ICAEW
REPRESENTATION 64/25

FINANCING THE REAL ECONOMY

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ICAEW welcomes the opportunity to comment on the Financing the real economy inquiry published by House of Commons Business and Trade Select Committee on 4 August 2025, a copy of which is available from this link.

ICAEW believes that the UK is at an economic inflection point. Business confidence is falling, investment is stalling, and everyday decisions are being slowed by complexity, cost and uncertainty. Policymakers talk about growth - but the businesses trying to deliver it are being held back.

ICAEW members understand the barriers that businesses face. Many of our 200,000 members work at the heart of UK business, from high streets to boardrooms and from start-ups to global firms. They see what's holding enterprise back every day – and what would unlock its potential. Based on the extensive insights of ICAEW members, the submission makes the following key points:

- **UK investment remains too low** because planning is unstable and infrastructure delivery inconsistent; this can be addressed by aligning the 10-year infrastructure strategy with spending reviews, creating credible long-term pipelines, and strengthening accountability for delivery.

- **Pension and insurance funds are not investing enough in UK growth** assets due to scale constraints, risk appetite and a lack of opportunities; pooling investments into larger platforms, safeguarding fiduciary duties, and expanding high-quality UK infrastructure projects would unlock this capital.

- **SMEs and scale-ups struggle to access finance** given strict lending criteria, collateral demands and low awareness of options; simplifying processes, expanding loan guarantees, recognising intangible assets, and restoring advisory support can make growth finance more accessible.

- **Public markets have become unattractive for scaling** businesses as liquidity falls and compliance costs rise; streamlining regulation, reducing disclosure burdens for smaller firms, and strengthening incentives would help retain listings in the UK.

- **The UK lags international peers in venture capital depth and lending flexibility**, which limits competitiveness; deepening VC ecosystems across the regions, maintaining stable tax reliefs, and applying proportionate banking regulation would close this gap.

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This response of 12 September 2025 has been prepared by the ICAEW Corporate Finance 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.

This response of 12 September 2025 has also been prepared by the ICAEW Financial Services Faculty. As a leading centre for thought leadership on financial services, the faculty 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 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 169,500 chartered accountant members in over 146 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.

1. IS BRITISH INVESTMENT TOO LOW—AND WHY?

1. ICAEW believes that Britain's level of investment - both public and private - remains too low compared with peer economies, meaning poorer productivity, weaker innovation, and lower long run economic growth.

2. The enduring weakness in business investment is well highlighted in ICAEW's Business Confidence Monitor (BCM)[1] - one of the largest and most comprehensive quarterly surveys of UK business activity. The latest figures revealed that annual capital investment growth slowed to 2.3% in Q2 2025, the joint lowest reading since Q4 2023 and down from 2.6% in the previous quarter. Furthermore, businesses expect to slow their rate of investment growth to just 1.8% over the next 12 months, below the historical average of 2.1% with most sectors planning to reduce their capital investment growth over the coming year. Companies have a similar view for their R&D budgets. After four consecutive quarterly declines, annual R&D budget growth picked up slightly in Q2 2025, to 1.7%, though this increase was still below the historical average of 1.8%. Similarly, businesses have reduced their expectations for growth over the next 12 months to just 1.3%, down from 1.5% in the previous quarter.

3. Based on insights from ICAEW members, in our recent response to both the HM Treasury consultation on UK 10-Year Infrastructure Strategy[2] and the Public Accounts Committee inquiry[3] into the Government's use of private finance for infrastructure, ICAEW has found the following factors that have led to persistent low level of investment in the UK:

Chronic under-investment in Infrastructure

4. ICAEW notes that the UK has suffered from decades of underinvestment across both economic (transport, energy, digital) and social (schools, hospitals, housing) infrastructure. While the Government's 10-Year Infrastructure Strategy represents a welcome attempt at long-term planning, the lack of a stable predictable pipeline in the past has limited delivery. Four-year spending reviews create stop-start cycles that discourage large-scale projects and undermine efficiency.

Lack of predictability for investors

5. Private finance is available but there is an internationally competitive market for investment. Investors need confidence in long-term priorities and sharing of risk in the UK. ICAEW has found that sector-based pipelines and clarity over risk allocation are critical. Inconsistent government commitments, frequent policy shifts, and the absence of credible sector-level investment frameworks have led to hesitation among both domestic and foreign investors.

Legacy of PFI and distrust of models

6. The collapse of traditional Private Finance Initiative (PFI) arrangements has left scars. ICAEW has warned against reviving off-balance-sheet financing models that obscured real costs and created poor value for money. This history makes both government and investors wary, narrowing the toolkit for mobilising private capital at scale.

Institutional weakness and skills gaps

7. Infrastructure delivery in the UK has often been hampered by fragmented governance and limited expertise in contracting, risk assessment, and commercial negotiation within public bodies. ICAEW has stressed that without stronger central coordination—now partly

[1] ICAEW Business Confidence Monitor
[2] ICAEW (March 2025) Response to the HM Treasury Consultation on UK 10 Year Infrastructure Strategy
[3] ICAEW (April 2025) Submission to the Public Accounts Committee Government use of private finance for infrastructure

addressed by the creation of NISTA (National Infrastructure and Service Transformation Authority)—the UK cannot effectively translate finance into delivered assets.

Accountability and outcomes

8. Even where funding has been allocated, ICAEW believes that too much emphasis has been on strategies and announcements rather than tangible outputs. Without clear accountability frameworks and annual reporting on delivery, investment programmes have not consistently produced results, further eroding investor confidence.

Sentiment and cost of doing business

9. Businesses continue to face high-cost pressures, which weigh heavily no matter the stage of the economic cycle, company performance or ability to pay. ICAEW's BCM found that the tax burden was cited as a growing challenge by more than half of businesses (55%), close to the previous quarter's record high (56%) and a six-fold increase over the past four years, from a reading of just 9% in Q2 2021.

10. Ongoing concerns over the tax burden and the wider economy meant that business confidence, as measured by ICAEW's BCM, fell for the fourth successive quarterly fall in Q2 2025 and is now at its weakest since Q4 2022. The survey also found that confidence declined in nine of the 11 sectors surveyed. Sentiment among Banking, Finance and Insurance firms, a key provider of capital, dropped to a three-year low in Q2 2025. Regulatory concerns remain the biggest challenge for the sector with 58% of businesses in the sector reporting this as a rising challenge, above the national average of 43%.

11. The cumulative effect of falling business confidence and an onerous cost burden is causing many firms cut back on investment plans, particularly during this time of heightened uncertainty.

12. In summary, ICAEW has found that UK investment is too low because of unstable planning, rising cost pressures, falling confidence, weak institutional capacity, and a legacy of mistrust around financing models. Addressing this requires: (i) credible, sector-based long-term pipelines; (ii) alignment between spending reviews and the 10-year infrastructure strategy; (iii) transparent, on-balance-sheet financing frameworks; and (iv) stronger skills and accountability in delivery. With these reforms, ICAEW believes that the UK could unlock both public capital and private finance, creating the confidence necessary to close the investment gap.

2. THE SUPPLIERS OF CAPITAL

Pensions sector

13. In respect to Defined Benefit (DB) Pension Schemes, both scheme maturity and risk appetite have been the primary constraints to investing in UK focussed growth assets. ICAEW member-based insights have found that the following factors are most significant:

   - **Shift to bonds** – DB pension schemes have reallocated heavily from equities (61% in 2006 to 15% in 2024) into bonds (28% to 70%), with only a small share of investment in UK or private equity[4].

   - **Maturity and scale constraints** – Most schemes are closed, highly mature, and small (80% with <1,000 members), limiting time horizons, governance capacity, and ability to pursue complex or long-term investment strategies.

[4] Pension Protection Fund (2004) The Purple Book – DB pensions universe risk profile

- **Risk appetite trade-off** – Preference for lower-risk, cash-flow-certain assets reduces exposure to potential higher-return growth investments.

14. The ICAEW view on proposed reforms is that while it is right to unlock pension capital to support UK growth, this must go hand in hand with safeguarding trustees' fiduciary duties. Long-term investment success and public confidence in the pension system depend on keeping savers' best interests at the heart of every decision.

15. In respect of Defined Contribution (DC) Pensions Schemes, higher relative costs for private assets, access issues and supply of appropriate investment opportunities have all limited DC scheme investment. Both ICAEW and government insights have found that:

    - **Superior total returns from overseas equities drive DC asset allocation** - Of roughly £600 billion in DC assets, about 70% is invested in overseas equities and only 6% in UK equities, while just 4% is allocated to private equity (1%) and infrastructure (3%), which are not exclusively UK-based assets[5].

    - **Cost and access barriers to private and infrastructure assets** - Private assets generally entail higher relative costs (require specialist resource, understanding or local area including regulatory environment, alongside liquidity risks). Many DC schemes lack scale and therefore ability to develop expertise in private assets.

    - **Limited domestic investment opportunities** – historically, access – i.e. mechanisms for investment such as more recent focus on long term asset funds - and availability have been issues, for example a clear pipeline of government supported infrastructure projects.

16. ICAEW believes that the pooling of investments into so-called "Megafund" platforms can help address scale issues and lower relative cost of investments into private assets. However, Government should focus on enabling frameworks and ensuring an adequate supply of high-quality infrastructure and private/public partnership investment opportunities. Any reserve powers to mandate asset allocation must be subject to strict transparency, oversight and safeguards to mitigate undue risk of capital loss, particularly where such risk is elevated by exposure to higher-risk or less liquid asset classes.

Insurance sector

17. Regulatory standards have previously been perceived as a constraint to insurers investing in growth assets. Key changes from the old Solvency II rules include adjustments to the risk margin, modifications to discount rates within the matching adjustment ("MA") calculation, and revised eligibility criteria for assets and liabilities within MA funds. These reforms could help fund growth and are expected to free up an estimated £100bn[6] for investment in UK productive assets over the next ten years.

18. ICAEW believes that as with the pensions sector, the key to directing the insurers into investing in UK growth assets is dependent on the UK Government supporting and/or providing a consistent and transparent supply of appropriate investment opportunities, e.g. UK rail projects. In our recent response[7] to the Public Accounts Committee inquiry into government's use of private finance for infrastructure, insights from ICAEW members working in infrastructure advisory, including those with experience in the public sector, found that the lessons collated in the recent National Audit Office (NAO) report[8] "Lessons learned: private finance for infrastructure" continue to be relevant.

[5] Department for Work and Pensions (November 2024) Pension fund investment and the UK economy - GOV.UK
[6] See Investment Delivery Forum
[7] ICAEW (April 2025) Submission to the Public Accounts Committee Government use of private finance for infrastructure
[8] National Audit Office (March 2025) Private finance for infrastructure - NAO insight

19. The NAO report helps explain why the UK has gone from being a leader in use of private finance to falling behind other jurisdictions, such as Canada, France, Spain, and the Middle East. Based on member insights, ICAEW believes there are three areas that demand urgent remediation by the government in order to (a) deliver the planned 10-year infrastructure strategy and (b) prepare for PFI contracts that are due to expire. These are:

    - a credible and affordable infrastructure pipeline with balanced sharing of risk.
    - access by public bodies to specialist expertise.
    - new guidance for central and local government to evaluate the use of private finance.

20. ICAEW believes that the newly established body, the National Infrastructure and Service Transformation Authority (NISTA), should be responsible for the policy and for creating a framework for using private finance for delivering the government's infrastructure strategy. This will strengthen the impact of its recommendations to public bodies and relating to the infrastructure strategy. Furthermore, ICAEW recommends that the government does not adopt the approach used under the PFI of seeking 'off-balance sheet' treatment for public private partnerships. The hurdles necessary to achieve such an accounting outcome in the National Accounts make it difficult to allocate risk appropriately between taxpayers and private investors, in addition to reporting an incomplete balance sheet position to Parliament and the public.

3. THE SEEKERS OF CAPITAL

21. ICAEW member insights, via the quarterly Business Confidence Monitor (BCM)[9] and other conversations with members, have found that high interest rates, strict lending criteria and the need for substantial collateral or long credit histories mean many businesses, Small and Medium Enterprises (SMEs) in particular, 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. ICAEW insights have found the following challenges to seekers of capital in their desire to grow.

UK business growth finance: challenges, gaps, and policy support

22. UK businesses, particularly SMEs and scale-ups, face persistent challenges in accessing finance necessary for growth. Both demand- and supply-side factors restrict capital flow, while structural features of UK public markets and venture capital ecosystems exacerbate the problem.

Challenges in accessing growth finance

23. Many SMEs and early-stage businesses do not actively seek finance due to perceived administrative complexity, high costs, and the risk associated with borrowing. Businesses often prioritise operational concerns such as cash flow management, tax burdens, and skills shortages over finance, even when capital would support growth. Fear of failure, lack of familiarity with non-traditional finance options, and limited awareness of schemes like asset-based lending or equity investment contribute to low demand.

24. On the supply side, regulatory and prudential constraints - such as Basel III/3.1 capital requirements - constrain lenders' willingness to provide SME-focused finance. Banks are increasingly cautious, often prioritising larger clients and demanding collateral or personal guarantees, which disproportionately affects smaller and scale-up businesses. Late payments from larger corporates and public sector clients further limit working capital, reducing borrowing capacity.

[9] ICAEW Business Confidence Monitor

25. Intangible assets such as intellectual property, software, or brands represent significant value for growing businesses, yet finance against such assets remains underdeveloped. Accounting and valuation challenges, coupled with limited lender expertise, mean these assets rarely enhance borrowing capacity, constraining growth potential.

Equity gaps and venture capital constraints

26. UK scale-ups face significant equity gaps, especially outside London and the South-East. Venture capital availability is concentrated regionally and by sector, and smaller or under-represented businesses - including female and/or minority-led firms - often struggle to attract investment. Due diligence processes are time-consuming, often deterring both investors and business owners. Ring-fenced banks could play a role by making minority equity investments in SMEs or investing through funds, but regulatory and capital restrictions currently limit their engagement.

27. Private funding is increasingly relied upon, but smaller firms still experience limited access to finance relative to their US peers, where venture capital ecosystems are deeper, more diverse, and more willing to take on early-stage risk.

Public markets and scale-up funding

28. UK public markets, including AIM, have struggled to remain attractive for scale-ups. Falling liquidity, fewer listings, and high compliance costs deter companies from listing domestically. While proportional regulation and streamlined disclosure could enhance market access, current structures often push growth businesses toward private equity or overseas exchanges. Compared with the US, UK public markets are smaller, less liquid, and more complex, reducing domestic capital formation opportunities for scaling companies.

29. The hybrid regulatory approach currently applied - combining detailed rules with principles-based measures - creates complexity, particularly for smaller businesses navigating compliance for listing, fundraising, or investor engagement.

Debt finance and lending market limitations

30. SME lending is limited by both prudential regulations and operational barriers. Know Your Customer (KYC) and Anti-Money Laundering (AML) requirements, account opening delays, and the absence of relationship managers reduce accessibility. Lenders often rely on outdated credit data, and SMEs face difficulties in demonstrating risk-adjusted capacity, particularly when their assets are intangible. Open Banking and real-time financial data could improve credit assessments, but adoption remains inconsistent.

31. Public sector interventions, such as loan guarantees or Community Development Finance Institutions (CDFIs), help bridge gaps but remain underutilised. Debt and equity financing gaps slow innovation, reduce scaling capacity, and constrain UK competitiveness.

Comparison with international peers

32. Compared with the US and other developed markets, UK financial products show structural limitations. Venture capital is concentrated and relatively small in scale; public markets are less accessible and liquid; and lending is constrained by prudential regulations and risk-averse practices. These differences reduce the UK's ability to support fast-growing businesses domestically, limiting both innovation and international competitiveness.

Support measures for investment readiness

33. Businesses require a combination of advisory, educational, and regulatory support to become investment-ready:

- **Advisory and Guidance:** Professional intermediaries, such as ICAEW chartered accountants, significantly increase success in securing finance. Restoring voucher schemes or expanding access to business growth advisory services would enhance preparedness. Partnerships between the Business Growth Service and the private sector (capital providers and business, legal and financial advisers) will help ensure that businesses (especially underserved ones) access appropriate advice and the right form of finance[10].

- **Education and Awareness:** SMEs need guidance on funding options, risk-return trade-offs, and non-traditional finance mechanisms, including asset-based lending, mezzanine debt, and equity.

- **Regulatory Reform:** Simplifying procedures, easing KYC/AML burdens, and adjusting capital requirements for banks could unlock new sources of capital while maintaining stability. Proportional regulation tailored for scale-ups and SMEs is essential.

- **Policy Certainty and Incentives:** Stable tax reliefs (e.g., EIS/VCT) whose value keeps up with inflation, loan guarantees, and regional growth schemes improve investment confidence and encourage both domestic and foreign investors.

- **Investor Engagement:** Platforms, matchmaking initiatives, and networks linking businesses with investors facilitate efficient capital allocation, particularly for underrepresented regions and sectors.

Conclusion

34. UK businesses face a multi-layered challenge in accessing growth finance, especially at the scale-up stage. While private capital, public markets, and government interventions offer avenues for funding, regulatory constraints, structural gaps in lending and equity markets, and limited awareness hinder effective capital mobilisation. International comparisons highlight the need for deeper venture capital, more liquid public markets, and more flexible debt financing options.

35. Investment readiness requires coordinated action across government, regulators, and industry, encompassing advisory support, education, proportionate regulation, and policy certainty. ICAEW recommends initiatives that both reduce friction for businesses seeking finance and incentivise lenders and investors to deploy capital efficiently. Addressing these challenges holistically is essential to strengthen the UK's scale-up ecosystem, drive innovation, and enhance competitiveness on a global scale.

[10] ICAEW (May 2025) Small business access to finance