



agenda for enterprise

## **ABOUT ACCA**

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Independent research consistently demonstrates that accountants are a small business' first choice adviser. ACCA (the Association of Chartered Certified Accountants) is the largest and fastest-growing international accountancy body with 260,000 students and 110,000 members in 170 countries. ACCA represents over 50,000 professional accountants in the UK and has over 100 years' experience in understanding and supporting small firms.

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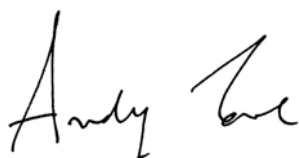
## Foreword

As Chairman of the All-Party Parliamentary Small Business Group, I recognise the important work produced by ACCA's UK Small Business Committee, which contributes greatly to my Parliamentary colleagues' awareness of small business issues.

The breadth of expertise and opinions of the Committee are its great strength. Every major representative body, the accounting profession and other small business practitioners all have a voice, as do some of the leading small business academics on the Committee. The chorus of these voices makes the Committee one of the most authoritative sources of small business comment.

Over a year ago ACCA's UK Small Business Committee published its manifesto *Putting small businesses first*. It laid a challenge to all those involved in policy making, policy delivery and other areas of public life to focus on the needs of UK small businesses.

The Committee has continued this excellent work and so I am pleased to recommend this publication, *Agenda for enterprise*, to anyone trying to understand some of the main issues facing UK small businesses.



**Andy Love MP**

Chair, All-Party Parliamentary Small Business Group



# Introduction

*Agenda for enterprise* is a practical list of recommendations that can be implemented by Government and, where relevant, by business support organisations, banks and accountants, in order to create a dynamic social and economic environment in which small firms can prosper.

This document examines three key areas which must be addressed in order to create this environment:

- improving the regulatory environment
- private-sector solutions for improving government business support services
- improving access to finance for small firms.

*Agenda for enterprise* follows ACCA's latest small business manifesto *Putting small businesses first*, published in Spring 2005 ([www.accaglobal.com/smallbusiness](http://www.accaglobal.com/smallbusiness)). Our small business manifesto highlights areas of policy that are important to small businesses and makes detailed recommendations for policy improvements in each of these areas. This document seeks to build on the manifesto with a series of practical, achievable targets that, if adopted, will make a substantive difference to small firms.

A number of ACCA's recommendations have already been addressed by Government, improving the environment for small firms as a consequence. These include the announcement in the Pre-Budget Statement 2005 on Securities and Options<sup>1</sup>, which significantly reduces the burden of regulation on the smallest businesses. We also welcome the

announcement on 20<sup>th</sup> April 2006 of the Financial Inclusion Taskforce's campaign to stimulate demand for appropriate banking and affordable credit among financially excluded people. Finally, ACCA has been involved in discussions with the Government over the payment, by employers, of statutory maternity/paternity payments and is now pleased to see an extended package of measures<sup>2</sup> to support small businesses.

The papers included in *Agenda for enterprise* have been debated by the Small Business Committee, rigorously researched and informed by presentations from, among others, Theresa Graham, Deputy Chair of the Better Regulation Commission; Professor Bob Bennett<sup>3</sup>, Cambridge University; Professor Sue Marlow, De Montfort University and Dr Richard Roberts,<sup>3</sup> Chief Economist at Barclays Bank. The recommendations have been used as a basis for informed discussions with Ed Humpherson FCA, Director of Regulation, National Audit Office; Gillian Fawcett from the House of Commons Scrutiny Unit; Geoff Tierney, Better Regulation Commission Secretariat; Duncan Budd and his colleagues from the Better Regulation Executive and Ann Cormack, Managing Director at the Small Business Service.

ACCA's UK Small Business Committee and Small Business Unit will continue to engage with issues relevant to small firms and their financial advisers, in respect of the regulatory environment, access to finance and business advice and to provide recommendations for policy that will enable small firms to make the maximum possible contribution to the vitality of the UK economy.



Francis Chittenden  
Chairman, ACCA UK Small Business Committee

## ACCA's UK small business committee

### **ACCA'S UK SMALL BUSINESS COMMITTEE**

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ACCA's UK Small Business Committee comprises individuals with a wide range of small business expertise, including ACCA Council Members, accountancy practitioners advising small firms, policy staff from the major small firm representative bodies and leading academics specialising in small firms. It is a unique voice on small business issues, aiming to provide constructive recommendations that add to the policy debate. ACCA's UK Small Business Committee works with ACCA's Small Business Unit, led by Professor Robin Jarvis.

Richard Aitken-Davies, ACCA's Vice President

Professor Robert Bennett, Department of Geography, University of Cambridge

Professor Robert Blackburn, HSBC Professor of Small Business Studies; Director, Small Business Research Centre, Kingston University

Professor Francis Chittenden, ACCA Professor of Small Business Finance, Manchester Business School

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Peter Windatt, Director, BRI (UK) Ltd

# Improving the regulatory environment for small businesses

### THE ISSUE

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Regulation is a critical business issue. Recent estimates suggest that compliance with UK regulations costs around £100 billion a year.<sup>4</sup> Regulatory burdens have recently received increased attention from the Government. This has coincided with the UK Presidency of the EU and the Six Presidency Agreement on EU Regulatory Reform.

ACCA has consistently argued for a balanced view to be taken on regulation, recognising that certain regulations are necessary for the development of business and for employees' rights. Evidence, however, demonstrates that small businesses are burdened disproportionately by regulatory requirements.<sup>5</sup> The impact of different regulations is complex and a sophisticated approach is required in order to gain a clear understanding of the implications. For example, research has found that individual employment regulations affect small businesses differently, according to their size, sector and workforce composition.<sup>6</sup>

### RECOMMENDATIONS TO REDUCE THE REGULATORY BURDEN

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1. There continues to be need for a significant improvement in Regulatory Impact Assessments (RIAs). There should be standard tests of proportionality and simplicity which all new legislation should be required to meet before it is passed by Parliament. The respective Parliamentary committees concerned with de-regulation should be required to assess new legislation in the light of these tests, and the responsible Minister should be required state that any new primary legislation meets these tests.
2. There should be compulsory retrospective audits of RIAs, looking at their accuracy, whether the policy achieved its goals, examining the cost the regulation imposes on small businesses and ascertaining if there were any unintended consequences of the regulations introduced. This is already recommended practice, but the fact is that reviews are rarely undertaken.
3. Independent professional assessors appointed by the Better Regulation Commission (BRC) should be involved in the management of each new proposed piece of legislation, in terms of challenging the need for the new rule and should make a cost/benefit analysis. This would be a vast improvement on the current system, whereby departments manage their own consultation processes.

4. Government should aim to reduce the number of inspectors as this would force regulators to think about the volume and complexity of regulations which must be dealt with by small firms. In addition, it is important that inspectors be expert in the industry sector in which they are operating, such as the construction sector.
5. The BRC should be formed as an independent body, reporting to Parliament, rather than via the Cabinet Office. It should be provided with sufficient resources to conduct independent research and challenge Government regulatory proposals.
6. There should be more joined-up government and improved communications between different departments, both regionally and nationally. For example, steps should be taken to improve the functionality of the Intrastat website for businesses trading within the EU. The inconsistencies in the data required by Intrastat and the VAT return form are confusing for business people and can lead to unnecessary enquiries from HMRC staff.
7. The speed and process of businesses obtaining a VAT number should be improved.
8. The Money Laundering Regulations continue to impose substantial burdens on professional advisers and business people alike. The UK has gone further than the EU norm in requiring regulated persons to report suspicions of money laundering in respect of the proceeds of all types of crime, as opposed to 'serious' crime only. There needs to be a thorough review of the regulatory effectiveness of the 'all crimes' approach, taking into account the burdens placed on individual businesses and the effectiveness of the current reporting system in tackling serious financial crime.

# Private-sector solutions for improving government business support services

## THE ISSUE

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Government spending on small business support now amounts to around £2.5 billion a year<sup>7</sup>. A number of government bodies provide business support schemes, including the Small Business Service, Regional Development Agencies, Business Links, and Learning and Skills Councils.

The business support structure in England has long been criticised for a lack of strategic overview, leading to a fragmented system, delivered by diverse partners at local, regional and national levels. This in turn has led to widespread confusion among businesses about the services on offer, including eligibility, points of access and relevance to core business needs. There has also been extensive criticism of Business Links over the years. This has focused on the variability in the quality of advice provided, low penetration rates and the complexity of the partnerships.

The Government now needs to take stock of the past initiatives and evaluate the impact their support services are having on small businesses. This is particularly relevant at a time when the management of Business Links is being devolved to Regional Development Agencies, which will undoubtedly impact on the services offered. Part of this process should include forging closer links with the private sector and identifying areas for cooperation.

## ACCA SMALL BUSINESS COMMITTEE RECOMMENDATIONS

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1. The Government should only intervene when there is a market failure. Careful analysis is needed to assess whether the current level of intervention is justified. The Government should question the appropriateness of providing business advice to well-established small firms, which may be better served by private-sector providers. Government-funded initiatives should focus their resources on areas that the market cannot adequately serve, eg Government's continued support for start-ups.
2. A targeted support scheme is needed for business transfers due to evident market failure. Research shows that around 30% of closures might be viable businesses that cease trading because of the lack of a suitable successor,<sup>8</sup> which indicates a clear case of succession failure. Policy recommendations from the SBS report *Passing the Baton – Encouraging Successful Business Transfers*<sup>9</sup> must be taken forward.<sup>10</sup>
3. There needs to be continued improvement in Government's recognition of the central role accountants play in the provision of small business advice. This is in accordance with the evidence produced by the Federation of Small Businesses<sup>11</sup> and the Forum of Private Business.<sup>12</sup>



4. Business Links should work with the accountancy profession to ensure that women have sufficient sources of finance at both start-up and for the ongoing life of the business. ACCA-funded research *Women's enterprise: access to finance and the role of the accountant* identified that women receive a third of the funding compared with men when starting up in business – policy recommendations from the report should be taken on by business support organisations to ensure that women's businesses are appropriately resourced.
5. There should be rationalisation and integration of Government departments and agencies in England at a national, regional and local level, relating to the provision of small business support. In particular, the Small Business Service, Regional Development Agencies, Business Links and Learning and Skills Councils currently overlap and their activities are poorly coordinated.
6. Business Link targets need to be redefined, as they claim to provide an extremely wide range of advice but are only really effective in a small number of areas such as training and grants.<sup>13</sup> Penetration rates are very low in more specialist areas such as product design and finance. The Government business support services ought to be focused on areas where they can be most effective.
7. With the increasing emphasis placed by the Government on the brokerage model, it is imperative for a high level of public awareness to accompany this change in policy. When accessing Business Link services, small businesses need to be aware that they are accessing a referral service when specialist advice is required.
8. There should be mandatory adoption of national standards for business support that have been developed by the private sector, working with the Small Firms Enterprise Development Initiative as the standards setting body, with the cooperation from the relevant business support representation bodies such as Institute of Business Advisers, British Chambers of Commerce, ACCA and others. This would reduce variability in delivery of Regional Development Agencies policies and their provision of the brokerage model.
9. An improvement in evaluating business support should include more qualitative analysis. For example, there should be more information available on the user satisfaction rates that follow from visits to the Business Link website. Despite targets being met in terms of the number of visits to the site,<sup>14</sup> the outcome of these visits needs to be assessed in terms of direct business benefits.
10. Research demonstrates that Business Links are well established but unlikely to develop further in terms of market penetration.<sup>15</sup> With current satisfaction ratings low when compared with other service providers,<sup>16</sup> the Government needs to consider whether the time is right for dismantling the central Government-funded initiatives and replacing these with business-led solutions. Part of this process should include a consultation with the leading representative small business stakeholder groups.

# Improving access to finance for small firms

## THE ISSUE

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The financing of small businesses is manifestly different from that of large businesses. Large businesses have ready access to equity capital markets, such as the London Stock Exchange, which are not accessible to the vast majority of small businesses. The lack of equity capital invested in small firms forces these businesses to seek out other sources of finance, which tend to be bank lending and other types of financial products.<sup>17</sup> These different financial characteristics require different policy responses to foster a functioning finance market for all small firms.

There have been persistent concerns that the finance markets do not always fully meet the needs of small firms, which can find it harder than large firms to acquire finance that is accessible, appropriate and affordable. The Government has been alive to these concerns for well over 70 years. A number of government inquiries have been conducted, which have led to a range of interventions, including; the Small Firms Loan Guarantee Scheme, Regional Venture Capital Funds, Venture Capital Trusts and the Business Banking Code.

Small firms do not currently appear to face general problems in accessing finance; only 1% of respondents to the Natwest SERTeam survey of Quarter Two 2005 cited access to finance/interest rates as the single most important problem facing their businesses today<sup>18</sup> and this is backed up by similar figures from the SBRT's latest Quarterly Survey and the Bank of England's work looking at debt finance.<sup>19</sup> However, significant evidence does exist which suggests that there are specific problem areas within the UK

economy. A number of groups face distinct challenges when accessing finance, including women setting up in business<sup>20</sup>, particular ethnic minority businesses,<sup>21</sup> entrepreneurs from deprived backgrounds<sup>22</sup> and high-technology businesses.<sup>23</sup>

## RECOMMENDATIONS TO IMPROVE ACCESS TO FINANCE FOR SMALL FIRMS

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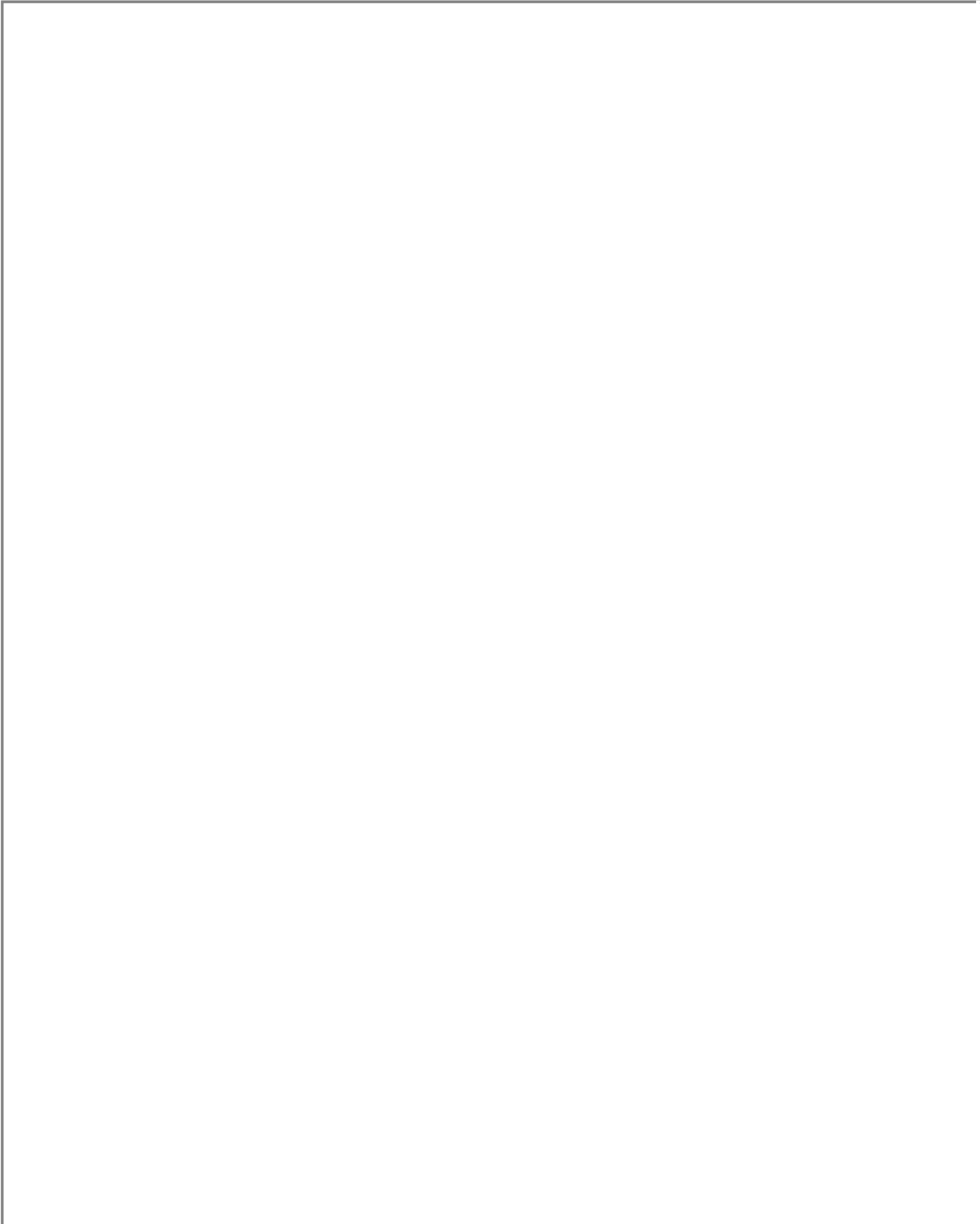
1. The Government should facilitate the implementation of the recommendations from the Government and Accountants Working Group to ensure that small firms can gain advice on accessing finance to grow their business.<sup>24</sup>
2. The closure of the Bank of England's Small Firms Division, which provided the comprehensive monitoring of small firms' finance trends, has left a gap in the provision of regular authoritative data on small firm access to finance. We recommend that the Bank of England either re-consider its position or, alternatively, that the Government accept responsibility for conducting such monitoring, concentrating on vulnerable sectors.
3. Intangible assets, including intellectual property rights and other aspects of intellectual capital, are often a key aspect of the growth strategies of high-growth, high-technology firms, which typically have acute financing problems.<sup>25</sup> Government must work with finance firms, accountants and the relevant professional bodies in order to develop robust methodologies to identify and value intangible assets.<sup>26</sup> Robust valuations of such assets will enable high-growth firms to access the capital they need to fulfil their growth aspirations.

4. ACCA research shows that women start up with only one-third of the amount of capital as compared with men and are less likely to use external financing as the business expands.<sup>27</sup> This may impact upon the growth potential of the firm. Women business owners should be encouraged to ensure that business start-up capitalisation meets the needs of their businesses and is sufficient to provide a foundation for business growth. Furthermore, women tend to use comparatively expensive forms of finance, such as credit cards;<sup>28</sup> the use of alternative sources should be encouraged.
5. Small firms, in particular groups such as women<sup>29</sup> and specific ethnic minorities,<sup>30</sup> perceive the problem of accessing formal finance as being harder than it actually is.<sup>31</sup> As a result, finance is not sought and, consequently, businesses suffer from being under-capitalised. Financial institutions, the Government and relevant organisations should get involved with, and create, networks targeting these groups, to dispel the myths and share best practice.
6. It is important that policymakers consider the heterogeneity of the ethnic minority business community. Evidence shows that African/Caribbean entrepreneurs are more likely to be rejected when applying for bank loans, and once established are more likely to fail when trying to access external finance than other ethnic minority businesses or white-controlled firms.<sup>32</sup> There should be closer cooperation between business support organisations, banks and African/Caribbean entrepreneurs to support these businesses when accessing finance and ensure that they are aware of opportunities that exist for small businesses to operate in other sectors of the economy.
7. Businesses in deprived areas suffer greater problems when accessing finance due to a number of factors, including a scarcity of collateral and a more fragile local economy. There is also a reluctance on the part of banks to provide finance, given the high unit cost of making small loans<sup>33</sup> and the comparatively high credit risk associated with some of these businesses. Micro-credit schemes and Community Development Finance Institutions (CDFIs) often represent the best source of lending for these entrepreneurs. Relevant stakeholders should work together to ensure that entrepreneurs are referred between lenders to ensure that they are able to secure appropriate finance.
8. The provision of, and access to, impartial and expert financial advice greatly increases the chances of entrepreneurs securing appropriate and affordable finance. Accountants are in an excellent position to provide this advice.<sup>34</sup> The Government should consider subsidising accountancy advice for specific communities or sections of society, including businesses in deprived areas, the financially excluded, specific ethnic minorities and women.
9. Low levels of financial literacy can impact the degree to which entrepreneurs access formal sources of finance. Many positive steps have been taken to ensure that entrepreneurs are aware of the forms of finance available, including the publication of the two 'no-nonsense' guides to finance.<sup>35</sup> The Government should continue its efforts to ensure that a high level of financial literacy is universal to entrepreneurs.
10. The Government and its agencies have, over the years, expended significant resources creating and implementing market interventions. It is vital that these interventions be effective and meet the needs of those they declare to support. It is therefore incumbent on Government and other stakeholders to ensure that these schemes, such as the Small Firm Loan Guarantee, are well publicised and freely available to those concerned.

## Endnotes

- <sup>1</sup> HMRC (2005), *Making the New Relationship a Reality*, p. 16.
- <sup>2</sup> HMRC, 'The Cost and Benefits of Direct Payment of Statutory Maternity Pay', HMRC Technical Note, available at <<http://www.hmrc.gov.uk/pbr2005/smp.pdf>>.
- <sup>3</sup> Members of the ACCA UK Small Business Committee.
- <sup>4</sup> Better Regulation Task Force (2005), *'Regulation – Less is More. Reducing Burdens, Improving Outcomes.*
- <sup>5</sup> ACCA (2005), *Putting Small Businesses First*, ACCA's Small Business Manifesto (London: CAET).
- <sup>6</sup> Blackburn, R., and Hart, M. (2000), *Small Firms' Awareness, Knowledge and Access to Information on Individual Employment Rights* (DTI).
- <sup>7</sup> Small Business Service (2003), *Towards an Action Plan for Small Business: Update of Work in Progress, September* (London).
- <sup>8</sup> European Commission (2003), *European Seminar on the Transfer of Businesses Final Report.*
- <sup>9</sup> Small Business Service (2004), *Passing the Baton – Encouraging Successful Business Transfers* (London).
- <sup>5</sup> ACCA (2005), *Putting Small Businesses First*, ACCA's Small Business Manifesto (London: CAET).
- <sup>11</sup> Federation of Small Businesses (2004), *FSB Survey, Lifting the Barriers to Growth in UK Small Businesses.*
- <sup>12</sup> Federation of Private Business (2003), *Red Tape Report.*
- <sup>13</sup> Bennett, R. J. (2005), *SME expectations from Business Link: How are they met?*, Proceedings of ISBE Conference, Blackpool, November.
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- <sup>15</sup> Bennett, R. J. and Robson, P. (2003), 'Business Link: Use, satisfaction and the influence of local governance regime', *Policy Studies*, 24, pp. 163–186.
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- <sup>18</sup> SERTeam (2005), *Natwest/SERTeam Quarterly Survey of Small Business in Britain: 2005*, Q. 2, 21: (2).
- <sup>19</sup> Bank of England (2005), *Finance for Small Firms – A tenth report* (London).
- <sup>20</sup> Carter, S., Anderson, S. and Shaw, E. (2001), *Women's Business Ownership: a Review of the Academic Popular and Internet Literature*, Report to the Small Business Service.
- <sup>21</sup> Smallbone, D., Ram M., Deakins, D. and Baldock, R. (2003), 'Access to Finance by Ethnic Minority Businesses in the UK', *International Small Business Journal*, 21: (3), pp. 291–314.
- <sup>22</sup> National Strategy for Neighbourhood Renewal: Policy Action Team 3 (1999), *Enterprise and Social Exclusion*, (London: HM Treasury).

- <sup>23</sup> ACCA (2003), *Barriers in Accessing Finance through Formal Channels*, Members' survey, [online text], accessed November 2004.
- <sup>24</sup> Small Business Service (2004), *Facilitating Finance*, The report and recommendations from the Government and Accountants Working Group (London).
- <sup>25</sup> Buckland, R. and Davis, E. W. (1995), *Financing for Growing Enterprises* (London).
- <sup>26</sup> The ACCA has begun this process by working with the Small Business Service and the Institute of Intellectual Property to identify intangible assets, examine their position in individual business and their valuation.
- <sup>27</sup> Carter, S., Anderson, S. and Shaw, E. (2001), *ibid.*
- <sup>28</sup> Marlow, S. and Carter, S. (2005), *Women's enterprise: access to finance and the role of the accountant*, ACCA research report number 90, (London: CAET).
- <sup>29</sup> Marlow, S. and Carter, S. (2005), *ibid.*
- <sup>30</sup> Ram, M. and Deakins, D. (1995) 'African-Caribbean Entrepreneurship in Britain', University of Central England Business School, Birmingham.
- <sup>31</sup> Marlow, S. and Carter, S. (2005), *ibid.*
- <sup>32</sup> Smallbone, D., Ram, M., Deakins, D. and Baldock, R. (2003), *ibid.*
- <sup>33</sup> National Strategy for Neighbourhood Renewal: Policy Action Team 3 (1999), *ibid.*
- <sup>34</sup> Federation of Small Business (2002), *Lifting the Barriers to Growth in UK Small Businesses* (London).
- <sup>35</sup> Business Link (2005), *The No-Nonsense Guide to Finance for High-Growth Companies and The No-Nonsense Guide to Small Business Funding*, (London: DTI).



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