United Growth

The Entrepreneurs Network & Sumer

September 2024

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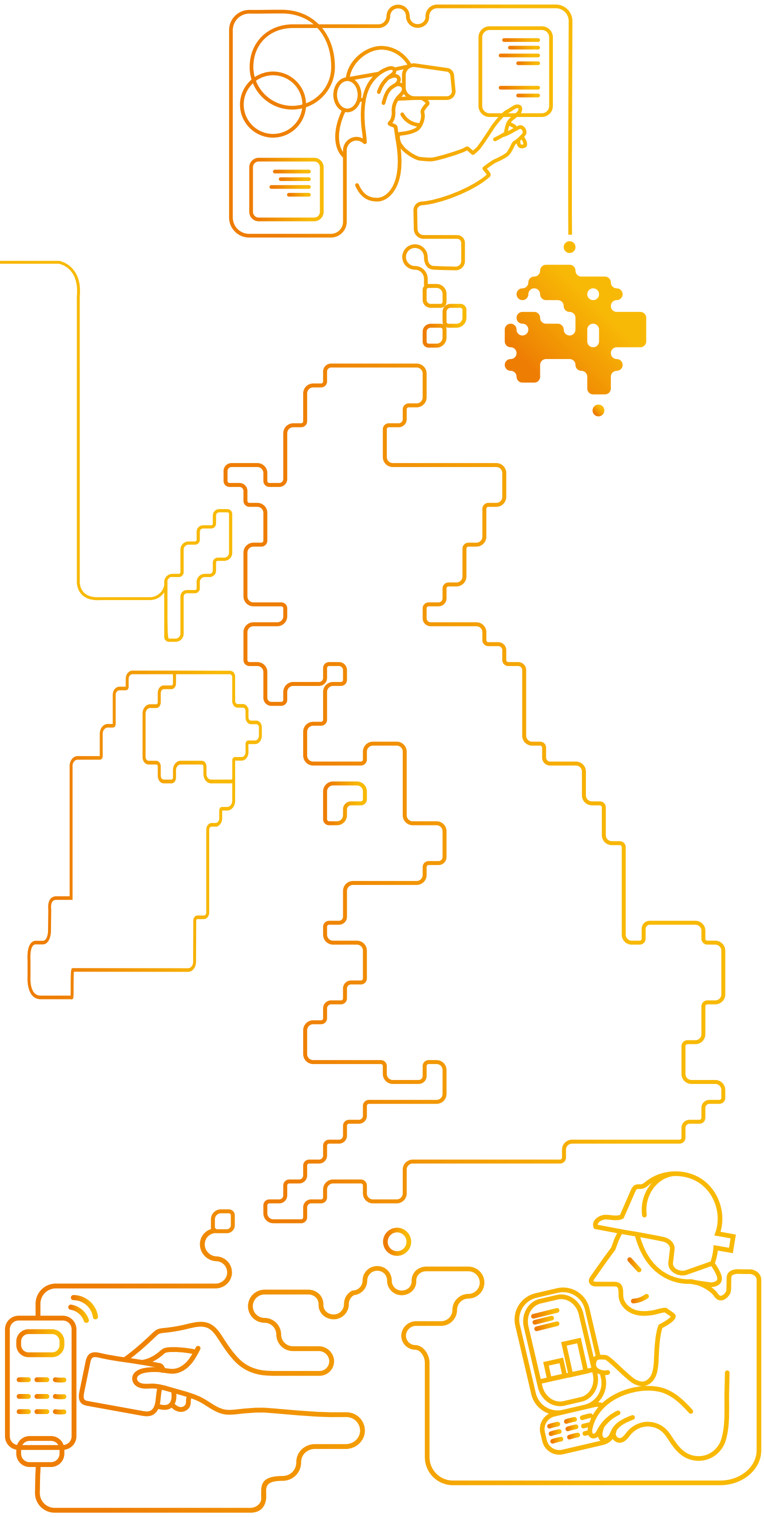


Foreword

Entrepreneurs are the bedrock of our economy, yet all too often their voice is not heard. Smaller businesses make up 61% of the UK's employment, but this is about more than statistics. Smaller businesses are embedded within the fabric of their communities – they provide a sense of pride in place – they are a platform for social mobility. In short, they get that being part of a community is as much about responsibility as it is prosperity.

Our survey makes for some uncomfortable reading – nearly half of business owners have considered shutting up shop in the last six months alone. Is it any wonder, given the wave of economic, political and social uncertainty they have had to deal with? We must all play our part to help smaller businesses to thrive.

At Sumer, we believe our part is to be a champion for smaller businesses. We've got 1,400 talented people from Exeter to Dundee with a single mission – which is to help those businesses fly. Like all enterprises, we too need to make a profit. But we are committed to doing that in a way that recognises our responsibility to our clients and our communities. We are proud to add our voice to the growing call for change – and to give our endorsement to the calls to action in this report.

I would like to thank The Entrepreneurs Network for their tireless work to drive positive change and the 610 business owners who have contributed to this report. Most of all, a huge shout out to my colleagues all around the country – your work makes a difference – thank you.

Warren Mead,
Chief Executive Officer, Sumer

Executive summary

Research background

- It's no secret that Britain is marked by economic inequality between its regions, with large gulfs in metrics like productivity and investment;
- Moreover, economic growth as a whole has been paltry in recent years, and exacerbates policy problems across the board;
- Delivering a meaningful uplift to economic growth will be made far easier if businesses across the length and breadth of Britain are empowered to flourish;
- Understanding what holds businesses back will be core to creating the solutions to help them succeed;
- In order to do that, we undertook an extensive qualitative and quantitative survey of business owners from all twelve regions of the United Kingdom – asking about challenges they currently face, to expectations about the future, to their thoughts about different policies that could make their lives easier;
- In total, we canvassed the opinions of 610 business owners, drawn equally from across the UK – and this report sets out what they told us

Key findings

- By a ratio of more than six to one, entrepreneurs agree that economic inequality between the regions of the UK is a problem;
- More business owners say agree than disagree that they've come close to closing in the previous six months, and nearly two in five are currently considering closing up;
- The tax burden is chosen as the single biggest obstacle holding back growth, followed by input costs, difficulties accessing finance and difficulties hiring staff;
- But, there are generally high hopes for the next year among the business community – with most expecting revenues to grow and staff counts to increase, and over half are actively targeting growth as opposed to keeping things stable;
- Underlying this optimism is a belief that key drivers of business success will get better in the coming twelve months – with business owners especially confident that consumer demand, skills availability and local infrastructure will all improve;
- When asked which region they would move their business to if they had to, Greater London stands out as the most popular choice among business owners;
- But, there is widespread rejection of the view that businesses can only fulfil their potential in London, and many more business owners believe their local area has a strong business community than do not.

Policy implications

- Solving these issues will require catch-up growth across the country, but a series of challenges prevent that growth from materialising;
- Learning from our survey about what challenges business owners face, and what solutions they'd support, we suggest following policy proposals:
  - **Ensure business taxes are competitive**
    by not raising the headline rate of Corporation Tax any further, and ensuring reform of Capital Gains Tax does not discourage entrepreneurial activity;
  - **Invest in infrastructure to keep Britain moving**
    by streamlining the planning process, allowing developers to capture more of the value uplift they create and exploring alternative financing methods to construction;
  - **Increase the supply of premises to give businesses more space to grow**
    by liberalising regulations that prevent development and reforming Business Rates to be fairer to businesses of different sizes and to incentivise more productive land use;
  - **Unleash the next phase of mayoral devolution**
    by granting 'London-style' powers to all metro mayors and examining what fiscal powers could be devolved from Whitehall;
  - **Make Britain open for business to more of the world**
    by restarting negotiations on a free trade agreement with the US and offering a Youth Mobility Scheme to the EU and US.

Introduction

Britain's regional diversity of accents, landscapes, cuisines and beyond is an asset that makes the country an immeasurably more interesting and appealing place in which to live.[1] But not all of our intra-national differences should instil a sense of pride in us. One in particular that has attracted increasing attention of late is the variance in the economic fortunes between parts of the country. Across a range of metrics – from productivity figures to employment numbers, and from venture capital investment to business creation rates – there are some regions which clearly perform better than average, while others fall behind.[2]

Due to Britain's open and competitive economy, some degree of divergence between places should always be expected. Indeed, this is a feature, not a bug, of our economic system. Moreover, the effectiveness of recent attempts to 'rebalance' or 'level up' the economy have often proven debatable at best. But just because efforts have failed to deliver in the past, it does not mean that we should resign ourselves to the status quo. Rather, it should redouble our resolve to find workable solutions that address weaknesses at their heart, and offer opportunities to all. Only by doing this can we hope to effectively close the gap between the parts of Britain which have raced ahead and those that lag behind – and it is our firm belief that an essential piece to solving this puzzle will come through empowering private sector businesses to fulfil their potential, and restore growth and opportunities from the bottom up.

That's why we, in partnership with Sumer – the UK's leading mid-market accountancy practice for small to medium-sized enterprises – undertook this piece of research. We wanted to get a better understanding of how entrepreneurs really think and feel about various questions pertinent to running, and ideally growing, a business, especially in parts of the country which have not necessarily fully shared in the spoils of economic growth in our recent history. To do so, we commissioned a survey of founders from all twelve regions of the UK, and asked them about issues ranging from what obstacles they face in the day-to-day running of their businesses, to gauging their opinions on potential policy interventions, to their expectations about what the future may hold for the economy.

[1] Throughout this report, we follow the ITL1 (International Territorial Level 1) definitions of the twelve regions of the United Kingdom – the North East, North West, Yorkshire and the Humber, East of England, South East, Greater London, South West, East Midlands, West Midlands, Scotland, Northern Ireland and Wales.

[2] Office for National Statistics (2024). Regional and subregional labour productivity, UK: 2022; Office for National Statistics (2024). Labour market in the regions of the UK: July 2024; British Private Equity & Venture Capital Association (2023). BVCA Report on Investment Activity 2023; Department for Business and Trade (2023). Business population estimates for the UK and regions 2023: statistical release.

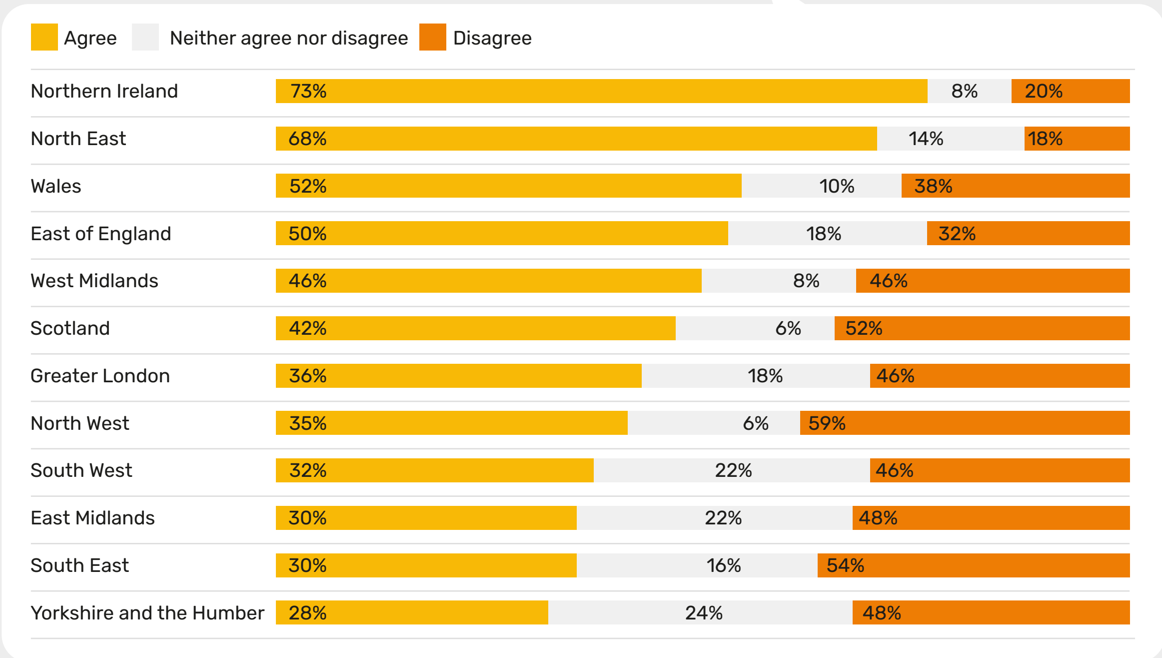
State of the nation

Businesses have been through a lot in recent years. Economic shocks coupled with political instability have caused immense disruption which all entrepreneurs have had to navigate. At the same time, long running structural weaknesses have continued to constrain the country's – from our inability to build the infrastructure we need, to comparatively expensive energy costs, to underinvestment in capital goods.[3]

Unsurprisingly, this combination of headwinds has not made life easy for Britain's entrepreneurs. When we asked our sample of founders whether they had come close to closing in the previous six months, ever so slightly more agreed (44%) as disagreed (42%). Moreover, in particular parts of the country, these figures skew even more towards agreement – in Northern Ireland, for example, a staggering 73% of business owners agreed they've come close to closing in the previous six months, while in the North East it was 68% and in Wales it was 52%.

A considerable number of business owners have come close to closing their business in the last six months

Question: To what extent do you agree or disagree with the following statements: "I have come close to closing my business in the last six months"



Source: United Growth Briefing Paper, Sumer and The Entrepreneurs Network, September 2024.

And we're not out of the woods yet. Even now, some 37% of business owners agree they are currently considering closing their business (versus 48% who disagree), with those from the North East (70%), Northern Ireland (67%) and East of England (45%) being the most likely to be in agreement. When asked whether it is easy to run a business right now, while the plurality of respondents said it was (40%), still nearly a third (30%) disagreed. An economy can hardly expect to fire on all cylinders when critical doubts like these hang over such a large proportion of its business population.

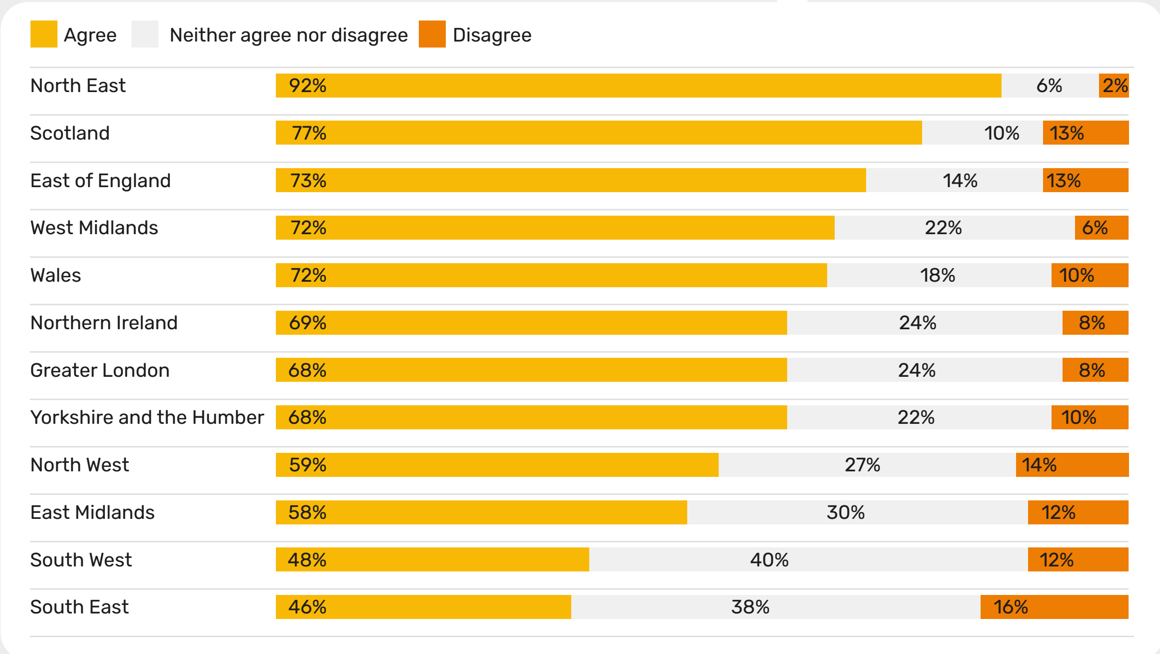
[3] Eamonn Ives, Anton Howes, Derin Kocer and Philip Salter (2024). Building Blocks: Our vision for securing Britain's entrepreneurial future.

The belief that Britain is a divided economy – and that this division is something to be concerned about – is keenly shared by business owners as a whole. By a ratio of more than six to one, entrepreneurs agree that economic inequality between the regions of the UK is a problem, and even in the region where agreement is at its lowest – the South East – those who do agree still outweigh those who do not by a margin of three to one. As one male business owner from the West Midlands put it bluntly: “Government looks after people more in London than the rest of the UK.” There is also a strong sense that the Government has a duty to help reduce this – with 75% of business owners agreeing it does, compared to just 5% who disagree.

Britain’s economy certainly has a number of existing advantages – our mother tongue is a lingua franca, we have a host of world-leading universities and we’re Europe’s go-to nation for venture capital investment to name but a few.[4]

Most business owners believe economic inequality between the regions of the UK is a problem

Question: To what extent do you agree or disagree with the following statements: “Economic inequality between the regions of the UK is a problem”



Source: United Growth Briefing Paper, Sumer and The Entrepreneurs Network, September 2024.

But, as touched on already, it’s also clear that things are far from perfect. As we will explore in the next section, the challenges faced by business founders are numerous and complex. It will be imperative that the new government addresses these issues if it is to fulfil its promise of delivering meaningful growth across the entire nation.

[4] Times Higher Education (2024). World University Rankings 2024; Dealroom (2024). The State of Global VC.

Growing pains

From the initial spark of an idea to turning it into reality, and then sustaining it year after year, founders face a diverse array of challenges on a daily basis. But which hurdles are business owners finding the hardest to overcome, and how do opinions differ across the country? This was one of the key questions we sought to answer through our survey.

When asked to select from a list of common challenges what their biggest headache was, it was immediately apparent that no single option was universally agreed upon by business owners. At the national level, while 'taxes' emerged as the top concern (being selected by 14% of respondents), this was very closely followed by 'input costs' (13%), 'difficulties accessing finance' (11%), 'difficulties hiring staff' (9%), 'government bureaucracy' (8%), 'premises costs' (7%) and 'regulations' (7%).

Business owners in different regions are divided on what their biggest challenges are

Question: If you could pick only one, what is the biggest obstacle to your business growing right now?

Region	%	Biggest obstacle
East of England	16%	Difficulty accessing finance
Greater London	22%	Taxes
East Midlands	18%	Input costs
West Midlands	20%	Difficulty accessing finance
North East	14%	Taxes / Regulations
North West	17%	Difficult hiring staff
Northern Ireland	16%	Premises costs
Scotland	13%	Input costs / Difficulty accessing finance
South East	20%	Input costs
South West	20%	Government bureaucracy and paperwork
Wales	20%	Taxes
Yorkshire and the Humber	18%	Input costs

Respondents selected challenges from the following options: Input costs; Difficulty accessing finance; Difficulty hiring staff; Government bureaucracy and paperwork; Premises costs; Regulations; Difficulties exporting; Uncompetitive markets; Environmental rules; Poor local transport infrastructure; Unreliable or slow internet connectivity; Crime; No obstacles.

Source: United Growth Briefing Paper, Sumer and The Entrepreneurs Network, September 2024.

Regionally, however, some differences do emerge. The table below shows how different areas of the country rank different issues in terms of the challenges they pose for growth.

But just because one issue might not be a business' absolute primary concern, that doesn't mean it isn't something holding them back. For that reason, we also asked our sample of entrepreneurs whether they agreed or disagreed about each issue in isolation – with the results broken down by region shown in the table below.

Different challenges impact businesses in different regions in different ways

Question: To what extent do you agree or disagree with this statement?

Disagree — Agree

Values in table correspond to net (dis)agreement as a percentage

	East of England	Greator London	East Midlands	West Midlands	North East	North West	Northern Ireland	Scotland	South East	South West	Wales	Yorkshire and the Humber
Premises costs are too high	54	50	52	64	66	55	71	52	54	40	58	52
Taxes on business are too high	50	44	50	66	74	39	71	44	50	48	46	52
Input costs (e.g. raw materials, utilities) are too high	63	22	54	56	74	45	73	44	50	52	42	50
Complying with government bureaucracy and paperwork is too burdensome	55	4	34	48	76	37	73	37	50	52	64	16
Exporting is too difficult to be worthwhile	32	-6	24	28	74	16	65	35	10	36	22	10
I struggle to access the finance my business needs	32	-6	-2	26	64	8	57	29	-12	6	38	16
Markets in the UK are not competitive enough	27	-2	20	18	58	22	67	13	6	-4	26	2
Regulations prevent my business from growing	11	-16	4	0	72	6	53	21	-8	16	36	4
It's too difficult to hire the staff my business needs	29	-4	6	12	74	-4	53	12	-26	10	16	2
Environmental rules make my business less competitive	11	-8	-12	-8	60	-6	57	-19	-26	-14	30	0
Local transport infrastructure is hindering the success of my business	9	-22	-10	2	58	-22	47	-2	-36	-24	32	2
Internet speeds/consistency are not reliable enough for my business to flourish	20	-10	-22	-8	60	-8	35	0	-20	-20	26	-26
Crime is negatively impacting my business	-9	-16	-22	0	56	-24	51	-15	-54	-42	14	-20

Source: United Growth Briefing Paper, Sumer and The Entrepreneurs Network, September 2024.

What's immediately clear is the variation in responses between business owners from different parts of the country. On the issue of whether local transport infrastructure is hindering the success of their business, for example, entrepreneurs in Wales are far more likely to agree it is on net (32% agree) than those from the South East (36% disagree). Or, on the question of whether businesses struggle to access the finance they need, founders from the East of England are more likely to agree (32% agree) versus those from the South East (12% disagree).

Conversely, it's apparent how some issues garner more universal agreement, either one way or the other. There is reasonable majority net agreement that taxes are too high on businesses in every region of the country, for instance, and the same goes for input and premises costs being too high, and compliance with government bureaucracy and paperwork being too burdensome.

Lastly, it is notable that business owners in the North East and Northern Ireland are particularly likely to agree, on balance, that certain issues are especially problematic. This is in contrast to founders from the South East and London, who were generally minded to disagree on net that most options were a problem for them.

Policy Priorities

After seeing what issues entrepreneurs agreed were the biggest obstacles to their businesses, we tested a handful of potential policy statements which could feasibly help with addressing some of them. As can be seen in the table above, many business owners believe that premises costs are too high. This is something which will only be solved by tackling their root cause – chronic undersupply and lack of building. It's not surprising, therefore, to see that nearly two in three business owners support loosening regulations that prevent new homes, offices and other premises being built in towns and cities, against just 13% who do not.

On matters about taxation, while plenty of different taxes exist, Corporation Tax is undoubtedly one that is front and centre of mind for most business owners. Given that 'taxes' was chosen as the single issue holding back business growth, it's similarly unsurprising to learn that by a ratio of more than six to one, business owners support not raising Corporation Tax above its current rate of 25%.

We can also see that exporting is deemed too difficult to be worthwhile by many business owners, despite the fact that we know it can be a critical means to boost productivity within firms. The European Union remains the single largest export market for British businesses, yet access to it has become harder in various respects since we formally left.[5] *That may in part explain why some 70% of business owners support the negotiation of closer economic ties with the trading bloc, versus just 9% who would be opposed. A closer trading arrangement would also likely bring down import costs, which would make inputs less expensive – the high costs of which business owners tend to agree are a drag on their growth.*

There is strong evidence that the inadequate provision of transport infrastructure is a key limiting factor in many British regions that prevents businesses from reaching their full potential.[6] *Interestingly, however, it did not rank as a top priority to be fixed by the business owners we surveyed. But given what we know about its importance to economic growth, we were keen to gauge their opinions on building more road and rail infrastructure. The former was supported by a ratio of nearly three to one, while the latter was even more popular – garnering the support of over 64% of those we asked, compared to just 11% who were against.*

We surmise three things from these results. First, business owners want Britain to get building – they support more offices, more roads and more rail lines. Second, they want to get closer to Europe – by negotiating closer economic ties. Third, they're worried about tax – and don't want to see the rate of Corporation Tax raised any higher than where it currently sits.

[5] Department for Business and Trade (2024). Trade and investment core statistics book.
[6] Anna Stansbury, Dan Turner and Ed Balls (2023). Tackling the UK's regional economic inequality: Binding constraints and avenues for policy intervention.

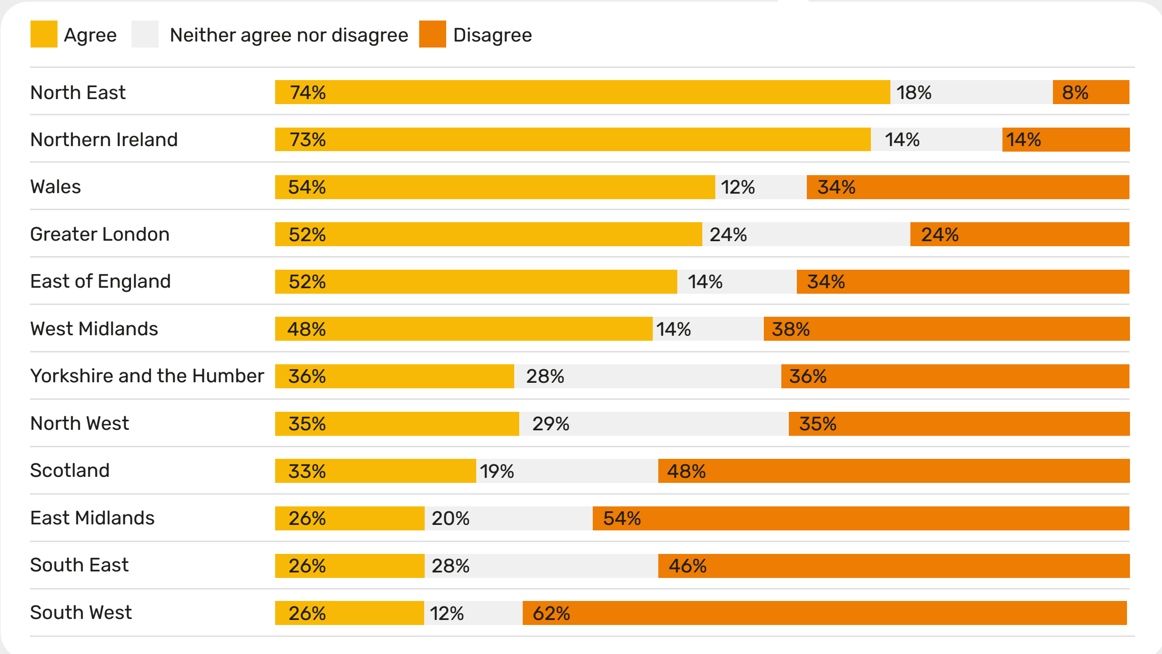
Great expectations

So far we've seen that just about every entrepreneur up and down the country encounters a range of different obstacles when it comes to growing their business – some felt across the board, and others particularly so in specific regions. Yet with the recent arrival of a new government, there is now the prospect of more certainty for businesses – which can only be a good thing.

Indeed, most of the business owners we surveyed have high hopes for the coming year. Many more expect revenues to increase in the next twelve months than expect them to decrease (nationally, 60% versus 15%). The same, though to a lesser degree, is true for hiring – more of the entrepreneurs we surveyed expect staff counts to increase than decrease (nationally, 45% to 36%).

Slightly more business owners expect to hire more staff over the next year than do not

Question: To what extent do you agree or disagree with the following statements: "My business will employ more people this year"

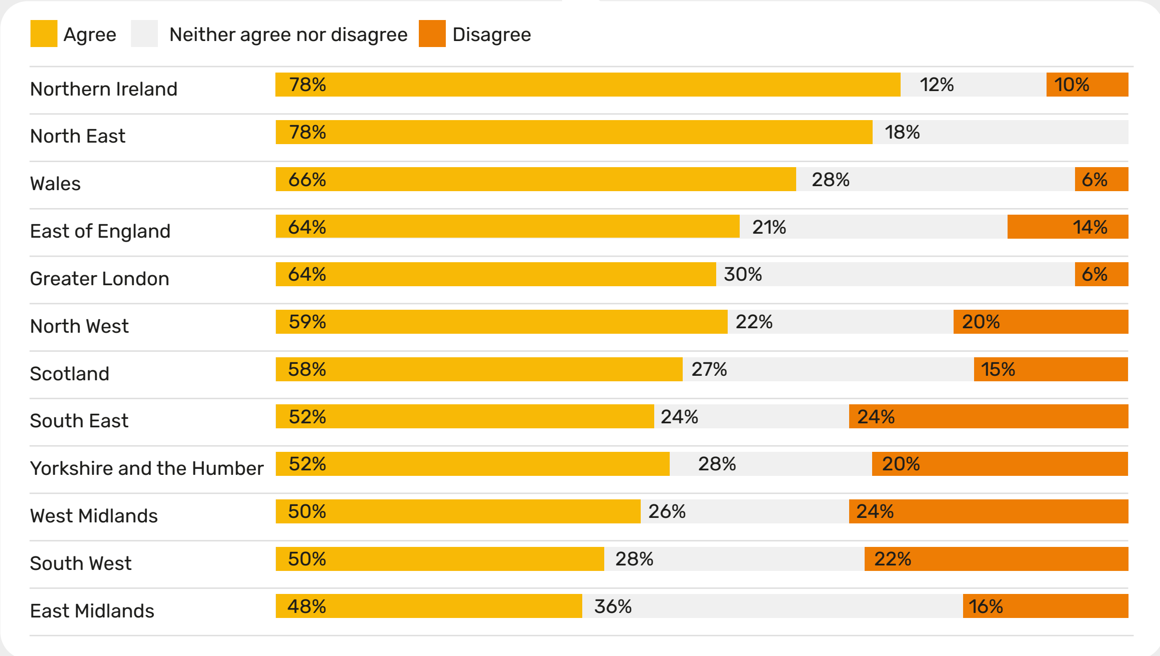


Source: United Growth Briefing Paper, Sumer and The Entrepreneurs Network, September 2024.

And, with respect to business development, close to half of those we polled are actively planning to go for growth this year (49%), as opposed to simply keeping things steady (43%). Respondents from Greater London (64%) were the most likely to agree, followed by those from Wales (60%) and the North East (58%), while those from the South West and East Midlands were more likely to say they were focused on consolidating what they already have (66% and 60% respectively).

By a ratio of six to one, most business owners expect turnover to increase in the next year

Question: To what extent do you agree or disagree with the following statements: "My business will increase turnover this year"

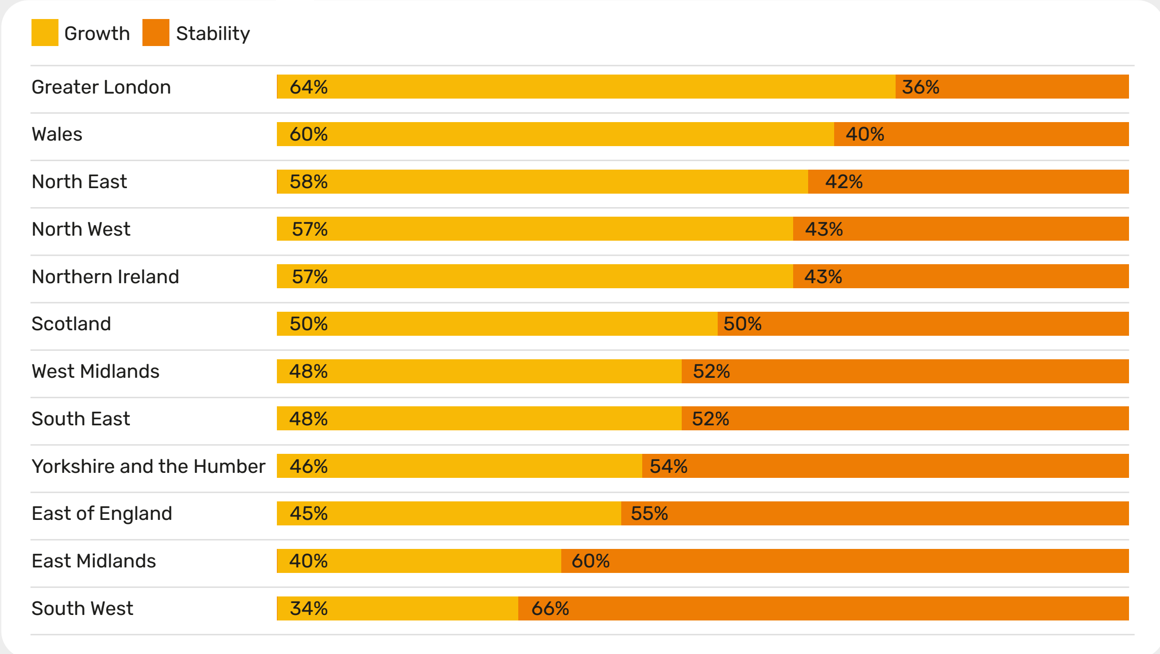


Source: United Growth Briefing Paper, Sumer and The Entrepreneurs Network, September 2024.

This general feeling of confidence is perhaps best explained by the fact that so many founders expect a number of the key drivers of business success to improve over the next twelve months. Maybe it's the inherent optimism so many entrepreneurs seem to have, but on every variable we asked about, the net expectation at a national level was that things will get better. Looking more regionally, those businesses in the North East, Northern Ireland and Wales appeared to be the most bullish on what's to come, while those in the South East, East Midlands and Yorkshire and the Humber were typically more bearish.

Slightly more than half of business owners are focused more on actively growing their business this year

Question: Would you say you're currently more focused on growing your business or keeping it steady?



Source: United Growth Briefing Paper, Sumer and The Entrepreneurs Network, September 2024.

Interestingly, tax levels – previously identified as the biggest single obstacle to business growth – is the issue which business owners are least optimistic about getting better. In seven of the twelve regions, business owners on net believe tax levels will worsen. This is in stark contrast to things like consumer demand and the availability of skills, which many more entrepreneurs than not appear more optimistic about in the near future.

Most business owners expect some of the key determinants of growth to improve in the next year

Question: Do you expect the following to get better or worse for your business over the next 12 months?

Worsen Improve

	East of England	Greater London	East Midlands	West Midlands	North East	North West	Northern Ireland	Scotland	South East	South West	Wales	Yorkshire and the Humber
Consumer demand	55	50	22	44	72	35	78	27	32	34	76	22
Availability of skills	32	34	16	34	70	8	75	38	14	24	50	14
Local infrastructure	39	32	10	24	68	22	76	35	10	8	62	0
Regulatory demands	36	44	-2	14	66	-16	55	15	-20	-2	42	-6
Costs of production	30	28	-14	12	60	-6	63	17	-16	-6	56	-6
Tax levels	14	32	-14	-8	60	-16	59	-4	-28	-18	58	-10

Source: United Growth Briefing Paper, Sumer and The Entrepreneurs Network, September 2024.

Location, location, location

It's not always true that the grass is greener on the other side, but given how economically divided Britain can be, any business owner would be forgiven for wondering whether they'd have more success if they were based somewhere else. Being in the right place at the right time can be critical for future growth – whether it means being able to tap into deeper labour markets, having the right sort of premises, or access to more convenient transport links. Indeed, from our survey, we heard all manner of different reasons for why a business owner thinks their home region is the right fit for them.

To gain a clearer understanding of which region business owners consider the best for operations, we asked them a hypothetical question: if they had to relocate, where would they move to, from a business perspective?

Greater London stands out as the region with the most overall support – being the most popular location among business owners from the East of England, Northern Ireland, Scotland and the South East, but also garnering significant support from other regions too. The South East is the second most popular, being the preferred choice of business owners from Greater London and the South West, and a quarter of those from the East of England.

If business owners had to relocate to a new region of the country, Greater London or the South East would be the most popular destination

Question: If you had to move your business to another region of the UK , where - from a business perspective - do you think would be best to move to?"

Lower Higher — Values in cells correspond to percentage of respondents selecting that region

	East of England	Greator London	East Midlands	West Midlands	North East	North West	Northern Ireland	Scotland	South East	South West	Wales	Yorkshire and the Humber
East of England	0	30	22	0	16	4	16	6	16	6	18	4
Greator London	27	0	16	24	4	14	24	21	34	22	12	6
East Midlands	9	6	0	32	4	4	6	4	6	10	2	6
West Midlands	7	2	14	0	10	12	10	6	2	4	8	8
North East	11	6	4	8	0	22	6	19	6	0	6	44
North West	7	6	4	4	32	0	12	15	4	8	10	10
Northern Ireland	2	4	0	0	10	4	0	10	2	0	0	2
Scotland	4	6	4	8	6	10	20	0	0	4	20	8
South East	25	32	16	4	4	8	0	2	0	36	6	8
South West	5	2	6	14	0	6	2	10	24	0	12	0
Wales	2	6	2	4	6	8	2	6	4	10	0	4
Yorkshire and the Humber	2	0	12	2	8	10	4	2	2		6	0

Source: United Growth Briefing Paper, Sumer and The Entrepreneurs Network, September 2024.

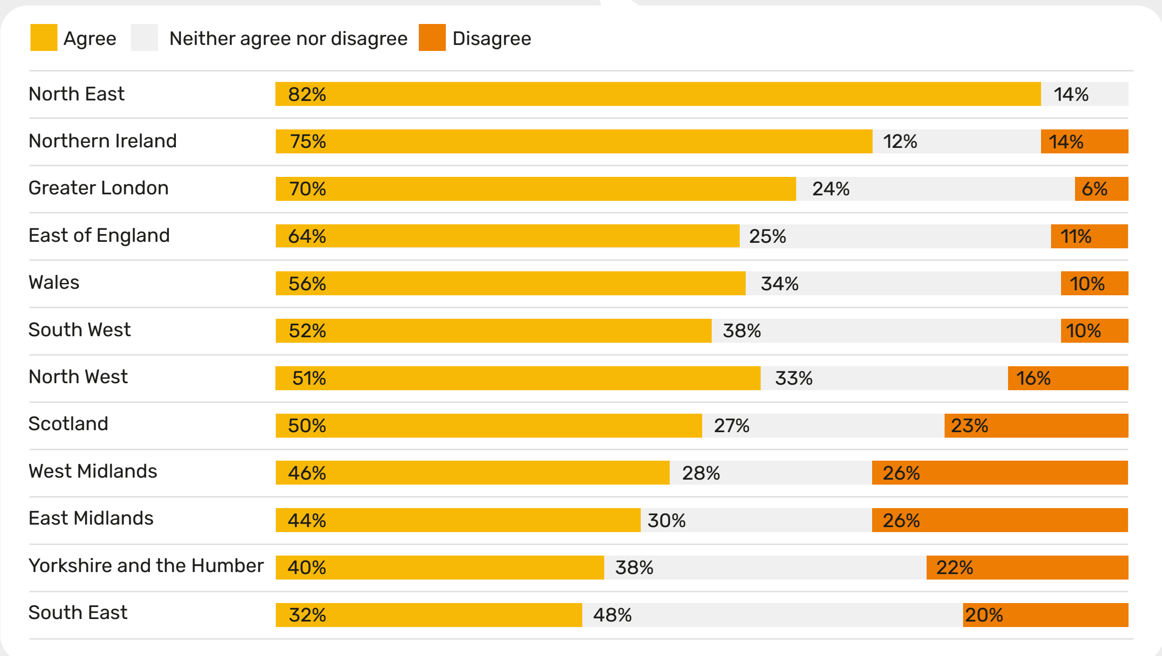
In contrast, the regions fewest respondents expressed an interest in moving to if they had to were Wales, Yorkshire and the Humber and Northern Ireland.

One can also see how the most popular destination to relocate to for business owners from any given region is often their neighbouring region or regions – for instance those from Greater London tending to choose the South East and the East of England, or those from the North East choosing the North West, or those from Yorkshire and the Humber choosing the North East.

Yet, for all this talk about relocation, there are strong signs that business owners are happy with how things stand in their own patches. When we asked business owners whether they think their local area has a strong business community, many more tended to agree than disagree – as shown in the graph below. Respondents from every region agreed on net that their local area has a strong business community, with those from the North East being most likely to agree (78% on net), followed by those from Greater London (64% on net) and Northern Ireland (61%). At the other end of the spectrum, net agreement figures were lowest among respondents from the South East (12% on net), and Yorkshire and the Humber and the East Midlands (both 12% on net) – but, crucially, these were still net agreement, rather than disagreement, figures.

Most business owners think their local area has a strong business community

Question: To what extent do you agree or disagree with the following statements: "My local area has a strong business community"



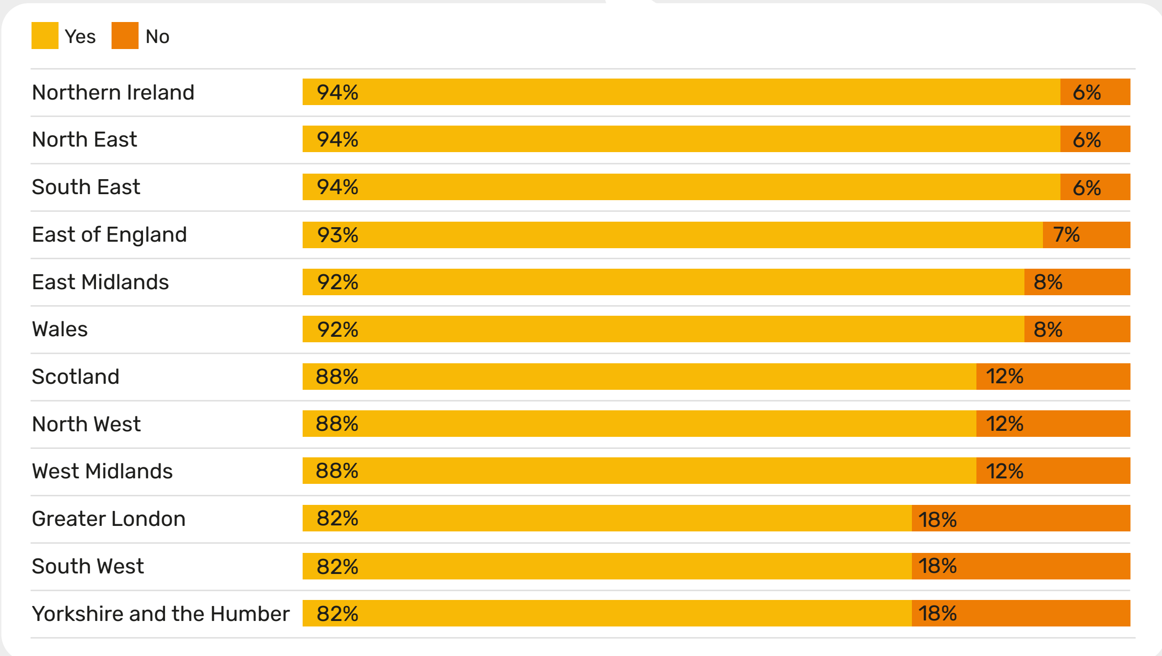
Source: United Growth Briefing Paper, Sumer and The Entrepreneurs Network, September 2024.

Through our survey, it was clear that some respondents agreed with the common narrative that businesses based in London received preferential treatment – from a female business owner in Northern Ireland who said it is “where all the money on infrastructure and growth is spent first,” to a female business owner from the West Midlands who argued: “There is more spending and support in the Greater London region. I feel the Midlands and North of the country are the poorer relatives.” Moreover, as we saw above, Greater London stood out as the region that business owners were most bullish on moving to, if forced, from a business perspective.

However, that doesn’t necessarily mean business owners think being in the capital is essential to success. At a ratio of about nine to one, most business owners think it is eminently possible for a business to reach its full potential while being based outside of London – as shown in the chart below. Tellingly, even among business owners from Greater London itself, still more than four times as many say it is possible for a business to reach its full potential outside of the capital than those who say it is not.

Most business owners think companies can reach their full potential without being based in London

Question: In general, do you think a business can reach its full potential without being in London?



Source: United Growth Briefing Paper, Sumer and The Entrepreneurs Network, September 2024.

In their own words

As well as asking business owners which region they'd move their business to if they had to, we also gave them the chance to explain why they picked where they did.

"Exposure to new technologies is facilitated within an innovation ecosystem [in the East of England]"

Male business owner, aged 25-34, from Wales

"A larger pool of talent in [the North West] simplifies the process of attracting and retaining skilled workers in our business"

Female business owner, aged 35-44, from the North East

"To all intents and purposes [Northern Ireland is] still in the EU"

Male business owner, aged 55+, from Yorkshire and the Humber

"The [West Midlands] is currently undergoing major infrastructure the development project"

Male business owner, aged 35-44, from the North East

"There's a thriving hub of small businesses in [the South West], with strong supply chain links and good consumer demand"

Female business owner, aged 25-34, from Scotland

"The strong network of entrepreneurs and business owners in [Greater London] offers me valuable networking opportunities"

Female business owner, aged 35-44, from Scotland

"There are lots of business communities and networking events in [the North West], which offer excellent chances to make contacts"

Male business owner, aged 35-44, from the North East

"[The North West] is very focused on technology and innovation"

Female business owner, aged 45-54, from Wales

"Renowned educational institutions in [Scotland] ensure a steady supply of qualified individuals for our workforce"

Male business owner, aged 35-44, from Wales

"[The South East] boasts a thriving industry cluster that complements our business and encourages collaboration"

Male business owner, aged 45-54, from the North East

Bright ideas

As we saw earlier, it's clear that business owners are confident that the economy is now turning a corner. They're hopeful about factors like skills availability, infrastructure adequacy or consumer demand will improve in the near future. But these won't necessarily get better just on their own. For meaningful and sustained change to occur, concrete policy reforms will need to be delivered. And indeed, after the recent switch in government, it's only natural that policymakers will be reaching for new levers to pull on to effect change.

To that end, below we sketch out a handful of areas we think policymakers need to pay particular attention to in order to instigate change. These are based in part on the survey evidence we have gathered, plus also a wider analysis of the literature about what works when it comes to powering local growth.

1. Ensure business taxes are competitive

One of the clearest messages we received from our survey was that entrepreneurs believe taxes on business are too high. Moreover, though business owners were optimistic that lots of factors that influence growth will improve in the coming year, the one we asked about which they were least sure on was tax levels. Further still, by a ratio of six to one, business owners agree that Corporation Tax should not rise above its current rate of 25%. Of course, while a cynic might say they have an obvious vested interest in this, there is evidence that backs them up (on the the highly respected tax Foundation's International Tax Competitiveness Index, for example, Britain languishes at a lowly 28th place.)[7]

With all of this in mind, we urge the Chancellor to ensure that business taxes are as competitive as possible. While raising tax is a necessity for all governments – especially one which inherited such straitened fiscal circumstances – this doesn't negate the fact that businesses respond to incentives, and increasing the burden of tax on them will only discourage growth.

Fortunately, there are reasons to believe we're pushing on an open door. In the Labour manifesto, it was noted that: "The business tax regime matters for investors. It is not just the rates of tax that matter, but also certainty," while a firm pledge was made to: "cap corporation tax at the current level of 25 per cent, the lowest in the G7, for the entire parliament."[8]

But Corporation Tax is far from being the only tax that matters for business owners. Capital Gains Tax (CGT), for example, also ranks as a key concern for Britain's entrepreneurial community – especially among those founders who dream of building the most valuable, economically important companies.

Much ink has been spilled over whether CGT will increase at the next Autumn Budget, but again, we would urge the Chancellor to proceed with caution. Though there is a logic to, as has been suggested, equalising rates of CGT and Income Tax, this must be balanced against the fact that it would lower the expected return to investment or company growth.

[7] Tax Foundation (2023). International Tax Competitiveness Index 2023.
[8] The Labour Party (2024). Change: Labour Party Manifesto 2024.

As tax policy expert Dan Neidle has remarked: "The UK would therefore be an outlier if we equalised CGT and income tax on dividends at the employment income marginal rate of 47%. We'd have the highest rate of CGT in the developed world, which doesn't feel like a great idea. I find this an uncomfortable conclusion, given the avoidance and distortion that results from taxing different types of income at wildly different rates."[9] We have also noted before that if CGT is to rise, it should be accompanied with paring measures such as base reform and targeted carve outs to ensure that genuine entrepreneurship does not get overly penalised in the process.[10]

2. Invest in infrastructure to keep Britain moving

Even as the economy steadily digitises and changes to working patterns persist, access to decent transport infrastructure remains a key determinant of economic success. Better road and rail links help businesses by ensuring that goods can get to where they need to be more quickly and less expensively. In the services sector, they mean that professionals can make more meetings, and collaborate with a wider range of people. Indeed, it is only when towns and cities are adequately connected that the forces of agglomeration can truly take hold – which in the long run is essential to bringing forth innovation and meaningful productivity growth.[11]

Yet, compared to many neighbouring countries across Europe, Britain fares poorly in terms of connectivity. Research from the Centre for Cities, for instance, has found that on average, 67% of people in European suburbs can commute into their nearest town or city in under half an hour, compared to just 40% of people in Britain. Part of the reason for that is our roads are so congested – in 2023, the average driver in the UK lost 61 hours to delays, costing the economy as a whole an estimated £7.5 billion. For Germany, however, the average time lost to delays was 40 hours, while in the United States it was 42 hours per year.[12] According to a recent report from infra-structure campaigning groups Britain Remade and Create Streets, though "every French urban area with a population above 150,000 now has a tram or Metro [...] Thirty British cities are larger than 150,000 people and go without reliable rapid tran-sit, forcing their residents to rely on crowded buses or congested roads."[13]

Interestingly, our survey found that business owners did not generally view the state of local transport infrastructure as a major obstacle. We posit this is because the impacts of bad infrastructure can often be quite intangible to quantify, and are therefore harder to blame. But that doesn't make them any less real. Moreover, when we asked whether our sample would support the construction of more rail and roads, there was broad support for doing so.

Despite this, only shortly after moving into Number 11, Rachel Reeves announced that a series of infra-structure projects would be reviewed, and work to improve the A303 and A27 were cancelled outright.[14] Of course, it is only responsible to ensure that taxpayer funded projects are worthwhile, and if scrutiny exposes any that represent poor value for money, we should not expect the Government to plough ahead.

[9] Dan Neidle (2024). The UK tax system favours capital gains. Is it an outlier?
[10] Sam Dumitriu (2021). Should Capital Gains Tax change?
[11] Eamonn Ives, Anton Howes, Derin Kocer and Philip Salter (2024). Building Blocks: Our vision for securing Britain's entrepreneurial future.
[12] INRIX (2024). 2023 INRIX Global Traffic Scorecard.
[13] Britain Remade and Create Streets (2024). Back on Track: How to build new trams in the UK and get Britain moving.
[14] Rachel Reeves (2024). Chancellor statement on public spending inheritance.

Nonetheless, given the benefits transport infrastructure investment are known to have, it is incumbent upon policymakers to think about what more can be done to maximise them, while minimising any potential costs. (The high costs of building transport links of all kinds are well documented.)[15] No stone should be left unturned in the effort to make it more economical to construct new road and rail links – whether it is streamlining the planning process, or enabling developers to capture more of the value uplift of construction (for instance, by building homes along new transport routes – which was how the original Victorian train lines were generally financed.)[16] Other financing methods, such as greater use of tolled roads, tunnels or bridges, should also be actively pursued.[17]

3. Increase the supply of premises to give businesses more space to grow

The other aspect of urban agglomeration, complementary to transport infrastructure, is the need to increase the density and variety of different types of 'spaces' in urban areas – including residential, commercial, retail, and other specialised premises. When there is an undersupply of these kinds of properties, the cost of those that do exist is inflated – hitting business owners in the pocket. Even properties that are not on the face of it directly a concern for businesses, such as domestic homes, can have an indirect impact – if high rents make it unaffordable for people to live in a given town or city, the labour market will be smaller and less specialised, and businesses will have to pay over the odds in wages to attract the talent they need.[18]

Indeed, this problem is one that is keenly felt by costs are too high (against just 11% who did not). Unsurprisingly, there are also high levels of support for action to tackle expensive premises costs, with three fifths of business owners agreeing that regulations that prevent new homes, offices and other premises being built in towns and cities should be loosened.

Some positive signals have already emerged from the new Labour Government. Not long after coming into power, a consultation was launched to the National Planning Policy Framework (NPPF), which dictates many aspects of planning policy.[19] One of the chapters of the consultation detailed proposals that "aim to help support investment and construction of key modernised industries to support economic growth" – including making it easier to build key commercial assets like new laboratories, gigafactories, data centres and freight and logistics infrastructure. The thrust of the reforms should be welcomed, and we would encourage the Government to swiftly and comprehensively bring them into law.

Changes like those outlined in the NPPF consultation should not be seen as the be all and end all to deliver more commercial infrastructure, however. Other persistent problems also conspire to reduce the availability of premises or raise the costs of those that already exist. One perennial issue that most business owners will be familiar with is Business Rates – the annual property tax paid by occupants of non-domestic properties.

For over a decade, local governments have had the power to keep up to half of the Business Rates paid in their jurisdiction. Increasing the proportion they

[15] Sam Dumitriu and Ben Hopkinson (2023). Britain's infrastructure is too expensive; BCG (2024). Reshaping British Infrastructure: Global Lessons to Improve Project Delivery.
[16] Ben Hopkinson (2024). A train to nowhere?
[17] Ben Southwood (2021). A New Deal for Drivers: Unleashing the power of Britain's greatest infrastructure resource.
[18] Aria Babu (2022). Strong Foundations.
[19] Ministry for Housing, Communities and Local Government (2024). Proposed reforms to the National Planning Policy Framework and other changes to the planning system.

can retain, therefore, would theoretically give them more of an incentive to approve more development, as they would have more of a direct benefit from enabling it. Letting go of tax revenue streams is often resisted by the Treasury, but we urge officials to see the bigger picture, and enable local authorities to capture more of the upsides of allowing development in their areas.

If we were being really ambitious, however, Business Rates should be replaced altogether with a more efficient system, and one that does less to discourage development.[20] In a previous report from The Entrepreneurs Network, we advocated for the adoption of a land value tax, which would instead levy a tax in proportion to the value of the underlying land that premises sit on, rather than the value of the premises (and any capital equipment within it).[21] This would increase allocative efficiency and reduce the disincentive to upgrade premises.

As mentioned above, business owners also have a stake – if indirectly – in the adequacy of the supply of domestic housing. The availability and thus price of homes in their local area will acutely influence the depth of the labour market they can tap. While Sir Keir Starmer may have come to power with a promise to build many more homes across the United Kingdom, fears have emerged that this ambition has been watered down.[22] In late July, new housing targets were announced, which saw a dramatic cut to the number of homes to be built in London (where the housing shortage is at its most pressing), and an increase in parts of the North of England. The actual impact of the change in housing targets remains to be seen, but if, as is likely, it reduces the number of new developments delivered in exactly the parts of the country that need the biggest increase in supply, it stands to reason that British workers and businesses will feel the brunt of things.

4. Unleash the next phase of mayoral devolution

Compared to many other countries, Britain's political system is highly centralised – with Whitehall making decisions across a swath of policy areas for places hundreds of miles removed from the centre of London. One of the more positive trends in British politics over the last several years, however, has been the gradual devolution of responsibilities away from central government and towards more local tiers, such as metro mayoralties. Since 2017, places like Greater Manchester, the West Midlands, Teesside and beyond have been able to directly elect mayors, who in turn take control of aspects of transport, planning and other social policies.

This development is clearly working, and it's now time to take things to the next level. One area of the country that has enjoyed having a mayor for longer than everywhere else is Greater London – having first elected one in 2000. The London Mayor also has the most extensive suite of responsibilities and powers at its disposal. We believe that all of the competencies enjoyed by the London Mayor should be rolled out to other mayoralties. Our survey suggests that would be a popular move, too – with the ratio of business owners who would support more powers being devolved down from central government to local or mayoral government level standing at over six in favour to every one against.

[20] Indeed, it is worth noting that the Labour Party manifesto included reforming Business Rates as one of its flagship policies to the business community; The Labour Party (2024). Change: Labour Party Manifesto 2024.

[21] Philip Salter (2023). Access all areas: Space: How the government can ensure small businesses have the space to start and scale.

[22] Jim Pickard, Peter Fosterm, Clara Murray and Jennifer Williams (2024). Ministers push for more housing in northern England and Tory shires.

There's reason to believe we're pushing on an open door with this call to Government. Shortly after coming to power, Deputy Prime Minister Angela Rayner convened a meeting of all of the metro mayors "to discuss a new partnership approach and how the government can scale up devolution which will help to unlock economic growth and tackle regional inequality."[23] In an accompanying letter, she also stated that "powers over transport, skills, housing, planning and employment support" will be at the forefront of the devolution agenda.[24]

This should all be welcomed, however one policy area conspicuous in its absence was taxation. Fiscal centralisation is something Britain is especially guilty of, with only 5% of taxes in the UK being collected by local governments, well below the OECD average of 11% for non-federal countries.[25] We therefore urge the Government not to ignore the potential of fiscal devolution. Granting combined authorities the power to retain more of the tax revenues generated by their local businesses would give them a far greater incentive to help grow their local economies. As we have already touched on, taxes such as Business Rates could be strong contenders for the Treasury to entrust to combined authorities, but others might also include local income taxes (if capped, and coupled with a lowering of the national headline rate, to preserve fiscal responsibility overall).[26]

5. Make Britain open for business to more of the world

Historically, international free trade has been a primary causal factor behind remarkable increase in living standards around the world. It has brought economies closer together, and enabled a cornucopia of new goods and services to flow from country to another. For the UK, the value of trade to the economy stands at £1.74 trillion, and critically underpins the success of many firms.

Trade is a known driver of productivity through various mechanisms – from enabling countries to specialise and lean into their natural advantages, to exposing domestic firms to new techniques and technologies that enable everyone to get better at producing things consumers demand.[27] ONS data show that British firms that trade goods internationally are around a fifth more productive on average than non-traders, after controlling for factors such as firm size, industry and ownership status.[28]

Yet, despite the benefits that trade clearly presents to businesses, challenges remain. From our survey, we found that by a ratio of more than two to one, business owners believe that exporting is simply too difficult to be worthwhile. Moreover, one of the most popular policy proposals we tested was that closer economic ties should be negotiated between Britain and the EU – with 70% of business owners in favour, versus just 9% who were not. It seems to us that this proves that there are gains to be made by both improving trade relations, and simply making it easier for British businesses to import and export.

Of course, one of the biggest changes to trade policy in the UK of late has been our withdrawal from the EU. Since leaving, the government has spent most of its energy relating to trade on rolling over existing free trade agreements (FTAs) – an objective which it has reasonably successfully met.[29] New FTAs with Australia and New Zealand have also been signed, and later this year the UK will accede to the Comprehensive and Progressive

[23] Ministry for Housing, Communities and Local Government (2024). Deputy Prime Minister kickstarts new devolution revolution to boost local power.
[24] Angela Rayner (2024). Letter from the Deputy Prime Minister to local leaders: the next steps to devolution.
[25] Eamonn Ives (2024). APPG for Entrepreneurship Digest: May 2024.
[26] Neil Amin Smith Tom Harris David Phillips (2019). Taking control: which taxes could be devolved to English local government?
[27] The Entrepreneurs Network and Enterprise Nation (2023). Access all areas: Markets.
[28] Office for National Statistics (2018). UK trade in goods and productivity: new findings.
[29] Tom Edgington (2024). Trade deals: What has the UK done since Brexit?

Agreement for Trans-Pacific Partnership (CPTPP).[30]

Yet there are still large gaps in the UK's trade policy – the biggest of which is the lack of an FTA with the US. Though negotiations on one began in 2020, they have now stalled indefinitely.[31] With the US election fast approaching, further progress will be off the table for the immediate future. But that should not deter efforts in the longer term. As we move into 2025, the new Government should aim to reset the relationship with whoever wins the White House, and try again at breaking the deadlock. Even if a fully fledged FTA proves again to be a step too far, agreements such as one focusing solely on services or digital trade may be possible. In 2023, the Atlantic Declaration was brokered, and should offer hope that further attempts to tie the UK and the US closer together economically are not forlorn.[32]

Britain should also look at how it can use its visa policies to deepen economic integration between itself and other nations. Youth Mobility Schemes (YMSs) offer a relatively easy pathway for younger people (aged between 18-30 or 18-35, depending on the country) to move to the UK to live and work.[33] YMSs are in place with countries like Australia, New Zealand, Canada and Japan among others. As well as offering opportunities to the individuals that use them, YMSs should be seen as a powerful incentive to negotiate more extensive trade agreements. Obvious contenders to offer YMSs to would be the US and the EU, and we urge the Government to do so as part of a wider effort to boost international trade.

[30] House of Commons Library (2024). Progress on UK free trade agreement negotiations.
[31] Kiran Stacey (2023). Joe Biden signals he has no interest in signing US-UK trade agreement.
[32] Prime Minister's Office, 10 Downing Street, Foreign, Commonwealth and Development Office and Department for Business and Trade (2023). The Atlantic Declaration.
[33] Gov.UK (2024). Youth Mobility Scheme visa.

Conclusion

The United Kingdom is not always as united as we may wish. From one corner of the country to another, economic performance on a range of metrics can vary radically. While some degree of divergence should be expected, it can be hard to ignore the gulf in outcomes – and the chronic failure to fix these has left Britain worse off and a less harmonious place.

Amid all of this, however, there are signs of hope. In every region of the UK, business owners are optimistic about the future – they expect to hire more staff, turnover more revenue, and believe that the key determinants of business success will get better, not worse. Unsurprisingly, most entrepreneurs are actively targeting growth, rather than focusing on stability.

We firmly believe that entrepreneurship can offer a positive and constructive pathway to a more equally balanced economy. Indeed, without fully harnessing the power of the private sector, any attempt to stimulate the meaningful growth required to restore opportunities across the country will be made needlessly more difficult. It's essential that the new Government recognises the role founders have to play here – and crafts the policies needed for them to fulfil their potential.

Policy recommendations in brief

1. Ensure business taxes are competitive – by not raising the headline rate of Corporation Tax any further, and ensuring reform of Capital Gains Tax does not discourage entrepreneurial activity;
2. Invest in infrastructure to keep Britain moving – by streamlining the planning process, allowing developers to capture more of the value uplift they create and exploring alternative financing methods to construction;
3. Increase the supply of premises to give businesses more space to grow – by liberalising regulations that prevent development and reforming Business Rates to be fairer to businesses of different sizes and to incentivise more productive land use;
4. Unleash the next phase of mayoral devolution – by granting 'London-style' powers to all metro mayors and examining what fiscal powers could be devolved from Whitehall;
5. Make Britain open for business to more of the world – by restarting negotiations on a free trade agreement with the US and offering a Youth Mobility Scheme to the EU and US.

Methodology

The survey for this research was conducted by Censuswide, among a sample of 610 Business Owners. The data was collected between 08/07/2024 and 15/07/2024. Censuswide abides by and employs members of the Market Research Society and follows the MRS code of conduct and ESOMAR principles. Censuswide is also a member of the British Polling Council.

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Support for this paper came from Sumer – the UK's leading mid-market accountancy practice for small to medium-sized enterprises. Sumer is now a top 15 UK accountancy practice, and is on a mission to champion SMEs, offering local delivery of services supported by national expertise and scale.

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