

NewStatesman



**DOES
BUSINESS
CARE ABOUT
POLITICS?**

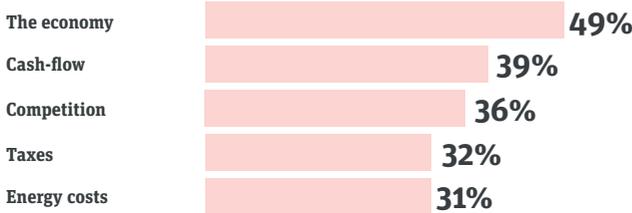
In partnership with

ACCA

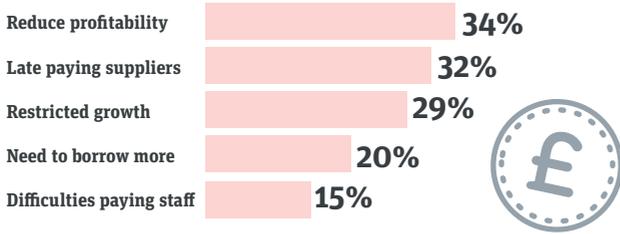
Business challenges

The FSB's latest *Voice of Small Business' Member Survey* mapped the opinions of more than 8,700 small businesses to find out about the challenges and opportunities they face.

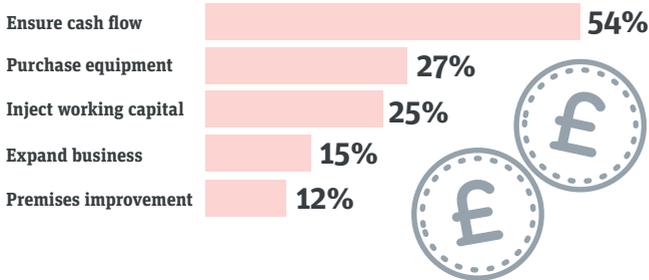
The top five barriers or obstacles that impact upon the success of a business:



The top five impacts of late payments on business and its operations:



Top five reasons for applying for financial support:



Fiscal views, as according to the ACCA's *Global Economic Conditions Survey*

Top three most approved-of fiscal stances:

1. Austerity (mild or severe), but imposed at the right pace
2. Mild austerity, when more substantial cuts are needed
3. Spending flat at the right level or rising slowly, at the right pace

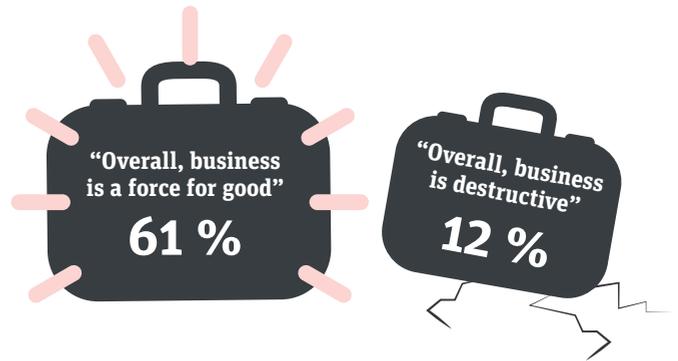
Top three most disapproved-of fiscal stances:

1. Severe austerity when significant stimulus is actually needed
2. Big increase in spending when significant cuts are actually needed
3. Mild austerity when significant stimulus is needed, or severe austerity when mild stimulus is needed

What does the public think?

YouGov recently polled public attitudes towards business. Here's what they found...

What comes closest to your views on business?*



Does capitalism lead to better overall living standards? **

“Yes, but with some degree of unfairness”

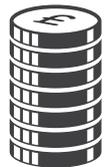
35%

“Yes, but with huge unfairness”

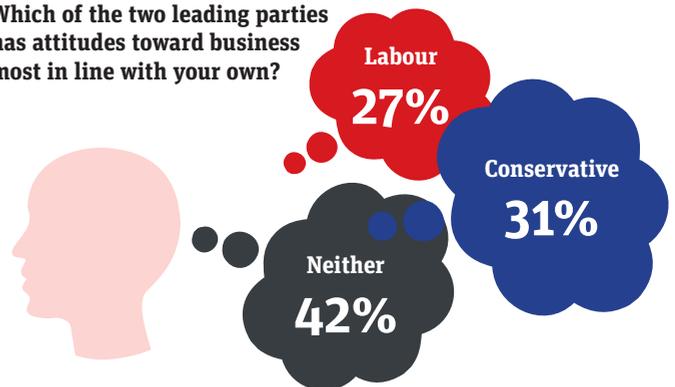
25%

“No, it makes people poorer”

17%



Which of the two leading parties has attitudes toward business most in line with your own?



*27% SAID "NEITHER", **% SAID "YES, AND A BASICALLY FAIR SOCIETY", 16% SAID "DON'T KNOW"

New Statesman
3rd Floor
Farringdon Place
20 Farringdon Road
London EC1M 3HE
Tel 020 7936 6400
Fax 020 7936 6501
info@
newstatesman.co.uk
Subscription enquiries,
reprints and
syndication rights:
Stephen Brasher
sbrasher@
newstatesman.co.uk
0800 731 8496

Supplement Editors
Becky Slack
Charlotte Simmonds
Design and Production
Stassja Mrozinski

Commercial Director
Peter Coombs
020 3096 2268
Head of Partnerships
Eleanor Slinger
020 3096 2275

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Sue Almond
Director of external
affairs, ACCA



Vince Cable
Secretary of State,
Business Innovation
and Skills



Mike Cherry
National policy
chairman, Federation
of Small Businesses



John Cridland
Director general, CBI



Sarah Hathaway
Head of ACCA UK



Margaret Hodge
Chair, Public Accounts
Committee



John Longworth
Director general,
British Chambers
of Commerce



Xavier Rolet
Chief executive,
London Stock
Exchange Group



Nora Senior
President,
British Chambers
of Commerce



Nadhim Zahawi
Conservative MP for
Stratford-on-Avon

The eternal relationship

The UK economy is growing. Despite optimism, however, small and medium-sized enterprises (SMEs) often feel that the coalition government has not delivered the results they hoped for. SMEs form the heart of the British economy, accounting for over 99 per cent of the country's 4.9 million businesses. The sector argues that access to a diverse pool of finance remains limited, and that tax and regulation remain less than business-friendly. Gaps in

the skilled labour market remain acute, and some worry that caps on immigration could restrict the pool of talent. Furthermore, with the UK's future membership of the EU in question, many enterprises seek certainty on access to the single market.

The *New Statesman* hosted a series of events, in partnership with the Association of Chartered Certified Accountants (ACCA), during the party political conference season to get to the

bottom of these matters. The question under discussion – “does business care about politics?” – lent itself to lively debate. Some saw the role of government as one of stepping in and increasing support; others said party politics should back off. While the interdependence of business and political policy remains unquestioned, this follow-up report tackles the key areas in which the panellists saw most room for improvement. |

This supplement, and other policy reports, can be downloaded from the NS website at newstatesman.com/page/supplements

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New data reveals the challenges for today's businesses, as well as public attitudes towards business

4 Fringe report Does business care about politics?

The full report from the Labour, Conservative and Liberal Democrat fringe events

Does business care about politics?

By Charlotte Simmonds

Access to finance, the skills gap and the EU referendum were all up for discussion at the *New Statesman* and ACCA party conference fringe series

The relationship between business and politics has often been described as a marriage – an interdependent, long-standing union fraught with its fair share of ups and downs. The one cannot advance without the other.

The answer to the question “does business care about politics?” – and to its inverse, “does politics care about business?” – is the same: of course it does. The policies of government have a direct impact on the potential of UK businesses to launch, to expand and to sustain growth. The strength of the private sector has a direct impact on the government’s capacity to achieve its objectives, be it creating jobs, climbing back from the recession, boosting innovation or remaining internationally competitive. So, are business and politics getting along? Where is the relationship flourishing, and where does it find itself in a choke-hold?

It is important to remember that the UK’s business sector is predominantly made of small and medium-sized enterprises (SMEs) that employ 250 people or less. These SMEs comprise 99 per cent of the country’s 4.9 million businesses. Micro-enterprises, those that employ less than nine people, account for 96 per cent. Together, the SME sector generates nearly half the gross value added (GVA) of the UK economy, according to government figures. Of course, big business plays a

vital role too. Despite counting for less than 0.1 per cent of companies, large firms provide 41 per cent of employment.

The key calls to government from this broad sector were the focus of a series of fringe events at this autumn’s Labour, Conservative and Liberal Democrat conferences, hosted by the *New Statesman*, in partnership with the Association of Chartered Certified Accountants (ACCA). The series brought representatives of business membership bodies into dialogue with members of parliament, debating their stance on issues ranging from business rates to over-regulation, loans and late payments, skills shortages and the EU referendum.

It is fair to say that, regardless of size, all businesses share a common desire for favourable government policy. Many participants stressed that the aims of politics and business are closely aligned, and so the pair must work in tandem to achieve a productive business climate.

“Fundamentally, business and government are trying to accomplish the same thing,” said Xavier Rolet, chief executive of the London Stock Exchange Group, when speaking at the Labour fringe. “We want to grow the economy, spur the job market, and create the wealth that underpins everything we appreciate in British society: the transport system, good education, and free healthcare for all.”

Because SMEs form the bulk of businesses in the UK, empowering them to become “wealth generators” is the surest way to achieve mutual objectives of economic recovery, Rolet suggested. Indeed, he pointed out that 1.9 million new job vacancies have been created this year in the SME sector. Yet many companies still struggle with the transition from “startup to stardom”, he said. “SMEs tell us they need a ladder.”

Financing the future

A fundamental step on this ladder is, of course, finance. Access to finance was a fixture of debate across the three fringes. Sarah Hathaway, head of ACCA UK, who spoke at both the Labour and Conservative conferences, stressed the importance of alternative funding methods, such as peer-to-peer lending, crowdfunding or smaller banks. “We are very aware that mainstream banks are not the only source of funding,” she said, “yet the focus on them, among politicians, has always been very high. Small businesses need creativity when it comes to their various funding options.”

Mike Cherry, national policy chairman of the Federation of Small Businesses (FSB), revealed at the Conservative fringe that around half of the FSB’s members are still refused by the major banks, and backed Hathaway’s call for government



Start small, think big: the vast majority of UK businesses are SMEs, and require diverse funding opportunities in order to grow

to raise awareness around alternative providers. “We want to see the coalition support and recognise the alternative finance providers out there,” he said. “You cannot tell high-street banks that they have to lend more, because that’s what got us into this mess in the first place. Too often, businesses hit a brick wall when it comes to accessing finance, without being referred to other providers. That referral should happen automatically.”

Financial matters more broadly remained at the core of each discussion. Two topics that rose to the top were tax reform and late payments.

Discussion on the former issue was lively, and saw both business and government take issue with the other’s practices. Business tax avoidance, despite government crackdowns, is reported to remain in the billions. This was of particular concern for Labour’s Margaret Hodge, chair of the Public Accounts Committee. She said that HMRC faces a “David and Goliath task” when it comes to keeping up

with tax avoidance. “Everybody says it is up to government to get the laws right, but the truth is that laws are not black and white. There are armies of people making money out of advising companies how to avoid tax. HMRC is too slow, and they don’t have enough staff.”

From the SME perspective, many said there was an urgent need to simplify the tax system. Speaking at the Lib Dem fringe, Sue Almond, director of external affairs at ACCA, said that businesses want three things – “certainty, simplicity and stability” – and that today’s system lacks these. “We still have a tax camel that has been designed over decades by various different committees, each with different aims, briefs and methods that have swung to and fro.”

Cherry agreed, saying that the complexity of tax obligations are costing the majority of small businesses more than £3,600 annually, and losing them (on average) 12 days per year keeping on top of tax administration. “This isn’t just a

question of reforming business rates,” said Cherry. “It is the question of a very complex system that has grown exponentially.” Business Secretary Vince Cable, speaking at the Lib Dem event, agreed that the tax system must become “more business-friendly.”

“Government should be doing less unnecessary regulation,” he added. “When we came into power, we found something like 20,000 regulations that businesses were required to observe, some long forgotten and antiquated. We’ve set our sights on getting rid of as many as necessary.”

On the topic of late payment, the debate was equally impassioned. Recent research by the payments body Bacs found that a staggering £39.4bn is currently owed to SMEs in overdue invoices (compared to £6.7bn owed to large corporates), and that 60 per cent of SMEs are now experiencing late payments. This cash-flow crisis has the power to cripple companies and suppress growth, +

➤ argued several panelists. Cherry called it “an abuse of the supply chain”.

Nadhim Zahawi, Conservative MP for Stratford-on-Avon, said the issue was “one of his bugbears”, but that it was ultimately “up to businesses to do the right thing, rather than for government to enforce the terms of payment.”

“One of the things Vince Cable has announced in the Small Business Bill,” he added, “is a clause that companies have to publish their payments practices. If you can’t compel them to act fairly, then at least name and shame them.”

Hathaway reinforced a need to “speak up” about the culture of late payments and its impact on small businesses. Her rationale was that large companies at the top of the pyramid might not realise how much it undermines collective efforts. “There is just no way that big business doesn’t want small business to exist,” she explained, “because it is an elemental part of their supply chain. Yet I’m not sure that the implications of poor practises are fully realised by large companies.”

In or out?

With the Scottish referendum still fresh in people’s minds, it was hardly surprising that comparisons with the promised EU referendum, and its potential impact on businesses, rose often during the three party conference debates.

John Cridland, director general of the Confederation of British Industry (CBI), reminded panelists at the Labour conference what an elemental role businesses has played in steering the ultimate outcome of the Scottish referendum, and keeping voters on the side of the UK single market. “It was a seminal moment when a business leader as highly respected and renowned as Charlie Mayfield of John Lewis spoke up about the consequences for Scottish families of demolishing the single market,” he said. “Scotland taught us that anybody having their say – politicians or businesses – will need to appeal to the head as well as the heart. The same will be true of the EU referendum.” On the European question, Cridland stated it was “blindly obvious that it is in our country’s interest to stay in a reformed Europe.”

“Reform” was the key word here; echoed by many others who agreed that the businesses community wanted in, but not without changes. Rolet made it clear

that strengthening the single market for “services” required particular attention, not just the single market for products. This was especially vital, he argued, given Britain’s strength in financial services, and the fact that only 10.5 per cent of our economy is manufacturing-based. Even the European Commission has admitted that the single market for services is “not yet working as well as it should”, and that only 8 per cent of SMEs across Europe engage in cross-border services activities, as a result of the enormous complexities and legal requirements.

“Services are effectively 75 per cent of the GDP of most European countries,” said Rolet. “There are huge opportunities for new business, but we face great rigidity owing to the fact that governments simply don’t want competition. They want to restrain the extent that [foreign] companies can compete in their domestic markets.”

John Longworth, director general of the British Chambers of Commerce, concurred that the “vast majority” of their members support the single market, “but not at any cost.” He challenged the

“Taking students out of net immigration targets is something we support”

Prime Minister to get clearer on “exactly what he would negotiate for” if the UK stays in. Particularly, he questioned how Britain would maintain influence within the EU while staying outside the eurozone, especially as this position becomes an increasing anomaly. “In five to 10 years’ time, we could find ourselves one of the few countries not in the eurozone,” he said, “and the eurozone is currently coalescing into the body that drive the European agenda.”

He warned that the UK could become “the Norway in Europe”; Norway being a country which does not belong to the EU but remains part of the European Economic Area (EEA), and is hence obligated to enforce its legislation. Similarly, there is a fear of the UK “having to abide by all the rules but holding none of the influence,” Longworth summarised. “The government needs to negotiate safeguards for members of the EU which are not part of the eurozone.”

Returning to the ability of businesses to sway public opinion, Nora Senior, president of the British Chambers of Commerce, said that the business voice could dominate the outcome when Britain goes to the referendum polls in 2017.

“From an individual voter’s perspective, people don’t make up their mind two years ahead of the election, they’ll make it up four to six weeks before they vote,” she said. “With Scotland, that was exactly when businesses came out and engaged in the political conversation. And we have a clear majority of businesses saying they want to stay in the EU.”

The next generation

The ambitions of both businesses and politicians are unlikely to be met without a vital ingredient: people power. The skills gaps faced by British industries, particularly in the engineering, manufacturing and technical sectors, were at the forefront of discourse throughout the party conference season. Exactly how government and business should work together to address this was a key question addressed by the panelists.

“I use the word ‘crisis’ when talking about skills,” said Vince Cable. For the Business Secretary, this crisis pitted sectors against each other for talent. “The economy is now in recovery, and we are hitting bottlenecks all over the place,” he explained. “For instance, we are desperately short of engineers. That means the oil and gas industry are raiding the car supply chain for engineers, who are in turn raiding others.”

Hathaway raised that one of the biggest skill issues was, in fact, a more general “work-readiness”, and that getting employers engaged in the education process would do much to counter this. “We need a holistic approach to the skills gap that is focused on readiness for work,” she said. “It shouldn’t just be about getting school leavers into an apprenticeship, but about broadly preparing young people to enter the working world.”

Raising the profile and take-up of apprenticeships is currently an area of acute policy focus for government, and there were plenty of opinions on how they could best be run. It was agreed that employer engagement was critical to the equation, alongside government efforts. This is, however, easier said than done. Zahawi reminded the panel how hard



New rules: Business Secretary Vince Cable said there should be fewer “antiquated” regulations placed on businesses

engagement can be for time-poor small businesses; as the co-founder of the market research firm YouGov, he would know. “I understand that it’s difficult for small businesses to engage in apprenticeships, because I’ve run one,” he said. “You have to fill every role. You have no time. But the fact remains that the best way to create successful apprenticeships is for businesses to do it themselves. The government can’t magic more jobs out of nowhere, it’s up to business to do that.”

On the subject of education and training, concerns were raised around the Conservative’s hardline stance on immigration and the impact this could have on the economy, particularly with regards to overseas students. The Conservatives have pledged a cap on immigration that David Cameron declares (some say unrealistically) will reduce annual immigration to “tens of thousands”. Labour has countered this with a more lenient policy that would exclude international students from their net immigration targets.

Hathaway brought up a recent study from Universities UK, which indicated that the public largely welcome overseas students settling in the country.

“Three-quarters of respondents said that international students should be able

to stay in the UK post-qualification and work,” she said. “Immigration is important for British business, both from a talent point of view, and because it increases trade opportunities. One thing that is often forgotten in the immigration debate is that students who are educated in the UK, who understand UK business and how it operates, will take that expertise back to their home country. That means more opportunity for trade relationships. Taking students out of net immigration targets is something we wholeheartedly support.”

Partnerships, not politics

A common argument levelled throughout the debate was that broad statements on “the needs of business” can succumb to generalisations, and this leaves politicians with the unenviable challenge of finding a language relevant to everyone.

“The relationship between business and politics is fraught with mutual misunderstanding,” said Zahawi. “Politicians will often refer confidently to the ‘business community’ as though it were a single homogenous bloc with perfectly aligned interests.”

Others agreed with this point, while also raising another. Are misunderstandings between politicians and businesses

due to the “politicisation” of business-related issues, in a way that too closely mirrors party politics? In other words, is pitting the interests of small against big business counterproductive?

The reality, argued Cridland, is that many in the business community see themselves as far more integrated than Westminster does. “I’ve heard it said before that Labour will speak for small businesses, because the Tories speak for large companies,” he said. “But the entrepreneurs I know are annoyed by that distinction, by one party for one kind. A small business in Gateshead is probably part of the Nissan supply chain, or the Procter & Gamble supply chain; they see themselves as integrated. Entrepreneurs don’t want to be divided into tribes just because politics is divided into tribes. That is just bad politics.”

Ultimately, businesses of every variety seek to flourish, and for many that means less government interference, less complication, and greater support for skills, capital, and access to wider markets.

“The most successful economies in the world have true partnerships between government and business,” Longworth reminded. “In the UK, it too often feels like a master-servant relationship”. |



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