



# **The Genesis Initiative**

**Creating a Pro Business  
Environment**

**Our SME Manifesto**

**Liberating the Entrepreneur**

**Launched at  
The Palace of Westminster  
in November 2014**



**KENSINGTON PALACE,  
LONDON, W. 8.**

The launch of the SME/Micro Business Manifesto is timely, given that the General Election will be held in May 2015. All our Political Parties are formulating their Manifestos, so any contribution from the deliberations of the participants in the 'Genesis Initiative' will be welcomed. Our SME/Micro Businesses have played a major part in taking our country out of recession, so it is critical to develop and implement the right policy framework. The Genesis Initiative Manifesto is an attempt to bring relevant stakeholders together to identify the key strategic issues facing the SME/Micro Businesses in the United Kingdom. Contributors have included Academics working in the sector, SME Organisations and Politicians Cross Party who campaign for policies that support entrepreneurial initiatives. I would like to record my thanks to Mr Ross Coates, Mr Richard Smerdon and Professor Ken O'Neill for producing this Manifesto, and to PRS for Music for their sponsorship.

As Founder Patron of the Genesis Initiative I am proud to be associated with this exercise.



It is my pleasure to commend the following paper to you. This manifesto is intended to provide an overview of Small and Medium sized enterprises in the United Kingdom as we approach the next General Election in 2015. Its goal is a simple one – that the arguments put forward in this paper will help foster a thriving SME Sector.

Much like previous endeavours, this manifesto is very much intended as a Small Business anthology compiled with the view of bringing together a diverse range of people of a business background and that of academia. The manifesto has been broken up into chapters with each chapter having a different author. It is

fantastic to see returning names from the Genesis Initiative's first manifesto nearly half a decade ago, such as Professor Ken O'Neill, Sir Ronald Halstead discussing Manufacturing and Bob Salmon on the Food Sector to name a few.

The document itself is supported by the Genesis Initiative and is the product of over two years work. Genesis Initiative is an all-party organisation with the aim of supporting the SME sector by bringing together entrepreneurs, academics and decision makers from all sides of the spectrum. Formed in 1999 it now boasts some 113 trade organisations and nearly 1 million members.

I would like to thank everyone that has been involved with producing the content of this manifesto ahead of what could be a momentous General Election. I do feel that I should specifically mention PRS for Music who have yet again sponsored the administration and research of this project. Without their continued support over the years this manifesto would not have been possible. I would like to recognise the Chairman of the Genesis Initiative, Cllr John May FCA who has yet again co-ordinated this project. Also to Ross Coates MBE and Richard Smerdon who have produced the Manifesto magnificently and co-ordinated the final document. Lastly I would like to thank HRH Prince Michael of Kent who is the Patron on the Genesis Initiative for his continued support of this manifesto.

**Brian Binley MP**  
**Member of Parliament for Northampton South**  
**Chair of the All Party Parliamentary Small Business Group**

## **Foreword**



I would like to start by commending the Genesis Initiative for their 2014/2015 manifesto. Genesis is an all-party political group containing members with an almost unrivalled knowledge, expertise and passion for SMEs and Micro Businesses. In my work as Chair of the All Party Parliamentary Group for Micro Businesses, I have worked closely with them and shared ideas over the last four years. Like me, the members of Genesis recognise that small and micro businesses are the lifeblood of the UK economy, and must be given maximum support to be allowed to flourish!

This manifesto sets out with clarity proposals that the Government should consider to further enable our SMEs and micros to grow. These are detailed and practical measures, written by real experts in the field. Sensible proposals on red tape, tax, access to finance and late payment, issues I am pleased to see addressed.

The manifesto was written as the UK economy emerged from a difficult recession. The current economic signs are good, with unemployment down, inflation low, and Britain forecast to experience the most rapid growth of any advanced economy over the next year. Small business owners in my constituency tell me that they are feeling more confident about their prospects – if the Government implements measures like those suggested in this manifesto, that confidence can be translated into what we all want to see – more jobs and prosperity for our local towns and people.

I would like to thank all of the authors for their hard work and contributions, particularly Ross Coates and Richard Smerdon who have worked tirelessly to bring the whole project together. I hope that the Government will look very seriously at all the proposals put forward.

**Anne Marie Morris**  
**Member of Parliament for Newton Abbot**  
**Chair of the All Party Parliamentary Group on Micro Businesses**

## **LIBERATING THE ENTREPRENEUR CREATING A PRO-BUSINESS ENVIRONMENT**

### **THE THEMES OF THIS MANIFESTO**

This manifesto, for the 2015 General Election, is prepared on behalf of the Genesis Initiative which is an all Party Political Group representing SMEs and micro businesses through their delegate organisations.

The aim of the organisation and the aim of this manifesto is to encourage Government to set the right pre-conditions for entrepreneurs to create employment and to grow their businesses profitably which, in turn, benefits the Exchequer and more locally the communities within which the businesses operate.

The organisation acknowledges the significant steps taken since the occasion of its first manifesto in 2010.

It is important that Government correctly monitors the appropriate legal framework with the right tax rates, and the right number and appropriate application of regulations. Equally the Government must recognise the limitations of its own role in the development of new and existing SMEs.

This manifesto emphasises the crucial importance that economic policy plays in entrepreneurship but, at the same time, the manifesto recognises there are no easy paths in existence to promoting entrepreneurship. High taxes and a heavy regulatory burden are seen by many to be the central weakness to the current business climate in the EU but political will to reform this is required.

This work comprises submissions from a wide range of individuals either from the business world or the academic world with a specific interest and knowledge in niche areas relevant to the SME sector and its development. The themes drawn from these contributions are set out below and provide a useful introduction to and summary of this manifesto:-

### **1. Creating the Right Regulatory Framework**

It is essential that the Government sets the correct statutory and regulatory framework to not only encourage entrepreneurs but also to provide support and encouragement for the self-employed. There has been a huge increase in self-employment over recent years during the period of the recession. Self-employed tend to remain as micro businesses and, generally speaking, do not take on employees. Entrepreneurs tend to be on a mission to grow and develop businesses and in order to fulfil their aims and dreams, create employment.

It is therefore important that regulations and new statutory innovations are viewed from an angle of encouraging SMEs rather than making it more difficult for SMEs, more cumbersome and more expensive to set up a business and to maintain the business. There have been many comparative studies throughout the world as to the time and cost of setting up a new business and the time and cost of dealing with non-productive management activity. It is important that within the UK and within the EU the overall theme is a light touch regulation which encourages SME development.



## **2. Rebalancing the Rights of Employers and Employees**

This manifesto acknowledges the strides already made in this area by the current coalition Government and a continued theme of rebalancing the rights of employers and employees should be pursued throughout the next Parliament. Much of the work detailed in current initiatives is yet to reach the consciousness of those in charge of small businesses and we would argue that the differentiation between very small/micro businesses and larger employers is a legitimate one. Very small businesses are not able to afford elaborate administrative structures to provide the advice and support needed for complex adherence to detailed legal requirements and, in particular, where those requirements are changing annually it consumes too much unproductive time and effort. The effect on SMEs is disproportionate.

Legislators should bear in mind that the majority of employers are SMEs which are not even incorporated entities and, in those circumstances, employment legislation literally relates to the rights of one individual against another in many situations.

The manifesto would applaud the tentative changes made with regard to the way that employment tribunals work, but more research is required with regard to the part played by the manipulation of the media by one party or the other before the cases are concluded and awards made by tribunals.

## **3. Preventing Regulation Acting As Inhibitor to SME Development**

Without being industry specific, it is a fact that across the SME sector employment legislation brings with it the majority of regulations that businesses have to adhere to.

There are of course specific regulations relating to specific businesses such as the food sector or financial services (see specific contributions later in manifesto). There seems to be a continuing appetite to develop complex regulations in this regard which become ever more difficult for businesses to understand and adhere to. This line of travel makes it very difficult and expensive for the SME sector to keep up with regulations.

The more liberated any particular market is, the more likely it is that the business owner can focus more of his time, energy and intellectual capacity to building and developing a business and, in particular, providing additional jobs rather than being continually focussed on compliance. In these circumstances, this manifesto would wish to see a more vigorous examination of any new legislation and statutory instruments which impose new regulation on SMEs. We support a continuing drive to repeal and remove unnecessary or redundant regulatory provisions. New regulations must be gauged against strict criteria and be proportionate.

## **4. Tax and SMEs**

This manifesto supports a simplified tax regime and simplified tax reporting requirements for SMEs below a certain size, again in order to reduce the burden and the amount of time in non-productive activity on the part of SME managers and owners.

A tax collection regime more in tune with the practices of other creditors and organisation would appear to be more business friendly. For many the current arrangements relating to

the collection of tax are cumbersome, complicated and confusing and in many ways outdated.

## **5. SMEs Access to Finance**

The big issue of the day is somehow to make more finance available to the SME sector in order to persuade SMEs to develop and expand. Subsequent to the banking crisis, the credit crunch and the recession, the SME sector is still carrying a significant chunk of historic debt and this at a time when there are competitive pressures to build and develop to take advantage of the improved market conditions. None of this is possible when at the same time there is pressure from the banking sector to collect money from SMEs and the individuals within them rather than to lend money. After six years of recession not many businesses are cash rich.

There are a number of new providers of finance emerging on the market outside the traditional banking sector and Government policy should focus on encouraging this development because, unless funding is made available to the SME sector, growth and development will eventually be derailed through lack of capacity and ability to provide services to the community at large. Risk management requirements in this area require constant review.

## **6. Education and Attitude to Risk**

In our current society there is a tendency for too many to be risk averse whereas the spirit of small business is to take calculated risk in order to make profit and develop one's business. Attitude to managing risk is an important factor in whether businesses develop or stagnate. By its definition, a risk can go wrong and have disastrous consequences but without risk takers much less can be achieved.

Training and education support for the SME sector needs to be overhauled. At the current time training and support for setting up, running and maintaining a business is piecemeal, uncoordinated and provided by a range of different providers very variable in its quality and robustness and not always fit for purpose. Ongoing practical support for business, such as establishing a more coordinated and comprehensive educational support system is essential in order to enable start-ups to continue and operate successfully on an ongoing basis. Government initiatives should be at the centre of this.

Many SMEs are reporting a significant skill shortage in a variety of given areas of small business activity. The lack of educational achievement and general educational disorientation is going to hamper the development of the British economy in the years to come and requires urgent attention by future Government policies in the relevant sector.

## **7. Business Vehicles**

It is only natural that after a recession individuals may be wary of setting up an SME. Statistics show that record numbers of people have declared themselves self-employed (see more detail later in manifesto), equally most of those are individuals who have set themselves up as consultants and employ no-one. To take the essential first step of employing staff is a big step to take and will require finance and capital. We believe in an establishment of a working committee to look at protecting the domestic assets of entrepreneurs to simplify the establishment, running and maintaining of limited companies

and to consider ring-fencing the liability of those individuals who take the risk of setting up a new venture which employs third parties. We believe that this would encourage more people of ability across all age ranges to put into practice their ideas and plans on an individual entrepreneurial basis.

We also propose a detailed study of the movement and ownership of capital in our society for the provision of this lies at the heart of new business.

## **8. European Union**

In 2000 the European Union signed the 'Lisbon Strategy'. The apparent aim was to make the EU "the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion" by 2010. It went on "*the competitiveness and dynamism of businesses are directly dependent on a regulatory climate conducive to investment innovation on entrepreneurship*".

As Sweden's Prime Minister Fredrik Reinfeldt quoted in 2009 "*it must be said that the Lisbon Agenda, only a year remaining before it is to be evaluated, has been a failure*".

Subsequently the euro zone has been marred in financial and economic problems particularly amongst the southern European Member States.

At the current time our own Conservative Party has promised an in/out referendum in 2017 and this commitment is significant. Much of the regulation referred to above and, in particular, regulations relating to employment legislation and industry specific rules and regulations, emanate from the European Union and again much has been written about how democratic European Union structures are which lead the implementation of new rules and regulations in member states. Much of this work lies at the heart of so much devoted and tireless time spent by Genesis members. The problem is that many consider that the whole arrangement needs to be reformed.

Whatever the final result of the argument on both sides of the fence may be, it is crucial there is transparent and democratic examination of all proposals before they become Law. We would therefore urge the new Government to look at the revising of the current mechanisms in place and with regard to proposals emanating from the European Union for the purposes of reviewing legislative proposals.

## **9. Promotional Support for Exports**

Increasing exports is essential to the country's future prosperity and Government support in promoting exports would provide proportionately large advantages to the UK economy were it to be successful.

In his section on "Manufacturing and Exporting", Sir Ron Halstead makes a powerful case for much greater investment and support in this area by Government particularly in the SME sector. Genesis supports this initiative and considers it should sit at the hallmark of any future General Election manifesto.



## **10. Infrastructural Development**

In the light of the substantial increase in population in the United Kingdom, both through the birth rate and unprecedented levels of immigration, it has never been more essential for the infrastructure to be kept up to date.

Transport infrastructure is the most crucial for the development of business and, in particular, the SME sector requires efficient and cost-effective delivery times and the ability to be able to be mobile within the United Kingdom. At the current time this is becoming increasingly difficult to achieve in view of the fact that the infrastructure is outdated, under-resourced and inadequate given the numbers of people trying to utilise it.

Government investment in this area needs to be re-examined in order to provide a much more efficient, effective and up to date supportive infrastructure to facilitate small business and otherwise corporate activity.

## **11. Small Businesses Commission**

This manifesto is not the first document to propose the establishment of a Small Businesses Commission. We propose this becomes legally constituted with the following remit:-

- (i) To examine all proposed legislation in regulations from the small business angle and to present the small business case to the Government whenever their legislative proposals or regulatory proposals which could affect the SMEs;
- (ii) To take control of small business training so as to provide a coordinated service provision, support and back-up for all those requiring this both in the initial stages of setting up an SME but also in ongoing duties to keep up to date with new tax proposals and other changes in modus operandi;
- (iii) To provide help and support to SMEs to obtain Government contracts;
- (iv) To act as the follow up for SMEs to benefit from export initiatives.

## **CONCLUSION**

Our aim, as set out in the introductory section by Professor Ken O'Neil, is to encourage the development of a flourishing SME sector. This is not a new clarion call neither is it particularly original. One has, however, to be constantly mindful of the need to create a pro-business environment in terms of carefully watching Government and other administrative bodies' regulatory activity, managing the economic and financial environment and the Government's adoption, consciously or otherwise, of new regulatory commitments which could be beyond the ability and capacity of small businesses to absorb.

Our goal is to ensure that the contributions that now follow in this manifesto will move political debate in a pro-business, pro-entrepreneurial, self-employed direction.

## **A BRIEF SNAPSHOT OF THE PROPOSALS IN THIS MANIFESTO**

### **1. A proportionate regulatory framework which differentiates the SME sector.**

Proposed legislation relating to the conduct of business needs to be dissected by the proposed Small Business Commission to ensure that it does not impose unnecessary and complex regulatory burden upon business where such proposals do involve additional regulatory compliance consideration should be given as to whether the SME sector should be treated differently or exempted altogether.

### **2. A review of employment legislation which differentiates this sector.**

All future employment legislation and regulation should be dissected as above to ensure that it does not add unnecessary regulatory burden to business and the SME sector in particular.

### **3. Easier and wider access to finance to enable the SME sector to develop.**

Future regulatory activity should be restrained so as not to act as a disincentive to new organisations offering loans and financial support to facilitate SME development and expansion. This policy of facilitating development needs to be prioritised particularly whilst the traditional banking sector remains unable or reluctant to support SME development across the board.

### **4. Enhancement of training and educational support to facilitate the development of the SME sector.**

All businesses and SMEs in particular only represent the sum total of the individuals that work with them and for them and training and education are a vital component to facilitate success in the medium to long term. Our manifesto contains more detailed proposals as to what this should comprise.

### **5. An approach to the European Union which reduces burdensome pieces of EU legislation and reduces challenges to SMEs within different sectors.**

Much business legislation emanates from the European Union. MEPs and all those involved in the process need to focus their attention to ensure the regulatory burden is reduced.

### **6. The establishment of a small business commission.**

SMEs need a focal point where all proposed legislation relating to business is vetted and where training is facilitated and coordinated and where the overall interests of SMEs are prioritised.

### **7. The prioritisation of export support.**

The manifesto extols the importance of Government providing as much support as it can to enable the SME sector to develop its exports and range of contacts abroad.

Draft : 1/11/14

**The Genesis Initiative  
2014/2015 Manifesto  
Supporting Chapters**

**WORKING MASTER DOCUMENT FOR MANIFESTO**

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# 1. THE SIGNIFICANCE OF THE SECTOR

**Author: PROFESSOR KEN O'NEILL**

Not only do SMEs provide 60% of the UK's private sector employment and 45% of its total employment but, because of new start-ups and because some of those small businesses grow into the larger businesses of the future, they provide the major part of the UK's new jobs. As well as employment, other economic benefits of SMEs have also been recognised, including:

## **1. *Individual enterprise and independence.***

SMEs provide a productive outlet for the energies of those enterprising people who set great store by economic independence. In the many sectors the optimum size of the production unit or the sales outlet is small. Many important trades and industries consist mainly of small businesses.

## **2. *Social inclusion.***

SMEs offer opportunities for economically disadvantaged people, including many from ethnic minorities, women, and, increasingly, people aged over 50, to escape from social exclusion and to boost their economic well-being. Moreover, minority ethnic businesses carry significant positive aspects in terms of global connections, innovation and sustainability as the many Asian entrepreneurs in the UK are demonstrating during the current economic difficulties.

## **3. *Specialist supplier.***

Many SMEs act as specialist suppliers to large businesses offering them flexibility and adaptability, thus performing a key element in supply chains.

## **4. *Competition.***

SMEs provide competition and a check on the profits and inefficiency which monopoly breeds.

## **5. *Innovation.***

Despite relatively low expenditure on R&D by the sector as a whole, small businesses are an important source of innovation in products, services and processes (particularly in certain sectors) being proportionately more innovative than large firms.

## **6. *Consumer choice.***

SMEs, in generating competition, also widen choice for consumers. They add greatly to the variety of products and services offered to the consumer because they can flourish in a limited or specialized market which it would not be worthwhile or economic for a large firm to enter.

**7. *Seedbed for new industries.***

The SME sector is the traditional breeding ground for new industries. They are the seedbed from which new large businesses will grow to challenge and stimulate the established leaders.

**8. *Developers of local economies.***

Small businesses have local bases, employing local people and using local services and suppliers. Moreover, with owners living locally, they may well feel strong allegiances to their areas, being less likely to relocate jobs

**9. *Source of stability.***

The SME sector is also perceived as contributing to economic and social stability as it is part of the fabric of society, offering social and community cohesion, and it is an essential element of a functioning democracy.



## 2. SME FACTS & FIGURES - THE SCALE OF THE SECTOR IN THE UK

Author: PROFESSOR KEN O'NEILL

At the start of 2013:

1. There were an estimated 4.9 million private sector enterprises. These enterprises employed 24.3 million people and had a combined turnover of £3,300 billion.
2. Small and medium sized enterprises (SMEs) together accounted for 99.9% of all enterprises. This means there were 4.9 million UK private sector SMEs. These SMEs employed an estimated 14.4 million people, and had an estimated combined annual turnover of £1,600 billion.
3. SMEs together accounted for more than half of employment (59.3 %) and almost half of turnover (48.1%) in the UK private sector. Small businesses alone (0 to 49 employees) accounted for 47.0% of private sector employment and 33.1% of private sector turnover.
4. Almost all of these businesses (99.2%) were small (0 to 49 employees). Only 31,000 (0.6 %) were medium-sized (50 to 249 employees) and 7,000 (0.1%) were large (250 or more employees).
5. Businesses:
  - ~ with no employees accounted for 75.3% of all private sector businesses in the UK (3.7 million businesses), 16.6% of private sector employment and 6.4% of private sector turnover.
  - ~ with employees accounted for just under a quarter of all private sector businesses (24.7%, or 1.2 million businesses). They accounted for 83.4% of private sector employment and 93.6% of private sector turnover.
6. There were approximately 1m self-employed women (7.6% of women in employment) and 2.7m self-employed men (17.4% of men in employment). Most self-employment (76.6%) is undertaken on a full-time basis. Women comprise 17.5% of full-time self-employment and 59.1% of part-time self-employment.
7. Businesses that are wholly or majority female-owned accounted for between 12.3% - 16.5% of the business stock. A large proportion of female entrepreneurial activity takes place in businesses that are co-owned equally by men and women. If the definition of women's enterprise included co-owned businesses, it is estimated that between 34.1% - 41.2% of the small business stock were either owned or co-owned by women.
8. The majority of SMEs are non-employers that are not registered for either VAT and/or PAYE (i.e. they are unregistered).

## Legal status of businesses

Private sector businesses fall into three different types of legal status:

- Sole proprietorships, run by one self-employed person
- Ordinary partnerships, run by two or more self-employed people
- Businesses (including public corporations and nationalised bodies) in which the working directors are classed as employees.

At the start of 2013, 62.6% of private sector businesses were sole proprietorships, 28.5% were businesses and 8.9% were ordinary partnerships. There were an estimated 3.1 million sole proprietorships in the UK at the start of 2013, of which 231,000 (9.0%) had employees.

### Note

The increase in the overall business population since 2000 was largely driven by SMEs. Their estimated number increased from 3.5 million to 4.9 million (41.0%) between the start of 2000 and the start of 2013.

These changes were driven by the increase in the number of businesses without employees. Their number increased in almost every year since 2000. Indeed, compared to the start of 2000 their number had increased by 56% (1.3 million) by the start of 2013, reaching 3.7 million at the start of 2013, the highest level in the series. This trend persisted despite the economic downturn and may be related to the tough labour market conditions, which may have encouraged people to set up in business as they are made redundant. Most of the growth in non-employing businesses came from unregistered businesses, i.e. the smallest non-employing businesses not registered for VAT. The number of these businesses has increased by 1.2 million (83%) since 2000

**Table 1 Estimated number of businesses in the UK private sector and their associated employment and turnover, by size of business, start of 2013.**

Businesses		Employment thousands	Turnover £ millions
All businesses	4,895,655	24,332	3,279,961
SMEs (0-249 employees)	4,889,060	14,424	1,577,563
All employers	1,210,915	20,298	3,071,334
With no employees			
	3,684,740	4,033	208,628
1-9	986,890	3,729	387,654
10-49	186,745	3,664	489,999
50-249	30,685	2,998	491,282
250 or more	6,595	9,907	1,702,399
10-49	186,745	3,664	489,999
50-249	30,685	2,998	491,282
250 or more	6,595	9,907	1,702,399

Sources:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/254552/13-92-business-population-estimates-2013-stats-release-4.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/254552/13-92-business-population-estimates-2013-stats-release-4.pdf) Accessed 16 Nov 2013

<http://www.isbe.org.uk/EMSpr09stats> (Paras 7 and 8 above) Accessed 16 Nov 2013

### 3. THE SIGNIFICANCE OF SOLE PROPRIETERS AND FREELANCERS IN THE CURRENT UK ECONOMY

**Author** Professor John Stanworth, formerly Director-General Small Business Research Trust

Anne-Marie Morris, M.P., in the House of Commons (28<sup>th</sup> November, 2013) recognised the social and economic performance of micro businesses when she said that "...Government would be advised to look at segmenting the market and prioritising some of their support and funding for some of our very smallest businesses".

After all, the number of small-business start-ups in the UK tends to be counter-cyclical, rising in times of economic downturns when, for purposes of social stability, their importance could be said to most useful and yet the obstacles facing them are most formidable.

Richard Murphy (Director, Tax Research LLP, 2013) uses recently published HMRC data to show that self-employment has risen significantly in recent years, accompanying a rise in unemployment. This period, of course, embraced the banking collapse when unemployment was widely expected to rise to 3.5-4.0 million. In the event, the level of unemployment stabilised at around 2.5 million. Much of this slack appears to have been taken up by an expansion in the numbers of self-employed (variably known as 'freelancers', 'self-employed' or simply 'working for themselves').

A narrow definition of freelancers usually includes just independent professionals, who are neither employers nor employees, providing labour services on a temporary basis. If this definition is restricted to artistic, literary and media occupations plus managers, teaching and educational professionals plus proprietors in other services, we see a figure of approximately 1.35 million full-time plus a further 207,000 part-time, constituting 5-6 per cent of all those in employment (Kitching and Smallbone, 2012).

If, on the other hand, we use a wider definition, adding cab drivers, construction trades and any other sole proprietors, we arrive at a figure of 4.2 million (main job) plus a further 300,000 who are self-employed without employees in a second job, thus approaching 15 per cent of all in employment (Office for National Statistics, 6<sup>th</sup> February, 2013) and 20 per cent in London.

Thus, with continuingly high levels of employment instability and increasing numbers of university leavers opting for self-employment in the absence full-time employment options, we are looking at a partially hidden, and in some ways abandoned, workforce approaching one-in-six of the working population. Professor Peter Urwin (2011) of the Institute of Economic Affairs says: "Self-employment can be regarded as a 'safety valve' for those who cannot supply their skills to the market because of barriers they face in becoming an employee". Thus, it appears that self-employment may come to the rescue of society by dampening down levels of formal unemployment at times of economic turbulence.

Looking at average pay levels of the self-employed, fewer than 2% earn more than £100,000 per year and these are likely to be partners in professional practice such as lawyers and accountants, GPs, estate agents, vets, city brokers, etc. For the rest, average earnings from self-employment fell from £12,200 in 2000 to £10,400 in 2011. Richard Murphy (2013) says: “With such modest income expectations the conclusion that those in supposed self-employment will be little more than disguised unemployment is hard to avoid”.

### **The Self-Employed**

For some individuals, self-employment (sole proprietorship) may be a chosen and well-paid career destination – for example professionals such as medical practitioners, dentists, accountants, legal specialists but, for others it may be a second best alternative, driven largely or totally by economic necessity.

In an economy where around 85% enjoy the employment rights and the credit-worthiness predicated on (relatively) secure employment, around 15% experience the often precarious exposure of working on their own, trapped, often between late-paying customers and an unsympathetic HMRC.

Whilst self-employment can have some very positive effects by exposing individuals to business environments which can have learning value for them, allowing them to work from home, etc., it can relieve businesses (Stanworth and Stanworth, 1997) and the State from obligations towards individuals who may be casualties of turbulent labour markets, technical and market changes, recessions, pressures of absorbing successive waves of immigrants, etc.

In recent decades, many large organisations have shed elements of their workforces. Small firms have often done the same as the number of small firms with employees has shrunk. The size of the self-employed workforce has often grown and shrunk in a counter-cyclical fashion, as is demonstrated by reactions to the most recent recessionary period in the UK. Whilst Government’s take the credit for the achievements of this group, relatively little tends to be done to earn that credit or relieve some of the economic hardships faced by freelancers and sole-proprietors.

### **Assistance**

Assistance for sole proprietors and freelancers should seek to:

- Move towards legal protection of employment rights similar to those experienced by employees.
- Move towards the introduction of limited liability status for the self-employed in order to protect against having to mortgage their domestic properties as personal guarantees.
- Move towards greater help with training and capital set-up costs for sole traders.
- Stimulate greater encouragement amongst potential clients in the public, private and voluntary sectors to assist sole traders by the provision of custom and rapid payment.

- Move towards tax payment systems based upon spread weekly payments rather than lump sums paid in advance

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#### 4. Business Banking for SMEs:

**Author: Adam Tyler, chief executive National Association of Corporate Finance Brokers**

##### a) Current Trends in lending to SMEs

There are currently approximately 4.9 million SMEs in the UK of all types, which means the variation in the way each is funded is not only wide ranging, but also complex. Traditionally the vast majority have approached their local High Street bank and this is the culture of the UK business population. It is therefore fundamental that the High Street banks are encouraged and given every opportunity to return to a positive business lending culture.

Across UK over the last five years the number of lenders and funders working in the SME space has grown phenomenally. Back in 2007 at the peak of the business lending market there were perhaps 100 lenders to business; by late 2009 this had halved with many of the traditional sources completely out of the market. This lack of confidence in lending to businesses was exacerbated by the number of failures in the lending market as well as the lack of confidence across the business sector.

After the first quarter of 2014, whilst difficult to measure, the number of lenders to business now stands at approximately at 300. This is creating a great opportunity for businesses to borrow, as it has also opened up the different types of funding that are available to the SME. From a recent survey the demand for business funding came from across all sectors, but demand for funding for the purchase of commercial real estate was still the greatest in terms of volume.

Table showing sectoral funding needs (Source: NACFB)

<b>Commercial Sector</b>	<b>Comparative %Funding need</b>
Agriculture	4.5%
Construction	35.3%
Manufacturing and recycling	22.4%
Creative industries	5.0%
Education, health and social work	2.5%
Financial and business services	7.5%
Leisure	13.4%
Commercial Real estate	38.8%
Tourism	3.5%
Transport, storage and communication	18.9%
Retail	14.4%
Other (please specify)	10.9%



## b) Government Schemes and Assistance

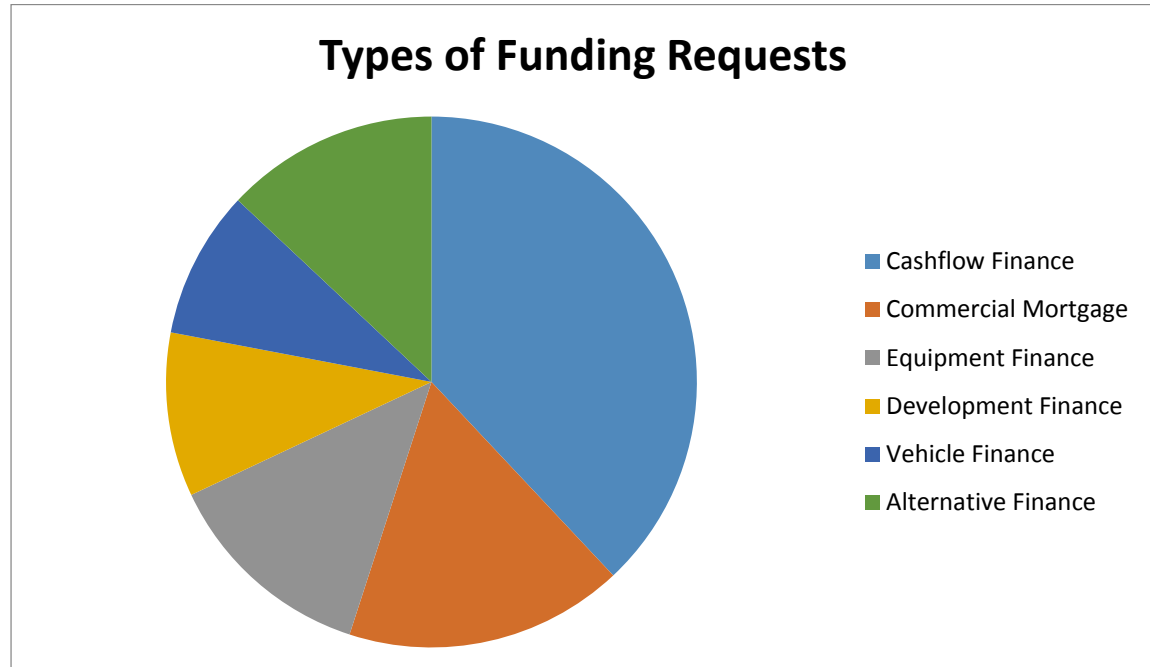
There are currently 809 schemes in the section headed “Providing Finance and Support for your Business” on the [www.gov.uk](http://www.gov.uk) website. There is an enormous amount of information available to the small business owner, but this is a confusing and difficult site to search for information for a business person who has so little time to research the funding opportunities available.

The schemes themselves are wide and varied and fulfil all the requirements of any business, but in doing so may be missing the vast majority of small businesses that want straight-forward, simple, easy-to-understand advice. It does introduce the potential borrower to outside sources as well, but needs to be more direct in its approach and perhaps regional variations would provide a more user- friendly environment,

The conclusion is that there are a huge number of opportunities available through government schemes, whether it is Growth Accelerator, Start Ups, Business Finance Partnerships, etc. However, once again it comes back to education and awareness of the small business owner that these schemes not only exist, but how to apply.

## c) Availability of traditional and alternative sources of Funding

**“The availability of funding is not an issue; it is about awareness and access”**



The chart above (Source: NACFB) shows that SMEs’ greatest need during the first half of 2014 has been for cashflow finance; this was also the same throughout 2013. However the first quarter of 2014 also saw a further increase of 5% for this kind of finance.

This is also the most difficult kind of finance to fund for three main reasons:

- It is generally requested on an unsecured basis and this is definitely not an area that currently the High Street banks are looking at as a core activity.
- There are a number of ways in which this request can be met depending on the business owner's requirements and circumstances. I.e. are there invoices outstanding? Is this a short-term need or a long-term shortfall that needs to be funded in another way?
- The amounts asked for are generally small. There are a number of providers, but potentially this could be the area where interest rates could be at their highest.

The more conventional types of funding, such as Commercial Mortgages, Asset Finance and Invoice Finance are available through the High Street banks as well as the new Challenger Banks, but more Specialist Lenders and Building Societies now also provide access to this type of funding. The vast majority are centrally based without a branch network, so have to work very hard to attract customers as well as giving them confidence in this new form of borrowing. Simultaneously, this makes them a lot harder to find for the small business owner.

The growth of the cash flow lenders will of course bring about similar concerns to the consumer market and whilst business owners are seen as sophisticated borrowers, they need the same kind of protection against high interest rates, penalty charges and potential issues around providing security of the family home.

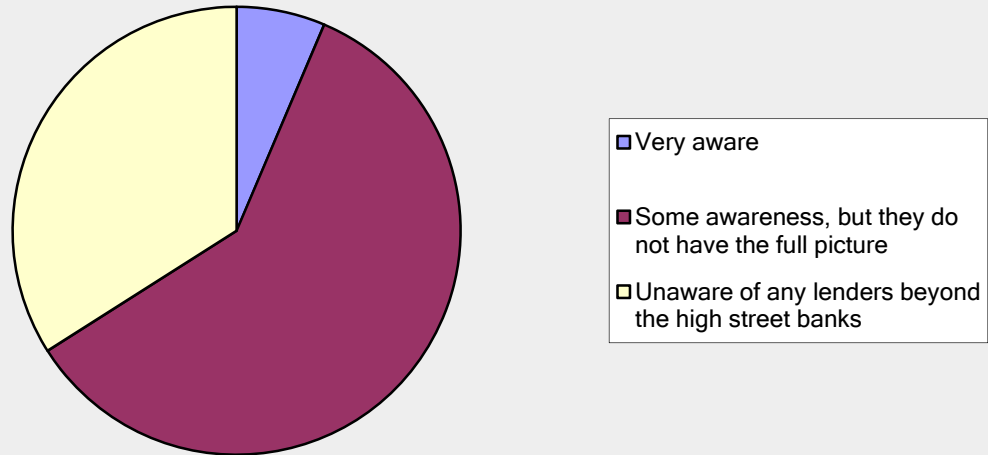
#### **d) Awareness of SMEs of availability of financial assistance.**

There are already a number of different platforms offering choice for the SME community, as well as a whole array of lenders own websites. What is lacking is awareness of the different alternatives. This is a stance that Genesis has taken for a number of years and if SMEs were already aware of the alternatives there would be no need for this consultation. What is needed is a national campaign to raise the knowledge of small business owners on the issue of finance.

Over the last five years the funding choice for SMEs has grown hugely, not only with the advent of the Crowd-Funding and the Peer-to-Peer market, but across the whole spectrum of small business finance. Recent survey results show that only 6% of SMEs are fully aware of this whole array of lender. Most small business men and women do not employ a Finance Director, they fill the role themselves and do not have the time to research the market. It is tradition; it is our culture in the UK for a business to go to their local branch of a High Street bank for their business funding requirements, and once this source is exhausted they do not know where to turn.

Table showing levels of awareness of funding sources (Source: NACFB)

When your SME clients come to you, how aware are they of the full range of lenders currently operating in the UK?



e). **How to increase lending to SMEs across the UK.**

There needs to be a campaign to engage with the SME market to raise awareness of the alternative forms of finance available to small business owners. Whilst it is not part of the current Small Business Finance consultation, a programme of awareness of what is available and how to access it needs to take place. This will give more confidence to SMEs to be more willing to accept that these other lenders can be trusted and accepted.

***In the United States a direct approach to a lender accounts for just 20% of business lending, in the UK this is more than 80% the only other country with this model in the world is Australia where around 50% comes direct to the lender.***

There is a huge range of funding available for businesses, ranging from Commercial Mortgages, Leasing and Asset Finance, Vehicle Finance, Factoring and Invoice Discounting, Unsecured Cashflow finance, Trade Finance and of course Crowd funding and Peer-to-Peer lending. There is of course the need for the existing bank to still provide the facilities that an SME requires to facilitate its normal day to day business by way of current accounts. However, there is a ready supply of cashflow funders now in the market that can provide credible alternatives to overdraft facilities. They may appear in some cases expensive at the outset, but when compared to the punitive charges of an unauthorised facility can be a good alternative.

#### **f). Proposal: Raise awareness of schemes and funders available to UK SMEs**

A solid educational programme is required for all SME owners on how to look for finance for their business. There needs to be not only a complete and easy-to-access information database on the wide range of funding sources, but also the different types of finance have to be covered as well. This simple, easy-to-read and understand, government-led programme should also provide advice and assistance on how to prepare to apply for finance.

In addition, more can be done through the wide range of SME Trade Bodies that exist to service the needs of their members. Whilst numbering in excess of 500, it is a great way to disseminate information quickly and tailored to individual parts of the small business community. There is also a growing need for the devolved administrations in Wales, Scotland and Northern Ireland to lead their own SMEs to gain easier access to finance. For example the Welsh Government runs a programme with Business Wales and Finance for Wales communicating with SMEs across the Principality to make them aware that there are alternatives available as well as how to approach the High Street banks correctly. This can be replicated through local regional authorities across the whole of the UK giving local business access to local advice.

#### **Conclusion**

*A small business wins a new order; to fulfil that order, they need to buy a new piece of equipment and employ some more staff. Great for the business, good for the economy. Immediately, it is clear that the best advice is for two different types of commercial finance here. They go down to their banking branch, they have been there many years and have probably ridden out the last few years and got by. The bank reluctantly says NO, the time is not right for us or you. At the moment, the small business owner steps out onto the pavement and says, "I cannot get the cash I need to expand my business, if my bank cannot help, there are no alternatives that I know about, I am not going to take on that extra order, it is too much like hard work"*

*The business carries on, no growth, another business does not get to sell them a new piece of equipment, maybe five or six people do not get a new job, and the UK economy does not grow.*

But if that small business had got the finance it need, the effects on this one business would be huge and you multiply this through the entire SME population. Then education of the funding alternatives available is a must.

Furthermore with the growth of the SME lending community, the market is changing and growing all the time and the choice for the business owner is only getting wider and as this grows the opportunity to find alternative forms of funding becomes more and more likely.

## **5. Manufacturing and Exporting**

**Author: Sir Ronald Halstead, President, Engineering Industries Association**

As the Prime Minister has observed, increasing exports is essential to the country's future prosperity and a 5% rise in the proportion of UK SMEs exporting would add £30 billion to GDP, creating 100,000 jobs. The Government has already set a target of doubling exports to £1 trillion by 2020. (Source HSBC)

The presence at Overseas Trade Shows is a most effective way of introducing SMEs to the market.

- They show their products and meet potential customers
- They meet potential agents or distributors
- They are able to assess the market potential for their product
- They can see and study competitive products
- They can pick up ideas for product improvements or new products
- They learn from more experienced exporters

The UKTI Budget is over £300 million. Much of this is in overheads and would be better spent in direct support of exporters.

In our manifesto before the 2010 General Election we pointed out that the direct support for SMEs exhibiting at Overseas Trade Shows fell from £20 million to £8.5 million and businesses helped fell from 8,000 in 2004 to 3,500 in 2008. This seriously damaged the export effort of SMEs with knock-on effects in subsequent years.

As a result of representation from Genesis and other interested parties, UKTI has dramatically changed its export support for SMEs over the last 3 years. Under the TAP programme, the direct support has increased from a low of £6 million in 2010 to £14 million in 2013 with an estimated 8,800 businesses receiving support.

This is still far short of what is needed to establish SMEs in export markets and there is a large gap, when compared to many of our competitors, in the support level to exhibit at overseas trade shows.

Examples include Germany, whose budget for overseas exhibition support is approx €43m and China, where exporters have between 50% -100% of their total costs to exhibit at an overseas trade show, subsidised.

A recent survey of 582 businesses by Sponsors Alliance showed that over the last 3 years, and in particular 2013, there has been a significant increase in UK SMEs attending overseas exhibitions, many to new markets. These businesses attended 2,090 exhibitions generating £172 million of business. The cost of the grants from Government was £5.225 million producing a ROI of 33 to 1.

More should be done to encourage first exhibitors to go to major international shows to start them on the road to exporting. Many of these shows take place in mainland Europe and are expensive to attend. It is recommended that first time exhibitors to the shows should be given support on a similar level to those seeking to exhibit at trade shows in the developing markets.

As export increases there is a greater need for the banks to support the financial requirements of SMEs. There is a need for transparency and clarity surrounding the UK banks' reluctance to lend to SMEs which is hindering the export drive and growth of the economy.

A major concern about exporting is the certainty of getting paid. Export guarantees could help SMEs manage this uncertainty. UKEF has made welcome efforts to improve its service to small firms but there is still a long way to go. Government should develop tailored export credit support to SMEs, review the list of applicable countries and promote the support available.

## **6. Market Traders: their role in the economy and how that role could be enhanced**

Author: **Joe Harrison, Chief Executive National Market Traders Federation**

### **1. Summary of Proposals**

a) **Alternative Consumption** – Government needs to encourage the public to make consumer choices and take consumer actions which benefit local economies and local communities.

b) **Invest in market infrastructure** – Government needs to provide financial support to local authorities to improve and sustain the infrastructure of their market facilities, including Grade Listed buildings.

c) **Cut red tape for micro-businesses** – Government needs to reduce trading regulations for sole traders and businesses employing fewer than ten people, to enable high streets and town centres to be more enterprise-ready.

d) **Increase access to accredited training** – Government needs to stimulate the development of accredited training programmes for market traders, supporting the establishment of a Guild of Market Traders.

### **2. Statement and analysis of issues**

In 2009 there were an estimated 38,100 traditional market traders in the UK, a reduction of 14% within five years. However, effects are not evenly spread. Whilst some traditional markets are full, others have declined dramatically. Figures mirror decline in the number of shoppers at markets and their average spends. Total spend by shoppers at retail markets in the UK was estimated at £3.5 billion in 2008, representing just 1% of total retail spend that year.

Retail markets employed an estimated 95,000 people in the UK in 2008, with a further 10,000 people employed in wholesale markets. Markets play an important role in supporting new business creation by providing low-cost entry to retail trading. The NMTF's scheme, First Pitch, which in 2013 launched 100 new retail businesses on markets all over UK, is proof that markets can be launch pads for entrepreneurs.

Generally operating under a landlord-tenant relationship, as a model for retailing, trading on markets is a low-risk channel for distributing goods and services, reaching the shopping public without any fixed base.

Markets do not discriminate by age, class, gender, sexuality, ethnicity, religion or nationality. Traders come from all walks of life. Markets are great tools to provide specific groups with opportunities for self-employment - for example, young people, in the case of NMTF's National Youth Market.



Due to their adaptability to the shopping needs of local communities, markets offer greater produce diversity. They therefore have a key role in encouraging social integration and multiculturalism.

Despite the numerous benefits of markets as described above, many indoor, outdoor and covered markets are underfunded, undervalued and lacking support from their local communities. Generally, local authorities have the rights to hold market within an area, but more and more markets are being held by private businesses, community interest groups and market traders.

As a retail operation run by a public body, profits from the market can be syphoned off for other council services. Officers are accountable to councillors. Markets services are open to Freedom of Information requests.

Due to this public ownership – the prevailing management model for many markets in the UK – market infrastructure is often poorly maintained, despite the high service charges paid by market traders.

The skills of market management reflect this underinvestment. Despite efforts by the National Association of British Market Authorities to up-skill the profession, public sector cuts have down-sized underperforming markets services. Advertising and promoting markets is a core area of concern for market traders, as most local authorities have tight control over communications – often to the detriment of the diversity of their markets.

Proactive market traders form collectives to represent their interests, such as branches of the National Market Traders Federation, to liaise with market operators and raise funding to contribute to promotional activities. However, the majority of markets in the UK lack these groups. Generally, traders in traditional retail markets are time poor – rising early and closing late. There is a tendency to become reactive to market issues. This is a unique situation for markets and the entrepreneurs who trade on them – to run one's own business in its entirety, plus work as a collective with one's landlord to manage and promote your place of work.

Micro-businesses in markets must also comply with national and European trading legislation, some of which is regarded as cumbersome and unnecessary in the context of market trading activities. Trade associations, such as the National Market Traders Federation, make self-funded efforts to support traders to represent themselves and develop their businesses through retail training and apprenticeships. However, despite some local successes, impact nationwide is small – but can be increased with the appropriate support from Government. Traders on our nation's markets deserve this support.

### **3. Proposals to deal with the issues**

The relative decline of both markets and high streets in the UK has prompted interest in enacting policy change that could reinvigorate these forms of retail e.g. Portas Review of the High Streets. Portas identifies markets as an untapped resource for many town and cities and encourages the government to support market operators to develop and improve their markets as part of an integrated retail offer.

As a permanent or pop-up platform for hosting independent businesses, markets need support from local consumers, but also effective management and infrastructure, as well as quality traders to stand them. Food quality scares, national belt-tightening and a period of continued austerity have nudged certain consumer segments to become thrifty focusing on getting more for less. The discounters have grown, but markets have declined.

Government has recognised that traditional retail markets can provide a valuable service to cash-strapped consumers, especially in regards to the food offer. However, efforts so far could be regarded as lip-service. Specifically, by funding the Love Your Local Market campaign to the sum of £25,000, run by the National Association of British Market Authorities, Government has acknowledged that consumer awareness needs to be raised but, this support for an events-based model for promoting the existing market offer does not do enough to change consumer behaviour for the long-term and the campaign risks becoming an annual flash-in-the-pan.

Government need to be encouraging the public to make consumer choices and take consumer actions which benefit their local economies and local communities. To do this, operators need the political and financial support to develop their market's service, trading legislation needs to be reduced for micro-businesses and traders need to be able to adapt to the changing retail landscape.

Government needs to provide financial support to local authorities to improve and sustain their market facilities, including Grade-listed buildings. Victorian market halls and outdoor fixed-tabled areas need to be modernised. As a retail environment, markets are competing with out of town retail parks, shopping malls and supermarkets. If local authorities could upgrade and sustain their buildings, much could be done to attract and retain consumers.

Reducing the number of trading regulations for micro-businesses – 95% of businesses in the UK – would benefit the majority of market traders in the country, freeing up valuable time for investing in their businesses. Some national and European legislation affects all traders, including: packaging and labelling, food safety and hygiene, waste management, transport, self-assessment and taxation as well as communications and data protection. Some aspects of this legislation are cumbersome and unnecessary. For example, the Waste Carriers Licence, the European E-Communications Directive, VAT for indoor traders and advertising Codes of Conduct.

There is a balancing act between ensuring accountability for retailing activities and responsibility to consumers with actually enabling an entrepreneur to establish and grow a business. The tilt is not currently in the trader's favour. Despite these pressures, the industry is also slowly adapting to and adopting new technologies, such as e-commerce, social media and mobile card payments in an effort to compete in the new retail landscape.

These offer opportunities for traders to expand their businesses, but practical training for micro-businesses that assists them to take advantage of digital tools is scarce.

Delivery is often theory-based, time-intensive and not contextualized for market traders. A limitation on the resources of industry trade associations encourages partnership models to develop in order to plug the service gap.

Government has to support the establishment of a Guild of Market Traders, an independent training academy for entrepreneurs – upskilling and accrediting traders, professionalising the industry.

#### **4. Benefits of Proposals**

Localism is a hot topic on the Government's agenda. By encouraging consumers to spend money with local retailers, they are advocating conscientious consumption and ensuring home-grown businesses stay in business. For every £1 spent locally around 50p to 70p of that money re-circulates into the local economy. For the same £1 spent out of town or online only 5p trickles back to the local community (Federation of Small Businesses, 2014).

Especially for food, markets provide high quality produce at affordable prices. The culture of trading is open to barter and consumers know and feel they have purchased a bargain, encouraging repeat sales and trader loyalty. Markets provide further contributions to local economies by bringing in customers who then shop nearby – creating a 'multiplier effect' for other retailers and service providers, such as cafés and restaurants. This has implications for tourism and leisure. As a tool for increasing footfall, stimulating consumption and adding vibrancy and diversity to a street or square – nothing beats a buzzing market.

However, without appropriate management and acceptable infrastructure, as a retail space a market will suffer and will continue to lose out from out of town retail parks, shopping malls and supermarkets. By providing financial support to local authorities who manage the majority of market operations in the UK, awarded upon proposal and proven merit, markets services can be bolstered to the benefit of local communities. For example: free parking, toilet facilities and wifi, bright LED lighting, energy efficient heating systems, regular cleaning and maintenance, engaging websites and social media, and home delivery or "click and collect" services.

This list may seem commonplace to most retail spaces in the UK – it has quickly become the expectation for consumers. But, many permanent indoor markets lack these, creating an uphill challenge for customer experience. Government must recognise that to invest in a market is to invest in a community – supporting enterprise, accessing affordable goods, encouraging social interaction and promoting low-impact consumer behaviours.

The industry is showing signs of professionalising. Going are the days of Del Boy and the Toby on UK markets. We now have independents, small business owners and Business Development Managers. But this change will not be possible without cutting red tape for micro-businesses, enabling high streets and town centers to become more enterprise-ready. The industry as a whole does not advocate the removal of ancient markets rights – and recently and arguably more contentiously, the Pedlars Act – but a commonsense approach to their implementation.

Simplified national trading regulations, a one-stop-shop for market traders seeking to start-up and run a business, and clear and transparent policies for trading on local markets would go a long way to support traders. Removing barriers to running a micro-business would enable traders to engage with collective representation and action on their market(s), enabling them to sustain positive relationships with market operators. Supporting this change through accreditation, training and assessment is crucial. There are quality traders within the industry and quality should be recognised, celebrated and maintained.

Establishing a Guild of Market Traders, run by market traders for market traders, would provide a platform and a mechanism for this process. Potentially, the Guild could also represent the interests of market operators. The Guild would provide a kite-mark, an expectation of high quality and service, which traders would have to apply for and continually be assessed for. The public would come to know and trust members of the Guild. The Guild would deliver training to market traders – new and experienced – on any aspect of running a retail business. Members of the Guild will be qualified, experienced and professional.

If Government were to support these proposals, the market industry in the UK would boom – attracting new entrants and expanding share within the retail sector, but crucially, revitalizing town and city centers nationwide.

## 7. Business Rates

**Author: Anne Marie Morris MP**

### 1. Background:

The debate on the future of Business Rates has recently been described by the British Retail Consortium as *“essentially a debate about the future of our town centres, our High Streets, and our local communities.”*

A 2014 BIS Select Committee Report identified Business Rates as *“the main threat to the survival of existing retail businesses on the High Street, and the biggest obstacle to entrepreneurial new retail businesses starting up”*.

Business Rates are a tax on non-domestic property, and according to 2013 figures from the Department for Communities and Local Government (DCLG), the retail sector accounts for approximately 25% of this tax. Only the banking sector and the oil and gas sector contribute more to the UK economy through business rates than the retail sector does. Business Rates are scheduled to raise £26 billion for the Treasury in 2013/14, with that figure expected to rise to £30 billion in the next three years using the current methodology. Business Rates are clearly a significant source of income for the Government.

Business rates are currently calculated by multiplying the rateable value of the premises as of 1<sup>st</sup> April 2008 by the “multiplier” which is the pence per pound of rateable valuation. The rateable value of the premises is set by the Valuation Office Agency, and the multiplier is set by the Government. At the beginning of each financial year the Government may raise the multiplier by a maximum that is the equivalent of the Retail Price Index (RPI).

In the Autumn Statement of 2013, the Chancellor recognised the regressive impact of business rates on small and retail businesses by capping the rise at 2%, when it would have been scheduled to rise by 3.2% in line with inflation. He also introduced measures to allow businesses to pay their rates in 12 monthly instalments, helping to spread the costs and make payments easier.

### 2. Identified problems:

Many small businesses currently pay more in Business Rates than they do in rents. This prevents them expanding to larger premises and growing by recruiting more staff, as there is a deterrent in the current system to take on larger properties. These properties in turn continue to stand empty, contributing to local High Streets and communities looking run down.

The Director General of the British Retail Consortium (BRC), in the recent House of Commons report on business rates highlighted the benefits of reviewing the way in

which Business Rates is calculated, which has the potential for generating more revenue for the Government. She further notes that:

*If there are about 300,000 stores across the whole of the country and the vacancy rate is 12%, if that was moved by 1% then that is about 3,000 stores. If between five and 10 people are employed in each store, that [equates to] 15,000 to 30,000 jobs. Then you have a knock-on effect from a Treasury point of view of corporation tax and national insurance from that particular store. That is before you get into the beneficial impact on the local economy. My point there is that perhaps we need to look at it in a different way.*

(Source: <http://www.publications.parliament.uk/pa/cm201314/cmselect/cmbis/168/16809.htm> – accessed 24<sup>th</sup> October 2014)

Small businesses currently face being in the incongruous position of rents stagnating or falling, while Business Rates continue to rise. Both Business Rates and the high costs of rents are costs that affect the retail sector. Under the current system, the cost of Business Rates is increasing disproportionately to the cost of rents, and this will continue to be the case. The visible consequences of this are many un-let and empty High Street business premises.

Revaluation normally takes place every five years. The rental value is based on rental values two years before the revaluation comes into effect. For example, the 2010 revaluation came into force on 1 April 2010, using the rental value of properties on 1 April 2008. Local Business Rate payers currently do not see any benefit to how their taxes are paid. It is not clear how the rateable value is calculated, and the multiplier is a blunt instrument.

In 2012 the Government announced a delay of the anticipated 2015 revaluation - which would have been based on rental values in 2013 – until 2017. This means that the rental value of properties will continue to be used to calculate Business Rates until 2017 – an untenable position. The benefit of this change will be to the large retailers including supermarkets situated in out of town sites. The losers will be small business and independent traders, because the rateable value they were assessed on in 2008 did not reflect the impact of the financial crisis on the rateable value of properties. This “revaluation freeze on Business Rates” has therefore negatively impacted on small business and High Street retailers in particular

### **3. Solutions & proposals**

Require the Valuation Office Agency (VOA) to carry out a revaluation of properties for Business Rates purposes every two years, rather than every five years as now. This would result in Business Rates being calculated based on economic factors that are more contemporaneous than those currently being used i.e. business rates not being paid on data calculated nine years previously.

An overhaul of the calculation formula - The current calculation formula of multiplying the rateable value of the premises as at 1 April 2008 by the multiplier is too confusing & complicated, and negatively impacts on certain types of business. A new formula needs to be found – still involving the current administrators the VOA and the Government – which is both simple and transparent.

Transparency is required in the Business Rates process, so that taxpayers can see what they are getting for their money. A billing system should be introduced that is similar to that currently employed by some local authorities towards their council tax payers, where an itemised list is provided on the back of the Business Rates statement which provides customers with a breakdown of where their taxes are spent, as well as explaining their allocation between local and central Government.

## Chapter 8 – Employment Law Deregulation

Author: Tom Brass

### 4.1.1. Table summary of Proposals:

- a) The Government should complete its employment law reform programme and the changes to employment law identified in the Red Tape Challenge, in accordance with the planned timetable.
- b) The Government must take adequate steps to ensure that small and micro-businesses in particular are made fully aware of the employment law changes and the potential benefits.
- c) To provide regulatory certainty, all political parties engaged in the 2015 general election must pledge that, if elected, they will maintain the employment law framework currently being implemented until adequate time has elapsed for the benefits of the changes to be realised and reviewed.
- d) Businesses taking on their first and any subsequent employees within a defined period – say 12 or 24 months from the start of the first new employee – should be exempt from employment regulations during that period to enable them to get used to employing others and coping with issues such as parental leave.
- e) An employment reference to a potential employer given by a candidate's former employer to provide an opinion of the candidate's qualities must be protected from litigation, but should be required to be destroyed after a reasonable time limit.
- f) The Employment Agencies Act 1973 ("EA") and the Conduct of Employment Agencies and Employment Businesses Regulations 2003 (the "Conduct Regulations") must be repealed, and replaced with a new regulatory framework in line with the Government's response to its consultation on this legislation.
- g) As part of the changes set out in the Red Tape Challenge, the opportunity should be taken to consider merging the remaining activities of the Employment Agency Standards Inspectorate ("EASI") and the Gangmasters Licensing Authority under one agency.
- h) Online 'jobs boards' should not be permitted to charge fees to jobseekers.
- i) The impact of recent and planned changes to Chapters 7 and 8 of Part 2 of the Income Tax (Earnings and Pensions) Act 2003 ("ITEPA") should be reviewed at the earliest opportunity once evidence of their effect becomes available.

### 4.1.2. Statement and analysis of issues

#### **Regulatory Burden**

A report to Government issued by the Better Regulation Executive in November 2010 entitled "*Lightening the Load: The Regulatory Impact on UK's Smallest Businesses*" highlights the fact that employment law is a key issue for small and, in particular, micro businesses. The full report can be found at:



[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/31614/10-1251-lightening-the-load-regulatory-impact-smallest-businesses.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/31614/10-1251-lightening-the-load-regulatory-impact-smallest-businesses.pdf)

It states:

‘2.17 Perception issues, particularly around employment mean that businesses are afraid to take the risk of employing people or from offering new services for ‘health and safety’ or other reasons.’

‘4.2 Our study found that, according to micro businesses, employment law does have a negative effect on business growth, and that the concern about employment law is less about paperwork but probably more about cost, complexity and the perceived cost of ‘getting it wrong’.’

‘4.3 In terms of specific regulations, employment law was the greatest barrier to growth. Businesses felt that it is too complicated, expensive and that employers lack protections ‘if things go wrong’ or ‘if we simply cannot afford to keep people on’.’

‘4.4 Employing staff is a critical milestone for a growing business, but unfortunately it is a step many businesses do not dare to take. For this reason, many businesses told us that they intentionally avoid employing staff but will use contractors or other self-employed persons. One business thought that this is so prevalent that it is changing the shape and dynamics of the entire labour market.’

There is a clear need to simplify employment law to remove the perceived risks of employing and dismissing people, particularly amongst those wanting to, but afraid to, engage their first employee.

### **Employee References**

The fear of litigation has resulted in references obtained by a potential employer from a candidate’s former employer being limited to a factual confirmation of dates of employment, with little or no assessment of the skills and abilities of the candidate or their appropriateness for the job being sought.

### **Employment Agencies and Employment Businesses**

It is in the interests of potential employees that Employment Agencies and Employment Businesses should not be over-burdened with regulation in their efforts to place candidates at hirers.

Such businesses are currently regulated by the EA and the Conduct Regulations. A consultation took place in 2013 under the auspices of the Department for Business, Innovation & Skills (“BIS”) to consider the merits of replacing this legislation with a new regulatory framework that focuses on a few core principles, and deals with other issues through guidance.

The Government’s response to the replies to the consultation confirms that it intends to replace the existing legislation with such a new regulatory framework. However, in its report on the Red Tape Challenge the Government refers to improving the existing legislation, rather than scrapping it.

The Government’s full response can be found at:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/212084/13-1021-reforming-the-regulatory-framework-for-the-recruitment-sector-government-response.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/212084/13-1021-reforming-the-regulatory-framework-for-the-recruitment-sector-government-response.pdf)

### **Changes to Income Tax (Earnings and Pensions) Act 2003 (“ITEPA”)**

In the 2013 Finance Act, changes were made to Chapter 8 of Part 2 of ITEPA (the intermediaries legislation known as IR35) to bring office holders who would not otherwise be caught by this legislation within its scope. The legislation took effect from 6 April 2013, and there is therefore no experience as yet of the effect this legislation will have in practice.

HMRC has represented this change as purely an administrative tidying up. However, the definition of ‘office holder’ in the legislation is very broad, and the Interim Management sector is concerned that this will have a major adverse impact on the sector and damage the flexible economy.

On 10 December 2013 HMRC launched a consultation on proposed amendments to Chapter 7 of Part 2 of ITEPA (the onshore intermediaries: false self-employment legislation). These proposals would be expected to be enacted in the Finance Act 2014, to take effect from 6 April 2014.

HMRC has not yet formally responded to the replies to its consultation but it has summarized the replies received. This summary can be found at:

<https://www.gov.uk/government/consultations/onshore-employment-intermediaries-false-self-employment>

In its summary of responses (which includes comments received at various meetings with stakeholders), HMRC has acknowledged that, if the proposed legislation goes ahead unchanged, more people may be brought within the scope of this legislation than it intends. Revised proposals will be published in the Finance Bill 2014.

#### 4.1.3 Proposals to deal with the issues

##### **Regulatory Burden**

In the May 2010 Coalition Agreement, it was agreed that the Government would undertake a systematic review of employment law, with a vision of making the labour market more flexible, efficient and fair. This review has considered both the employment law framework, and also the processes and information available so that individuals and employers can use the system more easily and effectively.

In March 2013, the responsible department, BIS, published a report on ‘the vision and strategy that guides our approach, on the improvements made to date, and an ambitious schedule of implementation for the remainder of this Parliament.’

The report sets out a detailed programme of reform to all aspects of employment law – taking people on, managing people, letting people go, and the enforcement regime (national minimum wage, employment tribunals etc). At the time the report was prepared, the implementation of the reforms was approximately 50% complete, with the bulk of the remainder due by winter 2014/15, and a small rump of items left in 2015.

The full report can be found at:

<https://www.gov.uk/government/publications/employment-law-2013-progress-on-reform>

In parallel with its review of employment law, in March 2011 the Government launched its Red Tape Challenge initiative, which is intended to free businesses from the burden of excessive regulation. In January 2014 a report was published by the Cabinet Office which identifies over 3,000 items of legislation to be scrapped or improved, together with a further 47 items which do not require legislation to be changed, but will improve the regulatory landscape – for example, streamlining of guidance.

Within the overall 3,000+ items identified, there are approximately 50 items of employment legislation to be scrapped or improved, and/or changes to the employment regulatory landscape. These items support the reform programme set out in the employment law review.

The full report can be found at:

<http://www.redtapechallenge.cabinetoffice.gov.uk/wp-content/uploads/2014/01/RTC-results-as-at-January-2014.xlsx>

The Genesis Initiative welcomes and applauds the comprehensive nature of the Government's efforts to ease the regulatory burden of employment law. We urge the Government to complete its reform programme in accordance with the planned timetable.

It will clearly take some time for the reforms to 'bed down' and for the benefits to be realised. We therefore urge the Government to take adequate steps to ensure that small and micro businesses in particular are made fully aware of the changes and the potential benefits. The Better Regulation Executive noted in its report "*Lightening the Load: The Regulatory Impact on UK's Smallest Businesses*" that micro businesses find it hard to find out about, understand and then comply with regulations, and it goes on to describe the nature of the guidance required:

'As other studies have found..., the smallest businesses want regulatory certainty. They want prescriptive, not principles-based guidance. This is in contrast to many large businesses. Businesses asked for 'quick start guides' or 'dummies guides' to regulations. In particular they want guidance that tells them how to comply the first time.

They have said that they want guidance based on their actual type and size of business and that this needs to include a clear definition of what minimum legal compliance looks like and what would be illegal. All guidance should provide a level of legal certainty to the business owner.

They are happy to be provided with examples and case studies of best practice but this should be clearly state that they are best practice only and are not a legal requirement.

Worked examples of any paperwork and processes is desired, similar to the sector examples of risk assessments that HSE has on its website ([www.hse.gov.uk/risk/casestudies](http://www.hse.gov.uk/risk/casestudies)).'

Given also the need for certainty identified in the above quotation, we would also urge all political parties engaged in the 2015 general election to pledge that, if elected, they will maintain the employment law framework currently

being implemented until adequate time has elapsed for the benefits of the changes to be realised and reviewed.

Finally, as mentioned earlier, 'employing staff is a critical milestone for a growing business, but unfortunately it is a step many businesses do not dare to take.' It has been suggested that small businesses should be exempt from aspects of employment legislation by reason of their size – for example, businesses with fewer than five or perhaps ten employees.

We believe a better approach to help potential employers overcome their fears would be to exempt businesses taking on their first and any subsequent employees for a defined period – say 12 or 24 months from the start of the first new employee – to enable them to get used to employing others and coping with issues such as parental leave.

#### **Employee References**

A method must be found to provide privacy of communication between a potential employer and a candidate's former employer, so that an opinion of the candidate's qualities can be given without fear of litigation from the employee.

It is however inappropriate for such references to remain on file indefinitely – the new employer will gain their own experience of the employee which overrides the opinion of a predecessor, and the reference should be destroyed. A reasonable time limit for this should be set.

#### **Employment Agencies and Employment Businesses**

It is possible that the reference in the Red Tape Challenge report to 'improvement' when referring to the EA and Conduct Regulations may be shorthand for replacement with a new regulatory framework, as envisaged in the Government's response to the consultation. However, if this is not the case and the improvement is to be achieved by amendment of the existing legislation, the Genesis Initiative believes that this would be a lost opportunity to introduce clarity and simplicity for both potential employees and the employment agencies and employment businesses.

The opportunity for a new framework should also be taken to consider consolidating the remaining activities of the EASI (currently within BIS) and the Gangmasters Licensing Authority (currently within the Department for Environment, Food and Rural Affairs ("DEFRA")) when resources of EASI are passed to HMRC to help with the enforcement of the National Minimum Wage, as proposed in the Government's response to the consultation (paragraphs 13.8 and 13.9).

The consultation response identifies one of the core principles of the new framework as being that jobseekers should not be charged a fee by employment agencies or employment businesses. This should apply equally to online 'jobs boards' (or other online recruitment services, as new technologies emerge) even if they are otherwise outside the scope of the framework.

#### **Changes to Income Tax (Earnings and Pensions) Act 2003 ("ITEPA")**

The impact of the changes to Chapters 7 and 8 of Part 2 will not become clear for some time. It is suggested that the Government should study their effect at the earliest opportunity once evidence is available, to confirm that, by drawing

people who presently satisfy the self-employment tests into the PAYE and National Insurance rules, only those who the Government wish to see within scope are in fact being caught, and that the economy is not being adversely affected.

#### 4.1.4 Benefits of Proposals

The Government should achieve its stated aim of making the labour market more flexible, efficient and fair.

## **9. The Food Industry: How Regulation affects SMEs**

Author: **Bob Salmon**

### **9.1. Summary of Proposals**

a) According to a statement made by the chairman of the Food Standards Agency (FSA) Board recently, some 95-98% of food law now comes directly from Brussels. This means that there is a need for restoring the organisation we used to have in Brussels which kept us up to date with both Commission and European Parliamentary proposals for legislation. At present we do not have such an organisation as UEAPME has withdrawn from the food sector. There is no mention of food issues in their 2014/5 agenda. Dr Ludger Fischer who used to run the section was made redundant and there is, as far as we know, no proposal for UEAPME to replace him.

b) Therefore Food Solutions, the UK-based SME organisation focussed on marrying the interests of SMEs in the food sector with the legislators, has proposed a Food Forum. Several sectorial organisations have already pledged their support as they say they miss the benefits they used to derive from the now defunct UEAPME forum. The result of this vacuum is that we in the UK do not know details of many of the European proposals in the coming years.

c) The review of the Official Controls Regulation EC 854/2004 started in January 2013. One of the proposals was to charge all businesses for each visit by an inspector to recover full costs of an inspection. The author and a colleague from Germany argued that this would disadvantage very small businesses and we persuaded the Commission to exempt all micro-businesses. The average food business in Europe has around three employees. A micro-business is defined as one with fewer than ten employees and a turnover below 2 million euro. The exemption was written in to the draft regulation. Subsequently the MEPs have redefined a micro-business as one with a turnover of less than 200,000 euro following pressure from the enforcement officials in some member states. This would be very expensive to the 80% of small food business which would have been exempt before. Estimates range around £400 to £600 per visit. This will need extensive lobbying at European level to prevent the closure of many small rural businesses.

d) The new Europe-wide labelling regulation that the author was involved in drafting came into force in December 2013 with further provisions in 2015 and 2016. The FSA has commissioned draft guidance for SMEs on some aspects of the legislation. There is a lot of work yet to do to ensure consistent application throughout the UK.

### **9.2. Statement and analysis of issues**

One of the problems of European law is that it is written in Napoleonic terms. This means that the law defines the end and leaves the means to the business operator. For instance, the law says that a business must produce safe food and it is up to the business operator how that is achieved. Hence the hygiene regulations are scattered with phrases such as “where necessary” or “as appropriate” We are used to statute law that defines all the dos and don’ts. As a result there are many differences of opinion in interpretation among the 434 disparate enforcement bodies in UK. Years ago when we had the UEAPME food forum we could compare interpretations in all the member states and that gave us a powerful leverage when talking with British

officials. This we now do not have. Before I was often the only person from UK at meetings and we got things done. With no expenses available there is now no one speaking for all British SMEs on food issues.

Also the British Government is in some disorder of its own making when allocating responsibilities. Two examples: Responsibility for the durability dates that have to be on food packets is now shared between Defra, the Food Standards Agency, the Rural Payments Agency and the Department of Health. Enforcement of food law is done by some 434 local agencies with no central body to ensure consistency.

### **9.3 Proposal**

As from March 2014 several hundred pounds have been promised towards a food forum. It is estimated that at least £100,000 will be required to finance an effective body, some of which could come from other member states.

### **9.4 Benefits of Proposal**

If only the two regulations mentioned above are enforced in the way some officials are suggesting we will lose many small retail shops, pubs that serve meals, cafés and speciality producers. We will get what we deserve.

That scenario could be avoided if the UK had a national voice at EU level.

## 10. VAT – Specific proposals in respect of SMEs.

Author: **Paul Gregory**

### 10.1. Summary of Proposals

- a) Lower Rate VAT for Labour-Intensive Industries - building
- b) Lower Rate VAT for restaurant meals and hotels
- c) Investigation into VAT evasion at retail level
- d) Further development

### 10.2. Statement and analysis of issues

- a. Lower rate VAT to be applied to building and refurbishment of existing properties. The issue here is that many persons (including a magistrate, a police inspector and a retired VAT inspector according to a builder interviewed) ask for cash jobs, no invoice. There is a flourishing black market supplying these clients – the shadow economy is estimated at over 14% GDP <http://www.iea.org.uk/sites/default/files/publications/files/IEA%20Shadow%20Economy%20web%20rev%207.6.13.pdf>
- b. Lower rate VAT for restaurant meals and hotels – this is common in other Member States, including Germany, France and within the UK ambit, the Isle of Man
- c. Investigation into VAT evasion at retail level. This is particularly evident in certain takeaway food sectors. When clear evidence is given to HMRC of individual outlets cheating the state and legitimate taxpayer, nothing happens.

In all of the above there is a competition issue, together with full and proper tax being uncollected.

### 10.3. Proposals to deal with the issues

- a. Apply the existing ability to charge a lower rate on building refurbishment as already allowed by European Law. This can be from 5% upwards.
- b. Based on information from other Member States, act in the same way for restaurant meals, takeaways and hotels after application of a) is successful.
- c. Set up investigating teams for a pilot to determine the scale of the problem: this to be experienced officials from HMRC, Borders Agency, DWP – all helped by information from and direction by a large independent takeaway organisation. That business bears the full brunt of competition from competitors who have lower costs, and that prevents more legitimate tax being paid by that business.



#### 10.4 Benefits of Proposals

- a) These are identified by the Isle of Man application of lower rate VAT in the building industry. This led to a 25.5% increase in VAT output tax when the rate was 5% despite the 17.5% previous level, increase of building work of 40%, stoppage of customers taking 'cash deals' and 62% reported reduction of the black economy, 96% of legitimate firm reported increased business, 43% took on more employees, apprenticeships increased by 70%.  
(Source: the Isle of Man report quoted above)

Development would be on brownfield sites for housing conversion. There is already infrastructure in terms of roads, services, schools, transport. The developments would often be on a small scale which would benefit MSMEs.

- b) The Isle of Man also, as with Member States on mainland Europe, reports beneficial business and legitimate tax returns from applying a lower rate VAT on accommodation and meals. Whilst a) is being applied, there should be a thorough review of the experience on benefits gained before proceeding. This should lead to quick decisions.
- c) There is widespread tax evasion in the retail sector, particularly takeaway food. An increase of 25% in turnover over previous declared accounts is normal for a legitimate business taking over an average takeaway outlet. The amounts of tax evasion and benefit fraud are reported to vary from £80K to £400K per outlet in the experience of a large retail takeaway group

The effect of this in increased tax revenue would be colossal. An investigation of fraud in NHS reported returns to the authority of 15/1 ratio against costs.[ Source: IOM report ]

The black economy must be dealt with in a concerted effort to recover tax lost

- d) When the processes above are put into practice, there should be a wholesale review of repairing and labour-intensive industries, where output VAT could be charged at 20% on parts, and labour at a reduced rate VAT.
- e) The proposals above are supported in detail by the references in The Genesis Initiative Position Paper on Low Rate VAT on Labour Intensive Industries [source: IOM report]

## **11. Government Procurement for SMEs**

Author: **Graham Kennedy, Alexoria, member of Intellect**

### **11.1 Summary of Proposals**

- a) Promote G-Cloud more widely across the public sector; make it easier for buyers to buy G-Cloud Services
- b) Extend G-Cloud (or a produce an equivalent) that allows suppliers of other categories of products and services to capitalise on a similar, cost effective route to the public sector
- c) Enable tier 1 and tier 2 suppliers to the wider public sector (and not just to central government) to award more business to SMEs in their public sector supply chains in an economically sustainable way and to help these SMEs take their products and services to customers outside the UK
- d) Require central government Departments to publish clear proposals for what they will do to stimulate the economic growth of the UK, highlighting the opportunities that this will create for SMEs in their supply chains and how they can get involved.

### **11.2. Statement and analysis of issues**

The author's experience shows that two of the biggest challenges SMEs face when trying to win business from the UK public sector are finding out about opportunities and finding a cost effective channel or route through procurement to those opportunities. In addition, outside the public sector, SMEs typically benefit from cost effective routes to new markets and customers.

#### **Promote G-Cloud More Widely Across the Public Sector and Make it Easier for Public Servants to Buy G-Cloud Services**

The current government has successfully introduced the G-Cloud procurement framework for technology businesses (including SMEs). This is designed to give all suppliers on the framework (including SMEs) access to opportunities and an easy procurement route. The level of expenditure going through this framework is small, but growing. The most recently reported figures show that since April 2012 £92.6m of the public sector's ICT expenditure has been awarded through G-Cloud, of which 56% was awarded to SMEs. With central government's expenditure on ICT amounting to an estimated £6.9bn, there is clearly an opportunity to channel more ICT expenditure to ICT SMEs through this route. Improving awareness of G-Cloud across parts of the wider public sector and making it easier for public servants to find SMEs with relevant solutions are often cited as measures that could be taken to make it easier for SMEs to win more business through this route.

#### **Extend G-Cloud to Other Categories of Expenditure**

Expenditure on ICT products and services through the G-Cloud procurement framework is increasing steadily and it provides ICT SMEs with an easy way of contracting for these types of opportunities. There is an opportunity to open

up similar procurement routes for other categories of expenditure, such as facilities management, construction and consulting. Together with ICT, these are the largest categories of public sector expenditure and are therefore likely to make the biggest impact on the SME sector.

### **Enable Tier 1 and 2 Suppliers to Award More Business to SMEs in Their Supply Chains**

Tier 1 and 2 suppliers to the public sector can play a bigger role in awarding more business to SMEs in their supply chains. However, at a time when revenues from the public sector are declining, it can be a challenge for tier 1 and 2 suppliers to award more business to suppliers in their supply chains as this potentially reduces their revenues further. In addition government could do more to make it easier for tier 1 and 2 suppliers to award more business to SMEs by, for example, not requiring tier 1 and 2 suppliers to flow down onerous terms and conditions to all suppliers in their public sector supply chains. Government should therefore do more to understand the challenges tier 1 and 2 suppliers face when working with SMEs together with the benefits they can derive by working with SMEs successfully. They should then put measures in place that help them overcome the challenges and reap the benefits.

### **Require Central Government Departments to Publish Measures They Will Take to Help SMEs Reach Customers and Markets Outside the UK Public Sector**

In addition to making it easier for SMEs to win more business from the public sector, central government departments can play a significant role in helping SMEs to win more business and to grow outside the public sector. For example, they can help SMEs prepare case studies of the work they have done together, provide testimonials and make recommendations to other organisations that might benefit from these SMEs services, such as organisations outside the UK. Based on feedback from SMEs, government should consolidate the key measures central government departments can take that will help SMEs grow by helping them reach customers and markets outside the UK public sector. Each Department should then publish the measures it will take to help SMEs in its supply chain reach customers and markets outside the UK public sector.

#### **11.4 Benefits of Proposals set out in 11.1 above**

The expected benefits of these proposals are:

- More and easier access to opportunities for SMEs in the wider UK public sector, leading to better value for money solutions for the wider public sector and more revenues to the SME sector
- Greater access to opportunities for SMEs outside the UK public sector and easier ways of capitalising on them, resulting in greater growth of the UK's SME sector

## **12. The Rural Economy**

Author: Dr **Charles Trotman, Chief Executive, The Country Land and Business Association**

### **12.1. Summary of Proposals**

- a) Rural business
- b) Broadband
- c) Rural tourism
- d) Renewable energy

### **12.2. Statement and analysis of issues**

#### Rural business

Rural businesses are often small, family owned and unincorporated. They trade in defined rural areas with a long-term multi-generational business strategy. By their very nature many are land-based which limits flexibility in terms of location and often means such businesses are asset rich but cash poor. It is essential that the economic and fiscal conditions exist to create the economic framework for rural businesses to prosper.

There are more businesses per head of population in predominantly rural areas than in urban areas. Yet government policies are often geared towards urban and incorporated businesses.

In 2011 capital investment per employee was highest in London, followed by other urban areas, and lowest in rural areas, reflecting changes in the tax system over the last few years.

Considerable emphasis has been placed on achieving growth by reducing the corporation tax rate. However, the Government has increased the burden of taxation on profits in unincorporated businesses by increasing income tax rates and reducing the scope for tax-efficient reinvestment.

#### Broadband

Access to effective, efficient and affordable broadband is essential to the successful operation of all rural businesses. Without broadband they are unable to compete with their urban counterparts.

In rural communities with no affordable broadband, a technology reliant, younger generation is becoming educationally and socially disadvantaged.

Under the Government's revised broadband strategy, 95 per cent of rural areas should have access to superfast broadband – with everyone in the UK able to access the benchmark broadband speed of 2Mbps – by 2017. But even this is not fast enough for modern business.

But even the Government's original objective of 90 per cent coverage by 2015 cannot be met, meaning that rural areas continue to be deprived of a tool that will boost rural economic growth and promote social inclusion.

#### Rural tourism

Rural tourism generates some £33 billion for the rural economy (source: DEFRA). It is integral as an economic driver in terms of the revenue it generates and the number of jobs it creates. But with the UK VAT rate set at 20 per cent for all tourism related activities – such as accommodation, hospitality and attractions – the UK imposes one

of the highest rates of VAT compared with other EU Member States. This puts the UK's rural tourism sector at a significant competitive disadvantage with the rest of the EU.

If the VAT rate was reduced to five per cent for accommodation and attractions it could boost GDP by £4 billion, create 80,000 jobs and deliver some £2.6 billion to the Treasury (source: 'Cut VAT on Tourism coalition".) .

The self-catering accommodation industry plays an important role within the rural tourism sector. Many landowners run successful holiday let businesses – which attract holiday-makers who contribute to the local economy – and who pay tax on the income these businesses generate. Yet the taxation regime fails to fully recognise that the properties used within these businesses are genuine business assets.

#### Renewable energy

Renewable energy offers opportunities for the sustainable diversification of rural businesses. There have been a wide range of projects reducing their onsite energy demand and becoming net energy exporters.

Renewable energy contributes significantly to the economic and environmental sustainability of individual businesses, helps in achieving demanding targets and provides a stimulus to the rural economy.

Although good progress has been made toward achieving government renewable energy targets, the constantly changing policy and political landscape continues to create uncertainty and undermine investment. Continuing to deliver new capacity in the face of decreasing incentives will require the delivery of significant cost reductions in technology, including that of grid connection.

### **12.3 Proposals to deal with the issues**

#### Rural business

The next government must:

- Commit to develop policies to support rural businesses in a way that will contribute meaningfully to rural economic growth;
- Review all existing government business policies to ensure that the needs of rural businesses are met;
- Remove unfair distortions resulting from Government taxation policies in rural businesses, such as the differential tax treatment for incorporated and unincorporated businesses;
- Deliver a tax regime that supports and actively encourages diversified rural businesses by removing the artificially imposed fiscal boundary between the exploitation of property rights and trading activities;
- Make tax reliefs available, based on a definition of a qualifying business appropriate to a modern, diversified rural economy.

#### Broadband

The next government must:

- Create a Universal Service Obligation of at least 10Mbps that imposes a legal obligation on the provider;

- Use a more transparent system that recognises the advantages of other technologies in delivering faster broadband to remote rural areas;
- Produce and implement a clear and well thought out public awareness strategy that sets out the advantages of broadband for all.

### Rural tourism

The next government must:

- Reduce the rate of VAT from 20 per cent to five per cent in order to stimulate rural economic growth, create new jobs and increase the revenue from tourism to the Treasury;
- Treat furnished holiday let accommodation as business assets for all purposes in the taxation regime, provided qualifying conditions to prevent avoidance are met.

### Renewable energy

The next government must:

- Provide a policy and incentive environment which provides long term stability to allow delivery of renewable energy technology at a reduced cost;
- Correct the Feed-In Tariff (FTT) for small-scale anaerobic digestion to ensure the technology delivers;
- Deliver an accessible and affordable mechanism for renewable energy generation to connect to the grid;
- Consider how small-scale generators can be more involved in energy supply and help to deliver a more competitive energy market.

## **12.4 Benefits of Proposals**

By adopting the range of proposals set out above, the next government will be creating a framework that meets the challenges faced by rural businesses within the rural economy. Importantly, this framework will also act as a necessary dynamic in promoting rural economic growth for the benefit of the entire economy. It will release the potential that rural areas have to offer through a more cohesive approach that looks to a medium to long term strategy rather than the quick fix and a modern outlook rather than one that continually looks to the past.

## 13. THE EU POLICY DIMENSION

Author: Dr. David Doyle

### 13.1. Summary

The Genesis Initiative:

- a) Asserts that administrative, regulatory, reporting burdens continue to have a disproportionate effect on SME sustainability, and such constraints remain one of the key challenges facing this sector, at all stages of the entity's life-cycle.
- b) Supports the notion that an EU-wide approach aimed at reducing administrative burdens, i.e., costs, time and documentation required to set up a business, gold-plating, ongoing reporting and compliance etc, is more productive vehicle for achieving this aim. H.M. Government estimates that around 50% of UK legislation with a significant economic impact originates from EU legislation. In other EU Member States, estimates of the proportion of national laws based on EU laws tends to vary widely, ranging from 6.3% to 84%. (Source: *How much legislation comes from Europe?* House of Commons RESEARCH PAPER 10/62, 13 October 2010)
- c) Underlines that administrative burdens are present, at different levels of magnitude, in each EU Member State. Addressing the perverse effects of such burdens on SMEs is considered to be of strategic importance at national level, at a time when persistently high levels of unemployment amongst the youth and continuing barriers to entrepreneurship for aspiring technically-trained citizens, remains high on the agenda.
- d) Recalls that where regulation is deemed necessary, and as the EU's growth strategy Europe 2020 highlights, there is a need to improve the business environment through smart regulation and the reduction of regulatory burdens at start-up phase, in order to make European enterprises more competitive on a global scale. Regulating at the EU level, rather than at 28 different national levels, has proven to be an effective way of creating new opportunities.
- e) Recalls that the EU dimension is also central to HM Government's concerns vis-à-vis its response to the European Commission's REFIT (1) initiative, which mapped the entire stock of EU legislation, looking to identify burdens, gaps and inefficient or ineffective measures and possibilities to simplify, reduce or repeal them.
- f) Recalls the EC Communication of November 2011 on adapting EU regulation to the needs of micro-enterprises builds upon the "Think Small First" principle set out in the EU Small Business Act by enabling micro-enterprises to be exempted from regulation where justified, by identifying the "Top 10" most burdensome regulations for SMEs, and by improving consultation with them.

### 13.2. Statement and analysis of issues

Why is this important?

- Various studies find that small enterprises bear a disproportionate regulatory burden in comparison with larger businesses: On average, where a big business spends one euro per employee to comply with a regulatory duty a medium-sized enterprise might have to spend around €4 and a small business

up to €10. (EC REPORT OF THE EXPERT GROUP, MODELS TO REDUCE THE DISPROPORTIONATE REGULATORY BURDEN ON SMEs, May 2007)

- The cost implications of much regulation are of a distinctly fixed-cost nature, i.e., the costs tend not to respond to changes in the size, production volume or sales patterns of a business. As an example, form-filling absorbs time in any entity, but has limited impact on larger businesses even if they have to fill in bigger figures than a smaller businesses. Second, larger businesses can employ (external or part-time) experts to handle regulatory obligations more efficiently. Larger businesses can rationalize their regulatory and compliance requirements via automation and rationalization, representing a cost-saving given the larger number of cases to be dealt with. Higher efficiency levels can ensue as a result.
- In small businesses it is often the entrepreneur him/herself who assumes the responsibility for handling all the regulatory obligations. This is especially accentuated in micro-enterprises, and typically firm's employing involving one person, who is the owner/manager. This results in the most valuable resource of the small business being occupied with tasks that do not directly contribute to the success of the entity.
- Micro-enterprises, representing some 91% of all SMEs, are the most adversely affected by burdensome regulations. The European Commission noted that in the European Union, "Micro-entities are mostly engaged in business at local or regional level with no or limited cross-border activity, but are often subject to the same reporting rules as larger businesses".

Administrative burdens are enormously damaging, also, for the wider small and medium sized enterprise sector, notably because of the key role it plays in generating economic growth and job creation. In the EU, some 20.7 million SMEs employ 67% of the private sector workforce. A recent study has shown that 85% of net new jobs in the EU between 2002 and 2010 were created by SMEs. In total, SMEs account for 99% of all enterprises. (Source: EC Press release. *Small companies create 85% of new jobs*, 16 January 2012)

#### Profile

99.8 % of all EU businesses are SMEs

91.5% are micro enterprises

7.3% are small businesses

1.1% are medium-sized businesses

- In key studies carried out by the EC and SME trade bodies over the past five years, administrative burdens retain the top place in the list of challenges for small businesses in Europe. Thus, in order of priority:



1. Administrative and regulatory burdens
2. Access to finance
3. Taxation
4. Lack of skills
5. Access to public procurement contracts
6. Unfair/too strong competition
7. Labour law
8. Access to the Single Market
9. Late payments
10. Access to International Markets
11. Access to information and advice
12. Instability of world economy/energy costs
13. SME definition

Source: EC Small Business Act for Europe Report on the results of the open consultation 22/04/2008

In an EC Communication of 2012, the first results of the Commission's consultation to identify the top 10 most burdensome pieces of EU legislation for SMEs were revealed. It noted that REACH (the Registration, Evaluation, Authorisation and Restriction of Chemicals) was mentioned most frequently, and that other areas included:

- VAT legislation (covering common system of VAT, and the refund of VAT across Member States);
- the General Product Safety Directive;
- the Recognition of Professional Qualifications Directive;
- the Data Protection Directive;
- waste-related legislation;
- labour market-related legislation (covering health and safety, working time, posting of workers, and temporary agency work);
- regulation on equipment in road transport for driving and rest periods;
- procedures for the award of public works, supply, and service contracts; and
- the Modernised Customs Code.

### **13. 3 .Administrative Burdens – the set-up dilemma**

The EC report that 74% of Europeans believe that the EC generates too much red tape. At corporate level, 44% of SMEs consider themselves as operating in an over-regulated environment. On the other hand, 29% are satisfied with the current regulations, and an additional 12% would even welcome additional measures to achieve the given goals: for example, financing of public services or a cleaner environment. Hence, on balance, SMEs that find regulations fair, or too modest, are only slightly fewer in number than those who think that the regulations go too far. The biggest concern surrounding administrative burdens relates to the set-up procedures and processes across the EU. Creating a new business in most parts of the Europe Union continues to be cumbersome and surveys show that

entrepreneurs face insurmountable administrative hurdles and complications in simply getting off the ground.

The Competiveness Council of May 2011 determined that Member States should strive to set a target of making it possible to start a business in 3 days at a cost of no more than €100.

Many EU States struggle to address registration costs, which still averages 5.4 days at a cost just under € 372.00 in 2013.

In 2010 average time and cost to start-up a private limited business was 7 days and cost was € 399.

In 2009 average time and cost to start-up a private limited business was 8 days and cost was € 417.

In 2008 average time and cost to start-up a private limited business was 9 days and cost was € 463.

In 2007 average time and cost to start-up a private limited business was 12 days and cost was € 485.

Academics have drawn the conclusion from these statistics that mainland Europe may not an ideal benchmark for improving the legal framework to speed up business formation. Academic studies show that countries which foster fast-growing businesses tend to have the administrative set-up systems in place that enable entrepreneurs to become operational quickly; the highest rates of entrepreneurial activity are recorded in the US, South Korea, Australia and Israel.

A prospective entrepreneur in the US can have his business incorporated and have a national insurance ID number within one hour. Singapore introduced some years ago a measure to enable a new business to be registered in the same day via the Internet.

The UK still lingers in the set-up scoreboard produced by the EC with an average timeframe of just less than 7 days and at a cost of €33.00 (2011).

The message The Genesis Initiative seeks to convey is that small businesses – whilst facing unstable trading conditions due to collateral damage arising from the 2008 financial crisis, and the concomitant challenges in securing finance - have the capacity to create a more sustainable economic climate in Europe. But they can only do so if they have a stake in reducing persistently heavy administrative burdens – at all stages of their life-cycle.

**13. 4. Recommendations:** The Genesis Initiative thus recommends the following prescriptions:

- Ensure that all new EU business law initiatives comply with the principles of proportionality and subsidiarity. The adoption of better lawmaking should be pursued in a spirit of multilevel governance, i.e. through coordinated action by the EU, national institutions and local and regional authorities. Member states' governments and national parliaments should be encouraged to adopt a proactive stance in providing information to the Commission concerning the costs and benefits of new initiatives. Governments should embrace the Commission's calls for feedback from the Member States on subsidiarity, proportionality and administrative burdens at early stages of the legislative procedure, preferably after publication of its 'roadmaps' and during the consultation process.

-Think small first. Integrate this principle systematically at EU and national level in all new policies that impact on small businesses. A range of tools is available to ensure the effective implementation of the principle. These include the application of an SME test to forthcoming legislative proposals, the use of specific SME provisions in legislation in order to avoid disproportionate burden on SMEs, the consultation of the SME stakeholders, the work of the SME Envoy, the use of Common Commencement dates for legislation relevant for business (as used by the UK), etc.

- Evaluate the special impact of new rules on small businesses and systematically include an evaluation of special options for small businesses in impact assessments. This could extend to rejecting any legislative measure that has not been analytically costed and subject to a rigorous evaluation of identifiable benefits – that measurably outweighs the costs.
- Make simplification and improvement of the regulatory environment a permanent integral part of the legislative process. This is especially pertinent to the creation and cost of setting up a business across the EU. The EU Council has set a target of making it possible in all Member States to start a business in 3 days at a cost of no more than €100. We are far from this ambition. Registration costs across the EU continue to be high – 5.4 days at a cost just under € 372.00 in 2013.

Comparisons of how other regions encourage swift business set-ups merit attention. In the US, a prospective entrepreneur can have his business incorporated and have a welfare ID number in the space of one hour. Singapore boasts of a compelling on-line business set-up procedure that enables entrepreneurs to be in business in the same day via the Internet .Obviously any such facilities must be mindful of the risk of these instant

businesses being used as money laundering gateways but we ignore this at our peril. We are, after all, in a competitive global market.

- Exempt small businesses whenever possible. Use partial or at least temporary exemptions if a full exemption would defeat the purpose of the regulation. The 2012 Council decision in exempting micro-enterprises from publishing their annual accounts is a case in point, as such firms still represent the backbone of Europe's future growth, even if such businesses have balance sheets worth less than €250.000, or net turnover of less than €500.000 and, typically average 10 employees. The fact is that some 91% of all SMEs fall into the category of micro-enterprise.
- Simplify regulatory obligations for small businesses by removing legal texts are redundant and outdated, without changing the legal status, by exploring:
  1. Improved the presentation of "*acquis communautaire*" principle - accumulated legislation, legal acts, and court decisions which constitute the body of the EU law. For new EU Members, Acquis is especially important as it is divided into 31 chapters, which includes SME policy.
  2. Without diminishing Acquis, move gradually towards a modernisation and simplification of existing legislation and associated policies that are more appropriately adapted and proportionate to regulatory environment.
- Pursue dialogue with EU Member State governments on European Parliament resolution of 4 February 2014 on EU Regulatory Fitness and Subsidiarity and Proportionality - 19th report on Better Lawmaking covering the year 2011 ([2013/2077\(INI\)](#)):
  1. Seek proposed measures from the EC to reduce the burdens identified by SMEs across Europe in the 'Top 10' consultation as soon as possible
  2. Boost, where appropriate, the use of exemptions or lighter regimes for micro-enterprises when proposing new legislation, and make EU public procurement rules more SME-friendly.
  3. Rapidly implement the commitments set out in its Regulatory Fitness (REFIT) communication of 2 October 2013.
- Introduce common (pre-determined) commencement dates for all new laws, regulations and directives that bear on businesses.

- Give small firms sufficient time to adjust to new regulations via lengthier transition periods.
- Urge EU Institutions to provide proof that all EU Member States can unambiguously comply with the new legislative measures, and have the institutional capacity to enforce the rules, thereby avoiding divergent interpretation of EU laws and late transposition at local level. Examples are particularly relevant in the fields of food hygiene, financial services and employment safety rules, requiring hiring inspectors, additional audits or acquiring facilities.
- Introduce 'sunset 'clauses into all EU legislation, a form of automatic expiry dates to coincide with the rigorous review of the legislation just as the sunset clauses takes effect. This would ensure that legislation is re-assessed in the light of actual performance, three years after its implementation.
- Offer opportunities for small businesses to interact with government, national agencies and the possibility to comply with administrative requirements electronically.
- Avoid gold-plating new EU directives, a practice whereby national bodies, governments and regulators, exceed the terms of the agreed EU text when implementing them into national law. Most gold-plating occurs at the time of transposition into local law. Past examples include employment relations rules and retail investor protection. Gold-plating has been justified in the past on the grounds that EU directives created a vacuum in application rules, unlike in most mainland EU civil law countries with a detailed administrative law regime. Greater scrutiny is required before the EU Institutions ratify the final text, via earlier intervention at EU level to amend or re-negotiate the texts, ensuring that original law is clear from an implementation perspective. Where gold-plating is undertaken at national level, Member States should be invited to explain their reasons for doing so.

### 13.5 Benefits of Proposals

- Strengthening HM Government's efforts to convince the EU Institutions to accelerate the pace of administrative burden reduction measures
- Freeing up resources to redeploy funds to R&D and innovation initiatives on the cross-border scale.

Ref (1) Regulatory Fitness and Performance Programme (REFIT) created by the EC to systematically review EU legislation in order to:

- See if its aims are being met efficiently and effectively
- Detect regulatory burdens, gaps and inefficiencies
- Identify opportunities for simplification
- Enable the Commission to propose that Council and Parliament revise or repeal legislation where appropriate.

## 14. Corporate Governance for SMEs

Author: Richard Smerdon

### 14.1. Summary of Proposals

- a) Appropriate levels of Corporate Governance best practice would help SMEs with risk management, finance and investment and succession, but this is not being recognised by any of the relevant industry or financial bodies;
- b) BIS should convene a forum of delegates from the CBI, IOD, FSB, BCC, BBA, ICAEW and the NACFB<sup>1</sup> to develop, endorse and promote a 'Statement of Governance Best Practice for SMEs.'
- c) This chapter suggests a pragmatic flexible model for such a Statement

### 14.2. Statement and analysis of issues

1. Currently the issue of corporate governance for SMEs is not on the agenda for British industry and commerce nor within the Department of Business Innovation and Skills (BIS) nor any of the bodies which represent industry and commerce such as the Confederation of British Industry (CBI), the Institute of Directors (IOD), the Federation of Small Business (FSB) the British Chambers of Commerce (BCC). These bodies are of course all concerned to a greater or lesser extent with corporate governance but at the larger business end of the scale. It is generally thought that SMEs have enough problems just to flourish commercially without the dead hand of yet more regulation.
2. There are however good reasons why even a small amount of basic, easy to apply, good governance can be of real benefit to SMEs in terms of risk management and succession planning.
3. Here are some of those reasons:
  - a. The investment made by private individuals in their private businesses at the start-up stage often represents as much of a financial commitment as the buying of their homes, and in most cases comes in part from borrowed money secured on their homes. Financing for the business itself will come from bank loans and an overdraft which are guaranteed by the individuals managing the business, and also probably secured on their homes. Thus, it is crucially important in both their personal interests and the interests of their families to put in place basic governance structures and processes (as described in more detail in this chapter) to act as a fundamentally useful risk management tool;
  - b. The financing needs of private businesses when they get to the development stage are often beyond the pockets of individual managers or shareholders, and therefore there is a need for the business to access capital from a variety of other sources including banks and private equity providers. These sources are now much more keen to ensure the good governance of investee businesses. For example, the regular holding of board meetings, the appointment of one or more

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<sup>1</sup> See paras 2.1.2.1 and 2.1.3.1 below for explanations of these mnemonics

non-executive directors to monitor performance and provide experienced input, the production of regular reports , and the formation of audit and other committees;

- c. Even without development capital from private equity, many private businesses can benefit from the presence at board level of a non-executive director who has experience of the business in which the business operates, or who can bring some other professional skill to the table<sup>2</sup>; or who is just a good listener and sounding board for the sometimes lonely job of being the owner manager of a business;
- d. For businesses which are not intending to exit by way of trade sale or flotation on AIM or a listing on The London Stock Exchange there may be succession issues of crucial importance, as well as the need to tap into experience and expertise which the board does not have. The presence of good governance in the form of trusted non-executive directors and the procedures (board meetings, committees etc) which follow such appointments can at their best help to provide both expertise and long term stability which can address issues of succession in a constructively detached way;
- e. For businesses which are intending to exit by way of sale the existence of good governance will help to support if not enhance the valuation and will also be a powerful weapon against possible claims for breach of duty by a successor board;
- f. For businesses which are intending to exit by way of AIM or full listing it is essential to get in place governance structures and processes which are capable of translating into compliance with relevant market practice at least a year before such exit.

#### 14.3 Proposals to deal with the issues

1. BIS should use its influence to convene a small forum from the CBI, the IOD, the FSB, the BCC together with the ICAEW , the British Bankers Association (BBA) and the National Association of Corporate Finance Brokers (NACFB) to agree a statement of governance best practice for SMEs ( 'the SME Governance Statement') along the lines suggested below by Genesis ;
2. These bodies would then promote that Statement and in particular should promote via business external accountants the proposition that the directors of those businesses which are required to produce an annual directors report should insert a short statement in the report as to whether the Governance Statement is recognised by the directors. No more than that. It is realised that many businesses are not required to have a directors report, but

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For example, the following advertisement appeared in the Independent on Sunday:  
'Chair of audit committee: A non-executive director is required by a long established private family run technical textile manufacturing business based in the South West.  
Candidates must have recent manufacturing production experience. They should also be numerate, but not accountants and able to chair the audit committee. Time commitment 10-12 days p.a. £20,000 fee'



it is hoped that by introducing the concept it will become recognised as good practice by banks and other providers of finance which are supporting SMEs and thereby enhance the level of support as well as the other advantages outlined in 2.1.2 above.

3. The SME Governance Statement would make it clear that it was up to the business to decide how much of the Statement it wanted to use. The Statement would be structured into 'Principles' applicable to any size of business, and then 'Guidelines' distinguishing between 'Basic' and 'Intermediate' depending on the size and type of business.

### **Principles**

It is often said that the reason why corporate governance has been adopted quite successfully by listed businesses in the United Kingdom is because it is essentially 'principles-based' and not a set of detailed regulations which lawyers can argue about.

'Principles' require managers to decide how they 'apply' them to the needs of their businesses, rather than 'box ticking' regulations to ensure that they 'comply.'

The suggested principles for SMEs to think about and decide how best to apply, if at all, in relation to their businesses are:

<b>Table 1</b> <b>Four suggested principles of corporate governance for SMEs</b>
<ol style="list-style-type: none"> <li>1. The directors or partners are responsible for the success of the business and must organize themselves so as to be effective in achieving success;</li> <li>2. The directors or partners must ensure that decisions are taken in the best interests of the business as a whole. It is fine if the execution of this principle coincides with directors' /partners personal interests, as it often will in the case of a private business, but not fine if decisions are taken purely for the personal benefit of directors/partners to the detriment of the business or of particular members or employees or other stakeholders;</li> <li>3. Decisions by directors, partners and shareholders/ owners should be transparent to all of them;</li> <li>4. The integrity of the financial information relating to the business and compliance with the regulatory regime applicable to the business are of primary importance and the responsibility of the directors/ partners.</li> </ol>

### **Guidelines**

In designing governance guidelines this chapter draws on common sense, and generally accepted 'best practice'.

The guidelines are categorised as:

- Basic
- Intermediate

And the adoption of either Basic or Intermediate guidelines will depend on the nature and size of the business as illustrated in Table 2 below.

Table 2 summarises how the categories might work for types of business.

**Table 2**

<b>Type of business</b>	<b>Category of Governance</b>
Sole trader - continuing business or as a start-up	Basic
50/50 partnership- continuing business or start-up	Basic
Three or more 'partners' -continuing business or start-up	Basic/Intermediate
Family business	Intermediate
Newco	Intermediate and
Private equity requirements	

Within the 'basic' governance category there can be the notion of 'essential' elements and 'optional extras', depending on the needs of the business as illustrated in Table 3 below.

It is for businesses themselves to choose the type of governance, if any, they think will suit their needs. There can also of course be an element of 'pick n' mix' as between the categories.

External providers of finance to all the above types of businesses may require specific governance structures or processes to suit their requirements e.g. Forms of reporting or monitoring.

**BASIC GOVERNANCE**

Table 3 sets out some 'essential' and 'optional' guidelines for basic governance.

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**Table 3**

**Guidelines for 'essential' and 'optional' 'basic' corporate governance**

**Essential elements:**

- systems and processes to ensure integrity of financial information and financial stability;
- risk management-processes to ensure product or service provided by the business is defect free;
- simple structures and processes to ensure compliance with the business's constitution(e.g.articles of association)and the regulatory regime applicable to the business;
- For businesses/ businesses with more than one director /partner, regular board/partnership meetings with an agenda and supporting papers, including monthly management accounts , a brief CEO report and a short record of any decisions.

**Optional extras:**

- a non-executive director ;
  - an annual 'legal audit';
  - a staff forum
- 
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## INTERMEDIATE GOVERNANCE

Table 4 sets out the guidelines for intermediate level governance

**Table 4: Guidelines for intermediate governance**

- all aspects of 'essential' basic governance outlined in table 3 above
- a comprehensive annual report and accounts
- at least one independent non-executive director with a programme for due diligence by and induction for that director
- D & O insurance cover for directors
- an audit committee
- a risk management template identifying material risks and the intended management of those risks
- a list of matters which should be decided by the board as a whole
- regular board meetings, say four times in each year
- articles of association or constitution which adequately define and control the relationship between the board and members and between members themselves –must be reviewed by tax advisers
- possibly a shareholders agreement

### 14.4 Benefits of Proposals

Businesses willing to adopt the suggested Statement in whole or material part would find at least the following benefits:

1. A formal forum would be created which would enable the business owners/directors to determine strategy and monitor execution of the strategy;
2. Financiers and investors would be given greater confidence that the business was being well run;
3. The putting in place of basic governance structures and processes (as described above in this chapter) will act as a fundamental risk management tool which will help to safeguard the personal interests of the owners and managers and the interests of their families all of whom will be investing in the business in one way or another;
4. In the event of the owners wishing to realise their investment the existence of basic good governance will help to underpin valuations.

## **Genesis Manifesto 2014 biographies of contributors**

**Professor Ken O'Neill** Ken is Professor Emeritus of Entrepreneurship and SME Development at the University of Ulster. He is a Director of the Genesis Initiative, Chair of the Centre for SME Development in the university's Business School and the School for Social Enterprises in Ireland. He sits on the Academic Advisory Council of the Chartered Management Institute, is a member of the Governing Body of Belfast Metropolitan College and of the International Small Business Congress as well as a non-executive director of a number of not-for-profits and SMEs. His most recent books are the co-authored *Understanding Enterprise, Entrepreneurship and Small Business* ((Palgrave Macmillan, 4th ed., 2013) - shortlisted by the CMI as Management Book of the Year - and *Understanding the Social Economy and the Third Sector* (Palgrave Macmillan, 2<sup>nd</sup> ed., 2014) He was the first person to be awarded the Queen's Award for Enterprise Promotion – Lifetime Achievement Award (2005).

**John Stanworth** is Professor Emeritus at the Westminster Business School, University of Westminster. He is formerly Director-General of the Small Business Research Trust and long-time Executive Committee Member of the Labour Party's 'Labour, Finance and Industry Group' (LFIG).

**Sir Ronald Halstead** is currently President of the **Engineering Industries Association** and Chairman of the **Conservative Foreign and Commonwealth Council**. He was formerly Chairman and Chief Executive of the Beecham Group and Deputy Chairman of British Steel. He also did public service as Chairman of the Industrial Development Advisory Board and as a member of the Monopolies and Mergers Commission.

**Ross Coates:** Founding and managing partner of his own firm formed 20 years ago and now employing 45 staff. Entire career devoted to SME sector. Formerly active in political and public life. Married with 5 children.

**Adam Tyler:** Adam is currently the Chief Executive of the National Association of Commercial Finance brokers and is responsible for its 1150 members across the country who arrange in excess of £1 billion of new finance for business every month. He works directly with 120 lenders to business across the whole spectrum of commercial finance and is also part of various advisory groups on funding UK SME's.

**Dr. David P. Doyle** is an policy adviser specialising in EU financial services legislation. A former diplomat based on mainland Europe, spanning roles in both multilateral and bilateral assignments, is also a long-standing member of the Board of the joint MEP-EU industry body, The Kangaroo Group, and secretary to its Financial Services Working Group, based in the EU Parliament. He is actively involved in the Transatlantic Business Council (TABC), and acts as an EU policy expert on the European Council on Corporate Governance operated by the Conference Board, a non-profit think-tank.

**Richard Smerdon** is currently on-line tutor for the Financial Times Non-Executive Directors' Diploma course. He spent his career as a corporate finance lawyer with Osborne Clarke, latterly in Palo Alto, California, doing technology law. He has written and lectured extensively on company law and corporate governance.

**Anne-Marie Morris MP** Anne Marie is the Member of Parliament for Newton Abbot, having been elected at the 2010 general election. She is the Chair and founder of the All Party Parliamentary Group for Micro Businesses and is the Conservative Party Small Business Ambassador for the South West. Before entering politics she was a high flying businesswoman who went on to set up her own businesses mentoring micro businesses in the South West of England.

**Joe Harrison** has been Chief Executive of the National Market Traders Federation (NMTF) since 2007. He was President of the Stockport branch from 1995 to 2005, a member of the National Executive Board from 1998 and National President of the NMTF from 2004 to 2007. Joe started working on markets at an early age, working as a 'Saturday lad' on a fabric stall on Stockport Market from 14 years of age.

**Tom Brass** Tom was a former partner at KPMG. His 25 years' experience there included some eight years working with sovereign governments in eastern Europe and Africa to alleviate their sovereign debt problems, and a two-year secondment in Poland establishing a local office. Whilst in Poland, he helped found the British Polish Chamber of Commerce. After leaving KPMG, Tom established his own Interim Management practice, and in 2001/02 was involved in the formation of the Institute of Interim Management ("IIM"), a professional body for Interim practitioners. He remains a director of the Institute, with particular responsibility for policy and public affairs issues affecting Interims as micro-businesses. Tom's association with the Genesis Initiative began when the IIM joined the Senate in 2002 in support of its interest in small and micro-businesses, and he joined the Board in 2006.

**Dr Charles Trotman** Dr Charles Trotman is Senior Economist at the Country Land and Business Association, which represents 33,000 members in England and Wales. His main areas of responsibility include rural business development, SME and micro-business advice and telecommunications policy. Prior to joining the CLA in 2002, Dr Trotman worked in Brussels advising the EU and in London at the National Farmers Union.

**Graham Kennedy** is an experienced management consultant and founding Director of Alexoria. Alexoria helps technology organisations capitalise on opportunities that they're facing in the market. He is also Chair of the Institute of Consulting's London and South East Committee where he is focusing the committee's energy on activities that help consulting SMEs to grow.

**Bob Salmon** started and ran his own food business supplying two of the major supermarkets with a new product. After selling the business he was the food representative to UEAPME for the Forum of Private Business until that collapsed. He still provides a voice for small food businesses to both UK and European authorities to ensure food legislation is practical for SMEs.

**Paul Gregory** *Rapporteur* for the Genesis Initiative covering food issues, late payment and competition. First employed at the Bank of England, then in hot drinks vending. Founded three companies serving the food industry in disposables as a converter of cling film, and as a major supplier of re-usables to the microwave market. Now involved in regulation at UK and EU level.