

BIS | Department for Business
Innovation & Skills

BACKING SMALL BUSINESS

NOVEMBER 2010

Introduction

The Government has laid out a decisive plan to reduce the deficit and to restore confidence in the UK economy. Providing macroeconomic and financial stability is necessary for the private sector to have the confidence to invest and expand, but it is not sufficient. Government is dedicated to building on these plans for stability to create the conditions for strong, sustainable growth. A new economic dynamism lies at the heart of our approach.

This new strategy demands a relentless focus on the needs of small and medium sized businesses. They provide nearly 60% of our jobs and 50% of GDP. They will benefit from the measures we are taking across the whole economy but Government is clear that they have specific needs and can be disproportionately burdened by poor Government policy. This has not been sufficiently reflected in Government's attitude or orientation over the last decade. This Government is committed to a comprehensive effort to prioritise small businesses and those that run or aspire to run them.

We will make it easier for new companies and innovations to flourish. We will encourage people who aspire to start new businesses and work for themselves. We will create an attractive environment for venture capital and other funding. Innovation and commercial success will be brought close together – for example through our investment in Technology and Innovation Centres. Competition reform will reduce barriers to entry in existing markets. We will use the power and muscle of government to create new opportunities for small and medium sized British businesses at home and abroad. And Government will get out of the way of entrepreneurs – by reducing regulatory burdens.

Already we have:

- committed to reduce small profits rate of corporation tax to 20% (from April 2011)
- helped new businesses grow in areas most needing an enterprise boost, through the introduction of an employer National Insurance Contributions holiday for new businesses in target regions
- asked the Office of Tax Simplification to recommend how small business tax can be simplified
- introduced a one year temporary increase in the level of small business rate relief (from October 2010)
- pledged that regulation will be the last resort not the first; and where the case for regulation has been made, any that deem SMEs to be in scope must have a compelling case for their inclusion
- Introduced the One-in, One-out rule promising not to introduce new regulation without abolishing existing regulations with a net cost to business

Today we set out six further steps to support small businesses by:

1. Improving access to finance
2. Opening up government procurement and ensuring prompt payment
3. Supporting those starting a business
4. Making sure our competition framework helps new companies access existing markets
5. Providing targeted support to those that have high-growth potential
6. Ensuring that Government is deliberately reoriented towards their needs

In the weeks and months ahead Government will further develop policies that continue to turn our strategy into action. Small businesses will be a major part of this forensic approach to growth. Through its business advisory group and other mechanisms, Government will seek out and act upon the views of those running and working for small businesses.

Government will also conduct a systematic review of how its departments interact with and affect small businesses. Following his review of health and safety regulation – with its positive impact for small businesses – Lord Young will now begin with a new report to the Prime Minister on how to make Government more small business and start-up friendly. This is in addition to the ongoing review of employment laws, which aims to maximise flexibility for employers and employees within a competitive environment for business.

1. Improving access to finance

Finance is critical for starting, maintaining and growing small and medium businesses. It is vital that both start ups and existing businesses have access to the full range of debt and equity financing options. Government is committed to supporting finance for SMEs, getting banks to lend and promoting alternative sources of business finance. We have increased the amount of bank loans to small firms guaranteed by government. Last month we encouraged the banks to establish a £1.5bn equity fund for established enterprises.

Through the Government's response to the Green Paper, Financing a private sector recovery, released today, we will also:

- Continue to guarantee bank lending by extending the highly successful Enterprise Finance Guarantee for four more years to enable an additional £600m of lending to around 6,000 viable SMEs that lack sufficient collateral or financial track record next year alone
- Continue the successful Enterprise Capital Fund programme that provides equity finance for the highest growth potential SMEs
- Review the impact of regulatory frameworks on business angels and continue to seek viable options to ensure the tax system supports, where possible, access to equity finance for SMEs
- Explore additional ways of providing finance for exporters

2. Opening up government procurement and ensuring prompt payment

Procurement spending across the public sector for 09/10 totals £236 billion. This represents a huge opportunity for small and medium businesses across nearly every sector. However, too many of these businesses have been locked out due to poor information, bureaucratic barriers, and a false assumption that big is always better and cheaper. The Government is committed to promoting small business procurement and has already introduced the aspiration that 25% of government contracts will be awarded to SMEs. In order to meet this aspiration we will:

- Require departments to publish not only their procurement contracts but data on how many are awarded to small and medium businesses
- Agree action with each department to increase the amount of business going to SMEs
- Introduce a simplified and standardised Pre-Qualification Questionnaire that can be used across central government Departments – and explore how this can be rolled out across the public sector, including to local authorities and the NHS
- Investigate the use of more open frameworks or dynamic purchasing systems that do not lock suppliers out of contracts for up to 4 years
- Reaffirm the commitment that 80% of prime contractors are paid with 5 working days and that prime contractors pass 30 day payment terms down the supply chain.
- Continue the Small Business Research Initiative, which has already granted over £36m worth of contracts, helping high-tech SMEs to access government contracts and attract venture capital or other additional financing.

3. Supporting those starting a business

Starting up a business should be quick, simple and a viable option for everyone. Reducing the burdens associated with getting started allows for new entrants to enter markets faster and in better shape. It will also encourage other would-be entrepreneurs to seriously consider starting up. The Government is dedicated to expanding the country's entrepreneurial cadre and tackling any institutional bias against people on Jobseeker's Allowance or in social housing moving into self-employment. We have already committed to making the UK one of the fastest countries in the world to start up a new business. To move closer to achieving this, we will:

- Provide access to mentors and small loans to enable the unemployed to start a business through the New Enterprise Allowance scheme, with early testing from January 2011 prior to full roll-out from April 2011.
- Provide access to information about franchising opportunities, which in other countries such as the US constitute a far greater proportion of the opportunities for people to move back into work following unemployment, as part of our wider advice on starting and running a business
- Work with landlords to ensure social housing tenants are not discouraged from starting their own business at home
- Introduce a simple ("one-click") incorporation service in April 2011, and reduce the number of forms needed to register a business in Autumn 2011.

4. Making sure our competition framework helps new companies access existing markets

The Government believes that in order to create a new economic dynamism we need to support the big businesses of tomorrow not just the big businesses of today. Some industries are too uncompetitive, with significant barriers to entry and obstacles to growth. We will therefore:

- merge the competition functions of the Office of Fair Trading and Competition Commission
- introduce a tougher and more streamlined competition regime
- reduce the amount of time it takes to make a decision
- help new companies break into existing markets

5. Providing targeted support to those that have high-growth potential

As the Prime Minister recognised in his speech to the CBI on 25 October, there has been a surge in high-growth firms across the world. They are disproportionately likely to create new jobs. Six per cent of UK businesses with the highest growth rates generated half of the new jobs created by existing businesses between 2002 and 2008. To back these businesses, as well as promoting new entrants through competition and improving access to finance, we are protecting the science budget in cash terms and linking up innovation and commercial success. We will also:

- establish a network of ‘growth hubs’ to provide specialist support for businesses with growth potential to enable them to achieve transformational levels of growth
- invest over £200m in a network of elite Technology and Innovation Centres to drive innovation and the commercialisation of new technology and ideas.
- £3m of in-year savings made by the Intellectual Property Office will be used to fund projects to help companies develop new technologies and offer advice in developing their intellectual property
- put £600k into a new “Launch Pad” competition aimed at small companies with disruptive solutions to energy, digital, healthcare, and sustainability problems
- continue to help businesses to develop their international trade potential and access international markets through the services of UK Trade & Investment

6. Ensuring that Government is deliberately reoriented towards their needs

The measures outlined above are small steps that show this Government's determination to address the needs of small and medium businesses. In the next Budget and beyond, Government will return again and again to how it can best get behind small businesses. To meet this commitment, Government needs a comprehensive shift in attitude and approach to how it prioritises small businesses across all of its functions. That is why:

- The Prime Minister has asked Lord Young to investigate and report back on what changes are necessary to make government more small and medium-sized business and start-up friendly

Lord Young will report by spring 2011. Following publication he will work with relevant departments across government to bring the proposals into effect.

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