



Federation of Small Businesses
The UK's Leading Business Organisation

Small Business, Big Vote

The Route to Recovery FSB 2010 Manifesto

Employment



Taxation



Finance



Entrepreneurship and Innovation



Low Carbon Economy



Local Communities





Introduction

The UK will go to the polls in the midst of an economic crisis. Evidence of recovery is far from conclusive and unemployment could still grow considerably. In the last year, the nation's total net debt has risen to £800 billion, productivity has been slashed by 5 per cent and one in five under-25-year-olds is unemployed.¹

Current and future governments will be forced to make complex and torturous decisions as they plot a course to recovery. Based on expert opinion, extensive research and survey data, this document aims to inform the crucial decisions that will be taken to tackle the budget deficit.

This report draws on the top-line results of the most extensive survey of the small-business community since the recession began. The FSB-ICM Research '*Voice of Small Business Annual Survey*'² reveals that, despite difficulties, small businesses are already leading the way back to growth. The survey's findings show that around three in ten small businesses have seen profits (27 per cent) and sales volumes (30 per cent) grow in the last year.

More encouraging still, over half (53 per cent) of small businesses have continued to introduce new or improved products or services in the last 12 months. A similar proportion (51 per cent) intend to introduce new products and services in the next 12 months. Despite the recession, the desire to innovate is undimmed in the small-business community and might even have been encouraged by the difficult economic conditions.

Although encouraging, these results should not be read as a signal to pull the plug on the economic stimulus just yet. In fact, these signs of recovery strengthen the argument for targeted measures to nurture this tentative growth.

A sustained recovery will require more finance than the banks are currently able or willing to give; it will require a sympathetic tax regime, a stable and predictable business environment, and targeted measures to bring on innovation and entrepreneurship. In short, the government most able to get conditions right for entrepreneurs and small businesses to thrive will be the government best placed to guide us out of recession and back to growth.

Much has already been done to support the small-business community through this recession and the FSB, never an organisation to merely comment from the sidelines, has led the way in proposing measures such as the Enterprise Finance Guarantee, Financial Intermediaries, Graduate Internships, the Enterprise Allowance Scheme and the reform of apprenticeships.

The proposals contained in this publication build on our progress to date. They are realistic proposals in the current climate, in some cases aimed at diverting funds to small businesses to help the economy grow or, where additional expenditure is suggested, this will be covered by growth in the small-business sector. Armed with expert advice from the Centre for Economic and Business Research, the Westminster Business School and survey data from ICM and numerous other reports, we propose measures that will help small businesses to help the UK out of recession.



John Walker
Policy Chairman

¹ 'Labour Market Statistics' (November 2009)

² FSB-ICM '*Voice of Small Business*' Annual Survey (2009)



Contents

Executive Summary	7	Section 4: Entrepreneurship and Innovation	25
Section 1: Employment	8	- Encourage demand for innovation through public procurement	26
- Reform the Jobcentre	9	- An infrastructure for the 21st century	27
- Overhaul apprenticeships	10	- An open market for innovation in the service sector	28
- Introduce an Enterprise Allowance Scheme	11	- Targeted finance for innovation	29
- Introduce short-time working	12	- Support entrepreneurship	30
- Declare a moratorium on business regulation	13	- The right regulatory regime for economic recovery	31
Section 2: Taxation	14	Section 5: Low Carbon Economy	33
- Cut payroll taxes	15	- Promote energy efficiency	34
- Support self-employment through the tax system	16	- Simplify waste and recycling	36
- Tackle Value Added Tax	16	- Exploit the opportunities provided by a low-carbon economy	38
- Reform pension proposals	17	Section 6: Local Communities	39
Section 3: Finance	18	- Reform planning	40
- A renewed and targeted economic stimulus	19	- Curb parking charges	41
- Bring greater competition to the banking sector	20	- Make business rates automatic	42
- Restore trust between banks and small businesses	21	- Save our pubs – reform the pub tie	43
- Develop alternative forms of finance for small businesses	21	- Tackle crimes against business	44
- Tackle the reasons that force small businesses to rely on bank finance	24	- Revolutionise the Post Office	45
		- Simplify public procurement	46
		- Prioritise tourism	47
		Annexes	48



Executive Summary and Key Recommendations

- In order to help small businesses **create employment and tackle unemployment** the FSB proposes **reforming the Jobcentre** in order to reconnect the jobseeker with the job providers - small businesses. The Government should also introduce an **Enterprise Allowance Scheme** to encourage individuals to set up in business during a recession. The Government should also declare a **moratorium on business legislation** in order to prevent businesses from being deterred from taking on more staff.

- The UK needs a **tax regime geared towards helping economic recovery** in order to encourage small businesses to increase employment. The FSB is advocating a cut in payroll taxes through a **freeze in National Insurance contributions** and a **national insurance rebate** for small businesses with fewer than 50 members of staff that increase the number of employees during 2010/2011, to encourage small firms to grow and take on more employees.

- In order to **finance the economic recovery** there is a need to renew the economic stimulus provided to small businesses to help the country along the road to recovery. **Greater competition** needs to be introduced into the banking sector along with **restoring the trust between banks and small businesses**. Alternative forms of finance need to be developed through the creation of **regional finance houses**, and developing the **Bank of Essex model** along with **Regional Stock Exchanges**. There is also a need to tackle the reasons that force small businesses to rely on bank finance, such as **late payments** in the supply chain.

- In order to encourage **entrepreneurship and innovation** to fuel the recovery, the FSB proposes **encouraging demand for innovation through public procurement**, infrastructure and the open market. There is a need to look at more-effective ways of financing innovation through **the reform of the Enterprise Investment Scheme (EIS)** and supporting entrepreneurship with **less money being spent more wisely on targeted support** for small and micro businesses. An effective regulatory regime also needs to be set up in order not to deter greater employment

- There are challenges and opportunities in addressing current environment legislation and realising the low-carbon potential of SMEs. There is a need for **tailored advice to for SMEs on energy efficiency** and support so that small businesses can **maximise their use of smart metering**. With regard to waste and recycling, a **local waste infrastructure** should be put in place that better meets the needs of local business. **Improving and expanding low carbon business support and incentives** would also help small businesses realise the huge role they have to play in our low-carbon future.

- Putting small businesses at the **heart of recovery in local communities** would ensure that both rural and urban businesses are safeguarded through the recession and beyond by means of small business friendly **planning systems and parking policies**, **small-business rate relief**, a **response to crimes against business**, **post offices as a small-business hub**, **public procurement for local jobs** and a **tourism strategy** for one of the country's largest industries.

Section 1:

Employment

Small businesses hold the key to tackling the unemployment crisis. Between 2002 and 2007, over 84 per cent of new jobs were created by small businesses³ and, in spite of the recession, 57 per cent would like to employ in the future, creating at least 800,000 new jobs.⁴

Research commissioned by the FSB⁵ has revealed that small businesses are more likely than big businesses to employ young people, the unskilled, women returning to work and older workers; in short, those sections of the workforce most susceptible to long-term unemployment.⁶

The FSB has already pledged to work with the Government to create thousands of graduate internships, but much more needs to be done to help small businesses to retain and recruit employees. Job creation in the small-business community must be at the heart of a renewed economic stimulus.

- Reform the Jobcentre
- Overhaul apprenticeships
- Introduce an Enterprise Allowance Scheme
- Introduce short-time working
- Declare a moratorium on business regulation

84%

Between 2002 and 2007 over 84 per cent of new jobs were created by new businesses

³ http://ec.europa.eu/enterprise/entrepreneurship/craft/sme_perf_review/doc_08/spr08_annual_report.pdf (Nov 2009)

⁴ 'FSB Employment Survey' (July 2009)

⁵ Small Businesses in the UK: New perspectives on evidence and policy, University of Westminster for FSB (2008)

⁶ In 2009 alone, the number of under-25s claiming Jobseeker's Allowance rose by 80 per cent, costing the country £3.4 million per day. Rethinking the recession' – Report to the Princes Trust, Professor Jenny Harrow and Professor Cathy Pharoah, May 2009

Reform the Jobcentre

How do you find new members of staff?



FSB research reveals that less than 20 per cent of small businesses use the job centre to recruit and services are more often tailored to the needs of big business



Make it easier for small businesses to recruit

Small businesses are responsible for a disproportionate number of job vacancies (they represent 84 per cent of employers in the UK⁷) and are more likely to hire the under skilled and long-term unemployed, so it is logical that there should be a close relationship between small businesses and Jobcentre Plus.

However, FSB research reveals that less than 20 per cent of small businesses use the Jobcentre to recruit⁷ and its services are more often tailored to the needs of big business. In 2007/8 Jobcentre Plus cost £3.36 billion⁸; the FSB believes small businesses and jobseekers should receive a better service for this money.

The FSB recommends:

- Making Jobcentres about employment, not just benefits:**

To drive forward economic growth in the UK, Jobcentre Plus, BusinessLink and skills boards need to work together. This will give Jobcentres a better focus on business needs.
- Introducing a dedicated small-business manager**

Large employers that use Jobcentre Plus are allocated a dedicated local manager who works to understand their business needs and refer suitable applicants. Every Jobcentre should have a dedicated small-business manager who understands the specific needs of a small business.
- A Jobcentre website for the 21st century**

Recruitment has moved online and the Jobcentre website needs to catch up. It should offer a working search function, it should allow jobseekers to upload CVs, and filter applicants for jobs so that only suitable applicants apply to employers, and it should be capable of emailing jobseekers when suitable jobs are posted online.

⁷ Annual Small Business Survey, BIS (2007)

⁸ FSB Employment Survey (July 2009)

⁹ 'Jobcentre Plus Annual report' 2007/08

Overhaul apprenticeships

£123

per week the amount we believe apprentices should be paid

Make apprenticeships easier and more available in small businesses

Sixty-nine per cent¹⁰ of apprentices work in businesses with fewer than 50 employees but FSB research has revealed that even more apprenticeships could be created if the system were simplified and better promoted.¹¹ The FSB has welcomed government and opposition support for its proposals in this area and we will keep campaigning for their full implementation.



95 per cent of small businesses are unaware of the wage contributions on offer to train an apprentice



The FSB recommends:

- An increase in the minimum wage for apprentices:** from £95 to £123 per week.¹² This would increase the prospect of retaining the services of the apprentice after completion of training.
- Creation of a Group Apprenticeship Programme (GAP):** to make it simpler for small businesses to employ apprentices by removing the burdens of bureaucracy. The GAP company would employ the apprentice and deal with matters such as sourcing training and administrative matters such as Employer Compulsory Liability Insurance (ECLI).
- Establish a designated Micro-and Small-Business Apprenticeship Fund:** from the national skills budget, ring-fenced for the small businesses that are hardest to reach. This would ensure that funds are not wasted on larger businesses with pre-existing training plans.
- Promote the Apprenticeship Wage Contribution:** 95 per cent of businesses are unaware of wage contributions on offer to train an apprentice.¹³

¹⁰ 'Labour Workforce Survey' (2007)

¹¹ 'Small Businesses: Big Employers', FSB (2009)

¹² FSB Apprenticeships Survey (August 2008): 82 per cent of FSB members advocated a rise in pay for apprenticeships (question 3) <http://www.fsb.org.uk/policy/images/apprenticeships%20survey.pdf> (November 2009)

¹³ FSB Apprenticeships Survey (August 2008), question 4 <http://www.fsb.org.uk/policy/images/apprenticeships%20survey.pdf> (November 2009)

Introduce an Enterprise Allowance Scheme

36,000

the number of businesses set up under the enterprise allowance scheme

Promote self-employment

The UK needs to make sure that self-employment is a real option for the unemployed and that businesses created in the next 12 months flourish and grow. New research indicates that the recession provides opportunities for new business start-ups, not least for female entrepreneurs.

Between 1987 and 1994 support was available for the unemployed to set up businesses through either the Enterprise Allowance Scheme or the Business Start-Up scheme. In 1992, over 36,000 businesses were set up under these schemes and they had a 74 per cent survival rate after 18 months.¹⁴ Within this time over 10,000 additional jobs were created in these businesses. Many small businesses today have their roots in these schemes.

Studies show that new small firms grow at a faster rate than larger companies, creating more employment opportunities even when corrected for their higher probabilities of failure.¹⁵

The FSB recommends:

- **An Enterprise Allowance in the first year of business:**
 - £200pw for 3 months' allowance (£2,600)
 - £100pw for 3 months' allowance (£1,300)
- **An Investment Grant: available so new businesses can bid for money to invest in tools or equipment**
- **Access to targeted support and training**
- **All business plans should be checked for viability by a business advisor before the individual receives an allowance**
- **The claimant should be able to return to their full benefits after six months if the business is not successful**
- **Ongoing support: whether this comes from the enterprise agency providing the business-planning support and doing the regular checks or from a mentor, such as those provided by the Princes Trust, it is essential**

¹⁴ 'Small Businesses: Big Employers', FSB (2009)

¹⁵ 'Does Self-Employment Reduce Unemployment?' Journal of Business Venturing (2008), A Roy Thurik

Introduce short-time working

£4,500

per employee trained

Provide help to keep people in work and active

A short-time-working subsidy would enable employers to avoid immediate redundancies and retain essential staff and skills. It would save jobs, save on benefits payments, and encourage retraining on the job. A similar scheme called ProAct is already working well in Wales.

The FSB's proposal would reduce the personal and social costs incurred by long-term unemployment and increase economic demand by limiting the income reductions faced by workers on short-term hours or temporary lay-offs.

Any business that agreed to put an employee into a training scheme instead of making them redundant would receive a tax cut on their overall employer NIC bill. The cut would be worth £4,500 per employee trained, and would help pay for the training.

The tax cut would be granted on condition that:

- The business can demonstrate that it has a genuine need to reduce the number of labour hours, on the basis of existing market conditions
- The business agrees to switch employees onto short-time working instead of making them redundant
- The employee undertakes training, paid for by the business
- The business is fundamentally viable, and is not near bankruptcy

How it would work:

- Private-sector employers who agree to put an employee into training and short time working rather than making them redundant would receive a credit against their Employers' National Insurance Contributions
- The credit would be worth £4,500 for any full-time employee who is moved on to a combination of training and short-time working (between eight and 32 hours a week)
- Part-time employees could also be eligible for the scheme, provided they were working for over eight hours a week

Declare a moratorium on business regulation

60% of business list regulation as an obstacle for job creation;

14% cite legislation as the biggest single obstacle.

Make the regulatory environment more predictable

Job creation is easier in a predictable regulatory environment. In 2008, 57 new or altered regulations were introduced that affected business. 2009 will see an equal number of changes despite the recession.

To put this into the context of job creation, 60 per cent of businesses listed regulation as an obstacle to success and for 14 per cent, it was the single biggest obstacle.¹⁶ The employment law burden is also cited as one of the key reasons why members downsize, sell or close a business.¹⁷ The majority of businesses rate employment legislation (eg. legislation related to maternity/paternity leave, redundancy and grievances) as complex and difficult to deal with.¹⁸ Equally, businesses have key concerns about employment legislation when they are contemplating taking on new staff. Businesses also have significant concerns about vexatious claims via employment tribunals.

According to the FSB survey of members,¹⁹ businesses' biggest problems with regulation are:

- The number of different regulations and requirements – 61 per cent
- Keeping up with changes – 59 per cent
- Uncertainty that you have got it right – 53 per cent

Government could massively simplify the legislative framework for businesses by just not making any changes for business until the economy recovers. This has been considered by government and opposition parties.

The FSB calls on all political parties to have the courage to be bold and call a halt to all changes to business regulation for the period of the economic downturn and recovery. In addition, the aim for a 25-per-cent reduction in the regulatory administrative burdens absolutely has to be met for businesses to have a chance for growth.

¹⁶ 'Annual Survey of Small Businesses' Opinions', BIS (February 2008)

¹⁷ FSB Membership Survey (2008)

¹⁸ FSB Employment Survey (July 2009)

¹⁹ FSB Employment Survey (July 2009)

Section 2:

Taxation

The FSB–ICM ‘*Voice of Small Business*’ Annual Survey reveals positive early signs for business investment, growth and employment; these trends now need to be nurtured with the right tax regime. While it might be tempting for current and future governments to see tax increases on business as a convenient route to reducing the public-sector deficit, research commissioned by the FSB clearly shows that this could stop any recovery in its tracks.

The Centre for Economic and Business Research (CEBR) report *Small-business Tax Increases – Do the Economic Costs Outweigh the Fiscal Gains?*, demonstrates the damaging effect that tax rises would have on employment and business investment.²⁰

Using small business taxation to help reduce the public sector deficit would incur a heavy price in jobs and economic growth. Furthermore, the negative economic effects of these taxes would also cause a narrowing of the tax base which would limit the additional revenue raised. In short, taxing economically beneficial activity is inconsistent with encouraging a strong recovery.

Conversely, evidence suggests that cutting payroll taxes would result in business growth and job creation. Small businesses can deliver a strong economic recovery if they are given the chance to grow and flourish, but they will need a helping hand.

- Cut payroll taxes
- Support self-employment through the tax system
- Tackle Value Added Tax
- Cut VAT to 5 per cent for all construction work
- Reform pension proposals

- **Raising the small-business rate of corporation tax from 21 per cent to 26 per cent** would cost around 100,000 jobs and reduce economic output by £4.3 billion. Increasing corporation tax for small businesses would have a negative impact on business investment and innovation, and ultimately damage employment levels in small businesses.
- **Adding 1 per cent to employers’ National Insurance Contributions** paid by small and medium-sized enterprises would reduce the deficit by £6.3 billion over 10 years, but at a cost of 57,000 jobs – the simulation suggests that labour taxation through raising National Insurance Contributions will make a greater contribution to the Exchequer than corporation tax increases, but would still be very damaging in respect of its impact on employment.
- **Reducing the small-business rate relief threshold by £5,000** would cost around 4,300 jobs in small businesses, but would only reduce the public sector deficit by only £0.6 billion over 10 years – the simulation suggests that such a change would have only a marginal effect on public finances, whilst costing jobs and output within small businesses.

²⁰ Note: this research was carried out before the Government set new thresholds for the rate relief scheme

Cut payroll taxes

44%

of FSB members felt that a cut in payroll taxes would help them take on more staff

Give small businesses the help they need to take on more staff

A renewed and targeted fiscal stimulus needs to be closely linked to employment. A recent survey of FSB members revealed that 44 per cent felt that a cut in payroll taxes would help them take on more staff.²¹

The FSB recommends:

- **Introduce a National Insurance rebate for new jobs in small businesses**

We already know that half of small businesses want to invest and expand in the next 6 months.²² Small businesses with fewer than 50 members of staff that create a new job during 2010/2011 should receive a national insurance rebate on any new staff.

- **Freeze Employers National Insurance Contributions (NICs)**

Employers' National Insurance (NICs) is a tax on employment. As the CEBR report demonstrates, an increase in Employers' NICS would have a very detrimental effect on job creation, with unemployment reaching a record high. The FSB urges the Government not go ahead with any planned increase to NICS in 2011.

- **Repeal Class 4 National Insurance Contributions**

The FSB calls for a repeal of Class 4 National Insurance, which it firmly believes is just another form of taxation on the self-employed and therefore counterproductive to promoting entrepreneurship.

²¹ FSB Employment Survey (July 2009)

²² Survey of 4000 FSB members in August 2009

Support self employment through the tax system

Self-employment encourages innovation and economic growth.

The FSB believes that the Government should be supporting the self-employed through the tax system and encouraging the unemployed who want to become self-employed through an enterprise allowance scheme.

It is vital that plans to change the definitions of self-employment in construction and training industries are stopped. These changes will be damaging to these sectors and the FSB fears wider application of new definitions threatening the self employed. We believe it is time to review IR35 legislation and ensure that this is not penalising the genuinely self-employed.

Tackle Value Added Tax

Get VAT right for the recovery

The FSB is very concerned that the 1 January date for the VAT change is very badly timed from a business point of view. It comes right in the middle of the busiest period for retail businesses, which have the biggest administrative burden in making the changes. In customer-facing businesses these changes have to be made directly after Christmas when there may be fewer staff owing to holidays. We believe that this change should be put back to February to provide businesses with a longer lead-in time.

The FSB would oppose any move to increase VAT to 20 per cent. We are concerned about the potential impact of a double VAT increase on businesses in 2010. Businesses are planning for the change in January. If they go through this process again later in the year, the cost to businesses in time, administration and resources involved in changing pricing, catalogues and other on-going costs reaches £350 million²³.

Reducing VAT from 17.5 per cent (15 per cent until January 2010) to 5 per cent for all maintenance and home improvement work would benefit millions of UK homeowners by getting rid of cowboy builders, helping those who cannot afford vital repairs to their homes, bringing empty properties back into use and protecting the countryside.²⁴

The current situation in which new build attracts a lower VAT rate than renovation or brown-site development does not make sense in the current economic climate and in view of the challenges to make private homes more environmentally friendly.

The FSB recommends:

- Putting back the date for the VAT rise in 2010 to February
- Making sure there is only one VAT rise in 2010
- Cut VAT to 5 per cent for all construction work

£350 million
the cost to business of a change to VAT

²³ http://www.hm-treasury.gov.uk/d/pbr08_vat_1845.pdf (Nov 2009)

²⁴ Cut the VAT campaign: <http://www.cutthevat.co.uk> (Nov 2009)

Reform pension proposals

Don't allow pensions reform to become a tax on jobs

The FSB recognises that there is currently a crisis with regard to pensions saving in the UK, with over 6 million people failing to save enough for retirement. However, the system proposed by the Department for Work and Pensions (DWP) is bureaucratic and difficult to introduce and risks falling foul of the same mistakes as the 1999 pension reforms. DWP's proposal would hold businesses back from growing and taking on more staff.

The FSB's approach would give businesses a longer lead-in time to register and see automatic pension saving for employees introduced sooner. It would save the Government money and businesses administrative hassle.

The FSB recommends:

- **Automatically enrolling all small businesses into personal accounts giving them time to choose to opt out and find alternative provision.**
 - **Pushing back implementation until 2014: make businesses aware of their pensions' obligations from 2012, with all businesses to be enrolled with a pension by 2014**
 - **All existing employees to be registered with the pension scheme and given pensions information at least one month before the implementation date**
 - **When accounts go live, they have two months to opt out of the scheme. During the opt-out period no money has to leave the employer in order to minimise refunds**
-

Section 3:

Finance

When the banking system collapsed in 2008 the FSB was quick to respond, advocating a £1 billion loan guarantee scheme, which was subsequently adopted as the Enterprise Finance Guarantee. This and other emergency measures have helped stem the flow of insolvencies but we should not be lulled into a false sense of security, as much bigger and longer-term structural problems remain.

Credit conditions remain difficult for many small businesses. A worryingly large number are still being refused funding and a quarter of FSB members have seen their credit increase in price from 6 to over 15 per cent.²⁵ There might plausibly be enough finance in the system to sustain businesses in the depths of a recession, but there is no sign of the levels of finance that will be required to lift us out.

As experience from previous recessions shows, demand for credit is at its highest during the recovery stage, but it is far from certain that the UK has the necessary financing structures to support a recovery.²⁶ Without these in place the positive signs spotted in the FSB-ICM survey could fall flat, leaving the recovering patient to slip back into a coma.

This leads the FSB to the following conclusions:

1. **Aspects of the economic stimulus must not be cut until the banking system is fixed**
2. **Greater competition in the banking sector is a priority**
3. **Dialogue and trust must be restored between banks and small businesses must be restored**
4. **The UK must develop alternative forms of finance for small businesses**
5. **We need a concerted attack on the negative factors that force businesses to seek finance**

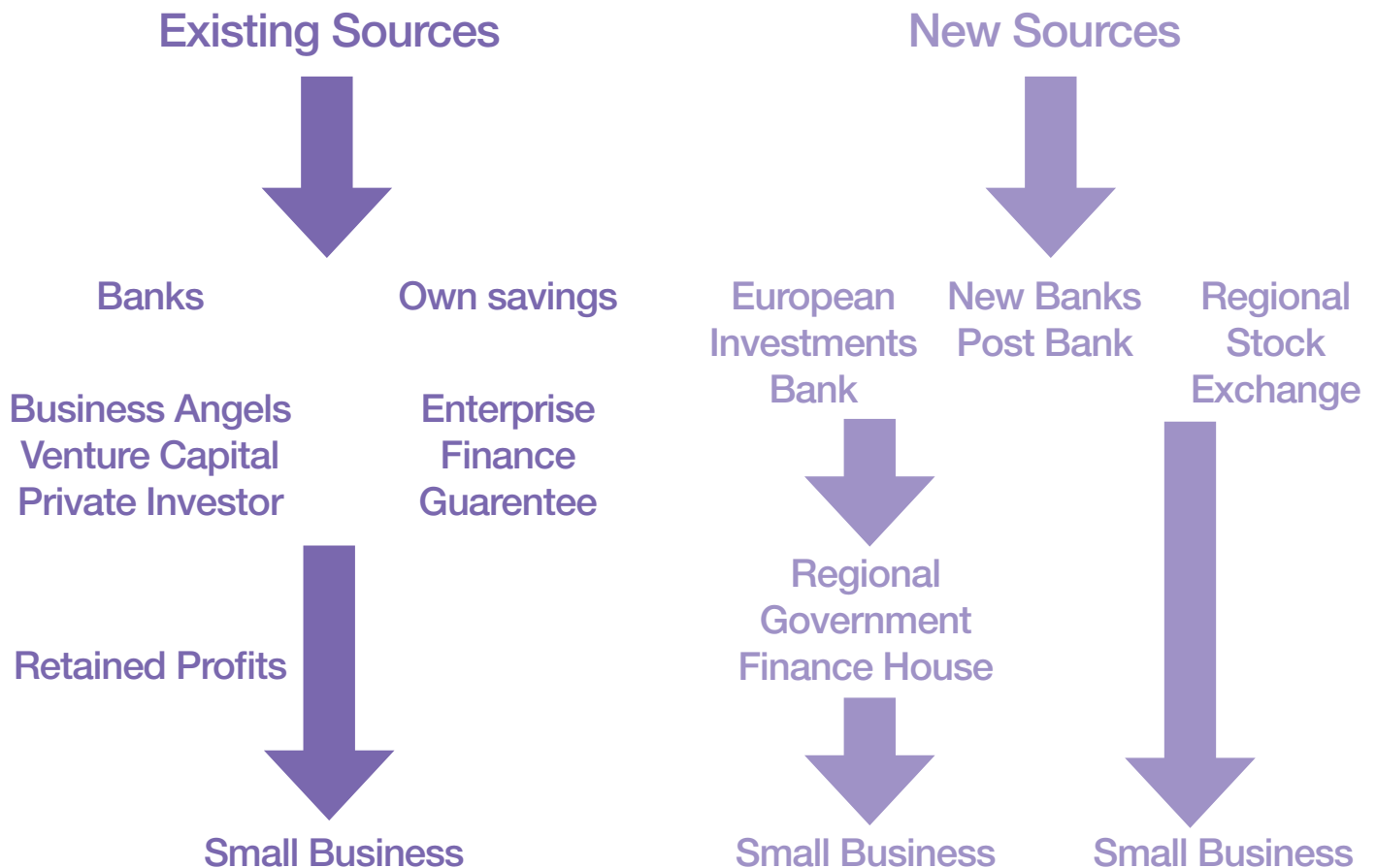
- **A renewed and targeted economic stimulus**
- **Bring greater competition to the banking sector**
- **Restore trust between banks and small businesses**
- **Develop alternative forms of finance for small businesses**
- **Tackle the reasons that force small businesses to rely on bank finance**

²⁵ FSB Credit Crunch snap polls 2008-2009: See Appendix.

²⁶ Adam Posen Speech, Monetary Policy Committee: <http://www.bankofengland.co.uk/publications/news/2009/080.htm> (Nov 2009)

A renewed and targeted economic stimulus

Sources of Finance



Source: FSB 'Barriers to Growth 2008'

Keep the EFG in place and diversify points of access

It is clear that the financial sector will not be in a position to support economic recovery anytime soon. Furthermore, the Government's economic stimulus is due to end in March 2010 when the EFG is wound up.

If we project the findings of the recent FSB-ICM survey into the early part of next year, there is good reason to suggest that economic growth will demand increasing levels of finance just at the time it is being withdrawn.

For this reason it is absolutely essential that the EFG is extended beyond March 2010 and that this channel of funding is replenished and made more readily available. This would be a logical and, since there have been few defaults on EFG loans, a safe step towards refinancing the economy.

The FSB recommends:

- **Extending the Enterprise Finance Guarantee to make it a permanent source of finance and replenishing the fund when required**
- **Diversify the points of access for EFG, allowing the scheme to be delivered through Regional Development Agencies, local authorities and small aggregate lenders**
- **Create a single web portal, backed up by a universal credit rating database, where businesses can apply for EFG and other financial services**
- **Ring-fence half of the £8 billion fund released for mortgage lending through Northern Rock for small-business lending**

Bring greater competition to the banking sector

there are only **170** bank branches per million people in the **UK**, compared to **520** in **Germany** and **960** in **France**

Give us a banking infrastructure that can support economic recovery

The lack of competition in the banking sector was a concern for small businesses long before the credit crunch. As long ago as 2000, the Cruickshank Report²⁷ found that the four main banks, Barclays, HSBC, Lloyds TSB and the Royal Bank of Scotland (including National Westminster), had an 83 per cent share of the SME banking market.

The banking crisis has only served to exacerbate this problem. Government bailouts, capitalisation schemes and takeovers have further reduced the choice of banking services for small businesses. With 24 per cent of small businesses seeing an 8-per-cent rise in the cost of finance, only greater choice and competition will put the necessary downward pressure on the cost of and access to finance.

To put this into perspective, there are only 170 bank branches per million people in the UK, compared to 520 in Germany and 960 in France. The UK simply does not have the banking infrastructure required to support recovery.²⁸

So the FSB welcomes the Government's announcement that it will create three new banks and its commitment to establishing a Post Bank, a proposal initially developed and promoted by the FSB.²⁹ We now need current and future governments to deliver on this promise.

The FSB recommends:

- **Making Post Bank a reality**

The FSB believes that a Post Bank will offer banking services that are: local; non-shareholder-driven; innovative and, above all, trusted.

There are various models for delivering a Post Bank, including turning Northern Rock into the Post Bank, using the Mutual Trust/Trustee Saving Bank model, or acquiring Bank of Ireland. These options give decision makers the choice of keeping a Post Bank in public ownership, or turning it over to the private sector through the mutual model.

- **Making better use of existing state held banks**

Part of the reformation of Northern Rock should include a much greater focus on small-business banking. This should start immediately with half of the £8 billion fund released for mortgage lending ring-fenced for small-business lending. This would introduce more choice and competition immediately into the marketplace.

²⁷ http://www.hm-treasury.gov.uk/press_98_00.htm (Nov 2009)

²⁸ 'The Turner Review' (2009)

²⁹ 'The Case for a Post Bank', Post Bank Coalition (2009)

Restore trust between banks and small businesses

Promote and embolden the Financial Intermediary Service

The future health of our economy depends on restoring the trust of small businesses in the banks. Turning ideas and innovation into business growth requires a reliable financial partner. The recent crisis and the preceding years of bank restructuring mean that this trust no longer exists between the banks and small business.

For this reason, the FSB proposed the creation of a Financial Intermediary to serve as a go-between for viable businesses being refused finance. With knowledge of the local economy and contacts with local branch managers, the Financial Intermediary can advise businesses that are having difficulty accessing finance and, where possible, broker agreements with banks on lending decisions.

The FSB was very pleased when the Government adopted its proposals and established Financial Intermediaries in every Business Link office in England. The service has already demonstrated its worth, but it has still to realise its full potential.

The FSB recommends:

- **The Financial Intermediary Service must be effectively promoted so that more small businesses know about the scheme**
- **Financial Intermediaries should be given real teeth to report banks that are failing to lend adequately to viable small businesses**
- **Financial Intermediaries should report on how the banks are performing when small businesses are considering and switching between banks; a maximum of five working days would be enforced for switching to help improve choice and increase the competition**

Develop alternative forms of finance for small businesses

Open up new routes to finance

It is increasingly clear that the UK's economic recovery is hostage to bank restructuring. One of the reasons we find ourselves in this calamitous state, to a much greater extent than any other Western economy, is the limited availability of non-banking finance for small businesses. This situation is nothing new, but the economic crisis has thrown this structural weakness into stark relief.

Pension funds invest a large amount of money into the stock market to develop and increase pension yields for their members. Pension schemes alone contain assets of around £800 billion, which could be invested into regional stock markets as the FSB is proposing. This would give added competition in equity based finance markets for small businesses and allow pension fund managers to diversify risk.

Small businesses remain an attractive proposition for investors and FSB-ICM data suggests that this is only going to improve. Therefore, the FSB is proposing a series of measures that would open up new routes to finance.

The FSB would like to see many more forms of capital entering the small-business credit market. Venture capital funds, or equity release schemes, delivered through professional fund managers and funded by Government, should be a priority if we are to properly finance the recovery.

Turn Regional Development Agencies (RDAs) into regional finance houses

Channel EIB money through the RDAs

RDAs should evolve into regional finance houses both providing finance to businesses through term loans and also managing equity schemes for smaller businesses.

The FSB welcomes the Government's and the European Investment Bank's (EIB) attempts to drive funds towards small businesses. Of the £12 billion brought forward by the EIB, the FSB expects that £4 billion will be allocated to the UK. It is noted that the Government is moving in the right direction and aspires to help small businesses in accessing EIB finance; however, this decision still rests with the banks.

The FSB recommends:

- **The RDAs access EIB funds, which they then ring-fence for small businesses**
- **That the criteria for small businesses to borrow money follow the EIB's set criteria³¹**
- **The RDAs should be expected to collect money from loan applicants and be responsible for promoting the scheme, receiving applications, deciding viability and acting as a point of contact for queries**

Encourage wider use of the 'Bank of Essex' model

Re-establish municipal lending

Essex County Council has gone into partnership with Abbey Corporate Banking to make an initial £30 million available to small businesses in the county.³² This money will be used for businesses that employ fewer than 250 employees, which have been trading for more than 12 months and which have a turnover of less than £25 million.

This is the first municipal lending scheme since 1915, and the FSB welcomes such moves from local authorities. This example should be promoted and followed by others.

The FSB recommends:

- **All local authorities should be made aware of the scheme and the benefits it will have for small businesses and the long-term sustainability of an area**
- **Government should guarantee 50 per cent of all bad debts for local authorities taking part in such a partnership scheme. This would give local authorities an incentive to explore such mechanisms and would attract financial institutions to take part**

³¹ <http://www.eib.org/about/news/eib-loan-for-smes.htm> (Nov 2009)

³² <http://www.essexbusinesssupport.com/news-events/banking-on-essex-launches> (Nov 2009)

Re-establish Regional Stock Exchanges

Leverage local money for local businesses

The virtual monopolisation of the equity finance market by the London Stock Exchange and the AIMS market is a fairly recent phenomenon. Until the 1970s regional stock exchanges existed up and down the UK, with exchanges in Bristol, Cardiff, Halifax, Sheffield and Swansea. At their height, there were 22 regional stock exchanges across the UK.

While the internet age has made stock exchanges foot-loose, the FSB believes there are strong arguments for re-introducing regional exchanges, which could leverage locally held money for local businesses. In fact, this is already happening with the West Midlands based Investbx.³³

The FSB believes that regional stock exchanges could help small businesses raise equity finance of up to £2m by introducing them to a wide investor base. Research providers could be commissioned to produce independent information on behalf of the company, made readily available to investors. Subsequently, shares in the company could be traded on a public platform, to encourage liquidity and facilitate an exit route for investors.

The FSB recommends:

- **Each Regional Development Agency should be mandated to allocate £3 million to set up an online platform for the exchange of shares for equity in small and medium sized businesses**

“

I would like the Post Office to become a bank in its own right and to uphold the old traditional banking ethos and not to speculate with people's money. It's time to compete against the main banks by differentiating its services to business customers

”

FSB member

³³ Investbx is regulated by the Financial Services Authority (FSA) and listed companies will meet a set of regulatory and disclosure requirements. The scheme also passed European Commission state aid rules, allowing Advantage West Midlands to start the initiative with an initial outlay of £3million.

Tackle the reasons that force small businesses to rely on bank finance

4,000 the number of firms closed due to late payments in 2008/9

Addressing late payments

While the private sector is the main concern for most small businesses, local authorities and other regional agencies have so far failed to heed the Government's demand to pay within 10 days. The FSB argues that all local authorities should be forced to come into line with government departments and pay within 10 days, or face a fine.

Many small businesses are forced to rely on overdrafts and bank loans because they are not paid on time. One in three small firms is now waiting longer to be paid by debtors since the onset of the credit crunch. This has led directly to the closure of 4,000 firms in 2008/09.³⁴ Small businesses are owed more than £10bn by suppliers or customers failing to pay within the standard 30-day invoice period, an increase of £1.7bn on last year.

The FSB recommends:

- **Fully implement the Companies Act of 1985**
- **Publicly name, shame and fine companies renegeing on the payment terms registered with Companies House**
- **Empower Companies House to become a proper enforcement body. Since 1985, companies have been obliged to submit their payment terms to Companies House. However, this has not been fully enforced and Companies House lacks the resources to fulfil its role**
- **The Late Payment Directive which does not currently cover payment to subcontractors, should include a 'social clause'. This clause would stipulate that if a larger business is paid within 30 days by a public body, they are obliged to pay their sub-contractors also within 30 days**



Small businesses were owed more than £10bn by suppliers or customers failing to pay within the 30-day invoice period in 2008/09.



³⁴ 'Getting paid on time', BIS (Oct 2009)

Section 4:

Entrepreneurship and Innovation

Despite the problems posed by the economic crisis, the FSB-ICM 'Voice of Small Business' Annual Survey reveals that small businesses remain innovative and entrepreneurial. Over half (53 per cent) of small businesses have continued to introduce new or improved products or services in the last 12 months. A similar number (51 per cent) intend to introduce new products and services in the next 12 months. The challenges and opportunities posed by the recession might even have sharpened these instincts.

While small firms show every sign of being innovative and entrepreneurial, the UK Government has not been particularly good at providing the right conditions for this to truly flourish. In fact, the FSB contends that both UK and EU attempts to encourage innovation have fallen short as there is little understanding of the true nature of innovation.

Innovation – what is it and how do we capture it?

For too long, innovation policy has been based on increasing the percentage of GDP spent on Research and Development (R&D), instead of on supporting the broader base of incremental innovation, which is more important to the overall economy, but too often goes unseen.

It has been recognised that innovation, the development or improvement of new products, processes or services, will play a key part in the UK's economic recovery. Small businesses are used to working in a flexible way, adapting to their customers and suppliers through networks, and innovating as a result.

The FSB wants to see a significant reorientation in the focus of innovation policy, away from focusing purely on inputs into a small number of high-tech firms towards a structure that will support and promote a broader definition of innovation that exists in the wider economy.

-
- Encourage demand for innovation through public procurement
 - An infrastructure for the 21st century
 - An open market for innovation in the service sector
 - Targeted finance for innovation
 - Support entrepreneurship
 - The right regulatory regime for economic recovery
-

Encourage demand for innovation through public procurement

16%

the total value of public contracts going to small businesses
DTI 2002

Use public procurement to nurture innovation in small businesses

The public sector purchases a large volume of goods and services and has the potential to drive innovation through procurement. Government is responsible for 55 per cent of all purchases of IT and medical equipment and its overall procurement budget is worth £175 billion per annum, but it has received considerable criticism for failing to use this to drive innovation.³⁵

The FSB believes that current and future governments need to turn public procurement into the key driver for innovation.

The FSB recommends:

- **A UK equivalent of the Small Business Innovation Research Programme**

The UK should adopt the United States' Small Business Innovation Research Programme (SBIR) model. With a budget of \$2billion, SBIR informs small businesses of its purchasing needs and timetable, creating demand and markets for new products and services to be met by small businesses.

Government should commit an initial £100 million to fund purchasing.³⁶ It should be ring-fenced for the small-business community, promoted twice a year to ensure uptake and should be accompanied by an audit of all departments and public sector agencies for their future technology and service needs.

³⁵ <http://www.cbr.cam.ac.uk/pdf/SBIR%20Full%20Report.pdf> (Nov 2009)

³⁶ <http://www.bl.uk/bjpc/pdfs/richardreport2008.pdf> (Nov 2009)

An infrastructure for the 21st century

60%

of small businesses said they need a minimum download speed of 8 Mbps

Fast broadband is no longer an optional extra, it is a necessity

The emergence of the internet and the potential this holds for online trading is hugely exciting for the small-business community. The low set-up costs and the instant access to the global marketplace make this revolution particularly suited to small businesses, especially in rural areas. This will also be the first economic recession in the internet age, and the FSB believes that giving businesses greater online opportunities would really boost economic recovery.

Online trading should be a stimulus for innovation and entrepreneurial endeavour, but findings from a recent FSB survey³⁷ reveal that small businesses are still being let down by poor infrastructure:

- **Around half find ineffective broadband interrupts basic use of email**
- **Thirty per cent are unable to purchase online**
- **Nearly one-third are unable to process payments owing to lack of speed and reliability**
- **Almost two in five respondents avoid online conferencing, webcasts and podcasts owing to slow broadband speeds**
- **Twenty-nine per cent of small businesses currently receive less than 2Mbps**
- **The lack of broadband speed reduces productivity for a third of businesses**

When we asked small businesses what they most needed to grow online in this new market space, 60 per cent said they needed a minimum download speed of 8 Mbps, for all users.³⁸

The FSB recommends:

- **Service providers must guarantee minimum upload and download speeds**
- **Policy makers must enforce regular review and increase of these minimum speeds to enable the UK to be a real competitor**
- **Diversification of the market place to encourage stronger competition, alternatives to established providers and greater customer choice**
- **Wider use of fibre-optic cables, particularly targeting 'not-spot' areas, and the development of more innovative solutions to enable access to high-speed broadband in all areas of the UK**

³⁷ FSB Broadband survey (2009)

³⁸ FSB Broadband survey (2009)

An open market for innovation in the service sector

£20 billion

Today the Single Market is worth £20 billion to the UK economy, but it could be worth a lot more

The best way to drive innovation is to create demand

Over the years the Single Market has provided new customers for businesses, driving job creation and economic growth. Today the Single Market is worth £20 billion³⁹ to the UK economy, but it could be worth a lot more.⁴⁰

For the last five years, the FSB has led the way in campaigning for a Single Market for services,⁴¹ a sector dominated by small businesses and ripe for innovation and growth. A Single Market in services will create new opportunities and new jobs and grow the UK economy by an estimated £6 billion per year. It will also massively cut red-tape.

In what has been one of the largest de-regulation exercises in recent years, the FSB has worked with the Government and the European Commission to identify and remove the barriers to trade in services across the EU. The Services Directive will come into force by the end of 2009 and will open the door to a wealth of opportunities for small businesses across the UK.

The FSB recommends:

- **Government must rigorously promote the Single Points of Contact that will serve as the gateway to new markets for small businesses**
- **The Single Points of Contact must run as smoothly as possible, including the processing of applications by local authorities and other bodies**

³⁹ Business for New Europe quoted in the House of Lords Select Committee on the European Union fifth report on the EU (2008)

⁴⁰ The services industry accounts for 70 per cent of GDP in the EU and for 69 per cent of employment, but intra-EU trade in services only accounts for 20 per cent, Eurostat, (2008).

⁴¹ After leading the business lobbying campaign for the Services Directive in Brussels, the FSB was appointed to the UK Government's steering panel tasked with implementing the Directive.

Targeted finance for innovation

Increase support to small businesses wanting to innovate

Generating greater demand and a more predictable environment for innovation is only one side of the coin. Small businesses also require more sophisticated financial support for developing new products and services, particularly since the credit crunch.

The FSB recommends:

- Reform the Enterprise Investment Scheme (EIS)**

The EIS needs to be reformed to allow firms to apply for term loans as well as equity. As the EIS is tailored to and taken up by smaller high-risk businesses that would be short of security, a reform would allow innovative small businesses to access both types of finance. This would allow choice and help high-risk firms continue to innovate and create jobs.

Terms loans are the norm in most small business financing packages and this would allow investors to offer bridging finance and top-up loans to businesses whose expansion plans or research and development needs additional finance. This type of investment is already conventional in the venture capital/equity community.
- Better financial support for green innovation**

Small businesses demonstrate a strong commitment to cutting the costs associated with carbon emissions. However, purchasing newer energy-efficient equipment is beyond the reach of many small businesses in the downturn. Government should broaden out the Carbon Trust's fund for business and offer loans to purchase or hire new technologies as they come forward.⁴²



£10 – 12 billion is spent every year on government funded business support. Only 5 per cent of this goes to the micro business sector, which accounts for 95 per cent of all business and the lion's share of innovation and job creation



⁴² The Carbon Trust offers loans of up to £400,000 to businesses investing in greener technologies.

Support entrepreneurship

Table 1:
Usefulness of providing advice from 2008-2010 (UK)



Getting more support for less money

It is estimated that £10-12 billion are spent every year on government-funded business support.⁴³ However, only 5 per cent of this goes to the micro-business sector, which accounts for 95 per cent of all businesses together with the lion's share of innovation and job creation.⁴⁴ If Government is seeking to support the drivers of economic growth, it is currently missing its target and wasting a lot of money in the process.

The FSB would like to see less money spent more wisely on targeted support.

The FSB recommends:

- More support for less money**

Over £1 billion is designated for Train to Gain and Sector Skills Councils (SSC), yet 90 per cent of small businesses do not know which SSC relates to their business⁴⁵ and 88 per cent had not taken up an offer of training through Train to Gain in the last six months.⁴⁶ Over £2 billion of funding is designated for Regional Development Agencies, which includes spending on Business Link, but businesses surveyed say it is of little or no use.⁴⁷

The FSB strongly believes that Business Link and other elements of the support structure have important roles to play. However, the current business support budget should be cut, streamlined and dedicated to small and micro-businesses that are most in need of support, rather than subsidising medium and large businesses. During these difficult economic conditions we must apply good business sense to business support and get better service for less money.

- Focus funding on gaps in the market**

Research consistently shows that business owners place more value on paid for support than on free Government support, not least because a paid-for service is more likely to be tailored to specific business needs. Therefore, Government should fund the provision of business support only where there is no private-sector provision available. This would save money and focus resources on gaps in existing business support.

- Move more business support online**

The FSB's survey work (see Table 1) has revealed that government-funded training in areas such as 'operations and efficiency', 'product development' and 'sales and marketing development' are of little interest compared to straightforward business advice offered through the internet.⁴⁸ As in all other walks of life, the internet is now the 'go-to' source of information and advice for small businesses.

A well-promoted, truly impartial web portal for business support should signpost small businesses to government and private sources of business support, where possible offering at least two business support options. The online service should also include a question-and-answer service, providing on-the-spot diagnosis or offering a callback service from a broker with the relevant expertise.

- Focus resources on advice brokerage and mentoring**

If business support were targeted at small and micro-businesses, instead of subsidising larger firms with the resources to buy in advice, money would be available for a more comprehensive brokerage service.

Small businesses seeking advice would benefit from a greater number of competent advisors with experience of running successful businesses as owners and managers. In the areas of both business brokerage and mentoring, the FSB would like to see business advice coming from individuals with real-life experience of business.

⁴³ 'Small Business and Government: The Richard Report' (2008)

⁴⁴ SfEDI, <http://www.sfedi.co.uk/sfedi-news/six-killer-facts> (Nov 2009)

⁴⁵ FSB Research into Sector Skills Councils (May 2009)

⁴⁶ FSB Research into Train to Gain (May 2009)

⁴⁷ 'Putting the UK Economy Back on Track: Business Support and Finance', FSB (2008)

⁴⁸ 'Putting the UK Economy Back on Track: Business Support and Finance', FSB (2008)

The Right Regulatory Regime for Economic Recovery

Simplify the regulatory infrastructure

Red tape stifles innovation and entrepreneurship. A moratorium on business regulation should form a central plank in a renewed economic stimulus, which, as well as helping finance growth and jobs, needs to promote a period of stability. We also need more time for recent better regulation measures to be felt by the business community.⁴⁹

We welcome the announcement that £1.4 billion in administrative costs and £5 billion on the wider costs of regulation will be cut over the next five years.⁵⁰ The Government needs to guarantee that this will happen. The FSB recognises the role it needs to play in advising where these cuts need to occur. However, this should be accompanied by a rationalisation of the regulatory infrastructure.

The FSB recommends:

Regulators and regulatory budgets

- A review of all regulators should ensure they deliver value for money and make a positive impact on the inspection environment. Where they do not they should be merged or scrapped to streamline the system. This review should be done via a sunset clause imposed on the regulators
- Regulatory budgets should be introduced to cover all the costs of new regulation with an impact on business and to begin cutting the existing stock. Creating a regulatory environment that encourages innovation and enterprise should be a key target for the Government

Impact assessments

- The National Audit Office should ensure that each government department undertakes impact assessments to a set and accepted standard
- Post-implementation reviews should be compulsory on all legislation affecting business and departments should be publically named when this is not done. A halt should be put on any subsequent legislation until the department complies.

Common Commencement Dates CCDs

- CCDs should be compulsory for all legislation to be implemented (apart from emergency legislation) and should happen only once a (year). All new legislation should be published at least two months in advance on the BusinessLink website, including a short summary of whom it affects.

⁴⁹ The National Audit Office (NAO) notes that the £1.9 billion of savings reported through the UK admin reduction scheme have so far not been felt by business in a significant way

⁵⁰ The Government's Forward Programme, HM Government (2009)



Creating a regulatory environment that encourages innovation and enterprise should be a key target for the Government



Compulsory surveys

- Government departments and agencies should share more information on compulsory surveys to avoid administrative overload on small businesses.
- Small businesses should have flexibility of response and the option of submitting written information in an existing format, rather than filling in a new form which asks for similar information but will take up more time
- The Osmotherly Agreement (whereby businesses with fewer than nine employees get a three-year holiday from surveys on completion of an ONS survey) should be compulsory for all government departments.

Better regulation and the EU

- The European Commission should guarantee the target of a 25-per-cent reduction in administrative burden and ensure that it is a net reduction and not be erased by new legislation
- Any EU document with potential legislative impact that has not had a full small-business impact assessment, reviewed at each stage of the legislative process, should be sent back to the previous stage
- The Government should radically overhaul the EU scrutiny process in the Committees of the Commons and the Lords to make it more relevant.

A new role for the Local Better Regulation Office (LBRO)

- The LBRO should ensure that all routine inspections are booked in advance, so that a business is able to prepare
- The LBRO should work with local-authority inspectors to ensure that businesses experience only two or fewer inspections each year
- The FSB believes that the remit of the LBRO should be extended to as many local-authority inspection areas as possible to ensure that the Better Regulation agenda reaches all regulators
- The LBRO should have greater powers to ensure that local authorities adhere to the Hampton Principles, and recourse powers when they do not

Section 5:

Low Carbon Economy

Small businesses want to play their part in helping to protect our environment. The FSB-ICM 'Voice of Small Business' Annual Survey shows that businesses are actively engaged in waste-minimisation and recycling practices. The majority of businesses (57 per cent) have changed the way their business operates because of concerns relating to climate change, the biggest change being the recycling of waste (47 per cent) followed by a reduction in energy use (32 per cent).⁵¹

In addition, around a quarter have reduced the amount of landfill (25 per cent), bought energy-efficient appliances (24 per cent) and raised awareness of waste with staff (23 per cent). However, all too often they are faced with ill-thought-out regulation that places administrative burdens on small businesses and also, in some cases, stops them from going green.

-
- Promote energy efficiency
 - Simplify waste and recycling
 - Exploit the opportunities provided by a low-carbon economy
-



The majority of businesses (57%) have changed the way they operate because of concerns relating to climate change



⁵¹ FSB-ICM 'Voice of Small Business' Annual Survey, FSB (2009)

Promote energy efficiency

Key problems faced by small businesses

Inaccurate meter reading



Billing problems



Poor customer service



Difficulty switching suppliers



Make it easier for small businesses to be energy efficient

Small businesses account for 50 per cent of the UK's total business energy usage; at a cost of £6bn.⁵² However the energy market does not serve their interests and energy saving measures have failed to engage this important sector.

Small businesses behave in a similar way to domestic energy users, but do not enjoy the regulatory safeguards that domestic users receive. They lack the expertise to negotiate contracts and find themselves penalized by suppliers due to their limited purchasing power and low energy consumption. A survey of FSB members in 2008 highlighted the key problems:⁵³

- Inaccurate meter reading 21%
- Billing problems 46%
- Poor customer service 9%
- Difficulty switching suppliers 24%

The problems faced by small businesses in the energy market have been addressed in part by their recent inclusion in the gas and electricity redress schemes and OFGEM's Energy Supply Probe. However, we consider that it will take some time before the energy market changes and small businesses are treated fairly.

The FSB recommends:

- **Eliminating the possibility for contracts to be rolled over automatically by energy suppliers to stop small businesses being locked into uncompetitive energy contracts**
- **Introduce a 14-day cooling-off period, such as that enjoyed by domestic consumers, for small businesses after agreeing to a new energy contract**
- **An annual review of how recommendations contained in OFGEM's Energy Supply Probe are working**
- **Energy efficiency**

The absence of clear advice on energy efficiency has prevented many from taking steps to improve energy efficiency. For 40 per cent of businesses the lack of guidance stopped them from adopting more energy efficient practices⁵⁴. Also, technical problems and the cost of changing production processes serve as barriers to increasing efficiency.

- The Carbon Trust should provide a dedicated small-business advice team which gives tailored advice to the small business community on increasing energy efficiency.

⁵² http://www.carbontrust.co.uk/NR/rdonlyres/6545F676-53D3-4FBA-A2F2-585953C6A9EE/0/Energy_Management_launch_event_13Oct05_FINAL.pdf (Nov 2009)

⁵³ FSB Snap Poll on energy (June 2008)

⁵⁴ 'Social and Environmental Responsibility and the Small Business Owner', FSB (2007)

32%

of firms have reduced their energy usage

• Smart metering

The roll out of smart metering has the potential to increase energy savings for small businesses. The savings and efficiency gains provided by smart/advanced meters will be marginal compared to the savings enjoyed by energy suppliers unless comprehensive tailored advice is available to small businesses.

- A dedicated small-business advice service should be provided to help maximise the potential cost savings from the smart/advanced meter roll-out
- The cost of the meter roll out should be met by the energy suppliers or through the Climate Change Levy
- A mandatory meter roll-out should only happen after extensive consultation with small businesses and once installed, it should be possible to access real-time information on their energy use, via the internet.

• Micro-energy production & feed-in tariffs

Despite the challenges, small businesses could play a pivotal role in the fight against climate change by embracing micro-energy production. However, the lack of flexibility in the planning system and uncertainty over feed-in tariffs are stunting the growth of this new market in the UK.

- Recommendations removing the need for planning applications for small scale micro-renewable technology should be extended to the small-business community⁵⁵
- A competitive rate should be set for excess micro-energy production to feed into the national grid to encourage the take-up of micro-energy production among small businesses. Guaranteeing a competitive price for feed-in tariffs will remove the uncertainty for those considering investing in small-scale low-carbon generation technologies, reduce the payback period and increase the rewards for embracing renewable energy

⁵⁵ This was recommended by the Government's Householder Development Consents Review Steering Group

Simplify waste and recycling

47%
of firms have
**increased their
waste recycling**

Improve access to waste and recycling facilities

The scale of waste dealt with by most small businesses is similar to that of a domestic household, but environmental legislation continues to apply a 'one-size-fits-all' approach, which presents many barriers for small businesses in their efforts to be environmentally responsible.

The FSB recommends:

- **Waste and recycling facilities**

Businesses producing small quantities of waste are often unable to take advantage of the economies of scale available through waste contracts and recycling services are rarely appropriate if the quantities of waste material involved are small.

- Local waste infrastructure suitable for small businesses, such as civic amenity sites, should be made available to them, or appropriate alternatives such as bring-back schemes should be developed. This would allow businesses to manage rising costs while playing a more active role in responsible waste disposal

- **Duty of Care for waste**

Duty of Care was implemented under the Environmental Protection (Duty of Care) Regulations 1991 (as amended). It requires businesses to be responsible for the handling, disposal or recovery of waste produced, even when it has been sent to another party, such as a waste contractor or skip-hire business.

- An awareness raising campaign aimed at the small-business sector to heighten understanding of the responsibilities under the Duty of Care legislation
- There should be a review of the need for Waste Transfer Notes for small businesses that produce low volumes of waste. Waste Transfer Notes place a large administrative burden on small businesses and the amount of time involved is often disproportionate to the risk involved. By reducing the amount of administration, small businesses will be encouraged to act more responsibly when it comes to the disposal of their waste and this will help reduce the risk of fly tipping

25%

of firms have reduced the amount of waste going to landfill

- **Definition of waste and resource efficiency**

The Waste Framework Directive definition of waste takes no account of the advances in waste recovery, reuse and recycling over the last 20 years. Uncertainty about when waste ceases to be waste and becomes a resource remains a significant barrier to achieving a shift in efficient waste-resource management.

- We need a clarified, risk-based and flexible definition of waste that would allow small businesses to make sustainable use of existing resources. This is significant for small businesses because when an item is defined as waste the full administrative burden must be applied to its disposal
- There should also be a thorough review of all waste regulations by Government in order to lessen the administrative burden on small businesses and to allow create greater scope for the innovative reuse of materials

- **Waste Electrical and Electronic Equipment (WEEE)**

Under the Duty of Care regulations WEEE could be considered as general waste and hence sent to landfill. Yet, for many small businesses, WEEE is a valued resource that many choose to reuse and recycle in a sustainable manner.

- The regulations should make it clear that WEEE should be treated as a separate waste stream under the Duty of Care regulations in order to allow for the sustainable reuse of electrical and electronic equipment
-

Exploit the opportunities provided by a low-carbon economy

24%

of firms have invested in energy efficient appliances

A helping hand to realise the potential of a low-carbon economy

The value to the UK economy of low-carbon goods is already worth £106 billion a year and this will grow dramatically over the next 10 years.⁵⁶ Small businesses and new start-ups are well positioned to take advantage of new markets, the renewable energy market being just one channel for ambitious entrepreneurs.

However, the UK is failing to realise the full potential of the burgeoning green, low-carbon economy. The FSB would like to see action in the following areas.

The FSB recommends:

- **Improving and expanding low-carbon business support and incentives**

Currently, business support for the low carbon sector is too complicated. Businesses need to apply repeatedly for funding at differing stages of the innovation process, leading to delays in development and uptake of new technologies.

There should be greater use of 'whole-project funding' from conception to completion for low-carbon innovation. This is used effectively in the US defence sector, where promising new technologies are fast-tracked to completion.

- **Using private and public funds to encourage low-carbon innovation**

The Carbon Trust's business incubator scheme, which gives support to start-up companies, is a good example of what can be achieved through the use of public/private funding, but there is a much greater role for business incubators and public-private hybrid funds.

The UK Innovation Investment Fund should target the small-business sector, which finds it hard to raise venture capital but is at the forefront of low-carbon innovation.

⁵⁶ 'Low-Carbon and Environmental Goods and Services: An Industry Analysis', Innovas (March 2009)

Section 6:

Local Communities

Small businesses are not just a part of the local community, they *are* the local community. Yet in towns and villages across the UK, our local businesses face closure. Even before the recession, we were losing our local shops at a rate of over 2000 a year; we are currently losing 7 pubs a day.⁵⁷

There is no single solution to this crisis, which results from poor policy decisions in a range of areas. In response, the FSB set up and ran a high profile awareness campaign to Keep Trade Local. It has mobilised thousands of activists across the UK to challenge planning decisions, campaign against parking charges and petition against post office closures.

We are making progress: the Government has secured the future of the Post Office by adopting the FSB's proposal for a Post Bank and the Conservatives have promised to make Small-Business Rates Relief automatic, but more remains to be done.

- Reform planning
- Curb parking charges
- Make business rates automatic
- Save our pubs – reform the pub tie
- Tackle crimes against business
- Revolutionise the Post Office
- Simplify public procurement
- Prioritise tourism

2,000 a year

Small shops close at a rate of over 2,000 a year

⁵⁷ <http://www.publications.parliament.uk/pa/cm200809/cmselect/cmberr/26/26i.pdf> (Nov 2009)

Reform planning

We are currently
loosing **7** pubs
a day

A planning system for sustainable communities

The planning process plays a pivotal role in creating and nurturing sustainable communities. Small businesses operating in a town centre offer a varied shopping experience for the public and help prevent town centres from becoming either ghost or clone towns. They also provide jobs and local wealth creation.

Two key problems for small businesses are the attraction for local and regional planning officers to approve out of town shopping centres too easily, and the concern that local high streets are being emptied of individual small businesses.

To make sure town centres are at the heart of sustainable communities, the FSB recommends the following strategic points:

- The 'Needs' Test should be brought back and given to local planning authorities to help small businesses and town centres
- Local Development Frameworks should positively and proactively plan for economic growth, simplify the planning process and take into account need and use of land
- A strong evidence base is needed for all regional and local planning decisions
- Stating the importance of rural businesses in planning guidance documents and showing flexibility for re-use and conversions of existing properties
- **Regional planning for town centres**

Regional planning authorities, such as Regional Development Agencies (RDAs), should engage with regional business leaders and organisations to identify where the major economic networks are, where provisions are being carried out and where they are missing. They must also make these choices early and consult fully with those business sectors that are needed to help economic development. Strong evidence is needed for all regional decision and this must be made public.

- **Local planning for town centres**

Where existing town centres are in decline, local planning authorities must consider diversifying local plans to allow for more development to take place without impacting on those existing businesses. Where the decline in an existing centre is irreversible local planning authorities must look towards which service providers, both public agency and private enterprise, would help revive this downward spiral.

- **Planning for our rural areas**

Sustainable development and environmental stewardship are essential to a successful modern countryside yet the role of a vibrant rural economy in creating successful rural communities has been grossly undervalued by the current planning system.

Local planning authorities use a range of closely defined uses for land and existing buildings that continue to focus on traditional rural economic activity such as farming. This leads to an out of date perception of modern rural economies.

- Planning guidance must state that all types of business can be appropriate for the countryside, subject to a sufficient impact assessment being carried out. There is a preconception that rural areas are only suitable only for traditional rural business activity
- Government planning guidance should clearly state that rural economies have a crucial role to play in sustaining rural communities. Central planning guidance should not presume there is a conflict between economic development, sustainable development and environmental stewardship
- Planning guidance should be more flexible toward the re-use and conversion of existing buildings. Current planning guidance limits the number of available business premises but also hampers businesses that are looking to expand, particularly farmers looking to diversify

Curb parking charges

£1.6

In 2005, local authorities made £1.6 billion from parking charges and fines, up from £628 million in 1997

billion from parking charges and fines

Parking policy should not be a revenue grab

Local authorities are using parking charges as a source of revenue, but in market towns across the country this strategy is bleeding our high streets dry. In 2005, local authorities made £1.6 billion from parking charges and fines, up from £628 million in 1997.⁵⁸

The FSB is concerned that, as a result of the recession, financial pressures on local authorities could make this situation worse. This would be a short-term money grab with disastrous medium-term effects on the local economy. A similar effect is seen with road tolls, which increase the overall road cost on business and remove a significant barrier to business growth.

There can be no one approach to parking policy. Different circumstances require different policies.

Small retailers typically require opportunities for servicing close to their premises and for their customers to be able to park close to the shop. A mix of small shops, cafés, restaurants and bars require a flexible regime at different times of the day, week or year to best serve their customers. All these factors need to be taken into account when deciding parking policy. Workplace parking levies also have the potential to increase costs for small businesses at a time when access to finance is at its most difficult.

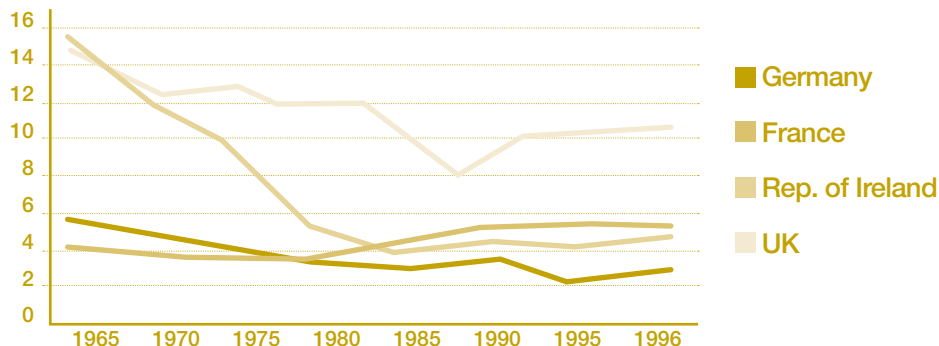
The FSB recommends:

- **Parking schemes and charges should be tailored to the individual locality, including taking into account the wider interests of the local community, particularly small businesses**
- **Local authorities must start regarding parking as a vital service, integral to the survival of the local economy, and not as an additional source of short-term revenue**
- **Local authorities should do away with plans to introduce workplace parking levies which will cause businesses to pass on higher prices to their staff and customers**
- **The UK Government should remove all road tolls along the lines of Scottish Government policy reducing the overall road cost on businesses and allowing for growth**

⁵⁸ http://www.fmb.co.uk/ea/pdf_ea/sub_071023ConsPartySmallShopsInquiry.pdf (Nov 2009)

Make business rates relief automatic

Property tax revenue as a % of total tax revenue



Sources: Land Value Taxation for the benefit of the Community: A Review of the Current Situation in the EU by Lichfield, N. and Connellan, O, Lincoln Institute of Land Policy (2000) and OECD (1998) Revenue Statistics (1965-1997), Paris.

Bring business rates into line with other countries

Business rates represent the third-largest overhead for a small business and during these difficult times, many small businesses will be struggling with payments. In 2008/2009, the Government raised £23billion from business rates, which accounted for 4.2 per cent of total revenue.⁵⁹ Set internationally, this represents three times more than any other European country and more than the USA.

The FSB believes that more can be done to direct relief to small businesses struggling with rates payments. This assistance would help keep small businesses afloat and help them to plan for the longer term, to employ more staff and to innovate.⁶⁰

50 per cent of small business eligible for SBRR do not receive relief. The Government should automate delivery of SBRR

The FSB recommends:

- Making Small-Business Rate Relief (SBRR) automatic**
 The Local Government Association (LGA) estimates that 50 per cent of small businesses eligible for SBRR do not receive relief. Government should automate delivery of SBRR to ensure that savings already allocated reach their target.
- Bringing Empty Properties Relief back in line with pre-2007 policy**
 The retail sector alone has an aggregated Rateable Value of £38bn and current estimates show 7 per cent of this stock is vacant. This equates to over £2.5bn.⁶¹ While we welcome temporary relief being brought back for 2009/2010, the FSB would like to see this relief re-applied at 50 per cent, as allowed for in the legislation.
- Discouraging local authorities from using the Business Rates Supplement**
 At a time of economic difficulty it is unreasonable to place an extra tax on small firms. Ministers should ensure that this potentially damaging Bill does not have its heaviest impact on the small-business community.
- Extending Rural Rate Relief**
 The FSB is particularly concerned about the plight of sole village businesses during the downturn. Currently, there is a 50-per-cent mandatory rural rate relief for some village businesses and local authorities have the discretion to grant up to 100-per-cent relief, but this is rarely offered owing to financial constraints.
 The Non-Domestic Rates pool fund is topped up by the Treasury to enable local authorities to grant 100-per-cent rural rate relief to those vital services and businesses that are at the heart of rural community life. This emergency measure should last for a period of 12 months.

⁵⁹ Pre-Budget Report (2008)

⁶⁰ FSB Credit Crunch poll (April 2009)

⁶¹ <http://www.rics.org/Practiceareas/Property/Commercial/Taxation/RICSviewemptypropertyratelief.html> (Nov 2009)

Save our pubs – reform the pub tie

24,000 people

have lost their jobs due to closing pubs over the past year

Keep pubs at the heart of the community

Over the past year, 2,377 pubs have closed; now at least seven close every day. Pub closures not only affect the tenants and their families, but the wider community – more than 600,000 people rely on their local pub for employment, yet over the past year 24,000 people have lost their jobs due to closing pubs.⁶²

Tenanted pubs have been struggling with high rents and hikes in the price of alcohol, enforced on them by the Pubco. In an FSB survey, 87 per cent of tenants said that the pub tie is a problem for their business and nearly 80 per cent of tenants said that the transparency in rent reviews is an issue.

The FSB recommends:

- **Reform the pub tie where it does not give tenants the opportunity to make a fair profit;**
- **Create an independent Ombudsman who will support and advise tenants in conflict with their Pubco that cannot be resolved; and**
- **Enforce fully transparent rent reviews through a statutory code.**

⁶² British Beer and Pub Association (BBPA), www.beerandpub.com (Nov 2009)

Tackle crimes against local business

64% of business have been a victim of crime yet only 45 per cent report to the police because of the lack of faith in the system

Adopt a national definition of crime against business

Crimes against business have been on the rise during the recession at a cost of £13,350 a year to each business in the UK. Sixty-four per cent of businesses have fallen victim of crime yet only 45 per cent report it to the police because of a lack of faith in the system.⁶³

A business that is frequently the victim of crime will close down. Tackling crime against business would permit small firms to reappear, assist urban regeneration and support businesses in more remote rural locations. Unfortunately, 67 per cent of businesses are not even aware that Neighbourhood Policing Teams exist.⁶⁴

The FSB recommends:

- **Police forces should adopt a national definition of crimes against business and ensure that such crimes are included as a target for reduction in every local policing plan across the country**
- **Local Area Agreements and Local Strategic Partnerships should prioritise the reduction of business crime. This should filter down to the work of Crime and Disorder Reduction Partnerships (CDRPs/CSPs)**
- **Neighbourhood Policing Teams should undertake a mapping exercise of their local business community and play a key role in linking to the business crime strategies of CDRPs/CSPs**



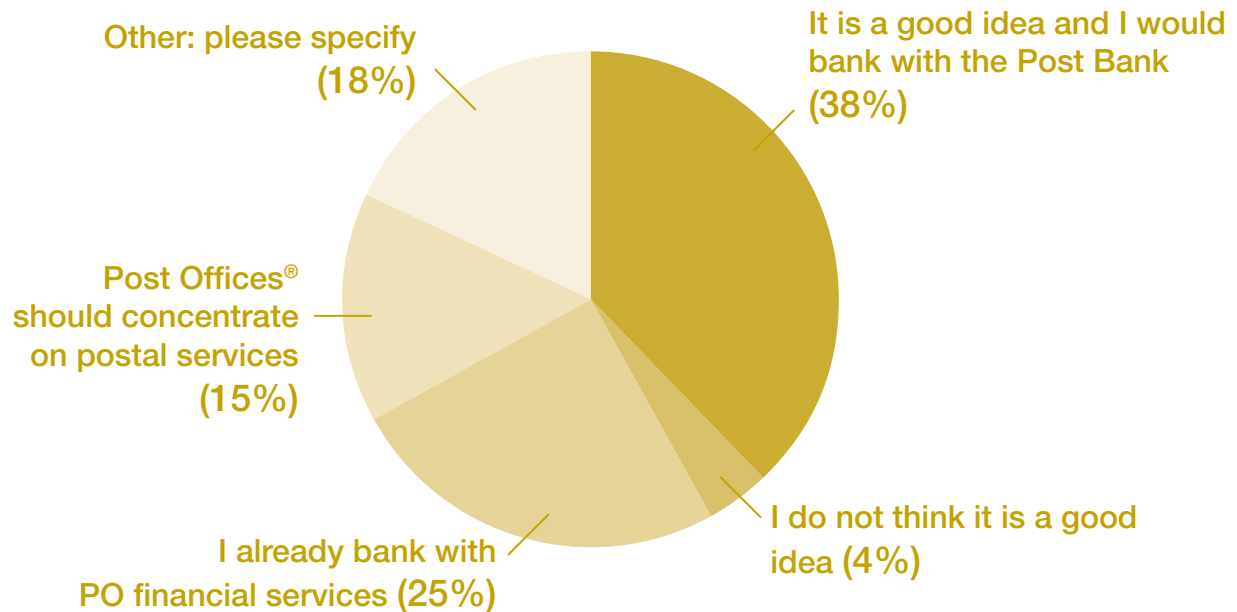
Crimes against business have been on the rise during the recession at a cost of £13,350 a year to each business in the UK



⁶³ 'Putting the economy back on track: Crimes against business', FSB (2008)

⁶⁴ 'Putting the economy back on track: Crimes against business', FSB (2008)

Revolutionise the Post Office



FSB research shows that almost one in five small businesses visit the Post Office every day



Make the Post Office more responsive to its core customers

FSB research shows that almost one in five small businesses visit the post office every day and almost half say they visit a couple of times a week.⁶⁵ Small businesses provide a loyal customer base for the Post Office, yet they are not getting the service they need and the Post Office Network is in serious need of investment.

One solution would be to remodel the Post Office Network to provide small-business hubs, better serving key customers and providing a sustainable future for the Post Office.

The FSB recommends:

- **Establishing a business desk at each post office branch with specially trained staff, able to advise businesses on banking, government services, insurance and sending and receiving parcels**
- **Offer dedicated advertising facilities within the post office to help small businesses reach other local businesses and potential customers**
- **Establish a full range of financial services, including business banking; and offer meeting room facilities to start-ups and micro businesses in as many post offices as is possible**

⁶⁵ 'FSB Postal Report' (September 2009)

Simplify public procurement

83p in every pound spent in local businesses goes back into the local economy

Encourage local authorities to buy local

Competitive procurement plays an important role in local community sustainability. It is estimated that 83 pence in every pound spent with a local business goes back into the local economy.⁶⁶ Awarding public procurement contracts to small businesses offers value for money, reliability and innovative solutions. It makes good economic sense, good business sense and good environmental sense.

Despite this, small businesses struggle to win public-sector contracts. Research commissioned by the FSB indicates that nearly three-quarters of small businesses rarely or never bid for government work. A similar proportion believed that there were barriers to awareness of government opportunities and the same number again felt that the public sector was more difficult to deliver work to than the private sector owing to a greater amount of formality, a lack of responsiveness and unrealistic timescales.⁶⁷

The Glover Review found that although there was much good practice in both local and central government, it was clear from the evidence gathered that small firms still faced substantial hurdles to competing on an equal footing with larger enterprises.

The FSB recommends:

- **Achieve a 10-per-cent, year-on-year increase, on the value of contracts awarded to small businesses**
- **Implement clear policies for local buying due to environmental, economic or social criteria which are also of benefit to local communities**
- **Hold more 'open days' to brief businesses on future procurement opportunities. These will also give small businesses the opportunity to form consortia to work together and engage with larger companies to be part of their supply chain**
- **Provide detailed, specific and timely feedback to all short-listed businesses that tender on each occasion**
- **Framework agreements must, wherever possible, be divided into smaller lots to make them really accessible to small businesses**

⁶⁶ 'FSB Keep Trade Local Public Procurement publication' (Oct 2008)

⁶⁷ 'Evaluating SME experiences of Government procurement Fresh Minds Research for FSB' (2008)

Prioritise tourism

60,000

The number of self-catering firms that could go bust if tax rules are changed⁶⁸

A streamlined and incentivised strategy for tourism

The tourism industry is one of the largest industries in the UK, yet it is let down by the lack of a long-term vision. For too long the tourist industry has been robbed of strategic vision by the myriad of bodies responsible for marketing, and stifled by the lack of incentive for local authorities to encourage tourism.

The FSB recommends:

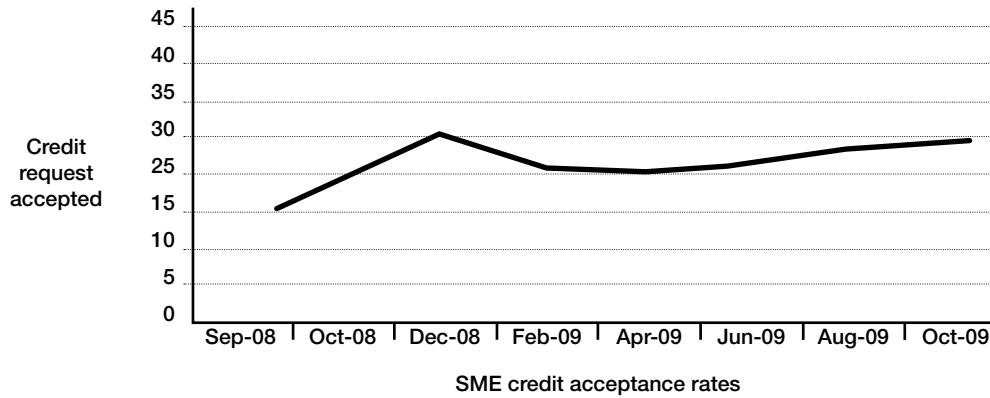
- **A new streamlined marketing strategy for tourism in order to resolve the overlap of responsibility between local authorities, RDAs and Visit England**
- **Incentives for local authorities to encourage tourism**
 - The additional costs associated with tourism, such as street cleaning, maintaining beaches and disposing of rubbish, can serve as a disincentive for many local councils
 - Central government needs to provide incentives for the development of tourism
- **Furnished Holiday Lettings Rules**
 - The Chancellor announced in the 2009 Budget that, from April 2010, the Furnished Holiday Lettings (FHL) rules will be repealed. The changes mean that self-catering accommodation businesses will face a greater tax liability which could severely affect their financial viability
 - The FSB is calling for the Treasury to undertake a review of the proposed changes to evaluate the economic impact of the repeal of the FHL rules so that the true consequences can be understood. The FSB believes measures must be put in place to mitigate against the damaging effects the changes to the FHL rules will have on the UK's economy and tourism industry.

⁶⁸ In the poll of 166 FSB members that run self-catering accommodation, more than half (52 per cent) said that they would have to make staff redundant if the tax rules were changed, and 81 per cent said changing the rules on their tax status would affect their financial viability. Another 43 per cent said the tax rules would put them off expanding their business and eight in ten said they would not be able take on any new staff, November 2009.

Annexes

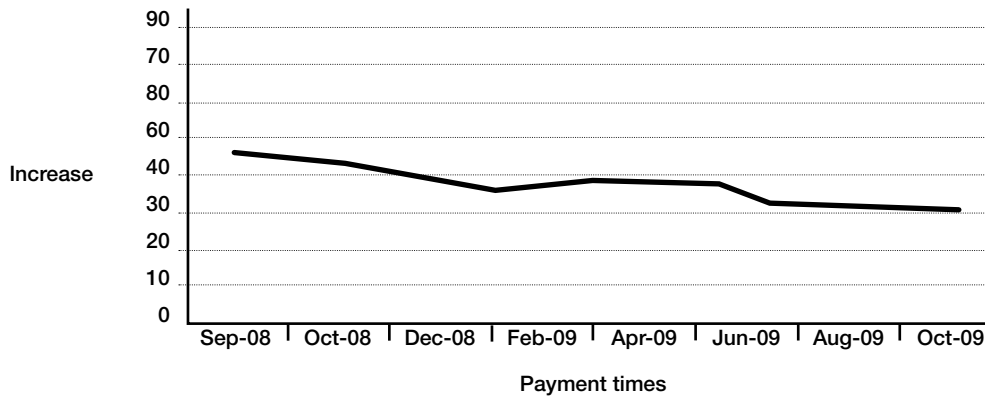
CASHFLOW: Effects of Credit Requests, Late Payments and Trade Levels on small businesses during the credit crunch.

Bank Refusals- Credit request accepted



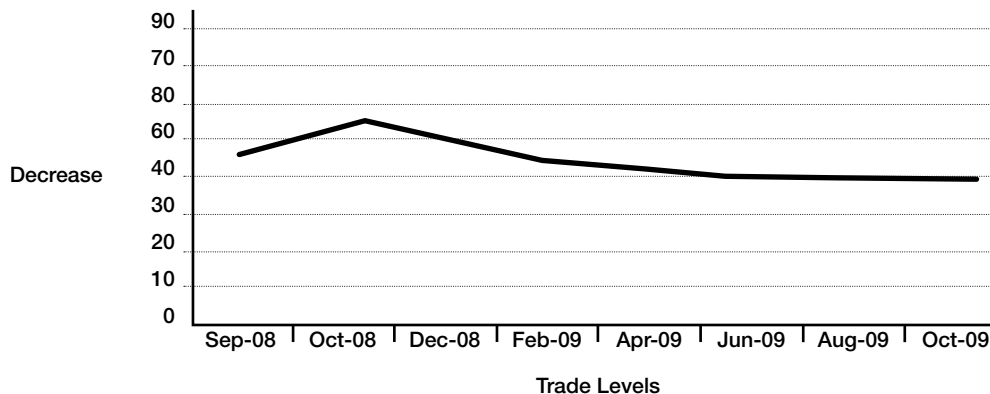
1. Bank refusal rates show positive signs, especially since April 2009 when more SMEs have had their credit requests accepted.
2. Question posed: Has your bank refused your requests for credit (loan or overdraft) in the past 2 months? (this graph shows the number of credit requests that were accepted)
3. The question is posed over a two month back dated period, which accounts for high acceptance figures in Dec 08. It can be taken that these acceptances were in the two months previous to Dec 08.

Payments - Increase



1. Late payments reported by SMEs show that since Dec 2008 this trend has stabilised.
2. Question posed: In the past 2 months, have you seen a change in payment times from invoicing to full payment within the private sector?
3. The question is posed over a two month back dated period.

Trade Levels - Decrease



1. Decreasing trade, measured in two month periods, has started to slow.
2. Question posed: In the past 2 months, has your trade?
3. The question is posed over a two month back dated period.

Detailed breakdown of lending to Small Businesses

Date	Sep 08	Oct 08	Dec 08	Feb 09	Apr 09	Jun 09	Aug 09	Nov 09
Total No. of Respondents	6138	5492	5188	4598	4877	4486	3696	4203

Have you seen an increase in the cost of existing finance (such as loans or overdrafts) in the past 2 months?

Figures	%	No. of SMEs	%	No. of SMEs	%	No. of SMEs	%	No. of SMEs	%	No. of SMEs	%	No. of SMEs	%	No. of SMEs		
Yes	40	2465	31	1452	29	1554	27	1280	27	1344	24	1083	29	1076	27	1106
No	13	797	24	1103	29	1525	28	1318	25	1232	25	1152	23	885	25	1027
N/A	46	2835	45	2105	40	2109	43	1983	46	2262	50	2251	46	1735	48	1970

By how much in % was the increase

Figures	%	No. of SMEs	%	No. of SMEs	%	No. of SMEs	%	No. of SMEs	%	No. of SMEs	%	No. of SMEs	%	No. of SMEs
0-1									8	95	10	112	10	112
2-3									43	487	42	454	41	453
4-5									24	270	22	241	22	248
6-7									5	57	5	61	6	69
8-9									2	31	3	42	3	38
10-14									6	73	6	70	7	86
15+									8	94	8	89	7	79

Have you seen an increase in the overall cost of new credit in the past 2 months?

Figures	%	No. of SMEs	%	No. of SMEs	%	No. of SMEs	%	No. of SMEs	%	No. of SMEs	%	No. of SMEs	%	No. of SMEs		
Yes			28	1319	30	1578	26	1214	27	1320	20	894	24	918	24	983
No			10	459	16	834	12	569	11	530	14	656	12	462	13	564
N/A			61	2825	53	2777	60	2766	61	2939	65	2892	62	2306	62	2532

By how much in % was the increase

Figures	%	No. of SMEs	%	No. of SMEs	%	No. of SMEs	%	No. of SMEs	%	No. of SMEs	%	No. of SMEs	%	No. of SMEs
0-1									8	74	7	63	7	71
2-3									46	389	41	370	41	395
4-5									32	270	27	246	26	251
6-7									4	41	6	58	6	63
8-9									4	35	4	42	5	48
10-14									1	15	7	65	7	76
15+									1	13	6	56	5	52

Has your bank refused your requests for credit (loan or overdraft) in the past 2 months?

Figures	%	No. of SMEs	%	No. of SMEs	%	No. of SMEs	%	No. of SMEs	%	No. of SMEs	%	No. of SMEs	%	No. of SMEs		
Yes			11	529	15	811	17	803	17	870	16	735	15	577	14	605
No			16	721	30	1582	23	1092	22	1091	26	1192	28	1059	27	1120
N/A			73	3372	53	2803	58	2661	59	2875	57	2559	55	2049	57	2329



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Copies of this publication may be obtained by writing to:

Federation of Small Businesses
2 Catherine Place, London SW1E 6HF

Telephone: 020 7592 8100
Facsimile: 020 7233 7899
email: london.policy@fsb.org.uk
website: www.fsb.org.uk

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