



### Chairman's message

Welcome to the December edition of the East Sussex MPs Briefing Notes.

We lead on the FSB submission to the Treasury for the Pre-Budget Report.

Small firms are the bedrock of the UK economy, and the ten measures outlined by the FSB are designed to create an environment within which small businesses can prosper.

This edition also features articles on late payment, taxation, banks and Jobcentre Plus.

We hope that you continue to find the articles a useful guide to our latest national and regional lobbying activity.

Regards,

*Peter Archer*

East Sussex Regional Chairman

## FSB calls for greater support for SME growth

On the 9th December the Chancellor of the Exchequer, Rt Hon Alistair Darling MP will present his 2009 Pre-Budget Report.

The FSB in its Pre-Budget Report submission to the Treasury has emphasised the critical role that small firms play in the economy. Small firms provide the bulk of employment and as such are the most important driving force for getting the UK out of the current recession and increasing employment.

To support this sector the FSB has issued a top ten wish list for the 2009 Pre-Budget Report, the measures are designed to encourage small firms to grow and to lead the UK out of recession.

### 1) National Insurance Rebate for New Jobs in Small Businesses

Small businesses, with less than 50 members of staff, which take on new employees during 2010/2011 receive a national insurance rebate for a year. This will encourage small firms to grow and take on more employees.

### 2) Stop the Corporation Tax Increase

A report commissioned by the FSB shows that corporation tax has a negative impact on small business investment; therefore corporation tax increases would have a strong negative impact on the economy.

### 3) Employers' National Insurance Contributions

Employers' National Insurance (NICs) is a tax on employment. An increase in Employers'



NICS would have a very detrimental effect on job creation, with unemployment at a record high. The FSB urges the Government not to go ahead with any planned increase in NICS in 2011.

### 4) Delay the VAT Rise

The Government is urged to delay the change-over date to 1st February 2010, as from a practical point of view, >> 2

## Government warned that taxing small businesses will cause deeper unemployment

*Using CEBR research for the FSB, the business organisation urges the Chancellor not to raise taxes on small businesses*

Raising taxes for small firms would ultimately cost the UK billions of pounds and hundreds of thousands of jobs, a new independent report for the FSB has found.

Small businesses are bracing themselves for an increase in employers' National Insurance Contributions (NICs) in April 2011. >> 2



## FSB calls for greater support for SME

changing the rate on New Year's Eve will be hugely problematic for many small businesses.

### 5) Cut VAT to five per cent for all Construction Work

Reducing VAT from 17.5 per cent (15 per cent 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 protection the countryside. The current situation where new build attracts a lower VAT rate than renovation or brown site development does not make sense in the current economic climate.

### 6) Fuel Duty

The Government should remove the 2 pence per litre increase that was imposed in December 2008, when VAT goes back to 17.5 per cent next year. Further to this, the 0.5 pence per litre above indexation increase planned for April 2010 should be scrapped to help keep small

businesses moving during the downturn.

### 7) Reform Jobcentre Plus

The FSB recommends that dedicated small business managers are introduced into job centres; that funding, training and support is targeted at small businesses; and the website is overhauled to make it fit for purpose.

### 8) Regulatory Budgets for all Government Departments

Regulatory budgets should generally be set at a departmental level, covering all costs of new and existing regulation with an impact on business. This would be a significant step beyond the coverage of the Government's target to reduce the administrative cost of regulation, which targets the 'red-tape' costs of compliance with, but not the wider costs of, regulation.

### 9) Funding for Regions

The FSB believes that the Regional Development Agencies' (RDAs) key objective should be to help and support businesses in their region.

RDAs should be evolved into regional finance houses providing both finance to business through term loans, but also managing equity schemes to smaller businesses.

The FSB recommends that the RDAs access European Investment Bank (EIB) funds which are then ring-fenced for small businesses. The RDAs would carry no financial risk, but should be expected to collect money from loan applicants, be responsible for promoting the scheme, receiving applications, deciding viability and acting as a point for queries. The criteria for borrowing money should follow the EIB's criteria and a standard application form should be put on the RDAs website.

### 10) Automatic Business Rates Relief

During times of economic difficulty, it is important that small businesses get the tax relief they are entitled to. The FSB urges the Government to make small business rate relief automatic, in order to reduce unnecessary bureaucracy and to ensure that it benefits those businesses it is designed to.

## Government warned that taxing small businesses will cause deeper unemployment

The report, by the influential Centre for Economics and Business Research (CEBR), shows that increasing the burden of taxation on the country's small businesses – which make up 99 per cent of all UK businesses – would plunge the economy further into debt and take its toll in jobs at a time of spiralling unemployment.

Using its own economic simulation model, CEBR tested the knock-on effects of adding 1p to employers' NICs, paid by small and medium sized enterprises.

CEBR found that the NICs increase would cost the economy 57,000 jobs but only make a small dent in the gap in the public finances. In addition, these job losses alone would cost the



Treasury around £900m in additional jobseekers allowance and other benefits.

The FSB has been calling for the Government to take steps to make it easier for the country's 4.8m small businesses to employ staff, and so tackle rising unemployment and drive the economy out of recession. FSB members have already identified cutting payroll taxes as the most

important change the Government could make to encourage them to take on another member of staff.

FSB members have also said that a reduction in business tax – such as corporation tax – would give them more of an incentive to take on another staff member.

The CEBR report found that if the Government raised the rate of corporation tax from 21 per cent to 26 per cent – the result of equalising the tax rate between big and small business – would cost around 100,000 jobs from the small business sector and reduce economic output by £4.3bn, while reducing the public sector deficit by only £1.6bn over 10 years.

## The job centre isn't working: reform Jobcentre Plus to tackle unemployment

The Jobcentre Plus must be urgently reformed and equipped to tackle rising unemployment, said the FSB, following research showing one in three small businesses find Jobcentre Plus ineffective.

According to a survey of 2,500 FSB members, 34 per cent said they found Jobcentre Plus 'ineffective' or 'very ineffective', while another 49 per cent did not even know if it worked well or not. With unemployment set to rise to three million by the end of the year, and the number of under-25s on job seekers' allowance having risen by 80 per cent in the past year, it is clear that urgent action is needed.

In another FSB survey, nine per cent of respondents said they planned to take on more staff in the next six months, despite the recession – which would amount to more than 400,000 new jobs. It is well known that small firms are the country's job-creators, with 84 per cent

*"On-like sales figures for full  
"We expect that the overall is  
that falling house prices and  
that the unemployment, and  
the fear of unemployment to  
continue to restrain the mar  
spending," said Next in its*

of new jobs across the EU created by small businesses between 2002 and 2007.

A new FSB report, entitled *The job centre is not working*, sets out recommendations for reforming Jobcentre Plus from an organisation that appears focused on processing benefits applications to one that supports work. Fewer than 20 per cent of small businesses said they used Jobcentre Plus to recruit, using instead costly advertising and recruitment services.

On the 100 year anniversary of the establishment of the job centre, the FSB proposes the Government:

- Establishes links between Jobcentre Plus, Business Link and skills boards, to create a focus on business needs and the skills needed for local employment;
- Appoints a dedicated small business manager in each Jobcentre, who understands the specific circumstances and needs of small firms;
- Commissions research to examine how funding allocated to unemployment, training and business support initiatives is spent;
- Overhauls the Jobcentre Plus website, to make it fit for 21<sup>st</sup> century online recruitment.

## FSB warns against high street banks holding small business monopoly



The FSB is challenging a monopoly of power being built up by high street banks over small firms seeking finance, two years after the credit crunch started.

The FSB is warning that bank mergers, recapitalisation and schemes targeted at the big banks to stimulate lending as a result of the banking crises risk stifling choices of finance for small firms - leaving business owners with nowhere to turn if they are refused credit by the major high street lenders.

With a quarter of small firms still struggling to access affordable finance, the FSB believes the power of the financial sector should be challenged to guarantee a fair service for small firms.

The FSB proposes:

- Struggling banks should not be sold off to other high street lenders as this can stifle competition in the financial sector;
- Alternative sources of finance should be provided locally. Regional Development Agencies (RDAs) should be restructured to offer loans and Essex County Council's Bank of Essex model should be replicated around the UK. The Enterprise Finance Guarantee and funds already allocated from the European Investment Bank could also be offered via these routes.
- The Post Office should be turned into Post Bank offering support for small firms by utilising the Post Office Network and operating

either as a solely state owned bank or as mutual or trustee bank.

- Financial Intermediaries, recently created by the Government should be actively promoted to viable small businesses unable to access finance.



**John Wright, Federation of Small Businesses National Chairman, said:**

*"Despite Government bailouts and interest rates set at a record low, small firms are still finding it tough to access affordable loans and overdrafts from banks. This is compounded by the fact that much of the support provided by the Government is only available through the banks and often this isn't replicated at branch level."*

## Small firms now waiting up to four months to be paid, FSB reveals

Small firms are waiting up to four months for invoices to be paid by several big brand names, FSB research has revealed.

Around 4,000 business failures were caused by late payments last year and one in three FSB members are waiting longer to be paid during the credit crunch.

A number of small businesses have contacted the FSB over the last year naming several large companies extending their payment times:

- Delivery firm TNT, food producer Bernard Matthews, and catering company the Compass Group have all told small firms to wait 60 days for invoices to be paid;
- Builders firm Jewson has done the same and is also charging a ten per cent settlement fee as a

discount for paying within the 60 day period

- Shopping website Amazon has also extended its payment terms to 90 days with a two per cent settlement fee if paid in that time or 120 days without one;
- Courier company DHL is now charging three per cent for paying invoices on time; and
- Brewer Carlsberg has also changed its payment terms to 95 days from the end of the month of invoice, which could leave a small business owner waiting a total of 135 days for a bill to be paid.

The FSB has written to these companies to explain how badly late payment affects the cash-flow of small firms, particularly during this economic period, and is urging them to sign up to the Government-backed Prompt Payment Code.



The FSB is urging businesses and agencies in both the public and private sector to sign up to the Prompt Payment Code to highlight best practice and help boost the cash-flow of small firms during these tough times. The FSB is also calling for Companies House to be given the power to name, shame and fine late payers and is calling on the Government to take on board a measure recently announced by the Scottish Government – a new clause requiring timely payment to sub-contractors working on Government projects.

## Secure post offices by creating dedicated Small Business Hubs

The FSB is urging the Government to transform post offices into small business hubs around the country to secure the future of the otherwise under-threat Post Office Network.

The FSB believes the Post Office Network must be remodelled into small business hubs to respond to the needs of some key customers and to ensure the network is financially sustainable for years to come. The establishment of business hubs, with business banking on offer, is the best chance the Network has of becoming financially viable.

The FSB proposal to turn post offices into small business hubs includes:

- Establishing a business desk at each post office with specially trained staff, able to advise

businesses on banking, Government services, insurance and sending and receiving parcels;

- Establish a regular Business Link service in each post office to give one-to-one advice to small businesses – similar to mortgage advisors in bank branches;
- Offer dedicated advertising facilities within the post office, to help small businesses reach other local businesses and potential customers; and
- Establish a full range of financial services, including business banking.

The Post Office is not just a place for small firms to send and receive mail, but is somewhere to meet other small

firms and potential customers. It is essential to invest in post offices now to ensure they survive in the long term and are able to help communities continue to grow and thrive.



### East Sussex Region Contact Details

Your key contacts in the East Sussex Region may be accessed via the regional office in Polegate.

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