



POLICY BRIEFING PAPER

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Principles for government intervention on small business support

Small business policy has been part of government strategy for a number of decades, yet government intervention on business support has had limited successⁱ. This has not been for the lack of financial investment, which has grown significantly and now amounts to £7billionⁱⁱ per year. However, a growing consensus is now emerging in the small business community and Government that value for money is not being delivered.

ACCA Small Business Committee* met in June 2007 to discuss the nature and direction of Government intervention on business support and how this might more effectively support an improved environment for small business. The following principles emerged from the debate and should form the basis for government actions in this area, which are particularly timely, as Government embarks on a programme of business support simplification.

CLARITY OF THOUGHT

Before any new policy is introduced, Government should be clear on the objectives it is seeking to achieve and consult widely before taking action. A distinction should be made between social and economic goals and initiatives pursued and assessed on those grounds respectively. Small business policy has often been obscured by conflicting targets, complex decision making procedures and a consequent inability to respond quickly to changing business circumstances.ⁱⁱⁱ

ACTING ON MARKET FAILURE

In order to prove the existence of market failures that warrant government intervention, robust evidence is needed that points both to the market failure and to the fact that government intervention is able to improve the position. For example, whilst market failures in some areas of business support are well documented, there is limited evidence that points to opportunities for government to enhance the supply of business advice.^{iv} On the other hand, economic stability, the legal framework, the tax system^v and regulation^{vi} all have an impact on the performance, numbers and general competitiveness of SMEs. Government should divert efforts from areas adequately served by the private sector to those where it can have a meaningful impact.

DELIVERY

A recent report suggests^{vii} that approximately one third of the business support budget is being lost in administrative costs. This not only reduces the impact of delivery, but poses serious questions about Government's ability to deliver value for taxpayers money. Government services should be delivered by whoever is best equipped to meet the needs of small firms. For example, the FSB Bi-annual Survey 'Lifting the Barriers to Growth' found that only 4.4% of businesses use

Government-funded business advice compared to over half of respondents who say that they use accountants.^{viii} The high penetration rates achieved by the private sector should be treated as a valuable resource for Government, reducing the resources consumed in creating alternative channels for the provision of business advice.

EVALUATION

Evaluation should form an integral part of policy-making. A culture change that puts evaluation at the heart of Government activity is needed. A recent exercise carried out as part of the *Richard Review on Small Business and Government* on behalf of the Conservative Party observed that there is no correlation between Government spending and performance of the small business sector.^{ix} The NAO report on business support^x also concluded that Government needs to improve its programme of evaluation by taking into account external factors, such as the general economic environment, and linking back to Government's overall objectives. Considering that there are currently some 3000 business support schemes, emphasis on effective evaluation will be paramount if Government is to reduce the number in the most efficient manner.

ACCOUNTABILITY

Government departments must be accountable to Parliament and tax payers for their small business spending. The current complexity of the system makes it difficult to demonstrate their effectiveness. Most Government departments now have a small business budget. Similarly, Regional Development Agencies and local authorities have budgets designated for small business. Such proliferation means that it is impossible to hold a single department accountable for the overall spend. The NAO report 'Supporting Small Business'^{xi} highlights the worrying fact that the Government has no measures to establish the overall impact of small business spending. This in turn serves as a disincentive for policy makers to ensure cost-effective intervention.

ACCA'S INVOLVEMENT

ACCA (the Association of Chartered Certified Accountants) is the largest and fastest growing global professional accountancy body, with over 115,000 members and 296,000 students in 170 countries. Independent research shows consistently that qualified accountants are the first choice advisors of small businesses. ACCA has over 100 years' experience of working with and providing professional advice to small and medium-sized firms. In the UK over 56% of ACCA members (over 25,000) work in or for SMEs.

* ACCA UK SMALL BUSINESS COMMITTEE

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

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Riz Akhtar, Partner at R A & Co., **ACCA Council Member**

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Sara Harvey, ACCA Council Member; Vice Chair ACCA UK Small Business Committee, Director, **Hines Harvey Woods Ltd**

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Scott Johnson, Business Owner, **W.F.Watt**

Dr Moyra Kedslie, **ACCA Council Member**

Mei Sim Lai, Partner, **LaiPeters & Co.**

Sally Low, Director of Policy & External Affairs, **British Chambers of Commerce**

Michael Markham, Director, AM Accountants, **ACCA Council Member**

Ilyas Patel, Partner, **Ilyas Patel & Co**

Jason Parker, Partner, Parker Randall LLP, **ACCA Council Member**

Professor Monder Ram OBE, **De Montfort University**

Dr Richard Roberts, SME Research Director and Chief Economist, **Barclays Bank**

Tony Robinson, Executive Chairman, **SFEDI**

Louise Third, Partner, **Integra Communications**

Erika Watson, Executive Director, **Prowess**

Angela Hannan, Deputy Policy Manager, **Federation of Small Businesses**

Peter Windatt, Director, **BRI (UK) Ltd**

Mike Young, **Kempshott Research Management**

ACCA Small Business Unit

Robin Jarvis, Head of Small Business, 020 7059 5975

James Meyrick, Small Business Policy Adviser, 020 7059 5885

Rosana Mirkovic, Small Business Policy Adviser, 020 7059 5735

ENDNOTES

ⁱ NAO (2006), 'Supporting Small Business' and House of Commons Committee of Public Accounts Eleventh Report of Session 2006-07, 'Supporting Small Business', HC262

ⁱⁱ including the budget for Sector Skills Council and the variety of tax breaks offered to SMEs

ⁱⁱⁱ Bennett, R.J., Government SME policy since the 1990s: What have we learnt? Proceedings of ISBE Conference, Cardiff, November, 2006

^{iv} Ibid.

^v Chittenden F and Sloan B (2007) The Chancellor's Last Budget Statement: Politics or Economics?

^{vi} British Chambers of Commerce (2007), The Burden of Regulation: who is watching out for us?

^{vii} Richard Review on Small Business & Government, Interim Report, March 2007

^{viii} Federation of Small Businesses (2006), *FSB Survey, Lifting the Barriers to Growth*

^{ix} Richard Review, *Ibid.*

^x NAO, *Ibid.*

^{xi} NAO, *Ibid.*