



BERR | Department for Business
Enterprise & Regulatory Reform

**ENTERPRISE: UNLOCKING THE UK'S
TALENT**

Summary

MARCH 2008



HM TREASURY

Unlocking talent

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Foreword

Enterprise is a talent we admire in individuals and applaud in companies. In a competitive global market, it is also a vital attribute for nations. For ten years enterprise has been one of the five core drivers of the Government's strategy to lift the productivity of the economy. It has been a remarkably successful strategy. We have seen UK's productivity performance improve. We now have a record four and a half million businesses operating in the UK. We have seen higher levels of survival rates than existed ten years ago, and the total contribution to UK output by small businesses is as much today as large businesses.

We must now build on these successes. The world economy is becoming more intensely competitive. Growth in emerging markets and developing economies continues to outstrip that in developed economies.

The UK is well placed to rise to these challenges. We epitomise the globalised economy. We have the international language of business and even the central time zone. We have a unique combination of international reach, openness to ideas, to people, to talent. We have the lowest barriers to entrepreneurship of any OECD country, and the World Bank ranks us as Europe's second most enterprising economy, and puts the UK in the global top ten in terms of ease of doing business. But our ability to succeed in this new world will be defined first and foremost by our adaptability. Our success as a trading nation – whether in products, services or knowledge – has and will always reside in a spirit of openness, enterprise and innovation.

We must unlock this talent. Currently, despite the strength of our international standing, we compare less well against certain major competitors in terms of business growth such as the US which has 20 per cent more businesses per head; 40 per cent more US businesses achieve high growth than businesses in the UK. We must close this gap if we are to truly rise to the wider global economic challenges.

Over the past six months, we have listened to over 600 small businesses and entrepreneurs from all sections of the community. Working with them and drawing on international evidence we have developed this new strategy. It provides a framework of five "enablers" around which we have set out new measures and within which we will continue to work and develop policy on enterprise issues. It is about enabling the enterprise environment on regulation and finance and enabling enterprising people by unlocking talent through culture, knowledge and skills, and improving our ability to innovate: to commercialise new ideas.

The creation of the Department for Business Enterprise and Regulatory Reform is designed to provide a renewed focus on meeting these challenges. This new Enterprise Strategy is the first complete public statement since then of the Government's aims for enterprise going forward. It reflects the Government's aim for wanting more new and growing businesses in the UK, and more companies and people acting on their enterprising ideas. Further strengthening our entrepreneurial capacity, enabling entrepreneurial creativity and innovation will help the UK respond to the challenges and opportunities of globalisation.

Unlocking talent – enterprise talent – for people from all sections of society and in our small businesses, helping them to grow, is where the UK's long term prosperity is going to reside.



Gordon Brown

Gordon Brown
Prime Minister



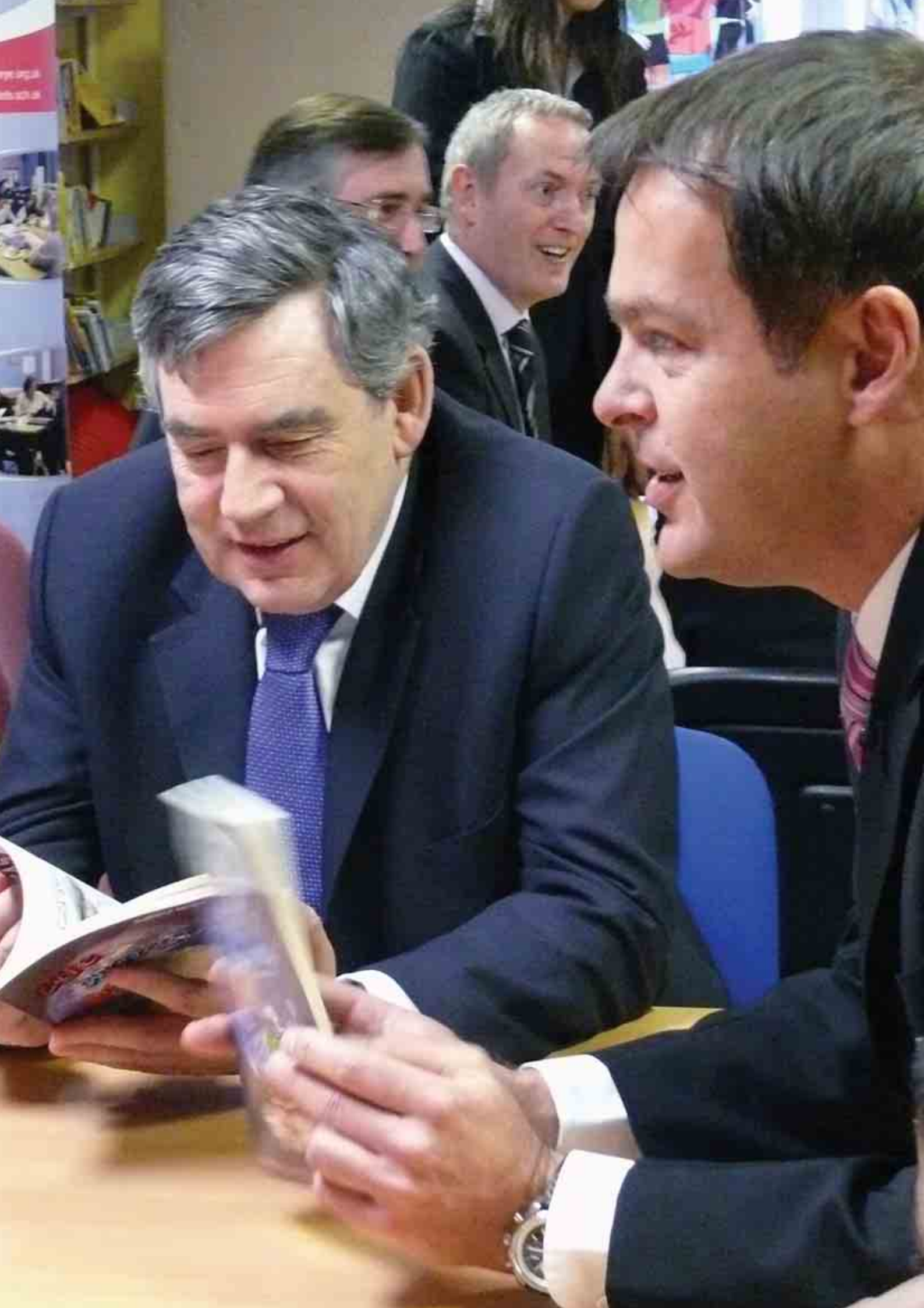
John Hutton

John Hutton
Secretary of State for the
Department for Business,
Enterprise and Regulatory
Reform



Alistair Darling

Alistair Darling
Chancellor



Chapter 1 – Introduction

Vision

This strategy sets out the Government's renewed vision to make the UK the most enterprising economy in the world and the best place to start and grow a business.

The opportunities in today's modern, global economy are immense. By 2020, total global output is forecast to almost double, and new, dynamic markets are opening. The consequent international flows of goods, services, technology and ideas, and increasing environmental pressures, present unprecedented opportunities for those enterprising individuals and businesses which are able to compete successfully in global markets

This strategy presents important new policy priorities, which will have a significant impact on every entrepreneur and business in the UK. The Government wants more people to have the ambition to start and grow businesses – and have access to the skills, advice, support and finance they need to innovate and succeed, as well as enjoying a favourable regulatory environment.

In particular, the Government wants to address the needs of small businesses and businesses run by women, both of them growing sectors of the economy but both experiencing, in different ways, unnecessary barriers to greater enterprise.

Progress

The UK is responding well to the opportunities and challenges of globalisation, and has made progress over the last decade in raising the rate of productivity growth and narrowing the productivity gap with comparator countries. Since 1997 the UK has narrowed the output per hour gap with France and Germany by around a third, and made progress in narrowing the gap with the US¹.

There has also been considerable progress in promoting an enterprising economy in the UK over the past ten years.

- There are record numbers of businesses – 4.5 million at the start of 2006, over 750 thousand more than in 1997.
- Business survival rates are higher than a decade ago – 92 per cent of new VAT registered firms are still registered after one year; 71 per cent after three years.
- The UK is now recognised as having one of the best business environments in the world for starting and growing a business. The World Bank ranks the UK second in

¹ ONS International Comparisons of Productivity, available at <http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=9671>

Europe, and in the top ten countries (out of 178 economies) on measures of the ease of doing business.

- The small business sector has become more dynamic. Productivity growth in small firms has exceeded that in large firms since 1998, and the proportion of small and medium sized (SME) employers reporting that they have undertaken either product or service innovation in the past 12 months has increased from 32 per cent in 2005 to 48 per cent in 2006.
- Many more young people now aspire to start up in business – 200,000 more in 2005 than in 2003.

Substantial reforms to both the macroeconomic and microeconomic policy frameworks, including enterprise policy, have been significant in driving this progress. The Government's macroeconomic framework has delivered unprecedented stability, with 62 consecutive quarters of GDP growth in the UK – the longest sustained expansion on record. Stability allows business, individuals and the Government to plan more effectively for the long term, improving the quality and quantity of investment in physical and human capital and helping to raise productivity.

Challenges

The changes in the global economy present substantial opportunities and challenges for the UK. The need for enterprising individuals and firms is now even more important than ever before. But despite progress over the last ten years, there are a number of challenges in terms of enterprise performance which need to be overcome if the UK is to reap the full benefits from, and is able to respond effectively to globalisation, which this strategy seeks to address.

Although most measures of entrepreneurship, including key indicators of business growth and competitiveness, show UK performance, ahead of many European competitors. We remain some way behind that of the United States. The US has 20 per cent more businesses per head than the UK. A significant proportion of this gap is explained by much lower rates of women's enterprise activity in the UK. Once established, the average new business in the UK is also likely to grow more slowly, with 40 per cent more US businesses achieving high growth than businesses in the UK².

Fear of failure is commonly cited as part of the explanation for differences in growth and businesses formation rates between the UK and US. 36 per cent of people in the UK compared with 21 per cent in the US say that fear of failure would prevent them from starting a business³. In addition, over a third of established UK businesses have no ambition to grow⁴.

2 Hoffman, A., Junge, M. (2006) Documenting Data on High-growth Firms and Entrepreneurs across 17 countries. First Draft. Available at http://www.foranet.dk/upload/documentation_of_high_growth_firms_oct_2006.pdf

3 Global Entrepreneurship Monitor (GEM)

4 BERR Annual Survey of Small Business Opinions 2006/07 (ASBS 2006/07), available at <http://www.berr.gov.uk/files/file42727.doc>

Going Forward

A country's enterprise performance depends on many factors. The new enterprise policy framework, set out in this document, groups these factors together within five separate, but closely inter-linked themes or 'enablers'; Culture, Knowledge and Skills, Access to Finance, Business Innovation, and Regulatory Framework. It builds on many important contributions to the academic literature on entrepreneurship over the years, and ongoing work by the OECD on the factors driving entrepreneurship internationally. Consultations with academics and businesses have confirmed the importance of these five enablers in driving productivity and growth performance in businesses.

The enablers will shape the future priorities of BERR as a new Department and will be a key part of our delivery plan for the Public Service Agreement (PSA) goals for which BERR has lead responsibility. The strategy is central to helping us work with business to:

- Raise the productivity of the UK economy;
- Deliver the conditions for business success in the UK; and
- Improve the economic performance of all English regions and reduce the gap in economic growth rates between regions.

The Five Enablers

The Government's vision in developing policies to promote each enabler of enterprise is set out below, together with the main measures which will be used to monitor further progress. Subsequent chapters will examine each of these enablers in more depth. Each chapter briefly describes existing policies relating to the priority area, recent progress, and highlights next challenges and new policy proposals. Given the Government's concern to maximise the wider benefits which flow from a more enterprising economy, particularly to disadvantaged communities, the framework has a separate chapter on policies relating to these areas.

Culture

The Government wants to develop a culture in which talent can be unlocked and flourish, recognising differences in enterprise culture across different social groups, reducing the fear of failure that holds enterprise back and giving everyone the opportunity to be entrepreneurial.

Our measure

As a measure of success, the Government will look to see an increase over time in the proportion of people with the ambition to start and grow their own business, as measured by the Global Entrepreneurship (GEM) UK study and BERR's own Annual Small Business Survey.

Knowledge and skills

The Government wants to ensure that individuals and businesses have access to and are able to develop the best possible knowledge and skills to support the growth of their business.



Our measure

As a measure of success, the Government will look to see an increase over time in the proportion of small and medium sized businesses making use of external business advice and the proportion of small and medium businesses that provide training for their workforce and managers. This data is captured by BERR's Annual Small Business Survey.

Access to Finance

The Government wants to ensure that people starting or growing a business have access to the appropriate level of finance, and the necessary skills and advice to make their business 'investment ready'.

Our measure

As a measure of success the Government will look to see a drop over time in the proportion of businesses reporting problems in accessing finance, information which is included in BERR's Annual Small Business Survey.

Regulatory Framework

Recognising that unnecessary or overly complex regulation can stifle enterprise and has a disproportionate impact on small firms, the Government will build on its targeted net reduction in the administrative burden of regulation of 25 per cent by 2010.

Our measure

Success in promoting better regulation will be measured by the extent to which the benefits of new regulation justify the costs and unnecessary increases in regulatory burdens are avoided. From 2008, the Government will publish data on the ratio of the benefits to costs of regulations, as part of reporting on progress against the Government's PSA 6 to 'deliver the conditions for business success' in the UK.

Business Innovation

The Government will reinforce the role of innovation as a driver of enterprise, complementing the new Innovation Strategy published by the Department for Innovation, Universities and Skills (DIUS). BERR will work with DIUS to promote and incentivise greater investment in research and development (R&D) and encourage more innovation partnerships between businesses and between business and universities.

Our measure

As a measure of success the Government will look to see an increase over time in the proportion of small business turnover attributable to new or improved products and processes, information which is captured by the Community Innovation Survey.

The Wider benefits

In addition to the five enablers which link enterprise to productivity, the Government wants to bring wider benefits of enterprise to communities in deprived parts of the country, so that everyone can enjoy the fruits of a growing economy and has an opportunity to contribute through their own enterprise.

Our measure

As a measure of success, the Government will look to see over time an increase in levels of enterprise in deprived parts of the country, and to see more comparable levels of self-employment and enterprise across all parts of the population. This data is captured by the Labour Force Survey (Office for National Statistics).

Devolved Administrations

This strategy sets out a broad enterprise framework for the whole of United Kingdom. Within this, the Government recognises that support for enterprise is a matter that is devolved to Wales, Scotland, and Northern Ireland.

The Government will work closely with the devolved administrations, in the belief that this framework will help inform their thinking as they develop or refresh their own approaches to enterprise.



Chapter 2 – A Culture of Enterprise

Encouraging a culture of enterprise

The Government's vision is of a society in which the contribution of entrepreneurs and enterprise is encouraged and valued. Supported by a culture in which everyone with entrepreneurial talent is inspired, and not afraid of taking up the challenge of turning their ideas into wealth.



Progress to date

In recent years the Government has done much to develop awareness, aspirations and motivations around enterprise – in particular with young people. A highlight has been the annual Enterprise Week, which is run across every region of the UK. Launched in 2004, it celebrates and champions enterprise and entrepreneurial behaviour in young people and aims to inspire them to turn their ideas into reality. Enterprise Week is run by Enterprise Insight, which is funded by BERR, and which since its launch has involved over 11,000 events and more than 1.5 million participants.

The evidence shows our efforts with young people (aged 14 – 30) are paying off. There has been a:

- 22 per cent increase since 2003 in those who intend to start a business;
- 35 per cent increase since 2005 in those who believe they could develop a business idea;
- 33 per cent increase since 2005 in those designing or making their own products for sale; and
- 50 per cent increase since 2005 in those taking part in enterprise training activities.

Next challenges

The new Enterprise Strategy will build on this success, embedding a culture of enterprise and countering the UK's entrenched cultural fears of risk taking and failure. The UK population has a higher level of 'fear of failure' around enterprise compared to the US and Canada but is ahead of many European competitors. Although the relationship is not perfect, countries with higher rates of fear of failure tend to have lower rates of entrepreneurial activity. Fear of failure is clearly linked to the extent to which people are risk averse. The European Commission Flash Barometer found that around 43 per cent of people in the UK compared with 19 percent in the US believe a new business should not be created if there is a risk that it might fail⁵.

The Government's approach to countering these attitudes is focused in three areas:

- Inspiring our young;
- Inspiring all of us – women, all age groups, in all parts of the country;
- Benefits within businesses.



⁵ European Commission Flash Barometer 192, Entrepreneurship Survey of EU (25 Member States) United States, Iceland and Norway: Analytical Report April 2007 accessible at <http://ec.europa.eu>

A Culture of Enterprise: New Policy Proposals

Other parts of this new Enterprise Strategy set out the importance of equipping individuals and firms with the capability and skills to undertake enterprising activities. These sections explain the actions Government is taking to encourage a supportive environment for enterprise, to promote innovation as a core driver of enterprise, to enhance access to finance for entrepreneurs and to develop a supportive regulatory and legal framework for our businesses, especially our smaller businesses.

The policies proposed to tackle remaining challenges and embed culture more widely and reduce unfounded fear of failure:

- **Insolvency rules** – The Government proposes to change the law by the end of 2009 so that insolvency officers have the discretion to decide whether or not to place an advertisement in the local press with the aim of reducing the embarrassment and risk of stigma in the local community and associated fear of failure.
- **Global Entrepreneurship Week** – More than 40 countries have already signed up for the first Global Entrepreneurship Week in 2008, inspired by the UK's Enterprise Week.
- **Erasmus for young entrepreneurs** – The Government will support this pan-European pilot programme, which will offer cross-border mentoring and work placements in SMEs.
- **Premier League** – The Government will work with the English Premier League football clubs to promote enterprise and deliver enterprise education through the football clubs' community programmes.
- **Women's enterprise campaign** – The Government will fund a high level media campaign around women's enterprise – "Spark an idea".
- **Over 50s Campaign** – The Government will work with key partners to develop a promotional campaign to encourage older people to be active in enterprise.



Chapter 3 – Knowledge and Skills

Strengthening Enterprise Knowledge and Skills

The Government's vision is for more people in the UK to be equipped with the knowledge and skills to realise their entrepreneurial ambitions. We want a society in which an understanding of enterprise and entrepreneurship is taught throughout all stages of the education system, and for training in entrepreneurial skills to be available to both students and the adult workforce. Enterprise knowledge and skills training is a lifelong journey. It is a journey that must start in our primary schools and continue in our colleges, universities and workforce to unlock entrepreneurial talent and help businesses grow.

Progress to date

Enterprise Education

Over the last ten years the Government has increased investment in education by 68 per cent in real terms and we have seen a rise in academic and vocational skill levels. To encourage a more enterprising culture among young people the Government has:

- Provided secondary schools since 2005 with £55 million a year to support enterprise education for all students at Key Stage 4. Today over 90 per cent of secondary schools provide enterprise education at Key Stage 4 and many also offer enterprise education at Key Stage 3;
- Funded Enterprise Insight who run the promotional 'Make Your Mark Campaign' and 'Enterprise Week'.

Evidence shows this level of commitment has resulted in the proportion of 16–24 year olds considering or planning to become entrepreneurs increasing from 14.4 per cent in 2003 to 17.5 per cent in 2005, a rise of around 20 per cent⁶.

Training in the workplace and business support

In 2006 the Government launched its premier skills service to employers: 'Train to Gain'. Train to Gain is a demand led service, including the provision of free, independent and impartial advice, designed to help employers identify their skills needs as a route to improve business performance. Since 2006 over 72,000 employers – many of them small businesses – have engaged with Train to Gain, over a third of a million learners began learning programmes, and almost 145,000 achieved their first full level 2 qualifications.

6 BERR Household Survey of Entrepreneurship 2005

Business advice and support is also vital. Evidence shows there are consistently nearly 1 million users a month of the businesslink.gov website, and there have been significant increases in the satisfaction of Business Link customers.

Next Challenges

- A seamless enterprise education journey needs to be created from primary schools to further education and universities.
- Although evidence shows that skills are improving, the UK's skills base remains average by international comparison. Leadership and management skills also need to be raised. A key challenge is for businesses to be able to recognise all their skills needs and know how they can be addressed.
- Despite the association of business support and improved business performance (and the availability of Government funded business advice and skills training), only a quarter of businesses access external support. The complex array of support and advice systems needs to be simplified.
- Cultural attitudes to enterprise and the fear of failure need to be changed, in particular for women. The Government wants to encourage more women to see enterprise as a viable option and ensure they are supported in developing the skills to do so. If we matched US levels of female enterprise, there would be 900,000 extra businesses in the UK.



Knowledge and Skills: New Policy Proposals

- **Enterprise education** – Government has committed a further £30m to extend enterprise education from secondary schools into primary and tertiary education.
- **National Enterprise Academy** – The Government is working in partnership with the entrepreneur Peter Jones to launch a National Enterprise Academy (NEA). The proposed NEA will create and deliver a new qualification in enterprise to 16-19 year olds delivering higher level enterprise skills training. It will also have a broader remit of raising enterprise awareness across the population.
- **Increased workforce skills training** – Helping employer's to identify and meet their skills needs through extending and improving Train to Gain, including an increased investment in the Leadership and Management Programme for SMEs from £4 million to £30 million per annum.
- **Improved provision of learning and careers advice** – Merging existing services of Learndirect and Nextstep to provide a new adult advancement and careers service from 2010/11. Government will help build its capacity to offer advice on self-employment, to inspire and support potential start-ups from across all sections of our society, particularly disadvantaged communities.
- **Business to business mentoring** – Recognising the value of business to business mentoring, Government will work with the Regional Development Agencies (RDAs) and leading private sector agencies, to establish better links between existing mentoring programmes and the business support network overall.
- **Improvements to Business Link** – Business Link will become the primary access channel for all public sector business support services, including Train to Gain brokerage by April 2009. The online presence will also be expanded: Between now and 2011, content from the Government's business facing websites will be migrated to businesslink.gov.uk.
- **Improved access to business support** – Government will reduce the number of publicly funded schemes from over 3,000 to 100 by 2010, reducing confusion. Government will also continue to work with the Institute of Business Consulting to create national standards for all organisations involved in delivering business support.
- **Provision of enterprise knowledge and skills support for women** – Government will support a number of initiatives to provide women with the skills to see enterprise as a viable option, including:
 - Working with WEConnect to ensure women-owned businesses are given fair and equal access to corporate and public sector procurement opportunities;
 - Improving the provision of tailored information, advice and business support through Women's Business Centre Pilots and Children's Centres; and
 - Measures to improve mentoring opportunities for women in business, e.g. a national mentoring network for women.



Chapter 4 – Access to Finance

Helping entrepreneurs and growth businesses to access finance

Access to finance is critical for entrepreneurial success. It is important that businesses have the knowledge, skills and opportunity to access the finance they need to make their enterprising ideas a reality. For some, this will be about understanding what the best finance options are to set up their business. For others, it is about finding the right financial backing to help them realise their entrepreneurial ambition for business growth. Businesses also need to be able to access the support and advice they need to become investment ready before they seek finance.

Progress to date

The UK's finance markets are amongst the most flexible and dynamic in the world – UK was ranked second best in the world in 2007 for supporting business financing needs⁷. Nevertheless, evidence suggests that, for a minority of firms, barriers to accessing finance continue to exist.

Over the last ten years the Government has taken steps to support a more enabling environment for small businesses to get better access to finance.

Debt finance

- Through the Small Firms Loan Guarantee (SFLG) the Government has guaranteed more than 100,000 loans valued at £5 billion since 1981.
- The Government also directs targeted debt finance support to people from disadvantaged communities looking to start up businesses through Community Development Finance Institutions

Equity finance

- Since 1997 Government equity funds have provided over £247 million of early stage capital investment, leveraging a further £400 million of private funding into more than 750 small businesses.
- Most recently £141 million of public money has been committed to Enterprise Capital Funds (ECFs) with a further £150 million earmarked for future rounds.

Stimulating the equity market

- Government has used tax based schemes through Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCT) as an additional incentive for investment in early stage and growth businesses.

⁷ Capital Access Index 2007: Best Markets for Business Access to Capital (Milken Institute)
<http://www.milkeninstitute.org/publications/publications.taf?function=detail&ID=38801036&cat=ResRep>

- EIS has raised over £6.1 billion, invested in over 14,000 small, high-risk companies. VCTs have invested over £3.2 billion in over 1,500 companies.

Next challenges

Provision of debt and equity finance

Despite the progress made in improving access to debt and equity finance, barriers persist with around 25,000 businesses a year with viable propositions⁸ unable to obtain the finance they require.

The challenge for Government is to respond to greater demand for finance as a result of increased entrepreneurial activity (particularly younger businesses and those proposing to grow).

Evidence also suggests that the proportion of small business obtaining no finance from the first source they try has increased (from 9 per cent up to 13 per cent⁹). This may be through a combination of structural changes in the appraisal of bids for funding, and the quality of businesses' proposition and their presentation to lending institutions and potential investors.

Furthermore, some communities under-represented in enterprise, are more likely to experience difficulties securing finance. This can reflect a characteristic of the under-represented group, such as the absence of a financial track record or adequate collateral, or distinct demand side factors including ill-founded perceptions around accessing finance.

Understanding and having the skills to access finance

Research indicates that the emphasis of our support should not only be on the supply of finance, but also on stepping up the quality and provision of support to address improvements in the demand for finance.

Financial market disruption

Whilst the world of international finance and banking has been affected by the sub-prime lending problems in the US, indications suggest that business banking has remained stable and that SME lending in the UK remains strong. However, Government is committed to ensuring that businesses who are starting up and those seeking to expand and grow are not constrained in obtaining debt finance as a result of that financial market disruption.

⁸ BERR estimate based on BERR Annual Small Business Survey 2006 and the 2004 UK Survey of SME Finances

⁹ BERR Annual Small Business Surveys 2005 and 2006



Access to Finance: New Policy Proposals

The new Enterprise Strategy sets out measures to:

- Help small businesses and entrepreneurs continue to secure the debt finance they need to start up and grow.
- Help businesses finance their ambitions to grow by further strengthening the Government's role in working with the finance market in the provision of equity finance.
- Ensure entrepreneurs and businesses, particularly those from under-represented communities, continue to have access to advice and support to help them become investment ready before seeking finance.

Accessing and managing debt finance

Announcing changes to SFLG to enable businesses to access debt finance for start-up and growth through high street lenders during any period of financial market disruption:

- **Increasing the banks SFLG lending allocations by 20 per cent for one year** – this will increase the amount of lending available by £60 million to a total of £360 million.
- **Extending the eligibility of the Small Firms Loan Guarantee Scheme (SFLG) to businesses with growth ambitions** that are more than five years old, including, but not limited to, those who have changed ownership
- **Public sector model contracts** will be changed to enable businesses that use factoring and invoice discounting to compete for public procurement opportunities.
- **Expansion of the Money Advice Trust's Business Debtline service** – Government funding with banks will more than double by 2010/11.

A number of proposals to support access to growth finance:

- **An additional £30 million capital commitment through the Enterprise Capital Fund with the aim of stimulating the delivery of mezzanine finance through ECFs. Commitment also to look at ways of stimulating mezzanine through SFLG.** Capital for Enterprise Limited (CfEL) has been asked to work with banks and fund managers to seek to stimulate mezzanine through existing interventions.
- **Commitment of £12.5 million for capital fund focused primarily on investing in women-led businesses.** As part of the Government's development of investment readiness support, the Government will invest £12.5 million in a co-investment fund with the aim of securing a total of £25 million of investment, focusing primarily on investing in women-led businesses. The fund, which will be developed and will test the market for focused investment funds, will make links with providers of investment readiness support, who will aim to provide increased networking support for women-led businesses to other sources of finance.
- **Launch of a third round of Enterprise Capital Funds (ECF)** – Capital for Enterprise Limited will launch a third round of ECFs in April 2008, and will seek to commit around £50 million of Government capital per year into ECFs for the next three years. The Government has committed an additional £30 million over the next three years through ECF programme aimed at stimulating mezzanine products.
- **Support and work with British Business Angel Association (BBAA)** to develop and build capacity in the Business Angel community.
- **Development of a national framework for the delivery of investment readiness support, including targeted support for under-represented groups such as women** to help entrepreneurs understand how to finance their businesses and to gain the specialist skills to be ready for investment.

- **Commitment to explore further non-legislative approaches to tackling late payment** – New good practice guidance on credit management and debt recovery is being published. Non-legislative approaches will be explored over the next six months.
- **Procurement** – In addition, the Government has set up an advisory committee, Chaired by Anne Glover (Chief Executive of Amadeus Capital Partners Limited), in order to provide advice for the 2008 PBR on necessary Government action to reduce the barriers to SMEs competing for public sector contracts, within the scope of EU law and the policy objective of value for money and advise on the practicality of setting a goal for SMEs to win 30 per cent of all public sector business in the next five years.



Chapter 5 – Regulatory Framework

The UK is a good place to do business

The UK regulatory framework is recognised as amongst the best in the world in terms of starting and growing a business. The 2008 World Bank *Doing Business* survey puts the UK 6th overall out of 178 economies.

Progress to date

In March 2005, the Government launched one of the most ambitious better regulation programmes in the world. Work to deliver a 25 per cent net reduction in administrative burdens by 2010, worth £3.5 billion annually to business, is on course with over £800 million annual net savings already secured. The steps to deliver a more effective inspection and proportionate, risk based, enforcement regime, recommended by Philip Hampton, are also well on track. Since 2005, 21 regulators have merged, with an additional seven mergers in the pipeline, and eleven regulators have been disbanded or have lost their inspection functions.

Other measures already introduced include the introduction of common commencement dates for new regulations (6 April and 1 October) providing certainty to businesses about when changes will be made, and on-line notifications of new regulations, to make it easier for businesses to find out when changes have been made.

Next Challenges

The challenge is to keep regulation to a minimum both in terms of quantity and complexity. Perceptions of regulation and in particular the complexity of regulation, can adversely affect a decision to start up a business. Over a third of adults who are not considering starting up in business identify complexity as a barrier. Successive surveys by the Federation of Small Businesses have found that small businesses are more dissatisfied with the complexity of regulation than the volume and the cost of compliance. Initiatives like common commencement dates can have a real impact on small businesses.

Thinking small first – How we regulate small businesses

Regulation has a greater impact on small business. The Government will introduce a new approach to regulating small businesses. This may mean exempting small businesses from regulation or where that is not possible, other approaches such as simpler guidance and easy to use forms.

Guidance on regulation

Businesses often rely on guidance to ensure they comply with regulation. Where guidance is unclear, small businesses often pay for external advice and may incur

additional costs by over-complying. Small businesses want certainty when following guidance so that they can be confident that they have complied with the requirements of the law.



Regulatory Framework: New Policy Proposals

Building on its already strong programme the Government is taking four new steps to confirm the UK's position as having the world leading better regulation programme:

- **Regulatory budgets for Departments** – The Government will consult on the introduction of a new system of “regulatory budgets” for Departments which will set out the cost to business of new regulation that can be introduced within a given period. The Government will also consider whether as a first practical step a new system should be piloted by focusing on the costs faced by SMEs or by a particular sector. These budgets would take account of cost reductions achieved by simplifying or removing existing regulation which impacts on business. No other country in the world has taken this step.
- **Exemptions for small businesses (new regulations)** – The Government will introduce a new approach to regulating small firms. In the first instance, it will examine whether small firms can be exempted from new regulatory requirements or be subject to simplification of enforcement. In a large number of cases, this will not be possible either for legal or policy reasons. In these circumstances, Departments will seek to work with small firms to design specific approaches for them. The approach taken to consider the needs of small firms will be outlined when new legislation is laid before Parliament.

- **Exemptions for small businesses (existing legislation)** – Government will review existing legislation, ensuring that principles from the Hampton Report are embedded, introducing new, or amended, exemptions for small businesses and wherever possible simplifying inspection and enforcement regimes.
- **Improving the quality of guidance** – Sarah Anderson¹⁰ will lead an independent review to make recommendations on ways that the Government can ensure that small businesses can place greater certainty on official guidance so that when they have followed it they can be confident that they have met the requirements of the law. The review will initially focus on employment law which is a key concern for many small business owners.

Other issues affecting the UK's attractiveness as a place to do business

Improving the passenger experience at the UK's major airports, particularly Heathrow, is critical to UK competitiveness. To reduce delays for travellers at Heathrow, new targets are being introduced to reduce queuing at security along with incentives to invest in improved facilities for passengers, greater use of automated biometric technology and, together with airlines, development of the Fast Track route through immigration.

¹⁰ Sarah Anderson CBE is a member of the ACAS Council. She has extensive small business experience, has served on the CBI Employment Policy Committee and has previously been a member of the Women and Work Commission.



Chapter 6 – Business Innovation

Enabling our entrepreneurs to innovate and our innovators to be entrepreneurial

Enterprise and innovation are inextricably linked; innovation drives business and business can drive innovation. The evolving global economy presents both challenges and opportunities for UK businesses. We need to compete on the basis of added value. Thus, it is ever more important that business can capitalise on its ideas and successfully commercialise new innovative products, processes and services.

The Enterprise Strategy focuses on business innovation, while the Department for Innovation, Universities and Science's (DIUS) Science and Innovation White Paper – 'Innovation Nation' – published in parallel with the Enterprise Strategy – goes wider and addresses how innovation can be introduced at all levels of society. Both strategies look at driving productivity, prosperity and social benefits.

Progress to date

The Government's role is to provide a fertile environment for innovation. It addresses this through a range of measures including taxation, regulation, knowledge transfer, skills and business support. It has enjoyed considerable success:

- There has been an increase in the proportion of UK businesses that are innovation active. 64 per cent of UK businesses were innovation active in 2004-06. This represents a significant increase in innovation activity over recent years¹¹.
- Innovation activity levels increased substantially across all enterprises, the largest increase was reported by SMEs (10-249 employees).
- BERR's Annual Small Business Survey 2006/07 shows that a third of SME employers (33 per cent) had introduced significantly improved or new processes to their businesses, an increase of 22 per cent on the previous year.
- The Government incentivises business to invest in R&D. Since their introduction in 2000, R&D tax credits have successfully delivered more than £2.3 billion of support to innovative UK companies, through almost 30,000 claims. R&D tax credits encourage greater R&D activity by providing a tax credit for qualifying R&D spend.
- Support for individuals and SMEs who research and develop technologically innovative products and processes is also provided by the *Grant for R&D* scheme. Since it started in 2003, over 1,600 businesses have claimed support, totalling more than £130 million.

11 UK innovation surveys, 2001, 2005 and 2007.

- The value of Government contracts is significant to the private sector as a whole. To open up the public procurement market to SMEs in particular, www.supply2.gov.uk was launched, giving them the facility to search, be alerted to and view low-value contract opportunities (including R&D) across the public sector. More than 69,000 suppliers and 5,000 public sector buyers have registered on www.supply2.gov.uk, and over 72,000 opportunities have been published on the portal since its launch in 2006.
- The new Technology Strategy Board (TSB) was created in 2007 to manage the Government's programme of support for business innovation. It also promotes business participation in European innovation programmes. During 2008-2011, the TSB will invest over £720 million in innovation.



Next Challenges

- The challenge for Government is to close the gap in research and development performance with our competitors and to raise the levels of innovation in small businesses. BERR's Annual Small Business Survey 2008 indicates that relatively few UK businesses develop completely new or novel innovations. Slightly less than half of SME employers (48 per cent) had introduced new or significantly improved products or services in the past 12 months.
- Given SMEs' proven potential to introduce radical new ideas, products and processes and the increasing trend towards 'open innovation' (whereby larger firms look to work with smaller firms on their ideas) it is essential that SMEs are helped to become 'innovation ready'.

Business Innovation: New Policy Proposals

Working closely with DIUS, BERR will concentrate on a policy framework which harnesses the energy of the market more effectively to drive up enterprise and allow more innovative products, processes and services to be successfully commercialised in domestic and overseas markets. BERR will focus on the following proposals:

- **Innovation vouchers** – There are a number of schemes where SMEs use a voucher to buy in knowledge and expertise, encouraging firms to innovate, develop new relationships with the Science Engineering and Technology Base and enhance their businesses. Government will look at how these are working in practice with a view to developing a national voucher scheme, delivered regionally by the RDAs.
- **Refocused Small Business Research Initiative (SBRI)** – To enable easier access for SMEs, the Technology Strategy Board (TSB) will shortly pilot an approach with the MoD and Department of Health to standardise contracts and harmonise tender processes. These contracts will be advertised on www.supply2.gov.uk.
- **Public procurement** – To help SME's access contracts, Government will introduce a free three month trial period for new firms registering on www.supply2gov.uk. At the same time, Government will do more to encourage public sector buyers to register and post opportunities on the site.
- **National Council for Graduate Entrepreneurship to establish university enterprise networks** – In order to embed innovative thinking within more traditional academic study, we will provide NCGE with an extra £300,000 from April 2008 towards establishing a national network of university enterprise clusters.
- **Independent review of broadband** – Led by Francesco Caio, this review will look at the potential for removing barriers to the significant private sector investment required to ensure that our communications network meets the needs of tomorrow's businesses.
- **Innovation in Services project** – Project to understand the barriers to innovation in the services sector and determine how Government can stimulate and support innovation. It will report in Spring 2008.
- **Intellectual Property training programme** – It is essential that business can access the UK's Intellectual Property (IP) regime smoothly and can use it to capture the value of innovation. DIUS will shortly announce a programme of training on IP management so that all Business Link and UKTI advisers receive IP training by Summer 2009.



Chapter 7 – The Wider Benefits of Enterprise

Encouraging more enterprise throughout all communities

The Government's vision is, through enterprise, to bring significant social and economic benefits to more deprived parts of our country and those groups in the population heavily represented there.

Progress to date

There have been steady improvements in terms of enterprise in deprived areas and amongst under-represented groups in recent years. Since 2006, some of England's most deprived local authorities have been able to bid for around £150 million of funding to support enterprise initiatives through the Local Enterprise Growth Initiative. The main instrument to support individuals in deprived areas who are unable to access finance from commercial banks, is through Community Development Finance Institutions, which have with Government support, expanded significantly over the last ten years. In 2006 Government launched '*Scaling New Heights*' setting out cross government commitment to supporting social enterprise.

Next Challenges

The new Enterprise Strategy will build on these policies, putting a particular emphasis on enterprise in establishing new frameworks for local and regional delivery of economic development and regeneration.

Communities in deprived areas have most to gain from the benefits of enterprise. We need to raise aspirations in our most deprived areas and ensure that businesses in these areas are able to access the finance they need.

Raising levels of self-employment among Ethnic Minority Communities

Over 70 per cent of the minority ethnic population of England live in deprived areas. Ethnic minority self-employment is growing at a faster rate than amongst British and other white groups (a rise of 69 per cent since Autumn 2001 compared with a nine per cent rise for British and other white groups) but there is a wide variation between different ethnic groups. Typically Black Africans and Bangladeshis have lower self-employment rates than Pakistani, Indian and Chinese.

Helping people back to work

People on unemployment or incapacity benefits are heavily concentrated in deprived areas. These areas also have far lower levels of self-employment, and we need to encourage people to see self-employment as a viable alternative. Self-employment may provide opportunities for those with work-limiting disabilities.



The Wider Benefits of Enterprise: New Policy Proposals

The Government will:

- Develop enterprise policy through a framework consistent with the review of **sub-national economic development and regeneration (SNR)**.
 - Tackling worklessness – £1.5 billion of funding for the Working Neighbourhoods Fund to help tackle worklessness and low levels of skills and enterprise in our most deprived areas;
 - The new local government performance framework will provide opportunities to embed enterprise as a priority at the local level;
 - Selective finance for investment – Government will consider making it easier for start-ups to access Selective Finance for Investment (SFI). The aim of such interventions would not be ‘to pick winners’, but rather to increase the amount of entrepreneurial activity in deprived areas;
 - Spatial Economic Research Centre – Working with the academic community to fund the Spatial Economic Research Centre. With a total joint investment of £2.4 million, the Centre will look at what drives differences in economic growth at various spatial levels.

- **Improve support for the most disadvantaged to raise awareness of enterprise:**
 - The new Business Support Simplification Programme will allow some products to be designed to give additional support to under-represented groups;
 - £1 million funding for the Prince's Trust to raise awareness of the benefits of enterprise amongst some of our most disadvantaged young people;
 - Up to £10 million funding for a Social Enterprise Risk Capital Fund to benefit social enterprises at the start-up and early-growth stages;
 - Supporting Community Development Finance Institutions to help businesses in deprived areas to access finance, funding the Community Development Finance Association to improve standards, and introducing greater flexibility to the operation of the Community Investment Tax Relief.

- **Ethnic minority businesses** – The Ethnic Minority Business Task Force will make recommendations to help foster growth among ethnic minority firms and boost economic participation by ethnic minority entrepreneurs.



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