

**Business, Innovation, Science and Trade
Committee**

Small business strategy: Second Government Response

Fifth Special Report of Session 2026–27

HC 748

Business, Innovation, Science and Trade Committee

The Business, Innovation, Science and Trade Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Business, Innovation, Science and Trade and its associated public bodies.

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Fifth Special Report

The Business, Innovation, Science and Trade Committee published its Seventh Report of Session 2026–27, [Small business strategy: Government Response](#) (HC 122) on 7 July 2026. The Government’s response was received on 1 October 2026 and is appended below.

Appendix 1: Letter from the Department for Business, Innovation, Science and Trade

I am writing in response to the Business, Innovation, Science and Trade Committee’s report, Small Business Strategy: Government Response, published on 7 July 2026.

The Prime Minister recently said his government will be a circuit breaker by bringing down costs for business, creating a better environment for firms to grow and invest and delivering good growth in every postcode. The new offer is centred on greater certainty, clearer long-term direction, faster decision-making and a stronger business voice in shaping policy.

The Government welcomes the Committee’s view that small businesses are critical to economic growth. SMEs play a vital role in supporting jobs, investment and innovation. Through our Small Business Plan, Industrial Strategy and more recent announcements, we remain committed to creating the conditions for businesses to start, scale and succeed whilst taking steps to bringing down the cost of doing business.

The Committee identifies areas we appreciate remain challenging for business, including procurement, late payment, taxation, energy costs, business crime and bogus self-employment. These are areas where we

have and continue to make considerable improvements through targeted action. Since the Committee's original report, we have published an update on how the Small Business Plan has supported small and medium- sized businesses to start, scale and grow over the past year. Key achievements include tackling late payments through the Small Business Protections Bill, increasing access to finance with the British Business Bank's £25.6 billion capacity, and supporting over 750,000 businesses through the new Business Growth Service. The Prime Minister has also recently announced a series of new measures aimed at supporting small businesses. These include the removal of VAT from domestic energy bills from 1 October, benefiting households and smaller businesses that are not VAT-registered, and 20 per cent business rates relief for pubs, clubs and music venues.

We look forward to continuing our constructive engagement as we deliver the Small Business Plan and support the businesses that are the backbone of the UK economy.

Lord Leong CBE, Minister for Small Business and Enterprise, Department for Business, Innovation, Science and Trade

Appendix 2: Government Response

Introduction

The Government is pleased to respond to the Business, Innovation, Science and Trade Committee's report, *Small business strategy: Government Response*, published on 7 July 2026.

The Prime Minister recently said his government will be a circuit breaker by bringing down costs for business, creating a better environment for firms to grow and invest and delivering good growth in every postcode. The new offer is centred on greater certainty, clearer long-term direction, faster decision-making and a stronger business voice in shaping policy. At a time of heightened global uncertainty, this government will provide the stable foundations businesses need to plan for the long term, invest with confidence and help deliver good growth in every postcode.

The Government recognises the concerns raised by the Committee on 7 July about the pressures facing smaller firms, including rising costs, and challenges on high streets and in local communities. One of the Prime Minister's first steps was to announce a 20 per cent relief for pubs, clubs and music venues. This will bring down costs for town centre businesses, support the places people value in their communities and sends a strong signal of intent that this government is on the side of Britain's businesses.

We are committed to creating the conditions for businesses of all sizes to start, grow and succeed; supporting the sectors and technologies that will drive future prosperity; championing science and innovation; and ensuring that every nation and region can contribute to, and benefit from, economic growth.

The Government has carefully considered the Committee's observations. While we do not agree with all of its conclusions, we share its ambition to unlock the full growth potential of SMEs and recognise the important role they play in driving innovation, productivity and good growth across the UK. Evidence shows that improving SME performance represents a major economic opportunity, with a one percentage point increase in annual SME growth potentially adding **£320 billion to the UK economy by 2030**.

The Government is taking decisive action to support businesses at every stage of their growth journey. As set out in the Small Business Plan one year on publication, we are delivering significant progress for SMEs. Nearly all of its almost 200 commitments are underway, with around half already completed.

Key achievements include:

- introducing the Small Business Protections Bill to tackle late payments, with the Small Business Commissioner recovering **over £1.5 million** for small businesses;
- increasing the British Business Bank's financial capacity **to £25.6 billion** to expand access to finance;
- launching the Business Growth Service, which has supported more than **750,000 users**;
- expanding support for apprenticeships, digital adoption and exports;
- establishing a new Small Business Regulation Taskforce, co-chaired by the Federation of Small Businesses, to identify practical ways to reduce regulatory and administrative burdens on SMEs.
- And more recently, 20 per cent relief for pubs, clubs and music venues;
- the removal of VAT from domestic energy bills from 1 October, benefiting households and smaller businesses that are not VAT-registered;
- a new Social Value Model to ensure that procurement delivers wider benefits for communities across the UK.

This response sets out the Government's position on the Committee's conclusions and the further action being taken to support small businesses across the UK. We will continue to work closely with businesses, representative organisations and Parliament, including through the Small Business Growth Forum, to ensure our support remains responsive to the needs of SMEs. We look forward to maintaining a constructive dialogue with the Committee as we continue delivering our plan for small business growth.

The following section provides further responses to the six areas identified by the BISTC, these include;

1. Procurement
2. Tax
3. Energy costs

4. The cost of crime
5. Bogus self-employment
6. Franchising

1. Procurement

Statement from the BISTC:

- The first pressure we identified was cash flow. Access to government procurement is a key lost opportunity for SMEs. It was our view that the Government's decision to introduce departmental targets would do little to drive meaningful change for smaller firms. Since our report was published, we have come to recognise that there are different approaches to tackling this issue. During our launch event, for example, small business owners told us that individual departmental targets might be more effective than one updated central figure. Stakeholders also welcomed the ambition of the Government's targets. Indeed, last year's procurement spend with SMEs was a six-year high, at 21% of total direct spending.
- The central part of the recommendation, however, was to ensure accountability once targets have been set. Despite increases in spend with SMEs, government departments have already fallen short. In 2025, on average, they were 8.4 percentage points below required levels. We called for annual reports to Parliament, alongside improvement plans for departments that failed to keep on track. The Government response says it will publish yearly data on progress, but it does not set out what it will do when performance slips nor what levers the Department has to improve performance in other Departments. Without clear consequences for failure, procurement targets risk becoming aspirations rather than a serious commitment to transforming small business cashflow.
- Small businesses also told us that they were owed a great deal in late payments. We recommended that the Government bring forward its late payment legislation, and mandate 30-day payment terms by the end of the Parliament. In line with our recommendation, the Government has accelerated its plans for this legislation. We welcome its decision to introduce the Commercial Payments Bill. But it is essential that the Government goes further. The Procurement Act 2023 requires 30-day payment terms throughout the supply chain for public contracts. Yet the Government has decided that maximum payment terms of 60 days are adequate for the private sector. Small business

owners told us repeatedly that 60 days was too long to wait. We remain convinced of the need for Government to increase its ambition and seek to enforce 30-day terms across the economy.

Government response:

We have taken measures in all three areas that the BISTC has highlighted on procurement. We have also recently announced a new Social Value Model to ensure that procurement delivers wider benefits for communities across the UK. Departments will apply social value requirements to contracts over £1m from 1 January 2027, with a focus on creating jobs, skills and opportunities for young people not in education, employment or training. By raising the threshold to contracts over £1 million, these requirements won't typically apply to the work smaller firms and local social enterprises are bidding for. This will better allow both smaller businesses and civil society to showcase their innovation and the benefits they are already delivering in communities.

- Regarding the recommendation of making departments accountable to Parliament for SME spending, ministers are now required to sign off an annual report for their department, published on Gov.uk, which includes SME spend data and progress against SME action plans to drive delivery and improvement.
- We have already taken significant action to increase SME access to public procurement. Under the Procurement Act 2023, contracting authorities are required to have regard to SME participation and ensure smaller firms have fair access to public contract opportunities.
- To enable implementation of the Procurement Act and take forward commitments in the Plan for Small Business, departments must set a three-year target for direct spend with SMEs (from 1 April 2025). For the first time, every central government department has set its own SME direct spend target, backed by annual public reporting and departmental SME action plans. These targets will drive up to £7.4 billion in direct SME spend across Government by 2028.
- Regarding the recommendation of making departments accountable to Parliament for SME spending, individual departmental SME spending targets strengthen accountability; ministers are now required to personally sign off an annual report for their department, published on Gov.uk, which includes SME spend data and progress against SME action plans to drive delivery and improvement. All departments should publish an update on SME direct spend and progress against their Action Plan in the Autumn, in line with Procurement Policy Note 001. For the first time, ministers are accountable to Parliament for delivery against SME spend targets.

- Where SME spend performance is not on track, departments' SME Action Plans must be updated to reflect any new actions to improve performance (e.g. smaller 'lots', publishing pipelines) for the following 12 months to achieve the 2028 target. This is a crucial part of the policy to drive accountability and improve commercial best practice within departments to support SMEs and scaling businesses in the UK.

On late payments,

- We are determined to tackle late payment practices that place unnecessary pressure on SMEs and the self-employed. Late payments contribute to the closure of around 38 businesses each day and are estimated to cost the UK economy £11 billion annually.
- On 19 May 2026, Government introduced the Commercial Payments Bill to Parliament. This is the most significant legislation on late payments in more than 25 years and will establish some of the strongest protections against late payment in the G7. Once in force, the measures will ensure that the financial consequences of delayed payment fall on the business that fails to pay on time, rather than the supplier awaiting payment.
- The Bill introduces a comprehensive package of reforms to improve payment practices across the economy. Key measures include:
 - A maximum payment terms of 60 days, with strictly limited exemptions.
 - Require payment of interest on all late payments at 8% above the Bank of England base rate.
 - Time limits for raising disputes on invoices.
 - Requirements for the boards or audit committees of any persistently late-paying large company to publish commentary on why payment performance is poor and what actions they are taking to fix this.
 - Stronger powers to the Small Business Commissioner, including the power to investigate businesses suspected of poor payment practices, adjudicate disputes outside of the court process, and levy significant financial penalties on businesses that persistently pay their suppliers late.
 - Provisions to prohibit the deduction of retentions in construction contracts, with consultation on the implementation of this.

- We welcome the Business, Innovation, Science and Trade Committee's support for the legislation. The Bill continues to progress through Parliament with strong cross-party backing and remains on track for Royal Assent in early 2027.
- We note the Committee's recommendations regarding maximum payment terms. Government's approach is based on a comprehensive package that addresses both excessive payment terms and late payments, supported by what will be the strongest enforcement framework for late payment among major advanced economies.
- The introduction of a statutory 60-day maximum payment term represents a significant strengthening of the current regime, under which payment terms exceeding 60 days are often imposed on smaller suppliers.
- This approach is informed by extensive engagement with businesses and representative organisations across the UK, including a public consultation conducted between July and October 2025 that received more than 850 responses.
- The reforms have been designed to be effective across the economy while recognising the operational realities of sectors with particularly complex supply chains. We have sought to strike the right balance between improving payment times for suppliers and ensuring that the measures remain practical and deliverable. Together, these measures will deliver immediate improvements in payment behaviour and help end the practice of persistent late payment.
- However, we are pleased to say that – aligned with the BISTC push for a shorter maximum payment term, and with cross-party support during Parliamentary debates on the Bill – Government will now take a power to reduce maximum payment terms below 60 days in future through secondary legislation.
- Government is not committing to using this power. Rather, Government will consult further on this issue within five years, which will enable Government to keep maximum payment terms under review following implementation and enforcement of the Bill. Any exercise of this power will require public consultation, Devolved Government consent, and use of the affirmative procedure in Parliament. The Government will not use this power for at least five years from the Bill's Royal Assent.
- Alongside legislative reform, the Small Business Commissioner is continuing to drive cultural change across the business community. Since the launch of the new Fair Payment Code in December 2024, more than 715 Fair Payment Code Awards have been made, including

companies such as British Telecoms, Aviva, Astrazeneca, BAE Systems, Heathrow Airport, Amey, Kier, GSK, Lloyds Banking, Barclays, HSBC, Natwest and Nationwide.

- The Small Business Commissioner will continue to play a central role in improving payment culture, supported by the enhanced powers and resources provided through the Commercial Payments Bill.

2. Tax

Statement from the BISTC;

- One of the most pressing costs, and areas for more significant reform, identified in the report was the tax system:
 - Business rates: we called for more fundamental reform of the business rates system to level the playing field between online and bricks and mortar businesses. We asked the Government to set out more ambitious options for reform.
 - VAT: we recommended that the Government set out to Parliament the impact on small businesses of the current VAT system, and present options for restructuring VAT in a way that optimises small business and employment growth.
 - Compliance and HMRC: we recommended that the Government reduce the administrative costs on small businesses of complying with the tax system by 25% by the end of the Parliament. We also asked the Government to provide a more responsive telephone service to SMEs who need support with tax matters.
- Across these areas, the Government has not sufficiently engaged in the Committee's recommendations in its response. This is disappointing.
- On business rates the Government's response outlines the actions taken in the Budget but does not acknowledge that business rates for many sectors have increased. Increased business rate bills have a direct impact on high street occupancy. Research by Professor Ben Lockwood et al. showed that a "1 percentage point reduction in the tax rate reduced the vacancy rate for eligible properties by 5%". FSB estimates that small businesses in the retail, hospitality and leisure sectors face an average 52% increase in bills over the next three years. We therefore call for the Government to look again at this issue and be brave about tackling this issue before more businesses and the associated economic growth are lost.

- The Government also rejected the Committee’s recommendation to consider an online sales tax, based on a consultation done four years ago under the last government. This leaves the problem of the disparity between online and bricks and mortar costs of doing business wholly unaddressed. We ask the Government to think again.
- The response rejected the Committee’s call for restructuring VAT. It also contained no new material either to address our recommendation on reducing the cost to SMEs of tax administration or to help SMEs to access tax advice. Another set of problems for SMEs left unaddressed by this response and by the Government.
- We note that the Government on 23 June 2026 published a consultation entitled “Requiring payment of VAT and PAYE—Direct Debit”. The Committee looks forward to considering the outcomes of the consultation and the possible impact on small businesses, in light of the HMRC related issues that have been raised with the Committee, in particular the availability of support for business by phone.

Government response:

Government recognises the pressures that many small businesses face, and acknowledges the concerns raised by the committee: both in the initial and follow-up reports. Many of these concerns are reflected in the activity that HMRC is undertaking, through funded plans agreed at SR25, as part of its transformation programme. HMRC is taking this approach because it believes that will deliver better and more sustainable outcomes for its customers, as set out in the Transformation Roadmap, rather than because the issues themselves are not understood or taken seriously.

When considering its response to the Committee’s recommendations, in both reports, Government has considered the sustainability of the tax system and HMRC’s ability to collect the revenues that fund public services. While broadly aligned with the direction of travel of HMRC’s transformation programme, some of the recommendations were worded in a way that cut across tax policy, administration and HMRC operations. These would have significant fiscal implications and such decisions need to be taken as part of a Spending Review process.

Overall, 79.4% (against a target of 80%) of customers were either ‘satisfied’ or ‘very satisfied’ having interacted with HMRC in financial year 2025/26.

(a) Reducing business rates for high street businesses

Business rates provide a stable source of revenue for local government. In 2025–26, they raised £27.5bn and represent a quarter of local authority core spending power.

Revaluations maintain fairness in the system by redistributing business rates liabilities amongst ratepayers to reflect recent developments in market conditions. Government carefully considered the 2026 revaluation's impact. As a result of Government's £4.3 billion support package, over half of ratepayers see no bill increases in 2026–27, including 23 per cent whose bills go down.

The Government is committed to creating a fairer business rates system over the course of this Parliament that protects the high street, supports investment, and is fit for the 21st century. At the last Budget, the Government published a Call for Evidence seeking evidence on how the system influences investment decisions. The Government is carefully considering representations received and a response will be published in due course.

Transforming the business rates system is a multi-year process, and Government remains committed to collaborating with stakeholders throughout this process to achieve meaningful change.

We have already started the work of reforming our business rates system by introducing new permanently lower multipliers for eligible retail, hospitality and leisure (RHL) properties. These new multipliers are worth nearly £1 billion per year and benefit over 750,000 properties.

Government is paying for this through a high-value multiplier on the top one per cent of most expensive properties. This includes many large distribution warehouses, such as those used by online giants. The high-value multiplier is 33 per cent more than the multiplier for small RHL properties.

The Government recognises that pubs and live music venues have faced significant pressures in recent years. Earlier this year, the Government cut every pub and live music venues' bill by 15 per cent and ensured bills will be frozen in real terms for a further two years.

The Government is now going further by introducing an additional 20 per cent cut for pubs, social clubs, and all but the very largest live music venues, building on the support already in place. When taken together, these packages are worth nearly £250 million next year and will benefit around 32,000 pubs, social clubs and live music venues. The typical pub will save around £3,100 in 2027–28.

Later this year, we will also publish a High Streets Strategy; to support all high streets nationally and equip local authorities with the tools they need to drive long-term high street regeneration.

(b) Reconsider introducing an Online Sales Tax

Government is not considering a new tax on online sales, which would be likely to increase prices for consumers, and impose additional operational and compliance burdens for business.

(c) Help reduce the cost of tax administration for SMEs

Our ambition is to create a simpler tax system, where rules are straightforward and easy to understand, and meeting tax obligations fits into how people run their lives and businesses. As the UK's tax authority it is HMRC's responsibility to support these outcomes through the administering and collecting tax revenues that fund public services while minimising customer burdens. Although the costs of tax administration are exempt from the 25% burden reduction target, reflecting that this is how government raises vital public revenue rather than how it regulates business behaviour, HMRC has continued to support small businesses:

- Through the HMRC Transformation Roadmap, HMG is building a tax and customs system that works better for everyone by improving customer service, closing the tax gap, and reforming and modernising HMRC. This includes helping customers get their tax right the first time - improving our SME customer service offer and performance and helping them spend less time on paperwork and more time on doing what they built their businesses to do. HMRC has continued to implement the Transformation Roadmap, supporting customers, including small businesses, to manage their tax affairs. A progress update was published in June, showing the progress made since the Roadmap was published in July 2025. The update also provides a [clear forward look](#) of changes customer can expect to see in 2026 to 2027.
- On 23 June, Government announced Tax Update 2026: Simplification, Modernisation and Fairness, setting out further steps to simplify and improve tax administration. The package is intended to reduce administrative burdens, save taxpayers time, and increase certainty through taking practical action to make the UK's tax and customs system simpler, fairer and more digital-first. The measures will improve how employer payroll and expenses operate, reduce paper-based processes, and modernise and simplify customs processes, helping businesses to understand and meet their obligations more easily and efficiently.
- Over 7.6 million people used the HMRC application in 2025 to 2026, an increase from 5.9 million in 2024 to 2025. We saw £818.8 million of Self-Assessment payments made via HMRC's application in January 2026, up from £499 million in January 2025.

- Government is progressing its implementation roadmap for e-invoicing, which will be published at Budget 2026, ahead of the mandation for Business to Business (B2B) and Business to Government (B2G) VAT invoices from April 2029. Industry research suggests this may reduce late payments by around 20%, saving time worth £11,300 annually for small firms, and boosting productivity by around 3%. The roadmap will provide greater certainty for businesses and software developers on implementation milestones, technical direction and future delivery stages.

(d) Help SMEs to access tax advice

Ensuring customers receive straightforward, accurate and consistent information is a key element of the HMRC Charter. That's why we continue to improve the clarity and accessibility of our guidance. In 2025 to 2026, this included updates to help businesses better understand when and how they need to register for VAT, and to help companies to work out the correct amounts to deduct from their accounts. We continue to make targeted improvements to GOV.UK guidance and digital journeys used by small businesses.

HMRC's GOV.UK guidance was viewed 672 million times during 2025 to 2026, with:

- 96% of customers using our guidance able to self-serve without the need to contact us
- 74.5% of customers positively rating our sole trader and limited company guidance
- 59% of small businesses answering positively when asked about how easy it was to find information from HMRC, an increase compared to 2024.

During 2026 to 2027 HMRC has committed to make a further 4,000 updates and improvements to GOV.UK guidance building on the improvements already delivered. This includes proactively targeting areas that support SMEs, including employers, partnerships, foster carers, Self Assessment and VAT repayments, and Corporation Tax.

HMRC has also delivered a number of targeted tax education campaigns to help customers get their tax right the first time. This includes the Tax Confident campaign, launched in March 2026, as a new customer education hub designed to help people, particularly small businesses and pensioners, understand the basics of tax in a clear, simple and accessible way.

The Tax Confident site brings together short videos and worked examples, organised around life milestones rather than tax categories, to help close common knowledge gaps. HMRC expects to further enhance its education offer, building on this web content.

This includes specific guidance for small businesses, supporting them to deal with different types of tax and systems like Self Assessment, Making Tax Digital for Income Tax, VAT or Corporation Tax by showing customers how these work and when to take action.

Approximately 85,000 firms provide tax advice and services to millions of taxpayers in the UK. We want taxpayers to have confidence that any adviser they choose will help them get their tax right, and we want to stop the minority who cause disproportionate harm to the tax system by assisting the non-compliance of their clients. In line with our Charter commitment to make things easy and support customers to get things right, we are taking action to raise standards in the tax advice market and improve the service HMRC provides to tax advisers. Since May 2026, all tax advisers who interact with HMRC on behalf of a client must register and meet minimum standards before doing so. This fulfils a Transformation Roadmap commitment and supports SMEs to access high-quality tax advice.

(e) Provide a more responsive phone service

HMRC is committed to improving day-to-day performance and the overall experience of our customers. Since the response to the initial report was submitted, HMRC has published its Annual Reports and Accounts for 2025/26. This shows improvements in our telephone customer service performance.

Customers calling us received a better service with more attempts to speak to an adviser being answered in 2025 to 2026 and calls answered more quickly, compared to 2024 to 2025. Against a target of 85% of adviser attempts handled (the proportion of callers who got through to an adviser after hearing the automated messages and choosing to speak to an adviser), HMRC achieved 85.1%. This is an improvement on the 71.5% achieved in 2024/25.

In 2025 to 2026, 85.6% of customers responded 'yes' when asked whether they were able to achieve what they needed to after interacting with us, maintaining our performance when compared to 2024 to 2025 (85.5%).

This progress was achieved due to the work we've been doing to reduce the need for customers to contact us – including improving our digital services and guidance. While this represents clear progress compared to previous years, we recognise there is more to do to consistently meet our service standards year-on-year.

In 2026 to 2027 HMRC will expand and improve the digital offer for individuals and small businesses, targeting the areas that add most value to customers. As more people self-serve online, advisers will be freed up to support those who need to contact us by telephone. HMRC will also initiate work to move to new IT systems to improve customer experience, such as a new Contact Centre as a Service platform to deliver an enhanced, more consistent service, with embedded Artificial Intelligence (AI) capability, which will be delivered incrementally. This will help HMRC better manage call queues, provide accurate wait times, offer intelligent digital assistant support and deliver call summarisation technology. Together, these improvements will enable HMRC to deliver a more responsive and personalised service, both over the phone and through digital channels. HMRC will continue to use technology to support customers calling HMRC helplines, including information messages to provide customers with the details they need, and voice biometrics where appropriate.

(f) Publish the HMG response to the “Requiring payment of VAT and PAYE – Direct Debit” consultation and consider the impact of any changes on small business customers and those who require phone support.

This consultation ran until 16 August 2026. We will publish a response in due course. Business size and sector will be reflected in this analysis.

Relevant officials and Ministers would be happy to brief the Committee on this issue once the consultation has concluded and any policy decisions have been made.

3. Energy Cost

Statement from the BISTC:

- Energy costs were another major cost pressure on business. We heard compelling evidence from sectors such as retail, hairdressing and hospitality - but the Government response ignores our call to focus on those who are currently ineligible for existing schemes. Its response simply outlines again what it is already doing for energy-intensive industries.
- We also remain concerned that the decision to exempt certain users from levies means that the cost of these falls on the remainder of consumers. The Government has said that the British Industrial Competitiveness Scheme (BICS) will not be funded through levies on the bills of other users. Adam Berman, Energy UK, told us that he was “unconvinced that there will not be a situation in which some of

BICS is paid for on bills”. He added, “It might be as it is today where, unfortunately, you have hairdressers, pubs and dentists subsidising energy-intensive industries”.

Government Response:

We understand the scale of the energy cost issue for businesses and the constraining impact this is having on economic growth, as well as acute, firm-level pressures. SMEs are overrepresented in vulnerable parts of the economy such as hospitality, retail, construction, small manufacturing and care, where energy costs are material and passthrough to customers is constrained. We recognise that SMEs have limited flexibility to absorb energy price spikes, especially where energy costs already represent a large share of business costs.

The Prime Minister recently announced the removal of VAT from domestic energy bills from 1 October. Small businesses who qualify for the domestic energy VAT relief and are not registered for VAT, as well as charities and residential care homes eligible for the reduced rate will also benefit. A number of other measures already exist which can help SMEs more directly, including the reduced rates of VAT and exemption from the Climate Change Levy (CCL) for small power users. For SMEs not meeting the ‘small power user’ threshold, Climate Change Agreements offer a reduction in CCL rates. In April, we announced that Carbon Price Support will be removed from bills from April 2028.

Our Industrial Strategy outlined how we are supporting energy intensive industries to protect competitiveness and vital jobs, alongside our new British Industrial Competitiveness Scheme (BICS) to reduce energy costs for 10,000 growth driving and foundational manufacturing firms. While SMEs are not excluded from BICS, the British Industry Supercharger, or the EII Compensation Scheme, these schemes are very targeted and may not be easily accessible to all SMEs, either because they do not meet the eligibility requirements, or due to the associated admin burden.

We acknowledge this is not a comprehensive support landscape and that most businesses remain exposed to high and volatile energy costs. BICS has been designed to target support where it can have the greatest impact on growth within its agreed cost envelope. This includes focusing on the highest growth potential sectors targeted by the Industrial Strategy and industries within their supply chains; on manufacturing activity that is mobile and exposed to international competition, and within that, on sectors with high electricity intensity, to ensure support is directed where it will have the greatest impact. BICS is not based on business size, but on the characteristics of the activity being undertaken, and the extent to which electricity costs affect competitiveness.

We can reassure the Committee that the design of BICS is not expected to result in additional costs being borne by other bill payers, as funding for the scheme is provided through a combination of changes within the energy system (such as those recently made to inflation indexation of RO/FITs), removal of Carbon Price Support from April 2028 and the Exchequer. This will ensure domestic and non-domestic electricity consumers do not see an increase in their electricity bills as a result of the scheme.

(a) Energy efficiency and demand flexibility

Reducing and flexing energy demand is one of the immediate ways an SME can reduce their energy costs, even though this requires upfront research and – in some cases – investment. Consumer-led flexibility reduces the system costs by minimising the amount of peaking generation and network infrastructure that needs to be built and enables consumers to use electricity at cheaper times of the day. Government, NESO, and Ofgem have worked with industry to identify specific actions to support an increase in non-domestic consumer-led flexibility and set those actions out in the Clean Flexibility Roadmap in 2025 and updated this in July 2026.

The pilot British Energy Advice Service has provided valuable evidence on how to help SMEs reduce energy costs and carbon emissions. We are carefully considering the findings, alongside evidence from other programmes, to inform the design of any future energy efficiency and industrial decarbonisation interventions.

Government published our response to the Willow Review welcoming the findings and setting out how we plan to work with stakeholders to act on the recommendations. Net zero and sustainability remain a key part of our growth mission. We're investing in the Broadway Initiative, for example, to support and promote the UK Business Climate Hub. It provides information and advice to help SMEs decarbonise and reduce their energy bills at the same time. Growth Hubs across England provide practical advice and guidance to businesses at any stage of their journey through a free and impartial local point of contact which includes sustainability support.

We are taking broader action to help firms manage energy cost volatility. This includes £2 million through the Made Smarter Adoption Programme to support energy efficiency investments and increasing the Boiler Upgrade Scheme grant to £9,000 to help SMEs transition to more stable, lower-cost heating.

(b) Making energy prices stable

SMEs are especially exposed to energy price volatility and typically are unable to deploy risk management tools such as hedging or long-term contracts.

On 21 April, we announced several measures that will help break the link between the price of gas and the price of electricity and enable businesses across the country, including SMEs, to be better protected from energy crises.

These measures include voluntary long term fixed contracts: offered to existing low-carbon generators not on fixed price contracts – covering around a third of Britain’s power supply. Government will consult later this year on offering these fixed price arrangements, with contracts offered only where they deliver clear value for money for consumers. The measures also include an updated Electricity Generators Levy which provides immediate action to tax exceptional revenue caused by gas price spikes through the Electricity Generator Levy by raising the rate from 45% to 55%. This ensures an increased proportion of the extraordinary revenue generated when the gas price spikes is available to government to support businesses.

Over time, as we rely less on gas, electricity prices will become increasingly detached from the price of gas and instead more frequently be set by other generation, such as UK renewables. The UK has already moved from gas setting the price of electricity around 90% of the time in the early 2020s, to around 60% today, and it is estimated that gas will set the wholesale price around half of the time by 2030. Accelerating the deployment of renewable generation, as we are through our Clean Power 2030 Mission, is the fastest way to break the link, and will reduce the amount of time when gas is setting the price and will help to rapidly decouple electricity from gas prices. This will particularly support firms out of scope of existing support schemes, such as BICS, the British Industry Supercharger, and EII Compensation Scheme, by bringing wholesale prices down in the long term.

(c) Electricity market reforms

Government’s work on electricity market reforms will benefit all billpayers including SMEs. This is a long-term reform programme, with impacts expected from 2030.

The Reformed National Pricing (RNP) Programme will deliver targeted reforms in the framework of a single GB-wide wholesale electricity market designed to deliver cost savings, helping to keep long-term consumer bills as affordable as possible. It will change how and where new investment happens across our power system, improving the efficiency of how our system operates. Work to implement RNP is already underway.

The RNP programme will help to cut bills for all energy consumers in two ways.

- Firstly, ensuring a closer match between generation and network build, thereby improving the efficiency of our electricity system.

- Secondly, improving the efficiency of the real-time operation of the electricity system.

The publication of our RNP Delivery Plan in April 2026 set out progress made since our decision to retain a single GB-wide wholesale electricity market in July 2025, providing more detail on the reforms and clarifying the steps that will be taken over the coming years to support delivery of RNP.

Prior to legislation being introduced through the Energy Independence Bill, as announced in the King’s Speech, Government and Ofgem have been working with wider stakeholders on a programme of interim measures to improve standards in the Third-Party Intermediary (TPI) market. As part of this work, on 20th July 2026 Ofgem published good practice guidance which outlines the experiences they expect TPI customers to have.

In addition, Ofgem published a market review Call for Input at the beginning of June to help build a comprehensive evidence base on how TPIs function across the retail sector. Responses will help Ofgem assess market structure and competition, examine potential distortions in behaviour and incentives, and explore how outcomes vary across different types of consumers, including SMEs. The review will also inform the design of effective and proportionate regulatory approaches which support innovation and competition.

4. The Cost of Crime

Statement from BISTC:

- Alongside rising energy costs, businesses told us about the significant increases in the cost of crime. Throughout our inquiry, we heard first-hand the significant impact illegal trading and high street crime were having on small businesses. It was our view that closure orders needed to be strengthened to enable illegal trade to be stopped for good. The Government initially rejected this recommendation, suggesting that current powers were adequate. Since then, however, the Home Office has announced plans to double the maximum duration of closure orders. We welcome this recognition of the importance of empowering enforcement agencies to adequately tackle this phenomenon.

Government response:

- Government is looking to address the impacts of crime on businesses, particularly on the high street. This crime undermines competition, discourages investment, and contributes to the decline of once-thriving high streets.

- Tackling high street criminality is a priority for this Government. It is for that reason that on 19 May the Government announced a £30 million crackdown targeting cash intensive business such as barber shops, vape stores, mini-marts and sweet shops operating on our high streets, over three years.
- As part of this effort, we have established a cross-departmental High Streets Organised Crime Unit, which will strengthen the response to money laundering and other forms of organised criminality taking place on our high streets.
- Government is working with the unit, policing partners and local authorities to deliver long-term policy solutions, enhance intelligence sharing, and support both communities and legitimate businesses to prosper.
- The new Crime and Policing Act gives new powers to amend the duration of closure orders in the Anti-social Behaviour Crime and Policing Act 2014, subject to consultation. We launched a targeted consultation into increasing the duration of closure orders to give investigators more time to pursue prosecutions, while also preventing rogue operators from simply reopening and resuming illegal activity. The consultation closed at the end of July.
- The Prime Minister confirmed in August that government will double the maximum length of Closure Orders from six to 12 months, giving police and local authorities more time to investigate premises linked to organised crime, pursue prosecutions, and prevent rogue businesses - from illegal vape shops, and dodgy barber shops - reopening before investigations are complete. Subject to Parliamentary time and findings from the consultation, we propose to legislate by the end of 2026, with a view to any changes entering into force early next year.
- In parallel, the High Street Organised Crime Unit is looking at additional ways of strengthening the response to high street illegality to protect local communities and prevent legitimate businesses from being undercut.
- The work of the Unit will feed into the cross-government High Streets Strategy, which aims to give local authorities, businesses and communities more powers and support to shape their high streets.
- The Prime Minister has also announced that government will consult on removing vape shops from the Class E use class, the broad planning category for shops, cafes, and banks, meaning anyone can open one without needing planning permission.

- Making them a standalone category would mean every new vape shop needs permission, giving councils real power to cap numbers or restrict locations, such as near schools. The definition of a vape shop will also be tightened to stop businesses getting around the new rules by claiming to be a general convenience store or retailer.
- The Government's Fraud Strategy 2026–29 includes a range of actions to protect businesses from fraud, including support for cyber resilience centres, measures to combat invoice fraud, work to explore digital business identity solutions, and the development of proposals for a retail-funded policing unit dedicated to tackling fraud against retailers. Alongside this, the National Crime Agency has launched sector-specific campaigns to protect businesses from invoice and payment diversion fraud, while the Insolvency Service is strengthening its response to rogue directors and company abuse through targeted enforcement and reform measures.

5. Bogus Self-employment

Statement from BISTC:

- Another issue plaguing the modern high street is bogus self-employment. Numerous hairdressers and barbers told us that the under-enforcement of labour law was leaving legitimate employers unable to compete. The Government recognised these concerns, and told us that it will set up a 'hidden economy' team in the Fair Work Agency to take action in these sectors. We welcome the Government's commitment to tackling this problem, and we will scrutinise the working of this team in a future session.
- However, the evidence was clear that additional enforcement will not be enough. Bogus self-employment is enabled by ambiguities in the UK's employment status framework. In opposition, the Labour Party's Making Work Pay policy paper committed to moving towards a single status of worker and said it would launch a detailed consultation to create a "simpler framework". Labour's 2024 manifesto committed to implementing these proposals in full. Despite this manifesto commitment, we still do not know when this consultation will take place:
 - March 2025: we recommended that the Government prioritise its review of worker status, so that any reforms were rolled out alongside the Employment Rights Act 2025.

- November 2025: we directly asked Peter Kyle, the Secretary of State for Business and Trade, when this would take place. He told us that he had more immediate priorities, but he would “get to it”.
- February 2026: we recommended that the Government immediately conduct a review of the employment status framework.
- In its response to our report, the Government has again failed to provide an exact timeframe for when this consultation will take place. More concerning, it only commits to a “targeted consultation on employment status”. It is unclear as to whether a “targeted consultation” will fulfil the manifesto pledge to “consult in detail” on moving towards a single status of worker. We call on the Government to quickly publish the consultation and look forward to scrutinising its proposal when they finally emerge.

Government response:

- We recognise the complexity of the current employment status framework and that this uncertainty can give rise to bogus self-employment. We are clear that bogus self-employment is unacceptable.
- Employment status is not a choice; it depends on the reality of the working relationship between an individual and their employer. Employers should never seek to deny people their employment rights and avoid their own legal obligations by claiming someone is self-employed when in reality they are not.
- We believe that the current framework is not fit for purpose and there is a strong case for reform. As working practices and business models evolve, the framework must adapt to support our ambition to improve job security, raise living standards and tackle exploitative working practices.
- The government will shortly publish a consultation on targeted reforms to employment status. The proposals in the consultation will seek to tackle the most pressing issues in the employment status framework, including bogus self-employment, which enable worker exploitation and leave vulnerable workers without core employment protections.
- The consultation will also consider measures to improve compliance with the law, so everyone gets the rights they are entitled to.

- We established the Fair Work Agency in April 2026, which will deliver a much-needed upgrade to employment rights enforcement. It brings enforcement functions of three predecessor bodies together into one place, so employment rights are enforced more effectively and efficiently. In time, it will also enforce additional rights.

6. Franchising

Statement from the BISTC:

- We recommended that the Government conduct a review of the franchising landscape and consider the introduction of a statutory code of conduct, alongside independent enforcement mechanisms. The response to our report however fails singularly to engage with the notion at all, stating that it is “committed to ensuring that the current franchising regime works”, and reiterating the proposals in its Plan to Make Work Pay. There is no discussion of the legal position of franchisees themselves, nor the current absence of oversight of franchise agreements. We therefore ask that the Government re-visit both its response to the Committee and carry out a review of whether a statutory code of conduct is required.

Response:

- Government recognises the concerns raised by the Committee regarding the position of franchisees, the operation and oversight of franchise agreements, and the availability of effective redress.
- To strengthen our evidence base, officials and Ministers have been engaging with stakeholders across the franchising sector, including meeting with MPs who have raised this issue. We have commissioned independent research on the UK franchising sector, including looking at international comparator regimes, and will be undertaking a sector-wide survey in the autumn to further develop our evidence base.
- Our objective is to ensure that franchisees are appropriately protected, without imposing disproportionate burdens on small businesses or undermining successful franchising models that support entrepreneurship and local employment.
- We are progressing this work on an evidence-led basis and will actively consider carefully whether further regulatory measures are needed.