2018 SBA Fact Sheet United Kingdom

Key points

**Past & future SME performance**: SMEs make a significant contribution to the UK’s ‘non-financial business economy’, generating slightly more than half of total employment and value added. In 2013-2017, SME employment increased by 12.1%, with all SME size-classes participating in this growth. SME employment growth has continued in recent years, increasing by 1.7% in 2016-2017. SME value added also increased in the same period, although when expressed in euro it dropped by 1.4% due to exchange rate fluctuations. The outlook for SMEs in the UK is favourable, with continued SME employment growth of 1.6% projected for 2017-2019. This corresponds to the creation of around 168,500 SME jobs. SME value added is also expected to grow by 8.4% in the same period.

**Implementing the Small Business Act for Europe (SBA)**: The UK’s SBA profile remains very competitive. The UK has continuously improved its policies in most SBA domains in recent years. The number of measures introduced in 2017 (12) is nearly twice the number introduced in 2016 and is closer to the higher level of activity seen in recent years since 2011. The UK performs above the EU average in four SBA areas: ‘second chance’, ‘responsive administration’, skills & innovation and environment. The UK’s performance is in line with the EU average in four other SBA areas: entrepreneurship, state aid & public procurement, access to finance and internationalisation. Single market is currently the only domain where the UK scores below the EU average.

**SME policy priorities**: One of the major challenges, particularly for SMEs, is how to tackle skills shortages post-Brexit. Addressing this challenge should be a policy priority. The government’s industrial strategy, which was launched in November 2017, aims to address this challenge as part of a broad strategy to transform the UK economy by investing in five key areas. The five key areas are: ideas; people; infrastructure; business environment; and places. Greater SME participation in public procurement should also be a policy priority. Measures introduced in the previous year have helped to improve the level of SME participation in public procurement compared to the previous year. But in spite of these measures, the UK continues to have one of the lowest percentages of SMEs involved in public procurement across the EU. Creating a more low-cost and applicant-friendly system for access to remedies during procurement procedures remains a major challenge. Brexit is creating a climate of uncertainty, which continues to be a great concern to UK businesses that trade within the EU. Providing clarity on the legal and regulatory conditions for UK-EU trade should therefore also be a policy priority.

**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.
Table of Contents

Key points ............................................. 1
1. SMEs — basic figures .................................... 2
2. SBA profile ............................................ 4
3. SBA principles ......................................... 7
  3.0 ‘Think Small First’ .................................. 7
  3.1 Entrepreneurship .................................... 7
  3.2 ‘Second chance’ ................................... 8
  3.3 ‘Responsive administration’ ......................... 9
4. Interesting initiative ................................ 10

1. SMEs — basic figures

<table>
<thead>
<tr>
<th>Class size</th>
<th>Number of enterprises</th>
<th>Number of persons employed</th>
<th>Value added</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>United Kingdom</td>
<td>EU-28</td>
<td>United Kingdom</td>
</tr>
<tr>
<td></td>
<td>Number</td>
<td>Share</td>
<td>Number</td>
</tr>
<tr>
<td>Micro</td>
<td>1 930 179</td>
<td>90.0 %</td>
<td>3 657 105</td>
</tr>
<tr>
<td>Small</td>
<td>177 953</td>
<td>8.3 %</td>
<td>3 902 046</td>
</tr>
<tr>
<td>Medium-sized</td>
<td>28 873</td>
<td>0.9 %</td>
<td>3 237 231</td>
</tr>
<tr>
<td>SMEs</td>
<td>2 137 005</td>
<td>99.7 %</td>
<td>10 796 382</td>
</tr>
<tr>
<td>Large</td>
<td>6 546</td>
<td>0.3 %</td>
<td>9 200 319</td>
</tr>
<tr>
<td>Total</td>
<td>2 143 551</td>
<td>100.0 %</td>
<td>19 996 701</td>
</tr>
</tbody>
</table>

These are estimates for 2017 produced by DIW Econ, based on 2008-2015 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 following size-class definitions are applied: micro firms (0-9 persons employed), small firms (10-49 persons employed), medium-sized firms (50-249 persons employed), and large firms (250+ persons employed). 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.

SMEs make a large contribution to the UK’s ‘non-financial business economy’, generating slightly more than half of total employment and value added. Nonetheless, this is lower than the respective EU averages of 66.4 % and 56.8 %. The average SME in the UK employs 5.1 people, whereas the EU average is 3.9. Compared to the EU as a whole, SME employment and value added in the UK are more evenly distributed across different sectors: six SME sectors account for more than 10 % each of total SME employment. Wholesale and retail trade makes the largest contribution in terms of SME employment, whereas professional activities is the SME sector with the highest percentage share of SME value added.

SMEs in the UK’s ‘non-financial business economy’ have grown significantly in recent years. In 2013-2017, SME employment increased by 12.1 %, with all SME size-classes participating in this growth. In contrast, employment growth in large firms was lower, at only 8.5 %. However, in terms of value added growth SMEs lagged behind large firms in this period, with a rise of only 17.7 % against 27.6 %. More recently, SME employment growth has continued, increasing by 1.7 % in 2016-2017. However, SME value added fell 1.4 % in the same period. This decline can be explained by the depreciation of the British pound against the euro.
As in earlier years, the most significant driver of SME employment growth has been the professional activities sector. In 2013–2017, SMEs in this sector generated an increase of 20.3% in employment. The strongest rise was in medium-sized firms, where employment increased by 31.1%. This increase reflects rising client demand and growth in the number of new entrants into the industry. However, in 2013–2017, the 15.8% rise in SME value added in the professional activities sector was slightly weaker than average for the ‘non-financial business economy’. Furthermore, large firms in this sector outperformed SMEs, with an increase of 39.5% in value added and 25.1% in employment. This was because increased competition lowered profit margins to such an extent that it became unprofitable for many companies — predominantly SMEs — to meet this growing demand. Large firms can adapt to pressures on their margins through economies of scale and productivity improvements using new technologies. However, for SMEs this approach is often too costly, and makes SMEs more vulnerable to cost pressures than large firms.

SMEs in accommodation and food services have also generated significant growth recently, with a rise in employment of 13.8% in 2013–2017, in line with SMEs in the overall ‘non-financial business economy’. SME value added growth in this sector was above average in the same period, at 20.7%. These favourable trends are thanks to heightened demand for accommodation and food services from two main sources: an increase in domestic tourism, and rising numbers of international tourists, especially from Europe, the US and China. Although overseas visits to the UK for holiday purposes have remained roughly stable in recent years, there has been a marked increase in international travel to the UK for business and for visiting friends and relatives. However, despite this growth in demand, the outlook for SMEs in this sector is mixed, due to a range of uncertainties. These uncertainties include the potentially limited availability of migrant labour after the UK’s exit from the EU, potential changes in obligatory minimum wages and rising business rates.

Business registrations in the UK increased from around 383,000 to 414,000 in 2015–2016, a rise of 8.1%. At the same time, the number of de-registrations also climbed, rising 15.9% from around 283,000 to 328,000. However, business registrations have consistently outnumbered de-registrations in recent years, leading to a growing number of active businesses in the UK, totalling 2.83 million in 2016. Nevertheless, the gap between registrations and de-registrations has recently been shrinking.

The following segment presents data that has been collected for the EU Startup Monitor and refers mainly to the population of online and technology based start-ups. The UK was one of the first countries in the EU to develop a start-up ecosystem for IT-based start-ups. This start-up ecosystem emerged over a decade ago. According to the EU start-up monitor, the typical UK start-up founder is male (79.0%) and holds a university degree (88.4%). The largest percentage share of start-ups is in traditional technology sectors, such as services (21.2% of start-ups) or e-commerce (5.8% against an EU average 3.3%). UK start-up founders were also among the pioneers in fintech (6.6% of UK start-ups are in this sector, against an EU average of 5.1%). The average UK start-up currently employs 19.4 people, and is planning to hire 12.8 more within the next 12 months. The corresponding figures for the EU are 12.8 and 7.5 respectively. These higher employment levels also reflect the high level of sophistication and maturity of the UK start-up ecosystem. Most UK start-ups generate their revenues mainly or completely through business-to-business operations (72.9%). UK start-ups cooperate very actively with other businesses: 41.5% (against an EU average of 27.5%) of UK start-ups cooperate with Fortune 500 companies, and an even larger percentage (84.8%) cooperates with other start-ups or SMEs. UK start-ups are also keen to expand internationally: 84.1% of UK start-ups want to internationalise. However, compared to other European countries UK start-ups have shown greater interest in expanding in north America (55.7% of UK-start-ups wish to expand in north America against an EU average of 43.4%) and Australia (22.7% of UK-start-ups wish to expand in Australia against an EU average of 14.1%). The geographic centre for start-up activity in the UK remains London.

In line with the mostly positive economic climate in the UK, many firms have successfully scaled-up their operations in recent years. In 2015, 22,750 firms — 10.8% of all firms in the ‘business economy’ with at least 10 employees — were high-growth firms, higher than the EU average of 9.9%. High-growth firms are particularly prevalent in information and communication, where they account for 16.6% of all firms.

The outlook for SMEs in the UK is favourable, with continued SME employment growth of 1.6% projected for 2017–2019. This corresponds to the creation of around 168,500 SME jobs. SME value added is also expected to grow consistently, with forecast growth of 8.4% in the same period.
2. SBA profile

The United Kingdom’s overall SBA profile score continues to be very competitive. In four SBA areas — ‘second chance’, ‘responsive administration’, skills & innovation and environment, the UK performs above the EU average. In another four SBA areas — entrepreneurship, state aid & public procurement, access to finance and internationalisation — the UK performs in line with the EU average. There is only one SBA policy area — single market — in which the UK performs below the EU average.

In 2017 and the first quarter of 2018, the reference period for policy measures in this year’s fact sheet, the UK implemented 12 new policy measures. These measures addressed 6 out of 10 SBA policy areas. Two additional measures were also formally announced but not yet implemented in the reference period. One of these measures will address entrepreneurship and the other will address ‘second chance’. Overall, stakeholders acknowledge that progress in implementing the SBA has been substantial.

The most significant progress in the reference period was in access to finance, with four measures implemented. The government-owned British Business Bank (the UK’s national business development bank) and the Start Up Loans Company (a government-backed scheme helping microbusinesses to access finance) have now merged. The aim of this merger is to deliver better services to smaller businesses. The British Business Bank has also launched the Midlands Engine Investment Fund (MEIF), with the support of the European Regional Development Fund (ERDF). The aim of the MEIF is to provide a range of funding options to help smaller businesses in the Midlands region to grow. The government launched an online tool to enable SMEs to check when large businesses pay their suppliers. The government has also launched the Small Business Commissioner’s website and the Small Business Commissioner’s complaint-handling service to ensure fair payment practices for small businesses.

The other main areas of progress were in internationalisation, state aid & public procurement and skills & innovation. In internationalisation, three measures were launched. The first measure aims to provide business-support services to new and growing exporters in the Leeds region. The second measure aims to increase the number of SMEs in the border regions of western Scotland and Northern Ireland and the Republic of Ireland. The third measure aims to provide UK SMEs with quick and easy access to export finance. In state aid & public procurement, two measures were launched to help reinvigorate the SME homebuilding sector in London and to enable SMEs to join digital health initiatives across the east Midlands, Manchester, the south west of England and London. In skills & innovation, two measures were launched. The first measure aims to help UK research and innovation projects to meet major industrial and societal challenges. The second is a regional initiative that aims to stimulate innovation and support the growth of the digital and creative sector in the Liverpool region.

In single market and environment, no new measures were implemented or announced in the reference period. No new measures were announced in entrepreneurship, although one new measure has been formally announced: a new national investment fund will be introduced to ensure that innovative UK start-ups have the funding they need to meet their potential and conquer new markets. No new measures were announced in ‘second chance’, but one new measure was formally announced: the government plans to improve the UK’s corporate governance framework to ensure the UK remains one of the best places to start and grow a business.

Since 2008, the UK has made substantial progress in SBA implementation. Although the UK has not developed a specific SBA strategy, it has implemented many policy measures to make it easier for SMEs to access the finance, incentives and business support they need to compete and grow. Access to finance continues to be a key policy priority, which is reflected in the large number of measures in this area implemented since 2008. Overall, the measures introduced have had an impact on all SBA areas.

All recommendations in six SBA areas — ‘Think Small First’, state aid & public procurement, access to finance, single market, skills & innovation and internationalisation — are already implemented in the UK. The key recommendations of the remaining four SBA areas — entrepreneurship, ‘second chance’, ‘responsive administration’ and environment — are mostly or nearly all being implemented in the UK. However, in each of these remaining four SBA areas, one or more of those key recommendations has yet to be implemented. Overall, the UK has implemented the vast majority of SBA recommendations.
Historically, the UK’s SME policy has been in line with the Small Business Act and the SME action programme. And in the future, UK SME policy will continue to be in line with the Small Business Act and the SME action programme. UK policymaking is guided by a range of complementary government strategies. An important recent example is the Small Business, Enterprise and Employment Act 2015. The government introduced this act to improve the UK business environment for all businesses, but especially smaller businesses. A more recent example of SME policy is the UK’s industrial strategy which the government launched in November 2017. This industrial strategy focuses on improvements in: investments, skills development, infrastructure, the business environment and regional development. Promoting digital transformation is a particular objective in each of these main areas. This strategy covers all of the key components outlined in the Small Business Act and the SME action programme.
SBA performance of the United Kingdom: state of play and development from 2008 to 2018

Variation from the EU average (in standard deviations; EU average=0)

Note: The scores presented in the chart above are not fully comparable to those displayed in previous versions of the fact sheet. This is due to a review of the framework of indicators used to assess performance across the SBA principles. Only the aspects with sufficient background data are presented. The value for progress over time was set to 0% in case of insufficient data and marked in the above chart by a diamond shape. For more details, please consult the methodological note on the webpage of the SME Performance Review: http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review
3. SBA principles

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 policymakers 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 ‘Think Small First’ recommendations are common practice in the UK and most have been implemented since 2006. The most significant ‘Think Small First’ policy action in recent years was delivered as part of the Small Business, Enterprise and Employment (SBEE) Act 2015. With this Act, the government aims to reduce regulatory costs by EUR 11.7 billion (GBP 10 billion) by 2020. Although broadly welcomed by the business community, the measure has raised some concerns about its scope, goals and potential impact. For example, the UK’s National Audit Office argues that there are limitations in the government’s approach to reducing the cost of regulation. The National Audit Office also says that the scope of the Business Impact Target is open to manipulation and may not reflect a realistic business-centred view of regulatory costs.

During the reference period, one measure was adopted that mainly targets ‘responsive administration’ but also has an impact on ‘Think Small First’: the Red Tape Initiative. The Red Tape Initiative assesses opportunities to reduce bureaucracy in nine sectors once the UK leaves the EU. The target sectors include housing; infrastructure; training and apprenticeships; retail; research and technology; health; and energy. The assessments of these sectors will be carried out in consultation with employers, unions and regulators. A cross-party group of Members of Parliament is implementing the initiative.

3.1 Entrepreneurship

![Variation from the EU average](image)

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

The UK performed in line with the EU average in entrepreneurship in the current reference period. Despite making good progress in entrepreneurship since 2008, the UK’s performance in the last 12 months has weakened slightly compared to the previous year. In eight entrepreneurship indicators for which there are data for 2017, the UK’s score
declined modestly compared to the previous year. The UK is above the EU average in two indicators and below the EU average in another two indicators. The most notable improvement in the reference period occurred in opportunity-driven entrepreneurial activity, with UK performance moving well above the EU average. In contrast, the percentage of UK adults expressing entrepreneurial intentions (i.e. adults who intend to start a business within 3 years) fell by nearly 2 percentage points compared to the previous year, whereas the EU average for this indicator fell by less than 1 percentage point in the same period. The UK performs in line with the EU average in early-stage entrepreneurial activity for the female population.

Since 2008, a range of measures was implemented in the UK to provide financial, fiscal and business-support schemes for start-ups and early-stage companies. Most entrepreneurship SBA recommendations are being implemented in the UK. However, some recommendations have yet to be implemented. For example, enterprise and entrepreneurship education continues to be a key challenge, although the UK’s score for this indicator has improved in the past 12 months and moved closer to the EU average. Despite interest from various stakeholders, the UK has yet to develop a national strategy to embed enterprise and entrepreneurship education in the national curriculum. However, some UK regions such as Scotland and Northern Ireland address entrepreneurship education as part of broader strategies. At national level, the Quality Assurance Agency for Higher Education has also recently issued a publication entitled ‘Enterprise and Entrepreneurship Education: Guidance for UK Higher Education Providers’.

Another area for improvement is the need for government to provide better support to help young people, the unemployed, women and immigrants become entrepreneurs.

During the reference period, no significant new measures in entrepreneurship were implemented, although one significant new measure was formally announced: a new national investment fund. The government has proposed the national investment fund to replace EU funding to British start-ups after Brexit. The fund will help innovative British start-ups become world-leading ‘unicorns’ (innovative firms valued over EUR 0.86 / USD 1 billion). The fund will help address the EUR 4.7 billion (GBP 4 billion) funding gap that exists between American firms and British firms. It will ensure that innovative UK firms have the funding they need to meet their potential and conquer new markets. The fund could be set up as a public-private-partnership or be placed fully on the government’s balance sheet to be sold off once it has established a sufficient track record.

The UK is an attractive and supportive environment for both start-ups and high-growth firms that wish to scale up. More than one million new companies have been formed in the UK since 2010. This record of success is one of the reasons that the UK ranks third in the OECD for start-ups. British Business Bank programmes are providing almost EUR 4.1 billion (GBP 3.5 billion) in finance to over 56 000 smaller businesses. Innovate UK is a government body that provides a wide range of government funding and support programmes to start-ups and high-growth SMEs.

### 3.2 ‘Second chance’

| Strength of insolvency framework index (0-16); 2018, United Kingdom: 11; EU avg: 11.8 |
| Time to resolve insolvency (in years); 2018, United Kingdom: 1; EU avg: 2.01 |
| Cost of resolving insolvency (cost of recovering debt as percentage of the debtor’s estate); 2018, United Kingdom: 6; EU avg: 10.25 |
| Fear of failure rate (%); 2017, United Kingdom: 35.85; EU avg: 36.01 |

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

‘Second chance’ refers to ensuring that honest entrepreneurs who have gone bankrupt get a second chance quickly. The UK continued to perform above the EU average in ‘second chance’ in the current reference period. Across all ‘second chance’ indicators since 2008, the UK has recorded little or no movement in its annual score. On the time and cost required to resolve insolvency, the UK continues to score above the EU average. The strength of the UK’s insolvency framework also continues to be broadly in line with the EU average. The only noteworthy change in this SBA area is in the fear-of-failure rate, which has grown slightly in the UK against a more noticeable fall in the EU average. This trend brings the UK broadly into line with the EU average in the current year, having been above the EU average in the previous year.

Since 2008, the UK has implemented a range of measures to ensure that most ‘second chance’ SBA recommendations are implemented. The most recent measures to be implemented in this SBA area were introduced through the Small Business,
Enterprise and Employment (SBEE) Act 2015. The key focus of these measures was to modernise the insolvency framework to ensure better decision-making and greater creditor engagement. The only ‘second chance’ recommendations that have yet to be implemented are (i) to place re-starters on an equal footing with start-ups when accessing finance, and (ii) the provision of fast-track procedures. The latter of these two recommendations was previously implemented, but after a decade in operation the measure was abolished due to limited demand.

No significant new measures on ‘second chance’ were adopted or implemented during the reference period. However, one significant new measure was formally announced: a proposal for greater protection of staff and small suppliers in insolvent businesses. The government announced proposals for a new package of reforms that would give greater protection to staff and small suppliers in insolvent businesses by cracking down on directors and employers that behave irresponsibly. The proposed reforms include:

- new powers to claw back money for creditors including workers and small suppliers;
- disqualifying and or holding directors personally liable when they are found to have sold a struggling company or subsidiary recklessly or knowing it would fail;
- new powers to investigate directors of dissolved companies;
- strengthening of shareholder responsibilities;
- new ways to protect payments to smaller firms in a supply chain which can be hit hardest when large companies become insolvent.

3.3 ‘Responsive administration’

Variation from the EU average
(measured in standard deviations, EU average=0)

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2017 United Kingdom</th>
<th>EU avg.</th>
<th>2018 United Kingdom</th>
<th>EU avg.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time to start a business (in calendar days)</td>
<td>1</td>
<td>3.1</td>
<td>1</td>
<td>3.1</td>
</tr>
<tr>
<td>Cost of starting a business (in euros)</td>
<td>13</td>
<td>311</td>
<td>13</td>
<td>311</td>
</tr>
<tr>
<td>Start-up procedures (number)</td>
<td>4</td>
<td>5.36</td>
<td>4</td>
<td>5.36</td>
</tr>
<tr>
<td>Paid in minimum capital (percentage of income per capita)</td>
<td>6</td>
<td>10.14</td>
<td>6</td>
<td>10.14</td>
</tr>
<tr>
<td>Time required to transfer property (in calendar days)</td>
<td>21.5</td>
<td>24.46</td>
<td>21.5</td>
<td>24.46</td>
</tr>
<tr>
<td>Cost required to transfer property (percentage of property value)</td>
<td>4.8</td>
<td>4.75</td>
<td>4.8</td>
<td>4.75</td>
</tr>
<tr>
<td>Number of tax payments per year</td>
<td>8</td>
<td>11.5</td>
<td>8</td>
<td>11.5</td>
</tr>
<tr>
<td>Time it takes to pay taxes (hours per year)</td>
<td>110</td>
<td>171.30</td>
<td>110</td>
<td>171.30</td>
</tr>
<tr>
<td>Cost of enforcing contracts (percentage of claim)</td>
<td>45.7</td>
<td>21.29</td>
<td>45.7</td>
<td>21.29</td>
</tr>
<tr>
<td>Fast-changing legislation and policies are a problem for doing business (percentage of respondents who agree)</td>
<td>23</td>
<td>61</td>
<td>23</td>
<td>61</td>
</tr>
<tr>
<td>The complexity of administrative procedures is a problem for doing business (percentage of respondents who agree)</td>
<td>19</td>
<td>30</td>
<td>19</td>
<td>30</td>
</tr>
<tr>
<td>Burden of government regulations (1=burdensome, 7=not burdensome)</td>
<td>3.98</td>
<td>3.29</td>
<td>3.98</td>
<td>3.29</td>
</tr>
<tr>
<td>Competency and effectiveness of government staff in supporting new and growing firms (1-5)</td>
<td>2.51</td>
<td>2.65</td>
<td>2.51</td>
<td>2.65</td>
</tr>
</tbody>
</table>

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

‘Responsive administration’ refers to public administration being responsive to the needs of SMEs. The UK continued to perform above the EU average in ‘responsive administration’ in the reference period. The UK is a leading EU performer in five indicators under ‘responsive administration’. The UK is one of eight countries in which a new business can be started in a day or less. The cost of starting a new business is the second lowest in the EU. The UK is also one of 11 EU countries that do not require new businesses to pay in any minimum capital (as a percentage of income per capita). The UK also has the second-lowest percentage of SMEs in the EU that consider both (i) fast-changing legislation and policies and (ii) the complexity of
administrative procedures as problematic to their businesses. On a less positive note, the cost of enforcing contracts in the UK (as a percentage of claims) is the highest in the EU.

Across most of the indicators for ‘responsive administration’, the UK’s score has remained relatively stable since 2008. There are only three indicators that have changed noticeably in recent years. The first of these indicators is the time taken to start a business, which has fallen from 6 days in 2009–2012 to 3 days in 2013–2016, and in the last year, it has fallen further to just 1 day. The second of these indicators is the time required to register a property, which has also been halved from 41.5 days in 2008 to 21.5 days in 2017. The third indicator is the cost to start a business in the UK, which has fallen significantly for the first time in nearly a decade. Having fallen from EUR 54 in 2008 to EUR 33 in 2009, the cost of starting a business had remained relatively unchanged between 2009 and 2016. However, in the last 12 months, the cost of starting a business has again fallen, and is now only EUR 13.

Since 2008, the UK has implemented a range of measures to ensure that almost all ‘responsive administration’ SBA recommendations are implemented. The most significant measures have focused on reducing regulatory burdens on businesses. The ‘Red Tape Challenge’ and the ‘One-In, One-Out’ policy are two key examples of measures that were implemented between 2010 and 2015. Since 2015, a government measure called the Business Impact Target has aimed to reduce the regulatory costs on businesses by EUR 11.7 billion (GBP 10 billion) by 2020. However, the National Audit Office25 is concerned that the government has not properly evaluated the true cost of existing regulations on businesses. The National Audit Office says that the Business Impact Target does not reflect all administrative and regulatory costs on business. As a result, there is no overall picture of how these costs affect businesses. This makes it difficult for the government to prioritise its efforts and adapt policies in ways that would best help businesses.

During the reference period one significant measure related to responsive administration was adopted: the Red Tape Initiative. The Red Tape Initiative was set up in April 2017 to make suggestions to the government on ways to change, clarify or abolish EU rules and regulations after Brexit. The Red Tape Initiative group was set up by a cross-party group of Members of Parliament to assess the opportunities for reducing bureaucracy in nine sectors, including: housing; infrastructure; training and apprenticeships; retail; research and technology; health and energy. The assessments of these sectors will be carried out in consultation with employers, unions and regulators.

3.4 State aid & public procurement

The UK performed in line with the EU average in state aid & public procurement in the reference period. This is an improvement in performance as the UK scored below the EU average in the previous year. The UK continues to have one of the lowest percentages of SMEs that participate in public procurement procedures compared to the EU average (22 % of UK SMEs participate in public procurement procedures against an EU average of 32 %). The SME share of the total value of UK public contracts awarded is in line with the EU average. In contrast, the UK has the joint lowest average delay in payments made by public authorities in the EU.

Since 2008, the UK has taken a range of measures to ensure that all state aid & public procurement SBA recommendations are implemented. For example, measures have been introduced to improve SME access to public procurement contracts by increasing the percentage of total government spending allocated to SME procurement. Measures have also been introduced to make submitting bids in public procurement processes easier and cheaper for SMEs. More recent measures have focused on providing better help to SMEs so they can navigate the public procurement process. This improved help includes information events; improved guidance on business payment practices and performance reporting; and measures for SMEs to provide procurement information only once (instead of having to submit the same information at different stages of the process, an onerous feature of traditional public procurement processes). However, these improvements in the procurement system have not yet achieved the goal of creating a more applicant-friendly system for access to remedies as part of procurement procedures.
During the reference period, two significant measures were adopted/implemented relating to state aid & public procurement:

- The first of these measures is the ‘Small Sites, Small Builders’ programme, which was launched by the mayor of London. This is a pilot programme to make small publicly-owned sites available for building. The aim is to boost the capital’s small housebuilders sector and increase the supply of new and genuinely affordable homes. The programme is being piloted on 10 Transport for London sites, and will deliver 111 new homes, of which 68 % will be affordable.

- The second of these measures is the launch by the government of the Small Business Commissioner website and the Small Business Commissioner complaint-handling service to ensure fair payment practices for small businesses. The website provides guidance to small businesses on payment issues, informing them about their rights and advising them how to take action if a payment is overdue. Small businesses can also use the website to submit a complaint to the Small Business Commissioner.

3.5 Access to finance

The UK performed in line with the EU average in access to finance in the reference period. This is a relative decline in performance in the last 12 months, as the UK’s overall score in this SBA area was above the EU average in the previous year. Bad debt loss (as a percentage of total turnover) increased by more than 2 percentage points in the reference period, up from 2.6 % in 2016 to 4.7 % in 2017. The UK recorded the worst score in the EU for this particular indicator.

The number of rejected loan applications and loan offers whose conditions were deemed unacceptable (as a percentage of loan applications by SMEs) more than doubled in the last 12 months, up from 4.3 % in 2016 to 9.2 % in 2017. But despite this increase, the percentage of rejections is about a third of the level recorded in 2011, when rejections reached 27.7 %. The percentage of UK SMEs that have experienced reduced access to public financial support including guarantees has also increased each year since 2015. This percentage rose from 8.3 % in 2015 to 11.4 % in 2017. This increase follows year-on-year decreases between 2013 and 2015. This means that the UK is now back to a similar level to that recorded in 2013, although it remains less than half of the peak figure recorded in 2011, when 23.4 % of UK SMEs reported reduced access to public financial support. In 2017, there were also improvements in two other indicators. The total number of days required for businesses to be paid fell by 4 days, down from 25.3 days in 2016 to 21.3 days in 2017. This is a substantial improvement in payment times compared to 2008.

There was also a slight improvement in the percentage of UK SMEs that reported a reduced willingness of banks to provide loans, down from 8.5 % in 2016 to 8 % in 2017. This indicator score is nearly one third of the percentage recorded in 2011 (22.7 %).
Since 2008, the UK has implemented a wide range of measures to ensure that all the SBA recommendations on access to finance are being implemented. Since the economic crisis in 2008, access to finance has been the government’s main priority for policy-making on SMEs. Measures have focused on improving the lending environment for smaller businesses. This has been supported by organisations such as the British Business Bank. The government has also introduced fiscal incentives and legislative measures to provide alternative financing options to SMEs and to tackle the issue of late payments, especially of larger firms vis-a-vis their often small-sided suppliers.

During the reference period four significant measures on access to finance were adopted or implemented. They are listed below:

- The British Business Bank (the UK’s national business development bank) and the Start Up Loans Company (a government-backed scheme supporting microbusinesses with access to finance) merged on 3 April 2017. The merger will help both organisations to support microbusinesses and deliver the government’s manifesto commitment of making 750,000 start-up loans by 2020. The merger has several advantages for both organisations. These advantages include the sharing of expertise, greater clarity for the small business community, and the opportunity to combine approaches for supporting smaller businesses.

- The Midlands Engine Investment Fund (MEIF) was launched by the British Business Bank, with the support of the ERDF. The MEIF supports smaller businesses with loans of up to EUR 175,000 (GBP 150,000). It also supports high-growth SMEs with loans of up to EUR 1.8 million (GBP 1.5 million). The MEIF also provides early-stage (‘proof of concept’) equity finance up to EUR 875,000 (GBP 750,000) to help launch companies or products. In addition, the MEIF provides later-stage funding of up to EUR 2.3 million (GBP 2 million) to established businesses with ambitious plans or to large start-ups with high growth potential.

- The government launched an online tool in October 2017 that enables SMEs to search for a report on the average time it takes for a specific large business to pay its suppliers. This report also contains information on the proportion of payments (for example, invoice payments) that a specific large business does not pay on time. Since last year, large businesses are required by UK law to report on a half-yearly basis on their payment practices, policies and performance. The online tool aims to provide SMEs with information on the payment practices of large businesses to inform their decision-making when considering entering into contracts with these large businesses.

- The new Small Business Commissioner website and complaint-handling service provides guidance to small businesses on payment issues and fair payment practices. It also informs them about their rights and advises them how to take action if a payment is overdue. The complaint-handling service includes the option of submitting a complaint to the Small Business Commissioner.
3.6 Single market

The UK performed below the EU average in single market in the reference period. This is a decline in performance, as the UK’s overall score in this SBA area was in line with the EU average in the previous period. Lower performance in a number of indicators caused the drop in overall performance.

Since 2008 however, the UK has made considerable progress overall in single market performance. This progress is mostly thanks to a significant reduction in the time required to transpose new directives. There is one exception: the number of outstanding (i.e. not yet transposed) single market directives has risen each year, from 5 in 2015 to 11 in 2017. Nonetheless, the latest figure remains considerably lower than the peak of 20 recorded in 2011. The average transposition delay for overdue directives in the UK has continued to fluctuate. For example, it increased from 5.4 months in 2016 to 8.3 months in 2017. However, this latest figure of 8.3 months is still lower than the peak length of delay recorded in 2015 (11.9 months). The share of UK SMEs exporting online within the EU stagnated at around 9% between 2015 and 2017. However, new and growing firms in the UK have also reported that they found it a little less easy to access new markets during the same period. In contrast, the number of pending infringement proceedings against the UK has continued to decrease in recent years. Despite a very modest reduction compared to the previous year, down from 27 in 2016 to 26 in 2017, the number has been falling steadily each year since the peak number of 68 recorded in 2010. Across all other single market indicators, there has been only modest movement in the UK’s score since 2008.

During the reference period the single market was not a priority policy area for the government, and no significant measures were implemented.
The UK continued to perform above the EU average in skills & innovation in the reference period. With one exception, the UK's scores across all skills & innovation indicators changed only slightly compared to the previous year. National R&D available to SMEs is the one exception, with the UK's score up 0.34 index points on the previous year. The launch of the government's industrial strategy in 2017 and the new Industrial Strategy Challenge Fund (see explanation below) are likely to be influential factors in the UK's improved score. Both the government's industrial strategy and the Industrial Strategy Challenge Fund are designed to support R&D and innovation in the UK.

The percentage of UK SMEs selling online has been relatively stable since 2013, with only very modest fluctuations of less than 1 percentage point from one year to the next. The current figure (19.2 %) is about a third higher than the lowest point reached in 2010 (13.2 %), although the current figure is still significantly lower than in 2008.

In e-commerce turnover, the UK's score has fluctuated modestly in recent years, but its 2017 score was some way below the score achieved in 2008. On the percentage of persons employed with ICT specialist skills, there have been moderate fluctuations in the UK's score since 2014. However, the score in 2017 (20.5 %) was noticeably lower than the UK’s peak score in 2012 (28.6 %). On the percentage of enterprises providing ICT skills training, the UK's score also shows moderate fluctuations in each year since 2012. For a number of other innovation indicators, the latest available data date back to 2014. It is therefore not possible to assess recent year-on-year performance in these cases. However, based on progress made since 2014 the UK is one of the top three EU performers in three specific indicators. On sales of new-to-market innovations and new-to-firm innovations (as a percentage of turnover), the UK has the highest score in the EU. In 2017, the UK had the second highest score in the EU for two measures: the percentage of innovative SMEs collaborating with others and the extent to which the science and technology base efficiently supports the creation of world-class new technology-based ventures.

Since 2008, the UK has implemented a range of measures to ensure that all skills & innovation SBA recommendations are implemented. In recent years for example, the government has introduced a range of support schemes and incentives to encourage companies to improve skills, innovate and take their products and services to market.
Two significant measures were adopted or implemented during the reference period. They are listed below:

- The first measure is the launch of the Industrial Strategy Challenge Fund (ISCF). The ISCF aims to bring together the UK’s world-leading research and business to meet the major industrial and societal challenges of our time. Over the next 4 years, the ISCF will award up to EUR 1.17 billion (GBP 1 billion) in government grant funding to projects across six key areas. These areas include healthcare and medicine, robotics and artificial intelligence; batteries for clean and flexible energy storage; self-driving vehicles; manufacturing and materials of the future; and satellites and space technology. The ISCF is part of the government’s industrial strategy, the long-term plan to raise productivity and earning power in the UK.

- The second measure is LCR Activate, a three-year ERDF initiative. It will make EUR 5.9 million (GBP 5 million) available for SMEs in the digital and creative sector based in the Liverpool region. The project provides digital and creative SMEs in the Liverpool region with access to a range of specialist innovation support services. These services include advice and mentoring; events and workshops; networks and facilities; and finance for the development and use of digital products. LCR Activate aims to stimulate innovation across the Liverpool region to create jobs and boost productivity. Its goal is to connect SMEs in the digital and creative sector with the region’s distinctive major assets and capabilities to help them scale up across the whole region.

### 3.8 Environment

The UK performed above the EU average in environment in the current reference period. On the percentage of SMEs that have implemented resource efficiency measures, the UK has the second-highest score in the EU. However, performance in this indicator is slightly lower than in 2015 (down 2 percentage points), although the EU average has fallen even further (down 6 percentage points). On the percentage of SMEs that have benefited from public support measures for resource-efficiency actions, the UK scored in line with the EU average. This is a very significant improvement, up 22 percentage points since 2015. On the percentage of SMEs that offer green products or services, the UK score of 21 % is broadly in line with the EU average. This is a 5 percentage point improvement since 2015. On the percentage of SMEs that have benefited from public support measures for the production of green products, the UK is 17 percentage points above the EU average, and up 8 percentage points since 2015 (compared to growth in the EU average of just 2 percentage points). In contrast, on the percentage of SMEs which provide green products or services, the UK scores below the EU average. This is a significant decline in UK performance, which is down 7 percentage points since 2015, against a fall of just 1 percentage point in the EU average.

Almost all environment SBA recommendations are being implemented in the UK. The main exception is the regulatory incentives to encourage companies to become certified under the EU Eco-Management and Audit Scheme (EMAS). There is currently a lack of these regulatory incentives in the UK. The UK EMAS scheme is run by the Institute of Environmental Management and Assessment, but it continues to be a voluntary scheme. As a result, there has only been limited take-up of EMAS.

During the reference period, the environment was not a priority policy area for the government and no significant measures were implemented.
3.9 Internationalisation

The UK performed in line with the EU average in internationalisation in the reference period. This is a decline in performance, as the UK’s overall score in this SBA area was above the EU average in the previous year. It is important to note that a number of internationalisation indicators have been subject to methodological changes. The UK’s score in internationalisation indicators shows significant change in some indicators and limited change in others. In the last 12 months, there has been a notable swing in one particular indicator. Having scored well above the EU average in 2015 in the ‘advance rulings’ indicator, the UK has become one of 5 countries to share the second-lowest score in the same indicator in 2017, which is now well below the EU average in 2017. In contrast, the UK is also one of 8 countries with the highest score in the ‘involvement of the trade community’ indicator. Having scored in line with the EU average in 2015 in this indicator, the UK has made considerable improvements in performance, moving to a score that was well above the EU average in 2017.

Since 2008, the UK has implemented only a limited number of new SME-specific measures. Nonetheless, the UK remains competitive in this SBA area. The main measures the UK implemented in recent years have focused on giving SMEs export finance and business support to help them access new markets.

Export Exchange is a peer-to-peer network in the Leeds region. It seeks to promote mentoring, connections and the sharing of export knowledge. Export Exchange is made up of ‘patrons’ (export experts) that provide free-of-charge help and advice to local businesses. This help and advice covers issues such as how to increase overseas sales and create employment in the region. Exporters can join the network and communicate with the patrons online. They can upload their company details to the Exporters Directory, giving additional exposure to their business to potential overseas customers. They also attend free Export Exchange network events, where they can find additional help.

The Co-Innovate Programme focuses on SMEs involved in research and innovation across the border regions of Northern Ireland, the Republic of Ireland and parts of western Scotland. The programme gives SMEs in these areas support to help innovate and compete successfully. The support includes free workshops tailored to suit each individual business; innovation audits; and one-to-one expert mentoring. The programme also provides a range of additional funding to SMEs that attend the free workshops to help them collaborate with businesses in other border regions to deliver innovations. The five-year EUR 16.6 million project was the first funding offer to be announced under the EU’s INTERREG VA Programme, managed by the Special EU Programmes Body.

A new partnership has been set up between UK Export Finance (UKEF — a public body that guarantees loans made to exporters based in the UK) and five major high street banks. The partnership allows smaller businesses to access millions of pounds in government-backed trade finance.
directly from their high street bank without much delay. For the first time, companies that supply exporters can now access UKEF-backed finance. This will help them to become part of major export contracts and spread the benefits of trade to SMEs across the UK. UKEF provides guarantees to banks to help businesses access bank finance (even where the bank has reached its credit limit or where the deal is considered too risky for the banks to take on alone) in order to open up emerging global markets to UK suppliers.

The climate of uncertainty that has followed the UK’s decision to leave the EU is a very significant challenge for the UK’s SMEs. There is uncertainty about the UK’s future trading arrangements with the EU and about the possibility of regulatory divergence between the UK and the EU. There is also uncertainty about the impact and cost that may be imposed on businesses as a result. These types of issues are currently major areas of concern for UK SMEs that are involved in international trade.
4. Interesting initiative

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

**Online tool to enable SMEs to check when large businesses pay their suppliers**

The UK government launched an online tool in October 2017 that enables SMEs to find out the average time it takes for a specific large business to pay its suppliers and the proportion of payments (for example, invoice payments) that it does not pay on time.

Every year, thousands of businesses experience severe administrative and financial burdens, simply because they are not paid on time. Late payment is a serious issue for businesses, especially smaller businesses, as it can adversely affect their cash flow and jeopardise their ability to trade. In the worst cases, late payment can lead to insolvency.

The online tool aims to provide SMEs with information on the payment practices of large businesses to inform their decision-making when considering entering into contracts with these large businesses.

The measure follows the introduction of regulations made under Section 3 of the Small Business, Enterprise and Employment Act 2015, and (for limited liability partnerships), the Limited Liability Partnerships Act 2000. Both these acts place a duty on the UK's largest companies and limited liability partnerships to report on a half-yearly basis on their payment practices, policies and performance for financial years beginning on or after 6 April 2017. The regulations stipulate that this information must be published through an online service provided by the government and made available to the public. The online tool fulfils that requirement.

References:

https://www.gov.uk/check-when-businesses-pay-invoices#more-information


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. 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:


grow-spr@ec.europa.eu

Small Business Act:


Entrepreneurship and SMEs:

https://ec.europa.eu/growth/smes

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 2016, the graphs show estimates of the development over time, produced by DIW Econ on the basis of 2008-2015 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/.

2 SME size breakdowns for the UK should be treated with caution, as micro firms are only included in the statistics on UK micro firms if their turnover exceeds GBP 80 000 per year. (This is connected to the VAT threshold.) The UK micro firm turnover threshold for statistical purposes is high compared with other EU countries, and this therefore distorts any EU comparison of micro firms. Furthermore, the underrepresentation of micro firms with turnover below the threshold affects the overall SME contribution to value added and employment, the average number of persons employed per SME, and average SME productivity. This should be taken into consideration when comparing UK figures with the EU averages.

4 Value added figures are stated in EUR. However, due to significant fluctuations of the EUR-GBP exchange rate in recent years, calculated value added growth rates are distorted. Therefore, changes in value added should be treated with caution, and interpretation should be limited to the comparative performance of sectors or size classes. Cf. https://www.ecb.europa.eu/stats/policy_and_exchange_rates/euro_reference_exchange_rates/html/eurofxref-graph-gbp.en.html; last accessed 29.5.2017.


9 Ibid.


13 Ibid.

14 The data in this paragraph were collected by the EU Start-up Monitor project. www.startupmonitor.eu

15 Due to data availability, the data on high-growth firms refer to the ‘business economy’ only, which covers sections B-N including section K (financial activities, except activities of holding companies). The ‘non-financial business economy’ excludes section K.

16 In line with Commission Implementing Regulation (EU) No 439/2014, high-growth enterprises are defined as firms with at least 10 employees in the beginning of their growth, and average annualised growth in number of employees greater than 10 % per annum over a three-year period. The share of high-growth enterprises is the number of high-growth enterprises divided by the number of active enterprises with at least 10 employees. Source of the data on high-growth enterprises is Eurostat (http://ec.europa.eu/eurostat/web/products-datasets/-/bd_spm_r2, last accessed 13.4.2018).

17 The 2018 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.

18 ec.europa.eu/industrialstrategyen/index.cfm?do=groupDetail.groupDetailDoc&id=32186&no=2


20 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 2018. These are measured against the individual indicators that 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 2018. All SBA principles, with the exception of the ‘Think Small First’ principle for which there is not enough statistical data available, are calculated as composite indicators following the OECD/JRC Handbook guide. A detailed methodology can be consulted at: http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/

21 The policy measures presented in this SBA fact sheet are only a selection of the measures the government took in 2017 and the first quarter of 2018. The national SME policy expert that PwC (DG GROW’s lead contractor for the 2018 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 greatest 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.


All World Bank indicators (time and cost to export and import) have been replaced by six OECD trade-facilitation indicators (following a scale where 0 is the worst and 2 is the best score). Please see Moïsé, E., T. Orliac and P. Minor (2011), ‘Trade Facilitation Indicators: The Impact on Trade Costs’, OECD Trade Policy Papers, No 118, OECD Publishing, Paris. http://dx.doi.org/10.1787/5kg5nk654hmr-en for more information on the methodology applied to construct the indicators; further information is available at: http://www.oecd.org/trade/facilitation/indicators.htm