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Lord Whitty
Chair, EU Internal Markets Sub Committee
House of Lords
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Dear Lord Whitty,

Thank you for your letter on 25 July regarding the Committee's oral evidence sessions on Brexit: SMEs, including start-ups and scale-ups. I have responded to each of your questions in turn, and I trust this letter will provide the clarity that the Committee is seeking.

1. We recognise that the Government cannot be expected to contact every SME directly, and SMEs will vary in the extent and nature of their exposure to Brexit risks and opportunities. We welcome the work undertaken so far by representative bodies to inform and prepare SMEs about Brexit. Nonetheless, we are concerned that relying solely on the traditional models of business engagement, using representative bodies to reach SMEs, is not providing sufficient breadth or depth of engagement to prepare SMEs for transition to post-Brexit arrangements.

Of course, I recognise the importance of Government engaging directly with business of all sizes. My officials conduct regular and in-depth engagement via a range of channels, including a programme of SME Roundtables which provide opportunity for small businesses up and down the country to have open and candid conversations with government on the issues important to them, including EU Exit. This engagement work complements the broad array of regular engagement happening across departments at both Ministerial and official level. Since the referendum, ministers and officials from across Whitehall have met thousands of business and stakeholder organisations demonstrating a clear commitment to talking and listening to business. I meet personally thirteen of the main SME representative bodies on a monthly basis; my officials hold quarterly strategic meetings with five such bodies. The Secretary of State for Business, Energy and Industrial Strategy regularly meet the Chancellor and Secretary of State for Exiting the European Union at their EU Exit Business Advisory Group, which is SME representative bodies.

The Department also has a visible presence at events run by and for the SME community, including participation in awards ceremonies and business festivals across the UK. We continue to build on and refine how best to reach SMEs across the UK, and are working to ensure that our EU Exit communications and engagement will be targeted to the right businesses at the right time.

In addition, all businesses may access key information and services on gov.uk.

2. Small businesses, start-ups and scale-ups need a place where their concerns can be answered as clarity begins to emerge on the final settlement. Witnesses have provided some ideas for solutions. We urge the Government to consider new and innovative methods of demand-led engagement with SMEs.

The Department's engagement is designed to reflect the needs of the SME community. We have dedicated teams working to devise strategic engagement plans, drawing direction from businesses themselves. A number of sector and thematic panels have been established by BEIS alongside other Government Departments to provide a two-way dialogue on EU Exit matters. The sector panels convene businesses of all sizes to discuss sectoral issues relating to EU Exit whilst the thematic panels focus on particular themes – for example, Rules of Origin or Services. The panels are designed to both gather intelligence from business as to act as a forum for the dissemination of information. In addition, our SME Roundtables are often attendee-led: whilst we provide discussion prompts, it is common for the businesses around the table to raise their own subjects of interest. The same applies to EU Exit engagements where we provide forum for small business to highlight particular EU Exit issues. In addition, my own and my officials' regular engagement with a number of SME representative organisations provides opportunity for these bodies to project the voice of their memberships to government. For example, the agenda for my SME Advisory Board – made up of the main business z representative organisations with an interest in small business policy – is influenced by members' concerns and interests. Of course, we will continue to listen to businesses up and down the country, recognising that there is always scope for improving our engagement structures.

3. We recognise the importance of providing SMEs with clear and reliable information and we agree that the time to “press the button” on extensive engagement has not yet arrived.

We have been listening to business hopes and concerns, and I am able to assure you that planning is already in progress across government to ensure that, following the results of the negotiations, wider informative engagement work with SMEs may commence. This includes – but is certainly not limited to - preparations for how we will work with professional bodies, trade associations and other organisations to provide advice and facilitate the sharing of information from government over the course of the Implementation Period with SMEs. In addition, targeted communication to the business community as a whole can be found on Gov.uk – for example, the Prime Minister wrote a letter to business concerning the agreement made on the terms of a time limited Implementation Period. Of course, as a responsible government, we are also making plans for SME communication in the event of no deal – although, as the Prime Minister has made clear, this is not a situation we want or expect. We have now published 106 specific technical notices to help businesses, citizens and consumers to prepare for March 2019 in the event of a no-deal scenario. These are available on gov.uk.

4. Witnesses have stated that SMEs will need between six months and a year to adapt to final Brexit arrangements, and we note that trade negotiations on the UK's future relationship with the EU may continue into the transition period. We urge the Government to allow enough time within the transition period for SMEs to understand the implications of the final deal for their business, and to implement plans accordingly. How will the Government reassure SMEs before clarity has emerged from the negotiations?

The Government is working across departments to ensure SMEs are kept updated and can access the information they need to make preparations for March 2019 and beyond. We will continue to work closely across Whitehall as well as with professional bodies, trade associations and other organisations to ensure that SMEs have as much clarity and detail as possible. The Department for Exiting the European Union regularly update GOV.UK on EU Exit milestones and all businesses can register to receive information on the negotiations direct to their inbox by signing up for the DExEU stakeholder bulletin.

5. How is BEIS working with other departments, particularly DCMS, to ensure that SMEs, start-ups and scale-ups are engaged on specific sectoral issues as well as larger stakeholders?

My Department works to ensure that we hear from businesses of all sectors and of all sizes. We recognise the need to listen to each and every sector – particularly in the context of EU Exit, but also more generally. BEIS and DExEU jointly chair internal policy meetings attended by senior officials from DCMS as well as other Government Departments. These meetings review stakeholder feedback and business intelligence from across the economy, identifying gaps and commissioning departments to fill these gaps. Briefing for such meetings includes intelligence from the full range of businesses in sectors for which DCMS has responsibility, and also has a particular focus on feedback from small and medium sized businesses.

6. Witnesses agreed that it has become harder for start-ups to recruit EU citizens since the referendum result, and that perceptions of the UK's openness to EU migration have been a contributory factor. We welcome recent progress on the future status of EU citizens in the UK, and we encourage BEIS to work with the Home Office to ensure that any final deal for EU citizens in the UK is effectively communicated.

The Government recognises and values the contribution that overseas workers and EU nationals make to the UK. Our first priority has always to give certainty to EU citizens living in the UK and, as the Prime Minister has been clear, there is no question of asking EU citizens resident here to leave. On 21 June, the Home Office published details of the settlement scheme for EU citizens in the UK.

For EU nationals coming to the UK in the future, we are considering a range of options for the future immigration system and will be outlining further details in due course. It is important that we understand the impacts on the different sectors of the economy and the labour market, and that our decisions are based on evidence. On 18 September, the independent Migration Advisory Committee (MAC) published its report on the economic and social impacts of the exiting the EU and also on how the UK's immigration system should be aligned with the

Government's modern industrial strategy. The report can be found on the gov.uk website at: <https://www.gov.uk/government/publications/migration-advisory-committee-mac-report-eea-migration>. The Government is carefully considering the MAC's recommendations and is continuing to speak to business, industry, public institutions and others. We plan to publish a White Paper on the Future Immigration System later this year.

7. We were encouraged to hear that the visa system is subject to further discussions between BEIS and the Home Office. We would be grateful for an update on measures to improve the visa system for SMEs as this work progresses.

As the Committee notes, work to improve the visa system is continually underway. As with all issues which affect our SMEs, BEIS has and will retain a seat at the table during those discussions. For a summary of existing improvements please refer to the answer provided at below, at question 9.

8. We note the Government's intention for a UK-EU mobility framework. This is a valuable opportunity to design a process that works for SMEs, start-ups and scale-ups for both recruitment and mobility of existing staff between the UK and the EU, and we urge the Government to consult them closely in its development.

The UK will always want to attract the brightest and best, from the EU and elsewhere. We have always been clear that the UK will remain open for business and that we will continue to welcome overseas workers who make a valuable contribution to the UK - but we remain committed to reducing net migration to sustainable levels. We want decisions about the future immigration system to be based on evidence and the MAC's report on EEA migration in the UK will inform those decisions.

9. SMEs also wish to be able to more easily recruit from outside of the EU. However, the visa system remains prohibitively bureaucratic for small businesses. We strongly urge the Government, notwithstanding the UKEU mobility framework, to ensure that barriers to recruitment from outside the EU are reduced.

My colleagues in the Home Office continue to engage with business, including SMEs (who make up the majority of our Tier 2 sponsors), to improve our immigration system for non-EU nationals. Earlier this year, this Government doubled the number of places in our Exceptional Talent route and introduced new provisions for researchers. On 13 June, the Home Secretary announced a new Start-up visa route, which will build on the success of our Graduate Entrepreneur route and open it to a wider pool of business founders, and on 6 July we made changes to temporarily exempt doctors and nurses from our Tier 2 limit, freeing up extra places for other sectors.

UK Visas and Immigration have also invested significant effort into improving service standards for customers and increasing the premium and tailored services they provide. Nearly all our application forms are now online, meaning applicants only see the sections which are relevant to them. Feedback from our users is generally positive. Businesses tell us that the UK immigration system compares well with our global competitors, in terms of both

speed and certainty. Nevertheless, we are not complacent and we continually seeking to improve processes for our customers and to simplify applications.

10. When he gave evidence on 5 July, the previous Minister for Small Business was unable to guarantee that the SPF would provide the same level of funding to UK SMEs as the European Structural Funds, nor did he provide reassurance on the expected geographic distribution of the SPF compared to the Structural Funds. We will be monitoring developments in this area, including the consultation later this year.

Since the Committee's session on 5th July, the Government has published a Written Ministerial Statement including an update on the UK Shared Prosperity Fund and the extended guarantee for current European Structural Funds.

The statement confirms that the UK Shared Prosperity Fund (UKSPF) will invest in the foundations of productivity, including the business environment, as outlined in our modern Industrial Strategy. The fund will target the challenges faced by places across the country and its investment will be supported by strong evidence about what works at the local level. In England, local areas are preparing Local Industrial Strategies to prioritise long-term opportunities and challenges to increasing local productivity. Local Industrial Strategies will help areas maximise the long-term impact of the UKSPF. The details of the new fund's operation and priorities, including allocation of funding, will be announced following the Spending Review.

Business support to SMEs is one of the key priorities of the current European Regional Development Fund. The UK will remain in ERDF until the 2014-20 programme closes, under the terms of the Joint Report made in December 2017. At the same time, all Brexit scenarios are being planned for, including a no-deal. The Government's announcement to extend the guarantee for the full EU 2014-20 programme period and allocation, provides certainty in the event of a no-deal and a smooth transition to a domestic replacement.

11. We are concerned by reports that the EIF has “turned off the taps” on UK funding without a regulatory or legal basis. Can you confirm these reports, and has the EIF recommenced investment in the UK? What representations has the Government made to the EIB and the EIF on this issue?

The UK is currently a member of the European investment Bank (EIB), and has an indirect relationship with the European Investment Fund (EIF), which is a subsidiary of the EIB. It is important to recognise that the EIB and EIF statute does not entitle or guarantee Member States certain levels of investment. The Government is aware that the EIB and EIF are undertaking extra due to diligence on UK projects in relation to the UK's exit from the EU. However, the Government has been clear that whilst the UK remains a Member of the EU it enjoys the same rights as other Member States with regard to access to EIB and EIF financing. Treasury officials have therefore been working closely with the EIB to overcome delays faced by UK projects. Progress has been made with three guarantee and equity transactions being made to UK funds totalling EUR 61.5m in 2017.

12. As the UK takes back control of investment funds, there is an invaluable opportunity to address regional disparities in venture capital funding in the UK. We welcome the announcement that the British Business Bank will now consider ‘regional imbalances in access to finance for smaller business’ as part of its remit. We hope this will be reinforced with significant funding commitments to develop start-up and scale-up ecosystems outside London, including through the Midlands Engine and Northern Powerhouse funds.

Both the £400M Northern Powerhouse Investment Fund and the £250M Midlands Engine Investment Fund are fully operational, and making debt, equity and microfinance investments - we are very pleased with progress to date, and these funds are having the desired multiplier effect, stimulating new private sector investment funds in those regions to address different parts of the market. We were also pleased that the £40M Cornwall & Isles of Scilly Investment Fund launched in July, and we hope to see the first investments shortly. This spring also saw the launch of the £120m North East Fund, led by the North East Local Enterprise Partnership, offering debt, equity and mezzanine finance.

13. We noted with interest the points made about the marketing of non-London start-ups, and new initiatives by the British Business Bank to establish clusters of business angels outside London and a network of regional relationship managers. We would be interested to hear more about these initiatives, and other action the Government is taking to help non-London start-ups attract the attention of venture capital firms, angel investors, and other funding opportunities.

The British Business Bank (BBB) is carrying out a range of initiatives to help businesses across the length and breadth of the UK to attract the right sort of finance to start up, scale up and stay ahead. These include:

- A network of regional and territory managers, the purpose of which will be to work with the local economic development ecosystem to help businesses find the right types of finance for their needs and to build the availability of a range of types of finance in different parts of the UK – most of these posts are in the process of being filled;
- A commercial investment programme to support developing clusters of business angels outside London and the South East, as announced in the 2017 Autumn Budget;
- A new Finance Hub, launched in July, providing an online tool which helps businesses to identify the right types of finance for their specific needs;
- A new £2.5bn British Patient Capital programme. This will cornerstone new equity capital funds to attract at least £5bn of private capital into new investments in high growth potential businesses across the UK, with the aiming of increasing fund size and shifting investor behaviour toward more sustained investment durations;
- A new managed funds programme, managed by the BBB, with up to £1.5Bn to be deployed in up to three waves of support of up to £500M each. This will further boost the availability of growth capital for businesses across the UK.

14. Both EU and UK application processes for research grants appear, from the evidence presented to us, ill-suited for fast-growing companies. Brexit thus presents an opportunity for UK funding bodies to redesign their processes to be more effective for start-ups and scale-ups. Does the Government recognise this opportunity, and what steps is it taking to improve Innovate UK's application processes?

Innovate UK, the part of UK Research & Innovation that focuses on accelerating business growth through innovation, stimulates productivity and economic growth by supporting businesses to develop and realise the potential of new ideas arising from the UK's world-class research base.

Innovate UK does not award research grants; instead, Innovate UK awards matched grants and loans to both single companies and collaborations between businesses and academics working on projects that seek to bring more mature technologies with higher Technology Readiness Levels to market.

Innovate UK consults regularly with businesses – including SMEs – on how it can modify and improve its processes so that they better meet the needs of businesses that stand to benefit from the support it offers. For example, Innovate UK engaged closely with businesses in receipt of its funding when developing its new digital application portal, the Innovation Funding System, and continues to seek users' feedback on how the service is performing. Indeed, publicly-available data on grant winners shows that start-ups and scale-ups represent the lion's share of organisations funded by Innovate UK.

15. We welcome BEIS's approach of targeted engagement for those SMEs currently exporting to the EU, who will be most affected by a transition to new arrangements. What support, if any, has been provided to these companies about Brexit to date, and what further support is planned?

This government recognises the value of exporting and the benefits it can bring to small businesses. BEIS works closely alongside the Department for International Trade to ensure SMEs are well supported and able to access export opportunities. My colleagues in DIT provide support through: a regional network of International Trade Advisers and Export Champions; through sector teams; through overseas networks; through the international events programme and via online services. The great.gov.uk website offers digital tools to help businesses export and has had over 3 million visitors.

UK Export Finance (UKEF) has dedicated Export Finance Managers across the UK to help SMEs identify their export finance requirements and find solutions. In 2016-17, 79% of UK companies supported by UKEF were SMEs. In October 2017 UKEF partnered with high street banks to offer SMEs, including businesses that supply exporters, access to government-backed trade finance directly from their banks.

The Government has recently published our Export Strategy, setting out our intention to grow exports as a share of UK GDP from 30% to 35%. DIT has also engaged with a number of SMEs, including organisations such as the Federation of Small Businesses and the British Chamber of Commerce, alongside other Government departments - including BEIS - to consider how best to support all businesses to export or import as appropriate.

In addition to these “business as usual” activities DIT is also making extensive preparation to support businesses through the change to new arrangements, and to help them gain maximum benefit from new trade agreements.

16. What is your assessment of the demand from SMEs for Government assistance in accessing new export opportunities, and what proportion of businesses involved in DIT’s trade missions in the past two years have been SMEs, start-ups and scale-ups respectively?

The DIT National Survey of Registered Business in the UK (2018) asked SMEs with over £500k turnover which identify their goods or services as suitable for export to say whether they had sought advice about exporting: 39% said they had.

The same survey asked the same group SMEs with over £500k turnover which identify their goods or services as suitable for export to say (without using sources of information to prompt) where they would go for support or advice on exporting: 73% of SME’s said a UK Government Department/Agency.

Published data from the Performance and Impact Monitoring Survey shows that on average around 99% of TAP beneficiaries and just under 90% of outward missions beneficiaries are SMEs. Data on start-ups and scale-ups is not available.

17. Brexit could be an opportunity to challenge SMEs to export more, including outside the EU. However, to do so, SMEs will need Government support. We encourage you (BEIS) to continue working closely with DIT to ensure the specific needs of SMEs, start-ups and scale-ups are considered in the development of the Government’s export strategy.

DIT and BEIS have worked closely together to ensure that the specific needs of SMEs, start-ups and scale-ups were considered in the development of the government’s Export Strategy. The strategy is based on extensive consultation with businesses and business representative organisations of all sizes across the UK.

The Export Strategy announced a range of measures designed specifically for SMEs, including: promoting peer-to-peer learning by forging a community of thousands of UK Export Champions; making it easier for SMEs to access government support by exploring opportunity to develop a single online platform bringing together export and business growth support; and assessing financial incentives for SMEs to access private sector advice such as vouchers, grants and loans.

In addition, DIT and BEIS will explore how advanced data science techniques can be used to identify businesses, including start-ups and scale-ups, with the highest potential to export so that they can be approached with targeted support.

The strategy also recognises Government's role in challenging market access barriers that all businesses, including SMEs, experience overseas. This is particularly important in emerging markets. To inform this, DIT is developing a digital service to enable business and trade associations to report non-tariff barriers to government.

Yours Sincerely,

A handwritten signature in blue ink that reads "Kelly Tolhurst". The signature is written in a cursive style with a horizontal line underlining the name.

KELLY TOLHURST MP

Minister for Small Business, Consumers & Corporate Responsibility