

THE WORKFORCE SURVEY

SOLE TRADERS

JUNE 2011



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The British Chambers of Commerce is the national body for a powerful and influential Network of Accredited Chambers of Commerce across the UK; a Network that directly serves not only its member businesses, but the wider business community.

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Foreword



In the UK, over 3.6 million individuals are classed as 'enterprises with no employees'. Not all of these people want or have the potential to expand their business and become an employer, but some do. The key questions are how many of these companies are interested in employing people, how we identify them and how we can encourage them to take the huge leap needed to become an employer.

The first action must be to reduce the size of the leap required. Throughout our survey work, individuals said they would prefer to use freelancers to assist them rather than take on employees. So, in many cases, it is not a question

of whether there is enough demand out there for the businesses to sustain another worker. The issue is whether the individual wishes to take on the obligations and risks inherent in employing their first staff member.

The recession created a new generation of entrepreneurs who left employment to set up on their own, either through choice or circumstance. Now, the Government must create the right environment for these individuals to grow their business and create jobs. Sometimes this will be proactive – more reliefs, help with premises, a population ready to take the jobs of tomorrow. A lot of the time however, sole-traders just want the barriers to growth, such as regulation, removed so that they can thrive.

David S Frost CBE
Director General
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Executive Summary

The British Chambers of Commerce (BCC) undertook research with businesspeople in Chamber membership who do not have any employees to understand their views on their local labour market, the barriers to recruiting a first employee, and what initiatives might encourage them to take on a staff member. This survey was undertaken between March 29th and April 15th 2011, and attracted 7,149 responses.

SUMMARY OF MAIN FINDINGS:

- 53.6% of businesspeople had worked alone for over three years, 15.6% had started working for themselves within the last year, and 20.6% had worked for themselves for between one and three years.
- Only 5.6% of businesspeople were either short or long-term unemployed immediately before setting up on their own.
- Ambition to take on staff decreases the longer a business has been in existence; over 45% of sole-traders operating for less than six months had ambitions to increase their staffing levels by 50% by 2015, compared to less than 20% who had been operating more than three years.
- 1 in 3 businesspeople with an ambition to grow their business by 2015 said that exemptions from employment law would encourage them to take on their first staff member. Over 50% of the same group said a reduced or special rate of employer National Insurance Contribution would incentivise them to hire.
- Pensions requirements, dismissal rules and sickness absence were the top three total or significant barriers named by businesspeople preventing them taking on their first staff member.

SUMMARY OF RECOMMENDATIONS:

- The Government NI holiday tax relief should be more flexible. Sole-traders should be eligible to apply within their first two years of setting up their business and the holiday should then run for a year from the date that the businessperson took on their first staff member.
- Any training and resource provided by the Government to improve the skills of public sector employees should be focussed on the perception issue identified in the report – CVs, interview technique, competency testing.
- In uncertain economic times, a long commercial lease may be a bridge too far. Councils should use free office space to support these businesspeople, be free to put their own conditions on these arrangements (only start-ups / for a set length of time / proof a new job has been created).
- The Government must investigate an exemption from 2012 pension reforms for new businesses in their first three years, or until they have more than ten employees, whichever comes first.
- Wider exemptions, better lawmaking and a thorough review of existing regulations (particularly domestic rules where amendments would be easier to achieve in the short-term than EU sourced laws) are also required. More rights should have a 'qualifying period', where allowed under EU law.
- The Government should identify ambitious businesspeople looking to grow through employment and give them support through the various mentoring programmes that are being set up. Policy-makers should also ask serious questions as to why only 15.9% of entrepreneurs set up in business because they wanted to be an employer.

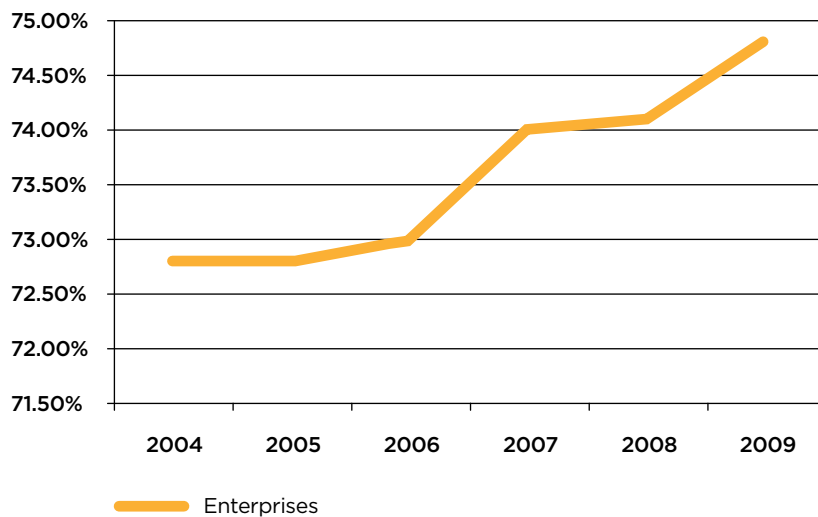
Introduction

The UK has always had a high number of people who decide to set themselves up as self-employed owner-managers and not take on any employees. The UK record on start-ups is often seen as a mark of entrepreneurial spirit, and is very welcome. However, the percentage of enterprises with no employees in the UK is increasing, and has increased each year since 2004. This suggests the UK should at least question why we have so many businesspeople that do not seem able or willing to take on staff to support their future growth. Reducing the level of unemployment is a clear public policy imperative. Encouraging

enterprise, and encouraging entrepreneurs to take on a first staff member, is a crucial part of this.

There is also a large regional variation. In London, 80% of businesses have no employees compared to 71% in the West Midlands. Interestingly, these two regions also have the lowest (London -20%) and highest (West Midlands, 28%) percentages of small businesses, defined as companies employing less than 50 employees². This could point to a 'crowding out' effect, where large businesses depress entrepreneurship rates.

FIG 1. % OF ENTERPRISES IN THE UK WITH NO EMPLOYEES¹



1. SME statistics for the UK and regions 2004-2009, BIS

2. SME Statistics for the UK and regions 2009, BIS

Fig 1 indicates that the proportion of enterprises with no employees as a percentage of all firms has risen in the last few years. Self-employment has been increasing in the UK, with a particularly sharp rise between 1986 and 1989 and between 2000 and 2003³. At the same time, employment rates have also been increasing, so displacement is unlikely to be a major contributor to this rise. Nor, according to the ONS, can this trend of increasing self-employment be attributed to tax changes⁴.

Not every owner-proprietor will want to be in a position to employ a member of staff. Many people set up enterprises for other reasons such as tax incentives, lifestyle choices, or perhaps as a reaction to another event such as redundancy. However, the increase in the percentage of entrepreneurs who operate as sole-traders points to the existence of barriers which prevent or dissuade these people from taking on their first employee.

3. http://www.statistics.gov.uk/articles/labour_market_trends/Growth_article.pdf

4. *Ibid*

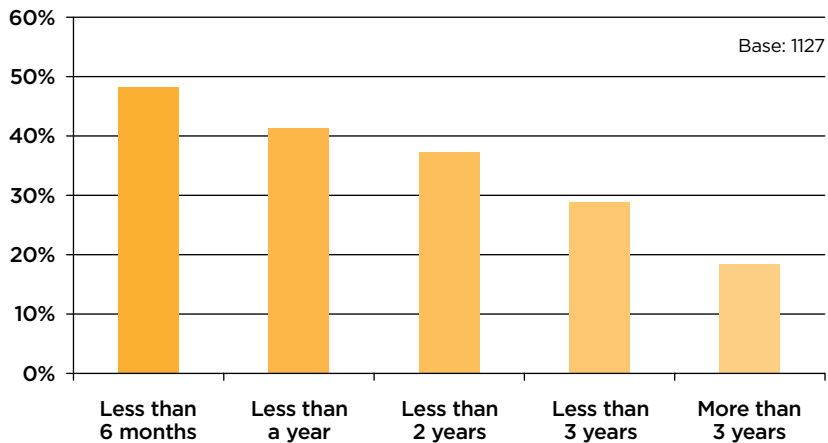
5. BCC Recruitment Survey 2011

Who are the UK's business owners?

The BCC asked 1,127 business owners how long they had worked alone for. The majority, 54%, had worked alone for more than the last three years. 16% had started working for themselves within the last year, and 30% had worked for themselves for between one and three years.

However, it is the newer businesses that have the greater growth ambitions and desire to create jobs. Whilst this is not evidence that new jobs will be created by these firms, ambition to do so is a good place to start.

FIG 2. % OF SELF-EMPLOYED WORKERS WITH AMBITIONS TO INCREASE STAFFING BY 50%+



Just over two in five sole-traders worked as an employee in the same industry before they decided to work alone. However, one in three worked as an employee in a different industry. The latter figure was surprisingly consistent across all sectors, with a small dip in manufacturing and construction, suggesting that the skills in most sectors are eminently transferable. Only 6% were either short-term

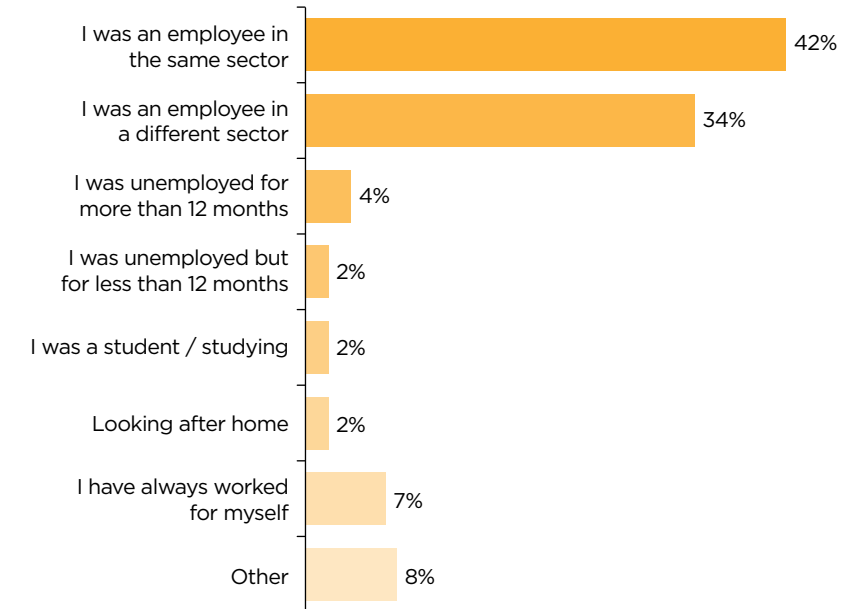
or long-term unemployed immediately before starting up on their own. This suggests that the Government should be realistic about the likely volume of new businesses the Enterprise Allowance scheme, which gives an allowance to long-term unemployed people setting up their own business, and access to start up capital in the form of a loan, will create. Given that the

numbers are relatively small, we would question the need to restrict the allowance to those who have been unemployed over 26 weeks. A shorter threshold, perhaps of four weeks, would be enough to

weed out those merely in transition between roles, and ensure that all unemployed people who are capable and interested in running their own business can access the support on offer.

What did you do directly before you worked alone?

FIG 3.



The majority of those working alone decided to do so for 'lifestyle' reasons, which can encompass many motivations such as childcare, other caring responsibilities or for some additional income on top of other work. However, one

in two of these individuals still had ambitions to increase their staffing levels, which suggests that even though 'lifestyle' reasons may have been the motivation for setting up on their own, motivations can adapt and change.

Many individuals had positive reasons for wanting to work for themselves.

‘Ambition.’

‘Autonomy and freedom, also variety of work and experience.’

‘I wanted to do more of what I love - training and coaching.’

‘The challenge and knowing I can provide a good service.’

But many were also forced into working for themselves by circumstance, whether redundancy or for other reasons.

‘Serious illness forced me to take ill health retirement. When I regained my health I did not want to return to my previous career.’

‘Was made redundant, and becoming self employed was a better option than looking for alternative employment.’

‘Family constraints - I had to travel full-time in my previous position and with children, this was no longer possible.’

‘Short career break - then approached by former network clients.’

How do business owners view their local labour market?

There appears to be a great deal of pessimism from these individuals when considering their local labour market, mainly due to the low-skill level of potential employees.

Low skill level of local people

Many businesspeople with no employees responding to the BCC recruitment survey were very disparaging about the education system in the UK. ‘A lot of people with no or wrong skills. I firmly believe that education in this region is pathetic and does not prepare young people for work,’ and, ‘school leavers and students entering the labour market with inadequate basic skills such as literacy, numeracy and common sense,’ were common concerns from those commenting on skills levels. Schools were not the only institutions coming in for criticism: ‘communication skills and good written English are a must, and sadly even university graduates are proving lacking in this area.’

In some areas, there were skills shortages, but also a split between those with high skill levels and those with poor skills. ‘A very mixed resource. Some are highly experienced, skilled and motivated, others don’t seem to have even the basic skills to make them employable.’

One individual highlighted concerns with the unemployed in their area: ‘severe candidate shortage of the right skills especially soft skills e.g. communication, attitude, attendance. Too many workers with the wrong skills and lacking in confidence after being unemployed for so long. They are often unable to present themselves at interview.’ Others linked the attitude of the unemployed to an influx of migrants, commenting that, ‘There are plenty of ‘bodies’ ...but not enough work. Locals are probably too fussy about what work they will accept, hence (work for) Eastern Europeans.’

The economic outlook is still weak/uncertain

Another common theme is that there are not enough jobs out there to satisfy the local labour market, with many respondents commenting that there are 'lots of people chasing few jobs,' with many focussing on the particular negative effect this has on young job-seekers. A few commented that there are a lot of skilled

workers available and that 'supply outweighs demand' in their local area. A slack labour market should make it easier for those businesspeople who want to take on a staff member, should they choose to do so. However, a few individuals stated that the economic outlook was too weak for local firms to invest in new staff.

High expectations from the unemployed

A further comment is that prospective workers expect too much in terms of pay and benefits. Many commented with views such as, 'they want too much money/holidays for too little work', that people want to be, 'extremely well paid for minimal effort,' and that employers 'do not get good value for money.' There was recognition from one respondent of higher living costs but they still concluded that, 'wages are too high for the

employer.' The effect of these perceptions is to put some businesspeople off from hiring altogether - as they do not believe that what they could realistically offer a new employee would match their expectations. Whilst it may be true that many unemployed people would be happy to take on any work, low paid or otherwise, such perceptions from prospective employers limits the number of job opportunities available.

Concern regarding public sector workers

Some areas in the UK are reliant on the public sector for employment - in Newcastle-upon-Tyne for example, 30.5% of employees work in the public sector and in Gwynedd it is just under 30%⁶. The Office for Budget Responsibility (OBR) expects 400,000 public sector

jobs to be lost by 2015⁷. Naturally, the individuals responding to our survey considering employing their first worker are interested in the effect that public sector job losses will have on the local labour available to them, particularly in regions where there are currently a lot of public sector workers.

One BCC survey respondent commented, 'The new challenge for the region, which is heavily dependent upon the Public Sector, is how it will cope with the impending Government cut backs. Another big question is whether the Public Sector staff have the appropriate skills and adaptability to move into the Private Sector as envisaged by the Government.'

Some were more specific about the skills that they believed were lacking in public sector

job candidates, such as 'lack of commercial expertise' or 'few transferable skills.' Others made more general comments on how such an influx of individuals into the labour market may increase the levels of unemployment in their area.

These perceptions of public sector workers could again damage job creation in the UK, if sole-traders have little faith as to the quality of candidates that will come forward for any roles they may have on offer.

6. <http://www.nomisweb.co.uk/articles/494.aspx>

7. http://budgetresponsibility.independent.gov.uk/wordpress/docs/economic_and_fiscal_outlook_23032011.pdf

What would encourage business people to take on their first staff member?

Only 15.9% said that they decided to work alone to ultimately become an employer, but out of those, the vast majority (71.2%) have ambitions to increase staffing levels by 2015. However, the Government should not discount lifestyle businesses, half of which have the ambition to increase staffing levels by 2015. Our survey results suggest that this latter group of lifestyle businesses may outnumber the former group of individuals who wanted to be an employer in terms of numbers. Again, whilst raw ambition may not necessarily translate into private sector jobs, this suggests that the focus of policy should be geared towards the minority who wanted to be an employer from the outset as it may be possible

to identify them, whilst not writing off the ability of lifestyle businesses to grow and generate employment.

For some individuals, no policy initiatives can encourage them to take on a staff member. They might only be working alone for tax or lifestyle reasons and have no intention to expand and become an employer for the foreseeable future. According to our survey, 26.3% of businesspeople fall into this category.

However, for many individuals, particularly those with ambitious staffing plans, Government initiatives targeted towards micros and start-ups could really help boost job creation.

FIG 4. WHAT INITIATIVES WOULD ENCOURAGE YOU TO TAKE ON STAFF?

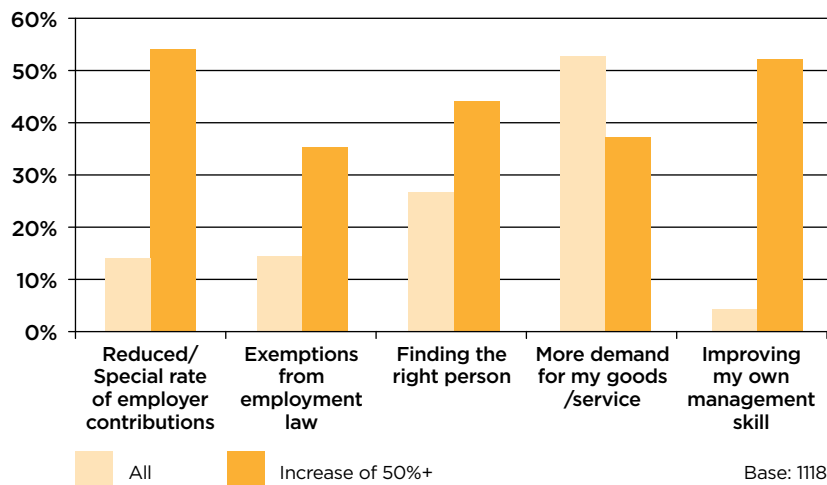


Fig 4 also suggests differing appetites for risk between those individuals with more ambitious staffing plans and those without. The less ambitious see more demand for their product or service as critical before a first staff member is taken on. Conversely, the ambitious see this as less important.

These results suggest that the Government's employer National Insurance contribution holiday is exactly the kind of initiative

that could stimulate job creation amongst lone workers. However, it is currently too narrowly applied and must be extended if it is to really incentivise job growth. Only start-ups taking on up to ten employees in their first year are eligible for the relief. Businesses started before June 22nd 2010 are not eligible at all⁸. Current figures show that only 3,000 businesses have applied for the holiday - with the majority accepted⁹.

REGION/COUNTRY	NUMBER
East Midlands	271
North East	188
North West	524
South West	461
West Midlands	366
Yorkshire and Humberside	395
Scotland	379
Northern Ireland	128
Wales	180

Source: HMRC

Skills are also clearly a concern, with more than one in four businesspeople overall citing finding the right person with the right skills as a barrier to taking on a first member of staff. Government has a role here in training people and matching them to vacancies, particularly through Job Centre Plus (JCP) and by helping ex-public sector

workers find new roles. Local Enterprise Partnerships will also be key in providing intelligence to JCP and local government employers. The private sector board members will be able to report on skills gaps in their locality, and suggest ways in which JCP and other agencies can improve the employability of local workers.

⁸ <http://www.businesslink.gov.uk/bdotg/action/detail?itemId=1085805183&type=RESOURCES>

⁹ <http://www.hmrc.gov.uk/freedom/nic-holiday.htm>

Exemptions from employment law were also popular, again particularly with those with ambitious staffing plans. The Government has recently announced a three year exemption for new and micro-businesses from new regulation. It is not yet clear what impact, if any, this will have on the ground for businesses. Given that our survey suggests that a significant volume of individuals looking to create jobs (35%) would be encouraged by exemptions from employment regulation, then there is a strong case for the Government to go further and look at the stock of employment regulation, and its applicability to the smallest, and newest, employers.

The Government recently announced a significant review of employment law, initially focussing on three areas¹⁰: Transfer of Undertakings Protection of Employees (TUPE), uncapped discrimination awards and redundancy procedures. Whilst this is certainly a good start, TUPE and redundancy rules are not normally applicable to businesspeople operating alone. Changes to discrimination awards would certainly improve confidence in the Tribunal system and reduce the risks of taking on a first employee, but on its own, this may not make a material difference.

What are the barriers to businesspeople taking on their first employee?

Although there are initiatives the Government can undertake to encourage job creation, other changes to the business environment may also be necessary to incentivise the self-employed to grow their businesses through employment. Employment regulation is consistently cited as one of the top barriers to growth and **Fig 5** below breaks down the BCC survey results even further into different categories of employment law.

FIG 5. TO WHAT EXTENT IS EMPLOYMENT LAW A TOTAL/SIGNIFICANT BARRIER TO TAKING ON YOU FIRST EMPLOYEE



THESE CAN ALSO BE RANKED:

1	Pensions Requirements	6	Training
2	Dismissal rules	7	Flexible Working rules
3	Sickness Absence	8	Performance Management
4	Equality	9	Recruitment Process
5	Health and Safety	10	Licensing

Pensions

The top barrier, cited by nearly 1 in 3 individuals responding, was pension requirements. Between 2012 and 2015, all businesses in the UK must begin complying with the Pensions Act 2008¹¹. The main direct cost will be the compulsory minimum 3% pension contribution that the employer must pay towards the retirement savings of qualifying employees¹². However, employers will also incur indirect costs, particularly in the early years, when they have to choose and then set up a pension scheme, change their payroll systems, and process new starter paperwork (auto-enrolment/opt-outs).

Dismissal

The second biggest barrier is the dismissal process, and it is interesting that this is seen as a significant or total barrier by more than double the respondents that feel that way about the recruitment process. 27% of businesspeople believe that dismissal is a significant or total barrier to recruiting a first employee, compared to only 13.6% who feel the same way about the recruitment process. This suggests that even before hiring their first employee, individuals who currently work alone are concerned, perhaps that the person isn't 'right' for the job, or that demand for

The Government has acknowledged that these indirect costs per employee will be higher for micro firms than larger firms, as micros cannot benefit from economies of scale and they are more likely to have to set up a new scheme¹³. For the individuals surveyed with no employees currently, they will have to set up new qualifying schemes, so additional costs are a certainty. This survey suggests that the self-employed are concerned about this additional expense and see these reforms as a total or significant barrier to hiring their first employee¹⁴.

their goods or service will not be sustained¹⁵.

“(The main barrier is the) inability to sack people easily if they don't do their jobs properly... UK business is littered with people retained due to law not ability.”

The Government has recently consulted on increasing the unfair dismissal qualifying period from one to two years; however, this does not seem to have affected respondents' fears of dismissal processes going wrong. According to the Government's

figures, this policy change will only result in a reduction of unfair dismissal claims of between 3,700-4,700, not enough to reduce the perception that dismissal difficulties are a barrier to taking on staff. Furthermore, the BCC is concerned that many potential claimants will tack

Sickness Absence

The third biggest total or significant barrier¹⁶ is concern over sickness absence. This is intrinsically linked with concerns regarding dismissal proceedings. In a separate small survey on sickness absence of 126 businesses, when asked to 'Rate the following according to their impact on your business', legal implications of dismissing someone on capability grounds was rated as very important by 47.9% of

on a discrimination claim, thus removing the need for any qualifying period at all. The Government must take action to address this imbalance, which links to the desire of many lone workers to benefit from employment regulations.

businesses¹⁷. For individuals looking to take on their first employee, it is therefore unsurprising that dismissal and sickness absence both rank highly.

“It is too easy for a poor employee to cost me money I can't afford in compensation and sickness/absence payments.”

11. Businesses are being staged by size, so the smallest employers will be the last to comply, followed by new employers.

12. The direct costs have been estimated as £3.1m in the latest Impact Assessment. Table 11 breaks this down by firm size. The Government estimates that the additional cost for micro businesses with 1-4 staff members will be £400m. <http://www.dwp.gov.uk/docs/workplace-pension-reform-ia-sept09.pdf>

13. Ibid.

14. The Government has estimated that between 10,000 and 60,000 private sector jobs could be lost because of these reforms. <http://www.dwp.gov.uk/docs/workplace-pension-reform-ia-sept09.pdf> pg10

15. Fig 3

16. 26.9% of individuals working alone see sickness absence as a total or significant barrier to recruiting their first employee.

17. BCC Sickness Survey Snap Poll March 2011

Direct costs

Many individuals responded to the BCC recruitment survey with comments regarding costs, wages and statutory entitlements (such as sick pay, holiday or maternity provision).

‘(The main barrier is) acting as an unpaid tax collector for the Government – eg NI contributions.’

Many individuals also highlighted the contrast between the costs involved in employing someone as opposed to hiring another self-employed person, or freelancer.

‘I have chosen not to employ people but to use sub-contractors and other local self-employed people.’

‘I subcontract work to freelancers and have no need to employ them.’

‘(The main barrier is) time and business need – at present I do not need to employ staff – would prefer to take on freelancers.’

‘Taking on a member of staff will be driven by a) business need and b) a role for which I cannot subcontract.’

For these individuals, current demand for their goods or services is not a barrier to employing someone, although concern about

whether demand will continue will be a factor in their decision. Although individuals are entitled to work with and engage other contractors rather than employing someone, the Government and some Trade Unions have argued that ‘false self-employment’ is detrimental to the economy. The number of training opportunities may be reduced in a sector where there is heavy reliance on freelance workers. False self-employment may also impact on productivity, and the health and safety of workers. However, as HM Treasury has stated in a recent consultation,

‘Where both the worker and the engager decide that self-employed status is the desired outcome, then it is very challenging for HMRC to build a full and accurate picture of the true terms of the engagement¹⁸.’

Instead of the Government trying to crack down on these contractual relationships, the focus should be on what is incentivising the parties to enter into the relationship in the first place. This may be different for each party – with the ‘worker’ also benefiting from lower taxation. But if the ‘engager’s’ prime motivation is reducing their risk and increasing their flexibility, then the Government should respond to this within the legislative framework and the

incentive system. A more rigid separation of the ‘worker’ and ‘employee’ categories is one way this may be achieved. Important rights often accrue through length of service (right to request flexible working, 26 weeks; unfair dismissal, one year¹⁹; statutory redundancy payments, two years) and this should be maintained, and in some cases, pushed back further, to give businesspeople more flexibility in the early stages of their first staff member’s appointment. Any suggestion to remove these lengths of service criteria should be resisted. For example, the Government launched a consultation on May 17th on Modern Workplaces²⁰ which queries the 26 week qualifying period before a right to request flexible working can be

Difficulty in securing appropriate premises

Several individuals commented that either the lack of affordable office space, or health and safety burdens involved in allowing employees to work from the respondent’s home, affected their recruitment plans.

‘I would probably have to move into business premises, as I currently work from a home-office. This is the real barrier that stops me hiring someone.’

made. These service requirements are key to giving sole-traders the confidence to employ and should remain a feature of UK legislation.

‘I have no intention of employing anyone. The legislative environment precludes this.’

‘The cost of finding out about, and complying with, regulation are a significant barrier.’

None of this should undermine the basic premise, as stated by Ed Davey, Minister for Employment in Parliament, “It is for businesses to decide the most appropriate arrangements for engaging workers²¹.”

As well as the cost involved, the need to be confident of a sustained increase in demand is a further barrier to running an office and employing a staff member for the self-employed individual.

18. False self-employment in construction’ http://webarchive.nationalarchives.gov.uk/20100407010852/http://www.hm-treasury.gov.uk/d/consult_falseselfemploymentconstruction_200709.pdf

19. The Government consulted on the beginning of this year to extend this qualifying period to two years.

20. <http://discuss.bis.gov.uk/modernworkplaces/>

21. 4th March 2011, House of Commons Debate <http://www.they-workforyou.com/debates/?id=2011-03-04a613.0>

Recommendations

1. NEW ENTREPRENEURS ARE MORE AMBITIOUS - THIS MUST BE HARNESSSED EARLY ON

In their first year, two in five entrepreneurs want to increase staffing levels in their business by more than 50% in the next four years. This number drops to one in five once an entrepreneur has been in business for over three years. Over half of ambitious businesses would be incentivised to take on a staff member by reduced National Insurance employer contributions, yet only 3,000 businesses²² applied for the Government NI holiday in its first six months. This tax relief should be more flexible. Sole-traders should be eligible to apply within their first two years of setting up their business. The holiday should then run for a year from the date that the businessperson took on their first staff member. Therefore, a business that began on January 2011, but did not take on a staff member until January 2013 should still be able to claim the relief for the first year of that person's employment²³. This would be more of an encouragement to ambitious sole-traders than the current proposals, which force a new staff member to be taken on too early in the business life-cycle for a lot of businesspeople.

2. AS A RESPONSIBLE EMPLOYER, THE GOVERNMENT MUST TAKE THE LEAD IN IMPROVING THE EMPLOYABILITY AND PERCEPTION OF EX-PUBLIC SECTOR WORKERS.

Sole-traders with a desire to grow will be a key public policy weapon to fight against unemployment. However, if these individuals do not have faith in the skills and attitude of ex-public sector workers about to enter the job market then this could stall job creation. Re-training, CV preparation, and interview technique are all areas where the Government as an employer, and their agency Job Centre Plus, should also take the lead. Although there are some programmes available for employees at risk of redundancy, this does not cover all workers who may be looking to move into the private sector for other reasons; perhaps they are fixed term workers, or their role has materially changed. Any training and resource provided by the Government should be focussed on the perception issue identified in the report - CVs, interview technique, competency testing.

3. MORE COUNCILS AND PRIVATE SECTOR FIRMS SHOULD USE UNOCCUPIED PREMISES TO OFFER SHORT TERM OFFICE SPACE TO SOLE-TRADERS WISHING TO TAKE ON AN EMPLOYEE.

Understandably, some sole-traders do not wish or do not have the capacity to employ someone when they work out of their home. In uncertain economic times, a long commercial lease may be a bridge too far, but once the sole-trader's expansion begins to satisfy their increased demand, the micro-business owner will feel more confident about leasing office space. Councils should be free to put their own conditions on these arrangements (only start-ups/ for a set length of time/ proof a new job has been created) but should be encouraged to use free space in this way by the Government. Similar schemes already operate in some areas. In Cambridgeshire, the East of England Development Agency set up a scheme²⁴. The leases were three years, which, whilst short for a commercial tenancy, may still put off businesspeople uncertain of whether demand will be sustained, regardless of the two month notice period.

Councils should share good practice and scale up these schemes where successful. Local Enterprise Partnerships should also play a role in asking whether there would be demand for this service (and room to satisfy that demand) and encouraging local councils to operate a scheme. Councils may also be able to learn something from private sector flexible workspace providers, who make both entry and exit routes simple for businesses. This survey highlights that there is demand for these types of low-commitment leases, a finding which should encourage private-sector providers to fill this gap.

22. <http://www.hmrc.gov.uk/freedom/nic-holiday.htm>

23. The Government should also consider whether, if they go ahead with plans to increase the unfair dismissal qualifying period to two years, whether the holiday should also be extended to mirror this policy. This would depend on the fiscal position and the implementation date of the unfair dismissal rules.

24. http://www.southfens.com/office_suites.html

4. THE CURRENT THREE YEAR MICRO-EXEMPTION FROM NEW REGULATION IS TOO NARROW AND DOES NOT DO ENOUGH TO REVERSE SOLE-TRADERS' CONCERNS.

The current plan for a three year exemption²⁵ for micro-businesses and start-ups from new regulations will only have a marginal effect on the regulatory burden on these businesses, and no effect at all on the perception that regulation is a barrier to taking on a first employee. The top concern of sole-traders is the 2012 pension reform, which will apply to them from 2015. The Government must address this specific issue. The BCC understands the public policy imperative to encourage retirement saving, but sole-traders taking on a first employee must be treated differently to larger firms with more resource, at least in their early years as an employer. Whilst we do not advocate a blanket micro-business exemption due to the damage this would do to retirement saving, we do believe these survey results are strong enough to warrant the Government investigating an exemption for new businesses in their first three years, or until they have more than ten employees, whichever comes first.

More generally, more work must be undertaken on deregulation. There have been a lot of initiatives in this area (Your Freedom, Red Tape Challenge, One In One Out) but sole-traders still see regulation as a barrier to creating a job which would support their future business growth. Wider exemptions, better lawmaking and a thorough review of existing regulations (particularly domestic rules where amendments would be easier to achieve in the short-term than EU sourced laws) is required. Dismissal rules must be tackled first; the extension of the unfair dismissal qualifying period from one to two years is not enough²⁶ in itself to give businesspeople the confidence to hire their first employee. More rights should have a 'qualifying period', where allowed under EU law.

²⁵ This began in April 2011.

²⁶ According to the Government's figures, this policy change will only result in a reduction of unfair dismissal claims of between 3,700-4,700, not enough to reduce the perception that dismissal is a barrier to taking on staff.

5. DIVERT BUSINESS SUPPORT RESOURCES TO THOSE WHO CAN BENEFIT, AND QUESTION WHY SO FEW ENTREPRENEURS WANT TO BECOME EMPLOYERS.

Policy-makers should ask serious questions as to why only 15.9% of entrepreneurs set up in business because they wanted to be an employer. More work must be done to encourage enterprise and reduce the perception that employing people is difficult. This is the only way to expand the pool of ambitious entrepreneurs.

This report shows that, in terms of absolute numbers, entrepreneurs with self-defined lifestyle reasons for setting up a business, combined with future ambitions for growth, are more likely to have the potential to create jobs in the future than other sole-traders. The Government should identify these businesses to be given support through the various mentoring programmes that are being set up, and not write them off because they may have been founded for 'lifestyle reasons'. Our research shows that they are a self-defining group – those who can identify initiatives that would encourage them to take on staff are likely to use them. They should also target the 16% who identify themselves as potential employers, as this self-defined group may be an easier one to reach.

Chambers Participating in the Survey

Businesses that participated in the survey are members of the following 53 Chambers.

Aberdeen and Grampian Chamber of Commerce
 Ayrshire Chamber of Commerce & industry
 Barnsley and Rotherham Chamber of Commerce
 Bedfordshire & Luton Chamber of Commerce
 Birmingham Chamber of Commerce Group
 Black Country Chamber of Commerce
 Bradford Chamber of Commerce
 Cambridgeshire Chamber of Commerce
 Channel Chamber of Commerce
 Cornwall Chamber of Commerce
 Coventry & Warwickshire Chamber of Commerce
 Cumbria Chamber of Commerce & Industry
 Derbyshire and Nottinghamshire Chamber of Commerce
 Doncaster Chamber of Commerce & Enterprise
 Dorset Chamber of Commerce & Industry
 East Cheshire Chamber of Commerce & Industry
 East Lancashire Chamber of Commerce & Industry
 Edinburgh Chamber of Commerce & Enterprise
 Essex Chamber of Commerce
 Fife Chamber of Commerce
 Glasgow Chamber of Commerce
 Greater Manchester Chamber of Commerce
 GWE Business West (West of England)
 Herefordshire & Worcestershire Chamber of Commerce
 Hertfordshire Chamber of Commerce & Industry
 Hull & Humber Chamber of Commerce Industry & Shipping
 Isle of Wight Chamber of Commerce
 Kent Invicta Chamber of Commerce
 Leeds, York and North Yorkshire Chamber of Commerce
 Leicestershire Chamber of Commerce & Industry
 Lincolnshire Chamber of Commerce & Industry
 Liverpool Chamber of Commerce & Industry
 London Chamber of Commerce & Industry
 Mid-Yorkshire Chamber
 Milton Keynes & North Bucks Chamber of Commerce
 Norfolk Chamber of Commerce & Industry
 North and Western Lancashire Chamber of Commerce & Industry
 North East Chamber of Commerce
 North Staffordshire Chamber of Commerce and Industry
 Northamptonshire Chamber of Commerce, Training & Enterprise

Northern Ireland Chamber
 Portsmouth & South East Hampshire Chamber of Commerce
 and Industry
 Renfrewshire Chamber of Commerce
 Sheffield Chamber of Commerce & Industry
 Shropshire Chamber of Commerce, Training & Enterprise
 Somerset Chamber
 South Wales Chamber of Commerce
 St Helens Chamber
 Suffolk Chamber of Commerce
 Surrey Chambers of Commerce
 Sussex Chamber of Commerce & Enterprise
 Thames Valley Chamber of Commerce
 West Cheshire and North Wales Chamber of Commerce



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