



The FSB Five Point Plan for job retention and creation

The problem

It is increasingly apparent that the UK economy is on the brink of an economic downturn on the scale of the 1974-1975 recession or, worse still, of the Great Depression of 1931-1933. Small Businesses find themselves at the centre of this crisis, over 80 of them are closing every day and this figure is set to rise.

Last October, the FSB proposed a number of measures to alleviate the most pressing problem for the UK economy; access to finance. This problem is far from being resolved, but both the Government and the banks have committed to policies to improve the situation.

The second biggest problem facing our economy is the retention and creation of employment. It is predicted that unemployment could pass three million during the course of 2009 with current trends suggesting that job cuts will disproportionately affect young people.

The Government has announced intentions to create 100,000 new jobs. But this target lacks ambition and the FSB believes it is possible to create 400,000 jobs with the right actions.

The solution

Despite the recent economic slowdown, small businesses remain the UK's key job creators. They employ 13.5 million people in the UK, that's 59 per cent of the private sector workforce. Whilst in recent years the share of employment in the largest firms has fallen, this decline has been more than offset by the creation of employment in the small business sector.¹

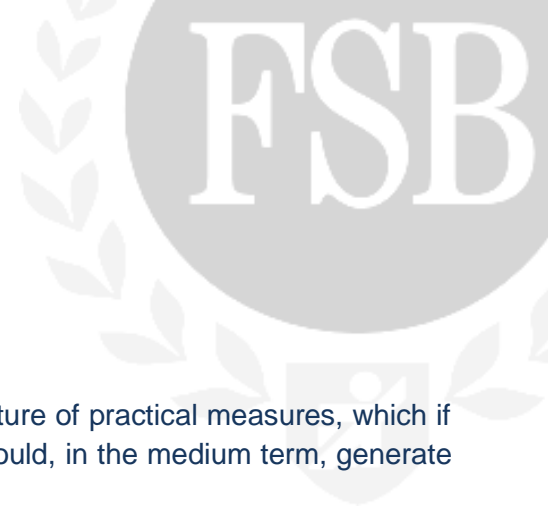
The FSB believes that the current economic downturn actually provides an opportunity to establish the right environment for job retention and creation. Furthermore, by focusing on employment in the small business sector, we will be creating good quality jobs² and bringing into employment those people who might otherwise struggle in the jobs market, or are more likely to be out of work for longer.³

By decreasing the burden of regulation on business, the Government could increase the number of jobs by 160,000 and save 73,000 jobs by preventing company closures. Following the example of the Enterprise Allowance Scheme in the 1980s, the Government could take 191,000 people out of unemployment in four years and help them into self-employment. This would not only help grow the economy but could in turn create more jobs as these small businesses flourish.

¹ Small Businesses in the UK: New Perspectives on Evidence and Policy, University of Westminster, November 2008

² 'What workers want' YouGov and TUC poll of more than 2,500 people at work in Britain. 2nd September 2008
<http://www.tuc.org.uk/extras/pollfigures.pdf>

³ Small Businesses in the UK: New Perspectives on Evidence and Policy, University of Westminster, November 2008



Summary of the FSB's Five Point Plan

The FSB's Five Point Plan for job retention and creation proposes a mixture of practical measures, which if implemented now, could help retain and create jobs. These measures could, in the medium term, generate over 400,000 jobs.

1. Cut payroll taxes
2. Simplify access to public procurement contracts
3. Declare a moratorium on business regulation
4. Promote part-time work through tax exemptions
5. Simplify and promote apprenticeships

In addition to these measures, the FSB believes the Government should strongly consider the introduction of a Short-Time Working Scheme to aid the retention of jobs and survival of businesses, together with an Enterprise Allowance Scheme to create new business start-ups. These schemes should run for the duration of the economic downturn.

Details of the FSB's proposals

1. Cut payroll taxes

- Increase National Insurance Contributions threshold and cut employer's contribution
- Increase compensation for statutory payments

National Insurance Contribution threshold:

It is a proven fact that cutting payroll taxes can help small businesses retain employees and to survive an economic downturn.⁴

The employers' National Insurance Contribution (NICs) represents a tax on jobs. During the recent period of economic growth, tax thresholds have been allowed to lag behind growth in wages, greatly benefiting the Treasury.

With the economy in decline and a greater emphasis being placed on job retention and creation, the FSB believes that now is the appropriate time to redress this balance.

In order to reduce the costs attached to employing someone, the FSB proposes an increase the NICs threshold for employers and a percentage cut in their contribution to create greater parity with the level paid by employees (employers currently pay 12.8 per cent compared to 11 per cent for employees).⁵

⁴ Korkeamaki and Uusitalo, *Employment Effects of a Payroll Tax Cut* (2005)

⁵ The proposals in the Pre-Budget Report raised the National Insurance threshold to £6,035 p/a but it also raised the percentage contribution rate. This reduced the savings for employers and employees, thus failing to offer an economic boost.



In addition to promoting job retention, an increase in the NICs threshold for employees, without a rise in the percentage of payment, would also provide a useful fiscal stimulus by putting money back into peoples' pockets (see page 7 for breakdown).

Compensation for statutory payments:

Small employers are eligible to reclaim 100 per cent of Statutory Maternity Pay (SMP), Statutory Paternity Pay and Statutory Adoption Pay that they pay to employees, plus an additional 4.5 per cent compensation.

This compensation was originally designed to cover costs to small employers that would continue while an employee was absent from work, such as employers National Insurance and general costs associated with processing a payroll for an employee – payslip, payment charges, etc.

There has been a significant rise in the costs associated with paying an employee on prolonged absence, most notably employers National Insurance, which is now 12.8 per cent.⁶

The FSB calls for this percentage based compensation for small employers to be increased to accurately reflect the costs associated with processing a payroll for an employee on prolonged absence.

2. Simplify access to public procurement contracts

- Introduce a single on-line Pre-Qualification Questionnaire (PQQ)

The Government intends to spend £10 billion on public works projects to provide an economic stimulus and drive job creation.

To offer the maximum return for the minimum input, public procurement contracts must be small scale, short-term and easy to access. They should also be directed to small businesses at the local level.⁷ This avoids protracted planning applications and gestation periods, and can boost the initial investment to local communities.

If the LM3 formula is used, which has been developed by the New Economics Foundation from John Maynard Keynes' work on national multipliers, a £10 billion procurement budget directed to small businesses would generate an additional £10.4 billion for the local community.

For example, if 80 per cent of the £10 billion was awarded to small businesses and they spent 80 per cent of that locally on suppliers and service providers who, in turn spent another 80 per cent locally, the result of the LM3 formula would be £2.4 billion. In this example, every pound the state spends on procurement through small firms generates £2.40 for the local economy, or an additional £1.40.⁸

⁶ National Insurance only used to be due on the first six weeks of SMP when the employee received 90 per cent of their average earnings.

⁷ Local councils in Essex found that awarding contracts to small businesses in their area or within the county is cost effective, offers quicker turnaround time and greater flexibility while at the same time keeping the carbon footprint low as delivery distances are less. More than £574 million was spent with local businesses by the councils in Essex during the last financial year and 83p in every £1 spent with a local business went back in to the local economy, helping to sustain local jobs.

⁸ Formula: $(£8b/0.8)+(6.4/0.8)+(5.1/0.8)=£19.5b / £19.5b/£8b=£2.4b$ Source: https://www.lm3online.org/LM3_Online_Demo.pdf



Unfortunately, the Government has a poor track record for directing public procurement contracts to where they can have maximum effect. In 2005-06, only 16 per cent of the total value of public procurement contracts went to small businesses.⁹

Over half of small businesses are deterred from the process of tendering for government contracts due to the time required and bureaucratic burden entailed.

The FSB's proposal to create a single, universal on-line PQQ (replacing the thousands of different PQQs, some running to over 100 questions) would be cheap and easy to introduce and could massively increase the number of small businesses able to apply for public procurement contracts.¹⁰

3. Declare a moratorium on business regulation

- Make the regulatory environment more simple and predictable

Job creation is easier in a predictable regulatory environment. To boost the chances of job creation over the next 12 months the Government should halt all new business regulation and speed up its simplification programme.

The problem of regulation has been exacerbated by the sheer amount of legislation that has been introduced affecting firms in recent years. In 2008, 57 new or altered regulations affecting business were brought into being, with a similar number expected in 2009.

To put this into the context of job creation, 60 per cent of businesses listed regulation as an obstacle to success in BERR's annual survey of small firms (2007). For 14 per cent, it was the single biggest obstacle.¹¹

Businesses' biggest problems with regulation are

- Difficulty in deciding how to comply with regulation (41 per cent)
- Paper work and administration of complying (31 per cent)
- Cost of making changes to ensure compliance (18 per cent)

A 2008 survey of FSB members found 27 per cent of businesses who wanted to expand rated "fear of increased regulation as a difficulty in expanding their business" as a very important factor.¹² Of the businesses planning to down size or close, 50.7 per cent rated regulatory burden as "very important" to their decision. This was the second most important factor behind retirement for closing a business, employment law came third.

Based on the figures from BERR and the FSB, a conservative estimate suggests that removal of these obstacles could create over 160,000 new jobs and save over 73,000 from being lost.

Therefore, the FSB proposes all new business regulations be halted for the period of the economic downturn. In addition, a single dedicated helpline for employers should be established to give information and support for ALL aspects of law and regulation affecting business, and the urgent simplification of regulation in the areas most affecting attitudes to employment:

⁹ Department for Business Enterprise and Regulatory Reform

¹⁰ The Glover Review into public procurement, whilst containing a number of good recommendations, falls short of recommending a single pre-qualification questionnaire.

¹¹ Taken from the BERR Annual Survey of Small Businesses' Opinions February 2008

¹² FSB survey of 8,742 businesses conducted in 2008



Maternity and Paternity Law

Parental legislation has been an ever changing legal landscape for the last 10 years. A confusing mix of regulations across legislative areas should be simplified.

Discrimination Laws

Employers need clear guidance about how discrimination laws interact with other legal duties.

Health and Safety

Health and Safety is considered the biggest burden on small businesses in terms of time. Business needs legally defensible guidance and advice to cut fear, over-caution and un-necessary paperwork.

4. Promote part-time work through tax exemptions

- Tax breaks for employers and employees working less than 15 hours per week

Increasing the amount of part time work in the economy can cut unemployment, helping those people returning from long periods away from work. In Holland, increasing the amount of part time employment in the economy saw a dramatic increase in the employment rate in 2005.¹³ The OECD also suggests that part time work can help people with disabilities or long term health conditions return to work.¹⁴

To aid the increase in part time work Government should consider the example of Germany and Portugal where tax exemptions and reductions from national insurance costs are available for employees and employers who take on additional part time workers.

In Germany employers and employees pay only half the tax and NICs of full time colleagues when they work less than 15 hours a week. In Portugal women going into part time positions from full time positions are entitled to a social security payments reduction for 36 months after the change.¹⁵

Exploring more ways of promoting and supporting part time work would encourage growth in employment in the UK and be especially valuable to small firms where the cost of part time employees is spread over a smaller work force.

5. Simplify and promote apprenticeships

- Introduce Group Training Associations across the UK
- Promote the financial incentives already on offer to small businesses
- Exempt employers from National Insurance Contributions when taking on a worker in their first job

The current economic downturn is falling disproportionately hard on the young.¹⁶ The FSB also believes we need to do more to combat the growing problem of youth unemployment by cutting the cost for employers who take on a first time worker.

In Portugal, employers receive a 36 month exemption from NI when they take on a worker in their first job. The FSB believes that this would encourage employers to take on inexperienced staff and help combat the disproportionate effect the down turn will have on young people in employment.

¹³ "Activation Strategies and the Performance of Employment Services in Germany, the Netherlands and the United Kingdom" OECD 2006 pg 11

¹⁴ "Activation Strategies and the Performance of Employment Services in Germany, the Netherlands and the United Kingdom" OECD 2006 pg 32

¹⁵ "Benefits and Wages 2007" OECD 2007

¹⁶ Hard Labour: Jobs, unemployment and the recession, Work Foundation, 2008



Small businesses are strong advocates of apprenticeships; in fact 69 per cent of all apprenticeships take place in small businesses. The FSB believes that this could be higher still.

In a recent FSB survey of 1,300 business owners, 95 per cent of businesses were unaware of wage contributions on offer to train an apprentice. Furthermore, businesses struggle with the administrative burden of setting up an apprenticeship, organising training and securing financial support.

To tackle this, the FSB recommends that Group Training Associations (GTAs) be established around the UK to remove the burdens of bureaucracy involved in taking on an apprentice.¹⁷ A GTA is a non-profit organisation providing training and related services on behalf of a group of local employers.

Finally, an awareness campaign needs to be undertaken by the Learning and Skills Council highlighting the financial incentives on offer to small businesses for training an apprentice.

Other job retention and creation schemes for consideration

In the search for solutions to the current economic downturn, the FSB believes that no stone should be left unturned.

Short-Time Working Scheme

In an effort to increase job retention and business survival, a Short-Time Working Scheme should be introduced for the duration of the downturn. This would allow employers to respond to a short-term fall in demand without making redundancies.

This would be cheaper than financing unemployment through the benefits system and would keep people actively engaged in the workforce. It would also avoid skills shortages when the economy recovers.

Enterprise Allowance Scheme

An Enterprise Allowance Scheme should be introduced to support unemployed people to set up businesses and become self-employed. When this scheme last operated in the 1980s over 190,000 unemployed people became self employed.¹⁸

¹⁷ GTAs will make it simpler for small businesses to employ apprentices and remove the burdens of bureaucracy involved in taking on an apprentice. This can be carried out through designing and maintaining each apprentice's training programme to fit the training needs of the small business which are traditionally short in nature, affordable, and based within the workplace.

¹⁸ According to the Paymaster General in 1986 between 1982 and 1986 191,145 previously unemployed people had entered the enterprise allowance scheme and become self employed.



FSB proposal to increase NICs threshold and cut employer contribution explained:

Based on an employee on the National Minimum Wage, 35 hours a week with gross pay of £200.55 a week (£10428.6 pa):

In the current national insurance rules the employee pays £10.51 a week (£546.52 p/a). At current rate the employer pays £12.23 a week (£635.96 p/a)

In the scheme suggested in the government's pre-budget report the employee pays £9.72 a week (£505.31 p/a) and the employer pays £11.24 a week (£584.40 p/a). This would make the employee £41.21 better off p/a and the employer £51.56 better off p/a.

The FSB's scheme would see the employee pay £9.30 a week (£483.34 p/a) and the employer pay £10.39 a week (£540.46 p/a). This would make the employee £63.18 better off pa and the employer £95.50 better off p/a.

Based on an employee with gross pay of £423 a week (£22,000 p/a), the national average wage:

Current rate Employee pays - £34.98 (£1818.96 p/a)

Current rate Employer pays - £40.70 (£2116.40 p/a)

In the scheme suggested in the government's pre-budget report the employee pays £35.30 a week (£1835.56 p/a) and the employer pays £40.82 a week (£2122.87 p/a). This would make the employee £16.60 worse off p/a and the employer £6.47 worse off p/a.

The FSB's scheme would see the employee pay £33.76 a week (£1755.75 p/a) and the employer pay £37.75 a week (£1963.25 p/a). This would make the employee £63.21 better off pa and the employer £153.15 better off p/a.

Based on an employee with gross pay of pay £673.07 per week (£35,000 p/a):

Current rate Employee pays £62.49 (£3249.48 p/a)

Current rate employer pays £72.71 (£3780.92 p/a)

In the scheme suggested in the government's pre-budget report the employee pays £64.06 a week (£3330.98 p/a) and the employer pays £74.08 a week (£3852.35 p/a). This would make the employee £81.50 worse off pa and the employer £71.43 worse off p/a.

The FSB's scheme would see the employee pay £61.27 a week (£3186.15 p/a) and the employer pay £68.51 a week (£3562.70 p/a). This would make the employee £63.33 better off p/a and the employer £218.22 better off p/a.

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