



Election Manifesto

Sustainable growth and high employment needs an environment within which private, owner-managed businesses can flourish. The UK's prosperity rests most heavily on the flair, energy and risk-taking of individuals.

If the UK's economy is to continue to do well, the FPB (Forum of Private Business) believes that the new Government must support private businesses by:

- **Making it easier to employ people, with lower additional costs**
- **Helping them to keep expenditure low and fund growth**
- **Making regulation more appropriate for smaller businesses**
- **Encouraging the creation and continuance of businesses**
- **Creating a fair and efficient business environment**

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Introduction

Small and medium-sized enterprises (SMEs) are the true backbone of the British economy. They employ almost two-thirds of the private sector's workforce and produce over half of the private sector's GDP. It is essential that the next Government creates an environment within which this vital group can sustain competitiveness and growth. This manifesto sets out the FPB's recommendations.

The FPB represents around 25,000 privately-owned businesses, employing 600,000 people across the UK, covering all sectors. The majority of the FPB's members are typically employers, operating from formal business premises, and are registered for VAT. We consult regularly across the membership as a whole. The views expressed in this manifesto are based on the results of such consultation.

The FPB's proposals reflect some guiding principles:

- **Stability:** Above all else, SMEs need economic stability, to allow them to plan for the future and manage their businesses properly
- **Proportionality:** Regulation should be proportional to the damage caused by non-compliance and the size of the enterprise to which it applies
- **Simplicity:** Regulation should be easy for the business to understand
- **Balance:** The legal rights of employees and responsibilities of employers should be balanced by the rights of employers and responsibilities of employees.

1. Making it easier to employ people, with lower additional costs

Recruiting, managing and dismissing staff is beset with difficulty and cost for smaller businesses. Fear of tribunals discourages business owners from employing people. If they do go ahead and recruit, there is a national shortage of employable applicants. Rules change too quickly and are weighted against smaller firms. They do not have in-house experts and may have to learn about particular issues from scratch, or pay for advice. Smaller firms cannot plan ahead to cope with issues relating to employment in the way that larger firms can. For example, a very small firm with one employee has either 100 per cent or 0 per cent of the workforce on maternity leave. Large firms can expect to have a reasonably constant percentage of their employees absent at any time, and can cope better with sudden changes. Smaller firms are also more labour-intensive, so employment costs are more significant; for example, they have struggled to cope with rapid rises in the Minimum Wage.

The FPB believes the Government should make it easier to employ people by, for example:

- Reducing the unfairness, uncertainty and cost of Employment Tribunals
- Clarifying the rules surrounding employment/self-employment
- Recognising informal training and improving basic and entrepreneurial skills
- Reducing the cost and ambiguities of maternity regulations
- Reducing employers' National Insurance contributions
- Linking increases in the National Minimum Wage to the Retail Price Index

2. Helping private businesses to keep expenditure low and fund growth

Finance is a basic building block on which businesses are based. The higher costs that smaller firms face mean that it is difficult for many of them to generate the funds to grow. Smaller firms pay more to employ people. They pay more, relative to their size, in taxes, and cannot restructure themselves to avoid tax, or to minimise the effect of taxes on their cash flow. Late payment is becoming a problem again and the Government is not setting a uniform example of good practice. The recent money laundering regulations have created barriers between smaller businesses and the professionals on whose advice they depend. Viable business propositions cannot always find capital. The Bank of England has stopped monitoring lending to smaller firms, sending a clear and negative message to SMEs.

The FPB believes the Government should make it easier to fund growth by, for example:

- Allowing monthly, staged payment of corporation tax and Schedule D income tax
- Encouraging and setting standards for prompt payment practices
- Improving the position of unsecured creditors in insolvency
- Reviewing the recent money laundering regulations and their application
- Cutting back on the red tape that makes it hard to raise equity finance
- Stimulating lending by banks, including expanding the loan guarantee scheme

3. Making regulation more appropriate for smaller businesses

Regulations hit SMEs especially hard. Compliance costs are a higher percentage of turnover than for big businesses – some of which actually make money out of regulations. This makes it harder for smaller firms to compete. Tax regulations are particularly burdensome. Owner-managers are not specialists in these matters, but government agencies do little to support compliance. New regulations and standards are generally drafted with little regard for the smaller firm. Businesses are not always well-represented at discussions of proposals, for example, unlike other EU Member States, the UK is represented at discussions on European food regulations by, the Food Standards Agency, which has no brief to speak for producers.

The FPB believes the Government should ensure regulation is appropriate by, for example:

- Providing compensation for costs of compliance, to eliminate competitive distortions
- Restructuring and simplifying tax rules; for example, by merging NI and PAYE
- Promoting compliance, rather than penalising non-compliance
- Using 'comply as you complete' documentation, such as the FPB's Health & Safety Guide
- Considering the impact of regulations and standards on SMEs before implementation
- Requiring the UK's agencies negotiating in Brussels to consult with smaller firms

4. Encouraging the creation and continuance of businesses

Starting a business is often still not seen as a good career path. Big business is seen as offering greater rewards and no comparable risk. Company law creates fiscal and regulatory confusion for those setting up and running a business. Government's policies are focused on creating new businesses rather than supporting established firms, which have already demonstrated their viability. Those men and women who do establish businesses seem to get little recognition from the 'system' for the risks they are taking, and for the wealth and employment they create. When they wish to retire, they are less likely to have had the equivalent opportunities or encouragement from the tax system to save for retirement.

The FPB believes the Government should encourage entrepreneurship by, for example:

- Using positive measures to encourage under-represented groups to start new businesses
- Reforming company law, and seeking further clarification of legal identity for smaller firms
- Increasing the support available for established businesses
- Reforming insolvency law, to reduce insolvencies caused solely by cashflow problems
- Allowing rollover of Inheritance Tax into private business investments
- Restoring Capital Gains Tax retirement relief, on the sale of long-term business assets

5. Creating a fair and efficient business environment

Fair competition is the basic condition on which an effective free market depends, but SMEs suffer disproportionate burdens in many cases. The VAT system creates unfair competition at the lower end, with unregistered traders; for example, hairdressers with formal premises have to compete with freelancers who do not have to charge VAT on the same service. Larger businesses also exploit loopholes that give them unfair advantages; for example, supermarkets are allowed to sell hot takeaway food free of VAT, in direct competition to the smaller takeaway food outlets, which are forced to charge VAT on the same products. Planning law, business rates and leasehold law ensure that smaller firms are disadvantaged in the property market. Transport and communication links are essential for all businesses, but smaller firms suffer more from inadequate provision and sometimes face direct discrimination, as they have over the London congestion charge.

The FPB believes the Government should create a fairer environment by, for example:

- Closing the VAT loopholes that big businesses are being allowed to exploit
- Reducing the rate of VAT applicable to the flat rate scheme and on labour-intensive trades
- Reforming property law to outlaw upward only rent reviews
- Introducing an effective business rates relief scheme, focused on the size of the business
- Developing transport and communication infrastructure to meet the needs of smaller firms
- Applying exemptions fairly across business sizes

If you would like more information on any of the issues mentioned in this document,
please call the FPB on 01565 634467 or email policy@fpb.org