Investment in Small Business

Background

1. The Small Business Rate Relief (SBRR) scheme was introduced in 2010 as a temporary measure to support small businesses at a time of economic downturn. Annually, some 26,000 properties receive relief under the scheme at a cost of around £18m. The level of relief provided varied depending on the NAV of a property. This is summarised in the following table:

<table>
<thead>
<tr>
<th>NAV</th>
<th>Level of Relief</th>
<th>NAV</th>
<th>Level of Relief</th>
</tr>
</thead>
<tbody>
<tr>
<td>£9,000 or less</td>
<td>100%</td>
<td>£2,000 or less</td>
<td>50%</td>
</tr>
<tr>
<td>£9,001 - £12,000</td>
<td>50%</td>
<td>£2,001 - £5,000</td>
<td>25%</td>
</tr>
<tr>
<td>£12,001 - £15,000</td>
<td>20%</td>
<td>£5,001 - £15,000</td>
<td>20%</td>
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</tbody>
</table>

2. In order to assess its continuing relevance and effectiveness as a policy intervention, the Ulster University’s Economic Policy Centre (UUEPC) was commissioned in 2014 to undertake an evaluation of the scheme. The report concluded that despite the scheme’s popularity, it provided little economic benefit in terms of increased employment or additional investment. In essence awards were too low to affect behaviour and did not lead to any discernible investment outcome, for individual firms or the local economy. Consequently UUEPC recommended that the scheme should be phased out as economic conditions improve. In addition, it was recommended that if a replacement scheme was to be considered it should take a more targeted approach focusing on economic growth, to ensure value for money was maximised.

3. Following this, on 21 March 2016 the Department launched a discussion paper seeking views on alternatives to the Small Business Rate Relief Scheme. The discussion period lasted for 8 weeks and ended on 13 May 2016.

4. The discussion paper had a strong focus on examining whether Business Improvement Districts (BIDs) could be used as a means for applying rating measures in a more targeted way. However, while there was support for developing a more targeted scheme, there appeared to be less support for using BIDs as a means for targeting these resources. This was due to a variety of reasons such as the fact that BIDs are at an early stage of development here and a focus on such areas would also exclude many areas here, especially rural areas.
5. The Department considers that the replacement for this scheme should have a sectoral focus, targeting resources specifically at the retail and hospitality sectors. It is considered that this will assist many small independent businesses in a more meaningful way and help to alleviate some of the pressures facing the high street in towns and villages throughout the region. It is also intended that this scheme will provide an economic boost to many businesses operating within the tourism sector.

6. In relation to the retail sector, evidence suggests that although the retail sector is the third largest industry group accounting for 9% of businesses, the sector has experienced the second largest decrease with 65 retail businesses closing since 2014\(^1\). Indeed according to this source, the retail sector is now 10% or 680 businesses smaller than in 2009. The declining nature of retail can also be evidenced by the fact that vacancy rates locally continue to be the worst in the UK with the results from a recent survey suggesting that the shop vacancy rate was higher than anywhere in Britain at 14.5%.

7. In relation to the hospitality sector, it is considered that this sector forms a key part of our tourism product and consequently more should be done to assist this sector, (especially in areas outside of Belfast). Indeed tourism contributes significantly to the local economy; constituting almost seven percent of total GVA and supporting one in every 15 jobs across the region. However tourism still has potential to contribute further in the region and this is demonstrated most clearly with comparisons to other locations. Total tourism contributed to 6.6% of total GVA here in 2013, whereas the total tourism contribution for here and Britain equalled almost twice that share (11.4%).

8. Equally, our total tourism contribution to jobs was found to be five percentage points smaller than that of the share of here and Britain combined (6.5% compared to 11.7%). These patterns are also evident at the world level and show that our tourism sector has a great deal of potential remaining. Given that the prospects of the hospitality sector are linked with that of tourism, it is likely that the hospitality growth would be required to service further growth within tourism\(^2\).

9. Assisting the hospitality sector in this way may also help to alleviate at least some of the pressures experienced by the sector from having a reduced

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\(^1\) DFE Inter Departmental Business Register
\(^2\) Oxford Economics – Economic Impact Assessment of NI’s Hospitality Sector
VAT rate of 9% for tourism related activities in the south of Ireland. VAT here is currently set at 20%, relatively high in comparison to a European average of 10.8% and the Southern Irish rate of 9%.

10. A further consideration is the reliance of retail and hospitality businesses on property, which is more location sensitive than other commercial sectors. This means that relatively speaking rates costs are likely to have a greater significance. Rate relief therefore should help stimulate enterprise in these sectors as well as maintain the viability of many small and marginal businesses.

11. Another factor is the issue of low pay. Retail and hospitality tend to be amongst the lowest paid sectors³. Tying rate relief to ‘pay improvement’ would help create the conditions to encourage employers to invest in employment and secure productivity gains in the process.

12. This policy proposal draws from suggestions made by the Northern Ireland Independent Retailers Association and Hospitality Ulster, in response to this year’s (2016) discussion paper. However given ongoing financial pressures and the constraints that exist in raising revenue from other sectors of the rating system, it is considered that the budget for this scheme should be limited to around £22m a year. This level of resource is around £2m above the existing budget allocation of the current SBRR scheme but is regarded as affordable within the context of the overall package of rating reform.

13. This relief will target more resources at fewer businesses and represents a step increase in the level of support provided under the current SBRR scheme. This broadly aligns with the recommendations of the UUEPC evaluation i.e. more targeted support and focused on economic growth. Furthermore, one of the shortcomings identified for the current scheme is the low level of average award, which currently is around £700 a year; insufficient to stimulate investment in the business or increase employment. The proposed scheme would seek to more than double average awards.

14. Other issues with the current scheme include significant deadweight (many firms do not need the subsidy) and a total absence of any outcome based measures.

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³ According to the Resolution Foundation Report – Low Pay Britain 2015 "There are wide variations in the prevalence of low pay across industrial sectors, ranging from more than two-in-three (68 per cent) employees in the hotels and restaurants sector to just 2 per cent in the public administration and defence sector”. While statistics published by the ONS cover here and Britain, the microdata in the report refers to Britain only, the position here is not expected to differ significantly.
15. To benefit from this proposed scheme, hospitality and retail businesses must apply for the rate relief online and submit details or receipts of expenditure incurred that demonstrates specific investment in e.g. new equipment, skills training or the employment of additional staff. In addition it is proposed that accreditation with the Living Wage Foundation\(^4\) would provide sufficient justification for granting this relief. This will increase the number of employers paying the Living Wage, who can then display the ‘Living Wage Employer Mark’ accreditation badge, thus raising the profile of the Living Wage movement.

16. It is not envisaged that submitting an application will be an onerous process (a single page), however it should ensure that the relief broadly aligns with the additional investment needed to assist business growth The minimum amount of investment necessary to make a business eligible for relief has to be decided but current thinking is that it will be pitched at a level below budget allocation over a proceeding period of a year or two. Perhaps relief could be granted where investment is demonstrated to be at least 50% of the eligible relief available. Whatever minimum level is decided upon it needs to be kept as simple as possible, for businesses who will have to apply and for Land and Property Services who will be managing the scheme.

17. As this policy is intended to ‘stimulate’ investment in cities, towns and villages it will be important to ensure that it is not regarded as an ongoing entitlement and eventually become capitalised into higher rents. Consequently it is proposed that the scheme will be operated for a period of three years before being phased out over a further two year period. An evaluation will then take place after this five-year period to judge the effectiveness of the policy.

18. There are a variety of ways in which this allowance can be allocated in terms of qualifying NAVs as well as the specific percentage level of relief awarded. The main policy consideration in relation to this issue will be to what extent resources should be targeted at higher NAV properties that are more likely to be located on the main high streets within our towns and villages. The Department is open to alternative views on what is considered to be the most appropriate, however it is suggested that the following two options represent the most appropriate framework for allocating the resources being set aside:

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\(^4\) For more information visit: http://www.livingwage.org.uk/
Option 1

<table>
<thead>
<tr>
<th>NAV</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
<th>Year 6</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;£10k</td>
<td>50%</td>
<td>50%</td>
<td>50%</td>
<td>40%</td>
<td>20%</td>
<td>0%</td>
</tr>
<tr>
<td>£10k-£15k</td>
<td>30%</td>
<td>30%</td>
<td>30%</td>
<td>20%</td>
<td>10%</td>
<td>0%</td>
</tr>
<tr>
<td>£15k-£25k</td>
<td>20%</td>
<td>20%</td>
<td>20%</td>
<td>15%</td>
<td>10%</td>
<td>0%</td>
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</tbody>
</table>

Option 2

<table>
<thead>
<tr>
<th>NAV</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
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19. The overall cost of these options is estimated to be around £22m. However the percentage relief that can be awarded within this budget figure will ultimately depend on what criteria will be used to determine entitlement i.e. how to define what is a retail or hospitality business.

20. Hospitality properties are relatively straightforward to define but the same cannot be said about retail. It is important to note, therefore, that a very liberal definition of retail will inevitably ‘water down’ the amount to relief that can be awarded within the scheme budget and if taken too far this will inevitably give rise to some of the shortcomings of the existing scheme, as explained above.

21. The data underlying the analysis in this paper is based on property descriptions used for compiling and maintaining the Rating Valuation List.; in essence, it covers buildings described as shops. Some properties occupied by business providing retail services may be described as shops but many will not. A key question in this consultation is where should the line be drawn?

22. At present it is thought that the list of properties in Annex A would represent the type of businesses that would be able to avail of relief under this scheme. However it should be noted that as with the previous SBRR scheme, it would be the intention to exclude those businesses that would operate in multiple locations (i.e. more than three).

23. Additionally, when considering those affected by the change from the current SBRR scheme to the new Retail and Hospitality scheme, it is estimated that approximately 45% of those businesses that currently qualify for SBRR will be eligible to apply for the new scheme. Furthermore, an analysis of those affected suggests that it will be mainly those properties occupying offices as well as stores and workshops/garages, with 75% of total properties affected occupying these primary property classes.
24. Claims that rate bills will double for some of those losing entitlement, fail to explain that 50% relief is only available to ratepayers occupying very low value properties, mostly small offices. There are around 4,500 of these getting 50% relief on an average gross rates bill of £750 a year.

25. Post Offices are currently awarded enhanced SBRR relief under a distinct provision within the legislation and it is considered that entitlement to this automatic relief should be maintained. Smaller Post offices have a valuable role to play in supporting local communities particularly in disadvantaged and rural areas (just over 70 percent of Post Offices are located in rural areas) and across the board in terms of delivering services to vulnerable people including the elderly and disabled.

26. It is also the view of the Department that Post Offices with a higher NAV should be eligible to apply for the new retail and hospitality scheme.

### Questions for Consultees

- Do you agree that retail should be the subject of any SBRR Replacement scheme?
- Do you agree that hospitality should be the subject of any SBRR Replacement scheme?
- Will the policy proposal address the issue of helping to regenerate our towns and cities?
- What uses should be considered retail and hospitality (and what should be excluded)?
- Do you agree with the proposed conditions for entitlement?
- Should the balance of available relief be targeted at lower value or higher value properties?