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Experts in Business

The Rt Hon Philip Hammond MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London
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28 September 2018

Dear Chancellor,

We are writing to you on behalf of the Federation of Small Businesses (FSB) ahead of your Budget 2018 with suggested interventions to drive growth and productivity in the UK's small business and self-employed community. This Budget submission comes at a time of uncertainty as negotiations continue with the EU around the Withdrawal Agreement and the UK's future relationship with the EU. This submission has been written on the premise that the UK is successful in securing a business-friendly Brexit deal.

Small business confidence has dropped into negative territory for only the third time since the start of 2013, with confidence falling back in every nation and region of the UK apart from the West Midlands. The majority of small firms cite the domestic economy as the biggest barrier to growth. Compounding this is the increasing cost of doing business: rising rents, fuel prices, business rates and, most notably, the rise in the cost of employment, largely due to the sharp and ongoing increases to the National Living Wage and minimum employer contributions for auto-enrolment pension schemes. These rising costs are having the most detrimental impact on sectors that traditionally have lower levels of pay and tighter operating margins, such as childcare, social care, retail and hospitality. It is crucial that measures are introduced to support these businesses to help them to tackle low pay.

We view your Budget as a major opportunity to strengthen confidence amongst the small business and self-employed community, after a difficult period. Measures must be taken to drive economic growth and productivity across the UK. We call on the Government to bring forward measures that demonstrate its commitment to entrepreneurship and the self-employed; to encourage investment in digital technologies, including new-to-firm technology; to invest in training and skill development, to support wage growth and job creation, and to create a competitive business environment through low levels of business taxation.

Your predecessor promised to abolish Class II National Insurance Contributions for the self-employed, in order to simplify the tax system and demonstrate support for sole traders. Last year, to the delight of entrepreneurs up and down the UK and throughout our membership, you told Parliament that "Class 2 NICs is regressive and outdated; it is right that it should go". The decision not to deliver on this promise is of course disappointing. Our members will therefore be looking to your Budget for some evidence

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that this Government is on the side of our entrepreneurs, values aspiration and supports those that set up in business, take risks, and create growth, opportunity and jobs.

We welcomed the Industrial Strategy and believe the sector deals have the potential to drive productivity across the UK. These deals must have a focus on small businesses and the self-employed who are key to every single sector of the economy. These deals should be created not just in world-leading sectors in the UK, but also include sectors with lower levels of productivity. We have also welcomed the Long Tail of Productivity Review, as we agree it is essential that we help all firms to grow, innovate and become more productive. We believe, following on from the review, that there are a number of measures which could be taken to encourage training and skill development and investment in innovation and technology. Leadership and management skills are integral to driving productivity, and there should be a recognition that workplace management and job design are as important as investment in innovation to boosting the UK's productivity.

The ability to hire skilled and experienced staff, and being skilled and experienced as a business owner, is crucial to running a successful, resilient and agile small business. Skills shortages are now cited as the second biggest barrier for growth for small businesses.[1] As the labour market continues to tighten and the number of EU migrants in the UK labour market continues to fall, it is vital the Government supports business owners and the self-employed to invest, not only in their own skills, but also in the skills of their staff.

Creating the right environment for businesses to innovate is fundamental to driving growth and productivity across the UK. Government intervention here will be even more important as we look to put the UK economy on the strongest possible footing as we exit the EU. We are keen to see concrete proposals within the Budget to encourage small businesses to embrace digital technologies and encourage investment in leadership and management training. We urge the Government to use the Budget to incentivise small businesses to invest in ways to drive productivity growth across the UK. This is not the time to downgrade the business support landscape; this would only serve to further diminish small business confidence.

Small businesses are the engines of job creation. With a tight labour market and skills shortages, the Government should support small firms to employ people from disadvantaged groups who struggle in the labour market. It is now time to deliver on the manifesto commitment to provide a 12-month National Insurance holiday for those employing people from these groups. The Employment Allowance is helping to alleviate some of the cost pressures, with evidence showing smaller firms are using the allowance to generate more jobs and increase pay.[2] It is important that the Government helps small employers to cope with increases in employment costs, thereby enabling them to continue creating more jobs and apprenticeships, and to boost pay.

Finally, the issue most frequently raised by our members is poor payment practice. This is endemic across the UK, with evidence showing it is increasing. This causes inefficiency throughout the economy. FSB research shows that 50,000 business deaths could be

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[1] FSB Voice of Small Business Index, Q3 2018

[2] Awareness and Impact of the Employment Allowance – Research with small employers, HMRC

avoided each year if payment was made promptly.[3] We welcomed your leadership on this issue at the Spring Statement 2018. The upcoming call to evidence on late payments has itself had a six-month delay, which means that much of the momentum generated has been lost; so we would be keen for you to set out your ambition in your Budget speech. This would reinvigorate the movement for change across the business community, where we are building and leading an alliance of good actors from businesses large and small, including the CBI and other business groups. On the day of the Budget, an unequivocal statement of intent regarding late payments, coupled with a series of measures to back the self-employed and business community, would be a clarion call for businesses in our movement to do what they do best: invest, grow, create, and employ.

We hope our letter provides helpful input. We were sorry to miss you at the last EU Exit Business Advisory Group, and would be happy to discuss our proposals further with you and your team.

Yours sincerely,

Mike Cherry OBE AIMMM FRSA
National Chairman

Martin McTague
Chairman, Policy & Advocacy

[3] Time to Act: The Economic Impact of Late Payments, FSB 2016

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1) Creating a highly skilled productive economy

Apprenticeships

The Government is committed to achieving three million new apprenticeships by 2020, and would currently need over 70,000 new starts every month to meet this target. In June 2018, there were just 22,300 new starts.[4] If the Government is to come close to the three million target, the system needs to be easier and more cost-effective for small businesses to invest in apprentices.

Since the introduction of 10 per cent co-investment for apprenticeship training among non-levy payers, there has been a significant reduction in the number of apprenticeship starts. The introduction of co-investment has come at the same time as significant increases in the cost of doing business for small employers and, as a result of the co-investment requirement, apprenticeships have become financially unviable for many smaller businesses. Reducing co-investment from 10 per cent to five per cent would help reverse this trend by alleviating the cost of the delivery and recruitment of apprentices. At the very least, the Government should suspend co-investment for those sectors struggling most with high costs of doing business and then review the impact on apprenticeship starts.

We welcomed the flexibility introduced into the system July 2018 allowing Levy payers to be able to transfer funds to multiple businesses. However the 10 per cent cap on the funds that can be transferred acts as a barrier to the system operating effectively. Alongside any relaxation of the cap, the Government should work with large employers to help identify small businesses in their supply chain which would benefit from their support.

We want to ensure that there is sufficient funding for all small firms to be able to take on an apprentice if they want to. Any changes to the Apprenticeship Levy should therefore come with a guarantee to co-fund apprenticeships in non-levy paying businesses in England for the duration of the next Parliament, and a pledge not to lower the Levy threshold.

T-levels

A third of our members have faced a skills shortage when recruiting, and almost half lack full skills proficiency within their existing workforce.[5] The biggest skills gaps exist in the mid-level, technical skills. The Government's focus on improving the quality of technical education is welcome. However, the overall success of T-levels is largely dependent on how effectively small businesses engage with the programme, their demand for individuals that have completed T-levels, and their ability to deliver work placements.

FSB is particularly concerned about the ability of small businesses to host T-level students for a 45-day work placement. If T-levels are to work for both students and businesses, there needs to be clear incentives and guidance for small businesses when it comes to offering significant placements. Our research found only six per cent of small businesses in England would be able to offer work placements under current plans for

[4] Apprenticeship and levy Statistics, September 2018, Department for Education
[5] Learning the Ropes: Skills and Training in Small Businesses, 2018, FSB

T-levels.[6] The Department for Education's own research found that employers were concerned about the administrative and time burdens of T-level industry placements.[7]

If small firms do not receive the right support, T-levels will fall at the first hurdle. The Government should introduce a T-level placement allowance to support small businesses in offering industry placements. This should match the funding provided to learning providers to deliver industry placements.

Training for the self-employed

Learning new skills can help increase business competitiveness, efficiency and longer-term effectiveness. However, the self-employed are less likely to have undertaken training than employees. Just under half of the self-employed have taken time off for training over the last 12 months. When they do choose to invest in training, not only do they have to pay for the cost of training, they also have to forgo the income for the time spent training instead of working.

Currently, the self-employed can claim tax relief for training relating to their existing skills, but not on new skills, even if there is a valid businesses need. As the economy changes, digital skills are becoming increasingly necessary for business to survive, grow and adapt to the changing economy. The self-employed should be encouraged to complete digital skills training, especially when this means developing new skills. We welcomed the consultation announced in the Autumn Budget 2017 regarding self-funded training, and we urge the Government to introduce tax relief on training courses for the self-employed that develop new, not just refresh existing, skills. This is a measure that would show the Government is committed to investing in our self-employed population, improving their productivity on the global stage, and demonstrating its backing for our entrepreneurs.

Leadership and management

There is clear evidence that leadership and management skills are critical to improving productivity and business growth. However, just 23 per cent of small business owners believe that leadership and management skills are the most to their future growth. Only 18 per cent of business owners train their staff in leadership and management, and a similar share (17%) of business owners undertake this form of training themselves.

Given the importance of leadership and management to business growth and productivity, the Government should introduce a tax credit to alleviate the opportunity costs attached to small business owners and staff taking time out of their businesses to undertake leadership and management training. Growth Hubs should be required to appoint Leadership and Management Champions that can successfully harness their local knowledge, pre-existing networks and experience of supporting and working in businesses to boost leadership and management skills in small businesses.

Supporting those furthest from the Labour market

Small businesses and the self-employed are disproportionately successful at employing people from groups that traditionally find it hardest to gain employment. A 12-month

6 Learning the Ropes: Skills and Training in Small Businesses, 2018, FSB

7 Employer engagement and capacity to support T Level industry placements, 2018, DfE

National Insurance holiday for small firms that hire individuals from these groups would communicate a clear recognition of the importance and benefits of doing so while providing financial assistance to enable small business owners to hire more widely. In the context of Brexit, and the record high employment rate, the key to increasing the size of the labour market is to bring in those furthest from it so that everyone who can work is able to do so.

2) **Demonstrating support for the self-employed and enabling an entrepreneurial culture**

The 4.8 million-strong self-employed community is an essential part of the UK's economy, representing 15 per cent of the workforce, and contributing over £270 billion to the UK economy each year.[8] Its ingenuity and hard work creates the entrepreneurial culture that cultivates the seeds of economic growth and drives innovation. Without this army of the self-employed, our economic recovery would have been a jobless recovery. The decision not to abolish Class II National Insurance is a disappointing one. This budget is an opportunity to take forward measures that would demonstrate that the Government recognises the value of entrepreneurship and supports business growth. Continuing to encourage people to take risks and strike out alone is vital for the UK economy and for creating an entrepreneurial culture. Self-employment also remains a vital route into work for people who often struggle in the labour market or need flexibility in order to manage health conditions or caring responsibilities.

Introduce adoption pay for the self-employed

Employees are entitled to Statutory Adoption Pay if they choose to adopt a child. However, if you are self-employed you receive nothing at all. This represents an additional barrier for the self-employed to adopt, with many adopters having to demonstrate their ability to spend a year with a new child to strengthen their application. Adoption can transform the lives of our most vulnerable children and give them a stable and happy home. There are 1,100 children waiting on the adoption register, unable to find permanent homes[9]. We should be supporting and encouraging people, including the self-employed, who are interested in adoption, rather than maintaining additional barriers. It also makes financial sense for the taxpayer: the average cost for a year's foster care placement is £41,600.[10]

The Government should therefore introduce an Adoption Allowance for the self-employed. This could be based on the Maternity Allowance self-employed new mothers are currently entitled to. Bringing support for the self-employed in adoption in line with support for new mothers. We estimate that doing so would cost around £5 million a year based on the number of adoptions.

Universal Credit – start-up period

The start-up period should ensure that newly self-employed people on Universal Credit get the time and space to focus on creating a growing business that provides them with a sufficient income. However, Viable and ultimately successful businesses often take longer than a year to start up, with evidence pointing to the self-employed earning four times as much in their third year than the average for those who have been running a

[8] BEIS, Business population estimates 2017, 30 November 2017
[9] Adoption Register Statistics, 2018
[10] Education Select Committee, Oral Evidence Martin Narey, 2016

business for less than a year.[11] For many, the application of the Minimum Income Floor after a year will prevent them from going on to lead successful businesses.

The Government should extend the start-up period from 12 months to at least 24 months. We estimate this would cost about £150 million a year by 2022/23 based on the number of self-employed people currently on working tax credits that have been in business. Extending the start-up period would not only support people into long-term successful work through business ownership, but also demonstrate the Government's commitment to entrepreneurship. We would see more businesses created, and more businesses surviving, as a result.

Universal Credit – Minimum Income Floor

The nature of self-employment is fundamentally different to employment. Some will miss out on support, not because of the level of their income, but because their income is volatile, month-to-month. We believe there are steps that must be taken to ensure the system adequately supports the self-employed and recognises the realities of their income generation.

Applying the Minimum Income Floor on a monthly basis hurts those who conduct seasonal or occasional work, are experiencing a downturn, a bad debt or the bankruptcy of a key customer and businesses that incur large expenses in certain months, or those that have to purchase tools or machinery. To ensure that self-employed people whose incomes change from month to month get the social security support they need, the Minimum Income Floor should be applied on a quarterly or annual basis. Based on the number of self-employed people with variable incomes on working tax credit, we estimate that this would cost around £250 million a year.

New Enterprise Allowance

The New Enterprise Allowance helps to create businesses every year and is a great asset to entrepreneurs wanting to launch a firm after unemployment. The scheme provides people who have been unemployed with financial support for their early months of self-employment, access to a start-up loan, and an expert business mentor to help guide them through the first stages of setting up a business. Many of these individuals have caring responsibilities, so self-employment enables them to realise their business ideas and have a good work-life balance. We urge the Government to continue the programme while improving the mentoring service provided. The New Enterprise Allowance is another success story for this Government, and its social justice agenda.

Income protection

Income volatility not only hits the self-employed when business is tough, but also when they or their family experience certain life events. The self-employed are financially worse off if they fall ill, as they are not entitled to sick pay, while they also run the risk of not earning in the event that they assume caring responsibilities. The Government should work with the insurance industry to open up affordable Income Protection (IP) insurance for the self-employed. According to our survey data, only nine per cent of self-employed individuals have IP insurance.[12] Existing IP products can be expensive and are more commonly purchased by large employers on a group basis for their staff. In order

[11] RSA, Boosting the living standards of the self-employed, 2015

[12] FSB, Going it Alone, Going on UP: Supporting Self-employment in the UK, 2016

to drive economies of scale, we recommend a specific focus on collective insurance schemes.

3) Creating the right tax environment to boost productivity and growth

Non-domestic rates

Business rates remain a major concern for small firms and have created a significant barrier to small business growth. Nearly one in five (19%) say that the levy has stopped them from growing their business. We welcomed the announcement of the discretionary rates relief scheme announced at Spring Budget 2017. As transitional relief winds down, businesses are under significant cost pressures, especially small firms on the high street.

Unforeseen changes to business rates bills, caused by yearly changes to the small business rate multiplier, make it difficult for small businesses to plan ahead. A freeze on business rates, cancelling the scheduled inflation-linked rise, would provide a much-needed lifeline for the small business community across England.

Small retailers in particular are facing a combination of rising business rates, high parking charges, poor infrastructure and the loss of vital banking services. The introduction of a £1,000 business rates discount for local shops, cafes, restaurants and pubs would help reinvigorate the nation’s high streets through providing targeted support for these firms.

Contrary to its aims, Small Business Rate Relief (SBRR) actually works as a disincentive for to grow and open up new premises, through its attachment to one property. The Government should create a business threshold for SBRR that applies to multiple properties owned by one business, if the combined rateable value of the properties is below £15,000. This can be done by removing the rateable value ceiling of £2,899 on second properties.

London Small Business Rate Relief (SBBR) thresholds

The 2017 revaluation and high rent levels have had a particularly sharp impact on London, especially in inner London boroughs where rateable values have risen by 11 per cent on average, with some areas seeing even larger increases. To help alleviate these cost increases, we urge the Government to create an increased inner and outer London SBRR threshold. This will help address the problem of so many small businesses in London being ineligible for SBRR. This should also be considered for those pockets of areas outside of London and the South-East that are most affected by the recent revaluation.

Childcare providers

Nurseries are under particular pressure because of the space needed to provide facilities for children in a relatively low-profit sector, with many small providers not qualifying for SBBR. Alongside the rising cost of employment and insufficient funding levels for delivery of ‘free’ childcare, business rates act as a barrier to delivering affordable high quality childcare.

FSB estimates that exempting nurseries from business rates would cost the Government approximately £120m per year, or even less as some of these properties will qualify for SBBR. FSB believes the UK Government should create a new 100 per cent business rate relief for childcare providers in England, with central Government fully funding the costs of this childcare provider relief, reimbursing local councils. This would replicate the fsb Experts in Business

success of the similar relief introduced by the Scottish Government. Doing so would acknowledge the significant cost pressures facing the sector and support the provision of affordable childcare and the delivery of the 30 hours free entitlement.

Insurance Premium Tax

In recent years, small firms have experienced a series of significant increases in the Insurance Premium Tax (IPT). The standard rate of IPT in the UK is now the sixth highest in Europe. IPT affects all motor, home, travel, and health insurance policies, whether personal or commercial. Unlike VAT, businesses cannot claim back the cost of IPT. As well as directly impacting upon the cost of doing business at a time when levels of confidence amongst small businesses is low, FSB is deeply concerned that rises in IPT disproportionately affect those at the greatest risk of lacking appropriate insurance protection. This is particularly the case for the thousands of small businesses who currently struggle to secure affordable car, premises, liability and flood insurance. If insurance premiums continue to increase, the take-up of insurance will be negatively affected.

Further, small businesses need a stable tax environment so that they can continue investing. Such increases not only disrupt progress towards boosting growth and productivity, but they also prevent small firms from taking the steps necessary to plan for the longer-term. Therefore, we call on the Government to send the right signal to the business community and freeze IPT for the duration of this parliament.

Fuel Duty

Concerns about fuel costs have now reached an all-time high, with 37 per cent of small businesses now saying that fuel is a main cause of rising business costs.[13] In a recent survey, 93 per cent of FSB members said cars are important to their businesses[14], far higher than all other forms of transport. Small firms across the country are heavily reliant on roads for the mobilisation of customers, staff, and supplies, and affordable fuel has been a lifeline to those in rural areas. FSB has celebrated the 8-year freeze as a considerable achievement of this and the previous Government, which has supported business communities across the UK. We urge the Government to freeze fuel duty at its current level, thus providing a significant boost to small business confidence and stability.

VAT

FSB welcomed the announcement of a VAT threshold freeze until 2020 at the Autumn Budget 2017 as it provided certainty for the medium-term. VAT is a burdensome and complex tax which sees, on average, small firms spending more than a working week a year complying with the obligations it brings. For many business owners, one of the primary reasons to remain below the threshold is to avoid the huge administrative burden that comes with VAT liability. Business owners above the VAT threshold now also have to consider costly Making Tax Digital requirements from April 2019.

The Government must ensure that more small businesses are not brought into the scope of this complex and administratively burdensome tax. Many small firms are concerned that going over the £85,000 threshold means the liable for VAT on all sales. We urge the Government to take forward the ONS recommendation of tapering the VAT financial burden above the current threshold. This will reduce the desire of these businesses to

[13] FSB, Voice of Small Business Index, Q3 2018
[14] FSB, Going the Extra Mile: Connecting Rural Businesses and Communities, 2017

remain below the threshold, and is likely to encourage them to continue to grow past the £85,000 mark.

Making Tax Digital
Making Tax Digital (MTD) has the potential to improve the experience of tax compliance for small businesses, as well as to facilitate the provision of business support, access to finance, and tax credits. If the Government wants to encourage voluntary take-up of MTD, we believe they should build on this potential and provide the smallest of firms with support to manage their cash flow and predict the levels of taxation. Our research shows that the time and cost attached to tax compliance has, for many business owners, been an impediment to business growth.[15] The opportunity cost of onerous compliance processes should not be underestimated, absorbing time and resources that could otherwise be spent on innovating and growing the businesses.

However, as it stands, MTD also has the potential to make tax compliance more costly. Small business owners are reporting to FSB that they are being quoted several hundreds of pounds per annum by some software providers to update their software and add a 'Making Tax Digital bolt-on'. We believe this is not a reasonable or proportionate cost level for an outgoing that has nothing to do with the core practice of businesses. FSB believes that if low-cost software options are not made readily available, the Government should provide financial support to small firms to mitigate unfair and unexpectedly high costs of complying with the new system.

IR35
The UK has one of the most flexible labour markets in the world. This flexibility has undoubtedly contributed to the UK's record-low unemployment rates. FSB is concerned about the prospect of applying IR35 public sector rule changes to the private sector. The changes in the public sector have only been analysed for 10 months. This is not enough time to compile an accurate prediction of the likely impact of extending these rules to the vastly more complicated private sector.

Small businesses often rely on the expertise of contractors, allowing them to bring on board expertise on a flexible basis, which is particularly important in small businesses where there are fluctuations in demand. Most small businesses do not have the dedicated human resources, legal and financial staff that are necessary to accurately implement complex legislation such as IR35. In the public sector, well-resourced government departments are able to manage the adjustments.

Transferring IR35 responsibility from contractors to small businesses will only add to their existing administrative burdens. Smaller business owners would face a very steep learning curve to understand and apply the legislation correctly. Asking small businesses to adhere to these rules, while at the same time expecting them to meet Making Tax Digital obligations for VAT and prepare for Brexit, will put a massive strain on them at a time when confidence is already in negative territory.

Dividend Allowance
There has been a significant increase in the cost of doing business, and many business owners and the self-employed have seen this have an impact on their income levels. We believe changes to dividend taxation have created a further disincentive for businesses

[15] FSB, Taxing Times: Roots to Reform for Small Businesses as Taxpayers, 2018

to invest and grow. Many of our members, including those on modest incomes, are already struggling with rising business costs. We would be concerned by any change to the current allowance threshold.

Devolution of Air Passenger Duty

With Cardiff Airport returning to growth, FSB Wales has written to you together with the South Wales Chamber of Commerce to request the devolution of Air Passenger Duty to the National Assembly. FSB UK backs this sensible proposal, which brings Wales into line with Scotland and aligned with the powers devolved to Northern Ireland. This would provide a significant boost to the visitor economy in Wales.

4) Support innovation, growth and productivity

Research and development investment

We welcomed the commitment in the Industrial Strategy to increase spending on R&D investment to 2.4 per cent of GDP. We believe the Government should continue to improve the use of R&D tax credits as a means of stimulating greater innovation amongst small businesses. FSB is keen to see larger companies work with their supply chains to promote and improve understanding of the SME R&D relief, the R&D Expenditure Credit, and HMRC's Advance Assurance scheme. We would also like to see the scope of this tax support widened to support small firms who innovate but who currently fall outside the scope of this support.

Particular attention should be given to how the complexity in the system can be reduced for smaller businesses, who have relatively little administrative capacity, and to reduce the reliance of smaller businesses on intermediaries to navigate the system. Currently, 63 per cent of the total amount of R&D tax credits claimed continues to be in London, the South East or the East of England[16]. Addressing this imbalance is essential if we are to drive regional growth and productivity across the whole of the UK.

Smaller companies struggle to access the benefits of patent box tax relief, particularly if they are without a dedicated R&D or accounting department. The requirement to show or track R&D expenditure to ensure the amount of IP income that can benefit from the relief is limited according to the proportion of R&D expenditure that the claimant has actually incurred. This is a significant administrative burden that is preventing take-up. We believe the Government should review patent box tax relief.

Encouraging innovation in all sectors

Greater support is needed for sectors that struggle with innovation, particularly construction. The sector focus should also include those sectors with typically lower pay and tight margins, such as retail, hospitality and care. It is essential that, in these sectors, businesses are able to increase productivity, helping them to survive and remain competitive as technology changes the economy. FSB believes there should be a focus on sector deals for low pay, high employment sectors as well as high tech ones. For all sector deals, we would like to see the Government require those seeking sector deals to set out specific and substantial commitments to improve the health of their supply chains. The Government should introduce vouchers based on the business growth voucher model that could be piloted as part of sector deals focused on sectors that struggle with innovation.

[16] FSB, Spotlight on Innovation: How Government can Unlock Small Business Productivity, 2018

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Export vouchers

The Export Strategy had an ambitious target to increase exports as a proportion of GDP from 30 per cent to 35 per cent. Exporting, particularly to countries outside of the EU, is much harder for a smaller business because of the additional tariff and non- tariff barriers, and the specific market intelligence required to export successfully.

Around 20 per cent of our members export and, with the right support, our research shows that doubled further 20 per cent would export. Export vouchers would incentivise exports and help small businesses to overcome specific barriers to market. They could be used to help them with upfront investment costs for things like translation services, additional market research or attendance on a trade mission, or to attend an exhibition overseas that matches the Government's priorities. FSB already supports the Fund, earmarked for specific investment to boost business, employment and develop the market in these emerging economies. Export vouchers for SMEs would therefore uniquely match the Government's business and diplomatic priorities, just at the time as we approach Brexit and the need to transform our export ambitions as a nation.

Business support

The Long Tail of Productivity Review was welcomed by FSB. We strongly believe there are measures that can be taken to boost productivity across the small business community. Business support is key to tackling the UK's productivity puzzle and giving firms the tools to become more productive. This is not the time for radical changes to the business support landscape, which will only serve to diminish small business confidence further. The approach should instead be to identify what works, and then invest to achieve the best outcomes using the finds of the long tail of productivity review.

As a net contributor to existing EU budgets, the Government should aspire at the very least to maintain the level of funding currently on offer to support small businesses. Many EU-funded schemes fills an important niche within the overall provision of business support. FSB research shows that over two-thirds of small businesses that had applied for EU funding said it has had a positive impact.[17]

We believe that local communities are best-placed to identify and prioritise funds to tackle local issues. In England, reformed Local Enterprise Partnerships (LEPs) and local Growth Hubs could provide the backbone for the delivery of this investment, while devolved governments should control their own funding and take the lead in setting their own priorities. As we leave the EU, there is an opportunity for public bodies at all levels to assess how they can reduce the administrative burdens placed on small businesses and improve the effectiveness of how this funding is spent.

Start-Up Loans programme

Access to finance at the right point in each business journey is essential to creating successful firms. Businesses at the very start of their business cycle with less collateral and proof of earnings are often seen as a risky investment and can struggle to get the finance they need from traditional banks. The Start-Up Loans programme provides a vital service to around 10,000 new businesses each year through loans with wrap-around mentoring. The successful programme disproportionately helps women and those from BAME communities to create new businesses. We urge the Government to continue the Start-Up Loans programme by confirming support beyond the current funding agreement

[17] FSB, Reformed Small Business Funding: What Small Businesses Want from Brexit, 2017

by a further five years, with a maintained target of 10,000 businesses helped each year. Confirming the future of this scheme now rather than leaving the decision until the Spending Review prevents the creation of uncertainty around the programme, which could affect the final stages of the current funding round. It would also be a welcome and much-needed signal from the Government that it will support entrepreneurs from the outset of their journey.

Infrastructure
Local roads are critical for smaller businesses, who rely on them to access goods, customers and employees. Our research shows 93 per cent of small business owners rate their car as crucial for their business.[18] The Government should prioritise funding for local roads, given the relative underinvestment they receive compared to the strategic road network. Doubling the funding for local roads would send a clear signal that the Government is focused on the everyday needs of businesses, communities and high streets up and down the country.

Too many local roads remain in a state of disrepair and, at the same time, small businesses report that they lack the parking facilities needed to meet their needs. The annual ALARM survey suggests that it would take 14 years and over £9 billion to bring road networks up to a decent standard[19], with the northern areas of England and Wales receiving only a fraction of the funding for roads received by the south (£19m for the north; £27m for the south) despite hosting 45 per cent of the local road network[20].

Digital infrastructure
FSB recognises that significant progress has been made in improving the provision of superfast broadband through both private and public sector investment. The Universal Service Obligation (USO) needs to be delivered at pace to be on schedule for delivery in 2020, so that small businesses can be part of the digital revolution. Increased funding for this critical digital infrastructure would be warmly welcomed at the Budget. Although we welcome the 5G trials, investment in 4G is still necessary to ensure that the digital divide does not grow wider.

Reducing plastics
The small business community backs the mission to remove plastics from our oceans, and recognises the role they can play in supporting this action. The Budget should include measures that will promote innovative ways to reduce the use of plastics in British businesses. FSB believes that any changes in tax should be based on changing behaviours.

Women's entrepreneurship
Just 22 per cent of UK small businesses are led by women.[21] Research has shown that 2.7 million women in the UK want to start a business but have yet to do so.[22] Not providing targeted support to existing and potential women business owners means the UK is missing out on huge untapped potential.

[18] FSB, Going the Extra Mile: Connecting Rural Businesses and Communities, 2017
[19] AIA ALARM survey 2018
[20] FSB, Going the Extra Mile: Connecting Rural Businesses and Communities, 2017
[21] House of Commons Library, Business Statistics 2017, 2018
[22] FSB, Women in Enterprise: The Untapped Potential, 2018

Awareness and take-up of alternative sources of finance is lower among majority women-led firms. Women on average start their business with a third less capital than those of their male counterparts. Women are more likely to apply for loans from banks or loans/grants from government-backed enterprise schemes than they are to apply for alternative forms of finance[23]. Alongside raising awareness of different forms of finance, a dedicated scheme similar to The Aspire Fund would help more women access the finance they need to grow their businesses.

[23] FSB, Women in Enterprise: The Untapped Potential, 2018