Red Tape: A Big Problem For SMEs?

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Red Tape: A Big Problem For SMEs?

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Contents

Overview 3

Part 1
1.1: The startup and SME journey 5
1.2: Government independent review 10
1.3: Recent trends 13
1.4: Government action 14

Part 2
Red Tape Business Survey 17
2.1: Survey results 18
2.2: Part 2 summary: 7 key takeaways 32

Part 3
Conclusion 34
3.1: Find out more 37

Part 4
Addendum 39
4.1: Survey quotes 39
Overview

In Spring 2016, we set out to explore the nature and challenge of ‘Red Tape’ to small to medium sized businesses and startups in the UK. We wanted to understand how well the needs of SMEs are being met by the wider business community and Government.

In our assessment - which included a survey of the entrepreneur and SME community - we examined key questions around what constitutes Red Tape, what effect it is having on the success of small businesses and what can be done to navigate this space more efficiently.

A key part of this assessment was to gauge how existing business assets are managed and deployed to bridge any knowledge gaps in the set-up phases of burgeoning startups and areas of uncertainty in SMEs. We were interested to know if there is a skills and/or a communications gap in helping early-stage businesses and SMEs get the business assistance they need to achieve their ambitions.

The report that follows is divided into four parts:

1. The first section examines the startup and SME landscape, a Government Review, recent trends and Government intervention around Red Tape

2. The second section examines the results of a survey conducted on the SME community looking at the challenges of Red Tape from an entrepreneur’s or SME’s viewpoint.

3. The conclusion brings the first two sections together and looks forward to how the UK business community can help navigate Red Tape and help SMEs flourish in the future.

4. This section highlights some of the salient points in the survey to demonstrate the on-the-ground experiences UK businesses are having in navigating Red Tape and in trying to achieve their goals and objectives.
1

Red Tape: The startup and SME journey
1. Start-up industry trends

1.1 The Startup landscape

To give this report some overall context it’s useful to look at another report we produced in 2015 (‘The Role of Business Guidance in Start-Up Success’) that addressed the shape of the business startup landscape, the challenges it faces and how these can be met.

The survey conducted for the ‘Start-Up Success’ report was conducted on more than 300 entrepreneurs and finance professionals, looking at the start-up community from an entrepreneurs and finance professional’s viewpoint. We asked each group similar questions to assess where there were gaps that needed addressing.

For more information go to: http://www.businessadviceservice.com/startup-success-the-role-of-business-guidance/

The Role of Business Guidance in Start-Up Success:

Key findings

Optimism, doubt and false assumptions
Based on the evidence we looked at in this 2015 paper, there is plenty to be optimistic about when looking at the UK start-up landscape – the state of the industry is in healthy shape and there exists a lot of positive sentiment around the community of entrepreneurship.

A career as an entrepreneur continues to be seen as an attractive option and statistics reflect that many people are turning this goal into a reality year on year. This, of course, is very encouraging and this ambition needs to be increased further.

However, there exists a lot of doubt in the start-up community. This is rooted in a belief that they lack the capabilities and skills to convert their ambitions into a successful business. This is compounded by entrepreneurs’ perceptions of what they think will be the challenges they face as a start-up and the reality they actually encounter. These false assumptions can often lead to businesses not fulfilling their maximum potential and at worse failing completely.

The road ahead
To ensure that more start-ups get off the ground and enjoy success, it’s imperative that more is done by the wider business community to offer
professional advice and guidance to entrepreneurs, so they are appropriately informed about their business journey.

The role of business advisors for start-ups and entrepreneurs has never been more crucial to plug the ‘knowledge gap’ that exists. Business advisors have a critical role to play in applying the rigour that will ensure start-ups have the capabilities for success, while cutting through the confusion that can surround start-up challenges.

Business advisors and start-ups can enjoy a much more successful relationship by engaging with each other much earlier in a start-up’s life cycle – one that presents a huge opportunity to help entrepreneurs plan thoroughly for their new direction and lead to sustained growth for start-ups in the UK.

“The desire to create a successful start-up in the UK is still very high and continues to grow. What’s important now is to put start-ups and business advisors in touch at an early stage to maximise the potential of the SME community. With the right advice, we can increase the number of successful businesses in the UK and help entrepreneurs achieve their dreams.”

Stephen Ibbotson, ICAEW Director of Business
The Role of Business Guidance in start-up success

Survey stats

Do you think you underestimated the challenges of starting-up a business?

- **YES 70%**
  - Entrepreneurs

- **YES 84%**
  - Finance professionals

Businesses suffer from a lack of understanding of the real business challenges start-ups face.
Despite 70% of entrepreneurs thinking they underestimate challenges, 32% still don't think they need an experienced business advisor.

Getting an experienced business advisor as a start-up is useful

YES

68%

Entrepreneurs

Getting experienced business advice for a Start-Up at an early stage is useful

SLIGHTLY
AGREE

6%

Finance professionals

STRONGLY
AGREE

86%

Finance professionals
However, as you can see from above, 86% of Finance Professionals think getting early-stage business advice is vital.

It is useful for Start-Ups to have discussions with experienced accountants at an early stage.

Getting an experienced Chartered Accountant when starting up is useful
Less than 40% of entrepreneurs think it’s vital to have a Chartered Accountant compared to more than 80% of Finance Professionals.

**Red Tape and startups**

Is business advice or getting a Chartered Accountant itself seen as ‘Red Tape’? The previous results indicate some entrepreneurs think so, with less than 40% thinking it’s vital to get a Chartered Accountant when they start up – even though more than 70% also acknowledge they had underestimated the challenges of starting a business.

To convert as many startups into successful businesses as possible, Red Tape needs to be on the agenda for early-stage businesses from day 1 with professional advice to help in navigating any problematic areas. This includes making clear business advisors and chartered accountants are there to simplify things not add more Red Tape.

In terms of key challenges for the future The Global Entrepreneurship Monitor (GEM) said:

“The biggest challenges in the UK lie with raising the growth ambitions of entrepreneurs and matching this with the skills necessary for growth.”

The Global Entrepreneurship Monitor

**1.2 Government Independent Review**

**Government Independent review**


The independent review conducted by fashion entrepreneur Julie Deane OBE provides a number of recommendations to the Government to consider in order to improve the prospects of the UK’s self-employed. A key aim of the review was to understand the motivations and challenges of the self-employed across the UK so the Government can better support them.
Lack of finance knowledge

One of the key recommendations outlines the need for the private sector to recognise the increasing economic potential of the self-employed.

Julie Deane said: “With record numbers representing 15% of the workforce and growing, the self-employed is a diverse and important sector. Having long been part of this group I wanted my recommendations to be both practical and impactful.”

During the review many self-employed talked about their concerns around a lack of knowledge regarding finance, cash flow, bookkeeping and taxation.

Taxation: An administrative burden

In fact, although outside the remit of the review, taxation was repeatedly raised by all of those interviewed by Deane – as an administrative burden and a barrier to growth.

These are skills that would benefit many adults regardless of their employment status. It is important that the advice and support available is as accessible as possible. We are pleased the review cited this website (the ICAEW Business Advice Service) as a great source of such information.

Self employment: A positive choice

The report found that most people who have made the transition to self-employment have made a positive choice and don’t plan to return to employed work, preferring their work-life balance as a self-employed person.

The report suggests the self-employed are happier working for themselves than for other people, but need more support in navigating financial matters.
Key recommendations

The review also suggests:

- While there is advice and support available on it, the official Government website isn’t easy to navigate or use and they should consider reviewing how well information is signposted for the self-employed

- More flexible financial solutions for the self-employed should be offered, and trade organisations should play a key role in signposting these

- The location and availability of shared work spaces should be better communicated, and consideration should be given to incorporating such spaces in local libraries and community centres.

Summary

The new review found that overly complicated legislation and administration is costly for the Government and burdensome to the growth of our businesses, which needs addressing in a clear and common-sensical manner.

You can learn more about the findings from Julie Deane OBE’s Self-Employment Review here: https://www.gov.uk/government/publications/self-employment-review
1.3 Recent Trends

While we can see from the graph below that there doesn’t seem to be a noticeable rise in the keyword ‘Red Tape’ over the last few years, there have been some high-profile instances lately where it has hit the headlines. This has been compounded by a perceived lack of support where there is confusion around financial matters.

Google Trends

Quarterly tax returns

A Government proposal to introduce new quarterly tax returns for small business recently brought Red Tape to the fore with strong opposition growing to the plans. A petition is now live with more than 100,000 signatures urging the government to scrap the proposals.

SME Finance and Tax Support

A recent report by Citizens Advice drew attention to the lack of perceived support available to those wishing to go self-employed, especially help with skills including financial planning and understanding the tax system.

The report says confusion over tax status and lack of help with practical aspects is hampering the dreams of 40% of workforce that would like to start their own businesses.

Pension auto-enrolment

Pensions have also been connected with the term Red Tape recently as businesses with less than 30 staff having to enrol employees in a pension scheme by mid-2017.
EU Referendum

Finally, both sides of the EU Referendum debate have recently cited Red Tape as a reason for staying in or leaving Europe.

1.4 Government action


Cutting Red Tape programme

‘The Cutting Red Tape programme will begin by examining the energy, waste, agriculture, care home and mineral extraction sectors,’ says the piece, ‘which ministers say face some of the most burdensome regulations.’

Which sectors?

‘The agricultural industry, for example,’ says the post, ‘reportedly spends an average of more than £77 million complying with information checks, which often involve completing duplicated forms.’

Likewise for the care-home sector, according to the Cohen Arnold piece. Care homes, it says, are ‘often required to provide the same information to up to seven public agencies’. What a real, on-going nuisance that is.
Take the brakes off British business

The Government’s hope is, says the piece, ‘to address problematic areas such as these, with a view to cutting the cost of doing business over the next five years’.

It’s inviting feedback – both on these sectors, and other areas you think it should be considering.

‘Launching the programme, Business Secretary Sajid Javid said he was determined to ‘take the brakes off British businesses and set them free from heavy-handed regulators’, says the piece.

‘The Government’s pledge to cut £10bn in red tape over the course of this Parliament will help create more jobs for working people, boost productivity and keep our economy growing.’ So says the Minister.

Tell the Government where it hurts

The Government has also invited consultation from the coalface.
‘We want firms to tell us where red tape is holding them back and help us make Britain the best place in Europe to start and grow a business’, Cohen Arnold quotes Sajid Javid.

See more on the Government’s Cutting Red Tape webpage:
https://cutting-red-tape.cabinetoffice.gov.uk
Red Tape
business survey
2. Red Tape business survey

The Red Tape business survey we conducted on startups and SMEs in the UK in 2016 was aimed at giving some more definition to some of the issues and challenges we’ve highlighted above.

The survey was conducted on a number of finance professionals, startups and SMEs to get an overview of the pressing concerns of UK businesses.

See below for the full survey results.

Defining Red Tape

One problematic area for many people we spoke to was the definition of Red Tape itself. Mirriam-Webster defines it as:

“A series of actions or complicated tasks that seem unnecessary but that a government or organization requires you to do in order to get or do something.”

To this end, we addressed this potential area of confusion in the survey to begin with to get some consensus.
2.1: Survey results

1. Defining Red Tape

Takeaway:
Nearly half of respondents identified with Red Tape as ‘needless forms and excessive paperwork that take time and money’. The second biggest group identified with the term as ‘any form of regulation or requirement that gets in the way of a business being profitable’. 
2. Burdensome regulations for UK SMEs

*Takeaway:*
The top three regulations SMEs find most burdensome in order are:
- Employment law
- Pensions auto-enrolment
- Local authority regulations and charges
3. Most onerous aspects of employment law

**Takeway:**
For those businesses that found employment law burdensome, keeping up to date with employers’ responsibilities was by far the biggest area of concern.
4. Onerous aspects of pensions auto-enrolment

**Takeaway:**
For those businesses that found pensions auto-enrolment burdensome, ‘getting clarity on what needs to be done and when’ got more than 45% of the overall total.
5. Health and safety aspects that are burdensome

Takeway:
For those businesses that found employment law burdensome, more than 31% found doing health and safety risk assessments the most onerous.
6. Looking at whether Red Tape impedes small business growth

Takeaway:
78% of respondents either slightly or strongly agree that Red Tape impedes small businesses in the UK from growing effectively.

Less than 2% of respondents strongly disagree that Red Tape impedes small businesses in the UK from growing effectively.
7. Looking at whether the Government could do more to cut red Tape

Takeaway:
83.5% of respondents either slightly or strongly agree that the Government could do more to cut Red Tape.

Less than 2% of respondents disagree that the Government could do more to cut Red Tape.
8. Looking at whether Red Tape has stopped people from starting a business or becoming self-employed

**Takeway:**
More than 58% of respondents either slightly or strongly agree that Red Tape has stopped people they know from starting a business or becoming self-employed.

Less than 9% of respondents strongly disagree that Red Tape has stopped people they know from starting a business or becoming self-employed.
9. Looking at the main reasons for why Red Tape might have prevented someone starting a business

Takeaway:
More than 55% of respondents cited some lack of financial support that prevented someone they know from starting a business.

More than 28% cited a lack of financial resources and support; more than 17% a lack of practical support, such as completing tax returns, and more than 9% cited a lack of available help with skills, such as budgeting or business planning.
10. Looking at how many businesses would be in favour of the plan for new quarterly Tax Returns

**Takeaway:**
More than 45% of respondents either slightly or strongly disagree that they would be in favour of the mooted new quarterly tax returns. Less than 8% of respondents agreed they would strongly be in favour of the new quarterly tax returns, however just over 21% slightly agree they are in favour.
11. Looking at whether the time it takes to keep up-to-date with legal requirements and managing to comply with them is a distraction from helping the business grow

Takeaway:
More than 80% of respondents either slightly or strongly agree that keeping up-to-date with legal requirements and managing to comply with them is a distraction from helping the business grow.

Less than 5% of respondents strongly disagree with the statement.
12. Looking at whether more practical support for early-stage business would help navigating Red Tape.

Takeaway:
More than 81% of respondents either slightly or strongly agree that more practical support for early-stage business would help navigating Red Tape.

Less than 4% of respondents slightly disagree with the statement and 0% of respondents strongly disagree.
13. Looking at whether a chartered accountant is useful for early-stage businesses in helping to navigate Red Tape and grow their business with expert advice

**Takeaway:**
More than 71% of respondents either slightly or strongly agree that a chartered accountant is useful for early-stage businesses in helping to navigate Red Tape and grow their business with expert advice.

Only 3% of respondents strongly disagree with this statement.
14. Looking at whether Red Tape is a necessary evil and shouldn’t distract from growing a business

Takeaway:
More than 43% of respondents slightly or strongly disagree that Red Tape is a necessary evil and shouldn’t distract from growing a business.

More than 38% of respondents slightly or strongly agree that Red Tape is a necessary evil and shouldn’t distract from growing a business.
2.2: Part 2 summary: 7 key takeaways

1. Employment law is considered the most burdensome regulation for UK SMEs with nearly 24% of respondents citing it as a challenge.

2. Overwhelmingly (more than 78%), a significant proportion of businesses in this survey found that Red Tape impedes small business growth in the UK from growing effectively.

3. Overwhelmingly (more than 83%), a significant proportion of businesses in this survey found that the Government could do more to cut Red Tape.

4. A significant amount (more than 58%) of businesses in this survey agree that Red Tape has stopped people they know from starting a business or becoming self-employed.

5. A significant amount (more than 55%) of businesses in this survey cite some lack of financial support has prevented someone they know from starting a business.

6. Overwhelmingly (more than 81%), a significant proportion of businesses in this survey agree that more practical support for early-stage business would help navigating Red Tape.

7. Overwhelmingly (more than 71%), a significant proportion of businesses in this survey agree a chartered accountant is useful for early-stage businesses in helping to navigate Red Tape and grow their business with expert advice.

“Without my accountant I would be lost”

survey respondent
Conclusion
3. Conclusion

Startup and SME landscape

It’s clear from our assessment of the Startup and SME landscape that overall there is a lot to be optimistic about: the industry is in a healthy shape, there is a lot of positive sentiment; and more people are looking at entrepreneurship as a viable business route. Statistics support that for many people this ambition is becoming a reality.

However, there is evidence of confusion around starting an SME and how to grow it profitably. This confusion is affecting the confidence of business owners and stopping many from fulfilling their potential. Red Tape is one part of this confusion that needs to be addressed.

To ensure there is a realistic business plan in place for early-stage business it is essential more is done to clear this confusion comprehensively with earlier business support intervention.

Business advisors have a crucial role to play in offering professional advice that will keep entrepreneurs appropriately informed about their business journey, plug this ‘knowledge gap’, and drive sustained growth for start-ups in the UK.

“Confusion is affecting the confidence of business owners and stopping many from fulfilling their potential”

Government Review

ICAEW BAS welcome the Government Review on Red Tape and is highlighted within the report as an industry leader of business advice.

We also believe self-employment is a positive choice but agree a lack of financial knowledge and concerns around taxation being an administrative burden and a barrier to growth is hampering much business ambition.

Official Government advice could be improved (including clarity on its website) and more should be done to offer flexible financial solutions for the self-employed. We also support better communication and provision of shared work spaces.

The new review found that overly complicated legislation and administration is costly for the Government and burdensome to the growth
of our businesses, which needs addressing in a clear and common-sensical manner. We certainly agree with this.

To this end, as well as cutting any unnecessary administration barriers to growth we would again advocate the promotion of professional business advisors in having more contact with early-stage businesses. The value of a chartered accountant, for example, in navigating Red Tape could be the difference in a business surviving or otherwise.

“ICAEW BAS is highlighted within the Government report as an industry leader of business advice.”

Recent trends and Government intervention

Although there has not been a noticeable surge in search volume on the keyword ‘Red Tape’ in recent years, publicity around Red Tape in the UK has been prominent in 2015 and 2016. Red Tape has been highlighted around issues as disparate as quarterly tax returns, SME finance and tax support, pension auto-enrolment and the EU Referendum. It is clearly a major concern for businesses.

We therefore welcome the Government’s pledge to cut £10 billion of business Red Tape over the course of this Parliament. However, more should now be done, we believe, to communicate which ‘burdensome regulations’ the Government intend to cut to reduce the cost of doing business over the next few years. SMEs need a clearer road map of how their business lives can be simplified to drive sustained growth.

“SMEs need a clearer road map of how their business lives can be simplified to drive sustained growth.”
Survey results

The results of our survey clearly demonstrate that the issue of Red Tape remains a major concern for UK SMEs and that it is perceived as a barrier to success. Employment law currently is the biggest concern for employers.

“The results of our survey clearly demonstrate that the issue of Red Tape remains a major concern for UK SMEs and that it is perceived as a barrier to success.”

An overwhelming proportion of businesses stated that Red Tape impedes business growth and that the Government should do more to cut it out. Furthermore, many businesses have seen Red Tape work as a barrier to starting up through a lack of financial support.

Overwhelmingly, more practical support for early-stage business and access to chartered accountants is seen as a positive move to support business success. There is some agreement that Red Tape is a necessary evil, but also that more should be done to reduce it as it stops the UK SME businesses community from performing better.

ICAEW BAS is committed to helping early-stage businesses, entrepreneurs and SMEs navigate Red Tape and other areas of business confusion more effectively. Through professional business advice and expertise we believe more businesses can succeed and flourish by being better equipped to understand, prepare and plan for business challenges. By making sure businesses are clear in their obligations and opportunities, we are confident that the SME community will thrive in the future.

“Cutting ‘Red Tape’ and any other extraneous factors that hinder UK SMEs from growing is absolutely essential to boost innovation, create jobs and keeps our economy thriving. As we strive to reduce these unhelpful factors it is also clear that chartered accountants with professional business guidance expertise can be critical for many early-stage businesses to ensure their success and this role should not be underplayed or undervalued.”

Stephen Ibbotson, ICAEW Director of Business
3.1 Find out more

ICAEW helps you do business with confidence.

The ICAEW is a world leading professional membership organisation that promotes, develops and supports over 144,000 chartered accountants worldwide. We provide qualifications and professional development, share our knowledge, insight and technical expertise, and protect the quality and integrity of the accountancy and finance profession.

If you're looking for an ICAEW chartered accountant and business advice then use the Business Advice Service (BAS) the official online directory of over 21,000 ICAEW firms. Search by location, specialisation and industry to find an ICAEW firm.

For regular business advice, insight and news see the Business Advice Service website (http://www.businessadviseservice.com) and blog (http://www.businessadviseservice.com/blog).

To increase your social media presence as a business please request an invite to our daily business round-up on Smarter Business Network: https://smarterbusinessnetwork.co.uk
Addendum
4. Addendum

4.1 Survey quotes

To me the term “Red Tape” means

“Red tape means measures which regulate business and markets”

“Unfettered controlism crippling business vitality.”

Which regulations for UK SMEs do you find the most burdensome?

“The worst of the above is employment law!”

“Taxation”

“Tax laws”

“The totality. It’s absurd esp for SMEs”

“Legal accounting obligations”

“Constant surveys and information requests from government departments”

If you find employment law burdensome, which aspects are the most onerous?

“There’s too much hassle to consider employing anyone in the UK”

“Without my accountant I would be lost”
If you find health and safety burdensome, which aspects are the most onerous?

“Keeping up to date”

“H&S is important but it has become OTT”

“All of the above. Employers should be entitled to expect employees to use a modicum of common sense.”

If you find pensions auro-enrolment burdensome, which aspects are the most onerous?

“Administration around managing the scheme”

“Setting up a scheme knowing that nobody will join because they already have pensions”

“Getting clarity – how it applies to the business owner, employees and implementation”

If you know an instance where Red Tape has prevented someone from starting a business, what was the main reason? Choose from one of the following.

“Compliance costs”

“Complicated regulation to produce and sell fresh food”

“Cost of getting services provided to keep up with red tape”

“The sheer bother just not making it worthwhile considering”

“I don’t of an instance where red tape has prevented someone form starting a business”
How much do you agree or disagree with the following statement: “I would be in favour of the new quarterly tax returns and reporting process for SMEs mooted by the Government.”

“Every new "idea" will result in more, not less, red tape”

“Totally crazy and unrealistic just bring in more frequent payments on account”

How much do you agree or disagree with the following statement: “More practical support would be useful for early-stage businesses in navigating Red Tape?”

“Without my accountant I would be lost”

“Agree but it would be better to remove the red tape.”
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