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BUSINESS REVIEW

Spotlight on issues affecting business



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JUNE 2025



BUSINESS REVIEW

Surveys report surge in business confidence

Two recently published polls have revealed a significant rise in business optimism with sentiment in both jumping to their highest levels since last summer.

The headline figure from the latest Lloyds Bank Business Barometer, for instance, rose to +50% in May, an 11-point jump from the previous month and the highest recorded figure in nine months. This improved level of confidence was largely driven by growing optimism in the wider economy, although improved sentiment was also reported in relation to companies' own trading prospects and hiring intentions.

Commenting on the findings, the commercial bank's Senior Economist Hann-Ju Ho said, *"The rise in confidence was driven by a sharp increase in economic optimism, reflecting the recovery in financial markets amid the easing of global trade tensions. While we know that fluctuations do occur month on month and the global economic outlook remains uncertain, this month's increase in confidence is an encouraging sign."*

Another survey also reported a strong pick-up in business optimism, with the Institute of Directors' Economic Confidence Index recording a 16-percentage-point rise in May. The survey found business leaders to be particularly positive about growth opportunities in some key sectors including energy innovation, defence and construction, and through a closer relationship with the EU.

Calls to cut cost of tax compliance

The Federation of Small Businesses (FSB) has highlighted the huge burden of tax compliance on small firms and called on HMRC to set a target of reducing these costs by a third.

According to FSB research, the average small business spends £4,500 and 44 hours a year on tax admin. This includes time spent trying to contact HMRC, the cost of staff time used to manage compliance, along with other outlays such as the price of software subscriptions and/or an external accountant.

FSB Policy Chair Tina McKenzie said, *"Collectively, that adds up to an annual total cost to the small business community of nearly £25bn and over 240 million hours. This is money and time that could be far, far better spent on building up their business, and the overall cost to the economy in terms of lost growth and wasted productivity is enormous."*

The FSB has published a number of recommendations aimed at improving the business tax system, including its target of reducing average tax administration costs from £4,500 to £3,000 by 2028. Additional measures include setting a time limit on the length of tax investigations and enforcing shorter timescales for HMRC to respond to taxpayer queries.

High debt restricting access to finance

Data from Funding Xchange's latest quarterly lending monitor shows that many UK small firms are struggling with high levels of indebtedness, which means affordability of borrowing has become a growing challenge.

The marketplace lender's report provides a window into those businesses currently seeking loans and shows that many remain saddled with pandemic-era debt. The UK government offered some of the most generous COVID support schemes in Europe, with uptake of loans especially high among smaller firms, many of whom accessed up to £50,000 in Bounce Back Loans without any affordability checks.

While last month's release did show the average debt burden has fallen back over the past couple of years, the data once again highlighted how the median debt-to-turnover ratio has failed to return to pre-pandemic levels; instead it appears to have stabilised at more than twice the pre-crisis figure.

Businesses in this country have also seen debt-servicing costs remain stubbornly high, certainly in comparison to the eurozone, as the Bank of England has adopted a gradual approach to monetary easing. The report's authors warn that this combination of high indebtedness and high cost of funding is effectively blocking many small firms' access to the finance they need to grow.

QUIRKY QUOTE:

"If you see a bandwagon, it's too late"

— James Goldsmith

Workers optimistic and overwhelmed by AI

Research commissioned by Henley Business School suggests UK workers view the impact of artificial intelligence (AI) in the workplace as both positive and overwhelming.

Data from the survey of over 4,000 full-time workers found that 63% now use AI at work. However, while 56% said they were optimistic about the benefits of AI in the workplace, 61% felt overwhelmed by the rapid pace of AI technology advancements.

When it comes to fear of job losses, the survey found that a significant minority expressed concerns. In total, 36% of respondents said they were worried AI might replace their jobs, with workers in publishing and journalism; business consulting and management; and marketing, advertising and PR found to be most fearful.

Employee concerns in this area have also led Acas to publish employer tips for the use of AI at work. These include: developing clear policies on the use of AI and consulting employees and their representatives on its introduction; highlighting how AI can improve employees' roles and reassuring staff that human involvement will still be needed; and remembering that AI is not perfect, and that outputs therefore need to be checked for accuracy, tone and bias.

Small firms need help on path to net zero

A recently published report from the FSB shows that most small businesses are keen to become more energy-efficient and reduce their carbon footprint but that they generally lack the resources required to transition to net zero.

Research conducted for the *New Growth* report found that just over half of all small firms feel sustainability is a high priority for their business. However, despite this, only a quarter of respondents said they expect their firm to transition to net zero by 2050, with four in ten citing a lack of capital as a barrier to transition.

The FSB argues that the small business community's inventiveness and entrepreneurialism will be a *'powerful tool'* when it comes to hitting the country's net zero targets, but that firms need appropriate support to enable them to cut carbon and benefit from growth in the green economy.

A series of detailed recommendations are set out in the report including giving all small businesses access to the Business Energy Advice Service. This *'game-changing'* scheme, which has been successfully piloted in the West Midlands, provides tailored support to small firms including free energy assessments and match-funded grants for improvements such as solar panels, better insulation, heat pumps and improved refrigeration.

OTHER NEWS

IMF upgrades UK growth forecast

Last month, the International Monetary Fund released revised forecasts which suggest the UK economy will expand by 1.2% this year, a small uplift from its previously published prediction. The international soothsayer also said it expects growth to gain momentum next year, with the economy forecast to grow by 1.4%, despite headwinds from global trade tensions most notably President Trump's tariffs.

Business owners rethink banking needs

A survey of 1,000 UK small business owners commissioned by the Current Account Switch Service has found that almost three-quarters of entrepreneurs would consider moving to another bank if a potential new account better suited their needs. The research also revealed the features which are most valued in a business current account, with mobile banking, fee-free banking and high-quality customer service featuring as the top three priorities for small business owners.

Gen Z display strong entrepreneurial spirit

Research published last month by American Express and The Conduit shows Gen Z workers harbour significant entrepreneurial ambitions, with two-thirds of this group aspiring to own or lead a business in the future. Nearly two-thirds of these respondents also said they would be more motivated in their current job if the role allowed them more entrepreneurial freedom, suggesting firms could do more to harness GenZ workers' potential by fostering greater 'intrapreneurship.'

Europe and UK ‘reset’ greeted warmly by business leaders



A new UK-EU trade agreement has been welcomed by business groups as a major step in rebuilding economic ties and easing post-Brexit barriers.

The deal should simplify exports for food producers by removing most routine border checks on animal and plant products. This could restore access to the EU market for goods such as sausages and burgers, following sharp declines in trade since the UK officially left in 2020.

The agreement includes a proposed youth mobility scheme allowing young people from Britain and the 27-nation EU to work, study, volunteer or travel for a limited period in each other’s countries. There are benefits for British holidaymakers too. More EU countries may open e-gates to UK travellers once new digital border checks go live in October. A simplified pet passport system is also planned.

The deal includes aligning carbon markets, cutting costs for heavy industry and preventing carbon taxes on exports. It also opens the door for talks on energy trading, although any agreement would require the UK to follow EU market rules. The UK government believes the overall deal could add nearly £9bn to the economy by 2040.

In defence and security, both sides have agreed on regular cooperation, joint sanctions, intelligence sharing and UK involvement in EU defence initiatives, including a military mobility project and potential access to a major defence funding programme.

Business groups react

Responding to the news, Tina McKenzie, Policy Chair of the Federation of Small Businesses, said, *“For too long, small businesses have shouldered the burden of unpredictable custom rules and red tape that sap confidence and ambition. Today’s agreement brings us a step closer to reducing the burdens for SMEs by clearing the bottleneck at the border, trading fresh produce and more efficient supply chains.”*

Rain Newton-Smith, Chief Executive of the Confederation of British Industry, commented, *“Today’s deal means firms on both sides of the border will be breathing a sigh of relief following practical commitments to improve regulatory cooperation, bolster defence, and deliver on our mutual net zero ambitions.”*

Shevaun Haviland, Director General of the British Chambers of Commerce, said, *“Today’s summit marks a turning point in UK/EU relations which puts our trade relationship at the forefront of our partnership going forward. A permanent deal to remove unnecessary checks on food and drink exports in both directions is a huge boost; it will cut costs, reduce waste and increase sales... But we must not stop here, this agreement must be the foundation on which we aspire to build a much stronger business relationship going forward. That can only be of benefit to all our economies.”*

All details are correct at the time of writing (9 June 2025)

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