



HAMILTON BRADSHAW

Response to The Emergency Budget The Budget is not that bad for business

The Outlook

This is the most aggressive budget I have witnessed in my lifetime. At £ 155billion, or 11% of GDP the UK faces the highest budget deficit of the G20 leading economies. It is essential that the deficit is tackled as quickly as possible, and that the Government's plan in the budget reflects a clear need to rebalance the economy towards sustainable private sector growth. The UK has already borrowed over £925bn, or equivalent to almost 65% of GDP, and this will grow over the next four years despite the government's attempt to erode the structural deficit. The annual interest repayment on this debt is currently £42bn per annum, which is equivalent to the entire education budget. With the potentiality for this to reach £70bn quickly, this clearly needs to be tackled, and we can't risk letting it swell and cripple future public finances.

It is a double hit – not only will the net debt increase faster if we do not tackle the deficit now, the interest payments will actually increase as bond markets reassess UK plc risk. Even marginal changes in this assessment will have a huge monetary impact on the public sector finances, and so it is essential that we take the tough and responsible decisions now.

The challenge is huge and complex, but necessary. Fiscal tightening itself is only one aspect of the challenge, and just as essential is the need to rebalance the economy towards the private sector, in order to give it a sustainable footing for growth. Outlining a clear plan for tax and spending changes is essential, and as part of this, a clear message to business and the private sector will be necessary to provide the positive incentives and confidence that is so necessary at this point in time. Moreover, the only sustainable way to achieve growth is to promote private sector growth and private sector jobs.

As an entrepreneur, with much experience of running my own businesses through past recessions, I believe that the Coalition government needs to act responsibly, in an objective fashion, and make the tough decisions that are necessary now. In the corporate world, for a business experiencing overwhelming and increasing debt, and declining revenues it would be entirely normal to respond by cutting costs and spending. The general consensus is that this is necessary for the UK plc, but the sticking point is about how, and at what speed.

Whilst we are not Greece, its example exists as a warning to us of the consequences of delaying action until tomorrow, which could have been taken today. Delaying the necessary and inevitable action has never been the right thing to do, especially when we are facing so many uncertainties, such as a weak Eurozone, and a threatening second financial shock emanating from this region. I believe that the risks in delaying action are greater than the risks of doing as much as possible now. It's a bit like managing your household expenditure; when you are living beyond your means it becomes necessary at some point to reign in your spending, and to take the necessary action as soon as possible.

The challenge is real and the simple fact is that there isn't enough money to continue with the levels of spending that we have been used to over the past decade. Every aspect of government activity will be reviewed, and the effects of the budget cuts will have an impact on the lives of everyone in the country. To save off a potential double dip-recession, however, the Budget needs to set out a clear message to business that the tax changes will be supportive of entrepreneurship and investment, then the private sector will bounce back and drive the recovery.

The Verdict

The largest component of the fiscal tightening will come from spending cuts, with departments expected to lose 25%+ of their budgets by 2014/15. The consensus amongst all governments now is that bureaucracy has become oversized, expensive and inefficient. Cutting departmental spending by an average of 20% is necessary, and it will force them to operate at acceptable efficiency levels. This is one aspect of our need to rebalance the economy. It does need to be done in such a way that adverse effects are kept to a minimum, and this is why the government has chosen to freeze pay and look at the unpopular but necessary pension contributions – as a means to minimize immediate direct job losses.

In terms of unemployment and jobs, the austerity measures in the budget are likely to result in higher short-term unemployment. However, if the government can instill confidence in business and encourage investment in the private sector, then the jobs market will begin to pick up over the medium-term, as the private sector recovers more strongly. It is necessary that this happens, and in the medium- to long-term, facilitating a vibrant private sector is the only way to do this. Investment in new technologies and the UK's engineering future is also one aspect that will help this. One additional policy to counter this problem is the expected Conservative policy of exempting new businesses from Employers' National Insurance on the first ten employees they hire in the first year, which will apply to most non-London regions. Policies like this, and the resistance of NIC increases for employers are consistent with the Coalition's emphasis on creating private sector jobs, as it will reduce overheads and not disincentivise hiring.

In terms of tax rises, the government cannot leave anyone out of the net, and whilst many decisions will be tough, they are necessary evils given the scope of the fiscal challenge, and the need to be 'fair' and make the budget fly.

Take CGT for example; clearly, this is a bold decision by the Government to raise it to 28% because it will affect both the more affluent and the business community, and essentially an increase on those who are needed to invest in the private sector, create jobs, and who will ultimately drive the recovery. Nevertheless, when you are staring down the barrel of a £155billion deficit and a swelling debt burden, tough decisions need to be made. In previous recessions, I have also faced similar dilemmas where sensitive and unpopular decisions that affect the people you rely on have had to be made. I always remember to ask myself what the consequences of not acting are.

Looking at VAT, it is historically a low hanging fruit, and it no surprise to see it increased **to 20% from next January**, which Osborne expects to raise approximately £13billion per annum by 2014/15. However, at 17.5% it is already at the top-end of UK acceptability. Moreover, from a business perspective, it hits SME's much harder, as they do not have the reserves to absorb the practical and admin costs of implementing pricing and accounting changes. Changes last year are believed on average to have cost £1500 per business to implement. The Government need to think hard about the impact this is going to have on SME's. SME's employ **59% of the private sector workforce** in the UK, with many facing low profits, this increase could endanger many businesses that are struggling to survive.

The promise to suppress the NIC increase on employers (the so-called jobs tax), *by raising the threshold for employers*, is part of the overall message that the Coalition is attempting to make, that it is serious about creating a business friendly environment in the UK. So to, is the decision to reduce the overall level of corporation tax by 1% per year from 28% to 24% - part of the message that 'Britain is open for business.' Cutting the SME level from 22 to 20% will be help to address the above problem. Moreover, in addition to the extension of the enterprise credit guarantee scheme, the reduction in corporation tax will be a huge relief to companies with poor cashflow. The extension of the £10,100 CGT allowance for the first £2million to £5million of lifetime earnings is a major incentive to entrepreneurs to create value in their businesses, and is a clear message to entrepreneurs that their efforts are valued.

Overall, from a business operational perspective, the tax policies are quite well balanced, and send the correct message that the Coalition is doing all it can to make running a business in the UK as competitive as possible. Further incentives of keeping the cost of employing people low are also promising.

The fiscal tightening will undoubtedly affect both short-term economic growth and job prospects, but I believe that configured in the way the budget has set out, the private sector is being given the best chance to lead the recovery and put the economy on a sound footing looking forward.

My Advice to Business

My message to entrepreneurs has repeatedly been, when the going gets tough, and it will, then the tough need to get tougher. Businesses need to look at their own operations, and reflect deeply on their own cost base, profit margins, and the various

activities of the business. They need to look at *their* budgets over the next 12 months and make the necessary plans and provisions to absorb the impact that *the* budget will have on them and more importantly, make the necessary changes in their plans.

Essentially, we, like the public sector, also need to do better, and deliver more for less. Two practical examples of this are that any business that we are doing which is at a low margin and therefore inefficiently wastes effort for little reward, needs to be cut; there will simply be no room for complacency. Secondly, as the public sector is taking a pay freeze, both in direct terms and increased pension contributions, we as business leaders need to consider implementing the same measures with our employees if our budgets are tight. Nobody wants to make people redundant, and so if ways can be found to negotiate with staff, and implement similar freezing measures, then this must be considered.

My point is that there is no point in business leaders bemoaning the cuts, and every need for them to take the essential actions to remain viable business models – the onus is on us. As an entrepreneur, you need to be objective about the environment that you find yourself in, and adjust to it. We also need to reconsider our pricing, and look at what aspects can be passed on. We also need to look at the changing costs of doing business and focus on the areas that make positive contributions, and find ways to create value in response to changing demands.

This advice is not complex; it is about critical and reflective attitude change, and the most successful will yet many business leaders will be the ones who make the changes. It is this positive business attitude that we need to adopt, if business is going to drive UK growth. Businesses that do not show such resolve will find the coming years extremely, perhaps existentially difficult. I am confident however, that the majority of UK businesses will make such changes, and many have already shown exceptional introspect.