techUK
FOR WHAT COMES NEXT

Small Enterprises, Big Impact

The steps needed to digitise the UK's SMEs and restore economic growth

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Contents

Executive Summary	03
Digital adoption opportunity – tackle the productivity gap and size of the prize	05
Comparing the UK's SME digitisation with international competitors	08
Common challenges to SMEs digitisation	11
Incentives to drive digital adoption among UK SMEs	13
Use digital adoption to leverage further growth opportunities and tackle key challenges	20
References	25
Further information/About techUK	28

Executive Summary

In this paper, techUK set out the opportunity for the Government to tackle key economic challenges by incentivising the digitisation of UK SMEs. As a key lever for growth, we call for any future Industrial Strategy to have digitisation at the heart of this.

This paper marks a response to the previous UK Government's lack of a Digital Adoption Strategy and the specific failure of Help to Grow: Digital. This was a missed opportunity to seize the role of digital technology in supporting the growth and productivity of UK SMEs.

The new Government must act to better support digital adoption among SMEs (particularly micro and small businesses), unlocking untapped productivity and keeping ahead in the race to leverage technologies like AI for businesses. This a question of international competitiveness, with the UK already falling behind competitors on digitisation. Alongside this, as AI technologies begin to come onstream, low adoption rates for UK SMEs are a particular risk. AI will first be deployed through updates to currently in use business software, meaning if UK companies are behind on basic digital adoption, they will soon be behind on AI adoption as well.

We recognise that the UK is home to some of the most innovative firms in the world and a natural place for businesses to adopt digital and emerging technologies. Indeed, we are currently ranked fourth on the Global Innovation Index 2023[1] and highest ranking G7/G20 economy.[2] As a key growth sector, the tech sector will deliver future enterprise, innovation, and sustainability. But harnessing the tools that the tech sector provides will only be possible with digitisation across all businesses, including SMEs.

SMEs digitisation is a huge growth opportunity for the UK. Analysis has shown that if UK SMEs were to better utilise digital adoption, this could add an estimated £232 billion to the economy,[3] while at the same time improving the UK's resilience against economic shocks. The OBR has also predicted that the

widespread use of AI technology could support raising productivity by half a percentage point by 2028/29. In turn, the Government could expect to have an extra £39.9 billion of spending money while also reducing costs by £6.2 billion.[4]

techUK recommends that the new Government must prioritise digitisation as a central theme within any future Industrial Strategy, recognising the opportunities it can bring to economic stability and resilience. A comprehensive Digital Adoption Plan, with clearly defined targets by 2030, and a focus on the right underpinning infrastructure and regulation, is an intervention the Government can get started on right away.

In setting out our recommendations, we have worked closely with our members to ensure they are practical, low-cost and will deliver on cost savings for business and public finances, along with improving efficiencies.

Our key recommendations include:

1. Developing a co-ordinated and consistent strategy to support digital adoption, with clear targets by 2030, and a focus on the right underpinning infrastructure and regulation.

2. A single Minister should be identified with responsibility for driving digitalisation across the economy and delivering on the recommendations to tackle digital adoption challenges.

3. Committing to digital adoption growth opportunities for SMEs by supporting the next stages of Open Banking's evolution into Open Finance and SMEs carbon reporting for net zero.

Within this paper we follow the OECD definition of 'digitisation' as the use of digital technologies and data as well as interconnection that results in new or changes to existing activities.[5] Such digital technologies include the likes of digital/physical assets (cloud computing, mobile technology, automated machinery) and capabilities (E-payments and transactions, supply chain digitisation etc).[6]

Section 1

Digital adoption opportunity – tackle the productivity gap and size of the prize

Making up 99.9% of British businesses,[7] SMEs are crucial to the economic growth of the UK and represent some of the UK's most resilient businesses. Despite numerous global and domestic headwinds over the past few years, including supply chain challenges, high energy costs and ongoing stagnation, they have continuously demonstrated their ability to navigate difficult circumstances.

But the UK suffers from a productivity gap or so-called 'long tail problem' - where the gap between the least and most productive firms in the UK is much bigger compared to other advanced economies.[8] This means a small number of companies at the top of the curve are very productive, followed by less productive SMEs. Research by the OECD also revealed that digital adoption and diffusion could widen spatial and firm level disparities.[9] If the UK is to succeed in ambitions

to become the fastest growing economy in the G7, the Government must plug this productivity gap. Especially given that productivity is a key lever to drive up living standards, GDP per person and economic growth.

Alongside this, currently over a quarter of UK SMEs still do not use basic digital tools. This is even though software such a customer relationship management (CRM), digital accounting and e-commerce software have been found to boost sales by 18%, 11.8% and 7.5% respectively over a 3-year period.[10] techUK members have outlined benefits of digital adoption that range from reducing transaction costs by providing better and quicker access to information, increasing revenue[11] and better communication between staff, suppliers, and networks.

To unlock untapped productivity, techUK call for better support to incentivise digital adoption for SMEs. A stocktake of the SME digital adoption support over recent years, our members point to 'Making Tax Digital' as the most significant government programme incentivising digitisation, especially given the closure of Help to Grow: Digital programme (an online platform designed to give SMEs free and impartial advice, along with grants worth up to £5,000).[12] Following design flaws at launch that prevented significant uptake, and revisions to the eligibility criteria not taken forward ahead of the scheme's closure, Help to Grow: Digital closed in February 2023. techUK provided evidence on the state of the scheme to the House of Commons BEIS Select Committee in May 2022.[13] Any future support must learn lessons from the failure of Help to Grow: Digital and must be highly visible and easily accessible given that SMEs are often time poor.

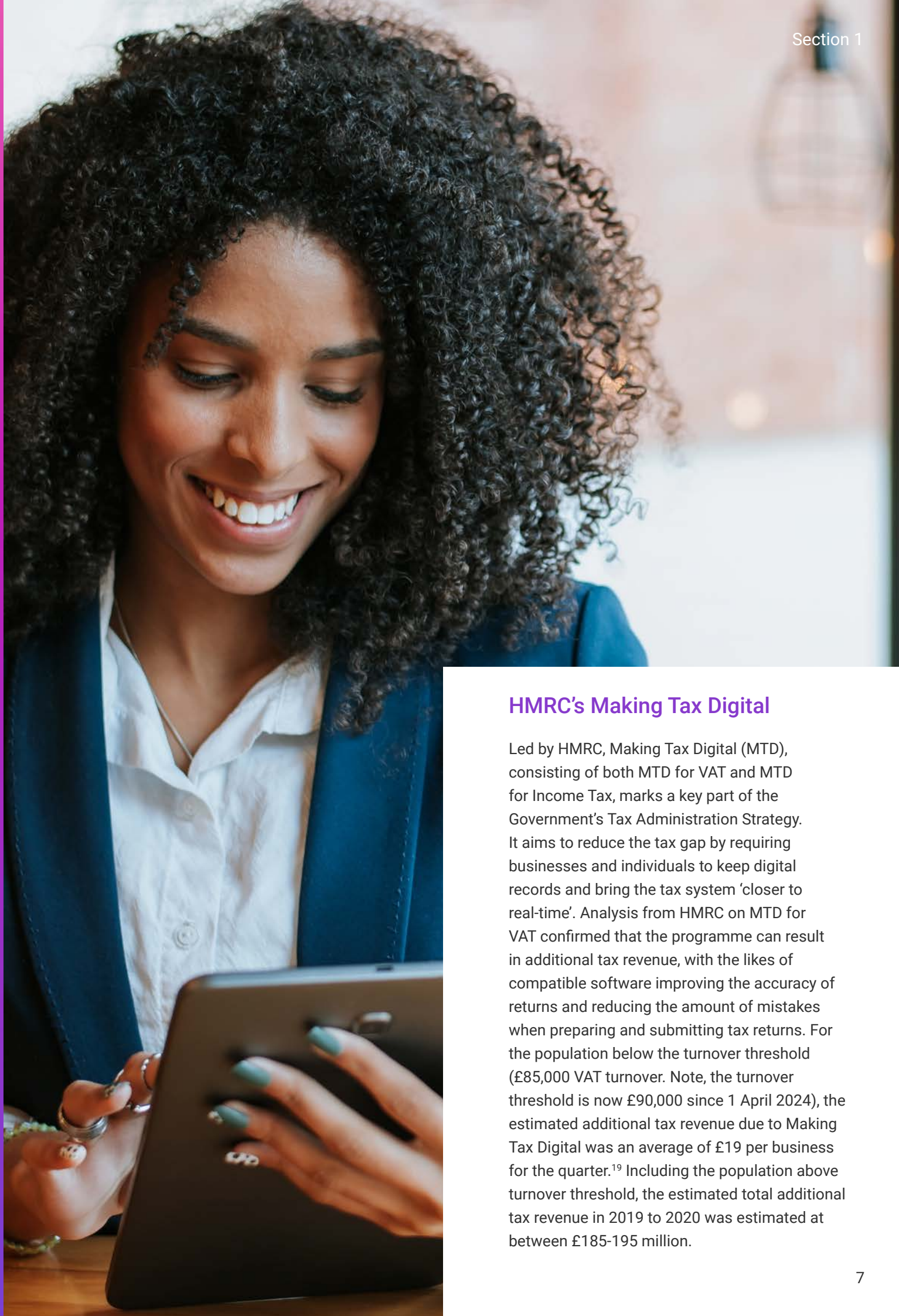
Significantly, the failure of Help to Grow: Digital Programme and delayed roll out of Making Tax Digital for self-assessed taxpayers cost HM Treasury £1.75 billion in lost revenue, according to the House of Commons Public Accounts Committee.[14]

Following the closure of Help to Grow: Digital, there is an opportunity to leverage the £296 million Government budgeted for the programme, using this budget elsewhere to support the digitisation of UK's SMEs.

In February 2024, polling of over 250 tech firms with Public First further revealed that adopting new technology is a key motivation to remain competitive (42%), grow their revenue (40%) and remain innovative (38%).[15] Through their recent economic analysis, techUK member Xero found a positive link between digitisation and productivity. Data revealed that small business productivity growth in the UK is often higher than productivity growth across all UK businesses due to use of digital technology through their accountants and bookkeepers.[16] The right support and incentives for digital adoption can also unlock growth by enabling firms to move to the 'evolution' stage of digital adoption. At this stage, firms are implementing digital solutions more systematically and investing in digital initiatives.[17]

Digital adoption across businesses also has widespread benefits for Government, helping to better understand what is going on in the economy. A more digitised economy during the Covid-19 pandemic, including completion of Making Tax Digital, widespread use of Digital Verification and e-invoicing would have enabled the Government to deliver more targeted support and more effectively combat fraud as well as reducing the impact of late payments for SMEs.

Of note, Sage's latest research demonstrates an obvious growth link, and competitive edge, for adopting e-invoicing. Surveying over 9,000 businesses with 1- 999 employees in seven European markets (including the UK) as well as Australia, Finland, and Singapore showed a potential increase in productivity of up to 3% annually in the UK because of the time saved from chasing payments.[18]



HMRC's Making Tax Digital

Led by HMRC, Making Tax Digital (MTD), consisting of both MTD for VAT and MTD for Income Tax, marks a key part of the Government's Tax Administration Strategy. It aims to reduce the tax gap by requiring businesses and individuals to keep digital records and bring the tax system 'closer to real-time'. Analysis from HMRC on MTD for VAT confirmed that the programme can result in additional tax revenue, with the likes of compatible software improving the accuracy of returns and reducing the amount of mistakes when preparing and submitting tax returns. For the population below the turnover threshold (£85,000 VAT turnover. Note, the turnover threshold is now £90,000 since 1 April 2024), the estimated additional tax revenue due to Making Tax Digital was an average of £19 per business for the quarter.[19] Including the population above turnover threshold, the estimated total additional tax revenue in 2019 to 2020 was estimated at between £185-195 million.

Section 2

Comparing the UK's SME digitalisation with international competitors

Investing in the critical building blocks of the digital economy is vital to shore up the UK's international competitiveness. To ensure we do not lose out on the coming wave of AI deployment across the economy, the building blocks for digital adoption must be in place for UK SMEs.

Research from Be the Business shows that, while UK companies put significant importance on management and technology adoption, we invest less than our G7 counterparts.[20] For instance, only 28% of UK businesses said operational software increased their digital readiness over the past 12 months compared to almost half (47%) of Italian firms. 92% of SMEs say technology is vital to their survival, yet these businesses only plan to increase technology investment by 13%, below the European average of 18%.[21] Meanwhile, international competitors, including many EU member states, Singapore, and Australia, are moving fast to develop and implement digital adoption strategies, creating a return on investment for their public finances and businesses.

Australia, for example, sent clear signals to the tech sector by supporting SMEs tech investment through a simple digital adoption incentive scheme, the Technology Investment Boost.[22] This provided a bonus 20 per cent tax deduction for eligible expenditure incurred on expenses and depreciating assets that support digital operations. The measure was aimed at supporting SMEs to take advantage of, and adopt, digital technologies, and included digitally enabling items such as computer and telecommunications hardware and equipment, software, systems. Along with digital media and marketing, and e-commerce to support digital or platform enabled online transactions.

Further incentivising digital adoption across firms, Australia launched its Single Touch Payroll (STP) in July 2018.[23] The system works by automatically reporting tax data to the Australian Tax Office whenever an employee is paid. Data about the amount of tax paid is then displayed to employers and employees in real time, with 13.5 million Australian employees having real time access to their tax and super payments position. Data collected can be utilised across Australia's government agencies to streamline employers' reporting to government agencies. As well as reducing the cost and complexity of filing tax returns, the STP allowed Australia to provide JobKeeper wage subsidies to employers during the Covid-19 pandemic. This also marked the largest economic stimulus measure in Australian history and was rolled out just several weeks after the

STP policy was announced. To ensure SMEs could transition to digital solutions, the STP was introduced in a transitioned phase – made mandatory from 1 July 2018 for employers with 20 employees or more, with smaller employers (19 or fewer employees) given until 1 July 2019.

Other international competitors are further seizing the benefits that digital adoption can bring to their productivity and economic growth. In Singapore, Infocomm Media Development Authority (IMDA), the statutory board under the Singapore Ministry of Communications and Information, has implemented a 'Go Digital' programme helping SMEs to better utilise digital technologies and adopt advanced digital solutions.[24] Building on the previous programme Enhanced iSPRINT[25] aimed at supporting SMEs productivity and growth, Go Digital has a structured and inclusive approach to supporting SMEs. For instance, offering a 'digital health check', 'free digital Consultancy' and 'industry digital plans' providing step-by-step guides to help SMEs adopt digital solutions specific to their industry. This programme sits alongside targeted SME Go Digital Grants including the Productivity Solutions Grant (PSG) and Start Digital (SD). Demonstrating impact, take-up of PSG and SD grants led to an increase in firms' productivity of 3.0 per cent and 1.8 per cent respectively.[26] Significantly, smaller firms saw the largest improvement in outcomes from the take-up.

Incentivising the transition to e-invoicing, Singapore's InvoiceNow marks a nationwide e-invoicing network, based on Peppol,[27] enabling companies to process invoices in a more efficient manner. In turn, shortening payment cycles and reducing business costs. Indeed, Singapore's tax digitisation programme has shown that businesses could achieve time savings of 95% (from 8 hours to 15 minutes) by using accounting software to prepare and file corporation tax returns. Based on the Peppol business document standard, this allows enterprises to digitally invoice with other linked companies on the Network. SMEs involved in the network have voiced optimised supply chains and increased operational efficiency through e-invoicing.[28] Benefits outlined have ranged from faster and simpler payment invoices, reduction of time-consuming manual processes (estimated $8 per invoice according to IMDA) and reduction of errors and rectification costs (estimated to affect 3% of paper invoices and costing as much as S£72 to rectify according to IMDA).[29]

In the EU, many member states are leveraging the role of digitisation for SMEs and making moves to ensure VAT is fit to support digital economies. For instance, the European Commission is moving ahead on conclusions of VAT in the Digital Age (ViDA) proposals. With a view to modernising the system and promoting digitisation, in 2022, the European Commission published its proposed reforms to amend the European Union's (EU) Value Added Tax (VAT) system.[30] Changes aim to make the VAT system more efficient for business and reduce the EU's VAT Gap. This is proposed to help member states collect up to €18 billion more in VAT revenues annually – vital, given member states reportedly lost €93 billion in VAT revenues in 2020.[31] Along with helping to address blockages to growth including burdensome VAT arrangements for SMEs and VAT fraud linked to intra-EU trade. Changes include common standardised Digital Reporting Requirements (DRR) and e-invoicing on intra-community transactions.

Further guiding member states through a high-level framework and strategy, the European Commission's Digital Decade policy programme sets concrete targets and objects for 2030, guiding the digitisation of the economy by 2030. This includes specific skills for tech up-take (75% of EU companies using cloud, AI or Big Data) and late adopters (more than 90% of SMEs reach at least a basic level of digital intensity).[32] Along with the Digital Economy and Society Index (DESI)[33] to measure progress towards 2030 targets and strategic roadmaps in which Member States outline adopted or planned actions to reach 2030 targets.

In the UK, techUK members reiterate that Making Tax Digital (MTD) for Income Tax must be rolled out by the already committed timeline of April 2026, having already been delayed and now implemented through a phased transition. MTD for Income Tax will see many benefits for both SMEs and the Government. It will enable a real time view of the economy, reduce errors when filing tax returns and ultimately make it easier for smaller firms, with often limited headroom for administrative tasks, to get their taxes right. Along with reducing fraud, a key pillar of HMRC's IT Strategy from 2022 to 2025.

Section 3
Common challenges to SMEs digitalisation

SMEs face a range of challenges when they seek to improve and develop their businesses. Digitisation is no different and across the available evidence there are some common challenges that SMEs regularly report. These can be broken down into the following themes:

Cost and access to finance	Undeniably, digitising comes at a cost, and SMEs often struggle to warrant for the cost amidst a tough economic environment. Finance is cited across all sectors as a key challenge. Given current economic headwinds, many SMEs (especially micro and small firms of less than or equal to €10 million turnover) tend to be focused on survival. A 2019 report commissioned by the then Department for Business, Energy, and Industrial Strategy conducted 40 interviews with SMEs to understand barriers and enablers to adopting best practice management and technologies. The report found that the relative cost of adopting technology (money/time) was prohibitive for the adoption of new technology, particularly when the benefits of adoption were not clearly understood.[34] Within the 2019 report, many of the SMEs felt inhibited from innovating and improving processes based on material challenges, like access to funding.[35] Alongside this, feeling the need to turn a profit before investing in digital adoption, the decision often tends to be kicked down the road.
Lack of awareness and information	Allocating time and resources to their digitisation journey is a widely reported issue, with SMEs consistently stating they are time poor or find it difficult to negotiate access to services and navigate the guidance/support already out there. Any support provided by the Government must therefore be highly visible and easily accessible for SMEs. The overwhelming amount of choice of digital technology solutions is also a significant barrier, with a lack of awareness of how certain solutions can provide different benefits. SMEs often display limited understanding of technologies that are aimed to improve productivity, and a lack of awareness about which technological solutions may benefit them. Within a Be the Business study, 44% of UK SMEs outlined too much confusing information about established tech solutions.[36]

The right skills and management	The lack of confidence and capability to use new systems, or even how to choose appropriate systems for their business is a further barrier to digitisation. techUK SME members often note that larger businesses tend to have access to digital leadership with the specialist skills to support during the adoption phase of new digital technologies, rolling out and leading the introduction of new systems. Addressing this management and skills gap by prioritising training, and development to build employees skills and knowledge in line with market developments is therefore crucial to enable digital adoption. Echoing this, Be the Business' Productive Business Index 2023 found that 42% of small businesses find It challenging to bring the right skills into their businesses.

Section 4
Incentives to drive digital adoption among UK SMEs

The Government should acknowledge and address the significant policy gaps preventing UK SMEs from digitising, whilst also recognising that digitisation can solve key economic challenges of low productivity and, as demonstrated by international counterparts, can create return on investment on public money.

The UK's Digital Strategy 2022[38] marked a step in the right direction, but more tailored support and programme for SMEs digital adoption has dwindled since Help to Grow: Digital. Prioritising completion of Making Tax Digital for Income Tax, will ensure SMEs embark on digitisation by improving processes, generating cost savings, and creating the headroom for future growth.

Below, techUK provide a roadmap to incentivise SME digital adoption. We call for a co-ordinated and consistent strategy, focusing on the right underpinning infrastructure and regulation. Alongside these regulatory drivers, this should be accompanied by the right tax and funding incentives, and a commitment to future growth opportunities.

12-month roadmap to SME digital adoption

- **Co-ordinate a cross-departmental and industry led Forum to identify the most effective interventions for SMEs digitisation (with a particular focus on micro and small business).**

- Industry is already leading the way on digitising the economy, but to ensure all businesses reap the full benefits, the Government must act as the convenor and ensure delivery.
- In particular, SMEs must be incentivised to adopt digital technology and shown the benefits to address their key challenges, improve efficiencies and drive down costs.
- The first task of the Forum should be to complete a comprehensive 6-month review of the barriers to digital adoption, with recommendations to inform a comprehensive Digital Adoption Strategy.
- Holding the Forum account, and vice versa, a single Minister within the Department for Science, Innovation and Technology should be identified with responsibility for driving digitisation across the economy and delivering on the Forum's recommendations.

- **Develop a co-ordinated and consistent strategy to support digital adoption, with clear targets by 2030, and a focus on the right underpinning infrastructure and regulation. This should include:**

- Specific digitisation targets to drive up rates of tech adoption, using the model of the European Commission's Digital Decade policy programme.
- A commitment to policies that encourage tech adoption, including completion of Making Tax Digital for income by 2026. Alongside this, a phased introduction of MTD E-invoicing for B2B transactions to support small business productivity and tackle late payments.
- New incentives for SMEs to invest in digital, such as tax incentives and grant/funding programmes that have proven ROI for Government and SMEs (i.e., Made Smarter Adoption Programme).[39]
- An understanding how existing incentives, such as full expensing or the Finance and Support Hub[40], could be better leveraged by SMEs and made more accessible to support digitisation.

- **Commit to digital adoption growth opportunities for SMEs by supporting the next stages of Open Banking's evolution into Open Finance and SMEs carbon reporting for net zero.**

- Launch a consultation led by the JROC (Joint Regulatory Oversight Committee) into an Open Finance regulatory framework.
- HMT to take forward the recommendations made by the Open Finance Taskforce being chaired by the CFIT.
- Provide SMEs access to the Commercial Credit Data Sharing Scheme.
- UK Government to work with the ISSB (International Sustainability Standards Board) to design a simplified reporting standard for SMEs.

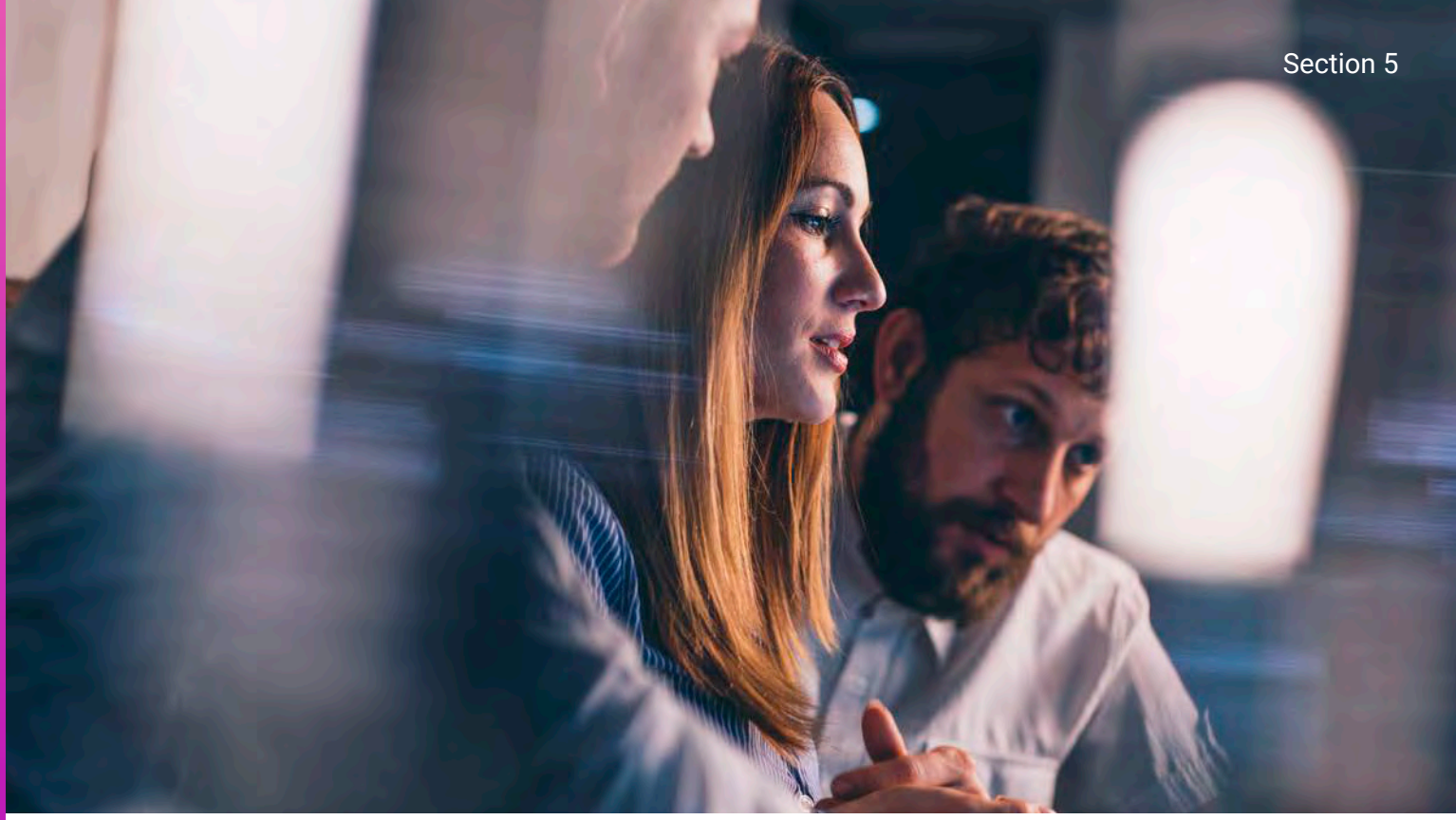
Section 5
Putting digital adoption incentives into action

These effective interventions can address and drive forward digital adoption among SMEs.

Co-ordinate a cross-departmental and industry led Forum and appoint a Minister responsible for digitisation across the economy.

Implementation	The Forum should involve industry, including SME representatives, trade bodies, and departments with responsibility within this area. As a priority, we propose this to include: the Department for Business and Trade, the Department for Science, Innovation and Technology and the Department for Levelling Up, Housing and Communities. The first task should be to complete a comprehensive 6-month review of the barriers to digital adoption, with recommendations to inform a comprehensive Digital Adoption Strategy. Holding the Forum to account, and vice versa, a single Minister should be identified with responsibility for driving digitisation across the economy and delivering on the Forum's recommendations within a specific timeframe. In techUK's view, this should be the Department for Science, Innovation and Technology (DSIT) Parliamentary Under Secretary of State or the Future Digital Economy and Online Safety with other lines of responsibility into the Department for Business and Trade, HM Treasury and No10. Currently, responsibilities within this Ministerial portfolio already include economic security, technology diffusion, technology investment.
Costs	Costs associated with running/secretariat of the Forum can be covered by allocating a civil service team to run the forum. Currently both DBT and DSIT have teams focused on digital and AI adoption and the secretariat for the forum could be run through these with no additional cost to the Exchequer.
Benefits	Improve Government oversight of the economy, and providing a greater ability to enact targeted policy interventions, along with a closer relationship with industry to deliver on support for firms. Taking steer from the success of the recent AI Taskforce champion, the Minister responsible could look to assign a specific Digital Adoption Champion.

A comprehensive plan for digital adoption by 2030	
Implementation	The Government should produce a comprehensive digital adoption plan with targets for 2030. This should include: • Digitisation targets to drive up rates of tech adoption, using the model of the European Commission's Digital Decade policy programme. • A commitment to policies that encourage tech adoption, including completion of Making Tax Digital for income by 2026. Alongside this, a phased introduction of MTD E-invoicing for B2B transactions to support small business productivity and tackle late payments. • Incentives for SMEs to invest in digital, such as tax incentives and grant/funding programmes that have proven ROI for Government and SMEs (i.e., Made Smarter Adoption Programme[41]). • Simple common standards based on the UK Government's AI principles for software providers to sign up to.
Costs	Costs for each intervention, as part of the Digital Adoption Plan, would need to be costed. Completion of Making Tax Digital for income (along with VAT and Corporation Tax) estimated to cost HMRC £1.3 billion.[42] The Small Business Digital Growth Fund would cost between £300-350 million for a one-year period. This is near the equivalent of the £295 million Government budgeted for Help to Grow: Digital. According to the CBI, national rollout of Made Smarter Adoption Programme was estimated cost £80m.[43] Estimate a similar cost for Programme to be rolled out across other priority sectors.
Benefits	Adopting digital solutions such as tax system efficiencies, late payments, digital verification, and digital trade will help relieve the pressures facing small businesses. The right incentives will drive adoption across SMEs in productivity enhancing digital software, e.g. CRM and ERP. HMRC estimates that the Making Tax Digital Programme could raise £3.9 billion in additional tax from reducing taxpayers' errors.[44] According to the National Audit Office (NAO), a further £1.6 billion of tax might be generated from those with Self-Assessment business incomes of £10,000 to £30,000.[45] According to techUK member Sage, fully digitalising the operating environment of SMEs has the potential to deliver £232 billion extra to the UK economy.[46]



Use the model of the Made Smarter Adoption Programme for SMEs for sectors other than manufacturing	
Implementation	This model has proven success and should be piloted across other sectors, targeting small and micro businesses (less than or equal to €10 million turnover). Funding assigned at the next Spending Review and oversight from the Government's industry-led Digital Adoption Taskforce to ensure smooth delivery of the programme.
Costs	According to the CBI, national rollout of Made Smarter Adoption Programme was estimated cost £80m.[47] Estimate a similar cost for Programme to be rolled out across other priority sectors.
Benefits	The north-west Made Smarter pilot programme, supporting technology adoption in the manufacturing sector, injected up to £118m in GVA to the region and boosted productivity for 80% of SMEs who work with Made Smarter by up to 25%.[48]

Completion of Making Tax Digital: Phased approach to e-invoicing	
Implementation	E-invoicing could be phased in alongside Making Tax Digital to ensure businesses benefit from it. E-invoicing would not have to be connected to any tax reporting to start with. It could be phased in for B2B transactions. Possible phased approaches could include by business size, business structure or the number of invoices per month. The phased introduction of e-invoicing for business transactions would allow HMRC to continue with the rollout of MTD unimpacted. The e-invoicing data would simply roll up into the summarised MTD submissions. Once e-invoicing is fully functioning across the UK economy for B2B transactions, the Government could then look at how to transition from MTD in its current form to basing tax reporting on the transactional real-time e-invoice data. Software developers could work with HMRC to help design an optimal approach for this.
Costs	The Australian Government has phased in e-invoicing for B2G transactions. From July 2022, the majority of Federal Government agencies have been mandated to be e-invoicing-enabled, with many state and local agencies following suit. The Australian Government put AUS $3.6 million towards this in 2020-21 and a further AUS $15.3 million in 2021-22.
Benefits	On average, SMEs get paid 7 days faster through e-invoicing. This is also key to addressing the fact that 82% of SMEs still use manual processes and spend between 10 and 36 pays per month on invoicing. In Australia, it is estimated that e-invoicing brings down individual invoice cost from AUS $27-30 to AUS $10. E-invoicing also has huge advantages for the Government: • It supports international trade and boosts revenue for governments. For example, France is set to gain €4.5 billion through e-invoicing as a result of productivity gains and reducing administrative burdens. • It could also provide the Government with near real time visibility of the state of the economy via transactional level data, allowing HMRC to spot discrepancies to identify and prove VAT fraud. • It also helps improve tax compliance and reduces tax fraud. In Italy, e-invoicing has led to a significant decrease in cross-border tax fraud by an estimated €1 billion in 2019.

Tax incentives for SMEs to invest in digital, i.e., UK Small Business Digital Growth Allowance	
Implementation	For SMEs to overcome obstacles to digitisation, the UK Government should introduce a tax incentive to encourage new investment in digital technology. A UK Small Business Digital Growth Fund could allow SMEs to claim and additional 140% deduction (worth 10% of the purchase cost) against their corporation tax bill for any net new digital products, services, software or advice. This could be capped at £50,000. To fit within a spending envelope of around £200m, the incentive be targeted at where it will have the greatest impact and targeted at small and micro businesses (less than or equal to €10 million turnover). These businesses would benefit the most as they tend to be greatest under-adopters of digital tools.
Costs	Estimate that the Small Business Digital Growth Fund would cost between £300-350 million for a one-year period. This is near the equivalent of the £295 million Government budgeted for Help to Grow: Digital.
Benefits	The Small Business Digital Growth Allowance has the potential to unlock an additional £232 billion per annum[49] and address the UK's productivity challenge. While it would be a one-off relief, its benefits would be felt for decades to come with increased productivity, investment, and growth. It has the potential to bring the UK in line with other OECD countries, ensuring the UK are on a firm footing to compete in the 21st century. Adopting digital tools have proven success in increasing productivity for micro and small businesses. Research by the OECD in 2019 demonstrated that Enterprise Resource Planning (ERP), Cloud Computing, and CRM software led to annual productivity increases in firms with more than 10 employees.[50] To successfully adopt these, SMEs also need to be incentivised to invest in connectivity, networks and supporting software.

Section 6

Use digital adoption to leverage further growth opportunities and tackle key challenges

Digitisation of SMEs mean growth opportunities in other areas, including Open Finance (with the UK already leading on Open Banking) and net zero. These are vital priorities that, if taken advantage of, will ensure the UK is on a secure footing for future growth and competitiveness.

6.1. Help SMEs tackle access to finance, cashflow management and late payments with Open Finance

The UK is a market leader in Open Banking, with over 339 regulated firms and 7 million customers and small businesses in the ecosystem.[51] [52] To date, Open Banking has enabled better financial administration capabilities, management of cashflow and late payments, and access to finance.[53] But to further leverage this market leading position, the Government should take steps to support the growth of Open Finance among SMEs. In addition, this should take advantage of the Joint Regulatory Oversight Committee (JROC) 'Recommendations for the next phase of Open Banking'.[54]

Open Finance is an extension of Open Banking that goes beyond the scope of data and allows trusted TPPs to access greater financial data to provide better tailored propositions across a wider range of financial services and other services. Unlike Open Banking, there is no regulatory framework for Open Finance, so the scope is currently less clearly defined.

Crucially, Open Finance can unlock many acute challenges faced by SMEs. This ranges from supporting the management of cashflow, late payments, access to finance, winning new customers and financial business administration. To enable SMEs to take advantage of Open Finance, the Government should begin with a consultation on an Open Finance framework, led by the JROC. A clear framework would define the scope of Open Finance and set out a trajectory for businesses to adopt Open Finance.

Open Finance presents opportunities for cost savings and growth for SMEs. It is anticipated to aid SMEs in overcoming an estimated £22 billion funding deficit through access to alternative lending models.[55] Important, given more than 72% of small business owners face difficulties in accurately predicting their annual earnings, while half of them encounter challenges in accessing finance, resulting in two-thirds of invoices being paid late. Operationalising commercial data yields benefits by providing businesses with near-real time, predictive data on their cashflow, making it easier to take decisions such as hiring and expansion or cost cutting.

6.2. Support SMEs on their net zero journey by simplifying reporting standards

SMEs play a vital role in helping the UK to achieve the government's target of net zero by 2050.[56] The British Business Bank estimate that between 43% and 53% of UK business emissions are from SMEs (corresponding to as much as 36% of total UK emissions).[57] Along with access to the right skills base, tax incentives and funding support, digital solutions are crucial to support SMEs in their decarbonisation journey.

However, SMEs cannot manage what they cannot measure. Sustainability reporting can help SMEs measures and improve their sustainability performance. With the upcoming requirement to report on scope 3 emissions, firms higher up the value chain are increasingly asking for improved reporting from their suppliers, including SMEs, to make sure they deliver on their net zero targets. Being able to measure and demonstrate their sustainability performance would ensure SMEs can access supply chains and contribute to unlocking $789 billion in 'green finance' globally.

Complex reporting requirements and high costs in both time and money to gather and understand their data is further holding back progress. This can be an onerous task given the fragmented jigsaw of global standards around sustainability. While the new International Sustainability Standards Board (ISSB) framework announced in June 2024 is a major step to simplify reporting for all companies, a more simple and clear approach is needed for SMEs. techUK therefore recommend the next government and the International Sustainability Standards Board (who write the frameworks organisations report against) work together to design a simplified reporting standard for SMEs. This standard can be mandated for large companies when gathering information from SMEs.

Annex

Other policies that can support SMEs digitisation

Within techUK's Seven Tech Priorities,[58] we outline other policies that, if implemented, would incentivise SMEs digitisation. These include:

1. **Developing an online Digital skills toolkit 2.0**

   While the UK has a flexible labour market and an open society that can make attracting and bringing in talent relatively easy compared to competitors, the demand for digital skills continues to massively outstrip supply.

   UK firms, especially SMEs, are slower at adopting productivity boosting technologies than our peers in the OECD and EU. Overcoming these skills and adoption challenges will be vital to ensure that our skills base and businesses are positioned to compete and be ready to seize the advantages of AI technologies as these become embedded in the economy.

   Building on the success of the government's Skills Toolkit9, an end-to-end 'Digital Skills Toolkit 2.0' should be funded to make digital opportunities and pathways more transparent and accessible to more people. It would enable people across all areas of society to understand the digital job opportunities available to them.

2. **Supporting the delivery of digital infrastructure and connectivity that underpins digital technologies**

   Continue to support the delivery of digital infrastructure, including data centres, along with digital connectivity, that enable digital technologies.

   Actions include delivering on the Planning and Infrastructure Bill to reform the planning system and make it fit-for-purpose to deliver our future digital and net zero economy. As part of the reformed National Planning Policy Framework, classify data centres as Nationally Significant Infrastructure Projects (NSIP).

3. Developing a network of Connected Hubs to open the tech sector to everyone

Taking inspiration from the Irish Government's Connected Hubs policy, the government should explore a scheme to deliver connected hubs across the UK.

The Connected Hubs network began with four hubs in the West of Ireland and has grown to almost 400, providing over 5000 desks and 500 meeting rooms in suburban and rural communities across Ireland with excellent internet connectivity and co-working software.[59]

The policy is expected to have significant place-based economic benefits and will help increase access to tech sector and digitally intensive jobs across the UK. Connected Hubs in Ireland have seen over 10,000 people across rural communities register for hot desks in remote working hubs supporting greater access to tech sector jobs across the country. In the UK, the Government should review the feasibility of such a scheme in the UK and launch an exploratory taskforce in the early stages of the next Parliament.

4. Releasing an updated AI strategy

With the AI White Paper now setting the regulatory framework for AI regulation in the UK, we must move rapidly into a period of delivery, implementing our chosen regulatory framework while also refreshing the AI Strategy so it is ready for the mid 2020s.

This should include the four pillars of 'AI for the Day to Day Economy', 'AI for Innovation Intensive Business', 'AI for the Public Sector' and 'Frontier/ Cutting Edge AI Development'.

Across these four pillars, there will be some priority areas. For example, speeding up the delivery of key infrastructure, including data centres and compute capacity, supporting access to talent, and mentoring for small businesses who have traditionally struggled with digital adoption.

Four Pillars for an updated AI Strategy

AI for the Day to Day Economy	AI for Innovation Intensive Business	AI for the Public Sector	Frontier/Cutting Edge AI Development
Enabling agencies Government departments, regulators, business support agencies	**Enabling agencies** Government departments, UKRI, Innovate UK, regulatory sandboxes, British Business Bank and National Infrastructure Bank, Universities	**Enabling agencies** Cabinet Office, GDS, devolved government, local and combined authorities, major public services, e.g. NHS	**Enabling agencies** AI Safety Institute, Government Departmentss, No.10, Universities, ARIA, UKRI and Innovate UK, Foreign Office
Supportive environment Access to affordable compute and cloud services Access to talent, retaining and upskilling support Digital adoption support Proportionate liability for end users	**Supportive environment** Access to super computing/ cloud capacity Availability of high skilled talent R&D incentives and partnerships Access to finance and patient capital Low energy and infrastructure costs	**Supportive environment** Good public IT infrastructure Guidance and support for public servants Digital talent Piloting and public consultation Effective procurement	**Supportive environment** Ability to build and access large scale compute Access to top global talent R&D incentives and partnerships Access to significant patient capital Highly capable oversight body
End Users Broad business community, not for profits, charities, local and central govenment	**End Users** R&D intensive sectors (e.g. digital tech, aerospace, manufacturing, semiconductors, financial services), AI developers, start-ups, scale-ups	**End Users** Central, devolved and local government, key public services, i.e. NHS and criminal justice	**End Users** R&D intensive start-ups and scale-ups, universities, frontier labs, large technology companies, broad business community, public services

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About techUK

techUK is the trade association which brings together people, companies and organisations to realise the positive outcomes of what digital technology can achieve.

With around 1,000 members (the majority of which are SMEs) across the UK, techUK creates a network for innovation and collaboration across business, government and stakeholders to provide a better future for people, society, the economy and the planet. By providing expertise and insight, we support our members, partners and stakeholders as they prepare the UK for what comes next in a constantly changing world.

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