



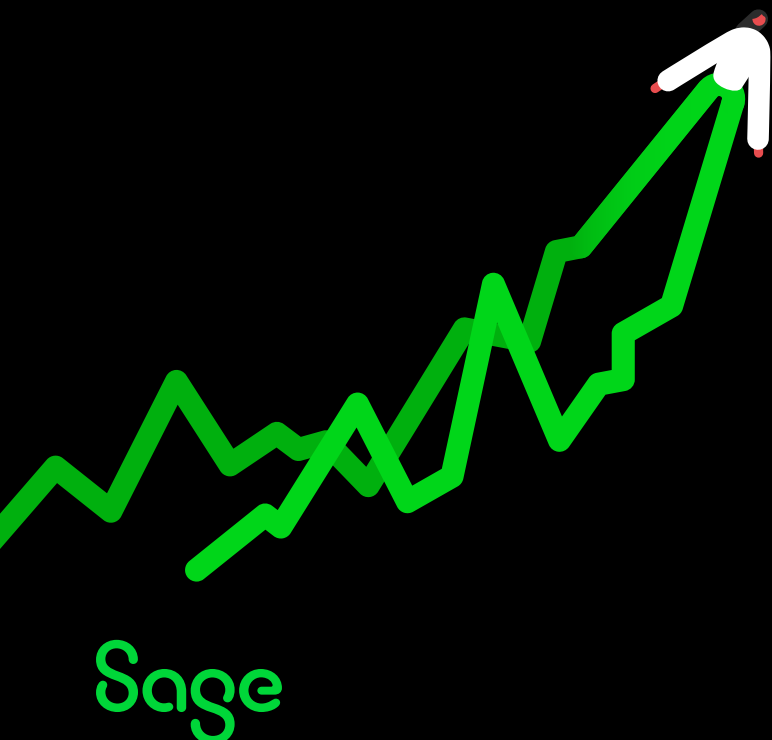
Boosting British Business:

A Blueprint for Digital-led Growth

Sage

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Foreword

by Steve Hare, CEO of Sage

Despite the challenges over the past few years, the resilience and innovation of the UK's five million small and mid-sized businesses (SMBs) have been truly remarkable. They are the driving force of our economy.

We must do more to help address the harsh reality that many currently face. Inflation has left SMBs cash-strapped, making it difficult for them to invest in growth areas such as technology. As our economy rapidly moves towards digitalisation, it is important that these businesses are not left behind.

Digitalisation is more than just a trend; it is a necessity for survival and competitiveness. Data has become the lifeblood of businesses, enabling them to create new customer experiences and make faster, more informed decisions. Those who have embraced technology have improved operations, reduced their carbon footprint, and uncovered new avenues for growth. That is why it is mission-critical to increase the adoption of digital tools to unlock the dynamism of SMBs and build a stronger economy.



A staggering **£232 billion could be unlocked annually** if all small and mid-sized businesses digitalised to the same level as the top 20%.

To get us there, the Government needs an ambitious plan for a Digital Economy to Boost British Business, or the UK risks falling behind other nations.

This Blueprint sets out the policies I believe the UK government should adopt to enable SMBs to embrace digitalisation, harness emerging technology, and grow sustainably. Developed in partnership with our customers and industry leaders, it proposes solutions to the challenges we face today and offers an opportunity to deliver a more prosperous and greener future.

I hope policymakers, political leaders, and businesses will join us on this mission.



About Sage

Sage exists to knock down barriers so everyone can thrive, starting with the millions of small and mid-sized businesses served by us, our partners and accountants.

Customers trust our finance, HR and payroll software to make work and money flow. By digitising business processes and relationships with customers, suppliers, employees, banks and governments, our digital network connects SMBs, removing friction and delivering insights. Knocking down barriers also means we use our time, digital tech and expertise to tackle digital inequality, economic inequality and the climate crisis.

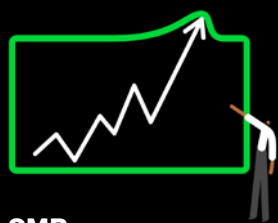
Sage

Introduction

The British economy has seen significant turbulence in recent years. But the digital transition, coupled with efforts to achieve net zero, offers British businesses the chance to break free from a period of low growth. As the backbone of the economy, it is vital that SMBs are empowered to seize this opportunity. By supporting SMBs to digitalise and decarbonise, the UK can become more productive and sustainable.

Small businesses are a powerhouse for growth. Our anonymised customer data indicates that small businesses are already outperforming the UK economy. They saw a **19.7% year-on-year rise in profitability** in Q4 2022¹ at a time when GDP rose by just 0.1%².

While this is positive news, rising overheads and inflationary pressures caused **average real revenues to contract by 2.4% year-on-year** during the same period, making investment plans less viable. This is supported by the fact that British SMBs anticipate a modest **13% increase in their technology investment** over the next 12 months, which falls **below the European average of 18%**.³



SMBs saw a
19.7%
rise in profitability in
Q4 2022 compared to a
0.1% rise in GDP



On average, UK SMBs plan
to increase technology
investment by
5% less
than EU businesses

As the Government strives to **make the UK a tech superpower, meet its net zero targets, and enable British businesses to flourish** on the international stage, **it is essential that SMBs are supported on this journey.**

Our research shows that **fully digitalising the operating environment of SMBs would deliver £232 billion to the British economy.**⁴ To achieve this, policymakers must build a robust digital economy and ensure that the policy landscape allows SMBs to spur on the innovation needed to power growth.

Through our role supporting millions of SMBs globally, we are uniquely positioned to understand the transformative power of technology. Harnessing the insights, we have gained, **this Blueprint for Digital-Led Growth provides the Government with a joined-up, practical plan to achieve three key objectives:**

Three key objectives:

- 1. Boost growth and productivity through digitalisation**
- 2. Unlock innovation through emerging technologies and the power of data**
- 3. Deliver green growth by helping SMBs become more sustainable**

Fully digitalising the
operating environment
of SMBs would deliver

**£232
billion
extra**

to the British economy⁴

¹ Sage Small Business Index, May 2023

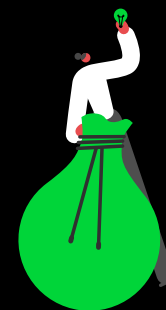
² Office for National Statistics (ONS), GDP quarterly national accounts, UK: October to December 2022, <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/quarterlynationalaccounts/octobertodecember2022#headline-gdp-figures>

³ Small Business, Big Opportunity? Sage's annual global study of over 13,000 business leaders, <https://www.sage.com/en-gb/blog/wp-content/uploads/sites/10/2022/03/Small-business-big-opportunity.pdf>

⁴ Sage Digital Britain Report <https://www.sage.com/investors/investor-downloads/press-releases/2022/06/untapped-tech-adoption-could-boost-uk-economy-by-232-billion-annually/>

Executive Summary

Policy Recommendations



Priority 1: Boost growth and productivity through digitalisation



1. Introduce a Small Business Digital Growth Fund.

Like the Australian Technology Investment Boost, the Government should introduce a similar scheme to incentivise investment in productivity-enhancing technology. We recommend a time-limited enhanced tax deduction of 140% for qualifying expenditure.

2. Mandate e-invoicing to help SMBs streamline services. Like Asia, the EU, and South America, the Government should legislate for widespread adoption of e-invoicing to speed up payment times, enable SMBs to trade globally, and ensure real-time visibility of economic activity.

3. Develop a single digital identity (ID) framework that supports SMBs. The Government should create a government-backed API-driven digital ID that SMBs can use to verify their identity with banks and accounting providers, among others.

4. Facilitate digitalisation of trade compliance for SMB exporters. To help remove the complexity of trade, the Government should ensure there are Application Programming Interfaces (APIs) to enable software to connect to government IT systems to simplify and automate exports compliance for SMBs.

Priority 2: Unlock innovation through emerging technologies and the power of data



5. Encourage SMBs to utilise data solutions and insights to enhance productivity. When establishing legal frameworks and standards, the Government should ensure that SMBs can access and benefit from the widest possible range of public and private data sets.

6. Improve access to finance through Smart Data schemes. The Government should ensure that Smart Data schemes work for SMBs. For example, improving access to finance by enabling businesses to create a portable credit file. As part of Open Finance, credit agencies should make Commercial Credit Data Sharing available to SMBs so they can understand and improve their own creditworthiness and facilitate the responsible lending needed to grow.

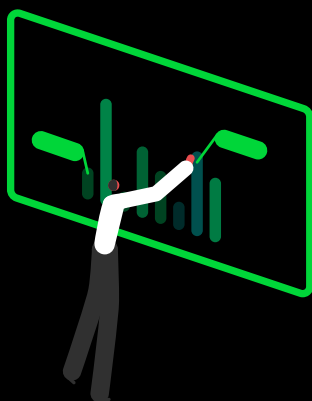
7. Oversee artificial intelligence (AI) regulatory coordination across sectors. Regulators across all economic sectors and international regions should coordinate their approaches and develop simple and accessible guidance for SMBs looking to develop or adopt AI.

Priority 3: Deliver green growth by helping SMBs become more sustainable



8. Create simplified climate reporting metrics for SMBs. The Government should adopt a reporting framework that reflects the needs of SMBs, noting climate reporting today is challenging for smaller businesses, which have limited budgets and resources.

9. Introduce fiscal incentives for small businesses to encourage net zero investments. This should include targeted tax reliefs on emissions-reducing investments such as climate-tech solutions.



Priority 1: Boost growth and productivity through further digitalisation

Context

SMBs are drivers of economic growth. Making up 99.9% of British businesses,⁵ they are central to maintaining the UK's standing as one of the most dynamic and entrepreneurial economies in the world. However, today's economy needs a fully digitalised operating environment for businesses.

SMBs recognise this problem and have expressed a desire to invest more in digital technology. Even in the current economic climate, technology is seen as a key factor in future business success, with **92% wanting to maintain or increase their investment in technology.**⁶

Over the next three years, British SMBs are also **more likely to want to adopt emerging technologies than any other country, such as 5G (28%), AI (16%), and the metaverse (16%).** However, they expect a modest increase of only 13% in their technology investment, which is lower than the European average of 18%. This is attributed to a lack of budget, which is the primary barrier, followed by uncertainty about the appropriate solutions.⁷ The Government must address this if the UK is to fully unlock the potential of SMBs.



The UK's goal of becoming a technology superpower, along with the International Technology Strategy, highlights the significance of the digital economy. It is crucial to follow through on this ambition. The UK needs to take additional steps to becoming an **advanced digital economy** through increased **digital adoption.**

To do this, the Government can unlock growth and productivity through further digitalisation across four areas:

1. **Tax system efficiencies**
2. **Late payments**
3. **Digital identity**
4. **Digital trade**

⁵ Sage, SMBs Driving Economic Recovery report 2023, <https://www.sage.com/master/-/media/files/company/documents/pdf/digital-newsroom/smb-driving-economic-recovery-report-jan-2023.pdf>

⁶ Sage, Small Business, Big Opportunity Report 2023, <https://www.sage.com/en-gb/blog/small-business-big-opportunity-round-up-2023/>

⁷ Sage Digital Britain Report, <https://www.sage.com/investors/investor-downloads/press-releases/2022/06/untapped-tech-adoption-could-boost-uk-economy-by-232-billion-annually/>

Incentivising Tech Investment

Challenge: *SMBs are under-adopters of digital technologies.*

The UK must not lose momentum on tech adoption if we are to remain competitive and achieve tech superpower status. The digital economy is a key growth sector and will help to deliver a new generation of enterprise, tech start-ups, and innovation. The Government therefore needs to continue to encourage SMBs to adopt digital solutions.

Existing incentives, such as the Annual Investment Allowance, R&D tax credits and the Help to Grow: Digital scheme are poorly targeted and do not effectively incentivise digital adoption. This is because the types of spending covered do not align with relevant software categories or have since been withdrawn. The cancellation of *Help to Grow: Digital*⁸ paves the way for a more flexible intervention which will have greater impact.

Lack of suitable support has a direct impact on investment in digitalising practices.⁹

Digital-led solution: *Introduce a Small Business Digital Growth Fund*

As tech innovation accelerates but investment slows, the Government will need to ensure we balance out our tax environment to stimulate investment and maintain our competitiveness. We are proposing a time-limited stimulus for SMB investment in digital technology to help deliver these aims.

As part of its 2022-23 Budget, Australia introduced the Small Business Technology Investment Boost aimed at increasing productivity and digital uptake of SMBs. Limited to one-year, Australian SMBs can deduct 120% of the cost from digital adoption, capped at AUS \$100,000.¹⁰ Similarly, a third of the EU's funds for its Plan for Recovery has been spent on the Digital Transition, with Spain allocating €3 billion to fund SMB digitalisation under its Digital Kit programme.¹¹

We believe a scheme like Australia's should be introduced in the UK to scale digital adoption. It would offer choice to SMBs and would be easy to access. Through a **Small Business Digital Growth Fund**, SMBs could claim an additional **140% deduction** (worth 10% of the purchase cost) against their corporation tax bill for qualifying productivity software. We would expect this to be capped at £50,000 per company and be time-limited to one year initially.

This type of policy would be simple for both the Government and businesses to administer, only requiring an accountant to make the relevant adjustments on a corporation tax return. We estimate a cost to HM Treasury of between £300-£350 million for the one-year period, which is the near equivalent of the £295 million that the Government budgeted for Help to Grow: Digital and on which it significantly underspent.

A time-limited relief on productivity-enhancing software would provide a shot in the arm to 99.9% of British businesses and unlock innovation and growth, helping the UK become a world-leading digital economy.

Recommendation 1:

Introduce a Small Business Digital Growth Fund.

Like the Australian Technology Investment Boost, the Government should introduce a similar scheme to incentivise investment in productivity-enhancing technology. We recommend a time-limited enhanced tax deduction of 140% for qualifying expenditure.

⁸ Help to Grow: Digital – vendor applications closed, <https://www.gov.uk/guidance/help-to-grow-digital-apply-to-become-a-vendor>

⁹ OECD Telecommunications and Internet Statistics, ICT Access and Use by Businesses (Edition 2019)

¹⁰ Australian Government, Small Business Technology Investment Boost and Small Business Skills and Training Boost, <https://www.ato.gov.au/General/New-Legislation/In-detail/Direct-taxes/Income-tax-for-businesses/Small-Business-Technology-Investment-Boost-and-Small-Business-Skills-and-Training-Boost/>

¹¹ Digital Kit Programme – <https://espanadigital.gob.es/en/measure/digital-kit-program>



Sage Customer Joe & Seph's

Joe & Seph's is an award-winning, family-run business on a mission to produce the best-tasting popcorn in the world.

Adam Sopher, Co-founder & Managing Director

"Technology has been the cornerstone of our family-run business' remarkable growth journey. It has empowered our team to communicate seamlessly and collaborate on everything from a new popcorn flavour to a presentation to a new retailer. However, as our business continues to expand rapidly, our manual processes, particularly stock management, are starting to struggle. This is an area where investment in tech has the potential to make a huge difference.

We're also excited about the opportunity of using emerging technologies such as ChatGPT to offer personalised recommendations and guidance to our customers so they can easily navigate our huge product range. By embracing the power of technology, and having a visionary approach, we believe we can stay at the forefront of the industry and delight popcorn enthusiasts worldwide."



Late Payments

Challenge: *Late payments are holding back growth*

Cash flow is the lifeblood of any small business. But getting paid on time is a long-standing problem for SMBs across the country. Late payments not only hinder cash flow and liquidity, but they also undermine the confidence needed to invest.

Our research found that in 2020, **40% of credit invoices were not paid on the agreed terms** and the average business was owed approximately **£22,000 in late payments** at any point in time.¹² This is particularly damaging in the current climate, with companies having to navigate high inflation, rising interest rates, and spiralling costs. This can result in job losses and stifle entrepreneurship.¹³

Digital-led solution: *Encourage uptake of digital solutions and mandate e-invoicing to tackle late payments*

Digitalisation and technological advances have played a key role in halving the impact of late payments over the past decade. This is because **accounting software** has enabled businesses to streamline workflows, automate billing processes, and – crucially – get paid faster.¹⁴

Similarly, digitalisation means SMBs can now send invoices in real time via email or SMS as soon as a job is complete. In doing so, they can pay staff and suppliers on time, protect client relationships, and save time and money by not having to chase payments.

What is e-invoicing?

E-invoicing speeds up payment times. It is a type of digital invoice that can be electronically received and processed by a customer, replacing manual tasks through automation. It is central to the digital innovation needed to tackle late payments and means that, regardless of size, businesses do not need to manually handle invoices. There has been a significant increase in uptake for digitalised invoicing and tax reporting across the EU, Asia, and Middle East. This is driving all sectors to **adopt modern financial software** to record, process, and report transactions and manage payments.

more progress needs to be made to tackle the significant burden of late payments. While the Government has set out an intention to create a tax system fit for the 21st century, its Making Tax Digital (MTD) project has been superseded by leading tax authorities and organisations around the world. These include Australia, South America, Japan, and the European Union (VAT in the Digital Age (ViDA)).¹⁵ These jurisdictions have either introduced or are in the process of introducing e-invoicing, supplemented where needed by Digital Reporting Requirements (DRRs).

The UK has a unique opportunity to address late payments, with the Government currently undertaking a **Payment and Cash Flow review**¹⁶ to scrutinise existing practices. **Modern digital payment tools must form part of the solution**, given the role of digitalisation in significantly reducing payment times over the last 10 years from an **average of 81 days to 36 days**.¹⁷

Outside of the direct benefits for SMBs, mandating e-invoicing also holds advantages for the Government and tax authorities. HMRC would be able to see transactional data from both supplier and buyer, allowing them to spot discrepancies and identify and prove fraud. The Government would also receive more timely information on transactions as they happen, allowing **near real-time visibility of the state of the economy**, ensuring that support can be more accurately targeted at times of need.

Recommendation 2:

Mandate e-invoicing to help SMBs streamline services.

Like Asia, the EU, and South America, the Government should legislate for widespread adoption of e-invoicing to speed up payment times, enable SMBs to trade globally, and ensure real-time visibility of economic activity.

¹² A Data for Good collaboration by Sage and Smart Data Foundry, Shedding Light on Late Payments for UK Small and Micro Businesses.

¹³ Sage and Smart Data Foundry e-book document, Shedding Light on Late Payments for UK Small and Micro Businesses.

¹⁴ Sage Intacct webpage, <https://www.sage.com/en-gb/sage-business-cloud/intacct/>

¹⁵ European Commission, VAT in the Digital Age, https://taxation-customs.ec.europa.eu/taxation-1/value-added-tax-vat/vat-digital-age_en

¹⁶ Government Payment and Cash Flow Review, <https://www.gov.uk/government/publications/prompt-payment-and-cash-flow-review>

¹⁷ Smart Data Foundry, 'Payment Speed and Timeliness for UK Small & Micro Businesses'

Digital identity

Challenge: *SMBs face complexity in verifying their identity and that is holding back productivity*

Sage supports the development of a digital identity (ID) that would enable the Government and businesses of all sizes to further digitalise their processes and increase both efficiencies and productivity across the economy. A Digital ID for SMBs could deliver **enhanced productivity, better access to finance, enhanced trust across organisations and industries, and reduce instances of fraud.** It would also provide a more seamless registration and authentication process when setting up a new business.

However, for Digital ID to unlock these benefits, different **frameworks impacting SMBs should be aligned, and the Government should join up public and private sector initiatives.** Currently, the Government is progressing a new Digital ID Trust Framework¹⁸ to enable trusted digital identities to be available to people across the country. At the same time, the Government's Digital Service's One Login¹⁹ for government services will replace more than 40 logins. Companies House is also setting up a new ID verification process²⁰ for registering companies.

Without coordination, the take-up of digital IDs looks uncertain and SMBs may be forced to navigate a complex operating environment when needing to verify their identity.

Digital-led solution: *Develop a single digital ID framework that supports SMBs*

To deliver the potential benefits of digital ID, the Government needs to align on one framework for the UK. The Government should introduce a **government-backed digital ID that any business is able to use to verify their identity digitally to a third party.** For example, this would enable businesses to verify their identity with a bank when setting up a business or registering for accounting software. This would streamline processes and remove the need to use a one-off verification, such as paper documents.

The development of a **digital identity could also enhance e-invoicing.** Tax authorities in several jurisdictions now use digital identities embedded in electronic invoices to learn about taxes owed and later use this to ensure that the correct taxes are paid. Payment diversion fraud is one of the largest single areas of fraud in the world. Digital identities could be used to identify fraudulent invoices that include incorrect payment details, for example a fraudster's bank account, and help reduce this significant cost to tax authorities.

Recommendation 3:

Develop a single digital ID framework that supports SMBs.

The Government should create a government-backed API-driven digital ID that SMBs can use to verify their identity with banks and accounting providers, among others.



¹⁸ UK digital identity and attributes trust framework alpha v1 (0.1, <https://www.gov.uk/government/publications/the-uk-digital-identity-and-attributes-trust-framework/the-uk-digital-identity-and-attributes-trust-framework>)

¹⁹ One Login for Government Accounting Officer assessment <https://www.gov.uk/government/publications/cabinet-office-accounting-officer-assessments/20-september-2022-one-login-for-government-accounting-officer-assessment>

²⁰ Companies House reform: identity verification <https://companieshouse.blog.gov.uk/2022/12/12/companies-house-reform-identity-verification/>

Digital trade

Challenge: *SMBs face complexity when exporting*

International trade is critical for economic growth. On average, SMBs generate an **extra £278,000** by exporting overseas.²¹ However, at present, SMBs face significant hurdles when trading, particularly with EU member states. These hurdles have led to HMRC guidelines that encourage entrepreneurs interested in trading with the EU to consider setting up a business in the Netherlands.²²

Businesses are also finding the process of **navigating complex codes and tariff rules** on exports challenging. SMBs should be able to benefit from the same simplicity and ease when exporting as they currently do when importing. This is especially important if SMBs are to compete with larger companies that have the resources to navigate this complex landscape.

Digital-led solution: *Utilise digital trade and compliance solutions to boost trade*

The Government has recognised the importance of using digitalisation to unlock further trade opportunities. Its *Made in the UK, Sold to the World* policy paper outlined a need to provide better support to exporters. This included being 'more joined up and more digital to reach small and mid-sized enterprises at scale'.²³

At Sage, we use the **power of technology to help our customers navigate trade barriers and become export champions.** Our **Sage International Trade Hub** helps SMBs wanting to engage in cross-border trade make strategic decisions and navigate complex and ever-changing regulations across the world.

Further, the Department for Science, Innovation and Technology's International Technology Strategy committed to support technology exports and to **'break down trade and investment barriers'**.²⁴ To support businesses trading with the EU and beyond, it is imperative for the UK to deliver on these commitments and embrace digitalisation.

The Government could remove some of the complexity of trade by **providing APIs to connect to software** to help simplify compliance, such as VAT and duty.

Recommendation 4:

Facilitate digitalisation of trade compliance for SMB exporters.

To help remove the complexity of trade, the Government should ensure there are Application Programming Interfaces (APIs) to enable software to connect to government IT systems to simplify and automate exports compliance for SMBs.

²¹ Sage International Trade Hub, <https://www.sage.com/en-gb/international-trade-hub/>

²² Collection, Global Britain: delivering on our international ambition, <https://www.gov.uk/government/collections/global-britain-delivering-on-our-international-ambition>

²³ Made in the UK, Sold to the World, <https://www.gov.uk/government/publications/export-strategy-made-in-the-uk-sold-to-the-world/made-in-the-uk-sold-to-the-world-web-version>

²⁴ The UK's International Technology Strategy, <https://www.gov.uk/government/publications/uk-international-technology-strategy/the-uks-international-technology-strategy>

Priority 2:

Unlock innovation through emerging technologies and the power of data

Context

New ways of storing, accessing, and using data are driving forward changes in working practices and creating new opportunities for growth. These technological advances are accompanied by significant changes in the UK's data policy landscape, helping to position the UK as a **world leader in technology**.

Through AI, cloud data, open banking, and other technologies, businesses can save time, create efficiencies, and gain a better understanding of their customers. However, **only 19% of small businesses** currently feel their use of data and data analytics is cutting edge and **30% do not understand** data protection regulations.²⁵

If the Government is serious about fulfilling the UK's potential as a world leader in technology, it must seize the opportunity to ensure that **digital and data policy complements innovation**, while maintaining high standards.

There is potential to unlock innovation across the following three areas:

1. **Access to Data**
2. **Smart Data and Open Finance**
3. **Regulating AI**

Access to Data

Challenge: *SMBs struggle to unlock the full value of their data*

Our research identifies that the single most important area of **untapped potential for SMBs is data**. Data is a critical source of information for businesses to build their strategy and inform the nature of their products and services. For example, identifying trends and rates of sales.

However, at present, SMBs do not feel that they are able to unlock the full value of their data. While many areas of technology that generate data have been widely adopted by SMBs – such as websites (80%), social media (73%), and accounting software (76%) – adoption of technology to collect and use data lags significantly behind at only 3%.²⁶

Despite the challenges in accessing and using data for insight, a resounding **100% of SMBs surveyed by Sage said that data is important to their business**.²⁷ SMBs need more support to understand how data works – the algorithms which sit behind analytics – and more tools that allow them to gain insights from their data to inform business decisions.

²⁵ Sage Digital Britain Report, <https://www.sage.com/investors/-/media/files/investors/documents/pdf/public%20affairs/sage-digital-britain-report-june-2022.pdf>

²⁶ Digital Britain Report <https://www.sage.com/investors/-/media/files/investors/documents/pdf/public%20affairs/sage-digital-britain-report-june-2022.pdf>

²⁷ Sage response to UK National Data Strategy Consultation, <https://www.sage.com/investors/-/media/files/investors/documents/pdf/public%20affairs/uk-national-data-strategy-sage-response-december-2020.pdf>

Digital-led solution: Empower SMBs to use data insights to promote growth, resilience, and innovation

While developing data policy, it is essential that the Government considers SMBs as end-users and ensures policy meets their needs, not just those of large corporations. The Government must set the right frameworks to **enable more trusted, efficient, and innovative data-sharing across businesses and third parties**, while maintaining the trust and transparency needed to build confidence.

The Government has made important strides in recognising this issue, expressing an aspiration to enhance the UK's global reputation as a hub for responsible data-driven business, while continuing to uphold its high standards of data protection. The Government's intention to clarify the data protection requirements around research is an important step towards removing some of the data protection obstacles currently faced by researchers.

However, it is important that the Government balances any reforms with **maintaining data adequacy with the EU, as well as championing alignment of data standards**. This is critical to avoiding friction for businesses, especially SMBs, which lack the resources to navigate separate data operating regimes. Similarly, adequacy with other key trading jurisdictions, such as the US and India, will help ensure frictionless flow of personal data. The Government must also seek to allow a wider use of data for research by the private sector and more government-to-business data sharing.

Recommendation 5:

Encourage SMBs to utilise data solutions and insights to enhance productivity.

When establishing legal frameworks and standards, the Government should ensure that SMBs can access and benefit from the widest possible range of public and private data sets to unlock productivity and growth.

Data for Good

We want to empower SMBs through data-driven insights. While SMBs recognise the significance of technology, many struggle to access and harness the true value of data. That's why we have joined forces with the Smart Data Foundry to create our new **Sage Small Business Index**. This tool analyses anonymised customer data, offering insights into the financial health of small businesses to help policymakers make more informed and targeted interventions that support SMBs.

Soon, we will also unveil our Benchmarking Tool, allowing our customers to compare their financial and environmental performance against industry competitors. Equipped with actionable insights, our customers can make data-backed improvements to drive growth. This forms part of our commitment to use data for good and shows how big tech companies such as Sage can unlock the transformative power of data to equip SMBs with the powerful insights needed to thrive.



Smart Data and Open Finance

Challenge: *SMBs struggle to access finance*

To grow, SMBs need to access funding. However, the evidence shows that they **struggle to access the right finance**. When small businesses seek loans, lenders may not always use current data that best reflects their creditworthiness. This is worsened by the fact that SMBs do not always have access to their credit data to understand and improve their creditworthiness, resulting in unsuccessful applications or undesirable credit terms.

The chances of being rejected for credit are over **50% higher for SMBs** when applying to a new finance provider.²⁸ The difficulty they face in accessing funding is further evidenced in our Sage Small Business Index, which showed that **small business debt turned negative** in Q4 2022.²⁹

Digital-led solution: *Enable Smart Data such as Open Finance to help SMBs access finance*

Building on the success of Open Banking, the UK can improve access to finance by expanding Open Banking to deliver Open Finance. Illustrative of its potential success, **7 million active users today are benefitting from Open Banking in the UK**.³⁰ This has created opportunities for new products and services, allowing consumers and businesses to share data and make payments in more convenient and efficient ways. The Joint Regulatory Oversight Committee (JROC) announced plans earlier this year to develop Open Banking further. We recommend these are taken forward at pace.³¹

Further, the Bank of England's March 2020 Open data for SMB finance report highlighted that **SMBs would benefit from bringing their data together into a portable credit file** that could be shared more easily with banks and other credit providers.³² This is another way that giving third parties access to data, such as accounting data, can improve SMBs' creditworthiness and allow them to benefit from responsible lending.

It is therefore critical that **Smart Data benefits SMBs, as well as consumers, through a clear, standards-based framework** to enable Open Finance. While the focus of Open Finance to date has been consumer-centric, the passage of the Data Protection and Digital Information Bill and the JROC recommendations create a unique opportunity to enable businesses to benefit from data innovations.

Satago, Sage's customer and lead partner for cash flow management software, is a strong example of this. **Satago integrates Sage products in a few clicks, highlighting invoices eligible for financing.** Invoice financing means that businesses can use the value of unpaid invoices as a security against lending. Similarly, Sage's partnership with Funding Circle has made it easier for small businesses to secure funding, enabling customers to apply for loans and manage their cash flow easily. With **more than 130,000 businesses in the UK and US accessing over £14.5 billion** through Funding Circle, and Sage serving millions of customers globally, these partnerships aim to revolutionise access to working capital funding for small businesses.

Satago



Finally, Smart Data also has the potential to drive flexibility, visibility, and efficiency in other ways that will benefit small businesses. For example, it can allow SMBs to gain a more accurate view of their carbon footprint through the sharing of utilities data. We encourage the Government to facilitate the **opening up of data in sectors outside of finance, such as utilities, pensions, and corporate banking.**

Recommendation 6:

Improve access to finance through Smart Data schemes.

The Government should ensure that Smart Data schemes work for SMBs. For example, improving access to finance by enabling businesses to create a portable credit file. As part of Open Finance, credit agencies should make Commercial Credit Data Sharing available to SMBs so they can understand and improve their own creditworthiness and facilitate the responsible lending needed to grow.

²⁸ Bank of England - Open data for SME finance: what we proposed and what we have learnt, <https://www.bankofengland.co.uk/paper/2020/open-data-for-sme-finance>

²⁹ Data from Sage Small Business Index, May 2023

³⁰ Recommendations for the next phase of open banking in the UK, <https://www.gov.uk/government/publications/recommendations-for-the-next-phase-of-open-banking-in-the-uk/>

³¹ Recommendations for the next phase of open banking in the UK, <https://www.gov.uk/government/publications/recommendations-for-the-next-phase-of-open-banking-in-the-uk/>

³² Bank of England, 'Open data for SME finance: what we proposed and what we have learnt', <https://www.bankofengland.co.uk/paper/2020/open-data-for-sme-finance>



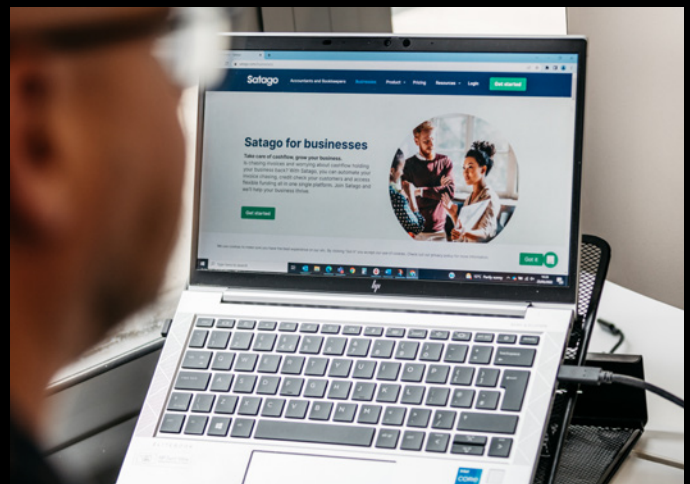
Sage Customer Satago

Satago helps SMEs access finance and manage cash flow in one platform.

Sinéad McHale, CEO

“Access to data, especially banking and accounting information, plays an important role in empowering our customers to navigate their financial needs, improve cash flow, and gain valuable insights to address areas in need of support. We believe in using technology and data to drive transformative advancements in finance options for SMEs. By leveraging artificial intelligence (AI), we can also achieve remarkable efficiency gains by quickly identifying anomalies in lending decision data.

However, the current lack of standardised data practices is causing unnecessary hurdles and taking up time and resources that could be better allocated to creating solutions for our customers. We strongly advocate for greater data standardisation, particularly as Open Banking expands into Open Finance, which will allow us to deliver improved services and solutions for our customers.”

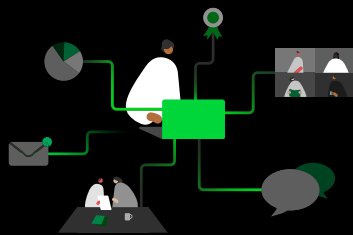


Regulating AI

Challenge: *SMBs need support to adopt and embrace the benefits of AI*

The power of AI technology to streamline business functions and operations cannot be understated. Whether it is creating content, automating processes, or gaining new insights, AI is being used by companies and governments to tackle common challenges. **22% of SMBs** already recognise how AI will contribute to the future success of their business.³³

This technology will be central to the future of commerce and is predicted to **raise global GDP by 7%** over the next decade, provided the correct AI regulation is in place.³⁴ Without this, the **AI regulatory space is at risk of becoming fragmented and complex**. It is critical that the UK avoids a situation where businesses are navigating rapid advances in AI with a lack of coherence between domestic and international regulators.



At Sage, we believe that AI and Machine Learning (ML) are essential for removing barriers and making operations easier for SMBs, eliminating manual tasks to increase productivity. One way we do this is by using data to identify errors and unusual entries, as well as to spot fraud in financial records. This helps us provide more accurate accounting information and enables our customers to make more informed decisions when budgeting and forecasting. We are also using AI to help our customers automatically process and organise invoices, receipts, and bills from an email inbox directly to their accounting system. This eliminates the need for manual data entry, reduces the chance of errors, and saves time.

³³ Sage Digital Britain report, <https://www.sage.com/investors/-/media/files/investors/documents/pdf/public%20affairs/sage-digital-britain-report-june-2022.pdf>

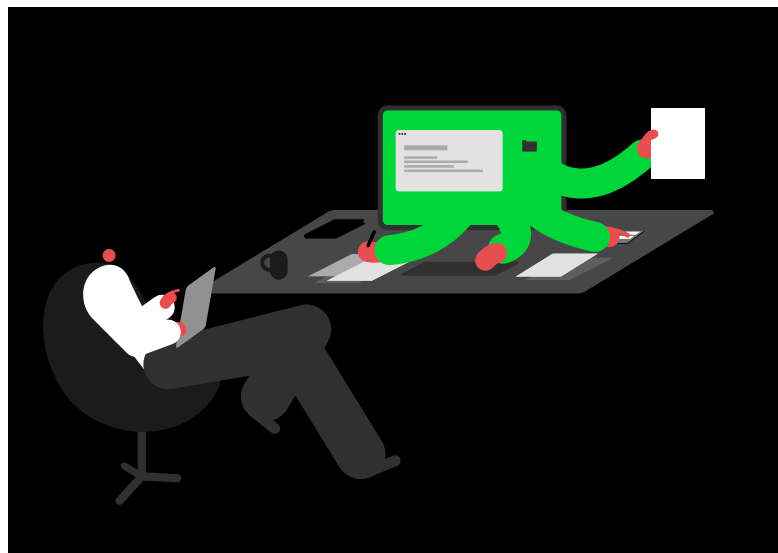
³⁴ Government Press Release on AI Taskforce funding announcement, <https://www.gov.uk/government/news/initial-100-million-for-expert-taskforce-to-help-uk-build-and-adopt-next-generation-of-safe-ai>

Digital-led solution: *Develop a clear regulatory framework to allow AI solutions to be developed and adopted by SMBs*

The Government has made promising progress in its pro-innovation approach, seeking to enhance the UK's global reputation as a hub for responsible AI-driven business, while upholding high standards of regulation.³⁵ However, while trying to plan for real-world cases, it is essential that **regulation does not become too complex to navigate.**

While the Government accepted a key recommendation by Sir Patrick Vallance to establish a regulatory sandbox for AI and refine how regulation interacts with new technologies,³⁶ it will be critical to ensure **regulators are fully coordinated.** Given AI applications span different sectors, one of the biggest challenges for SMBs will be regulatory fragmentation. The AI White Paper voiced SMBs' views that regulatory coordination will improve business certainty and investment, resulting in new and better jobs in the sector.³⁷ We encourage the AI Taskforce to consider this closely.

The Government should also ensure that regulatory coordination keeps pace with rapid technological advancements for SMBs which are both developing and using AI technologies. **Clear and accessible guidance** should be provided by regulators that provides the confidence to use and apply AI safely and successfully. At the same time, as regulations evolve, there is a duty on tech companies to act responsibly. Those developing AI applications for SMBs should **commit to transparency and make it simple for SMBs to understand decisions made by AI** so that they can adjust or override recommendations.



Recommendation 7:

Oversee AI regulatory coordination across sectors.

Regulators across all economic sectors and international regions should coordinate their approaches and develop simple and accessible guidance for SMBs looking to develop or adopt AI.

³⁵ UK Government, AI regulation: a pro-innovation approach policy paper, <https://www.gov.uk/government/publications/ai-regulation-a-pro-innovation-approach>

³⁶ Pro-innovation Regulation of Technologies Review: Digital Technologies, <https://www.gov.uk/government/publications/pro-innovation-regulation-of-technologies-review-digital-technologies>

³⁷ Government AI White Paper, <https://www.gov.uk/government/publications/ai-regulation-a-pro-innovation-approach/white-paper>

Priority 3: Deliver green growth by helping SMBs become more sustainable



Context

For the UK to meet its net zero goals, it is critical that SMBs are supported and brought along the sustainability journey.

Sage research, in partnership with Oxford Economics and the International Chamber of Commerce (ICC), found that when supply chains are included, SMBs are responsible for **63% of the UK's business emissions**, despite being clustered in lower carbon intensity sectors.³⁸

Although SMBs want to be more sustainable (**53% view it as a priority**), barriers such as **cash flow, skills, and knowledge**, as well as difficulty finding the right solutions to reduce their environmental impact, are holding back progress. Currently, three-quarters do not have net zero targets in place and **only 1 in 10** measure their carbon footprint. This puts the UK's net zero targets at risk. The Government therefore needs to ensure that the correct policy landscape is in place to support SMBs.³⁹

Sage is committed to playing our role in helping with the green transition. In addition to **halving our own emissions by 2030 and reaching net zero by 2040**,⁴⁰ we are supporting our customers on a similar journey with technology and advice, as well as advocating for policies that support the UK's transition to a low-carbon economy.

It is widely accepted that **digitalisation and technology will play a key role** in helping SMBs reduce their carbon footprint. However, without simplified reporting frameworks, SMBs face too much complexity and cost. The UK's climate tech sector and the Government therefore have a huge opportunity to work together to enable SMBs to meet customer demands by setting and delivering sustainability plans.

Sage believes **green growth** can be achieved across two key areas:

6. **Simplified climate reporting metrics**
7. **Climate fiscal incentives**



Our new carbon accounting solution, **Sage Earth**, helps customers easily measure, report, and reduce their environmental impact. SMBs are using our technology to take concrete action, such as reporting metrics to their own supply chains and helping them meet B-Corp certification. Reporting metrics to a business' supply chain allows them to engage with suppliers (Scope 3.1) and drive action to reduce emissions from this part of their value chain. We see this technology, as well as wider digitalisation and automation, as a key part of helping small businesses to decarbonise.

³⁸ Sage, Protect the Planet webpage, <https://www.sage.com/en-gb/company/sustainability-and-society/planet/>

³⁹ Sage SMB Climate Impact Report, <https://www.sage.com/en-gb/news/press-releases/2022/11/SMBs-critical-to-cutting-uk-carbon-emissions-but-overlooked-in-governments-net-zero-plans/#:~:text=London%3B%20November%207%2C%202022%3A,economy%3A%20SMBs%20contribute%2050%25%20of>

⁴⁰ Sage Sustainability and Society Strategy <https://www.sage.com/en-gb/company/sustainability-and-society/planet/>

Climate reporting metrics

Challenge: *Complex reporting requirements are holding back progress towards net zero*

Due to new carbon disclosure regulations, large companies are increasingly requesting that businesses in their supply chain – largely made up of SMBs – complete sustainability forms and questionnaires. Similarly, consumers demand strong sustainability credentials from SMBs, and this is seen as a key differentiator. **This can be a complex and daunting task for busy entrepreneurs**, who have limited budgets and resources. Without the expertise or dedicated resources, many smaller businesses find this task of measuring, disclosing, and reducing emissions extremely challenging.

Given the various recognised international reporting frameworks, choosing which set of rules to follow and understand is difficult. Despite moves to bring reporting requirements under the International Sustainability Standards Board (ISSB) framework, countries and large companies are still likely to adopt these at different rates. This will make it **difficult for smaller businesses** to comply with requests.

Digital-led solution: *Automate and standardise reporting requirements for SMBs*

Technology is providing a solution to this problem. **Digitalisation and automation, such as Sage Earth, are providing significant relief and are helping to streamline the process.** By quantifying carbon emissions from invoice data, our technology is making this process simpler and more consistent, while helping our customers to reach net zero.

The Government has issued guidance on climate-related disclosures for companies and limited liability partnerships (LLPs). However, it needs to go further by **simplifying and standardising a set of common reporting requirements** that are directly relevant to SMBs and that would apply across all supply chains and any internationally recognised reporting regime.

Sage has taken preliminary steps to review common requirements that could be appropriate for SMBs. We have reviewed 20 different reporting frameworks and standards currently in existence, or development, for large enterprises and have separated these into themes that are **directly relevant and simple for SMBs to adhere to.**

Our initial internal research at Sage has identified **four key themes** that consistently appear in existing frameworks and standards. These are **governance, strategy, metrics and targets, and risks.** With the help of guidance and automation, we believe a set of requirements like these would increase the uptake of climate reporting among SMBs and help decarbonise the wider economy.

1. The importance of appropriate **governance**. Examples of this could include outlining roles and responsibilities, methodology, and assurance for greenhouse gas (GHG).
2. The need for SMBs to set a climate **strategy** with clear action plans. Examples may include a greenhouse gas reduction strategy and a net zero strategy.
3. The importance of setting **metrics and targets** to help SMBs and other stakeholders, including the Government, understand whether SMBs are meeting their strategic objectives for both GHG reduction and net zero.
4. The value of considering potential climate-related **risks** to SMBs, which could be linked to insurance and general lending agreements.

It is recommended that these themes are considered as the basis of a proposed climate reporting framework for SMBs. In adopting these clear themes, the UK would ensure a level of comparability and consistency on climate-reporting requirements for large companies and small businesses.

Recommendation 8:

Create simplified climate reporting metrics for SMBs.

The Government should adopt a reporting framework that considers the needs of SMBs, noting that climate reporting can be challenging for smaller businesses, which have limited budgets and resources.



Climate fiscal incentives

Challenge: *SMBs lack resources to invest in net zero solutions*

As this Blueprint has outlined, SMBs are eager to play their role in the net zero transition. **90% understand the importance of using technology to become greener** but are held back by obstacles such as cash flow. As SMBs are responsible for 63% of the UK's business emissions, it is critical that the Government incentivises businesses to deliver on their ambition and invest in technology to decarbonise.⁴¹

The UK has made some positive steps to help SMBs decarbonise in recent months. The Government's AI for Decarbonisation Innovation Programme encourages the use of AI to reduce carbon emissions and signals a commitment to support businesses and encourage action.⁴²

However, **neither small businesses nor digitalisation were prioritised** in the updated Green Finance Strategy. This was despite that fact that the Skidmore review urged the Government to enable SMBs to participate actively and benefit from the net zero transition.⁴³ The UK should aim higher and **embed digitalisation and SMB decarbonisation as a core feature of net zero policy goals.**

Digital-led solution: *Provide tax reliefs on emissions-reducing investments such as climate-tech solutions*

The Skidmore review stressed that **access to finance** should be a key part of the solution. It recommended that, as part of a wider review of the tax system to incentivise investment in decarbonisation, the review should include SMBs and consider specific incentives to improve their uptake of energy efficiency technologies. This recommendation reflects the findings of Sage's SMB Climate Impact Report, which identified cash flow as a barrier for **90% of small businesses.**⁴⁵

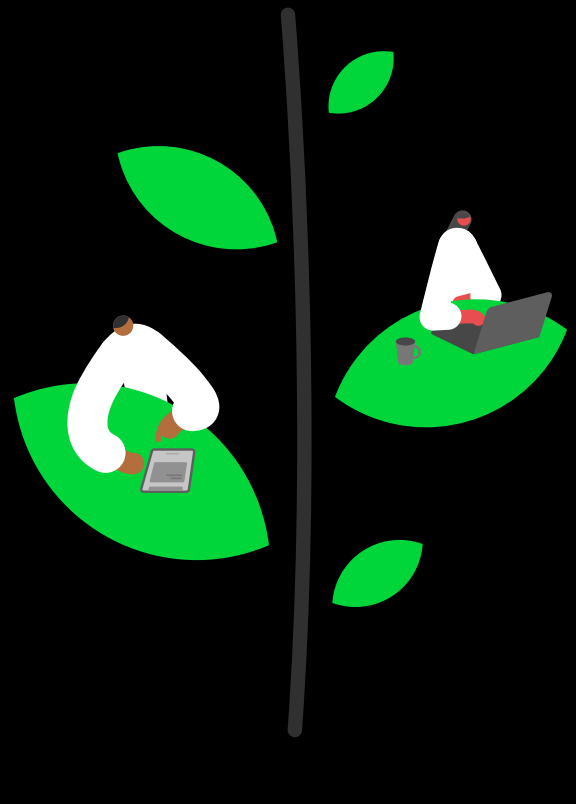
⁴¹ Sage Press Release for SME Climate Impact Report, <https://www.sage.com/en-gb/news/press-releases/2022/11/smes-critical-to-cutting-uk-carbon-emissions-but-overlooked-in-governments-net-zero-plans/>

⁴² Government Policy paper, UK Science and Technology Framework, <https://www.gov.uk/government/publications/uk-science-and-technology-framework>

⁴³ Mission Zero, Independent Review of Net Zero, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1128689/mission-zero-independent-review.pdf

⁴⁴ Mission Zero, Independent Review of Net Zero, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1128689/mission-zero-independent-review.pdf

⁴⁵ Sage SMB Climate Impact Report, <https://www.sage.com/en-gb/news/press-releases/2022/11/SMBs-critical-to-cutting-uk-carbon-emissions-but-overlooked-in-governments-net-zero-plans/#:~:text=London%3B%20November%207%2C%202022%3A,economy%3A%20SMBs%20contribute%2050%25%20of>



We would like to see the government create a **comprehensive plan that empowers SMBs to reduce emissions** and support the country's overall journey towards net zero. Central to this should be the introduction of a **climate fiscal incentive**, needed to reduce the cost of transitioning which impacts SMBs disproportionately. Such reliefs will foster the use of digital technologies, self-assessment tools, and access to tailored guidance and training, to ensure SMBs can easily measure and reduce their environmental footprint.

Recommendation 9:

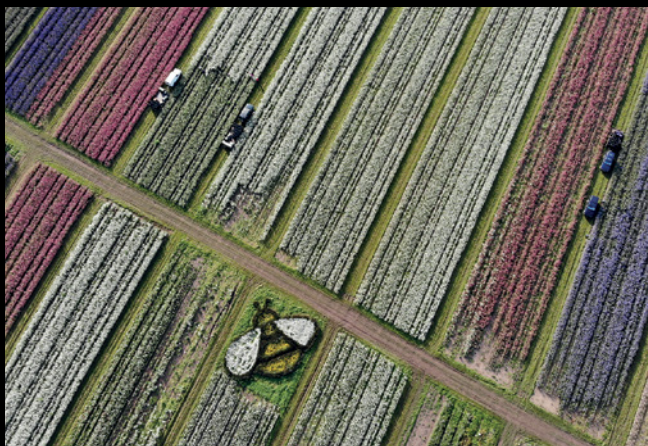
Introduce fiscal incentives for small businesses to encourage net zero investments.

This should include targeted tax reliefs on emissions-reducing investments such as climate-tech solutions.



Sage Customer Shropshire Petals

Shropshire Petals grows biodegradable petal confetti for weddings and celebrations on a family run farm in Shropshire.



Helena Robertson, Dispatch & Sustainability Manager

“As a family-run farming business, Shropshire Petals recognises the immense value of digital solutions to decarbonise. Adopting new solutions not only aligns with our commitment to sustainability but also saves us time and money. As a testament to our pioneering spirit, we now use solar-powered robots that plant and weed our flower fields, helping to reduce our carbon footprint.

As we look to become even greener, it can be very challenging to know where to focus our efforts. We’re now exploring carbon accounting tools to gain better insights into our carbon impact so that we can take targeted action. As we are still in the early stages of our decarbonisation journey, selecting the right product is important, especially as we develop partnerships with larger companies and navigate carbon reporting requirements.

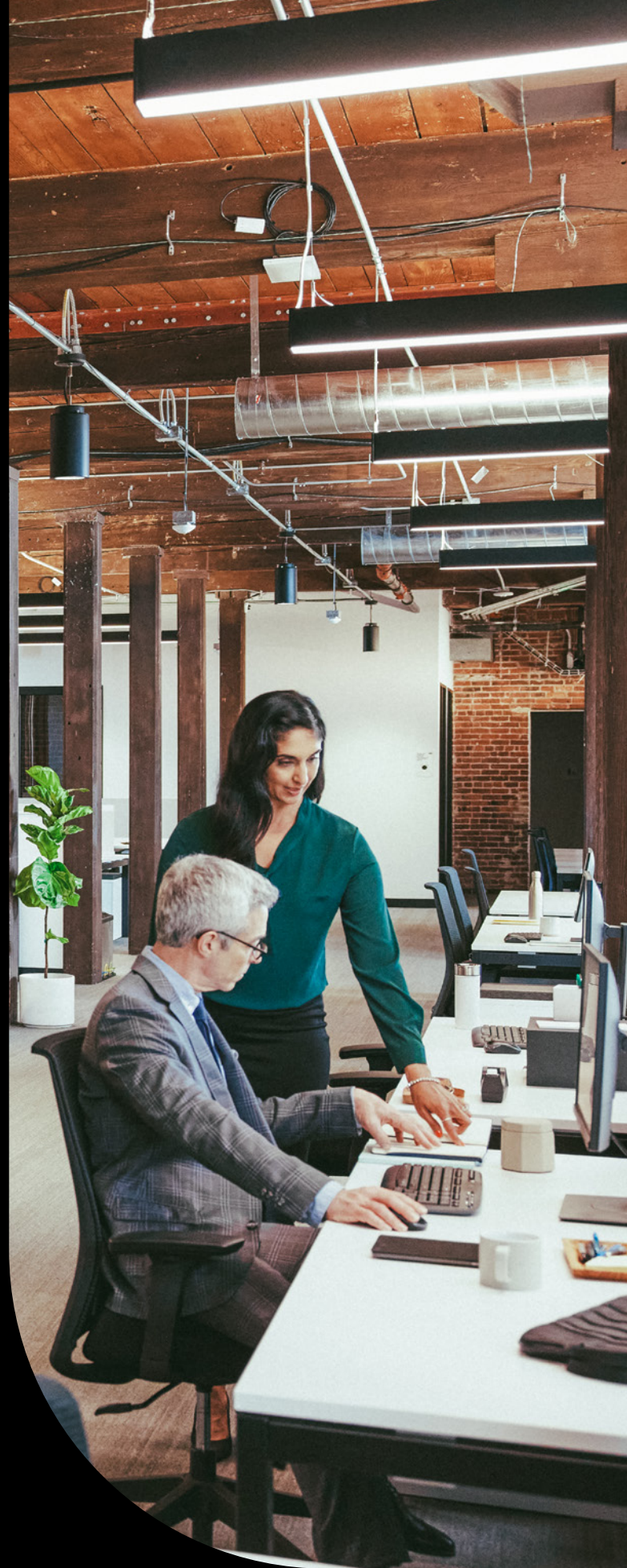
With a bit more financial support from the Government, we could allocate more resources to address our environmental impact and play our part in the UK’s journey to net zero.”

Conclusion

This Blueprint for Digital-Led Growth identifies opportunities for the Government to boost revenue and productivity, unlock innovation, and deliver green growth. An extra £232 billion can be unlocked by helping SMBs, which make up 99.9% of all companies, to benefit from the digital age.

To ensure the UK's competitiveness in the global marketplace post-Brexit, as well as to boost productivity and reach net zero, it is vital that British businesses nationwide receive sufficient support through government policy. Building momentum behind this coherent set of policies will put the UK on a path to being an advanced digitalised economy.

As an innovator and champion for SMBs, Sage will continue to collaborate with policymakers and regulators to empower entrepreneurs and business leaders to unleash their maximum potential.





Sage



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