Rt Hon Rishi Sunak MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

14 January 2021

Dear Chancellor,

We hope that you and yours are well in these trying times. We know it is not the year that you would have planned, and we would like to put on record our thanks to your officials in HMT and HMRC for their work during the pandemic.

Although the current time represents the maximum danger for widespread business failure, it is also one of hope. The prospect of mass vaccination to protect the vulnerable and allow a resumption of previous economic freedoms is one we look forward to with relief.

We hope this means we will soon be able to stop talking about extraordinary measures businesses need simply to survive, and instead refocus on the brilliant things that small businesses can do, not least driving job creation and growth as we recover from this period.

We hope it should go without saying that we support vaccination efforts, and are ready to help in any way we can, including any appropriate steps to encourage take-up of the vaccine. This goes too for the resources needed for the health response, for the NHS to cope, and for mass testing.

We are, of course, concerned about small businesses coping with the realities of the difficulties of today as well as hoping for the future. Our own research suggests 250,000 small businesses expect to go out of business this year. Given this data was gathered before the imposition of national lockdown and in most cases before businesses were subject to tier 4 restrictions, this is especially concerning.

Restrictions have impacted firms in a number of ways – closing businesses to consumers, closing business customers to trade, diverting customers from their usual activities, and disrupting business operations. As in our letter of December 22, we are concerned in the short-term that the intensification of restrictions necessitates the intensification of support, and we have provided some detail below of where we think this support is especially necessary.

We are concerned that efforts to support the reopening of particularly affected sectors will not reach a sufficient number of suppliers. 77 per cent of smaller businesses in the UK operate in B2B, or B2G, markets. Many of these are heavily exposed to the sectors facing the greatest levels of restrictions and we are concerned that some support measures are too narrow, or too based on property data which does not correspond sufficiently well to exposure to the economic effects of social distancing. Far too many have now reached excessive levels of debt, at the same time, for example, as paying tens of thousands in business rates. We would ask that measures to support reopening of the economy are able to effectively target this group, as well as B2C businesses.

We had glimpses in the summer of what small businesses can do if we can emerge from lockdown. In particular we were pleased that employment vacancies bounced back far stronger in small businesses than in large businesses. We know that the employment recovery in the financial crisis took place overwhelmingly in small firms, with nine out of ten of those out of work entering employment either through a small business or by employing themselves. With a concerted effort, small businesses' previous success in driving employment growth can be repeated.

Clearly one of the major routes that small businesses have used to survive to this point has been debt, both personal and business debt. A huge number now consider this debt to be unmanageable, and will struggle to find the working capital they need to support a re-opening of the economy. We have also included suggestions on how to help manage that debt so it does not drag on investment in the future.

We recognise that social distancing measures were taken in order to try and control the virus, and that they are in no way measures that the Government would have ordinarily sought to impose on businesses. Further, we recognise and greatly appreciate that the response you began back in March of last year has done a great deal indeed to alleviate the impact these measures would have otherwise had on livelihoods throughout the UK.

We have set out below our view on the current support measures that are in place, and how they might change, be complimented or replaced as we seek a controlled reopening of the economy. We have also included suggestions on what steps Government can take to level up the country, and take new opportunities available, including to tackle regulation, support exports and help achieve net zero. Crucial challenges, including tackling late payment, remain where we would greatly value your support.

We would caution against announcing tax rises at such a fragile moment – now is the time to prioritise a strong and lasting recovery that secures a solid foundation for future prosperity.

We would place great value on the opportunity to meet with you to discuss these issues prior to the Budget.

Yours sincerely,

Mike Cherry OBE AIMMM FRSA
National Chair

Martin McTague
National Vice Chair, Policy & Advocacy

Evolution of current support measures, from lockdown to recovery

FSB has welcomed the vast part of the current support measures that have been put in place. We do, though, believe it is important that the package of support iterates over time, both as the economy continues to operate under severe restrictions and as we can hopefully reopen over time.

Grants

Local Restrictions Support Grants

We are concerned there may be a perception that the only non-wage fixed costs businesses face is rent. This is far from the case and for many businesses other non-wage costs will far outweigh even sizable property costs.

The Local Restrictions Support Grants, equating from £333.50 to £750 a week depending on the size of the business's property, unfortunately are far from the amount needed to cover the huge range of costs a typical business faces.

Grants of the level of the original grants, £10,000 through the Small Business Grant Fund, to all small businesses, and the targeted Retail, Hospitality and Leisure Grant Fund offering one-off grants of up to £25,000 would be more appropriate in our view to the scale of the challenge facing affected businesses.

These grants allow small businesses the working capital they need to adapt, and in many cases they will need this cash in combination with extensive borrowing, which they may have already 'maxed out' their ability to do, to survive the period of vaccine roll-out.

One-off grants of £3,000, £6,000 and £9,000

Although some support is now being offered in the form of these one-off grants, many businesses in the supply chain of the retail, hospitality and leisure sector do not qualify for the corresponding support. Whilst they may be reliant on the retail, hospitality and leisure sector for work, they themselves are not classified as such.

By the time of the Budget, we would ask that appropriate work has been commissioned to ensure that HMT has a proper understanding of the extent of small suppliers' exposure to those sectors most affected, as well as those businesses hit by the uncertainty of unexpected Government restrictions.

Discretionary / additional business grants

The funding for discretionary grants available to local authorities is welcome, but not of the scale where it has ever been possible for us to welcome it wholeheartedly. The amounts awarded are far lower than the other packages of grants, due to the need to spread them thinly to give some support to the many businesses left out.

There are serious concerns as to the speed and confidence which Local Authorities are distributing these, and in some places, other, grants.

The need to help the supply chain, including steps to help suppliers to particularly effected sectors

77 per cent of small businesses operate in B2B/B2G markets. Many of those are heavily exposed to those sectors particularly affected by social restrictions. Heavy exposure to a single sector is more likely to be present in a small business, either as a consequence of, naturally, offering fewer products and/or services than a big business, or the nature and focus of its client relationships.

For instance, a small firm that specialises in manufacturing specialist washing machines for the hotel industry is likely to have faced a severe revenue hit this year, but makes a valuable contribution to the economy. That business is currently unlikely to have access to grants, and is probably paying tens of thousands each year to the Government while relying on finance to pay that and other bills.

Evidence as to a loss of sales or revenue is something that businesses would find simple. A revenue test would seem a sensible means of assessing how to reach this group, and we would be keen to answer any questions on how this would best work.

<u>Supporting business with the cost of business rates and VAT</u>

Business rates relief

Introduced as a 50% discount in 2019 and later increased to 100%, the discount was intended to help high street businesses until a full review of business rates could be conducted.

As this review is not yet completed, with many businesses still closed, and retail, hospitality and leisure very unlikely to be fully operational until the end of 2021, we believe that it is important that the 100% relief is maintained in its current form for another year. Any withdrawal should operate on a sliding scale over time.

Although some businesses may become operational later in 2021, the remaining time will act as a grace period between opening up, and paying a full business rates liability.

There is a strong case for ensuring that those businesses, especially B2B suppliers, who have faced a significant loss of revenue from coronavirus, should be included in receiving rates. We would suggest a revenue test, or proof of supplier relationships, as potential methods of assessment.

FSB is a strong supporter of reforming business rates, separate to the current crisis, and further information pertaining to our view on that is contained further below and in our submissions to the Business Rates Review.

Reduced VAT Rate for Tourism and Hospitality

The June 2020 VAT cut for tourism and hospitality should be extended beyond 31 March 2021. As welcome as this support has been, many businesses have not been yet been able to benefit from it, being forcibly closed.

Our main tourist and hospitality competitors on the European continent have, in the main, a 5% VAT operating rate. Extending VAT at 5% beyond the next Budget not only reflects the present circumstance that tourism and hospitality have operated in for the last 12 months, but it also gives tourism industry a chance of getting back on its feet again.

We would welcome an extension of this support. Moreover, now we have fully left the European Union, we would ask that you consider further action to resolving the cliff edge anomaly at the VAT threshold. We have included more detail on this below.

VAT Deferrals

Small businesses will require an extended period of convalescence and government support to help them manage debt. Those burdened with debt, looking to stand on their own two feet again and take their first tentative steps, need to be protected from the immediate shock of debt and tax repayments. We have included information below on the major problem of wider debt, but we believe extending deadlines for VAT repayments would be a sensible decision.

Other tax measures

Other duties, for instance lowering alcohol duty in hospitality, should be considered to support particularly effected businesses.

Helping firms deal with high levels of debt

Helping small firms manage or restructure their debts is going to be integral to a post-Covid recovery. There are many businesses who may have benefited from access to finance or government support schemes to stay in business, but they have barely managed to land a consecutive string of weeks of being open. This has left them with significant amounts of debt which will compromise investment and growth in the years to come.

We urge Government to provide further breathing space to debt-laden small businesses by working with the Banking and Finance sector to push back the start of Bounce Back Loan (BBLS) and Coronavirus Business Interruption Loan (CBILS) repayments, and increasing the length of time for which it covers interest payments on these loans. While Pay As You Grow is a step forward in management of BBLS debt, the Government ought to provide clarity on the criteria that determine which firms have been "heavily impacted".

Government should consider setting up a government run restructuring service, or putting in place a contingent tax liability arrangement as proposed by TheCityUK, as well as ensuring the impending Successor Loan Scheme is shaped to meet the needs of small firms. HMRC should seek to utilise its move to preferential creditor in the spirit of rescue and recovery, and the provision of fair and reasonable redress. It should also explore options for simplifying the taxation system, incentivising small businesses to use the Making Tax Digital platform.

FSB survey data from early summer 2020 showed that the proportion of small firms carrying some form of debt has risen from just over half (56%) to more than three quarters (69%) as a result of the Covid-19 pandemic, with the proportion of those describing their debt as "unmanageable", up from 13% to 40%.

Evolution of existing direct support for individuals and employment

Flagship schemes should remain in place for a sensible period of time to enable the full benefit of public investment to date to be captured in positive labour market outcomes.

Coronavirus Job Retention Scheme

CJRS has undoubtedly helped millions of people maintain their employment, and through so doing, prevented wider economic collapse. It is of course reliant on businesses surviving for this benefit to continue. CJRS has helped firms who have no, or very little work due to social distancing, be in a better position to resume work on the other side of this crisis, and it has also, importantly, helped maintain the employment of individuals in firms who are relatively unaffected sectors, for example necessary office based administrative staff, who might have otherwise lost employment. Preventing large numbers of any of these groups entering unemployment should continue to be an important aim of policy.

The introduction of flexible furlough was something that we supported, both to enable businesses to flex towards what revenue generating activity those businesses might still be able to carry out, even if that does not equate to bringing staff back initially on the contracted hours they previously held, and because we believe it will surely do a better job of minimising scarring if more people return to work on fewer hours, than a greater number do not return to their previous jobs at all.

We believe this element of the scheme will be important in helping firms navigate through reopening. For many firms, a reopening will come in fits and starts as more work come through, and a flexible CJRS should support that. CJRS should remain in place in for a sensible period of time to enable the benefits of the scheme to date to be captured in full.

Self-Employment Income Support Scheme

We continue to support SEISS.

SEISS has done an enormous amount to ensure that the self-employed have remained attached to the labour market and are in a position to resume previously productive economic activity once social distancing allows, or will allow.

HMT is to be commended for recognising the importance of helping the self-employed remain attached to the labour market, and not restricting its view of the importance of this to traditional employee-firm relations. It is especially important given the vulnerability of the self-employed population to being otherwise detached from the world of work.

We remain wholehearted supporters of the SEISS scheme.

Extending SEISS to the newly self-employed

HMT was clear to us that the reasons why it did not consider itself able to include the newly self-employed in the original SEISS scheme, citing difficulties in reliably identifying those who had relatively recently entered self-employment. While we did not imagine at that time that such heavy social distancing rules would remain in place for so long, given the timing of self-assessment, this barrier no longer exists to including that group.

We know that a large number of the self-employed have exited self-employment since the start of the Covid crisis, and these numbers are rising. We therefore predict that the number of self-employed potentially eligible for inclusion under this proposal would be in the low hundreds of thousands.

We also expect the number that will indeed apply, will be significantly less than those eligible; in SEISS round 1, 22% fewer applied than were eligible; for grant 2 this increased to 34%; and for Grant 3 we expect this trend to continue. For some, trading will not be negatively affected and so the number of additional claimants for SEISS will be much fewer.

A careful, limited expansion of SEISS in this way would therefore be a relatively moderate cost to the taxpayer and would be highly significant for self-employed traders suffering major profit losses due to Covid-19. Moreover, this policy would send a positive signal to those with an entrepreneurial mindset, to make that jump in to setting up a business. We will need these entrepreneurs if we are to power a successful economic recovery.

Universal credit – removal of the minimum income floor.

For the self-employed, the postponement of the Minimum Income Floor being reinstated until April was welcome. We would welcome this suspension being continued.

Longer-term, we have always had serious concerns about the appropriateness of the Minimum Income Floor for the self-employed, who rarely receive their income on a smooth, regular basis. Self-employment as a route into work is something we very much support.

The current crisis has thrown into sharp relief our longstanding recommendations on the minimum income floor, which we would continue to recommend following any future lifting of the current suspension.

First, the extension of the start-up period where the Minimum Income Floor is not applied from the current 12 months for a longer time period, on the basis it normally takes 3 years for a business to get up and running and generate profit.

Second, to change the Minimum Income Floor assessment to be carried out on a longer, for example quarterly, basis. This will enable the system to work for those whose monthly income is more volatile and who are not paid regular or fixed amounts every month in arrears.

Coronavirus and SSP

We have welcomed the rebate of SSP costs for up to 14 days for employers with below 250 staff, in the event a staff member has to self-isolate because of COVID-19. However, we think new reinforced provisions need to be put in place given the vital importance of self-isolation to the effectiveness of the track and trace strategy.

There are also the additional challenges of supporting people who have had COVID-19 and now developed secondary health conditions or who have to self-isolate more than once or who may continue to need to self-isolate/shield for a further number of weeks/months. Options should include ensuring employers with below 50 staff, having a full SSP rebate in all instances or else developing a new funding mechanism for those that need to self-isolate. Any such separate funding pot could also support the self-employed, if and when they need to self-isolate.

Directors Income Support Scheme (DISS)

As per our separate correspondence on this issue. A Directors Income Support Scheme was proposed by FSB and partners on the 27th November, and on the 9th of December we met with the Financial Secretary.

FSB proposes a taxable grant for directors of limited companies, calculated at 80% of three months average monthly trading profits, paid out in a single instalment and capped at £7,500. This would mirror the existing framework by the Self-Employed Income Support Scheme (SEISS).

We believe the scheme would not be too labour intensive for HMRC nor open to fraud because the information can be evidenced. Above all, it would bring much needed support to directors who currently find themselves outside of any existing Government support.

Increasing Employment: Support for actual hours worked, for recruitment and for new entrepreneurship

Around nine in ten of those out of work return to work either in a smaller business or through self-employment. Small businesses are, rightly, proud of this. Ultimately, there are only three ways for anyone to have a job – they maintain their current employment, someone who employs them, or they employ themselves. All three fronts will need attention if we are to avoid as far as possible the spectre of mass unemployment or the scarring effects we have seen all too often in previous recessions. Employment, especially for those without existing jobs, will, as ever, need to come overwhelmingly from smaller businesses.

Reductions to Employer's National Insurance

We believe that it is very important to reduce, at least in the short term, the cost of hours worked to maintain employment. This help will not only support the return of workers from furlough, but give confidence to businesses unsure of the extent of returning demand, whether suppliers to particular sectors.

We believe the mechanism most likely to accomplish this in a way that corresponds to people's actual patterns of employment is through Employer's National Insurance. Employer's National Insurance disincentivises both retention and recruitment and cutting Employer's NICs would play an important role in enabling both. For small businesses currently seeking to offer a reduced service due to social distancing, such as a retail business offering click and collect, cutting employer's NICs would help make this a more viable activity. This aids adaptation to changing circumstance, and is therefore highly recommended by FSB.

FSB strongly welcomed the decision to increase the Employment Allowance in Budget 2020. This remains the main measure the Government has enacted over the course of the pandemic to reduce the cost of employment for actual hours worked. It is in our view again an excellent tool to ensure employment can be maintained and increased.

Increasing the Employment Allowance would target the help on small businesses, both the most vulnerable in terms of failure and the most capable of adding new jobs in the years ahead. Cutting the headline rate is another option we would support, or a combination.

An advantage of cutting Employer's NICs compared to a subsidy would be that this incentive would in step with hours worked. It has been suggested to us that some in the Treasury view Employer's NICs as a non-suitable incentive to encourage employment as some small employers do not reach the threshold for paying it. FSB knows small employers well, and it is confident that this view is a misreading of the situation.

We are pleased that the National Insurance Holiday for veterans was included in both the Conservative Manifesto and is due to come into effect this April. In the past we have also argued for this for those who are long-term unemployed, younger people, older people, those with disabilities, care leavers and ex-offenders, as we believe this would be of significant benefit.

Job Retention Bonus

The Job Retention Bonus would have provided welcome cash flow support for businesses.

The delay in the Job Retention Bonus was unfortunate, both as it has undermined businesses' faith that Government will deliver the announced support, and because, even with the current level of social distancing, it would help support the employment of those who firms have managed to return to work, in many cases by adapting to new methods of working (such as click and collect services in retail businesses) that are unlikely to be (at least yet) generating sufficient revenue.

It has been particularly concerning to see the presence of the CJRS as the rationale given for the removal of the bonus. While on CJRS, employees are not able to generate revenue for their place of work, which is ultimately what will help that firm stay in business and afford to employ that individual. CJRS assists with solving one problem, how to avoid redundancy when they cannot support their role.The Jobs Retention Bonus solved a quite different problem, how to employ someone when they could perform a role but that employment could not be justified financially.

The Job Retention Bonus, and/or something that performed a similar role, including a cut to NICs, would be a welcome boost to employment.

Kickstart

The youth labour market is likely to remain weak across the economy for some time, and focusing on getting young people quality, first experiences of work is key to preventing long-term scarring. As a result, we are very supportive of Kickstart. As HMT will be aware, we previously advocated for adopting the approach of the Future Jobs Fund, something HMT did in designing Kickstart.

We think there is a strong case for expanding a Kickstart approach to other groups who are likely to struggle in the labour market. There is a clear evidence base as to who these groups are – enabling those who otherwise are at risk of long-term unemployment to gain work will help prevent long-term scarring, to the benefit of that individual and the wider economy.

Restart

We are concerned that if it is based on the previous work programme, the Restart Scheme will not represent adequate value for money.

Positive job outcomes from the previous scheme in terms of supporting people into work appear to be poor, and so we would question spending £3bn on a programme designed in a similar way.

Our scepticism is based on concerns about whether the scheme will be effective – we would be delighted if these concerns were proved invalid and support the intent.

Apprenticeships

Covid-19 has significantly changed the apprenticeships landscape. Because of the crisis, the number of starts has dropped and we have a seen a lot of redundancies. The extension of Apprenticeships Incentives has however, proved to be useful in this difficult period, in that firms could use the payments to help pay off wider costs. We would welcome considerations by Government to extend this deadline beyond 30 April 2021. This would mark a positive step as we try to recover and create more jobs for young people.

As well as ensuring that enough people start apprenticeships, we believe it is incredibly important to protect those who have previously started apprenticeships but will not be able to progress in their current place of work, including because that firm is no longer operating. The scarring effects of this happening would be severe and steps should be taken to avoid this occurring and ensure individuals can continue apprenticeship training. What more can be done, alongside the existence of the Redundancy Support Service for Apprentices (ReSSA) should be examined.

One previous example of good practice in this regard is the Rover Task Force. This, and similar measures since, helped to get apprentices placed in other businesses or even sectors to complete their apprenticeship. Something similar should be in place. One minor cost that was also effective was grants to the apprentices for extended travel.

Encouraging new start-ups, and new entrepreneurs

We believe that encouraging new people to start their own businesses will be incredibly important during recovery from a crisis of this magnitude.

FSB advocates for more people to start their own businesses. We believe that there are positive lessons and impetus to take from the successful branding of current HMT schemes today to encourage more people to start their own businesses. This includes deliberate encouragement and potentially, support, for those who have lost their jobs, are otherwise unemployed or those on furlough to start their own businesses. This could take the form of a strengthening of the New Enterprise Allowance and Start-up Loans Schemes, or even a 'Start-up furlough' payment, to specifically encourage those in need of work who are considering whether to do so to take the plunge, not simply seek employment.

Many of those who are sadly without work, or will lose work in the year ahead, will be well placed to start their own businesses. We believe that replicating the success of the Enterprise Allowance in the 1980s would be a powerful way of strengthening enterprise in recovery.

Enabling small businesses to operate even if some social distancing requirements remain in place

Covid-secure costs

While firms have absorbed large losses to date, they have incurred large costs to continue trading in a "Covid-secure" way. 60 per cent of firms told us it would cost up to £1000 in terms of the set-up costs to comply with government guidance on working safely. However, a considerable number have seen costs between £1- £10k+ in terms of setup costs alone, only to have the opportunity to restart and trade taken away from them on multiple occasions.

Ascending and descending local tier restrictions also has associated costs, with a continual environment of changing regulations, requirements and restrictions on business. If Government takes a decision that leads to heavy Covid-secure costs, such as installing new ventilation systems, then we think it will be necessary to support that through grant payments, at least for some businesses.

It is already the case that many firms have spent considerable sums of money, such as pubs purchasing marquees that they have not been able to use contrary to their expectations when making these decisions. Confidence in making similar decisions to adapt to restrictions in future may need to be supported.

Employee testing

Some small businesses are already purchasing testing for their employees, and FSB is supportive of Government initiatives to work out how to widen employee – and indeed general, mass - testing.

If there are certain sectors where the Government believes employee testing to be especially important for public health or the continuation of critical activity, or testing strategies the Government thinks is most helpful (for example two lateral flow tests per employee per week, rather than spot testing), then the Government should give serious consideration to financial support for this testing.

As an illustration, were a business in food processing – understandably a potential priority for employee testing – employing 25 people a week, purchasing lateral flow testing at £10 each twice a week for 52 weeks a year, that would be the equivalent to an annual cost of £26,000. This would be enough for that business to keep a staff member employed. Given food processing businesses with exposure to hospitality have faced serious difficulty this year, the hard choice in this illustration seems clear.

Levelling up: Infrastructure and long-term investment in people, places and business

We believe strongly that the ambition to level up the country is both right and achievable. We are very conscious that many of those places in the country which the levelling up agenda seeks to support are dominated by employment in small business.

As well as keeping to the guarantees made in the 2019 Election Manifesto, we believe there is a great case for accelerating the want to level up, to build world-class infrastructure, to secure a revolution in skills, and to make the UK the best place in the world to start and grow a business.

Overall, when it comes to infrastructure, there has never been a better time to be ambitious. It is about accelerating those infrastructure projects already at an advanced stage that can have the most immediate effect, but also bringing forward as many elements of future infrastructure projects as possible - such as design, paying forward and ensuring robust systems to promote prompt payment within those projects, have a clear positive effect.

It is the towns and other places in this country where small businesses are most prevalent in the local economy. We hope the above sets out some of the options for helping to restore, bolster and boost efforts to level up our country.

Broadband and Connectivity

A large number of small businesses have now proved that remote working and digitalisation work. Broadband connectivity has long been a major concern for small businesses, and the commitments of the Government to date on this have been very welcome. There can be no better time for this investment, and we would be fully supportive of it.

We are supportive of a focus not only on rural areas, but also business parks, where there is a real need to connect premises to broadband. We would be supportive of proposals that focus on these areas in the rural/urban fringe.

We remain supportive of the idea of a shared rural network for mobile as well. We have long championed the need for better mobile connectivity, particularly in rural and coastal areas. We know from our research that 45 per cent of small businesses agree that their mobile voice connection is often unreliable. 57 per cent of small businesses based in rural areas agree that their mobile voice connection is often unreliable, compared to 37 per cent of small businesses based in urban areas.

Digital investment

Investment in digital technologies is key to boosting productivity in smaller businesses. Appetite for investing in digital technology is strong but currently for many smaller businesses the funds are simply not available to do this. Currently there are a plethora of initiatives to support new-to-market innovation such as the R&D tax credit and Innovate UK grant programmes; but very little financial support for new-to-firm innovation.

The Business Basics Fund proved to be a supportive step in the right direction but the current crisis requires a stronger intervention. As our research shows, new-to-market digital innovation will be even more important to enable smaller businesses to adapt to social distancing and to recover. That is why we believe there is a clear case for both a widening of the definition of the scope of 'development' within R&D tax credits and the introduction of digital vouchers for smaller businesses seeking to enhance their adoption of digital technologies.

Additionally, we are concerned that it is negative small business experience of adopting digital technology, which prevents take-up of new technologies. We believe account needs to be given in the way that good aftercare and support can be encouraged in large businesses who are selling potentially productivity enhancing products to small businesses, if perceptions of the ease of adoption of this technology are to be improved.

Investment in Roads

Investment in local roads is especially important for small businesses. We welcomed this in last year's Budget and we must see more as we hopefully begin to exit this crisis. One particular thing our members are continually telling us are the increases in parking charges in different parts of the country.

At the moment when the high street faces perhaps the greatest upheaval in its history and public transport options are limited, hiking parking charges should be avoided. We ask you to do what you can in central government to increase car parking availability, making sure more spaces are offered free of charge, especially at key times of year, as well as to facilitate green modes of transport so more people can easily access the high street, which we all want to see bounce back in 2021.

Housing

On housing, we would ask that Government considers making the most of small house builders. Small house builders have been in decline, but their different business model compared to large house builders mean they build faster than large house builders. We have previously suggested Government adopt a specific small house builders' strategy in order to get houses built. In the context of a stimulus that works quickly, a focus on incentivising building on small sites, i.e. those building fewer than ten units, will lead to fast results.

Professional Indemnity Insurance

We are seriously concerned about possible market failure in professional indemnity insurance. The exit of insurers from this market is leading to many businesses, including architects and engineering firms needed for important infrastructure projects, facing threefold or more increases in insurance costs. This could not come at a worse time and unfortunately has already led to business failure.

We are concerned that this issue may not have received the level of attention from Government it would otherwise have done during the course of the pandemic, and ask that HMT considers this issue.

Women’s enterprise

All Government supported enterprise development programmes (including coronavirus related schemes) should also be equality impact assessed, to review the impact on women at the budgeting, design, implementation, monitoring and evaluation stages. Evidencing the implementation of current Government policy commitments to women’s enterprise across all small business policy and programmes.

Widening the scope of official Small Business Survey to include questions of greater relevance to women business owners and managers. For example, in terms of needs based, gender-specific business support provision and factors affecting innovation, resilience, training, and employment.

Boosting Ethnic Minority Businesses

Our research shows that ethnic minority small businesses are more likely to engage in process, product and service innovation than non-ethnic minority firms. In 2018, nearly 21 per cent of EMBs reported recent process innovation, six percentage points higher than the rest of the respondents. The results for product or service innovation were even stronger in favour of ethnic minority-led firms than non-ethnic minority firms to the value of 11 percentage points. To support ethnic minority businesses to recover from the COVID-19 crisis, it is vital that Government supports new to firm innovation. That is why we are calling on the Government to support small businesses that have adopted and would like to adopt new digital technologies by widening the definition of Research and Development (R&D) and introducing digital vouchers for small businesses.

Currently there are a plethora of initiatives to support new-to-market innovation, such as the R&D tax credit and Innovate UK grant programmes but very little financial support for new-to-firm innovation. The Business Basics Scheme is a step in the right direction but the current crisis requires an intervention of a different order of magnitude. As our research shows new to firm digital innovation will be even more important to enable smaller businesses to adapt to social distancing and to recover. That is why we need to see both a widening of the definition of the scope of ‘development’ within R&D tax credits and the introduction of digital vouchers for smaller businesses seeking to enhance their adoption of digital technologies. In March 2020, the Government announced it would consult on whether expenditure on data and cloud computing should qualify for R&D tax credits. Changes to the tax system are welcome, but it is also essential that immediate support is made available to small businesses that need to adopt digital technologies in the here and now.

FSB would recommend introducing a dedicated scheme to help ethnic minority-led businesses to access external finance. Alongside awareness-raising, a dedicated scheme – similar to the now defunct Aspire Fund – would help more ethnic minority-led businesses access the finance they need to grow. Government should commit to promoting these schemes as widely as possible, ensuring those who can benefit the most are fully aware of opportunities.

<u>Investing in people and their businesses</u>

People and skills

Having skilled and experienced staff – and being skilled and experienced oneself – is crucial to running a successful, resilient and agile small business. Keeping our skills up to date and learning new ones is an indispensable part of growing a business. However, our research shows that small businesses are already struggling with skills-related issues.

We are pleased that the Government is investing in policies to strengthen technical education, improve lifelong learning, boost basic skills – including digital – and support local skills development. However, we believe that more can be done to make these policies more inclusive of small businesses and sole traders, helping them to upskill and satisfy their skills demands. The lack of availability of skills required to deal with it are also among the greatest perceived barriers to automation in small firms, for example.

Leadership and management

We believe that leadership and management skills are key to unlocking UK's productivity.

Previous FSB research on leadership skills and approaches to management shows that most business owners update their skills each year but prioritise business strategy. Over half (59%) of business owners update their own business knowledge and skills at least once a year, although a higher proportion of them (77%) review their business strategy every 12 months.

Given the importance of leadership and management more generally to smaller businesses, Government should explore whether a tax credit or relief could be put in place to alleviate the opportunity costs attached to small business owners taking time out of their businesses to undertake leadership and management training.

It is important that any such tax credit is accessible to all smaller businesses, including micro as well as small and mid-sized businesses, and in particular is marketed to those businesses most likely to be located in the long tail of the productivity ladder. Government should consider incentivising the further development of management training programmes for business owners and their employees.

Retraining

Retraining will also be critical as our economy adapts. Time and cost have always been two of the major barriers to training small business owners and their workforce. Retraining workers with new skills will be vital. We'd also caution about forgetting the importance of instilling management skills across the economy. Relatively weak management and leadership skills have been a long-running drag on UK productivity, and increasing management and leadership skills will put more small businesses in a greater position to both adapt to the crisis and find opportunities to employ those whose work history is in different industries. This fiscal event presents a good opportunity to address some of the main chronic issues which hold our economy and workforce back.

UK Shared Prosperity Fund and Growth Hubs

Business support plays an important role in efforts to boost productivity, leadership and management.

We believe Growth Hubs are ideally placed to be the focal point for small business needs – triaging the needs of small firms whilst also sign-posting businesses to relevant support. More widely, FSB has looked at how the creation of UKSPF will give the Government greater flexibility when distributing business support funds across the UK and devolved nations.

We would ask for small businesses to be front and centre of the new fund, with a specific focus on small firms in more deprived parts of the country, described as 'less favoured areas' (LFAs). We are still waiting for the launch of a Government consultation on the new fund, which was promised before the end of 2018.

Small firms in LFAs report significantly lower turnover growth than those based elsewhere (0.7% in LFAs, compared to 3.2%). This support must be refocussed to the area and must move beyond job creation, including a focus on things like productivity, social impact on communities, modernising business practice and decarbonisation targets.

Firms in LFAs are not short of ambition, with half of small business owners striving to become a business leader in their community (49.5%) – significantly more compared to those in other areas (43.5%).

A new Business England brand for business support in England should be created to encourage more engagement and give a consistent picture across the country.

Key to distributing the support funding fairly will be allowing each LEP to distribute their proportion of UKSPF funding, earmarked for LFAs– with input from a new 'small business champion' who will sit on each LEP board.

Support for employment of those with disabilities

FSB is supportive of the intent of many elements of the work and health agenda being brought forward by DWP, including on occupational health. However, we are concerned that the package as a whole has to be properly balanced to work in a way which protects and promotes the disproportionate but positive role that small employers, as well as self-employment, play in the private sector in disability employment.

We have been pleased to date that some form of small business SSP rebate has been part of proposals for a package on health and work throughout its development. We have engaged extensively on the health and wealth agenda in a spirit of goodwill, because of the importance we attach to its success.

It is our strong view that an SSP rebate is an essential part of a health and work package and we would like it to remain so.

Lifelong learning

Lifelong learning is clearly extremely important, both for individuals and the economy as a whole. We would again emphasise a need to ensure that measures on lifelong learning are accessible for individuals no matter what size of business they work on.

We would advocate that this is considered in policy design, but also that spending is monitored and targets are in place for any spending such that, for instance, if 60 per cent of the workforce are in a smaller business, and a quarter of those work for themselves, that public spend on skills and lifelong learning is proportionate to that.

We believe that this would introduce good discipline and creative thinking into ensuring that this spending reaches all parts of the population.

Self-employment training

We would ask that you consider the results of the Manchester pilot focused on increasing training among the self-employed, with a view to expanding take-up of training opportunities among the self-employed. We would also ask you to consider the tax treatment of training for the self-employed, particularly with a view to enabling the development of new skills. This may be especially important if heavy adjustment is required in the 'new normal' as the economic situation develops.

Education

FSB supports education reform so that young people are equipped with the skills needed. The three particular areas we are most concerned with are functional skills (e.g. literacy, numeracy and core workplace skills), employability skills, and digital skills.

Businesses will invest time and money training staff in job-related skills, but they also expect young people leaving education to have basic functional skills. It is a real concern that businesses continue to highlight numeracy, literacy and core workplace skills, including digital skills, as lacking in young people. These are the skills with which young people need to be equipped to be successful in today's tough jobs market.

We believe key employability skills, such as teamwork and communication, should be developed and included in the national curriculum from an early age. However, we don't support the development of separate qualifications to demonstrate these skills. All schools should offer relevant and high-quality work experience to their pupils and engage with local small businesses to ensure young people are getting the work-related learning they need. Local small businesses can offer young people a good range of experience and help them to consider entrepreneurship. The UK is currently experiencing a digital skills gap, and with more small businesses looking to incorporate digital technology into their businesses, there is a clear economic benefit which could be realised if the digital skills gap were to be addressed and small businesses were to receive the right mix of support to increase their use of digital skills.

Skills fund

We are, however, strongly supportive of the new Skills Fund. We would suggest designing the new Skills Fund so as to ensure a proportionate amount is spent to help those working – or running – a small business, given that many small businesses would otherwise struggle to compete in a race for funding compared to larger businesses with large HR departments.

The Apprenticeship Levy

Representing the UK's small businesses, we are sceptical of proposals to reform of the Apprenticeship Levy supported by larger businesses, and would be particularly concerned about any widening of the Apprenticeships Levy into a Skills Levy.

We believe in apprenticeships, particularly as a route for young people into good, skilled jobs. As it stands, the UK is well short of our target of achieving three million new apprentices, yet at the same time, the apprenticeship programme is set to overspend. We are concerned that spending on higher level apprenticeships – or more general skills training – can come at the expense of apprenticeship opportunities being available to those most in need of the training, or the small businesses where those people, trained, would be most likely to work.

92 per cent of apprenticeships offered by small businesses are held by 16-24 year olds, and the vast majority (87 per cent) of apprenticeships offered by small businesses are at level 2 and level 3. We believe these apprenticeships are important, that there should be further efforts to raise stands, but do not think higher level apprenticeships commonly used by large levy payers should be at the expense of the ability of prospective apprentices to work in smaller businesses.

It is clear that the immediate shortfall in funding does need remedying, but we are keen to ensure that reform does not come at the expense of those the scheme was originally intended to help, those who would most benefit from an apprenticeship – which will often be in a non-levy paying business. We are nowhere near society, young people or employers yet recognising the advantages of sustained but good apprenticeships and vocational training.

We undertook research in this sector, publishing the results in our report *Handle with Care: The challenges facing small business childcare providers* report. Our research shows that many of our members running nurseries, pre-schools and childminding businesses are feeling the pressure as a result of the rising costs of doing business combined with significant recent changes in Government policy.

Immigration

We are keen that immigration policy is approached in such a way as to be able to respond as quickly as possible to changes in the labour market.

We would like Government to focus on businesses located in remote areas and that the future unsponsored route should seek to attract medium-skilled workers with strong potential.

Where the evidence shows that the costs associated with sponsorship exclude small firms from accessing skills that they cannot find within the UK labour market, we would like Government to consider how they may assist small firms in managing these costs.

Pensions

We are supportive of measures to introduce a pension dashboard which will benefit the self-employed and those employed in small firms plan for their retirement. Workplace pensions, and associated administrative costs, are a large administrative cost for many small firms. We would ask that the needs of small firms, and the impact of the costs of employment, are taken into account regarding any future policy changes to automatic enrolment.

We would like Government to continue in its commitment of finding solutions to improve pension saving amongst the self-employed. We believe Government should focus its efforts on self-employed groups that have the lower levels of pension saving. Identifying a range of policy options that will benefit the majority of self-employed people is key if we are to achieve better retirement options for our entrepreneurs'.

Measures to cut crimes against businesses, business owners and their employees

Around 50% of small firms have been a victim of one crime in the past two years (2017-2018). There are 3.8 million cases of traditional business crime (non-cyber), every year. Meanwhile, there are 3.9 million cases of cybercrime each year. The annual cost of traditional crime against small businesses is £12.9 billion.

Currently, crime against small business is often not prioritised in law enforcement. However, there is clear evidence that crime against business has wider detrimental effects on local communities: it discourages private investment which lowers the quantity and quality of available employment. This feeds a vicious circle of abandonment and deprivation, as people either elect to not meet in and visit town centres, or may even abandon areas altogether, which destroys the social fabric of communities. We would therefore like to see crimes against small businesses becoming a key focus, including as part of the Policing Plans of local Police and Crime Commissioners and local law enforcement activity.

Making the most of the UK’s global advantages

Transition vouchers

With a new relationship established with the European Union, small businesses want to and will be, an integral part of the exporting revolution in this country. To seize these opportunities Government needs to support small firms in helping adapt to changes. Moreover, transition vouchers would put decisions as to what support is most needed with those who know what support necessary – small businesses who are seeking to invest in expanding to overseas markets.

FSB believes this provision of support, to the amount of £3000, from Government, would help firms gain expert advice on the impact of leaving the transition period in the areas of logistics, employment or cross-border movement of goods or services. The transition voucher scheme could be operationalised using similar eligibility to the successful Dutch scheme, either by HMRC or DIT. This would enable access to a broad range of eligible suppliers of advice and training.

Net zero

We have been working with partners in other business groups to develop business’ thinking on net-zero. Collectively, we are calling for a “principles-led” approach to be taken by the Government when developing net-zero aligned policy. We believe that a principles-led approach can provide a robust policy framework which allows the UK to maintain its current global ambitions, whilst being accountable, credible and fair. The principles we set out here are intended to act as a “fairness test” for policy makers in planning and designing regulatory and policy frameworks, and in prioritising investment.

The coronavirus pandemic poses economic challenges for Government and business alike, however we have seen remarkable dedication and appetite within sectors to keep momentum on reducing emissions on a net-zero trajectory. It is possible for the UK to recover and build back a more sustainable, resilient and equitable economy. To get there, a close working relationship between Government and business will be vital as we work to deliver our net-zero agenda and international commitments over the coming decade.

With new dates set for COP26, we support the UK Government, in partnership with the Scottish Government in their efforts to ensure that progress made to date to tackle climate change is maintained and to deliver a unified, ambitious COP summit.

To ensure businesses of all sizes and sectors can play their part in supporting the UK’s net-zero transition and building back a more sustainable and resilient economy - and provide an example to other nations looking to embark on the same journey - we ask that decisions makers consider these principles in planning and designing regulatory and policy frameworks, and in prioritising investment.

Improving the regulatory environment for UK firms

Improving the regulatory environment for small businesses is one of the biggest challenges we need to overcome to ensure success for small businesses. Most attempts by administrations around the world have failed to improve the regulatory environment for smaller firms. The UK has a huge opportunity to change this now.

To do so, Government must take a deliberate, methodical approach. Sprawling regulatory processes which have been put in place over decades cannot be rationalised without real institutional commitment.

Looking around the world, the one model which has bucked the trend however. The Government of the Canadian province of British Columbia has successfully managed to implement an extensive regulatory reform programme with lasting impacts.

The so-called “BC model" emphasises strong political leadership and simple, clear but robust metrics on which to base implementation of the policy, with accompanying transparency. In particular, a focus on each discreet ‘regulatory requirement’, (any action a business is required to take from Government in order to carry out day-to-day business, from putting a post code into a website to creating a workplace policy). Some of these discreet requirements might be needed, others not.

The changes put in place have seen a 49 per cent reduction in “regulatory requirements” over the period of 2001 to 2018 and we believe its attributes form the platform for a future regulatory framework for the UK that creates a tangible reduction in bureaucracy that aids businesses.

Despite committing to reducing the regulatory burden for businesses, past Governments have not made significant progress in this space. For example, attempts to ‘reduce the regulatory burden’ through measures like the Business Impact Target (BIT), have not proved as effective as they might because there are too many exceptions and large swathes such as tax administration and EU regulations. In the latter case, these rules are outside the direct control of the UK Government.

We would like the UK Government to set up an independent ‘Competitive Regulation’ commission to carry out a holistic review identifying how the UK’s regulatory environment could be reformed to promote small business competitiveness.

To improve future regulation, the Government should establish an Office for Regulatory Reform (OfRR) in the Cabinet Office aimed at making sure the better regulation agenda is a strategic policy priority and to act as an independent ‘check’ on the rationale for and quality of new regulations.

At the same time, we believe determined action is also necessary to prevent the ‘blue tape’ which larger businesses impose which makes it far more difficult than it needs to be to run a small enterprise. Insurers for example, and those carrying out inspections on businesses are also making additional, cumbersome requirements on small firms.

In any case, we support the independence of the Regulatory Policy Committee (RPC), and we would want to see the RPC have a stronger role, and some of the recent changes to the regulatory policy making process reversed to give the RPC more oversight of new regulatory and de-regulatory measures.

<u>Maintaining a competitive tax regime</u>

We believe that maintaining a competitive tax regime is important both in the short and long term.

In the short term, we believe that announcing tax rises at this budget would be a serious error. The strength of the recovery will be key determinant of future prosperity and this is a moment to choose growth over tax rises.

We were vocal in our support for the Conservative Party's manifesto commitments on Income Tax, VAT and National Insurance, as well as the commitments on business rates, and consider these important promises.

Business Rates

The fundamental review has been a recommendation of FSB and others for a number of years, and we welcomed the announcement of such in Budget 2020 (March). Given the intention to respond to Part 1 of the review in the upcoming Budget, our headline ask is for an increase in Small Business Rates relief to £25,000 (up from £12,000). We are also removing the tapering that currently exists between £12K-15K and replacing it with a more generous Transitional Relief (scrapping downwards transitional relief).

In the immediate future, due to the continuing, devastating impact Covid-19 is having on our high street firms, it is vital that the Government continues a rate 100% rate relief for another year. Even if those businesses do open earlier, a small grace period where they won't have to pay rates, so they can focus on getting themselves back on sure footing and paying off other costs, would be of huge benefit to the economic recovery.

Avoiding BAD reforms

We believe that maintaining a sensible system of entrepreneurs' relief / Business Asset Disposal Relief is important.

It is a clear declaration of support from the Government for the UK's entrepreneurs, an incentive to start a small business, and a recognition that for a huge number of small business owners, selling their business is the only way they have to fund a decent retirement.

There is a huge value that could be underestimated of the value of Business Asset Disposal Relief / Entrepreneurs' Relief to the UK economy in enabling serial entrepreneurship. It is often the case that somebody who sells a successful business will be encouraged, and well equipped, to start another. Second businesses are often more productive, or in more productive parts of the economy, than first businesses. That should be supported.

We do not believe it is sensible to have a tax regime that makes it less rewarding for a small business owner to invest in their business than to invest in their home.

Dividend Allowance

We believe changes to dividend taxation have created a further disincentive for businesses to invest and grow. There should be no further adverse changes to the current allowance threshold.

IR35

FSB is concerned about the prospect of applying IR35 public sector rule changes to the private sector, especially at the current time. We believe this should be delayed.

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. We particularly appreciated being named in the Chancellor's Speech on this measure, as it followed discussions between FSB and the previous Chancellor. However, we do want to see the VAT threshold once again rise in line with inflation, and not fall over time to the low levels seen in EU countries. There are already moves to reduce and harmonise the threshold across the EU, but this is an area where the UK should seek to diverge.

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. A long-term freeze that extends this complexity to even more small businesses, with lower turnover, would be a mistake, and prove a particular disincentive to starting a new business.

At the same time, we urge the Government to take action to help the small firms who are afraid of growing their businesses because they fear the extra paperwork brought about by going over the £85,000 threshold. As such, we urge the Government to take forward the ONS recommendation of tapering the VAT financial burden above the current threshold with the aim of resolving this cliff-edge anomaly. This will reduce the desire of these businesses to remain below the threshold, and is likely to encourage them to continue to grow past the £85,000 mark.

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. FSB is deeply concerned that rises in IPT disproportionately affect those at the greatest risk of lacking appropriate insurance protection.

Therefore, we call on the Government to send the right signal to the business community by ensuring IPT remains frozen at the current level. Especially with the issues regarding professional indemnity insurance outlined above, and the

Fuel Duty

FSB has consistently supported the fuel duty freeze and continues to do so. This measure is important for small firms who must use motor transport or else lose work.

Digital taxes

We would be concerned at the prospect of additional taxation on digital goods, especially in light of so many small businesses currently pivoting to digital sales in an attempt to recover lost sales elsewhere.

If Government wishes to tackle to large tech firms, it will be important to do so in a way that does not lead this tax to be passed on to small companies.

Economic crime levy

£100m annual "economic crime" levy on regulated professionals such as accountants, solicitors, conveyancers and estate agents in little more than a year's time (from April 2022).

Making Tax Digital

Making Tax Digital is a key pillar of Government's commitment to build a modern taxation system. MTD could have a critical role to play in alerting small businesses to relief and allowances, streamlined applications, tax off-sets for training and upskilling, and signposting to accredited debt and credit management training bodies. Management of debt repayments through the suggested Business Repayment Plan would be beneficial in ensuring small firms can access a coordinated hub.

However, it remains crucial that there is no compulsory requirement on non-VAT registered businesses as part of MTD, in light of the current challenges many micro and small businesses are facing. We ask for this commitment to be made clear for the rest of this Parliament, enabling the recent reforms to bed in before expanding them.

Examining other public costs facing small businesses, in the context of the pandemic

We would ask that HMT considers smaller costs, often sector dependent, facing small businesses and whether they are appropriate in the current climate. For instance, the CITB levy if little training is able to take place. We would ask that HMT audit smaller public charges facing small businesses, and whether they are appropriate. We would also ask HMT to consider whether there is a necessity to examine payments in regulated utility markets, and whether regulations are appropriate for a system where many workplaces are unoccupied.