



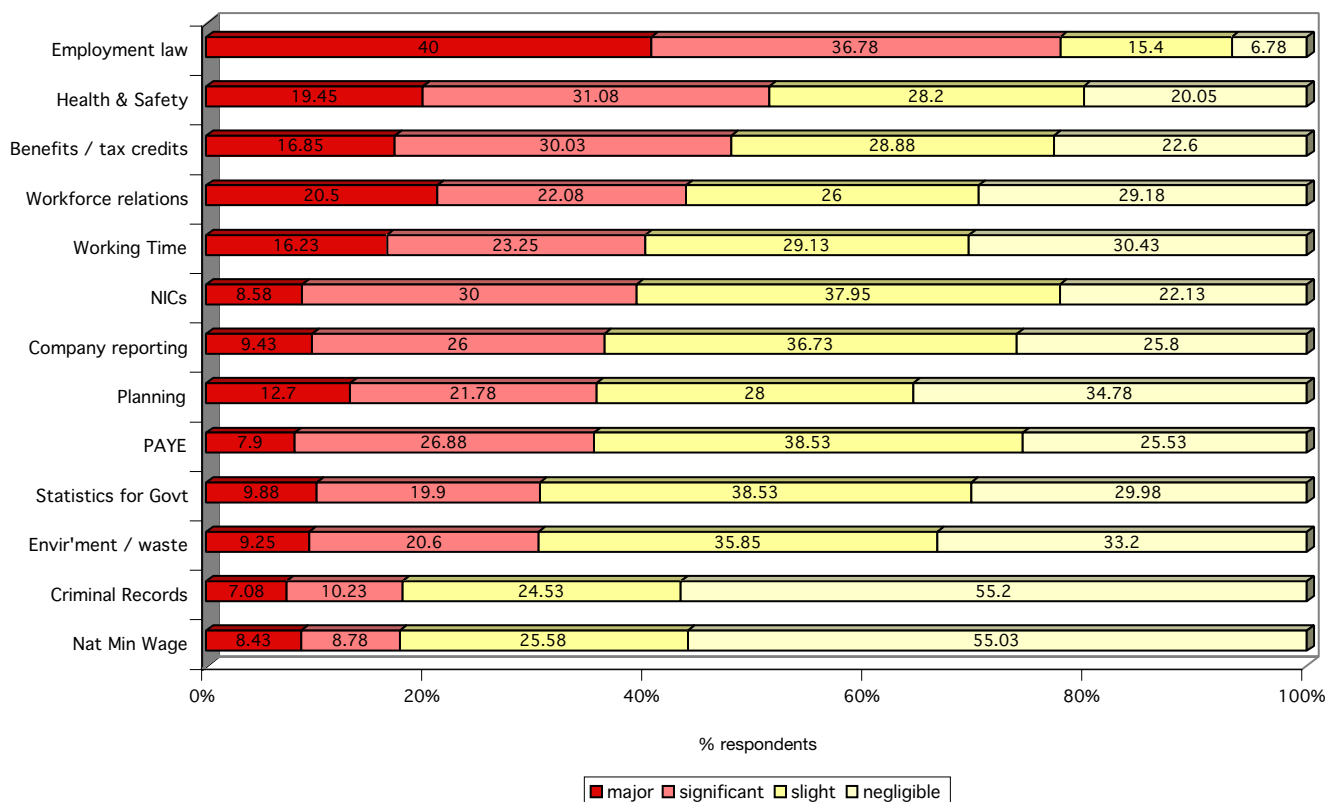
# The real impact of red tape

## an IoD survey

### 1 Summary

- The IoD's latest red tape survey highlights employment law as the single greatest concern of IoD members and other business leaders. Over 82% said employment issues were a 'major' or 'significant' distraction from core business activities. 75% said they were a 'major' or 'significant' cost and impediment to job creation.
- Health and safety was the second greatest source of concern – principally in terms of its distraction of management effort and its cost.
- Payroll processing of benefits and tax credits was consistently flagged up as a red tape concern. This is now seen as a greater problem than routine handling of PAYE or NICs.
- Relatively few respondents raised concerns about the National Minimum Wage. The Minimum Wage's main impact is concentrated on certain sectors (e.g. hairdressing, security and cleaning), and this may well explain the limited response in this instance.
- The supply of statistics to Government agencies (such as the Office of National Statistics) is seen as a significant drain on management time.

% of respondents identifying selected Red Tape issues as having a 'major', 'significant', 'slight' or 'negligible' impact: average rating across four indicators



## REGULATION COMMENT

In recent years, business has been raising concerns about the increasing level of red tape imposed by Government and the EU.

It is now widely accepted, both in the UK and across Europe, that red tape is a real issue restricting economic development and a competitive handicap compared with much of the rest of the world.

The problem is multi-faceted. It consists partly of regulation, partly of the complexity of compliance, partly of the supply of information to Government and partly of the frustrations involved in administering parts of the benefit system on the Government's behalf – quite apart from the payment of taxes.

No one can really contest the scale of the problem. The question is: which aspects of the red tape issue are causing the greatest concern and what is the nature of their impact?

This IoD survey set out to answer those questions.

### 2 The survey

The results presented in this report are based on a self-selecting survey of IoD members and other business leaders conducted in December 2003. A questionnaire was circulated with the December edition of the *IoD Policy* newsletter and the same questions were also made available on the IoD's website and through *eNews*, our online newsletter.

The questionnaire form listed 14 different aspects of the red tape problem:

- handling PAYE;
- processing National Insurance;
- processing of benefits / tax credits through the payroll system;
- new developments in employment law (e.g. dismissal procedures and tribunals, part-time working regulations, flexible working, maternity leave and pay);
- workforce relations issues (e.g. compulsory trade union recognition);
- National Minimum Wage;
- Working Time Directive;
- health and safety regulations;
- environmental / waste regulations;
- planning regulations / applications;
- supply of statistics to government agencies;
- greater company reporting requirements;
- Criminal Records Bureau checks; and
- other areas of concern (members were allowed to specify up to two issues).

## REGULATION COMMENT

For each of these issues, members were invited to indicate the item's impact on their business under four headings:

- distraction of effort;
- cost;
- disincentive to grow business; and
- Impediment to create jobs.

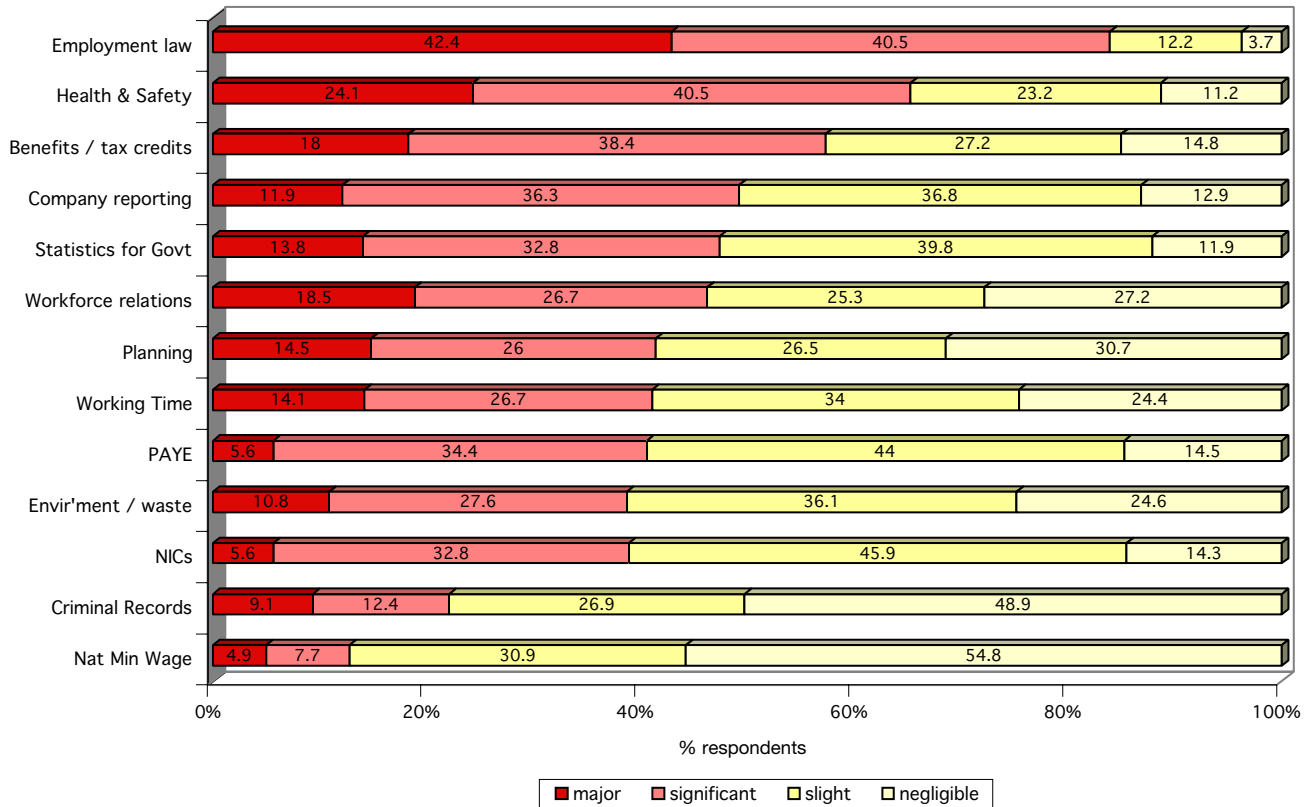
Under each of these four headings, members were asked to say whether the impact was 'major', 'significant', 'slight' or 'negligible'.

427 responses were received and the results are set on the following two pages.

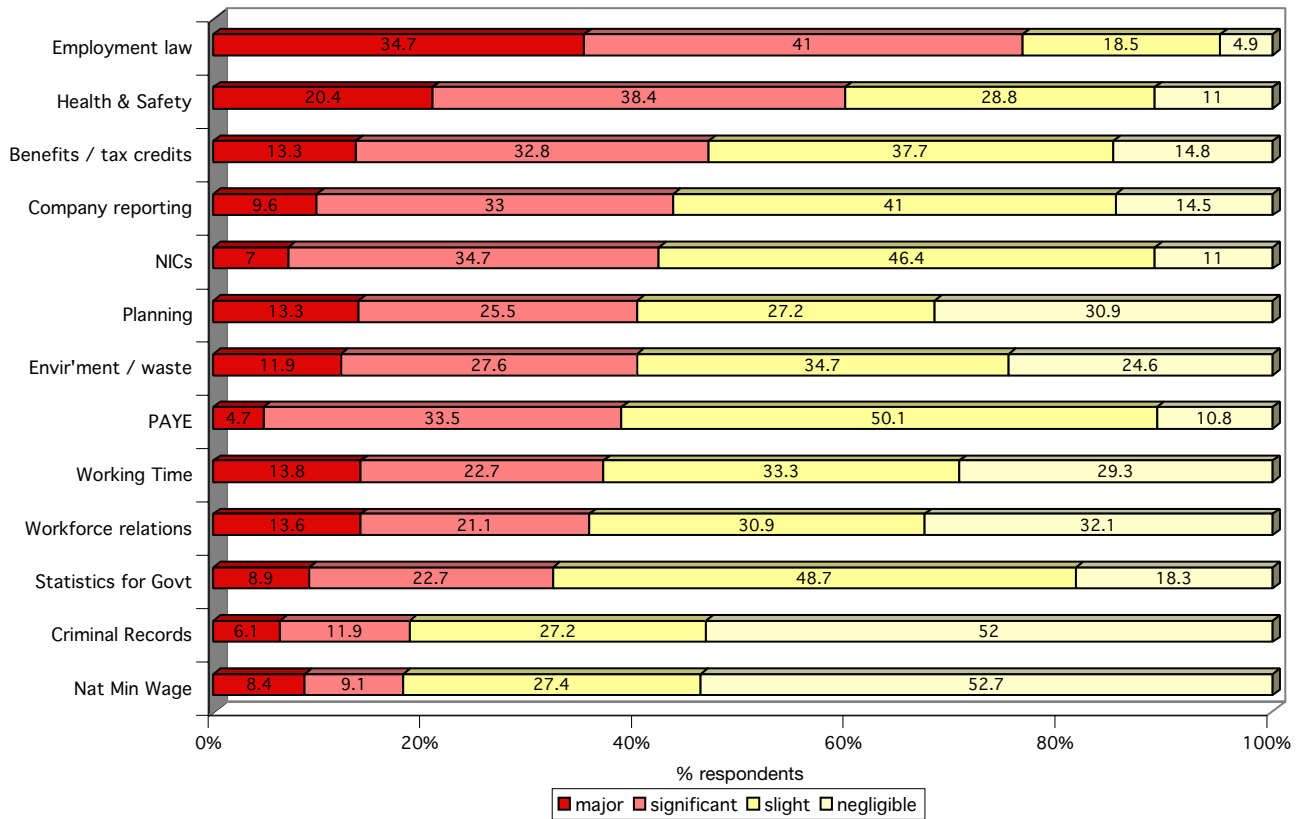
**REGULATION COMMENT**

**3 Results**

Distraction of effort - % of respondents identifying selected Red Tape issues as having a 'major', 'significant', 'slight' or 'negligible' impact

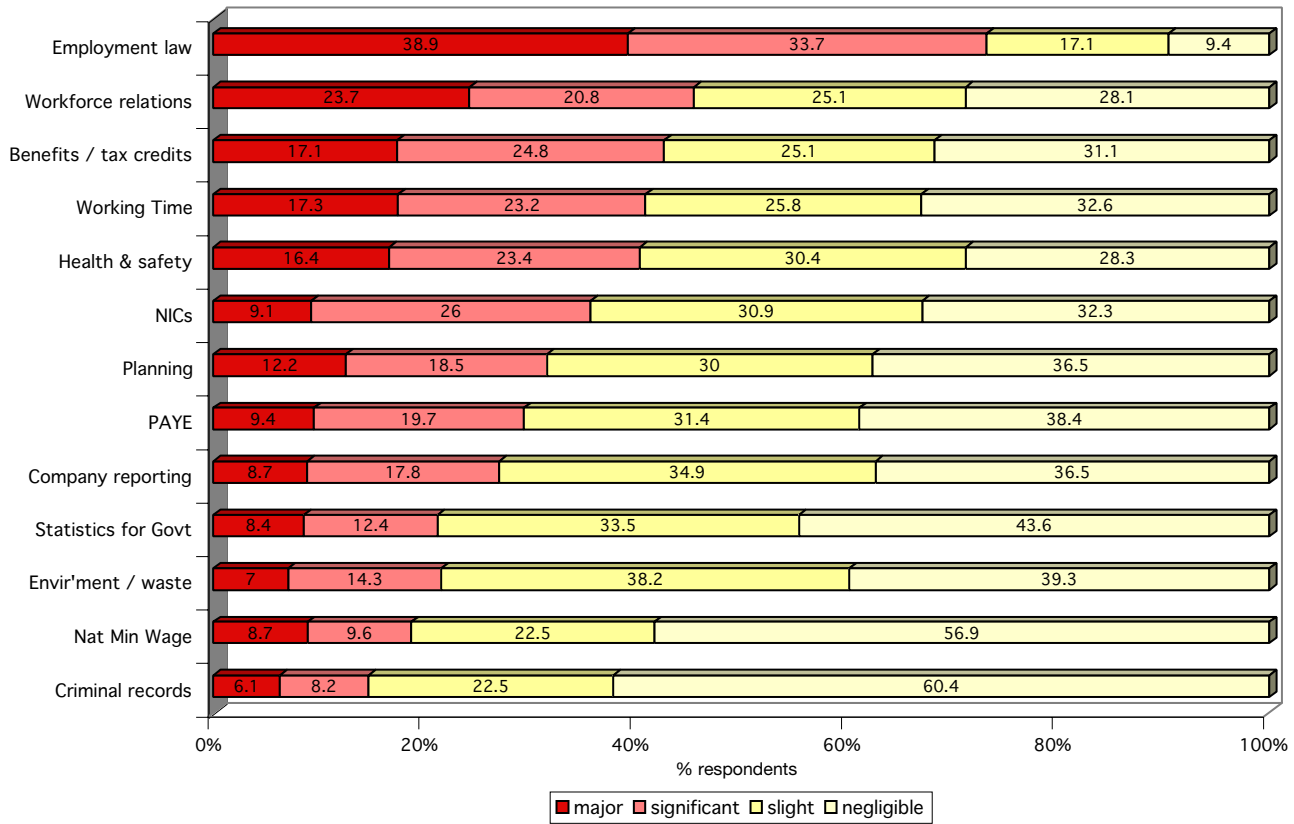


Cost - % of respondents identifying selected Red Tape issues as having a 'major', 'significant', 'slight' or 'negligible' impact

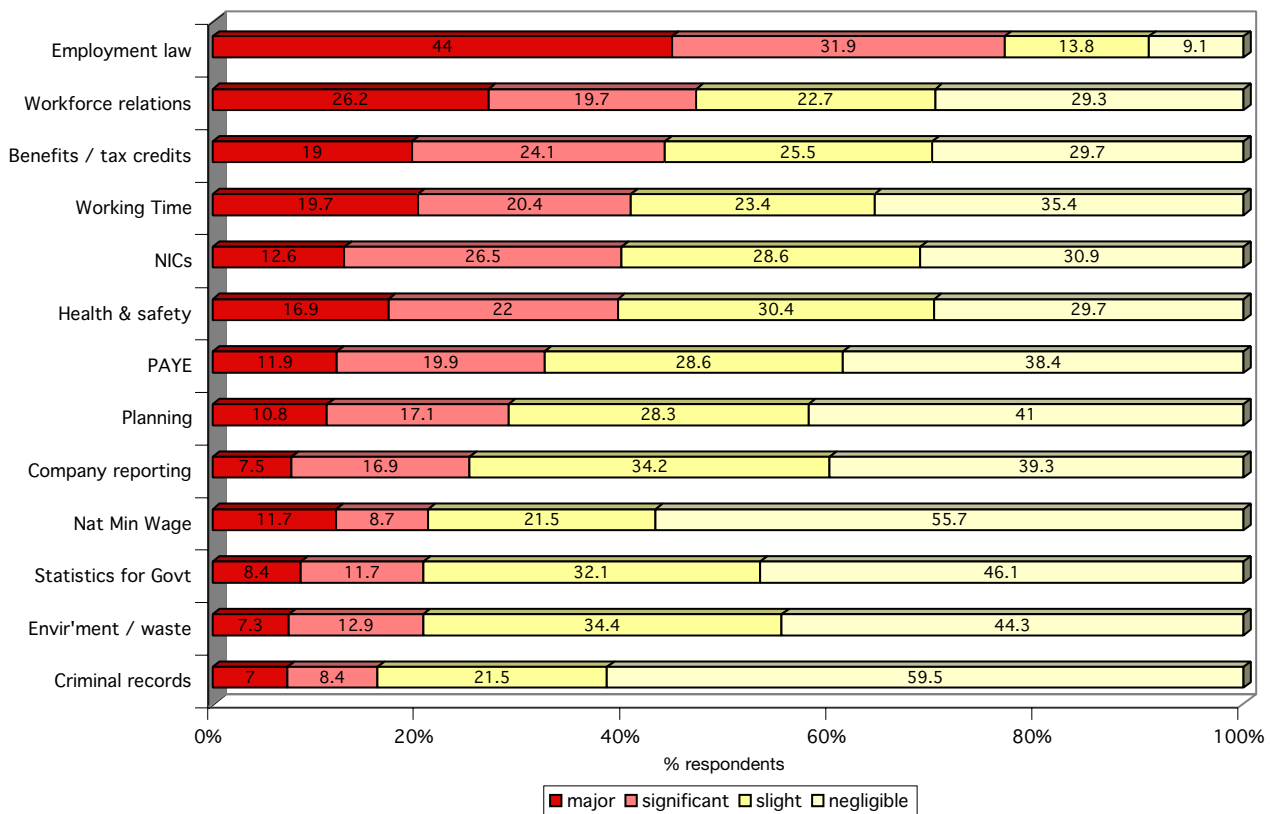


## REGULATION COMMENT

Disincentive to grow business - % of respondents identifying selected Red Tape issues as having a 'major', 'significant', 'slight' or negligible impact



Impediment to create jobs - % of respondents identifying selected Red Tape issues as having a 'major', 'significant', 'slight' or 'negligible' impact



## REGULATION COMMENT

## 4 Red tape issues: points to note

*New developments in employment law*

*'A massive new set of unnecessary regulations.... Prices have risen by 6-10% as a result. Recruitment of staff to the care industry has become more difficult'.*

Managing Director of a £350,000 turnover employment agency, supplying the care homes sector, on the Care Standards Act 2000

Whichever of the four indicators we look at, the same item tops the list every time – the mixed bag of issues that we have grouped together as 'new developments in employment law'. These include dismissal procedures and tribunals, part-time working regulations, flexible working, maternity leave and maternity pay.

There is clearly potential for further research to discover which of these specific issues is the source of the greatest concern. For many of our members, however, these issues are all of a piece. Statutory employee rights have been significantly increased in recent years, notably through the Employment Rights Act 1999 (implementing the Parental Leave Directive) and the Employment Act 2000 (expanded maternity rights, paternity pay and the right for parents of young children to request flexible working).

The highest numbers were recorded under the 'distraction of effort heading'.

*Health and safety*

*'The problem is that the vast majority of food companies have no comprehension of the implication of the Directive. Furthermore the Health and Safety Executive cannot offer advice, as they do not understand the Directive either. Consequences:*

- increased cost of components – up to 100%*
- delivery time has increased from 6-8 weeks to almost 26 weeks'*

Chairman of a 50-employee business, manufacturing equipment for handling powders (e.g. in the food and pharmaceutical sectors), on the ATEX Directive.

Health and safety 'scored' most heavily under our first two criteria – 'distraction of effort' and 'cost'. Members feel increasingly overwhelmed by the volume of legislation with which they must comply and nervous at the prospect of inadvertently failing to do so. The Fire Regulations 2000 alone run to 136 pages.

Although no responsible IoD member would deny the importance of providing a safe working environment, there is a concern that the task of ensuring compliance simply takes up too much management time – as the response to this survey demonstrates.

## REGULATION COMMENT

### *Processing of benefits / tax credits through the payroll system*

Since employers were first obliged to administer payment of the Working Family Tax Credit through the payroll in April 2000, IoD members have raised concerns about the extra work that they are now doing on the Government's behalf. The task of administering the new system of tax credits has been made all the more demanding by the Government's tinkering with the system.

It is no surprise that this issue is the third-greatest concern of IoD members under every single heading. In particular, the high ratings for this item under 'Distraction of Effort' highlight the scale of the extra administrative burden.

### *Workforce regulation*

Workforce regulation issues were rated as the second biggest concern under both the 'disincentive to grow business' and 'impediment to create jobs' headings. This issue covers matters such as compulsory trade union recognition, as introduced in the Employment Relations Act 1999.

Under the terms of this Act, trade unions have the right to be recognised for collective bargaining by employers with 21 or more employees subject to certain conditions being met.

A survey of IoD members in 1998 showed that 80% were opposed to these provisions, and the response to the present study suggests that practical experience has not changed their views.<sup>1</sup>

### *Working Time Directive*

With battle about to be joined between the UK and the EU over Britain's opt-out from the Working Time Directive, it is instructive to see the concerns raised about the Directive in this survey – even while the opt-out remains in place.

The Commission has recently launched a review of the concession, which allows British workers to opt-out of the EU's rules on the 48-hour maximum working week.

The figures in this survey suggest that the task of recording working hours and complying with the Directive's other provisions already imposes a significant burden on employers (more as a distraction of effort than as a cost). Over 40% of respondents saw the Directive as a 'major' or 'significant' barrier to business expansion and job creation.

Any decision to abolish or weaken the opt-out would push the Directive much higher up these league tables.

## REGULATION COMMENT

### *National Minimum Wage*

*'We have, in the past, made use of a reasonably large group of home-workers. We are now told, by the Inland Rev, that we must be able to demonstrate minimum wage compliance in the case of these workers. We pay them on a piece-rate basis – the task is data capture – and the rates are designed to give a reasonably conscientious worker a return of at least £5 an hour. However, whilst we can measure their logged-on hours, we cannot know what distractions they may have which interrupt their output. The consequence is that we have stopped using this useful source of labour'.*

Managing Director of a £1.7 million turnover data processing company

Our survey is by no means all bad news for the Government. Some red tape issues turn out to be a relatively minor concern to our members – especially the National Minimum Wage.

The IoD has raised major concerns about the minimum wage in the past, but the results of this survey suggest that few members regard it as a problem.

Of course, this may well reflect the fact that the impact of the minimum wage is not broadly based. Rather, it has a strong impact on certain sectors, such as retail, hairdressing, hotels and restaurants, cleaning, security and hospitality.<sup>2</sup> This may go some way towards explaining the limited response in this instance. Anecdotal evidence supports this point. As the extract above shows, when the minimum wage does make an impact, it can be very significant indeed.

### *Statistical returns*

*'We have to complete the following forms: Annual Prodcom, Monthly Inquiry for Production Industries, Annual Business Inquiry, Quarterly Stock Inquiry, Quarterly Capital Expenditure, Annual International Trade in Services. All from one agency! My complaint is that the data requested does not follow normal accounting conventions, so admin cost / time is high. This data could be sourced from VAT returns etc'.*

Finance Director of a £10m turnover graphic design business

*'We have to fill detailed forms with our product numbers / value / weight / country origination. Product classification is a nightmare to follow. A book the size of Yellow Pages has to be gone through each time for a small company. This takes one day per month'.*

Food broker on the Intrastat classification rules

One of the most vexatious issues for many businesses is the work involved in supplying statistics to the Office of National Statistics and other government agencies. Although IoD members recognise that these returns help economists to take the temperature of the economy, there is a feeling that the task is getting out of hand.

## REGULATION COMMENT

Although the issue is not a major cost, our charts show that it is certainly a distraction of effort. Case studies from members suggest it is one of the most infuriating aspects of the red tape issue.

### 5 Next steps

#### *Case studies dossier*

This report represents the first half of a major IoD research project on red tape. Each of the 427 respondents was asked whether they would be willing to supply a 'case study' setting out their own experience of excessive or unnecessary regulation. 170 indicated that they would be happy to do so and we are now in the process of gathering this material. Extracts from some of the first returns are quoted in this report.

We expect to publish a dossier of members' case studies shortly. The intention is that it should lead to practical proposals that we can put to Ministers as candidates for Regulatory Reform Orders.

### 6 Conclusions

The results in this report give a clear steer to our work on regulatory reform. They show that the following issues are the biggest red tape concerns:

- employment law;
- health and safety;
- processing benefits and tax credits through the payroll system;
- workforce relations; and
- Working Time Directive.

However we have looked at the red tape issue – as a distraction of effort, as a cost, as a disincentive to grow the business or as an impediment to create jobs, recent developments in employment law have topped our poll. These issues will now be central to the IoD's research and lobbying as we seek to persuade policy-makers of the case for British business.

*James Walsh  
Parliamentary and European Adviser  
February 2004*

## REFERENCES

### References

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1. Fairness at Work, Tracy-Jane Malthouse & Richard Wilson, IoD Policy Unit, May 1998.
2. See Low Pay Commission's fourth report (March 2003), page 80, for details.