

Dyddiad: 6 Mawrth 2003
Amser: 9.00 - 12.30
Lleoliad: Ystafell Bwygora 1, Cynulliad Cenedlaethol Cymru, Bae Caerdydd
Teitl: Papur gan Federasiwn Busnesau Bach Cymru

Evidence from the Federation of Small Businesses to the Economic Development Committee

Overview

As you will all know, small businesses are the major driving force in the economy. They employ well over half the workforce of the UK, and among them are the major corporations of the future: every large company was once a small business.

With the right environment, one that gives them the flexibility to grow and prosper, they can continue to be the engine of growth. But although they may appear to be flourishing, there is an increasingly difficult and constraining business environment to contend with.

Many of them are living with very small margins and tight cash flow. Costs are increasing but have to be absorbed.

At the same time, the pace of change is ever increasing and businesses have to respond to it. Global markets and global competitors mean that firms need to move even faster. Long term planning is becoming more and more difficult.

We all know how hard it is to be an owner-manager: running the business, finding the markets, coping with regulations, finding the staff, looking for finance, dealing with problems. The sector now requires greater management expertise than ever before. Directors and managers need a high level of skills, both professional and vocational, if firms are to flourish.

But keeping up with technology and regulation takes an increasing amount of this precious management time.

Barriers to Growth

It was with this in mind that the FSB decided to undertake the most comprehensive non-governmental benchmarking survey of businesses ever undertaken in Wales, namely *Barriers to Growth*.

The 2002 *Lifting the Barriers to Growth in Small Businesses* study (Appendix I), commissioned by the Federation of Small Businesses and carried out by the University of Strathclyde, was part of a UK-wide survey of almost 19,000 businesses in the UK. It followed up the Year 2000 report which surveyed 22,000 firms.

The project entailed three stages of data collection with small business owners in each FSB area: focus groups, telephone interviews and a postal questionnaire. Respondents in Wales were offered two versions of the questionnaire with an option of completing an English or Welsh version.

The report summarises the results for Wales of the project and presents data on barriers to growth in small firms. In total, 737 responses were received from Wales, equating to 14 per cent of the total FSB membership in the country.

FSB Comments on *Barriers to Growth*

Greatest dissatisfaction was centred on the general aspects of legislation surrounding small businesses, and firms in Wales were especially concerned about the implementation of environmental and employment regulations and costs of compliance.

In Wales, Employment Legislation was the least popular followed by Business Taxation (IR35), while Business Taxation (IR35) was the least popular item across the UK as a whole. There was a direct correlation between the age of businesses and turnover and attitudes towards legislation changes. Generally, negative responses increased as the age and the turnover of businesses increased.

The environmental legislation that affected most businesses was the 'Special Waste Regulations', followed by the 'Environmental Protection Act (duty and Care)' with 24% and 'Waste Management Licensing Regulations' with 23%. The 'Contaminated Land Regime' had affected only 6%. Forty-seven per cent of respondents claimed that they did not know whether they paid the Climate Change Levy. Of those who did pay the levy, 18% said that their net cost had increased.

Further analysis of the study (unrelated to red tape), and comments on this analysis, can be found in Appendix II.

FSB Comments on Legislation

At the beginning of 1999, over 3.7 million enterprises were active within the UK. Over 95 per cent of all businesses employed fewer than 10 people. These small businesses make an important contribution to the UK economy. They account for over 50 per cent of the private sector workforce. Whilst large companies are shedding labour, small firms have created over

two million new jobs in the last ten years.

On the question of gross national product, small firms contribute over 40 per cent of the UK's total output. Small businesses have therefore been identified as a key source of job creation, enterprise and innovation. Over 64 per cent of innovative ideas come from the world of small firms.

But if businesses do not grow they cannot create jobs. If a quarter of the four million small businesses in the UK were able to take on another employee, the country would achieve full employment. Governments past and present have been ill advised by civil servants, who focus on the creation of revenue streams or the plugging of revenue losses.

These piecemeal attempts are produced by different government departments in an ill-thought-out and uncoordinated fashion. The upshot has been to generate a chaotic range of constraints on small business growth, preventing greater employment and the creation of wealth.

The cumulative affect of legislation for small businesses is an overwhelmingly serious problem, but is seldom recognised by civil servants. Small businesses need to use their limited time and resources in dealing with their customers. The more time that is devoted to government form-filling and dealing with red tape, the less time is available to providing services and products for their customers.

The cost of compliance with legislation can be enormous, and this impacts disproportionately on small businesses. For example, the DTI estimates the Working Time Regulations to cost UK business £2.3 billion, and the Parental Leave Regulations – including the regulations allowing time off for emergency leave – £35 million.

For example, the Inland Revenue's Employers Pack alone is not far short of the thickness of *The Lord of the Rings*, and includes the following seventeen items:

1. Help guides
2. Starter booklet
3. Postal Order form
4. Fax Order form
5. Form CA35 Statutory Sick Pay Tables
6. Form CA30 Statutory Sick Pay Manual
7. Form CA38 National Insurance Tables A
8. Form CA41 National Insurance Tables B & C
9. Form P9X Tax Codes
10. Form P7X More Tax Codes
11. P11 Deductions Form Working Sheet

12. Form P14 End of Year Stationery
13. Help Sheet
14. Main Forms
15. Form SR plus B-D Tax Tables
16. The Employers Bulletin
17. The Employers Planner

Our overall concern is with the political attitudes that seem to take it for granted that it is necessary to treat business as if it was an inherently antisocial activity with the people in charge needing to be put under threat of criminal prosecution to make sure they behave. As a consequence many small business owners feel they are second class citizens in the eyes of the politicians and bureaucrats and are being driven to despair by the blizzard of regulation being dumped on them with seemingly no concern whatsoever for their ability to cope with it all.

Many owners of small businesses are not 'businesspeople', but simply those with special skills in various fields such as science, engineering, catering, etc who have devoted their expertise, energy and financial resources to creating enterprises that offer goods and services for the benefit of not only themselves but their employees and their customers honestly and fairly. The minority that don't simply do not last long and can generally be dealt with under existing laws.

The vast majority of small business owners are not qualified lawyers, financial advisors or tax and social security experts. But for this vast majority who are untrained in these fields dealing with complex regulation it is extremely onerous and time consuming and extremely expensive, and often unaffordable if expert help has to be sought, which invariably has to be the case.

Yet the rapidly growing mountain of regulation that has been increasingly imposed upon small businesses in recent years demands that owners of such enterprises devote substantial precious, and often unavailable, time and financial resources to grappling with such complex and often ill thought out legislation, which is frequently introduced with little or no prior information being made available therefore not allowing any realistic chance of compliance requirements to be met. The system then threatens them with criminal prosecution and heavy financial penalties for not doing so or if they make the slightest mistake or fail to understand it all. This is just not acceptable.

Small business owners employing only a handful of people face, in nearly all respects, exactly the same obligations and potential penalties as the biggest organisations in the country which have whole departments to deal with exactly the same regulatory responsibilities that small business owners have to deal with alone, the penalties they face for failing in any respect are exactly the same, but what would be a 'flea bite' to them could ruin a small business and cost them not only the business but their home and their peace of mind. On top of this the actual effects of implementing many aspects of legislation that would have little effect on a large organisation can be crippling to a small one. This disproportionate affect of regulation seems to

be simply ignored: how can this be right?

Despite repeated statements made over the years by various politicians about the importance of small businesses to the British economy and the necessity to lift the burden of red tape the mountain continues to grow. Regulations covering almost every conceivable aspect of business operations are now so numerous and complex that it is quite reasonable to assume that nearly every small business owner now faces potential criminal prosecution or the possibility of substantial financial penalty for some unwitting failure to comply with a regulation they have not understood properly or indeed have no knowledge of.

How regulation is enforced is a further concern. The FSB's study, *Inspector At The Door*, published in May 1999, highlighted the powers of regulators to enter premises. Firms now face double the threat of investigation than they did 20 years ago – there are now over 300 inspections carrying a right to entry compared to 151 in 1979, contributing to a total of 24,000 staff carrying out 465,000 inspections during 1997-98. Business owners, already burdened by the sheer volume of inspections, also face inconsistency of advice.

When a former government minister was asked for his opinion on having a single inspector to deal with employment regulations, environmental regulations, Health and Safety and Fire regulations, he replied that no one person could be expected to be informed on all legislation. Yet this is exactly what is expected of small business owners, in addition to running their businesses. All-purpose, professional inspectors would at least have the time to dedicate themselves to becoming knowledgeable of regulations and, at the same time, appreciate the difficulty small businesses have on keeping abreast of ever-changing legislation.

Small businesses themselves are also expected to act as a watchdog by requirements placed upon them under the Asylum and Immigration Act, which allows a fine to be levied on employers who inadvertently take on illegal immigrants as employees.

The FSB in Wales recently received a letter from a tree contractor who, after over 30 years in business, was wondering whether it was worth carrying on after all the legislation and paperwork he was having to contend with. He said: "Perhaps I should sell-up, buy a caravan, steal a truck and some equipment, frighten old people into letting me hack their trees for vast sums of cash, buy 'Ask Driver for Details' and 'Trees Lopped, Topped and Felled by Professionals' stickers, ignore the odd few hundred rules here and there, fly-tip my rubbish, frighten off the majority of enforcing authorities and live on state benefits. Please advise."