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Autumn Statement 2014: What it means for your SME

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By Michael Crosby
Communications Executive

Connect on LinkedIn

Michael Crosby: uk.linkedin.com/in/michaelcrosby2/

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Introduction

On 3 December 2014, Chancellor of the Exchequer George Osborne delivered his final Autumn Statement of this Parliament.

It was a Statement met with a positive response from industry leaders and small business leaders in particular, with John Allan of the Federation of Small Businesses stating: *"The Chancellor has listened to the needs of business."*

Among the big issues for Mr Osborne were economic stability, business reform, infrastructure investment and support for employers and apprentices.

Firms of all shapes and sizes working in all sectors must be aware of the changes announced by the Chancellor in order to identify where investment opportunities lie in the years to come.

In this report from MOD Defence Contracts Online, we provide an examination of the main announcements from the Chancellor, how these policies break down and what will be the potential impact for your SME.

> *"A long term economic plan, on course to prosperity."*
> **George Osborne**

Economy

George Osborne's 2014 Autumn Statement was expected to be one of doom and gloom on the growing deficit. However, the Chancellor's overall optimism on the economic outlook in particular was something of a surprise.

According to Mr Osborne, the UK's deficit is now 'cut in half' since 2010. The deficit is projected to fall to £75.9bn in 2015-16, £40.9bn in 2016-17 and £14.5bn in 2017-18 before reaching a £4bn surplus in 2018-19. By 2019-20, the Chancellor announced that the UK's surplus will reach £23bn.

Borrowing is also set to fall from £97.5bn in 2013-14 to £91.3bn in 2014-15, while debt as a share of GDP is set to rise from 80.4% this year to 81.1% next year, before falling in every year thereafter, reaching 72.8% in 2019-20.

Overall, the UK economy is to grow by 3% this year, up from the expected rise of 2.7% announced in the Budget statement in May.

Despite the news that the economic situation is perhaps healthier than first thought, the Chancellor was also keen to point out that the forecast is only possible because of the Coalition's long-term economic plan of cutting public spending, reducing the welfare budget and saving money in Whitehall.

As a result of the Coalition's plans, public spending as a percentage of GDP will fall to its lowest levels since before the Second World War, which is likely to continue to have a knock-on effect in the contracts being published by Government and the need for suppliers to offer recognisable value for money in their bids.

David Kern, Chief Economist at the British Chambers of Commerce (BCC), said: *"The new forecast confirms our view that the UK economy will grow at a good pace this year. The 3.0% growth forecast for this year is realistic, but the speed with which the economy slows in the OBR forecast is disappointing. While some slowdown may be unavoidable in the face of global headwinds, particularly the Eurozone, the UK should still be able to perform well in the next few years, as long as the right policies are pursued.*

"On the public finances, the OBR rightly acknowledged that the shortfall in the economy's ability to generate tax receipts is not a temporary problem, but one that is likely to persist over the medium term. We support the Chancellor's decision to tighten spending further, but not at the cost of business growth."

Business

The Autumn Statement included several big announcements aimed at boosting business growth, investment and exporting, including several announcements aimed directly at SMEs.

As the 2015 deadline of awarding 25% by value of government business to SMEs draws closer, this likely to be the Government's final push to help small firms win more business with government and meet the target originally set by the Coalition in 2010.

Business rates

A key announcement in this year's Autumn Statement was for a full review of the business rates system, consistently listed as a major barrier to progress and growth by many small businesses in the UK.

In last year's Autumn Statement, Mr Osborne planned to extend Small Business Rate Relief in England and Wales until April 2014 and announced that it would be capped at 2% rather than linked to inflation. In addition, he pledged over £1000 of discounts for high street firms in an attempt to reduce the number of closures.

This year, the Chancellor announced that he will now double Small Business Rate Relief for another year, meaning a third of a million firms will pay no rates. In addition, the Chancellor aims to build on last year's introduction of a new £1000 discount on high street firms' business rates by increasing the discount by a further 50%.

The view from industry

John Allan, FSB National Chairman, said: *"All businesses will be grateful for this review, but let's be absolutely clear on what businesses want – fundamental reform of the business rate system. The announced package of renewed reliefs will also be essential, as they will help bridge the gap until fundamental reform can deliver the change everyone agrees must now come.*

"Despite signs of recovery, there has been only limited progress in increasing lending to small firms. The extension to the Funding for Lending Scheme, set alongside new money to further back the British Business Bank, are prudent steps to make sure these gains are sustained and extended.

"Only half of small business applications for finance are successful. Better targeting of small business loans is essential to focus banks on meeting the needs of firms looking to hire staff, export, and grow their businesses."

Apprentices

Measures were also tabled to support businesses which encourage youth employment as part of the Coalition's plans to get Britain working.

Prime Minister David Cameron has already set a target for the UK to hire three million apprentices in the next Parliament.

To help encourage firms to take on this apprentice challenge, and to further support firms already committed to employing young people and apprentices in the workplace, the Chancellor announced that National Insurance contributions for these firms would be abolished entirely.

According to the Chancellor, the measures in the Autumn Statement will mean that three and a half million of the lowest paid workers in Britain will now be taken out of tax altogether, and businesses which are contributing to the economy by employing apprentices will be better off under the Coalition.

"When a business is giving a young person a chance in life we're going to support them, not tax them." – George Osborne

Duncan Cheatle, co-founder of Startup Britain and The Supper Club founder, said: *"I'm glad to see encouragement for SMEs to hire apprentices – it's absolutely brilliant to talk about vocational routes into the workplace. I doubt that the abolishment of National Insurance contributions will make enough difference. National Insurance costs are only 10% of overall salary costs and it won't be quite enough to trigger a change in behaviour.*

"One thing I didn't see evidence of was more encouragement for business leaders to invest in their management skills. This type of training has a trickle-down effect – it encourages leaders to run their business better and to invest more in their staff."

Other measures announced to help businesses included the agreement to accept most recommendations of the Office of Tax Simplification to reduce the administrative burdens on firms; an increase in the research and development tax credit for SMEs to 230%; and strengthening Entrepreneur's Relief and the Social Investment Tax Relief.

The view from industry

John Cridland, Director-General of the Confederation of British Industry (CBI), said: *"Growing firms drive innovation in the economy, but they need access to finance to turn ideas into products and services. Beefing up the British Business Bank and continuing with Funding for Lending will help unlock their huge untapped potential."*

Iain Moffatt, Head of KPMG Enterprise, said: *"What the statement demonstrates is that alongside all the figures that show incentives are working, putting effort and attention into tax relief is the right thing to do.*

"We did a survey recently of 1000 companies that fell into the SME sector but only 23% had heard of these tax credits available. The critical thing is, while it is fantastic to put lots of research and support into those sorts of areas, you have to have a clearer and easier way to get access to them. Putting as much effort into making them easier to access will be absolutely critical; it's as important as the funding itself."

Lending

The issue of lending and financing for small businesses has become a main focus for the Coalition Government in recent years. According to the *SME Finance Monitor* report released in May 2014, the proportion of SMEs using external finance in Quarter 1 of 2014 was 33%, the lowest level recorded by the Finance Monitor since their surveys began.

In response to this, the Chancellor announced £900m of extra funding for small business lending schemes during the Autumn Statement, including further investment into the Funding for Lending Scheme and the British Business Bank.

The Chancellor is expected to add to existing schemes run by the state-backed British Business Bank, which was set up in 2013 to improve access to finance for small businesses that are struggling to agree credit with commercial banks.

The Funding for Lending scheme was originally introduced in 2012 as a government initiative to provide the economy with a much-needed boost and give banks the extra support they needed to start lending again.

The view from industry

John Cridland, Director-General of the Confederation of British Industry, said: *"Growing firms drive innovation in the economy, but they need access to finance to turn ideas into products and services. Beefing up the British Business Bank and continuing with Funding for Lending will help unlock their huge untapped potential.*

"But on their own, these measures will not shift the dial on business lending. The Government must also promote alternative forms of finance and we were pleased to see initial steps taken to kick-start the UK's private placement market."

Infrastructure

The Chancellor also stressed how improving productivity for all businesses also demands a major investment in the UK's infrastructure.

Recently, Prime Minister David Cameron announced a 'roads revolution', the biggest road building programme seen in the UK in a generation, as well as huge investment in railways and aviation.

At the Autumn Statement, the Chancellor outlined £6bn of funding for scientific research facilities, the largest ever programme of investment for the scientific community in the UK.

In addition, the Coalition Government has already set out its plans to create a 'northern powerhouse' in the north of England to act as a counterbalance to the London-centric investment previously seen in the UK.

As part of this aim, the Chancellor has approved the concept of High Speed 3 rail links, new franchises for Northern Rail and the Trans-Pennine Express, and a £250m investment in a new advanced material science facility in Manchester, the Sir Henry Royce Institute.

Flood defences

At present, in England alone, more than five million properties are at risk of flooding all year round.

According to the Chancellor at the Autumn Statement, the Coalition Government is set to provide £billions to help deal with the issue of flood damage across the UK.

He also announced an expansion on tax relief for business investment in flood defences in order to ensure that businesses are properly prepared for any potential damage, allowing them to keep their business operating despite the risk of flooding.

National Infrastructure Plan

The investment is set to go even further with the publication of the *National Infrastructure Plan 2014*, which sets out £466bn of investment in the pipeline for the coming years.

The Plan includes a detailed breakdown of the infrastructure pipeline by sector for 2015 and beyond. The top five investment sectors break down as follows:

	Sector	**Value (£bn)**
1	Energy (including oil and gas)	274.9
2	Transport	142.3
3	Water	30.9
4	Communications	11
5	Flood defences	3.7

In 2015-16 alone, £55bn of investment is planned, with a further £320bn planned until 2020.

It all starts with the right opportunities…

Small and medium-sized enterprises are the backbone of the European economy. They make up 99% of businesses and account for approximately 14 million private sector jobs in the UK alone.

As such, the Government is eager to ensure that SMEs are given every possible opportunity to succeed in these tough economic times. With improvements such as those outlined in this Guide helping to open up opportunities for SMEs, the Government hopes to stimulate growth, create jobs and help the UK succeed and prosper in a competitive global economic environment.

In 2011, the Coalition set itself a challenge to award 25% of all Government business to SMEs. This is an ambitious undertaking, and according to the Cabinet Office's most recent report, *Making Government business more accessible to SMEs: Two Years On*, it is one which looks set to be achieved by the 2015 deadline.

In 2009-10, just 6.5% of central government's direct procurement spend went to SMEs. Spending with SMEs has since increased from £3bn in 2009-10 to £4.5bn, a total of 10.5%, in 2012-13.

In addition, new figures provided by major government suppliers indicate that SMEs have benefited from a further £4bn (9.4%) in indirect spend through the supply chain in 2012-13.

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