ICAEW
REPRESENTATION 84/23

CALL FOR EVIDENCE: SME FINANCE

Issued 1 September 2023

ICAEW welcomes the opportunity to respond to the *Call for Evidence: SME Finance* published by the UK Parliament Treasury Committee on 3 July 2023, a copy of which is available from this link.

For questions on this response please contact us at representations@icaew.com quoting REP 84/23.

This response of 1 September 2023 has been prepared with input from the Corporate Finance Faculty, the Financial Services Faculty, Insights, the Business and Industrial Strategy team, and the Practice Committee of ICAEW.

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 166,000 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.

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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. The faculty 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, policymakers and academic experts. More than 40 per cent of the faculty's membership are from beyond ICAEW.

As a leading centre for thought leadership on financial services, the ICAEW Financial Services 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.

The Insights team provide advice and expertise across ICAEW on all aspects of market opinion, research and insight. This includes ICAEW's Business Confidence Monitor 'BCM', one of the largest and most comprehensive quarterly surveys of UK business activity. BCM is based on 1,000 responses per quarter from ICAEW's chartered accountants, senior business professionals in industry and across the economy, covering a comprehensive range of UK sectors, regions and company sizes to ensure a representative picture of the UK economy. BCM includes nearly 30 indicators on business conditions and the health of the UK economy, from the headline business confidence measure to indicators of inflation, wages, labour market and investment.

SUMMARY OF KEY POINTS

Accessibility of finance and lending to SMEs:

- SMEs seeking finance typically face challenges due to the risk inherent in financing such businesses. Certain difficulties faced by SMEs are more acute at present due, in a large part, to global market and UK economic conditions and wider issues in the aftermath of COVID-19.
- ICAEW's Business Confidence Monitor (BCM) for Q2 2023 - one of the largest and most comprehensive quarterly surveys of UK business activity - found that the proportion of SMEs reporting that access to finance and bank charges were both growing challenges which had risen sharply over the past year. Across all firm sizes, these challenges are particularly acute for the property sector.
- ICAEW members advising or running SMEs, particularly at the smaller end, report that SMEs are facing difficulties in finding finance that is affordable, at acceptable risk and can adapt to their specific needs. Lack of awareness of funding options, and difficulties in meeting finance provider requirements are also reported as key challenges.
- Our members in practice report that traditional banks have retrenched, or are prioritising existing customers over new applicants, and larger businesses over smaller ones. Similarly, members in business say that banks are typically reluctant to take on new customers. Even if new customers are taken on, there are lengthy delays in opening accounts.
- ICAEW's member helpline has heard frequent accounts of difficulties experienced with business banking. Examples of these have included bank requests for audited accounts from businesses below the statutory threshold, for independent confirmations of future performance. Members also report closure of business and personal bank accounts with limited notice and charities struggling to open accounts.
- Businesses tend to be more successful with funding applications made via accountants, business advisers or qualified brokers, as these intermediaries have a good understanding of the wider funding marketplace.

Considerations for Government to improve SME access to finance:

- The government has recently enhanced procedures for banks regarding personal bank account closures. Further consideration should be given to whether the same rights can be extended to business bank accounts.
- 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.
- 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 simplify the guarantee support.
- Signpost ICAEW's Find a Chartered Accountant and point SMEs to Growth Hubs and Chambers of Commerce in SMEs' registered office locations.
- Ensure continuation, from April 2024, of the erstwhile role of LEPs in providing data on available finance, when government funding is set to go to local and combined authorities.
- Keep under review the investment parameters and outcomes of the British Patient Capital Fund to ensure that the funding, and any potential extension, meet the policy objective of incremental funding of developing technologies and new markets.
- More work is needed to standardise Open Banking data for SMEs. The Bank of England is supporting the development of an open platform for SME finance, which brings together a global identity standard, and a secure and permissioned method of sharing information. The timescales for these initiatives should be accelerated.

ANSWERS TO SPECIFIC QUESTIONS

INDUSTRY ISSUES

Q. What are the key challenges Small Medium-sized Enterprises (SMEs) face when seeking finance?

1. ICAEW's Business Confidence Monitor (BCM) for Q2 2023[1] found that bank charges and access to capital were growing challenges. In Q2 2023,18% of SMEs cited access to finance as a growing challenge, up from 11% in Q2 2022. Similarly, 17% of SMEs highlighted bank charges as a greater concern in Q2 2023, up from 12% in the same quarter a year earlier.
2. By sector (across all firm sizes), ICAEW's BCM found that difficulties with access to capital were most predominant in the property sector where 32% of firms reported problems in Q2 2023, a three-fold rise compared to Q2 2022 (10%). Concerns were second highest in Construction and 'property and business services' firms (both 20%), followed by energy, water & mining (19%). In contrast, transportation and storage and business services firms reported the fewest problems, with just 10% of respondents from these sectors reporting issues.
3. Regionally, ICAEW's BCM revealed that problems with access to capital in Q2 2023 were most prevalent in London where 22% of firms reported problems (partly reflecting the importance of the property sector in the capital), followed by the East of England (20%) and the North West (17%). In contrast, firms in Scotland and Wales reported the fewest problems with access to capital, with just 12% of respondents from the region reported issues.
4. Challenges faced by SMEs when seeking external finance, whether debt or equity, are perennial. At any time, challenges that are a business reality can be more pronounced due to external factors such as the point of the business cycle. Our Small and Micro Business Community includes 11,000 ICAEW members who focus on businesses with 50 employees or less. Currently, ICAEW members advising or running SME businesses - in particular, at the smaller end - report that SMEs are facing difficulties in finding finance:
   - that is affordable;
   - at acceptable risk; and
   - can adapt to their specific needs.
5. Insights into typical difficulties being encountered by SMEs at present fall under the themes below:

Lack of awareness of funding options

6. The external finance landscape, including banking, is complex and disparate, and it is difficult to maintain awareness of the range of options that are available. SMEs do not always have the network, internal resources or expertise to research suitable funding options. Smaller businesses find it hard to know who to speak to other than their bank. If they engage a broker, this will not necessarily open up the whole market. Where they have access to one, SMEs often rely on an accountant or adviser to identify the right option.
7. Portals and hubs are useful signposting resources. ICAEW, other professional bodies and business associations including UK Finance, as well as the clearing banks and others have online resources accessible to SMEs. The British Business Bank engages closely with intermediaries and through communication channels of business and finance provider organisations to make information available. ICAEW has a long record of providing substantial resources on sources of funding, including the Business Finance Guide.
8. Signposting alone may be of less use, for example, if a business does not have access to internal expertise, or external advice to evaluate options and terms, and assess the appropriateness of the financial solution. ICAEW recognises, champions and enables the role of chartered accountants as trusted advisers to business in securing access to appropriate finance, among other business-related matters. In recent years the policy

decision to raise the audit threshold[1] has had the undesirable consequence of removing an opportunity for smaller SMEs to engage the services of a chartered accountant to provide independent, third-party assurance upon their financial statements. Although it is understandable that this may be seen as removing bureaucracy from a small business, in many cases the consequence is to deprive small businesses of access to formal or informal expert advice, which would lead to better growth and greater options for improved productivity. It also means that when banks are considering new applications for funding and seek the additional assurance provided by three years' audited accounts, this criterion cannot be satisfied without considerable delay and additional expense, if at all.

Difficulty in meeting finance provider requirements

9. Lenders and investors are enforcing their criteria more stringently and carrying out more due diligence because of diminished risk appetite, particularly for certain sectors as indicated by ICAEW's BCM (see paragraph 2). SMEs are thus having difficulty in meeting or demonstrating some of the typical requirements, such as presenting realistic business plans and a clear need for finance. In broad terms, lack of expertise by some SMEs to deliver a business plan, or provide the relevant information required by lenders to assess credit risk is exacerbating these difficulties. Uncertainty in the economic climate is also reflected in weak evidence being provided for market projections.
10. Smaller businesses that lack a material business asset(s) can be reluctant to offer owners' homes as security. This may be more pronounced among businesses that took out loans under the COVID-19 Bounce Back Loan Scheme (BBLS), for which personal guarantees were not required and recovery action could not be taken over a principal private residence. For some businesses, a BBL was their first form of debt finance.
11. SMEs that performed poorly during COVID-19 are not able to demonstrate the profitability of a business with potential for high growth and/or the cashflow that could service debt. This situation should improve as trading returns to a new normal for businesses with effective post-COVID-19 business models. Some such businesses may already have 12 months or more of positive financial performance.

Business banking challenges

12. Since the beginning of the year, ICAEW's member helpline has heard frequent accounts of challenges experienced with business banking. Examples of these have included:
    - bank requests for independent confirmations of future performance
    - bank requests for certified lists of members
    - closure of bank accounts
    - charities struggling to open bank accounts
13. The government has recently enhanced procedures for banks regarding individual account closures in response to high profile cases. We advocate that further consideration is given to whether the same rights can be extended to business bank accounts. Access to a bank account is a prerequisite for applying for, let alone for obtaining finance. The FCA has acknowledged that it is a policy matter for government as to whether further protections should be extended to businesses with respect to the provision of banking services and confirmed that it will contribute to this work through the provision of appropriate data. The difficulty for small businesses opening bank accounts is a long-standing issue. One ICAEW member observed that: "You can register a company in 10 minutes, get your first client in a week, but getting a bank account can take three months". As such, the government should also investigate the extent of this issue and possible reasons for it, including whether current regulatory requirements are a contributing factor.

[2] A business may qualify for an audit exemption if it has at least 2 of the following:
- an annual turnover of no more than £10.2 million
- assets worth no more than £5.1 million
- 50 or fewer employees on average

Slow payments to SME suppliers

14. Roundtables with our members in business have revealed a deterioration in the speed of payment, notably, by larger companies and in the public sector. Attendees agreed that there was a difference between the closer, respectful relationships that can be developed on payment issues between SMEs and the more distant relationships with larger corporations. Payment delays are, in part, attributed to complicated supplier onboarding processes, many of which are not proportionate for smaller businesses. Slow payment has negative consequences for SMEs' working capital and ability to grow, as well as for economic growth. ICAEW members' experiences are not isolated examples as can be seen in other industry reports[2]. ICAEW is supportive of the work done by the Small Business Commissioner, but more needs to be done to help raise awareness of the Commissioner's role and what small businesses can do to address late payment issues.

Debt finance

15. SME lending is an inherently risky business because there is a greater risk of failure. Often SMEs have new ideas and untested services and lack physical assets for collateral. Lenders therefore demand a premium to compensate for that additional risk. This undermines supply of finance, and to some extent demand. ICAEW members in practice report that traditional banks have retrenched or are prioritising existing customers over new applicants. Similarly, ICAEW members in business say that the banking sector is reluctant to take on new customers. Even if new customers are taken on, there are lengthy delays in opening accounts Availability of bank finance is also lower than expected for businesses that secured COVID-19 support loans, or that have otherwise already raised external finance.
16. Incumbent SME banks have an advantage over alternative funders because they are aware of a company's cash flow and financial strength. Seeking a new lender for a business is time-consuming and laborious and therefore SMEs tend not to do it, which restricts demand. Notwithstanding this, in the Small Business Finance Markets 2022/23 report, the British Business Bank found that challenger and specialist banks accounted for a record share of gross lending to smaller businesses. Nonetheless, in our members' experience, while new entrants may be prepared to open accounts they don't necessarily understand or cater for small business needs (loans etc). Such lending is typically also at a higher cost.
17. The current stage of the business cycle together with government policy concentrated on tackling inflation and stripping demand from the economy, are unfavourable for many SMEs. Most debt financing for SMEs is at a variable rate, and so as the Bank of England increases interest rates these are passed immediately onto businesses. Following past downturns, the supply of finance to SMEs took longer to deal with, as did the impact on demand. With uncertainty around the extent of further tightening and how long rates will remain elevated, banks are likely to be reticent about extending debt finance. Moreover, the global financial conditions, Brexit, COVID-19 and high inflation all mean SMEs are more risk averse to accessing finance - and reticent about taking on loans.
18. For businesses with annual turnover below certain thresholds (some members report that this is £10 million), a barrier to obtaining further finance is the replacement of the relationship manager (and their knowledge and understanding of the business) with call centres and system-generated evaluations. Computer-generated decisions are too binary to accommodate funding requests to accommodate sudden growth or flexibility of funding.

Equity finance

19. Businesses without a track record or limited credit history typically access equity finance through business angels, family and friends. However, visibility of access to this finance often depends on the reach of the business's networks and contacts. A business's location also influences how much access it has to equity finance, as there may not be angel networks and investor groups in the locality.

[2] Time is Money | FSB, The Federation of Small Businesses

20. The steps required of businesses from receiving funding via business angels to institutional funding - private equity and venture capital - can be big. With more investor due diligence being performed there is consequentially more time spent away from running the business.

21. Access to equity finance has been constrained as investors' risk appetite has declined – even for sectors that were, until recently, popular. This is influenced by economic and geopolitical uncertainty but does not diminish the ongoing contribution of this finance source to British businesses (see paragraphs 22-23).

22. The tax-advantaged venture capital schemes, Enterprise Investment Scheme (EIS) and Venture Capital Trust scheme (VCT), have given UK businesses access to significant equity finance since their inception. HMRC data for the most recent tax years show an estimated 4,480 companies raised a total of £2.3 billion of funds under the EIS scheme[3] while VCT investors claimed tax relief on £640 million of investment[4]. However, for most of 2023, our members reported a seeming change in policy application by HMRC in relation to a financial health test criterion meant that continuing support for companies that previously qualified for EIS and VCT funding was not certain. For example, "It seems HMRC is implementing a new interpretation of financial health checks which is completely disrupting the EIS and VCT world…no regard to how long it takes or what kind of levels of scale/investment are required to develop a company from scratch…". We note that such experience matched that reported by industry body, the VCTA[5]. On 18 August 2023, HMRC updated its guidance[6] in relation to the financial health requirement for the purpose of the tax-advantaged schemes. It is too early to predict the impact on companies' ability to demonstrate financial health and qualify for further EIS and VCT funding, and we will seek feedback from our members in due course.

23. The EIS was introduced in 1994 to encourage investment in smaller companies. Government statistics show that the scheme has enabled a consistent supply of finance - more than 34,000 companies raised funds for the first time between the1993/94 and 2020/21 tax years[7]. The VCT scheme launched in 1995 and has also led to funds for investment being raised each year[8]. ICAEW called for an extension to the "sunset date" for VCT and EIS in response[9] to the Treasury Committee's inquiry into the venture capital market. We also urged the government to give careful consideration as to the form and impact of possible permanent schemes, including evaluating issues such as:
    - potential simplifications to the application process
    - whether (a) the annual and lifetime caps and (b) the investment holding periods have kept pace with the scale-up needs of innovative businesses (such as pre-production and pre-revenue costs and periods)
    - further potential measures that could reduce the risk of abuse of the reliefs.

24. However, despite the government's commitment to extend "sunset dates" for the EIS and VCT schemes, new dates have not been announced. Uncertainty of policy or its inconsistent application are both detrimental to businesses' plans for growth and may exacerbate the decline in venture capital and private equity investment as recently reported by Beauhurst[10]. In its own July 2023 report on the venture capital market[11], the Treasury Committee called on the government to take actions to rectify a number of uncertainties in the venture capital regime.

[3] Enterprise Investment Scheme, Seed Enterprise Investment Scheme and Social Investment Tax Relief statistics: 2023 - GOV.UK (www.gov.uk)
[4] Venture Capital Trusts statistics: 2022 - GOV.UK (www.gov.uk)
[5] VCTA 2023 Budget submission
[6] VCM13040 - EIS: income tax relief: the issuing company: financial health requirement - HMRC internal manual - GOV.UK (www.gov.uk); VCM34060 - SEIS: income tax relief: issuing company: financial health requirement - HMRC internal manual - GOV.UK (www.gov.uk); VCM55050 - VCT: VCT qualifying holdings: financial health requirement - HMRC internal manual - GOV.UK (www.gov.uk)
[7] See Table 1 in eis_seis_sitr_tables_2022.ods (live.com)
[8] See section 3, Venture Capital Trusts statistics: 2022 - GOV.UK (www.gov.uk)
[9] The venture capital market (icaew.com)
[10] Equity Investment Market Update H1 2023
[11] The venture capital market (parliament.uk)

Through which channels do SMEs find the most success when seeking funding and why?

25. Businesses tend to be more successful with funding applications via accountants, business advisers or qualified brokers, as these intermediaries have a good understanding of the wider funding marketplace. Some funding channels may also not be open to direct approaches. Knowledge of the business gained from an existing relationship with the business is a key factor for ensuring the appropriateness of the financial solution.
26. Smaller businesses tend to approach their bank for a loan as they expect it to be the least expensive. Credit card companies, non-traditional lenders and some peer-to-peer platforms also provide significant amounts of debt finance, both directly and indirectly to small and micro business.
27. Asset-based finance is common in certain sectors and for specific needs. Moreover, as it is not so dependent on interest rates and earnings, it is helping to plug more working capital needs for businesses that have been turned down by banks. Industry data shows growth in asset-based finance since the end of COVID-19 support schemes in 2021[12].

What role can financial innovation play in SME finance? Is there more the government and the regulators can do to improve access to finance through innovative firms?

28. The UK environment does provide opportunity for financial innovation as seen in the success of the fintech sector itself and in the increase in non-traditional finance providers. The FCA itself is making ongoing efforts to define an appropriate regulatory perimeter. Innovation is also manifested in forms of finance - for example, our members have been involved in or advised on B2B lending against cryptoassets tokens[13] and in sustainability-linked lending[14] - however, access to innovative products may be harder for smaller businesses that do not have professional advisers or internal expertise. As the market and regulatory infrastructure mature and optimum balance achieved of human judgment and AI, benefits will be increasingly visible in SME finance.
29. Open Banking has the potential to improve access to finance for SMEs. Providing the opportunity for an SME’s financial and transactional data to be shared with third parties in real time, should improve the quality of credit applications, streamline the process and open up the market to non-bank lenders who do not have a current account offering. Greater work is needed to standardise open banking data for SMEs, and we would encourage further work on an industry standard. The Bank of England is supporting the development of an open platform for SME finance, which brings together a global identity standard, and a secure and permissioned method of sharing information. We believe this is a positive step but would like to see the initiatives’ timescales accelerated.

How accessible is finance for SMEs of different sizes?

30. ICAEW’s BCM for Q2 2023 found that concerns with access to capital were most prevalent among small firms where 21% of respondents reported problems, almost double the proportion who reported issues in Q2 2022 (11%). Difficulties over access to finance were second highest among medium size firms (19%), followed by large businesses (14%). While just 12% of micro firms reported difficulties in Q2 2023, this was still up sharply from 7% in Q2 2022.
31. There are funding options available to different sizes of business, although not all finance options will be available to all types of business. Size of a business is one eligibility criterion – but features such as sector, the nature of assets, stage of growth, profitability and reason for finance can all influence availability, either individually or taken together.
32. It can be difficult to assess pricing and affordability of different debt and equity options. Not all businesses have the expertise or time to identify and navigate the right option without the support of a professional adviser. We regularly hear from ICAEW members that conversion

[12] Business Finance Review 2023 Q1 - FINAL.pdf (ukfinance.org.uk)
[13] *Corporate Financier* February 2023
[14] ‘Recycling the terms’, *Corporate Financier* March 2023

rates of corporate finance advisers and FCA-approved brokers are higher because they go directly to the most appropriate source of finance and support the business to provide the requested information in the desired form.

33. Grants are useful for businesses in the sector or policy area that they are targeting. Businesses do have to balance the time involved in applying for grants and the subsequent reporting. There is also a perceived low success rate, which together with the often low value of a grant, reduces their attractiveness.

34. R&D tax relief is extremely valuable to certain businesses. Many, however, are finding that costs that should be eligible are not qualifying for the relief. There is a widespread perception that HMRC appears not to understand the nature of expenditure and the sector in which some businesses operate, as illustrated in this member feedback: “many [start-up tech] companies, especially those who have got to revenue generation, will not qualify [for tax relief]. Innovation and R&D (and the need for financing those activities) does not stop when you get your first customer”. Our members’ experience tallies with that of members of other professional bodies[15]. Larger businesses are more able to seek professional advice and support for making claims which typically improves the certainty of qualifying for relief. Smaller businesses are typically disadvantaged given that the cost of professional advice may be disproportionate to the size of their claims. Many members report that businesses experience difficulties liaising with HMRC, and that clients lose trust in the scheme and are therefore disincentivised to seek relief for potentially qualifying costs.

35. Non-traditional providers and forms of debt finance are emerging, such as private debt funds[16] and venture debt[17]. Businesses that have already raised venture equity, are finding that they may be eligible for venture debt. This form of debt, offered by some banks, alternative lenders and specialist providers, avoids the need to dilute equity. It may be quicker to arrange, although it is typically higher cost compared to conventional loans and equity, and this limits access for SMEs.

Is finance available to allow SMEs to scale up from venture capital funding?

36. Venture capital is available for businesses that meet investment criteria and investors’ risk appetite. However, high inflation and a weakening economic outlook mean that investors are, at present, keeping funds for “rainy days” within their portfolios. Their risk appetite has also diminished for certain sectors. This squeezes the availability of venture capital to SMEs who are finding it harder and more time-consuming to access.

37. Our members practicing corporate finance at the midmarket level have been reporting lower levels of deals and investment compared to the boom in 2021, and pre-COVID-19. They have also seen the impact of economic factors and uncertainty on timetables and the willingness of parties to complete transactions. Beauhurst recently reported[18] that equity investment in Q1 2023 (including venture capital investment) was down compared to the previous quarter (number of deals and amount invested), and significantly lower compared to Q1 2022.

38. Government can influence venture capital appetite by providing certainty and stability in its policies for business support and tax incentives, and we refer to this in paragraphs 24 and 55.

What role do credit reference agencies play in supporting SME finance?

39. Credit referencing plays a big role in finance providers’ screening, especially for debt. Even the most flexible funders will have criteria around credit scores, either for acceptance as a whole or for pricing.

[15] R&D tax relief crackdown deterring genuine claims, CIOT letter to HMRC
[16] ‘Debt reset’, page 18, *Corporate Financier* February 2023 and ‘Pools of Capital: the Rise of Private Debt’, *Corporate Financier* May 2023
[17] ‘Is now the time for venture debt funds’, *Corporate Financier* May 2023
[18] Equity Investment Market Update Q1 2023

40. A poor credit rating can create an automatic risk warning that is difficult for a business to overcome due to the automation of credit decisions. While the rise of Open Banking data is helping, it is currently more applicable to personal credit. However, if greater standardisation of Open Banking data for SMEs were implemented, the real-time data would enhance a finance provider's understanding of the credit risk of the prospective borrower. This would provide a completer and more up-to-date picture of creditworthiness than the credit rating alone, allowing for more informed lending decisions.
41. The role of ratings can hinder accessing finance, for example, if a business does not show up on a credit reference due to a wrong name, address, credit history. There is a lack of awareness among SMEs that they can file amendments to credit reference agencies. This process could be better promoted by the agencies.
42. In addition, finance providers use a number of credit reference agencies and the quality of the information, some of which is third hand, varies. It is not feasible for an SME to access all credit reference agencies and ensure they have the correct information upon which to base a score, and, in many cases, the lender doesn't disclose which agencies they access.

Is securing access to SME finance particularly challenging for women, people from ethnic minorities, people from certain social classes, or any other group? Is so, what should be done about it?

43. Real challenges exist for certain groups in securing access to finance. It is imperative for the sustainable growth of British business that such barriers be called out and rectified. Industry data continues to show that barriers persist.
44. In June 2022, UK Finance found that banks are taking measures, but that access to both debt and equity finance by ethnic minorities can be much improved[19].
45. The Treasury Committee concluded in its own report into the venture capital market that gender and regional diversity of access to such capital is poor[20]. The British Business Bank explores this further in Finding What Works: Pathways to Improve Diversity in Venture Capital Investment Factsheet (2023).
46. Progress with boosting women's access to venture capital and certain different finance services has been made, according to the 2023 report of the Investing in Women Code which also acknowledges that more work is necessary.
47. The 2023 Gender Index confirms that accessing external capital can pose particular challenges for female-led companies. It reports that of all the active UK female-led companies, less than a quarter (23.4%) accessed all forms of external capital across the UK in 2022/23.
48. We recognise that chartered accountants are well-placed for assisting businesses founded by those from underrepresented groups – including when accessing finance. ICAEW is a signatory to the Investing in Women Code and continues to highlight the problem and encourage solutions for reducing challenges in accessing finance[21]. We participate on and contribute to the Business Finance Council. We have used our Women in EU Finance network to share ideas and lessons among our membership and with policymakers. ICAEW recognises the role that women advisers can play in removing challenges and we use member communications, such as the *Corporate Financier* magazine produced by ICAEW's Corporate Finance Faculty[22], to profile role models within our membership.

[19] Supporting ethnic minority entrepreneurship in the UK_FIN.pdf
[20] Treasury Committee - Publications - Committees - UK Parliament Nineteenth Report (July 2023)
[21] Women mean business – but can they access investment? | ICAEW
[22] See recent profiles in *Corporate Financier* magazine: June 2023, May 2023, March 2023 (page 24) and February 2023 (page 24)

REGULATORY ISSUES

Do SMEs have adequate and appropriate access to a complaint's procedure when in dispute with their bank or lender?

49. Reports from our members on their (or their clients') experience of accessing a complaints procedure are mixed, ranging from 'access is both adequate and appropriate' to 'procedures are inadequate and slow'.
50. Some consider that access to a complaint's procedure is of little practical use without businesses having the support of a relationship manager.
51. ICAEW does not tend to receive reports about the Business Banking Resolution Service. This may indicate a lack of awareness of its existence.
52. See also paragraph 56 on the SME Finance Charter.

What impact will the PRA's proposed Basel 3.1 capital requirements framework, and in particular the proposed removal of the SME support factor, have on SMEs in the context of the PRA's objectives?

53. The PRA has set out the expected impact on banks' capital requirements in a recent consultation[23]. We would note that the PRA's primary objective is the safety and soundness of banks, and that the level of capital a bank should hold against a particular SME exposure should primarily be commensurate with this objective. To set risk weights to achieve a different objective carries the risk that it subordinates the PRA's primary objective and potentially undermines UK prudential supervision, by allowing banks to become riskier. Alternatively, it may mean that banks' other customers (eg mortgage borrowers) are asked to effectively subsidise SME lending. If the cost of capital for SME lending is an impediment to lending, a more coherent approach is to look for ways to reduce the credit risk inherent in lending to SMEs. There may however be a compromise, bearing in mind the PRA's secondary objectives, which we trust will be considered as part of its assessment of the consultation's responses. In this regard we would also note that the PRA proposed a suite of changes to risk weights, and that the SME support factor should not be considered in isolation.

GOVERNMENT POLICY ISSUES

Should the Government do more to enhance SME access to finance? And, if so, what?

Certainty and stability of policy

54. The value of support measures such as R&D tax relief and tax-advantaged venture capital schemes is significant for many SMEs' growth plans. Part of the value is the certainty as to the focus and duration of the underlying policy and its application by relevant authorities. Delivery of measures also depends on adequate resourcing, e.g., at HMRC, local authorities and grant agencies.
55. We have recent reports from ICAEW members that businesses are having to refine or change their business models at short notice and put plans on hold because they are not certain of receiving follow-on funding, income from grants, and relevant tax credits, so are hindered when budgeting and planning resourcing for growth ("The increased level of inspections and delays in payments…mean that businesses are facing greater uncertainty on their claims"). See our responses to other questions for detail on challenges with grants, R&D tax relief and EIS/VCT investment (paragraphs 33, 34 and 22). Government post-Brexit reforms are still evolving, and we urge business support and fiscal incentives to be considered in the round, with the objective of certainty and stability - which encourage private investment - in addition to prevention of abuse.

[23] CP16/22 – Implementation of the Basel 3.1 standards | Bank of England

Specific considerations for the Government

56. The Business Finance Council enables the government to work with lenders and finance providers to ensure SMEs have access to finance to grow. The Council has secured pledges from UK banks and finance providers to support SME customers by way of the SME Finance Charter (last updated in June 2022). ICAEW has contributed to the work of the Council and David Petrie, ICAEW's Head of Corporate Finance, participates in its periodic meetings, including by sharing our members' insights. The government should publicise much more widely what the pledges mean for businesses seeking finance and how business should engage with those institutions that have made the pledge.
57. Suggestions for government action emanating from ICAEW's member outreach and engagement include:
    - 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
    - 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
    - Signpost sources of trusted business advice such as ICAEW's Find a Chartered Accountant, and point SMEs to Growth Hubs and Chambers of Commerce in SMEs' registered office locations
    - Support Local Enterprise Partnerships (LEPs) to provide regularly maintained data on available finance. After receiving this suggestion from members, the government confirmed its decision to withdraw funding for LEPs from April 2024 and transfer their functions to local and combined authorities. It is vital that the government ensures continuity of the service of raising awareness of available business finance that has hitherto been carried out by LEPs.
    - Keep under review the investment parameters and outcomes of the British Patient Capital Fund to ensure that the funding, and any potential extension the scheme meets the policy objective of supplying genuinely incremental funding and thereby enabling the development of new technologies and markets.

What has the impact of the Covid Bounceback Loan Scheme (BBLS) which was followed by the Recovery Loan Scheme (RLS), been on SME finance?

58. The BBLS gave quick funds at the time they were needed and at the cheapest rate available. Members report that while the BBLS was open, it and the other support schemes absorbed banks' business lending volume. Businesses became used to low interest rates and costs so normal lending (ie, lending outside government support schemes) together with increased cost of living, appears unduly expensive, with significantly less favourable terms.
59. The BBLS repayments have, in some cases, had an adverse impact for businesses seeking further finance meaning that the loans have had to be repaid early. Moreover, where further finance is available, rates are higher compared to those under the schemes, and criteria are stricter. Refinancing of these loans, should the economic climate trigger a business to restructure its debt, are expected to be at unattractive rates and/or not available to the businesses.
60. The RLS has been a useful product for non-mainstream banks and well-targeted for higher credit risk businesses. A successor to the RLS would likely be a positive addition to the finance landscape.

How useful is the British Business Bank? Does its finance hub improve SME access to finance?

61. ICAEW has actively engaged with the British Business Bank since the Bank's inception – both with the Bank's leadership and with its management and staff operating outside London.

We support the Bank's role of as a dedicated vehicle for government policy and business support, and we continue to facilitate beneficial engagement between the Bank and businesses, investors and advisers in our membership. The Bank has enabled the more diverse targeting of public support with its funds, including those targeting businesses in specific regions. The Bank does not operate at the retail and business levels to whom it can seem irrelevant or not transparent. As the Bank deploys funds via intermediaries, its profile relies on promotion from professional bodies, business representative organisations, trade associations and investor networks.

62. The finance hub is a useful concept as an information repository. In the main, our members in business are familiar with the hub as the source for Start-Up Loans. Members that advise businesses do refer to the hub for their own purpose and also refer non-client businesses to it. Many advisers, however, do not tend to signpost the hub to clients as they understand that businesses prefer to talk through funding options with an expert, and can lack the time to search the site. Advisers also tend to use existing relationships with different funding providers to inform and advise their clients of options.