

The impact of EU exit on SMEs in London

SMEs in London

- 1.1 According to the latest statistics, there are around 970,000 SMEs in London.¹ SMEs account for the vast majority of private sector business in London, and also make up a substantial proportion of private sector employment and turnover (see Table 1). Since 2010, the number of SMEs in London has increased by 36 per cent.

Table 1: Number of businesses in the private sector and their associated employment and turnover, by number of employees, London, 2015

	Businesses		Employment		Turnover ¹	
	Number	Share of total (%)	Number (000s)	Share of total (%)	Number (£ million)	Share of total (%)
No employees² (unregistered)	544,920	55.8	589	11.6	21,936	2.0
No employees (registered)³	216,125	22.1	224	4.4	39,678	3.6
Micro (1-9 employees)	175,765	18.0	639	12.6	110,576	10.2
Small (10-49 employees)	32,005	3.3	615	12.1	176,941	16.3
Medium (50-249 employees)	5,560	0.6	555	11.0	236,719	21.7
Large (250+ employees)	1,460	0.2	2,454	48.3	238,784	21.8
Total	975,835	100	5,076	100	824,634	75.6

¹ Turnover figures exclude SIC 2007 Section K (financial and insurance activities) where turnover is not available on a comparable basis.

² "No employees" comprises sole proprietorships and partnerships comprising only the self-employed owner-manager(s), and companies comprising only an employee director.

³ Companies registered for VAT and/or PAYE in the UK

Source: Business Population Estimates, BIS 2015

- 1.2 SMEs in London are important to the UK economy. In 2014, London SMEs accounted for 18 per cent of all UK private sector SMEs and 30 per cent of the turnover generated by all UK private sector SMEs,² despite London having only 13 per cent of the UK's adult population.³⁴ The majority of SMEs in London are either in the professional, scientific and technical activities or the construction sector (see Chart 1). Most SMEs in London do not employ anyone aside from their owner (see Chart 2).

¹ There is no single definition of small firms, but for statistical purposes an SME is defined as any business with less than 250 employees.

² Excluding those within financial and insurance activities, where turnover is not available on a comparable basis

³ [Business Population Estimates 2015 \(BIS, 2015\)](#)

⁴ 2014 ONS mid-year population estimate

Chart 1: The majority of SMEs in London are either in professional, scientific and technical activities or the construction sector

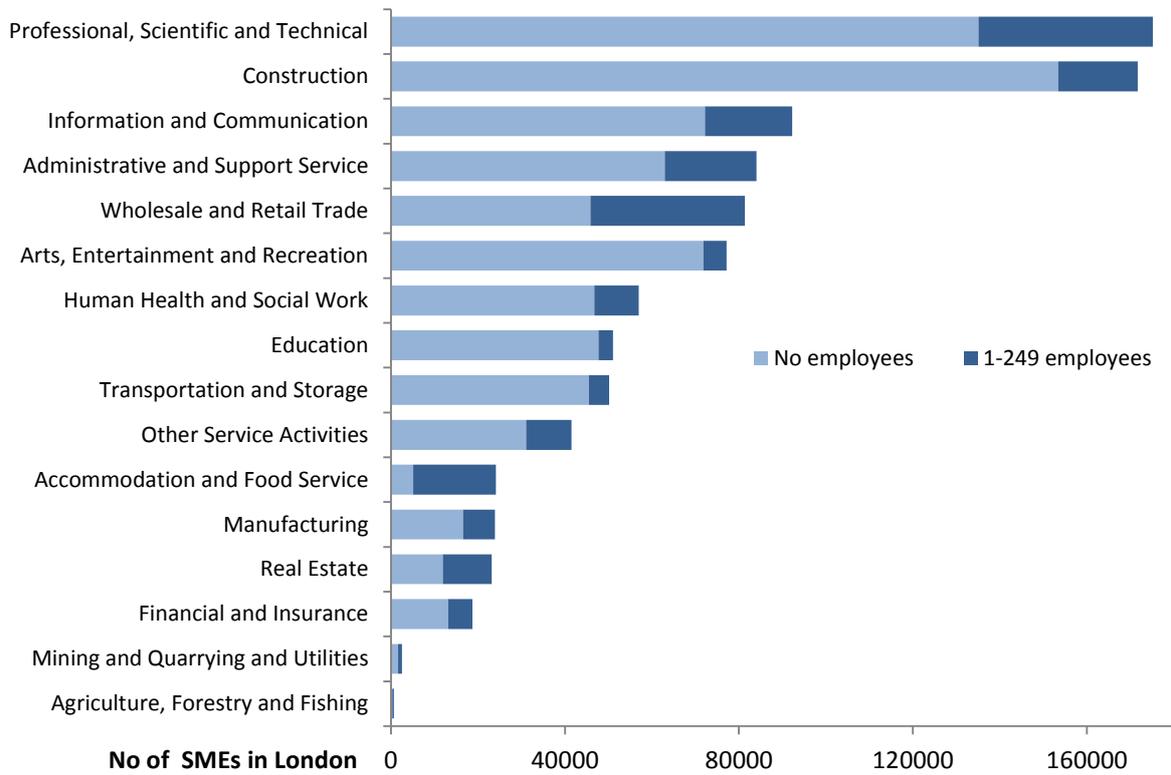
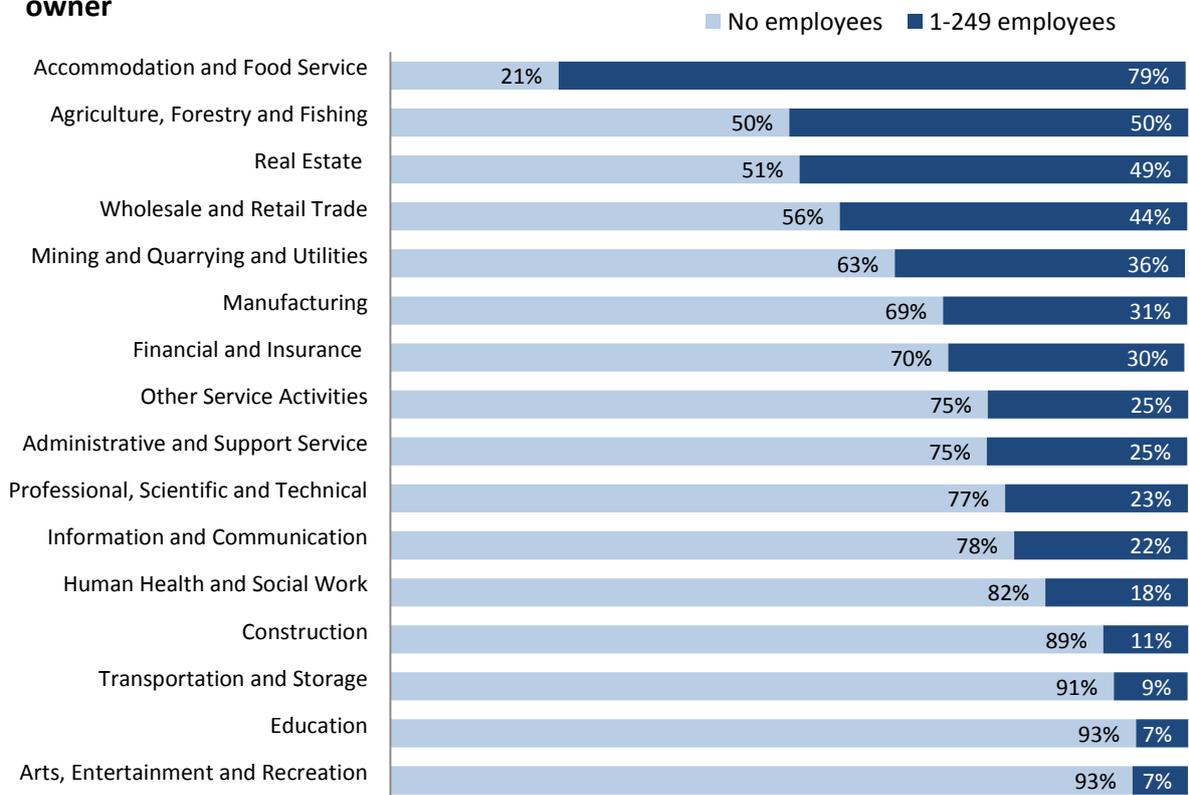


Chart 2: Most SMEs in London do not employ anyone aside from their owner



UK SMEs and the EU

- 1.3 The conditions in which UK SMEs operate compare favourably to conditions in other EU countries. The UK is one of only a few EU member states where its SME sector has recovered fully from the financial crash. In 2014, the number of businesses classified as SMEs, the number of people employed by SMEs, and the GVA created by SMEs all surpassed 2008 pre-crisis levels. The main driver of this recovery was the service sector.⁵ The UK has also been proactive in introducing policies to improve conditions for SMEs, including reducing administrative burden and improving access to finance.
- 1.4 There has been a decline in the share of UK SMEs exporting and importing goods to the EU. The proportion of SMEs exporting fell from 20 per cent in 2013 to 16 per cent in 2014. And while the strength of the pound against the euro was a likely factor in the drop, there was no corresponding rise in the proportion of SMEs importing goods.⁶
- 1.5 While only a small number of SMEs export to the single market, many are part of EU-wide supply chains and are affected by EU legislation. These fields include taxation, competition and company law. Currently, SMEs benefit from EU directives, such as the late payment directive, which are important for day-to-day financing.⁷ The European Investment Bank also operates financing programmes for SMEs. On 20 June 2016, it was announced the EIB would invest £100 million in loans to UK SMEs through Funding Circle, a peer-to-peer lender.⁸

London SME confidence pre-EU referendum

- 1.6 SMEs in London were generally positive about their prospects before the EU referendum vote. According to the London Business Survey 2014, when asked “Over the next 12 months, is this business planning to grow?” 63 per cent said the business was planning to grow (60 per cent SMEs, 95 per cent large firms). On the anticipated economic situation for the business in the next 12 months, just under half expected an improvement and less than one-fifth expected deterioration, with little difference between SMEs and large firms. Similarly, just over half of respondents expected the economic situation in London to improve in the next 12 months.⁹

London SME confidence post-EU referendum

- 1.7 There is some evidence SMEs in London are less positive about their prospects following the EU referendum vote than SMEs in other UK regions. A poll of 500 businesses by courier group CitySprint found only a third in London thought EU Exit would not disrupt their business compared to around a half in the rest of the UK. Similarly, less than half of London SMEs felt more confident than a year ago, compared to more than two-thirds of UK businesses. And while only 14 per cent

⁵ 2015 SBA fact sheet

⁶ 2015 SBA fact sheet

⁷ EU market rules

⁸ [EIB and Funding Circle announce groundbreaking £100 million investment into UK small businesses \(20 June 2016\)](#)

⁹ [London Business Survey 2014 \(GLAE, 2014\)](#)

nationally thought the Brexit vote would significantly disrupt their operations, the figure was twice as high in London.¹⁰ The Federation of Small Businesses' (FSB) London Small Business Index in July dropped into negative territory for the first time since 2012.¹¹ The index measures both confidence levels and the costs of doing business.

- 1.8 The importance of access to the single market for London SMEs could explain why they are less positive about their prospects following the EU referendum vote. A survey conducted by PwC of 566 UK SMEs found companies in London and the South East were more concerned about retaining EU single market access post Brexit (74 per cent and 72 per cent respectively) compared to the Midlands where only 53 per cent saw it as a priority. The predominance of SMEs in the professional, technical and scientific sector in London could also explain this discrepancy as the survey found maintaining access to the single market was particularly important for companies in IT (74 per cent) and Media (69 per cent).¹²
- 1.9 SMEs may be unprepared for the UK leaving the EU. According to the PwC survey only 38 per cent of companies said they had a clear plan to drive growth in the aftermath of the EU referendum vote. And just under a quarter said they had the right level of management information to help them fully measure and predict the impact on their business.

Outlook for SMEs post-EU referendum vote

- 1.10 SMEs may need to adapt investment plans in response to EU exit. Non-exporting SMEs could be particularly vulnerable to a domestic recession or a financial freeze. And while SMEs that do export are likely to benefit from a weaker pound, this could be negated by a rise in input costs. A weaker pound is also likely to penalise SMEs that import raw materials. Maintaining access to credit will also be important for SMEs. SMEs were hit particularly hard by the credit crisis, as banks withdrew lending to the sector.
- 1.11 The government has called on SMEs to be more ambitious. Margot James MP, the small business minister, said: "A lot of growth is about ambition. Some people are quite content to establish a business and nurture it, and they don't necessarily want it to grow into something they cannot control and that is fine. But to grow the economy we need businesses that want to grow."¹³

¹⁰ [Small businesses explain impact of Brexit vote](#), The Financial Times (29 August 2016)

¹¹ [FSB London Index report sharpest drop in small business confidence – Q2 2016](#) (FSB)

¹² [SMEs look to post-Brexit opportunities, but concerns over productivity and systems remain \(PwC blogs\)](#)

¹³ [UK government calls on small businesses to show 'ambition', The Financial Times \(29 September 2016\)](#)