fsb
Experts in Business

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Dear Sir/Madam

Re: FSB Northern Ireland comment on the NI Draft Budget 2021/22

FSB welcomes the opportunity to comment on the Northern Ireland Draft Budget 2021/22. We trust you will find our comments helpful and they are fully considered.

FSB is the UK's largest business organisation, with around 165,000 members in total, including around 6,000 in Northern Ireland across all sectors of industry and business. Established over 40 years ago, we are a non-profit making and non-party political organisation that's led by our members, for our members. Our mission is to help smaller businesses achieve their ambitions.

Northern Ireland is a small business economy, with the highest concentration of SMEs in all the regions in the UK - 99.9% of businesses are SMEs. 98% of all firms employ fewer than 20 people, while 95% employ fewer than 10. Northern Ireland SMEs provide 75% of all private sector jobs, and over two-thirds of private sector turnover compared with around 50% in the UK as a whole. Small businesses employ more people than the public sector and large businesses, combined.

To this end, small businesses are a key consideration in the policy development process and in this case, the allocation of departmental spend. With this context in mind, we have outlined comments below for consideration.

Protect existing businesses and stimulate new entrepreneurs

The 2021/2022 draft Budget comes at a particularly challenging time for small businesses, with intense restrictions prohibiting many businesses from trading, while trade friction associated with the end of the transition period is also creating difficulties. FSB has strongly advocated for an approach that maximises the number of businesses who can survive the Covid-19 Pandemic, including through the provision of a Furlough Cost Support Scheme. The protection of businesses leads to the protection of jobs and, therefore, people.

The upcoming Budget period will take us to the dissolution of the Assembly and the next NI elections. While also setting the fiscal context for the economic recovery, the public health situation will improve through further deployment of vaccines, and trading conditions should improve as a consequence. Therefore, as a crucial road map for NI is published on March 1st, and the UK Chancellor outlines key fiscal

supports for the year ahead on March 3rd, the Department and wider NI Executive have a responsibility to maximise use of the supports available - to ensure protection, recovery and economic stimulation.

It is the responsibility of respective departments as to how they pursue projects within their remit whilst protecting businesses, recognising that repairing the economic destruction wrought by the pandemic must be a key strategic focus in this fiscal period, to increase Northern Ireland's rate of business start-ups. As the so-called 'business birth rate', it will be crucial for rebuilding as we transition out of lockdown and post economic devastation.

Indeed, many experienced business owners have seen circumstances forced on them that have led to the loss of their business, at no fault of their own. The actions of the Assembly, and the associated budget, should focus on harnessing this experience by supporting those entrepreneurs to get back into business. Investment in skills will therefore also be vital to ensure our recovery is talent-led, and we note that while there appears to be funding available for skills in the upcoming budget, the amounts are unclear when we consider Covid-19 specific resource.

Multiyear Budgeting

We also note that some key commitments in New Decade New Approach do not have a budget line; for example, the longer term Skills Strategy which is due for consultation and launch in 2021, as well as a long awaited Childcare Strategy. Both of these areas represent key, cross-cutting tools that the Executive could deploy in the form of economic infrastructure, and it is concerning that they appear to have been omitted.

One reason for this *could* be the failure to move to multi-annual Budgets, per the recent UK Spending Review. We recognise this hampers the potential delivery of long-term strategic objectives and we sympathise with departments in this respect. Notwithstanding, there are questions around initiatives that have historically been funded through EU Structural and Investment Funds - we know the UK Shared Prosperity Fund should be the designated vehicle, but the question of how such schemes will be funded, post-transition, remains unresolved. This is cause for concern.

Rates Support

The current financial year saw a vital, immensely welcome level of rates support committed to businesses – with all sectors receiving a four month rates discount, and the vast majority of retail; childcare; leisure; hospitality and tourism; as well as manufacturing, receiving a 100% rates discount for the year. While this support was particularly helpful, many firms will have, nonetheless, had an extraordinarily difficult year with other overhead costs continuing, yet little to no income. This is one of the primary reasons FSB proposed a Furlough Cost Support Scheme.

Accordingly, we would urge that careful thought be given to the issue of any business rates that might be levied in the 2021/22 financial year, and that all businesses that have been negatively impacted should qualify for substantial

discounts. Given that many businesses are in debt and could be close to collapse, we must consider if they are in a position to pay rates at all. It is crucial that the default position of the Executive should be to err on the side of caution when considering whether or not to levy rates in the financial in just a few weeks, with much of the economy still in lockdown until at least April 1st.

It is therefore welcome that the Minister has already set aside £150 million for further rates support, something which could and should be extended, subject to further headroom arising from the UK Chancellor's upcoming budget. It was previously suggested that this sum would be used to provide a six month rates holiday for those businesses who received a 12 month rates holiday in 2020/21. We understand that Ulster University is conducting a further piece of research to advise on future policy direction, and we look forward to seeing their recommendations.

However, we must make the relief suitably flexible so that it also reaches those businesses that have been affected, and yet do not necessarily fit neatly into any 'category'. For example, during the pandemic, the owners of kennels and catteries informed FSB they had fallen through most of the gaps because of the niche nature of their business. This is despite being severely impacted due to customers being required to 'stay at home' and who, in turn, could not avail of services. Accordingly, further rates support should seek to take a generous approach to eligibility criteria, based on how the pandemic has actually impacted businesses.

Regional Rate

It was welcome that in this, a budgetary-standstill year, the regional rate has been frozen for both businesses and consumers for 2021/22. However, we are aware that responsibility for setting the district rate lies with NI local Councils. Rates remain a deeply unsatisfactory fixed burden on businesses, irrespective of profitability so, if the Executive is serious about both protecting businesses in the near term, as well spawning entrepreneurship, it cannot lose sight of this as an area in need of major reform. FSB has already written about this issue in its response to the Review of Business Rates in late 2019.

In the immediate absence of the required reform, FSB has supported the Minister's calls on Councils to follow suit in freezing the proportion of the rates bill for which they have responsibility. FSB does not wish to see businesses facing a 'patchwork quilt' of new rates burdens based on their Council Area. SMEs are often the largest employer in many towns and villages throughout Northern Ireland and, so, Councils should take great care when setting their rates policy to ensure these businesses are protected, and jobs protected.

Industrial de-rating and SBRR

We note that the longstanding reliefs - Small Business Rate Relief (SBRR) and Industrial de-rating (manufacturing relief) - did not feature in the draft Budget documents. While, perhaps, it may be assumed these longstanding reliefs are to be continued, their omission is cause for concern and so it is crucial they are not overlooked in the finalised Budget. Not only does the level of relief under SBRR need to be enhanced but it should be embedded as a permanent new baseline. We

urge the Minister to watch with intent and act accordingly in the event that the UK Chancellor moves to increase or extend rates relief in the upcoming budget.

Moving forward

While freezing the regional rate and introducing rate discounts are welcome initiatives, they are merely a form of tinkering with the current rates system. The COVID-19 pandemic has accelerated change in terms of how we view the role of high streets, as well as physical space more generally.

Working from home will undoubtedly be a more regular scenario in people's lives and, increasingly, high street retail is accelerating towards 'clicks' rather than 'bricks' - as demonstrated by the nature of recent liquidations of failed high street retail enterprises, which saw acquisition of the brands, but specifically excluded the physical stores themselves.

The Department must consider what happens to business property taxes when fewer businesses wish to occupy property and develop solutions that do not simply try to squeeze the necessary income from and ever-diminishing pool of contributors. To levy increasing rate bills on the decreasing number of businesses in non-domestic rate bases would only serve to accelerate the demise of the high street, businesses and jobs.

As FSB outlined in 2019, HMRC data could prove to be the most useful means of progressing a longer-term solution. In order to access support during the pandemic businesses had to supply considerable amounts of data, both to HMRC and relevant Northern Ireland departments. Given the increased range and volume of data, as well as the analytical tools available across government, it seems much more viable now to consider an alternative to taxes based on the Net Annual Valuation of a property. The need to consider alternative approaches is exacerbated and we note many of the businesses that have prospered most during the pandemic have, in fact, been those in which workers have been able to work from domestic settings.

Therefore, rather than charge businesses for operating from non-domestic premises, consideration may actually have to be given to incentivise and reward firms for having a presence in our high streets and town centres – with the wider economic and social benefits of mixed use development beyond doubt. At this point and in this, a 'bridging year', the Department may need to re-consider the income it has traditionally derived from non-domestic rates and review how alternative sources of funding might be secured. We would welcome further engagement in this regard.

The Budget Process

As the Minister outlined in his Foreword to the draft budget, we are in extremely challenging times and the scope of this Budget consultation is narrow – reflected accordingly in our response. FSB notes that, whilst helpful in outlining the scope, the high-level approach and incomplete nature of budget figures within the budget document acts as an inhibitor to effective analysis and recommendations.

In an example of how extra information can be useful for stakeholders, the Department for Communities published an impact assessment highlighting, amongst other things, the lack of budget in 2021/22 for the long awaited 'Job Start' Scheme – a scheme that will be of major value to SMEs and those young people who are unemployed as we recover.

The lack of this scheme is of deep concern in its own right, but it is of particular additional concern that information of this nature is not accessible for all departments and, as a result, stakeholders are unlikely to be in a position to comment on the 'full picture'. This is deeply unhelpful.

Furthermore, since the publication of the draft budget there has been a series of announcements indicating adjustments in the amount of funding that will be available for NI Departments.[1] We recognise this may be out of the Department's direct control, however, it will likely continue with the UK Chancellor's Budget on March 3rd and, so, the effective allocation of any additional funds in monitoring rounds will be ever-more crucial – as will the timely sharing of information on such adjustments.

Again, we recognise these are unique times; the standard budget process is compressed this year, and the Department is somewhat 'trapped' by the process it administers. However, we recommend the Department, in its role as 'budget holder', considers how to improve the range and scope of timely information made available during the budgeting process to ensure effective responses from stakeholders. This recommendation would also fall within the scope of the Open Data Strategy for NI 2020-23, of which the Department is lead sponsor.

For further information or discussion of our submission, please make contact.

Yours faithfully,

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[1] For example: https://www.finance-ni.gov.uk/news/finance-minister-welcomes-additional-ps300-million-towards-covid-response and https://www.gov.uk/government/news/fund-extended-to-help-level-up-every-corner-of-united-kingdom