Red tape is especially a problem for small and medium sized enterprises (SMEs) which are crucial to the future growth of the UK economy. You will frequently hear how red tape is preventing the start up of new businesses and threatening the growth, or even the continued existence, of SMEs. Basically, those people running SMEs have to devote a large amount of time and effort to ensuring that red tape is complied with. Larger businesses are affected as well, but by virtue of their size and resources they can usually afford specialists to deal with the problems.

What sort of red tape is there? Whether you are studying at GCSE, AS or A2 level, you will have some knowledge of the laws that a business has to abide by; health and safety, employment law and the law governing the relationship between firms are just three of these. The merest glance at any textbook will give you a snapshot of the legislation that has to be complied with.

- Health and safety: The whole working environment, handling, storage and disposal of chemicals, lifting, training of staff.
- Employment law: discrimination, dismissal, equal pay, the minimum wage, flexible working, maternity/paternity leave.
- The relationship between firms: contracts, competition, data protection.

These are only the tip of a very large iceberg. A look at the regulations in detail on, for example, the acas website (see below) is guaranteed to make you think ‘I get the general idea but I can’t be bothered to read all that’. Well those running a business have to or they could face prosecution! Furthermore, the rules are not necessarily the same for every business and many firms breach them because they do not know which regulations actually apply to them.

It is not only compliance with ‘the law’; the tax system often causes problems for SMEs. The primary duties relating to tax are to collect and pay to ‘the taxman’ the employees’ income tax and national insurance contributions. This might seem rather obvious but the business must also ensure that the correct tax code is applied to every person at work, including any tax credits the employee is entitled to. Then there is the collection of any funds due to the government.
from employees making student loan repayments. The correct amount of VAT has to be paid every three months......and so it goes on. These are huge responsibilities that can leave employers confused and so they get distracted from growing their business.

Red tape does not stop there; there are regulations relating to planning permission and expansion. Furthermore, any business wanting to bid for a contract in the public sector has to submit ‘the correct paperwork’ every single time it does so, rather than being ‘checked out’ once a year. Quite apart from the stress of compliance for a person running a SME, new laws increase the firm’s costs which, other things remaining equal, will lower its profits. No wonder red tape is unpopular.

Of course laws exist for a reason and any business studies textbook will say that, by their nature, entrepreneurs are ‘determined’, that they ‘like a challenge’ and ‘don’t give up easily’. Nevertheless, with the possibility of prosecution (‘ignorance of the law is no excuse’) or a tax bill that could result in bankruptcy (if the entrepreneur is a sole trader or a member of a partnership) you can see that red tape may deter someone with entrepreneurial flair from ‘having another go’ if the first attempt at running a business fails - or from starting up in the first place.

So, what is the government doing? Every year there are calls for ‘tearing up the tape’ or ‘making a bonfire’ of it, so measures to try to reduce it are not new. At the time of the last budget, George Osborne said the attack on red tape was
“all part of our ambition to make the UK the best place in Europe to start, finance and grow a business”. The latest initiative is ‘the Red Tape Challenge’ that went live online on May 6th of this year. This is designed to find out the most burdensome regulations and then try to get rid of them.

The website states:

1. We publish. Every few weeks we publish all the regulations affecting one specific sector or industry
2. You respond. You tell us what’s working and what’s NOT, what can be simplified and what can be scrapped.
3. We act. Based on your feedback, we start getting rid of unnecessary red tape.

On it there is already a lively debate going on between those who feel very strongly that their business’ prospects are being damaged by red tape and those who are saying something like ‘I see what you mean but actually I think that particular law is actually useful because…*’. The comments are not all one sided.

Many think that the Red Tape Challenge is a very good idea in principle but as it has only just started, how many businesses actually participate and how big the bonfire finally is, remains to be seen.

Further information on some of the legislation affecting businesses and The Red Tape Challenge can be found at:

www.acas.org.uk
the organisation devoted to preventing and resolving employment disputes.

www.hse.gov.uk
the Health & Safety Executive.

www.redtapechallenge.cabinetoffice.gov.uk

© Copyright 2009 Tutor2u Limited