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Committee for Enterprise, Trade and Investment  
Northern Ireland Assembly  
Room 375, Parliament Buildings  
Stormont  
BT4 3XX

**10 March 2015**

Dear Sir/Madam

**Re: CETI Inquiry into Growing the Economy and Creating Jobs**

The Federation of Small Businesses is Northern Ireland's largest business organisation with around 7,000 members from across all sectors of industry, and over 200,000 members throughout the UK.

It exists to protect and promote the interests of the self-employed and all those who run their own business and we lobby decision-makers to create a better business environment for them.

We welcome the opportunity to input into the Committee for Enterprise, Trade and Investment Inquiry into Growing the Economy and Creating Jobs and trust you will find our comments helpful.

Yours faithfully,

**Wilfred Mitchell OBE  
Northern Ireland Policy Chairman**





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# **FSB NI response to the CETI Inquiry into Growing the Economy and Creating Jobs**

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**March 2015**

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## **Introduction**

The Federation of Small Businesses in Northern Ireland (FSB) welcomes the initiation of this Inquiry by the Committee for Enterprise, Trade and Investment. We view this as an important and necessary exercise to ensure that the best possible economic environment is created to maximise the benefits stemming from a lower rate of Corporation Tax.

The FSB fully supports the devolution of Corporation Tax setting powers to the Northern Ireland Assembly. We have been active as a standalone organisation in lobbying at the highest levels, including the Prime Minister and Chancellor of the Exchequer, and as part of the wider Grow NI group campaign which comprises a range of business representatives.

We firmly believe that the devolution and subsequent lowering of Corporation Tax will benefit the small business community in Northern Ireland.

According to the Secretary of State for NI, the scheme will directly affect an estimated 26,000 SMEs currently operating in Northern Ireland and that the resultant increased Foreign Direct Investment will lead to the creation of new local supply chains and contribute to a much needed rebalancing of the local economy.

It is pleasing that the Corporation Tax (Northern Ireland) Bill is currently proceeding through the legislative process at Westminster and we note the commencement clause which means that the powers will only be commenced from April 2017 subject to the Executive demonstrating that its finances are on a sustainable footing for the long term.

This allows a two year period to ensure that all possible levers within the Executives power are being utilised to augment a lower level of Corporate tax with a view to growing the economy and creating jobs.

In our view this is a window of opportunity which cannot be missed.

## **Key Economic Drivers**

The FSB has identified a number of key economic drivers which we consider to be of priority importance for the Executive alongside a reduced rate of Corporation Tax.

These are set out under the headings of 'the costs of doing business', 'education and skills'; and 'access to finance'.

There are of course many other factors which contribute to successful economic policy and the issues outlined below are therefore not exhaustive. However, they do represent some of the main areas of concern for small businesses in Northern Ireland which are of most relevance to this inquiry.

## **1. Costs of doing business**

### **Energy Costs**

High and often volatile energy costs continue to exercise many in the business community. For example, the latest quarterly transparency report from the Utility Regulator, published in November 2014, outlines that electricity prices for the vast majority of non domestic customers in Northern Ireland are higher than those in the UK and the Republic of Ireland.<sup>1</sup>

Whilst we accept that very large users pay some of the highest costs in Europe, the reality is that the vast majority of businesses in Northern Ireland are micro and small businesses and they are often still paying above the EU and UK average. Therefore, we should guard against transferring costs onto smaller businesses that simply do not have the ability to pay.

There has been some recent good news with a number of announcements of price decreases, e.g. Power NI, and it is to be welcomed when energy providers pass on decreases in their costs to the end user. The Utility Regulator and DETI Energy Division should continue to monitor whether this is happening to the extent it should.

Despite the fact that some global factors are obviously outwith the power of the Executive, we would welcome DETI setting out a clear plan to mitigate high energy costs or at the very least outlining the potential policy options which are within their control in order to inform the debate around affordability.

Given the conclusions reached in the report by Cornwall Energy<sup>2</sup> which showed that there are very low (and declining) levels of switching both gas and electricity provider by small and micro businesses, affirmative action is required.

There is a need for more work around energy consumer education programmes and tariff comparison website/accreditation to improve transparency as well as making switching easier for small business consumers.

Northern Ireland is clearly behind the rest of Great Britain and Ireland in the roll-out of smart metering, and this is an area in which decisions have not yet been made. Obviously there are major resource implications in taking this policy forward but it would offer small businesses the potential to take more control of their energy consumption, increase their energy efficiency and reduce their costs. Further clarity on how this is expected to develop within a Northern Ireland context would be constructive. As a UK wide organisation we will continue to monitor how smart metering in GB impacts on our members.

The FSB continues to support the extension of the gas network, with good progress being made in the West of the province. However, a longer term approach is necessary, particularly with respect to the North West and East Down.

Extension of the gas network brings the potential of a variety of advantages to small businesses. We would call for training for small and micro businesses to take up the business opportunities that will become available, for example, for gas engineers

and boiler installers, as well as consideration of business incentives to convert from heavy fuel oil/power to gas. In addition, this touches on the area of skills development (see below), and the need for the Assembly to ensure that there are adequate resources of skilled engineers to install the necessary infrastructure in particular, and the future skills needs of our economy as a whole.

The expedition of the North South Interconnector also remains a priority to ensure that security of supply is protected into the future – an issue which the Committee has looked at in detail previously during the inquiry into electricity prices and must remain firmly on the agenda.

### ***Business Regulation***

Over one third of FSB members cite the regulatory burden as the biggest barrier to business, behind only cash flow problems and the recession. In a time when the Assembly has limited spending powers, cutting regulation is a resource efficient way of improving business productivity and competitiveness. Getting this right could help ensure the economic recovery and create jobs.

The FSB participated in the first Innovation Lab which was jointly hosted by the DETI and DFP to explore the Regulatory Impact Assessment (RIA) process.

The FSB was also a stakeholder in the recently published DETI Review of Business Red Tape NI. We welcomed much of the subsequent report<sup>3</sup> and look forward to implementation of the recommendations.

Looking ahead, particular focus should be on the adoption of a regulatory budget scheme to manage the flow of regulations as well as improvements to how RIAs are conducted.

### ***Non Domestic Rates***

Non Domestic Rates are one of the highest cost elements for FSB members and it is widely accepted that they impact disproportionately on small businesses with some paying more in rates than rent.

This is a challenging time for small businesses as they face uncertainty over the long term future of the Small Business Rate Relief scheme, potential rates hikes through rates convergence as a result of the amalgamation of council areas, and many also face sometimes significant potential increases as a result of the rates revaluation process.

This uncertainty around long term rates bills hits consumer confidence and has a knock on effect on business decisions around investment and expansion.

The FSB believes that the planned review of Non Domestic Rates by the Minister of Finance and Personnel presents a real opportunity to fundamentally reform what is an archaic rating system.

As a minimum requirement the system must be simplified with more regular revaluations carried out.

However, there is also scope to look at how the smallest businesses could be exempted from Non Domestic Rates altogether as well as how the increasing number of home workers can be supported through the rating system.

The rise of online retailing in competition with the high street must also be included within the scope of the review.

Our research<sup>4</sup> also indicates that the Small Business Rate Relief scheme has been of real benefit to small businesses across Northern Ireland, including helping them to stay in business as well as invest in a range of areas. We therefore strongly advocate a scheme of this nature continuing into the future to offer support to small businesses.

With regards to industrial de-rating, the FSB view the continuation of a 30% liability cap on manufacturing rates as offering a unique and invaluable form of assistance to one of Northern Ireland's key sectors, which should be retained.

### ***Employment Law***

The FSB welcomes the recent review of employment law which has been carried out by the Minister for Employment and Learning, and we were pleased to be part of the Review Group established by the Minister. However, we are disappointed that the necessary legislation to enact changes has yet to be brought to the Assembly.

An Early Conciliation Scheme and Neutral Assessment Service are examples of proposals which have the broad support of the business community and should be established as soon as possible.

However, our members would still like to see an extension of the qualifying period for unfair dismissal from one year to two years. Whilst we understand that this will not be taken forward as a result of the review, we remain convinced that there is certainly merit in this change, as evidenced in Great Britain.

The introduction of tribunal fees, albeit in our view at a lower level than in England, should also be examined further and considered as a means to weed out weak or vexatious claims. These can often have a profoundly negative effect on smaller businesses. They would also encourage mediation and the negotiated settlement of disputes rather than resorting to a tribunal hearing.

### ***Planning***

As planning powers pass to the new councils, it is imperative that the process is smooth, clear, timely, and efficient and offers good value for money. It is equally important that there is consistency in the process both within councils and across all councils, so that we do not find some businesses in certain areas being hampered by partial or skewed interpretation of the policy.

In addition to the standard application fees and professional services fees when applying for planning permission, small businesses often incur further costs during the process. These costs include the time spent by the owner/employees of the business in preparing an application, as well as costs which frequently arise in the course of an application process.

For example, the FSB has concerns regarding the costs and impacts of Environmental Impact Assessments and believes that there could be a lack of consistency of these assessments when they are devolved to local authorities. If there is a requirement to produce an EIA, their relevance should be specified to the business applicant and there should be minimal burden and costs on businesses.

As with other business processes, small businesses by their nature employ very few people and therefore those running the business are responsible for all aspects of its day to day operation, trading and regulatory administration.

Therefore, the burden of applying for planning permission and managing the process has a direct correlation in the running of the business, and because of this the impact should be minimised to help rather than hinder business prospects.

### ***Business Support***

The NI Assembly must put small businesses at the heart of policymaking, and create a coherent long-term plan for business support, including export support that matches the ambition of start-ups and those small firms that want to grow. The goal should be to create an environment in which NI encourages and supports start-ups to become 'world-beating' firms.

An FGS McClure Watters Audit of Enterprise Support conducted for Invest NI in 2008 identified over 200 separate sources of available advice or support. A small business with fewer than 10 employees cannot realistically access all of these sources to identify what is most appropriate for their individual business needs.

The report highlighted that regulation and administration have a disproportionate impact on small businesses in terms of people, time and money, often resulting in discouraging entrepreneurs from employing people or from expanding. Rather, support services should be enabling businesses to reduce bureaucratic workloads and delays as opposed to adding to them.

We therefore recommend the creation of a NI Small Business Administration (SBA), a department or agency which would will replicate the US Small Business Administration and solely focus on small businesses. The SBA in the US has been instrumental in reducing the burdens on small businesses by both advocating small business needs and acting as an ombudsman when problems arise with federal agencies. A NI SBA would ensure that the voice of small enterprise doesn't become lost among competing government priorities, and rationalise the number of small business initiatives in place and thereby deliver polices better aimed at small businesses.



The FSB also advocates the need for a network of small business friendly drop-in centres across Northern Ireland. Small Business Advice Centres would enable small businesses to call in, in person or by telephone, and obtain advice on a wide variety of issues, including business support, training and skills, innovation, R&D, exporting, employment, workplace disputes mediation, finance and procurement etc. Centres could act as the hub for promoting sources of advice and support that are available, signposting to current provision and relevant schemes and gather information on take-up and demand.

## **2. Skills and Education**

### ***Apprenticeships and Youth Training***

As the largest business organisation in Northern Ireland we have been involved from the outset of the reviews into the systems of apprenticeships and youth training, including membership of the expert panels on each.

The FSB is pleased with the progress made to date on apprenticeships with the new strategy<sup>5</sup> setting the direction for a system with an improved image, which more effectively matches skills to the demand of the economy, and allows for progression right up to level 8.

The new Central Service will also usefully support, market and promote apprenticeships for both employers and participants, including the establishment of an online portal. However, it is imperative that the right financial support is available for businesses who are considering taking on an apprentice.

Whilst we acknowledge that the strategy outlines that a new funding model offering support to small and micro firms is due to be in place by September 2016, the FSB would accentuate the point that better financial incentives for employers are a core requirement to the success of apprenticeships into the future.

### ***Further and Higher Education Budgets***

The recent deliberations over the 2015/16 Assembly budget produced a substantial amount of debate over the proposed initial budgets reductions to the Department of Employment and Learning and the likely impact on Further and Higher Education institutions.

At the time, the FSB expressed significant concerns as to whether DEL could continue to meet its Departmental responsibilities by investing sufficiently in skills to match the needs of the economy.

Looking ahead to future budgets, fiscal constraint looks set to continue regardless of the makeup of a Westminster Government. As this filters through to Northern Ireland we would call on the Executive to continue to invest in the up-skilling and re-skilling of the current and future labour force, which must be realised if we are to remain an attractive investment location and rebalance our local economy.

### ***Links between business and education***

Local schools need to better harness the expertise of small business as too few small businesses are actually contacted by local schools to sit on governing bodies, be a mentor, help with careers advice or talk about apprenticeships in schools.

Furthermore, the curriculum should place greater emphasis on employability skills and work-related learning. School leavers must be better prepared for the workplace and apprenticeships should be better promoted in schools.

## ***Access to Finance***

### ***Statistical transparency***

Access to finance is vital for businesses, particularly those seeking to expand.<sup>6</sup> The ongoing production of lending statistics by the British Bankers Association is certainly welcome. However, despite the fact that these statistics show some progress in new approved borrowing figures as well as approval rates<sup>7</sup>, there is still work to do. The FSB is keen to see more developed statistics including, for example, the provision of finance to start-ups.

### ***Banking services for small businesses***

Small businesses often find themselves worse off in comparison with other banking customers and we believe there is clear evidence that they can receive an inferior service. For example, small businesses pay the same fees as bigger firms yet they do not have the access to the relationship managers which those firms get. Nor are they afforded the benefit of buffer zones (being slightly overdrawn without paying a fee) or grace periods (during which time no late fees will be charged) which are associated with the mass market.

These concerns appear to be supported by the initial findings of the Office of Fair Trading (OFT), whose analysis<sup>8</sup> suggests that as a consequence of competition not working properly there may be a reduced incentive for providers to compete on price and terms, invest in service quality and delivery or innovate, which may mean SME's do not get the best deal from their banking provider.

### ***Branch Structure***

The closure of bank branches throughout Northern Ireland is a continuing and worrying trend. The FSB would warn against the associated diminution in service which may accompany the lack of bricks and mortar establishments, particularly for cash intensive and rural businesses.

Whilst we accept that there has been a shift towards online banking and fewer people are frequenting local branches, our research shows that business owners still value the accessibility of a convenient branch location with reliable staff.<sup>9</sup>

### ***Lack of competition and alternative financing***

Northern Ireland has a specific banking structure distinct from the rest of the United Kingdom. Here, the 'big four' are Danske Bank, Ulster Bank, First Trust and Bank of Ireland. These four banks currently hold over 90% of the stock of the business current account market – a greater share of the market than the four largest providers in GB have.

Whilst newer entrants from mainland UK are picking up a higher proportion of new accounts opening each year, the four main banks still hold the vast majority of the business current account market share in Northern Ireland.

Traditional bank finance is also estimated to make up 95% of all finance provided to NI SMEs<sup>10</sup> and these smaller firms do find it difficult to differentiate between providers. Similar to the situation on energy as described above, there are low level of shopping around and switching.

Increased awareness, and uptake, of alternative financing options is one means of increasing competition in this field<sup>11</sup> and how to encourage more challenger banks to develop in Northern Ireland should also be explored.

## **Conclusion**

he Executive has many economic tools at its disposal and despite the challenges it faces, it is vital that the opportunity to augment a low Corporation Tax rate through implementation of a range of other policy levers is not lost.

Evidently, the cost of doing business is the central concern for businesses going forward. The imminent work from the Ulster University Centre for Economic Policy will be of particular interest. There must be a concerted effort across Government Departments, and in local Councils, to tackle this and make Northern Ireland an attractive place to invest in and do business.

The availability of skilled workers is often cited as one of the features of the economy here and further investment in education and skills will cement and enhance that. There is little point in marketing Northern Ireland on the global stage as a low cost environment to set up a business without having the indigenous skills base in place to back that up.

In terms of access to finance, we believe the correct forum for all the issues referenced to be considered is within the context of the Joint Ministerial Taskforce on Banking and Access to Finance. Whilst much work has been done in this area by academic, economists, business organisations and others, we must begin to see more tangible evidence of improvement. It is one of the most important factors in securing a long term economic recovery.

## **References**

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<sup>1</sup> Utility Regulator, Retail Market Monitoring, Quarterly Transparency Report, November 2014

<sup>2</sup> Cornwall Energy, Review of the Effectiveness of Competition in the Northern Ireland Energy Retail Market, November 2014

<sup>3</sup> Review Team, Department of Enterprise, Trade and Investment, 'Making Life Simpler: Improving Business Regulation in NI' November 2014

<sup>4</sup> FSB NI, Response to Policy Evaluation of the Small Business Rate Relief Scheme, July 2014

<sup>5</sup> Department of Employment and Learning, 'Securing our Success', June 2014

<sup>6</sup> The latest FSB 'Voice of Small Business' Index indicates that 62% of small firms expect to grow their business in 2015

<sup>7</sup> British Bankers Association (BBA), Banking Activity in Northern Ireland – Q3 2014, November 2014

<sup>8</sup> Office of Fair Trading 'Review of banking for small and medium-sized businesses (SMEs) in the UK; Update on work to date, March 2014

<sup>9</sup> FSB NI/University of Ulster, 'A study of SME-Bank Relationships in Northern Ireland', 2012

<sup>10</sup> InterTradeIreland report, 'Access to Finance for Growth for SMEs on the Island of Ireland' report, page 75, December 2013

<sup>11</sup> FSB 'ALT + Finance, Small firms and access to finance' report, March 2012