



Forum of Private Business (FPB)

Impact of the Government's support for smaller business employers

Summary

The Forum of Private Business (FPB) is a member-led organisation which represents more than 25,000 smaller firms in the UK, which in turn employ more than 600,000 people. The FPB surveyed 6,000 of its members in the first fortnight of March on the impact of the Pre-Budget Report (PBR), based on the assumptions from our Economic Adviser that the impact of the VAT cut would not be felt for at least three months after it was introduced.

The results of the research are summarised below:

- 66% felt that the measures announced in the PBR had been ineffective, with a majority feeling that the measures introduced had no real benefit for their businesses.
- 30% did not give an overall view of the measures that were designed to help businesses, although there were no such issues with individual measures. This indicates a lack of an overarching theme or cohesive strategy for dealing with the economic climate.
- The biggest announcement in the PBR – that of a temporary cut in VAT – has had little impact and is seen as the least beneficial of the measures, although others were seen as quite beneficial.
- Increasing National Insurance Contributions and fuel duty are seen as particularly damaging ways to pay for these measures. 82% of businesses expect that they will have to pay for these and other government initiatives, despite the need for a stable platform from which they can develop their businesses and employ more people.
- Restoring business and consumer confidence were the key issues that our members felt needed to be addressed by the Budget. Business rates and regulation (particularly employment law) also need to be tackled.

A Budget for business survival

This research highlights that single initiatives launched alone do not provide a cohesive platform for small business survival and growth. As a result, our Budget submission, 'A Budget for Business Survival', promotes a holistic approach that will provide a four pillared structure of coordinated action.

1. Finance for Small Businesses: The banks must be monitored effectively to ensure measures such as the Enterprise Finance Guarantee scheme and quantitative easing are providing a solution to restrictions in small businesses' access to finance.

2. Minimising Cost Burdens for Small Businesses: Small businesses should have their corporation tax cut to 20%. Small Business Rate Relief should be made automatic and increases in business rates should be scrapped. Increases to fuel duty planned for April 2009 and 2010 should also be scrapped. The Government should review current legislation and monitor regulatory budgets. Implementation dates of new regulations should be kept under continuous review.

3. Protecting Employment: Statutory redundancy pay must be frozen. The proposal for an increase in National Insurance Contributions should be scrapped. The creation of a job creator's allowance scheme should be considered to incentivise employers to recruit. A modified Working Tax Credit scheme would allow employees on shorter working hours to have their pay supplemented.

4. Improving Economic Activity: Opening up government contracts to small businesses to be fast-tracked. A temporary freeze in residential stamp duty would stimulate the housing market. As would special lending schemes for first-time buyers. An old car trade-in scheme would stimulate the automotive industry.

Impact of government support

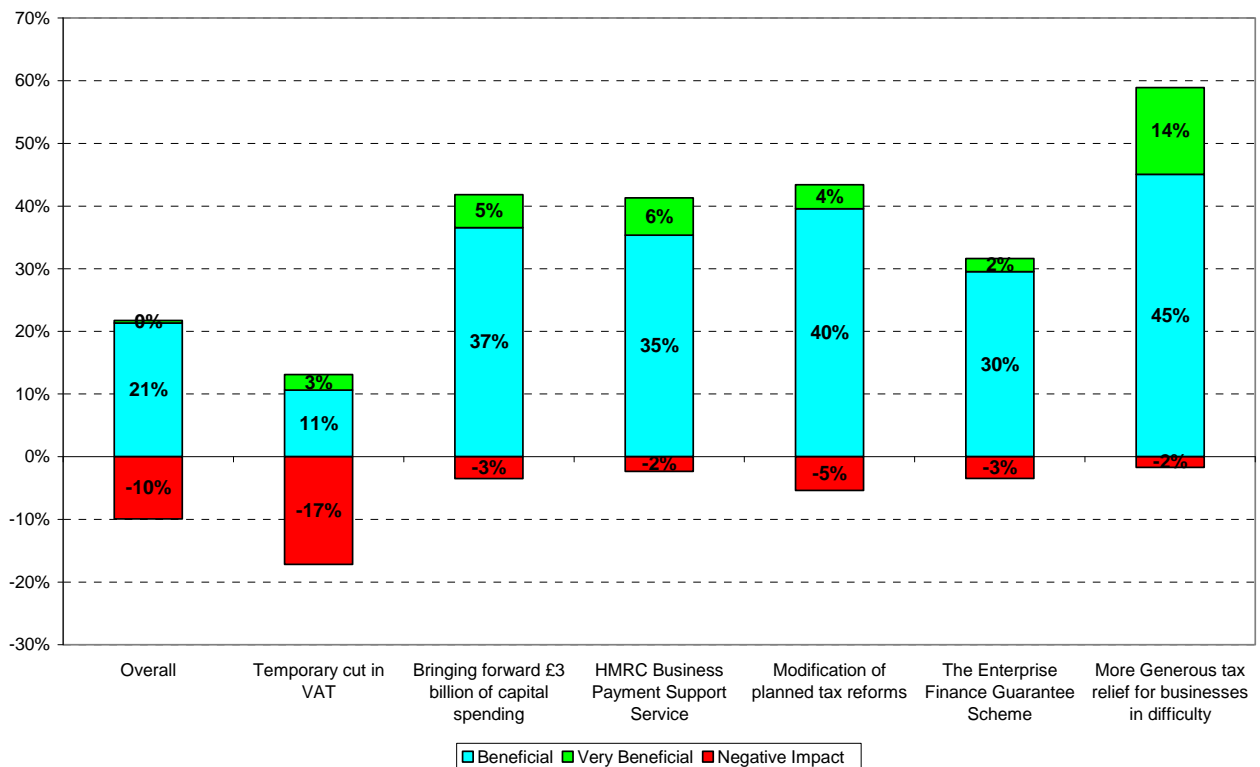
The majority of businesses feel that the PBR has so far been ineffective as it has not noticeably improved trading conditions. Nor has it increased business or consumer confidence.

13% of respondents believe it will be harmful to their businesses, particularly when the costs of the PBR are considered; however, 12% are uncertain of the efficacy of the measures announced.

	Response
Effective	6%
Ineffective	66%
Harmful	13%
Do not know	12%

When asked to consider the measures announced in the PBR overall, 31% declined to comment, indicating that the measure were a mixed bag. Figure 1 (below) indicates that the individual measures were seen as having some benefit, although the most costly measure – the temporary cut in VAT – was the most controversial measure.

Figure 1 How beneficial do you think these measures will be in 2009 for your business and the wider economy?



The more generous tax relief for businesses in difficulty is seen as the most beneficial measure of the PBR by respondents. Taxation reforms and support from HMRC are also seen as generally beneficial.

Despite the teething problems with the Enterprise Finance Guarantee scheme, this is also seen as beneficial by almost a third of members.

The temporary cut in VAT has been the most controversial measure, with more businesses seeing it as harmful than beneficial (see Figure 2). The cost and time allowed for implementation, as well as its failure to improve consumer and business confidence, has meant that the policy has been seen as harmful to businesses, which have been expected to cut costs in a worsening economic climate.

Figure 2 Analysis of Pre-Budget Report measures that were designed to benefit businesses

	Very Beneficial	Beneficial	Harmful	Balance
Overall	<1%	21%	10%	12%
Temporary cut in VAT	3%	11%	17%	-4%
Bringing forward £3 billion of capital spending	5%	37%	3%	38%
HMRC Business Payment Support Service	6%	35%	2%	39%
Modification of planned tax reforms	4%	40%	5%	38%
Enterprise Finance Guarantee scheme	2%	30%	3%	28%
More generous tax relief for businesses in difficulty	14%	45%	2%	57%

Those that described the measures as harmful were particularly mindful of the associated long-term costs, especially when allied to the historically high level of indebtedness of the Government and the wider UK economy.

Affordability of the PBR measures

Increasing National Insurance Contributions levels in 2011 is considered to be the most damaging of the measures suggested in the PBR. The decision to increase payroll taxes is in marked contrast to the US, where such taxes have been reduced, and may ultimately lead to an increased preference by small firms for subcontract labour rather than restoring employment levels to those seen in 2007.

Figure 3 shows that an increase in fuel duty was also considered to be damaging, whilst those predicting an increase in duties to be damaging tended to be based in the hotel and restaurant industry.

Figure 3 How affordable do you think the methods of paying for these measures will be?

	Affordable	No impact	Damaging	Very Damaging	Balance
Increasing National Insurance	4%	4%	62%	29%	-87%
2p per litre increase on fuel duty	10%	11%	52%	27%	-69%
Increase of alcohol and tobacco duties	33%	48%	15%	4%	14%
Increase in taxation for those earning over £100,000	37%	35%	22%	6%	8%

Increases in taxation for those earning over £100,000 were seen to be relatively affordable. This may indicate how poorly wealth creators are paying themselves in comparison to the salaries received by corporate managers or other wealth consumers.

82% expect taxation of smaller businesses to increase to pay for these and other government initiatives, despite the fact that SMEs are considered to be the key to economic growth in the UK in the next year. Anecdotal evidence indicates that this is likely to be perceived as disproportionate.

Figure 4 Do you think that taxes on smaller businesses will be increased to pay for these and other government initiatives?

	Response
Increase	82%
No increase	6%
Do not know	12%

Just 18% of respondents are prepared to give the benefit of the doubt that they will support smaller business employers by not raising taxes.

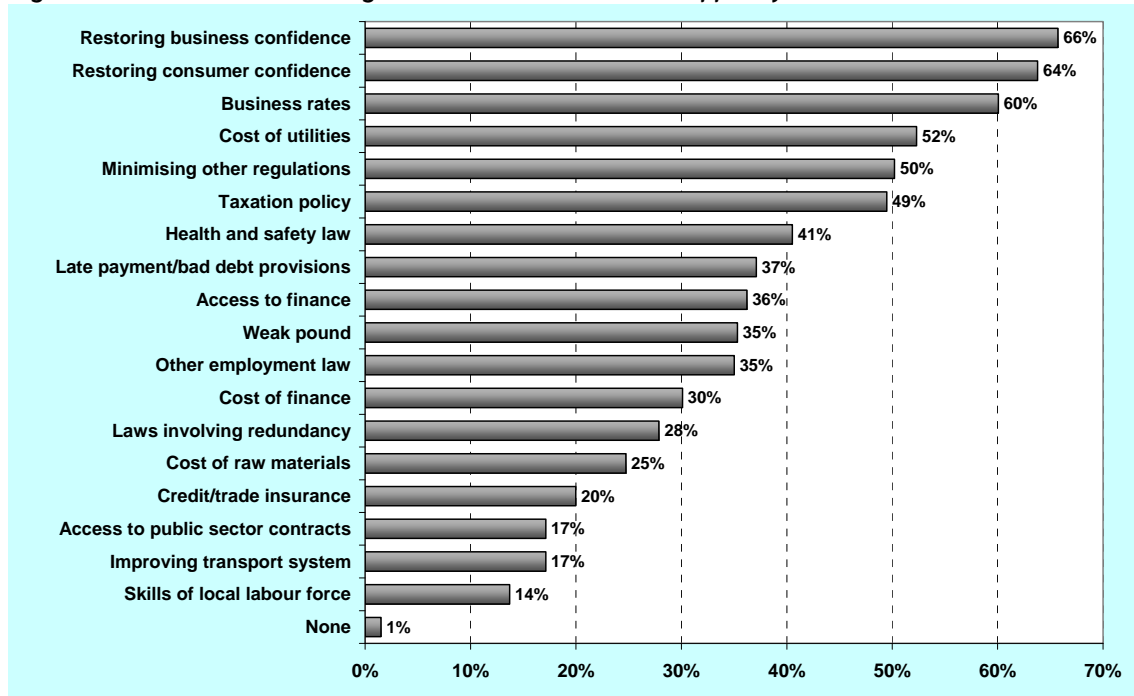
Issues still to be resolved

Restoring business and consumer confidence are seen as the key measures that need to be resolved in the Budget, as the temporary VAT cut is not seen to have had the required impact. 80% of respondents felt that restoring consumer and/or business confidence was imperative.

71% would like to see an improvement in the regulatory framework, with 41% wanting to see an improvement to, and clearer information on the limitations of, health and safety law. 43% would like to see an improvement in employment law. Minimising red tape in general, conflicting regulations and environmental law were also seen as important measures that regulators need to tackle.

The suggested 5% increase in business rates, the lack of automatic business rate relief and concern over business rates supplements mean that business rates is also seen as one of the key issues that needs to be tackled sooner rather than later.

Figure 5 Which of the following need to be addressed to support your business?



45% of businesses feel that the cost of, or access to, finance is an issue for their firms, while cash flow is also a concern for 37% of businesses.

The current monetary policy is having an impact on a sizeable number of businesses, as 35% have indicated that the weak pound is an issue. Some businesses are also having their profitability squeezed by the cost of imports, such as raw materials, and utilities, although further investigation of the utilities issue indicates that this is more of a regulatory issue than one based on currency fluctuations.

Access to public sector contracts, improving the transport system and the skills of the local labour force are issues that still affect a sizeable chunk of businesses. Although they seem to be minor issues at the moment, they will become important to smaller business employers when they look to develop their businesses.