

SBA Fact Sheet 2010/11

UNITED KINGDOM

The United Kingdom's Fact Sheet in a nutshell:

- ✓ *The UK's SME sector is expected to recover to pre-crisis levels only after 2011. Value-added creation in particular will need more time to recover.*
- ✓ *The United Kingdom's economy is much less based on micro firms than other EU economies and, correspondingly, large enterprises play a more prominent role.*
- ✓ *Overall, the United Kingdom ranks above the EU average across six SBA areas. However, progress has not been very dynamic lately, with only minor improvements recorded.*
- ✓ *Recently, the United Kingdom has addressed seven out of ten SBA areas through targeted policy measures, focusing on facilitating access to finance.*

The SBA Fact Sheets¹:

The Small Business Act (SBA) is the EU's flagship policy initiative to support small and medium-sized enterprises (SMEs).

The aim of the annually updated Fact Sheets is to improve understanding of recent trends and national policies affecting SMEs.

1. SMEs in the United Kingdom — basic figures

	Number of Enterprises			Employment			Value added		
	United Kingdom		EU27	United Kingdom		EU27	United Kingdom		EU27
	Number	Share	Share	Number	Share	Share	Billion €	Share	Share
Micro	1.466.304	88,0%	92,1%	3.978.629	21,9%	29,8%	165	18,2%	21,9%
Small	166.842	10,0%	6,6%	3.118.346	17,2%	20,4%	149	16,4%	19,0%
Medium-sized	26.800	1,6%	1,0%	2.708.026	14,9%	16,8%	142	15,6%	17,7%
SMEs	1.659.946	99,6%	99,8%	9.805.001	53,9%	67,0%	456	50,2%	58,6%
Large	5.973	0,4%	0,2%	8.372.209	46,1%	33,0%	452	49,8%	41,4%
Total	1.665.923	100,0%	100,0%	18.177.209	100,0%	100,0%	908	100,0%	100,0%

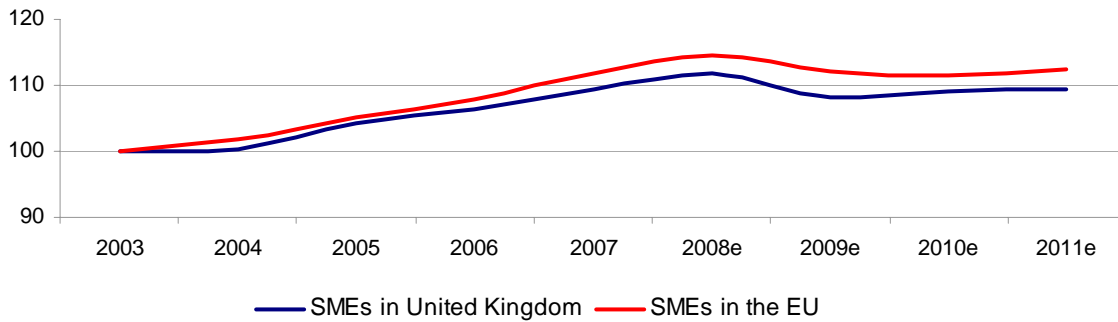
Estimates for 2010, based on 2002-2007 figures from the Structural Business Statistics Database (Eurostat). The estimates have been produced by Cambridge Econometrics. The data cover the 'business economy' which includes industry, construction, trade, and services (NACE Rev. 1.1 Sections C to I, K). The data does not cover the enterprises in agriculture, forestry, fishing or the largely non-market services such as education and health. The advantage of using Eurostat data is that the statistics from different countries have been harmonised and are comparable across countries. The disadvantage is that for some countries these data may be different from data published by national authorities.

The United Kingdom's economy has a proportionately high share of large enterprises, twice as high as the EU average. Within the SME segment, the average size of enterprise tends to be bigger than in the rest of the EU. In the United Kingdom, large enterprises have a higher impact on jobs and growth than elsewhere in the EU, as they account for almost one in two jobs (the EU average is one third) and half of the total value added (41.4% on average) created by UK enterprises. This also applies to the SME segment, where micro enterprises are less important for the UK economy than their EU peers. Nevertheless, about one fifth of employment and value added is created by micro enterprises. An average UK SME employs 5.9 persons, which is much more than the EU average of 4.2. The sectoral pattern in the United Kingdom also differs from the situation in the rest of the EU-27, with most SMEs active in the services sector (53% vs the EU average of 44%).

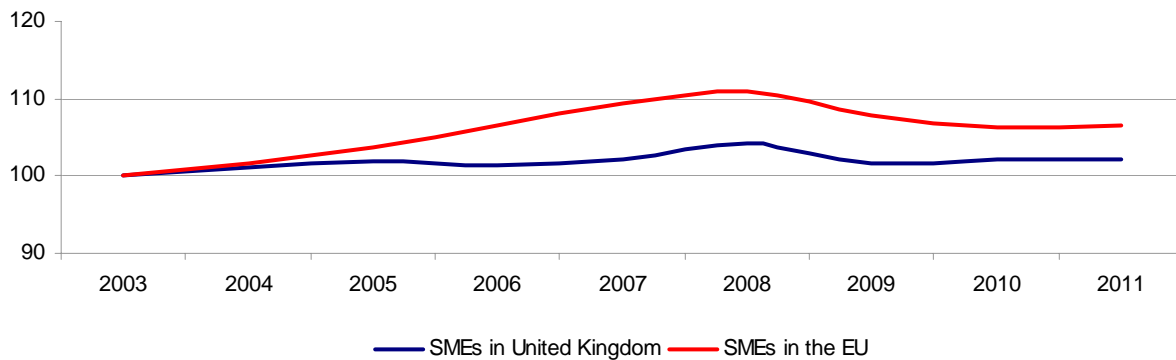
In terms of recent developments, it seems that the crisis has not severely affected the total number of SMEs in the United Kingdom, but it has caused a dip. Between 2003-2008, the total number of SMEs grew by 12% whereas between 2008 and 2009 the total number is estimated to have dropped by almost 55 000 SMEs. Nevertheless, since then it is estimated that the number of UK SMEs has risen again. The rise in SME employment over the same period was more modest in the United Kingdom at only 4% (EU average: 11%), which was almost erased in 2009, causing lasting effects on the labour market. As for value added, the crisis hit noticeably in 2008. From 2003-2007, the value added created by SMEs had increased by more than 30%. But by 2009, it is estimated that this leap had been completely erased, meaning that by 2011 the United Kingdom is not expected to have reached pre-crisis levels in terms of SME contribution to value added. The effects of the crisis seem to be of a more lasting character in the United Kingdom than in EU peer countries.

SME trends in the United Kingdom²

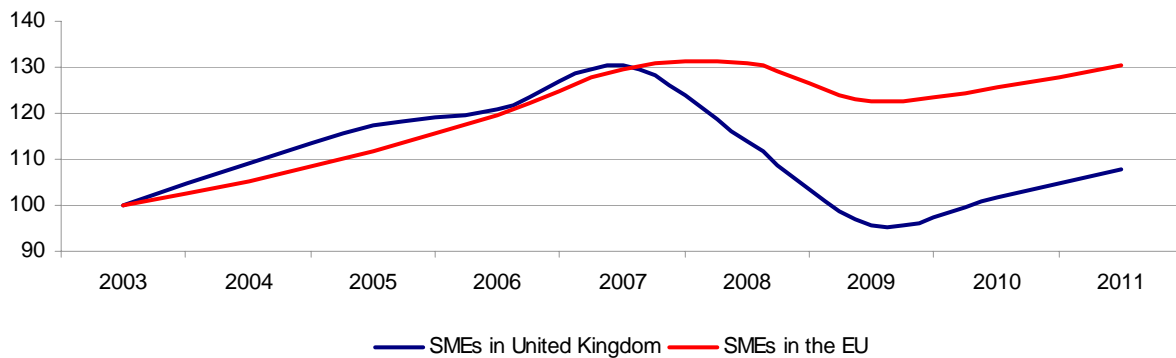
Number of enterprises
 (Index: 2003=100, estimations as from 2008 onwards)



Employment in enterprises
 (Index: 2003=100, estimations as from 2008 onwards)

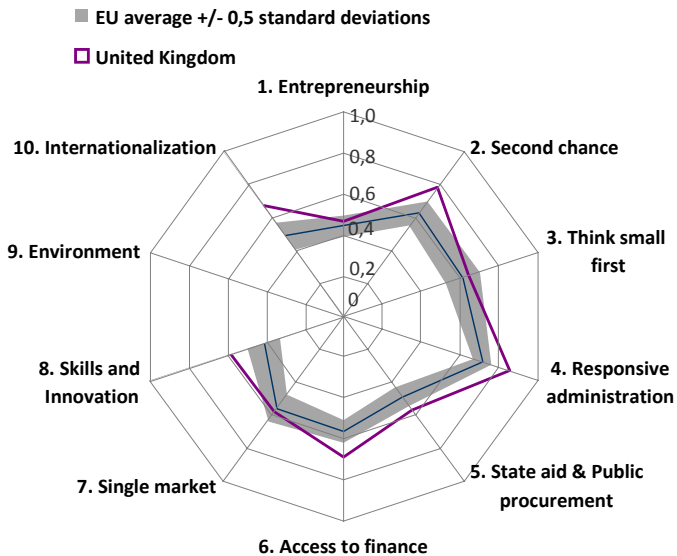


Value added of enterprises
 (Index: 2003=100, estimations as from 2008 onwards)



2. The United Kingdom's SBA profile

UK's performance against the EU average by SBA area³



Overall, the statistics on SMEs give an SBA profile for the United Kingdom that in many areas exceeds the EU average.

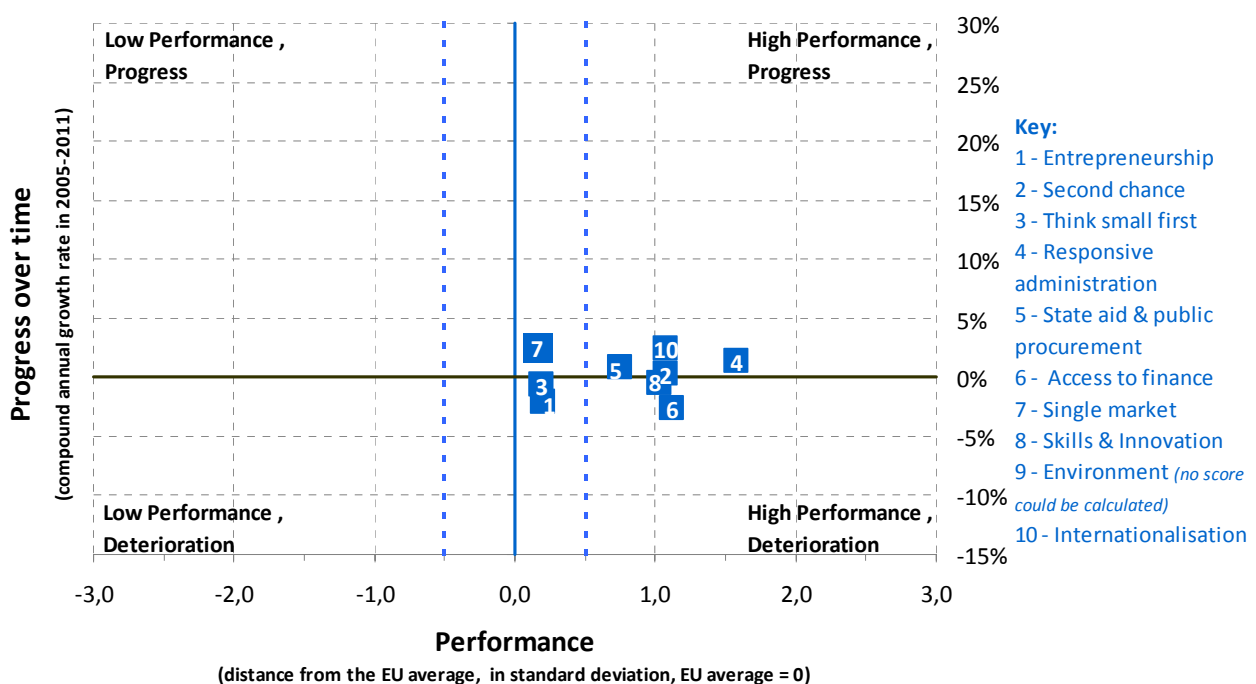
The United Kingdom performs above the European average in six out of the nine SBA principles for which data are available (The area average for principle 9

(‘environment’) is missing for all countries due to a lack of data), namely Second chance, Responsive administration, State aid and public procurement, Access to finance, Skills and innovation and Internationalisation. For the remaining three principles, the United Kingdom performs in line with its EU peers.

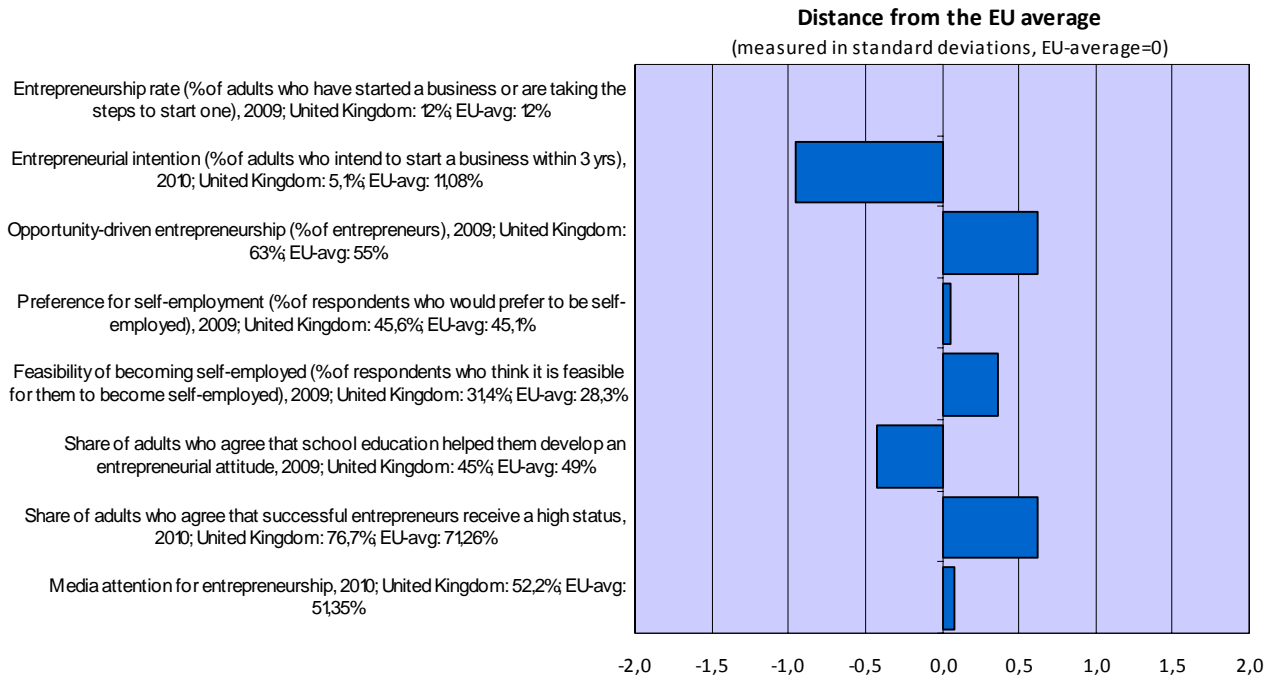
When comparing the relative performance of the United Kingdom and its latest performance to previous years, it would seem that most SBA areas outperform the EU average, indicating a relatively business-friendly environment within which the UK has focused on targeted rather than transformational developments. Nevertheless, progress has not been very dynamic in recent years. On access to finance, highlighted in recent policy measures, there even seems to have been a small deterioration compared to other EU countries.

The United Kingdom's policy record⁴ was analysed, revealing that it has recently addressed most areas (except Second chance, Single market and Environment) of the Small Business Act through targeted policy measures. The main focus has been on access to finance, where several steps have been taken to help enterprises access external financing.

The UK's SBA performance: Status quo and development between 2005-2011⁵



I. Entrepreneurship



Note: Data bars pointing right show stronger than EU-average performance and data bars pointing left show weaker performance.

The data on entrepreneurship show that United Kingdom is, on balance, in line with its European peers. In terms of measuring performance, the actual entrepreneurship rate is identical to the average but the share of opportunity-driven (as opposed to necessity-spurred) entrepreneurs is higher in the United Kingdom than in the EU on average (63% vs 55%), hinting at a relatively favourable business environment. Other indicators also suggest that the environment for, and attitude towards, entrepreneurship is at least as favourable in the United Kingdom as in its EU peer countries on average. More than three quarters of respondents believe that successful entrepreneurs have a high status in society and almost one third also feel that it would be feasible for them to become self-employed. However, some practical barriers may keep the actual entrepreneurial rate below its full potential. When asked whether they actually intend to start a business in the next three years, only 5.1% of British respondents said yes.

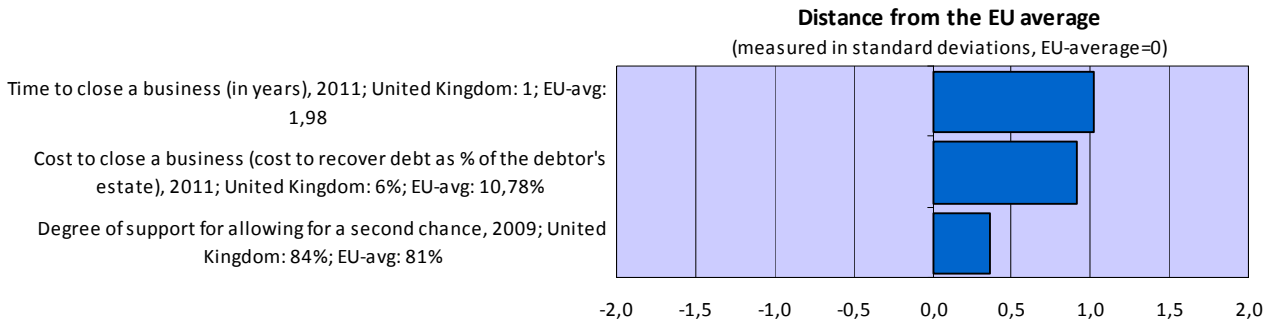
On the other hand, when linking this figure to the relatively high share of opportunity-driven entrepreneurship in the United Kingdom, it is also a likely explanation that those who do opt to start a company do so for the right reasons, as opposed to simply having no other choice.

On the policy front, in October 2010, the New Enterprise Allowance (NEA) scheme was launched. This is a package of up to €2 300 that will be made available for unemployed individuals looking to set up their own business. Along with financial support, individuals will get access to a business mentor who will support and guide their idea. The scheme will be rolled out nationally by autumn 2011.

The 2011 Budget also included the announcement that the lifetime limit of Entrepreneurs Relief has been doubled to €11.4 million.

Furthermore, in March 2011 a package of support for enterprise was announced, meant to coincide with the launch of Start-up Britain Day. The package involves support for every school to run its own business through the Enterprise Champions programme; a major roll out of 'Tycoon Tenner', the successful competition which gives young people the opportunity to progress their business ideas; and the creation of enterprise societies in every university and most further education colleges to develop students with the ambition and skills for enterprise.

II. Second chance



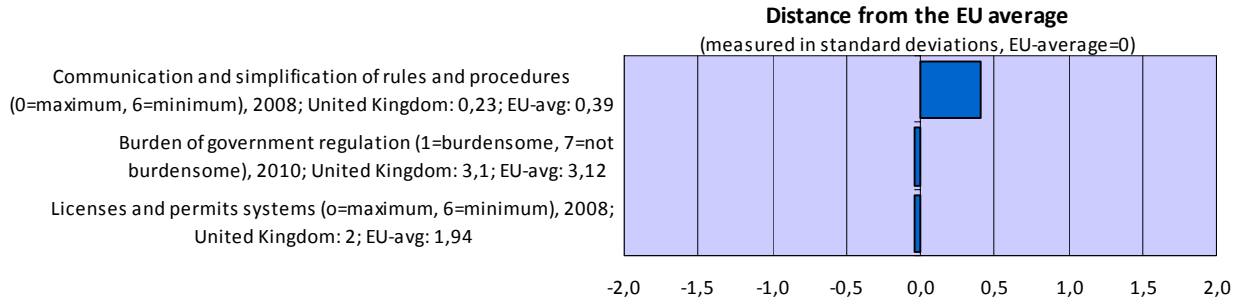
Note: Data bars pointing right show stronger than EU-average performance and data bars pointing left show weaker performance.

The indicators measuring 'Second Chance' paint a positive picture. Data suggest that the United Kingdom offers relatively favourable conditions for entrepreneurs who want to start over again. In particular, the time

required to close a business is only one year in the United Kingdom, which is almost half the EU average.

Against this background, it may not be of too great concern that no significant **policy measures** were taken in the United Kingdom in 2010 and the first quarter of 2011.

III. Think Small First



Note: Data bars pointing right show stronger than EU-average performance and data bars pointing left show weaker performance.

Overall, the United Kingdom performs in line with the EU average in this area. The perceived burden of government regulation is just slightly heavier in the United Kingdom than in EU peer countries, as is the burden on businesses in complying with governmental administrative requirements for permits and reporting. On the other hand, the situation is slightly better than average in terms of the action taken to simplify rules and procedures.

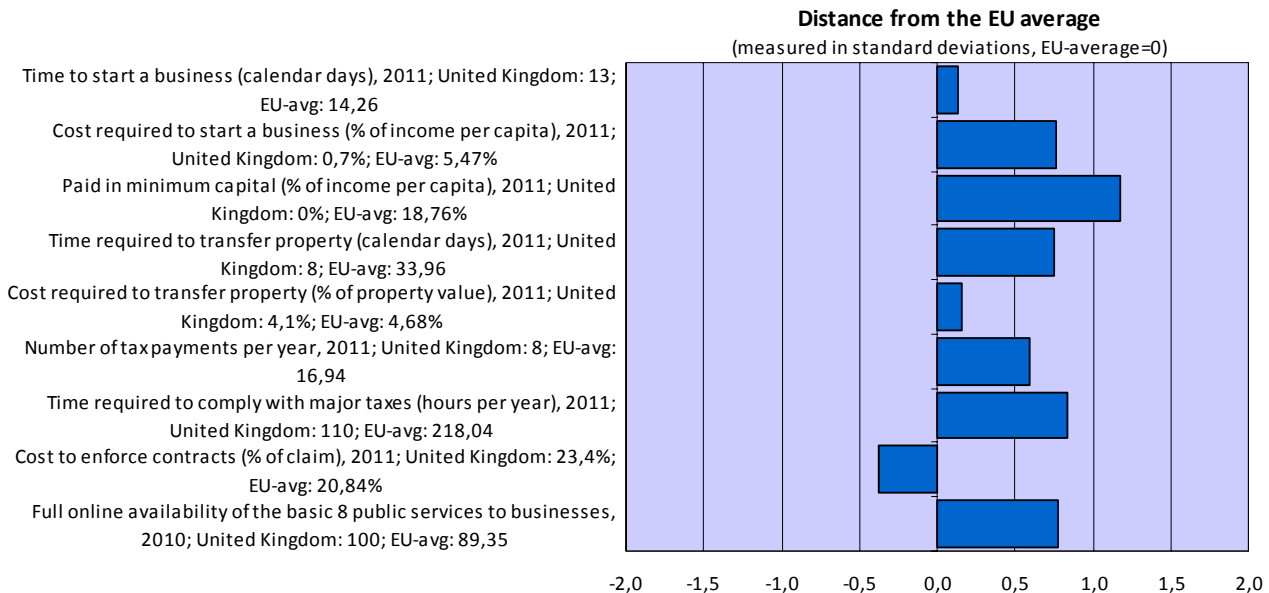
On the policy front, in September 2010, the 'One-in, One-out' policy was launched, which states that no new primary or secondary UK legislation that imposes costs on businesses can be brought in without identifying an existing regulation of an equivalent value that can be removed. Although it is too early to evaluate the effects of this strategy, the First Statement of New Regulation (published in April 2011) states that the OIOO rule has resulted in an overall reduction in the net cost to business and civil society organisations. Other action includes the publication of Transposition Guidance in May 2011 to end

the practice of gold-plating EU legislation and a sector review of the existing stock of Statutory Instruments (known as the Red Tape Challenge).

In addition, in the UK 2011 Budget, the government announced a moratorium to exempt micro enterprises and new start-ups from new domestic regulations. This will last for three years and aims to give micro enterprises and start-ups 'breathing space' from the burden of new regulations — allowing them to focus on growing their business and taking on more employees. The Budget also announced further changes to employment legislation in order to reduce the cost of compliance to small businesses that is currently estimated at €1.13 billion.

Starting in October 2010, small businesses — with a rateable value of less than €8 000 — are entitled to Small Business Rate Relief (SBRR), meaning that they pay no business rates for 1 year. This scheme was extended until 2012 and should therefore benefit up to 330 000 SMEs.

IV. Responsive Administration



Note: Data bars pointing right show stronger than EU-average performance and data bars pointing left show weaker performance.

The United Kingdom clearly outpaces EU peer countries in this domain. Six out of nine available indicators clearly exceed the EU average, and only one indicator (measuring the cost to enforce contracts) falls slightly short. Most noticeable is the low cost required to start a new business⁶ (only 0.7% of per capita income against the EU average of 5.47%), which reflects the ambition contained in the SBA to facilitate business start-ups. Another indicator worth highlighting is the relatively short time required to comply with procedures to pay the main taxes in the United Kingdom, which is half the EU average.

On the policy front, the United Kingdom further improved the business environment by launching a 'Prompt Payment' initiative in 2010, which commits central government departments to pay their contractors within 10 days, ensuring that €90 billion worth of payments reaches businesses quicker. Work is now ongoing to promote prompt payment across the wider public sector.

In 2010, the Office of Tax Simplification was commissioned to identify areas of the tax system that may prove to be too complex for small businesses under a Small Business Tax Review. This will involve abolishing

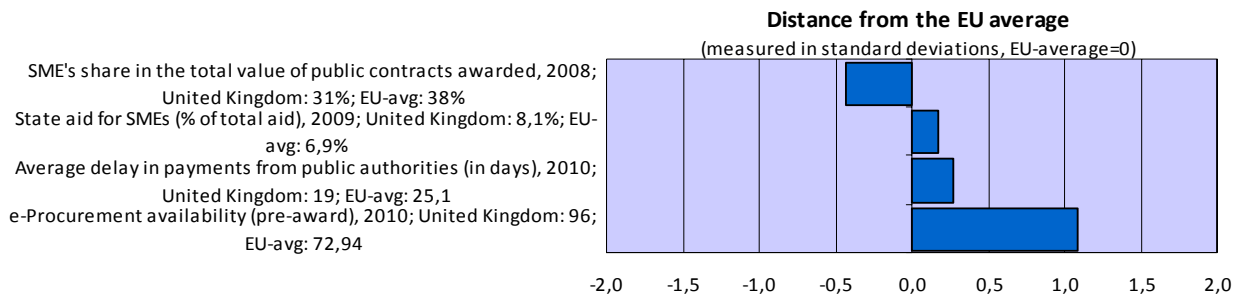
43 tax reliefs and integrating operations for income tax and National Insurance Contributions (NIC).

In January 2011, the government announced the key aspects of the reform to the business support landscape:

- Online business information and tools tailored to each business' needs
- A network of at least 40000 experienced business mentors offering practical advice
- New Business Coaching for Growth programme to help high growth SMEs realise their potential
- Help for start-ups, including a Business Start Up Hub and the New Enterprise Allowance
- A national contact centre to help businesses who cannot find the information they need on the web or who are not connected to the internet.
- Tailored action to raise low entrepreneurial activity among key parts of communities.

Nevertheless, in 2010, the government also announced the closure of regional Business Link organisations.

V. State aid and Public procurement



Note: Data bars pointing right show stronger than EU-average performance and data bars pointing left show weaker performance.

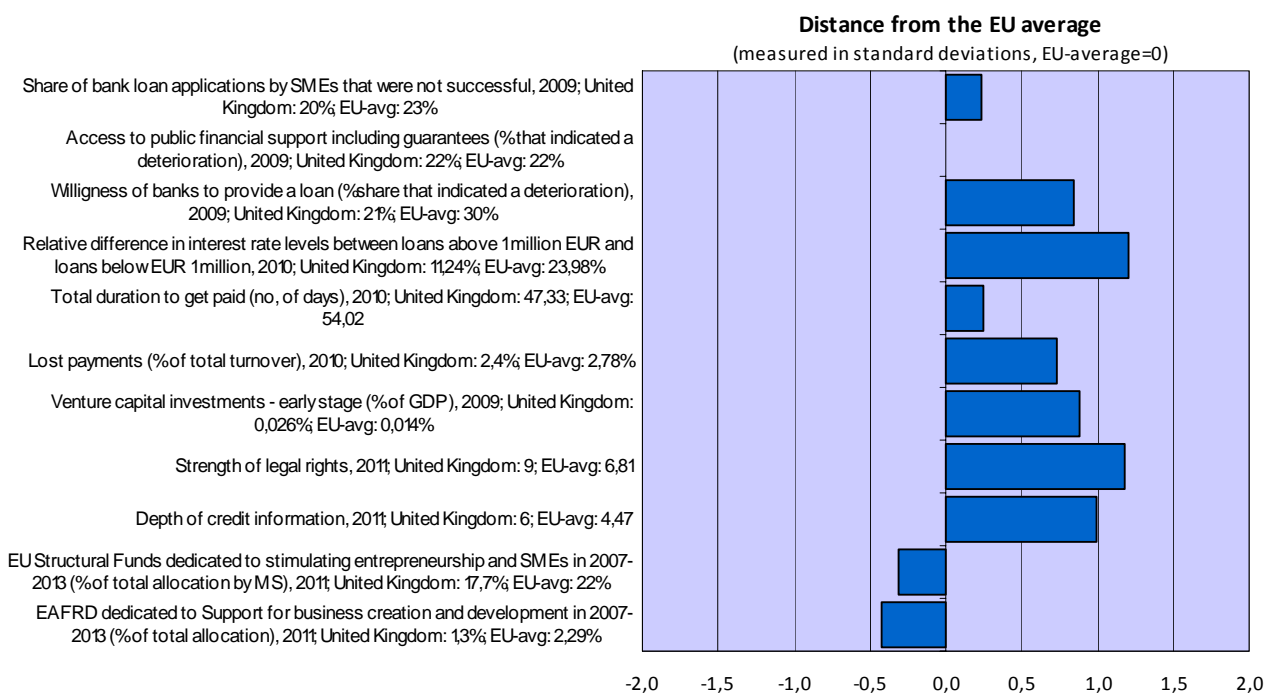
The United Kingdom's performance is broadly in line with the EU average. Most indicators show positive performance, with three out of four situated slightly above, or decidedly above, the EU average. For example, the availability of pre-award e-procurement is much higher in the UK than in EU peer countries.

On the policy side, the government aims for 25 % of central government contracts to be awarded to SMEs. A number of measures have been put in place to support this aim. As part of the overhauled Business Link website (see SBA area IV), a new online facility called Contract Finder was launched to enable businesses to find contracting information and tender documents and to sign

up for free email alerts. An initiative to scrap the use of pre-qualification questionnaires for government contracts (worth less than €115 000) and make more use of the 'open procedure' was also presented in February 2011.

In 2010, an additional investment of €23 million for the Small Business Research Initiative (SBRI) was announced. This programme aims to use government procurement to drive innovation: it provides business opportunities for small companies whilst meeting the needs of government departments. In two stages, companies can bid for contracts ranging from €115 000 to €1 million.

VI. Access to finance



Note: Data bars pointing right show stronger than EU-average performance and data bars pointing left show weaker performance.

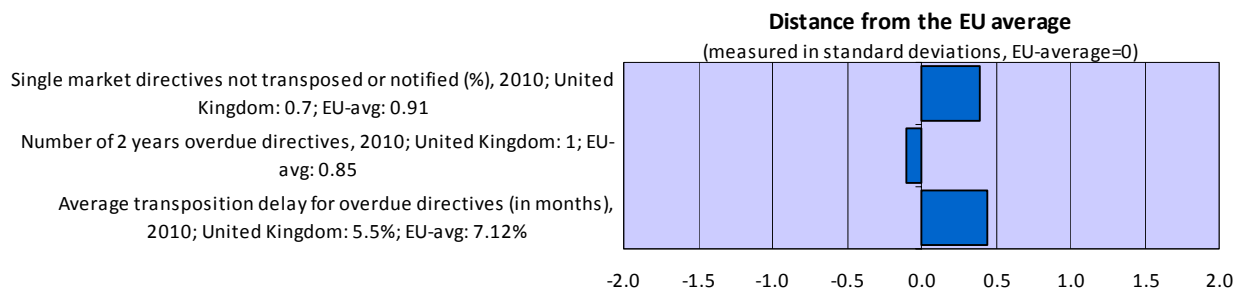
The United Kingdom clearly ranks above the EU average in this area, with only a few indicators hovering around the average and most clearly exceeding it. What stands out among the indicators most directly under policy control is the positive result on the strength of legal rights and the depth of credit information in the United Kingdom. Also all indicators measuring access to private capital show that the United Kingdom performs above the EU average. The interest rate spread between loans above and below €1 million is relatively small, suggesting that UK SMEs are in a more favourable position than their EU peers when taking up credit. The UK venture capital investments in early stages (most likely to benefit SMEs) are almost twice as high as the EU average, measured as a percentage of GDP.

Also on the policy side, United Kingdom has recently taken steps to further improve access to finance for SMEs through targeted measures. The Enterprise Finance Guarantee (EFG) is a UK government-guaranteed lending scheme intended to help smaller viable businesses who

may be struggling to secure finance by facilitating bank loans of between €1 140 and €1.1 million. The scheme was launched in 2009, but in 2010 it was reshaped and extended by €228 million. Although it has not been possible to evaluate the measure yet, it is estimated that around 6 000 SMEs will benefit from additional lending in 2012.

In January 2011, an additional €230 million was allocated to the Enterprise Capital Funds (ECFs). ECFs address a market weakness in the provision of equity finance to SMEs by using government funding alongside private-sector investment to set up funds that operate within the 'equity gap'. They target investments of up to €2.3 million that have potential to provide a good commercial return (mainly high growth industries, such as the renewables sector). Funding has been secured for the programme for the next 4 years.

VII. Single market



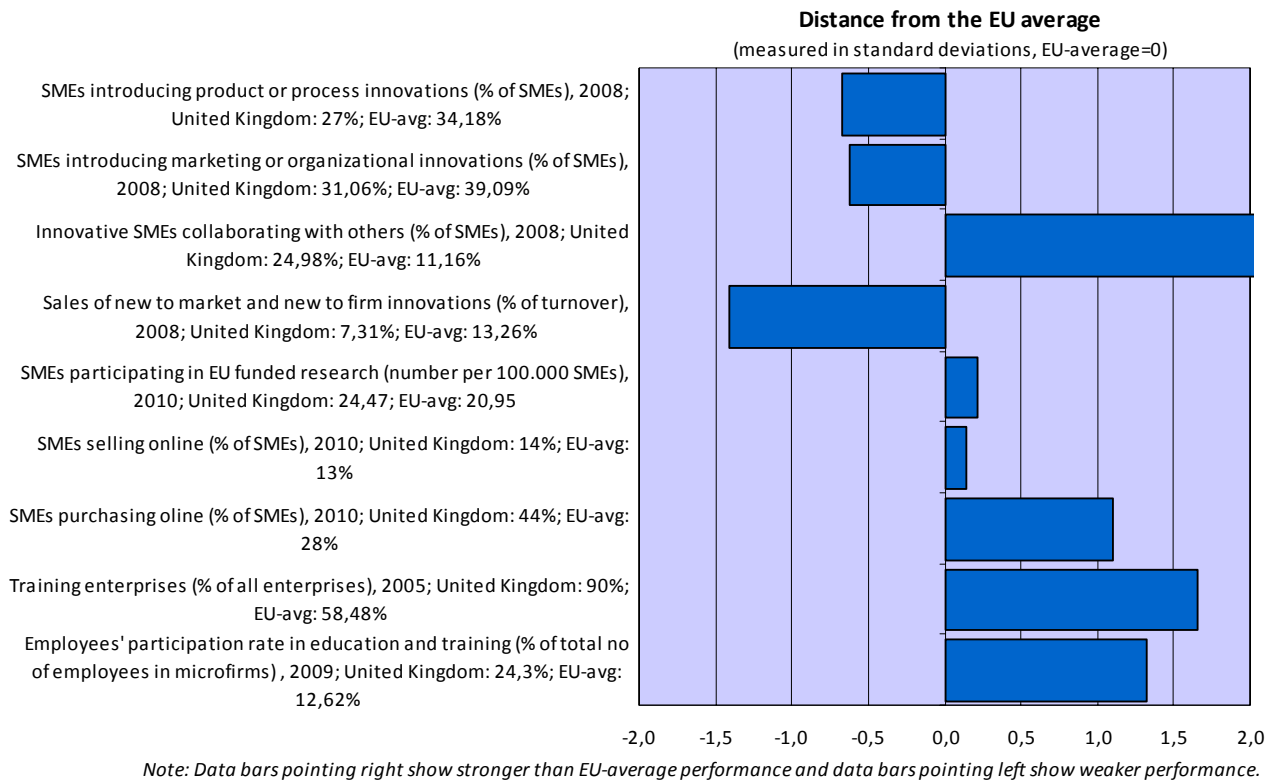
Note: The indicators have been treated such that data bars pointing to the right /left always indicate a performance which is better /weaker than the EU-average.

Here too the United Kingdom's performance matches the EU average with all three indicators positioned close to par. In terms of internal market legislation and the transposition of EU legislation into national law, the United Kingdom seems to be slightly faster than its EU peers. On

the other hand, the number of directives that are overdue by more than two years is slightly higher (1 directive in the UK vs on average 0.85 in EU peer countries).

No significant **policy measures** were reported in the United Kingdom in 2010 and the first quarter of 2011.

VIII. Skills and innovation



United Kingdom ranks above the EU average on both skills and innovation. However, the overall positive result hides some discrepancies between individual indicators. Both indicators measuring training and skills development score decidedly above average, and employees of UK micro firms are twice as likely as their peers in other EU countries to participate in training (24.30% vs 12.63%). On the other hand, the remaining seven indicators addressing various aspects of innovation and IT readiness are less consistent. It appears that, although innovative UK SMEs are more likely to cooperate with others and internet purchasing is relatively widespread among SMEs in United Kingdom, the fruits of innovation are less likely to result in marketable products or services than in EU peer countries.

On the policy front, some progress has been made to stimulate research and innovation, but no significant

IX. Environment

No indicators tracking environmental performance were available for the United Kingdom.

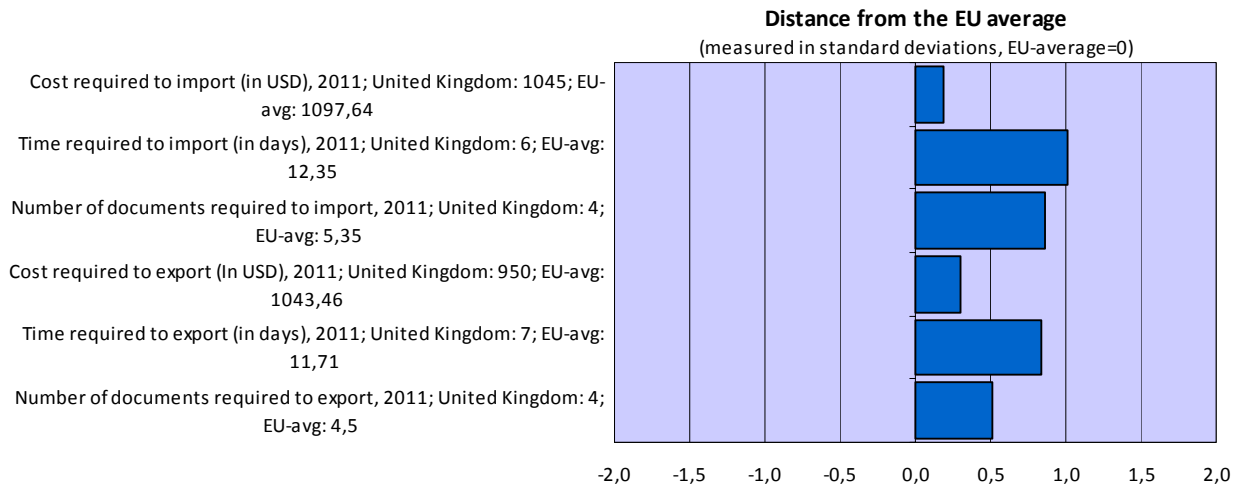
measures were reported on skills development. In October 2010, plans were announced to invest over €228 million in a network of elite Technology Innovation Centres (TICs). The TICs will be physical centres that will provide access for business to the best expertise, infrastructure, skills and equipment that would otherwise be outside the reach of individual companies. They aim to bridge the gap between business and research.

In the 2011 budget, the rate of SME Research and Development tax relief was also raised to 200% in 2011 and 225% in 2012. The scheme will also be made easier to use by small firms.

The 2011 Budget also announced that an additional €1.14 million would be set aside in 2011-2012 for science capital development to provide facilities for the commercialisation of research, accommodation for innovative SMEs and new research capability.

On the policy front, no significant policy measures were reported in the United Kingdom in 2010 and the first quarter of 2011.

X. Internationalisation



Note: Data bars pointing right show stronger than EU-average performance and data bars pointing left show weaker performance.

Based on the available indicators measuring internationalisation, the United Kingdom exceeds the EU average. Data suggest that all six available indicators are situated slightly, or decidedly, above average. Both the cost, but in particular the time required to import is favourable in the United Kingdom (the time being less than half the EU average, at 6 vs more than 12 days). The procedures involved to import are lighter. The same applies to exporting.

On the policy front, new United Kingdom Trade and Investment (UKTI) and Export Credits Guarantee Department (ECGD) support was announced in 2001 for SMEs to break into overseas markets. This includes the

Export Enterprise Finance Guarantee scheme to help SMEs with a turnover of less than £25 million to access trade finance, which was launched in April 2011. In addition, the Plan for Growth, published alongside the Budget in March 2011, includes a commitment to provide an enhanced package of support to help SMEs with an ambition to break into overseas markets. The support will include mentoring by senior business specialists and an online peer-to-peer self-help community network. From March 2011, the existing Short-Term Credit Insurance Policy was extended. This insurance now covers a wider range of goods to help protect small firms against the risk of non-payment by buyers in emerging markets.

Good practice

To show what the government actually does to promote SMEs, we include an example of good practice.

The UK SME policy measures that can be used as examples of best practice across Europe fall under the SBA principle of public procurement and State aid. Despite the size of the public procurement market in the UK, and the fact that 99% of companies in the UK are SMEs, just 16% of Central Government contracts are won by SMEs. 75% of SMEs have never bid for public-sector work. Historically, a number of barriers have prevented small enterprises from bidding for — and winning — public sector work, including excessive administration to produce tenders, lack of track record of public sector work, the large size of contracts and the risk adverse nature of the public sector.

As a direct response to these issues, the Government has aimed to award 25% of central government contracts to SMEs. A package of measures has been passed to support this aim which was announced in February 2011. One of the key measures is the Contracts Finder facility, launched in April 2011. Forming part of the overhaul of the Business Link website, and building on Supply2.gov.uk, Contracts Finder is a free service that allows businesses to search and apply for opportunities to supply goods and services to central government departments, their executive agencies, non-departmental public bodies and local authorities in a broad range of fields including construction, advertising and infrastructure services. Contract values range from €11 500 to multi-million opportunities. Businesses may filter opportunities according to value, location, language and date and they can also access closed tenders in order to familiarise themselves with the opportunities available. This facility has improved upon its predecessor by simplifying the registration procedure, the frequent distribution of email notifications informing users of upcoming tender opportunities and increasing company visibility to buyers through the 'supplier directory' on the homepage; all of which have improved SME access to public sector contracts.

About the SBA Fact Sheets

The Small Business Act (SBA) Fact Sheets are produced by DG ENTR as part of the SME Performance Review (SPR), which is its main vehicle providing an economic analysis of SME issues. The SBA Fact Sheets combine the latest available statistical and policy information for the 27 EU Member States and another 10 non-Member States which also contribute to the EU's Competitiveness and Innovation Framework Programme (CIP). The Fact Sheets — produced annually — help to organise the available information to facilitate SME policy assessments and monitor SBA implementation. They document the status quo and progress. They are not an assessment of Member State policies but should be regarded as an additional source of information designed to improve evidence-based policy making. For example, the Fact Sheets cite only those policy measures deemed relevant by local SME policy experts. They do not, and cannot, reflect all measures taken by the government over the reference period. More policy information can be found on a database accessible from the SPR website. Please see the end notes overleaf.

For more information

SME Performance Review:

http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/index_en.htm

Small Business Act:

http://ec.europa.eu/enterprise/policies/sme/small-business-act/index_en.htm

The European Small Business Portal:

http://ec.europa.eu/small-business/index_en.htm

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¹ The SBA Fact Sheets 2010-2011 benefited substantially from input by the European Commission's Joint Research Centre (JRC) in Ispra, Italy. The JRC made major improvements to the methodological approach, statistical work on the dataset and the visual presentation of the data.

² The three graphs below describe the trend over time for the variables. They consist of index values for the years since 2003, with the base year 2003 set at a value of 100. As from 2008, the graphs show estimates of the development over time, based on 2003-2007 figures from the Structural Business Statistics Database (Eurostat). The estimates were produced by Cambridge Econometrics. The data cover the 'business economy', which includes industry, construction, trade, and services (NACE Rev. 1.1 Sections C to I, K). The data do not cover enterprises in agriculture, forestry, fishing or the largely non-market services, such as education and health. A detailed methodology can be consulted at: http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/index_en.htm.

³ The SBA radar chart plots for the different SBA areas the relative position of an individual country vis-à-vis the EU average. The individual values represent averages across all available indicators for this area. The scale is from '0' (minimum or 'worst in the EU-27 class') to '1' (maximum or 'best in class'). The EU average is located between those extremes and plotted as a grey band in the chart. The area average for principle 9 ('environment') is missing for all countries due to a lack of data.

⁴ The policy measures presented in this SBA Fact Sheet is only a selection of the measures taken by the Government in 2010 and the first three months of 2011. The selection was made by the SME policy country expert contracted by Ecorys (DG ENTR's contractor for the 2010-2011 Fact Sheets). The experts were asked only to select those measures that, in their view, were the most important, i.e. were expected to have the highest impact in the specific SBA area. The complete range of measures that the experts compiled in the framework of producing this years' Fact Sheets will be published in the form of a policy database on the DG ENTR website alongside the Fact Sheets.

⁵ The quadrant chart combines two sets of information: firstly it shows the status quo performance based on data for the latest available years. This information is plotted along the X-axis measured in standard deviations of the simple, non-weighted arithmetical average for EU-27. The vertical corridor marked by the dotted lines defines the EU average. Secondly, it reveals progress over time, i.e. average annual growth rates for the period 2005-2011. The growth rates are those of the individual indicators which make up the SBA area averages. Hence, the location of a particular SBA area average in any of the 4 quadrants provides not only status quo information about where the country is located in this SBA area relative to the rest of the EU at a given point in time, but also the extent of progress made in the period 2005-2011.

⁶ These figures are based on World Bank data. For methodological details on the start-up indicators, please consult the Doing Business 2011 report at <http://www.doingbusiness.org/>. It should be noted that these findings may differ from corresponding figures obtained directly from Member States through a self reporting exercise, according to which, in 2010, it took 6 days and cost 33 Euros to start a business in the United Kingdom. For more details please see: http://ec.europa.eu/enterprise/policies/sme/business-environment/start-up-procedures/index_en.htm.