



# ENCOURAGING UK BUSINESS GROWTH

RESEARCH REPORT

NOVEMBER 2012

## Overview

In this year's Autumn Statement, the Chancellor is looking to boost economic confidence at a time of low or no growth. In the weeks leading up to the statement, ICAEW surveyed its members on how they view the government's plans to revive the UK economy, and what would help their businesses to grow. We used their feedback to advise\* the Chancellor on what to do.

Our findings illustrate the Coalition's problem on the correct approach to growth and deficit reduction. Businesses are split down the middle on whether to stick with plan A, or move to a plan B. They have little confidence that plan A will deliver growth in this Parliament.

What businesses really want is a tax cut – ideally a cut in employers' national insurance contributions, to help them hire more staff. But as the Chancellor looks set to miss his debt reduction targets, leaving little room for tax cuts, one of their preferred growth-boosting measures would be to improve the way government deregulates. To support plans to double the pace of deregulation, we are asking for a powerful new Office of Regulatory Reform.

The research also offers some pointers to the Chancellor on how best to rebalance the economy. Businesses also want more investment in infrastructure. To support growth beyond the south east, they would like the Chancellor to target that spending on roads, house building, and high-speed broadband. If Osborne wants to rebalance the economy away from services to manufacturing, he should increase capital allowances, rather than cutting VAT.

In the long term, exporting is the UK's only route to recovery. To help small businesses in particular to export, the government could do much more to make them aware of the support available to them. Most businesses have little awareness of the export support available from government, such as UKTI.

\* You can read letter to the Chancellor at <http://www.icaew.com/en/about-icaew/what-we-do/act-in-the-public-interest/policy/budget-and-pbr/autumn-statement-december-2012-icaew-submission>

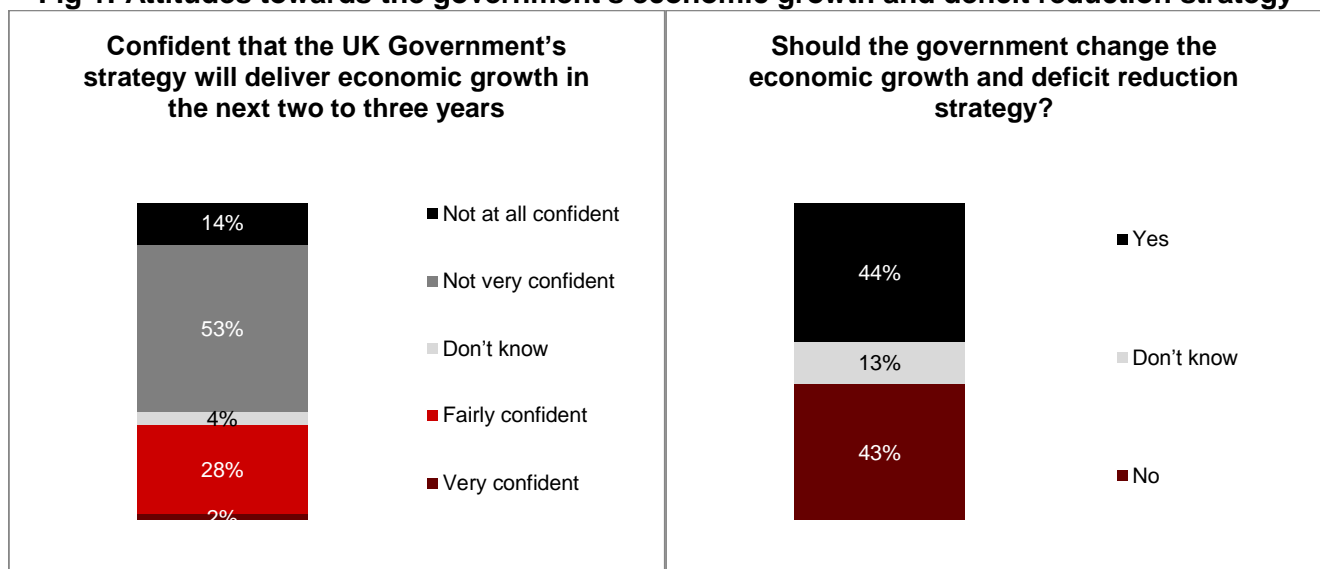
## Research findings

### Limited confidence in the UK Government's plan for delivering economic growth

Two thirds of businesses say they are not confident that the government's economic growth and deficit strategy will deliver growth in the next two to three years (Fig 1).

That said, they are broadly split on whether the government should continue the strategy or change course.

**Fig 1: Attitudes towards the government's economic growth and deficit reduction strategy**



Base: All respondents 521; Micro, 71; Small, 96; Medium, 112; Large, 242

There is a strong correlation between businesses' views on whether the government should change its approach and their level of confidence in the strategy.

But even among those most confident in the government's strategy, there are some that still feel they should change course, with the greatest endorsement coming for increased spending aimed at stimulating the economy (a view expressed by 26% of those interviewed).

Similarly, among those with more limited confidence, some believe the government should nonetheless continue with the current strategy, on the grounds that:

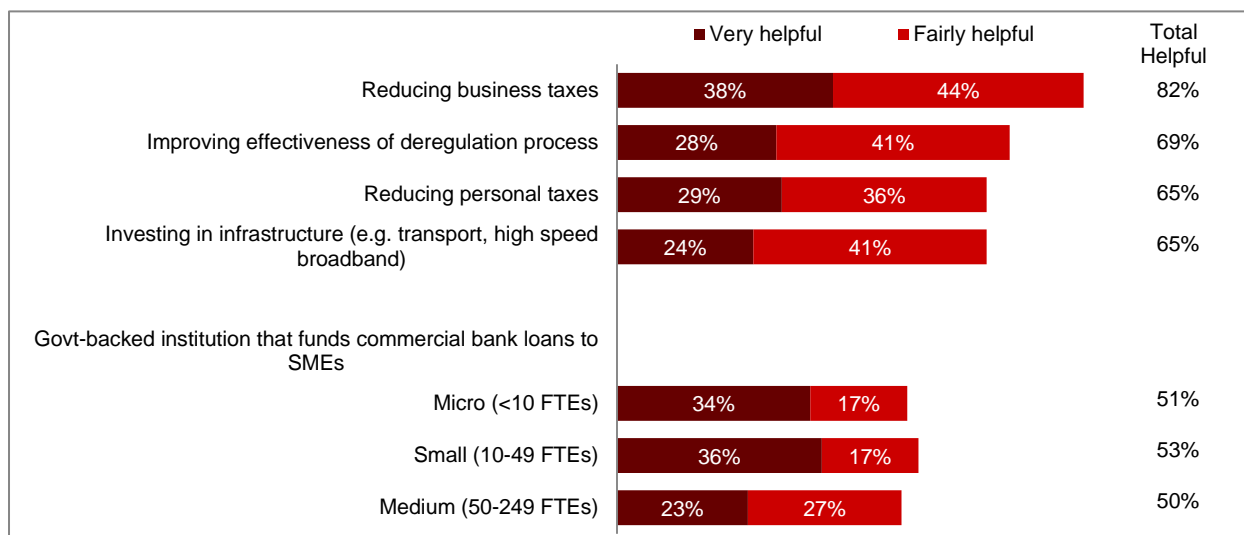
- the strategy is contributing to an important period of stability;
- it needs more time to work fully;
- it is needed to maintain market confidence/triple A credit rating for the UK; and
- business confidence in the UK would be undermined if the strategy were to change.

## Business tax changes, in particular reducing NI, have widespread appeal as a means of supporting business growth

Of a range of potential options, reducing business taxes is most likely to be seen as helpful in enabling business growth in the next two to three years (Fig 2). There is also much support for improving the effectiveness of deregulation, reducing personal taxes, and government investment in infrastructure, as mechanisms to support growth.

Half of SMEs think that a government-backed institution that funds commercial loans for SMEs would help their business grow, with small and micro businesses most enthusiastic about this idea.

**Fig 2: Attitudes to potential initiatives in helping business growth in the next two to three years**

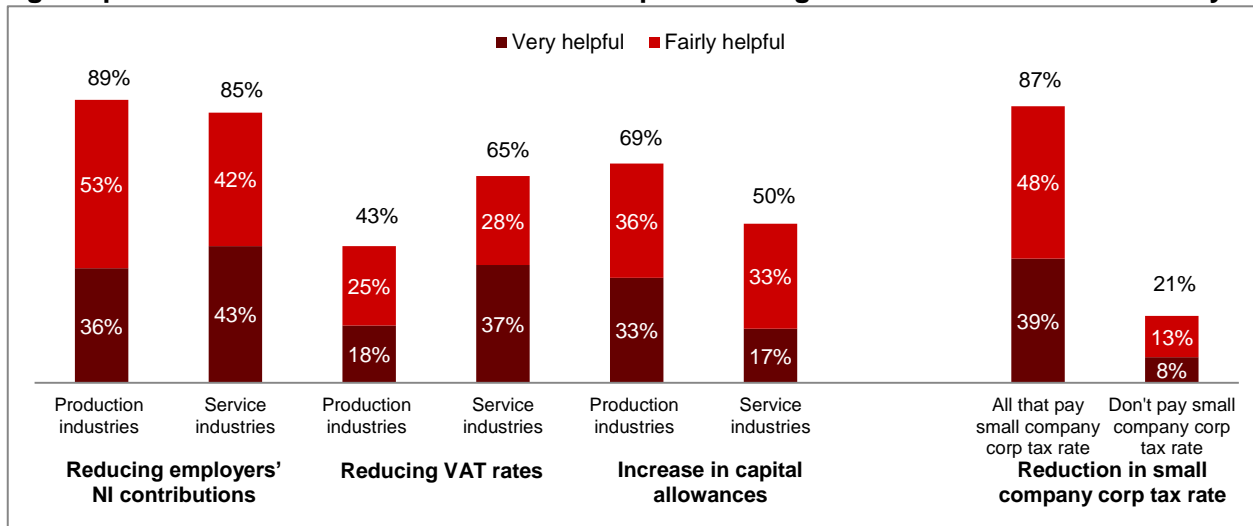


Base: All respondents 521; Micro, 71; Small, 96; Medium, 112; Large, 242

In terms of specific business tax changes, the most widely supported is a reduction in employers' NI contributions, which has appeal across both Production and Service industries. After that, priorities diverge with those in Service industries favouring a reduction in VAT, while those in Production industries are more likely to support increases in capital allowances.

Among those that pay the small company corporation tax rate, the idea of lowering this is as widely supported as a reduction in NI contributions. But even among those that do not pay the small company tax rate there is some support for a reduction, most commonly as these businesses feel that it would benefit their customers.

**Fig 3: Specific financial initiatives that could help business growth in the next two to three years**



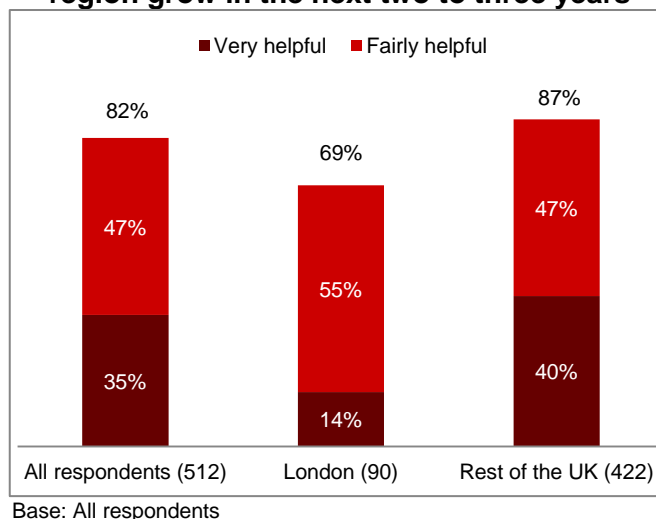
Base: Production industries, 112, Service industries, 373. Pay small company corporate tax rate: Yes 153, No, 360

## Businesses outside London most likely to see infrastructure investment a potential route to growth for businesses in their region

The majority think that government investment in infrastructure will help businesses in their region grow. But there are key differences geographically.

Businesses outside London are most positive about the potential benefits of infrastructure investment: 40% feel it would be very helpful to businesses in their region, versus 14% in London.

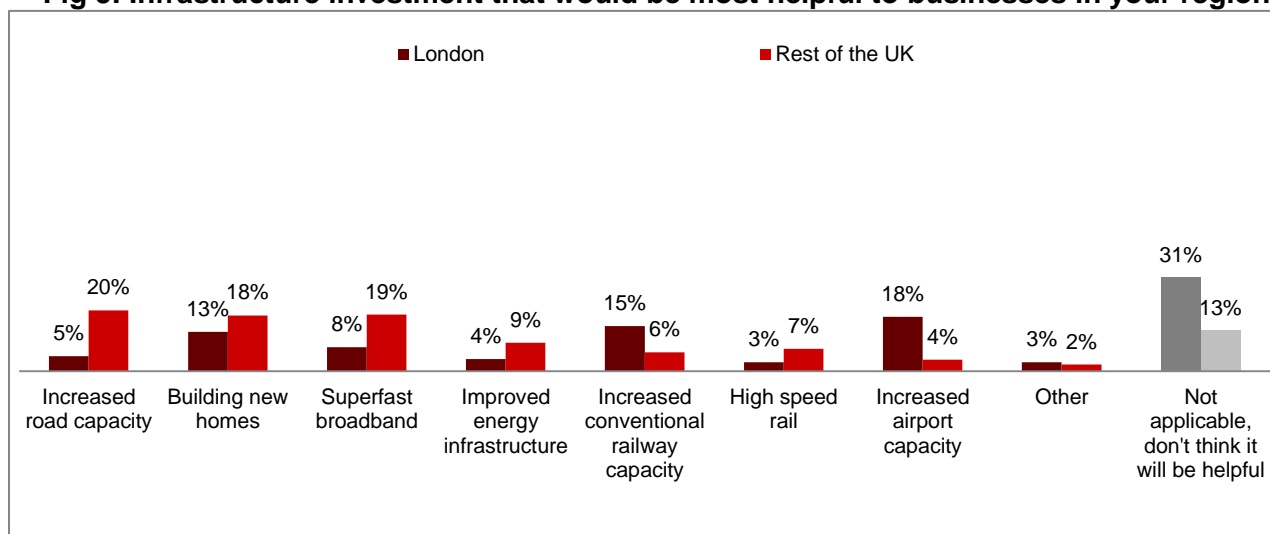
**Fig 4: Perceived value of investment in infrastructure in helping businesses in the region grow in the next two to three years**



Of the specific types of infrastructure investment possible, more home building would be considered helpful to business growth both in the capital and beyond. But views diverge between London and other regions on the potential benefit of other types of infrastructure investment.

- In London, increased rail and air capacity are among the top priorities.
- Elsewhere, greater emphasis is placed on increased road capacity and superfast broadband.

**Fig 5: Infrastructure investment that would be most helpful to businesses in your region**

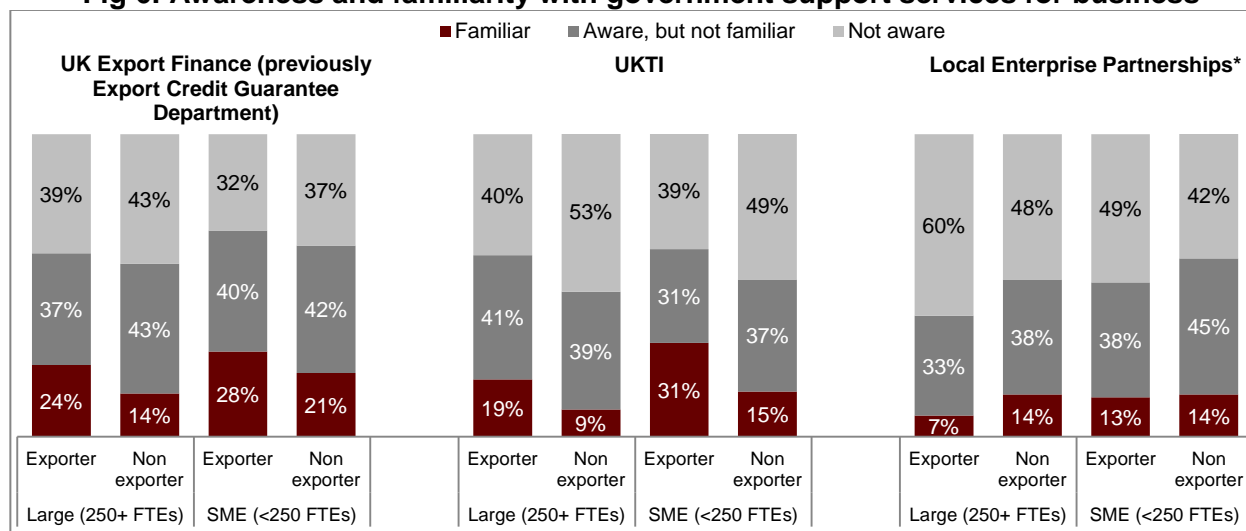


## Limited familiarity with government support initiatives

Of the government support services examined, familiarity was highest for UK Export Finance and UKTI. Exporters across all sizes of business are more likely than their non-exporting counterparts in other businesses to be familiar with UKTI.

Businesses in England were also asked about Local Enterprise Partnerships (LEPs). Although many are aware of LEPs, levels of familiarity are relatively low (less than 15%).

**Fig 6: Awareness and familiarity with government support services for business**



Base: All respondents. \* LEPs only asked among respondents in England.

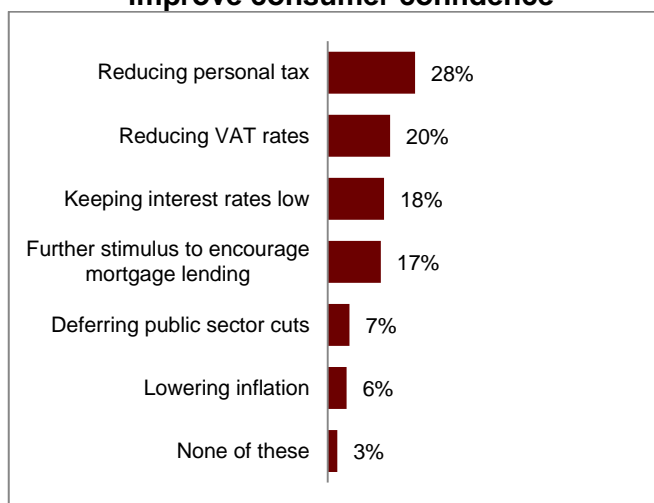
## Consumer confidence recognised as important to business growth, but no clear view on how that could be improved

Three quarters agree that improved consumer confidence is important to their business growth. This opinion is most commonly held by those in Service industries (80%), although around two thirds (64%) of those in Production industries also agree.

Views vary as to what government action would have greatest impact on improving consumer confidence. Most support is for:

- reducing personal tax;
- reducing VAT;
- keeping interest rates low; and
- stimulus to encourage mortgage lending.

**Fig 7: Government actions most likely to improve consumer confidence**



Base: All respondents

**METHOD:** This report is based on 521 telephone interviews among ICAEW members working in industry and commerce. The sample was controlled to ensure a reasonable representation by region, company size and sector. Fieldwork was conducted by Kudos Research between 22 August and 9 October 2012.