HOUSE OF LORDS

Select Committee on the European Union

Internal Market Sub-Committee

Uncorrected oral evidence: Brexit: SMEs, including start-ups and scale-ups

Thursday 5 July 2018

10.55 am

Watch the meeting

Members present: Lord Whitty (Chairman); Lord Aberdare; Baroness Donaghy; Lord German; Lord Liddle; Baroness Noakes; Baroness Randerson; Lord Robathan; Lord Russell of Liverpool; Lord Wigley.

Evidence Session No. 3 Heard in Public Questions 15 - 21

Witnesses

I: Andrew Griffiths MP, Parliamentary Under-Secretary of State, Minister for Small Business, Consumers and Corporate Responsibilities, Department for Business, Energy and Industrial Strategy; Dr Rannia Leontaridi OBE, Director, Business Growth, Department for Business, Energy and Industrial Strategy.

Examination of witnesses

Andrew Griffiths MP and Dr Rannia Leontaridi OBE.

Q15 **The Chairman:** You are very welcome to the Committee this morning. As you know, the Committee is looking at economic and industrial implications of Brexit and the regulations surrounding it.

At a relatively early stage, we felt that sometimes the industrial representations to us were very much from larger businesses or from trade associations purporting to represent small businesses, but we were not quite getting to the real view of small business, so we decided to undertake a fairly broad-based inquiry into the way small businesses were responding to the prospect of Brexit, and the Government's guidance and support, or otherwise, in that process. A number of issues have come up already and we expect to complete this relatively short inquiry by the summer. It is therefore very timely that we have managed to secure your presence here today. Thank you very much.

I remind everybody that this is a public session, that the business of the Committee will be recorded and witnesses will have a chance to check the manuscript. I remind my colleagues that, if they have an interest to declare, they should declare it before they ask a question. We have a set structure of questions, but it may be slightly more informal in practice.

Could I ask you to open, Minister, by describing the department's view of small business engagement with the Brexit process and the Government's initiatives in that respect? A particular question that came up, particularly when we were dealing with tech-based companies, both start-ups and those attempting to scale up, relates to access to staff and thus the visa process and the migration process. Something that surprised us to some extent was their dependence on relative freedom of movement for highly qualified staff between us and the EU. Perhaps you would focus on that area, as well as giving us the general view of the department on small business and Brexit.

Andrew Griffiths MP: Thank you, Lord Chairman and members of the Committee, for inviting me to come to give evidence. I have had the opportunity to read the transcripts of the hearings you have had so far, and I think that the work you have been doing is hugely helpful and valuable in shining a light on Brexit from the SME perspective.

We hear in the newspapers and see on TV quite often the voice of big business, and let me say from the outset that it is absolutely correct that government hear and listen to the voice of business, but as the Minister for Small Business I am here to do things not just to small business but with and for small business. I therefore really welcome the opportunity for us to shine a light on the SME perspective in relation to Brexit.

With me, on my left, is Dr Rannia Leontaridi, who is my Director of Business Growth at the Department for Business, Energy and Industrial Strategy. Rannia is focused specifically on SME policy, so no doubt at some stages she will whisper in my ear or make some contributions herself. I think it is better that you hear the whole breadth, because we in the department do not just have ministerial engagement with SMEs; all our staff, all the civil servants in BEIS, are focused on communicating and understanding the issues that relate to small business.

I do not need to tell this Committee of the importance of SMEs to our communities and to our economy. SMEs are the backbone of the economy. Some 5.7 million companies up and down the country are classified as SMEs; 99% of all businesses in the UK are SMEs. They make up 60% of all the employment across the country. In my own constituency, while there are big companies such as JCB, small companies—the SMEs—make a massive contribution to employing people in my constituency, paying mortgages and putting bread on tables, so we recognise their importance.

The UK has a well-earned reputation as a great place to invest and to do business. It is no accident that we are in the top 10, according to the World Economic Forum and the World Bank, of places to do business, and we continue to be a hotbed for inward investment from around the world. That is because we have a business regime and a vibrant labour market that allow us to do that.

Within the department, we are working hard to ensure that the voice and the concerns of SMEs are heard in government and across government, both large and small. We make a real effort to make that engagement deep and meaningful, particularly during this period prior to leaving the European Union. As you know, last year we produced our modern industrial strategy, a document that sets out not only the kind of economy, the kind of country, that we want to be but the road map for us to achieve it. BEIS Ministers have to learn it word for word and keep a copy on the bedside table for reference during the night.

That document talks about the importance of investing in people, ideas and the infrastructure of the future, and I think we all recognise that that is hugely important for our future economy. Things like better access to finance, a more skilled workforce, closer working relationships between sectors, more investment in digital, enhanced extra support for business, better-paying jobs and upgraded infrastructure. - all these things are just segments of our approach as a Government to delivering the kind of economy that we want.

I point to real successes that we have had in recent years. Just in the last few weeks, the British Business Bank, wholly owned by the UK taxpayer, launched a patient capital fund of some £2.5 billion to try to get long-term investment in high growth-potential companies in the UK. We hope to unlock £20 billion in total of patient capital so that we can have long-term investment in UK plc.

We have, as you know, announced a number of very important sector deals, bespoke arrangements for sectors across the economy. The artificial intelligence deal has 50 leading technology companies and organisations contributing to a deal worth almost £1 billion, including private sector investment, to make the UK the No. 1 place for investment in artificial intelligence. We have agreed a sector deal in life sciences worth £1.2 billion, creating 1,000 new jobs. We published the automotive sector deal and, importantly, investment of £246 million in the Faraday battery challenge, something that SMEs are particularly focused on in their ideas and innovation in highly technical areas. Today, as we are speaking, my colleague Richard Harrington, a Minister in the department, is on his feet in the other place, announcing the construction sector deal. So we are trying to make bespoke deals to facilitate and act as a catalyst for business in the UK.

It is important to recognise that we are focused, particularly in BEIS, on ensuring a smooth and orderly exit from the European Union, with a real focus on ensuring that we do not place an undue burden on the SME community. Although large businesses have the ability and scale to cope with change, and to deal with issues of logistics and suchlike, we recognise that small businesses find it more difficult to adapt, more difficult to cope, and do not have the resources to be as fleet of foot. We are very keen on hearing the voice of business.

SMEs have particularly welcomed the implementation period, which gives them certainty and clarity over the rules and operating procedures they will have to go through until the end of 2020. That is to be welcomed. It is also very important that we have been able to clarify for SMEs that they will have only one set of changes. Business can cope with change, but constant change—tinkering and iterations—makes it very difficult. Therefore, as the Minister for Small Business, I assure the Committee that across the department we are actively and proactively engaged with the SME community in assessing their needs, understanding the problems that they believe they will face and making sure that those concerns are properly represented, not just in our department but across government.

Lord Chairman, you specifically asked about the impact of EU exit on SMEs for skills and the labour market. Among my bailiwick of responsibilities, I am the Minister for the labour market. We all recognise the valuable contribution that EU workers have made to our economy and our communities. We are better and more vibrant for their being here. One real success of the UK economy is down to the flexible and vibrant labour market that we have been able to deliver in the United Kingdom.

Let me for a moment, if you will forgive me, point to record numbers of people in work, the lowest unemployment for 40 years and record numbers of women in the workplace. We have created an environment where 1,000 new businesses are created every day in this country, the vast majority of them SMEs. We do not want to do anything that would detract from our ability to continue that hothouse environment for new businesses.

I highlight four brief points on labour markets. First, we have asked the Migration Advisory Committee—the MAC—to gather evidence on EU migration and the role of migration in the wider economy. I am one of those politicians who likes to listen to the experts. I like to understand the facts. The MAC, in establishing them, plays a hugely important role. As the Committee knows, the MAC produced its interim report, but it still recognises that we need to wait for the full report, which I believe is due in September, before we can draw a conclusion.

Secondly, as I said, I am vigorous in my engagement with SMEs. As a department, we meet business representative organisations, people such as the FSB and the EEF, which represent so many small businesses, on a weekly basis. I have my SME advisory board, which meets monthly, and brings together those trade bodies and organisations from across the SME sector. People such as Robin Walker, the Minister responsible for Brexit, come in and actively engage with those representatives, so that across government we understand the views of SMEs.

We have made some important changes on visas and immigration. The announcement removing doctors and nurses from the skilled worker visa—the tier 2 visa—is important not only because it means that we can have access to the doctors and nurses from overseas we need, but because it creates headroom, space, for the highly skilled workers to come to the UK that so many SMEs are desperate to get their hands on.

You mentioned tech companies, Lord Chairman. Recently—in the last few days—we announced the start-up visa. It was announced during London Tech Week and is a faster, quicker, simpler process to replace the existing visa route that was exclusive to graduates, to try to encourage people who want to come in to start businesses in this country—to employ people and add to our economy—and to make it easier for them to do that. Those changes build on the changes to the exceptional talent visas for digital technology; we increased the number to 2,000 a year ago and allowed individuals to settle after three years, rather than five years as it was previously.

Finally, I highlight that the success of our economy post Brexit and a skilled labour market are not just about EU migrants; they are also about what we are doing at home. Our investment as a Government in quality apprenticeship and in T-levels is hugely important.

The Chairman: Thank you very much. We will come back to some of the more general issues in a moment. Representations have been made to us that if the EU system for skilled workers, or any workers actually, is equivalent to the one that applies to non-EU workers, tier 2 in particular, it will be a complex bureaucratic barrier for them.

Andrew Griffiths MP: Yes.

The Chairman: There was particular reference to the 80-page form that existing EU members are required to fill in. Those two things have been raised with us. In your discussions with the Home Office and the Migration Advisory Committee, et cetera, are those in your sights?

Andrew Griffiths MP: We recognise that we need a visa system that is fit for purpose, simple and straightforward to apply and speedy in its response and that gives certainty for businesses that want to bring people into the UK in order to add to their businesses and help the economy. I can, I hope, reassure the Committee that there are, at all levels of government, ongoing representations and negotiations on the way a future visa system will operate. The voice of business is clearly being heard.

At ministerial level, we meet our Home Office colleagues regularly. At the officials level, there are weekly meetings to discuss those kinds of issues. I assure you that the points that business makes to us about its need to bring people in and out of the country in a speedy and appropriate way that meets business needs, particularly the most talented individuals who can add real value to those businesses, and the points about the need for speed, clarity and ease, have landed with our department, and we are reinforcing them in the Home Office. Rannia, do you have anything to add?

Dr Rannia Leontaridi: As my Minister just said, our officials work very closely together across Whitehall on the visa immigration system. London Tech Week was an example. We got together and discussed across very many departments introducing the start-up visa to help the tech sector, as my Minister suggested. The online application system has been and continues to be streamlined to make it easier. There are 17 visa application centres across the world. Some of them are a 24-hour service, and some examples include Bahrain, Canada, Kazakhstan and the USA. We try to make things simpler, not only here but across the world.

Baroness Donaghy: At one stage, Minister—I may have misheard you—you said that people could stay for three years instead of five. I wonder if you meant the other way round.

Andrew Griffiths MP: I meant that they could now settle after three years rather than five.

Baroness Donaghy: Thank you very much.

The Chairman: The next question is on a rather more optimistic note.

Q16 **Baroness Noakes:** There will be opportunities, we hope, for the UK after Brexit to focus on trade outside the EU. I would like to focus in particular on the SME component of that and what government is doing about it.

We heard from the Federation of Small Businesses that only 20% of small businesses export. Although not all small businesses are exporters, by the very nature of what they do, it seems a shockingly low number. Within that 20%, the vast majority—90%—trade exclusively with the EU, which seems to present a missed opportunity for the UK and a missed opportunity for growth. What are the Government going to do about that?

Andrew Griffiths MP: I could not agree more. Of course, there are inherent uncertainties and risks in the future when we leave the

European Union, but I, like you, am a glass-half-full man; I see the opportunities—I see the potential of the UK economy for growth.

Just shining a light on our performance in relation to exports from SMEs is quite startling. The fact, as you rightly say, that only 20% of businesses export, and, of those, 90% export to the EU, shows the mentality and the focus that we have had within the SME community. Some of that may be because those businesses are busy servicing their clients in the UK. It may be that there is a perception of difficulties in new and emerging markets, or it may be because it is simpler and easier to export solely to the EU within the single market, but it shows huge potential.

As a Government, we are keen to engage with SMEs and make them aware of the potential for exports, and there are two elements to that. Of course, we want a trading relationship with the EU that is as frictionless and close as possible. When we have a future economic partnership, when we have a deal with the European Union and we know the extent of that deal, we will be engaging with SMEs that are already exporting to provide them with the information and detail they will need to continue to export.

It gives us an opportunity to kick-start and further engage with businesses that are not currently exporting. This is a prime example: last Friday, in my constituency, my county, Staffordshire, had a "Let's do business" event at the racecourse in Uttoxeter, which I recommend to Peers if you are looking for relaxation at any time.

Lord Robathan: When is the next meeting?

Andrew Griffiths MP: A week on Sunday, I believe. That was a networking event where more than 200 businesses came together to build business-to-business relationships and business-to-business potential growth. At that event was a huge roadshow from DIT, a wagon fully staffed with civil servants, with videos and educational and advice leaflets to try to encourage people to see the potential of new and emerging markets, to raise our eyes and see.

The export strategy review will ensure that the Government have the right financial, practical and promotional support in place, such as that DIT roadshow. We are engaging with people such as the FSB to understand from them what government can do to raise aspirations and arm small business men and women with the tools they need to think about exporting.

The great.gov.uk website, which is a really interesting and exciting portal, has had some 2.7 million visitors in its first year. It focuses specifically on providing businesses—SMEs in particular—with the tools they need. We have 240 international trade advisers, funded by DIT. They are employed to give export support and deliver contracts across nine regional centres, across the country, to enable businesses to plan. They give real practical information. As a department, we see this as a catalyst to get SMEs exporting more.

Baroness Noakes: Minister, do you see this as a responsibility of the Department for International Trade or the responsibility of BEIS?

Andrew Griffiths MP: It is very much across government, and I reassure the Committee, hopefully, that there is a huge amount of cross-departmental work on it. The greatest relationship we have is with BEIS and SMEs, so we need to leverage that, but we are very keen to impress on them that, whether it is the Treasury, DIT or BEIS, we are all working together, particularly with the business representative organisations. There are some 5.7 million SMEs in this country. The ability of government to touch and inform all those 5.7 million is a challenge, so we need to use all the resources available to us to spread the message about the real positive effects of export.

Baroness Noakes: Minister, do you think the Government are doing enough?

Andrew Griffiths MP: I think we are gearing up. There is always potential for us to do more. As we negotiate trade deals, and as we wait for the terms of the deal on our further economic partnership, we have to be ready to press the button as soon as possible. Hopefully, you have been reassured that the work we are already doing to raise those aspirations is under way and that, once we know the full extent of the future economic partnership and the terms of engagement in some of the trade deals, we will be in a position to turbocharge the support we are giving SMEs.

Dr Rannia Leontaridi: Can I add some practical examples? The Department for International Trade also runs missions. More than 5,000 businesses have been involved in trade missions over the past two years, either outside the UK or delegations coming in, connecting them to small businesses. Those practical examples show cases where BEIS, DIT and other departments work very closely together.

One objective of the industrial strategy is to help businesses to start well and grow, and part of that is enabling businesses to have an international mindset. My colleagues and I are joining up at two levels. One is data; I believe that Irene Graham talked to you in a previous session about scale-up and the need for data to play an important role in targeting businesses. There is no point in BEIS targeting businesses for internal growth and DIT targeting them for exports, so we are joining forces to identify where we can do that jointly with the data we hold. The second area is where DIT and BEIS target similar businesses to offer them business support to export or grow. We want to do that together, locally, and we are starting with pilots on the ground.

Q17 **Baroness Randerson:** Minister, you have given us a very comprehensive rundown of the efforts you are making, but, as you emphasised, with 1,000 new businesses starting up every day, which is an astonishing figure, and 1 million small businesses in the country, it is a very complex picture. I regret to tell you that the SMEs and scale-ups we have talked to, and the small organisations representing them, not the FSB but the smaller local organisations, do not seem to be touched by your efforts so far. Indeed, the only praise we have had for government was for the efforts of the Welsh Government.

Could you explain whether you are providing information via an online portal, a hotline or a one-stop-shop, which is what we have been asked for—somewhere businesses can go directly to you and ask very specific questions? Their criticism is that, forgive me, the Government provide question and answer sheets written by civil servants that do not address the nitty-gritty, day-to-day problems of small businesses. They want an interaction that has not yet been provided to their satisfaction.

Andrew Griffiths MP: The points you raise are very fair. In a recent survey, some 87% of SMEs up and down the country said that they would like further detail and greater clarity about what the world is going to look like when we leave the European Union. I suggest that if you took that same survey of Members of Parliament you might get a very similar response: that we all want greater clarity and understanding about what the future economic partnership will be and what the future will be like.

The difficulty we face, as I am sure you recognise, is that there are so many unknowns in the future. Going up and down the country, engaging with small businesses, talking at forums and engaging with LEPs, I find that in many respects small business has tuned out at the moment. It is getting on with the day-to-day job of running business and servicing clients. Small businesses are waiting for government to tell them what they need to do.

A similar recent example is the GDPR. We saw businesses engaging at the very last minute and saying, "How does this impact on my business? What do I need to do, government? Tell me how I deal with these new data protection rules". SMEs in particular find themselves in exactly the same situation. Big businesses can employ a whole host of advisers, PR executives and experts in the field, but SMEs rely very much on good trade bodies, such as the FSB and chambers of commerce, to provide clarity and information. At the moment, we all recognise that more clarity is needed, and that clarity will not come until we get into the nitty-gritty of the future economic partnership.

It would be a mistake for us to go out now with a plethora of information when actually there is very little information to give. It is better to ensure that we have the channels ready, and that we have the delivery mechanisms, such as the portal that the noble Baroness alluded to, and that we have all those communication procedures in place. Then, when we know the rules and the modus operandi that businesses will be facing, we can press the button and use the whole panoply of channels to get information across to SMEs up and down the country.

Baroness Randerson: That is clearly what businesses would like, and I understand the sense of frustration that you refer to. I have a specific question about things that could be happening now. How are you involved with the devolved Administrations? I realise that it is difficult in Northern Ireland. In Scotland and Wales, there are devolved responsibilities. Nevertheless, small businesses work across borders and get information across borders.

Andrew Griffiths MP: You are exactly right. As the Committee knows, certain elements of business support are devolved matters for the devolved Administrations, but as a department and as a Government we are actively engaging, and that engagement has been very positive on all sides. The Secretary of State has met his opposite numbers in the devolved Administrations, and officials are engaging regularly and deeply on the issues, trying to forward-plan and advise SMEs.

You are exactly right that, while some of these things are devolved, the nature of business in the UK is such that businesses do not recognise devolved Administrations; they just want to deal with government and to ensure that the way they are enforcing the rules and playing by the rules will be driven by all the players—the devolved Administrations and the UK Government—so we need to make sure that we are singing with one voice and that the clarity of message is unified. Of course, the Scottish Government and the Welsh Assembly will wish to have their own perspective, but it is important that we ensure that the clarity of message and the importance of the detail for SMEs lands in a way that they can understand and use simply.

Lord Aberdare: I am quite struck by your approach that once we have a degree of clarity you will ensure that the right messages are available and accessible to small businesses. I am also struck by the contrast with the GDPR, because the way that was communicated to small businesses and charities was not very satisfactory.

What are you learning from the GDPR experience about what you are going to do once you know the environment we are going to be working in? How are you going to make sure that those messages are communicated in a way that does not sow confusion and dismay but provides good answers and good support?

Andrew Griffiths MP: I am reminded of a phrase that I was once told: if you want to keep something a secret, say it on the Floor of the House of Commons, because nobody listens to what we say. The GDPR situation clearly demonstrated that while the government machine can pump out information, and we can try to ensure that we engage with businesses, often the message does not land, because the people running SMEs are busy. They are servicing their clients, they are winning new orders, they are making sure that they pay their staff the national minimum wage, and they are abiding by all the rules that we as a Government impose on them. They are getting on with the day job. It was a very important lesson.

In the last few days before the GDPR rules came in, I met a small-business woman, a microbusiness. She said, "Look, we've not had enough engagement. What have the Government done to engage with microbusinesses?" The number of one-man and one-woman bands across the UK economy is quite remarkable: 4.3 million businesses with no employees—microbusinesses. If you are trying to engage with them and trying to inform them, there is only one person to land it with. It is not like a company with 20 people or 100 people at head office, one of whom will pick up on the GDPR issue or the Brexit issue, or whatever it may be. We are very mindful of that, and we are looking to make sure that we use the right channels.

The terminology, the language and the accessibility of the information that we provide small businesses is important. They do not have a team of lawyers to make sure that they abide by the letter and the detail of the law. They want something simple and straightforward to understand. The House can understand that I am a fairly straightforward, plain-speaking kind of man and I come from a small business background myself. We need to take that plain-speaking approach in our communications.

Part of this is about engaging people such as the chambers of commerce in areas and spreading the message, getting peer-to-peer discussions and information flow. I see in my own constituency and in my regular meetings with the chambers of commerce the real value they can have.

New technology has a role to play. Funded by the Government, we have 38 growth hubs across the country that all have tentacles in their local business communities. We have to be prepared, when we press the button, when we know what the future economic partnership is, to activate them across the country, like sleeper cells, with clear, concise and understandable information that they know how to disseminate to their members and the people they work with.

Q18 **Lord Wigley:** I declare an interest. I have a family involvement in small businesses in Wales, some of which have benefited from ERDF-originated funding from time to time.

Minister, I note that in your 2017 election manifesto the Government announced a shared prosperity fund that would be resourced by the UK's previous contributions to EU structural funds, which would be "specifically designed to reduce inequalities between communities across our four nations". When can small businesses expect to receive more clarity on the role of the shared prosperity fund?

Andrew Griffiths MP: This is a very important question. We have to go back to the question of what we want the shared prosperity fund to do. We as a Government have said that we want to do two things: boost productivity and reduce economic inequality, as you pointed out. I am lucky enough to be leading the productivity review in government, with my colleague Robert Jenrick in the Treasury, to try to understand how we can help at a firm-based level to improve productivity in the UK.

The figures are startling. If you are a French business man or business woman, you can close your business at five o'clock on a Thursday evening and not come back until Monday morning, and still be as productive as a British business man or business woman. The French are 20% more productive, not because they work harder but because they work smarter. That shows the importance of focusing on things such as productivity.

The shared prosperity fund has a huge opportunity to deliver us bespoke support for the objectives of companies and businesses across the country in a way that works for UK businesses. I do not underestimate the value and contribution that European funding has made to many projects and businesses in the United Kingdom. I worked in the European Parliament for five years and saw some great projects funded through European structural funds in particular, but we all recognise, having spoken to businesses and local authorities that have to administer those funds, that they could be bureaucratic, cumbersome and difficult to secure. Quite often you have to make your objective and project fit around the scheme rather than finding a scheme that fits the project you want to do.

The remarkable thing is the number of people who were deterred from applying for European structural funds and European funding simply because of the maze and the complexity in applying for those funds. Through the shared prosperity fund, we have an opportunity to simplify and focus, and make it work in a UK context.

Lord Wigley: When can we expect more clarity on the role?

Andrew Griffiths MP: A great deal of work is currently under way. It is certainly above my pay grade to show too much leg at this Committee meeting today, but I assure you that a great deal of work is being done across government, with the Treasury in particular, and with our colleagues in MHCLG, BEIS and the devolved Administrations, because this is a UK shared prosperity fund and we need a system and approach that has the involvement and understanding of the devolved Administrations.

Lord Wigley: On that specifically, do you expect the shared prosperity fund to provide the same level of support for small businesses, start-ups and scale-ups as the European regional development fund has done?

Andrew Griffiths MP: We hope that later this year we will launch a full public consultation on the rules and the way the shared prosperity fund will operate. The shared prosperity fund will be aligned to the Government's industrial strategy, the document I set out, and we seek to respond to the challenges in it. The consultation will encourage all parties, be it the Administrations, businesses or local authorities, to help us shape the shared prosperity fund. It is a work in progress. We understand the importance of getting it right from day one.

I understand your Lordships' desire for urgency; it is something that we need on the books as soon as possible, but the transitional period and the agreement that structural funds and European funding will be in place until the end of the current funding period give us a period of grace and breathing space for us to make sure that from day one we get the shared prosperity fund right. We get only one opportunity to do this. I would hate to have to come back in six or seven years to tinker. I would much rather consult properly, take a bit more time and make sure we get the shared prosperity fund right from the beginning.

Lord Wigley: Is it above your pay grade to confirm that broadly the same level of support would be available following the changes as has been coming from the ERDF?

Andrew Griffiths MP: We recognise that the levels of funding that we have seen from European funds have been hugely beneficial to the United Kingdom. We recognise that ensuring a similar level of funding across the United Kingdom would be preferable. Of course, we have a budget, and a Chancellor who makes these decisions, but it is our intention as a Government, certainly within BEIS, to make sure that the very real benefits of this kind of funding, acting as a catalyst and turbocharge for some of the growth projects, continue to operate at a level that allows them to be as effective as possible.

Lord Liddle: I am very partially reassured by all that, but I have two points. First, when we talk about structural funds being aligned to industrial policy objectives, it sounds to me as though the Government are trying to shift funding from dealing with regional and spatial inequalities, particularly in England where they are huge. After all, we know that the three northern regions of England are among the poorest per head in Europe, and you are trying to shift money from my part of the world, like Cumbria, to Cambridge in order that industrial objectives in Cambridge can be better met.

The second point is a criticism of Labour Governments as well as Conservative ones. You talked about bureaucracy in European funding. We campaigned in the regions to get control of how regional money is distributed. It is Whitehall that maintains an iron grip over how European money is dished out. It is not the Commission bureaucracy but Whitehall bureaucracy that refuses to devolve responsibility—for instance, to the Northern Powerhouse and the Local Enterprise Partnerships. That is what we have to do if we are to make a success of good relationships with small businesses and scale-ups. I do not think the Government are facing up to that question.

Andrew Griffiths MP: Hopefully, I can give you much greater reassurance, particularly as a Member of Parliament for the Midlands, and I class myself as northern. I completely understand your frustration and desire to make sure that support goes to regions of the United Kingdom where there is greater disparity and a greater challenge as a result of history.

Let me point to some of the things that we as a Government are doing. Over the last 18 months, the British Business Bank, set up by the Government and wholly owned by the taxpayer, has launched a £400 million Northern Powerhouse investment fund.[1] Recently, I went to north Tyneside to see some of the brilliant work going on in that part of the world, at IAMP, the International Advanced Manufacturing Park, to attract high-quality and well-paid jobs through inward investment.

We have a £250 million Midlands Engine investment fund. Just two weeks ago, I was very keen to push out the £40 million Cornwall and Isles of Scilly investment fund. All of these are being operated by the British Business Bank and funded in part by the UK taxpayer. Everything that we are doing in relation to the British Business Bank is hugely important; for instance, the Bank are now recruiting regional staff, advisers out in the regions focusing on making sure we get funding and support to businesses north of the Watford gap.

I return to the bible by which we operate, which is the modern industrial strategy. One of the key pillars of the modern industrial strategy is place and, through place, local industrial strategies, making sure that we tailor the support government gives regions and areas so that it fits their need. Recognition of the real challenges that places such as Cumbria and others around the country face is absolutely intrinsic to everything we do. I wholeheartedly reassure the Committee that there is no intention to have some sort of money grab or power grab for the south-east. This is a UK-shared prosperity fund that will bring prosperity to the whole of the UK.

Q19 **Baroness Donaghy:** Minister, you have referred to the British Business Bank and opportunities for domestic replacement funds. Would you like to elaborate on the opportunities the Government could make to use the funds more effectively for small businesses? Although you talked very eloquently about the effort to spread the joy north of the Watford gap – and I am not asking you to show a leg here – it is a fact that in technology start-ups 90% of the capital went to London. We are talking about ecosystems, are we not?

Andrew Griffiths MP: Yes.

Baroness Donaghy: We are talking not just about small businesses relating to technology but about how or whether the Government can have a role in trying to create those ecosystems elsewhere.

Andrew Griffiths MP: You are absolutely right that there is disparity in access to finance for businesses north of the Watford gap. Recently, I went to an event for scale-up businesses at the London Stock Exchange. I was very struck by how easy it is for fast-moving, rapidly-growing businesses in the south-east, in London in particular, to get access to finance, yet how difficult it is to access if you are in Birmingham, Bradford or other parts of the country. We are very keen to address that.

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[1] Note by witness: this fund has been launched in partnership with 10 Local Enterprise Partnerships.

The British Business Bank has an initiative to try to develop a new regional angel investor programme. There is a club of angel investors in London and the south-east who are highly motivated, very much in touch with businesses and opening their cheque books to support businesses in the south-east. That network is nowhere near as developed in the Midlands, the north and Cornwall. What can we do? We can sit back and gnash our teeth and say how disappointing it is, or we can roll up our sleeves and try proactively to act as a catalyst to develop those kinds of networks.

The British Business Bank approach of having very senior regional development staff across the country goes a long way to preventing the bank and the support which the UK Government are giving being focused on the south-east. I see the huge potential that we have in some of the scale-up businesses in the north of the country.

We have 38 Growth Hubs that we are funding to the tune of £12 million a year. We are trying to put experts in the regions to build a network of investors. From an SME perspective, I find deeply worrying the lack of appetite for SMEs to borrow. Only 3% of SMEs say that over the next 12 months they intend to borrow from a traditional lender to grow their business. One of the reasons for the productivity lag is that businesses do not have access to capital and finance to turbocharge their business.

I recently went to the board of the British Business Bank and made it very clear to them, and they agreed, that our priority has to be to build those networks and ensure that businesses across the whole of the United Kingdom have access to the finance they need. I am very attuned to that. You make a very important point.

Q20 **Lord Russell of Liverpool:** It has been very helpful to get a bit more detail about the British Business Bank. A lot of the individuals and organisations that we have taken evidence from are very keen to know exactly what it is going to do. In addition, there are two specific areas where people would like to know the Government's point of view.

First, do the Government intend to expand the Enterprise Investment Scheme and the Seed Enterprise Investment Scheme, whatever happens post Brexit? Secondly, some countries have been very successful in changing some of the rules around public procurement to try to facilitate and encourage procurement exercises, and make it much easier for small businesses and local businesses to participate. Those are two specific areas. If you could answer each, it would be very helpful.

Andrew Griffiths MP: They are two very important questions. In relation to the British Business Bank, on my first day as Minister, my officials knocked on the door in the afternoon and said, "Minister, just to let you know, in addition to your other responsibilities you are the Minister responsible for Carillion", not, hopefully, responsible for its collapse but for the Government's response to it. When there was uncertainty for businesses in the supply chain about how banks would react and whether, all of a sudden, they would find finance being pulled and the bank knocking at their door and foreclosing, one of the great things about the British Business Bank was that it stepped up with guarantees to the tune of £100 million. That gave confidence not just to those companies but to the wider finance and banking network in the UK, so it has a very proactive role to play.

Both the Enterprise Investment Scheme and the Seed Enterprise Investment Scheme play a very important role in the finance landscape. In business finance, we are looking to widen the range of options available to SMEs. Talking to investors, we get great feedback on the EIS and Seed Enterprise Investment Scheme. They are well regarded for their flexibility and their benefits. The businesses that have benefited from their support recognise the contribution we made.

In the autumn Budget, we announced a significant expansion of the support that knowledge-intensive companies can receive through EIS and through the venture capital trust, while introducing a test to reduce the scope and redirect low-risk investments. We do not want those kinds of things to fill space where other vehicles are already available; we want them to be innovative.

We have doubled the annual investment limit for EIS investors from £1 million to £2 million. That is important. It raises aspirations and appetite for risk. We have doubled the annual investment limit for knowledge-intensive firms from £5 million to £10 million, and we have recently consulted on a new knowledge-intensive EIS-approved fund structure. The consultation closed on 11 May. We are coming forward with consultations. The EIS provides tax relief of 30% on investments of £10,000. This is a really positive thing, and we see it as one of the tools to provide businesses with the investment and capital they need to thrive and grow.

Lord Russell of Liverpool: It is a good thing. The specific question was: can we have more of it, please?

Andrew Griffiths MP: Certainly, from a BEIS perspective, I hope the consultation I alluded to will be an opportunity for government to look again and see what more it can do. I am limited in what I can say to you today, but I hope you will be reassured that we in the department see the very real value of it.

Lord Russell of Liverpool: And on public procurement?

Andrew Griffiths MP: In a way, public procurement feeds into my opening statement about Carillion. We saw with Carillion how things can go so badly wrong in procurement. I understand the approach to risk and the awarding of contracts, but the potential for more SMEs to win government procurement is huge. The Carillion collapse brought into sharp relief the need for us to revisit what we can do as a Government to ensure that small and medium-size businesses across the country get their slice of the cake in government procurement.

We have committed to £1 in every £3 of central government procurement going to an SME by 2020. The Prime Minister has recently written to every member of the Cabinet to urge them to grasp this potential and make sure their departments are delivering on that. You will have seen that, only last week, the Crown Commercial Service, through David Lidington, my colleague in the Cabinet Office, set out new requirements and approaches in public sector procurement, to recognise more closely the value and importance of awarding contracts to SMEs and to social value companies so that that can be considered in the mix when the Government are deciding on the awarding of contracts.

We have set up a website called Contracts Finder, of which you may be aware. We now ensure that all central government contracts above £10,000 are advertised and are available on that website. That is a portal where SMEs across the country can see daily what contracts are being awarded and have the ability to bid for them.

We have abolished the pre-qualification questionnaire, which was a really cumbersome tick-box exercise whereby every time a company wanted to apply for a government contract it had to send the same information about the business. We now require public buyers across government to divide contracts into more accessible lots, bite-sized chunks, so that SMEs have an opportunity to win them.

Another important thing is that we now mandate that prime suppliers that win large government contracts, those over £5 million, have to advertise all their subcontracts on the Government's Contracts Finder website as well. That increases opportunity and visibility to allow SMEs to win more contracts. I am hugely focused on it. Getting government to do more business with SMEs has massive potential.

The Chairman: As you know, we recently completed a report on state aid, since when the CMA has been put in charge of state aid. In the context of the use of public procurement in state aid and industrial policy, do you see our potential freedom from EU state aid rules as helpful, particularly for small firms?

Andrew Griffiths MP: I should enlighten the Committee that I am also the Minister responsible for competition and state aid. I am reassured that with the CMA we have a really robust and well-respected organisation that can deliver both competition policy and state aid. We have not done state aid. You have given evidence in the European Parliament on many occasions, Lord Chairman, and you will know that we have not done state aid in this country since we joined the European Union; it has been administered and run by the Commission. We are having to gear up our state aid team to make sure that we are ready after the transition to deal with state aid cases.

There is an opportunity for us to ensure that state aid rules in future reflect the needs and priorities of the United Kingdom as a whole, but we have to recognise that we need to maintain the confidence of our European partners. We have a competition policy that is the envy of the world. We enforce it properly to the benefit of consumers and companies, not just in the UK but across the EU more widely. Whatever changes we may choose to make in this and the other place to our future state aid rules have to be made with the understanding that they must also have the confidence of other Member States and partners we do business with. Likewise, the European Commission has to recognise that its state aid regime, which is well respected, has to maintain our confidence too.

Q21 **Lord Aberdare:** I do not know whether I should have declared as an interest the fact that I had my photo taken with the Minister yesterday when he was presenting the Responsible Business Champion awards, including to a number of SMEs, which is very good.

After we have left the EU, we will be operating in the single market as third country businesses. Quite a number of our witnesses have indicated that small businesses have not informed themselves about what that would actually mean. What support and guidance are the Government offering in this area—for example, in relation to trusted trader schemes? I think we have something called the authorised economic operator scheme. Secondly, what assessment have the Government made of the cost to SMEs of adapting to the new frameworks, customs processes and administrative and bureaucratic requirements that will follow?

Andrew Griffiths MP: It is a very important question. I begin by reiterating that we want the broadest and deepest possible partnership post Brexit, in which case we hope we can come up with a deal that will mitigate many of the requirements that could be put on us if we did not have tariff and barrier-free trade with our European neighbours. That is our optimistic approach, and something that would be to the benefit of both the EU 27 and the United Kingdom.

We are hugely focused on this in the department, to the point where we have engaged with SME stakeholder trade bodies to get them to understand, and ask their members, the kinds of technical questions the issue throws up. The reality is that it will be a hugely complex and complicated area, particularly in such things as rules of origin, that for so long UK businesses have not had to worry about. When you consider, for instance, that 60% of the constituent parts of a Mini made at Cowley come from other Member States around the European Union, you can understand just how challenging it is.

We are keen to try to understand the scale of the problem from an SME perspective, and to make sure that we put in place a system that is workable for them. The FSB has been very helpful in talking to its members, as has the British Chambers of Commerce. The authorised economic operator, which you alluded to, is a trusted trader scheme for customers importing from and exporting to countries outside the EU. It is internationally recognised; it is a quality mark, and it ensures that the supply chain is secure.

This goes across departments. HMRC is committed to promoting and developing the AEO so that it provides real benefit for trusted traders and allows us to offer greater levels of facilitation; it allows focus on enforcement and intervention on non-compliance rather than on businesses that can be trusted and are doing the right thing. We intend to negotiate mutual recognition of AEOs as part of our future economic partnership, and we are looking at how the whole AEO application and authorisation process can be improved so that it is more effective.

You asked what assessment we had made of the costs arising from adaptation to a new trade framework. There are 145,000 VAT-registered businesses exclusively within the EU, the majority of which are SMEs. We want to make sure that we have a system that works for them. We have embarked on a wide range of engagements to ensure that in our negotiations we put in place a system that works for them.

In August last year, the UK proposed options for the UK's future customs arrangements: a highly streamlined customs arrangement and a new customs partnership. Clearly, we now have a third proposal, which will be open for discussion. Ministerial working groups have been established to look at the efficiency of the models and take into consideration the costs to UK plc, Her Majesty's Government and business. Those are works in progress that I am not able to share with the Committee at the moment, but you can rest assured that the impact on businesses, particularly small businesses, is high on our priority list. We are very attuned to the fact that we need a system that is rapid, efficient and low cost for business.

Lord Aberdare: Presumably, it comes back to the question we discussed earlier. You need a very efficient and wide-ranging system for getting the messages out, once it is clearer what the issues are, what the potential costs are and what the ways of addressing them might be.

Andrew Griffiths MP: In many respects, this is one of the most complicated and complex areas for SMEs to understand. We hear about the 20%—one fifth—of UK SMEs that are exporting. Those exporters tend to be the fastest growing and most dynamic SMEs. We do not want a situation that would act as a damper on that growth and the dynamic nature of those businesses. That is very, very important.

You have heard BEIS Ministers talk ad infinitum about the need for us to have a frictionless and quick customs process that allows for rapid movement. In my constituency, many hundreds, if not thousands, of people are employed at Toyota's Burnaston plant. It has a very complex supply chain. It is absolutely essential that the goods Toyota needs, with its just-in-time management, are not sitting in a customs warehouse for days on end; they should be in the factory being fitted to cars at the very moment they are needed.

Lord Aberdare: I am encouraged by what I think I am hearing, which is that you recognise the need to focus on the 20% that are currently exporting, because they are the ones that have not had to do any of this stuff up to now. They will have to do something different, whereas the new exporters are at least starting from scratch with a new system. We are concerned about people who have taken it for granted that they can export to the EU without friction.

Andrew Griffiths MP: You are exactly right. We are trying to hone the data we have so we that can easily identify, focus and target our messages on SMEs that are currently exporting. I hope there will be some diffusion, and that the noise we are generating to focus on SMEs that are currently exporting will also be heard by other businesses that currently are not exporting, and are thinking that maybe now they would like some of that. This is an opportunity for them to think about exporting as well.

The Chairman: Can I put you on the spot about one issue? I do not think you entirely answered the point raised by Lord Wigley. We have talked about government support and funding. There are new initiatives and a lot of new schemes, which all sounded very positive for small businesses, but I think I am right in saying that you were not able to say whether they would come to the same amount as we currently receive under Europe. Your colleague Mr Michael Gove has been able to say to farmers and land managers that, at least until 2022, the same amount of money will be available. Do I take it from your diffidence about your relationship with the Treasury that you are not in a position to make that statement?

Andrew Griffiths MP: I am not in a position to say that, but that should not lead your Lordships to assume that it indicates in any way that these things may be cut. A discussion is taking place. We have made commitments that we intend properly and adequately to fund businesses and growth in the United Kingdom. Funding is a decision for the Treasury and the Chancellor, but, as you know, the UK will remain in the ERDF until the programme closes in 2020. That gives us an opportunity properly to assess and come forward with a package that I feel confident will satisfy the Committee.

The Chairman: I recognise that that is as positive a view as we can get on that one. Unless any of my colleagues want a final throw, thank you very much for your time and the fullness of your answers. No doubt we will come back to some of the issues. We will produce a letter by the summer on the small business side of it. Clearly, a whole lot of other aspects of your portfolio will impact on our continuing work.

Andrew Griffiths MP: Once again, I thank the Committee for focusing on SMEs. I am the champion of SMEs. The more we can do to shine a light on the perspective of SMEs to raise their profile within government and debate, the more helpful it is for all of us, so thank you for taking the time.

The Chairman: Thank you very much.