

2015 SBA Fact Sheet

United Kingdom



Key points

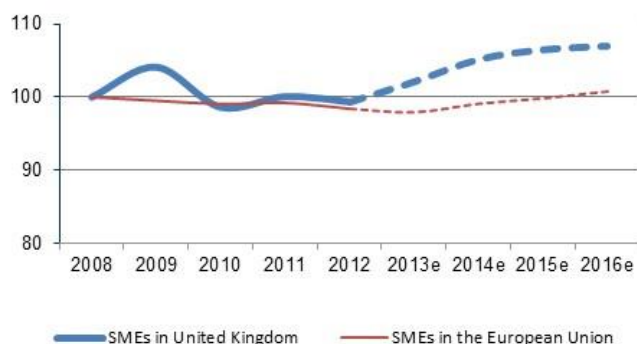
Past & future SME performance¹: The United Kingdom is one of the few Member States where the SME sector has recovered fully from the crisis. In 2014, the number of businesses classified as SMEs, the number of people employed by SMEs, and the gross value added these businesses created all surpassed their 2008 pre-crisis levels. The main driver of this recovery was the service sector. In manufacturing, meanwhile, growth has been more modest, with most manufacturing industries having not yet returned to pre-crisis levels of employment. The outlook for 2015 and 2016 is good. The number of SMEs registered for VAT or PAYE (pay-as-you-earn tax) is expected to increase by 1.4%, creating approximately 170 000 additional jobs by 2016 (an increase of 1.7%). The value added created by SMEs is expected to rise even more sharply, increasing by 13% during 2015 and 2016.

Implementing the Small Business Act for Europe (SBA): The United Kingdom is performing very well in the areas covered by the SBA. It outperforms the EU average in six of the areas and is the highest ranking country for the area 'second chance'. The country's performance is average in the areas entrepreneurship and the single market, but has improved significantly since the introduction of the SBA in 2008. The area where the United Kingdom shows its weakest performance continues to be state aid & public procurement, the only area where it scores below the EU average.

SME policy priorities: The United Kingdom has implemented the vast majority of SBA recommendations. In recent years, the country has been very proactive in introducing policies to improve conditions for SMEs, concentrating particularly on reducing the administrative burden, improving access to finance and strengthening SMEs' innovative potential. Promoting entrepreneurship was also a priority. There is, however, scope for further improvement in business education. A number of initiatives have been launched recently in the area of public procurement, but more still needs to be done to strengthen SMEs' presence, in particular by making public tenders more accessible to SMEs. The lack of improvement in SMEs' export performance also needs to be addressed, at least in the manufacturing sector where this problem has been specifically identified.

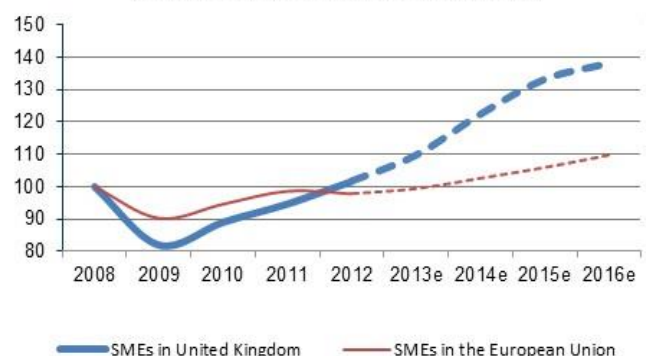
Number of persons employed in SMEs

(Index: 2008=100, estimates as from 2013 onwards)



Value added of SMEs

(Index: 2008=100, estimates as from 2013 onwards)



About the SBA fact sheets

The Small Business Act for Europe (SBA) is the EU's flagship policy initiative to support small and medium-sized enterprises (SMEs). It comprises a set of policy measures organised around 10 principles ranging from entrepreneurship and 'responsive administration' to internationalisation. To improve the governance of the SBA, the 2011 review of it called for better monitoring. The SBA fact sheets, published annually, aim to improve the understanding of recent trends and national policies affecting SMEs. Since 2011, each EU Member State has appointed a high-ranking government official as its national SME envoy. SME envoys spearhead the implementation of the SBA agenda in their countries.

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1. SMEs — basic figures

	Number of enterprises			Number of persons employed			Value added		
	United Kingdom	EU-28		United Kingdom	EU-28		United Kingdom	EU-28	
	Number	Share	Share	Number	Share	Share	Billion €	Share	Share
Micro	1 622 396	89.1 %	92.7 %	3 193 820	17.3 %	29.2 %	239	20.4 %	21.1 %
Small	164 792	9.1 %	6.1 %	3 608 225	19.5 %	20.4 %	192	16.3 %	18.2 %
Medium-sized	27 418	1.5 %	1.0 %	3 143 370	17.0 %	17.3 %	203	17.3 %	18.5 %
SMEs	1 814 606	99.7 %	99.8 %	9 945 415	53.7 %	66.9 %	634	54.0 %	57.8 %
Large	6 059	0.3 %	0.2 %	8 562 274	46.3 %	33.1 %	540	46.0 %	42.2 %
Total	1 820 665	100.0 %	100.0 %	18 507 689	100.0 %	100.0 %	1 174	100.0 %	100.0 %

These are estimates for 2014 produced by DIW Econ, based on 2008-2012 figures from the Structural Business Statistics Database (Eurostat). The data cover the 'non-financial business economy', which includes industry, construction, trade and services (NACE Rev. 2 sections B to J, L, M and N), but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health. The advantage of using Eurostat data is that the statistics are harmonised and comparable across countries. The disadvantage is that for some countries the data may be different from those published by national authorities.

The United Kingdom's economy is characterised by the relative importance of large companies. The main reason for this apparent dissimilarity with the rest of the EU is a difference in the data collected: a large proportion of micro-firms based in the UK do not appear in the statistics, as firms are only included in the Companies Register when their turnover exceeds GBP 82 000. In all other Member States, this minimum turnover level is much lower. It is therefore because of this difference in the information captured by the data that the contribution of micro-firms and SMEs to employment and value added are much lower than the EU average. The proportion of people employed in the non-financial business economy who work for SMEs is 13 percentage points lower than the EU average. The proportion that SMEs contribute to the total value added created by the non-financial business economy is 4 percentage points lower than in the EU on average.

The UK's non-financial business economy has fully recovered from the crisis. The value added created is 12 % higher than in 2008 and employment is estimated to have returned to 2008 levels. SMEs have performed particularly well, with employment figures for 2014 5 % higher than in 2008, and value added 22 % above pre-crisis levels. In large firms, by contrast, the number of jobs was still below 2008 levels (5 % lower in 2014), and value added is estimated to have returned to its 2008 level.

The main driver of the recovery has been the services sector, with many service subsectors having surpassed 2008 levels of employment and value added some time ago. Manufacturing SMEs have yet to return to pre-crisis levels of employment and value added. These developments have further reduced the relative economic importance of manufacturing SMEs in the UK. According to 2014 estimates, the proportion of employment and value added in the UK non-financial business economy provided by SMEs in the manufacturing sector was only about half of the

proportion contributed by manufacturing SMEs to employment and value added in the EU as a whole (15% compared to 28% of employment, and 14% compared to 28% of value added). The professional services sector is one of the main drivers of the recovery. The value added created by this sector increased by 30% between 2008 and 2014, and employment in the sector grew by 11% over the same period. SMEs performed particularly strongly, with the value added created by SMEs in this sector increasing by 43% and the level of employment they provide growing by 15%. In 2014, for the fourth consecutive year, gross value added created by this sector was above 2008 levels, and continued to rise. There are many reasons for this good performance, as the sector covers a diverse range of services.² Its main subsectors are legal and accounting services, management and consulting services, and architecture and engineering. The value added created by SMEs in each of these subsectors grew by between 43% and 48%. The last two subsectors mentioned benefited particularly from the recovery of the financial services sector. UK companies in these fields are also highly competitive in global markets. They were therefore able to benefit from foreign demand, ranking second only to the US in export shares to developed countries.³

Information and communication services is another sector where SMEs are showing strong growth. The value added generated by SMEs in this sector increased by 40% and the employment they provide by 15% over the period 2008-2014. This sector is highly international in its nature. It is the largest producer of television and radio content in Europe.⁴ Since 2004, the UK has seen the fastest and steadiest growth in internet advertising of all European countries, both in the UK and on the European market.⁵ Its games market is the largest in Europe, the Middle East and Africa.⁶

Official statistics on new registrations and closures of businesses are published by the Office for National Statistics, but they only include businesses registered to pay VAT and PAYE (payroll tax).⁷ The most recent available figures are for 2013.

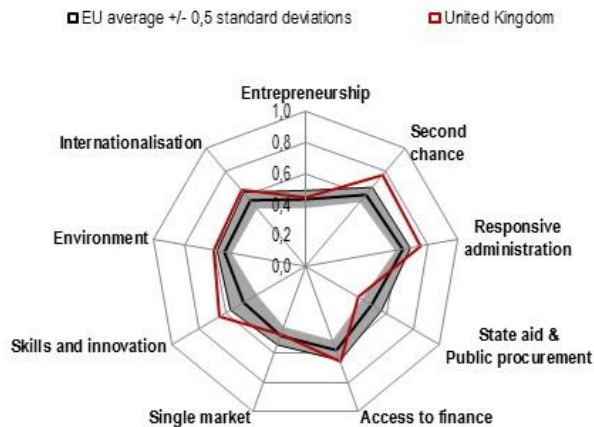
The number of new businesses registered increased by 28%, from 270 000 in 2012 to 346 000 in 2013. The number of business closures, meanwhile, fell by 6% (from 253 000 to 238 000).⁸ These figures are a positive sign for the coming years.

Over the last decade, the number of new businesses being set up has generally been higher than the number of business closures, with the exception of the years 2008-2010. The number of new businesses registered has grown each year since 2011.⁹

The number of start-ups grew by 50% in the professional and administration services sectors. This is in part due to the recovery of the financial services sector, which plays a major role in the British economy. Moreover, some of these developments have occurred in market-based sectors, outside the business economy. The 66% increase in start-ups in the education sector has mainly resulted from the rise of EduTech companies (technology-driven educational services companies). These companies use internet-based and mobile technologies to deliver educational services and learning experiences.¹⁰ The third-ranked sector was the health sector, where the number of start-ups grew by 33%.¹¹

The outlook for the business economy as a whole, and especially for SMEs, is positive. The number of SMEs is expected to grow by 1.4% between 2014 and 2016. It is estimated that SMEs will create on a net basis approximately 170 000 additional jobs by 2016, an increase in the total number of SME jobs of 1.7%. The value added created by SMEs is expected to grow particularly strongly, rising by 13% over the next two years. The trends in the economic development of services and manufacturing SMEs are set to continue to diverge.

2. SBA profile¹²



The United Kingdom's strong performance in the areas covered by the SBA has further improved this year. Access to finance became the sixth area in which the country is performing above the EU average, alongside 'second chance', 'responsive administration', skills & innovation, environment and internationalisation. The country's performance is in line with the EU average in the areas entrepreneurship and the single market. As was the case last year, state aid & public procurement remains the one weak area, where the country's performance is below the EU average. In all three of these areas where performance is less good, the United Kingdom is catching up, recording faster improvement in its scores than the EU as a whole. This trend is most pronounced in entrepreneurship and the single market. There were only two areas – access to finance and internationalisation – where the UK's overall rate of improvement over the period 2008-2014 was below the EU average. The UK's strong performance is the result of continued efforts made over recent years to improve the business environment for SMEs, in line with the principles of the SBA. The government has introduced a number of reforms in the areas 'think small first' and 'responsive administration'. A total of 14 new policies were brought in during this reporting period (2014 and the first quarter of 2015), together addressing six of the policy areas covered by the SBA. Greatest progress was made in 2014 in skills & innovation (where six measures were introduced), access to finance (three specific measures, in addition to three from the area skills & innovation that had a strong finance aspect) and promoting entrepreneurship (two measures). Three other areas – 'think small first', 'responsive administration' and internationalisation – each saw one new measure introduced. The areas where no new policies were

brought in were 'second chance', state aid & public procurement, the single market and environment. The conditions relating to 'second chance' are already very much in line with the requirements of the SBA, thanks to initiatives taken in previous years. The other areas have not been identified as policy priorities.

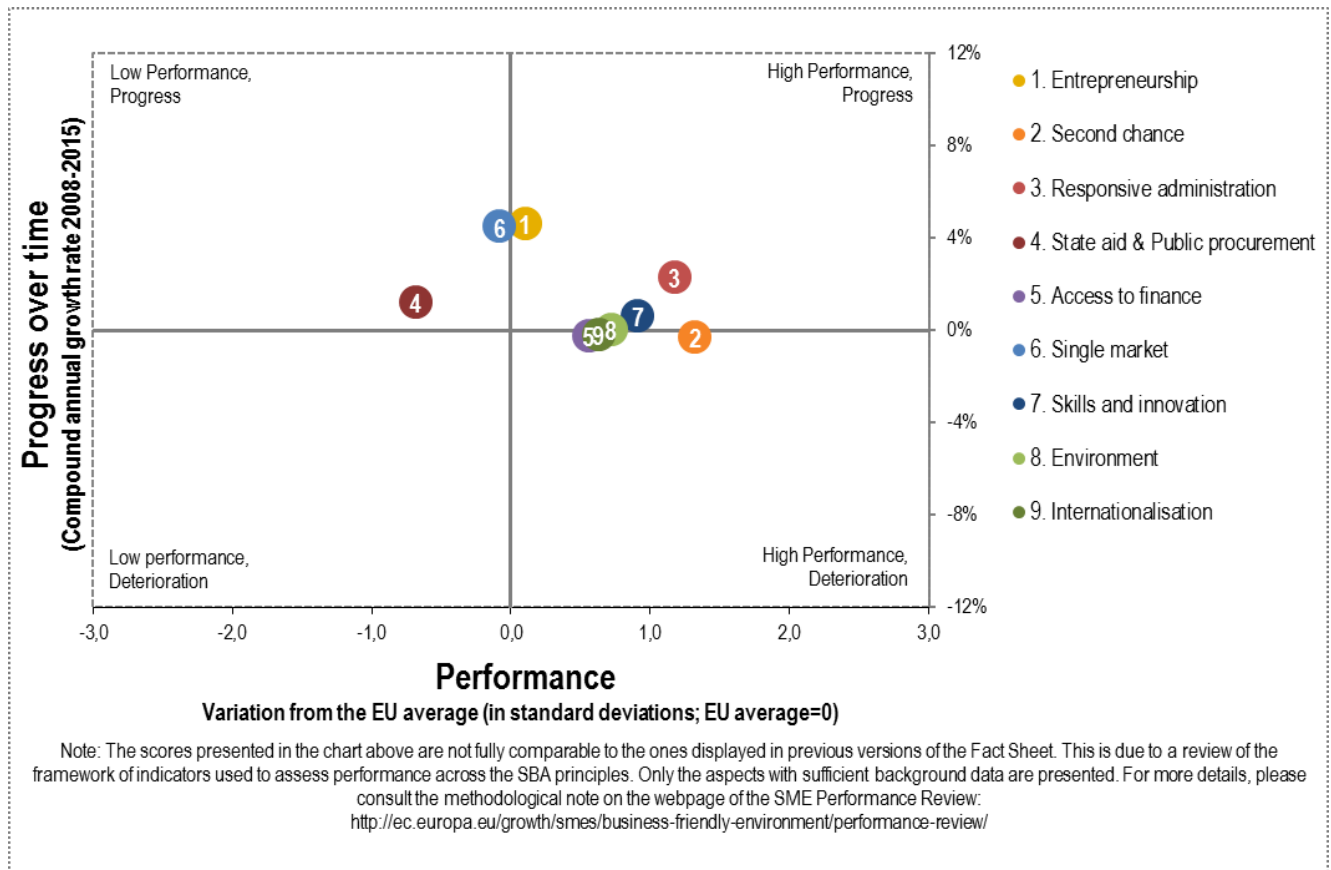
The most significant measure introduced in 2014 was the British Business Bank (BBB), which began operating in November 2014. The BBB has been set up as an economic development bank, with the objective of creating more effective and efficient financial markets for small businesses in the UK.

The government has not adopted a specific national strategy to implement the SBA. Instead, since 2008, it has implemented a wide range of measures based on needs and priorities. These measures all either fully or partially address the areas identified in the SBA. Overall, the United Kingdom is at an advanced stage in implementing the SBA. The government has a proven track record of consistent implementation of measures announced. In 2014, all the measures that were to be implemented that year, with the exception of three where the consultation process took longer than scheduled, were put in place in line with the government's earlier statements. The government also recently announced five new measures to be implemented from 2015 onwards. This is a positive sign for a continuation of SME-friendly reforms in the near future. The most important of these measures is the Small Business, Enterprise and Employment Act. It is designed to reduce barriers and create new opportunities for small firms to innovate and compete, and to help them obtain the financing needed to create jobs and contribute to growth and export. The Act encompasses a wide and comprehensive range of measures, grouped under 11 categories: access to finance (for which there are 7 measures); regulatory reform (9); public sector procurement (2); the pubs code; childcare and schools (3); education evaluation (from school to the labour market); company transparency (2); company filing requirements (simplification measures); directors' disqualification measures; insolvency (3); and employment (6).

Despite the UK's overall good performance, and the progress that has been made, a number of challenges remain. In particular, more needs to be done in the following areas: developing a national strategy for entrepreneurship education, increasing the participation of SMEs in public tenders, speeding up the payment procedures of public authorities and facilitating SMEs' access to finance.

The government has committed to introducing an Enterprise Bill, which will focus on cutting red tape and making it easier for small businesses to resolve disputes quickly and easily.

SBA performance of United Kingdom: state of play and development from 2008 to 2015¹³



3. SBA principles¹⁴

3.0 'Think Small First'

The 'think small first' principle is meant to be a guiding principle for all policy- and law-making activities. It requires policy-makers to take SME interests into account at the early stages of the policy-making process. The principle also calls for newly designed legislation, administrative rules and procedures to be made simple and easy to apply.

All the main aspects of the 'think small first' principle are being applied in the UK. A 'think small first' process was introduced in 2006, and the practical aspects of the principle, such as carrying out regulatory impact assessments, consulting SMEs and their representatives, performing a specific 'SME test' to assess the effect of proposed new measures on SMEs, and having common start dates for new rules coming into force are all standard practice.

A major part of the government's 2010-2015 strategy to reduce the flow of regulation affecting business was the introduction of the 'one-in, one-out' rule, under which the government committed to making the net cost to business of new measures

zero or better (i.e. no net difference, or a net saving) over the course of the Parliament. This rule was strengthened in January 2013, to become a more challenging 'one-in, two-out rule' which obliged government departments to find double the savings in compensation for any costs created by new regulations being imposed.

The government has also taken action to address the disproportionate burden that regulation often places on small businesses by, as the default position, exempting micro-businesses and start-ups from new regulations introduced by all government departments. From 1 April 2014, the Small and Micro Business Assessment extended this to include small businesses with up to 50 employees. This principle, issued as guidance for departments preparing new measures, is specifically designed to mitigate the disproportionate burden that new regulation places on smaller businesses.

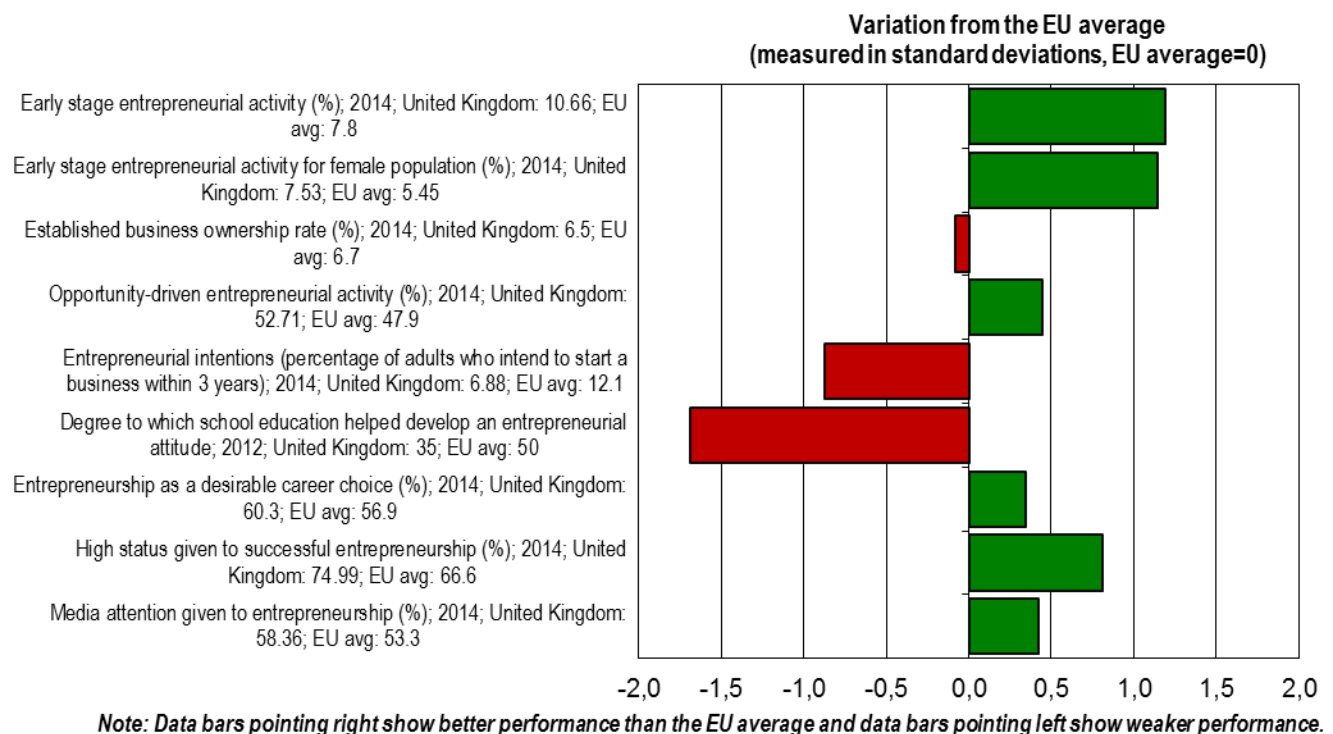
In view of the fact that this principle is already well established in the UK, further progress made during the reporting period was

limited. Her Majesty's Revenue & Customs (HMRC) carried out the SME Customer Journey Mapping (2014) project, designed to better align tax strategies to SMEs' business lifecycles. The purpose of the project is to develop a better understanding of SME businesses, to consider the effect of important events in their lifecycles on the payment of taxes, and to improve the services provided by HMRC by taking business lifecycles into

account. HMRC's overall aim is to develop more effective and less burdensome tax policies.

There are some areas where further improvement is needed. Firstly, self-regulation should be encouraged where feasible. Secondly, the government should try to create incentives for SMEs to contribute to policy consultations and to get involved in the design and development of better legislation.

3.1 Entrepreneurship



The UK's overall score in this area remained close to the EU average. Entrepreneurship is one of the country's weaker areas but a number of improvements have been seen since last year. These improvements also reflect the increase in start-up activity described in section 1.

The UK's score had improved since the previous year for most of the indicators in this area. The indicators measuring entrepreneurial activity were above the EU average for the first time, reflecting the strong increase in start-up activity. Opportunity-driven entrepreneurial activity also increased (from 45 % of respondents last year to close to 53 % this year). Other indicator scores, however, prevented the UK from further improving its overall performance in this area. These include the relative lack of entrepreneurial spirit, with the proportion of adults planning to start a business lower than in the EU as a whole, and the very low score for the influence that school education has on shaping entrepreneurial attitudes. In this latter area, the UK continues to record the lowest score of all EU countries.

In recent years, the government has introduced a number of measures designed to support start-ups. These included financial incentive schemes, such as the 2010 New Enterprise Allowance, and technical support programmes, such as the 2012 Growth Accelerator. Three further new measures were introduced during the reporting period, to complement the existing programmes.

The first was the new 'My Business' support tool, which was launched to help businesses to find the public or private sector support they need quickly. Businesses can now contact a helpline adviser directly via the business support helpline.

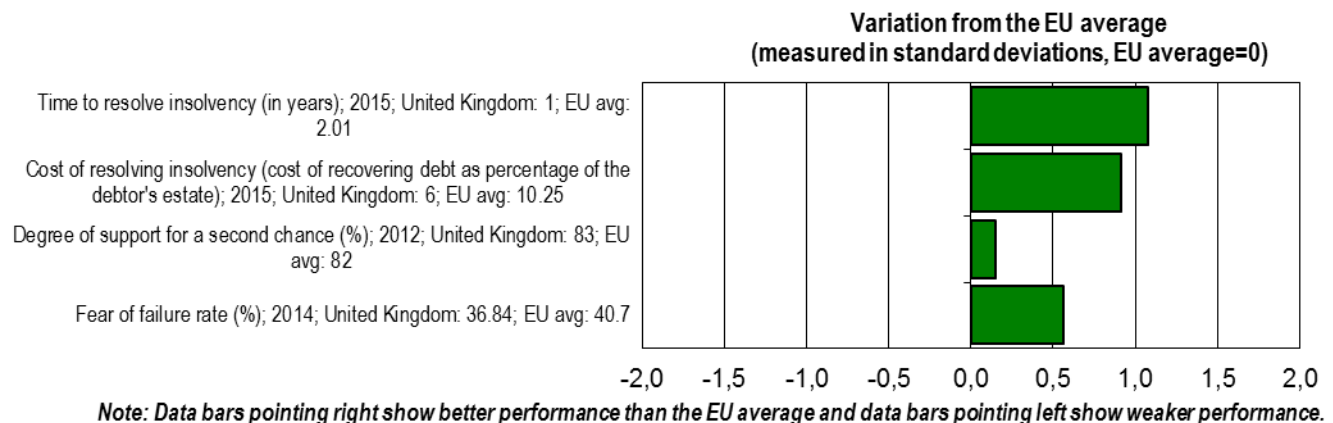
The second initiative was the Business Growth service, which provides SMEs with expert advice to help them improve and grow their business. The service aims to support up to 20 000 SMEs to achieve their ambitions each year. The service is also designed as a way of building a community of ambitious like-minded entrepreneurs and high-growth businesses, which will benefit each other by together supporting growth and thus also serving the wider economy (see also Section 4.). Information on these and other measures are available on the 'GREATbusiness'

website, where all sources of government information on business support have been collated.

The third initiative to have been announced involves support for those running home-based businesses. The aim is to encourage people to start and develop home-based businesses by making it easier for them to run a business from a rented home. Specifically, the new measures will make the majority of home businesses exempt from business rates and will provide aspiring entrepreneurs with the information they need to launch and develop their business ideas.

The introduction of these most recent new measures, in addition to those already in place, means that most of the SBA provisions are now addressed. There is, however, significant scope for improvement in business education. Better coordinating the existing measures under a comprehensive national strategy would ensure that business skills form part of the curriculum throughout education, from pre-school through to university.

3.2 'Second chance'



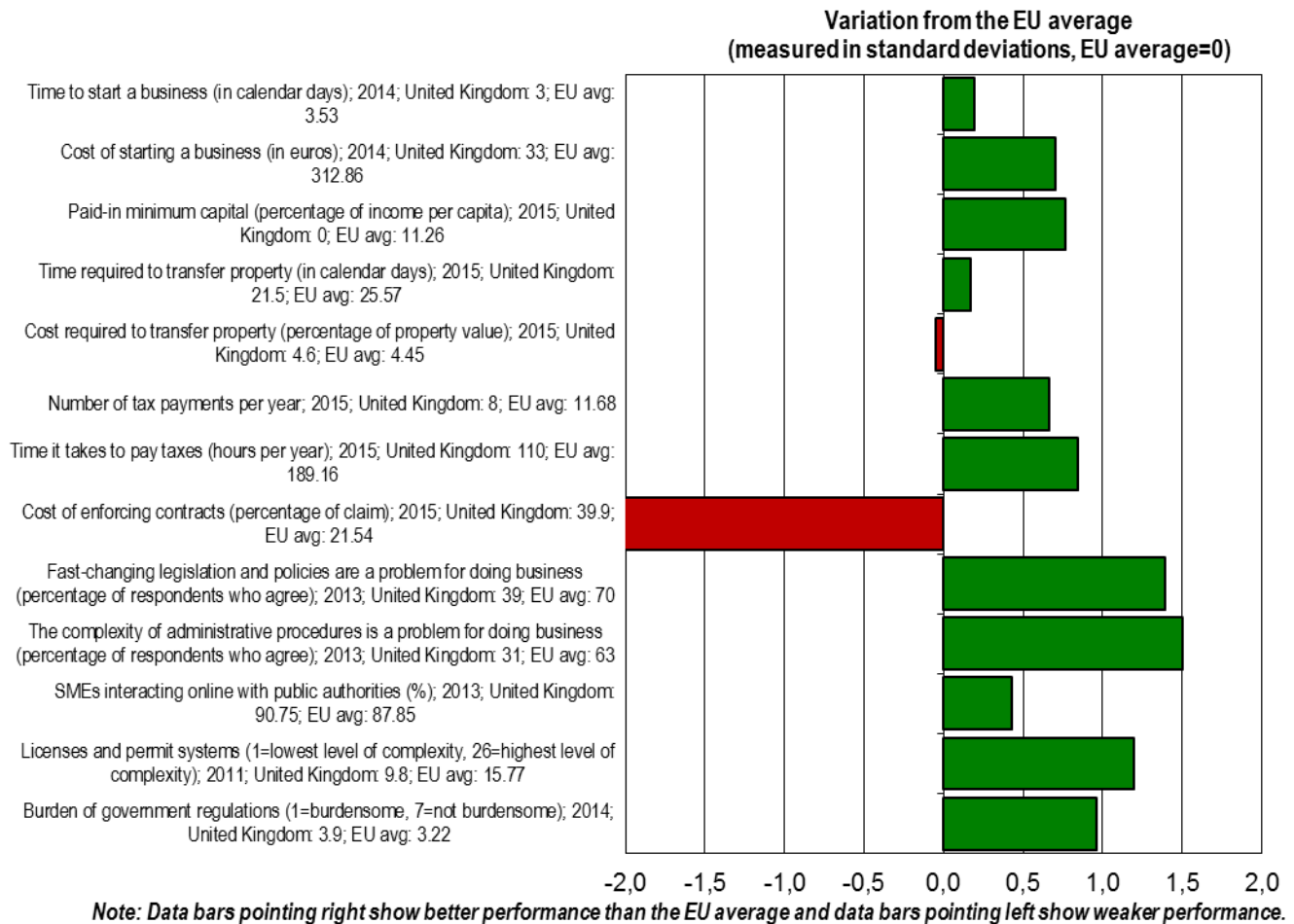
'Second chance' refers to ensuring that honest entrepreneurs who have gone bankrupt get a second chance quickly. The United Kingdom remained one of the best performing country in this area. There has been very little change to the scores for individual indicators. The relatively low fear of failure rate and high level of public support for the principle of a 'second chance' contribute to creating a conducive environment for entrepreneurship.

Given the excellent performance in this area in recent years, policy-makers' attention was focused more on other issues.

There were therefore no significant new measures implemented during the reporting period.

In line with the aims of the Red Tape Challenge, the Government's flagship initiative to reduce bureaucratic burden, legislative reforms being introduced under the Small Business Enterprise and Employment Act (SBEEA) 2015 will reduce insolvency costs by over GBP 30 million per year. The measures that are to deliver these savings will be implemented over the next 12-18 months.

3.3 'Responsive administration'



'Responsive administration' refers to public administration being responsive to the needs of SMEs.

The UK remains one of the best performing countries in this area. Its overall score and scores for individual indicators changed very little from last year. The two specific aspects where the UK's performance is less good are the costs of enforcing contracts, which are the highest in the EU, and the cost and time taken to transfer property, where its performance is in line with the EU average. All other indicators show above-average performance.

The indicators measuring the general SME-friendliness of the regulatory environment show the United Kingdom's advantage over other EU countries. The most notable examples are its scores for the complexity of administrative procedures and the frequency of change as regards legislation and policies. The UK has stayed ahead of other EU countries throughout the entire period 2008-2014, even though 'responsive administration' was the area where the greatest improvement was seen in the EU as a whole.

'Responsive administration', together with 'think small first', was the priority area for reform in recent years, the most notable example of new initiatives being the 'Red Tape Challenge', designed to reduce red tape, costs and taxes. Since 2011, it has led to over 3000 regulations being removed or improved, bringing savings to UK businesses of over GBP 1.2 billion a year.¹⁵

The Office of Tax Simplification (OTS) was set up in 2010 to identify areas of excessive complexity in the tax system and to make recommendations as to how the burden on taxpayers could be reduced. The OTS carried out a review specifically in relation to small business taxation. It reported on this in 2011, and a range of measures have since been introduced making tax administration easier for small businesses.

More recently, a series of measures has been implemented to simplify government support products and services and make them easier to find. During the reporting period, the government introduced a number of additional complementary measures. A single information portal and search engine (www.gov.uk) now serves as an online 'shop window' for all government support

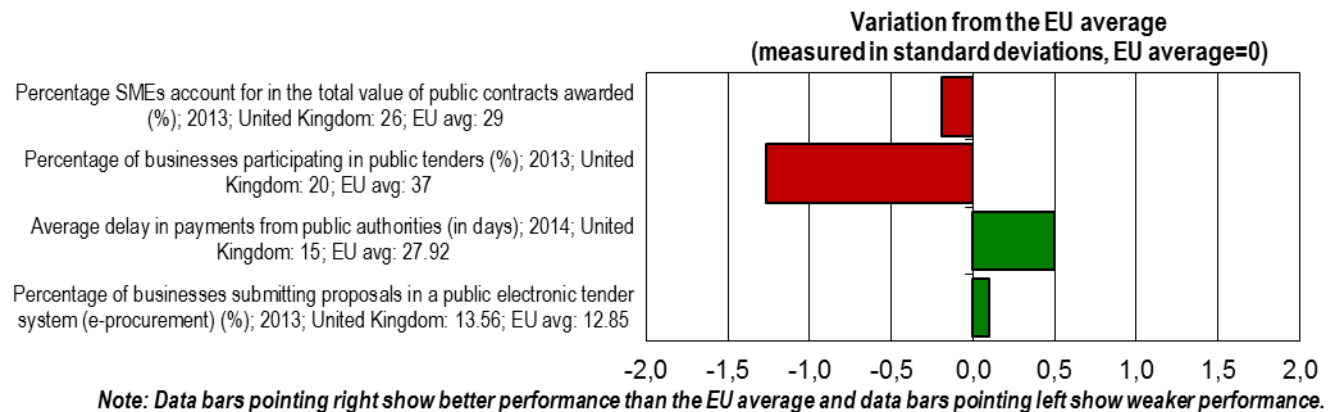
products and services. A national helpline is now in operation and 'growth hubs' are being set up across the country to provide local support.

The government has also announced two further measures to be introduced. The first, the Small Business, Enterprise and Employment Act, is designed to reduce barriers and open up new opportunities for small firms to innovate and compete, and to help them access the financing needed to create jobs and contribute to growth and export. The second is a measure transposing the EU's new Accounting Directive into UK law. This

will mean that companies can prepare and file simpler and less detailed accounts with Companies House, allowing them to save time and money.

Also, the new Online Tax Registration Service allows businesses to easily and quickly register for taxes 24 hours a day. Online tax accounts have also been set up, which provide a personalised homepage from which small businesses can access all the services they need to manage their tax affairs and find help and support.

3.4 State aid & public procurement



This is the only area where the UK's performance is below the EU average.

There has been no major change in any of the individual indicators since last year. The average time taken for public authorities to make payments due to SMEs fell by one day. At 15 days, it is comfortably within the limit of 30 days set by the EU Late Payment Directive. The percentage of SMEs taking part in public tenders remains low. Although guidelines are in place, it is still not common practice for large tenders to be broken down into lots or micro-lots in order to encourage SMEs to bid for contracts.

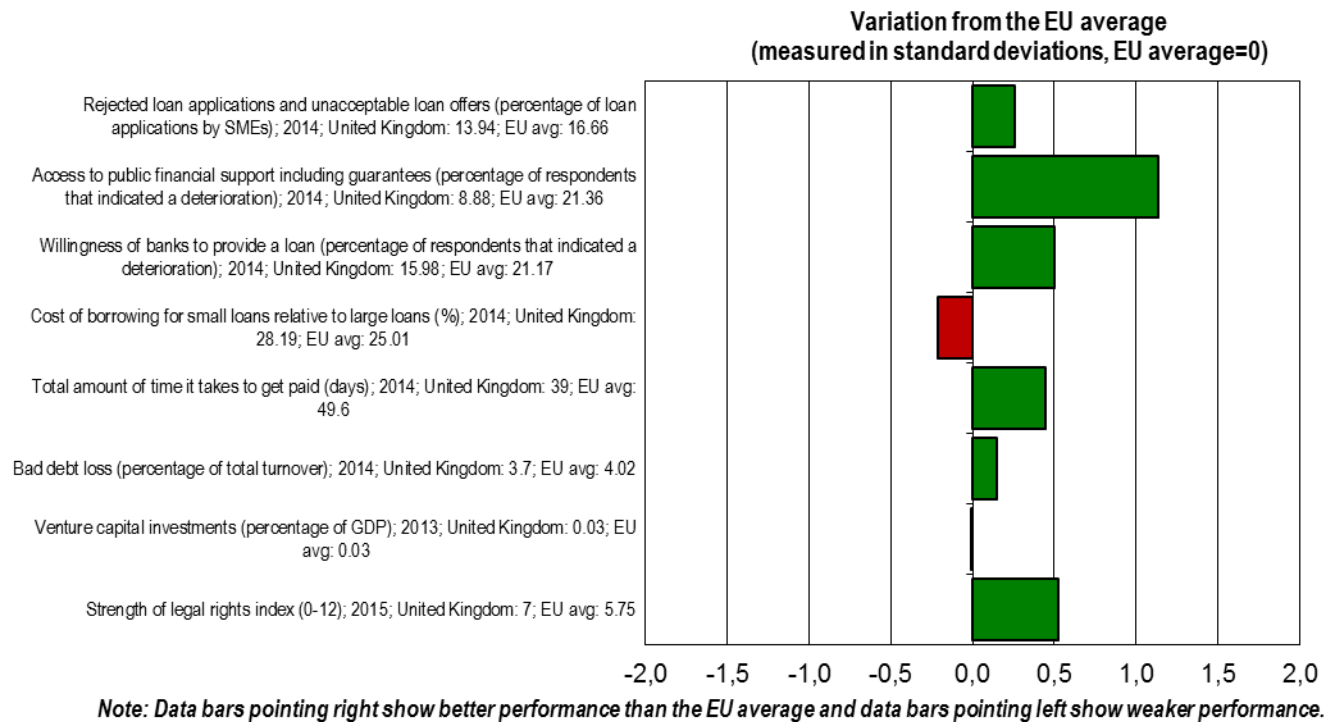
Despite these obstacles, central government did spend GBP 11.4 billion on contracts issued to SMEs in the fiscal year 2013-2014. It has met the objective set in 2010, of 25% of central government procurement spending going to SMEs by the end of 2015. The value of contracts issued directly to SMEs has increased from 6.5% in 2009-2010 to 10.3% in 2013-2014, with a further 15.8% of indirect spending reaching SMEs through the supply chain. This gives a combined total of 26.1% of central government procurement spending.

Building on this success, a new objective has been set — for 33% of central government spending on procurement to go to SMEs by the end of this Parliament (2020).

Since 2008, the government has introduced a number of measures to make it easier for SMEs' to bid in public tenders. Four measures were designed to improve SMEs' access to public sector support and opportunities: 1. the contract finder web portal, launched in 2010 and redesigned in 2015, offers improved search facilities for SMEs; 2. a restructured small business research initiative was launched in April 2009 under the management of Innovate UK, the UK's independent innovation agency. The initiative gives SMEs the opportunity to bid in 'themed tenders' for contracts to develop technology-based products and services for government departments and public bodies. A total of 2 200 contracts worth a combined total of over GBP 270 million have been awarded through this initiative since April 2009, generating a range of innovative solutions for government departments; 3., the 'Winning the Contract' e-learning course was launched in 2012, to help SMEs with the preparation and submission of their offers; and 4. public procurement contracts worth GBP 320 billion (EUR 281.3 billion) were opened up to SMEs in 2013. While the measures introduced up to 2012 had not significantly improved the situation, this most recent change has given a massive boost to the SME economy.

As a result of the high volume of reforms introduced in earlier years, no further measures were taken during the reporting period.

3.5 Access to finance



The United Kingdom's overall score in this area rose above the EU average once again, having dropped to average levels the previous year.

Financing conditions improved, with debt financing in particular becoming easier for SMEs to access. Fewer SMEs reported suffering rejected loan applications or unacceptable loan offers. A lower proportion of SMEs felt that access to public financial support had worsened over the year. At the same time, banks have become more willing to provide loans to SMEs. The mark-up charged by banks on loans to SMEs also appears to have fallen. The additional interest paid on loans of less than EUR1 million dropped slightly from almost 30 % last year to 28 % this year. The sub-sets of indicators measuring equity finance and the cash flow situation remained stable.

Over the period from 2008 to 2014, the UK recorded almost no improvement in access to finance (measured by the annual compound growth rate for the the complete set of indicators in access to finance). The same was true for the EU as a whole, and the reason for this lack of change is the same in the UK as in other EU countries. Despite their best efforts, policy-makers have not been able to do more than to neutralise the extremely adverse conditions on the financial markets. Demand for finance in the UK remains muted, however, and structural issues affecting access to finance persist. Since 2008, the UK has implemented a number of measures designed to improve SMEs' access to finance, including Project Merlin (in 2010), the national loan guarantee scheme (2011), Funding for Lending (2011) and

the private sector business growth fund, which primarily related to the provision of equity financing (2011).

In addition, the British Business Bank (BBB), an economic development bank, was launched with the aim of creating more effective and efficient financial markets for smaller businesses. A further GBP1 billion is being used to widen existing schemes, and create new ways of unlocking finance for smaller businesses. The bank manages a number of schemes launched since 2008, including the enterprise finance guarantee scheme (2009), the enterprise capital funds programme (2011), the Angel CoFund (2012) and a start-up loans scheme for entrepreneurs. (See Section 4 for a more detailed description of the BBB.)

A number of important measures were also implemented during the reporting period.

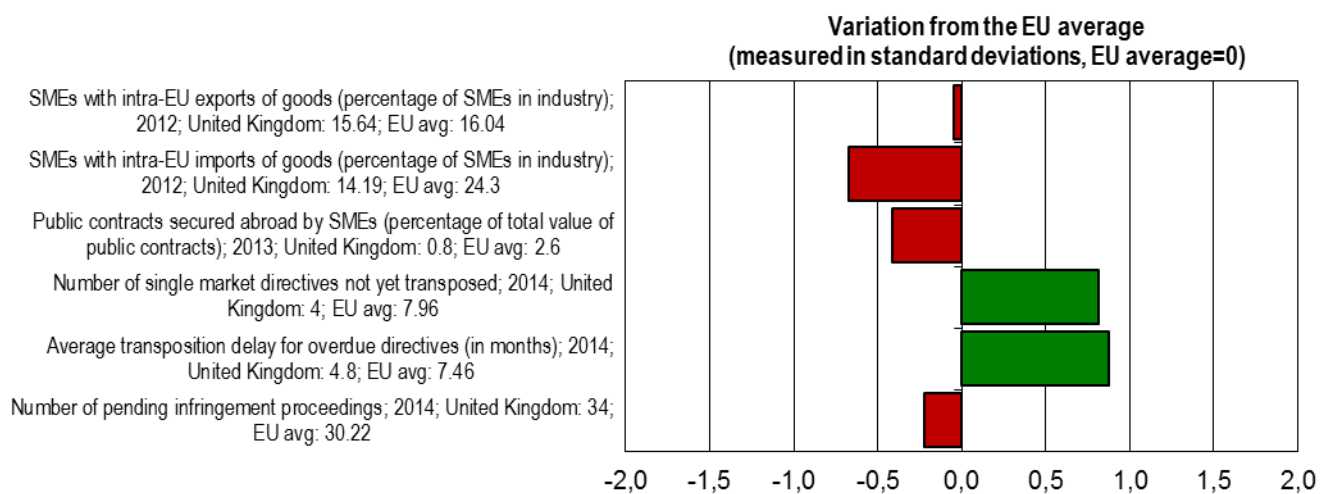
A GBP1 billion package of support for business rates was announced in 2014. This will benefit SMEs by capping the rises in small business rates at below inflation and providing support for growing businesses.

Another incentive for SMEs to invest in developing their businesses is the Annual Investment Allowance (AIA). It offers 100% relief against taxable profits for expenditure on qualifying capital plant and machinery. The AIA was doubled in 2014 and is currently set at GBP500 000.

Furthermore, the United Kingdom has introduced a GBP 2 000 Employment Allowance, which every business and charity in the UK is entitled to apply for. The allowance reduces the employer's national insurance contributions and is one of a range of measures related to national insurance designed to stimulate employment in SMEs.

New measures to tackle late payment were also announced during the reporting period. Large and listed companies will be required to publish detailed information on their payment practices and performance.

3.6 Single market



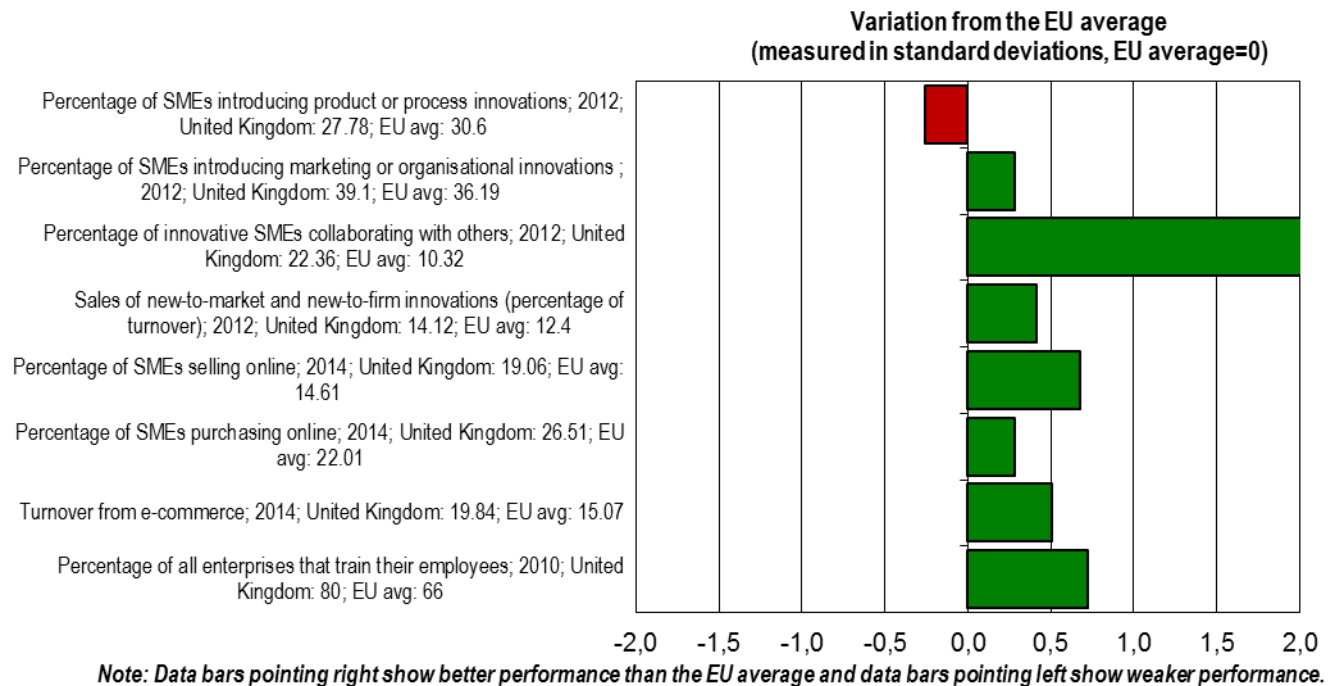
Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

The UK continues to perform in line with the EU average in this area. Its performance has improved significantly since 2008, with its overall score improving more than the EU average score. The main driver behind this development was the significant progress made in implementing single market legislation. The number of pending infringement procedures, for example, fell from 57 in 2008 to 34 in 2014. The average time taken to transpose overdue directives was reduced from 10.6 to 4.8 months over the same period. The number of single market directives yet to be transposed was brought down from 10 to 7. Despite these efforts, however, the extent to which UK SMEs trade in the single market has not changed over the period 2008-2014. There were fewer SMEs exporting and importing goods in 2014 than the previous year. The strength of the pound against the euro may explain the drop in the proportion of SMEs

exporting, from almost 20% the previous year to less than 16%. There has, however, been no corresponding rise in the proportion of SMEs importing goods. The most likely explanation for the lack of growth in trade in manufactured goods with the single market is the lack of growth in the UK manufacturing sector (see Section 1). Corresponding figures for services sector exports are not available.

The current VAT registration requirements may also be discouraging some smaller firms from trading on the single market. Notwithstanding the increased efforts made to improve and accelerate the transposition of single market regulation into national law, very few measures have been introduced in recent years to stimulate trade with other EU countries. No significant new measures were implemented during the reporting period.

3.7 Skills & innovation



The UK continues to outperform the EU average in this area and has one of the highest overall scores.

The UK's performance has improved both in absolute terms and relative to the EU average over the period 2008-2014. An improvement was also seen over the last year, with the indicators measuring the innovative potential of SMEs all rising. The proportion of SMEs introducing marketing and organisational innovations rose by 4 percentage points, to 39% in 2010-2012, an increase of more than 8 percentage points since 2004, when this indicator was first measured. The turnover from e-commerce also recorded a significant increase. While in 2003 less than 12% of UK SMEs reported any turnover from e-commerce, the proportion had reached almost 20% by 2014.

Overall, the data available confirms that the UK was able to further consolidate the competitive advantage its SMEs enjoy over their EU competitors. It also suggests that the substantial policy support provided by the government in this area is paying off.

Since 2008, the government has introduced 13 major measures in the area of skills & innovation. Examples of these include the creation of a network of Catapult Centres across the UK, which give companies the opportunity to transform innovative ideas into products and services. They provide access to the latest technology and expertise in areas such as high-value manufacturing, cell therapy and offshore renewable energy. A number of financial and fiscal incentive schemes have also been put in place. One example of this was the increase of the tax relief given to SMEs for R&D to

225% in the 2011-2012 tax year (since increased to 230% for the 2015-2016 tax year). The patent box regime was introduced from the beginning of the 2013-2014 tax year. It allows companies to claim a reduced rate of corporation tax on profits from qualifying patents and certain other innovations. The Innovation Vouchers scheme, launched in 2012, meanwhile gave SMEs specific funding for paying for an external expert, use of specialist equipment or facilities. These policies were accompanied by measures designed to support skills development, such as the Employer Ownership of Skills pilot programme launched in 2012.

A range of additional measures were also implemented during the reporting period, complementing the already very comprehensive array of support programmes.

1. The new online patent renewal service has made the process of renewing patents simpler, quicker and cheaper for businesses and inventors. More than 400 000 patents are renewed every year and more than 25% of paper submissions contain errors. With the new online service, a renewal request for a UK or European patent can be processed in less than 4 minutes. The service saves valuable time and money for both intellectual property specialists and businesses.

2. The 2014 Supply Chain Toolkit booklet was published. This raises awareness of the growing risk of counterfeit goods arriving in business supply chains. It explains how to strengthen and protect intellectual property assets and

includes a step-by-step guide on the action to be taken should counterfeit goods be found in the supply chain.

3. All small businesses are now eligible to apply for an Innovation Voucher. The scheme, operated by Innovate UK, has extended the businesses which qualify from the original target group of SMEs from specific technology fields to include all SMEs. The scheme is designed to encourage businesses to make use of the knowledge available that can help them grow and develop. Successful applicants receive up to GBP 5 000 to engage an expert of their choice.

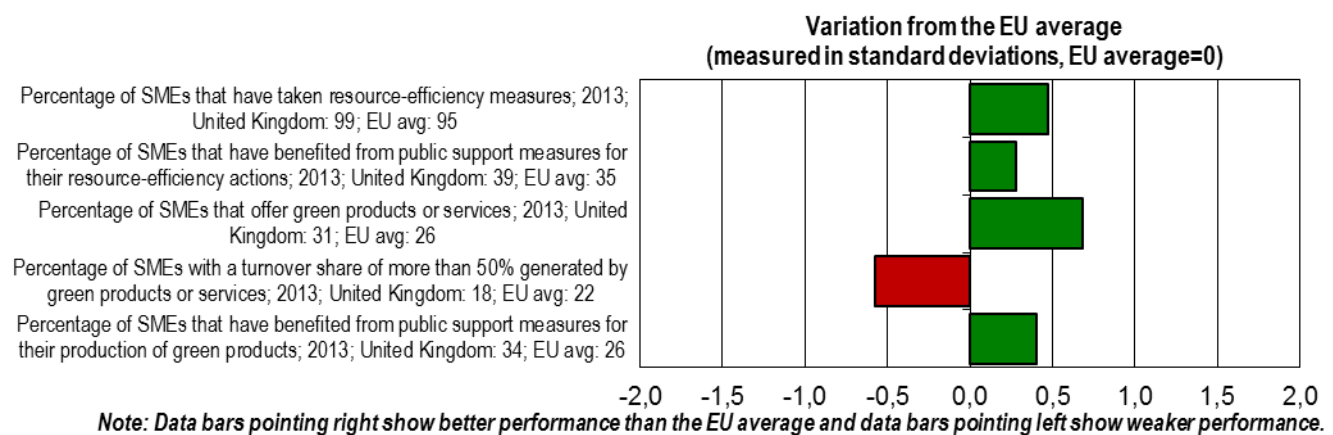
4. The Do More Online campaign helps small businesses to acquire the digital skills they need to find customers, work efficiently and save money. GBP 2 million of funding is available to support 22 small business projects in increasing their digital presence. A range of web-based resources and advice for small business are also available at www.greatbusiness.gov.uk/domoreonline/.

5. The new skills funding scheme for SMEs in the engineering sector promotes growth and increased productivity by investing in skills. Companies wishing to give employees training, in order to support their career progress or help them to move from another field into engineering, can get 50% of eligible costs paid by the government.

6. The Feasibility Study Fund provides new opportunities for SMEs and micro-businesses to investigate novel approaches to user experience. Innovate UK is investing up to GBP 500 000 in encouraging SMEs to research and develop new ways for machines, computing systems and people to interact.

This is the area that has benefited from the most comprehensive set of measures in the UK, confirming that it remains a top priority within the UK's SME policy.

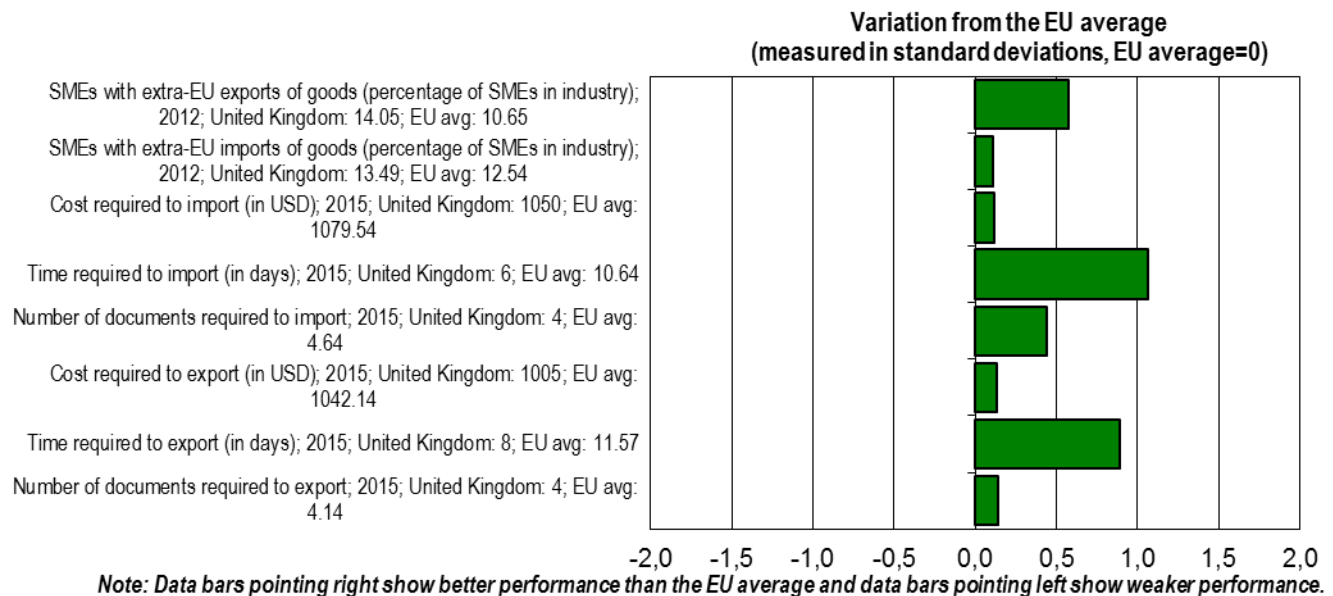
3.8 Environment



The United Kingdom's score in this area remains above the EU average. Most individual indicators are in line with or above the EU average, the sole exception being the indicator measuring the proportion of specialist 'green SMEs', firms more than 50% of whose turnover is from environmentally friendly products. The

UK has thus achieved good results in this area, although it has not been a priority in SME policy-making in recent years. No significant policies have been introduced in recent years, including during the reporting period.

3.9 Internationalisation



The UK continues to rank above the EU average for internationalisation. This is mainly due to its high scores on a number of specific indicators measuring the environment for trading overseas. Most notably, the UK has a clear advantage over most EU countries when considering the time required to export or import. Limited progress has been made in streamlining administrative procedures, as regards the number of documents required and the costs associated with exporting and importing. There has also been little change in the trade performance of UK SMEs, measured in terms of the proportion of SMEs importing and/or exporting. While, in particular on the export side, UK SMEs rank above the EU average, the proportion of SMEs exporting and importing goods has remained largely unchanged since 2008. This lack of progress is very similar to the situation observed for the trading performance within the single market (see Section 3.6). The statistics may, however, not reflect the full picture, as only the manufacturing sector is covered by the indicators. There is no data available on trade in services by size class of the business, making it impossible to determine whether the trade performance in this, expanding, sector of the economy would be different.

Introducing measures specifically directed at SMEs has not been a priority in this area in recent years in the UK. The most important provisions were, however, in place when the SBA was first introduced.

Only three relevant measures have therefore been implemented since 2008. The most important of these was the introduction of a guarantee scheme in 2011, the aim of which was to help SMEs with a turnover of less than GBP 25 million to access trade finance.

One further measure was introduced during the reporting period: the medium-sized business programme, managed by UK Trade & Investment, was put in place to help medium-sized businesses to assess their export capability and move into international trade, or to develop their existing export operations. The programme set out to help 3 000 medium-sized businesses with turnover of between GBP 25 million and GBP 250 million to achieve their export objectives. To date, 3 289 MSBs have been registered on the programme.

4. Interesting new initiative

Below is an example of a new initiative from United Kingdom to show what governments can do to support SMEs

The Growth Vouchers Programme

The growth vouchers programme is a pioneering government research project that aims to make it easier for small businesses to access expert advice that will help them grow. The project will also be used to test which types of business advice are most effective. The programme was launched on 29 January 2014 and by 31 March 2015 over 30 000 eligible applications had been received. Within that period, 21 000 vouchers each worth GBP 2 000 (a total of GBP 40 million of support) were issued, allowing small companies to buy business advice from private sector suppliers.

As part of the programme, the effectiveness of the advice given is being assessed by means of a randomised controlled trial (RCT), the largest of its type to be carried out in any country. The number of businesses involved in the programme make it possible to reliably measure the effect of the vouchers and to evaluate the different approaches to assessing business needs used by the private sector suppliers. This exercise will thus provide the government with a robust assessment of the effect of different types of advice on the businesses that received vouchers. RCTs are widely regarded as the gold standard for empirical research and are used extensively in medicine and international development. This is the first time that an RCT has been performed on this scale to assess the effectiveness of business advice. The study will answer three specific policy questions:

- Do businesses that are given a growth voucher perform better or worse than those that did not benefit from the programme?
- Do businesses assessed online perform better or worse than those assessed face-to-face?
- Which of the five categories of subsidised advice offers the greatest return? (see trial protocol for a list of the categories)

Evaluation of the programme is being carried out over a five-year period, and includes qualitative and quantitative assessment of the additional benefits to businesses. The evaluation will provide a thorough and comprehensive assessment of the programme, while also benefiting the businesses that are taking part. The results will be used to inform future policies on business advice and support.

References:

Trial Protocol:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/282916/bis-14-599-growth-vouchers-programme-trial-protocol-full.pdf

Programme implementation and early impact assessment

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/408154/bis-15-128-growth-vouchers-programme-formative-evaluation.pdf

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/407784/bis-15-129-growth-vouchers-programme-phase-one-qualitative-assessment.pdf

Important remarks

The European Commission Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs (DG GROW) produces the SBA fact sheets as part of the SME Performance Review (SPR), its main vehicle for economic analysis of SME issues. They combine the latest available statistical and policy information for the 28 EU Member States and 7 non-EU countries that also contribute to the COSME programme. Produced annually, they help to organise the available information to facilitate SME policy assessments and monitor SBA implementation. They take stock and record progress. They are not an assessment of Member State policies. Rather, they should be regarded as an additional source of information to improve evidence-based policy-making. For example, they cite only policy measures national SME policy experts consider relevant. They do not and cannot reflect all measures the government has taken over the reference period. There is more policy information on a database accessible from the SPR website.

SME Performance Review:

http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/index_en.htm

grow-spr@ec.europa.eu

Small Business Act:

http://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act/index_en.htm

European Small Business Portal:

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

Endnotes

¹ The two graphs below present the trend over time for the variables. They consist of index values for the years since 2008, with the base year 2008 set at a value of 100. As from 2013, the graphs show estimates of the development over time, produced by DIW Econ on the basis of 2008-2012 figures from Eurostat's Structural Business Statistics Database. The data cover the 'non-financial business economy', which includes industry, construction, trade and services (NACE Rev. 2 sections B to J, L, M and N). They do not cover enterprises in agriculture, forestry and fisheries or largely non-market service sectors such as education and health. A detailed methodology can be consulted at: http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/index_en.htm

² The sector contains the following division: legal and accounting activities (M69), activities of head offices, management consultancy activities (M70), architectural and engineering activities, technical testing and analysis (M71), scientific research and development (M72), advertising and market research (M73), other professional, scientific and professional services (M74), veterinary activities (M75)

³https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/211842/bis-13-922-growth-is-our-business-professional-and-business-services-strategy.pdf, last accessed 23.3.2015.

⁴ CBI (2012): Blazing a trail — The UK communications sector in a global economy http://www.cbi.org.uk/media/1244970/blazing_a_trail_-_the_uk_communications_sector_in_a_global_economy.pdf, last accessed 23.3.2015.

⁵ Statistics taken from International Communications Market Report, Ofcom, (2010).

⁶ CBI (2012): Blazing a trail — The UK communications sector in a global economy http://www.cbi.org.uk/media/1244970/blazing_a_trail_-_the_uk_communications_sector_in_a_global_economy.pdf, last accessed 23.3.2015.

⁷https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/16418/guide_to_the_uk_business_population_and_demography.pdf, last accessed 23.3.2015.

⁸ <http://www.ons.gov.uk/ons/rel/bus-register/business-demography/2013/stb-business-demography.html#tab-Headline-Figures>, last accessed 23.3.2015.

⁹ <http://www.ons.gov.uk/ons/rel/bus-register/business-demography/2013/stb-business-demography.html#tab-Business-births-and-deaths--2004---2013> , last accessed 23.3.2015.

¹⁰ <http://www.theguardian.com/higher-education-network/blog/2013/mar/27/edutech-startups-university-collaboration>, last accessed 23.3.2015.

¹¹ <http://www.ons.gov.uk/ons/rel/bus-register/business-demography/2013/stb-business-demography.html#tab-Business-births-and-deaths-by-broad-industry-group>, last accessed 23.3.2015.

¹² The 2015 SBA fact sheets benefited substantially from input from 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.

¹³ The quadrant chart combines two sets of information. Firstly, it shows current 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 the EU-28. Secondly, it shows progress over time, i.e. the average annual growth rates from 2008 to 2015. These are measured against the individual indicators which make up the SBA area averages. Hence, the location of a particular SBA area average in any of the four quadrants provides information not only about where the country is located in this SBA area relative to the EU average at a given point in time, but also about the extent of progress made between 2008 and 2015.

¹⁴ The policy measures presented in this SBA fact sheet are only a selection of the measures the government took in 2014 and the first quarter of 2015. The national SME policy expert that CARSA Spain (DG GROW's lead contractor for the 2015 SBA fact sheets) contracted made the selection. The experts were asked to select only the measures they considered the most important, i.e. the ones expected to have the highest impact in the SBA area in question. The complete range of measures the experts compiled in producing this year's fact sheets will be published alongside the fact sheets in the form of a policy database on the DG GROW website.

¹⁵ For more information, see: <https://www.redtapechallenge.cabinetoffice.gov.uk/about/>