering shortages that hinder delivery and risk inflation.

- **System blockers:** ICAEW members cite visa requirements hampering diverse, skilled recruitment, with one member concerned that curricula aren't producing graduates with workplace-ready tech skills, pushing extra training onto employers/universities.

- **High cost:** An ICAEW construction member notes long lead-times to train to competence and then losing staff to higher Sizewell wages; an ICAEW manufacturing member says compliance "resource cost" is a huge spend—stretching limited SME HR capability.

- The Department for Education 2024 Employer Skills Survey showed:
  - Skills shortage vacancy density decreased but is higher than 2017 (27% of vacancies; 36% in 2022; 22% in 2017); and
  - less establishments are investing in training (59%; 60% in 2022; 66% in 2017); but
  - establishments with skills gaps decreased (12%; 13% in 2017) and less employees have skills deficiencies (4.0% judged not fully proficient; 4.4% in 2017).

- **Management quality varies widely** and is lower in smaller firms. The mean UK management score is 0.55 (0–1 scale). Large firms average 0.68 vs 0.51 in 10–19 employee firms. The World Management Survey consistently finds the US at the top, with Germany/Japan/Sweden close behind. The UK trails these leaders and has more poorly managed firms.

Solution

Hiring gaps

- **Expand digital Skills Bootcamps** so that more people can benefit from these well-regarded courses. Add a DfE endorsed, SME targeted AI Essentials strand to standardise the AI offer.

- **Use the new apprenticeship flexibility to target skills gaps** as the main route to higher-level skills, including management skills, with clear regional targets and progression paths.

- **Simplify the apprenticeship system**, with streamlined administrative processes and clear guidance for employers, to make it easier for SMEs to engage.

System blockers

- **Embed employers in apprenticeship design** and review through sector advisory panels. **Prioritise management skills**, as well as technical skills, to fill the UK management gap.

- **Facilitate collaboration between** HEIs, employers and professional bodies to co-design internships and job-linked degrees to widen participation and develop workplace-ready digital skills.

- **Track the share of the workforce** with a technical qualification as their highest. Adopt a strategy to move the UK from bottom to top of the OECD.

Problem: SMEs can't get the finance they need to invest and grow

High interest rates, strict lending criteria and the need for substantial collateral or long credit histories mean many SMEs are rejected for finance or face unfavourable loan terms. Awareness of available finance options is low, and access varies sharply by region and sector. Even where finance is available, application processes can be complex and time-consuming, deterring smaller firms from pursuing growth plans.

Evidence

- **69%** of intermediaries cite lack of awareness as the biggest barrier to SME finance (ICAEW White Paper).
- Only **26%** of SMEs seek external advice before applying for finance (ICAEW *Accelerating Growth* White Paper).
- Use of external finance dropped to **43%** in 2024, despite rising demand (British Business Bank, *Small Business Finance Markets Report 2025 – Factsheet*).
- Regional and sectoral imbalances persist, with some areas significantly underserved by finance providers: London and the South-East received 72% of SME equity investment in 2024 (Whitepaper p. 23). Q2 2023 BCM shows capital access problems more prevalent in London (22%) and East of England (20%) than in Scotland/Wales (12%).

Solution

- **Use technology to link SMEs to investors** perhaps through procurement portal
- **Explore a new version of the Growth Voucher Scheme** that closed to new applications in March 2015. That scheme was successful in helping small businesses access strategic advice around financing (ICAEW Representation 84/23 SME Finance)
- **Enable larger Start-Up Loans** via the British Business Bank (the threshold of £25k is unchanged since the start of the scheme in 2012) and simplification of the guarantee support.

Problem: Late payment is so engrained that SMEs are surprised to be paid on time

SMEs wait months for payment. UK SMEs face a normalised late-payment culture, with 90–120 day terms and delays that drain working capital. Large firms may dictate unfair terms and push risk down supply chains while many SMEs are wary of challenging customers. Historical public sector slow-pay and cumbersome procurement compound cash-flow strain. Weak enforcement has enabled poor practices, though reforms and stronger penalties are now being consulted on.

Evidence

- An ICAEW member reports: customers taking 90–120 days to pay hit cash flow; a Midlands manufacturing owner says "it's the larger players on 120 days… big companies do whatever they want".
- The government found in 2022 that 57% of SMEs extending trade credit say late payment is a problem (27% of SME employers), and 29% cite late payment as a major obstacle to success.
- ICAEW roundtable participants advising SMEs: firms are "scared to push back," instant-sale businesses still demand 120-day terms, and risk is pushed down supply chains onto the smallest players. ICAEW Business members in the public sector: procurement is "crippling, takes far too long and requires extensive time and effort".

Solution

- **Strengthen Delivery and Digital Adoption to Tackle Late Payment Culture – alongside proposals in the consultation** the UK must accelerate digital adoption to help SMEs manage invoicing and cash flow more effectively. Such as encouraging SME e-invoicing or other digital solutions through incentives, training, and integration to reduce delays and improve transparency.
- **Increased visibility and empowering the Small Business Commissioner (SBC) -** To ensure the success of the government's proposed reforms on late payment, SBC must be equipped with the right tools, authority, and resources to deliver meaningful change. This includes not only enforcing penalties but also proactively supporting SMEs through education, dispute resolution, and cultural change initiatives. The SBC should be empowered to act as a central hub for best practice, with enhanced visibility and faster intervention powers.

<u>Problem: Audit should help support growth, but it's not proportional for many SMEs</u>

In the UK, audits for SMEs are often not proportionate: the Financial Reporting Council (FRC) considers the International Standards on Auditing (ISAs) scalable, but practitioners say they're still too burdensome. Delaying adoption of the International Auditing and Assurance Standards Board (IAASB) Less Complex Entities (LCE) standard risks higher costs and fewer quality audits for SMEs and charities.

Meanwhile, the 70% non-audit services fee cap in the FRC Ethical Standard may hinder efficient sustainability and other assurance where the statutory auditor is best placed. Indeed, we have heard that firms need to keep a certain amount of headroom under the 70% cap, for unplanned non-audit services that may arise. This is likely to include transactions services, including IPOs, clearly key to the UK growth agenda, but which may be competing with sustainability assurance engagements within the cap.

Together these issues raise costs, reduce comparability, and may deter investment—at odds with the government's growth and proportionality aims.

Evidence

- **Scalability gap & SME burden**: ICAEW members report ISAs (and ISAs (UK)) aren't proportionate in practice; audits are costly, auditors hard to find, and lifting thresholds is a blunt tool that can reduce comparability and raise SMEs' cost of capital. The FRC has argued against UK adoption of the IAASB LCE standard and focused on alternatives that have not moved the dial.
- **Assurance market constraint**: The FRC Ethical Standard's 70% non-audit services fee cap, amid scarce sustainability expertise, can block efficient delivery of sustainability (and soon AI) assurance by the financial auditor, despite potential synergies; any change requires government action.

Solutions

- **Adopt the LCE standard for defined use-cases**: Government should press the FRC to consult on and enable UK adoption of the IAASB LCE audits (same reasonable assurance, lower burden) for SMEs, voluntary audits below the statutory threshold, and DCMS and the Charity Commission consider use cases for charities (Between £1m–£15m income? (Or wherever the £1m threshold lands following current consultations into thresholds)).
- **Targeted fee-cap carve-outs with safeguards**: Consult on adding sustainability to the Ethical Standard 'white-list'. This could be for a time-limited period, with independence safeguards (eg. audit committee pre-approval).
- **Proportionality package**: Improve practical proportionality guidance, monitor outcomes (through KPIs on SME audit cost, audit quality, and access to capital), review thresholds only with data, and publish an implementation roadmap with a 24-month review.