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from PM

10 DOWNING STREET

From the Private Secretary

MR. HARTLEY

CPRS, CABINET OFFICE

ELIMINATING UNDUE BURDENS ON SMALL FIRMS

attached
You kindly sent us a copy of a background note on "Eliminating Undue Burdens on Small Firms". I understand that firm proposals on this issue will be coming forward fairly soon.

I showed this note to the Prime Minister, and you will want to be aware that she is not much taken by options 8(a) and (c) - i.e. to set up independent Civil Service machinery to scrutinise departmental forms, or to appoint outside consultants.

I am sending a copy of this minute to Peter Mountfield (Cabinet Office).

T. P. LANKESTER

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20 September 1979

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ELIMINATING UNDUE BURDENS ON SMALL FIRMS

You asked about "burdens on small firms". Sir K Joseph will bring forward proposals shortly. This paper gives some background

1 The primary objective of the proprietors of most small firms is to be left alone to get on with the business in hand. This being so, their threshold of tolerance to the 'burdens' imposed by bureaucracies both central and local - and they do not often distinguish clearly between the two - tends to be low. 'Burdens' can broadly be taken to embrace anything that consumes either time or money and it is too much to expect of any government that it will be able to remove them to the satisfaction of all. Nevertheless, there are some areas of legislation and of central and local government activity that figure particularly prominently in letters to Ministers and MPs from small firms and their representatives bodies. The attached notes identify the principal irritants of these kinds under the following main headings:-

- a the demands of new legislation; the burden of comprehension and the burden of implementation
- b the demand for information
- c the unpaid tax collector

2 The notes describe the action that government has taken, is taking or is contemplating taking to remove or alleviate such burdens. They do not deal in detail with the levels of VAT or other forms of taxation or with high interest rates; although both of these would be high on any list of complaints, they are being tackled separately.

3 Our general conclusions are as follows:-

So far as existing legislation is concerned the Small Firms Division of the Department of Industry has been discussing with responsible Departments possible changes aimed at easing the burden on small firms. This activity is reflected in the attached notes. More generally, we believe that an awareness of the special problems of small firms throughout Whitehall and of the impact that any proposed legislation or administrative

requirement might have upon them should be our aim.

4 To this end, we offer the following suggestions:-

- (i) Department initiating legislation might be required to assess/estimate the likely costs of the measures on industry. ^{where this is possible.} This could be included in the Memorandum along with the manpower and Civil Service costs.
- (ii) Wide consultation with small firm representative bodies, including trade associations with a high percentage of small firms and Chambers of Commerce.
- (iii) Consultative literature to be written so that it is simple and quick for small firms to grasp.
- (iv) Preparation of a simple guide - and, in some cases, a special small firms edition - to be available soon after legislation receives the Royal Assent.
- (v) Less legislation!
- (vi) Administrative instructions etc to be written as simply as possible, with reporting requirements cut to a minimum. Forms to bear an indication of whether their completion is mandatory or voluntary; and (as is the case with many statistical surveys) clear guidance to be given to respondents about the parts that are, or are not, relevant to them.

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GOVERNMENT-IMPOSED BURDENS ON SMALL FIRMS

The demand of government can perhaps be conveniently described under three headings:

- i New or amended legislation; the need to be understood and honoured by small firms
- ii Information (form filling)
- iii The function of the businessman as unpaid tax collector

LEGISLATION

2 Small businesses are not lavishly endowed with management resources, and in the smallest the proprietor is chief engineer, legal adviser and administrator all rolled into one. Time is money to such people, and the burden of reading and understanding new legislation and regulations is a very real one.

3 Having struggled to understand what is required of him, the small businessman affected by legislation that does not recognise his special problems can be more severely affected than his larger counterpart, thus:

General

- a Legislation requiring record-keeping can strike at the proprietor's dislike of, and (very often, since this is not what he is in business for) inability to cope with paperwork.

Specific Legislation

- b Employment legislation has been a particular cause of complaint not only on account of its complexity but also as a result of the rigidity it is said to impose on the employment practices of small businesses employing only a few people in a close relationship with their employer.
- c Similarly, some Health and Safety requirements impose burdens and especially costs that may be more appropriate to the large unit than the small.
- d Planning legislation generates complaints on two scores. The first, which is not unique to small firms but hits them particularly hard, is the delay in obtaining decisions on planning applications. This complaint is of course directed at local authorities but can create severe difficulties for the small business whose success can depend on rapid adaptation to change. The second complaint concerns the planning restrictions on (for example) non-confirming but 'unobtrusive' use of residential schemes. There is pressure for a more flexible approach in recognition of the fact that many small businesses are and need to be situated close to the communities they serve and cannot always be as tidily disposed into industrial estates.

What Can be done?

- 4 In recognising and tackling the special problems of small firms it is

important to beware of the danger of creating two classes of business; the one affected by and the other exempt from major areas of regulation. If we go too far along this route we can create unacceptable penalties for those who cross the line dividing small from large, inhibit the very developments we want and, indeed, create a body of phoney small firms established for ~~regulation~~ evasion purposes alone. However, that is not to say that exemptions and modifications in the interests of small firms are to be ruled out, and in most cases cited in paragraph 3 above action (sometimes as part of a larger operation not confined to small firms) is already in train. Thus:

- a Disclosure and Record Keeping. Implementation of the EEC Directive in Company Accountancy and Disclosure will make it possible to establish a new class of 'proprietary company' which should be helpful to smaller businesses as they will be required to disclose less information than at present; and the forthcoming consultation document will reflect this. The most common complaint concerns record-keeping necessitated by the Government's need for statistical information and for taxation purposes; see below.
- b Employment Legislation. The qualifying period for complaints of unfair dismissal is being extended, as is the notification period for redundancies of under 100 people. Other possibilities - the exemption, for example, of firms in the first two years after they start to trade - are being explored. These are helpful, but on the other hand the current proposal to make employers responsible for sick pay will pose problems for small firms and is the subject of further discussion.
- c Planning Legislation. The problems of balance between conflicting interests is clearly important. However, the Department of the Environment are now considering changes in the planning machinery - the elimination of overlapping functions and of minor cases and changes designed to accelerate appeals procedures - which are pointing very much in the right direction.

What more needs to be done?

5 It is the explicit function of the Department of Industry's Small Firms Division to scrutinise new legislation for its effects on small firms. The sheer volume of legislation makes this a fairly tall order, however, and (again, without wishing to create a second class category of industry) responsible Departments themselves should be invited to bear in mind the special needs and problems of small firms and to accommodate legislation to these as far as possible.

6 Nevertheless, new legislation will affect small firms, and guides to industry should either include special special sections drawing particular attention to those parts that affect small firms or should be supplemented by 'small firms editions', booklet series. Although it is a truism, comprehensibility of requirements and the avoidance of unnecessary ones are the key here as elsewhere.

INFORMATION (FORM FILLING)

7 In July last year the previous Administration initiated reviews of all Government statistical surveys and administrative forms with the aim of reducing the burden they impose on industry, particularly small firms. The results were disappointing - only a few forms were eliminated and certain administrative

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procedures simplified. In general Departments managed to identify the range of their forms which affected small firms but claimed there was little scope for making significant reductions within the confines of statutory requirements and Departmental policy. Before further action could be considered by Ministers the Election intervened and the exercise was in effect aborted.

8 The following options for further action have now been suggested to ministers:-

- a *No* To set up independent Civil Service machinery to scrutinise all Departmental forms; and perhaps reinforce its credibility by appointing someone from outside to head it;
- b To renew last year's review and require Parliamentary Secretaries of all Departments concerned to report results at the end of 6 months;
- c *No* To appoint outside consultants to work with Civil Servants on reviews of Departmental forms.

9 Option (C) has in effect already been adopted by the Department of Trade. A team consisting of 4 outside consultants and one DOT official will shortly begin work on DOT forms and a report is expected in the Autumn. We shall regard this exercise as a pilot scheme and decide later in the year whether or not to recommend a similar approach to other Departmental reviews.

10 Sir Derek Rayner proposed to mount in the Autumn a visual demonstration of the burden imposed on industry by governmental requests for statistical and administrative information. This might prompt further action on the issue.

STATISTICAL SURVEYS

11 Statistical inquiries account for only a small proportion of Government forms directed to businesses. The Government Statistical Service (GSS) endeavours to ensure that no greater burden is placed on businesses by statistical inquiries than is necessary in order to provide the information required. Particular attention is paid to small firms by eliminating them from surveys where possible and otherwise by simplifying questionnaire design and introducing sampling where this would produce reasonable accurate results.

12 In addition to the continuing efforts of sponsoring Departments to reduce burdens, the Survey Control Unit of the CSO assesses each proposal for a new survey or for any change to an existing regular survey involving businesses with the aim of ensuring that the survey is efficiently designed, that the information could not be obtained from other sources and that the sample is no larger than is strictly necessary for the information required. The Unit pays particular attention to any burden on small firms.

13 For the purpose of the review initiated under the previous administration small firms were taken to be those with fewer than 200 employees. For each inquiry, the sponsoring Department considered whether it should be dropped or reduced in frequency, whether the sample size could be reduced and whether questions could be eliminated and forms simplified. The review is now nearing completion and the Director of the CSO is preparing a report for submission to Ministers in September. The review seems likely to achieve a reduction in the number of forms sent to small firms (as defined above) of about 12 per cent.

14 Two exercises are in hand which are also likely to affect the amount of data collected for statistical purposes from businesses. These are the Lord President's exercise, investigating options for achieving staff cuts by reducing or eliminating Departmental functions and Sir Derek Rayner's investigation of the statistical services of DIT.

TAXATION AND TAX COLLECTION

15 Collection of PAYE and National Insurance contributions is a perennial complaint of small firms. This is frequently expressed by suggestions that the firms should be paid some form of compensation for the work it does on behalf of HMG. Recognition of the cash flow benefit from holding money that does not belong to them is uncommon and many small firms are not sufficiently sophisticated in their accounting methods to take account of it. In all but the smallest concerns a cost will be involved, i.e. a book keeper will be engaged to look after this aspect. The other real cost involved is the size of the employers' contribution for National Insurance and here the surcharges have been particularly resented.

16 Despite the considerable effort devoted to explanation/training in the early days, the introduction of VAT has caused the greatest number of complaints about the tax system. Those who sell zero-rated goods complain about the free loan to HMG, and this is echoed by certain people engaged in highly seasonal trades. All complain about the volume of paperwork involved and although a single rate of tax does simplify matters, most small firms are too concerned about the effect of which the 15% rate will have on their sales to derive much comfort from this particular Budget change.

17 Capital Gains Tax and Capital Transfer Tax are seen as complicated in themselves, and inhibiting factors in transferring a business to the next generation. The difficulties involved and the inter-relationship of the 2 taxes have made it difficult for the small man to comprehend. Both the incidence and the complexity of these taxes are therefore seen by small business as inhibiting their desire to expand and develop.