

# Support for growing businesses: a policy briefing

April 2013

## Executive summary

The state-funded business support system in the UK has been reformed twice during the last 15 years. Now, with Business Link and Regional Development Agencies (RDAs) scrapped, the system is being reshaped again. There is certainly no shortage of business support initiatives. There are currently 900 local and national, public and private support schemes in the UK, but the current offer is not well structured. At the national level alone, more than 10 government departments and non-governmental bodies are in charge of delivering different schemes. This level of complexity and lack of structure means that **the business support system is hard to navigate, evaluate or manage.**

This briefing presents a structured review of the business support initiatives offered by the Government, and identifies the key questions that need to be urgently addressed if the system is to improve.

To apply structure to the business support offer, this briefing reviews 43 national initiatives and classifies them by type of tool, geographical impact and objective. The latter classification divides all business support initiatives into those aimed at **helping businesses grow, making businesses better** and **increasing the number of businesses**. This structured analysis helps in navigating and understanding the system, and leads to the following conclusions:

- **The business support system is extremely complex.** This makes it difficult for businesses to navigate support and complicates the analysis of any gaps.
- **A lack of an overall business support infrastructure results in inefficient delivery.** Multiple institutions are responsible for delivering support schemes with overlapping objectives and as collaboration between them is inconsistent, duplication of services and inefficient use of resources is hard to avoid.

- **The lack of both infrastructure and of visible access points complicates access to support for some businesses.** While large companies usually have capacity to keep track of the ever-changing support offer, smaller enterprises need to be guided through the current system, yet there is limited provision to do so.

A new business support system is currently taking shape. We suggest that it should fit the following criteria:

- Help businesses that aspire to grow
- Engage with the ‘long tail’ of smaller businesses not currently engaged
- Ensure stable institutional environment for businesses and be able adjust to changing needs of businesses.

Support provided at national level can deliver benefits of scale, while support delivered locally is more accessible for businesses. The new business support system should aim to strike the correct balance between centralised provision and localised engagement and delivery.

Current policy developments, including the **Business Bank, City Deals** and the recommendations of **Lord Heseltine’s growth review ‘No Stone Unturned’**, are all likely to change the way business support is delivered. It is important that the proposed changes are coordinated and that they simplify, rather than further complicate, the business support infrastructure.

## Introduction

Over the last 15 years, the way publicly-funded business support is delivered has been fundamentally restructured, twice. Business Link was set up in 1992, replacing a number of enterprise agencies, which was then restructured around the Regional Development Agencies (RDAs) in 2005. After the abolition of the RDAs, some business support functions, such as those related to innovation and investment promotion, were centralised, others were localised and some were cancelled. Business Link was reduced to an online navigation service, and the institutional structures responsible for delivery of state-funded business support were largely removed. So what replaced it – and is it working?

Two and a half years since the abolition of the RDAs was announced, it is time to assess the structure of the current public sector business support system, and to ask whether it is equipped to meet the challenges of helping businesses to grow and supporting economic recovery.

## Objectives and coverage of the briefing

The aim of this briefing is to provide a structured review of public sector business support. It does not seek to assess the effectiveness of individual initiatives. Reviewing the business support provided by the private sector is also outside the remit of this paper.

### Defining Business Support

Business support is often understood via its narrowest definition: as advice provided mostly to entrepreneurs relating to legal, financial and practical aspects of running a business. While the provision of such information remains important, in the age of the internet entrepreneurs no longer necessarily need advisers or call centres in order to access it. General information is easily found online on the Gov.uk web portal, on business association websites or via multiple online entrepreneur communities, where advice and experience can also be shared.

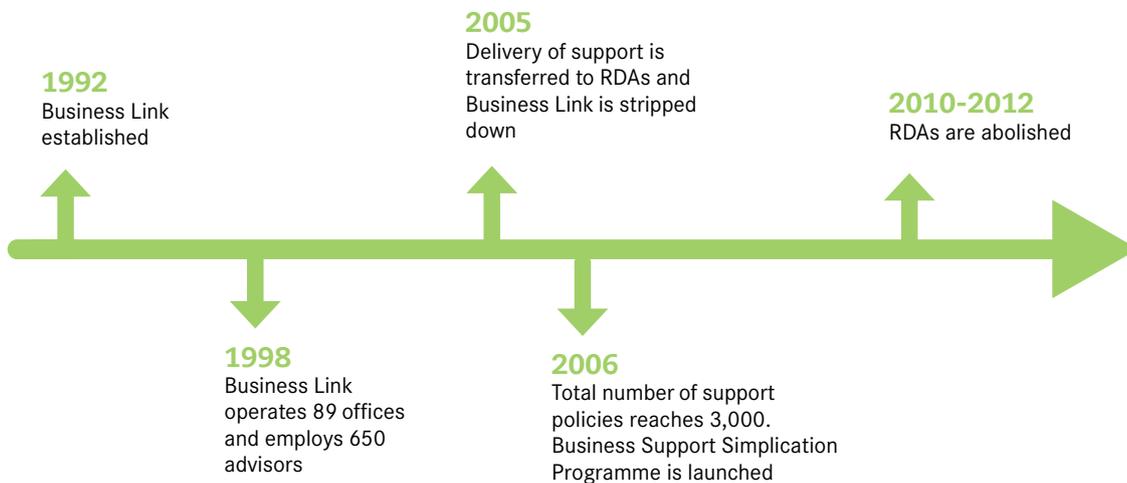
For the purposes of this briefing a broader definition of business support is used. It includes a wide variety of publicly-funded initiatives aimed at improving private sector performance. In addition to business advice – which may include assistance in decision-making, suggestions on optimising strategy or business processes, as well as legal or technical support – the paper also looks at initiatives that aim to: improve business access to finance and funding; encourage collaboration, knowledge exchange and innovation; and increase the number of start-ups.

The information used in this briefing was collected via desk research and a literature review, a web survey of institutions that provide business support, and interviews with representatives of business associations, academics and support providers. A total of 43 national public sector-funded initiatives were reviewed.

## The evolution of the business support landscape

In 1992 Business Link was established as a 'one stop shop' for business support, and replaced a number of services which were considered too dispersed including the then Department of Employment's 'Small business development service'. At its peak, Business Link engaged with business through 89 regional offices employing 650 personal business advisers. In 2005 the administration of Business Link services was transferred to the RDAs, and Business Link itself switched to an 'Information, Diagnosis and Brokerage' model. Most RDAs chose to contract business support delivery out to private companies.<sup>1</sup> RDAs were also responsible for initiatives relating to innovation, inward investment and skills which were outside the remit of Business Link. Increased devolution of business support to the regional level led to the total number of programmes reaching 3,000 by 2006.

**Figure 1: Evolution of business support infrastructure 1992-2012**



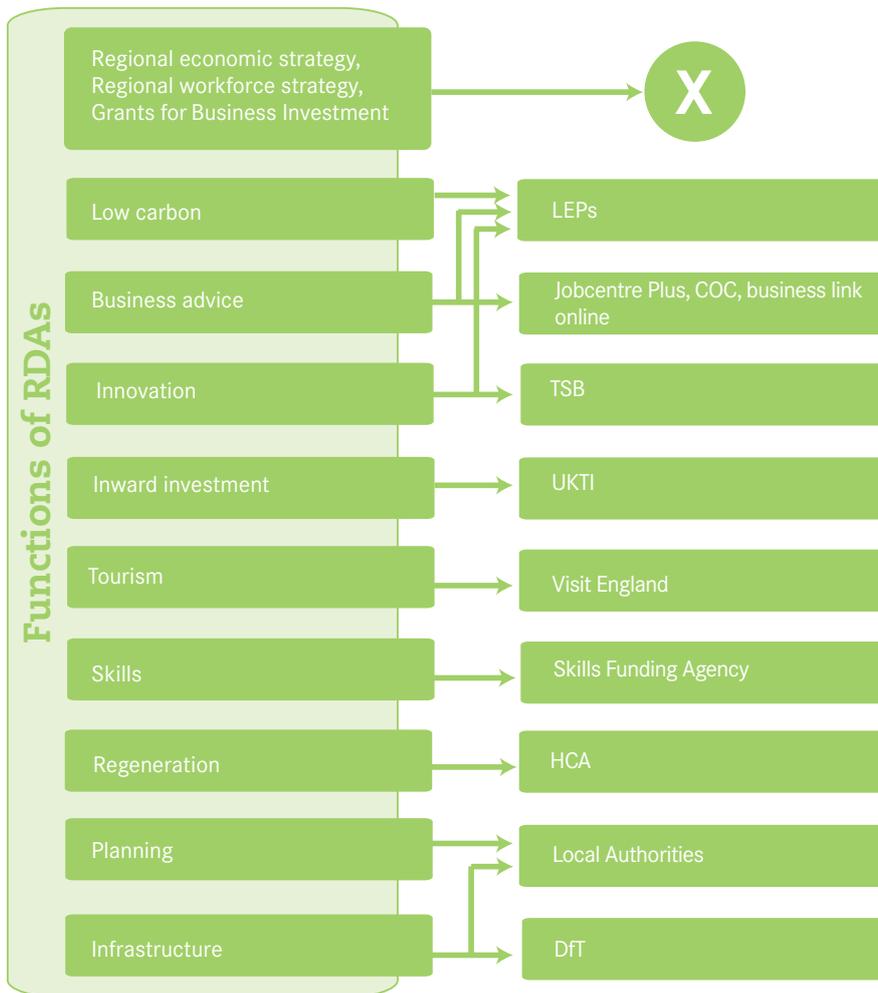
In response to concerns about proliferation of initiatives, the Labour Government launched the Business Support Simplification Programme (BSSP). Although it was set a target of reducing the number of schemes to 100, interviewees suggested that it simply repackaged and rebranded existing support initiatives into product strands.

Further changes to the support landscape occurred after the Coalition Government came to office in 2010. The abolition of RDAs meant that many regional schemes lost their primary source of funding. As a result, by 2012 the total number of business support initiatives had dropped to 900.

Upon abolition, the responsibilities of the RDAs were split between various government departments, non-government bodies, local authorities and LEPs (Figure 2). While the total number of initiatives was reduced, the abolition of Business Link and the announcement of multiple niche programmes administered by different government departments meant that it became much more complicated to navigate the support that was available.

1. Business Link: research into drivers of perceptions of Business Link. <http://www.bis.gov.uk/files/file49681.pdf>

**Figure 2: Redistribution of RDA powers**



Source: BIS (2010) Local Growth: realising every place’s potential; Centre for Cities interviews

After the RDAs were abolished, the Government introduced Local Enterprise Partnerships (LEPs), set up as joint public and private sector bodies to shape local economic policy including certain aspects of business support. The role of LEPs is still developing and changing, and their effectiveness in addressing the needs of local businesses is still unproven.

Interviewees identified various gaps in the current system and focused on different flaws that should be addressed. All of them agreed on one point, however - the current system lacks structure and is difficult for businesses to navigate.

### Making sense of the business support offer

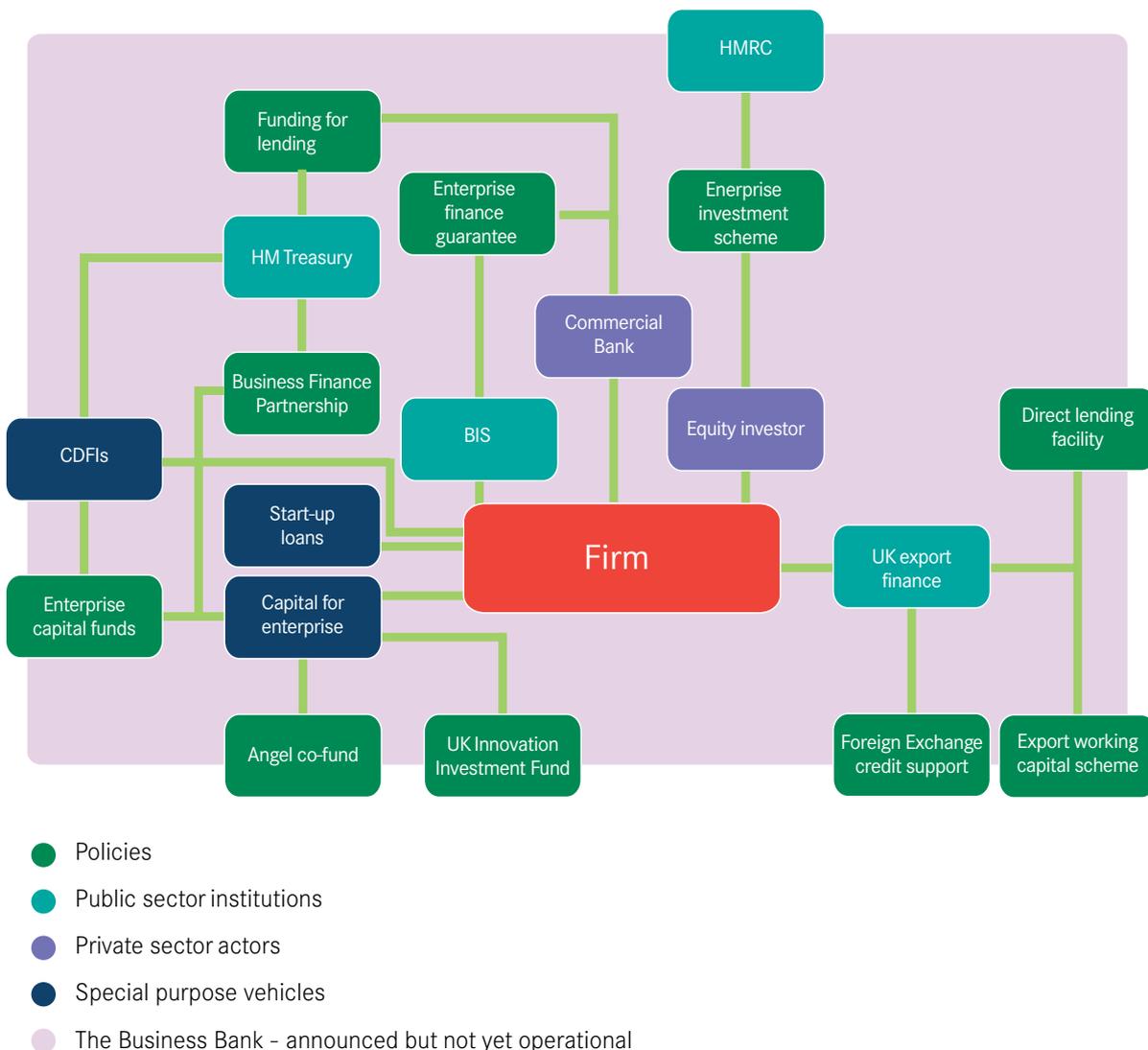
Today there are around 900 national, local, private and public sector and EU-funded business support initiatives in the UK. The state-funded initiatives are spread across several central government departments and non-departmental bodies and managed at national, regional and local level.

This diversity and lack of structure makes it hard for anyone to understand the extent and the coverage of services government offers.

After the business support system organised around the RDAs and the Business Link was scrapped the Government has introduced two further policies that can be seen as cornerstones of the new business support system:

- The Regional Growth Fund (RGF) is a vehicle for allocating public money to support business expansion and creation of sustainable jobs and to fund other local and national business support programmes. The RGF is now into its fourth round of bidding, and the size of the fund has been extended several times since the original announcement, reaching a total of £2.4 billion. The Fund allocates money to large scale projects run by individual businesses or to programmes aimed at supporting small businesses in a given area of industry. Since Round Three it has officially prioritised projects in the North of England and in the manufacturing sector.
- Enterprise Zones (EZs) bring together incentives aiming to encourage business growth in selected localities. Incentives provided to businesses that expand in the EZs include: business rates relief; simplified planning procedures; business-ready infrastructure, including fast broadband; and, for some Zones, capital allowances. Incentives became available in 24 English EZs in April 2012. It will take time for developments to take place and businesses to move, so it is too early to evaluate their impact.

**Figure 3: A firm looking for access to finance support**



In addition to these major schemes, a number of smaller scale initiatives have been introduced at the national level, while a number of old schemes were maintained. Even though the number of initiatives has decreased, the business support landscape remains incredibly complex. Figure 3 presents the diversity of options that national policy offers to a business looking for finance to expand. The figure presents the complexity of the institutional structure and the difficulty of navigating the system that a firm is facing.

The remainder of this chapter presents a structured overview of national business support policies. First it offers two classifications for national business support policies that could help businesses and other stakeholders to navigate the system.<sup>2</sup> It then assesses the geography of business support and looks at several local initiatives to present an example of the diversity of business support provided locally.

## 1. What services are available?

The tools that business support initiatives use are diverse, yet they can be aggregated into the following broad groups:

- **Access to finance:** helping businesses access debt or equity finance.
- **Funding:** provision of grants for business activities that are pre-commercial, yet may deliver significant economic benefits in the future.
- **Tax reliefs and discounts:** modifications to normal tax regulations that incentivise business to make decisions that produce public economic benefits, but are not feasible under the normal regulatory framework. This may include incentives to invest in skills, capital assets, research and development (R&D) or other high risk projects.
- **Advice:** provision of consultancy services to businesses, usually delivered by business advisers employed by public sector agencies or a contracted private consultancy.
- **Networking and collaboration:** facilitating contacts and joint working between businesses and other institutions (e.g. universities) to encourage exchange of knowledge and experience.
- **Skills:** incentivising businesses to invest in employee skills.

Figure 4 lists all the initiatives reviewed for this briefing, and identifies the tools each initiative uses.

**Figure 4: Business support initiatives by offer**

Initiatives	Finance	Funding	Tax relief	Networks/ collaboration	Advice	skills	Special focus areas
<b>Advanced Manufacturing Supply Chain Initiative</b>		*		*		*	R&D/capital
<b>Apprenticeships</b>						*	
<b>Be the Boss</b>		*					
<b>BOND</b>						*	Export
<b>Business and IP Networks</b>					*		
<b>Business Angel Co-investment Fund</b>	*					*	
<b>Business Bank</b>	*						
<b>Business Finance Partnership</b>	*						
<b>Catapult Centres</b>				*			R&D
<b>CDFI</b>	*						
<b>Collaborative Research and Development</b>		*		*			
<b>Employer NIC Holiday</b>			*				
<b>Enhanced Capital Allowance</b>			*				Capital
<b>Enterprise Capital Funds programme</b>	*						
<b>Enterprise Finance Guarantee</b>	*						
<b>Enterprise Investment Scheme</b>	*		*				
<b>Enterprise Management Incentives</b>			*				

2. Most initiatives addressed as national in this briefing cover England and do not relate to the territories governed by devolved administrations. However, some of the policies cover the whole of the UK, for example the initiatives of the Technology Strategy Board. The briefing concentrates on policies targeting business in England, and business support initiatives under the devolved administrations are outside its remit.

<b>Export Communications Review</b>					*		Export
<b>Export credit, insurance and guarantees*</b>	*				*		
<b>Funding for Lending</b>	*						
<b>Growth Accelerator</b>					*	*	
<b>Innovation Platforms</b>				*	*	*	
<b>Innovation Vouchers</b>		*		*			R&D
<b>Innovation Knowledge Centres</b>		*		*			
<b>Knowledge Transfer Networks</b>				*			On-line tools
<b>Knowledge Transfer Partnerships</b>		*		*	*		
<b>Large Firms SME R&amp;D Tax Relief</b>			*				R&D
<b>LaunchPad</b>		*			*		R&D
<b>Manufacturing Advisory Service</b>					*		
<b>New Enterprise Allowance</b>		*					
<b>Passport to Export</b>				*		*	Export
<b>Ready for Business</b>					*	*	
<b>Small Business research Initiative (SBRI)</b>		*					R&D/procurement
<b>Seed Enterprise Investment Scheme</b>	*						
<b>SMART</b>		*					
<b>SME R&amp;D Tax Relief</b>			*				R&D
<b>Start-up Loans</b>	*						

\*all of the UK Export Finance schemes are grouped together for simplification, for more details see Annex 1.  
Source: study of project descriptions provided online.

**Finance**-related tools are most frequently provided by the business support policies covered in this briefing. Interviewees suggested that the problems associated with improving access to finance are extremely complex. They include various issues: high levels of risk aversion among traditional lenders; a lack of long-term credit options; the underdevelopment of non-traditional finance vehicles; and a lack of capacity within businesses. The current government offer targets a number of these problems, but interviewees suggested that policies are rather fragmented and coordination could be improved which, according to those interviewed, is one of the tasks for the Business Bank. (Box 1)

**Funding** is the second most frequently-provided support tool. Grant funding is mostly offered by initiatives that focus on promoting innovation and R&D, mainly as these are the areas where returns on investments are hard to predict and finance tools are not always suitable. Several interviewees pointed out that it is extremely important that schemes that provide grant funding complement rather than substitute debt and equity finance tools, otherwise they can distort market incentives and have a negative impact on productivity.

**Advice** (as defined in this briefing) is a very broad category that includes a number of information provision and consultancy services. Some schemes reviewed provide niche advice, related to a particular issue such as identifying suitable markets for export (Passport for Export), or making manufacturing processes more efficient (the Manufacturing Advisory Service). Others provide a broad range of general business and management advice (Growth Accelerator, Business and IP Networks). Components of these services appear to be overlapping and there is a strong case for collaboration between providers, as well as joint work to help businesses navigate the different offerings.

**Box 1: The Business Bank**

The Business Bank was announced in September 2012 and allocated £1 billion, but many details about this new institution remain unclear. It is apparent, however, that it will not be a bank in the traditional sense. It will not have high street branches but will be an institution taking over the responsibility for promoting, managing and delivering all existing state-backed equity and lending schemes. It is likely that the bank's direct engagement with businesses will be very limited, but it will work actively with existing commercial banks and use them as vehicles for channelling support and understanding business needs.

The British Chambers of Commerce has suggested that, apart from administering all access to finance initiatives, the Bank should also act as a lender of last resort for businesses.<sup>3</sup> Other commentators have proposed that the Business Bank should target the problem of availability of long-term credit, lead on restructuring all policies related to access to finance or even become the coordinator of all business support initiatives.

Whatever the particular list of responsibilities and institutional structure of the Bank, it is extremely important that it is clear to businesses what it does and that it consolidates existing initiatives, thus simplifying the system rather than adding a new layer to it.

In the 2013 Budget, the Chancellor of the Exchequer confirmed that the Business Bank will become operational in 2013 and will deliver business support to Small and Medium Sized Enterprises (SMEs) before the end of 2014. It has also been announced that £300 million of the £1 billion budget of the Bank will be invested to target the gaps on SME finance market and support non-bank lending mechanisms, and £75 million will be spent to expand the Enterprise Capital Fund and the Business Angel Co-Fund. On 10 April, Vince Cable announced the first phase of the Business Bank and revealed that it will not lend directly to businesses but will operate via private sector institutions. However, there was no further clarity on how the Bank will be organised, nor its broader role in consolidating finance-related business support.

The Government's recent response to the Heseltine Growth Review mentioned that the Bank will address gaps in provision of finance to SMEs, including the availability of patient long-term capital.

**Networking and collaboration** tools encourage knowledge exchange and innovation, facilitate more trading and help develop supply chains. Most of the initiatives reviewed focus on encouraging collaboration between businesses and universities. For example the Knowledge Transfer Partnerships (Box 2) is an initiative that has been running for nearly 40 years and has shown good results. But the creation of a number of university business partnerships means that it is hard to distinguish between the remits of Knowledge Transfer Networks, Catapult Centres and Innovation Knowledge Centres.

**Box 2: Knowledge Transfer Partnerships**

Knowledge Transfer Partnerships (KTPs) are an example of a business support scheme that has been running since 1975 without major changes. The scheme brings together a business and a research institution to work jointly on a research project, and a recent graduate who is hired to coordinate the partnership. With 1,000 partnerships running at any given time, KTPs have reached a significant scale and has been sustained through the years largely because of their creative design and ability to adapt to varying needs of businesses.

3. Marshall, Adam (2012) The Case for a British Business Bank, British Chambers of Commerce, London.

**The tax incentives** currently on offer target Small and Medium Sized Businesses (SME) and start-ups. Employer National insurance Contribution (NIC) holidays provide a £5,000 discount to firms that meet certain criteria. The Enterprise Investment Scheme provides a range of tax incentives for investing into small high-risk companies. The Enterprise Management Incentive provides an opportunity for small firms to award their employees with share options that are subject to taxation with a discount.

The Budget 2013 has introduced further measures to incentivise investment in small dynamic businesses. The Capital Gains Tax holiday gives investors a 50 per cent tax discount on their 2013/14 capital gains, if the profits are reinvested in SMEs before the end of the 2014/15 financial year. The abolition of stamp duty on companies quoted on growth markets, such as the Alternative Investment Market, has the potential to unlock more funding for small businesses and the new employee-shareholder status provides SMEs with another tool to retain employees.

Support for SMEs is definitely welcome, but it appears that the new initiatives are actually just modifications of schemes that are already available and do not offer anything substantially innovative. At the same time, they increase the number of initiatives, thus adding an extra layer of complexity.

## 2. What are the aims of business support programs?

All business support initiatives, no matter which tools they use and how they engage with businesses, ultimately pursue one of the following three objectives:

**Helping businesses grow.** A number of businesses have the capacity, products and aspiration to grow, but face barriers that stop them from expanding. The barriers may include lack of information about new markets; inability to find a larger workspace or additional power capacity, lack of resources needed to buy capital equipment, or inability to hire more staff. Policy initiatives that fall into this group aim to address these and other barriers to growth through improving access to finance and advising on export trading.

**Making businesses better.** Businesses often lack the capacity, skills, knowledge or networks to make them more competitive and more productive. Policies in this group target these issues by helping businesses become more innovative, share ideas or access knowledge, develop and retain skills.

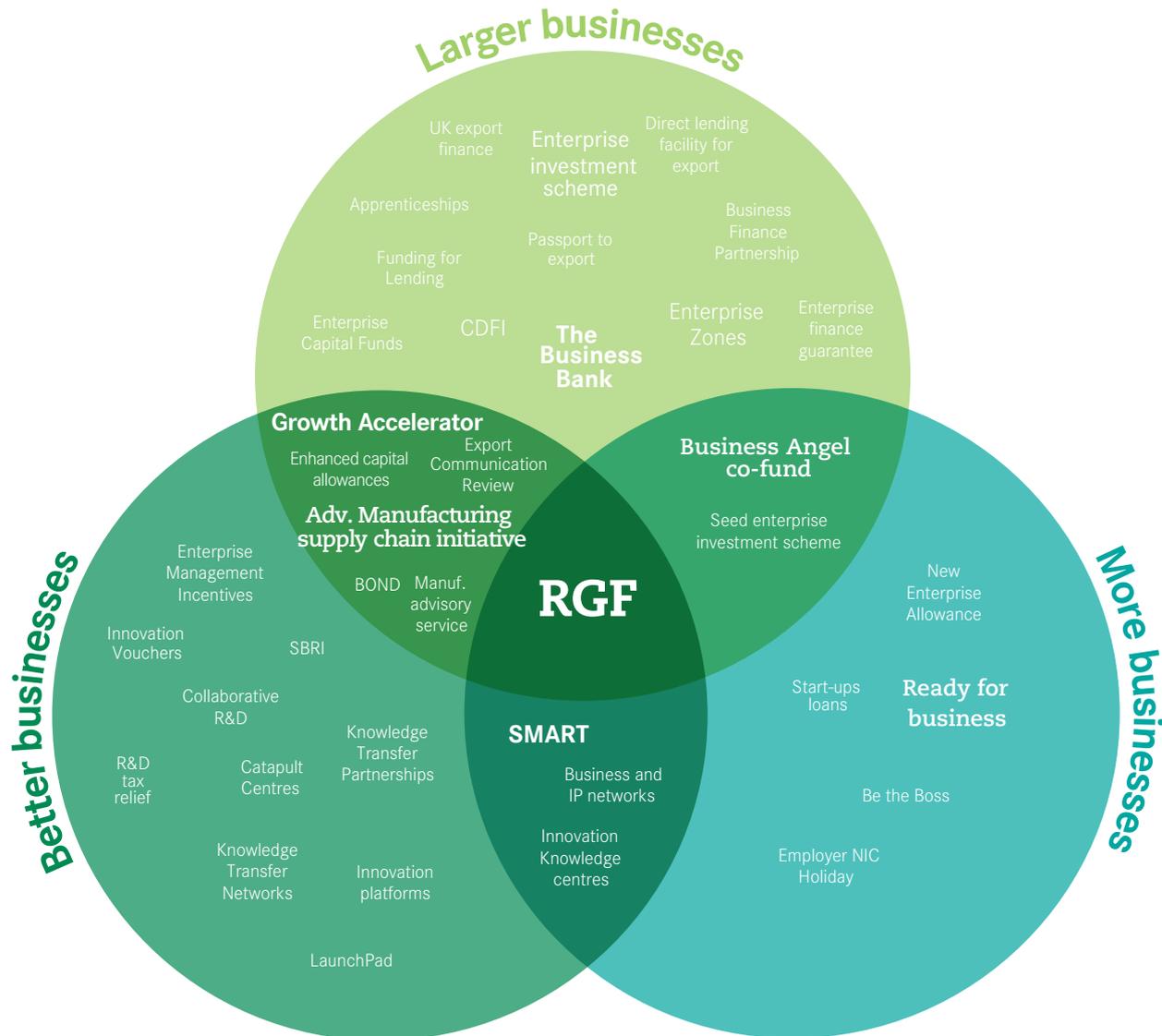
**Increasing the number of businesses.** A healthy economy needs businesses to replace those that die. The more businesses there are in the economy, the more competitive and efficient it will be. Support therefore aims to encourage people to become entrepreneurs, and provides advice and support at the early stages of business development.

Figure 5 allocates all of the 43 initiatives reviewed in this briefing to one of the groups defined above, or several groups in the case of more complex initiatives.

The figure shows that a large number of programmes appear to have similar objectives, but differ in tools and target audiences, which suggests that issues of coordination and duplication deserve special attention. Duplication may be caused by different policies applying similar tools for different purposes. In such a fragmented landscape, coordination between institutions delivering support becomes crucial.

For example, the Technology Strategy Board (TSB), UK Trade and Investment (UKTI), Growth Accelerator, Start-Up Loans Company, the British Library and the Intellectual Property Office (IPO) (*see Box 4 for more information on business and IP network initiatives*) all provide advice to businesses that should have complementary elements. Yet interviewees pointed out that, while there are instances of collaboration between these institutions (examples of joined work between the TSB, Growth Accelerator and UKTI were mentioned), there is still significant scope for improvement.

**Figure 5: Business support initiatives structured by objective**



Source: Overview of government websites and programme descriptions on websites of support providers, Several UK export finance initiatives were grouped together for simplification.

Over a half of the programmes reviewed, such as R&D tax relief, the Export Communication Review or the New Enterprise Allowance, have a very narrowly defined focus area. This creates a danger of gaps and poor adaptability. Even 40 narrowly focused initiatives may fail to provide comprehensive coverage, as they are hard to change even when new barriers to business growth emerge – such as a lack of people with relevant skills on the labour market.

Alongside very niche initiatives, such as Direct Lending Facility for Exporters or Innovation Vouchers, there are complex initiatives that use a vast array of tools and target a number of different issues, such as the Growth Accelerator discussed below (Box 3). This creates another layer of potential confusion because certain services, such as advice on commercialising innovation, can be accessed both through focused schemes like Innovation and Knowledge Centres, or through large schemes like the Growth Accelerator.

**Box 3: Growth Accelerator**

The Growth Accelerator was announced by the Government in May 2012. It was allocated £200 million and set the task of helping up to 26,000 businesses. The programme is funded by the Department for Business Innovation and Skills (BIS) but managed by a special purpose vehicle called 'Growth Accelerator' that also attracts private funding. It provides a variety of services to SMEs that have the potential to double in size within the next three years. As reported on the its website, the programme offers the services of 800 experts to help businesses in accessing finance, developing leadership skills and commercialising innovation. The services provided include most categories of business support. This broad approach may be beneficial for participant businesses but it seems that, rather than coordinating with the rest of the business support offer, Growth Accelerator has created a separate system of its own. Coordination with other services will be required in order to ensure that the programme delivers good value for money.

**Box 4: Business and IP network**

The British Library Business and IP Centre was launched in 2006 and since then has been used by 300,000 entrepreneurs. The initiative targets entrepreneurs at the pre-start-up phase of development. It helps them test their business ideas and provides information and advice necessary to successfully start an innovative business. Services include general advice, market research, help with data collection, and support with intellectual property protection. Following the success of the scheme, Department for Communities and Local Government (DCLG) provided funding to roll it out to libraries in six core English cities: Birmingham, Leeds, Liverpool, Manchester, Newcastle, and Sheffield. The programme is a good resource both for entrepreneurs and for those considering starting a business. It provides a clear access point and an environment where all the information needed to develop a business idea is available. Yet a number of services, including general advice and IP support, duplicate other programmes such as the Growth Accelerator. And, as the administrators of the programme have admitted, coordination with other business advice programmes has been patchy so far.

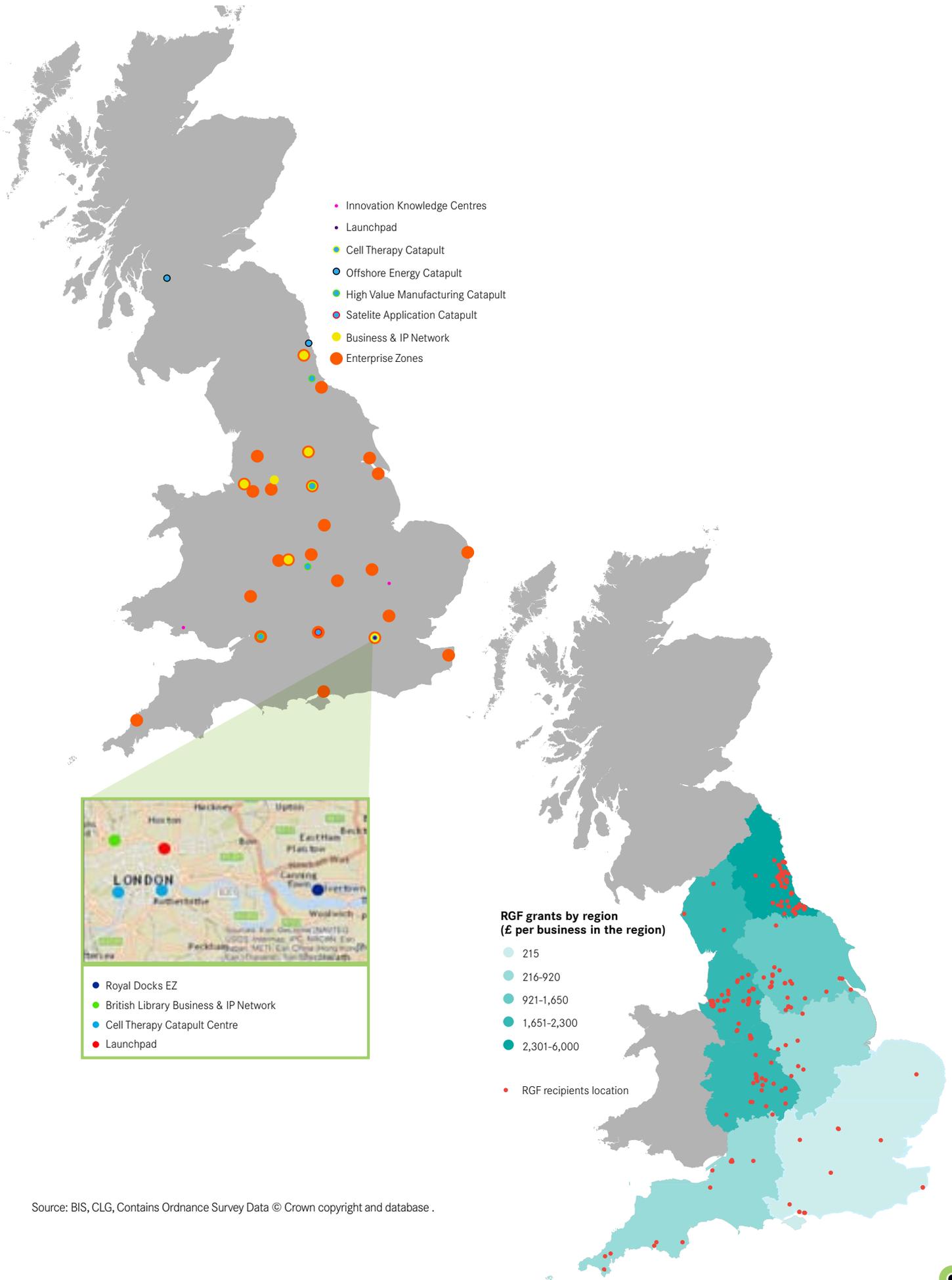
**3. What is the geography of business support?**

Most of the businesses support initiatives provided by the Government target a market failure specific to an industry or firm of a particular size and stage of development. These policies are space-blind.

Some initiatives, however, are place-based, in that they are designed to target particular geographic areas. The RGF is an example of an initiative that, although available to businesses all over the country, prioritises certain areas through its allocation process. EZs and Launchpad are examples of ring-fenced initiatives, which only target businesses within specified boundaries. Business and IT networks and Catapult Centres are examples of initiatives that are organised around a physical access point established in selected locations.

Figure 6 shows the locations of a small number of selected place-based initiatives.

**Figure 6: Geography of selected national business support schemes**



Source: BIS, CLG, Contains Ordnance Survey Data © Crown copyright and database .

## Coordinating local and regional initiatives

The majority of England's 900 initiatives are either local or regional (see descriptions of selected initiatives in Box 5). In a situation when there are so many initiatives at sub-national level, the likelihood of duplication is very high. A number of interviewees suggested that coordination between national and local support is far from perfect, which is largely down to a lack of any overall infrastructure for business support.

While it is understandable that local areas want to respond to their specific business issues, the risk is that the difficulty of knowing what is available at the national level leads to duplication, rather than making use of existing support provided at a national level.

Interviewees suggested that new local initiatives should only be initiated if similar services cannot be accessed through one of the national schemes and that local actors should be more focused on helping businesses navigate the existing system, instead of increasing its complexity through providing new services.

### Box 5: Local business support initiatives:

#### **Black Country Reinvestment Society** <http://www.bcrs.org.uk/>

The Black Country Reinvestment Society (BCRS), located at Wolverhampton University's Science Park, was founded in 2002 to provide finance for social enterprises and SMEs in the Black Country (Dudley, Sandwell, Walsall and Wolverhampton). It now serves the entire West Midlands region and provides loans of between £10,000 and £100,000 for SMEs with a repayment period of between one to seven years.

The BCRS combines local private sector funding providers, including commercial banks, co-operative funds, corporations and individuals with funding drawn from the public sector and EU funding streams which allows for a larger finance portfolio.

#### **Manchester Creative Credits** <http://tinyurl.com/ck2b653>

Creative Credits is a business-to-business voucher scheme initially proposed by NESTA. The vouchers worth £4,000 are issued to SMEs that can spend them on buying services from creative companies as long as they add at least £1,000. The scheme was piloted in Manchester in 2010. 75 vouchers were issued in the first round. The second round offered twice as many grants and was co-funded by NESTA, Manchester City Council and a group of local stakeholders. The scheme was massively oversubscribed; the evaluation of results has shown that the scheme generated an average of £3,430 additional sales per business by the end of the project, and 95 per cent of grant recipients said that they expected more benefits in the future. 83 per cent of project participants have said that the grant has increased their innovation capacity.<sup>4</sup>

#### **Lincolnshire Business Support Network (LINBIS)** <http://tinyurl.com/ctkwq6u>

Lincolnshire Business Support Network was set up by four Lincolnshire local authorities to encourage SMEs and start-up activity in the local area, which has traditionally had low levels of entrepreneurship and innovation. The councils are working in partnership with private sector support providers to deliver one-to-one consultations to local businesses. The scheme aims to target businesses that struggle to navigate the business support system due to issues of economic deprivation, rural isolation or poor broadband coverage. The ambition of the scheme is to establish a robust and sustainable local market for business support.

4. Bakhshi, H. et al. (2011) Creating Innovation in Small Medium-sized Enterprises, NESTA working paper

## Outstanding challenges for the business support infrastructure

The key weaknesses of the current business support system – duplication, poor coordination, complexity, difficulty of navigation and engagement – could be improved through the introduction of a coherent business support infrastructure. The importance of reshaping the infrastructure has been highlighted by most of those interviewed and was one of the key challenges discussed in Lord Heseltine’s Growth Review *‘No Stone Unturned’*. There is more than one way in which the business support infrastructure could be shaped but, beyond the immediate task of addressing the complexity, the new structure should reflect the two following principles:

### 1. Help business that aspire to grow and engage with the ‘long tail’

There are two components to the challenge of promoting business growth in the UK:

- Addressing barriers that restrict the growth of businesses with growth aspirations
- Engaging with the ‘long tail’ of underperforming businesses.

The first challenge is most efficiently addressed through demand-driven policy, which implies that business should tell government what it needs, and government needs to make sure the relevant services are provided either by private or public sector. This approach requires limited local engagement, mostly focused on identifying and channelling the needs of the business. Businesses that pro-actively seek support can often learn about the options via online tools and are less reliant on face-to-face contact with advisers or coordinators, even though they still may be required in some cases.

The task of addressing the ‘tail’ is much more demanding. Rather than being demand-based it needs to raise aspirations, helping business owners recognise growth opportunities. This approach requires a pro-active attitude from providers and stronger local representation. Yet as only a small portion of businesses are likely to aspire to grow these activities need to be focused and targeted and their remit must be clearly defined.

In order to make the largest impact new business support infrastructure should be able to address both of these challenges.

### 2. Create a structure that will be sustainable and will be able to adjust to change

Businesses prefer stable and predictable environments. Although many may have had concerns about the way that support was delivered by the RDAs, at least they knew where to look for it. Since the RDAs were abolished, there has been no clear and visible access point. If and when changes are made to business support, attention should be given to the long-term sustainability of any new institutions and policies. In order to maintain business confidence, institutions should ideally be able to adapt to change, rather than be scrapped every time government thinking changes.

The key challenge for the new business support infrastructure will be in finding the right balance between the provision of services at the national level, with scale and efficiency advantages, and the local delivery of business support, allowing for better engagement and provision of bespoke services that address unique local needs.

## Key challenges for the current business support system

### 1. The business support system is extremely complex.

There are 900 business support programmes provided by public and private sector at national and local level. Initiatives currently in place apply a wide range of tools such as provision of funding, simplified access to finance, facilitating collaboration, providing advice and tax discounts. They target businesses of different sizes and maturity. Yet it is very hard to draw a comprehensive picture of the system. Some initiatives are very focused, while others are very broad. This makes it difficult to determine the extent of business support coverage and identify whether there are any major gaps or opportunities to collaborate.

## 2. Lack of business support infrastructure results in inefficiency in delivery.

Currently state-funded business support exists in the form of individual initiatives spread across different government and non-government agencies both at local and national level. This lack of structure complicates management and coordination, causes overlaps and makes marketing support and engaging with businesses much more difficult.

## 3. The lack of infrastructure and visible access points complicates access to support for some businesses.

Navigating the system can be relatively easy for businesses that know precisely what type of support they need. Business finance and support finder tools are provided online by the Gov.uk website. They allow business to search initiatives by industry, geographic area, business type and need, and also provide key information on services and ways of accessing them.

But, businesses that are less clear about what support might be useful for them, and have less capacity to search for the right business support programmes, can struggle to navigate through what is on offer. Currently there is no single, clearly defined access point for public sector business support, and businesses may prefer not to risk wasting their time. Interviewees confirmed that, under the current system, smaller businesses with limited resources to invest in identifying the right support for their needs may be disadvantaged.

## Recent policy initiatives and what they mean for the business support system

A number of recent policy developments may have a significant effect on the way business support infrastructure is shaped:

- 1. The Heseltine Review.** Lord Heseltine's *'No Stone Unturned'* report covers a number of issues relevant to this paper. It argues for expansion of state support for research and development within the public sector, for better coordination within government and between various government and non-government bodies and the LEPs, for improved procurement practices.

Most importantly, Lord Heseltine identifies a need for an institution to sit at the core of the business support system. He suggests that the Chambers of Commerce are the best fit for the job, as they have the visibility and local engagement that will allow them to promote services and channel the needs of the business to the Government. One of the policy options suggested by Lord Heseltine was to make membership of their local Chamber compulsory for business, but it was rejected by the Government. Yet the challenge of identifying the institution that will coordinate the business support infrastructure still needs to be addressed.

- 2. The Business Bank.** Some interviewees suggested that the Business Bank may play the role of business support coordinator. While it seems perfectly reasonable for the Bank to become a body responsible for the delivery of all business finance initiatives, it is not clear whether it will have capacity to engage with businesses locally and whether it will possess expertise in areas beyond finance and funding.
- 3. City Deals.** Wave 1 City Deals were agreed in Summer 2012, and have included devolution of significant powers related to business support provision: access to finance, investment attraction or promotion of growth in strategic sectors. The Bristol and Greater Manchester City Deals include a commitment to establish Business Growth Hubs, which will become the local coordinators for business support and key access point for businesses. Essentially, this represents a shift towards a more decentralised and location-based business support infrastructure. It has recently been confirmed that 20 cities will enter a second wave of City Deals and it is likely that a number of cities will wish to negotiate arrangements similar to the Business Hubs in Bristol and Manchester.

These developments also relate closely to questions about the role of the LEPs in providing business support. A number of interviewees suggested that, over time, LEPs should become local coordinators of business support.

The LEP system is still developing, and the ability of LEPs to address the problems of businesses is still to be proven. Until the capacity and longevity of LEPs becomes clearer, it would be a risk to hand a coordination role to them as a group. Instead, there should be flexibility for local LEPs which have the desire and capacity to do so to take on this role.

All of the developments discussed have potential to improve the business support infrastructure, but is not clear how they would relate to one another and to what extent they could be coordinated. Establishing conflicting structures could be even more damaging than leaving everything as it is.

The Government's response to the Heseltine Review has confirmed that business support needs to be better co-ordinated, but they have made no clear suggestions for how to achieve this. The 2013 Budget expanded some existing initiatives and introduce several new ones, but did not address the complexity of the system.

## Key questions

The analysis presented here opens up broader questions for further discussion.

- How should the current system be remodelled? Should one of the existing or recently established institutions be given greater authority over coordination of existing services, or is a more fundamental approach needed (scrap and build from scratch)?
- What is the right balance between national and local provisions of state-funded business support? What do the business support arrangements introduced via current and potential City Deals mean for a structured, national system? Will these initiatives facilitate more balanced delivery of business support, and ensure that services are better suited to local needs? Should they be replicated elsewhere or scaled-up if proven successful?
- What arrangement for business support infrastructure will ensure that the system is able to react to changing needs of businesses, particularly related to the new ways of doing business brought about by the ICT revolution?

In the near future, further details about City Deals and the Business Bank will be revealed and the new landscape of business support will continue to take shape. The Centre for Cities will be following the new announcements closely and will continue to contribute to the debate about state-funded business support.

## Contact

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## **Annex: List of business support initiatives reviewed with brief description and links for further information.**

**Advanced Manufacturing Supply Chain Initiative (The Technology Strategy Board and Birmingham City Council):** grants for equipment, training and R&D for business to access supply chains of large manufacturers.

**Apprenticeships (National Apprenticeship Service):** a service that helps businesses employ apprentices, and to acquire the skills needed for business growth.

**Be the Boss (The Royal British Legion):** advice and support services helping former member of HM armed forces to start businesses

**BOND (UK Trade and Investment [UKTI]/British Council):** support in hiring international experts in order to help businesses access foreign markets.

**Business and IP Networks (The British Library):** a range of support services for entrepreneurs and early start-ups, including development of business idea, IP support and other.

**Business Angel Co-investment Fund (the Department for Business, Innovation and Skills [BIS]):** a fund that allows start-ups that have already reached an agreement for investment with other businesses to attract extra finance.

**The Business Bank (BIS):** a proposed new institution that will take charge over all of the access to finance initiatives. Details are still not revealed. (See Box 3)

**Business Finance Partnership (BIS/HM Treasury):** four investment funds that target different sectors and focus on developing non-traditional investment channels.

**Catapult Centres (TSB):** knowledge exchange centres established at leading research institutions that provide access to equipment, expertise and bring business and academics together.

**CDFI (BIS):** local funds investing into SMEs and social enterprises.

**Collaborative research and development (TSB):** co-funding provided for joint innovation and R&D projects that involve several businesses.

**Direct Lending Facility for Exports (UK Export Finance):** a loan for small and medium-sized transactions, provided to foreign businesses to buy capital or semi-capital goods from British suppliers. Only available if bank credit cannot be secured.

**Employer NIC Holiday (Her Majesty's Revenues and Customs [HMRC]):** a deduction of up to £5,000 from the employer National Insurance Contribution for new businesses that meet certain criteria.

**Enhanced Capital Allowance (HMRC):** a number of tax relief schemes targeting certain types of businesses in selected sectors to encourage investment in particular types of assets.

**Enterprise Capital Funds programme (Capital for Enterprise/BIS):** 11 equity finance funds that are focused on different industries to target the 'equity gap' problem.

**Enterprise Finance Guarantee (BIS):** a guarantee of up to 75 per cent of a bank loan to a dynamic small or medium sized business.

**Enterprise Investment Scheme (HMRC):** a range of tax incentives to investors who purchase shares of smaller high-risk trading companies that struggle to access finance.

**Enterprise Management Incentives (HMRC):** offers an opportunity for qualifying businesses to award qualifying employees with tax-advantaged share options in order to retain the skills they need for growth and incentivise better employee performance.

**Export Communications Review (UKTI):** advice on how to appeal to foreign clients: adjusting the website, marketing, helping overcome cultural and language barriers, translation, interpretation.

**Funding for Lending (HM Treasury):** cheap loans guaranteed by assets and mortgage deposits that are offered to banks to improve affordability of business lending and mortgages.

**Foreign Exchange Credit Support and Export Working Capital Scheme (UK Export Finance):** schemes that offer partial guarantees to banks to cover the credit risks associated with different types of export focused lending instruments.

**Growth Accelerator (supported by BIS):** a public-private partnership scheme providing business advice and consultation on an array of different subjects for an affordable price. (See Box 1)

**Innovation Platforms (TSB):** a programme focused on bringing together businesses, universities and government to join forces in order to tackle specific problems that the society is facing.

**Innovation Vouchers (TSB):** grant of £5,000 for SMEs to get advice from universities to overcome technological challenges in particular fields of research.

**Innovation Knowledge Centres (TSB and the Engineering and Physical Sciences Research Council [EPSRC]):** centres established at major research institutions to support research commercialisation. Two new centres are announced every two years and receive 5-years' worth of funding.

**Knowledge Transfer Networks (TSB):** 15 thematic knowledge sharing networks (all interlinked) organised around an online platform.

**Knowledge Transfer Partnerships (TSB):** grants for collaborative projects between businesses and universities that require employing a recent graduate as an administrator of the partnership (see Box 4)

**Large Firms & SME R&D Relief for Corporation Tax (HMRC):** two programmes that allow SMEs or larger business deduct defined proportions of their R&D investment from their corporation tax base.

**LaunchPad (TSB):** a ring-fenced scheme under which grants for R&D projects are made available to high-tech companies.

**Manufacturing Advisory Service (supported by BIS):** advice for manufacturing businesses of all sizes offering consultations on a wide range of topics: strategy, technology, efficiency etc.

**New Enterprise Allowance (Department for Work and Pensions [DWP]):** a weekly allowance provided to current JSA claimants that decide to start their own business

**Passport to Export (UKTI):** advice and consultation to businesses that aspire to export; services include advice on accessing markets and finding the right ones evaluation of fitness to export

**Ready for Business (supported by BIS via RGF, administered by Barclays):** the scheme works with local private business support providers to deliver a wide range of advice and training services to SMEs around the country.

**Small Business Research Initiative - SBRI (TSB):** grants for research projects that address specific challenges that exist within the public sector.

**Seed Enterprise Investment Scheme (HMRC):** income and capital gains tax reliefs available to individuals who invest in very early stage companies.

**SMART (TSB):** the scheme offers grants to SMEs and start-ups for proof of concept, proof of market or development of a prototype.

**SME R&D Tax Relief (HMRC):** a relief of 200 per cent of incurred R&D cost from the income for corporation tax.

**Start-Up Loans (BIS):** loans and advice for young entrepreneurs age 18-30.

**Supplier Credit Funding Facility and Buyer Credit Facility (UK Export Finance):** schemes providing guarantees to banks, crediting an overseas buyer to purchase capital goods or services from a UK based business.