Good Growth Icons

Why established SMEs must be at the heart of the growth agenda

Allica Bank

Key takeaways

1. **Established SMEs (eSMEs), businesses with between 5 and 249 employees, have the scale to drive growth in every part of the UK.** 592,500 eSMEs employed 10.7 million people and supported nearly three-quarters of SME turnover in 2025.
2. **eSMEs are most at risk in the places they matter the most.** Rural areas rely most heavily on eSMEs for jobs, yet have experienced the steepest decline in eSME numbers between 2023 and 2026.
3. **eSMEs are a genuine source of growth, not a static backdrop.** Around 16,300 eSMEs grew turnover by over 20% last year, with 10,700 of these businesses located outside London.

10.7 million

People employed by eSMEs

592,500 established SMEs accounted for more than half of SME employment and nearly three-quarters of SME turnover in 2025.

10,700

High-growth eSMEs outside London

Over 16,300 eSMEs grew turnover by more than 20% last year, with financial services and manufacturing the highest-growth sectors in 9 of 12 regions

-2.3%

eSME decline in the most rural local authorities in the UK, 2023 to 2026

The most rural authorities, which rely most on eSMEs for jobs, show the sharpest recent contraction.

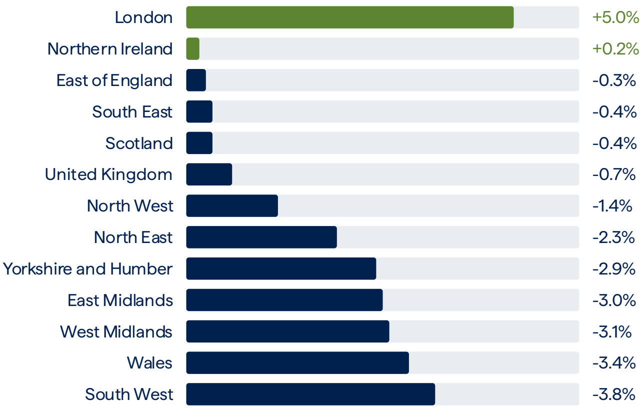
£65 billion
Estimated SME lending gap on a stock basis

3x
Likelihood of recent eSME growth, urban vs rural authorities

23 years
Average age of a high growth eSME (UK average: 9 years)

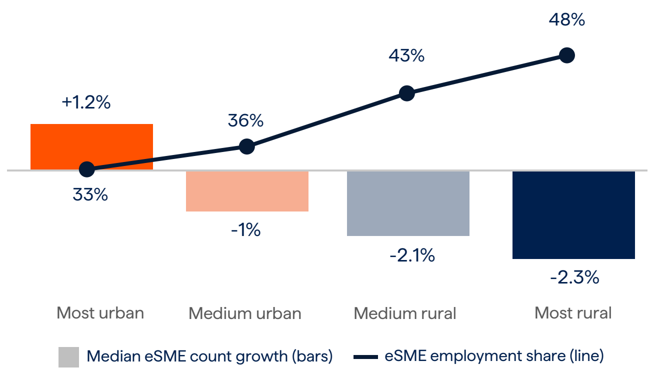
London dominates recent eSME growth

Source: Allica analysis of ONS UK Business Counts data, 2023-2026



Growth is weakest where eSMEs matter most

Source: Allica analysis of ONS, Scottish Government and NISRA data, 2023-2026



Policy asks

1. **Launch a Scale-up Guarantee**

   A new British Business Bank scheme providing a 70% guarantee on £2 million to £5 million facilities for high-growth eSMEs.

2. **Support regional skills development**

   Fully devolve adult skills funding to Strategic Authorities and introduce a Growth & Skills Levy Pool, with a focus on developing eSME AI skills

3. **Reform business owner taxes**

   Reduce the cost of doing business for eSMEs and introduce an eSME Reinvestment Relief to encourage business reinvestment.

4. **Establish regional eSME Growth Forums**

   A permanent mechanism for eSMEs to raise barriers to growth with local leaders and to feed into Local Growth Plans.

Foreword

The new Government has set its mission to achieve "good growth in every postcode" and it is the UK's established small and medium-sized enterprises (eSMEs) that can deliver it.

These businesses, typically with 5 to 249 employees, are the primary drivers of regional economic growth in the UK, keeping local economies alive and communities thriving.

They may not be hyper-growth scale-up businesses, but instead are the businesses that sustain local economies, employing people for decades in places that national growth strategies often overlook.

The builders' merchant advertising on the roundabout into town, the haulage firm on the industrial estate on the edge of it. Both make a critical contribution to the UK's economic resilience and social fabric, while supporting one in every three private sector jobs and a third of UK turnover.

We urge the Government to make eSMEs an integral part of the growth agenda and the Government's mission to drive good growth in every postcode.

We find that eSMEs have the scale to make a meaningful difference to the UK's growth prospects, with eSMEs supporting over 10 million jobs across the UK, spread across many sectors.

Construction, care, engineering, retail, and professional services all feature eSMEs that are vital to local economies. As eSMEs are not restricted to a particular sector, a local economy built around them is rarely dependent on a single industry. This makes them a powerful economic force to drive good growth in all parts of the UK and in all sectors.

Our findings also suggest that eSMEs support a greater share of jobs away from metropolitan centres and in rural areas; the places where the recent decline in eSME numbers is most pronounced.

It is these places that must be at the heart of the Government's commitment to good growth in every postcode; and it is eSMEs that can deliver the growth and economic resilience needed in all parts of the UK.

We find there are over 16,300 eSMEs in the UK that grew turnover by over 20% last year. While 33% of these businesses are located in London, that leaves 10,700 high-growth potential eSMEs spread across the UK that must be supported in generating local economic growth.

At Allica, we've built a bank designed to enable eSMEs to invest, grow and create jobs across the country. Our lending to date has supported 118,000 jobs in all parts of the UK and contributed £8.4 billion to the UK's GDP. So far in 2026, Allica has provided over £1 billion in new lending to eSMEs stretching from Shetland to Cornwall.

But eSMEs need more localised, bespoke support that reflects the specific needs, economies and communities of each region. The devolution agenda will be critical in giving local authorities the tools to deliver this bespoke support, and we urge the Government to put eSMEs front and centre in the national growth agenda.

Richard Davies
CEO at Allica Bank

Executive Summary

Government policy tends to organise firms into a small number of familiar groups: start-ups in need of early support, high-growth scale-ups seeking equity, businesses in priority sectors, and large employers capable of attracting bespoke government attention.

Established SMEs (eSMEs), typically with between 5 and 249 employees, sit between these categories. They are neither a niche nor a uniform sector. They are a large, dispersed population of employers whose economic role is especially important outside major metropolitan centres.

eSMEs are critical for sustaining local employment, community life and economic resilience in every region of the country. They are businesses that provide local jobs and skills, employ people for decades, anchor supply chains and hold communities together over the long term.

The evidence presented in this report supports three conclusions:

- eSMEs have the scale required to lift the UK's growth rate and deliver good growth in every postcode: 592,500 eSMEs employ around 10.7 million people in the UK, and support 37% of private sector turnover. These businesses are located in all parts of the UK.
- eSMEs have a critical role in driving local economic resilience, particularly in more rural areas: eSMEs support a higher share of employment in places further away from metropolitan centres, yet these are the areas where eSME numbers are declining the most.
- eSMEs are dynamic and possess the capabilities to invest and grow: Around 16,300 eSMEs in the UK grew turnover by over 20% last year, and can continue driving growth in all parts of the UK.

The evidence also suggests a weakness in the eSME economy that requires government focus. Outside of London, eSME numbers have declined by 1.8% in the past three years, compared to 5% growth in London[1].

The most rural local authorities, which depend the most on eSMEs for employment, have experienced the sharpest recent contraction in eSME numbers.

Only London and Northern Ireland have seen increases in eSME numbers since 2023.

The Government's recommitment to devolution and the Prime Minister's pledge to deliver "good growth in every postcode" offer a welcome starting point for supporting the eSME economy. Metro Mayors and regional leaders must now be given the powers they need to provide bespoke support to eSMEs, shaped around their particular needs.

Support has to be designed at the regional or local level, and must be targeted sufficiently at the eSMEs that sustain jobs, generate growth and ensure local economic resilience.

This can be supported by:

- Creating a Scale-up Guarantee within the Growth Guarantee Scheme to support high-growth eSMEs that might otherwise not be able to access debt financing to support their growth ambitions.
- Devolving adult skills funding in England to fund eSME skills development, particularly in relation to AI skills.
- Establishing regional 'eSME Growth Forums' to determine localised barriers to growth and resilience, and to input into Local Growth Plans.
- Reforming business owner taxes and Government policy to reduce the cost of doing business.

[1]ONS, UK Business Counts data, September 2026

The role of eSMEs in supporting good growth at scale

eSMEs support 1 in every 3 private sector jobs

According to the latest ONS UK business counts data[2], there are just over 592,500 established SMEs (eSMEs) in the UK. These are businesses that typically employ between 5 and 249 people, located in all parts of the UK, that are critical for sustaining local employment and local communities.

These businesses are what is often referred to as the 'real economy', driving UK economic growth, employment and regional prosperity.

While eSMEs account for only 21% of registered UK businesses and 9% of total UK businesses by number, in 2025 they accounted for more than half of SME employment and nearly three-quarters of SME turnover[3].

Controlling for population size (by working-age population), London has the highest density of eSMEs, with 16.4 eSMEs per 1,000 working-age residents, followed by the South West (14.6) and Northern Ireland (14.1). The North East has the lowest density, with 10.6 eSMEs per 1,000 working-age residents followed by the North West (12.5) and Wales (12.5)[4].

Across the UK, 10.7 million people are directly employed by an eSME, equivalent to one in every three private sector jobs[5]. As figure one shows, eSMEs play a larger role in private sector employment outside London. In every UK region except the North East, they account for a greater share of private sector jobs than in London.

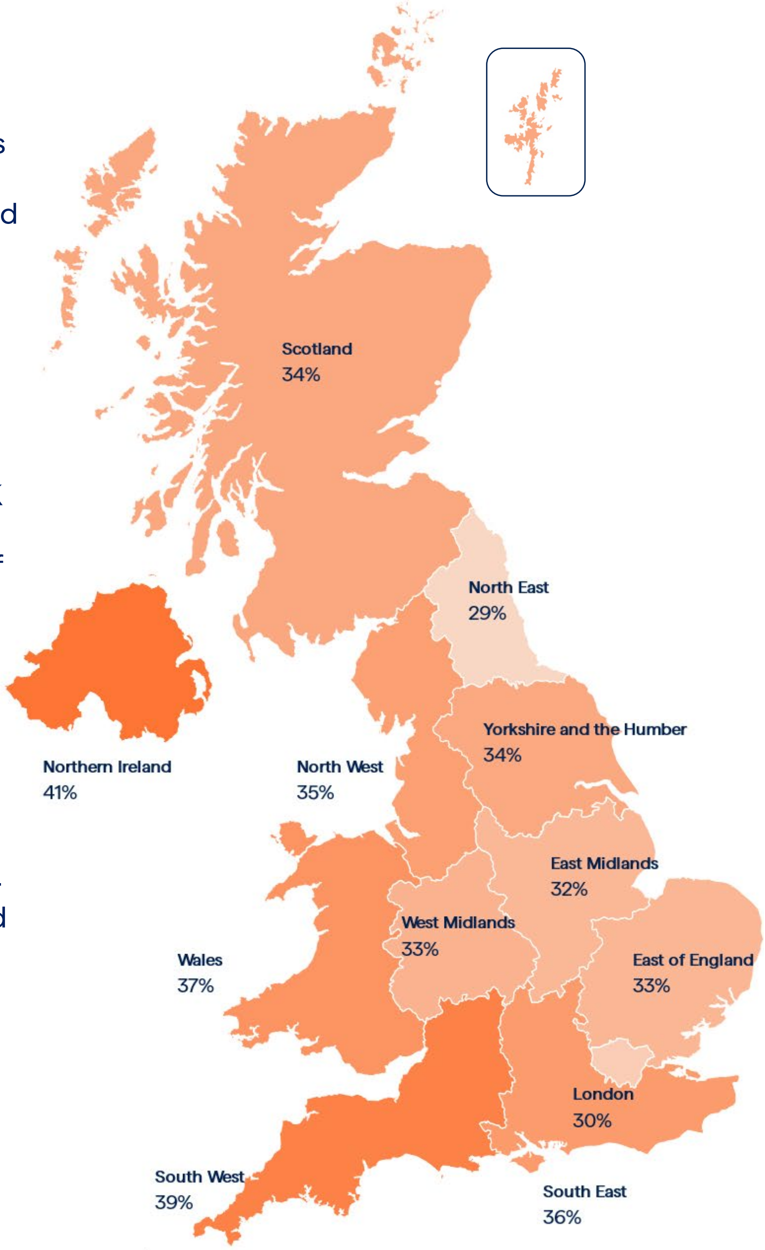


Figure 1: eSME employment share by region
Source: Allica analysis of ONS data, March 2025

[2]ONS UK Business Counts, September 2026
[3]Oxford Economics, Powering Established SME Growth, June 2026
[4]ONS, UK Business Counts, September 2026 and ONS, Scottish Government and NISRA population statistics, 2025
[5]ONS, UK Business, size, activity and location, March 2025

eSMEs are not constrained to specific sectors

eSMEs operate across a wide range of sectors in the UK. While the top five broad sectors contain half of all eSMEs, the eSME economy is fragmented across sectors and supports a broad base of the UK economy.

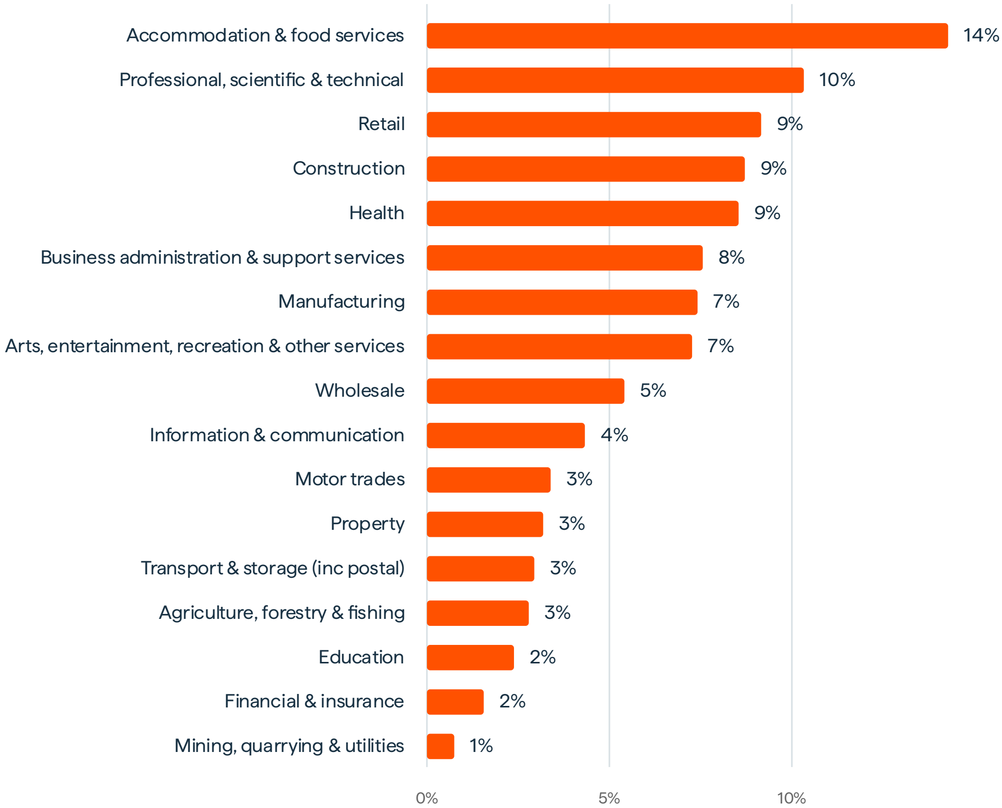
As eSMEs are not grouped into any identifiable sectoral clusters, one-size-fits-all policy targeted at specific sectors can fail to deliver meaningful changes that enable eSMEs to support growth.

eSME policy cannot succeed if it is designed around a single sector or a small group of favoured industries. The Government's own approach to skills, for example, illustrates this gap. Most of the current skills agenda is built around priority sectors, with dedicated funding routes and training packages for specific industries such as engineering, defence and advanced technology.

This model works well for sectors with concentrated skills needs and a small number of large employers who can help to shape provision, but is far less effective for eSMEs.

Figure 2: Sectoral breakdown of the eSME economy

Source: Allica analysis of ONS data, September 2026



A care provider in Northumberland, a logistics firm in Kent and a precision engineer in the West Midlands have almost nothing in common in terms of what they produce, but they share an identical need for competent generalist staff. Yet, none of them fit neatly into a sector-defined skills package.

Support, therefore, has to be designed at the regional or local level, targeted at the sectors that sustain the most jobs in eSMEs at that local level. Metro mayors and regional leaders need to have the powers to provide bespoke support shaped around the particular needs of their eSMEs. A local approach to skills can offer bespoke support for the generalist skills that eSMEs need, rather than force a diverse eSME business population into a small number of national priority categories.

16,300 high-growth potential eSMEs exist in the UK

Growth policy often associates dynamism with youth. Start-ups and venture-backed scale-ups are highly visible, while older, more established businesses can be portrayed as part of the economic background.

But eSMEs are also a significant source of economic dynamism in the UK, and these high-growth eSMEs are businesses rooted in the towns and villages in which they operate, with the scale and growth potential to act as genuine engines of local change.

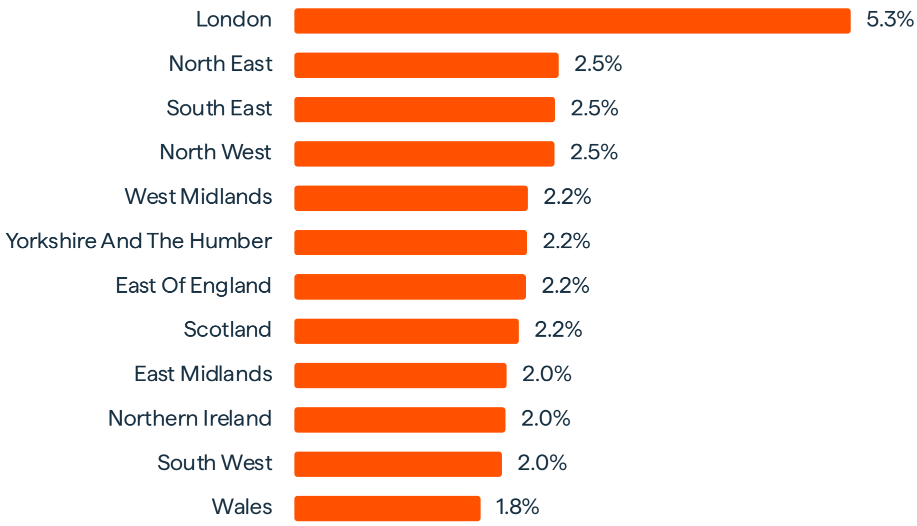
Using DataGardener data sourced from Companies House, we find there are 16,300 eSMEs in the UK that grew turnover by over 20% between 2024 and 2025, indicating the potential for further growth.

These high-growth eSMEs are disproportionately concentrated in London, with 33% of the total, followed by the South East (13%), North West (9%) and East of England (8%).

London also has the highest incidence of growing eSMEs, with 5.3% of eSMEs in the region growing by 20% last year, followed by the North East (2.5%) and the South East (2.5%). Wales has the lowest incidence of high-growth eSMEs, with 1.8%, followed by the South West (2%) and Northern Ireland (2%).

Figure 3: London has the highest incidence of high-growth eSMEs

Source: Allica analysis of DataGardener data, 2026



The chart shows the proportion of eSMEs considered high-growth, defined as greater than 20% growth last year, of the total eSME population in each region

While high-growth eSMEs are disproportionately concentrated in London, this still means there are 10,700 eSMEs with the potential to fund significant local investment, sponsor apprenticeships and training at volume, and act as anchor employers that smaller firms depend on as customers or suppliers.

The financial services sector accounts for the largest share of high-growth eSMEs in London, the North West, the South East and Yorkshire and the Humber. The concentration is particularly pronounced in London, where 19% of high-growth eSMEs can be found in financial services, the highest sectoral share recorded across the regions.

Manufacturing is the leading high-growth sector across much of the Midlands and devolved nations. It accounts for 13% of high-growth eSMEs in the East Midlands, 12% in the West Midlands and Wales, and 10% in both the North East and Northern Ireland. Elsewhere, the picture is more varied: construction leads in the East of England at 12%, while human health and social work is the leading sector in both the South West and Scotland, at 11%.

Figure 4: Financial services and manufacturing are the most common high-growth eSME sectors

Source: Allica analysis of DataGardener data, 2026

UK region	Leading sector	Share of high-growth eSMEs
London	Financial & insurance	19%
North West	Financial & insurance	12%
South East	Financial & insurance	12%
East of England	Construction	12%
Yorkshire and Humber	Financial & insurance	11%
South West	Health & social work	11%
West Midlands	Manufacturing	12%
East Midlands	Manufacturing	13%
Scotland	Health & social work	11%
North East	Manufacturing	10%
Wales	Manufacturing	12%
Northern Ireland	Manufacturing	10%

68% of these high-growth potential eSMEs are over 10 years old, compared with 42% of the wider business population. From a sample of 2,000 of these high-growth potential firms, we find their average age to be 23 years, far higher than the 9-year average age of the entire UK business population. These businesses have served customers in the local community for decades, and many will have supported the same families, suppliers and local institutions across multiple economic cycles, including the financial crisis, the pandemic, and the cost-of-living pressures of recent years.

The role of eSMEs in local economic resilience

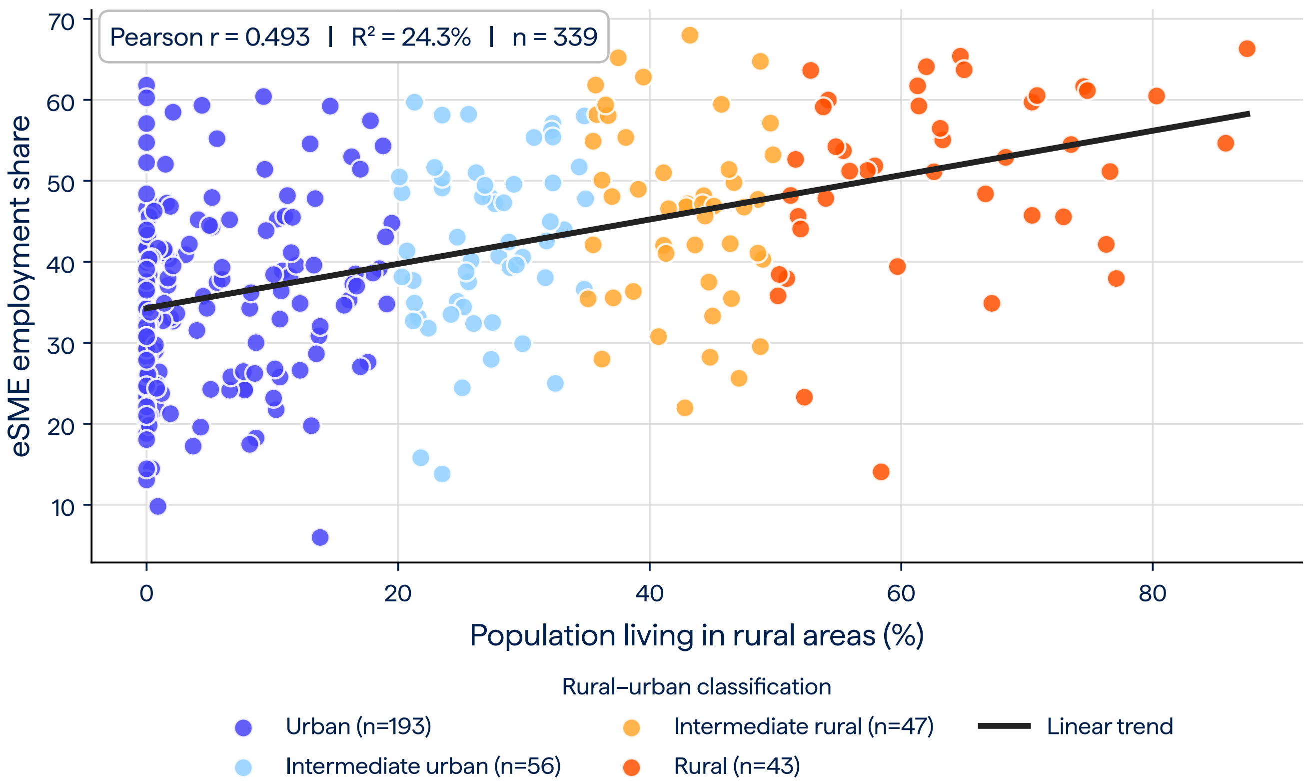
eSMEs support a greater share of jobs in rural areas

eSMEs make a critical contribution to supporting economic resilience in areas away from metropolitan centres. Figure 5 considers the relationship between eSME employment in each local authority district of the UK, where data is available, and the proportion of that district's population living in a rural area. It finds a statistically significant positive relationship between the proportion of a local authority's population living in rural areas and the proportion of people employed by eSMEs.

Across England, Scotland, Wales and Northern Ireland, authorities with a larger share of the population living in rural areas tend to have higher levels of eSME employment:

Figure 5: eSME employment and rural population share

Source: Allica analysis of ONS, Scottish Government and NISRA data



While rurality is not the sole determinant of eSME employment, it is a meaningful factor, explaining 24% of the variation in eSME employment with a clear upward relationship observed across the UK.

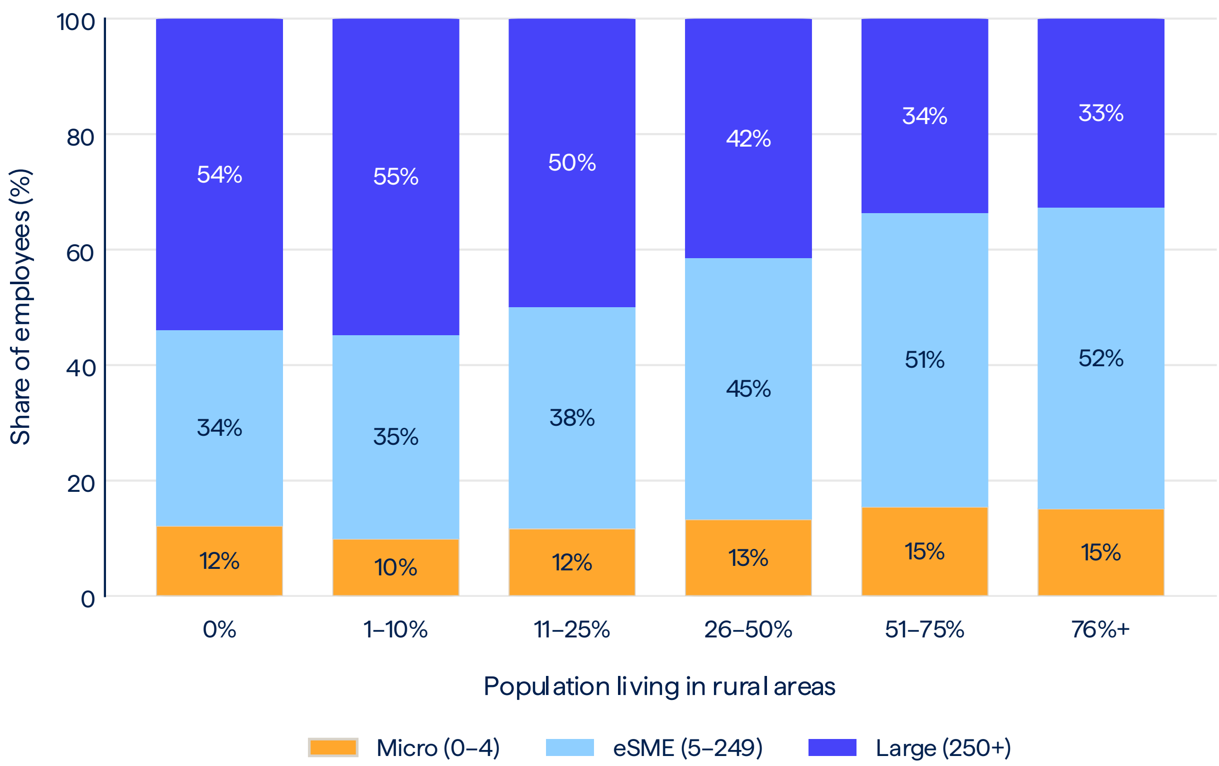
There is significant variation in the eSME employment share in urban authorities, particularly where the authority is entirely urban. The analysis indicates that the eSME employment share in these authorities is significantly correlated with the share of employment in large businesses (250+ employees). In other words, areas with relatively few large employers tend to rely more heavily on eSMEs for employment.

As such, urban areas such as Watford, Worthing, Worcester and Exeter have low eSME employment shares due to the presence of a number of large employers, whereas urban areas such as Adur, Gosport, Bexley and Harrow have a high share of eSME employment due to the lack of large employers.

Grouping authorities by the proportion of the population living in rural areas, we find that eSME employment as a share of total employment increases as authorities become more rural. Put another way, authorities with larger rural populations tend to exhibit greater reliance on eSMEs for employment, with the underlying driver being employer-size structure in the authority.

Figure 6: eSMEs support a greater share of jobs in rural areas

Source: Allica analysis of ONS, Scottish Government and NISRA data



Employment in predominantly urban authorities is typically concentrated in large employers, whereas more rural authorities have a greater share of employment in eSMEs and fewer jobs located in firms employing 250 or more people.

The importance of eSMEs is therefore not evenly distributed. Major towns and cities can largely draw on large corporates for labour market strength. In many towns and rural areas, eSMEs play a fundamental role in supporting stable employment.

Areas most reliant on eSMEs for jobs are experiencing the weakest eSME growth

The UK's eSME population is larger today than it was a decade ago, but growth has stalled in recent years and has become increasingly concentrated in London.

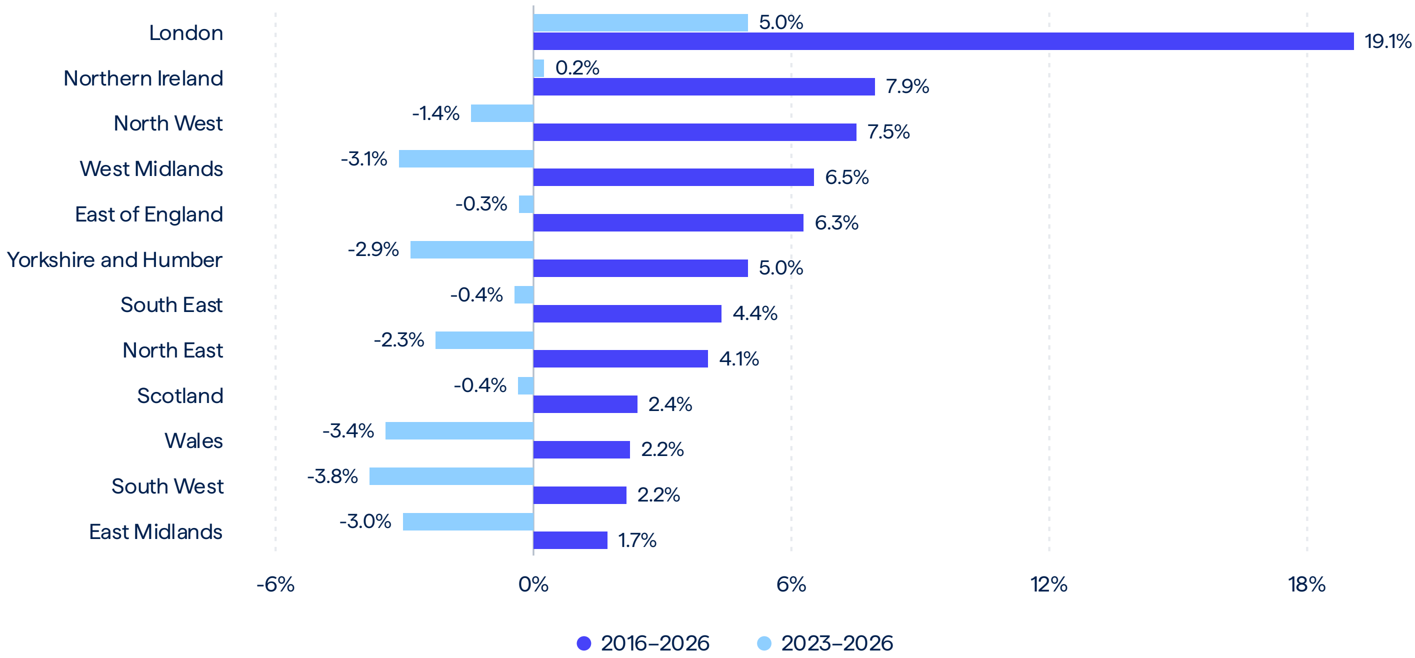
Between 2016 and 2026, the number of eSMEs increased by 38,060 businesses (+6.9%), from 554,500 to 592,500. However, the UK has not yet regained the peak reached in 2023, suggesting that recent economic pressures have interrupted the longer-term growth trend.

While London has the second-lowest reliance on eSMEs for employment nationally, the data suggests the region is pulling away from the rest of the UK. The capital is responsible for around 44% of all UK net growth in eSMEs over the past decade.

The capital continues to add eSMEs at a rapid pace. While most regions' eSME numbers have declined since 2023, London added almost 5,000 eSMEs, growing by 5%, while eSME numbers outside London have declined by 1.8%.

Figure 7: London is the only region with significant recent eSME growth

Source: Allica analysis of ONS UK Business Counts data 2016-2026



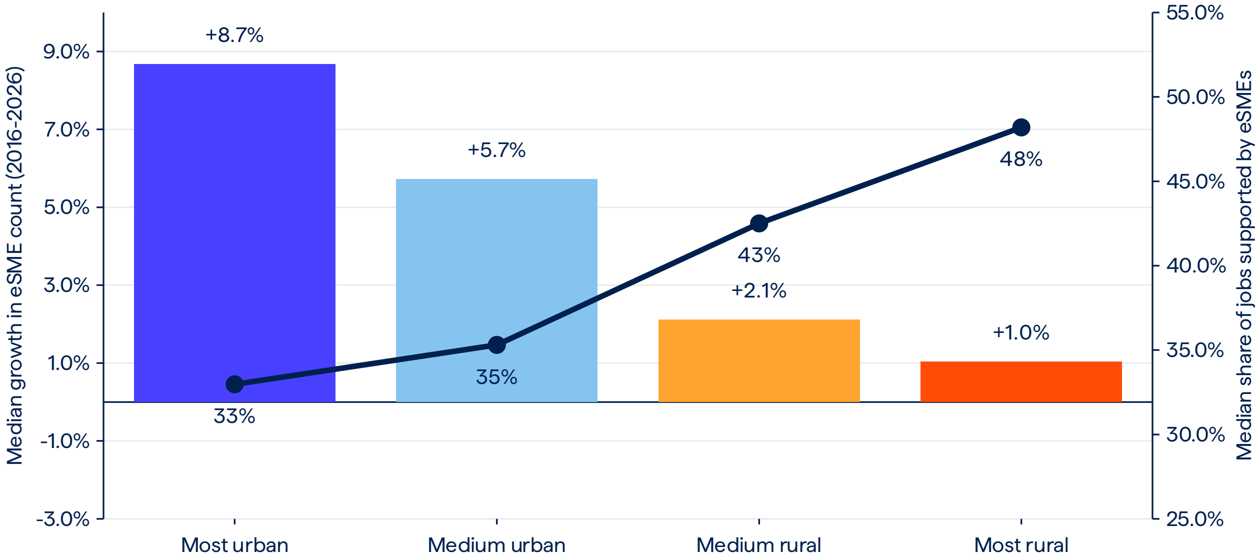
Alongside London's 19.1% growth over the decade, Northern Ireland, the North West and the West Midlands all recorded growth above the national average. Several regions have seen only marginal expansion since 2016. The East Midlands, South West, Wales and Scotland all recorded growth of around 2% over the ten-year period.

More recently, ten of the twelve UK regions recorded a decline in their number of eSMEs, with the largest falls recorded in the South West, Wales, the West Midlands, East Midlands, and Yorkshire and the Humber. In each case, the number of eSMEs has fallen by around 3% or more.

Looking more closely at the geography of eSME growth, it is clear there is a significant divide between urban and rural communities. Grouping each local authority district in the UK into quartiles based on their rural population share, we find that in the decade to 2026, eSME growth becomes progressively weaker as areas become more rural. The median increase in eSME numbers was 8.7% among the most urban local authorities, compared with just 1% in the most rural:

Figure 8: eSME growth and job share by local authority district, 2016-2026

Source: Allica analysis of ONS, Scottish Government and NISRA data

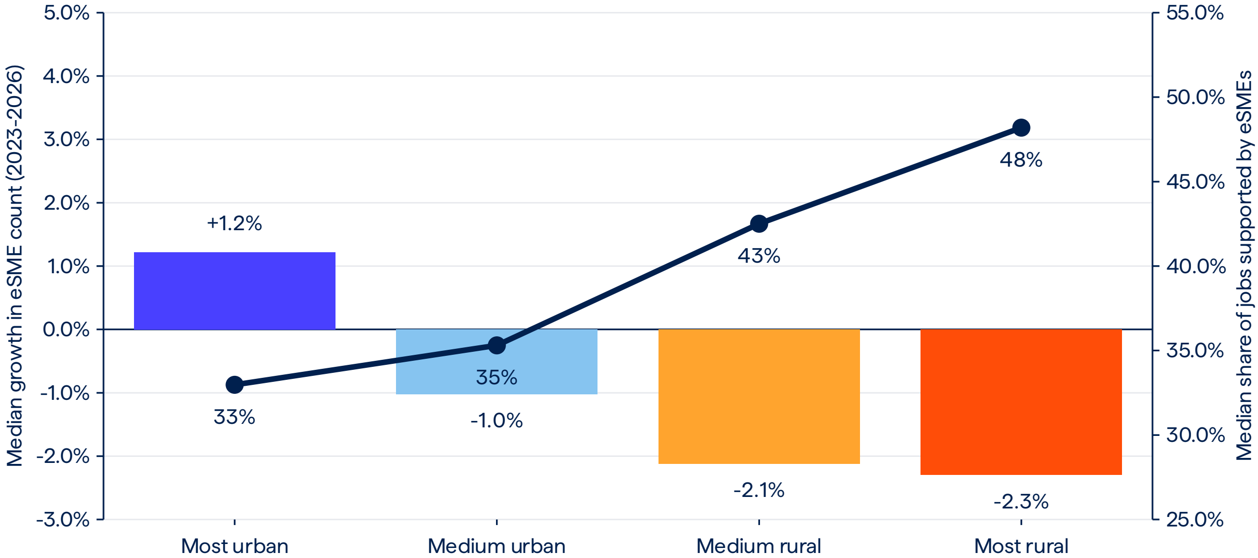


Authorities grouped into four quartiles by rural share of the population. The bars show median eSME growth between 2016 and 2026 and the line shows median share of jobs supported by eSMEs in 2025

Between 2023 and 2026, the most urban local authorities still recorded median eSME growth of 1.2%, compared to a 2.3% decline in the most rural areas. 57% of local authorities in the most urban group grew their eSME base compared with just 19% in the most rural group, meaning the most urban authorities were three times as likely to experience eSME growth in the past three years.

Figure 9: eSME growth and job share by local authority district, 2023-2026

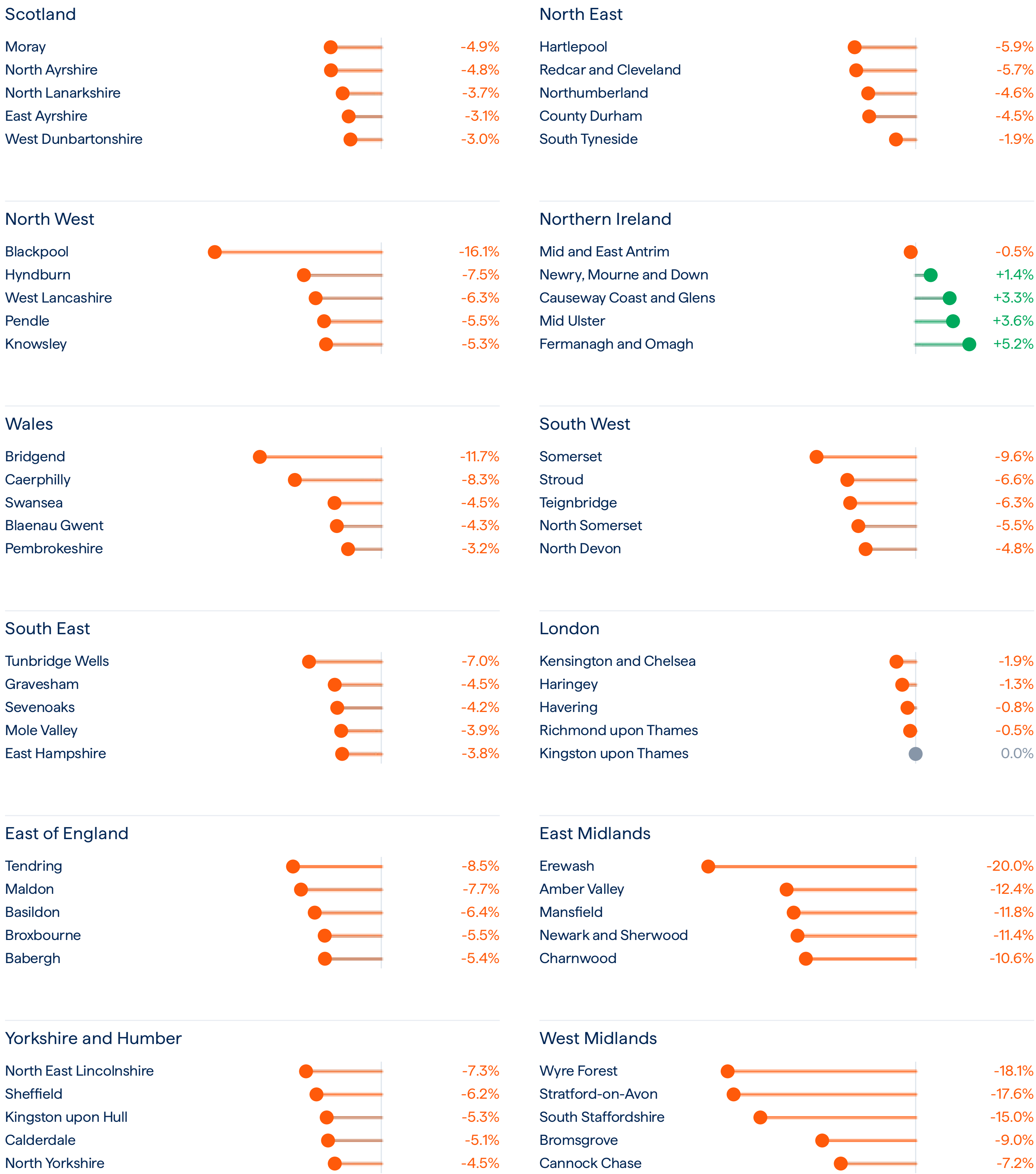
Source: Allica analysis of ONS, Scottish Government and NISRA data



Local economies most reliant on eSMEs have, on average, experienced the weakest growth in the underlying eSME population. While business stock measures can be impacted by businesses moving between size bands and business consolidation, the analysis provides an early warning indicator for local resilience.

Figure 10: Recent eSME changes in authorities with above-average regional reliance on eSMEs

Source: Allica analysis of ONS data, September 2026



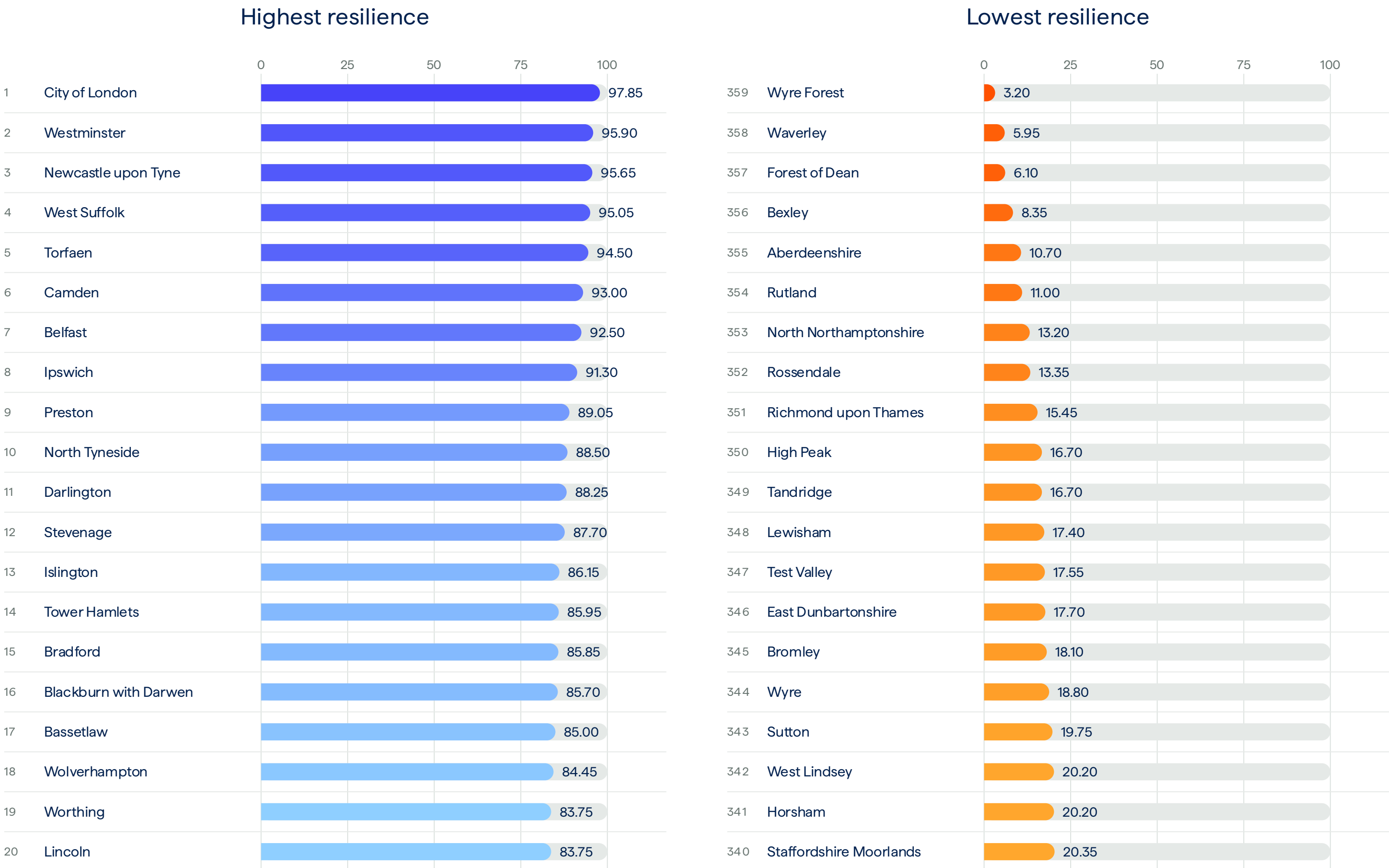
The markers show the percentage change in eSME numbers between 2023 and 2026. A local authority is included where its eSME employment share exceeds the relevant regional average. Within each region, the five authorities with the weakest recent growth are shown.

eSME resilience is not related to local wealth

To further consider the characteristics of areas most exposed to the decline in eSME numbers, we have explored recent momentum (defined as the recent change in business sites between 2021 and 2025) and employment strength (defined as the jobs per business site in 2025) for each local authority. Each component is weighted equally and converted into a percentile rank across all 359 local authorities:

Figure 11: Local authority resilience index

Source: Allica analysis of ONS data



The Resilience Index uses ONS data for each local authority district and is constructed from two equally weighted components: Momentum, measured by the percentage change in business sites (local units) between 2021 and 2025, from ONS business counts; and employment strength, measured by jobs per business site in 2025. Each component is converted to a percentile rank across all local authorities. Authorities are ranked from 1 (most resilient) to 359 (least resilient).

It shows cities and inner-city boroughs at the top of the index, whilst affluent commuter towns and rural districts score lower. The City of London and Westminster rank first and second nationally, on the strength of very high employment density per business site. Newcastle upon Tyne, West Suffolk, Torfaen, Camden, Belfast, Ipswich, Preston and North Tyneside complete the top ten.

Further down the index, Bradford, Wolverhampton and Lincoln show that the pattern is not confined to London and the South East. It spans both the wealthiest boroughs in the country and regional cities with a longer history of industrial restructuring.

Affluent commuter towns and rural districts sit at the other end of the table. Waverley, Richmond upon Thames, Bexley, Bromley, Sutton and Horsham all fall inside the 20 least resilient authorities, alongside rural districts including Rutland, Aberdeenshire, Forest of Dean and Staffordshire Moorlands. These are places with comparatively high household incomes but weak recent business site growth and low employment density relative to the number of sites they host. No authority in the bottom 20 shows positive site change.

Another key pattern is that the SME ‘momentum’, a proxy for whether the number of SMEs is growing or falling, and employment density, move independently of each other. An area losing business sites is no more and no less likely to have weak employment density than one that is growing. Richmond upon Thames illustrates this. Its employment strength score of 26.5 is stronger than most of the other authorities in the bottom 20, but its business site count fell by 8.35% between 2021 and 2025, one of the steepest declines in the index, giving it a momentum score of just 4.4 out of 100.

This points to a shift that has been occurring since 2021, in which business activity has concentrated into dense urban centres even as the overall national business stock has contracted. This could reflect the increased prevalence of working from home, with people commuting into higher-paying jobs in cities, rather than relying on local SMEs for employment.

Areas often traditionally seen as wealthy or deprived also do not dictate the outcome. According to the most recent English Indices of Deprivation, Tower Hamlets is the second most income-deprived area nationally, yet it ranks 14th on the resilience index. On the other hand, Waverley and Richmond upon Thames are two of the wealthiest areas of the country, yet they rank 358th and 351st on the index. Wealth is therefore not a reliable predictor of how well SMEs in a particular area are performing.

This index result demonstrates that people are willing to commute to reach eSMEs and higher-paying employers, and business activity holds up where that commuting pattern is supported. In towns and rural areas without strong transport and housing connections to these employment centres, that intra-regional pull weakens.

Fewer people can reach the businesses already there, and eSME density falls as a result. This shows that resilience depends on more than the two components the index scores directly. It reflects underlying conditions such as transport links and housing supply. Therefore, this demonstrates that policy support needs to operate at local authority or constituency level, targeted at the specific and often recent conditions driving fragility in each area, rather than following an industrial strategy model built around a small number of concentrated hubs.

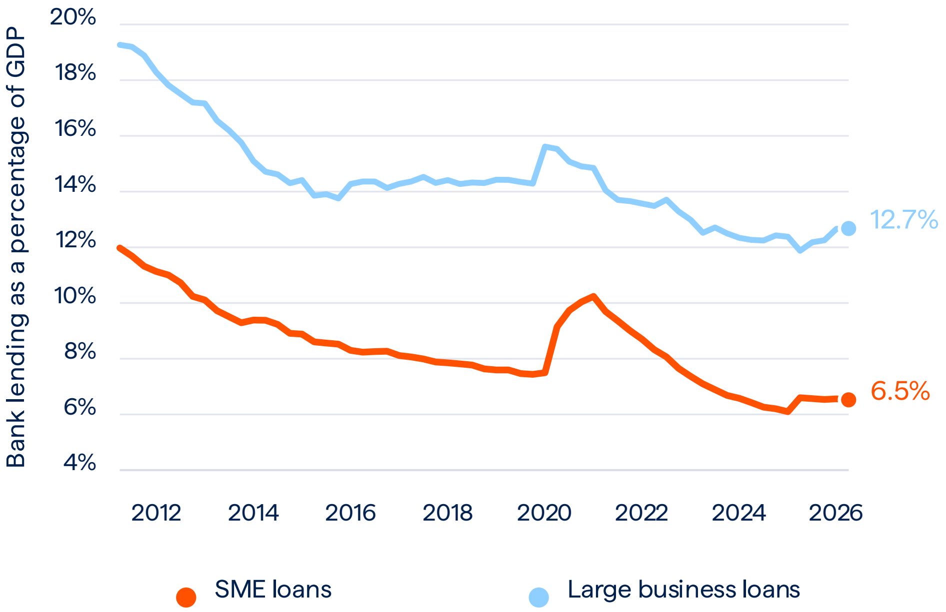
The role of productive finance in eSME growth

Lending to SMEs is falling as a proportion of GDP

High-growth eSMEs rely on debt financing to invest, hire and grow. Yet since 2011, SME lending as a proportion of GDP has almost halved, from 12% to 6.5%, with bank lending to SMEs increasingly dominated by real estate activities, which make up half of all lending to SMEs despite being only 3% of the SME population[6].

Figure 12: SME lending has halved as a proportion of GDP since 2011

Source: Allica analysis of Bank of England and ONS data, July 2026



Quarterly outstanding bank loans held by SMEs and large businesses in the UK (% of nominal GDP, not seasonally adjusted)

Allica's previous research[7] suggests the SME lending market is characterised by a negative structural equilibrium, contributing to the UK's investment rate being the lowest in the G7.

We estimate that UK SMEs face a £65 billion lending gap on a stock basis and a gap of around £15-£20 billion on an annual new lending basis, with the gap particularly concentrated in the provision of productive credit; finance that supports business investment, expansion and working capital needs.

[6]Bank of England, ONS
[7]Allica Bank, Rebooting SME Finance, April 2025

Over the last few decades, bank lending in the UK has been increasingly biased towards residential mortgages, with bank lending to businesses well below the historic trend over the last 15 years. This is driven by a pronounced bias towards collateralised lending, especially property-backed loans, alongside a corresponding decline in unsecured or cashflow-based lending that supports business investment[8].

Lending decisions are increasingly shaped by risk-weights and capital requirements, which favour low-risk, secured exposures. This has resulted in a misalignment between the structure of bank lending and the needs of the modern UK economy, which is now predominantly service-based and therefore less collateralised.

Loan margins on SME lending have declined relative to the 1990s, despite significantly higher capital requirements[9]. This combination has led banks to prioritise low-risk, highly secured lending, with reduced appetite for higher-margin, higher-risk productive credit. As a result, credit supply has become increasingly conservative, with less financing available for growth and innovation.

The long-term contraction in productive credit supply has been accompanied by a structural decline in SME demand for finance, driven in part by a decline in SMEs' appetite to borrow. SME application rates for finance have fallen significantly from 65% in the late 1980s[10] to 24% in the period 2023-2025[11], while loan rejection rates have increased from 5-10% historically to around 36% today[12]. 77% of SMEs report a preference to grow more slowly rather than borrow for faster growth[13].

The decline in the provision of credit to SMEs is most pronounced in the construction sector, and in the provision of overdrafts, historically a key instrument for SME working capital. Overdrafts accounted for 31% of SME lending in the late 1990s, but now represent only around 5%[14]. This decline has had a direct impact on SMEs' ability to manage cash flow and finance day-to-day operations, particularly during growth phases when working capital requirements increase.

[8]Allica Bank, Rebooting SME Finance, April 2025
[9]Allica Bank, Rebooting SME Finance, April 2025
[10]Bank of England, Quarterly Bulletin, 1999
[11]British Business Bank, Small Business Finance Markets, 2026
[12]NIESR, 2025 and Ipsos SME Finance Monitor, Q4 2025
[13]Ipsos, SME Finance Monitor, Q4 2025
[14]Bank of England, 1999 and Allica Bank, 2025

How the Government can further support eSMEs

Support high-growth eSMEs access funding with a Scale-up Guarantee

The Growth Guarantee Scheme (GGS) has been an extremely successful government intervention in expanding SME access to finance, and with over £3.7 billion of additional financing delivered since its launch in 2022, it has directly contributed to unlocking investment, supporting productivity and boosting UK growth.

In July 2026, the former Chancellor Rachel Reeves MP doubled the annual capacity of the scheme to £3.35 billion a year by 2028/29. The announcement was one of the most significant packages of SME financing reforms in recent years, but a gap still exists for the UK's high-growth SMEs that often seek to borrow above the £2 million facility limit and that cannot access private credit.

The Government should introduce a new tier of the Scheme, called the Scale-up Guarantee, to close this gap. It would provide a 70% guarantee on facilities between £2 million and £5 million, for high-growth businesses with turnover up to £60 million that lack tangible assets to secure lending against. This would be administered by the British Business Bank and be funded separately from the GGS.

Support regional skills development with skills funding devolution

The Government's skills policy is increasingly focused on priority sectors, with dedicated funding and training programmes for industries such as engineering, defence and advanced technology. While this can work well for sectors with concentrated skills needs and large employers able to shape provision, it is less suited to eSMEs, which operate across a diverse range of sectors and often require more generalist skills support.

Skills provision for eSMEs should be organised around regional business needs, rather than national sector priorities. The Government should fully devolve adult skills funding to Strategic Authorities in England, requiring each Authority to demonstrate how its funding supports eSMEs and ensuring that a defined proportion is directed towards them. Authorities should focus on AI skills development for eSME owners and employees, which will be critical for giving eSMEs the ability to deploy AI successfully and to use the technology to thrive in future.

Skills devolution should be complemented by a new Regional Growth & Skills Levy Pool to provide a route for businesses to distribute 100% of unused Levy funds to Strategic Authorities, rather than directly to other businesses. This will allow Authorities to direct additional skills investment towards eSMEs according to local demand and skills needs. This could include a ring-fenced allocation of Levy funds focused on AI skills training for eSME employees to drive increased AI adoption.

Reform business owner taxes

The Government has made significant changes to the Capital Gains Tax (CGT) regime in recent years, including reducing the annual exempt amount from £12,300 in 2022/23 to £3,000, increasing the main rates on gains to 18% and 24%, and increasing the Business Asset Disposal Relief (BADR) rate to 18% for qualifying disposals made on or after 6 April 2026. Conversations with business owners and founders suggest many are concerned about these changes and the possibility of further increases in future. This is contributing to growing discouragement among eSME owners.

The Government should introduce an eSME Reinvestment Relief, allowing owners who have built and held a qualifying trading eSME for at least five years to defer CGT on up to £1 million of gains where the corresponding proceeds are reinvested within three years into another UK company. The deferred gain would crystallise when the replacement investment is sold. This should be accompanied by a five-year Business Owner Tax Roadmap, giving owners greater confidence in the stability and direction of CGT, BADR and other business succession taxation.

At the same time, the British Chambers of Commerce (BCC) has estimated that total domestic policy-driven costs for a 50-person, £5 million turnover business have risen by 71.5% in the past decade. This substantial increase in the cost of doing business means eSME owners are increasingly forced to reduce investment. The BCC's latest economic survey found that only 17% of SMEs are planning to increase investment this quarter, the lowest level since the pandemic. This will impact future growth and the Government should explore ways to lower the cost of doing business for eSMEs.

Establish regional 'eSME Growth Forums' to establish common barriers to growth

Greater devolution of powers and funding will only support stronger local growth if local leaders have a sufficiently detailed understanding of the businesses that drive their economies. The Government should establish eSME Growth Forums in each region of the UK, to provide a permanent mechanism for eSMEs to share views with local leaders on barriers to growth, investment and productivity and to identify recurring local constraints, such as access to finance, shortages of appropriate premises, transport, infrastructure, skills gaps, planning constraints or difficulties navigating business support.

In England, these Forums should sit alongside the Strategic Authorities that will cover all parts of the UK by 2028 and they should be used to provide a mechanism through which eSMEs can offer formal input into the development and periodic review of Local Growth Plans.

In Scotland, Wales and Northern Ireland, the Forums should be embedded within the equivalent regional economic structures determined by each devolved government. Local authorities should report periodically on the findings from their respective Forums, to allow the Government to identify structural barriers appearing consistently across the country.

Taken together, these mechanisms give eSMEs a clear and distinct role in building growth and resilience in local economies, one that larger businesses cannot replicate. The Prime Minister's devolution agenda offers a timely opportunity to convert this potential into policy. Metro mayors and regional leaders should be given greater powers over business support, skills funding and local infrastructure, so that eSMEs in their areas receive the bespoke and targeted support that a national scheme cannot provide. Devolving economic policy to support eSMEs is a good opportunity for the Government to demonstrate how it is supporting regional economic growth.