An Entrepreneurs’ Manifesto
An Entrepreneurs’ Manifesto
Contents

Foreword – Guy Myles 5

Part One. Trading our way to prosperity
An integrated approach to aid and trade could unlock a new cycle of growth –
George Freeman MP 9
We need to capitalise on our scientific excellence – Tim Farron MP 13
Europe is ready and waiting for extensive business reforms – Maria Borelius 16
Exporters’ Relief would encourage entrepreneurs to trade – Alexander Jackman 19
Big business needs to join government to support small businesses – Emma Jones 22

Part Two. Making the most of education
All schoolchildren should be given the opportunity to start and run their own businesses –
Adam Afriyie MP 26
Transforming incentives will unleash the power of entrepreneurship in the education sector –
James Croft 29
Our best and brightest international graduates shouldn’t be pushed out –
Joy Elliott-Bowman 33
Older people have a wealth of entrepreneurial experience that shouldn’t be wasted – Alastair Clegg

Part Three. Easing the burdens of doing business

Access to finance is vital for entrepreneurs to flourish – Toby Perkins MP

The importance of definition for micro businesses – Anne Marie Morris MP

A Small Business Kitemark would foster local government best practice – Simon Danczuk MP

The business rates regime needs fundamental reform – Annabel Palmer

Reforming government procurement could be the engine for innovation – Veera Johnson

Business Advice Vouchers would help more start-ups survive – Clive Lewis

Government must address the dual burden for small employers – Eric Van der Kleij

Why Entrepreneurs’ Relief should be extended – Tim Hames
Welcome to An Entrepreneurs’ Manifesto, a selection of 17 papers commissioned by The Entrepreneurs Network (TEN) proposing various ways we can support and promote high-growth businesses in Britain.

You may be wondering why we believe this type of manifesto is needed. After all, we often hear that the UK’s economic recovery is due to the number of new businesses that are springing up. And the publicity around initiatives such as London’s Tech City often describes this as the best place in the world to set up a business.

But the need for practical policies is acute. Everybody claims to support entrepreneurs, but when they’re asked what we need to do to help them further, they can be short of ideas or even dismissive. Other concerns always seem to take precedence, especially when it comes to financial resources.

**The real rewards of business success**

It may be true that a successful business generates big rewards for the few people who set it up, but by far the biggest benefit goes to the wider economy, rather than the owners. Society at large profits from the jobs that are created, the taxes that are paid and the better products and services we can all take advantage of.

That is why TEN believes it is time to get behind entrepreneurial Britain and start
making business a bigger priority. Without a national voice, it is too easy to think about individual businesses rather than entrepreneurship as a whole – and while a single successful business may be interesting, or even inspiring, it is never going to provide a template for developing public policy. If you want to find out what is really going on in entrepreneurial Britain, you can’t even look in a specific sector or geographical region. We need to be designing policies that will help growing businesses in workspaces, industrial parks, offices and innovation centres up and down the land.

That’s why, when TEN came up with the idea for this manifesto, it decided to take a step back and look at the broader issues, rather than concentrating on isolated success stories. We wanted to discuss the types of policies that would address the difficulties of establishing a business in Britain and make this a more supportive environment for entrepreneurs. In particular, we need to address the unique needs of those who are trying to set up businesses with high levels of growth potential and are prepared to shoulder the consequent risks.

**Manifesto themes**

A key theme in many of the papers that follow is the need for Britain to be more outward-looking. What can we do to improve our international links, within the EU and further afield? We outline a more flexible visa system for international graduates who want to be entrepreneurs, and we look at how we can benefit from growth in emerging markets.

Other contributors to An Entrepreneurs’ Manifesto focus on ensuring that our education system is designed to produce entrepreneurs – business already plays a role in providing education and we can build on this to create schools and colleges that really promote entrepreneurship and scientific innovation and give all our young people experience in business.

It is no surprise that taxation is a recurrent theme in the manifesto – the following pages contain suggestions for extending Entrepreneurs' Relief, introducing business advice vouchers, providing tax relief for small businesses and reforming business rates. We believe the impact on jobs and economic growth would be massive.

Government has other roles too. It could make departmental procurement procedures more accessible for small and medium-sized businesses, perhaps with
a kitemark system. And it needs to provide better leadership and clearer strategy – for instance, by encouraging older entrepreneurs, persuading larger companies to be more engaged with smaller businesses and ensuring that businesses of all sizes have access to the funding they need.

**Supporting Britain’s businesses**

I have been working as an investor for 20 years now and for most of that time I’ve focused on smaller companies. With two friends, all of us in our mid-20s, I helped set up Octopus Investments, which now has nearly 300 people and is one of the UK’s largest investors in small companies. Building something from scratch has been hard work and incredibly challenging at times. But it’s also been fascinating – we work closely with the many companies we invest in, and seeing people take ideas and turn them into something dynamic and flourishing is really addictive.

The insights I’ve gained from working with the companies Octopus has invested in were what made me jump at the chance of supporting TEN. Business success may be down to luck or skill, or a combination of the two. From the outside, it may look effortless, but it certainly isn’t. Every business has specific challenges and each one is vulnerable in its own way. But I’ve seen at first hand the tremendous difference that entrepreneurs can make in terms of creating jobs, and new products and services we can all benefit from.

So I’m delighted that An Entrepreneurs’ Manifesto has brought together so many positive ideas for supporting Britain’s businesses. Now that we’re starting the run-up to a general election, we need all the political parties to make sure their own manifestos address the needs of entrepreneurs to ensure that growing businesses across Britain can continue to help drive our economic prosperity.

*Guy Myles is the Co-Founder of Octopus Investments – a Sponsor of The Entrepreneurs Network.*
Part One. Trading our way to prosperity
An integrated approach to aid and trade could unlock a new cycle of growth

As an entrepreneur who came to Parliament after a fifteen-year career starting and financing new technology companies, I’ve seen how fast innovation can create value and prosperity from disrupting stale markets and lazy businesses. It’s a lesson the UK needs to apply across our economy if we are to claw our way out of our £1.2 trillion debt and build a new cycle of long-term growth.

The only way the UK is going to get out of this debt crisis is by trading our way out: selling things the world needs. Fortunately for us, as we emerge from a redundant post-war model of growth based on domestic consumption, we are entering an extraordinary period of global market growth. Across the BRIC+11 fastest emerging 15 economies, we are about to witness vast areas of the globe go through in the next 30 years agricultural and industrial revolutions that took us 300 years. From the basics of food, medicine and energy, road, rail and urban infrastructure, through professional services, luxury goods and creative services, these economies will drive a global demand for advanced Western goods and services the like of which we have never witnessed.

The UK has a choice: become an ever older, less productive, insular, more public
sector and tax dependent ‘former’ European power or embrace these new markets and be the provider of the innovation and knowledge based expertise these economies will need. To do that we need to think less like a big corporation (UK plc) and more like a start-up (UK.net). Successful tech start-ups share some key characteristics we need to apply across our society and economy: an eagerness for new opportunities, a global perspective, ruthless focus and clarity about their unique strengths, a commitment to innovation in their own organisations, and an entrepreneurial energy to capitalise on them. By embracing a start-up UK model, we can both modernise the way we deliver public services and government in the UK by embracing technology and innovation, and become a hub for exporting the twenty-first century technology and innovations the world needs.

To do that we need to embrace a much more innovative agenda of public service reform, and put a new spirit of enterprise at the heart of everything we do. Unleash incentives across the public sector to encourage every teacher, nurse and civil servant, local authority and Whitehall mandarin to adopt innovation. And we need to build a much more integrated approach to unlocking a new cycle of growth with the emerging markets.

Even with the current slowdown of BRIC growth commented on by many economists, the numbers are still startling. As Jim O’Neill documents in his latest book, The BRIC Road to Growth, the balance of power is only going the way of emerging markets. Since 2000 they have accounted for 70 per cent of all world GDP growth. Even with slower growth rates, the decade from 2040-50 will see the combined might of the BRIC countries overtake the G7. In 2011, the GDP of the BRIC countries surged by $2.3 trillion; as O’Neill points out, this is like adding another Italy to the global economy. In one year! China alone has been adding the equivalent of another Spain every year. O’Neill pithily observes: “many people are effectively in denial about the new facts of the global economy”.

The truth is, the UK can’t afford to be in denial. We cannot afford to sit and wait for the Eurozone alone to drive growth. The Eurozone currency and banking crisis has not gone away. The European social model of big state regulation is hampering entrepreneurial growth. Entrepreneurs are fleeing France for London, and in some key areas like the bio-economy, global investors are fleeing Europe because of an increasingly hostile regulatory framework. We have to go and trade with the faster emerging markets if we are going to thrive in the global race. Trying to win the global race through the corridors of European politics is like trying to score a century at
Lords with a seven-iron.

Recent history shows the scale of the challenge. According to the CBI, even though the value of total UK exports to the BRICs rose by 42 per cent between 2008 and 2011, they still made up only 7 per cent of total UK exports in 2011, with China comprising just a measly 3 per cent. And, according to their projections, at our current pace exports to emerging markets won’t make up the majority of the UK total until 2047.

But the opportunities are huge. As the recent Foresight Report highlighted, the growth in global population from seven to nine billion in the next three decades will drive extraordinary demands for science and innovation in the three key life science markets of food, medicine and energy. In 30 years, the exploding populations of these nations – who today need the basics of public health, nutrition and basic energy – will demand the modern biomedicines, western foodstuffs and cleantech that only their elites enjoy today. In food, we will have to double global food production with half as much water and energy, from the same land area. These are areas of innovation the UK is a global power in.

In my constituency, scientists at the world famous Norwich Research Park have recently devised a Lotus powered by elite clean fuel made by GM derived bugs breaking down agricultural waste. That’s the science of life working for us all. We are world-leaders in agri-tech, biomedical research and clean-tech. The growth of the emerging markets will drive major inward investment and export opportunities for UK start-ups and established companies. This is a potentially whole new cycle of growth which could drive a new generation of prosperity – and pay off our debts.

But we need a much more aggressive and strategic approach to accessing these new markets. Trade is by far the best form of aid. So let’s use our aid budget to help build sustainable market based development in key economic regions of the world, and align it with our UKTI trade budget to ensure UK companies benefit. I’m not talking about illegal ‘tied’ aid deals (like a lot of our competitors actively pursue), but focusing our aid and trade missions on global regions where we have a real chance to make an impact to mutual benefit. Take East Africa, for example. Kenya, Tanzania and Uganda represent a major global growth cluster with vast opportunities for the UK. We have very strong historic ties. Their emerging middle classes are driving a rapid Westernisation of aspiration and economy.
The Department for International Development spends millions on aid. UK Trade and Investment and the Foreign Office spend millions on trade. How about a joined-up business plan for how we could use these investments to ensure it is UK firms that benefit from growing markets for construction, agriculture, energy, healthcare, professional services and finance?

The emerging markets are a ‘get out of jail’ card for the UK: vast markets for our science, technology and innovation across a range of sectors, and the new businesses that create them. Let’s embrace a start-up model of growth and make Britain the crucible of the innovations these countries need, and use our aid and trade missions to unlock a new cycle of growth.

George Freeman MP is a UK Trade Envoy. Founder of the 2020 Conservatives, he has written and spoken widely on the need for the UK to embrace an Innovation Economy and the potential of the UK to harness its science, technology and innovation to unlock a new cycle of growth and sustainable recovery.
We need to capitalise on our scientific excellence

The United Kingdom, with its 63 million citizens, represents just 0.9 per cent of the earth’s population. Yet with less than 1 per cent of the people, the UK accounts for 3.2 per cent of global scientific expenditure, 4.1 per cent of the world’s researchers, 6.4 per cent of all published articles and 15.9 per cent of the world’s most highly-cited articles. The UK ranks first in research quality, as measured by field-weighted citation impact, beating some of the world’s most research-intensive nations, such as China, France, Germany, Japan and even the US.

These staggering figures are the proof of Britain’s world leading science and research capabilities. Yet our declining manufacturing base has seen a large fall in the number of firms able to develop and commercialise this research. One of the most striking examples of this in recent years has been the Nobel Prize winning discovery of Graphene.

Graphene is a one atom thick layer of graphite with an amazing array of properties. It is strong, light and an excellent conductor of heat and electricity. Graphene has been theoretically understood for decades. However, its discovery was thanks to two Manchester based scientists sat in their lab on a Friday evening, peeling away at a pencil lead with some sellotape. For their endeavours, Andre Geim and Kostya Novoselov were awarded the 2010 Nobel Prize in Physics.
Graphene is a revolutionary material, which may well end up being incorporated into just about every piece of technology you can think of. Its discovery cemented the UK’s place at the very top of the global research league table. Yet when it comes to commercialising the fruits of this research, Britain finds itself in the relegation zone.

The Intellectual Property Office published a report in March 2013, examining the number of patents registered that related to Graphene. For those interested in seeing the UK benefit from this invention, the results made sobering reading. Out of almost 8,500 patent applications, less than 1 per cent emanated from the UK.

Clearly, there are major impediments for British scientists seeking to take their research from the lab to the marketplace. If the UK is to fully exploit its competitive advantage in scientific research, we must look to other countries for examples of how they are creating entrepreneurs in their universities.

Britain has a historically poor record of turning our scientists into entrepreneurs. Too often we have favoured the image of the mad professor or boffin, absent-mindedly beavering away in their lab, oblivious to the wider world around them. We must root out this gross caricature and start talking about the scientists of the future, like Dr Judith Spitz, who as well as not being male and grey haired, jumped at the opportunity to take her skills in speech and language therapy into the corporate world to become Chief Information Officer of Verizon.

Yet the basic training academics receive during their formative years is wholly structured for the needs of academia and not the real world of business. The skill set taught to a graduate scientist does not match those needed to be a successful entrepreneur.

In America, the Massachusetts Institute of Technology (MIT) has established the Martin Trust Center for MIT Entrepreneurship. They run numerous programmes and events for MIT students, offering scientists and engineers the opportunity to work with Entrepreneurs In Residence who are able to guide and advise on how good ideas can be turned into great businesses. Schemes such as the ecosVC program offer bespoke training for scientists and researchers. Run by academics with decades of experience in turning research into commercially successful innovations, they pass on the skills and language required to successfully pitch their ideas to investors.
In Germany, there are excellent examples of universities providing direct support to start-up businesses. The Gründerwerkstatt (start-up workshop) at the Beuth University of Applied Sciences in Berlin offers office and lab space, alongside one-to-one coaching, seminars and external businesses support to 20 start-up businesses at a time. There are similar setups in America, with different departments often offering their expertise to each other. For example, at the University of Illinois, law students help to draft patent applications for their scientist colleagues.

But no matter how good the training and mentoring, a good idea will remain just that if our newly minted scientific entrepreneurs are unable to secure the funding they need to take their research to commercial scale. This is where the UK’s entrepreneurs need to be willing to step in to identify the opportunities and help them seek out the venture capital needed.

Commercialising the UK’s research output is a potential open goal for the country’s entrepreneurs and scientists. If the UK is to move beyond the occasional bright spot of success, it will require both academics and entrepreneurs being willing to shift from their comfort zones and learn about each other’s worlds. There are clear examples from around the globe to guide us and the potential gains are enormous. We just need to be bold enough to seek them.

*Tim Farron is the Member of Parliament for Westmorland and Lonsdale and President of the Liberal Democrats.*
Europe is ready and waiting for extensive business reforms

As we get closer to May’s elections to the European Parliament, the time is ripe for entrepreneurs to evaluate Europe. More than half of all regulatory costs that businesses carry stem from laws made in Brussels. So we must now question whether the EU supports the power of entrepreneurship, or hinders it.

The challenge is significant. Many years ago, I had the European Commission as a client. As part of the so-called Lisbon Agenda, the Commission arranged high-level meetings on growth related issues, and running a London-based consultancy I provided the Commission with strategies. I remember one meeting in particular. We were discussing who should kick off a high-level conference on job-creation. Full of innocence, I suggested that someone with previous experience of actually creating new jobs should do it. To my surprise, not a single hand was raised. In a room full of people charged with creating job strategies, no one had ever created a single job for another person. It was a sobering experience.

Things have been rough lately for most European countries. A strong recession combined with the Eurozone crisis has highlighted what many suspected all along: there are problems in how the monetary union was built and operates. Also, more than half of all regulatory costs that businesses carry stem from laws made in Brussels. In addition, over a quarter of young people are without a job, creating a looming social tragedy.

The debate on the future of Europe is growing, but it remains polarised. On the one
side of the debate Brussels is portrayed as a sclerotic monster, not up to scratch in the global race and threatening to engulf national sovereignty; on the other, it remains a haven for the free movement of goods and people, and the bridge that will prevent a repeat of the monstrous conflicts of last century.

There are good arguments on both sides but this is a tired debate. We need to be pragmatic. With the elections around the corner we should be looking for ways to reform the EU so that it can deliver what voters and businesses are asking for.

The basic ideas behind the EU – of trade, peace and free movement of people, capital and goods – create fantastic opportunities for entrepreneurs, small and large. London is acting much like a capital of Europe, attracting talent and treasure from all over the world. If the UK left the Union, this could change. Most opinion polls in the UK show that a majority of both citizens and business want to stay in a reformed, slimmed down EU, rather than leave it altogether. Yes, Brussels can be frustrating, but paradoxically, the EU is also ripe for reform.

The Eurozone crisis has dampened the appetite for mega-state experiments. Though the Eurozone itself, reluctantly, is heading for more common decision-making, an increasing number of EU leaders are coming around to the view that the only way to make Europe work is to decentralise decisions in areas ranging from working hours to how our electricity is generated; or, as it is called in EU lingo, use “the subsidiarity principle”. Just consider recent reforms to fishing policy to see what can be achieved.

For a long time, the EU’s Common Fisheries Policies led to a Pythonesque world of overfishing and discarding perfectly fit cod, haddock and flounder in the waters around Europe. One million people signed up in protest.

After years of renegotiation, the Commissioner in charge, Greek socialist Maria Damanaki, has managed to reform policies. The new regulations are bringing back more powers to local communities and putting an end to the absurdities of overfishing and dumping. It was a long journey but it proves that Europe can be reformed. “All bureaucracies want to change the world, but they never want to change themselves”, said Damanaki.

Further reforms are needed to make the EU work for business and entrepreneurs. Funnily enough, these reforms mirror what entrepreneurs naturally strive for: we
need to strengthen democracy, make Europe grow and make Europe cost-effective.

Just as entrepreneurs create a licence to operate by keeping a close eye on customers’ needs, the EU needs a stronger democratic mandate. Decisions should be taken closer to the citizens affected. National parliaments should have the power to block EU regulations that is seen as harming the country and its businesses.

Business owners always try to focus on core competences and the unique selling point, the EU should focus hard on doing what it does best: trade. Regulations must be cut to free up businesses to create growth and jobs. More trade deals will add billions to European economies, while creating growth opportunities for the developing world. A properly liberalised services market could, according to an Open Europe study, provide a 2 per cent boost to annual GDP growth in all member states.

Just as businesses must review cost structures regularly, so should the EU. The inflated budget must be dramatically reformed. It is in a minority of Europeans’ interest that some 40 per cent of the budget is spent on agricultural projects, in many cases regardless of whether there’s any actual farming involved. The huge sums spent on redistribution between regions of rich countries have to be cut or reallocated to investments in the future, such as funding basic and applied sciences.

An EU that works better than the status quo is possible. That’s why I’m part of a pan-European drive to unite entrepreneurs and business leaders behind a robust EU reform agenda ahead of crucial European elections in May. It’s time for entrepreneurs to speak out.

Maria Borelius is a Partner at Living Waters and a member of the Advisory Board of Open Europe. She has served as the CEO of Hand in Hand International and was a member of the Swedish Parliament and Minister of Trade.
Exporters’ Relief would encourage entrepreneurs to trade

Following a difficult five years, economic growth should always be hailed in any form and the small business community are showing a collective, although restrained, welcome to the news that the British economy is at last recovering.

This optimism comes from a belief that many of their own businesses will grow in 2014. However, interestingly, smaller businesses identify that growth as coming predominantly from the UK, either through new customers, or through up-selling to existing ones.

There remains a stubbornly limited appetite to growth through exporting, unless that is something a business already undertakes. For such entrepreneurs, it is clear that fears about the difficulties in doing business overseas remain entrenched, despite significant attempts to make it easier.

Exporting fears can be split into two camps. For businesses that have export potential but that currently stick solely to domestic markets, the main barrier is a fear that their business model or product is not suitable for exporting. Getting this group to “think global” is an extremely difficult task. Even for those that are thinking
about exporting, a fear about foreign markets and a lack of a local presence are both perceived barriers.

For entrepreneurs that are already exporting but not to their fullest capacity, the fears are a little different. The financial crisis meant many chose to consolidate their exporting in existing markets, rather than attempt to export to new but riskier economies.

Helping businesses overcome these fears is vital. Against a backdrop of unsustainable rising national costs such as servicing national debt, health, welfare and pension commitments, policymakers must look for new ways to strengthen our wealth creating export base and in doing so support employment, improve our balance of payments and increase tax revenues. Simply put, we have to generate sustainable wealth to support the UK debt and cost base, and as any small business owner will know, you cannot do that from within, you have to go out and generate new business to pay down your debt and pay off the overheads.

However, while UK export growth since 1985 has been strong our performance as a share of the overall international trade market has declined. In recent years, export performance has been flat to EU and non-EU markets.

Accordingly, under the Coalition there has been a greater emphasis on exporting across a wider international market base. There are regular trade missions, not just to the BRIC (Brazil, Russia, India and China) countries, but the new MINT (Mexico, Indonesia, Nigeria and Turkey) ones too. Normally led by ministers, these have been important in getting small businesses, not just large ones, to potential new markets. Government interventions to support exporters have expanded since 2010 and reach the market via UK Trade and Investment (UKTI) and UK Export Finance (UKEF). The ambitious target to which the Government is working is to increase exports to £1 trillion by 2020.

To support this target, we need a new tax relief for entrepreneurs undertaking export activity. Based upon the same principles of Research and Development (R&D) Relief for Corporation Tax, a relief for export activity would aim to reduce an eligible entrepreneur’s tax bill or provide a tax credit by way of a cash sum paid by HMRC.

To incentivise current and new exporters, tax relief of 10 per cent on export activity would be based upon the value of sales made to overseas markets. Therefore, the
bigger an entrepreneur’s proportion of international sales, the less tax they will pay, creating the focus required to ensure sustainable success as well as a focus to do so on exporting.

A different way of applying such an incentive would be to offer relief on projects seeking to achieve advancement in export investment and sales. The more a company invests in selling to overseas markets the more relief they will gain – again the incentive is to sustain success. Eligible projects may include sales development, overseas infrastructure, exhibitions, trade shows, travel and subsistence.

Eligibility for either proposal would be restricted to businesses that are British owned, not necessarily British based and would be limited to specific sectors. However, there are sizeable benefits to a relief scheme for exporters. While wealth generation is at the core of the policy, incentivising businesses to seek business from overseas markets, there are other benefits.

Such a policy would likely lead to higher employment and therefore increased PAYE and NI receipts. In the medium term it would support improved balance of payments. There are also other side benefits, such as the wider promotion of ‘Brand Britain’.

UKTI and UKEF are already well equipped to support would be and existing exporters in understanding foreign markets, the opportunities and the risks, and have a wide range of financial packages to support doing business overseas.

What is lacking is a success incentive. If the Government wants more entrepreneurs trading overseas then seeing a bigger payoff for the risk would be a good enough incentive to tip many into doing it, or doing it more.

*Alexander Jackman is Head of Policy at the Forum of Private Business.*
Big business needs to join government to support small businesses

If I received a pound for every time a CEO of a large company said to me “we’d like to be the champions of small business”, I’d be comfortably well off. However, over the past 12 months I’ve seen an increasing number of businesses not only voicing this statement, but also finally acting upon it.

A few big corporates are stepping up to support small companies and, just as welcoming, acting like the entrepreneurial ventures they seek to champion. They are moving at speed, being receptive to fresh ideas and innovation, and coming to market with new products and services. These big businesses have become cheerleading champions and they are fully aware of the important role they have to play in ensuring the small business sector in the UK continues to thrive.

In its latest G20 Entrepreneurship Barometer, Ernst & Young focuses on The Power of Three, setting out a vision of government, entrepreneurs and corporations working together to create and sustain entrepreneurial economies. It’s is a powerful vision, which is why it has been a pleasure to watch more corporates return to their entrepreneurial roots. Let me offer some examples.
In the wake of the devastating floods that hit the UK and within hours of a request, Vodafone agreed to donate 1,000 dongles to small businesses that lost broadband and Royal Mail agreed to deliver them. Regus opened its 220 centres across the UK to offer workspace to those affected; Citrix offered a free deal on its GoTo Meeting product so small businesses could stay in touch with customers and Constant Contact did the same. This was a fine example of big businesses stepping up to support small ones. They moved at speed and made a difference.

The Enterprise Nation marketplace – which has quickly become a single source for small businesses to find professional advisers – would not have been possible without the support of eight top brands: Toshiba, Regus, Sage, Simply Business, Citrix, Constant Contact, EDF Energy and Vodafone. Not only have they provided the funds required to build the marketplace, they have also brought to bear their promotion power and reach, communicating the project to over 1 million business customers. The marketplace proves the value of big business, government and entrepreneurs working together to deliver a national programme to get the right advice to small businesses at the right time.

This shows the art of what’s possible. To encourage this further, there are five areas with proven best practice that the Government should celebrate and encourage other businesses to replicate.

Finance is key to small businesses. Fujitsu supports its small business suppliers by providing them with access to supply chain finance, with many suppliers getting paid as quickly as 10 days after submission of their invoice. This generates goodwill and helps small businesses in Fujitsu’s supply chain manage their all-important cash flow.

Big businesses should engage with small businesses to cultivate and invest in their ideas. For example, insurance giant Aviva is testing this by partnering with the Fintech community to host a hackathon for innovative ideas for the insurance industry, with the potential for entrepreneurs to have their ideas backed by a commercial partner with deep pockets and market share. At The Bakery London, start-ups apply to become part of an accelerator with the ability to test their ideas via big brands such as Heinz, BMW and Stella Artois who offer access to customers and creative and marketing know-how.

Opening up supply chains to small companies could offer huge potential for smaller
companies. Sainsbury’s and John Lewis have seen the fruits of this over the past year and new companies are launching competitions and hosting events to be pitched to by young companies with bright ideas and viable products.

If there is one asset big businesses have, it’s people – and lots of them. Big businesses should make their talent available for practical help or to act as mentors. Lloyds TSB has committed to training at least 400 volunteer enterprise mentors from its workforce to support new and established small businesses.

Training and resources are being offered by big business. Examples include ASOS opening its customer base via the ASOS marketplace and hosting workshops to give fashion businesses the tips and tools they need to make the most of the opportunity. Facebook is offering a 28-day programme with support on how to use this powerful social media platform for business and Dell is offering two businesses free space in their offices with access to all support services.

These pledges and commitments can be viewed on The Business Exchange, launched by the Prime Minister on 27 January 2014 to showcase entrepreneurial big businesses and to encourage others to follow their lead.

With a growing market of 4.9 million small businesses, supporting small business leads to an increase in sales and profits – business owners are more likely to buy from brands that understand and engage with them most. The other considerable upside is a more entrepreneurial workforce that delivers higher returns and customer service. Professor Tomas Chamorro-Premuzic has shown that encouraging an entrepreneurial spirit among staff is vital to keeping companies youthful and dynamic.

Despite these proven benefits, there are still too many big businesses that talk a good game but don’t do much to back it up. Bureaucracy within the organisation makes it slow to move.

We need more champions; more big businesses that see the value in engaging with small companies and turning their insights into action. It’s time all big businesses act – profits, shareholders, customers and employees will all benefit. And so will Britain’s small businesses.

*Emma Jones is Founder of Enterprise Nation.*
Part Two. Making the most of education
All schoolchildren should be given the opportunity to start and run their own businesses

In our race to make Britain the best place in the world for business, it is all too easy to forget about younger people. If we’re going to create a country that is truly business-friendly, then our schools need to give their students hands-on experience of trade and enterprise.

Last year, I hosted an event in Parliament for kids who had founded their own companies with the help of Young Enterprise, a charity that works in British schools. These teenagers explained how starting a business had helped them find their own feet while making a few quid in the process. They were excited, energised and optimistic about their futures. This event reinforced just how important business experience can be in changing the lives, attitudes and prospects of young people.

But, unfortunately, most children go through school without ever coming into contact with business or enterprise, let alone having a chance to run their own company. This is problematic because early hands-on exposure is crucial. If you’re exposed to business as a young person, you’re more likely to recognise self-employment as a serious and exciting career option later in life.
It’s not a coincidence that many children of entrepreneurs become entrepreneurs themselves. In fact, a US survey found that around half of all self-employed business people in America were second-generation entrepreneurs, and that the sons of self-employed fathers were three times more likely to be entrepreneurs themselves.

Crucially, business also plays an important role in social mobility. Business doesn’t discriminate. Business decisions are dictated by the bottom line rather than the background of the person you’re dealing with. So it’s not surprising that research from the Institute of Education shows that social mobility is higher among people who are self-employed than those who are in paid employment.

Entrepreneurship is not just for middle-class kids or those from privileged backgrounds. It’s not just for children in London or the South East. I remember being struck at the event in Parliament by how many of the young entrepreneurs didn’t come from privileged backgrounds. Whatever your background, if you’re enterprising and hard-working, business will give you a leg up.

But without hands-on experience of business, many children simply assume that university is the next and only step possible after school. They also assume it’s the best thing for them – and that is not always the case. Lots of young people spend three years of their lives studying something they don’t actually want to study when they could have been part of building a profitable business; right now, a sixth of our graduates regret going to university. Entrepreneurship could have provided these people with an alternative from the outset.

It’s no wonder that we struggle to win the argument that enterprise and competition are at the heart of economic growth. Wealth creation has all too often been frowned upon, or been seen as distasteful by our political elite. This ignorance has been fuelled by a lack of hands-on experience of how wealth creation actually works.

It’s not unusual to hear honest, sincere people support entrepreneurs and job creation in one breath, while arguing for high business taxes in the next. Giving young people some practical experience selling products, controlling a business account and navigating our labyrinthine tax code would give them a better sense of how government and business interact.

More children should have the chance to take part in setting up their own business at school. And I mean the whole caboodle: from registering a business and opening
a bank account, to designing and selling their wares, paying taxes and taking home the profits. Schools are the natural place for this to happen.

But, we have to be wary of institutionalising this whole process. Hands-on business experience mustn’t become a box-ticking exercise. Nor should we add layers of bureaucracy to teachers’ work or handcuff head teachers. We need to get away from telling schools what to do with the limited resources that they have.

Thankfully, these schemes don’t have to be run by schools themselves because charities like Young Enterprise have been doing this work incredibly successfully for more than 50 years. They go into schools, give youngsters a small loan to get started, help them to found a business and put them in contact with business mentors. Does it work? Definitely! 42 per cent of Young Enterprise alumni go on to run their own businesses – well above the national average of around 26 per cent.

The quicker we get more young people into these schemes the better for all of us economically and socially. This doesn’t need to become part of the core curriculum to happen; the Education Secretary just needs to state, quite explicitly, that hands-on business experience is a national priority. This would signal to head teachers that they need to start thinking about broadening the experience they offer. Charities are ready and waiting to do the rest.

Of course, a dab of business experience at schools won’t solve all our economic and social problems. But I do think that if it is done in the right way, it will provide our children with another exciting option to consider after they leave school – and, hopefully, gather enough momentum to change people’s minds about the power of business. Even if students don’t go on to start their own business, they will have learned what sort of career they may want, and the value and risks involved of being an entrepreneur.

Schools should take proper business experience seriously. It should be a national priority – starting right now.

Adam Afriyie is the Conservative MP for Windsor. He was Shadow Minister for Science and Innovation between 2007-2010, and in 2005 he sold one of his businesses to a FTSE 100 firm. He is Patron of Berkshire Young Enterprise.
Transforming incentives will unleash the power of entrepreneurship in the education sector

For entrepreneurs to succeed, they need space to innovate that is sufficiently free of regulatory constraints, buyers who are receptive to their breakthroughs and uninhibited in their procurement decision-making and a competitive market environment in which efficacy and efficiency are the overriding priorities.

In the publicly funded education sector none of these conditions pertain to sufficient degree for us to expect to see much entrepreneurial thinking within the system. And because of these constraints, entrepreneurship in education occurs mainly at the margins, fails to integrate with, let alone disrupt, mainstream practice and suffers as a consequence from an unusually high attrition rate – just consider education technology start-ups. All of which makes it difficult for new ventures to attract investment.

Over the past 25 years, through a series of structural reforms designed to bring about better and more equitable education outcomes, schools in England have experienced a slow but steady increase in autonomy from local government and in
the level of responsibility attached to their decisions. They have been given more and more direct control over their finances. The development of the inspectorate, and of attainment measures, has brought greater focus on the educational ‘bottom line’. We are now more than ever aware of the difference this makes to an individual’s earning potential, for a range of social outcomes and for the country’s economic growth.

And yet, even as parental demand is fuelling demand for private tuition, new learning technologies, alternative curricula and alternatives to mainstream schooling, those educators that teach in schools for the most part remain process focused, constrained by stifling inspection and national curriculum requirements from putting creative thought into better ways of serving pupils’ learning requirements. Education ought to be a dynamic space, bursting with creativity and aspiration, but for the most part it appears tired and has left its leaders frustrated.

There have, certainly, been some gains. As whole school performance has been subjected to greater parental scrutiny, and schools have sought to emphasise their achievements, the professional environment has also become more competitive. A new breed of entrepreneurial leaders has emerged in the academy context, motivated by the relatively greater freedoms and rewards on offer, and notably from among the cohorts of a clutch of big name brands in the teacher recruitment, professional, career and leadership development line. These leaders are beginning to rethink school around what works, and on the limited evidence available, they appear to be having a positive impact in the schools in which they work.

Unfortunately, however, there are not enough of them and the possibilities for expansion to scale the benefit of their breakthroughs are overly dependent on corporate social responsibility (CSR) funding and government support. More unfortunately still, the success these initiatives have enjoyed has obscured the model’s limitations from the host of social enterprises they have inspired. CSR and philanthropically funded ventures rarely achieve scale precisely because investors/donors do not need it to signify their engagement with the issue and so achieve their objectives, and government priorities change.

To properly incentivise improvement in a sustainable way, at scale, the Government must remove market entry and operational constraints on private education service providers. There is now a substantial body of evidence that overturns the idea that profit-making businesses have a poorer record on quality than their not-for-profit
counterparts, and accommodating the profit-motive is the only way to achieve the competitive market dynamic that catalyses innovation and entrepreneurship.

At present, both government and inspectorate, and probably the majority of education professionals, are unduly wedded to the idea that ownership type and governance structure (and, for that matter the process of instruction) must be ‘right’ to secure the right outcomes. Despite the success of the local authority ‘privatisations’ of the early Blair years, we’ve yet to see serious piloting of either the outsourcing of human resource provision or of private education service delivery in the school context. Nor have we seen, for example, an English policy equivalent of the American No Child Left Behind initiative which, in opening up failing schools to private tutors as school improvement partners, has made such a difference to student outcomes in some of America’s most disadvantaged communities.

Accepting that a commitment to working for the social good may be characteristic of education ventures whether they are structured for profit or not, a first step towards overcoming scepticism might be to trial social impact bonds, whereby quality of service provision and investment yield are determined according to multiple and differently oriented criteria.

This issue of inadequate incentives is key and pervasive. In our system, teachers get paid, effectively, for showing up; managers, essentially, for ensuring that the school operates according to processes, and on resources, that are determined by government and regulators; while school leaders have only to perform satisfactorily to be deemed to be doing well. No one’s career is really on the line if children fail to make progress. Failing schools may lose pupils but are nevertheless buoyed by minimum income guarantees. The consequences of failure are not uncomfortable enough to spur schools to excellence and pay incentives for teachers for high achievement are lacking. Though many schools, now academies, have theoretical freedoms to experiment with performance-related pay and incentives, in practice head-teachers are constrained by the continuing influence of national pay scales and union pressure.

Education technology and learning resource providers are often heard talking about the challenges of penetrating schools and breaking the silo mentality, but it’s much more than this. Both government and inspectorate are overly involved in setting the standard in assessment, curriculum and pedagogy, and as a consequence of the reams of best practice guidance that go along with this exercise, teachers
are neither receptive to, nor in a position to show entrepreneurial initiative. Ofsted should inspect less, be less process-prescriptive and more focused on educational outcomes, so that it may inspect, informed by the data, strictly as necessary – at the pressure points, rather than on a cycle.

Together with lifting artificial constraints on private involvement in state education provision, and transformation of the incentive structure in education more generally, reform of the Ofsted accountability framework ought to be the Government’s top priority for fostering the conditions necessary for entrepreneurs to make their unique contribution.

*James Croft is Director of the Centre for Market Reform of Education (CMRE).*
Our best and brightest international graduates shouldn’t be pushed out

Each year, the UK sends hundreds, if not thousands, of potential entrepreneurs out into the global market to start their businesses anywhere else but here. Worse still, some of the UK’s finest resources will have been invested in these often young entrepreneurs, with many having received some of the best training the UK has to offer in both their field and in transferable enterprise skills.

The UK invests time and significant amounts of intellectual resources into over 300,000 international students each year, who pay an average of £12,000 per year for the privilege. Seeking to harness this talent, the Government launched a flagship scheme in April 2012 with 1,000 special Graduate Entrepreneur Visas for “world-class and innovative” enterprises from international graduates. The first 12 months of the scheme yielded just 119 visas from only 135 applications, according to a Freedom of Information Act request by the Times Higher Education.

Why is there such disparity between the Government’s ambition and international students’ response? Between January and March 2012, NUS asked 1,075 international students about their plans for work and enterprise during and after their time studying in the UK.
The results from the survey showed that 22 per cent of respondents indicated they had plans to set up their own business in the UK after graduation. At this time, the Government had just announced the removal of the post-study work visa, which allowed international students to experience UK work and business for up to two years before applying to one of the mainstream points-based routes. Many of those who indicated they wanted to set up their own business said they planned to go into the manufacturing, financial, IT or creative industries.

Over half of the students we surveyed who wanted to set up their own business thought it would take them between one (24 per cent) and two (29 per cent) years to do so and indicated the most useful asset for them to gain over this period was to meet and network with other businesses in their chosen industry. Unsurprisingly, 74 per cent of those respondents who indicated they would like to set up a business also indicated an interest in a student specific entrepreneur visa, with 49 per cent wanting to make their business a more permanent feature of the UK economy.

With such high interest in a student-focused entrepreneur visa, the question now for policymakers is: why did it all go wrong?

Survey respondents made it clear that, with gaining knowledge in their field and juggling the responsibilities of being a full-time student, they would need years, not months, to build the “world-class and innovative” enterprise the Government expects for the visa to be granted. The application for the Graduate Entrepreneur Visa, along with the supporting funds, must be submitted before the study leave ends, creating a near-impossible situation for many students.

In addition, students were prohibited from working on their business in a way that could be considered “self-employment” until the Graduate Entrepreneur Visa was granted, and this restriction has lessened only slightly with students now able to work on their business once the application has been submitted. This left students with two options, scrape together the necessary funds by working only the maximum allowed 20 hours per week and generating a quick business idea while studying, or return home and ensure they applied within 12 months of graduating. The latter would not help them gain their number one asset: knowledge and networking in UK business.

The Government responded by changing the criteria: students now only needed a “genuine and credible business idea and entrepreneurial skills”. This could be
proved by a simple endorsement from their institution; provided their institution was on the approved list, capable of issuing the right endorsement (General or MBA), and willing to “support” the student in their ventures. The Government also opened more spaces for MBA students, increasing the overall visas on offer to 2,000. But this has not simplified things.

The challenge is how to increase the numbers of students applying for the Graduate Visa route, and make it a viable option for retaining the wealth of talent that exists in the international student body. The solution is simple: re-instate the post-study work visa and give students the time they need to research and develop their business idea. Unfortunately, this is an unlikely option in the current political environment, so what should be done to help international students now?

Enterprise skills need to be practiced, and business ideas take time to develop. The Government needs to use the established sponsor system to allow international students to work on their business prior to application. This may mean creating a pre-application period where they will not violate the terms of their Tier 4 visa by working on their business or building in a post-study period where ideas can be tested and nurtured for better success.

Institutions can also do more. Students in the NUS survey wanted more support from their institutions to develop their business idea within their course and specific business mentorship. Institutions play a significant role in the Graduate Entrepreneur Visa route, as applications with an endorsement from a UK higher education institution gain an automatic 25 of the 95 points required for the visa. Without an institution-based system for identifying and supporting enterprise in international students, many will miss out on this opportunity to contribute back to the UK.

If significant steps are not taken to improve the Graduate Entrepreneur Visa route our institutions will continue to train entrepreneurs to become global competitors of UK business, instead of the contributors to the UK economy they want to be.

Joy Elliott-Bowman is Campaigns and Policy Officer for Immigration at the National Union of Students (NUS).
Older people have a wealth of entrepreneurial experience that shouldn’t be wasted

Small to medium-sized enterprises (SMEs) account for 99.9 per cent of all private sector businesses in the UK and 59.3 per cent of private sector employment. Small businesses are the backbone of the UK economy and the Government has taken them to heart, announcing a raft of measures that will help improve their fortunes, including broadband vouchers, access to £230 billion of public sector contracts and tackling late payment to small firms.

In addition, there have also been initiatives from the Government to encourage people to start their own enterprises, which should help boost tax revenues, job creation and increase trade – all positive steps to boosting the UK’s GDP growth.

Many initiatives to encourage enterprise have been focused on young people to help them get out of unemployment and onto the first rung of the job ladder. These include the Start Up Loan scheme, which originally had an age cap so only 18 to 30 year olds could apply, and more recently, the Government announced the Fiver Challenge, in which 20,000 school children will be given the chance to start their own business with a £5 loan.
These are all noble projects, but where are the initiatives to support older people, more specifically to help the over 50s start their own enterprises as a viable route out of unemployment and back into sustained and fulfilling work?

If younger people are the lost generation then older people are the forgotten generation. Being out of work is depressing, demoralising and soul-destroying whatever your age, but unemployment can hit you especially hard when you reach your 50s. Older people have mortgages to pay, houses to heat and families to care for.

January 2014 was the first time in over a year that the number of unemployed over 50s dropped below the watershed 400,000 mark, and the Department of Work and Pensions confirms that older people who are unemployed are more likely to be in long-term unemployment compared to other age groups. There are currently 45.7 per cent of unemployed over 50s who have been without work for over 12 months, compared to 31.6 per cent of 18 to 24-year olds who are long-term unemployed.

Getting older people back into work is essential. Our population is getting older and the state pension age continues to increase, which means people will have to work longer before they can withdraw their pension, as well as sustain themselves in later life.

Older people have a wealth of skills and experience that are not only beneficial to the economy but will help teach the next generation of workers. If 400,000 unemployed over 50s have on average around 25 years of experience each, we our missing out on 10 million years of experience.

There is also the economic argument: according to the Cabinet Office the drop in work rates among the over 50s since 1979 is costing the economy around £16 billion a year in lost GDP and costs the public purse between £3 billion and 5 billion in extra benefits and lost taxes.

Therefore, it is absolutely vital that we find new and innovative ways to extend working life that will enable us all to retain financial independence, sustain ourselves for a longer life, as well as remain active and engaged in our communities.

If older people are struggling to find work, starting their own businesses is a viable route back into sustained employment. The number of self-employed workers
increased by 9.6 per cent in four years between 2008 and 2012 to 4.176 million and older people made a significant contribution to this growth.

This could be explained by the fact that older people tend to find it easier to set up as self-employed. Having gained experience and skills working for someone else, they have an established network of contacts and may find it easier to gain access to the initial start-up capital.

Older people need more exposure to entrepreneurship as they have the skills and experience to make a success of their new enterprise and, more importantly, they are less likely to fail.

Government has an important role to play by ensuring that their enterprise policies are free from age discrimination. In particular, the Government should develop an adult skills strategy to support older workers and broaden their expertise so that they are better prepared if they were to set-up a business out of choice or necessity.

Businesses also have a responsibility to provide more information to older people post-redundancy. If older people are more likely to be unemployed for a long time, we would like to see businesses signpost information right at the start of the redundancy processes about how to explore self-employment and where to go to for relevant resources, such as accessing funding and finding a mentor.

We believe that creating an environment where enterprise is supported throughout working life will provide hope and inspiration, encourage innovation and challenge established businesses.

*Alastair Clegg is Chief Executive Officer at The Prince’s Initiative for Mature Enterprise (PRIME).*
Part Three. Easing the burdens of doing business
Access to finance is vital for entrepreneurs to flourish

Access to finance is an area where government can make a real difference for British businesses. Entrepreneurs and small business owners consistently tell me that the reluctance of banks to lend is the greatest barrier standing between them and their goals. This is true throughout the life-cycle of an entrepreneurial business – those who want to start out, grow or expand all face problems accessing the finance they need. This problem is getting worse: net lending to business has fallen by £56 billion since May 2010.

The root causes go much deeper than the banks’ need to recapitalise in the wake of the financial crisis. As long ago as the 1930s with the identification of the Macmillan Gap, policymakers have been concerned with the failure of the banking and finance industries to serve the needs of the ‘real’ economy in the UK. In the decade before the crisis, 84 per cent of the money lent to British residents by British banks went into property and financial services. Entrepreneurs in other trades and industries are clearly under-served.

Fixes tried by successive governments have tinkered around the edges of this problem but failed to deliver truly transformational change. The Commons Public Accountants Committee’s recent report notes that the Government’s most recent scheme, Funding for Lending, has fallen into this pattern.
The vast majority (85 per cent) of the UK’s five million small businesses are locked into just five big banks, which lend on roughly the same criteria. It’s not uncommon to hear about entrepreneurs rejected by each of these in turn. To get to grips properly with the problem we need to address this fundamentally uncompetitive lending market.

We can see the importance of this by looking towards our competitors. Community banks in the US were relatively unaffected by the crisis and astonishingly our prime European competitor, Germany, actually increased lending during the global downturn.

The secret to this German success was the existence of Sparkassen. These are commercial banks, but they are also established with state backing. Sparkassen are profit-making but not profit-maximising institutions, confined to lend within a specified region and with a legal responsibility to promote local economic growth.

When I visited Germany I was struck by the pride and faith ordinary savers, businesses and entrepreneurs have in their Sparkassen. They talk about these banks in the same terms a British person might talk about the NHS or the BBC.

It was also apparent as soon as you step into a local branch that these are banks run on a different basis from many closer to home. I met local bank managers who are intimately attuned to their local economies and have the autonomy and the authority to lend significant sums to entrepreneurs whom they feel will succeed in their town, community or region.

Of course, the Sparkassen have a long tradition in Germany and are ingrained into its federal structure. It would be impossible to exactly replicate the model in this country.

But its key principles – permanency through state backing; a core duty to support growth and innovation within a defined geographic area; and professionalism with real banking experts that understand their local customers and communities – could be transferred to a British context. Examples such as the Bank of Salford, which lends to businesses and consumers within the City of Salford, highlight the potential of this transformative model.

Outside of banking, new start-ups are also held back from receiving finance by late
payments from the larger organisations they supply to.

For entrepreneurial start-ups, this is a vital issue as they do not have the cash flow buffers of more established businesses. Data from BACS shows that in 2012 over £36.5 billion was owed to over a million small businesses in late payments, with the average company owed approximately £36,000 at any one time. Over the last year, 158 million hours were lost by entrepreneurs chasing overdue bills; time they could much better spend developing new products and finding new customers.

The last Government created an interest rate penalty for large firms that delayed payment to their small suppliers. But we need to go further to tackle this issue and ensure government sets the best example, by making it mandatory for all government bodies to publish their record on this.

Entrepreneurs are the lifeblood of the British economy. They challenge tired orthodoxies and develop innovative new products and services for consumers. But this creative spirit can only be fully unleashed when they have the financial backing they need to start up and to flourish. I believe these plans can be the catalyst for a fundamental reform of our broken lending model.

*Toby Perkins is Shadow Minister for Small Business and Labour MP for Chesterfield.*
The importance of definition for micro businesses

Both Adam Smith and Napoleon Bonaparte are famous for remarking that the UK is a nation of shopkeepers. Although the range of business activities has grown considerably since then, the UK retains a reliance on small enterprises that both Smith and Bonaparte would recognise.

Small and medium sized businesses (SMEs) account for 99 per cent of all enterprises in the UK, approximately 48 per cent of employment and 41 per cent of business turnover. However, it is commonly accepted that the foundation of our economy and the lifeblood of our local communities are our very smallest businesses, our micro businesses.

Since 2010, the Government has been proactive in supporting SMEs, including micro businesses. However, that help is not targeted at any particular segment of the SME community, but at SMEs as a whole. Larger organisations are better able to take advantage of increased government support through more expertise, manpower or growth potential. The intention is there, but it has yet to translate into tangible assistance on the ground for the smallest businesses.

ONS statistics show that it is the very smallest businesses that are the job creators; however, they have been lost in the noise of the SME community as a whole. Over
3.4 million individuals are either self-employed or members of a partnership. Seven hundred thousand businesses employ between one and four people. Micro businesses range from start-ups with both high and low growth potential, to family businesses that have been in operation for many years. These businesses face very different problems to larger businesses.

Typically, the owner-manager is responsible for carrying out the full range of managerial duties and complying with many of the same government policies and regulations that large companies must comply with, while simultaneously managing a small team of people and often undertaking part of the actual work output of the business. Typically these micro businesses do not have the managerial capability and skill base of larger SMEs and as a result face a unique set of challenges.

Notwithstanding the challenges these businesses face, they are an important source of new employment and growth in the UK economy as a result of ambition, passion or, sometimes, quite simply the necessity to create a business to earn a living when no employment opportunities exist. However, too many are tempted into the black economy simply to avoid the legislative burden – a loss to all concerned. Others simply never get off the ground with inevitable consequences for government welfare expenditure. Micro businesses can and often do play a vital role in maintaining the economic viability and social cohesion of many regions in the UK, particularly rural and deprived urban communities. They need support.

Despite both the historic and contemporary importance of small enterprises to the economic and social well-being of our nation, we have failed to appropriately and unambiguously define precisely what we mean by the term micro business. As such and by default, we refer to a definition devised by the European Union. This states that a micro business is any enterprise that employs fewer than 10 members of staff and has a turnover or balance sheet of less than €2 million, and in the UK the problem is this definition is not used consistently across all government departments. The consequence of this lack of consistent definition has been an inability on the part of government to create policy tailored toward this group.

The problem has however been further compounded by the size of the definition, which encompasses 95 per cent of all UK businesses, representing approximately 19.5 per cent of economic activity. This range prohibits effective policies targeted at our very smallest enterprises from being devised. Such a group is too large in number and share of the economy and too diverse in nature for cohesive policymaking. An
organisation with six or eight employees will generally have at least one member of staff appointed in a managerial role. A business with four or fewer employees is still learning with an owner-manager trying to do everything. Therefore, it is important to adopt a more restricted definition of micro businesses that would encompass only enterprises that employ fewer than five members of staff. Turnover should not be included in a definition, but should be taken into account on a policy-by-policy basis.

The UK should follow suit with other countries such as Australia, Japan and South Korea who have already acknowledged and addressed this issue and reduced the size of businesses within their definition of micro businesses. This makes support more accessible for their micro businesses.

There are many ways in which the definition may enable better policymaking:

- Incentivising employment by treating micro businesses differently for National Insurance purposes and conducting a review of how employment legislation applies to them.

- Making access to finance more accessible by supporting and not over-regulating new lenders into the micro business market.

- Simplifying the tax burden by making Small Business Rate Relief both automatic and permanent for micro businesses.

- Creating a tax regime designed specifically for micro businesses as they have in France where the calculation of tax is significantly simplified.

- Introducing enterprise education at every level of the curriculum to develop a self-employment culture.

- Encouraging exports by ensuring UKTI and other government agencies extend their support more actively to micro businesses.

It is clear that the Government has an opportunity to grasp the growth and employment opportunities that micro businesses represent, which will go a long way to securing the economic recovery the UK is currently experiencing. While small steps have been taken to exempt micro businesses from new domestic regulation for a three-year period, more needs to be done. Redefining a micro business as an
organisation that employs fewer than five people will allow help and support to be targeted where it is needed. This will not only benefit micro businesses themselves, but the British economy as a whole.

Anne Marie Morris is Conservative MP for Newton Abbot. She is Chair of the All-Party Parliamentary Group (APPG) for Micro Businesses and Vice Chair of the APPG for Entrepreneurship.
A Small Business Kitemark would foster local government best practice

As a constituency MP, business people often come to see me to explain the challenges they face doing business in Rochdale. One thing that comes up time and time again is that many feel their relationship with the local authority is not as productive as it could be. My own experience in business bears out these complaints. I recently helped my wife set up a delicatessen in Rochdale and was amazed at all the hoops we had to jump through. This got me thinking about how the relationship between local authorities and small local businesses could be improved. One significant step would be to establish a Small Business Kitemark for local government.

One of the most important roles of local authorities should be supporting local businesses and economic growth in their local areas. With proposals coming forward about devolving more powers to local government, it is only right that we expect more from them. The kitemark will act as a certification that a local authority is meeting its obligations to local businesses and help it to identify any areas in which it is failing to do so. It would also help promote best practice as local authorities learn from each other in order to keep standards high. There is a lot of good practice in local government already, as acknowledged in the Best Councils to do Business With awards, but it is rarely communicated effectively to other local
authorities.

Ultimately, we need to ensure there is a virtuous circle where local authorities play an active role in promoting local enterprise and reap the rewards in increased business rates revenues and local economic growth.

One of the most common complaints I hear from small business owners about local government is the number of late payments. Small businesses are incredibly fragile entities that often survive off small profit margins. Late payments from local government have a devastating impact and they are completely unacceptable. In order to gain the Small Business Kitemark a local authority would have to demonstrate that it consistently pays small businesses on time.

Another big complaint is the way in which many local authorities go about procurement. The process of tendering contracts is often hugely weighted towards big businesses due to the capital requirements and the length of time of the bidding process. There is also a culture of caution in some local authorities where they are unwilling to give a small, local business a chance. I know this all too well from my experience of running a social research business in Manchester. It took years before the council was willing to give us any contracts, as they preferred to give them to big London companies. It took a conscious decision from the council to start giving more contracts to local businesses before we were able to win any.

As such, part of the kitemark would be a requirement to go about procurement in a way that is friendly to small, local businesses. This could build on the excellent existing practice that I have seen through my work on the Communities and Local Government Select Committee report into procurement, with Halton Borough Council standing out as a strong example. Reforming procurement would also help local authorities as small local businesses will expand, pour more money back into the local economy and create jobs for local people.

One of the best ways a local authority can help a small business is to simply get out of the way. The sheer number of regulations a business has to navigate costs small businesses huge amounts in time and money and can be a deterrent to young entrepreneurs. I would therefore like to see local authorities committed to reducing the number of regulations small businesses are subject to by having a Red Tape Challenge similar to the one currently operating on a national level. I would also like to see a one-stop-shop approach where a business has a single point of contact
with a local authority rather than being constantly directed to different branches and agencies.

Local authorities could also have a role in encouraging co-operation between local businesses. This could be as simple as organising regular networking events or enabling businesses to club together to purchase important resources such as energy or even training for staff. These kinds of efficiency savings are important to small businesses and the spirit of co-operation could even lead to more small local businesses winning contracts from bigger businesses which will drive more local growth.

There are a number of other proposals that should be investigated. Small business representatives should be encouraged to sit on Local Enterprise Partnerships (LEPs) and working groups with council committees on issues affecting business such as transport and planning. Councils should also be more understanding when collecting business rates from small businesses and less prone to send in the bailiffs. A short respite could allow a business to contribute more in the long run.

We need to change the relationship between local government and small business. Local government should be working with business to encourage enterprise, drive growth and harness the potential in their communities. A Small Business Kitemark for local government would demonstrate this commitment on the part of local government and encourage the high standards of support our small businesses deserve.

Simon Danczuk is Labour Member of Parliament for Rochdale and a member of the Communities and Local Government Select Committee.
The business rates regime needs fundamental reform

Business rates – a tax on the occupation of non-domestic property which is levied as a percentage of its estimated rental value – are based on the flawed premise that a business’s prosperity is connected to the physical size of its operation. Since the local government finance reforms in 1989 and 1990, business rates have been subject to an increase in tax rate linked to the retail prices index each year. Firms were hit by a 2.6 per cent increase in 2013, following a rise of 4.6 per cent in 2011 and a 5.6 per cent rise in 2012. The current Government has made a number of changes – from capping rate rises to 2 per cent in the 2013 Autumn Statement to extending reliefs. But this is not enough, and may have made an already complex tax more complicated. Business rates are an onerous levy, ill-suited to an economy that is rapidly evolving.

One of its worst elements is that it places a disproportionate burden on small businesses. After rents and wages, business rates are the third biggest expense for smaller companies. Yet, as of January 2013, these businesses accounted for 47 per cent of all private sector employment and 33.1 per cent of turnover. Small businesses are driving our economic recovery: no longer should supporting them be an afterthought in policymaking.

High street retailers are also disproportionately burdened, because main shopping
areas are where rates (and rents) are highest. Far too often, charity shops (which only have to pay 20 per cent of business rates) are the only retailers that can afford to survive. Yet while the demise of British high streets has become a major social and economic issue, business rates have risen as a share of all revenue since 2007. In May 2013, the Centre for Retail Research forecast that the total number of UK stores would fall by 22 per cent from 281,930 in 2013 to 220,000 in 2018 – which would result in 316,000 job losses. Of course, as more consumers choose to shop online high streets will shrink, but the effect of business rates – to penalise traditional retailers versus their online competitors – has likely accelerated this change.

In the Autumn Statement, the Chancellor announced that retail premises with rateable values of up to £50,000 would see their rates bill cut by 2 per cent in each of the next two years. But while pubs and restaurants will be included, betting offices and banks will be excluded. And EU rules mean that there will be a cap on relief available for those multi-site retailers that receive more than the maximum €200,000 in state aid across a three-year period.

One common criticism is of the system’s inflexibility. The Valuation Office Agency has a statutory duty to prepare local rating lists containing rateable values for all commercial buildings every five years. During the 2013 Autumn Statement, the Chancellor delayed the next revaluation for two years (from 2015 to 2017). It is hard to see why – it could penalise properties more. Consider this research from Chase & Partners: Hackett has recently signed a lease on Regent Street with a rent of £645 per square foot. But its business rates bill will continue to be based on rental levels from 2008, when Zone A rents on the same property were £278.50 per square foot. Meanwhile, in 2007, the rates payable for a shop in High Street Canterbury were £45,154 per annum, which has risen to £51,744 in 2013. Yet the rent has fallen from £116,000 in 2007 to £65,000 at the beginning of last year.

Regular revaluations helps make the system more responsive to economic conditions. It may cost the Treasury, but this could be made up through the scaling back of exemptions and reliefs, which are currently serving to distort land use and penalise properties more.

The complex system of exemptions doesn’t even end up helping those it’s designed to assist. Relief for low value properties was made “temporarily” more generous in 2010, yet research suggests fewer than 50 per cent of businesses eligible for the
Small Business Rate Relief Scheme have applied in England – possibly because they are unaware the scheme exists, or perhaps because the refund is simply not worth the administrative effort.

As for the opposition, during the 2013 party conference Labour leader Ed Miliband announced that a £880 million tax break to smaller companies would be his first act of Government, should his party win the next general election. Yet the move will be small change to most businesses, amounting to a measly average of £450 over two years.

This temporary tinkering of business rates by the Government is storing up more problems and creating uncertainty for companies, economist Helen Miller told the Federation of Small Businesses in January. The Treasury has announced plans to discuss business options for a reform of business rates administration, post-2017. Yet what is needed is a fundamental overhaul of the levy, now. There are a number of options for reform.

In September 2013, Dragon’s Den star Theo Paphitis called for a 2 per cent sales tax to be imposed on shopkeepers and online retailers. The system could take advantage of the existing system for calculating and collecting VAT and corporation tax, meaning minimum administrative costs to both local authority and business. As the Adam Smith Institute recently pointed out, the standard VAT exemptions could broadly be maintained, including the threshold for payment, which would effectively act as an allowance for small and rural business.

Alternatively, prospects for introducing a Land Value Tax (LVT) – an annual levy on the ownership of land – have been put forward by the likes of the Institute of Fiscal Studies. It would offer a tax base that cannot run away, unlike capital or labour, and it can be localised and applied to any form of local or regional government structure. However, a lack of political attractiveness (like any new and additional tax, it is unlikely to be welcomed), concerns that landowners would face a windfall loss as soon as the tax was announced, and practical challenges (primarily the need to value land separately from the building), make this hard to implement. Although the system has already been tried-and-tested for us – Denmark has levied a LVT based on the market price and revalued every two years, since 1924 – it carries many of the same problems as business rates, namely penalising businesses with fixed premises.
Since April 2013, local authorities in England have been able to retain (for a limited period) up to half of the rates revenue raised from new developments. The aim is to provide local authorities with a stronger incentive to promote business development – and the Department for Communities and Local Government has estimated the scheme will boost national income by £10.1 billion over the period 2013-14. But temporary localisation of rates is problematic – it has to become a fixed part of the system to avoid fiscally irresponsible behaviour by some councils. This would offer local authorities huge opportunity to pursue measures that increase tax competition and experimentation, as they choose to raise money in different ways.

Business rates may bring in £25 billion a year for the Treasury, but the Government cannot afford for British businesses to be closing down. As the British Retail Consortium director-general Helen Dickinson recently said: “We have a once in a generation chance to fundamentally change the system. The time is right to think creatively, and in the best long-term economic interests of the UK.”

*Annabel Palmer is Business Features Writer at City A.M.*
Reforming government procurement could be the engine for innovation

All political parties agree that small businesses will be the engine for future growth. This is why we have seen so much effort and resources going into various schemes and tax breaks to try to stimulate their success. Yet, despite all this effort, there is one area still ripe for reform: government procurement. The UK’s public sector is a huge purchaser of goods and services and this could be put to work for the benefit of entrepreneurs.

Although various commentators have mooted the idea of moving away from placing large contracts with big prime contractors to awarding a large number of smaller contracts to small and medium sized enterprises (SMEs), this is neither achievable nor practical. So what can the Government do to help? The simple answer is to follow the example of the private sector, specifically successful manufacturers, and take a more active and direct role in managing the supply chains of its large contractors.

Manufacturers have been successfully managing complex supply chains for years. Nobody could seriously think that Ford, Honda or Volkswagen make all their own nuts and bolts. But it may surprise some people to know many car companies don’t even make their own gearboxes anymore. These days, manufacturers are more like
brands with assembly factories attached.

Relying on suppliers can be risky. Large manufacturers are well aware that if their principal suppliers go bust it could throw a spanner in the works of the whole supply chain. This is why large manufacturers spend huge amounts of money, not just trying to get the lowest price from their suppliers, but also in making sure every company in that chain is successful – all the way down the supply chains of their prime suppliers. These efforts go right down to the small company that manufactures the bolts that eventually go into making the gearbox. Large manufacturers ensure that every company in their supply chain provides what is needed, on time and to the right quality, all at the right price. They manage and nurture their suppliers – government should do the same.

The UK public sector spends a huge amount of money on third party goods and services. The variety of things they buy is staggering: from paper to post boxes, from police dogs to aircraft carriers, most procurement is increasingly managed by a small number of very large prime contractors in the drive to get private sector expertise involved in helping to cut the deficit. But in its bid for efficiency the Government is missing a trick.

We don’t need – as is the current rhetoric in certain public sector circles – a wholesale move away from awarding large contracts to very large prime contractors. The awarding and management of an even greater number of smaller contacts to small suppliers would be time consuming, costly, prone to error and make it even harder to spot when things are going wrong.

However, when the Government awards these large contracts to large suppliers, it should mandate that these big companies deliver these contracts using a significant proportion of involvement from SMEs. The Government should then actively manage and measure them to ensure that they are meeting these obligations.

Building an SME objective into the contact would also have the added bonus of harnessing the procurement and contact management skills of these big companies to the benefit of the public sector. These are skills that will take too long for the Government to develop at scale if the target of diverting spend to the SME sector involved awarding business directly.

While this may result in slightly higher prices than can be achieved through, for
example, off-shore outsourcing, it will ensure that government cash is being directed into the part of the economy that will really rebalance it – our spectacular SMEs.

The Government doesn’t need to contract directly with small businesses – the nuts and bolts of our economy – in order to support them. Its big suppliers can do it on its behalf. If government procurement is properly geared it can be the engine that drives our future prosperity.

*Veera Johnson is Founder and Managing Partner of Johnson Capital Advisory.*
Business Advice Vouchers would help more start-ups survive

Good financial management is critical to the success of any business. Without it, a business can be set for failure from the start. Around 500,000 new businesses start up in the UK annually, but one-third of start-ups cease trading within three years. It’s not necessarily a lack of customers or products that destroy a business, but a lack of cash as a result of poor financial management.

Financial decisions made by entrepreneurs at the earliest stages of their business can be the most important, as well as the most difficult. Sadly too many businesses are unprepared. Only one in three start-ups have a business plan, just 20 per cent seek advice before applying for a loan and 80 per cent of financial decision makers have no formal training in financial matters. Many budding entrepreneurs have the business idea, vision and enthusiasm to see their idea through, but lack the necessary financial skills to ensure the idea becomes a business reality.

We often romanticise too much about serial entrepreneurs who succeed after past business failures, when the truth is that failed businesses can have a dramatic effect on people’s finances, families and future willingness to try again. Understanding the importance of good financial management from the outset can work towards
buffering the financial turbulence that entrepreneurship often brings.

There are four stages in the development of a start-up. Every entrepreneur needs to know what stage they’re at, as they will have to consider an element of financial management to give their business the best chance of surviving and achieving its full potential.

In the pre start-up stage, researching the market and assessing the potential demand for a product or service is vital. This should help businesses produce initial sales forecasts, and identify projected quantities, selling prices and costs. This will act as a starting point for a business plan, with financial forecasts for at least the first two years of trading. The first year’s figures should be recorded on a monthly basis, and the second year’s at least every quarter.

Next is the start-up stage. Starting a new business is a frantic experience, but it is critical that entrepreneurs monitor progress against the business plan. Potential variances to the plan need to be taken account of, and steps should be taken to get back on track. During this phase many entrepreneurs will consider securing external finance to maintain their projected turnover. The success of the business in meeting its targets or being able to explain variances from original financial projections will be critical to securing finance. Furthermore, strong financial management is vital for good credit.

Once the business has passed the start-up stage and is a small business, it will seek to consolidate and expand its customer base. This usually requires increased working capital, so obtaining additional finance may be necessary. Audit statements and up-to-date management accounts will also help establish the credibility of the financial management with finance providers.

In the next stage small businesses grow in size. Shareholders may now include outside investors, such as business angels or private equity shareholders. In addition, customers and suppliers will look for greater reassurance about the financial strength of the business. As a result, this wider group of stakeholders will require the company financial statements to be audited or subject to an assurance review from professional advisers.

The Government has introduced the start-up loans scheme and growth vouchers to give entrepreneurs a helping hand, assisting start-up and early stage growth
businesses to get access to strategic advice. However, a more holistic approach
to help entrepreneurs acquire the necessary financial management skills would
enable more UK businesses to survive and grow.

Specifically, the Government should implement a scheme of Business Advice
Vouchers, applicable to 50,000 entrepreneurs in the start-up and early growth
phases, who are looking to secure finance to help their business become established
and prepare for growth. These vouchers of £400 each would enable entrepreneurs
to visit a local business advisor, have a discussion on the financial aspects of
their business, whether the existing business plan is being achieved, and gain
insights into the business performance to-date. For many new business owners
the Business Advice Voucher will enable them to start developing the fundamental
financial management skills they need to help make their business a success.

ICAEW believes that a modest annual investment of £20 million would enable up to
50,000 more start-up businesses to survive every year. Encouraging entrepreneurs
to access the accumulated knowledge and experience of a professionally qualified
accountant gives the entrepreneur the opportunity to acquire financial management
skills as well as having a trusted adviser a telephone call away.

Financial management skills are vital for supporting the UK’s next generation of
entrepreneurs, ensuring more entrepreneurs benefit from a strong and sustainable
recovery.

*Clive Lewis is Head of Enterprise at ICAEW, whose members advise over 1.5 million
UK businesses.*
Government must address the dual burden for small employers

Having spent many years building my own businesses and working alongside hundreds of entrepreneurs, I know that founders often face huge psychological and financial barriers when it comes to making their first hires. It is also risky for a potential employee to choose to work for a start-up instead of for a larger, more established company. The Government could do more to alleviate this dual burden by extending the forthcoming National Insurance Employment Allowance, and by granting small businesses a National Insurance Contributions (NICs) holiday.

The Government has previously acknowledged the issue of Employer's NICs by deploying the Regional New Employer NICs Holiday scheme between 2010 and 2013. A new scheme, the Employment Allowance, will be introduced in April 2014 as a result of the National Insurance Contributions Bill. The new Employment Allowance offers businesses of all sizes a £2,000 tax-break on total NICs due. This is a genuinely positive step; however, the Government should go further by introducing an improved incentive, similar to the New Employer NICs Holiday scheme.

When an entrepreneur makes their first hire, they are taking a huge risk. At this pivotal moment in a company’s development, an entrepreneur is forced to take on
board significant personal, financial and regulatory burdens. If the risks outweigh the benefits they won't take the plunge, which will leave any growth potential unlocked. These are the entrepreneurs that the Government should focus their limited resources upon helping.

The first employees that a start-up takes on are usually experts in their field. These individuals are targeted for their industry knowledge, contacts or specialism. Due to their skills, these professionals are in high demand and so do not come cheap; they often need to be convinced to take the leap to work for a start-up.

It is at this moment that the potential employee feels the burden or personal risk. It is understandable that they should ask themselves the questions: Will the company survive? Can they afford me? Can I afford to take the risk?

A start-up cannot offer the same job security as a larger organisation. Larger firms can rely on existing HR departments with effective payroll systems, and the new employee’s wage, pension contributions and NICs will have been factored into a long-term business plan. Moreover, more established businesses are less likely to be susceptible to client pressures and cash flow concerns – two factors that can inhibit a start-up.

The Government is aware of the problem. A good example of a policy that has sent a positive signal to both founders and potential employees has been the Entrepreneurs’ Relief programme. The programme was originally intended as a capital gains tax break for founders. Under the scheme, founders only pay 10 per cent capital gains tax on qualifying profits if they sell or close their business. The scheme has been extended to qualifying members of the founding team – any early-stage employees who fall within approved share-option schemes. This move sent a powerful signal that aligned founders with their founding teams, and it offered skilled professionals an incentive to join a young start-up.

The Entrepreneurs’ Relief programme went part way to reducing the risk on part of the employee in joining a start-up, but it has not served to fully alleviate the burden in most cases, as the programme is predicated on a company either reaching sale or close stage. Although many companies succeed, few reach a liquidity event, which means many entrepreneurs and employees don’t get to benefit from it.

What we now need to consider is a demonstrable upfront reduction of the financial
burden of taking on first employees. We need a scheme that focuses on young companies and rewards growth by offering exemptions from, and reductions in, Employer’s NICs relative to the number of staff employed or the company’s wage bill. As the imminent Employment Allowance shows, Employer’s NICs are ripe for re-evaluation – the Government just needs to go further.

In 2010, the Chancellor announced the Regional Employer NICs Holiday for New Business. This was a measure to improve the growth of young companies in areas that were hit by public sector spending cuts. The scheme deducted up to £5,000 from Employer’s NICs due over a defined period of time, for each of a participating company’s first 10 employees. A nationwide policy of this sort would help to get start-ups through the first stages of growth.

The NICs holiday ended on 5 September 2013. Instead of merely reinvigorating this programme, and to complement the forthcoming NICs tax cut, we need a more imaginative policy that reduces Employer’s NICs for first employees, and rewards business relative to their early growth, regardless of their location in the country.

Employer’s NICs are in effect a tax on jobs, a barrier to hiring and a significant financial burden on an already financially stretched start-up. The fact that aspirational start-ups are bound to pay the same Employer’s NICs as large corporates is something that should be seriously reconsidered.

*Eric Van der Kleij is the Head of Level39 and a Special Advisor to Canary Wharf Group.*
Why Entrepreneurs’ Relief should be extended

If there is one innovation that the Government should undertake, it is to reform fundamentally the system of Entrepreneurs’ Relief and in a few bold strokes make the UK the most appealing place in Europe to start, stretch and ultimately sell a business.

Entrepreneurs’ Relief was established under the Finance Act 2008. It is a capital gains tax (CGT) relief available to taxpayers who make a qualifying business disposal. It allows those involved at the very outset of an enterprise to pay a capital gains tax rate of 10 per cent on the first £10 million made after that business is purchased. The current Government has been responsible for raising that threshold from £2 million. To reap the reward of what is in fact a lower CGT band of 10 per cent, however, company directors and employees have to hold at least 5 per cent of the ordinary shares and voting rights in the business concerned. If not, they are excluded entirely.

As it stands, Entrepreneurs’ Relief is certainly one of the more attractive regimes in the European Union. The acid test, though, is how it stands by a wider international comparison. The Government has it in its capacity to create incentives for entrepreneurs here that would be the envy of the developed world. To do this, it needs to embrace three measures.
The first is to remove entirely (ideally) or significantly soften the 5 per cent equity stakeholding requirement. This would enable smaller employee shareholders to benefit. The current threshold has no particular logic to it, is divisive among management teams and essentially means that Entrepreneurs’ Relief is awarded to the relatively few and not the many.

It should be the means by which a founder can mobilise and motivate his or her first few employees with the promise that if the company takes off then, to borrow a phrase, “we are all in this together”.

This would make a huge difference to technology hubs in particular, not only in east London’s Tech City, but in similar centres of excellence throughout the country.

The second step would be to remove the current requirement that all those eligible must be conventional full-time employees of the firm, thus barring those who provided the initial financial backing. This would recognise the crucial importance of business angels in the provision of equity finance to small businesses, notably start-ups.

Investing at this level is an incredibly brave decision. In many cases, the angels concerned will also be providing young companies with their time, experience and wisdom. This can be absolutely fundamental to whether a company realises its potential. It is perverse that those who offer this counsel from the earliest days of a firm do not currently count as one of the “team” when Entrepreneurs’ Relief is calculated.

Finally, the Government should increase the current £10 million cap, which applies for a lifetime, not just a single sale, or better still scrap the ceiling on it altogether. Present policy accidentally reinforces the so-called “Vicarage Syndrome” witnessed in the UK (but strikingly not in the US) where a highly successful entrepreneur pockets the rewards for their first significant disposal and heads for the Cotswolds and a comfortable life rather than coming back and seeking to found another fantastic company.

What we should be doing instead is ensuring that every highly effective business built from nothing leads to a 10 per cent capital gains tax rate for those responsible for its development, whether the sum involved is £10 million or £100 million or £1 billion. If that seems charitable to entrepreneurs – which it is not when the danger
of failure and personal ruin is taken into account – remember that in much of Asia there is no capital gains tax whatsoever.

If the Government were to discard the 5 per cent requirement, lure business angels yet further into the start-up scene and eliminate the current cap altogether, it would revolutionise the tax treatment of entrepreneurs in Britain. The howls of anguish from the likes of Berlin, Dublin and Luxembourg would be audible in the Treasury.

Tim Hames is director general of the British Private Equity and Venture Capital Association (BVCA). This article is based on a version that first appeared in The Daily Telegraph.