



The business people – an extension to your team

Referendum 204 report

The Cost of Compliance

July 2013

The Forum of Private Business is a proactive, not-for-profit organisation, providing comprehensive support, protection and reassurance to small businesses. We add value to businesses through the collective voice for members in local, central and European government, and the provision of tailored solutions that promote business success.

We conduct research throughout the year and our quarterly *Referendum* newsletter forms part of our regular consultation with a proportion of our members; in it we ask some key questions that help define our campaigning priorities. We use the results to facilitate dialogue between our members and their constituent MPs, MEPs, and Scottish and Welsh representatives.

For the latest quarter's *Referendum*, we surveyed 4,000 of our members during May/June 2013 to what the true cost of compliance was to their business. The questionnaire used was based on a previous study of the same sample in 2009 and again in 2011⁽¹⁾.

Figures were collected from Forum members and a selection of non-members on the time spent each month complying with legislation. The responses were then turned into values by calculating an average hourly cost for each business by weighting questionnaire figures on regulatory involvement with figures from the 2012 Annual Survey of Hours and Earnings⁽²⁾. Finally figures were weighted by industry and size using the Business Population Estimates provided by the Department of Business Innovation and Skills⁽³⁾.

Summary of the results

"Cost is difficult to quantify and I do it myself in my own time. Small business bosses are on duty 24/7".
Member response

The cost of compliance for micro, small and medium-sized employers (1-250 staff) has risen to £18.2 billion in total, with a total of £11.3bn for internal salaried costs and £6.9bn in external support costs. This is equivalent to £14,800 per small business (£9,200 in internal costs and £5,600 in external costs). However the cost for each business owner feels much higher as the opportunity costs of internal compliance are £37.8bn or almost three times the actual salaried costs.

Figure 1 Overview of compliance figures

	2011 ⁽¹⁾	2013	Change
Internal time spent on compliance (hrs)	38.1	35.5	-6.8%
Internal cost to business (£M)	10,993	11,324	3.0%
Cost of external consultants (£M)	5,811	6,906	18.9%
Total cost of compliance	16,804	18,231	8.5%
Proportion of GDP ⁽⁴⁾	1.2%	1.3%	7.1%

"Cost of compliance has risen disproportionately to benefits. However, we have seen improvements in our health & safety performance. This increase in visibility of H & S performance has however led to claims for injuries even though minor accidents have arisen through lack of care by insured party."
Member response

Major costs are health and safety (3.7bn), employment law (4.7bn) and tax compliance (6.0bn). The internal cost of health and safety compliance has dropped marginally since 2011 (from £3.8bn) with much more being outsourced to specialists. Tax has increased significantly as a result of the real time information (RTI) initiative with 67% of costs outsourced. Employment law has increased overall, although the time spent on compliance has stayed broadly the same, with 80% of the cost of compliance being covered internally.

Although the actual amount spent on compliance has actually dropped overall as businesses have had to focus on business development over administrative compliance (a policy partly encouraged by the Coalition). There is evidence that businesses have spent time on rationalising their processes as over 80% still feel that the regulatory requirements on their business have increased. Suggesting that business owners are still feeling overwhelmed by paperwork.

33% of businesses felt that there was a decrease in their control of the organisation as a result of regulatory compliance, whilst 16% had seen an increase in their control over the business. This appears to be one of the reasons why businesses are increasingly outsourcing compliance tasks alongside the increasing punitive measures brought in for breaches of compliance (e.g. fee for intervention) and the more positive reason that directors are spending more time in growing their business, making their own time more valuable.

The number of people within the business involved in compliance has not changed significantly although the proportion of businesses where the owner alone can deal with compliance has dropped.

Just 14% felt that compliance could not be made less time-consuming and 6% were uncertain what could be done. 77% of businesses would like to see a general reduction in the number of laws that they have to comply with and would prefer clearer advice on how to comply with the law that could provide a framework for the business and remove the number of interpretations of the law. 56% would also like to see the number of regulatory bodies reduced.

The impact of compliance was generally negative with as many businesses reporting that they were intending to close their business as a response to red tape as saw any positive aspects. 43% reported they had less time for doing business as a result of compliance or were having to increase work hours and 31% saw increased costs. Not all compliance issues were due to the legal framework; 2% had seen increases in compliance requirements because of increasing demands on them when tendering for contracts.

Figures for the impact of compliance on pinch points in business growth indicate:

- The gap between businesses with fewer than five employees and those with five or more employees are increasing as written risk assessments become more onerous.
- The impact of RTI is seen as being far higher than official figures from HMRC, tentatively estimated at £318m, partly due to the lack of resources introduced to help businesses.
- The cost of employing one employee is estimated as costing businesses £1,970 or 8 hours in internal time (£1,845) and £125 in external costs

Policy recommendations

“Personally in a democracy I find the word compliance offensive; people choose to be their own boss to be different.” Member response

- The reduction in the time spent on compliance is encouraging but, coupled with the increased costs of external support, does not suggest an overall reduction in regulation. Government must maintain momentum with its regulatory reform agenda and strive for both a cost and time reduction in compliance by the end of the parliament.
- The strengthening of the Regulatory Policy Committee (RPC) in April 2012 was welcomed by the Forum of Private Business and the recent extension of the RPC’s remit through the Small and Micro Business Assessment (SMBA) is a further step in the right direction. We support further strengthening of the RPC to ensure the full impact of regulation on small and micro businesses is considered and to ensure smaller businesses are exempted from future regulations that place disproportionate burdens upon them.
- Consistency is required in the government’s de-regulatory agenda. Whilst the cost of health and safety has fallen, employment law costs have continued to rise. These costs have the real potential to put small businesses off employing and reduce growth aspirations. While some of the regulatory changes – such as the removal of strict liability – have been welcomed by the Forum, the government must go further to reduce the burdens on employers and balance the de-regulatory agenda.
- Some areas of deregulation have been accompanied by increasingly punitive fines, minimising the effective of deregulation. Consistency is required throughout the government’s deregulatory agenda. Similarly, businesses have been hit hard this year by the introduction of RTI. Whilst longer term benefits of RTI can be seen, the impact of RTI and auto-enrolment in the near the future must be considered before government considers further change. Businesses want clarity and stability when it comes to compliance.

Impact of legislative compliance since 2011

"A large proportion of available resources are used to comply with regulation, not producing services for our customers." Member response

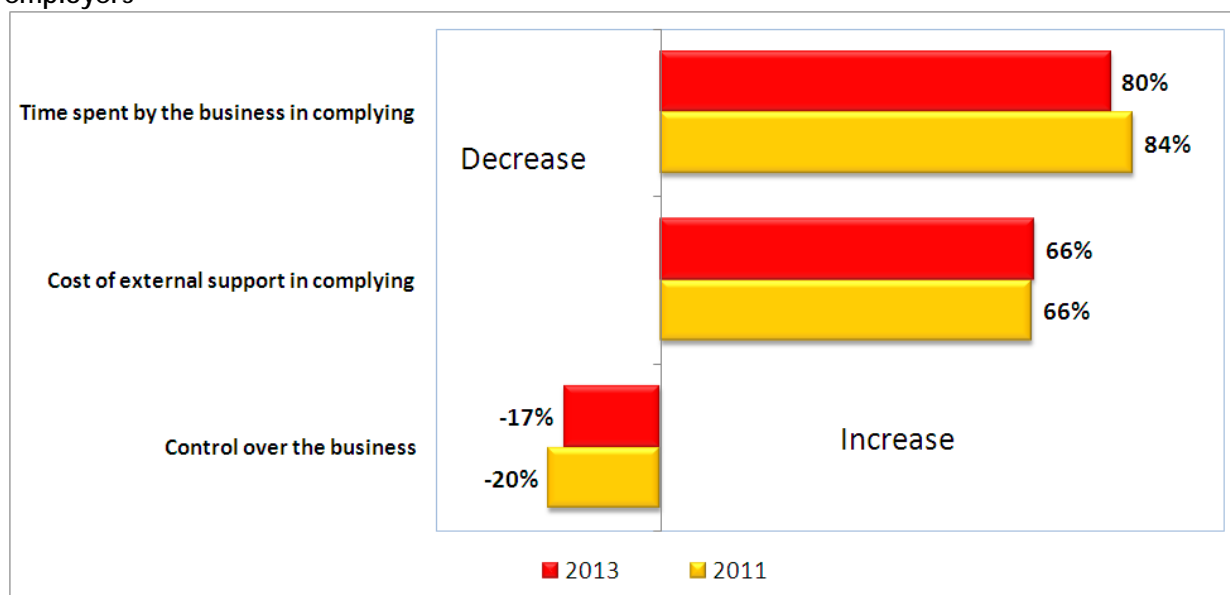
Figure 2 Impact of compliance on micro, small and medium-sized employers in terms of cost, time and control

	Increased	Decreased	Stayed the same	Do not know	Balance
Time spent by the business in complying	80%	<1%	19%	1%	80%
Cost of external support in complying	66%	<1%	32%	2%	66%
Control over the business	16%	33%	48%	3%	-17%

80% of businesses feel that the time spent by the business in complying has increased. Two thirds have also seen the cost of external support in complying with legislation increase. Some businesses recognise benefits to compliance (16%) but in general, business owners are negative over the impact of regulation on the control of their business.

There is very little change from the previous report suggesting that business have not noticed any changes in terms of deregulation. Figure 3 does show that there is a slight improvement compared to 2011.

Figure 3 Historical comparison of the impact of compliance on micro, small and medium-sized employers



"Too much paperwork, very hard on small businesses such as ours because one person (Director) has to organise/bill/fill in all compliance data." Member response

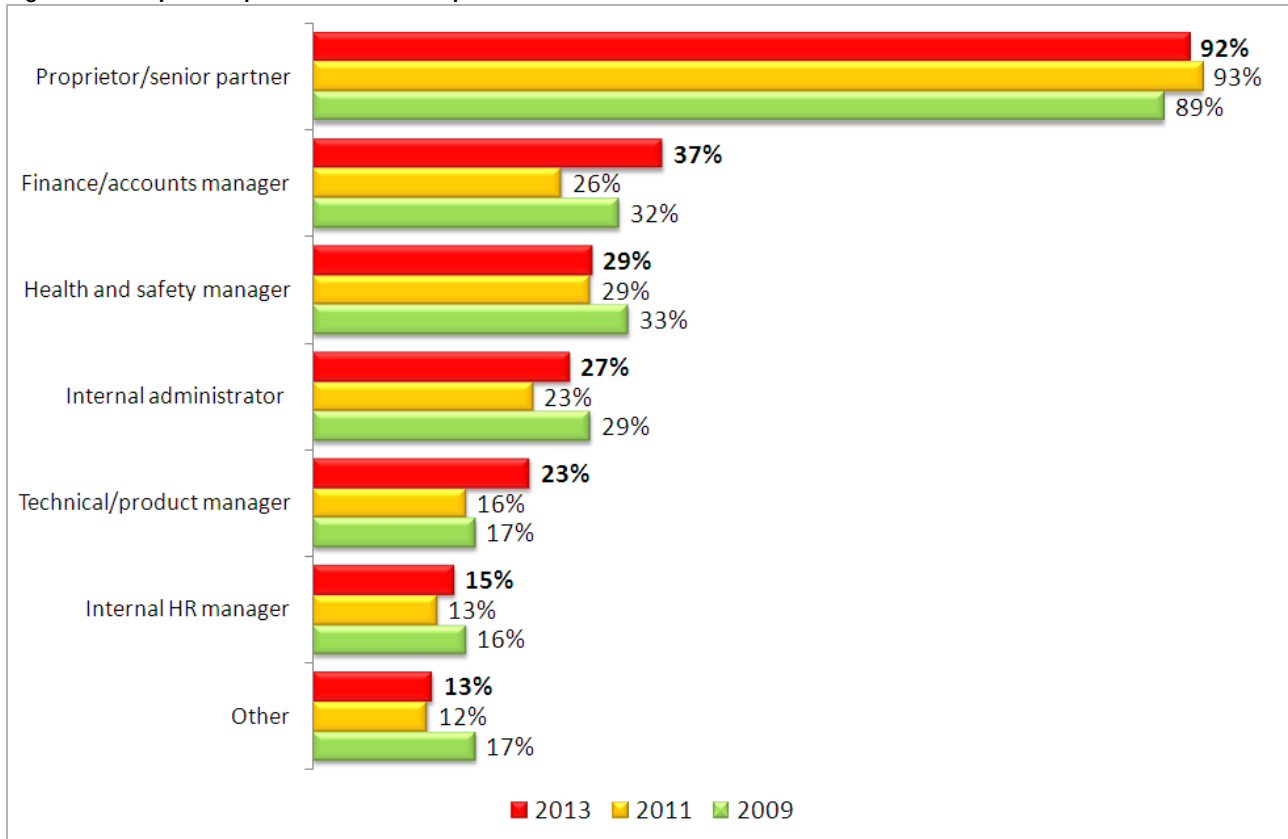
The number of companies reporting that one person is responsible for compliance issues within a company has declined slightly as it has become increasingly difficult for one person to be responsible for all compliance issues and because in most companies it is more efficient for some requirements to be delegated.

Figure 4 Responsibility for compliance

	2009	2011	2013	% change 2011 -2013
One person	34%	26%	25%	-1%
Two to four people	47%	60%	62%	+2%
Five to nine people	11%	8%	11%	3%
10 or more people	7%	6%	3%	-3%
Average number of people	3.41	3.38	3.23	

Although the average number of people involved in compliance has not changed significantly, the impact of the recession has been that there are fewer people with specialist functions within the company (such as HR manager or health and safety manager) responsible for compliance. However greater strain in dealing with compliance has been put on administrators, internal finance departments (unsurprisingly due to the introduction of RTI) and operations managers.

Figure 5 People responsible for compliance between 2009 and 2013



Directors and senior partners have overall responsibility for compliance even though this may well not be an effective use of their time.

Time spent on compliance

Businesses overall now spend almost 7 hours a month on health and safety compliance (dropping from 10 hours in 2011) and 12 hours on employment law (no real change). Compliance with taxation legislation has remained at just under 1 day a month, although the amount in dealing with salaries has increased by just over 10%. Manufacturers, construction companies and businesses involved in health or care services are most likely to spend longer than average on compliance. Surprisingly the time spent on compliance each month by manufacturers has dropped from 44.6 hours to 39.1, for construction businesses from 41.3 hours per month to 33.1 and for service companies from 39.4 hours to 33.5 hours. It has risen for retail and distributive trades from 32.7 hours to 35.9.

Figure 6 Time spent on compliance by industry

	Totals	Manufacturing	Construction	TRAD	Services
Health and safety	7.0	8.3	8.3	7.3	5.8
Dismissals and redundancy	1.4	1.4	1.0	1.3	1.6
Absence control and sickness	1.9	1.4	1.6	2.2	1.7
Maternity, paternity and flexible working	1.7	3.8	1.1	1.6	1.4
Discipline and grievance	1.6	1.2	1.1	1.8	1.6
Holidays, salaries and other employment matters	5.6	4.2	4.8	6.3	5.6
Total employment law	12.2	12.0	9.7	13.2	11.9
Environment/waste	2.6	3.0	3.4	2.9	1.9
Equality and diversity	1.1	1.1	1.4	0.9	1.2
ISO/Industry specific standards	3.2	6.4	3.7	2.3	2.7
PAYE/National insurance and other tax matters	6.3	5.8	5.3	6.2	6.5
Building and property	3.1	2.5	1.4	3.2	3.6
Total compliance	35.5	39.1	33.1	35.9	33.5

There is an increase in the time spent internally according to the size of business. In the 2013 report we have drawn out the figures for businesses with fewer than five employees as they are able to run their businesses less formally in terms of not having to provide written health and safety documentation etc.

Figure 7 Time spent on compliance by size of company

	Fewer than 5	5 to 9	10 to 49	Over 50
Health and safety	4.9	7.5	11.8	28.6
Dismissals and redundancy	0.7	1.5	3.4	8.2
Absence control and sickness	1.0	1.4	4.6	11.3
Maternity, paternity and flexible working	1.4	1.1	3.0	5.8
Discipline and grievance	0.8	2.0	3.0	8.3
Holidays, salaries and other employment matters	4.4	5.5	8.3	20.5
Total employment law	8.4	11.6	22.5	54.0
Environment/waste	2.3	2.7	3.4	3.8
Equality and diversity	1.0	0.8	1.5	3.3
ISO/Industry specific standards	2.1	2.0	7.5	14.5
PAYE/National insurance and other tax matters	4.9	6.7	9.3	19.5
Building and property	2.5	4.2	3.6	6.8
Total compliance	26.0	35.4	59.6	130.5

In terms of time devoted to complying with employment law, businesses are spending less time on dismissals and discipline which are time consuming and indicators of a falling market. However the market has not yet improved enough for employee absence to need more active management due to increased job security or opportunities of other employment. In contrast other employment law issues including flexible working and holidays/salaries etc have meant that businesses have not been able to take advantages of the impact of an improving business climate.

Making compliance less time consuming

With growth firmly back on the agenda it is important to free up business owners to develop their business and create wealth. Making compliance is a way the government can do this without increasing the deficit.

In the previous research we left this question open-ended (i.e. we did not offer any suggestions) but 40% did not reply, an illustration of the complexity of the issue. This time we provided a list of options including a category that suggested compliance could not be made less time consuming. In total 14% thought that this was the case and a further 6% did not feel that any of the options were compelling.

Overall 77% felt that the number of regulations should simply be reduced as some laws on the statute book did not appear relevant to their business or simply because they have already too many laws to comply with and would prefer to focus on what is vital.

61% wanted clearer advice on how to comply with the law - which is not easy when there is uncertainty about whether a business is or is not exempt, 53% highlighted that a simple checklist of relevant laws would be helpful. Allied to this 56% would like to see fewer regulatory bodies so that there was more consistency.

Figure 8 Suggestions for making compliance less time consuming



50% wanted stepped requirements based on number of employees, on the basis that smaller companies require less complex processes and a business with four employees simply cannot afford to send one individual for an expensive training course in the same way that a major corporation can.

52% wanted to see more business friendly executives in Westminster and Brussels, but only 13% wanted improvements to impact assessments which often assume that compliance is undertaken and administered by experts. This may indicate that impact assessments are seen as irrelevant as elected representatives seem prepared to push costs onto business (and often away from the state) regardless of the long-term damage.

Cost of compliance

We have produced three different estimates for the internal cost of compliance. These are:

- **Salaried costs** - this is based on the gross pay of staff according the Annual Survey of Hours and Earnings (ASHE). This measure was used in the 2009 and in the 2011 survey and will allow costs to be compared.
- **Cost to the business** - an additional 19% to cover national insurance, pension contributions and associated costs. This measure gives an actual cost to the business and allows it to be considered in the same way as external costs.
- **Opportunity costs** - worked out based on the turnover created by each employee at a business from the Business Population Estimates in 2012 (BPE). This gives an idea of the difference of how business owners see the costs of compliance.

Overall, the opportunity costs lost through compliance were almost £38 billion for the UK's 1.2 million micro, small and medium-sized employers or an internal cost of £30,800. Actual salaried costs are much lower at just over £11 billion at £9,200 per firm, whereas in terms of salaried cost the figures were closer to £7,700 per firm with an overall cost to micro, small and medium-sized employers of £9.5 billion.

Since the last survey the cost in terms of salaried costs and the overall cost to business have not changed significantly, they have actually decreased slightly but this is due to an additional 600,000 businesses particularly who are at the smaller end of the scale. In the same time period however opportunity costs have risen considerably in line with an increased turnover per employee. Comparative figures on the cost of compliance are in nominal terms, with no account for inflation or, in the case of salaries, deflation over the comparative period.

Figure 9 Costs of compliance using different methodologies

	Salaried costs	Cost to the business	Opportunity costs
Health and safety	1,887	2,246	7,510
Dismissals and redundancy	384	457	1,529
Absence control and sickness	499	594	1,987
Maternity, paternity and flexible working	462	550	1,838
Discipline and grievance	420	499	1,670
Holidays, salaries and other employment matters	1,511	1,798	6,013
Total employment law	3,276	3,899	13,037
Environment/waste	688	819	2,738
Equality and diversity	302	359	1,202
ISO/Industry specific standards	855	1,017	3,401
PAYE/National insurance and other tax matters	1,681	2,000	6,688
Building and property	827	984	3,289
Total compliance	9,516	11,324	37,864

In 2011 32% of the cost of compliance for manufacturers was health and safety, compared to around a quarter for other businesses, in this survey manufacturers had reduced this gap, perhaps down to a greater focus on providing the service through their operational processes.

Areas of the service sector had significantly different costs with care homes having higher internal costs in comparison to office-based commercial services providers. TRAD (transport, restaurants and distributive trades) spent slightly more on property and buildings. Construction (14%) spent more on industry-specific standards than other organisations (under 10%).

The cost of compliance is focused on these services although our members are increasingly telling us that we should be looking at other areas of compliance such as compliance with the demands of intrastat (or similar government statistics programmes) or laws on ICT or data disclosure.

Figure 10 Cost (to the business) of compliance by industry

	Total	Manufacturing	Construction	TRAD	Services
Health and safety	2,246	323	341	765	817
Dismissals and redundancy	457	55	42	138	223
Absence control and sickness	594	52	66	234	242
Maternity, paternity and flexible working	550	149	47	162	191
Discipline and grievance	499	46	47	187	219
Holidays, salaries and other employment matters	1,798	163	198	653	784
Total employment law	3,899	465	400	1,374	1,660
Environment/waste	819	116	140	301	262
Equality and diversity	359	41	56	89	172
ISO/Industry specific standards	1,017	246	153	239	380
PAYE/National insurance and other tax matters	2,000	225	217	652	906
Building and property	984	97	56	331	501
Total compliance	11,324	1,513	1,363	3,751	4,698

Businesses with fewer than 10 employees make up over 80% of the cost of compliance although on average it costs micro businesses less in terms of internal compliance than small and medium-sized business. The cost of compliance for a business with fewer than 5 employees is £6,900, for businesses with 5 to 9 employees £9,150, for small businesses £15,400 and £34,000 for medium-sized businesses.

Figure 11 Cost (to the business) of compliance by size

	Under 5	5 to 9	10 to 49	Over 50
Health and safety	1,036	447	542	221
Dismissals and redundancy	146	89	159	64
Absence control and sickness	206	86	214	87
Maternity, paternity and flexible working	297	68	140	45
Discipline and grievance	174	121	140	64
Holidays, salaries and other employment matters	928	328	384	159
Total employment law	1,751	693	1,037	418
Environment/waste	472	160	157	29
Equality and diversity	217	47	70	25
ISO/Industry specific standards	441	117	346	112
PAYE/National insurance and other tax matters	1,022	399	429	151
Building and property	515	250	165	53
Total compliance	5,454	2,114	2,747	1,010
Average cost per firm	6,890	9,144	15,435	33,950
Cost per capita	2,414	1,330	791	347

Cost of external support

While internal costs have reduced, the total cost for external support has risen from £5.8 billion to £6.9 billion. Many have had to outsource as a cost cutting measure although others have had to do so because of the amount of red tape they have to deal with. The main increase has been in tax compliance which now accounts for 57% of the cost of external support and is partly explained by businesses outsourcing their payroll.

The cost of external providers increased in health and safety, although the reason for this is not clear, it could be down to HSE accredited providers charging more or more likely businesses increasing outsourcing where it is most needed as the cost of compliance within companies has dropped significantly.

In contrast the costs of employment law and environment and other legislative experts stayed fairly similar and even reduced slightly in real terms.

There are a number of reasons why tax compliance will have increased significantly in this time rather than just a simple increase in accountancy fees. These include the closing of local tax offices and difficulty in contacting HMRC, issues with filing accounts online, annual changes to VAT and the requirement of banks and other financial institutions for more information about the business.

Figure 12 Cost of external support by industry

	Total	Manufacturing	Construction	TRAD	Services
Value of the industry in £M					
Health and safety specialists	1,410	176	126	659	450
Employment law specialists	775	67	63	313	332
Tax specialists and accountancy fees	4,000	555	292	1,403	1,749
Environmental and other consultants	722	115	124	305	177
Total	6,906	913	605	2,680	2,709
Average cost per firm (£)					
Health and safety specialists	1,146	1,199	830	1,667	838
Employment law specialists	630	459	415	791	618
Tax specialists and accountancy fees	3,251	3,792	1,928	3,551	3,256
Environmental and other consultants	587	785	821	772	330
Total	5,613	6,235	3,995	6,781	5,041

Construction companies in particular have seen the cost of compliance rise significantly. This may be because a much higher proportion of work is now public or public/private contracts which typically require more accreditation. There was also a split in terms of external contracts between office-based commercial services and the more heavily regulated service providers in health and education.

Unsurprisingly, larger businesses spend higher amounts on compliance. However, figures show there were noticeable increases between 5 and 6 employees (this is examined below) and at around 20-25 employees, when businesses were more likely to recruit specialist staff rather than give employees extra responsibilities.

Figure 13 Cost of external support by size of business

	Total	Under 5	5 to 9	10 to 49	Over 50
Value of the industry in £M					
Health and safety specialists	1,410	573	333	426	77
Employment law specialists	775	354	144	202	74
Tax specialists and accountancy fees	4,000	2,181	840	856	122
Environmental and other consultants	722	306	161	193	62
Total	6,906	3,415	1,479	1,678	335
Average cost per firm (£)					
Health and Safety specialists	1,146	724	1,442	2,395	2,599
Employment law specialists	630	447	624	1,138	2,489
Tax specialists and accountancy fees	3,251	2,756	3,634	4,812	4,100
Environmental and other consultants	587	387	696	1,085	2,077
Total	5,613	4,314	6,396	9,430	11,264
Average cost per person	1,512	931	483	115	

Changes in the cost of compliance

Overall the internal cost of health and safety has dropped by 19% although the increase in the cost of outsourced support has meant that the overall reduction is around 3%. The cost of complying with environment/waste legislation has diminished slightly although the increased cost of property legislation has more than made up for this. Taxation requirements have also increased by over 10% in real terms.

Figure 14 Comparison of cost (salaried) between 2009 and 2013

	2009	2011	2013	Change
Health and safety	2,072	2,789	2,246	-19%
Employment law	2,394	3,428	3,899	14%
Environment/waste	783	849	819	-4%
Equality and diversity	367	320	359	12%
ISO/Industry specific standards	939	1,003	1,017	1%
PAYE/National insurance and other tax matters	1,826	1,805	2,000	11%
Building and property	921	799	984	23%
Total compliance	9,302	10,992	11,324	3%

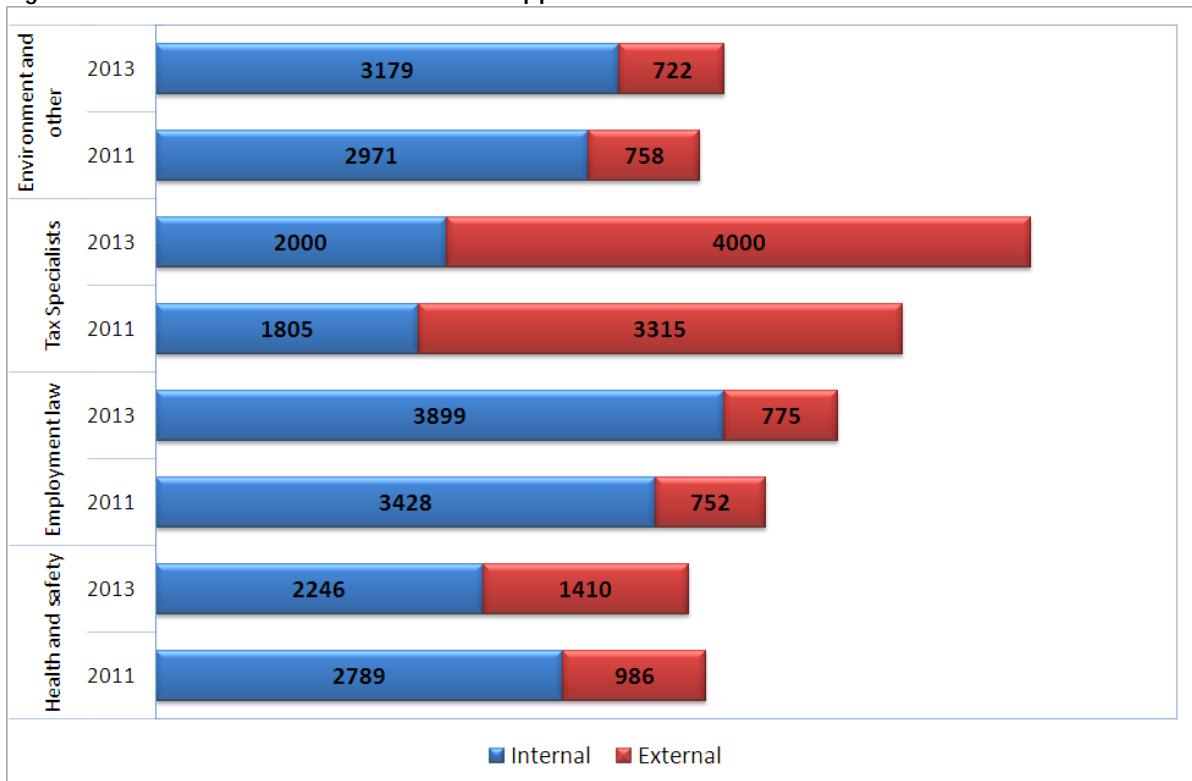
Overall time spent on compliance has decreased over the last two years although the overall cost has increased due to salary increases. Medium sized businesses that saw significant overall reduction in the 2011 cost of compliance had lost that comparative advantage in this piece of research with the amount of time spent on compliance increasing to the 2009 level of 130 hours a month.

Figure 15 Comparison of time spent on compliance 2009 and 2011

	2009	2011	2013	Change
Micro employers	32.9	32.7	28.7	-12%
Small businesses	48.0	62.9	59.6	-5%
Medium business	131.4	88.4	130.5	48%
Manufacturing	34.7	44.6	39.1	-12%
Construction	36.6	41.3	33.1	-20%
TRAD	32.8	32.7	35.9	10%
Services	40.9	39.4	33.5	-15%
Total	36.8	38.1	35.5	-7%

Figure 16 highlights the change in internal and external compliance over the last few years, indicating that businesses have tried to minimise costs as much as possible but cannot do so without buying in a level of expertise. In particular the amount spent on tax specialists and accountants (internally and externally) when there is an agenda to simplify taxation is a concern.

Figure 16 Cost of internal and external support between 2011 and 2013

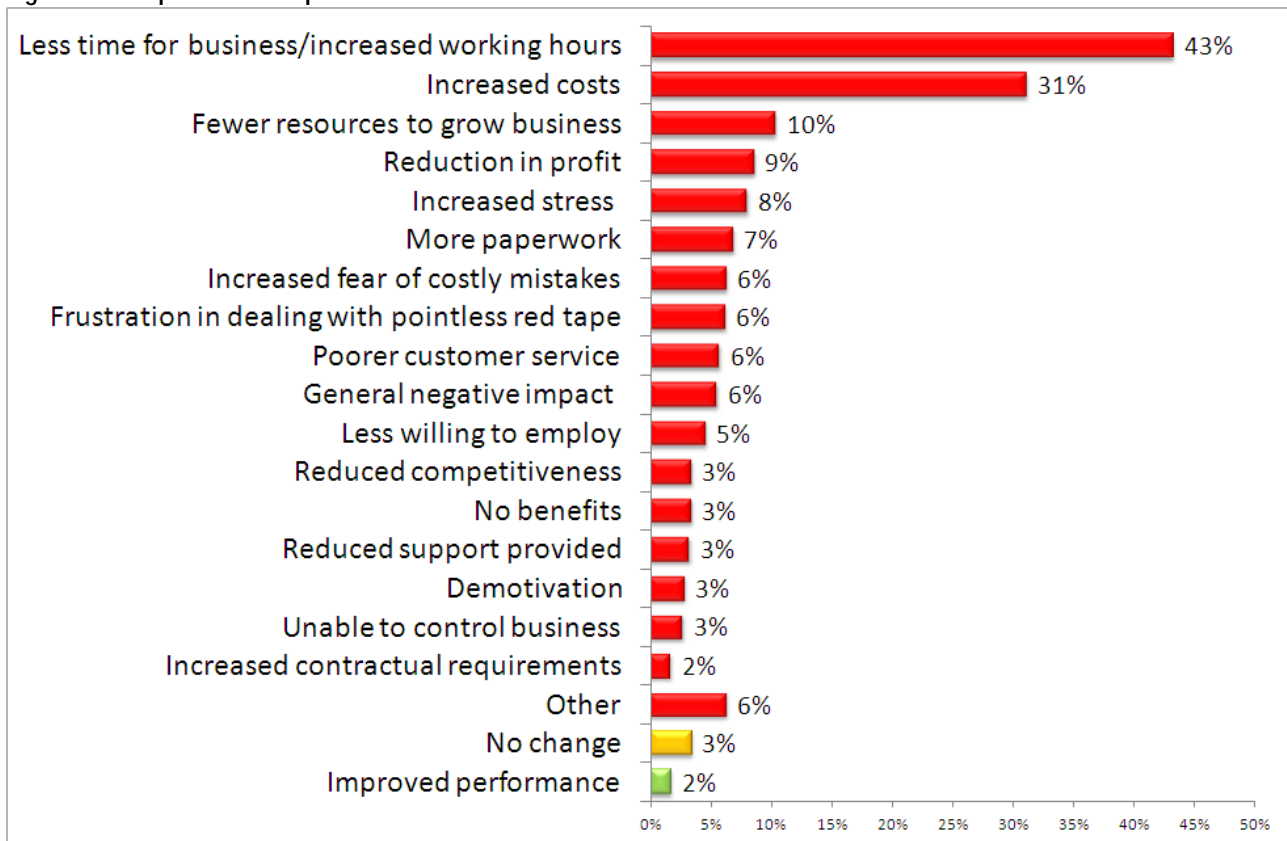


Impact of compliance

“Complying with regulations in this industry will possible close the business”. Member response

2% reported that the impact of compliance was that it could or will lead to business closure, with a further 3% reporting sufficient demotivation that they would consider this. In contrast 2% reported that the impact was improved performance, as they had the framework to increase capacity relatively easily.

Figure 17 Impact of compliance



“Maternity - an absolute nightmare, my pregnant member of staff knew more than me as I had been doing research on a government website that they had not bothered to update, so there was info on new laws (already in place) on the site”. Member response

Two thirds of respondents mentioned time or cost issues as the main impact of compliance on their business. 43% mentioned time issues with 7% reporting that they had to increase their own working hours as a result. 8% mentioned increased stress levels (predominantly but not exclusively amongst directors) and 6% mentioned frustration. 3% felt that they were unable to control their own business. Employment law was a particular focus for comments about helplessness, stress and frustration.

“Being a very small business, regulatory bodies can be helpful in an external assessment of risks but recent changes have reduced this positive aspect greatly, leaving behind a mostly time consuming and stressful process.” Member response

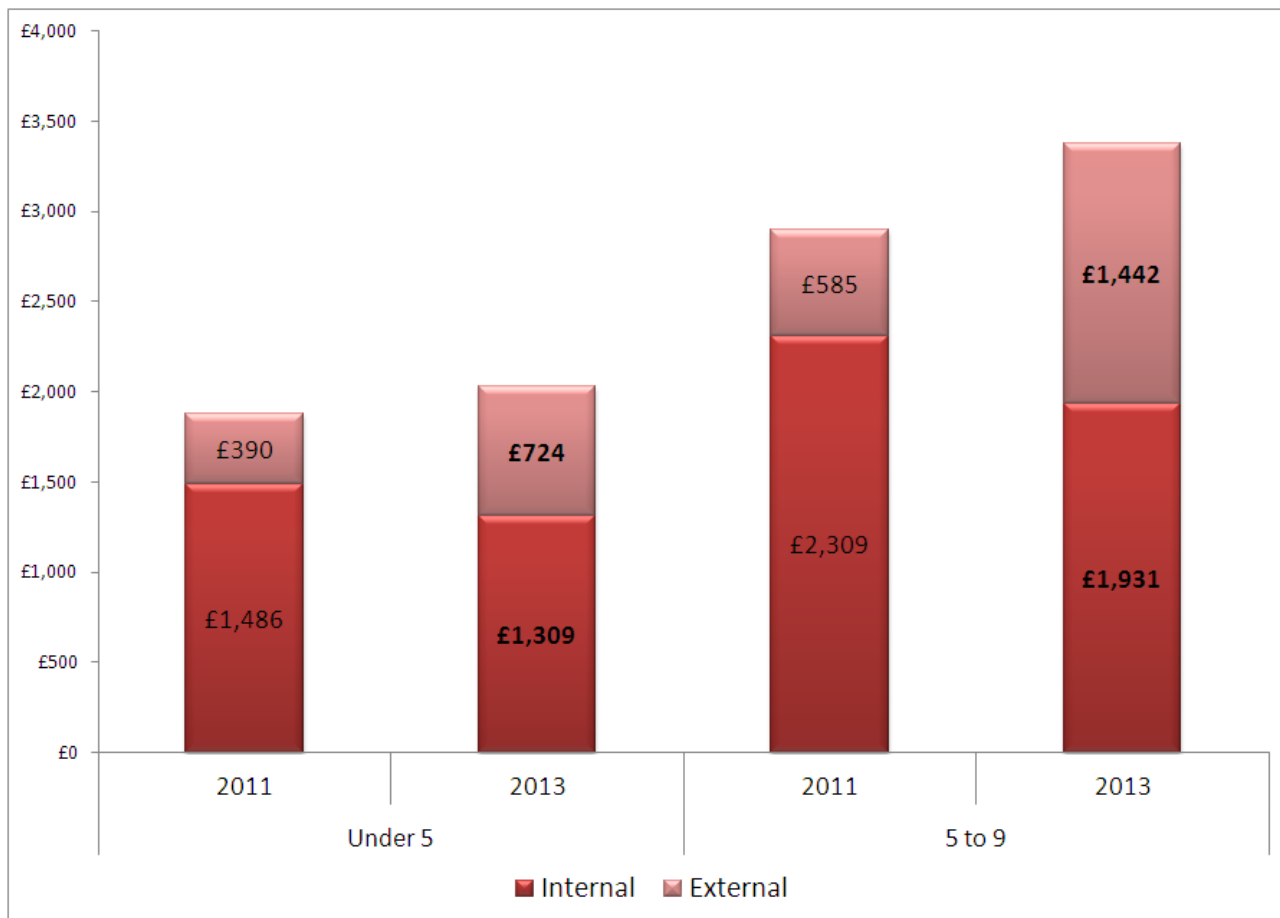
6% reported that the fear of making mistakes had increased, partly because they were unable to check their interpretation of a law with the relevant enforcement agency or because of increased fees demanded if mistakes are made at a time when businesses have had to be ruthless in cutting costs to non-productive areas of their business to survive.

9% focused on the impact to the business’s profitability and 6% focused on the impact on customer service, the latter is particularly important as superior customer service allows smaller firms to compete with large corporations who offer a consistent, rather than exceptional service.

Impact of health and safety administration

Businesses with five or more employees have greater administrative requirements under UK law, in particular the need to have written risk assessments. For this reason the Forum feels that it is important to assess the impact of this requirement in case it is a barrier to business growth and a reason for some businesses not to employ additional staff.

Figure 18 Impact of health and safety administration



There was a total average difference of £1,300 between those with fewer than five employees and those with slightly more. There is however no support to help businesses with the additional administrative burden (and culture change) of employing that fifth individual. Targeted support, sympathetic enforcement or grading of compliance would be helpful for businesses.

In fact over the last two years there has been an increase in the gap between businesses with fewer than five and other, larger micro businesses. Overall businesses with fewer than five individuals have seen costs increase by £78 compared to businesses with 5 to 9 employees where increases have been higher, at £240.

When asked about the impact of legislation, 3% of businesses reported that they felt compliance requirements made them uncompetitive (down from 5% in 2011), both in relation to international markets but also compared to one man bands. The punitive nature of compliance enforcement makes businesses wary of growth at key points so a further 2% reported that there was little incentive to grow.

Impact of Real Time Information

"Biggest problem is HMRC. Ill-thought-out regulation ... put into operation with poor/non-existent support and IT which does not work. For instance I spent about 7 hours trying to file end of year payroll returns because HMRC set it up incorrectly and was unable to access their helpline for 2 days. Each time I phoned was told 'all operators are busy phone back' gave up after 20 attempts and wrote - still awaiting a reply!" Member response

Overall the main changes over the last two years and for the foreseeable are to employee pay and its administration, with Real Time Information introduced in April and pension auto-enrolment due to be phased in over the next five years. Although the smallest firms have until October to comply with the legislation, the last minute nature of the announcement suggests that the impact on this study will be minimal.

In this study there are three figures that give an indication of the impact of RTI and, for the larger and more far-sighted businesses, pension auto-enrolment:

- Internal time spent on PAYE/National and other tax matters - this has risen from £1.8 billion to £2.0 billion
- External costs from taxation specialists and accountancy fees - this has risen from 3.3 billion to 4 billion
- And to a lesser extent, internal time spent on holidays, salaries and other employment matters - this has increased from £1.4 billion to £1.8 billion. The Forum has estimated that around 30% of the cost of internal compliance will be due to RTI and pension auto-enrolment.

Some of these increased costs will be down to the general increased cost of businesses and services and so we have used overall compliance figures to predict what the internal costs of the internal costs of RTI should have been and the increase of outsourcing for other services to give a predicted figure for what the accountancy/taxation fees should have been.

Figure 19 Elements in the assessment of RTI

	2011	2013	Growth rate	Predicted growth	Difference (£M)
PAYE/National insurance and other tax matters	1,805	2000	5%	1,960	40
Tax specialist and accountancy fees	3,315	4000	10%	3,883	117
Payroll administration (30% of total)	998	1320	14%	1,159	161
Total	4,242	5,105	n/a	4,795	318

“Getting RTI set up has been a nightmare but does now seem to be running smoothly. Extra time required £300-400 approx”. Member response

Overall a figure of £318m is the estimation of the cost in administrative compliance with RTI for SMEs. The figure is higher than the impact assessment figure of £120 million⁽⁵⁾ (£10 million in 2012/3 and £110 million in 2013/4) however these figures only include the cost of training (£50 per scheme) and checking and amending data (£20 per scheme) and does not include the cost of software (estimated at £300) as HMRC provide support for businesses with less than 10 employees.

“Think about the extra costs before implementing and making sure departments implementing new regulations are adequately trained and staffed” Member response

A key factor that was not costed for by the HMRC was the impact of reportedly inadequate resourcing which is odd since the expectation is that the scheme will save the Government over £300 million a year but the cost to the business was clearly identified as being in the set up rather than the monitoring.

The general feeling from members was that a cost of £300 per company was not untypical, although businesses which paid weekly reported higher costs. Businesses that outsourced their payroll reported lower increases.

Impact of employing your first employee

The Forum has also looked at the cost of employing your first individual. The figures for this section are dependent on a relatively small sample so should be treated as indicative.

Based on the evidence, the cost for businesses looking with one employee is £1,970 simply on the cost over a year in complying with employment law. These businesses spend an average of 8 hours per month in complying with employment law (£1,845 in total) and an additional £125 in external costs.

Internal health and safety costs of £620 costs and £175 external costs could be included in this, however there are significant differences in terms of industries and the cost of a safe working environment for non-employers cannot be assumed to be £0 as they can be in terms of employment law.

This figure excludes the cost of increased accountancy fees or the cost of commercial property.

This suggests that the cost of employment law (which is spread over the 12 months) should be less than one off costs such as recruitment costs and the cost of renting a commercial property.

How elected representatives should help

“Simplify - be realistic about what smaller companies can reasonably afford, comply with and understand.” Member response

Around 40% did not offer any suggestions and those that did were cynical as to whether elected representatives were committed to supporting smaller businesses. Of those that did respond 28% wanted simplification so that businesses could realistically comply and appreciate why the laws were in place. It should be noted that simplification meant a reduction in the requirements on small businesses rather than giving large corporations a competitive advantage as has happened through the simplification of corporation tax. Generally the less formal the legal framework is, the more smaller firms can play to their advantage of having a senior management team who are close to their employees. 13% simply wanted to fewer laws as there was a feeling that some added little or nothing to the way they ran their business.

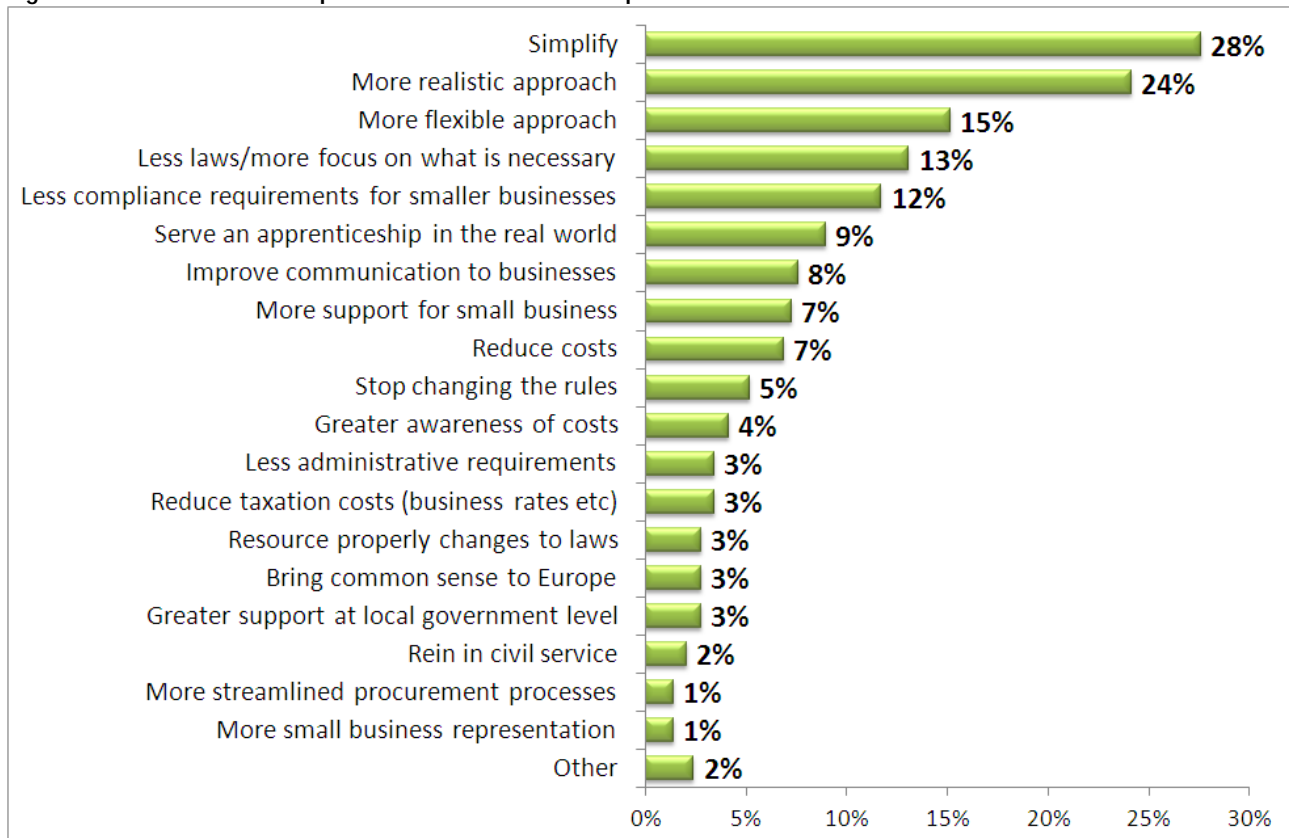
“Take more account of the number of employees in a company and support them pro rata on compliance costs.” Member response

Allied to this 24% wanted a more realistic approach for their elected representatives, 15% wanted a more flexible approach to be taken in terms of enforcement and 7% wanted an improvement in support to be provided, as the attitude from some enforcement agencies appeared to be focussed on punishment and revenue gathering.

“Return regulatory bodies to a helpful role. With micro business this would normally result in an easier route to full compliance and save time and cost on both parties”. Member response

Making sure that changes were resourced properly was a key element in the criticism of the RTI and more generally there was some anger that there was little responsibility for resourcing.

Figure 20 How elected representatives should help



“Get real get out of your ivory towers and speak to the people like ourselves that employ the biggest percentage of the workforce but have the least control.” Member response

Greater commercial experience was wanted by 9% of businesses and in particular an understanding of small businesses. This was mentioned as an issue with MPs, MEPs, Councils and civil servants as there is a feeling that the "think small first" agenda is mere rhetoric. There was concern that rather than stripping back legislation to the minimum was not being as those in authority were increasingly pushing the requirements of the state onto business owners. Pensions, maternity/paternity laws and RTI were mentioned.

12% wanted stepped requirements so that as businesses increased their resources they were able to comply to the more rigorous administrative issues. However there was a feeling that this may be less urgent if there was better support, more realism and flexibility from government agencies.

Regional figures

The Forum is able to provide a regional breakdown as some of the respondents ask for their comments to be passed on to their elected representatives. As such a regional analysis is possible from the results.

Figure 21 shows the cost based on the time taken to comply, using national figures from the 2012 (ASHE survey) and as such the figures for London and the South East, where salary costs are highest may be an underestimation.

Figure 21 Internal cost of compliance by region (£M)

	Health and safety	Employment law	Environment/ waste	Equality and diversity	ISO/ Industry specific	PAYE/ National insurance	Building and Property	Total
North East	68	115	25	11	30	59	29	283
North West	232	401	84	36	105	205	101	978
Yorkshire & The Humber	174	296	64	27	80	151	73	727
East Midlands	160	272	59	25	75	139	67	669
West Midlands	187	318	68	29	87	164	80	785
East of England	223	384	82	36	102	198	97	943
London	331	607	117	56	143	316	161	1,454
South East	333	585	121	55	150	302	150	1,425
South West	209	361	78	33	97	184	90	884
England	1919	3340	697	309	868	1717	847	8,149
Wales	96	161	36	15	43	83	40	398
Scotland	168	289	62	26	76	146	71	705
Northern Ireland	64	109	24	9	30	54	25	265
UK	2246	3899	819	359	1017	2000	984	9,516

Figure 22 looks at the external cost of compliance by region, in other words the cost of outsourcing elements of health and safety, employment law, taxation and environmental/other compliance issues.

Figure 22 External cost of compliance by region (£M)

	Health and safety	Employment law	Tax	Other	Total
North East	42	23	118	22	205
North West	146	80	408	75	708
Yorkshire & The Humber	109	58	301	57	525
East Midlands	100	54	280	53	487
West Midlands	118	63	332	61	575
East of England	139	76	397	72	686
London	212	125	624	99	1060
South East	208	117	603	105	1033
South West	131	70	373	68	642
England	1206	667	3436	613	5922
Wales	61	32	168	32	292
Scotland	105	56	291	55	507
Northern Ireland	39	20	105	22	185
UK	1410	775	4000	722	6906

In total England accounted for 86% of the total cost of compliance with London (15%) and the South East (15%) accounting for 30% of the cost of compliance. 7% of the cost of compliance was in Scotland compared to 4% in Wales and 3% in Northern Ireland.

Figure 23 Total cost of compliance by region (£M)

	Health and safety	Employment law	Tax	Other	Total	Cost per firm
North East	110	138	177	92	517	14,242
North West	378	480	613	316	1788	14,260
Yorkshire & The Humber	283	355	452	237	1327	14,316
East Midlands	261	326	419	220	1225	14,287
West Midlands	306	382	496	257	1441	14,245
East of England	362	461	595	307	1725	14,040
London	543	732	940	459	2674	14,141
South East	541	702	905	460	2608	13,985
South West	341	431	557	288	1617	14,023
England	3124	4007	5153	2637	14922	14,144
Wales	156	193	251	130	730	13,990
Scotland	273	345	438	228	1284	14,245
Northern Ireland	103	129	158	86	476	14,400
UK	3656	4674	6000	3082	17412	14,242

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