

# **FSB Northern Ireland** Federation of Small Businesses



## **Small Business Rates Relief**

### **Response to Consultation on Integrated Impact Assessment**

#### **Introduction**

The Federation of Small Businesses (FSB) welcomes the Minister's decision to introduce a Small Business Rates Relief Scheme in Northern Ireland, and to base it on the Welsh model, as advocated by the FSB.

With almost 8000 members from across every sector of enterprise and industry, the Federation of Small Businesses is Northern Ireland's largest representative business organisation. The FSB's aim is to promote and protect the interests of all those who own or manage their own businesses, and to create a better business environment for the typical Northern Ireland business.

Small businesses account for 98% of the private sector business environment and contribute 60% of all private sector turnover, compared to Wales (46%), Scotland (40%) and England (36%)<sup>1</sup>.

Of all the regions in the UK, Northern Ireland has the highest concentration of SMEs (small and medium sizes enterprises with fewer than 250 employees), accounting for 81% of all private sector employment, and 79% of all private sector turnover<sup>2</sup>. They account for 41% of the entire economy's employment in NI, compared to just 32% for the UK as a whole.

Furthermore, 99% of private sector enterprises are small business (employing fewer than 50 people), with nearly 95% employing fewer than 10 people. Small businesses employ 65% of the private sector workforce in Northern Ireland, compared to 62% in Wales, 48% in Scotland and 46% in England.

In terms of Gross Value Added (GVA), the 2004 NI Annual Business Inquiry reveals that total NI GVA was £13.5bn, of which 54.5% (£7.35bn) was produced by small businesses (0 – 49 employees)

The FSB welcomed the emphasis that the Northern Ireland Executive placed upon growing and modernizing the economy in its Programme for Government. In giving the growth of the economy its highest priority, the Assembly made a commitment to the business community and raised confidence that the contribution of the small business community is recognised and would be supported. There is no doubt that

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<sup>1</sup> BERR, SME Statistics for the UK and Regions, 2007.

<sup>2</sup> Ibid

the economy has entered a very difficult period, and that consumers and businesses are sharply feeling the effects of the global economic downturn. The Federation of Small Businesses urges the Assembly to maintain that confidence, and introduce practical measures that turn good intentions into reality.

The Government must support the business community in its efforts to grow the private sector in Northern Ireland, and we believe that this can be best achieved by creating the favourable financial conditions to encourage growth and development. We believe that initiatives designed to encourage a dynamic entrepreneurial culture also contribute to the achievement of other key government objectives, such as the Lifetime Opportunities Strategy, Neighbourhood Renewal, and Town Centre Regeneration. Employment and economic growth are key tools in tackling social exclusion and the legacy of the conflict.

The use of business rates system as a policy instrument has considerable history, and Northern Ireland is currently the only region of the UK that does not have a Small Business Rates Relief Scheme. Such schemes already exist in Scotland (*introduced April 2003*), England (*introduced April 2005*), and Wales (*introduced April 2007*), and have proved to successfully benefit small businesses in those regions, so much so that the schemes in both Scotland and Wales were extended in 2008.

Small Business Rates Reliefs were introduced in the UK to redistribute the rate burden away from the small company. Small businesses are disproportionately burdened by their rate liability, which account for a larger proportion of turnover, profit and outgoings for small businesses than for large companies. Rates relief for small businesses therefore contributes to a fairer distribution of the rates burden.

Independent research by DTZ Pieda<sup>3</sup> concluded that rates are significantly greater for smaller trading companies with a turnover of less than £100,000, and are usually the third largest expenditure after wages and rent for a typical business.

The FSB warmly welcomes the proposed introduction of a Small Business Rates Relief Scheme as a practical measure that the Northern Ireland Assembly can deliver for the local business community, at a time when innovative measures are being sought to improve local economic conditions and capabilities. More action is required to safeguard the future of small businesses, independent retailers and small shops. It is from these that tomorrow's big business will come.

The FSB believes that a Small Business Rates Relief Scheme in Northern Ireland would be a positive step towards creating sustainable economic growth, and would boost the economy. We believe that it is fully workable and within reasonable financial levels, and that evaluation will show its clear benefit.

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<sup>3</sup> Evaluation of the Small Business Rates Relief Scheme, DTZ Pieda, 2004

## Integrated Impact Assessment

### Financial Impact

The proposed scheme is based on the thresholds introduced in the original Welsh SBRR, and the FSB agrees that these are appropriate levels for the introduction of the scheme in Northern Ireland in 2010.

However, the FSB is of the view that given the importance of small businesses to the economy in NI, making up as they do a greater proportion of the private sector than elsewhere in the UK (including Wales), the NI Executive could introduce a more generous scheme.

We have calculated using Feb 2007 valuation lists that a scheme providing relief of 50% to properties with NAVs of less than £2500, and 25% to those with NAVs of between £2001 and £5000, would cost around £6m in revenue foregone, or less than **2%** of current business rates revenue.

We acknowledge that the Integrated Impact Assessment (IIA) uses more up to date data, from the Valuation List supplied by the Land and Property Services as at November 2008, and that based on those more recent and accurate figures the proposed scheme would result in a rate revenue loss of £7.9m (including the enhanced relief for Post Offices). However, we make the assumption that the proportion of the total rates revenue is similar.

Despite accounting for a greater proportion of the private sector in Northern Ireland than they do in other regions of the UK, there are a smaller number of small businesses in Northern Ireland. Given this, the Assembly might consider a more generous scheme than that in Wales, by also providing relief to businesses occupying properties with NAVs of between £5000 and £10,000. A 50% relief for properties with values up to £5000 and 25% relief for those with NAVs of between £5000 and £10,000 would cost approximately 5% of current non-domestic rates (NDR) revenue, and benefit around 67% of the private sector.

We therefore believe that increasing the upper threshold, as set out in Table 2 of the IIA, even to the highest level suggested - £12000 NAV, costing £17.6m - represents a relatively small proportion of NI non-domestic rates revenue, and that active consideration should be given to increasing the NAV threshold for small properties eligible for Automatic Rates Relief.

We are also strongly in favour of 100% rates relief for Post Offices as a measure of increasing the viability of post offices in rural and deprived areas. The provision of enhanced rate relief to Post Offices is a major contribution to the Welsh Assembly Government's policy of keeping Post Offices open, and we commend the Northern Ireland Government's intention to extend similar consideration of Post Offices here.

The FSB strongly agrees that the scheme should be funded from NI's public expenditure, not only in recognition of the contribution of the small business sector, and acknowledgment of the current economic situation, but given the size of the

sector, which is proportionately larger than elsewhere, but with fewer businesses in number, and therefore implies a lower actual and proportionate cost to the NI Executive.

We do not believe that other non-domestic property rates should be increases to fund this scheme, nor would it be appropriate to increase the non-domestic regional rate for larger businesses.

## **Equality Impact Assessment**

The FSB has no comment on the EQIA.

## **Rural Proofing**

Table 5 shows that the majority of eligible small businesses are located in rural areas, so an SBRR scheme will benefit rural areas.

In relation to Post Offices, we agree with the initial finding in the IIA document that an enhanced relief would also have a significant positive effect on rural areas by maintaining rural post offices.

## **New TSN Analysis**

Table 7 appears to indicate that the proposed SBRR scheme will benefit wards with a higher than average NIMDM score, and therefore positively targets areas of social need and social exclusion, and increases social inclusion. The proposed Post Office scheme is also New TSN friendly.

## **Regulatory Impact Assessment**

### **Rationale for Intervention**

The FSB agrees with the rationale for intervention set out in the Integrated Impact Assessment document, and that the small business sector is more important and more significant in Northern Ireland than any other region of the UK..

Of all the regions in the UK, Northern Ireland has the highest concentration of SMEs (small and medium sizes enterprises with fewer than 250 employees). 99% of private sector enterprises are small business (employing fewer than 50 people), with nearly 95% employing fewer than 10 people Small businesses contribute 60% of all private sector turnover, compared to Wales (46%), Scotland (40%) and England (36%)<sup>4</sup>, and 41% of the entire economy's employment in NI, compared to just 32% for the UK as a whole.

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<sup>4</sup> BERR, SME Statistics for the UK and Regions, 2007.

Furthermore, small businesses employ 65% of the private sector workforce in Northern Ireland, compared to 62% in Wales, 48% in Scotland and 46% in England.

In terms of Gross Value Added (GVA), the 2004 NI Annual Business Inquiry reveals that total NI GVA was £13.5bn, of which 54.5% (£7.35bn) was produced by small businesses (0 – 49 employees).

Therefore the reliance on the small business sector in Northern Ireland cannot be overstated, and it is vital that a Small Business Rates Relief scheme is introduced as soon as possible in recognition of this and as a key mechanism for supporting and encouraging entrepreneurs.

We also strongly agree that small Post Offices should be supported with an enhanced rate relief, reflecting their importance in rural and isolated communities.

The need for equity is clear given that Northern Ireland is the only part of the United Kingdom which does not have a Small Business Rates Relief Scheme. Rates Relief schemes were introduced in England in 2003, in Scotland in 2005 and in Wales in 2007. Furthermore, the Welsh Assembly and Scottish Parliament both extended their schemes earlier in 2008. The Northern Ireland small business community should not be placed at a competitive disadvantage to its counterparts in the UK.

We also note the acknowledgement that rates bills tend to be a larger proportion of overall costs for small businesses than for businesses of a bigger scale – indeed, as found by DTZ Pida<sup>5</sup>, rates are significantly greater for smaller trading companies with a turnover of less than £100,000, and are usually the third largest expenditure after wages and rent for a typical business (and just under half (49.2%) of the businesses registered for VAT in Northern Ireland have a turnover which is less than £100,000, compared to the UK average which is 42.6%.<sup>6</sup>).

## Risks

The IIA identifies several risks which may be attached to the introduction of a Small Business Rates Relief scheme. The FSB does not believe that these are significant risks, and will address each one in turn below. A far greater risk is the decline of the small business sector in Northern Ireland, which would severely impact not only upon the growth and development of the economy and employment, but also on our communities.

- Landlords not passing on any savings incurred from the scheme to their tenants. This risk is lower in the case of post offices, as evidence collected suggests that very few post offices below the proposed NAV limits are rented.

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<sup>5</sup> Evaluation of the Small Business Rates Relief Scheme, DTZ Pida, 2004

<sup>6</sup> IDBR, Edition 10, June 2008

The results of the FSB's biannual Lifting the Barriers to Growth survey, conducted in 2008, indicate that just over 40% of NI respondents own the businesses premises out of which they operate, while 19.4% lease and 31.5% rent property. 9% work from home. Given that most leases and rent agreements include tenant responsibility for rates, the potential for landlords to benefit is minimal.

- There may be risk of deadweight, i.e. expenditure to promote a desired activity that would in fact have occurred without the expenditure. Likewise, provision of the relief may not be sufficient to ensure individual businesses stay open. The decision to remain open or to close may not be greatly influenced by the existence of this relief. So it is unclear how effective the provision of rate relief would actually be in promoting the desired objective of maintaining the viability of small businesses.

The FSB believes that the introduction of a Small Business Rates Relief in Northern Ireland would send a clear message of the Assembly's recognition of the importance and contribution of the small business sector, that it is serious about growing our economy and our private sector. Developing our small business sector is essential if the Assembly is serious about growing our private sector. We believe that developing new indigenous small businesses that use R&D and export to new markets across the globe is the future of our economy. Pro-enterprise policies generate positive effects for all

The present financial climate is having a significant impact on small businesses. Calls to our enquiry line have doubled over the past 6 to 9 months, with a complete change in the nature of these calls from seeking advice on recruitment, employment contracts and terms and conditions to members seeking advice on redundancies and short-time working; dealing with debt; dissolving partnerships and selling their businesses; late payments; difficulties with banks and financing, and complaints regarding the cost of business charges, such as environmental levies and of course, rates. Maintaining cashflow is the biggest issue for small businesses, with nearly 60% telling us they had experienced an increase in the length of time taken between issuing an invoice and receiving full payment. Given that the average **cashflow** timescale for small businesses is just 8 – 10 weeks, this is creating serious problems.

While the Government has done much to respond to the current economic conditions, and introduced a number of initiatives, our members are continuing to experience major difficulties, particularly in relation to access to finance. The small business sector needs an immediate boost to its confidence, and progress on the introduction of a Small Business Rates Relief scheme in Northern Ireland could provide a major boost to the economy.

The proposed scheme would provide small businesses in Northern Ireland with an extra £300 to £500 a year – a modest sum, but one which would provide increased practical assistance and give small businesses the financial

breathing space that they need in order to grow and invest in their future and Northern Ireland's economic future. It will even help some to survive. In difficult trading times, a relatively small sum can mean the difference between profit and loss, between success and failure, or between trading and not trading the following year.

In Scotland, small businesses are using their Small Business Bonus to improve their premises (e.g double glazing), buy or improve equipment (e.g. computer packages, card-swipe machines), and increase their marketing (e.g advertising, web-site design). Such modest investments improve confidence and give SMEs the incentive to survive in hard times.

- There may be Post offices that occupy larger premises and so will not receive the relief. The services they provide may be just as important to the local community in which they are located, yet any decisions that may need to be made about which post offices to close and which to keep open may favour those who receive the relief.

The FSB agrees with this conclusion.

- The relief targets small businesses on the basis of NAV. However, many businesses which would be considered 'small' on the basis of other definitions (such as number of employees or size of turnover) may not be eligible for relief.

The FSB acknowledges that business rates are a property tax, and fully accepts that not all small properties are occupied by small businesses, but to target relief purely by rateable value is a simple and cost efficient process requiring no other input in terms of scrutiny of, for example, national insurance records or accounts, as would be required to prove that those receiving the relief are small businesses by evidence of turnover, employees or profit.

The FSB is of the view that the cost and complexity of the administration and monitoring of such a scheme would not result in value for money for the Northern Ireland economy, and that it would be more viable and practical to accept deadweight in order to provide a rate relief which would invigorate and support the SME sector.

A universal, automatic scheme is simple to administer, for both government and for businesses, and can be evaluated through information already being collected in the Annual Business Inquiry and Inter-Departmental Business Register etc.

- State Aid Implications – The state aid guidance to member states from the EU is against awarding any assistance to firms that would distort the market. Any relief must be reported to the EU for approval, unless the firm falls within the de-minimis levels, which set a limit of relief to any firms at €100,000 over a

rolling three year period, for all relief awarded to a firm. It is unlikely that these limits would be exceeded.

The FSB agrees that these limits are unlikely to be exceeded through the provision of a Small Business Rates Relief modelled on that introduced in Wales in 2007. It is our understanding that potential State Aid implications were not a consideration for the Welsh Assembly in introducing the scheme, and we are not aware of this being debated during their consultation.

### Small Business Impact Test

Previous proposals and consultations on a Small Business Rates Relief scheme have considered the desirability of a targeted scheme, and several criteria for qualification have been suggested. However, as stated above, the FSB is of the view that a universal scheme will be of the greatest benefit and will therefore be the most effective, and that businesses themselves are best placed to decide how to use the saving.

Neither the Welsh nor the Scottish schemes are targeted by anything other than rateable value. In England, where businesses have to apply to receive the relief, the FSB has been concerned that not enough small businesses are benefiting from small business rate relief. In an exercise carried out by the FSB, 240 billing authorities across England were asked about the operation of small business rate relief in their area. Of the 179 that responded to the survey, the average take-up rate of relief was only 49% of eligible businesses.

The FSB acknowledges that business rates are a property tax, and fully accepts that not all small properties are occupied by small businesses, but to target relief purely by rateable value is a simple and cost efficient process requiring no other input in terms of scrutiny of, for example, national insurance records or accounts, as would be required to prove that those receiving the relief are small businesses by evidence of turnover, employees or profit.

The FSB strongly agrees with the clear statement in the IIA document that the potential for large businesses in small premises may benefit is “a price worth paying, particularly in the context of this measure, which is part of the Executive’s response to the global economic downturn” The cost and complexity of the administration and monitoring of a scheme which ‘double-checked’ the ‘smallness’ of a business occupying low rateable value property would not result in value for money for the Northern Ireland economy,

### Competition Assessment

We agree that the proposed small business rate relief scheme will not have an adverse impact on the number and range of suppliers available in any particular market, nor is it likely to have a significant impact on the ability of suppliers to compete with others, and that it is most likely to have a positive effect on competition

through assisting small businesses in remaining viable, thus adding to the diversity and range of suppliers of goods and services available within a particular market.

### Monitoring and Review

We agree that the policy should be monitored and reviewed, preferably well before the proposed five-year period is nearing an end, and that if appropriate, consideration should be given to raising the thresholds and otherwise enhancing the scheme, as has been the case in both Wales and Scotland.