

# BUSINESS REVIEW

**Your spotlight on issues  
affecting business**

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# BUSINESS REVIEW

## COST OF 'GOVERNMENT POLICY' RISING

New research has found that the cost of government policy to the small business community has risen sharply during the past six years, with an average small firm now spending 15% more on tax and employment obligations than in 2011.

The analysis, based on data from the latest Impact of Government Policy Index (IGPI) – which is jointly compiled by the Federation of Small Businesses (FSB) and the Centre for Economics and Business Research (CEBR) – found that the increase is attributed to small businesses having to comply with a range of government policies, including business rates, auto-enrolment and Insurance Premium Tax.

And the FSB has warned that a range of government policies is set to see the cost burden on small firms rise further over the coming months. FSB National Chairman Mike Cherry commented:

*"Come the beginning of April, small firms will not only have Brexit day to worry about but also Making Tax Digital, a higher living wage, rising employer auto-enrolment contributions and further business rates hikes. This will be a flashpoint for a lot of businesses, one which could threaten the futures of many. With Brexit on the horizon, it's critical that government at all levels does its utmost to help, rather than hinder, the UK small business owners who are being tempted to other shores."*

## NEW BUSINESS RATES INQUIRY LAUNCHED

The Treasury Committee has announced details of a new inquiry into the Business Rate system that will assess the full impact of this area of government policy on the business sector.

Details of the impact of the Business Rates inquiry were released on 1 February and are set to cover three areas. The first focuses specifically on the impact of changes in Business Rates policy since 2017 and will include analysis of the new reliefs and allowances, the ability of businesses to pay and the relationship between Business Rates and the behaviours it drives in business.

The inquiry will also assess how the Business Rate system measures up as a 'good' tax policy in terms of whether it is fair, supports growth and encourages competition, provides certainty and is coherent. Finally, the inquiry will assess the economic justification for, and problems associated with, property-based business taxes, and also assess potential alternatives such as the proposed digital services tax.

At the end of the inquiry, the Treasury Committee will make a series of recommendations to government on the fairness and effectiveness of the current system and how it could be improved. The initial deadline for written submissions is 2 April 2019.

The business community has broadly welcomed the announcement which, it is hoped, could ultimately lead to a fairer Business Rate system that balances the need to fund public services without overburdening the business community.

## CBI RECOMMENDS APPRENTICESHIP REFORMS

A report by the Confederation of British Industry (CBI) has outlined a series of recommendations to reform England's apprenticeship system.

The report states the government must make it clear that the Institute for Apprenticeships (IfA) is the principal body for vocational skills in England and ensure that it has the 'independence and clout it needs' to reform the system.

Other key recommendations in the report include: the speeding up of the apprenticeship standards approval process, so that businesses can start to use them; clarifying the position of T-levels and higher T-levels within the skills system to foster higher levels of confidence in them amongst employers and the public; and increasing the time employers have to spend their money, where apprenticeship standards remain in development.

John Cope, Head of Education and Skills Policy at the CBI, said: *"This business-backed blueprint needs to be taken seriously to make sure the English skills system supports, rather than frustrates, employers, offering a first step to people in their career."*

## THE RISE OF THE 'SIDE HUSTLER'

A recent BBC report has highlighted the rising number of workers who run at least one other business alongside their main source of income.

According to Henley Business School, one in four workers run at least one

'side hustle', with 25 to 34-year olds the most likely age group to be involved. The business school estimates that 20% of an average side hustler's income comes from their second job, equating collectively to a colossal £72bn or 3.6% of GDP.

While a second job can obviously contribute vital income, the research suggests that almost three-quarters of those who start a side hustle are following a passion, often in creative industries, or exploring a new challenge.

Having one or more extra jobs can provide a stimulating lifestyle, giving workers the opportunity to earn extra much-needed cash while indulging their interests and passions. However, there can be downsides to this lifestyle, such as long working hours and a lack of income security.

A poll by software company CIPHR suggests there may be downsides for others too. Just under two-thirds of workers with a side hustle claimed they work on their sideline during office hours, and 46% admitted failing to declare their secondary income to HMRC.

## MINISTERS REJECT CALLS TO REGULATE COMMERCIAL LENDING

The government has refused to heed calls by the Treasury Committee to regulate small business lending, despite growing concerns that a lack of regulation could lead to further financial scandals.

Unlike mortgage lenders and consumer credit providers, an entity lending money to businesses does not need to be authorised by the Financial Conduct Authority (FCA). And, in a report published last October, the Treasury Committee called for this anomaly to be addressed.

However, in its response to those recommendations the government insisted there is no clear case for regulation and suggested that such action would raise costs for lenders that would simply be passed on to the businesses themselves. It also added that lenders were already signed up to a code of conduct for best practice and that bank behaviour had 'changed significantly' since the 2008 financial crisis.

The government's refusal to act was condemned by the Treasury Committee's

chair, Nicky Morgan, who reiterated calls for the FCA to be given powers to protect SMEs. She went on to suggest that the government's continuing refusal to act could set the scene for further financial scandals.

There was also criticism from the SME Alliance, which represents business banking victims. Nikki Turner, director of the SME Alliance commented: *"The government and the FCA are betraying British businesses because they are unwilling to take on the big banks. The idea that because the banks are not behaving as badly as they did a decade ago it's all OK is like inviting Hannibal Lecter to dinner because he hasn't killed anyone recently."*

## SHARED OFFICE PROVIDERS SEE PROPERTY VALUE SURGE

New data released by real estate law firm Boodle Hatfield has shown a sharp increase in the value of property owned by shared office providers.

The value of property owned by the industry's top ten providers rose by 35% last year, reflecting the strong growth experienced in the flexible workspace market. The data also highlighted an increase in demand for shorter leases amongst major companies – the length of the average commercial property lease fell from 25 years in 1987 to just 7.1 years in 2017.

The strength of the flexible workspace market and increased demand for shorter leases has encouraged traditional property heavyweights such as Great Portland Estates and Landsec to enter the market.

Simon Williams, partner at Boodle Hatfield, commented: *"Shared workspaces have now gone beyond being a cool place for media and tech startups – they are now a substantial part of the commercial property market in major cities worldwide. The expectation is that there is still significant growth in this market in the coming years."*

### QUIRKY QUOTE:

*"It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change."*

— Charles Darwin

## OTHER NEWS

### Chancellor announces Spring Statement date

Philip Hammond, the Chancellor of the Exchequer, has announced this year's Spring Statement will be delivered on Wednesday 13 March. The Statement, just the second since the abolition of its Autumn predecessor, will come just over two weeks before the UK is due to leave the EU. An emergency budget is widely anticipated to follow quickly in the event of a 'no deal' Brexit.

### Eight in ten businesses could be under-insured

According to research by the Royal Institution of Chartered Surveyors (RICS) and the Building Cost Information Service (BCIS) as many as eight out of ten businesses in England and Wales have an element of under-insurance on their commercial properties. In the event of unexpected incidents, small businesses can be heavily reliant on insurance payouts to remain afloat. So, it's vital to ensure your business is fully insured.

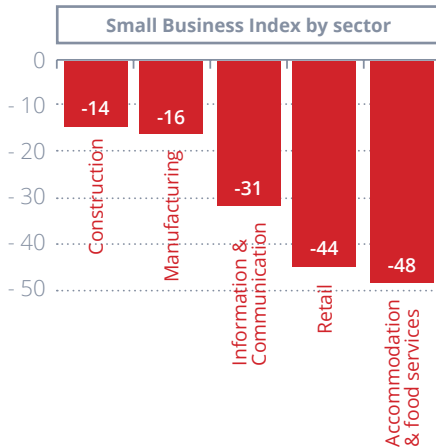
### Brexit will not affect roll-out of MTD for VAT

HMRC has denied claims that the introduction of Making Tax Digital (MTD) for VAT will be delayed if the UK leaves the EU without a Brexit deal. MTD for VAT is due to come into effect on 1 April 2019 for businesses with a taxable turnover above the current VAT registration threshold of £85,000. And HMRC insists that this will be the case regardless of the outcome of Brexit negotiations.



# Small Business Data

## Small Business Confidence by Sector



- Confidence in the construction and manufacturing industries fell into negative territory in Q4 2018
- Construction firms registered a fall from +16.0 in Q3 to -14.0 in Q4
- Manufacturing businesses recorded a 47.5 point decline from +31.1 in Q3 to -16.4 in Q4
- Information and communication industry confidence fell by 58.5 points from +27.7 in Q3 to -30.8 in Q4

Source: FSB - Verve 'Voice of Small Business' Panel Survey of FSB members Q4 (1064 respondents 3/12/18)

### EXPORT GROWTH

# 7.6%

of small businesses reported an increase in exports over the past three months, decreasing for the second consecutive quarter

### EXPORT EXPECTATIONS

# 0.2%

of small businesses expect to grow exports in Q1 2019, this is the lowest score ever recorded

### OPERATING COSTS

# 63.2%

of small businesses reported an increase in operating costs during Q4 2018

FSB, Dec 2018

### LABOUR STATISTICS



- Data shows that in the three months to November 2018 the **employment rate** was **75.8%**, the joint highest rate since records began
- The **unemployment rate** was also at a historically low rate of **4.0%**
- In Q4 2018, **3.9%** of small firms **increased the size of their workforce**
- The level of small business employment growth has now been positive for **ten consecutive quarters**
- **5.1%** of firms expect to **increase hiring activity** in Q1 2019

ONS and FSB, Jan 2019

### ESSENTIAL TAX DATE



#### 19 February

- PAYE, Student loan and CIS deductions are due for the month to 5 February 2019



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