



## The needs of SMEs from the Pre-Budget Report

The Forum of Private Business (FPB) is a member-led organisation and represents more than 25,000 smaller firms in the UK. Our quarterly *Referendum* newsletter forms part of our regular consultation with members. In it, we ask some key questions that help define our campaigning priorities. We use the results to facilitate dialogue between our members and their constituent MPs, MEPs, and Scottish and Welsh representatives.

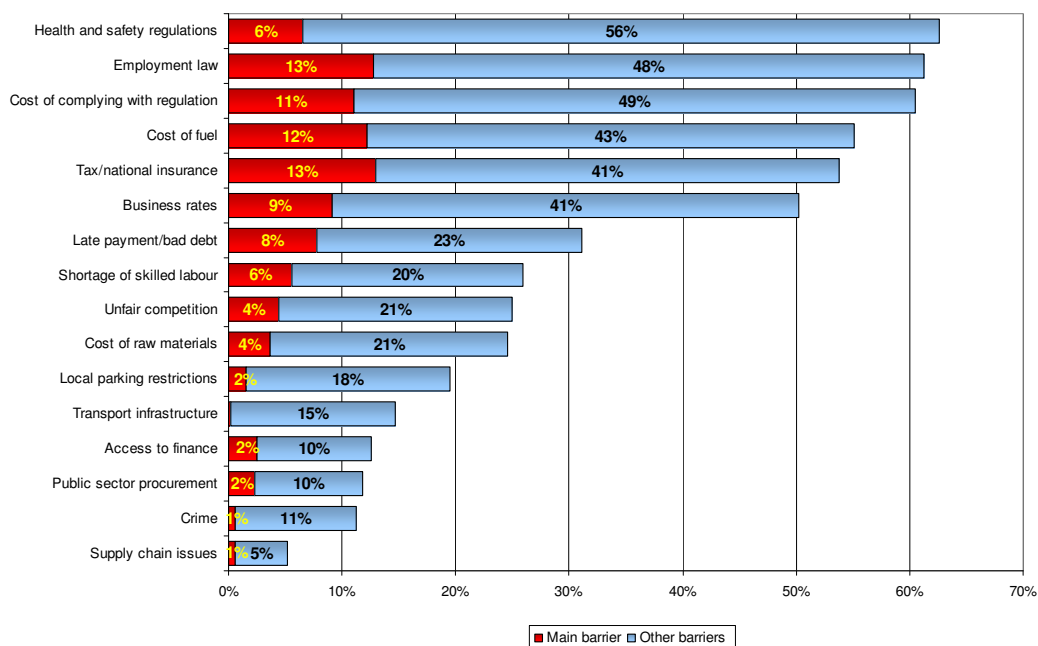
In September 2008, through *Referendum* (a copy of which is with this email), we polled our members to determine their priorities for the forthcoming Budget cycle. We asked members to tell us what they see as the main barriers to doing business and what measures they think could alleviate them.

The upcoming Budget cycle will be an important process for the UK's small businesses. As such, the proposals in this document are certainly only a small set of the content for the Pre-Budget Report, and the FPB appreciates that the overall health of the economy must be first and foremost in the Government's mind, but it is smaller businesses that drive the economy with 48% of employment and 49% of GDP in 2007.

## Summary of findings

- **Bureaucracy** is a serious problem for owner-managers of small businesses. It takes them away from the centre of their businesses, diminishing the focus of the business and the proprietors' resilience to keep the business going. There is a general feeling that the time for consultation is over and that decisive action is now required.
- **Employment law** has always been a key issue for smaller firms, but even more so now that unemployment is rising. It is now the overall biggest hindrance for businesses wishing to take on employees.
- Smaller businesses clearly view as grossly unfair the policy of the Government to cut **corporation tax** for big businesses while increasing it for smaller firms. Reversing this decision is the measure that most business-owners would like to see in the Pre-Budget Report.
- **Tax and National Insurance** is seen by owner-managers as a barrier to reinvesting further in their businesses.
- Despite the **cost of fuel** going down in recent weeks, it is still an issue for businesses and its impact continues to be an issue as costs increase with each layer of the supply chain.
- **Health and safety** needs to be applied on a common-sense basis, and firms' liability should be defined and limited.
- **Cutting VAT** for construction companies is a key requirement for an industry that is struggling at the moment.
- **Access to finance and late payment** does not appear as a key issue in the research; however, calls on this matter to the FPB's helpline have increased significantly in the two weeks following the fieldwork period.

## Barriers to developing business

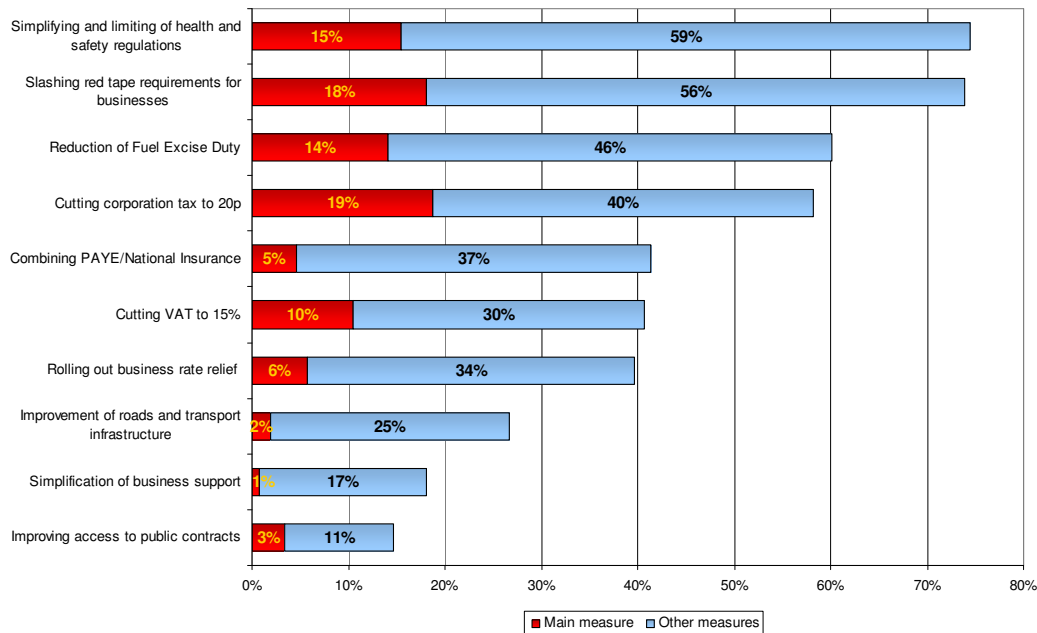


While health and safety regulations were cited most frequently (63%) as a barrier to developing businesses, only 6% of respondents felt that this was the *main* barrier. Employment law and tax/National Insurance (NI) came out as the main barriers, followed by the cost of complying with new regulations and the cost of fuel, which is taxed twice: once as excise duty and then again as VAT. For micro businesses, tax/NI and the cost of complying with legislation were the biggest barriers, whilst employment law was the biggest issue for companies with more than 10 employees.

By region, tax/NI was the main barrier for businesses in the Midlands and for 19% of London-based firms. Only 7% of respondents with businesses in Scotland cited this as their main barrier; shortage of skilled labour (18%) and employment law (16%) were their main problems. In Wales and the South West, the major issues were the cost of fuel (18%) and the cost of complying with regulations (15%).

Since undertaking the research, calls to the FPB's helpline on access to finance and late payment have increased dramatically. Late payment is particularly a problem for construction businesses, with 58% of building firms suffering from this issue and 24% claiming that it is the biggest single barrier to growth.

## Measures businesses would like to see in the Pre-Budget Report



When members were asked to select the measures for inclusion in the Budget for 2009, the top five answers were very similar to the main barriers. Health and safety was the mentioned most frequently, but it was not the most important measure that businesses wanted to see introduced. A return of corporation tax to its 2006 level was the most popular response overall.

In Scotland, slashing red tape was far more important than cutting the rate of corporation tax, (27% versus 19%). There was little other regional variation. Cutting corporation tax was very important for medium-sized firms, with a third indicating this was the measure they would most like to see. Micro firms showed a preference for cutting VAT and expanding business rate relief rather than reducing corporation tax, but there was not marked difference by size for those wanting regulatory reductions.

Cutting corporation tax was in the top three measures desired by businesses in all industry sectors, although it was only significantly higher in manufacturing than red tape issues. For construction, this was less of an issue than cutting VAT, and simplifying health and safety regulations. For hotels and restaurants, cutting VAT was the biggest issue, whilst 25% in business services voted for a cut in red tape. Those dealing with the public sector wanted simplification of health and safety regulations.

In terms of the measures that businesses want to see generally, there was not much difference in terms of size, although more medium-sized firms (57%) saw benefit in combining PAYE and NI than smaller businesses (41%). Conversely, 19% of micro businesses called for simplification of business support, compared to 11% of medium-sized businesses. 82% of manufacturers wanted red tape to be slashed, and 83% of hotels and restaurants wanted to see health and safety issues simplified. Access to public sector contracts was most commonly felt to be a barrier in the construction industry, with 24% of businesses in this sector wanting to see procurement practices improved.

## FPB recommendations on taxation

### Reduction of small companies' rate of corporation tax to 20%

The FPB is asking that the proposed increase in the small companies' rate of corporation tax be abandoned and the rate decreased to 20%. When polled, 58% of our members said they believed that a reduction in the rate of corporation tax should be a feature of the Pre-Budget Report and nearly 20% thought that it should be the most important measure undertaken by the Government.

In the Budget 2007, the lower rate of corporation tax was increased from 19%, and a three-year schedule of increases set:

*'The small companies' rate will be set at 20 per cent for the financial year 2007-08; 21 per cent in 2008-09; and 22 per cent in 2009-10.'*<sup>1</sup>

The FPB believes that, given the threat of a recession, the Chancellor should be prepared to set a rate of 20% for small companies and to stand by that rate beyond the 2009-2010 fiscal year, to provide certainty for owners of small-businesses.

## FPB recommendations on business rates

### Automatic enrolment for Small Business Rate Relief

The FPB is asking the Chancellor to support the suggestion made by the Federation of Small Businesses (FSB) for automatic extension of Small Business Rate Relief (SBRR) to those small businesses that are currently eligible (but leaving their relief unclaimed). Further review may be necessary to ensure that any method of automatic enrolment of the scheme will include only its targeted businesses, but if an effective system can be set up in time for the April 2009 common commencement date, we urge the Government to do all it can to make that happen.

### Inflation reprieve for Small Business Rate Relief

To supplement the automatic enrolment in SBRR, the FPB would ask the Chancellor to recommend to Communities and Local Government (CLG), the Welsh Assembly and the Scottish Executive that the small business multiplier for non-domestic rates be exempt from increases due to inflation until after the revaluation of premises is brought into force in 2010.

This would effectively lock the small business rate multiplier at 45.8p for the whole of 2009 and the start of 2010. This would provide some certainty for many owner-managers, helping them to plan their longer-term cash flow, and may also encourage growth over the next two years.

## FPB recommendations on regulatory reform

The FPB acknowledges the ongoing work by the Government and its departments to reform the regulatory structure with regulatory budgets and to reduce administrative burdens for business. We hope that the Chancellor will follow the trend of previous years and provide increasing support for the deregulatory agenda, particularly as the economy continues to worsen. In turn, we will continue to work with the Better Regulation Executive to find the best solutions for our members, particularly as regards employment law, and health and safety regulations.

<sup>1</sup> Budget 2007 Financial & Budget Report A.49