

AUGUST 2010 EDITION — REPORTING ON FINDINGS FROM QUARTER 3 - JULY 2010

The Barometer Project

Developed in The University of Nottingham Institute for Enterprise and Innovation (UNIEI), UKBB and UKBAB are on-line surveys operating in parallel with each other collecting the views of both businesses and advisers on a wide range of subjects.

Surveys are open to anyone active in either of the two 'communities' and allow a comparison of their views on the same issues, thereby providing a useful indication to government of how policies and other government measures are impacting upon businesses.

To view current and previous analyses documents and for further information, please visit the [UK Business Barometer](#) at:

www.ukbb.ac

and/or the [UK Business Adviser Barometer](#) at:

www.ukbab.ac

Alternatively, contact

admin@ukbb.ac

Welcome to the report on the 3rd quarter survey of the Barometer Project for 2010. A total of 372 panellists responded to the UKBB and UKBAB questionnaires; included here is a full analysis of the UKBB findings together with a selection of panellists' comments.

A full list of questions for each of the two surveys is given below.

UK Business Barometer – Q3 2010

1. To what extent has your business confidence changed since the election?
2. To what extent do you think that the measures announced in the recent budget will, as the chancellor said, "..... support a strong enterprise led recovery."
3. To what extent will the increase in VAT affect your business?
4. Will the change in VAT be borne primarily within your business or passed on to your customers?
5. To what extent do you think that the setting up of Regional Growth Funds together with measures supporting start ups, neither of which are available to businesses in the South East, will lead to a better balance in job creation between the South East and the rest of the country?
6. To what extent will the change in the rate of capital gains tax have an impact on your business investment decisions?
7. Will the fact that public expenditure is being significantly reduced impact upon the growth prospects for your business?

Plus the five regular questions asked with a view to revealing trends in growth, skills, finance, and market demand as they apply to your business.

[Over the past 3 months has your business [expanded/declined],
Over the next 3 months do you expect your business to [expand/decline]
Lack of Finance, Skills Shortages, Low market demand,]

UK Business Adviser Barometer – Q3 2010

1. In your experience, to what extent has business confidence changed since the election?
2. To what extent do you think that the measures announced in the recent budget will, as the chancellor said, "..... support a strong enterprise led recovery."
3. In your view, to what extent will the increase in VAT affect business?
4. In your opinion, what will the effect of the abolition of the RDA's be on the delivery of business support to small firms
5. To what extent do you think that the setting up of Regional Growth Funds together with measures supporting start ups, neither of which are available to businesses in the South East, will lead to a better balance in job creation between the South East and the rest of the country?
6. In your opinion, to what extent will the change in the rate of capital gains tax have an impact on clients' business investment decisions?
7. In your view, will the fact that public expenditure is being significantly reduced impact upon the growth prospects for business?

Plus the five regular trends questions.

[over the past 3 months has the number of clients seeking advice increased, over the last 3 months have you witnessed a change in the number wanting to start up a business, access to finance, shortage of skilled or qualified applicants, In your estimation, what proportion will have ceased trading in the next 12 months]

UKBB 127 July 2010 Analysis

The UK Business Barometer seeks to shed light on how smaller businesses are coping with the current state of the economy. Questions are focused on topical issues and the survey is deliberately kept short, but additional comments on problems facing business are invited as part of the survey submission and they are reported within the analysis.

In this first survey following the election of the new coalition government, panellists views were sought on business confidence, an 'enterprise led recovery', the increase in VAT, the balance in job creation between the South East and the rest of the country, investment decisions and public expenditure, plus the usual UKBB trends questions.

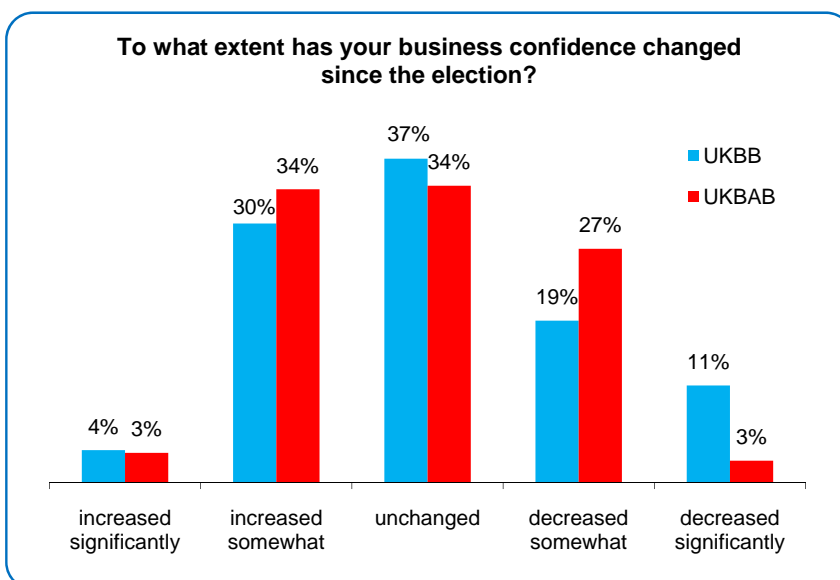
Survey Findings

In the last survey, April 2010, it was found that 39% of respondents were highly or reasonably highly persuaded that the UK economy will improve over the next twelve months, while 24% were unconvinced. After three months of the new government, some positive national statistics have been published for the second quarter of the year, including a higher than expected increase in GDP (+1.1%). However, it is also evident that there are factors which will weigh against growth in the near future such as Public Sector cuts and redundancies and the increase in VAT next year.

Business confidence is closely linked to perception of how the economy generally is likely to be going and 34% of respondents report that their business confidence has increased since the election, although 30% say that it has decreased.

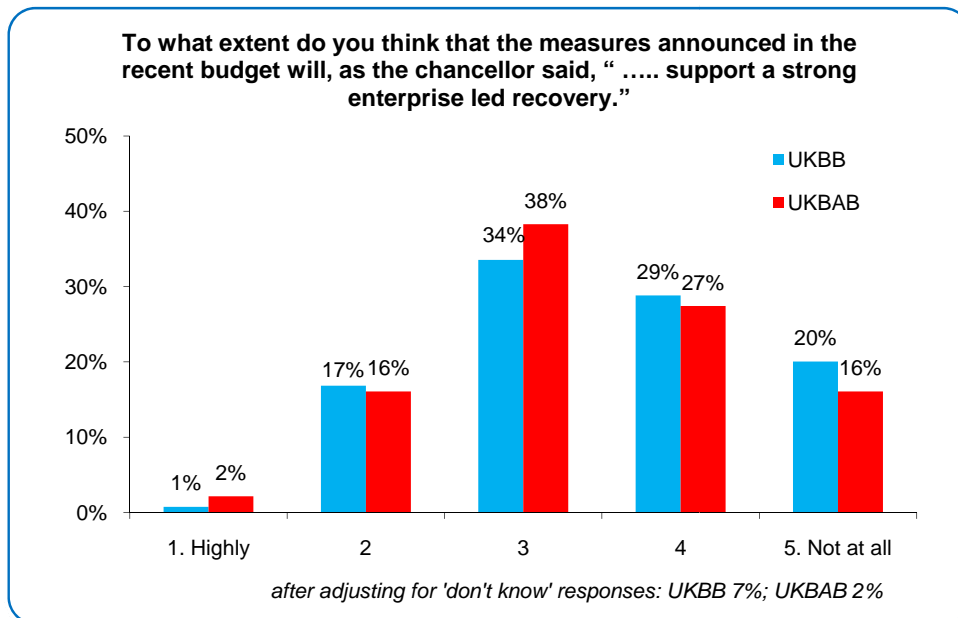
In the parallel survey of Business Advisers, the UKBAB, panellists were asked to assess how much they thought

business confidence has changed since the election. 37% of respondents think that there has been an increase in business confidence, while 30% think there has been a decrease.

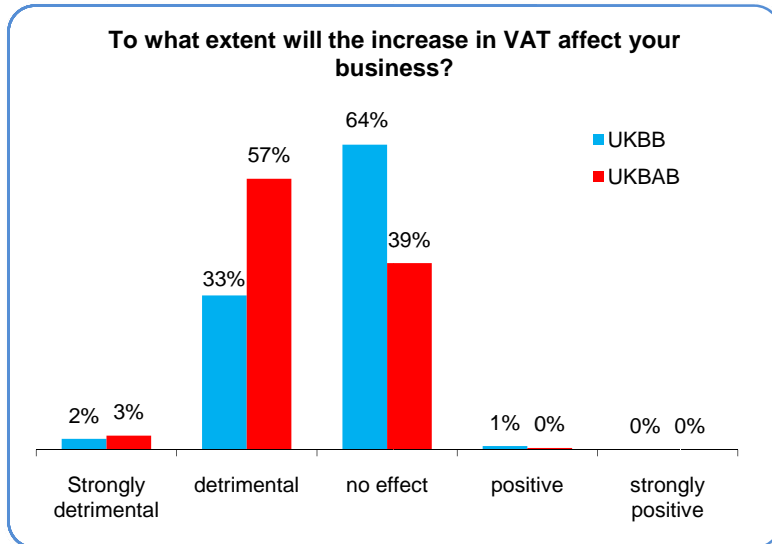


The June 2010 Emergency Budget incorporated a number of measures aimed at supporting small and new businesses including reductions in corporation tax rates, a National Insurance Contributions (NICs) holiday for new businesses which start-up over the next three years outside London, the East and South East regions and raising the threshold from which employers NICs are paid, as well as measures to improve companies' access to finance such as an increase in the Enterprise Finance Guarantee and the creation of a new Enterprise Capital Fund.

Both the UKBB and UKBAB surveys asked to what extent panellists thought that the measures would support a strong enterprise led recovery and there was quite a close degree of similarity in the response from each survey. Only 18% of each set of respondents thought these measures would have the intended effect to a high or reasonably high extent, while 49% of UKBB and 43% of UKBAB respondents do not think that the measures will provide this support at all, or only to a limited extent.



The increase in VAT announced in the Emergency Budget will not come into effect until 4th January 2011 but it is viewed with some foreboding by over one third of respondents, although nearly two thirds think it will have no effect on their businesses. In the UKBAB survey, panellists were asked to what extent the increase in VAT will affect business (in general), and 60% saw the effect as being detrimental or strongly detrimental, but 39% thought it would have no effect.



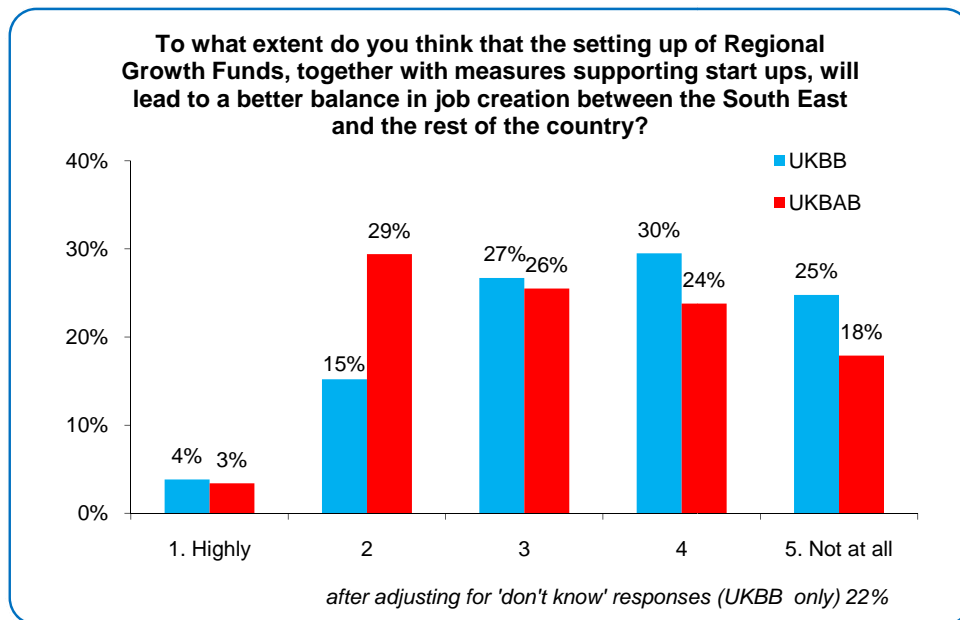
As some UKBB contributors pointed out, for business to business transactions, VAT increases are simply passed through and this fact is probably reflected in the results of the question about the extent to which firms will pass through to customers the increase in VAT charges from next January. This showed that 65% of respondents will pass on VAT increases completely to their customers.

40%

One of the measures included in the Emergency Budget was to create a Regional Growth Fund, in England only but excluding the South East, in 2011-12 and 2012-13, with the objective of helping areas and communities particularly affected by reductions in public spending make the transition to private sector-led growth and prosperity. The South East has the lowest average level of unemployment in England.

The new Fund, to be administered by Central Government, will partly take the place of the nine English regional development agencies which are being replaced by local enterprise partnerships.

While 19% of UKBB respondents are enthusiastic about the prospects that the new Funds will help improve the regional balance of job creation, 55% think this is not likely to happen. A higher proportion of business advisers responding to the UKBAB were enthusiastic - nearly one third (32%) thought it highly or fairly likely that the Funds and other start-up support measures will lead to a better regional balance in job creation, while 42% either did not think it would help at all, or were very doubtful.



In the Emergency Budget of 22 June 2010 it was announced that from 23 June 2010, Capital Gains Tax would be increased from 18% to 28% for higher rate and additional rate taxpayers. There was no change to the annual exempt amount of £10,100. The 10% rate on disposal of entrepreneurial business activities was extended from the first £2 million to the first £5 million of qualifying gains made over a lifetime. The net national increase to the Inland Revenue department from these changes is expected to be under £1bn.

The smaller businesses responding to the UK Business Barometer were asked to what extent the change in the rate of capital gains tax would have an impact on their own business investment decisions and half of them said that it would have no effect at all. This may partly be because many smaller businesses will now be able to anticipate the wider band of 10% CGT rate when they sell up, which will lower or offset (depending on how much they receive) their total CGT bill compared to the pre-emergency budget position, providing their lifetime gain is not more than £7.4m and assuming they are a higher rate tax payer.



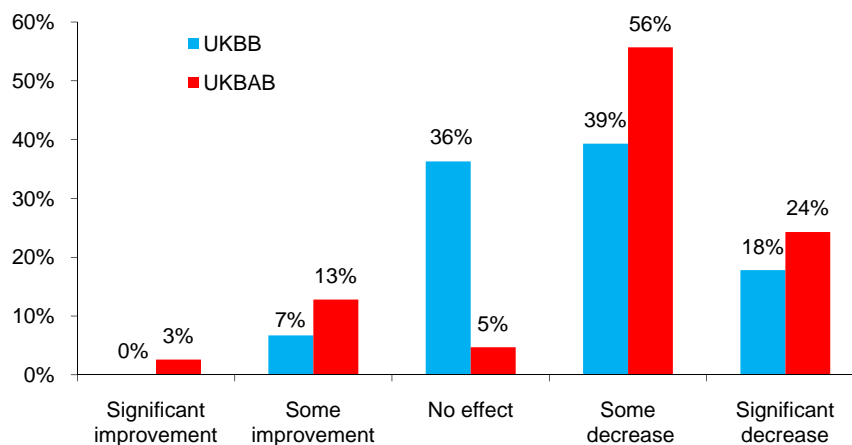
Business Advisers responding to the UKBAB were asked what impact the changes would have on their clients' investment decisions. Responses from advisers were mixed with about one third thinking the changes would impact investment decisions highly or fairly highly, another third saying there would be little or no impact and the remainder adopting a midway position.

The Autumn Spending Review will set out the final targets for the significant reductions

in public spending which featured in the Emergency Budget in June 2010. Since that Budget there has been a great deal of media coverage and speculation on the impact of large public spending cuts on the UK economy, particularly on jobs and growth. UKBB panellists were asked if the anticipated cuts will impact on the growth of their businesses and UKBAB panellists were asked if the cuts will impact on growth prospects for UK business generally.

Only 7% of UKBB respondents felt that the cuts would be beneficial to their businesses' growth, while 57% anticipate a reduction in growth prospects, 18% to a significant extent. 16% of UKBAB respondents foresee that the public sector cuts may be beneficial to UK economy growth rates but 80% fear that growth will be adversely affected, 24% significantly so.

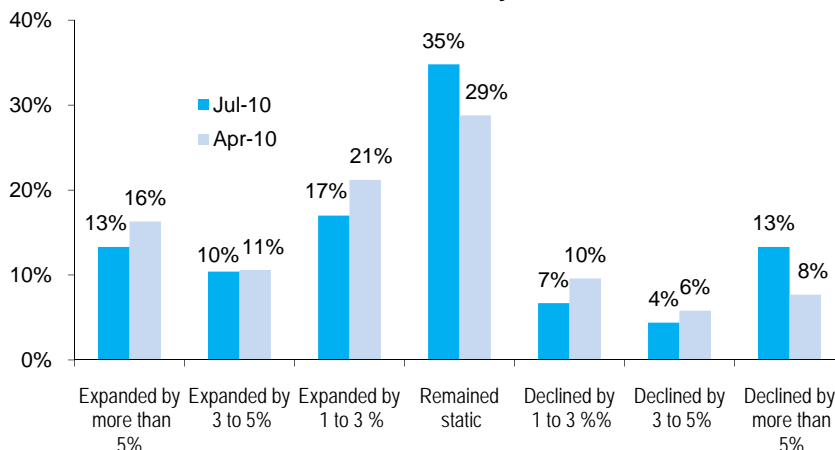
Will the fact that public expenditure is being significantly reduced impact upon the growth prospects for your business?



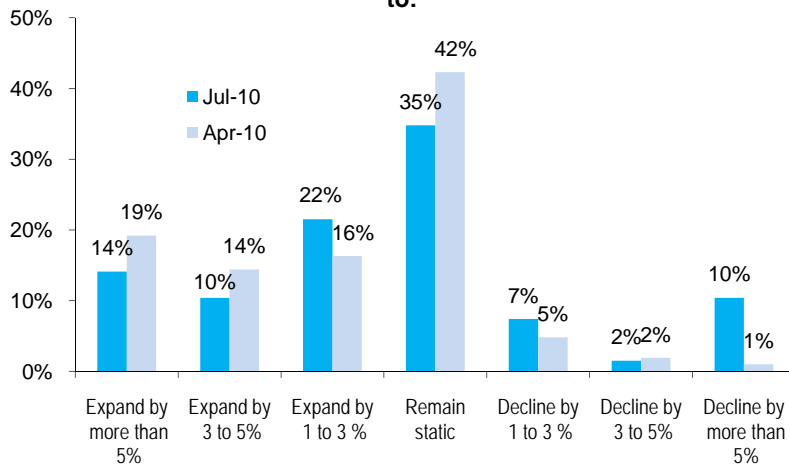
Trends Questions

The July survey has seen a distinct slowing in the more rapid growth rates reported by UKBB panellists, with 6% more than in April 2010 saying their businesses have remained static. More of the businesses experiencing decline are facing more rapid decline and the average index itself decreased by 6% since April. The balance between growing and declining businesses, although still positive, decreased over the last quarter to 16% from 25% in the first quarter of 2010.

Over the last 3 months, has your business:-

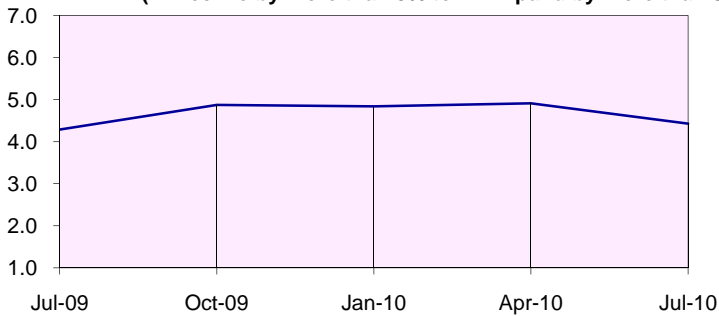


Over the next 3 months, do you expect your business to:



In line with responses to previous questions in this survey, many respondents are gloomier about their short term prospects. Over the next three months 19% of respondents expect their business to decline compared to just 10% in the April survey. 3% fewer expect business growth, and amongst those expecting to grow, more are expecting slower growth than in April.

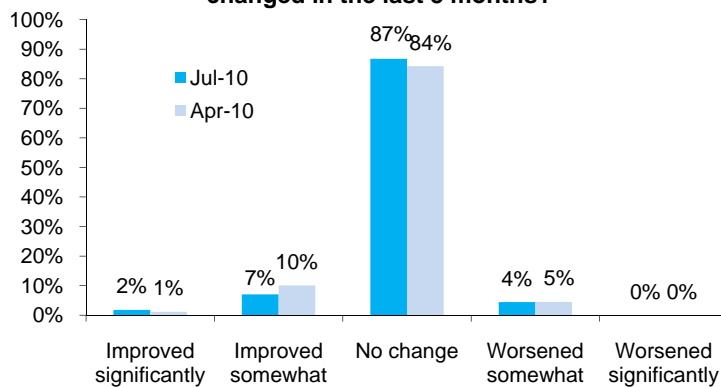
Expected growth over the next three months
Average level of indicator
(1 -Decline by more than 5% to 7 - Expand by more than 5%)



The positive balance between those expecting to expand and those expecting to decline is now down to 27%, compared to 42% in the April survey and the average indicator decreased by 10%.

The skill shortages situation has drifted down slightly over the last three months with the index declining by 1% for the second quarter running, however the large majority of business reporting no change increased by 3%.

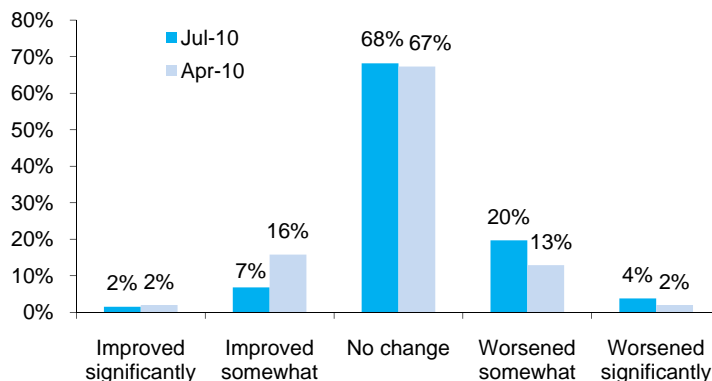
How has your situation with regard to skill shortages changed in the last 3 months?



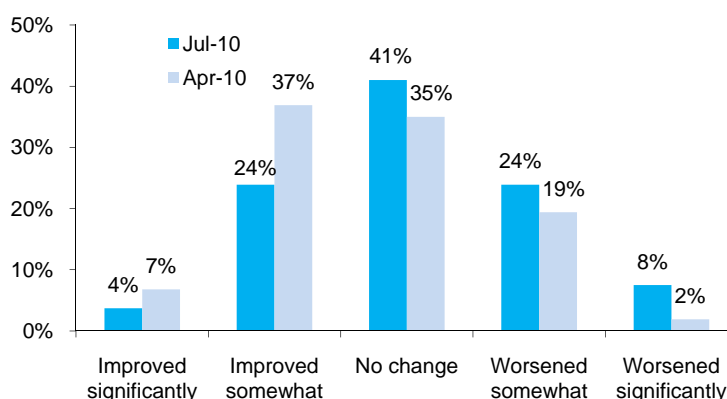
after adjusting for 'not applicable' responses: Jul 16%; Apr 14%

The lack of finance indicator has decreased by 7% over the last quarter. 24% say it has worsened compared to 15% in April, while 9% say it has improved compared to 18% in April.

How has your situation with regard to lack of finance changed in the last 3 months?



How has your situation with regard to low market demand changed in the last 3 months?



The percentage of respondents that say their situation with regard to low market demand has improved over the last three months has decreased from 44% to 28% between April and July, and the percentage that it has worsened has increased from 21% to 32% over the second quarter. The average index has dropped by 11%.

Listed below are some comments contributed by respondents to this survey. The views expressed are from individual panellists and may not reflect the views of the University. Comments have been edited where necessary to preserve anonymity.

- As a provider of mainly public sector consultancy we have seen a marked fall in business since the new government.
- As we have sales business to business we can see that there is less optimism in our customer base. Nobody is expecting any growth and most are "waiting to see"
- banks need sorting out they are so risk adverse as to be a waste of time.
- Despite the rhetoric Government policy isn't helping small business. In our view scrapping the RDAs will have a significant negative impact on our business, making it harder to gain business support. While the business link service isn't popular, it is also unclear how this will be replaced. I don't think the Government has any clear policy on business support. Rather than announcing scrapping organisations there should first have been serious

thought about how to replace them.

- General improvement in the order book, but still not enough to think about expanding the business.
- If every company with more than 30 people were allowed to take on an apprentice at minimum wage but not sack an existing employee and pay no NIC for the apprentice then a lot more younger people would get a job.
- In a small business the questions about growth are very difficult to answer, as one-off factors such as the introduction of a new product can make a big difference.
- New business that was prospected 9 months ago will work through - it is what comes after that is uncertain / unlikely.
- Our International Payroll and HR service is the side that is seeing tremendous growth. Client companies of ours plus new customers setting up business entities overseas or employing nationals via lease agreements (similar to temporary staff contracts here in the UK) are the ones that are pushing our sales up.
We now provide payroll and HR services in over 160 countries.
- Public sector clients are cancelling contracts, dragging their feet over payments, putting out tenders and withdrawing them at the last minute or after the close of the tendering, asking at interview for "best price" - but currently we are only seeing this directed at the SME market of suppliers. Big companies probably have punitive cancellation clauses built into contracts. As freelancers are unlikely to qualify for benefits, particularly job seekers allowance, the pain to the consultancy sector will not show up in published statistics, and as Peter Luff regards it all as the private sector's fault if they have a large public sector client base, the claims to support the private sector seem currently to be baseless. Perhaps after the summer and the Comprehensive Spending Review, things will become less uncertain, otherwise the supermarket checkout job is looking very appealing.
- Q 10 is what lawyers describe as a leading question and should be phrased differently. I work in Turnaround and can confirm there is not a lack of finance for reasonable propositions. We have used EFG extensively. One client who added £100k to facilities in June 09 [on an existing £500k used EFG] had to add a further £100k in March and were funded by RBS.
It simply is not true that finance is unavailable; fundable propositions are in short supply.
- Ref the skill shortage, We would like to take on staff with a view of training them but lack of finance restricts our decision. We currently have an ageing workforce but we cannot get rid of them due to cost penalties on redundancy payout. The government need to see these difficulties and offer some help.
- The budget is not about business; its purpose is to raise taxes. The Government do not understand the needs of the small business person so they cannot help us.
- The business I run is quite small, and the Government's budget changes will have little impact when scaled down accordingly.
However, re Question 5, I am always highly cynical of any changes brought in by any new Government - money is spent on re-naming departments (EMDA to RDA?) to perform an almost identical job to the previous Government's department, just so that the new Government can say, 'Look at us, aren't we clever! We made it different.'
Thereby wasting millions more pounds of tax payers money in the process.
- The economy is still in a state of flux and as a result of the election and emergency budget not all of the plans and their effects are known and/or clearly understood. This state of uncertainty is reflected throughout business as an unwillingness to spend; until clear and complete messages covering all sectors have been issued and absorbed we are unlikely to see a positive shift.
- Too early to tell whether cuts in public spending will impact - in some ways it reduces opportunities but depending on how my client base reacts there should be compensatory opportunities too.
- We all agree public spending has to be slashed, until we know where, when and by how much exactly will I be able to take a guess at the likely effect. As it will be a pointless exercise the chancellor hitting the have-nots, it's down to the number of haves left standing.
- We are a vat free business and pleased that the government kept with that. We have just opened up our brand into a major department store which reflects the position in growth. We are based in the south east and never had any funding offered in the 2 years that we have been trading so I can't see how the government's decision to allow northern companies cash injections will affect us. There is absolutely no funding for start ups, just a load of start up companies fleecing genuine starts ups like us with 'come and learn' courses which are badly managed and obviously only around to line the pockets of the 'informed'.
- We have a lot of public sector clients, we are clearly going to be affected by the cuts in public spending, and we'll just have to work harder/smarter.

About the Respondents

The UK Business Barometer surveys the people running small and medium size businesses. This analysis is based on submissions to the July 2010 Survey, made up to 3rd August 2010. 136 respondents were drawn with the following population characteristics:

Sector				
Production & Manufacturing	Distribution	Services	Unspecified	Total
22%	12%	65%	1%	100%

Turnover (£)				
< 1M	1M - 3M	> 3M	Unspecified	Total
65%	15%	13%	8%	100%

Number of Full-time Employees						
1-10	11-20	21-50	51-100	100+	Unspecified	Total
63%	13%	12%	2%	2%	8%	100.0%