



# FSB London Quarterly Small Business Index

Q4 2023

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fsb<sup>03</sup>





## Foreword

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**As we enter a big election year for London, confidence amongst London's small business community has dipped in Q4 2023, however, it remains in positive territory, and, above the national level.**

**There are numerous policy interventions that can be made by the Chancellor at the Spring Budget:**

### **Increasing the VAT threshold and smoothing mechanisms**

The **£85,000** threshold was fixed in 2017 – but had it kept pace with inflation, that figure would top **£100,000** today. Rocketing inflation pushed small firms to hike prices and inadvertently increase turnover without fattening profits, unwittingly ensnaring many into the VAT net, piling on extra burdens in time, money, and complexity.

Alongside a higher threshold, FSB wants the transition from not paying VAT to being subject to the tax to be less of a sudden shock to small firms. To that end, we want the Government to bring in a smoothing mechanism, so small firms aren't left out in the cold if they go a penny over the threshold, as is currently the case.

### **The return of VAT-free shopping**

The Removal of VAT-free shopping<sup>1</sup> for international tourists has sent the message to the world that London and the UK are not as business friendly as our competitors. The UK has missed out on a big chunk of the luxury tourism market since abolishing it. We urge the Treasury to reintroduce VAT-free shopping for international tourists in the UK to boost growth.

**Furthermore, as we focus on the upcoming Mayoral elections, we call on all candidates to think small first and heed our recommendations:**

### **Make London a prompt payment zone**

Late payments are causing headaches for two in three small businesses. FSB calls on the Greater London Authority (GLA) and the wider GLA family to set the ambitious target to pay 90% of undisputed and valid invoices from small businesses within 5 days, and 100% of all undisputed and valid invoices to be paid within 30 days. The Mayor should use the power of the office to leverage this target with all of the London boroughs.

### **A Procurement system focussed on small businesses**

We must get to a target of one-third of all GLA procurement contracts going to small businesses and to encourage small businesses from within minoritised communities to bid for the first time – this should be a fundamental focus for the new 'Grow London' Portal.

<sup>1</sup> The impact of ending tax-free shopping on the UK and London economies – September 2023 <https://data.london.gov.uk/blog/the-impact-of-ending-tax-free-shopping-on-the-uk-and-london-economies/#:~:text=The%20UK%20ended%20a%20scheme,the%20UK%20and%20London%20economies>

### **‘Grow London’ to become the ‘one stop shop’ for skills.**

The London business support hub (Grow London) must be fully functional and easy to navigate to enable small businesses to attract the skills needed. Helping small businesses with Digital, Green, soft skills alongside leadership and management skills for aspiring sole traders and micro business owners.

### **Create a London version of ‘Help To Green’**

The GLA should - where possible - offer businesses a combination of audits and grants. These easy to obtain grants and audits should provide support for small businesses to help engage to become more Energy efficient in their business and improve London’s Air Quality.

### **A London Business Mentoring system**

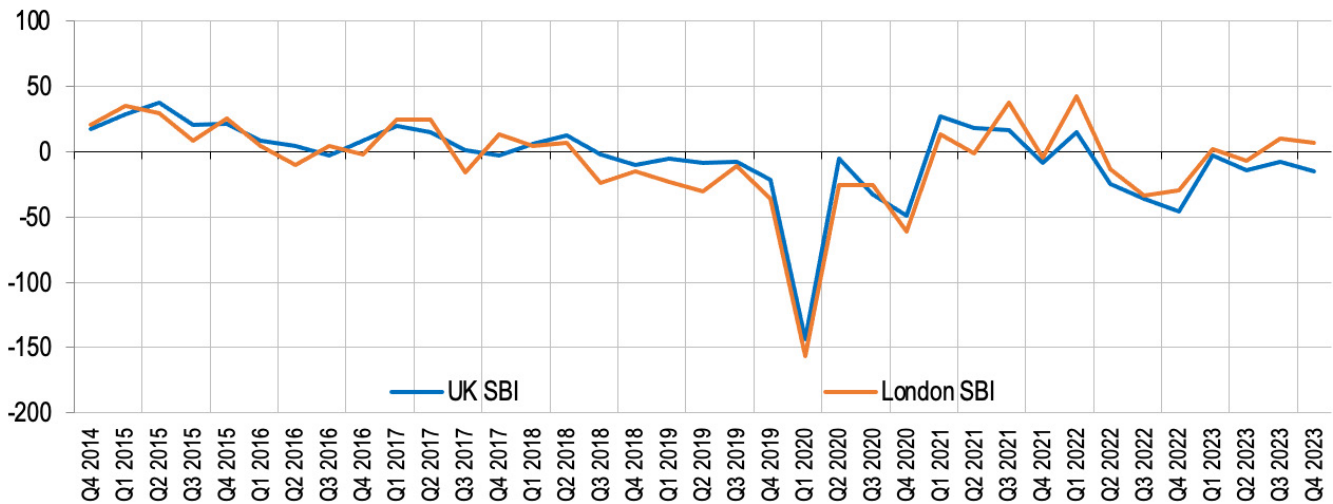
Small businesses from all communities should benefit from free or low-cost mentoring and we advocate a focus on targeted mentoring within the Grow London Portal.

**The London Small Business Index (LSBI)<sup>2</sup>, which measures confidence amongst businesses, has fallen versus the previous quarter. However, it remains positive overall. Confidence stands at 7 as of Q4 2023. In Q3, it stood at 10.**

Business confidence amongst London small businesses remains positive in Q4 2023, as the impact of rising costs may be continuing to ease in the region. When compared to other regions, London’s confidence level in Q4 2023 is significantly higher than the dampened nationwide average of -15.

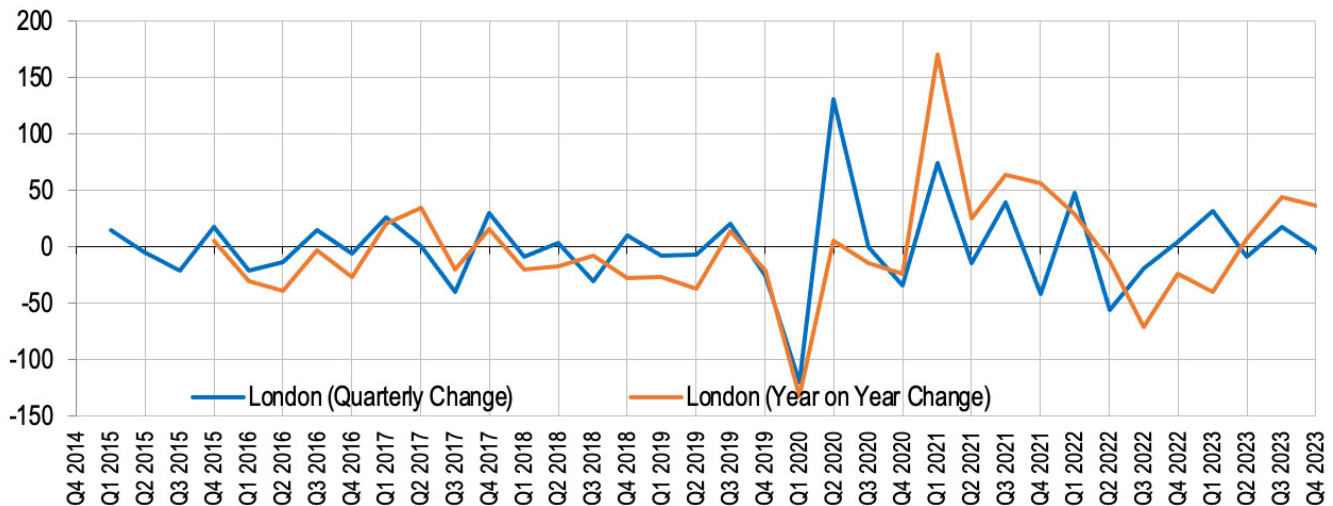
**Confidence amongst London small businesses remains at a positive level in Q4 2023 and continues to perform more strongly than the UK average.**

**Fig.1 FSB Small Business Index: regional variation in small business prospects/confidence over coming three months**



**Despite a marginal dip from the previous quarter, confidence based on yearly metrics shows a significantly more positive outlook amongst London businesses.**

**Fig.2 FSB London Small Business Index: small business confidence levels**



<sup>2</sup> The London Small Business Index is a weighted index of the responses to the question: 'Considering your overall business performance, and ignoring any normal seasonal variations at this time of the year, how do you view business prospects over the next three months, compared with the previous three months?' The share of firms reporting 'much improved' are given the following weightings: +2, slightly improved +1, approximately the same 0, slightly worse -1 and much worse -2; the Small Business Index is derived from the sum of these factors.

# Business Conditions

## Small businesses report positive net revenue in London for Q4 2023, improving from negative performance in Q3, and outperforming the UK average.

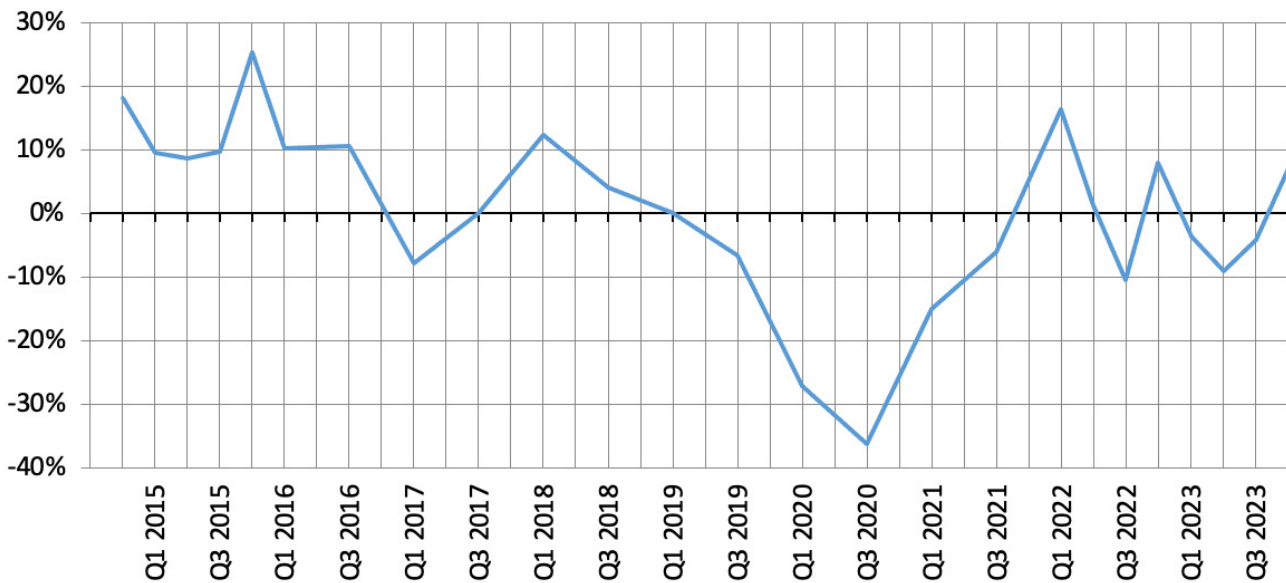
In Q4, 40% of London small businesses reported an increase in profit, with 33% highlighting a decrease. The net balance figure of 7%<sup>3</sup> for Q4 2023 is higher than figures reported in Q3, where the respective figure was -4%. Revenue in London for Q4 is significantly higher than the low performing countrywide average (net -6%). For context, several other regions have reported a significantly lower performance in Q4 than London; this includes the East Midlands and South West (both net -20%).

The outlook for future revenue is positive in London, with a net score of 7%. This is a decline from the more positive outlook expressed in Q3 2023, however, where the net outlook for future revenue stood at 18%.

This is driven by a higher proportion of London businesses expecting a decrease in profits for the coming quarter (26%), versus the outlook expressed in Q3 (20%). Despite this, London outperforms the nationwide average in Q4 2023, where the future revenue outlook is net 0%.

## London net revenue performance is positive as of Q4 2023, improving after three consecutive quarters where this was negative.

Fig.3 FSB Small Business Index: net balance of small firms in London reporting revenue (revenue question previously only asked in Q1 and Q3 phases of SBI).



<sup>3</sup> The NET number of businesses is calculated by subtracting the total number of businesses who reported a decrease in revenue from those who reported an increase in revenue in the last 3 months

'How has the revenue of your business changed over the last 3 months'

# Employment and Wage growth

**Q4 2023 sees a dip in headcount in London, with a net score of -5% in terms of staffing levels.**

9% of small businesses report increasing their employment levels over the last three months, whilst 14% noted a decline. The contraction of employment levels of net -5% is a significant dip from the net 8% growth reported in Q3.

London employment levels are similar to the nationwide average, with UK small businesses reporting a -4% contraction of headcount overall.

For the next quarter, London small businesses anticipate a net 0% change in staffing levels. This is a marginally more negative outlook than reported in Q3, where businesses expected net 2% growth. This score has been declining steadily since Q4 2022, where it stood at 16%.

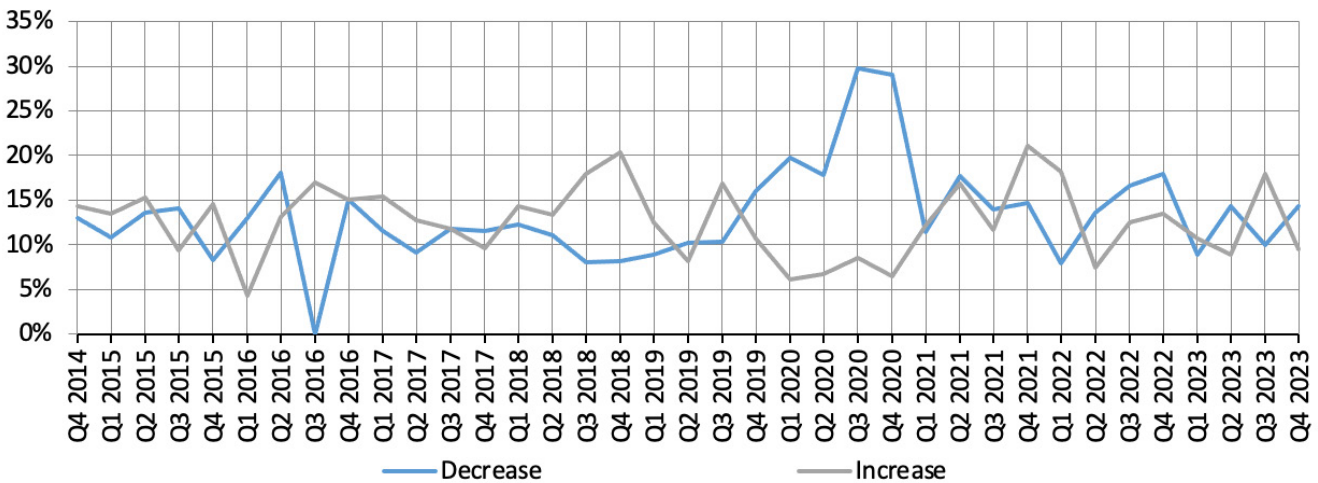
## Wage Growth

In London, 66% of small businesses increased salaries over the previous 12 months, as of Q4. This compares with the 63% reporting increased salaries in Q3 2023. The proportion of London small businesses reporting decreased salaries has increased from 3% in Q3, to 6% in Q4. In Q4, the net wage change therefore stands at 60%.

Wage predictions for the next 12 months are less positive in Q4 2023 versus Q3 2023. In Q3, wage predictions saw London small businesses anticipating a net 64% change in wages. In Q4, this now stands at a net 59% predicted change.

**Headcount amongst London small businesses contracts in Q4, falling from a more positive performance in Q3.**

**Fig.4 FSB Small Business Index: change in people employed in London over last 3 months**



## Growth and Investment aspirations

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In Q4 2023, 60% of small businesses in London said that their growth aspirations in the next 12 months were to grow either rapidly (increase turnover/sales by over 20%) or moderately (up to 20%). 12% report an expectation to downsize their business, resulting in a net growth aspiration of 48%. This is on par with net growth aspirations expressed in Q3 2023, which stood at 47%.

**Investment intentions for London businesses have held steady from Q3 to Q4, with small businesses continuing to have a positive outlook (Q3 and Q4: both net 9%).**

London's investment outlook is on par with the UK average of net 8%. There is a varied outlook across other UK regions: from stronger growth expectations (North West; net 21%), to anticipated contraction (East Midlands; net -8%).

**In London, the general economic conditions (71%), tax burden (29%), alongside consumer demand and labour costs (both 26%) are the greatest perceived barriers to growth over the next 12 months.**

Appropriately skilled staff has fallen as a key concern for businesses in the region, with 22% raising it as a barrier in Q3, compared to 14% in Q4.

## About FSB

As experts in business, FSB offers members a wide range of vital business services, including advice, financial expertise, support and a powerful voice in Government. Its aim is to help smaller businesses achieve their ambitions. More information is available at [www.fsb.org.uk](http://www.fsb.org.uk)

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