Business, Energy and Industrial Strategy Committee

Oral evidence: Help to Grow Scheme, HC 207

Tuesday 17 May 2022

Ordered by the House of Commons to be published on 17 May 2022.

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Members present: Darren Jones (Chair); Tonia Antoniazzi; Alan Brown; Richard Fuller; Paul Howell; Mark Jenkinson; Andy McDonald; Alexander Stafford.

Questions 1 - 28

Witnesses

I: Dr Anna Valero, Senior Policy Fellow, Centre for Economic Performance, London School of Economics; Neil Ross, Associate Director, Policy, techUK; Tina McKenzie, Policy & Advocacy Chair, Federation of Small Businesses; Adam Harper, Director of Professional Standards, Association of Accounting Technicians.

Examination of witnesses

Witnesses: Dr Anna Valero, Neil Ross, Tina McKenzie and Adam Harper.

Q1   **Chair:** Welcome to this morning's session of the Business, Energy and Industrial Strategy Select Committee, for a short one-off hearing on the Help to Grow voucher scheme that was announced by the Chancellor a couple of financial statements ago to try to help businesses with their productivity by investing in digital and management skills training. We are delighted to welcome, in the room, Tina McKenzie from the Federation of Small Businesses, Dr Anna Valero from the Centre for Economic Performance at the London School of Economics, and Neil Ross from techUK. On the screen, all being well, we have Adam Harper, who is the director of professional standards at the Association of Accounting Technicians. Good morning to all of you.

The first question from me is just to ask you to give a general overview, now the scheme has been designed and launched, and your view of where we have ended up, now that we have built this product and started to ship it out.

Tina McKenzie: Good morning, everyone. The first thing we have seen from the scheme is that it is excluding most small businesses, and especially those that really need it—those with five staff and under. As we know, with today's economy and labour force, a lot of small businesses are in partnership working; they are working with associates, contractors and flexible work solutions. That is a very economic way for them to work, but without five or more permanent, contracted FTE, they are excluded. That is borne out by the fact that there is an extremely low take-up and low awareness about these products out there. We surveyed our members on this recently, and that is borne out by our survey results.

Then there is the cost for small businesses. Albeit that £750 may not sound like a lot, with everything else small businesses are facing in the economy today, although a small business may want to go and do that training, £750 is a lot of money for them.

Finally, it is asking a small business entrepreneur to go back into a university. Even though some of it is online, some of it is face to face. It is a big deal to leave your business on the high street and walk back into a university—if, indeed, you have ever been to a university. We would like us to be offering something more like taster sessions to encourage the SMEs and entrepreneurs to come in and have a feel for what it is that they might be signing up to.

In summary, we think it works well when people attend. There are improvements that could be made, but we need to open it up to those who need it.

Q2   **Chair:** Dr Valero, that sounded pretty negative, all in all. Do you agree?

Are you disappointed with what we have?

Dr Valero: Realistically, this is actually a very common experience in business support programmes. Let me start on a positive note. It is great that there is a lot of attention on this issue, because we have an issue, on average, where we lag on management practices and are middling on digital technology adoption versus our key comparators. We also know that SMEs are less likely to do those things well, so it is great to have this kind of focus now.

The two schemes are both founded on the evidence about the key barriers that businesses face and the effective ways to try to address them. There is a lot of flexibility in the delivery—for example, trying to address the fact that it is very hard for small business owners to take time out of the business, there are hybrid options. I think Oxford Brookes is now doing a fully online version. Even then, taking the time out to spend on content to improve your business can be challenging when you are firefighting day to day.

The Help to Grow: Management programme is broader. It is going to give more holistic support for the entire business, including digital. It is going to include many other things that try to address key barriers, such as the specific risk to the business, by having one-to-one support and a mentor, and the peer effect, so actually learning from your peer group. Help to Grow: Digital is perhaps quite narrow. In terms of digital technology adoption, with quite narrow support focus, but also quite light touch—it is very much information provision with a bit of financial support—it may be unlikely to create a step change.

To summarise, there really is an opportunity here, with the resources going into this, to build more evidence of what works. While wholesale randomisation into the programme might not be feasible for policy reasons, there is so much within the programme that could be experimented with, to see whether one kind of messaging helps to recruit more than another, or whether one kind of delivery helps more than another. With this kind of budget, it is a major opportunity to build on all the efforts of the BEIS business basics programme, which I also had a project in, and take that forward in order to develop more robust evidence to inform how we invest in these things in the UK, but also internationally.

Q3   **Chair:** Is data currently accessible for you to look at this programme for research purposes, or is that something that you need the Department to agree to?

Dr Valero: I was on the BEIS peer review group. Ipsos MORI is doing the evaluation. That is something that is bid for by organisations for particular programmes.

Q4   **Chair:** Neil Ross, are you happy with what we have?

Neil Ross: As techUK, we represent UK technology companies, so our perspective tends to come very much on the digital side and particularly from a vendor perspective—the companies providing the software that is delivered through the scheme. Our experience with management is a bit more limited.

Generally speaking, in theory we think that this is a very important part of the UK's general business support system. There is a lot of good will towards the scheme across the tech sector. Vendors have been interested in it and engaging with the Department. However, ultimately, that good will is not infinite. Fundamentally, we think that the scheme can achieve its goals, but the launch has been quite choppy.

There have been quite tight eligibility criteria, not just for SMEs to access the scheme but also for vendors to list their software on the scheme. That has resulted in a limited number of providers that are able to put software on the scheme in the first waves. This is mainly because, unless you have a software type and a buying journey that match what BEIS has set out, it is very difficult to add your software to the scheme. We had a number of companies that looked at Help to Grow: Digital with lots of interest, but found that the engineering time and the investment that was needed to align their services with the Government's eligibility criteria meant that they were not ready to go on at this stage.

We are pleased to see that the Department seems very willing to iterate the scheme over time. This is something that we are trying to help to feed into. For complete clarity, techUK sits on an informal advisory group with the Department, to try to help steer the development of the scheme. Anything I say today is purely our views, rather than anything that reflects what the advisory board has said. Generally speaking, we have a lot of work to do, but there are quite a lot of interested stakeholders committed to pushing this forward.

Q5   **Chair:** Can you help me? I thought that, when this scheme was launched, there was a voucher that you could use to help buy some software to help you maybe improve the productivity of some of your processes. I do not think that Microsoft is included, is it, in this initial tranche? I would kind of expect it to be included. You have just said that they did not have the engineering capacity to work with the BEIS processes. Why is it so complicated? What is the problem?

Neil Ross: The way BEIS has set it up is that the software is eligible if it can follow a particular buying journey—if you can add the software into a cart, like when you are buying something off an e-commerce market or an e-store online. Very often, the kind of software that you would buy— CRMs, e-commerce, accounting—comes in a kind of quote system, or it is provided through an authorised reseller. That is very often the way that companies sell their software to SMEs. The scheme is not designed to fit that model and that means that many companies looked at it and thought, "We would have to fundamentally change the way we sell and market our software," and therefore took a step back in the initial waves.

Q6   **Chair:** Adam, that seems madness to me. A company like Microsoft cannot do an order journey that matches BEIS's aim to help businesses get access to digital software. Is that not unusual?

Adam Harper: I would not dispute that. Your view on that is something that we would share. To contextualise our perspective on this, our membership includes over 5,000 licensed practitioners who provide services to over 500,000 small businesses. In that respect, we fully understand the need for both the Help to Grow schemes and we also understand the concept for both of the schemes.

We would very much like to see the schemes succeed, because we can understand the benefit that that is going to deliver to small and medium-sized enterprises, their customers and the economy at large. However, we are concerned and have sent two letters to the Minister for Small Business identifying the concerns that we have, a number of which have already been raised.

Principally, it is the apparent refusal to change the restrictive eligibility criteria for both the schemes. In our view, that means that there is a risk that this is likely to prove to be a missed opportunity of what is a well-intentioned Government scheme that, fundamentally, could be seen as under-delivering.

Picking up on your question around the software situation, we understand, from a point of view within the accountancy field, that only three different providers are currently available. In comparison, HMRC lists over 500 software companies as compatible for its Making Tax Digital programme, including over 40 self-assessment commercial software providers. The availability is out there, but it does not appear yet to be aligned with the way in which this scheme is being supported.

Q7   **Chair:** When you have been engaging with the Department, has it given you any explanation as to why it is so restricted and complicated?

Adam Harper: There has been an acknowledgment for the original provisions that were put in place. The feedback we got is that this will be reflected on further down the line. In some of the comments that have been made, we welcome the fact that this is an iterative process. Nevertheless, if you take into account the fact that over 90% of small businesses are currently excluded by virtue of the requirement for businesses to employ at least five people, that in itself is a major area that clearly is going to have significant impact on the likely success of both the schemes.

Chair: I never really understand why we make these things so complicated, but there we are.

Q8   **Mark Jenkinson:** We have just dealt with some of this very briefly. What are the major challenges currently being faced by SMEs? How does Help to Grow seek to address—and actually address—some of those?

Tina McKenzie: There is no doubt that the Help to Grow scheme should work in a way that helps businesses to be more productive. Across the UK, we are looking at a position where we are too weak on productivity. For sure, this should work in terms of helping businesses. All the statistics show and businesses think that, with more support, they can become more productive and share best practice.

In terms of the technology, we know that, especially through covid, more businesses had to pivot and go online. Therefore, this technology support should be helping businesses not just get one or two pots within their business, whether that is accountancy or a CRM—by the way, I have never seen a CRM in my life that you can get for £5,000 or even £10,000. I am currently implementing one that is hundreds of thousands. If this £5,000 voucher helps you with your subscription, your major costs are in your implementation and set-up. That is, in fact, where most of the tech companies have their costs, as I know from rolling out three myself over the last 15 years.

There is a challenge in terms of getting digital that is interactive and can talk to technology across your business. Equally, with Making Tax Digital and going online with our businesses, businesses will be left behind if they do not adopt digital practices. Businesspeople know that.

The real challenge is the expertise in your team. It is all right if you are sitting with 200 staff; you might have an IT manager who understands these things. If you are sitting with six staff, no IT manager and trying to implement CRM and other accountancy packages, you are starting from scratch. Both these schemes should really help businesses. The challenge is that the scheme is not open to those smaller business that need it more—the ones with one to five staff.

Equally, I agree with others' comments that the digital voucher really needs to be looked at again. In each bracket, there are five to eight suppliers. That is not good enough anyway, in terms of competition around the UK, if you ask me. We know that there are several hundred suppliers for Making Tax Digital on the HMRC website, so there are things to be looked at.

Ultimately, small business in the UK needs to focus on productivity. Businesses need to get digital, because we know that that increases their opportunities to be online and to sell more, especially when we have such challenges along the high street. We have had double the number of businesses go into bankruptcy this quarter than this time last year. Equally, in 2019, 2020 and 2021, more businesses and businesspeople went online and went on to do courses like this. We have to ask ourselves why the subscriber numbers are so low when more businesspeople than ever have, through the covid period, gone online to upskill themselves. They get it. They know they must. They know they need to go digital.

It is about how we can tweak this to help businesses sustain themselves and stay alive. It will not help the current crisis with inflation, supply

chains, covering business rates or energy in these tough times. There is no support there for small businesses for energy. Those are the big-ticket items, but, ultimately, having somewhere they can go and talk to other business owners, having practical solutions put forward to them, having help and support, and some digital support, will help them on their journey.

Q9   **Mark Jenkinson:** You mentioned the cost of CRM being prohibitive on the accountancy side. I struggle to see that many people with six or more staff would not be using some kind of accountancy package already. Does that open up avenues for productivity?

Tina McKenzie: It depends on the type of business that you are talking about. They may not be using an accountancy package, but they are giving all their books to their accountants, who are using the accountancy package. That is normally what we found: the accountants are doing a lot of it for the smaller businesses. If you are in business today and do not have some sort of an IT platform, you are going to struggle, especially with the amount of business going on, even in the marketplaces online, where people are selling on platforms like Facebook. It would be unusual if a business was not going online.

The challenge is what you really need. Do you need a sophisticated CRM system, if you are working, for example, in a shop where you have six staff? Is it a really decent accountancy package that has some add-ons— other features for your payroll and so on? If you are in a small manufacturing environment, is it something more to do with e-commerce, which has not been rolled out just yet? That could be really useful for the smaller manufacturers around the UK.

Dr Valero: I agree. It is a very challenging time for British business and really it has been since the financial crisis. Our productivity performance has been particularly poor versus other countries. We have had a lot of uncertainty, which deters investment and means that businesses have to focus on trying to deal with whatever the crisis is. In some sectors, uncertainty with Brexit would have prevented businesses from taking time to focus on digitalisation. There was covid, which induced some businesses to go digital. Now there is the current uncertainty and rising costs. There is also the transition to net zero, which affects some sectors more than others.

There is a lot of change happening this decade. It is really important for businesses to be able to deal with that change on a day-to-day basis, but also to plan how to have a strategy to deal with all these different changes in an efficient manner through digital technologies that will enable them to track their data better and manage risks. Underlying a lot of this is skills. We know that there are skill gaps in managerial terms but also, as Tina said, among the workforce. We know that both manager and workforce skills matter for effective implementation of management practices in firms. Because of the complementarity, if you have these modern, dynamic management practices, more skilled workers are more

likely to be able to effectively enact them through the business. There is the skills gap issue. There has been a decline for quite some time in business investment in on-the-job training.

All this combines to a situation where we know that we need to address these problems, but in a way that businesses can actually access. Covid created an opportunity in this regard. Our surveys and others have shown that businesses adopted new technologies. It was not all working from home technologies; there were other technologies too: e-commerce, CRM systems and so on. This is the moment to make sure that that was not a one-off but can be embedded and leveraged to improve digitisation in businesses going forwards and help manage all these other uncertainties and transitions along the way.

Neil Ross: I agree with the comments that have been made. The focus of the scheme to zero in on cost is the right one. The last time we saw survey results from SMEs about why they were not adopting new technology, about 60% to 70% said it was because of a combination of cost and economic uncertainty. That was during the height of the pandemic, so we would expect something similar now with the combination of concerns around cost and the uncertainty due to the cost of living and supply chain crises.

The focus on digitalisation is correct. The survey results from our members show that, while during the pandemic lots of businesses listed their reason for adopting digital service as covid, the level of demand has remained the same but they are listing other reasons as well. That shows us that the digital adoption that happened during the pandemic was not a kneejerk reaction, but more of a proof of concept. That is where businesses are going at the moment, but we need to overcome the barriers to adoption, which fall into cost, the eligibility criteria and so on.

On the digital scheme more broadly, it has a fundamental choice to make at some point in the next few weeks or months. As Tina has outlined, when you get to the larger end of the SME spectrum—the "M" in "SMEs"—the costs for a CRM system, an accounting system or even an ERP system, which is not covered at the moment, are very high. It can be £25,000-plus and well up to £100,000.

Chair: What is ERP?

Neil Ross: Enterprise resource planning, so a catch-all scheme that covers all parts of the business. The £5,000 voucher does not quite cut it at that level. Also, the schemes are so complicated that it would be very difficult to design a voucher scheme that would meet what you would need there.

For us, the thinking is that BEIS will probably at some point soon have to choose whether it focuses on the "S" of the market and radically expands the eligibility criteria for SMEs, cutting it down to two, opening up the types of software available and so on, or thinks about how it addresses

the "M" of the SME bracket. That might mean changing the scheme to look at redress through the tax system, a bit like an R&D tax credit or some kind of productivity credit.

Adam Harper: Picking up on the points that have already been made, evidently during the pandemic businesses adopted digital technology out of necessity. This essential and exponential tech-led growth has, in itself, played a part in contributing to the UK's deficit in digital skills.

A world skills report published last year shared research results that stated that 60% of businesses were of the view that their reliance on advanced digital skills was likely to increase in the next five years, with 88% of young people believing that digital skills will be essential for their careers. However, the number of young people taking IT subjects at GCSE has fallen by 40% since 2015 and less than half of UK employers believe that young people are leaving full-time education with sufficient advanced digital skills.

The knock-on effect of this for small businesses is that the skills that are there and the individuals who possess them are likely to be hoovered up by the larger businesses, which puts even further pressure on small business. I would therefore recommend that the challenge that has already been surfaced about the eligibility criteria is looked at as a matter of urgency, in order to ensure that small businesses do not get further left behind.

On top of some of the suggestions for things that could also be considered, it is our understanding that currently resellers and partner networks are excluded. They would fulfil a fairly important role in terms of bringing their experience into the area, but also it excludes an army of potential recruiters for the scheme, which is something that it might be worth looking at.

We would also recommend broadening the range of costs that the £5,000 of available funding can cover. It would not in itself result in an increase in costs for the taxpayer, because the £5,000 limit would remain, but it would enhance the effectiveness and participation rates for the scheme. Currently, I think that licensing costs are covered, which is the smaller cost in adopting digital technology, in comparison to far greater costs of installation, training, advice and consultation. Those are things that, again, we would encourage be looked at.

Coming to the management scheme, in terms of the challenges that we are aware of that small businesses are encountering, as we have already mentioned, we support the concept of the scheme and recognise the role that it will play in enhancing skills among small businesses. In our area, we are very conscious of challenges around financial management. Taking into account also challenges that small businesses encounter with regard to things like late payments, we would contend that there is real scope to enhance that financial management skillset within small

businesses to make them more robust in their approaches. I fully support the idea that extending the eligibility criteria would help with that.

Q10 **Andy McDonald:** Moving away from the challenges that are being faced, can I ask Anna this question? Thinking about growth and productivity, and putting aside the technical access issues and the scope criticisms that have been made, more broadly, why are management skills and digital adoption so important for growth and productivity in the UK economy?

Dr Valero: The international literature has shown that they matter for growth. We know that they matter. There is some causal evidence as well. It is challenging to get that, but randomised controlled trials in various places have shown that, if you improve management practices at the firm level, productivity improves, and similarly with technology adoption.

We know that it matters and we know from international comparisons that the UK does worse on these things on average. Also, in the most recent comparable data, we have a thicker tail of badly managed firms compared with the US, for example. That has led to this increased focus here. On digital, the European Commission DESI data is the best available that I have seen. There might be something newer. It was for 2019, so pre-Brexit. The UK is in there and is middling among the European countries covered. You can see again that smaller businesses tend to do worse, and it is the same in management practices.

There is this focus, basically saying that there is this gap in productivity, and a gap in the things that we know matter for productivity, so let us try to deal with it. It becomes slightly tricky when we are thinking about the distribution of productivity across firms in the UK because we know that there is this massive gap between the best and worst firms. Whether that is growing over time is not clear, but the top firms definitely appear to be pulling away from the middle, or at least a number of different datasets suggest that, each with their own caveats.

A question is, if we are trying to raise aggregate productivity, where we should be focusing the most effort. That might be a slightly different objective from improving many very small businesses, with one or two employees, where we might want to think about improving their outcomes for their own lifestyle, wage and income purposes. If we are thinking about aggregate productivity, the barriers faced perhaps by slightly larger firms to growing, becoming big, more productive employers and moving towards the top could be where there are bigger gains.

I do not think these two things should be in conflict. They are both important objectives. It is just that, on an accounting basis, those things need to be considered. That links to what Neil was saying. Sometimes the needs of those different types of businesses are very different. When you try to put them in the same room to talk about business problems, their experiences are very different. Especially if we are thinking about the

peer groups element of Help to Grow: Management, they might not necessarily consider themselves realistic peers to learn from. Perhaps some kind of segmentation and tailoring could be useful.

Q11 **Andy McDonald:** I have a supplementary on that. The TUC and individual trade unions have done an awful lot of work in the digitalisation arena. What is the extent of the conversation with trade unions, either collectively or individually? They are covering an awful lot of the things you are discussing in very great detail. I wonder to what extent this is drawing on the intelligence there and to what extent there is collaboration, because there is an awful lot of common ground here.

Dr Valero: I can speak to the Economy 2030 Inquiry, which we are doing in collaboration with the Resolution Foundation. We have Kate Bell from the TUC on our advisory group. When discussing these issues, we very much try to think about them from the perspective of the firms and the workers.

Ultimately, of course there are some technologies that might replace workers. The evidence overall shows that, if adopting technologies in a way that makes your business grow is the outcome, people might change their tasks or job, but that does not necessarily mean that a job is lost. It is not just about the amount of technology adoption; it is about how it is done within organisations as well.

Q12 **Tonia Antoniazzi:** You have spoken a lot about barriers to digitisation. Can you describe the barriers that a small or medium-sized business might perceive there to be? There is a perception, if I were a business owner, that there would be barriers to me and they would be preventing me from adopting new digital technology. Are you looking at what they are thinking? What have you got to say about it?

Tina McKenzie: I am speaking as a small business—an SME—in the UK, with experience today and for the last 25 years. I am also speaking on behalf of 150,000 small and medium-sized businesses around the UK. It is a different experience in different parts of the UK. From what our members are telling us, the scheme seems to be working better in Scotland, where it is open to a wider number of people.

If you talk to small businesses about productivity and what a successful business is, they do not talk about productivity being their goal and their aim. Small businesses around the United Kingdom think about the impact that they are having on their local community and their family business. The bigger the business gets, the more you talk productivity.

I am very familiar with talking about things like operating profit per FTE, or gross profit per FTE, which I am sure Anna knows very well, but in a smaller business they are not necessarily the things you look at to decide whether your business is successful. You are also looking at your members of staff. It is usually more of a family-type environment. If something happens to a member of staff, that is defined as a good or bad

day in your business, whether you lose them or they get sick. They are so essential to your business and usually the length of service is pretty long in a local community business.

Through covid, we saw so clearly that local communities really relied on these small businesses, even to deliver to the elderly. When all other avenues failed, the local business could step in to support and help. They really felt that it was their duty to do so.

We have to be careful about some of the terminology, because businesses will not look at it as productivity, but they will look at it as success. Something else to bear in mind is who it is that is talking to the business. Most of the feedback we have on the courses is generally good when people get to them, but one improvement that our members feel like we need to make is to have an actual businessperson involved, talking the language of business and not academia—for example, someone from your local community who has been a small business but has gone on to be a medium-sized business. How did they get there? What was the route?

You do not find most of this stuff in a textbook. Most businesspeople will tell you that, because most businesspeople are taking their decisions based on level of risk, access to finance, knowledge about finance and so on. I am glad it was mentioned. When we talk about productivity and the challenges, we have seen from the studies of the British Business Bank and the work we have done with it that a lot of British businesses are relying on things like their overdraft or a credit union. They are not actually going for some of the financial products that, for example, if you were in the USA, you would be completely au fait with, because there is much more awareness. It is maybe a more mature market. There is certainly much more awareness of financial products and how to use them.

It is not an easy answer, but small businesses look at productivity and define success slightly differently from, for example, what is on a balance sheet or what is in your cash flow. Some others may look at what the return to a big shareholder is. They are looking at whether they have done a good day's work, whether they are supporting their families and their employees, and whether they are giving back to their communities.

Sometimes, they are not selfish enough. Sometimes, they are not thinking, "How do I take this brilliant business from one shop to three, to seven, to nine?" They are not necessarily thinking about how to grow things bigger. It is often what we say about women in business and diversity: if you see it, you can be it. If they can talk to real businesspeople who have made that journey, and even better if it is in their locality, they can aspire and pick up the tips, as well as having the support from the academic community.

Q13 **Tonia Antoniazzi:** The barrier is that they do not have access to other people who they have seen use this scheme, or they do not believe that

digitisation will help them.

Tina McKenzie: There is a lack of awareness, for sure, on the digitisation. There is also a fear. When someone comes to sell you a digital CRM and you have never used it before, what questions are you asking? What extra costs are there in terms of implementation? What consultancy costs might there be? What even are consultancy costs? How long will they last? Then you get into your subscription. Interestingly, with a lot of these programmes, the subscriptions can be a few pounds per person per month. That does not sound like a lot to a small business, but that is not necessarily where most of the costs are. It is a lack of awareness and information.

Dr Valero: I can speak about this from the perspective of some surveys we have done—a couple of surveys with the CBI and some surveys on retail and hospitality SMEs in London with the GLA. It is intriguing that, even economy-wide versus a very specific sector or place, the financial constraints—not just the costs of the technologies but the costs of implementing them, the reorganisation of your business and so on, and the skills constraints—come out.

There are skills, broadly defined—of workers and managers—but related to that is information. They are slightly separate. You can be a very skilled manager; you just do not know about the different technology options. It is a bit confusing. Technology is changing all the time. They are sightly different barriers. You might think that a more skilled person can deal with that uncertainty on the information better, but still they are so busy, and so taking the time to go through the information, sift through it and understand what is the best option is very difficult. We definitely found that time barrier.

We tried to implement a programme looking at tried and tested AI technologies for retail and hospitality—marketing automation technologies, or chatbots, which are a subscription service. We found it very hard to reach businesses. With even the businesses we reached, we found it hard to get them to come along to the support we were offering them. No one took up the voucher. It is very hard in this space.

As Tina said, it will vary by different types of businesses in different parts of the country. Specifically in the very small businesses, it is making this as simple and de-risked as possible. The macro uncertainty will influence decisions, but the technological uncertainty, given that technology evolves so rapidly, is also something to address.

Neil Ross: There is not a huge amount I can add to what Anna and Tina have set out. From the surveys we have seen, SMEs that are interested in digital adoption tend to know what they want and have good expectations that it will boost their revenue and profits. The issue always came down to uncertainty and cost. In a sense, the way the Help to Grow: Digital scheme is designed to reduce that cost, particularly at a time where cash flow might be low, is good in theory.

It is the eligibility criteria and the lack of options that businesses face that can be the problem, if you are thinking, "I know what kind of software I want to adopt, but I only have a very small subset of options available to me." It is 25 products across three buckets at the moment. That is not a huge range of options, given the diversity of the UK digital services market.

Having worked in digital adoption and business resilience through Brexit, the pandemic, the supply chain crisis and so on, I know that adopting these technologies that give firms information often makes them more resilient. Given the uncertainties we are likely to face in the years and months ahead, with the change to global supply chains and various other things, this kind of adoption will be more and more important for the broader space of the business community.

Tonia Antoniazzi: Adam, do you want to add anything to that?

Adam Harper: Yes, just a few things to summarise from our perspective. I would completely echo what you have heard: the fundamental lack of awareness; the skills shortages and constraints around access to skills; the perception and, indeed, reality around costs; uncertainty as to where to access support; and, aligned to that, the lack of security expertise—those are all critical factors.

I do not think that it is necessarily exclusive to digitisation. We have also been looking at the role that small businesses are going to be required to play as part and parcel of the journey towards net zero. If you were to look through lack of awareness, skills challenges, concerns around costs, uncertainty around where to access support, those are equally applicable to the challenges that small businesses are facing in their contribution towards that net zero element.

There is one thing to reflect on from our particular industry. I can recall, going back to when Making Tax Digital was first announced, we engaged extensively with our members to bring them up to speed on what that would mean for them and the role that they would be looking to play on behalf of the 500,000 small businesses they look after. Initially, there was some resistance among our membership, based on many issues similar to those that have been touched upon here.

I look back now and reflect on the journey that we have taken our members on, the way in which they are very actively engaged in the digital space, and the way in which they are able to bring that skillset in support of their own clients. It is a journey that we can take people on. A lot of our licensed members are small business themselves, but it takes time, communication and effort. At least we can see the positive outputs that have come through within the accountancy profession, specifically with regards to our members. That is why we are keen to support this, because we can see the impact it can have more widely.

Q14   **Tonia Antoniazzi:** Adam, my next question is for you and Tina. Has

there been a lot of enthusiasm among your membership for the scheme?

Adam Harper: There has definitely been enthusiasm and we have obviously looked to promote it. For many of our members, and indeed many of their clients, currently, because of the eligibility criteria, it is simply not open to them, so that enthusiasm is tempered with the frustration that they are not able to access it.

Tina McKenzie: I would agree with that. Anecdotally, we are hearing some positivity and some of our members are actually involved. I worked with a university on getting its accreditation to deliver this, so the university sector is reaching out. Our survey findings—the most recent are from March—show that 1.7% of SMEs in the UK have used Help to Grow, 1.2% in the digital and 1.2%, or even less, in the management. The awareness is really low, but anecdotally there is some good feedback.

Q15   **Tonia Antoniazzi:** It is low. What information is available on the uptake of the scheme? Is there enough out there?

Tina McKenzie: We worked really hard with the Department in selling to our members. Of the 150,000, some of them have two or three businesses, so you are capturing a good number of businesses there. There has been a good amount of—let us call it—advertising of the scheme, but it is not really getting to on-the-ground users. I also think that the scheme needs to be, as we said, opened up to those who need it most. Someone who is sitting with 225 staff has very different needs from someone who is sitting with three.

Q16   **Tonia Antoniazzi:** How can the Government target the scheme better at potential participants?

Tina McKenzie: There needs to be more information out there. We cannot leave it to the universities. Some sort of a wider advertising campaign is needed, and a campaign that hits places where we know that the SME community is. We have provided information to that extent. We can do so again, working with the Department on that.

It is not just awareness. At this time, anything that you are going to the small business community with needs to be simple, easy messaging. It needs not to be filled with barriers and easy ways for them to say, "That is not for me. I am worried about this and about that." We need to make it easier for them

Q17   **Tonia Antoniazzi:** With smaller businesses, the need is to be able to see what is happening next door on your high street and see other people using it. Adam, what information is available on the uptake of the scheme and how can it be used better by the Government?

Adam Harper: We have struggled to get access to the details with regards to the take-up. I know that there was a question asked recently, I think on 23 March, inquiring as to what the level of take-up has been

for the Help to Grow: Management scheme. The Minister for Small Business indicated that the intention was to publish the data on take-up and completion of the programmes later on in the year. There must be availability of that information.

If the take-up is not particularly significant, there might be a concern about publishing that detail. Surely publishing that information would enable us to rally round and seek to encourage further take-up. A major concern for us would be that there is a perception further down the line that these have not been sufficiently successful as schemes and that they will be withdrawn. We fundamentally contend that they are essential. Greater visibility around the take-up is needed.

Coming back to channels, as has already been mentioned, numerous channels are available. We have a reach, through our own members, to a significant number of small businesses and we would be happy to work with the Department on that. Again, it comes back to the eligibility criteria, unfortunately.

Q18 **Paul Howell:** You have touched, as we have gone through this, on the difference between microbusinesses, small businesses and medium businesses. I am going to give you some observations on what I have heard so far. The question that is going to come at the end is how the schemes are working for these three different types of businesses. Are the schemes working for them, and how could they be changed—different ones for each of them?

To try to give a little bit of context, one of the first things to be raised was the challenge of people going back into an education system. It is 25 years since I went and did a part-time MBA from the business I was working with. The first lecture of that was just, "Whoa, what am I doing here?" I was working for a reasonably sized company, just going and doing something. How do we demystify that for someone doing that as an SME, or particularly as a microbusiness? How do we de-scare that, in terms of the specifics?

I think there is a natural message out there in the marketplace about how scary it is to engage with new IT if you do not have any sort of position on it. Again, how do you demystify that for people and make it so that they have to confidence to go and get into that?

Neil spoke earlier about ERPs, or whatever. For the really small businesses, the biggest growth is from being nothing to doing something—starting up in the first place. At that point, I think you are right: I do not think that the term is "productivity". The term is "survival". It is about survival, cash flow, inventory management, software that you need to get to help you manage your inventory if it is complex. It is all these sorts of spaces. It is different ones for different things.

I know I have been a bit waffly, but across that breadth of subjects, how do we get the different types of business supported through these types

of schemes to get them into a better place?

Tina McKenzie: I am not going to take it in order, if that is okay.

Paul Howell: Yes—I didn't.

Tina McKenzie: Digital is really interesting. If we look at a small business 10 years ago, even getting into a self-employed taxi or buying something on a market stall, you really could not have done that with a credit card, could you? We look today at the amount of small businesses that have adopted. You have all seen the little white boxes out there, because we are all walking around without a lot of cash these days.

That was not driven by the small businesses. That digital technology came along but was only used and adopted by small businesses when it became easy and affordable. Consumers wanted it, but it was not going to be adopted until it was easy and affordable. Even if you jump on one of those bikes in Covent Garden—what are they called again?—they have electronic payment readers. When digital solutions become easy and affordable, the small business community of the United Kingdom adopts them.

Q19   **Paul Howell:** I will interrupt you just for a second. There was a drive towards digital engagement, using contactless payment, for example. That was coming in slowly, but then covid came along, and that stopped people wanting to touch and make contact with each other. Sometimes it is a left-field engagement that drives providers of the software to push them into that place.

Tina McKenzie: I do not want to say anything about covid being positive, but it has certainly encouraged the small business community to adopt digital practices. To survive, a lot of them had to. That is the first thing. When we are looking at this as a Committee and as a Department, we have to focus in, going back to your question, on why Microsoft—one of the most well-known, somewhat trusted brands—is not here.

You make a really good point about education. Remember, there are so many people in the United Kingdom today who open their businesses when, potentially, they have been made redundant in their 40s and 50s, or have ended their careers and decided to go on and do something different. Maybe some of them are lifestyle businesses. There are so many people who are so far away from the world of learning as they traditionally know it, and maybe did not necessarily have a brilliant experience, hence becoming an entrepreneur and starting businesses.

You find that most entrepreneurs are not necessarily great academics. Anna would probably agree. That is not to say that they cannot be both, of course, because they can be anything they want. Education is really important. That is why I said to the university I work with, and I have also had feedback from some of our policy advisers who are working with other universities, "Don't forget to get real people in the room"—when I say "real people", I mean real businesspeople—"who can talk through

how they grew and what they adopted in terms of digital services." They are more likely to trust and listen to them than, potentially, what is in a book or given to them by a provider. That may not be trusted. Then they also have a list of worries about cyber-security and thinking, "Is it relevant for my business?"

I will maybe stop there, but, finally, micro, small and medium are worlds apart. When you look at the 5.5 million businesses in the UK today and the large percentage that are just owner-managers who may have one staff member, that is such a large population. They, more than any other part of this group, need this support. That is why it is working well in Scotland, because they have opened it up to all. They are actually over-subscribed, whereas we cannot seem to get people to get subscribed.

Q20 **Paul Howell:** I so endorse what you are saying. The ability to get particularly the small businesses into it will remain a challenge. I am trying to remember the phrases that Neil used in terms of barriers to adoption, but the one he did not mention was time. Particularly if it is only you running the business, how do you get an efficient opportunity to bring in this learning? Anna, would you like to build on anything? We do not need repetition, but is there anything to build on?

Dr Valero: It comes back to the ultimate objective, in a sense. Yes, when you look at the number of businesses, they are overwhelmingly very small. When you look at the share of employment, there is obviously more employment in some of the larger businesses, so that it is a different distribution. If we care about aggregate productivity and the wages and living standards of workers, it is a slightly different equation. That fundamental objective is important, and, again, the different objectives matter.

If what we are thinking about is entrepreneurship policy to encourage businesses to start and to survive, that is a slightly different set of questions from, "How do we get existing businesses to address the barriers they are facing to improving their productivity and growing?" In that sense, I have experience of designing one business support scheme, and we specifically said that we wanted the businesses to have been in operation for at least a year and to have at least one employee. We had some thresholds, because there is such a high risk of failure in those early stages. If you are focusing on the business being more productive, you want to have a high chance of tracking that through.

There are differences in what these different size bands of businesses need at their stage of growth. There are also differences—I think that we have already mentioned this—in the person in the business who is going to benefit from the intervention. If you are in a larger medium-sized business, it is likely that there will be an IT person who has specific skills in that. In a microbusiness, it might be the owner who is doing all these things. That suggests there that is quite a different level of pre-existing knowledge.

Going into some academic or learning environment will definitely be more daunting for someone who does not know much at all about digital, versus an IT professional. That is, again, where this tailoring will be important. Even within a programme delivered in a specific setting, maybe it is about how you think about creating the cohorts, creating the groups and tailoring the content in that sense.

Q21   **Paul Howell:** Just to interrupt you slightly there, are you saying that, when you are looking at digitalisation, there is probably a need for a segmentation of view between micro, small and medium? When it comes to Help to Grow, you are almost missing the first one off, because they are too busy establishing themselves and your Help to Grow is focused on the slightly bigger category.

Dr Valero: That is the way it is currently set up and I can understand the justification for that. I guess that the support was designed to raise productivity and have a higher chance of being aimed at businesses that will still be around, so we can monitor the growth of those businesses. I am not saying what is right or wrong, because it is also important to encourage entrepreneurship. We know that that is a source of innovation and we need innovation in the UK economy. It is just exactly what the intervention is and how it is targeted that will be the determinant.

It is not just size. BEIS developed really nice stages of technology adoption, so you can classify businesses in terms of what stage they are at. Maybe they have not thought about it at all. Maybe they have started thinking about it. Maybe they have started exploring options. Maybe they have already adopted something. That might be the more relevant way of differentiating businesses, in some sense.

Q22   **Paul Howell:** Is there also something that says, for digitalisation in particular, that you are creating a platform for growth? If you, as a microbusiness, have a digital platform, your capacity to grow is probably better than if you have not. It is then how you utilise that when you are talking about the growth agenda itself. That is when you go to the other side of the equation, if you see what I mean.

Dr Valero: In today's world—I would agree with Neil—having a digital platform will enable you to grow.

Paul Howell: Neil would say that, wouldn't he?

Dr Valero: That is today's world. We have seen an explosion in e-commerce. We have seen remote working. Coming with remote working are better systems, monitoring and the data to be able to make strategic decisions and to make everything more streamlined. There are challenges in this, but a business in today's world that is more digitised will be more resilient to the shocks and able to make better plans. There is a lot of discussion on this, in terms of the interaction between digitisation and net zero as well.

Neil Ross: Obviously I would say that digital adoption is hugely important.

Paul Howell: I agree with you as well, by the way.

Neil Ross: If you look at the business strategies of any major trade union or business group, from finance to retail to small businesses, almost all of them will focus on the benefits digitisation can bring and targeting that at smaller companies, where uptake is less, so it is not just a tech perspective; it is a general, economy-wide perspective.

I will make three broad points, because I do not have a huge amount to add on top of what Anna and Tina have said. If you are going to change the scheme to focus on smaller and microbusinesses, it has to be about inclusivity and broadening the eligibility criteria—lowering the eligibility criteria for businesses from five to two, and allowing the voucher to be used to buy multiple or bundle bits of software, so you can buy e-commerce plus CRM, for example, to broaden out that bucket you can capture people with.

If, instead, you want to look at medium-sized businesses, given the capitalisation of the scheme, you would probably have to increase that. You would probably have to increase the level of the voucher so that it is seen as worthwhile, and you would have to integrate much more sophisticated buying journeys that do not require the company to list the price. Ultimately, it will be a quote. There will be integration costs and so on. Those are the choices the Department will have to make when it comes to who it is going to target the scheme at. Given the capacity of the Department, it may have to pick one or the other.

The final point I would make is on awareness, which was raised earlier. If you can get people enthusiastic about this scheme—companies, authorised retailers, accountants—the Government cannot do everything in terms of marketing, but you will get a general push from the sector and the business support sector to deliver that scheme for a broader brush of people. The Government should be thinking more about not what they can do, but how they can stimulate a broader awareness raising campaign.

Q23 **Paul Howell:** Do you have anything to add, Adam?

Adam Harper: I just have a couple of observations on the discussion that has taken place. The point that Dr Valero was making about the different stages of digital adoption being a mechanism to segment the audience was quite appealing and one that we had not really considered previously. By the same token, you made the point about emphasising the distinction between those businesses that are in the start-up phase and those that are looking for greater levels of consolidation and growth. If you take into account the small business failure rate, depending on who you believe, it could be anything up to one in five businesses that

fail within the first five years. Clearly, the role of digital adoption and the part that can play is going to be critical.

I would like to make one other point about another exclusion that I do not want to lose sight of. In the UK, you have around 170,000 charities, and they are primarily small and medium-sized entities themselves. They make a significant contribution to the UK economy and employ around 900,000 individuals. They are currently excluded from participation in the scheme. Another point that we have made in the past is that removing their exclusion would help to increase take-up, but also help to increase the economic performance of the charity sector.

Paul Howell: You have covered it nicely. Thank you very much.

Q24 **Andy McDonald:** Can I turn to the Scottish question? We have heard an awful lot about the DigitalBoost development grant in Scotland. How does the Help to Grow scheme compare? Perhaps Neil and Tina might be able to help me with this one. I have heard what you have said thus far. Are we saying that there are some lessons that could be learned from the Scottish experience?

Tina McKenzie: It is open and available to all SMEs, including those with one, two or three members of staff, which is really important. Also, there is a wider range of technology. If a business needs a technology and can make the business case for it, they have a wider framework where you can go and say, "Actually, I need this" and they will listen to you. They are taking their evidence after the fact, seeing what the small business community demands and needs, rather than dictating it in advance. That is what we understand.

Neil Ross: In a sense, DigitalBoost and Help to Grow: Digital are trying to achieve the same thing, but starting from different destinations. Help to Grow: Digital has used a lot of peer-reviewed literature—stuff that Anna will be familiar with—as well as surveys that have been gathered, to identify three categories of software that it thinks can boost productivity the most. In some of the surveys we have seen, those are the three categories of software that tend to rank very highly. Then it has deployed a programme on that basis. Its issues have become the eligibility criteria and actually getting hold of the software in the first place. It hopes to iterate that and grow over time.

DigitalBoost, on the other hand, had a £10 million fund, which it distributed on a relatively light eligibility criteria check. The Scottish Government are now reviewing the evidence they have gathered from that to build a more tailored and focused scheme.

Both are trying to get to the same place. They have just started from different destinations. We would hope to see the Scottish Government and the UK Government work together to identify where there have been successes in Help to Grow: Digital and where there have been successes in DigitalBoost. It is also worth flagging that there are similar schemes in

Northern Ireland and the north-east of England. There are a variety of schemes being worked through the UK devolved governance model that could be used to help build more effective schemes.

Q25 **Andy McDonald:** There will be that assessment of which works best and what the lessons to be learned from all these different iterations of the schemes will be.

Neil Ross: I have no inside knowledge about what the Scottish Government or the UK Government will do, but I would like to think so.

Q26 **Andy McDonald:** Moving on to technology suppliers, Neil, you touched on this, and the Chair has touched on the blocking out of Microsoft. Is it the case that there are some barriers for suppliers to take part in this? Do you want to say a little bit more about that? That seems to be regularly referred to. Is there anything the Committee should know about? There seems to be a major problem.

Neil Ross: This is probably the main reason why you do not have more diversity on the platform. For example, let us take accounting. Say you are a technology provider that already has a product where the price is listed, it is a subscription fee, and it is relatively light to implement. That is perfectly set up for Help to Grow: Digital. It can be added to the platform, it can be claimed and the voucher can be put back against it.

The difficulty is if you have software options that do not necessarily fit into those buckets or do not have a straight pricing structure—for example, if there are different options to add to it, it involves a quote, or it involves more discussions with the SME itself. These are, effectively, ruled out of the eligibility criteria. Many companies decided to wait and see how the scheme goes before thinking about engaging with it, because there is an intention to evolve it over time.

We have had a bit of a chicken and egg situation, where some companies have taken a step back to wait and see how the scheme is going. That has meant that now we are having a discussion about whether it is successful. Our suggestion is to really broaden the eligibility criteria and try to crowd more providers in. That is, ultimately, what is most likely to boost the success of the scheme.

Q27 **Andy McDonald:** Is that shared? Everybody else, does the scheme have the right types of software? What else might be included to suit businesses?

Dr Valero: My personal view, based on the evidence we are seeing so far, is that digital is a broader thing in a business. With the remote working revolution, there seems to be a certain consensus emerging that there will be some extent of that. There are still massive benefits from face to face, but many workers and firms are quite happy to have some remote working. This leads to a lot of technological issues. You need to upgrade your hybrid, you need to have the right co-working software, and so on.

We are still waiting to see the impacts of these things on productivity over a longer timeframe. Certainly, surveys suggest that both managers and workers consider that it is positive for their productivity. It seems to me that we should not waste some of the things that have happened, which also seem to be associated with improved work-life balance, and perhaps more flexibility and allowing women or carers to do jobs that were not accessible before. To me, that is part of this overall picture of digitisation. It is a shame that it is missing here.

Tina McKenzie: I concur. The feedback we have had is that there needs to be a broader range of technology. We would even be a little bit cheeky and go a bit further and say, "Don't just open it up to software." I return to the point that if you want people hybrid working, we have such a challenge with getting labour at the minute in business that maybe we could look at some hardware as well.

Neil Ross: There are three bits of software that, ultimately, look like they might be the next thing for the scheme to look at: HR and payroll; cyber-security; and advanced collaboration and communication software, which might also include some kind of marketing system. Equally, it is not just adding software; the eligibility criteria is most important. The best way of getting the flexibility you need is allowing add-ons to be added to software when you are buying it, allowing you to buy more than one, and, as I say, crowding in not just more technologies but also more suppliers, including authorised resellers, and making sure that the market is more diverse and SMEs have more access points.

Andy McDonald: Adam, would you like to contribute?

Adam Harper: I am of the view that my colleagues have very adequately responded to that. I have nothing in particular to add. We completely agree with the points that have been made.

Q28   **Paul Howell:** Neil, we have read in the briefing notes for this session that smaller businesses, in particular, can sometimes be intimidated by the fact that they have to buy a package this size that covers everything. Do you think there is a role for the suppliers to be more willing to offer a segment of the package, if you like? We all know the complexity of CRMs and ERPs, but they only actually want a certain bit, because it is the bit that will help their particular business in their particular way. Do you think that the suppliers need to move in that direction as well?

Neil Ross: On the platform itself, you will find that we have basic and advanced options. Again, it comes back to the eligibility criteria; there are quite narrow options. We would say that, if the scheme proves to be more successful, you will get more buy-in from the broader technology vendor community and they will be more willing to commit engineers and resourcing time to align their products with the scheme, giving SMEs more options.

As I say, it is a bit of a chicken and egg situation. There needs to be a bit of push and pull from BEIS to broaden the eligibility criteria a bit and bring more providers in. That will give you more diversity in the system. I think that we have two categories that are live at the moment and there are only 25 options. Those are from five different suppliers, so it is very limited. We want to see that increase multiple-fold to give SMEs more options.

Paul Howell: I get the eligibility calls and things like that, but I am on about the actual provision in the first place as well. I feel that there is possibly a situation whereby the potential companies and businesses, whatever they are, are so intimidated by the complexity of the offer that they do not even want to go there. That is the concern I wanted to flag up.

Chair: Thank you all for your contributions. We all want this scheme to work, for obvious reasons, given the current economic circumstances. Your evidence today will help us write to the Department to ask for some more information, but also to try to encourage it to improve the design of the scheme. We will be writing to Ministers off the back of today. Thank you to all four of you for your contributions.