ICAEW
REPRESENTATION 37/25

SMALL BUSINESS ACCESS TO FINANCE

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ICAEW welcomes the opportunity to submit a response to the call for evidence, *Small business access to finance*, published by the Department for Business and Trade and HM Treasury on 13 March 2025, a copy of which is available from this link.

Smaller businesses are not seeking debt finance because they:

- are facing more pressing challenges than access to finance, such as the tax burden, customer demand and availability of skills;
- fear the associated costs and time involved in applying which our members report can "kill demand", and the consequences of failure to repay, and
- lack knowledge of options, beyond more traditional debt products.

We recommend the following measures for the government:

1. **Initiate an education campaign** about non-traditional types of debt finance, and how external finance can support businesses' growth plans and investment
2. **Target the focus for the Business Growth Service** to under-represented and less well served businesses
3. **Launch a business voucher scheme** to help businesses identify the right finance for starting and growing businesses
4. **Recalibrate loan guarantee schemes** to help contain the costs of lending

Supply of some forms of debt finance is restricted due to lenders' risk appetite and some limitations of access to data and business information.

We recommend these measures to boost lenders' ability and appetite to lend to smaller businesses, subject to maintaining prudential safeguards:

5. **Accelerate the roadmap to Open Finance** in the UK (together with appropriate guardrails)
6. **Evaluate an extension** of the scheme for Commercial Credit Data Sharing
7. **Commission a holistic review of regulatory barriers** to lending to SMEs, with a view to making it easier to start, grow and invest in small businesses

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KEY POINTS

1. We recognise the government's objective to stimulate growth through improved access to debt finance, particularly for SMEs. We believe there are things the government can do in this respect while recognising that lending to smaller businesses carries risk that lenders must manage.
2. Businesses are not seeking to borrow to fund growth. According to ICAEW members, the principal reasons are that they are:
   - facing more pressing challenges than access to finance, such as the tax burden, customer demand and availability of skills;
   - fear the associated costs and time involved in applying and the consequences of their applications being refused and particularly of failure to repay. One ICAEW member reported that "*there are small businesses taking out personal loans to tide their business over or for investments or due to cash flow. They tend to favour personal loans due to the red tape and the expenses and time involved in taking out business loans, etc. Which says it all*".
   - lack knowledge of options beyond more traditional debt products.
3. The government can respond with:
   - an education campaign about non-traditional types of debt finance and how external finance can support businesses' growth plans;
   - a targeted focus for the Business Growth Service to under-represented and less well served businesses;
   - a business voucher scheme to help businesses access advice to identify the right finance or to address other needs; and
   - recalibration of loan guarantee schemes to help contain the costs of lending.
4. Following the global financial crisis many more providers - including alternative providers and challengers - entered the debt market, increasing choice and the range of products. Government has also supported developments in the debt market, including via the British Business Bank. Nevertheless, our members report that supply of some forms of debt finance is restricted due to lenders' risk appetite or limitations on their access to data and business information.
5. Government and regulators can boost lenders' ability and appetite to lend to smaller businesses by:
   - accelerating the roadmap to Open Finance in the UK (together with appropriate guardrails);
   - evaluating an extension of the scheme for Commercial Credit Data Sharing; and
   - a holistic review of regulatory barriers to lending to SMEs. However, any reforms must remain anchored in the prudential safeguards introduced following the 2008 financial crisis, which are essential to ensuring the ongoing resilience of the banking system.

ANSWERS TO SPECIFIC QUESTIONS

UK TRENDS FOR DEBT FINANCE

Q2 What has your experience been of using a commercial finance broker?

6. Our members report[1] that businesses tend to be more successful with funding applications made via accountants, business advisers or qualified brokers. This is because such intermediaries have a good understanding of the wider funding marketplace and can make businesses aware of options that they do not know about or have not considered.
7. When guiding a business with funding needs, a professional adviser will take the business's needs and forecast performance into account as well as its ability to service the external finance for which it is applying.

Q3 How could the Business Growth Service best encourage business finance readiness, including signposting and facilitating access to appropriate financing options at the right time?

8. We support the ambition for the Business Growth Service (BGS), but we urge the government to firmly target its focus to groups, sectors and geographic areas that are currently not well-served by other players, including from the private sector. This will also ensure that public money is deployed where there is genuine need. We come back to this later in our response to this question.
9. The BGS is an evolution of initiatives for improving awareness of business finance readiness, and access to finance. Many of those, including Business Link, Growth Accelerator, Regional Development Agencies, were successful and will be a useful source of lessons for the BGS so as to prevent wastage of public funds.
10. Partnerships between the BGS and the private sector (capital providers and business, legal and financial advisers) can contribute to the success of the BGS and ensure that businesses access appropriate advice and the right form of finance.
11. It makes sense to bring the government's SME support services under one roof. It is more business-friendly and efficient to have a single repository of up-to-date information on government financial and other business support – including at local level – as well as education material on newer types of providers to boost confidence in these. What the BGS can add, compared to commercial platforms, is 'live' data. We explain this in our response to Question 8.
12. The BGS is to be 'a UK-wide business support system with a revamped web offer'. There is a role for appropriately structured use of AI to help meet businesses' needs. However, AI output cannot, on its own, replace tailored advice from qualified advisers who will consider the business's needs in the round and in the context of prevailing economic and business conditions.
13. There is a role for the BGS to facilitate business access to advice, like the Start-up Loan scheme that provides applicants with free support and guidance to help write a business plan. Businesses that are ready for more tailored support to deliver potential should be referred to qualified specialists. Expert guidance may be needed in several areas such as finance readiness, managing working capital, establishing operations to support business growth, for marketing plans, employment matters etc. With ICAEW's Business Advice Service, member firms offer a complimentary consultation which can help to gauge a business's needs. A business voucher scheme would help businesses access guidance from the experts they need.

[1] ICAEW response, Call for Evidence: SME Finance

14. The BGS is to 'work in partnership with small businesses, local and devolved governments across the UK, with locally led delivery at its core, to ensure the service provides the information and resources smaller firms need from government'. This fits well with the emphasis on 'Place', that ICAEW[2] believes will boost growth and should underpin the Industrial Strategy eg creation of hubs, appropriate infrastructure, connectivity, partnerships etc.

15. Professional bodies, trade and business organisations have long-established and properly resourced services for businesses, some of which are free, that it would not make sense for the BGS to seek to replicate. The BGS does run the risk of adding another player and complexity into a business advice environment which is already fragmented, complex and difficult for businesses to navigate. Its activity and reach should be clearly and tightly focused – to avoid duplication and to fill gaps in the market for guidance and advice. The British Business Bank's Finance Hub offers generic information and support that can be integrated with the BGS. It would then make sense for the BGS to target geographical areas and business groups that are not currently or adequately reached by other services. This could include entrepreneurs not well served in the current lending landscape. Success measures for the BGS would also include indicators of improvement in representation.

Q4 Do you believe that there are any barriers to demand for debt finance? If so, what are the main barriers?

16. Based on the experience of our members in business and of the clients of our members in practice clients, we identify the factors below as being barriers to business' demand for debt finance.

    (a) **Business confidence is negative**, according to ICAEW's latest Business Confidence Monitor[3]. This lowers business risk appetite. Businesses' confidence, their growth plans and forecasting ability rely on certainty and stability. Sight of policy trajectory, such as that in the government's corporate tax roadmap, has provided welcome certainty to companies on the tax treatment of investment, as the corporation tax rates and thresholds, capital allowance rates and rates of relief for qualifying R&D expenditure are fixed for the life of this parliament. This contribution to certainty should not be underestimated and we think it should be extended to a roadmap to cover all taxes that businesses pay or administer.

    (b) **Cost**. Businesses are facing increased costs and baulk at the borrowing rates driven by higher reference rates. Taken together with expectations of a higher cost base, including due to rising employment costs, there is little appetite (or capacity) to take on debt servicing costs.

    (c) **Lack of awareness of finance options**. While there is knowledge of loans and overdrafts for managing cashflow and working capital, that awareness does not always extend to other forms of debt, such as asset-based lending (which does not require personal assets as security).

    (d) **Time**. The length of time between application for and approval of funding and the burden of administration involved for responding to lenders' information requests – and the impact on the business of that distraction.

    (e) **Aversion to taking on external finance.** This is due to fear of the consequences of not meeting repayment terms as well as a perceived stigma for taking on debt.

[2] Industrial Strategy Consultation Response
[3] UK Business Confidence Monitor: National | ICAEW

17. We note that our members' feedback on barriers above tallies with that of others in the market, such as the British Business Bank's Small Business Finance Markets Report 2025.

18. Within these themes, however, ICAEW members also report more nuanced evidence, of businesses:

    - experiencing reduction in banking service levels, such as loss of eligibility for a banking manager, facilities not being renewed and parameters being changed (eg personal guarantees suddenly being required or the quantum advanced reduces as lenders apply lower earnings multiples);
    - being reluctant to make online applications for finance because of the perception that if "the computer says no" this will affect their credit standing;
    - seeking easy and quick options, such as credit cards and overdrafts, to address immediate cashflow needs, rather than products such as term debt or asset-based lending that could help deliver medium- and longer-term objectives. This is the experience of an ICAEW member in manufacturing: *"Leveraging expansion with external finance is a very unattractive proposition at the moment. The relentless increases in employment taxes and minimum wages, a general shortage of skilled and willing staff and the incredible amount of global economic uncertainty, means we only invest from 'excess' working capital. So, we do invest and are expanding, as parts of our business are doing well. Just doing so slower than we might".*

19. On the application process and duration, an ICAEW member reported that the time taken and the distraction from running a business *"kills demand"*. Another ICAEW member reported that *"there are small businesses taking out personal loans to tie their business over or for investments or due to cash flow. They tend to favour personal loans due to the red tape and the expenses and time involved in taking out business loans, etc. Which says it all"*.

Q5 Do you believe that financial education or knowledge and availability of information are barriers to demand? If so, to what extent?

- ***In your view, how can these barriers best be addressed?***
- ***Are there examples of support and advice frameworks in other jurisdictions you believe could benefit the UK?***

20. We do believe that financial education or knowledge and availability of information are barriers to demand. Financial literacy in the school curriculum needs to cover essential subjects like the different types, features and use of personal and business finance. Budgeting and forecasting skills (again, for personal and business use) are essential and can be augmented with technology and IT skills.

21. Good examples of support and advice frameworks do already exist in the UK, although there will be lessons from other jurisdictions too. Public initiatives such as the former growth hubs/LEPs, UK Export Finance, Innovate UK, have been successful in providing support and advice. Given the pressures on the public purse, there is a case for reviewing existing publicly funded schemes to ensure that the desired outcomes address currently pressing needs. There may be grounds to redirect the focus of schemes.

22. There are also good examples of private and not-for-profit sector initiatives to support and advise businesses, offered by professional bodies such as ICAEW, chambers of commerce, trade associations such as UK Finance, Creative England, and the banks. ICAEW has

previously highlighted the good outcomes for business that are achievable with clusters, in our response[4] to the industrial strategy white paper.

23. Some joint public-private initiatives have also been very effective, an example being the Business Finance Guide[5] publication, co-led ICAEW and British Business Bank and produced by a taskforce representing UK providers of capital and representatives of businesses. It was distributed in digital and paper form (c1million copies) and also published in Welsh.

24. The reach of existing frameworks is, however, not as comprehensive as it should be. As alluded to in Question 20 and 21, there are under-represented entrepreneurs and businesses in the financing landscape. As mentioned in our response to those questions there is a case for the BGS to target its activities to engage with, understand the needs of and support such groups.

Q6 Why are some small businesses permanent non-borrowers?

- ***Should this be considered a problem?***
- ***How can policy intervention support small businesses in this category, who have ambitions to grow, to seek finance?***

25. The fact that some businesses never borrow should not necessarily be considered a problem. Access to external finance is not always the principal challenge facing businesses. Indeed, there are other issues of concern; ICAEW's latest Business Confidence Monitor[6] revealed that businesses are more worried about the tax burden (59%), regulatory requirements (43%), customer demand (35%), marketplace competition (33%), as well as skills availability and the ability to expand, than they are about accessing capital.

26. Having poor experience[7] of lenders' behaviour in the past has also influenced some attitudes. During the financial crisis, the banking sector debanked or turned off credit to some sectors. More recently, during the COVID-19 pandemic, traditional banks retrenched, or prioritised existing customers over new applicants and larger businesses over smaller ones. The impact of such a legacy can be difficult to shift through policy intervention.

27. Some businesses are not interested in being high-growth or the "next unicorn" and their ambitions do not trigger a need for funding from external sources.

28. There are, however, businesses that have never borrowed because they are not able to make the step from early stage to scale. There is a role here for policy intervention to address underlying causes. Challenges to scaling a business in the UK have been well-documented and both organisations and a range of initiatives exist to support scaling and to find solutions. ICAEW[8] and many other professional bodies and trade associations make relevant information and guidance publicly available. As mentioned, ICAEW's Business Advice Service[9] enables businesses to access a free consultation with an ICAEW Chartered Accountant.

29. Policy intervention can also help where other factors stifle business growth (and the potential need for a business to borrow). Examples include reducing complexity in processes, such as export approvals, and other administrative burdens, bringing in measures to boost availability of skills, and improving economic and social infrastructure in regions where businesses struggle to recruit.

[4] Industrial Strategy Consultation Response
[5] What is the Business Finance Guide? | ICAEW
[6] UK Business Confidence Monitor: National | ICAEW
[7] ICAEW response, Call for Evidence: SME Finance
[8] How to grow | ICAEW
[9] ICAEW BAS | ICAEW

30. See also recommendations for intervention in our responses to Questions 9 and 14.

OTHER DEVELOPMENTS IN ACCESSING FINANCE

Q7 What factors do you consider when selecting finance provider(s)?

31. Businesses look for finance providers that can offer:
    - speed and simplicity in the application and approval processes;
    - finance at affordable costs and on reasonable terms, without requiring a personal guarantee; and
    - tailored service and functionality of service; eg by way of relationship banking and with certain app-based options, respectively.

Q8 Are there sources of support or advice, or both, that you use to access finance? To what extent do these meet your needs?

32. There are sources of support and advice, but these can always be improved. Business can already access platforms that claim to help with identifying and finding the right form of finance. A weakness in such services is that although the platforms may recommend a product and a list of providers for that product, that information is not typically refined to show providers who are actually ‘active’; ie, currently taking on business or offering more with certain criteria.
33. There is potentially a role for the Business Growth Service to ensure that ‘live’ information such as that above is available to enable businesses to be more agile and efficient in their search.
34. Our members also report an increase in commercial finance brokers operating in the market. As mentioned in our response to Question 4, businesses are frequently successful in finance applications when using these services.

Q9 In your view, what would help to encourage the volume of small business lending in the UK?

Review of government and regulatory policy

35. **Acceleration of Open Finance and alternative lending support.** Encouraging the growth of non-bank lending through Open Finance initiatives can improve credit assessments and expand financing options for businesses. By enhancing access to real-time financial data, Open Finance can enable better risk assessments, reduce information asymmetries, and increase lender confidence in financing SMEs. Building on Open Banking, it also has the potential to drive SME productivity gains through more efficient reconciliation, real-time financing, and streamlined payments. A clear strategy by the government setting out the roadmap to Open Finance in the UK underpinned by appropriate standards and regulations (eg, API performance metrics) will help achieve this. We note that Open Finance is one of the key priorities in the FCA’s recently launched five-year strategy.
36. **Expand Commercial Credit Data Sharing (CCDS)**. The success of CCDS - as established by the Small and Medium Sized Business (Credit Information) Regulations 2015 - could be extended by making the scheme more flexible to ensure it continues to function in a way that is complementary to innovations (such as Open Finance) which create new opportunities to support SME access to finance.
37. **Educating SMEs and Consumers on the benefits of Open Banking / Finance.** The above should be coupled with various awareness initiatives to educate consumers and SMEs about

Open Finance to inform the public about the benefits of Open Finance, such as improved financial services and increased transparency. We note that the UAE has successfully built a brand for open banking that is consumer focussed.

38. **Incentives for SME lending.** Consideration of targeted incentives, such as tax reliefs or risk-sharing mechanisms (eg, expanding the British Business Bank's guarantee schemes), to encourage greater lending to businesses with growth potential but limited collateral.

39. **Provide support for businesses to access professional advice, including on choosing appropriate funding for their growth plans**. A system like the former Growth Voucher Scheme would enable businesses to secure expert guidance on business matters that they would not otherwise be able to afford. For those seeking finance, it would help them consider all relevant factors to choose the right fit from among the multitude of providers and products. Other businesses may benefit from advice on forecasting, on commercialising /marketing products and services, on outsourcing, on supply chain resilience, etc

40. See also recommendations in our response to Question 19.

Adaptation of some lender behaviours

41. Debt providers should be more visible across the market, especially in under-represented areas, and proactive at getting to know businesses and understanding their needs. Our members report that existing banking customers are having their eligibility to a relationship manager removed and smaller potential customers do not qualify, so relationships are hard to maintain or develop.

42. Some ICAEW members highlight the reputation for proactiveness and approachability that the Development Bank of Wales has among local businesses and that motivates them to approach it directly, even if cost and bureaucracy are not as favourable as other providers. Another member highlighted the approach of some private equity firms whose approach shows *"they are genuinely wanting to support growth and are often deploying government backed funds such as NPIF (Northern Powerhouse Investment Funds)"*.

Recognising and closing gaps in business knowledge and understanding

43. Businesses need to better understand what debt can do, beyond addressing short-term needs. Growth plans can be enabled for example with marketing activity, recruitment, or capital investment. Talking with other businesses that have done this can help change the perception that debt is an indicator of failure. Basic financial literacy needs to be included in the education curriculum.

44. Businesses would benefit from tailored curation of finance options. Since the financial crisis, more lending institutions offering more products and services have emerged. While this means more choice it has also created opacity – it is harder for a business to know who to approach and what product would be most appropriate as well as what good terms look like. Businesses without the time or expertise, or who do not think to or cannot to afford to seek advice, end up with multiple applications turned down because they (unwittingly) apply to providers who have the same lending criteria. Others just avoid applying. One of our members explained the importance of *"signposting and guiding people starting or growing small businesses, so they know who best to approach and how to approach [debt providers]. There are many sources of debt finance over and above the traditional high-street bank lenders who remain as difficult, as unapproachable and as unsupportive as ever. People seeking debt finance should be pointed towards sources of funds where the providers are interested in supporting growth and listening to the story and vision of teams and businesses, as opposed to basing an automated decision purely on trading history and security/guarantees".*

45. Businesses' forecasting skills need boosting. External factors in recent times (pandemic, wars, political instability, trade disputes) have made it extremely difficult for businesses to forecast with confidence. This also makes it hard for a business to form a view of how attractive a lending proposition they will be, which can lead to unsuccessful applications.

Q11 What role do personal guarantees (PGs) play when seeking debt finance? Specifically, we would welcome the following evidence:

- ***data (over a period of at least 12 months and no more than 36 months) on:***
  (i) the nature and/or size of lending for which a PG is required
  (ii) the typical borrower characteristics where a PG is required
  (iii) the proportion of lending to limited companies where a PG is used
- ***data (over a period of at least 12 months and no more than 36 months) on the extent to which the requirement for a PG has prevented an SME taking up credit when it has been offered to them (and the relative importance to other factors, such as overall loan cost)***
- ***evidence on the role PGs play in credit provision, including the extent to which the requirement for a PG has enabled access to credit by SMEs***
- ***evidence of the extent to which issues relating to the calling of PGs have been experienced, what these were and where in the lifecycle of the loan these have arisen – please specify when this occurred***

46. ICAEW members who advise businesses report cases where their clients' banks have changed the parameters upon which they are prepared to lend, in particular, increasing requirements for personal guarantees.

Q12 In your experience, what are the barriers to borrowing to finance intangible investments relative to tangible investments?

47. Asset-based lending (ABL) against intangible assets, such as intellectual property (IP) or brands, has been available - and used or advised on by ICAEW members - for many years[10]. However, a report in 2023[11] by the Intellectual Property Office (IPO) found that 'the IP finance market remains underdeveloped in the United Kingdom'.

48. There are relatively few lenders, outside ABL providers, that specialise in lending against intangibles. Our members highlight the complexity in ascertaining the revenue that these assets generate and the premium margins that they help to deliver. This makes valuation of intangibles more challenging that it is for tangibles.

49. The IPO report mentioned above also attributes the treatment of intangible assets in accounting standards as an obstacle, with most internally generated intangibles not permitted to be recognised on entities' balance sheets. In its 2021 response to the International Accounting Standards Board's (IASB) Third Agenda Consultation, ICAEW acknowledged "the growing importance of intangibles in business models" and considered a project on the subject to be a "high priority" for the standard-setter: "Intangibles have of course become an increasingly important factor in the creation of value for many entities, yet….there are a number of challenges with the current reporting framework." The IASB has since added a research project to their work plan to comprehensively review the accounting requirements for intangibles. The UK Endorsement Board (UKEB) has also undertaken significant research to explore and understand UK stakeholders' views on the topic which will

[10] ICAEW Growth-through-asset-based-finance-guideline-65
[11] Report launched into UK's IP-backed finance landscape - GOV.UK

be used to contribute to the international debate. ICAEW is actively supporting these initiatives[12].

Q13 What is the experience of businesses seeking to use intangible assets as collateral for borrowing?

50. Young businesses can struggle to identify what to protect as IP. While they can recognise new innovations or new creative work as valuable assets, they can find it harder to identify what distinguishes their goods or services from those of competitors, and what can be trademarked, for example. IP can also depend on rights granted by third parties and on licensing arrangements which may not be easily transferrable if the IP is sold, and which can affect the value of the assets and the potential for investment[13].

Q14 Do you believe that regulatory change has affected business lending? If so, how?

51. We recognise the government's objective to stimulate growth through improved access to debt finance, particularly for SMEs. However, any reforms must remain anchored in the prudential safeguards introduced following the 2008 financial crisis, which are essential to ensuring the ongoing resilience of the banking system. We support a calibrated approach to regulatory adjustment—consistent with the position expressed by Sam Woods, Deputy Governor of the Bank of England and CEO of the PRA, at the Treasury Select Committee—where targeted easing can occur without compromising financial stability. This includes assessing the impact on banks' balance sheets, credit risk appetite, and their capacity to absorb shocks, ensuring that increased lending does not inadvertently reintroduce systemic vulnerabilities.
52. Regulatory changes over the past decade have significantly influenced business lending in the UK, particularly for SMEs. While prudential regulations, such as Basel III capital requirements, have strengthened financial stability, they have also contributed to risk-weighted constraints on lending, particularly for smaller and newer businesses. Increased compliance costs and risk-aversion among lenders have, in some cases, reduced the availability of credit, especially outside of mainstream financial institutions.
53. On capital requirements, changes proposed under the Basel 3.1 framework, would have seen an increase in the amount of capital banks would need to hold for SME lending. The increase originates from the removal of the SME support factor which historically discounted the amount of capital banks needed to hold for SME loans by c. 25%. However, having considered industry feedback, the Prudential Regulatory Authority proposed measures to reduce the impact of the removal of the SME support factor. These include the opportunity for firm-specific adjustments to made, based on a deeper analysis of the makeup of a bank's borrowers, introduction of lower capital requirements for SME loans backed by certain types of commercial real estate and expansion of the definition of SME to permit a wider group of borrowers to benefit from lower capital requirements relative to those for corporate loans.
54. Changes in consumer protection and conduct regulations - such as the Financial Conduct Authority's oversight of SME lending and increased scrutiny under the Consumer Credit Act - have introduced complexity and, in some cases, led lenders to limit certain types of lending to businesses that might otherwise qualify for financing.
55. We recommend the following actions to improve business lending:
    - **Holistic review of SME banking barriers**. A comprehensive assessment of regulatory barriers across lending, bank accounts, payments, and other banking services is

[12] The future of accounting for intangibles | ICAEW
[13] ICAEW response, Inquiry into scaling up in AI and creative tech

needed to address their cumulative impact on SME access. Unlike previous isolated reviews, this approach should develop practical solutions that balance regulatory risks with the need to support SMEs, recognizing their vital role in driving UK economic growth. Additionally, the review should explore how banks are adapting, including trends in outsourcing compliance and de-banking, while also comparing SME-focused regulations across the UK, EU, and US to identify best practices.

- **Review of the definition of Public Interest Entity (PIE)**. Currently the definition of PIE encapsulates a wide spectrum of entities, from Global Systemically Important Banks (G-SIBS) to small building societies. The audit requirements for PIEs are onerous and the cost / effort may not necessarily be commensurate with the risk presented by the financial institution (FI). A proportionality review will be welcomed by both smaller FIs (who may be the ones lending to SMEs), particularly building societies, and may also encourage more auditors to enter the market for auditing PIEs.
- **Proportional regulation that aids growth.** Adopting a more proportionate regulatory approach for SME lending, ensuring that smaller firms are not disproportionately impacted by rules designed for large-scale financial institutions. This could include tailored capital requirements for SME loans or simplified compliance processes for smaller lenders. We recommend the government seek input from the industry on the reasonableness of costs included in any impact assessments. This regulation should be aligned with the government's broader agenda on regulating for growth.
- See also recommendations in our response to Question 9.

COMMUNITY DEVELOPMENT FINANCE INSTITUTIONS (CDFIS) IN THE UK

Q15 Have you worked with a non-bank lender, such as a Community Development Finance Institution (CDFI), to secure finance? If so, what has been your experience?

56. Our members do not frequently report working with a CDFI lender. Nevertheless, we consider that such lenders do help fill gaps, eg for some unsecured lending and personal relationship-based services.

Q18 Should the government implement policy measures to stimulate more competition in provision of finance? If so, what could this include?

57. The supply of debt finance is generally healthy, with choice of providers, products and services[14]. There are, however, under-served communities. Policy could focus on improving competition and awareness of finance providers that serve them.

Q19 How can the CDFI sector be supported more effectively?

58. Community investment tax relief (CITR) exists to encourage individuals and companies to invest in CDFIs. In the table that follows, data for 2022/3 show that many more companies benefit from funding and many more investors claim tax relief under the tax-advantaged venture capital schemes, Seed Enterprise Investment Scheme (SEIS), Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCT), than under the CITR.

[14] See article Long read: Debt markets | ICAEW

2022/23	Investors claiming tax relief (#)	Loans to businesses (£k)	Loans to businesses (#)	Funds raised by EIS/SEIS businesses/ VCTs (£k)	Businesses raising funds (#)	Providers (#)
CITR	162	20,702	356			29 CDFIs accredited Mar 25
EIS	40,485			1,957,000	4,205	
SEIS	8,065			157,000	1,815	
VCT	26,260			1,001,000		44 VCTs raising funds 22/23

Sources:

Aggregate investment for accredited community development finance institutions (CDFIs) under CITR

Enterprise Investment Scheme, Seed Enterprise Investment Scheme and Social Investment Tax Relief statistics: 2024

Venture Capital Trusts statistics: 2024

59. Consideration could be given to expanding the current thresholds for CITR to make financing more accessible and at larger scale. More could also be done to promote the scheme to individuals and companies.

60. Two suggestions from ICAEW Charities Community and network are:

(a) government commitments[15] regarding the Dormant Assets Scheme (Department of Culture Media and Sport) should be expedited and consideration should be given to directing some unclaimed pensions and insurance assets to further support CDFIs (and promotion of CITR); and

(b) the British Business Bank guarantees for lending to social impact organisations should be better aligned to those for lending to other small businesses.

UNDER-SERVED ENTREPRENEURS

Q20 To what extent does the UK's current lending environment meet the finance needs of under-served entrepreneurs?

61. Evidence exists of under-served entrepreneurs in the current lending environment, eg from the British Business Bank.

Q21 What could encourage under-served entrepreneurs to apply for loans to support business growth?

62. As mentioned in our response to Question 3, this could be achieved through targeted support and engagement of the Business Growth Services to under-represented areas and groups.

Q22 Are there any other groups under-served in access to finance that should be considered beyond those discussed in this call for evidence?

63. To help more businesses to seek the finance they need, a review could be instigated of the ability of DPB-licenced firms to introduce client businesses needing funding to institutional (eg venture capital firms), high net worth and sophisticated investors (eg business angels).

[15] Dormant Assets Parliamentary Review - GOV.UK

Firms such as accountancy practices are restricted from doing so unless they are FCA-authorised. That is not cost-effective for many firms but, as they are first port of call for businesses, the current prohibition on sending a business plan to a potential investor limits the channels for the business to seek finance. In a member's experience, while they may help a business become investment-ready "*this doesn't bring the investment cash in. For such companies CASH IS KING*". The government and regulator could give consideration to a review of the FSMA 2000 Regulated Activities Order to ensure that it is aligned with the objective of proportionate regulation that does not create a barrier to growth.

Q23 What role could banks and other financial institutions play in improving access to finance for under-served groups through CDFIs?

64. See our response to Question 9.

This response of 9 May 2025 has been prepared by ICAEW with contributions from its Corporate Finance Faculty, Financial Services Faculty, Business team, Charities Community and Tax Faculty.

The Corporate Finance Faculty is ICAEW's centre of professional expertise in corporate finance. It contributes to policy development and responds to consultations by international organisations, governments, regulators and other professional bodies. It provides a wide range of services, information, guidance, events and media to its members, including its highly regarded magazine Corporate Financier and its popular series of best-practice guidelines. The faculty's international network includes member organisations and individuals from major professional services groups, specialist advisory firms, companies, banks and alternative lenders, private equity, venture capital, law firms, brokers, consultants, policy-makers and academic experts. More than 40 per cent of the faculty's membership are from beyond ICAEW.

The ICAEW Financial Services Faculty is a leading centre for thought leadership on financial services. It brings together different interests and is responsible for representations on behalf of ICAEW on governance, regulation, risk, auditing and reporting issues facing the financial services sector. The faculty draws on the expertise of its members and more than 25,000 ICAEW members involved in financial services.

ICAEW's Business team gathers regular insights and anecdotal feedback from our extensive member network spanning all sectors of the economy. This supports ICAEW's discussions with and recommendations to policymakers. ICAEW's Business Confidence Monitor (BCM) is one of the largest and most comprehensive surveys of business sentiment conducted on a quarterly basis.

Internationally recognised as a source of expertise, the ICAEW Tax Faculty is a leading authority on taxation and is the voice of tax for ICAEW. It is responsible for making all submissions to the tax authorities on behalf of ICAEW, drawing upon the knowledge and experience of ICAEW's membership. The Tax Faculty's work is directly supported by over 130 active members, many of them well-known names in the tax world, who work across the complete spectrum of tax, both in practice and in business

ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of strong economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports and regulates more than 172,000 chartered accountant members in over 150 countries. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical and ethical standards.