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From the Parliamentary Under Secretary  
of State for Industry

Prime Minister

The material changes to the draft  
are marked on the attached copy:

mainly  
"de minimis"

22 February 1985

Dub  
22/2

Andrew Turnbull Esq  
Private Secretary  
10 Downing Street  
LONDON SW1

Dear Andrew Turnbull

Thank you for sending me a copy of your letter of 14 February about the Prime Minister's meeting on 26 February to follow-up the burdens on business scrutiny.

You asked the Efficiency Unit and ourselves to prepare a draft "publishable" version of the central report for consideration at the meeting. I enclose a lightly edited version of the first - substantive - part of the report which we have prepared in consultation with the Unit. This takes account of some drafting points suggested by Departments involved in the scrutiny; some further amendments may however be necessary following the 26 February meeting.

As to whether we publish at all, Mr Trippier takes the Prime Minister's view about the risks of raising unreal expectations. Equally, he feels that the Government could be in an awkward position if it refused to publish anything at all, bearing in mind that the existence of the report is widely known (and that some of it has leaked). He would hope that the risks of publication could be contained within acceptable limits by editing changes of the kind we propose. A brief Ministerial foreword might also be helpful, making clear that Government decisions on the ideas in the report will be announced at a later stage.

We assume that the individual Departmental studies will not be published. Under the normal scrutiny procedures they would be sent to the Civil Service Unions in each interested Department (and the central report would be sent to the CCSU) at an early stage in the follow-up process. In view of the leaks of earlier material sent to the Unions, however, this has not yet been done. It would seem

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best to continue to withhold the material from them, at least pending publication of the central report: but this is a point on which Lord Young and Sir Robin Ibbs may wish to comment.

I am copying this letter to the recipients of yours.

*Yours sincerely  
Annabel Goulding (Miss)*

ANNABEL GOULDING  
Assistant Private Secretary

Enc.

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*This summary replaces the longer and more detailed  
on in the sentiny proper*

## BURDENS ON BUSINESS: KEY FINDINGS AND PROPOSALS FOR ACTION

This report examines burdens imposed on small businesses by administrative and legislative requirements of central and local government. It identifies the main problems on which action is required, and suggests a programme of measures to tackle them.

Compliance with government requirements imposes real additional costs on business, particularly on small firms and "new starters". They can be a barrier to market entry (2.1.1-2.4.2).

Though most firms are managing to cope with the burden, action to reduce it offers benefits for jobs and for the "white economy" (2.5.1-2.5.3)

There are practical and political constraints on the scope for cutting requirements back (3.2); The government will not of course wish to reduce essential protection for employees, consumers and the public at large. Effective action on compliance costs will require Government and Parliament to mount a determined attack on the problem across the board (3.3-3.5).

We have identified options for action {, on which further work is required,} in ten priority areas: Value Added Tax; the Pay As You Earn/National Insurance Systems; Statutory Sick Pay; planning controls; building regulations; fire prevention requirements; health and safety at work; terms and conditions of employment; company law; and consumer law (4.1-4.4).

And, to control the burden as a whole, we recommend:

- new disciplines in regulatory Departments, extending to compliance costs the principles of economy and efficiency underlying the Financial Management Initiative: and getting regulators into direct contact with small businesses "on the ground" (7.2.1-7.3.2);



- a small task force, perhaps in the Enterprise Unit, to monitor the application of these (7.2.2-7.2.4);
- a "compliance cost" initiative in the European Community (7.4);
- coordinated action on all the main requirement systems, to strengthen "compliance cost consciousness" in enforcement and to tackle the government/business communications "gap" (5.1.1-5.3.2; 6.1-6.7).



*Throughout references to the separate departmental sentences has been omitted*

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## BURDENS ON BUSINESS

## SCRUTINY OF ADMINISTRATIVE AND LEGISLATIVE REQUIREMENTS

## Central Report

## 1 INTRODUCTION

1.1 Scrutinies have been completed in seven Departments on burdens ("compliance costs") imposed on small businesses by the administrative and legislative requirements of central and local government.

1.2 This report outlines (at Annex A) the scope of work undertaken by the scrutiny team, and the working methods adopted; and summarises:

- the essentials of the compliance cost problem, as we see it:
- our key conclusions and recommendations.

1.3 Our terms of reference are at Annex B. The scrutiny officers, and their Departments, are identified at Annex C.

1.4 The scrutiny as a whole cost £173,000. ^



## 2 COMPLIANCE COSTS : ANALYSIS OF THE PROBLEM

### 2.1 Some business comments

2.1.1 We have found a range of views about requirement problems in the small business community. For example:-

"Death by Red Tape". (National Federation of Self-Employed.)

"The documents which apply to a businessman setting up a factory stand 5 feet high". (Centre for Policy Studies.)

"When we started they seemed daunting. But in practice they proved a minor irritant compared with the problems of raising finance and making the business work". (Proprietor-manager of recently started manufacturing business, employment 13, commenting on compliance costs generally.)

"We could employ a couple of youngsters full time, if we were free to negotiate wages with them direct". (Manager of retail furniture business, commenting on impact of Wages Councils.)

"Not a big problem" (Manager of manufacturing business, employment 52, commenting on compliance costs generally.)

"The big problem in life is the bank" (Manageress of manufacturing business, employment 16, commenting on compliance costs generally.)

"A big constraint on my willingness to expand my labour force." (Proprietor of specialised publishing business, employment 4 part-time, commenting on impact of employment-related requirements.)



"Not really a burden yet. But we are carrying about as much as we can". (Director of manufacturing business, employment 42, commenting on compliance costs generally.)

"We've given up contracts for porches and sun lounges. The building regulations are too much of a hassle." (Proprietor of double glazing business, employment 8.)

## 2.2 The Issues

2.2.1 We have identified 12 main requirement systems at the heart of the compliance costs problem - Value Added Tax (VAT); Pay As You Earn (PAYE) and National Insurance Contributions (NIC); Statutory Sick Pay (SSP); planning, fire and building regulations; employment protection law; Wages Councils; health and safety at work; and company and consumer law (Annex A Para 1.4).

*Planning? - Land release?*

2.2.2 We have asked three questions about them:-

- what kinds of compliance costs do they impose?
- which businesses are most seriously affected?
- how significant is the burden as a whole, in relation to businesses' other concerns?

## 2.3 Nature of Compliance Costs

2.3.1 The two main kinds of compliance costs are (a) the staff/management time needed to understand and meet government requirements, and to deal with the agencies enforcing them; and (b) the direct expense incurred in meeting, for example, requirements for equipment (such as fire doors) which the firm would not otherwise have acquired.



2.3.2 The element of direct expense should not be under-rated: as one manager pointed out to us, an item costing "only" £500 may require a small business to generate sales of ten times that amount to finance the purchase. In some areas, too, costs are significant but overlooked, because they only affect businesses indirectly; for example additional costs to commercial premises imposed by the building regulations.

2.3.3 But for most small businesses costs to time, particularly management time, are the key element in the requirements burden. Management time is a small firm's most precious resource. The smaller the firm, the more precious it is : above all where the proprietor alone is responsible for production, marketing and finance functions which in larger businesses can be shared between specialised departments.

2.3.4 It follows that requirement problems which only occur intermittently, but which make major and unpredictable demands on management resources, may be as serious as the continuing administrative chores imposed by the tax/NIC/SSP system. For this reason it is difficult to compare the "onerousness" of different requirement systems - problems with planning, or with an unfair dismissal case, for example, as against the day-to-day administration of VAT.

2.3.5 To the extent that requirements impose standards different from those an unregulated market would set, they affect business efficiency, enterprise and competitiveness. The effect may be obvious where (for example) machine guarding requirements impede production. In other cases it may be less obvious but equally real. There is, for example, a cost to output and efficiency (as well as to employment) if job opportunities are reduced by minimum wage rates set by Wages Councils.



## 2.4 Businesses Affected

2.4.1 Compliance costs bear most heavily on the very smallest businesses where managers lack the staff support, the time and sometimes the expertise to cope with the work involved and to handle central and local government bureaucracies effectively. The larger businesses with specialised management capacities tend to be less vulnerable (see para 2.3 of Annex A). But even here we have identified significant under-currents of concern about the problems identified in Section 2.3 above: as well as about what are seen as unnecessarily onerous or complex aspects of some requirement systems.

2.4.2 A particularly worrying point economically is that compliance costs - real and perceived - may limit market entry by inhibiting start-ups and expansion of small enterprises; especially those involving first-time recruitment of full time labour. The problem is compounded because so many requirements are directly employment-related (PAYE/NIC/SSP, Health and Safety, employment protection law).

## 2.5 The Problem as a whole

2.5.1 We found that the great majority of small businesses regard compliance costs as a permanent, immutable feature of their business environment. Most of the firms we saw had not seriously considered the scale of the problem or the practical implications of reducing it. In part, we suspect this is because compliance costs, like other costs which affect competing enterprises more or less uniformly, are passed on automatically to customers.

2.5.2 Not unexpectedly therefore, we found that most small businesses are managing to cope with requirement burdens, about which only a minority are openly critical. And most small businesses see problems with finance, sales and so on as more serious than problems with compliance costs.

✓



2.5.3 Equally, we believe that the total impact - economic and psychological - of a determined drive to contain compliance costs would be substantially greater than the perspective of the individual small firm suggests. Such action, as one element in the Government's wider strategy on enterprise and employment, offers benefits for

- jobs. Firms employing less than 50 people provide nearly 8 million jobs - 40 per cent of total employment. Firms employing up to 200 provide nearly 13 million - 60 per cent of the total.\* And employment in smaller businesses is growing faster than in larger firms. As our consultancy survey suggests (Appendix 2, p 21), reductions in their compliance costs would feed through to profits and prices; the end result (within a given monetary target) being a higher level of employment in the whole economy.

- the legitimate economy. Some small businesses (outside as well as inside the "black economy") effectively cut their compliance costs by ignoring government requirements. The unfair advantage they can gain is a frequent and bitter source of complaint from other traders. One effective way of reducing this fringe is to reduce the requirements burden.

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\*These figures derive from the 1981 Census of Employment. They probably over-estimate the number of smaller firms: though DE statisticians regard them as a reasonable approximation. DTI define as "small firms" firms in manufacturing employing up to 200 people: and firms in services with annual turnovers below specified maxima which vary from sector to sector. On their definition, and on the basis of 1976 data, "small" firms account for around 25 per cent of total employment.



### 3 THE CONSTRAINTS

3.1 Our terms of reference asked us to identify the obstacles to action to reduce compliance costs. ^

3.2 ^ Substantial cut-backs in requirements are often likely to involve one or more of the following:

- changes in the yield or the incidence ("who pays what") of PAYE/NIC and VAT;
- reductions (or what would be claimed as reductions) in the effective level of protection available at present to the employee and other interests identified in para 1.4 of Annex A;
- more work for government (with implications for public expenditure and manpower);
- breaches of EC obligations (or in the case of proposed EC legislation currently in the pipeline, negotiating difficulties in Brussels).

3.3 These constraints go to the heart of the matter. In the tax/benefit field, there are often trade-offs between compliance cost reduction, revenue/incidence implications and Civil Service manpower. In other areas, deregulatory changes in the structure of long-established requirement systems will often change (or be seen as changing) the present balance established by law between business and other interests. Such shifts will only be possible if Government and Parliament take a strategic decision to give greater weight across the board to the deregulatory benefits for enterprise and employment identified at 2.5.3 above.



3.4 Against this background, we have identified some radical options to reduce compliance costs; ~~and~~ together with a range of "efficiency" changes to make existing requirements "friendlier" and less onerous to business interests.

3.5 In some cases we have recommended exemptions for small businesses where there is clear evidence that they bear a disproportionate share of compliance costs; and/or that regulation is less necessary for small firms than for large. But our general approach has been hostile to wholesale exemptions: nor on the whole do small firms themselves seek these. Such exemptions would distort the market by putting larger firms at an unjustified competitive disadvantage; and would create "threshold" problems at the point of transition from exempt to non-exempt status.

3.6 We propose action on three fronts:-

- the scope and content of requirement systems;
- their enforcement;
- government/business communications about them.



## 4 ACTION TO CUT COMPLIANCE COSTS: CHANGES IN REQUIREMENTS

Following (sections 4.1-4.4) is a check list summarising the main options/recommendations for change in existing requirements emerging from our detailed studies in seven Departments. We recommend urgent follow-up work (including where necessary consultations with the outside interests concerned) as a basis for ~~early~~ Ministerial decisions on the scope for action in these areas.

4.1 VAT: PAYE: NIC: SSP

- introduce a non-cumulative basis for PAYE, as a first step towards integrating the PAYE/NIC systems, by putting the PAYE/NIC calculations into the same set of deduction tables. We assume that "employer administered" income tax and national insurance contributions are here to stay. Within that constraint, harmonising the two systems would do more than anything else to make compliance with these "pay-roll related" requirements easier for small businesses.
- take more small businesses out of the VAT net. VAT imposes significant compliance costs on small firms. But the case for raising the present exemption threshold is finely balanced. And there is a major EC constraint. Early decisions are needed on the possibility of tackling this in the context of a wider EC initiative on compliance costs (7.4 below); |
- improve "bad debt relief" in the VAT system (which will reduce concerns we found in a number of small manufacturing firms); and introduce a monthly payment plan, to help very small businesses with VAT;
- make SSP easier to integrate with firms' existing pay-rolling systems, by simplifying administrative procedures on "qualifying periods"; and allow businesses to opt out of



the SSP system where they prefer to pay sick employees at the appropriate rate without refund;

- reduce the present multiplicity of NIC rates.

>> *Importance of single rate of VAT*

#### 4.2 Planning, fire and building requirements

- cut planning burdens by speeding up local decisions on small developments; and by legislating to introduce Simplified Planning Zones, building on - but extending - experience with Enterprise Zones; make it easier for firms to change the use of commercial premises; and assist people starting small businesses in their own homes;

- reduce and simplify the building regulations, with particular reference to the conversion of existing buildings for commercial use; especially the detailed requirements on fire precautions and on energy saving (which in some respects are excessive at present);

- increase flexibility in fire prevention requirements; reduce generally the extent of the requirements and extend cut-offs for lower risk premises with some reliance on "self-certification". (The introduction <sup>as is envisaged</sup> of a general statutory duty in respect of fire precautions would assist the introduction of more flexible arrangements.)

#### 4.3 Employment protection, Wages Councils, Health and Safety at Work

- increase employees' qualifying periods in unfair dismissal cases from 1 to 2 years, in firms employing over 20. Our field work confirmed that the present 1 year period is too short for many smaller businesses, and is distorting dismissal decisions;



- redress the balance in unfair dismissal cases by further action to discourage ill-founded complaints (eg a scheme for cash deposits from some or all complainants, to be refunded or forfeited at the direction of the industrial tribunal). We found significant concern among small businesses with experience of unfair dismissal law that the present system is unduly slanted against the employer;

- make tribunal proceedings quicker and more efficient by reducing legalism in the present system. We found significant concern about the scale and nature of the demands made at present on management resources in unfair dismissal cases;

- raise the exemption threshold for mandatory re-instatement following maternity leave, to, say, enterprises employing 20 or more people. By their nature reinstatement requirements can cause particular problems for small businesses with a limited number of vacancies available at any one time.

*Ministers have decided to consult on whether to*

- abolish or drastically relax Wages Councils' controls over young people's wages, which price some of them out of jobs.

*amend*

- Sections 1(2) and 50 of the Health and Safety at Work Act 1974 to permit substantial rationalisation - without loss of necessary protection - of existing detailed regulations;

- eliminate some inessential requirements (eg hours of work, notification of employment, posting of notices);

#### 4.4 Company and consumer law

- eliminate the present statutory audit of accounts for "shareholder-managed" small businesses; reduce and simplify the content of accounts and balance sheets required from small firms at present; and simplify the "annual return" requirements;



- simplify and rationalise current requirements in the field of consumer credit; put greater emphasis on "self-certification" systems in the enforcement of weights and measures requirements; and use the planned introduction of a new "general statutory duty" on product safety as a basis for containing detailed regulations in this area.

*and perhaps cutting back*

#### 4.5 General Points

4.5.1 Three general points emerge from the studies of individual requirements.

4.5.2 The first touches the use, where regulation is unavoidable, of general statutory duties as an alternative to detailed controls through secondary legislation. Such duties allow business maximum freedom in the choice of means to meet prescribed ends. But their value depends critically on:

- establishing unequivocally that compliance and other costs must be taken fully into account in determining what in practice the duty requires businesses to do;
- developing flexible codes to give detailed guidance on how businesses may comply (with maximum reliance on input from business itself; a clear distinction between recommendations on best practice and statements of minimum necessary standards; and short summaries of key points for small businesses);
- cutting back - and controlling the future growth of - detailed regulation in the area concerned.

4.5.3 Secondly, we recommend reliance on "self-certification" by firms themselves, as an alternative to mandatory inspections/tests/verification by enforcement authorities before business operations are permitted to go ahead. As the Departmental studies indicate in fields like weights and measures, building controls



and fire prevention, self-certification arrangements - backed by positive guidance and support from enforcement authorities - can cut both compliance and enforcement costs.

4.5.4 Thirdly, we recommend a critical general review of licensing requirements, an illustrative list of which is at Appendix 4.

4.5.5 Licensing - which makes it unlawful to trade without Government permission - is an exceptionally stringent method of regulation. It tends to maximise the power of the regulator over the regulated. And, by creating controls over market entry, it can inhibit enterprise and competition. Its use is warranted only if the end in view is of overriding importance, and cannot adequately be achieved by other, less onerous means.

#### 4.6 Other matters

4.6.1 Appendix 5 suggests further work on some other, detailed issues. These include the rules governing the definition of "self-employed" for PAYE/NIC purposes; and requirements deriving from local authority private Acts and byelaws.



## 5 ACTION TO CUT COMPLIANCE COSTS: ENFORCEMENT BURDENS

*The substance of this section is unchanged but most of the references to particular departmental issues have been deleted*

5.1 General

5.1.1 Small businesses' concerns about compliance costs more often emerge as criticism of enforcement practice than as criticism of the substance of the requirements themselves. Typically, managers comment on occasional

- inflexibility: demands by enforcement officers which are seen as excessive and unreasonable in relation to the point at issue;
- inconsistency: variations of practice over time within individual enforcement agencies and - in the case of requirements policed by local authorities - between separate authorities operating in the same field;
- overlaps, with resulting inefficiencies, between separate agencies of central and local government.

5.1.2 Corrective action is necessary to build "compliance cost consciousness" into every level of the enforcement process; to achieve a more efficient balance between compliance costs and regulatory benefits; and to make enforcement activity simpler and more consistent in its impact on business enterprise.

5.1.3 Such action should rationalise: methods of enforcement; administrative "appeal" procedures/onus of proof in prosecutions for alleged breaches of requirements; and the interface between related enforcement agencies.



## 5.2 Methods of enforcement

### 5.2.1 We recommend action to:

- develop (or improve) guidelines on enforcement practice in central and local government inspectorates;
- improve the training of enforcement officers, to increase awareness of small businesses' needs and problems;
- rationalise the selection of businesses visited for enforcement purposes.

5.2.2 Enforcement guidelines, and input to training programmes on identifying and overcoming small businesses' compliance problems, should underline the need for - and illustrate in concrete ways how to achieve - a more productive relationship between enforcement authorities and their business "clients".

5.2.3 Most businesses are anxious to meet their legal obligations. Each enforcement officer's priority should be to help them comply in the least costly way.

5.2.4 So guidelines and training should stress the need to identify - in conjunction with businesses concerned - the compliance costs implied by field officers' advice or decisions; to take these into account in the use of enforcement discretion; and to offer constructive advice about available options for compliance. The emphasis in contacts with the law-abiding majority of firms, particularly with "new starters", should be on positive assistance, not negative "policing"; and on countering the "guilty till proved innocent" approach of which some companies complain.



5.2.5 Action in these areas should be reinforced by a critical review - with a comparative, inter-agency dimension - of practice in each enforcement agency on:

- the methods used to maintain consistency in enforcement decisions; and
- the intensity of enforcement effort directed at different categories of business, with particular reference to the need - area - for example in the health and safety - to orient enforcement effort away from categories in which compliance levels are generally acceptable and/or non-compliance costs are generally low.\*

5.2.6 In the case of proposals at 5.2.3-6 above may present requirements enforced by local authorities - eg on buildings, fire prevention, environmental health and consumer law the proposals at 5.2.2-5 above should be followed up initially in the established machinery for consultation/coordination between local government and with the relevant central Departments. ¶If that machinery proved ineffective, it might be necessary to consider ways of giving statutory backing to Government guidance on local enforcement practice.\*\*¶

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\*As the DE study indicates, this will involve reviewing the scope and adequacy of the information available to each authority on businesses subject to the requirements it enforces.

¶\*\*In the light, perhaps, of the powers conferred on the Health and Safety Commission in Section 18(4) of the Health and Safety at Work Act 1974.¶



### 5.3 Appeals and onus of proof

5.3.1 Our field work brought home to us the disparity of power between small businesses and government enforcement agencies. In the smallest firms, managers often lack the time, the resources and the expertise necessary to contest unreasonable enforcement decisions. Two ways of tackling this problem are:

- to make it easier for businesses to appeal "up the line" within enforcement agencies; and
- to modify the onus of proof in prosecutions for breaches of requirements, where this is unduly slanted at present against business.

5.3.2 <sup>^</sup> We recommend that the enforcement guidelines discussed at 5.2 above should require field officers to offer explicit advice to management on "appeal" opportunities inside as well as outside each enforcement agency; and that the current position on statutory defences/burden of proof should be reviewed in all requirement systems enforced under the criminal law.

### 5.4 Interface between enforcement agencies

5.4.1 Rationalising the interface between enforcement agencies can reduce compliance costs in two ways:

- by reducing the number of visits and other approaches to which businesses are subject from separate enforcement agencies (and the number of separate approaches businesses have to make to them);
- by tackling overlaps and anomalies in the enforcement of related requirement systems.



5.4.2 We recommend action on both points in relation to the PAYE/NIC system, by harmonising DHSS/IR practice on visits to business premises and on the border-line between employment and self-employment.

5.4.3 Other priority areas to be tackled include:-

- the interface between the fire prevention/building regulations;\*
- the interface between the various "safety" requirements for which DE, Home office, DOE and other Departments are responsible\*\*;
- rationalising registration/notification requirements\*\*\*.

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\*The existing requirements can inter-act in burdensome ways - a problem which might be tackled by redistributing enforcement functions between the two local inspectorates concerned, and by other steps to improve liaison between them.

\*\*It would be worth considering, for example, whether the Factory Inspectorate could perform some of the "safety" functions of other inspectorates in the premises which it visits.

\*\*\*A note of the main requirements concerned is at Appendix 4. A few might be eliminated altogether. As to the rest, the ideal aim would be to replace multiple returns to different agencies with a single return to a central point. But the requirements differ so widely in nature, impact on business, means of enforcement and types of information required that this would be difficult. It will be more productive to examine the scope for simplification in related requirement areas (PAYE/NIC, health and safety). And "One- Stop-Shops" - 6 below - may have a role to play.



6 ACTION TO CUT COMPLIANCE COSTS: COMMUNICATIONS WITH BUSINESS

6.1 We found that in its length and complexity, most government literature on requirements is self-defeating. Managers simply do not have the time to absorb the volume of written guidance and instruction showered upon them. By contrast, oral (including face-to-face) briefing is often appreciated - and more effective.

6.2 Regulatory agencies must adjust to this reality. The need is for:

- crisp summaries of the main requirement systems, concisely and simply written, focussed on essentials and telling the small businessman where to go for help with detailed queries;
- short covering notes for detailed material, summarising the contents and the key points made;
- clearly signposted enquiry points inside local and central government enforcement agencies;
- action to spread best practice on cost-effective means of compliance relevant to smaller businesses.

6.3 We recommend immediate steps to:

- improve literature on health and safety at work and employment protection law;
- improve enquiry facilities (possibly with "freefone" services in the light of recent DHSS experience) in the DE Group and in local VAT offices;
- promote the use by small businesses of accounting systems (including automated systems) which will help reduce the compliance costs of VAT.



6.4 A centrally co-ordinated effort is needed across the board to improve information/communication on these lines. That will also involve:

- improving co-operation between enforcement agencies\*, and co-operation with the support services available for small firms inside and outside government;
- preparing simple "starter packs" to give newly established businesses (and/or new employers) a bird's eye view of all the main requirements likely to affect them; and
- experiments with "Help Line"/"One Stop Shop" services.

6.5 A "One Stop Shop" is essentially a single enquiry point at which small businesses can get:(i) basic information on government requirements;(ii) quick and accurate referral to relevant enforcement agencies for specialised help; and (iii) (subject to resource constraints) an advice/representation service to help them deal with the agencies on compliance problems.

6.6 The DOE study recommends action to encourage local authorities to develop facilities offering all three of these services, in respect of locally enforced requirements.

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\*It would for example be worth experimenting with "page displays" in telephone directories (including Yellow Pages), identifying enquiry points in the relevant local offices of each main enforcement agency.



6.7 Advice on central government requirements is already available from (inter alia) the DTI Small Firms Service and the Local Enterprise Agencies as part of their wider support for small businesses. Appendix 6 recommends a pilot project to test ways of achieving more, by:

- improving 'basic information' (6.2 above) and "referral" facilities;
- strengthening liaison with Job Centres (the most extensive network of enquiry points for small businesses "on the ground"); and
- using existing "clinic/counselling" techniques, to provide positive guidance and support on requirement problems.



## 7 A STRATEGY ON COMPLIANCE COSTS

### 7.1 General

7.1.1 Compliance costs must be tackled across the board if they are to be cut to stimulate enterprise and employment. Much of the problem derives from the cumulative impact on businesses (large as well as small) of requirements which in isolation may seem reasonable in aim and modest in the burdens they impose.

7.1.2 The first step must be a centrally co-ordinated drive to follow up the options for action we have identified on the scope and content of existing requirements; on their enforcement; and on communications between business and government about them. Sections 4-6 of this Report provide a starting point; set the issues in a wider framework, and sketch the basis for a strategy on the problem as a whole.

7.1.3 Three further elements in such a strategy should be action:

- to monitor and control compliance costs in future;
- to strengthen the business voice in regulatory decisions;  
and
- to tackle requirement problems in the European Community.

### 7.2 Monitoring and Control of Compliance Costs

7.2.1 New disciplines are necessary, extending to compliance costs the principles of economy and efficiency in resource use which underlie the Government's Financial Management Initiative. Action to develop such disciplines would fit logically into the wider policy framework outlined in Cmnd 8616, key elements of which are critical scrutiny of "the continuing need for [Government] activities, functions and policies, as well as their costs"; and the control of "total costs, not simply ... annual cash flow".



7.2.2 Because regulatory burdens cannot easily be measured or compared (2.3.4 above and 7.1-2 of Annex A), attempts to set quantified targets for compliance cost control and/or annual limits on the volume of new regulation are unlikely to be productive. A more effective approach (taking account of experience overseas\*) will be to require:

- a structured analysis of each new regulatory proposal, to be prepared and published by the initiating agency concerned: including a systematic assessment of its impact on business enterprise;
- critical scrutiny of the proposal (in particular of the "Impact Analysis") by a small task force in central Government with real teeth; and
- regular overviews by the task force of (i) regulatory proposals "in the pipeline" and (ii) the scope for eliminating/simplifying/rationalising existing requirement systems.

7.2.3 The scope and nature of the "impact analysis" technique is outlined at Appendix 10. It is no panacea, as US experience confirms. But it is a useful discipline, provided - the essential point - that its application by regulators themselves is independently monitored and controlled.

7.2.4 The central task force should consist of two or three people at most, ideally including people with practical business experience as well as Civil Servants. *^ Possibly from the Enterprise Unit*

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\*See Appendix . Regulatory burdens on business are now a matter of concern in several advanced countries. In the United States, Germany and the Netherlands, deregulatory initiatives have received substantial political impetus.



7.2.5 Parliament could powerfully reinforce action inside Government by (i) scrutinising the compliance cost implications of proposed new requirements (including the draft EC legislation submitted to the European "Scrutiny Committees"); (ii) reviewing - and recommending steps to rationalise - existing requirements, including the accumulated mass of secondary legislation. As the CBI have proposed, these could be important jobs for a Select Committee (or Committees).

### 7.3 Strengthening the business voice

7.3.1 We recommend action to strengthen business/small firm representation on the Health and Safety Commission, the Building Regulations Advisory Committee, certain committees of the British Standards Institution, and the Industrial Injuries Advisory Council. We also recommend that regulatory Departments should review and strengthen their arrangements for consultation with the small business organisations identified in Appendix 3.

7.3.2 But the central aim should be to bring regulators into direct contact with small businesses "on the ground". That can best be achieved through field work of the kind we ourselves undertook. We recommend that within the framework for compliance cost control outlined at 7.2.2, regulatory departments should:

- select specific requirements (or specific aspects of requirement systems) as priority candidates for a "compliance cost review"; and, as the first step in each review
- examine the impact of the requirement on small businesses (or the prospective impact, in the case of proposals in the pipeline) by arranging for administrators concerned to interview the largest achievable sample of managers, on their own premises and on the basis of a structured questionnaire.



#### 7.4 EC Dimension

7.4.1 The European Community is now a major source of new requirements affecting United Kingdom business - and of change in our existing regulatory arrangements.

7.4.2 Action at Community level is therefore a necessary element in our wider strategy on compliance costs. The need is to increase Community awareness of regulatory burdens, and of the contribution a determined attack on them can make to employment and efficiency in all Member States; and to secure agreement on the need for action at Community as well as national level.

7.4.3 Action on these lines would reinforce three important strands in current EC thinking:

- the growing recognition in most Member States of the importance of small and medium sized enterprises for employment and growth;
- the need to create new jobs on a sound (and internationally competitive) basis;
- the need to remove barriers - including regulatory barriers - to the free movement of goods and services within the internal market.

*Discussion of how Government should tackle EC omitted*  
7.4.4 We recommend that the issue should be raised with our Community partners, with a view to seeking agreement that:-

- A clear focus of responsibility is needed within the Commission itself for action to control compliance costs, particularly as regards the scrutiny of Commission proposals before presentation to the Council;



- The first priority in work on Directives and other instruments affecting business should be proposals which will help develop a dynamic, wealth-and-employment-creating industrial base in the Community as a whole.

⇒ EC to concentrate on functioning of internal market instead of social initiatives

Single commissioner to be responsible

Appendix II covers priorities in current community work

Early interdepartmental action



## SCOPE AND METHOD OF WORK

1 Scope

1.1 Our terms of reference are at Annex B.

1.2 The purpose of the scrutiny has been to tackle compliance costs; not to reduce the burden for enterprises or individuals of taxation, rates or national insurance. So we have only been concerned with the levels of tax and NIC, and with the distribution of the tax/contributions total, to the extent that some of the options for action on compliance costs which we have identified have implications in these areas.

1.3 We have had limited time in which to examine large and complex areas of Government policy. We have concentrated on requirement systems which:-

- affect firms in more than one sector; and
- are identifiable in the light of our field work as presenting particular problems, either because they are relatively frequently complained of by business management; or because, though less frequently mentioned, they can raise substantial problems in a minority of cases.

1.4 Such requirement systems are of two main kinds : those which make business:

a collect taxes, pay benefits and provide statistics on Government's behalf: the most significant areas identified in our field work being VAT; PAYE/NIC; and Statutory Sick Pay;



b comply with various "protective" rules for the benefit of the general public, employees, consumers, other traders and shareholders; the most significant areas identified in our field work being planning requirements; fire and building regulations; employment protection law; (notably on "unfair dismissal"); Wages Councils; health and safety at work legislation; and company and consumer law.

1.5 Two significant systems lay outside the scope of the scrutiny - the requirements affecting the preparation and marketing of food for which MAFF is responsible; and requirements affecting freight transport by road for which DTp is responsible.

## 2 Small Businesses

2.1 Our terms of reference put the primary emphasis on compliance costs borne by small businesses.

2.2 In 1971 the Bolton Committee identified "small firms" in manufacturing as those with up to 200 employees; and small firms in the service industries as those with turnovers in a range, varying by sector, from around £300,000 or less to around £1 million or less (at August 1983 prices).

2.3 In the early stages of our work a distinction emerged between businesses at the upper and lower ends of these ranges. Broadly, the bigger a "small" business is, the better placed it tends to be to cope with government requirements: partly because it can afford - and for its own reasons is anyway likely to employ - specialised management with adequate staff support; and partly because - though this cannot be precisely quantified - compliance costs are likely to become less significant, relative to profits and turnover, as business size increases.

2.4 We have focussed therefore on the impact of requirements at the lower end of the "Bolton" spectrum - for example on manufacturing businesses with employment of 50 or less and on



retail businesses with turnover of under, say, £150,000. And within this category we have been concerned in particular with the problems of the very smallest businesses - those, roughly, with employment of less than 10 and turnover of less than £50,000.

### 3 Methods of work

3.1 The seven Departmental studies are founded on field work with business interests, and discussions with the central and local government agencies responsible for the requirement systems we have examined.

3.2 Our key input from outside Government has been:-

- our interviews with managers of small businesses;
- an independent survey undertaken for us by management consultants;
- interviews with, and written material from, business organisations; including the small business organisations and the CBI.

### 4 Interviews with small businesses

4.1 We interviewed 85 business managers, normally on their own premises, in small firms in all the main regions (and a few in Scotland and Wales). Our sample, though imperfect, gave us a reasonable spread of sectors in manufacturing and services (mainly retail distribution); and of sizes within the "Bolton" limits. A note on its selection and structure, and on the interviewing methods adopted, is at Appendix 1.

4.2 The assessments derived from this part of the field work were of central importance in the scrutiny. By their nature, compliance costs cannot readily be quantified or compared across the field we have examined; nor have most business managers



attempted a thorough evaluation of them. For these reasons, discussions in depth with management "on the ground" were necessary to establish the nature of the problem.

## 5 Consultancy Survey

5.1 As a control on our own field work, we commissioned Research Associates Ltd to undertake a survey of attitudes to government requirements in small businesses.

5.2 This was desirable for three reasons:-

- the qualitative data derived from our own interviews were not readily susceptible to statistical analysis;
- we anyway wanted data from a larger sample of small businesses than we ourselves were able to approach directly, and data on attitudes in sectors under-represented in our sample (particularly one-man businesses, and service trades);
- we wanted to correct any distortions arising from the "prompting" inherent in our interviewing technique.

5.3 The consultants' report is at Appendix 2. It paints a picture in greater breadth than our field work but in less depth. Subject however to a few differences of detail, its conclusions are consistent with these we drew from our own interviews.

## 6 Business Organisations

6.1 At Appendix 3 is a note of the main business organisations which contributed to the study; together with a summary of their main points.



## 7 Measurement of Compliance Costs

7.1 Compliance costs are difficult to measure. In theory, quantification is easiest in the tax/benefit area, where it should be possible to identify the resources used by business on routine administration of the systems concerned. This has been attempted in recent academic research on VAT and PAYE. But the results must be treated with caution. And outside the tax benefit field the nature of the requirements we have examined and the kinds of cost they impose vary so widely that it is not possible to quantify their effects.

7.2 Nor, for the same reason, have we tried to rank requirements comprehensively by "degree of onerousness" (though the consultancy survey casts some light on small firms' perceptions in this area).



## TERMS OF REFERENCE

"To review, within the framework of Government policy on taxation and public expenditure, the burden imposed on business by administrative and legislative requirements of central and local government, with particular reference to smaller businesses; to ask:-

- what are the areas in which reductions in compliance costs would make the biggest difference to business, especially to small firms;
- what are the main obstacles to securing a substantial reduction in these costs;
- what areas of regulation should be amended;
- how compliance costs should be monitored and kept under control."



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