

Small Businesses Thinking Big

Federation of Small Businesses
Northern Ireland
MANIFESTO



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SECTION 1

Introduction

Introduction

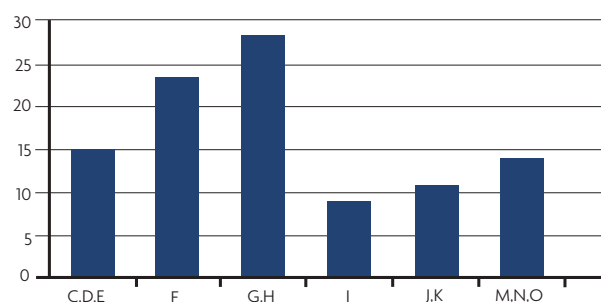
Key Issues

- 1.1 The Federation of Small Businesses (FSB) is the largest group representing the interests of the self-employed and the owner managers of small businesses in Northern Ireland. The FSB is run by business people for business people and is funded by member subscriptions **(an outline of FSB activities is presented in Appendix 5)**. On a national level, the FSB has a membership of over 170,000 and in Northern Ireland the membership reached the 3,000 mark in August 2002.
- 1.2 This manifesto is intended to offer current and future members of the Northern Ireland Executive an understanding of the current state of the small business sector and to provide a way forward to continue to develop and maintain an entrepreneurial society and stimulate growth within small businesses.
- 1.3 Statistics demonstrate clearly the overwhelming importance of small businesses to the economy of Northern Ireland. Small businesses are bringing a much needed dynamism to the Northern Ireland economy and are increasingly being recognised as a source of innovation, employment and flexibility, thus enhancing regional export capability, regional competitive advantage and regional productivity. These aggregate patterns indicate a growth in the economic contribution of small businesses and continue to provide researchers with a collection of areas for investigation and policy makers with agendas for business support activities.

- 1.4 The Small Business Service (SBS) recognised that 59,635 Small to Medium Sized Enterprises (SMEs) were in existence in Northern Ireland in 1999 (excluding agriculture, forestry and fishing), accounting for over 99% of all businesses, 79% of employment and 75% of turnover in Northern Ireland.

Figure 1 below provides a breakdown of SMEs in Northern Ireland by industry sector.

Figure 1



The most important sectors for SMEs in Northern Ireland are agriculture, forestry and fishing, followed by wholesale, retail, repair, construction, transport, storage and communication **(see Figure 1)**.

- 1.5 There are a significant number of SME operators, representing a large proportion of employment within the region. SMEs offering the most benefits in terms of employment are micro businesses - those operating in the 0-9 employee ratio of developing businesses **(see Table 1)**.

Table 1

Businesses by Employment and Turnover, 1999				
Size of Business	Micro (0-9)	Small (10-49)	Medium (50-249)	Large (250+)
% of total business	93.4	5.6	0.8	0.2
% of total employment	39.7	22.5	16.5	21.2
% of total turnover	31.7	24.4	18.4	25.3

Sources: Small Business Service

Introduction

- 1.6 The emergence of SMEs has been mainly due to changes in both industrial and cultural values, and this has encouraged the rapid development of a vibrant SME sector, as is the case in most developed economies. For example, fragmentation activities by larger firms and the increasing use of flexible specialisation and customisation within manufacturing has led to the growth of many small specialist businesses, especially within value - added niche markets. In Northern Ireland the decline of traditional sectors such as shipbuilding and textiles has increased the SME start up rate in the region.
- 1.7 The growing, more dynamic SME sector in Northern Ireland is making a contribution to the revitalisation of the economy. **Recently, small businesses have the propensity to gain economic significance for the following reasons:**
- Small firms in Northern Ireland can act as suppliers and sub-suppliers to larger manufacturing multi-national firms in the region.
 - New small firms can constitute a seedbed, from which larger export-orientated indigenous companies grow and emerge.
 - The sales and market share which small firms can hold in local markets act as substitutes for potential imports, thus contributing to the strength of the local economy.
- 1.8 The political situation and associated conflict made it difficult to attract inward investment into Northern Ireland. In the 1950s and 1960s, most foreign firms that invested in Northern Ireland were from sectors that were technically mature and labour intensive, for example, the man made fibre industry. Since 1988 there has been a distinct shift in the main objectives of the economic policy, thus encouraging investment in more sophisticated sectors, such as telecommunications, chemicals and electronics.
- 1.9 Northern Ireland has in effect tried to import a foreign system of competitiveness through inward investment. However, it is clear that inward investment has not created sufficient spill over effects to create a self-sustaining system of effectiveness. The indigenous sector is characterised by micro companies (93.4% of total Northern Ireland businesses), with limited diffusion of Multi-national Corporations (MNC), managerial and business process know-how and/or technological capabilities.
- 1.10 Employment in these large manufacturing firms is decreasing year by year. This may serve to increase Northern Ireland's dependence on the indigenous small business sector as a key element in its approach to economic development.
- 1.11 As with other peripheral regions in the European Union area, a shift in Northern Ireland's indigenous industry structure towards industries with long-term international growth prospects (such as technology based sectors) is starting to emerge. This has been long overdue - the typical profile of an innovating firm in Northern Ireland was that of the large foreign owned enterprise operating in the high technology sector, with the contribution of small businesses to innovation being relatively low. There has now been a switch to small business indigenous growth, characterised by national and regional development strategies. This change of focus is evident with the growth of Local Enterprise Agencies and the Local Enterprise Development Unit (LEDU) throughout Northern Ireland since the mid 1980s.
- 1.12 It is generally recognised that small and medium-sized enterprises have an important role in regional economic development. This is especially so in Northern Ireland as it contains industries that are mature or even in decline, and levels of unemployment are decreasing but still high. To reduce this, national and local government, together with the European Union (EU), have provided various schemes to engender new businesses and to support the growth of existing small enterprises. The hope is that such development will lead to the creation of new jobs as well as providing additional sources of regional and national income, while increasing the prosperity of the population.
- 1.13 The good news for small businesses in Northern Ireland is that the Northern Ireland Executive is now in a unique position to influence the business and economic environment. By creating the right environment, it has the ability to enhance competitiveness of small businesses. A summary of activities being undertaken by the Executive to enhance small business development and survival is outlined in **Appendix I**.
- 1.14 The principal driving force of the Executive must be to create a business environment which will enhance the development of an enterprise culture, which will create long-term economic prosperity and employment.



SECTION 2

Government Regulations

Government Regulations

Current Situation

- 2.1 Small businesses are often faced with regulations that prove to be a significant burden on their operations. Generally, small firms do not have personnel with defined expertise in tax laws, environmental hazards, workplace safety, or other regulated sectors. While businesses want to comply, many times they find this difficult. **The major problems associated with compliance to regulations include:**
- an unclear understanding of what is required to comply;
 - frequent changes in regulations;
 - high true costs (both direct and indirect) to fully comply; and
 - difficulties in obtaining clear answers to questions about compliance.
- 2.2 Most new legislation carries a cost, which must be borne by businesses in terms of money and time. The compliance cost is greater for smaller businesses. **(see Appendix II - Compliance Costs).**
- 2.3 A Deregulation Unit has been set up by the government to address this issue - the Small Business Services Charter was established to ensure that the best interests of small businesses are kept at the forefront of regulatory decisions. The benefits of this have yet to be established.
- 2.4 In recent years the government has introduced a programme of reforms to aid enterprise and business growth, some of which are targeted at small businesses. These include successive budgets, reductions in regulatory burdens, electronic advice and a simplification of requirements **(Appendix I - Programme of Reforms).**
- 2.5 However, increases in red tape continue to constrain all businesses, particularly small businesses given their relative size and the limited resources that can be committed to administrative arrangements **(Appendix II - Red Tape).**
- 2.6 There is a variety of enforcers of compliance with regulations local authority departments such as Environmental Health and Trading Standards administer much compliance. Recent initiatives have included the C&E/Inland Revenue road show that included local authority presentations, etc. The Cabinet Office Enforcement Concordat offers a simple understanding about and guidance for an effective enabling relationship between enforcer and businesses.
- 2.7 The amount of non-domestic rates payable continues to be a burden on small businesses. Rates are payable by all occupiers of commercial property, subject to a number of exemptions and

rate relief criteria. Ratepayers in Northern Ireland enjoy rate relief and exemptions broadly similar to those available in other regions of the United Kingdom (UK), and indeed enjoy the additional rate relief of industrial de-rating and 100% relief on vacant properties.

- 2.8 A Department of Environment, Transport and Regions (DETR) report on the impact of business rates on small businesses in England and Wales found that rates have a much greater impact on small businesses than on larger businesses. The administrations in England, Wales and Scotland have recognised the DETR findings and accordingly proposals for rates relief schemes for small businesses are being considered in each of these respective countries. Ratepayers' forums have also recently been established in England, Scotland and Wales.

Problems

- 2.9 The enforcement of regulation can be very confusing for small businesses as the distinction between advice and instruction is often unclear and SMEs can find inspectors adversarial.
- 2.10 Northern Ireland continues rate relief of industrial de-rating and 100% relief on vacant properties.

Recommendations

- 2.11 The NI Executive must formulate a plan that supports small businesses. The bottom line is small business wants a voice in government. When policymakers make economic decisions, guidance from large businesses is common. But historically, small businesses have been surprised by new initiatives, harmed by the long-term impact of policies, and left out of benefits derived from many programmes.
- 2.12 To ensure that small businesses have the ear of leadership, an official government advisory committee must be formed that reports directly to the Minister. A proposed outline of this structure is illustrated in **Appendix II - Advocacy Voice**. The committee may be made up of representatives of and from small businesses and/or ex official members from key leadership positions. They should make recommendations to the Minister and the Assembly for legislation, and regulations to boost small business growth.
- 2.13 The advisory committee can take various forms but must be allowed direct access to the Minister. The role played should vary from broad policy development to problem solving for small businesses. **It is proposed that the committee could undertake the following activities:**
- policy concerns of small businesses;
 - lobby for small businesses having a credible voice;
 - develop one-on-one assistance for entrepreneurs travelling the maze of government relations;

Government Regulations

- become intermediaries in problems between agencies and small firms; and assess what offices or services are now serving small firms, and determine if they should be consolidated or co-ordinated.
- 2.14 A small businesses conference should be held periodically by the advisory committee and be set up as a critical forum for identifying issues important to entrepreneurs and business growth. The conferences should result in a consolidated agenda, a network of active small business people, and a co-ordinated effort towards small business development. Policymakers must attend and will benefit the most by keeping in touch with the conference network after the event.
- 2.15 The advisory committee will report on the views of the small business community and specifically the views of the FSB, which speaks independently for small firms. Small business outreach and participation is the key to effective policy development. By using leadership forums, such as the FSB, small business conferences and Chambers of Commerce, any agency can gain access to active, thoughtful small business owners. The FSB and any other business organisation would co-operate with the advisory committee but it will not become the only communication route into government.
- 2.16 The FSB supports the current review of regional rates in Northern Ireland currently being undertaken by the Department of Finance and Personnel (DFP). The FSB urges that the rate burden of the small business sector be considered as part of this review. In addition the funding of water and sewerage services must be considered as they have considerable implications for the small business sector.
- 2.17 DFP must support the establishment of a Ratepayers' Forum, so that business organisations, such as the FSB, can have an ongoing input into the system.
- 2.18 The FSB desires the removal of the current de-rating policy, which is intended to provide a form of subsidy to manufacturing. The FSB feels that the decision not to collect rates from manufacturing businesses reduces the resources available to the Northern Ireland exchequer and thus implies higher taxes on other taxpayers (including small businesses) and/or lower government spending.
- 2.19 For every rule that is issued, small firms have questions. Government can demonstrate its commitment to compliance by publishing plain language guides. Software with a simple question-and-answer format can take a small business through the labyrinth of a new rule. Application of a rule will vary and questions arise. Even short-term telephone hotlines to answer questions about new regulations can be helpful.
- 2.20 Enforcers of regulations should not only sign up to the common sense terms of the Enforcement Concordat but must actually implement the concordat as they work with small businesses.
- 2.21 Periodic reviews of regulations must be put in place to provide policymakers and small businesses with an opportunity to reassess the intent, effectiveness and need for existing rules.
- 2.22 Paperwork reduction should be the mantra for many government reform efforts. Simplification and consolidation of paperwork, recording and reporting functions are usually the goal. Monitoring and evaluation efforts may be separate from small business regulatory reform, but their goals can overlap. Compliance assistance must be addressed. The FSB may be in the best position to see how multiple agencies request similar information from a single firm.
- 2.23 There is a need for a robust Regulatory Impact Assessment emphasising the impact on small businesses.
- 2.24 The Executive must stick to 12 week consultation periods as eroding the time period reduces the capacity of businesses and business organisations to respond effectively.
- 2.25 The Executive must insert 'sunset clauses' into UK regulations, which mean that if a regulation is not renewed, it automatically 'withers on the vine', and the Executive must press the EU to introduce sunset clauses on both directives and regulations.



SECTION 3

Regional Competition Issues

Regional Competition Issues

3.1 Northern Ireland's physical peripherality has never been a barrier to economic engagement **(see Appendix III for a discussion on the implications of Peripheral Location)**. While Britain remains Northern Ireland's single most important and valued trading area, the dependence on the British market has diminished in recent years and Northern Ireland's proximity to the Republic of Ireland has a number of implications for trade and economic development. **These include:**

- European Union
- Economic and Monetary Union
- Aggregate Tax
- Fuel Costs
- Corporation Tax

European Union

Current Situation

- 3.2 The FSB is committed to working with the institutions of the European Union to secure our vision of a peaceful and prosperous Northern Ireland. It is necessary to have an open, transparent and accountable European Union, which is pro-business and pro-enterprise.
- 3.3 The Northern Ireland Assembly is the only devolved legislature in the UK which does not have a European Affairs Committee. The Committee of the Centre does include this within its remit, but alongside a heavy portfolio of Community Relations, Victims, Civic Forum and other aspects of the Office of the First Minister and Deputy First Minister (OFMDFM) responsibility.
- 3.4 In both Scotland and Wales, European Affairs Committees have been set up by the devolved administrations to ensure that there is a strategic approach to relationships with the European Union. These committees have also had a role in co-ordination with other subject matter committees and the scrutiny of European Union legislation and its implications for their respective countries.
- 3.5 The European Union Portfolio in Northern Ireland is spread among four Ministers in OFMDFM - it is hard to see who has the specific responsibility for European Union affairs matters on a day to day basis.

Problems

- 3.6 The FSB has a number of concerns about the lack of co-ordinated and strategic approach by the Northern Ireland Assembly to its relationship to the European Union.
- 3.7 The Assembly does not prioritise relationships with the European Union. Looking at Scotland and Wales, they have ensured that a single Minister looks after the European Portfolio. In Scotland the Deputy First Minister has responsibility for European Relations in addition to his Justice Portfolio. It is a similar situation in Wales with the First Minister taking the role.
- 3.8 The various interests among the wider civic society and other key players in the European Union arena are not represented collectively from Northern Ireland.
- 3.9 Given that Edinburgh and London have European Parliament Offices, we would argue that such an office should also be opened in Northern Ireland.

Recommendations

- 3.10 The FSB supports the establishment of an Assembly Committee covering the European Union. The FSB would argue that the Assembly should set up a European Union Affairs Committee to undertake the role that its counterparts in Wales and Scotland are currently performing. The European Union should be the subject of a separate Assembly Committee, rather than having to compete with other important subject areas.
- 3.11 The Assembly Committee on European Union Affairs would give organisations like the FSB, which has had concerns over regulation and other aspects of the European Union, a direct line of communication with locally elected representatives.
- 3.12 The FSB supports the appointment of a Junior Minister for European Union Affairs. The FSB proposes that either a third Junior Minister be specifically appointed to be European Union Affairs Minister or, perhaps more practically, one of the two existing Junior Ministers be given the portfolio.
- 3.14 A new Minister for European Union Affairs could also address the lack of co-ordination between the eleven departments and with the European Union itself, and thus take responsibility for the practical relationships with the European Union.
- 3.15 The FSB supports the establishment of a Consultative Forum on the European Union to bring together the various interests among the wider civic society and other key players in the European Union arena in Northern Ireland. The Office of the First Minister and Deputy First Minister should appoint a Consultative Forum on Europe to advise and co-ordinate the wider approach to the Europe Union. We envisage such a forum to be called to address specific issues.

Regional Competition Issues

- 3.16 The FSB supports the opening of a European Parliament Office in Northern Ireland. This would provide an interface for the community in Northern Ireland and would be crucial in supplying information on European Union operations.
- 3.17 The FSB recognises that such a development is not in the power of the Northern Ireland Assembly, but it could be an important recommendation in any final report the committee may submit after its deliberations. If the Assembly agreed on this objective, then it would be a powerful advocate, which would be hard to ignore.

Economic Monetary Union

Current Situation

- 3.18 On 1 January 1999, the Euro became the official currency of the Economic and Monetary Union (EMU), which began with the initial group of countries named in May 1998 in accordance with the Maastricht criteria. Businesses in these countries then began conducting their business operations in Euro while Euro notes and coins were put into circulation in 2002. The Euro will fundamentally redefine the European Union marketplace.
- 3.19 The FSB is opposed to the UK joining the Euro. Following surveys of members, the FSB's Governing Body has adopted this policy and FSB Annual Conference votes have all shown majorities against joining the Euro. It is also recognised that there is a minority in favour of joining.

Problems

- 3.20 Tourism is the world's largest and fastest growing industry. However, in Northern Ireland the visitor numbers and trends are disappointing in comparison to Great Britain and the Republic of Ireland. According to 'Strategy 2010', tourism has the potential to be the second growth sector after software. Small businesses in Northern Ireland and the Republic of Ireland need to be able to transact easily in both sterling and the Euro when necessary.
- 3.21 Northern Ireland shares a land border with a Euro zone country. The Republic of Ireland has utilised a combination of low corporation tax, the utilisation of the English language, a generous grant regime and now its membership of the Euro zone to encourage investment, particularly from the dollar zone.
- 3.22 There is a cost for currency conversion for Northern Ireland small businesses when trading outside the UK. This may be difficult to bear in terms of invoicing, staff training and exchange information systems.

Recommendations

- 3.23 The government must explore the implications of the Euro and its impact on the small business sector focusing particularly on the border area.
- 3.24 Strategies must be in place to ensure speed and clarity of change if change is mobilised.
- 3.25 Training must be introduced for staff and conversion mechanisms must be made readily available.
- 3.26 Public sector resources (staff training, information systems, financial) must be allocated to mitigate the costs of conversion for small businesses.

Aggregates Tax

Current Situation

- 3.27 An Aggregates Tax was introduced in the UK in April 2002. The stated purpose of the tax is "to maximise the use of recycled aggregate and other alternatives to primary aggregate in order to reduce the environmental impacts of quarrying such as damage to bio-diversity and visual intrusion."
- 3.28 The UK government has stated that the Tax will be "revenue neutral because the money will be returned to industry by way of a reduction in employers' National Insurance Contributions (NIC)".
- 3.29 However the British Aggregates Association dismisses this as spin, stating that the quarry industry, for example, will only be returned a tiny fraction of the cash, eg. a typical quarry producing 500,000 tonnes of aggregates per annum will have to pay the government £800,000 with the 0.01% reduction promised in NIC amounting to £50.
- 3.30 The Aggregates Tax will affect a number of small businesses in Northern Ireland particularly as 16.3% of Northern Ireland's small businesses are operating in the construction industry. The tax will have specific implications for those small businesses operating in the border areas - these are outlined below.

Regional Competition Issues

Problems

- 3.31 **There are a number of implications arising from the imposition of the Aggregates Tax including:**
- Loss of jobs in quarries affecting rural areas.
 - Loss of jobs in suppliers, related trades, contractors and associated businesses.
 - Inflating the cost of our basic social fabric, such as roads, schools and hospitals.
 - Closure of smaller quarrying firms.
 - Closure of small welding and fabricating businesses.
 - Construction standards compromised with reduction in quality and choice from fewer larger quarries.
 - Reduction in funding for research and development.
 - Environmental impact.
 - Damage to international competitiveness.
- 3.32 **The FSB concurs with the findings of the Northern Ireland Affairs report and supports the following views:**
- Aggregates Tax must not be justified as an environmental tax.
 - The research carried out so far does not withstand scrutiny as a rationale for discouraging aggregates extraction within the wider Northern Ireland context.
 - There is no proof that the aggregates industry will prove any more environmentally sustainable in the long term as a consequence of the Levy.
 - The aggregates industry provides essential support to communities and to the wider project of regeneration, which is so important for the success of the peace process.

Recommendations

- 3.33 Procedures must be put in place to prevent closures of smaller operators who are under continual pressure to sell out to the majors, resulting in people having to travel further for materials, paying more and receiving an inferior service with less choice.
- 3.34 Policies must be put in place to save smaller firms that were once successful businesses, returning a great deal to the communities they served by way of much needed employment and with relatively small environmental impact.
- 3.35 Decreases in the bureaucracy associated with Aggregates Tax for small construction firms must be implemented.
- 3.36 Small firms must be educated on the environmental impacts that they may incur.

- 3.37 Government must postpone entirely the introduction of the levy into Northern Ireland, until a fully informed decision has been reached as to its effects.
- 3.38 The formula for allocating the Sustainability Fund must be re-examined and the case for regional fiscal neutrality considered.

Fuel Costs

Current Situation

- 3.39 The cost of fuel in the UK is one of the highest within the European Union. This has caused huge differentials between rates of fuel in the UK and the Republic of Ireland. Excise duty on diesel in the UK is now 46.6 pence per litre (ppl) resulting in an average retail price of around 74.7 ppl (including VAT). Comparable figures in the Republic of Ireland are 18 ppl in excise duty with an average retail price of around 46 ppl. Therefore, the Northern Ireland/Republic of Ireland land border has generated serious competition, in which fuel suppliers North of the border cannot hope to compete. This has created the opportunity for illegal activity through fuel smuggling.

Problems

- 3.40 While the problems of fuel duty are greater in the border region, they are not exclusive to the area and Northern Ireland as a whole operates at a cost disadvantage against the Republic of Ireland.
- 3.41 The fuel disparities not only affect the petrol retailers located along the border but also result in putting Northern Ireland hauliers at a competitive disadvantage, which has been highlighted by the number of haulage companies that have relocated South of the border in recent years.
- 3.42 The price of fuel is impacting heavily on the farming community, with the increasing price drawing heavily on the falling farm incomes.
- 3.43 It is estimated that the lower fuel taxes in the Republic of Ireland are costing the UK Exchequer more than £100 million a year in lost revenue. This has occurred as a result of the movement of businesses into the South and the growing black market in fuel trade.

Recommendations

- 3.44 Government must review the cost of fuel in Northern Ireland.
- 3.45 Government must look closely at the implications of fuel costs in border areas.

Regional Competition Issues

- 3.46 The Northern Ireland Executive must identify the sectors that are directly disadvantaged as a result of fuel cost and look for solutions to assist them in continued operations.
- 3.47 The Northern Ireland Executive must monitor closely the situation in the Republic of Ireland and establish links with strategic policy-makers in the Republic to establish systems that may counteract the negative effects. The Executive in conjunction with the Northern Ireland Office should establish a forum of those affected to advise on policy and act as a sounding board.

Corporation Tax

Current Situation

- 3.48 It has been suggested that Northern Ireland (where Corporation Tax for the larger companies is 30%) has a competitive weakness in attracting inward investment due to the lower rate of Corporation Tax in the Republic of Ireland (16%, 2002).

Problems

- 3.49 There is a fear that existing companies along the border will start to move into the Republic of Ireland to save costs - this will in turn cause a slow haemorrhage of indigenous Northern Ireland companies.
- 3.50 There is a possibility that the present competitive disadvantages felt by Northern Ireland companies will worsen when a new 12.5% Corporation Tax comes into force in the Republic of Ireland in 2003.

Recommendations

- 3.51 The Northern Ireland Executive should explore the lobbying opportunities for tax incentives as a means of facilitating the establishment and expansion of indigenous and overseas companies.
- 3.52 The Northern Ireland Executive should investigate means of lobbying UK tax incentives to businesses that choose to trade as sole traders or partnerships rather than just those who pay Corporation Tax through limited company status.



SECTION 4

Local Economy & Infrastructure

Local Economy and Infrastructure Implications For Small Business Development

Introduction

- 4.1 The Northern Ireland economy has performed relatively well throughout the 1990s. Between 1998 and 1999, Northern Ireland GDP grew at a rate of 3%. Nominal growth since 1989 was 82.3% compared with 71% for the UK.
- 4.2 In addition, the economy is currently experiencing record levels of employment. From 1994 to 2001, the total number of employee jobs has increased by approximately 12%. Employee jobs now stand at 652,410 (December 2001). Service sector employment dominates and continues to offset the decline in more traditional forms of economic activity, such as manufacturing.
- 4.3 Unemployment in Northern Ireland, as measured by the International Labour Organisation (ILO), has fallen to its lowest level for 22 years (6.1% in January 2002). In October 2001, the ILO unemployment rate was 1.6 percentage points below the average rate for the EU-15 countries. The claimant count rate of unemployment is currently at 4.8% (February 2002).
- 4.4 In terms of economic activity, Northern Ireland's economic activity rate - November 2001 to January 2002 - was 70.4%, implying an economically inactive working age population of 29.6% - this includes many women looking after the home, the long-term sick and/or disabled. The current focus on equality of opportunity may help these individuals to re-enter the labour force and contribute not only to the economy but also to their own quality of life.
- 4.5 Despite being the fastest improving regional economy in the UK throughout the 1990s, it is important to note that Northern Ireland still lags behind the UK across a number of indicators such as the level of GDP per head of the population, the rate of employment, and the rate of economic activity.
- 4.6 Total public expenditure in Northern Ireland accounts for approximately 55% of GDP (compared to an average of 34% for the UK as a whole). Whilst the current global downturn will no doubt have negative economic repercussions for the Northern Ireland economy, the effects may be more muted due to the heavy reliance on public expenditure.
- 4.7 Northern Ireland labour costs compare favourably with other European countries. For example, the average hourly compensation of industrial labour - including non-wage costs are £9.44 in the Republic of Ireland and £11.40 in Northern Ireland, as compared to £12.48 in France, £18.57 in Germany, £14.78 in the Netherlands, and £21.60 in Sweden (US Bureau of

Labour Statistics 2000). The comparable figures are not available for Eastern Europe but it is expected that the hourly compensation for industrial labour is significantly lower.

- 4.8 Labour availability is related to demographic factors - the region has the youngest population in Europe with half of its population under eighteen years of age. This provides a steady flow into the labour market. Workers are available in abundance, and they are flexible and adaptable with a better industrial relations record than their counterparts in other parts of Europe.
- 4.9 This includes low house prices, although they are starting to rise, and relatively high disposable incomes for employees. Low plant accommodation costs, and the fact that all manufacturers are exempt from property taxes ensure that operational costs for a business operating in Northern Ireland are much lower than in many other European locations.

Government Support

- 4.10 The Department of Enterprise, Trade and Investment (DETI), Invest Northern Ireland (INI), the local councils and local enterprise agencies carry out business development work in Northern Ireland. Business development has been focused on job creation leading to short-term assembly line type jobs with little opportunity for developing the skills of the workforce. Inward investment has been given priority in funding over indigenous enterprises but the emphasis on inward investment has proved to be a high-risk strategy in times of global recession.
- 4.11 In 2000/2001 a total investment of £382 million was provided in the form of financial assistance to business development in Northern Ireland. Of this 70% went to inward investment and 30% to locally owned businesses (indigenous investment).
- 4.12 In 2000/2001 INI increased funding for small businesses by 20% on the previous year, bringing the total budget to £30 million. A record 67% of this budget went to businesses in economically disadvantaged areas.
- 4.13 Manufacturing firms locating in Northern Ireland have been subsidised by the UK government for longer, and to a higher average level than in any other region of the UK. Attractive incentive packages offered by the Industrial Development Board (IDB) are regarded as among the best in Europe. Such packages include generous depreciation allowances of 25% per annum (reducing balance) for machinery, and 4% (straight line) for industrial property (IDB 1997). Capital grants of up to 50% of the cost of buildings, machinery and equipment are also available.

Local Economy & Infrastructure

4.14 Significant training, interest relief, company, product and marketing development programme grants are also available to help businesses get started successfully and become profitable quickly. Financial assistance is not automatic; it relies on the number of jobs created, the level of unemployment, the sector involved and the location selected.

Problems

- 4.15 In the past development assistance has tended to favour manufacturing over the service or retail sectors.
- 4.16 The variety of sources from which support is available generates confusion, duplication and high administration costs.
- 4.17 SMEs often take the decision not to apply for government assistance due to the amount of the paperwork involved in making the application.
- 4.18 There has been poor communication of support and assistance programmes to the small business sector.
- 4.19 Business support has not been tailored towards the needs of specific areas, industries, or certain small business size (micro, small, medium).
- 4.20 Poor levels of assistance for micro and home based businesses.

Recommendations

- 4.21 INI's small business development must entail an assessment of current programmes, an understanding of the characteristics of businesses (size, industry, geographic location, etc) and identification of required resources for, and barriers to, expanding businesses.
- 4.22 INI must develop an inventory of small business resources in Northern Ireland as a simple first step to helping small businesses access assistance. By linking small business services and providing a guide, the government can bring enhanced assistance. Services should be identified from sources such as government agencies, licensing offices, loan programmes, university entrepreneur programmes, small business development centres, non-profit organisations, and government partners legislation.
- 4.23 Website listing of small business services will provide tremendous value. Many home pages are not user-friendly for small business owners and many small firms do not have easy access to the Web. FSB's "Lifting the barriers 2002" survey highlighted that only 49% of businesses used on-line services regularly with only 24% using the internet to showcase products and services. Therefore, published materials should

also be provided to trade associations, Chambers of Commerce and depository libraries.

- 4.24 Northern Ireland has both urban and rural business centres and business development by INI must be tailored to meet the needs of each centre. Coupled with traditional business development components, rural programmes need to be designed to reach fewer people over a larger geographic area.
- 4.25 Businesses can grow by marketing beyond the borders of local areas. Internet-based small business support centres that emphasise the local community and its resources must be utilised, for example resources of local Further and Higher Education Colleges or Universities may be utilised to find customers for local businesses and through trade exhibitions, etc. INI must encourage this process.
- 4.26 INI must encourage local small businesses to develop niche products that can be sold in the export market particularly those which capitalise on their local nature.
- 4.27 INI must stimulate increases in home-based businesses and micro-enterprises. **How to develop and sustain these businesses may vary but successful programmes need to be set up to address:**
- the fundamentals of starting and operating a business;
 - how to comply with laws and regulations; and how to grow and obtain capital.
- 4.28 Any initiative to help small businesses will inevitably lead to a focus on the prominent or fledgling industries and the ability of the workforce to serve those industries. Northern Ireland small businesses develop industries that need new customers or better-trained workers.
- 4.29 Small business incubators provide shared services and equipment to new businesses at affordable rents. These services and equipment may include a telephone service with voicemail, facsimile machines, computers, business libraries, copy machines and conference rooms.
- 4.30 Clients of incubators are in an environment where small businesses can share experiences and conduct business with one another. They share costs and building maintenance responsibilities. Programme sponsors can also identify buyers for the clients' own products and services.

Local Economy & Infrastructure

Infrastructure

Current Situation

Transport

4.31 In the past few years there has been massive investment in Northern Ireland's transportation infrastructure in preparation for the Single European Market. This included the completion of a £89 million Belfast crossroad and rail project, and the introduction of a £50 million high speed Belfast-Dublin rail service. Five international shipping lines operate from NI's five commercial seaports. The Port of Belfast is a major logistics centre for NI. In recent years it has surpassed the port of Dublin in terms of the total volume of trade handled, moving just over 50% of the sea borne trade in and out of NI. At the port of Lisahally in Londonderry the proportion of cross-border business has increased steadily in each year since increasing from 50% in 1998 to 65% in 2000. Three airports, two in Belfast one in Derry, provide a wide choice of destinations available by direct and interline services. However, there exists a major need to improve the road and rail infrastructures well as local water and sewerage infrastructure across NI.

Information Communications Technology (ICT) Infrastructure

4.32 By investing £2.3 billion in its telecom structure in recent years, Northern Ireland has one of the most advanced telecommunications networks located anywhere. Consequently, the range of quality, cost effective services available include world-wide direct-fibre connections, broadband, Integrated Services Digital Network (ISDN), intercontinental routing service, switched megabyte data services, leased lines, and low tariffs for volume users.

4.33 This has contributed to the number of high-technology manufacturers which have established themselves in Northern Ireland. US and Japanese electronics firms have invested billions of dollars in both the Republic of Ireland and Northern Ireland within the last decade. Software is becoming one of Northern Ireland's most significant sunrise industries. To date, more than 150 international and local firms have recognised the region's educated workforce as the choice for software engineering.

Problems

4.34 There is a major deficit in public transportation and strategic road network due to years of under-investment in the public transport infrastructure. The NI Audit Office report "Structural Maintenance of Roads" found that current funding is approximately half the level required to ensure adequate maintenance of the road network.

4.35 In addition, unless action is taken to improve local water and sewerage infrastructure, Northern Ireland will be in breach of European Union directives on water quality and could be subject to infraction proceedings and substantial daily fines.

Recommendations

4.36 The FSB supports the Transportation Strategy published in 2002, which includes proposals to modernise the transportation system over the next decade and which requires £950 million investment, of which £325 million should come from the private sector.

4.37 The Northern Ireland Executive must address with urgency the water and sewerage problem. It is estimated that £20 billion will have to be invested over the next 20 years.

Energy

Current Situation

4.38 Energy costs in the UK as a whole are significantly impacting upon competitiveness. Tax on fuel in the UK is amongst the highest in the world. In fact, electricity costs in Northern Ireland are second only to Japan.

Problems

4.39 Small businesses, many of which are manufacturing, have relatively high-energy costs in relation to turnover.

4.40 The energy network in Northern Ireland is still evolving. Businesses based in the Republic of Ireland have more choice in terms of energy sourcing. The three key sources of oil, electricity and gas are all available in the East of the island.

Recommendations

4.41 There is a need to address excessively high electricity prices in Northern Ireland.

4.42 There is a need to reduce energy use and a drive to produce a more efficient and environmentally friendly power supply. Businesses in the East have the option to use natural gas but businesses in the North and North West currently do not have such a choice. A more integrated energy network, however, is expected in the near future as a gas pipeline is currently under construction to the North and North West of Northern Ireland.

Public Sector Procurement

Current Situation

- 4.43 Public Private Partnerships (PPPs) have a role in improving the quality of public services. Northern Ireland resources available are stretched by the need to provide for services for a higher proportion of young people and to tackle higher levels of social disadvantage than the UK average. We have, however, a major need for significant investment, in particular our infrastructure.
- 4.44 The FSB recognises the value in public procurement but despite repeated government assurances that they want the public sector procurement to be open to SMEs, the practical dynamics of procurement, Best Value, etc, make it difficult for many small businesses to engage.

Problems

- 4.45 Government procurement policies inhibit small businesses from applying due to their size and there is a lack of initiatives to encourage bidding from the SME sector.
- 4.46 Generally, institutional problems have discouraged small businesses from bidding or they have created thresholds that make it impossible for small businesses to receive contracts.
- 4.47 Small businesses in many instances do not have the cash flow to afford them the opportunity of bidding for government contracts.

Recommendations

- 4.48 The Northern Ireland Executive must demonstrate its commitment to small businesses with an aggressive campaign to advance government procurement opportunities. Northern Ireland will enjoy a larger pool of competitors if contractors including small businesses - are provided with the information, tools, and opportunity to win government contracts.
- 4.49 Government should solicit bids in an easy-to-access forum and provide sufficient time for smaller contractors to develop proposals. The most common form is a printed, subscription based compilation of requests for proposals. However, using an on-line, email-based service could be a less expensive, more efficient option for many small businesses. A small business listing service should be provided that allows businesses to profile their services or products. Small businesses can be responsible for keeping the profiles updated. By providing a listing, government contract officials (and prime contractors) are encouraged to tap into the listing, and solicit contractors directly.

- 4.50 The Central Procurement Service (CPS) requires small business certification to ensure contractors qualify for any small business preferences offered in government procurement. Certification may be formalised through a regional programme, a self-certification process, or recognition of a private certification programme. Whatever approach, the CPS should have clear definitions of small businesses that fit different types of industries.
- 4.51 To develop awareness of small business contractors and provide enhancements for soliciting them, agencies must establish small business contracting goals. A certain goal, either in terms of number of contract actions or pounds, can be set to ensure contracting officials are encouraging and considering the small business contractor.
- 4.52 **The Executive must take the following steps to ensure small businesses have the opportunity to win contracts:**
- Avoid bundling contracts into mega-projects that result in prohibitively large contracts that small firms cannot serve.
 - Encourage prime contractors to use techniques that advance small business subcontracting.
 - To complement small business procurement goals, prime contractors should be required, at the time of solicitation, to provide a list of subcontractors, their size, and their portion of the contract.
 - Bid listing encourages prime contractors to seek small businesses early in the process and assures prime contractors do not 'bid shop' after the award of a contract and drop subcontractors.
 - Prime contractors should not be allowed to force subcontractors to sign "hold harmless" clauses that indemnify prime contracts from loss or injury. This type of strong-arming weakens small businesses' position and ultimately hurts government-contracting practices.
- 4.53 Small contractors will thrive and provide the best service and products to government if safeguards are in place to ensure prompt payment. Cash flow is one of the greatest hurdles to operating a small business, especially a firm that is growing fast. The Executive must insist on prompt payment by the government to prime contractors and prime contractors to subcontractors. To ensure this, the CPS should issue direct disbursement to subcontractors.
- 4.54 PPPs are a cornerstone of the government's modernisation programme but because of their size, they tend to preclude small businesses from bidding. The FSB endorses the inclusion of small local players in large-scale PPP contracts.



Local Economy & Infrastructure

- 4.55 The FSB proposes the establishment of Northern Ireland open days - held by government agencies issuing the terms of reference (ToR). This will give small local players the opportunity to market themselves to larger organisations in order to form partnerships/consortia prior to developing a tender.

- 4.56 The FSB supports soft market testing of the ToR prior to competition. This will give the government department market views, the opportunity to redefine the proposal, and give the market the opportunity of aligning themselves in a consortium prior to proposal development.



SECTION 5

Access to Finance

Access to Finance

Current Situation

- 5.1 There is a gap in the supply of finance for small firms other than via the conventional bank lending, ie. there is little in the way of venture capital or leasing. FSB's "Lifting the Barriers to Growth" survey 2002 highlighted that 70% of businesses in Northern Ireland used bank overdrafts to sustain and grow their businesses.
- 5.2 However, in Northern Ireland there is little evidence of unmet demand. There is much more evidence to demonstrate that small business owner managers do not like or generally misunderstand these mechanisms as they see them as giving away part of their company.
- 5.3 There is an abundance of evidence to suggest that small firms in general are dissatisfied with the banking system, particularly with interest rates.
- 5.6 Aspire Micro Loans for Business Limited started operating in Belfast in February 2000. Aspire is co-funded by INI, IFI and the NI Banking Association. Aspire is the first of a new breed of community development finance institutions. The Labour Government Think Tank - the new Economic Foundation - has prioritised this particular combination of private and community sector approach to economic development.
- Criteria for access to an Aspire business loan are:**
- Full or part-time self-employed or businesses with under ten employees.
 - Based in the Greater Belfast area.
 - Trading for six months or more.
- The loans available to micro businesses include:**
- Initial loans from £200 - £5, 000 for a nine-month period.
 - Additional loans are also available to businesses that have established themselves with Aspire. In this instance the loan and time span of repayment will vary depending on business circumstance.
- 5.7 The advantage of this loan system to micro businesses is that they do not need to produce professional accounts, unsecured business plans, projections or budgets that may be required by the bank. Given this, Aspire can provide financial support to individuals and businesses that may be unable to raise the capital elsewhere.

From February 2000 to February 2001 Aspire has:

- Injected £214,250 into the local economy.
 - Issued 63 loans to 49 micro and small business customers in the Greater Belfast area against a target of 57 loans.
- 5.8 More flexibility for venture capital was also a feature of the budget with relaxations to the Enterprise Investment Scheme (EIS), Venture Capital Trusts (VCTs) and the Corporate Venturing Scheme (CVS). Additionally, for company shares issued on or after 7 March 2001, only 80% of the money raised needs to be employed in the business within 12 months, rather than 100%.

Problems

- 5.9 Small firms encounter difficulty obtaining financing from traditional sources such as banks because a small or young firm may lack a revenue history.
- 5.10 Centralisation within the banks has resulted in branch managers having little or no autonomy of decision on the lending process. This has created difficulties for small businesses attempting to raise capital for business growth.
- 5.11 A perceived lack of trust in Northern Ireland means that venture capital finance is not widespread - very few people are prepared to take an equity stake in a business given the underlying uncertainty in the political landscape.
- 5.12 Low profit margins in many of Northern Ireland's small businesses and resulting low returns on capital may discourage potential venture capitalists.
- 5.14 Bank charges impact disproportionately heavily on small businesses relative to the impact on larger firms.
- 5.15 The large number of family firms in Northern Ireland contributes to a reluctance to utilise venture capital mechanisms.
- 5.17 The small firms sector has difficulty navigating the wide range of various forms of finance.
- 5.18 Northern Ireland has traditionally been a grant-aided economy, which has created a dependency culture.
- 5.19 Aspire is only available in the Greater Belfast area.

Access to Finance

Recommendations

- 5.20 The proposed advisory committee must develop relationships with the Northern Ireland banking associations thus formalising a networking for channelling communications.
- 5.21 The banking systems relationship with the small business sector must be explored. The process of developing the relationship between the bank and small business sector needs to be improved.
- 5.22 Transaction costs on both sides need to be lowered.
- 5.22 A system must be developed along the line of current bank configuration but must involve a wider range of local disaggregated banking units focused on sectors and local markets.
- 5.23 An interactive web-based system of support must be developed by INI and made readily available on the Internet, whereby small businesses can pursue financial queries and receive impartial objective information and answers within 24 hours.
- 5.24 Government must develop and sponsor new sources of capital to fund small businesses so that regional economies can benefit from a vibrant small business sector bringing jobs, export growth and wealth to the region.
- 5.25 Micro-lending Aspire programmes must be put in place throughout Northern Ireland to fill voids in the lending community and provide critical financing to small businesses that may not meet commercial lending criteria.
- 5.26 The possible benefits of setting up a Credit Union for the small firms sector must be explored.
- 5.27 The FSB supports an increase (beyond the proposed 120 high technology spin outs/spin ins for 2002-2025) in the number of public sector sponsored small business incubators in Northern Ireland. Those incubator units that presently exist have encouraged local economic growth through job creation and job retention, the revitalisation of under-utilised property and the establishment of Public Private Partnerships in their geographic area.
- 5.28 The Northern Ireland Executive can facilitate entrepreneurial development within the region by forming a committee in order to explore the accessibility and availability of equity capital to help fast-growing small businesses. The committee should include highly experienced professionals from both the public and private sectors, including the legal and investment communities, balanced with business organisation representatives who can ensure the 'fit' with the requirements of the business community.
- 5.29 The system would also allow accredited investors to search for firms from around Northern Ireland that are listed on the system without giving up their own privacy. The programme could facilitate a Public Private Partnership between not-for-profit local network operators (typically university or regional-based entrepreneurial development centres) and growth orientated businesses.



SECTION 6

Business Co-operation & Networking

Business Co-operation & Networking

Current Situation

- 6.1 Networking has become a popular concept in business, government and academic spheres and is viewed by many as an organisational survival strategy in an intensely competitive business environment. There are distinct competitive advantages proposed by inter-firm linkages for both firms and the regional economies in which they are embedded. Partnership networks, a form of cluster, are related to external economies of scale, and lead to a stimulation of innovation.
- 6.2 Networking is seen as a way to encourage bottom-up approaches to economic development, which are geared to the mobilisation of internal resources, to the development of a region's own strengths, etc. emphasising the importance of interactions between regional authorities and business firms, and between authorities themselves.
- 6.3 To remain competitive in the ever-increasing global marketplace, micro/small businesses basically have two options - grow or co-operate in networks. Growth has been the traditional route but it presents a risk - while some micro/small businesses have made the transition successfully, others have floundered. Networks offer an alternative option for many micro/small businesses, representing a viable way to gain access to the kind of resources, which they would not be able to access when acting alone.
- 6.4 Entering into a network can offer advantages, which will influence the cost of production and the overall level of micro/small business income. **Some of the advantages of network co-operation for micro/small businesses include:**
- working together on large projects that are too big for an individual party to complete alone;
 - recommending another firm when approached with orders for work in which they do not specialise;
 - selling common raw materials to one another when one runs out;
 - sub-contracting work to another firm;
 - sharing customer information such as that pertaining to bad debtors; and
 - buying complementary equipment so that, for example, two firms are not aggressively competing against one another.

Problems

- 6.5 There is a distinct lack of trust associated with network development.
- 6.6 Formalised networks are few and benefits of networks are not widely understood.
- 6.7 The most effective clusters are created and driven by business the public sector can offer support and facilitate to a limited extent so businesses need to adopt and commit to the idea.
- 6.8 If adequate planning is not undertaken at the initial stages of the recruitment of suitable businesses, the network will not deliver real business benefits.
- 6.9 The differences in beliefs and the ways of doing things of various network groups (eg. policy makers and the stakeholders of small business(es) are not fully understood - this often leads to the breakdown of the network.
- 6.10 There is an absence of evidence as to how network groups perceive the business world.
- 6.11 Communication on an ongoing interactive basis is time consuming at local and regional levels.
- 6.12 Communication is often difficult at a European-wide level.

Recommendations

- 6.13 The Executive must understand the significance of the importance of networks in differing sectors in Northern Ireland, for example manufacturing, services and education.
- 6.14 ICT must facilitate the networks between industry associations, business associations, firms (large and small), government and foreign trade policy, as well as facilitating access to potential partners.
- 6.15 The key challenge for such processes lies in setting up effective networks. If the networks are set up effectively, participants will soon be convinced of the benefits and the networks will become, to a large extent, self-operating and require much more limited intervention and facilitation.
- 6.16 INI must harness the potential of small businesses to act as network partners to MNCs in order to develop small business linkages further into Europe, the West, and Pacific Rim Markets.

Business Co-operation & Networking

- 6.17 INI must provide financial and non-financial resources to small businesses partnering with larger organisations for the purpose of innovation - or alternatively provide larger allocations of funding to those larger organisations proved to be partnering or attempting to implement partnering strategies with small businesses.
- 6.18 Government must implement programmes to harness cross-culture expertise between the small business sector and larger firm sector.
- 6.19 Planning should be made for professional development, networking a small business office with other agencies, centralised physical location(s), travel to remote areas, and sophisticated methods to maximise accessibility to information (online services, free telephone, etc). programmes can be leveraged with other sources of funding.



SECTION 7

Training

Current Situation

- 7.1 In autumn 1999 Northern Ireland had the lowest proportion of its workforce qualified at degree level or equivalent (NVQ level 4) than any other region in the UK. Along with Wales, Northern Ireland had the lowest proportion of the workforce with academic and vocational qualifications at NVQ level 3 and the highest proportion with no qualifications.
- 7.2 The lack of qualifications in the stock of the workforce is as a direct result of the low levels of qualifications obtained by those who entered the workforce ten, twenty or thirty years ago, in addition to the annual outflow of many of Northern Ireland's GCE A level/degree level performers.
- 7.3 The young people now entering the market are well educated with Northern Ireland boasting the UK's best performance at 'A' level.
- 7.4 Things are changing, and now there is the availability of well-educated people who are easily motivated and keen to develop their skills as an essential consideration with regards to location. Northern Ireland spends 32% of the national budget on education, with technical training receiving a high priority. More than 77% of Northern Ireland 16 year olds stay in full-time education. Every year, Northern Ireland students consistently out perform their counterparts in England and Wales. Approximately 53,924 attend colleges of further education, which cover education and training in more than 250 subject areas. In Northern Ireland there is a supply of high quality graduates from the two universities: Queen's University Belfast (QUB), where approximately 20,000 students in 2000 undertook courses and research in its five different faculties; and the University of Ulster (UU) which in 2000 had a student population of 20,000, across six different faculties. The colleges and universities aim to keep pace with demand in many industry sectors.

Problems

- 7.5 With the improvement of the Northern Ireland economy, there have been a number of reports on recruitment difficulties and skill shortages. The Skills Monitoring Survey 2000 and the FSB "Lifting the Barriers to Growth" report 2002 identified the following associated problems:
- Almost two thirds of vacancies are considered difficult for employers to fill.
 - Only 25% of employers are satisfied with suitable labour.
 - All sectors have indicated a shortage in various work related skills.
 - There appears to be a mismatch between the expectations of jobseekers and jobs on offer.

- There are skills shortages for vocational skills at the craft/technician level.
 - The demand for graduates varies by industrial sector.
- 7.6 Small business owners do not accept that it is their responsibility to train employees to a higher standard than is necessary to meet the requirements of the business.
- 7.7 Schools, colleges and universities put too much priority on preparing young people to take up employment with a large organisation rather than a small business.
- 7.8 Small businesses are not convinced that current government initiatives are helpful to those who have left school before the statutory school leaving age.
- 7.9 Small businesses believe that the current business studies programmes offered by schools, further and higher education colleges and the two universities in Northern Ireland are not practical enough to prepare young people for employment within the small business environment.
- 7.10 Employers cite time constraints and cost factors as those most inhibiting to the uptake of training. Larger employers can often avail themselves of economies of scale whilst smaller firms cannot. Costs in terms of time spent by employees in training and development are often impossible for small businesses.
- 7.11 The difficulties small businesses have related to training can eventually lead to retention difficulties in the workplace as staff become demotivated.
- 7.12 Lack of training can impact on the success of the business direct. The FSB "Lifting the Barriers to Growth" study 2002 suggests that there is an important and direct relationship between training and the firm's performance. Not only does training increase with firm size (as measured by turnover), but there also appears to be a relationship between training and growth performance in turnover. The highest uptake of training was reported in firms where turnover had increased considerably in the past year, while the lowest uptake in training was reported in firms where turnover went down.
- 7.13 There is a relative lack of business expertise in the civil service particularly in relation to the SME sector. The civil service recognises this and is trying to address it.

Recommendations

- 7.14 Major improvements in the skills of the workforce through up-skilling employees currently in employment are needed.
- 7.15 If Northern Ireland commits to advancing its regulatory assistance programmes, government professionals - the civil servants - should be given the tools to deliver the best services. The Executive must establish an educational and training component within the DETI. In addition to training for economic development practitioners, sessions should be held on facilitating regulatory fairness (such as undertaking robust RIAs) and developing clear and useful rules and guidelines. A programme of job experience placements in small businesses and secondments to business organisations would be invaluable for public sector staff. Successful programmes will invest in the people, delivering on the promises of better government.
- 7.16 The Department must also implement "Train the Trainer" programmes to teach the staff of business associations, Chambers of Commerce, local development districts, and service providers (such as bankers and accountants) about regulations and other small business issues, so they can train their members or clients.
- 7.17 **Training should be influenced by the key determinants of enterprise growth including:**
- New Product Development;
 - New Market Development;
 - Development of the Marketing Function;
 - Exploitation of Market Niches;
 - Innovation;
 - Research and Development;
 - Use of outsiders;
 - Effectiveness in Networking;
 - Financial Management;
 - Strategic Planning/Vision;
 - Planning Business Development;
 - Team Development;
 - Entrepreneurial Leadership;
 - Education of the Owner;
 - Ownership Structures;
 - Use of External Capital;
 - Ease of Access to Resources; and
 - Financial Performance.
- 7.18 In relation to business-education links, there exists a clear gap on the business side.
- 7.19 Small businesses are not represented sufficiently when assessing and developing training products.
- 7.20 There needs to be more business people on the boards of universities.
- 7.21 A fully integrated board between business and university representatives will be able to have a greater influence (some progress has been made at a high level in relation to links between ANIC (Association of NI Colleges) and INI).
- 7.22 There is a general need to raise the awareness of skills needed for small business. Low levels of basic skills (literacy and numeracy) need to be addressed through better focus within the education system and effective remedial schemes where necessary.
- 7.23 The implications for small businesses highlighted in the latest Skills Taskforce report (October 2001) must form priorities for action by the government.
- 7.24 The National Review on Sectoral Development released in October must be adhered to as it includes an identification of how best to deliver training within specific sectors.



APPENDIX 1

Programme for Government - SME Issues

In the Programme for Government the Northern Ireland Executive has recognised the importance of securing a competitive economy. The Executive wants to secure a dynamic and competitive economy, creating opportunities for all in a wide range of sectors, with the emphasis on creating more skilled jobs in the new knowledge based economy.

The Executive is aware of the challenge of global competition and the current, more difficult, international economic climate, which is impacting on business in Northern Ireland. To address these issues, the Executive recognises the importance of promoting entrepreneurship, innovation and creativity. Emphasising the importance of the small-firm economy in Northern Ireland, the Executive recognises that competitive small firms are vital to the continued success of the economy. It points out that while many of Northern Ireland small firms have demonstrated a capacity to compete successfully in world markets, too many others have not moved to develop export markets or make best use of ICT, while innovation and R&D remain poorly developed.

To address these issues the Executive makes a commitment to:

- work through a new strategic approach to small business development;
- increase business start-up;
- increase business competitiveness; and
- provide a range of financial support options to meet the specific needs of the micro and small business sector.

The role of Councils in small business development is also highlighted, and they will continue to play a key role, through the Business Start Programme, in encouraging potential high growth businesses, while universities and centres of excellence will create a framework of support to help businesses innovate and succeed.

In support of the above aims, the Executive will:

- Achieve 600 new business starts over the period to March 2005 through the Business Start Programme.
- Pilot an initiative in further education colleges to support small and medium sized enterprises from 2002.
- Fund 120 high technology/value added spin-out and spin-in companies in research-linked incubation units during the period 2002-2005.



APPENDIX 2

Regulation & Reform

Compliance Costs

The compliance cost comparison was identified in a report commissioned by the Inland Revenue and the Department of Social Security 1996 entitled The Tax Compliance Costs for Employers of PAYE and National Insurance UK 1995-96:

- Cost per employee per annum for a business with 1-4 employees = £288
- Cost per employee per annum for a business with 5-9 employees = £143
- Cost per employee per annum for a business with 10-49 employees = £89
- Cost per employee per annum for a business with 50-99 employees = £58
- Cost per employee per annum for a business with 100-499 employees = £41
- Cost per employee per annum for a business with 500-4,999 employees = £29
- Cost per employee per annum for a business with 5000+ employees = £5

This represents significant differences in compliance costs. However, it must be borne in mind that the situation has become worse as new legislation continues to be introduced.

Programme of Reforms

In the 2002 Budget the Chancellor announced a number of measures of benefit to small businesses, defined as firms (or groups) which satisfy two out of three of the following tests:

- turnover of not more than £2.8 million;
- assets of not more than £1.4 million;
- not more than 50 employees.

The measures announced included:

- Corporation tax scrapped for firms with profits of less than £10,000.
- Small companies' tax rate cut from 20p to 19p.
- A £420m package to encourage small firms to make greater use of computers in their business.
- Capital gains tax lowered to 20% on assets held for a year; 10% for two years or more.
- Small firms to get help with tax and payroll, VAT changes include:

- removal of requirement to record the VAT charged on each individual purchase and sale;
- flat rate calculation for VAT payments;
- automatic relief for VAT on bad debts;
- approved firms can defer paying VAT on imports until they submit their VAT return;
- small brewers also received a tax break with duty on beer halved for small breweries - or 14p off the price of a pint.

More flexibility for venture capital was also a feature of the Budget with relaxations to the Enterprise Investment Scheme (EIS), Venture Capital Trusts (VCTs) and the Corporate Venturing Scheme (CVS). Additionally, for company shares issued on or after 7 March 2001, only 80% of the money raised needs to be employed in the business within 12 months, rather than 100%.

Perhaps the most radical development is the Chancellor's proposed consultation on whether the taxable profits of companies should be based on the accounting profits. The Budget offered a simplification of accounting procedures in particular for the VAT and tax treatment of small limited companies.

Perhaps the most notable feature of the Budget was the possible reduction in red tape offered through the changes in the VAT system. The Chancellor acknowledged the burden placed on small firms by the current VAT regime and promised to make life simpler for hundreds of thousands of small firms.

- The new flat rate of VAT will mean that instead of having to record VAT on every item bought, small businesses with a turnover of up to £100,000 will pay a flat rate calculated by authorities. The Chancellor estimated that this would benefit some 500,000 small businesses. The scheme will be extended to another 200,000 firms with a turnover of between £100,000 and £150,000 next year.
- The abolition of automatic fines for late payment.
- The VAT registration threshold will be increased broadly in line with inflation from £54,000 to £55,000 and the de-registration threshold will increase from £52,000 to £53,000.
- The condition that a business has to be VAT registered for up to 12 months before using the annual accounting scheme will be removed for applicants with a turnover of up to £100,000. The calculation of interim payments was also changed so that businesses will normally make nine interim payments throughout the year with an option on agreement with HM Customs and Excise to make only three larger interim payments. The changes made to Corporation Tax will also ease the administrative burden of small limited companies, as the drop in the starting rate from 10p in the pound to zero will take firms with a profit of £10,000 out of the Corporation Tax net.

REGULATION & REFORM

Rise in National Insurance Contributions (NICs)

Despite the range of measures designed specifically to boost the small business sector (the lower Corporation Tax and simplification of the VAT regime), it is felt that any positive measures aimed at small business will be offset by the increase in National Insurance Contributions.

Red Tape

In the years 1993-97, the UK government produced 277 pieces of Public and General legislation. There is a perception that legislation has been produced in isolation by the appropriate government department, without sufficient regard for its impact, positive or negative, on the business community.

In the last number of years, business has had to come to terms with:

- Fairness at Work
- The Working Time Directive
- The Data Protection Act
- The Competition Act
- The Late Payment of Commercial Debts (Interest) Act
- Equality Legislation
- Minimum Wage
- Working Families Tax Credit

The biggest complaint from UK firms has been over 'red tape' - the cost of coping with rules and regulations coming from government departments. The Chancellor did not promise big changes, but announced a number of measures targeted at smaller firms. The new flat rate of VAT (outlined above) will help small companies cut the red tape.

It has been suggested that the burden of SMEs in terms of administering social benefits contravenes Section 137.2 of the EU Treaty, which holds that "any social provision introduced should not impair SMEs". Business owners find it impossible to have in-depth awareness and comprehension of each regulation being introduced.

It is the task of the owner/manager to sort out Income Tax, Government Tax, Tax Credits, Pensions, National Insurance, etc. This is time consuming and costly and as such the cost of compliance to regulations is not easily absorbed. The cost of compliance is disproportionate to that of larger business.

The new equality legislation is proving more difficult for small businesses to implement than larger organisations. In some cases some small businesses, through fear and lack of knowledge, do not recruit rather than running the risk of falling foul of the legislation. Direct and indirect costs of government regulations on small business are not measured at any level in Northern Ireland.

Advocacy Voice

The advisory committee shall be composed of at least five members appointed by the Small Business Community to serve at the pleasure of the Minister. The Minister shall designate one of the members as Chairman.

The Group shall meet at least once in each quarter and may hold special meetings at any time at the call of the Chairman.

The members of the Group shall not receive any compensation, per diem, or reimbursement for travel and subsistence expenses for their services.

The purposes of the Group is as follows:

- To prepare and present recommendations to the Ministers and Assembly for changes in statutes, rules and regulations, including the fiscal structure, which affect small businesses in Northern Ireland.
- To make recommendations to the Minister and General Assembly for new legislation, agency programmes and other actions needed to assist small business growth and development.
- To assist the Small Business Development Section of Invest Northern Ireland in determining the need for programmes for small businesses in education, training, marketing, funding resources, technological assistance and related areas.
- The Group must be authorised to conduct interviews and solicit non-confidential information to carry out the provisions of points 1, 2 and 3 above.
- It shall be the responsibility of each Minister and Permanent Secretary to make every reasonable effort for his or her department to co-operate with the advisory committee to carry out the provisions of their remit.
- All services of the advisory committee should be available to the Office of the First Minister and Deputy First Minister and the Executive.



APPENDIX 3

PERIPHERAL LOCATION

Implications of Northern Ireland's Peripheral Location

Current Situation

The concept of peripherality is primarily discussed in terms of geographical remoteness from the core. It is argued that firms located in core regions are progressive in production sourcing, research and development, are closely linked to a customer base, and are at a far stronger competitive advantage than those firms which are located a long distance away from the core.

Frequently the most feasible way to serve global markets is with a regional production approach. Such regions tend to be quite large, encompassing a defined economic trading block such as the European Union, or even the extended geographic region of Europe as a whole. Firms that operate a regional, rather than global, strategy may do so for strategic, macro-economic, political or trade related reasons often outside the control of the organisation.

Advances in communications and transport technologies and extensive supply chain networks linking suppliers, contractors and distributors have created the potential for this global organisation of production. This makes the relative peripherality of individual businesses more difficult to define and measure. Such advances weaken the disadvantages associated with operating from peripheral locations, thus enabling regions such as Northern Ireland, Portugal, Spain, Greece, Southern Italy and Northern Scotland, to operate successfully and competitively despite distance from the core of their country or the European Union.

Therefore, the distinction between core and periphery has become blurred, presenting further opportunities for small firms operating from Northern Ireland. Despite issues encountered and the environmental constraints placed upon them, it is possible for peripheral small firms to market their products and services successfully. It is clear that there have been firms which appear to survive and grow outside a nation's favourable core area.

While problems are being addressed, there are still inherent disadvantages associated with location.

Problems

The divide between the core and periphery often creates a gravitational effect so key resources from an entire area are intrinsically and disproportionately attracted to the centre. This indicates that there are inherent disadvantages associated with location in a peripheral region. These disadvantages manifest themselves in Northern Ireland, as the region has not developed a well-structured production base which has led to greater government involvement and a dependence on industrial policies.

Enterprises operating from Northern Ireland are often small and many of the larger enterprises are controlled by foreign capital investment. There exist low levels of linkage between these operators, leading to a culture of control evident through lack of innovation and change within indigenous industry.

These distinct disadvantages also display a number of direct and indirect costs, incurred as a result of remoteness. Direct costs associated with distance to the market include transportation and storage costs, and costs associated with poor quality of telecommunications and information gathering systems, enhancing difficulties in maintaining market contact and input supply.

Indirect costs are introduced as a result of a limited local market in peripheral regions. This implies that the growth and development of firms are often constrained, which leads to a loss of economies of scale and, as a result, the impairment of economic efficiency.

Expansion and enlargement of the European Union further peripheralises Northern Ireland - cheaper labour in some of the Eastern European countries could negatively expose and affect Northern Ireland small business having the impact of job losses.

Distance costs related to peripheral regions can inhibit the cultivation of export markets, as restrictions are based on the ability of firms to gather vital information on changing market trends and customer requirements.

Recommendations

The Northern Ireland Executive through the FSB must implement structures to remove the local area culture that stresses community, people-centredness and emphasise the importance of interaction to the development of small firms in peripheral regions. Policies must be implemented to encourage small firm operations in Northern Ireland become embedded in the wider web of global business activities.

Value added networks must be set up to represent a dependency assumption between firms, motivating them to co-ordinate their interactions in response to their relationships within networks. This suggests that although peripheral, Northern Ireland small firms must operate within environmental constraints but their ability to choose and shape their own business environments to achieve success must be instilled. The adoption of a broader approach to peripherality must reflect recent developments in the study of regional development and economic agglomeration. Northern Ireland's business people must be educated on how to deal with business people from differing cultures.

There must be a focus on developing and sustaining labour markets in an enlarged European Union.

PERIPHERAL LOCATION

Peripherality must not be defined in terms of political influence and market size. The ability of an area to maintain dynamism and technological upgrading, supported by attraction of resources from the outside, will continue to be of significant importance to regional economic development.



APPENDIX 4

COMPARISONS

Comparison with UK & Europe

A Profile of Small Firms in Scotland

A Profile of Small Firms in Scotland				
Size of Business	Micro (0-9)	Small (10-49)	Medium (50-249)	Large (250+)
% of total business	93.8	5.2	0.8	0.2
% of total employment	31	16.1	13.4	39.7
% of total turnover	23	51.4	16.4	44.9

Key Facts:

- There are an estimated 233,430 businesses in Scotland.
- 93.8% of businesses in Scotland are micro businesses, with 0-9 employees, accounting for 31% of total Scottish employment and 23% of total turnover.
- In Scotland, 99% of all businesses employ fewer than 50 people.

- Around 140,000 businesses in Scotland are sole traders or partnerships with no employees, accounting for 11.5% of total Scottish workforce.

Source: Small Business Service, Regional Estimates 1999
(note figures may not total as a result of rounding)

B Profile of Small Firms in UK

Profile of Small Firms in UK				
Size of Business	Micro (0-9)	Small (10-49)	Medium (50-249)	Large (250+)
% of total business	94.9	4.3	0.6	0.2
% of total employment	30.2	13.7	11.4	44.6
% of total turnover	22.4	15.3	13.3	49.1

Key Facts:

- There are 3.7 million businesses in the UK.
- UK small/micro firms account for 99.2% of total business population.
- UK small/micro firms account for 37.7% of total turnover.

- UK small/micro firms account for 43.9% of total employment.

Source: Small Business Service, Regional Estimates 1999
(note figures may not total as a result of rounding)

COMPARISONS

C Profile of Small Firms in Wales

Profile of Small Firms in Wales				
Size of Business	Micro (0-9)	Small (10-49)	Medium (50-249)	Large (250+)
% of total business	94.9	4.4	0.6	0.2
% of total employment	37.6	16.8	11.8	33.9
% of total turnover	28.1	16.1	13	42

Key Facts:

- There are an estimated 144, 135 businesses in Wales.
- 94.9% of businesses in Wales are micro businesses, with 0-9 employees, accounting for 37.6% of total Welsh employment.
- In Wales 99.3% of all businesses employ fewer than 50 people.
- Around 92,000 (15%) businesses in Wales are sole traders or partnerships with no employees, accounting for 15% of the total Welsh workforce.

- Despite only accounting for 0.2% of all businesses, larger firms (those that employ more than 250 people) account for 33.9% of the Welsh workforce.

Source: Small Business Service, Regional Estimates 1999
(note figures may not total as a result of rounding)

D Profile of Small Firms in Europe

Profile of small Firms in Europe				
Size of Business	Micro (0-9)	Small (10-49)	Medium (50-249)	Large (250+)
% of total employment	32	18	15	35

Key Facts:

- There are 16 million businesses in Europe.
- 99.9% of all European businesses are micro to medium sized.
- There are 100 million people in the European Union private sector workforce.

- 32% of working people in the European Union are employees in the micro business sector.



APPENDIX 5



FEDERATION OF SMALL BUSINESSES

Federation of Small Businesses

The Federation of Small Businesses' is:

"A non-party political campaigning pressure group which exists to promote and protect the interests of all who are either self-employed or who run their own business."

Federation of Small Businesses' Benefits:

Telephone Advice Line:

Giving 24 hours a day, 365 days a year legal advice, business or personal, plus advice on TAX, VAT, DSS and Employment Law.

The following is only a summary of the cover of the Policy. This insurance is arranged and administered by Abbey Legal Protection Limited and is on a 'Claims Made' basis. The insurance covers full, joint, retired and associate members in business-related activities up to £50,000 Any One Claim for sections:

- **Criminal Prosecution Defence**
Includes appeals and Road Traffic Act prosecutions but excludes speeding offences, persistent offenders' tax-related matters and proven cases of fraud or theft.
- **Tax Protection**
Representation by our Consultancy Service before or at meetings, hearings, tribunals or examinations relating to Corporation or Income Tax, PAYE and DSS Investigations and VAT Decisions and Penalties.
- **Employment Disputes**
Costs of representations and Basic or Compensatory Awards. Before altering the terms and conditions of employment or taking action against an employee which could lead to dismissal, selection for redundancy, accepting an employee's resignation or if an employee walks out, you must seek and action the advice of the Consultancy Service.
- **Statutory Licences**
Costs of representation if an essential licence is under threat of suspension, revocation, alteration or non-renewal. If you receive a verbal or written warning from a person in a position of authority, which in any way directly or indirectly threatens the continuity of your legal right to operate your business, you must seek and act on the advice of the Consultancy Services.
- **Data Protection**
Costs of defence of actions brought by the Registrar or appeals against refusal of an application or Enforcement Notice.
- **Property Protection**
Costs of pursuing Third Parties for nuisance or damage or for a breach of a repairing covenant.
- **Jury Service**
Payment of up to £100 per day or £1,000 Any One Claim for loss incurred due to service.

- **Personal injury**
A 'no-win-no-fee' facility for pursuit of legal rights following injury. Also covers the costs of an injunction to prevent the return of an assailant to your business premises.

FSB Members Save On:

- **Insurance**
With the backing of 170,000+ members, the Federation's brokers have tremendous strength in negotiating advantageous rates for members in all forms of general insurance.
- **Debt Collection**
Biggest debt collectors in UK act for FSB members on no collection/no fee basis.
- **Phone Bills**
FSB Telecom has negotiated on behalf of Federation members a discount of up to 50% off BT rates.
- **Internet**
Free Internet access and email facilities plus web planning through FSB Dial (ISP).
- **FSB Independent Financial Services**
Offers members access to a wide range of financial services including stakeholder pensions and life insurance.
- **Finance for Business**
Individually tailored finance to meet the needs of small businesses.
- **Factoring**
Special deals for members.
- **Streamline**
Preferential rates for FSB members on credit card processing.
- **HMCS**
Offers a number of health-related insurance products, led by the excellent Private Medical Plans, with savings of up to 40%.
- **FSB Vehicle Solutions**
Comprehensive vehicle finance and acquisition service.
- **FSB Credit Card**
Exclusive rate credit card offering 0% interest on balance transfers and purchases for the first five months from 1 October 2002.
- **Magazines**
Members receive a free national quality magazine devoted to business matters and a free Regional Newsletter giving information on local issues.

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