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The business people – an extension to your team

## **Forum Response to the Comprehensive Spending Review**

**“Smaller, better, simpler”**

**September 2010**

## Summary

The Forum feels that UK plc needs to run more like a small business, making the most out of the country's valuable resources and ensuring that all departments work together cohesively to promote an enterprise culture and focus on cutting the social protection budget by getting people into sustainable employment in the private sector.

Historically the public sector has accounted for just under 40% of Gross Domestic Product (GDP). Reducing the public sector to that level will mean significant cuts. However, this can be seen as beneficial as our members frequently complain of duplication, confusion caused by different public bodies and excessive bureaucracy.

Our belief is that the Government can save a proportion of the estimated £20 billion in cost savings by:

- Business tax reduction and, in the long term, tax simplification to stimulate indigenous entrepreneurship and encourage foreign direct investment in the UK.
- Removing obvious duplication with the private sector, particularly in business support and training.
- Simplifying regulatory compliance to give smaller employers back some of the £12 billion spent on legislative compliance.
- Focusing procurement on value for money and streamlining the process for procuring and monitoring contracts.
- Targeting small business development as a way to increase employment.
- Ensuring the public sector addresses market failure rather than market opportunity for the private sector.
- Including overseas aid and health spending in efficiency based cuts.

Our recommendations are:

### Taxation

- Begin tax simplification and focus the tax system on creation of employment and encouragement of enterprise.
- Consider schemes such as a National Insurance holiday for all non employers, not just new businesses who employ their first member of staff to take people out of welfare.
- Focusing on taxation loopholes - such as the VAT loophole for the Channel Islands.
- Business owners would like to see some transparency and information on the cost-effectiveness of policies and where their money goes to.
- Reduction of the burden of tax on smaller employers so that they can develop their businesses.

### Reduce regulatory waste

- Limit further EU social regulation, particularly legislation which has a debilitating impact on businesses ability to trade profitably, treat their employees equally and compete in a global market.
- Give Acas powers to throw out unreasonable claims by employees against employers before they reach the tribunal stage.
- Clarify requirements for what small businesses are expected to do on a practical level so that all businesses undertake similar processes.
- Rebalance the rights of employers and individual employees.

### Procurement and monitoring of contracts

- Procurement should be based on the proposal, the ability to undertake the work and proof of the quality of previous work, with less requirement on internal policies etc.
- Public sector should choose suppliers on the basis of value for money.
- Include all departments in efficiency-based review of contracts.

- Look to reduce the administrative burden on monitoring individual projects but give the National Audit Office the option to demand greater transparency in projects.

### Rebalancing the economy

- Ring-fence spending on UKTI, and increase the financial protection for businesses through the ECGD.
- Strengthen the monitoring and policing of intellectual property held by smaller firms overseas.
- Support the construction industry and the low carbon economy by reducing VAT for businesses wanting to install energy efficient or energy creation systems.
- Creation of a green investment bank to financially support this transition.
- Reduce the number of quangoes on green issues and provide environmental advice through the Business Link website and consumer channels, also consider scrapping the CRC and other overly complex systems.
- Greater support for opening up universities to commerce and the commercialisation of research.

### Employment

- The market for business start-ups is crowded and public sector support often duplicates what is already there. The job centre should be used to signpost more to other organisations.
- Significant reduction in the cost of administering employment law, many employers are on the whole supportive of the framework of the giving them a process of best practice, but the daily monitoring and paperwork to defend themselves in a court of law is impossible.
- Encourage business owners to take on young people by working with insurers to ensure that health and safety issues and related paperwork are not used as excuses for effectively banning under 18s from certain workplaces when under proper supervision.
- Support a more flexible workforce by looking at the cost of transport to work in the UK which is currently prohibitive for lower paid workers.
- Streamline the redundancy process so that businesses in distress can act fast to try and minimise job losses.

### Skills and training

- Limit state subsidised training for businesses with over 250 people to sustainable apprenticeship schemes.
- Building on the success of entrepreneurship programmes within schools, the Forum would like to see short sessions provided on skills on employability issues.
- Allocate funding for smaller employers to spend on the training they feel that their staff need rather than limit such training to specific providers or courses, this could be done through the annual investment allowance.
- Provide training and suggest incentives for colleges so that they can allocate a named adviser to proactively engage with business owners and co-ordinate a response to a skills issue with other training providers.
- Encourage internal training, supply chain training (e.g. manufacturers) and incentivise opening of internal courses on topics such as marketing to other local businesses etc.
- Align more closely training with business support. Industry specific support could be available from the Business Link hub or specific trade associations.

### National business support

- Maintenance of more focused Business Link website alongside a call centre to provide advice and guidance perhaps with a slight reduction in scope.
- Around 11% of business owners do not have access to the internet so a telephone call centre approach is also needed to ensure there are no access issues.
- High growth hubs to focus on the 6% of businesses that create around half of employment in a growing market.

- Clarify the role of LEPs and how they will respond to changing business needs.
- Allow LEPs to borrow against council rates rather than business rates the former are less volatile.

### Finance

- Banks, rather than taxpayers should be required to pay for transparent, independent monitoring of access and cost of finance, rejection rates and potential demand for additional finance.
- The EFG should be made more flexible and be used for growth finance, i.e. allow greater use of alternative finance.
- Formal targets for banks to respond to requests would speed up the process making it more effective and creating better value for the taxpayer.
- Public sector part-funded equity funds should be more flexible in their targeted sectors.
- Equity financing for environmental technology should, however become part of the options for a green investment.

### Promoting investment

- Encouragement of foreign direct investment at a national rather than local area, this would limit the likelihood of a 'Dutch auction' between potential locations.
- Create a process and information on possible collaborative research schemes for smaller businesses.
- Replace R&D tax credits with greater annual investment allowances.

### Unfair competition

- Work with the Institute of Credit Management to update and strengthen the Prompt Payment Code.
- Consider using only signatories of the scheme in larger public sector contracts, particularly on construction.
- Examine complaints on supply chain injustice on an anonymous basis as far as possible.

### The role of business in the community

- Create a wealth retention index and encourage councils to look at retaining wealth within their communities.
- Roll out best practice systems on business crime prevention in the areas where they will make the most impact.
- Long term incentives for councils that help support and develop local businesses.
- Review usage of supplementary business rates and workplace parking levies to deter parochialism and are introduced with the support of the local business community.
- Look to engage the local business community in the big society.
- Improve high speed broadband for remote areas.

## Introduction

This Comprehensive Spending Review (CSR) is the most difficult faced by any government for many years. There is an urgent need to improve the public finances by making the public sector more affordable and to create a healthy private sector to pay for the public sector in a sustainable way. However, it is important that the CSR is about balance and responsibility rather than a 'slash and burn' approach. Some policies should be implemented over a period of time rather than take effect immediately.

We want the Government to focus on supporting the private sector recovery, encouraging private organisations to take over the role previously undertaken by government departments and local authorities. Like the Government, the Forum believes that, alongside public sector cuts, a private sector incentive package is required to ensure sustainable economic recovery as well as rebalancing the economy.

To do this, the CSR must herald a more modern, progressive approach to society and enterprise. Smaller employers should be seen as key stakeholders in the economy, providing a flexible, high quality workplace as indicated by TUC research<sup>(1)</sup> and providing invaluable in-house training not usually considered by larger corporations.

In this report we emphasise a number of principles and changes that should help set a general direction for the economy, including:

- Driving growth by improving market conditions
- Reducing the government deficit, including targeted and measurable public spending programmes
- Providing continuity of key government support programmes for small to medium-sized businesses (SMEs)
- Strengthening traditional sectors with access to new technologies and new markets for goods and services.

The Forum believes that efforts should be more focused on fostering an enterprise culture in the UK. Support to facilitate job creation will reduce the projected £194 billion expected to be paid on social protection and increasing government receipts, making this a highly effective form of deficit reduction.

These principles, together with feedback from our small business members in the real economy govern our response to the challenges of the CSR. Below, we outline measures that will free business owners to develop their business and create local employment and wealth.

## Reducing waste through simplifying and focusing taxation

Low business taxation is a strong incentive for business growth and employment. 43% of our tax and budget panel see the UK's taxation policy as an impediment to their business and a drain on precious financial resources<sup>(2)</sup>. As a result, we believe a sensible approach would be to prepare the country for a recovery that is not dependent on credit, ensuring that businesses of all sizes can operate profitably in the UK and grow to create jobs and future prosperity.

The overall tax burden is one of the biggest issues for smaller business employers, with 45% of our members stating that this was a very serious issue<sup>(2)</sup>. A majority also felt that the administering of tax changes and ensuring tax compliance were also serious issues.

Our members tell us that the complexity of tax policy in the UK makes business planning difficult and policing tax returns impossible for most businesses. Overall, 61% want the tax system simplified to help them plan for the future<sup>(3)</sup>, with 52% seeing the current taxation system as too time-consuming and 38% seeing it as too costly<sup>(4)</sup>. A simpler tax system would also mean that companies meeting their tax responsibilities could not be excused on the

grounds of ignorance, which would in turn help the Treasury plan for the future. Reduction of exemptions from various forms of taxation should be balanced by overall reductions in taxes such as corporation tax. Further, single taxation levels should be considered in employment, annual investment allowances (and 'capital allowances'), including research and development and training and resources.

A simpler taxation system would allow the Government to plan more effectively over the long term, creating a surplus in prosperity that could be used in future recessions. It would also relieve the pressure on HMRC with 15 million open cases over taxation levels from over two years ago and poor telephone response rates to business owners' enquiries.

If adopted, this reform of the tax system would be unlikely to take place over the next year or so and, indeed, slower implementation would be necessary to avoid creating even more problems.

## Recommendations

- Begin tax simplification and focus the tax system on creation of employment and encouragement of enterprise. The current system penalises small employers including growth businesses at their embryonic stage.
- Consider schemes such as a National Insurance holiday for all non employers, not just new businesses who employ their first member of staff to take people out of welfare.
- Focusing on taxation loopholes - such as the VAT loophole for the Channel Islands - which allow large corporations to compete unfairly against smaller businesses
- Business owners would like to see some transparency and information on the cost-effectiveness of policies and where their money was going to. This is particularly relevant to business rates and local spending.
- Reduction of the burden of tax on smaller employers so that they can develop their businesses.

## Improving regulation to reduce waste and encourage businesses

81% of our members do not see the current regulatory environment as 'realistic, robust and fair' <sup>(4)</sup>. In March, 54% of our members felt that employment law damaged their ability to plan and grow, with 45% citing health and safety as a barrier to business development and 48% believing that other regulations could be minimised to support their business<sup>(5)</sup>. The Forum estimates that such regulations cost smaller employers around £12 billion and take up around 37 hours of company time each month, creating a massive burden on micro and fledgling businesses<sup>(4)</sup>.

Our members indicate that significant reductions need to be made in the amount of regulation, with businesses wanting the resources spent on compliance reduced by around 40%<sup>(6)</sup>. To many of our members a significant reduction in paperwork would be a real economic and psychological advantage.

There should also be greater understanding of the needs of smaller firms and impact of regulation on them. In a recent panel on employment law, 67% of businesses felt there was systemic failure in the regulatory process in understanding the impact on businesses and 65% felt there was not enough information to help them to comply. In contrast 31% were concerned about actual compliance issues and 37% with the tribunal system<sup>(7)</sup>. In total just 7% of businesses feel the current system could not be improved<sup>(7)</sup>.

In total, 63% of our members see benefit in the processes of the regulatory framework<sup>(8)</sup> but feel the burden of proof is excessive and time consuming, indicating that the majority of businesses would continue to follow a similar process even if some of the more arcane legal requirements were removed.

## Recommendations

- Limit further EU social regulation, particularly legislation such as extensions to maternity/paternity rights and dismissals/redundancy which have a debilitating impact on businesses ability to trade profitably, treat their employees equally and compete in a global market. 65% of business owners are already concerned about the cost of complying with maternity and paternity legislation, even before the suggested extension<sup>(7)</sup>.
- Give Acas powers to throw out unreasonable claims by employees against employers before they reach the tribunal stage.
- Clarify requirements for what small businesses are expected to do on a practical level so that all businesses undertake similar processes, and reduce the number of agencies that can create legislation; this is particularly an issue with regard to health and safety where 34% felt this was should be the main priority of any legislative reform<sup>(9)</sup>.
- Rebalance the rights of employers and individual employees. The current recession has made it clear that malicious litigation by a single employee can jeopardise the viability of a business and the job security of its other employees.

## Improving the procurement and monitoring of contracts to reduce waste and encourage value for money

Procurement is an area in which cost savings should be made, wealth retained within communities and the system made fairer. Shorter, more effective procurement processes with simplified forms and fewer requirements in terms of would allow smaller businesses to compete more effectively. Around 22% of our members indicate that simplification of the procurement system would allow them to bid for public sector contracts allowing them to bring in innovation and cost efficiency<sup>(5)</sup>.

Bundling contracts together and using tendering criteria such as insurance levels to reduce the number of bidders gives the procurement system the appearance of efficiency when in fact it is distorting the market and, over the long term, limiting value for the taxpayer. It can also mean that councils do not get value for money as a local contractor who has maintained a school for years can provide a cheaper alternative to a national firm, which will have to undertake a formal assessment the building.

The public sector could also save money by avoiding 'framework contracts' which, in effect, allow contractors to name their price without local managers being able to test their quotes against the market. At the height of the recession 28%<sup>(10)</sup> of our members were looking at their supply chain to provide support in business development, either through reduced price offerings or new products and services. A cost saving of 1% on all contracts could recoup £2bn for the taxpayer<sup>(11)</sup>.

The Forum does not believe that the health and overseas aid budget should be ring-fenced from such efficiency-based cuts. The health budget at £122 billion is six times that of the total amount spent on industry, agriculture and employment and the large savings made could be significantly more than the £2.5 billion that BIS costs the taxpayer. In the depths of the recession 38% of our members looked to cut costs from their business<sup>(10)</sup>. There is no reason why better procurement practices and other successful methods of saving taxpayers money should not be applied to the two sectors that were also gained after the last CSR.

Central and local government could also reduce the level of information that they expect providers to collect as this is often impractical and occasionally misleading. There is also considerable duplication in evaluation systems particularly when a number of government departments are involved.

## Recommendations

- Procurement should be based on the tender, the ability to undertake the work and proof of the quality of previous work, with less requirement on internal policies etc
- Public sector should choose suppliers on the basis of value for money
- Include all departments in efficiency-based review of contracts

- Look to reduce the administrative burden on monitoring individual projects but give the National Audit Office the option to demand greater transparency in projects that do not offer clear value for money

## Rebalancing the economy

Despite its success in exporting services, the UK's over-reliance on the financial services industry and, geographically, on the South East, indicates that the economy needs to be rebalanced. The rising cost of materials and energy have meant that smaller manufacturers are largely unable to take advantage of the effective devaluation of sterling to increase exports. Traditional manufacturers are also concerned about funding the transition to a lower carbon economy.

Support for exporting should be increased as part of a long term strategy for the creation of a more balanced economy. Much of the government support through UKTI should be kept in its current state as our research indicates the main barriers to export were lack of information on markets (36%) and lack of information on compliance issues (34%), whilst the UKTI was the most trusted source of support amongst businesses involved in international trade<sup>(12)</sup>. Greater support for exporters could be offered through a reinforced Export Credit Guarantee Scheme to bring the UK into line with other EU nations.

Many difficulties in modern manufacturing stem from a lack of personnel due to the steep cost of employing staff, so rebalancing the economy must address the cost of employment as well as the near impossibility of providing flexible working rights to operators on a production line.

Universities could do more to encourage investment by making it easier for businesses to contact them and more open to the commercialisation of their research. This could be done with closer links to the new high growth hubs.

## Recommendations

- Ring-fence spending on UKTI, and increase the financial protection for businesses through the ECGD.
- Strengthen the monitoring and policing of intellectual property held by smaller firms overseas; many SMEs do not have the resources of larger companies to monitor their patents, branding etc
- In the short term, support the construction industry and the low carbon economy by reducing VAT for businesses wanting to install energy efficient or energy creation systems (combined heat and power) and more innovative system to encourage use of solutions provided by the private sector such as Regenerco (where savings are split between employer and the company) rather than traditional funding schemes which are often bureaucratic and wasteful.
- Creation of a green investment bank to financially support this transition
- Reduce the number of quangoes on green issues and provide environmental advice through the Business Link website and consumer channels, also consider scrapping the CRC and other overly complex systems
- Greater support for opening up universities to commerce and the commercialisation of research

## Employment

Significant job cuts in the public sector will be catastrophic unless employing staff is made easier and cheaper for private sector companies. With two-thirds of employment in the last decade created by the small and medium-sized employers, it is clear that the Government must make employing permanent staff an attractive option for smaller firms. Currently each unemployed person costs the Government on average £9,000<sup>(12)</sup>, but if these people entered the job market they would instead become net contributors to reducing the public deficit.

## Recommendations

- The market for business start ups is crowded and public sector support often duplicates what is already there. The job centre should be used to signpost more to organizations such as lawyers, local bank managers and accountants as well as making more use of Enterprise Agencies to create sustainable businesses.
- Significant reduction in the cost of administering employment law, many employers are on the whole supportive of the framework of the giving them a process of best practice, but the daily monitoring and paperwork to defend themselves in a court of law is impossible
- Encourage business owners to take on young people by working with insurers to ensure that Health and Safety issues and its related paperwork are not used as excuses for effectively banning under 18s from certain workplaces when under proper supervision.
- Support a more flexible workforce by looking at the cost of transport to work in the UK which is currently prohibitive for lower paid workers some of whom have to pay over 30% of their take home pay on transport and means a reduced labour pool for employers
- Streamline the redundancy process so that businesses in distress can act fast to try and minimize job losses. This would also give confidence to business looking to employ but concerned about the risk of recruiting an individual who is unable to meet the needs of the business

## Skills and education

One in three micro and small business has skills gaps<sup>(14, 15)</sup>. The main skills that our members require are extremely specific and they feel that the current education and training system does not work effectively for them<sup>(16)</sup>.

Most of our members are seeking employee competency rather than accreditation or qualifications and this increasingly requires specialist training<sup>(16)</sup>. The main weakness of the existing system is considered to be training on management and finance for time-poor directors<sup>(17)</sup>.

Smaller employers are prepared to spend more time training young people up to the standard they require and trainees benefit from learning in a small business in the same way students tend to benefit from smaller class sizes. They simply require good basic skills and employability attributes. However the development of these could be increased by schools teaching specific workplace skills such as manual handling and cash handling. Local employers would be prepared to provide this training free of charge providing time-saving solutions can be found to facilitate this<sup>(17)</sup>.

Complaints over the current system tend to be about training schemes being cancelled and lack of information on the quality of courses. A website with potential courses and the numbers required to let it run could easily be produced in template form. Information on the training provider and feedback where it has run courses in the past could also be provided online, based on technology already used in the travel industry by websites such as Trip Advisor<sup>(17)</sup>.

## Recommendations

- Limit state subsidised training for businesses with over 250 people to sustainable apprenticeship schemes
- Building on the success of entrepreneurship programmes within schools, the Forum would like to see short sessions provided on skills on employability issues.
- Allocate funding for smaller employers to spend on the training they feel that their staff need rather than limit such training to specific providers or courses, this could be done through the annual investment allowance
- Provide training and suggest incentives for colleges so that they can allocate a named adviser to proactively engage with business owners and co ordinate a response to a skills issue with other training providers

- Encourage internal training, supply chain training (e.g. manufacturers) and incentivise opening of internal courses on topics such as marketing to other local businesses etc
- Align more closely training with business support. Industry specific support could be available from the Business Link Hub or specific trade associations

## National business support

Business support should be cost-effective and avoid duplication of private sector offerings. The Business Link service worked hard to ensure inclusion and awareness of the service as well as being effective in aligning support and training needs. However its offerings were limited and the cost of advice was often slightly too expensive due to an excessive procurement process.

The 'one fits all' approach is not conducive to the overriding economic need - specialist support was seen as limited by business owners. A national hub should focus on guidance and signposting as well as providing an important resource centre helping business owners understand their responsibilities and best practice. Less duplication with other support organisations and a more focused approach could actually increase the likelihood that private sector support providers will promote the site without concerns the service would compete directly with their own provision.

Specialist support for high-growth, high-tech organisations should be catered for specifically using a mixture of typed of support where market failure exists and signposting where such support already exists. NESTA has highlighted the important contribution that such businesses make to the economy and they will pay an important part in future job creation<sup>(18)</sup>.

Local support from Local Enterprise Partnerships (LEPs) needs to be clarified and closely linked to the needs of the local community and the likely available funding. A number of schemes are too interventionist, not sufficiently grounded in local business needs and/or require excessive resources<sup>(19)</sup>. We are concerned that the shortfall of funding will mean that there is a powerful incentive to increase business rates over the longer term, despite the fact that this tax is extremely unpopular and can be seen as an impediment to property improvement.

Unless the role of LEPs is clarified there is a real possibility of a postcode lottery being created in terms of local support and training<sup>(17)</sup>. With no clear paradigm and concern that harder to reach businesses may be excluded.

## Recommendations

- Maintenance of more focused Business Link website alongside a call centre to provide advice and guidance. A net balance of 3% of our members would like to see the funding for the Business Link Website suggesting that there could be a reduction in the scope of the service.
- Around 11% of business owners do not have access to the internet <sup>(20)</sup>so a telephone call centre approach is also needed to ensure there are no access issues.
- High growth hubs to focus on the 6% of businesses that create around half of employment in a growing market.
- Clarify the role of LEPs and how they will respond to changing business needs.
- Allow LEPs to borrow against council rates rather than business rates the former are less volatile.

## Finance

The Forum has responded to the recent banking consultations by OFT, HM Treasury and BIS. We believe there is a major gap in trust between banks and employers. After reducing the public deficit, stronger regulation of banks (and utilities companies) was the next priority our members require from the Government. One of the main reasons for this is that our members do not like third parties effectively controlling their finance. According to our research 31% of our members are concerned over access to finance to help them grow and 25% are currently

worried about the cost of finance despite a bank of base rate that is at historically low levels<sup>(5)</sup>.

Bank lending to small businesses has fallen by 40% in two years from £991 million in 2008 to £584 million in 2010<sup>(21)</sup>. One way of minimising the impact of this would be helping small employers to become more profitable so they are less reliance on credit in the future. This would also limit the reliance on government schemes such as the Enterprise Finance Guarantee (EFG).

While the Government must explore ways of encouraging high street banks to encourage high street banks to restore cost-effective lending it should also continue to embrace and promote alternatives, including private investment schemes, and support training allowing business owners to establish their own creditworthiness.

## Recommendations

- Banks, rather than taxpayers should be required to pay for transparent, independent monitoring of access and cost of finance, rejection rates and potential demand for additional finance.
- The EFG should be made more flexible and be used for growth finance, i.e. allow greater use of alternative finance.
- The main concern about the EFG and lending generally is that the time taken between businesses requesting it and being processed is far too long. Formal targets for banks to respond to requests would speed up the process making it more effective and creating better value for the taxpayer.
- Public sector part-funded equity funds should be more flexible in their targeted sectors. Targeted sectors such as ICT and biotechnology are already well supported by the private sector. Many successful businesses that have grown significantly in the last decade such as Starbucks or Amazon are in relatively low-tech industries and would provide a better return on investment.
- Equity financing for environmental technology should, however become part of the options for a green investment.

## Promoting investment

The recent Bank of England Agents' report has indicated that investment is likely to show sluggish growth over the next few years<sup>(22)</sup>. Business investment is key to the rate of economic recovery. As such we would like to see the continuation of historically generous annual allowance schemes in the short term. However we recognise that this may be impacted by tax simplification in the longer term. We would also like businesses to be able to clarify whether they are eligible for R&D tax credits rather than investing only to be told by HMRC they are not applicable.

Trade associations, universities and specialist organisations such as Pera International should also be encouraged to promote mutually-beneficial research so that smaller businesses can work together on research projects. This would help to promote an innovation culture in smaller organisations and reduce the dependence on BIS in promoting innovation. This could be done remotely, with businesses offering to participate at a fixed price, and once the numbers are there the scheme could proceed through innovation hubs.

With regard to a global economy, the Forum would like to see comparatively high levels of foreign direct investment being encouraged. Traditionally this was overseen by the Regional Development Agencies (RDAs) and it is felt that the skills and knowledge to make such schemes effective should be co-ordinated nationally rather than locally, but based on the economic benefits that would result.

A similar approach should be taken with the transport infrastructure, with local and national schemes being appraised for their economic impact based on the cost of the scheme. This would ensure that Tax Increment Financing (TIF) is not abused, discourage parochialism - such as the Nottingham workplace parking levy - and facilitate justifiable local schemes being

funded (42% of our members feel that local parking and transport issues are a key local concerns for their businesses<sup>(3)</sup>).

## Recommendations

- Encouragement of foreign direct investment at a national rather than local area, this would limit the likelihood of a ‘Dutch auction’ between potential locations.
- Create a process and information on possible collaborative research schemes for smaller businesses.
- Replace R&D tax credits with greater annual investment allowances.

## Unfair competition

In total, 84% of businesses on the Forum’s Economy Watch panel complained of late payment with businesses owed on average £35,000<sup>(22)</sup>. BACs estimates that the total value of the problem is around £24 billion<sup>(23)</sup> and the cost to the economy in the loss of otherwise valuable firms is significant - government figures indicate that around 18% of business failures in 2008 were attributed to late payment<sup>(24)</sup> whilst our own research indicates that just under 40% of small businesses’ cash flow is tied up in late payment as any one time<sup>(25)</sup>. The research shows that 32% of our members want the Government to prioritise the reduction of late payment and bad debt issues<sup>(5)</sup>.

As well as late payments, larger businesses have demanded early payment discounts when paying late, changed payment terms arbitrarily and even refused to pay for services provided<sup>(26)</sup>. These problems cause disruption right through the supply chain, but smaller businesses are not in a position to complain as they fear that they will lose future work. Regulators need to take this issue seriously and guarantee anonymity if businesses highlight unfair practices within the supply chain.

The position of regulators also needs to be addressed; some of our members have received back-dated claims from utilities companies from up to 6 years ago, but HMRC is limited to less than half that time. 62% of our members wanted better regulation with utilities (including telecommunications), financial services providers and rail operatives indicated as areas where regulators have been too close to providers and have not taken into account the needs of consumers<sup>(3)</sup>. Stronger regulators who were fairer on all stakeholders could remove the need for publicly-supported consumer bodies.

## Recommendations

- Work with the Institute of Credit Management to update and strengthen the Prompt Payment Code
- Consider using only signatories of the scheme in larger public sector contracts, particularly on construction
- Examine complaints on supply chain injustice on an anonymous basis as far as possible

## The role of businesses in their communities

Business rates are the biggest concern that businesses have locally, particularly as they feel that businesses do not get anything from the large sums that they have to pay. Whilst the TIF scheme is to be welcomed in helping local businesses to raise capital, the basis of the scheme should be council rates rather than business rates as these are more stable and the Forum is concerned that this will lead to future rises in local business rates because of council profligacy.

Many high rate payers, such as retailers, feel that the council have given preferential treatment to larger organisations in supporting out of town planning applications and have damaged the high street and the wealth of the community<sup>(3)</sup>. The Forum believes that a wealth retention index should be compiled with councils incentivised to support local business owners in growing their business.

Crime is a big local concern for smaller firms and our members want the police to take crime against businesses more seriously. Business-related crime costs small employers around £30bn and causes considerable disruption to businesses<sup>(27)</sup>. In areas where pilot schemes have been introduced resulting in the police working more closely with businesses, the result has been reductions in crime, a more cost-effective approach to policing and galvanised community support for the institution.

42% of businesses felt that local parking and transport needed to be improved to help their business<sup>(3)</sup>. Some local schemes provide a far faster return on investment than national schemes and so should be prioritised. However local businesses should not be the sole target of such schemes through supplementary business rates on workplace parking levies.

Greater support for rural communities should also be prioritised to improve productivity. Research by Defra has shown that productivity in rural areas is significantly below the national average (around 20%) and the gap is growing rather than falling<sup>(28)</sup>.

The importance of local business owners in supporting the ‘Big Society’ should not be underestimated. Many potential providers of services need to develop significantly but do not have the management capabilities to grow nor the business model to raise capital. Business owners can help with support and expertise.

## Recommendations

- Create a wealth retention index and encourage councils to look at retaining wealth within their communities.
- Roll out best practice systems on business crime prevention in the areas where they will make the most impact.
- Long term incentives for councils that help support and develop local businesses.
- Review usage of supplementary business rates and workplace parking levies to deter parochialism and are introduced with the support of the local business community.
- Look to engage the local business community in the big society.
- Improve high speed broadband for remote areas so that businesses and individuals have the same ability to access skills and business support through the internet.

## Sources

Research used in this consultation from outside the Spending Review Framework:

- (1) “What do Workers Want”, TUC 2008, <http://www.tuc.org.uk/extras/pollreport.pdf>
- (2) Forum’s Tax and Budget Panel, Jan 2010, <http://www.fpb.org/page/608/Research.htm>
- (3) Forum’s “Referendum 192”, Q2 2010, <http://www.fpb.org/page/104/Referendum.htm>
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## About the Forum of Private Business

The Forum of Private Business is a proactive, not-for-profit organisation, providing comprehensive support, protection and reassurance to small businesses.

The organisation aims to deliver an exceptional service to its members, adding value through the provision of practical, tailored solutions that promote business success, and by being their voice in government.

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