1 The Federation of Small Businesses is Northern Ireland’s largest business organisation with approximately 6,000 members, from across all sectors of industry, and over 160,000 members throughout the UK. Our aim is to promote and protect the interests of small businesses and to that end, we work with decision-makers to create a better business environment.

2 Northern Ireland is a small business economy, with the highest concentration of SMEs of all the regions in the UK: 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 two-thirds of private sector turnover. Furthermore, small business owners are at the centre of their communities, driving not only economic growth but also community wellbeing, by providing jobs and engaging with local schools, charities, and community groups.

3 By supporting our small business sector, helping to grow existing enterprises and encouraging the creation of new ones, we can increase wealth, employment, innovation and exports, creating prosperity, self-reliance and wellbeing. By growing the private sector we will be able to afford to fund those crucial public services we all want to maintain and improve.

4 We welcome this opportunity to input to the Committee’s Inquiry into Devolution and Democracy in Northern Ireland: dealing with the deficit. FSB NI wishes to comment on three of the points specified in the Inquiry’s Terms of Reference, namely:

- The impact on services, business and communities of the lack of an Executive;
- The impact on budgeting and legislative timetables, particularly the budget for the next financial year; and
- The gap left in EU negotiations and alternatives for NI’s voice in talks.

5 We trust that you will find our comments helpful and that they will be taken into consideration. Please do not hesitate to contact us if you would like to discuss any aspect further.

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1 FSB/UUBS (2015) *The Contribution of Small Businesses to Northern Ireland*
The impact of the lack of an Executive on business

6 Strategic decisions not only to improve the economic and business environment in Northern Ireland, but also to maintain it, are not being made in the absence of a Northern Ireland Executive, and this is a situation which cannot continue indefinitely. FSB welcomed the draft Programme for Government (PfG) and the draft NI Industrial Strategy (Economy 2030), which were both issued for consultation by the 2016-17 NI Executive. We were pleased to see the Executive proposing an approach based on outcomes and indicators, and there appeared to be a refreshing resolve to develop cross-departmental working and a recognition that policies and strategies cannot be seen in isolation but interact to achieve desired goals (such as social mobility and economic prosperity). We also expressed concern that “Brexit” will bring many challenges and opportunities that were not considered when the Framework was drafted, and their implications are not encompassed in the document. It is likely that there would be significant impact on the action and delivery plans.

7 FSB NI’s responses to the draft PfG and to Economy 2030 and be accessed here and here.

Delivery Plans

8 In both instances, however, we noted that the drafts contained relatively high level objectives and that more detailed plans would be required; we made clear that we would expect to be made aware of draft delivery plans and to have an opportunity to input to them. We note that there are 49 Delivery Plans on the NI Executive’s website, some of which include ‘proposals’ for actions. However, we do not know if and when these will be implemented or taken forward, nor if there will be a further opportunity to comment on them.

9 It is our understanding that Northern Ireland Departments are proceeding on the basis of those drafts. We are aware that consultation reports exist, but cannot be published without Ministerial approval. Civil servants may have included recommendations in those reports, and we are concerned that when Ministers are appointed, either from the Northern Ireland Executive or via direct rule from Westminster, policies will be changed without due process being followed. There is a significant amount of ambiguity at present regarding the level of decision-making powers available to Permanent Secretaries. This was typified recently when the Department of Health offered health and social care staff a one percent pay rise, while it was previously considered that this could not be done in the absence of a Minister.

10 In preparation for the 2016 Northern Ireland Assembly elections, FSB commissioned Ulster University to carry out research on the small business sector in Northern Ireland, published as The Contribution of Small Businesses to Northern Ireland report. The research shows that small businesses top concern for the future of doing business in Northern Ireland was political and economic uncertainty. The current lack of clarity on decision-making is
unhelpful for businesses, public services and broader society in Northern Ireland.

Implementation of the UK Industrial Strategy in Northern Ireland

11 The UK Industrial Strategy has the potential to ensure that all parts of the UK are effectively connected to each other, and to all key markets beyond, including the Republic of Ireland, which is an essential market for the UK. We welcome the potential to fund and upgrade infrastructure projects and to connect cities - we have already seen movement by the Chancellor on city deals for Belfast and beyond. In our response to the draft Strategy, we also recommended examining the possibility of a bi-lateral commitment between the UK and the Irish Governments, to deliver a regular high speed rail service between Belfast and Dublin Airport and City in under an hour.

12 However, the lack of an Executive or Ministers means its implementation may not be tailored to the needs of NI, in contrast to the situation in Scotland and Wales.

13 As stated above, delivery and action plans are required to implement these high-level strategies. FSB has concerns in relation to how some of the more specific policies that affect businesses will be implemented, changed or introduced in the absence of an Executive. Some examples are as follows.

Small Business Rates Relief / Setting the Regional Rate

14 The Department of Finance is continually reviewing rating policy, with the most recent initiative beginning in 2014. FSB has been engaged and contributing significantly in a number of consultation exercises, seminars and conferences, and conducting research to inform the reviews. We were therefore disappointed when in late 2016 the then Finance Minister issued a proposal to abolish the very successful Small Business Rate Relief scheme and to replace it with a scheme which would only be available to a narrow range of sectors. We understand that a report on the 2016 consultation exercise has been prepared and will be provided to an incoming Minister when appointed. As stated earlier, that report cannot be published without Ministerial approval, and we are therefore unaware of any recommendations it makes.

15 Small Business Rates Relief (SBRR) is currently worth around £20 million annually to small businesses in Northern Ireland; and businesses are free to re-invest in their business, to protect and create jobs. If SBRR is not continued in its current form we could see rates bills doubled for 4,500 of our smallest businesses. We are of the view that the current SBRR scheme should continue as assistance to struggling small businesses amongst the current political and economic uncertainty. However, at the moment the scheme needs to be renewed every year.

16 Furthermore, the regional rate for Northern Ireland is usually struck in February or March each year. This was not possible last year, in the absence
of an Executive and Assembly, and required legislation to be passed by Westminster in order to enable a decision by the Secretary of State. This caused a delay in rates bills being issued, and disrupted the annual cash flow of small businesses. We would not wish to see a repetition of this scenario.

**Apprenticeships and Levy Fund**

17 We are concerned that while larger businesses and public sector bodies in Northern Ireland are charged the Apprenticeship Levy, this contribution comes back to Northern Ireland as part of the block grant, effectively acting as general taxation for businesses here. In other words, Northern Ireland’s share of the apprenticeship fund increases the NI budget, but without an Executive or Ministers to make a decision it is not allocated to projects which are focused on up-skilling the workforce.

18 FSB actively engaged with the recent review of the Northern Ireland Apprenticeships Strategy and was pleased with the resulting ‘Securing our Success’ policy, which inter alia, committed to providing financial incentives to small businesses to hire apprentices. This aspect of the Strategy, however, has not been implemented, no doubt requiring Executive approval for the relevant funding, and thus small businesses are not being encouraged to participate in upskilling the workforce.

**Regulatory Reform**

19 One of the most effective ways the Executive could support business is to reduce the regulatory burden, to ensure that any new regulation is proportionate and targeted, and that there is accountability, consistency and transparency throughout the regulatory process. Forty per cent of small firms view regulation as a barrier to growth and success, and small businesses spend 37 hours per month (more than one working day per week) on compliance, equating to more than £3,000 per year. We published a policy position paper on Regulatory Reform in Northern Ireland in early 2016, and later that year the Department for Enterprise, Trade and Investment (as it was then) published an Action Plan for Reform. However, the lack of an Executive has meant that progress is slow.

**Gender Pay Reporting Requirement**

20 Legislation to impose a Gender Pay Reporting requirement was included in the Employment (NI) Act 2016, as passed by the last Assembly. However, this proposal was not discussed during the development of the Bill, not part of the consultation, and not subject to Committee scrutiny. The Act suggests that the requirement should vary from that in Great Britain in a number of ways, not least in applying to smaller companies and also having much harsher penalties. We are of the view that it must not go ahead in its current form, and are concerned it may be implemented by an incoming Minister, though we are reassured that civil servants are scrutinising carefully and seeking external advice.
Infrastructure

21 There are a number of infrastructure projects which are key to boosting Northern Ireland's economic development; examples include both road and energy projects.

22 A key upgrade to the roads network, the York Street Interchange, has the potential to alleviate congestion around Belfast, which causes a significant number of work hours to be lost every day. Having Executive Ministers in place would, in our view, aid the progress of the project, which is almost at a 'shovel-ready' stage. The same can be said of the upgrade to the A5, a cross-border project to improve roads in the west of Northern Ireland. Although the Department of Infrastructure has been progressing the project in the absence of a Minister, there is no doubt that it would benefit from ministerial oversight.

23 In order to ensure Northern Ireland has adequate security of energy supply going forward, we need to boost our energy capacity. The draft Programme for Government noted that Northern Ireland will enter energy deficit by 2021; to ensure the lights don’t go out for business and consumers, it is vital that the North South Interconnector project can progress. The Planning Appeals Commission has made its recommendation to the Department of Infrastructure on the outcome of the planning application for the Interconnector, and while this recommendation has not been published, we would hope that the Department of Infrastructure would press ahead with the project, ideally with a locally accountable Minister overseeing the process.

The impact on budgeting and legislative timetables, particularly the budget for the next financial year

24 We welcome the publication of Budget plans in advance of the next financial year. However, the fact that the 2017/2018 Budget only passed through Westminster a number of weeks ago, with two-thirds of the financial year already completed, was regrettable and a situation which should be avoided going forward. We look forward to engaging with the Department of Finance in due course on this matter to outline the priorities of the small business sector in Northern Ireland, which is already feeling the squeeze with additional costs and an uncertain political climate. The need for significant financial decisions ahead, to which the briefing paper alludes, and some of which have been mentioned above, reinforces the point that we need Ministers in place to take strategic decisions as soon as possible.

The gap left in EU negotiations and alternatives for NI’s voice in talks

25 We welcome that the agreement reached at the end of phase one negotiations between the United Kingdom and the European Union included commitments in writing to recognise the unique position of Northern Ireland. The ambition to allow trade to continue on a North-South and East-West basis was also encouraging and one which is shared by FSB members.
26 However, we remain concerned that while Northern Ireland has input through its MPs at Westminster and MEPs in Brussels, we do not have a working Executive which can input to the Joint Ministerial Committee or engage with the EU to give a collective voice for Northern Ireland. While we continue to engage with all political parties in Northern Ireland as well as with the Northern Ireland Civil Service, the absence of devolved, locally accountable Ministers makes engagement more difficult. As we now move into talks about the future UK-EU trading relationship, the experience of small businesses will be crucial to ensure that the finer details of the agreement do not unduly impact businesses in Northern Ireland. FSB NI also notes that maintenance of the current relatively peaceful environment in which our members do business is vital, and we recommend that any changes that might impact on cross-border trade and movement, whether commercial or domestic, are carefully considered and discussed with those who are most likely to be affected.

27 SMEs in Northern Ireland remain uncertain about what the future holds for them. In common with SMEs in GB, they lack information in relation to their ability to trade with other EU countries (particularly exporters, but also importers), and almost all businesses which trade in goods will have to consider where those products come from and where they are made, even if they do not ‘import’, to access the skills and labour they currently rely on, their ability to travel to and within Europe on business, and the future of funding for business support and the regulatory landscape.

28 Many NI businesses trade with the Republic of Ireland (both B2B and individual customers), or transport their products through the Republic of Ireland, using RoI ports or airports. Many employ people from RoI, who commute on a daily basis. It is common to visit Dundalk or Dublin for a conference on an exhibition, or to use Dublin airport to fly to other European or world capitals. Many have relatives in the South, whilst Agri-food business cooperate across the border as if it didn’t exist. These ‘actions’ have been standard for nearly 20 years, and small businesses need early notification of any changes to their current arrangements. Similarly, trade and travel within the United Kingdom is key to many small businesses and indeed to their owners.

29 FSB is therefore calling for a transition period, including a phasing in of any new immigration system, and for businesses to have time to adapt. There must be no cliff edge. Regarding both trade and free movement, the need for a transition period is paramount, as businesses must have time to prepare and to know what they are preparing for. The transition period should include practical support to small businesses which need to access any new arrangements.

UK Shared Prosperity Fund

30 The UK Government has proposed that a UK Shared Prosperity Fund will replace the role currently performed by European Structural and Investment Funds after Brexit. We are concerned that this may not reflect the current distribution of EU funding in the UK. In our letter to the Chancellor ahead of
the recent Autumn Budget Statement, FSB called for maintenance of the current regional distribution on the basis of need to be continued in any new funding mechanism. This should be the case for ESIF, but also for any new land based payment scheme for farmers or indeed replacements for PEACE and Interreg funding, which have helped improve community relations in Northern Ireland. It is regrettable that there is no Executive in place to input into the development of such a fund, and it would, of course, be preferable for the Northern Ireland Executive to administer any new funding streams.

22 December 2017