



THE IMPACT OF THE REGULATORY ENVIRONMENT ON UK BUSINESS

RESEARCH REPORT

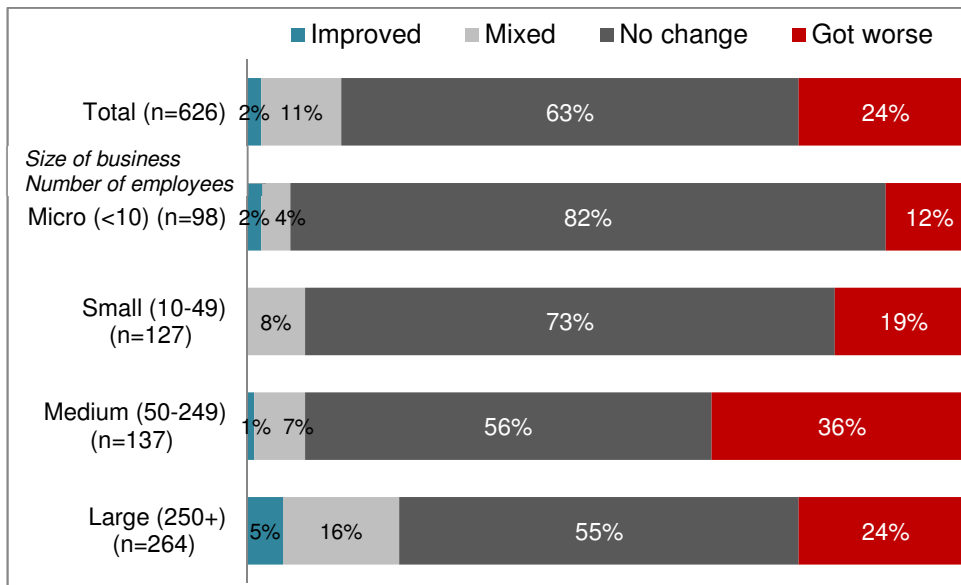
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The regulatory environment continues to challenge UK Business

For several years, ICAEW's Enterprise research¹ has indicated that the UK regulatory environment poses a challenge to UK business. Our latest research among senior finance professionals in the UK suggests this is still the case.

The majority of ICAEW senior finance professional members say that they have seen no change in how the regulatory environment has impacted their business in the past 12 months. Most notably those in micro and small businesses (Fig 1). Overall, one-quarter feel it has got worse, especially those in medium sized businesses.

Fig 1: Perceived change in the way the UK regulatory environment has impacted their business in the past 12 months



Base: All respondents (626)

¹ ICAEW has run an annual UK Enterprise Survey for over 10 years, canvassing the views of a cross section of ICAEW members working in industry and commerce. The 2011 UK Enterprise report is available at www.icaew.com/SMEResearch.

When asked how things have got worse, examples cited are often related to the specific legislation for their industry sector. But a recurring theme is a perception of an increased volume of regulation, which is challenging to keep up with. This has increased the administrative burden, with associated cost implications.

‘Just the constant drip, drip of regulations. In Health and Safety there seem to be more and more.’

‘A number of regulations like Environmental, Health and Safety. More things that we are having to deal with, which is taking up more time and we are not able to attend to other things.’

‘The volume of regulations is taking more man hours. Also having to prepare for future changes is taking more time.’

‘The Carbon Reduction Commitment. This is costing us £300,000 per year in what is effectively a tax as well as all the admin and reporting it involves.’

‘The increasing capital requirements for banks. There are increased regulations in the way that we deal with customers - which costs us money. Meeting regulatory requirements takes up a lot of management time.’

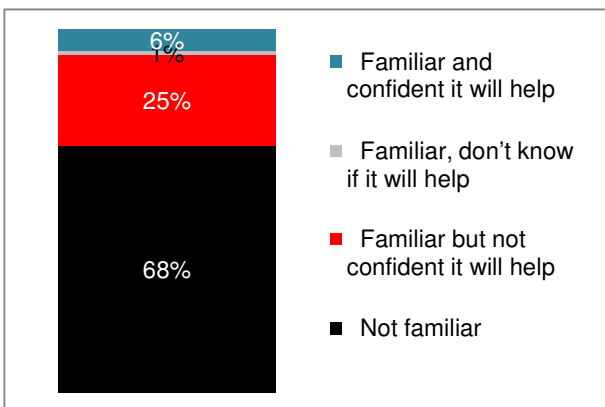
‘The Controlled Drugs Act. We have to transport drugs and lock and key in refrigerated conditions. This takes more time and I have had to employ more staff.’

‘It’s been an increasing administrative burden and has incurred more staff costs.’

The majority are unaware of the government’s ‘one in one out’ initiative

The diverse range of regulations listed perhaps explains why relatively few are confident that the government’s ‘one-in one-out approach to business regulation’ will help tackle the regulatory burden to their business (Fig 2).

Fig 2: Awareness of the government’s ‘one in one out’ commitment and confidence it will help tackle the regulatory burden for their business



The majority were unaware of this initiative, suggesting that more needs to be done to make businesses aware of the government’s commitment in this area.

But indications are that more needs to be done than simply raising awareness.

- **Among those that were familiar with this government commitment, almost 80%, (representing one-quarter of those interviewed) don’t feel it will help their business.**
- Overall, only 6% were familiar with it and felt that it would help tackle the regulatory challenges facing their business.

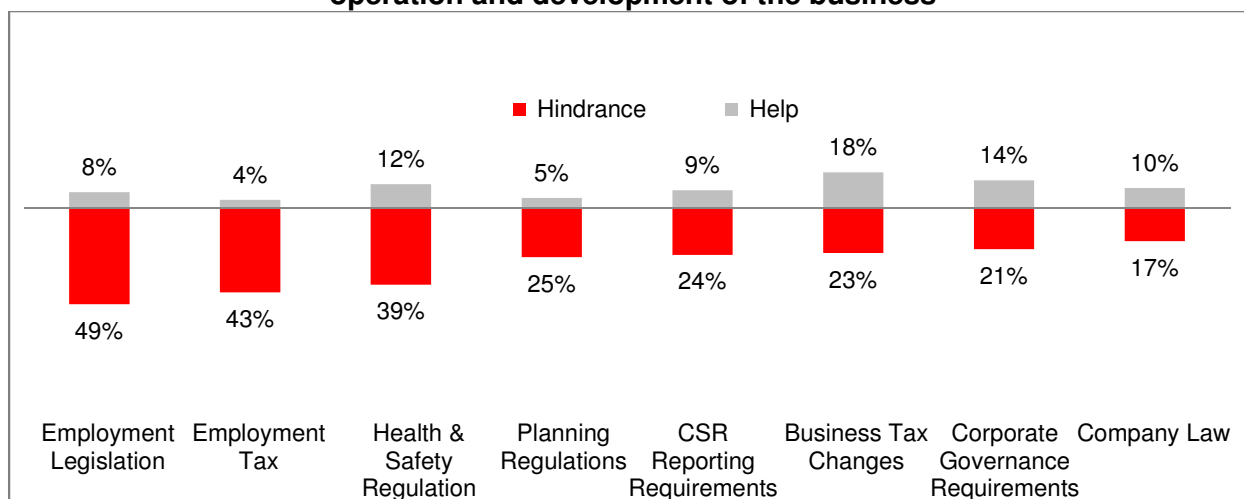
Base: All respondents (626)

Many cite employment legislation, employment tax and health and safety regulations as a hindrance to their business

Of the specific regulatory issues reviewed, employment legislation, employment tax and health and safety regulation are most likely to be cited as hindering the operation and development of their business (Fig 3).

Business tax changes, corporate governance and company law are less likely to be seen as a hindrance. For each of these areas, perceptions are more mixed, with almost as many considering current regulations to help their business as think they are a hindrance.

Fig 3: Regulatory factors: A help or hindrance to the operation and development of the business



Base: All respondents (626)

Employment Legislation

The issue does not appear to be lack of information on how to comply with employment legislation. Of those directly responsible for the management of a team, (415 respondents), virtually all (93%) say they have sufficient information. The blend of sources used is largely a reflection of company size, with those in large businesses less reliant on external sources than their counterparts in SMEs (Fig 4).

Fig 4: Sources used in the last 12 months for advice on Employment Legislation

Above/Below average	Total	Size of Business (Number of staff)			
		Micro (<10)	Small (10-49)	Medium (50-249)	Large (250+)
Base:	415	51	80	120	164
Company's Human Resources	66%	18%	35%	73%	91%
External Solicitor	47%	35%	56%	59%	36%
Govt. Dept website	31%	31%	44%	37%	20%
External Emp. Law consultant	28%	16%	40%	40%	18%
Businesslink.gov.website	28%	29%	50%	34%	12%
External Accountant	26%	27%	33%	28%	21%
ACAS	17%	6%	25%	25%	10%
Other	5%	12%	11%	3%	2%

Base: Respondents responsible for the employment and management of a team (415)

The challenge appears to be the impact of needing to comply with the regulations. A range of employment legislations were listed by those who felt that this area is one of the biggest hindrances to their business. Among the areas mentioned were:

- Regulations on agency workers, which have made some less willing to take on agency staff.

'The Agency Workers Directive. They obtain many more rights than had previously, so it's costing us more money. You have to ensure that permanent staff are paid more than agency staff. When you employ 3000 people and 500 agency workers it becomes quite a headache.'

'Agency Workers Directive. We make use of a lot of temporary staff and the introduction of the Agency Workers Directive makes it less attractive to do this. This means that were employing less agency staff than we used to.'

'Changes in contract staff regulations. Were now using less contract staff, which means that less people have been employed into the business.'

'The employment law limits my willingness to employ people. There have been periods where we have wanted to employ temporary staff then decided it was less hassle to give my existing staff over time.'

- Employment law with regard to handling poorly performing staff, and the administrative burden this presents.

'The legislation around unfair dismissal and losing employees which for the people we've had to let go has led to a disproportionate amount of senior management losing time.'

'Employment law makes it difficult to deal with a difficult employee and a lot of management time being spent.'

'Employment Law regarding the over-protection of employees. We can no longer make them redundant or dismiss them for poor performance and this takes up vast amounts of management time.'

- Plus for some, the removal of the default retirement age.

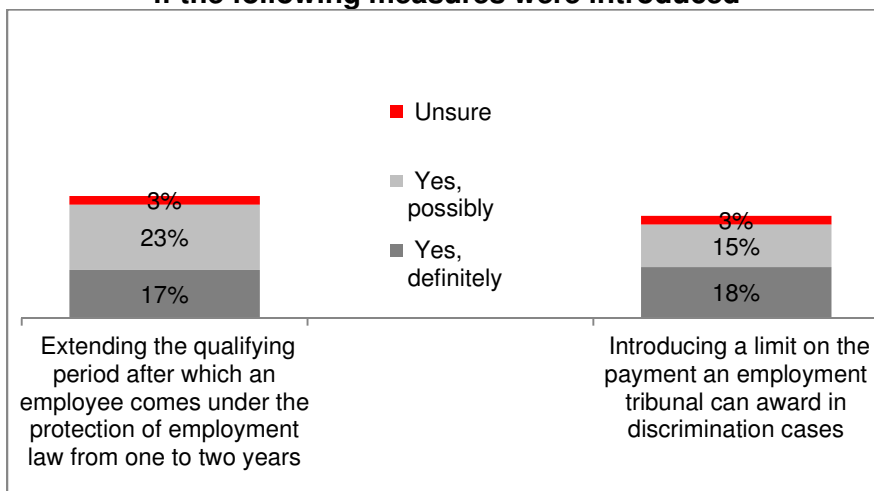
'Abolishing the standard retirement age of 65. It has caused us to be uncertain of how to deal with people of that age older employees. The impact it has had is uncertainty for personnel planning.'

'The new rules about retirement age. We have a lot of people that we were assuming would exit the business and now that's not possible were having to make some redundancies.'

Potential changes in employment law could have an influence on some businesses' willingness to hire more staff.

Of the two measures considered (Fig 5), extending the qualifying period after which an employee comes under the protection of employment law from one to two years would be slightly more likely to encourage business to employ more staff (40%). Slightly fewer, 33%, would consider taking on more staff if a limit was introduced on payments awarded in employment tribunals. There was no real difference in these proportions by size of business.

Fig 5: Likelihood to employ more staff if the following measures were introduced



Base: Respondents responsible for the employment and management of a team (415)

Overall, 50% said that neither of these measures would impact their hiring plans, generally citing the commercial requirements of the business, rather than legislation, is the key driver of whether or not to hire more staff. By comparison, 26% indicated that either measure would encourage them to recruit more staff.

Health and Safety

Of those involved in setting up and implementing Health and Safety policies within their organisation (167 respondents), half (49%) feel that the regulations in this area are a hindrance to their business.

But, as with employment law, the challenge doesn't appear to be a lack of information, with 90% stating that they have sufficient information on how to comply with the regulations.

Business Tax Changes

Overall, views on the impact of business tax changes were mixed: with 18% considering them to be a help to their business and 23% feeling that they are a hindrance.

Of those that see them as a hindrance, many commented that higher Business Taxes were impacting the bottom line (and for some, this has curtailed their growth plans). Some specifically cited VAT changes, and a number commented on the impact of changes to National Insurance.

'In our case the Business Tax is a Carbon Reduction commitment levy. This has just hit us (the water sector) overnight and costs us millions on top of all the other taxes we are already paying.'

'They are increasing it's going to have negative effect on the business, if we end up paying more tax you will have less money to invest.'

'In March this year the corporation tax rate for the oil and gas industry was raised. This meant that significant potential developments were no longer economic causing us to curtail capital expenditure programmes.'

'VAT increases are not passed onto customers, so it's consumed by the company instead. In real terms, the customer pays less and we pay more.'

'The changes with National Insurance means that we have gone from paying 12.8 % to 13.8% this being a 1% increase that effects our profits.'

Other broad areas of complaint were the perceived administrative burden of staying up to date with and implementing business tax changes, and the perceived complexity of business tax rules.

'The complexity of the regulations. There is a drive to simplify it but I don't see any evidence of that happening.'

'The complexity that we have to follow takes time and effort. This deflects you from what you're trying to do. It's time consuming.'

'Business Tax changes take time out for our company to change systems and reset platforms.'

'Business Tax changes are so complicated and change all the time, you have not got the time to comply within a Tax Year.'

'It's all the paperwork you have to do for a small company.'

METHOD

This report is based on 626 telephone conducted 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 14 November 2011 and 6 January 2012.