Initial Integrated Impact Assessment: Proposed extension of the Small Business Rate Relief Scheme

June 2011

Introduction and Background

1. The small business rate relief (SBRR) scheme was introduced in Northern Ireland on 1 April 2010. Until then Northern Ireland was the only part of the UK that did not offer rate relief to occupiers of small business premises.

2. A 2008 report from the Economic Research Institute NI (ERINI) entitled "Investigation into a Small Business Rate Relief (SBRR) Scheme in Northern Ireland", as well as the GB green paper on local government finance (2000), indicated that business rates form a larger proportion of small businesses' profit or turnover, compared with larger businesses, and place a greater burden on them. The GB green paper highlighted that rates as a percentage of turnover, overheads or profits are lower as the turnover of a company increases (based on notional rates costs). Further detail on this is set out in the main consultation paper.

3. Under the current scheme in Northern Ireland, eligibility for SBRR is based on a property's net annual value (NAV) (broadly the amount that a property could reasonably be expected to rent for at 2001). 50% relief is awarded where the NAV is £2,000 or less, while 25% relief is provided where the NAV is £2,001 - £5,000. More generous relief is also provided to around 600 post offices with an NAV of up to £12,000.

4. The overriding aim of the proposals set out in the main consultation paper is to ensure that that more smaller businesses get help during the economic recovery. The economic downturn has affected almost all areas of business but to varying degrees. However, there is evidence to suggest that large retailers are better placed to cope with the current economic conditions than the small business sector. In terms of the SBRR scheme it is considered preferable to increase the number of premises receiving relief, rather than enhance help for those already getting relief.

5. A balance is needed between providing as much help as possible and the level of relief not being too low. 20% relief, for those with an NAV of £5,001 - £10,000, is therefore considered appropriate. The amount of relief under the

main scheme would be doubled, increasing the number receiving help by over 50%.

6. Given the current economic climate, any measures to extend the scheme need to be in place by 1 April 2012, in order to maximise their impact. It is intended that they would then apply for three years, through to 31 March 2015, covering the remainder of the current spending review period. Expansion of the SBRR scheme would be funded through applying a levy to the very largest and highest value retail properties.

7. Before final decisions are reached on the proposed changes, there is a need to consult on a series of initial impact assessments and thus afford stakeholders the opportunity to comment on the final shape of the scheme. The Department particularly welcomes views on the initial impact assessments contained in this paper. Following consultation any additional evidence relevant to the initial impact assessments can be used to help shape the policy and assist decision-making.

The initial Integrated Impact Assessment

8. The initial Integrated Impact Assessment (IIA) includes an assessment of the potential impact on:

- persons of different Section 75 groups;
- urban and rural areas; as well as
- deprived communities.

9. There is also an initial Regulatory Impact Assessment, which examines the impact on businesses of any new legislation. The IIA is a means of ensuring that both intended and unintended impacts are identified and influence the policy making process. These initial impact assessments are carried out on the preferred approach set out in the main consultation paper.

10. This report contains the results of the Department's own internal analysis and the final impact assessment will (and can only) be completed following a period of consultation. It should be noted that the analysis set out in this paper is

preliminary, based on information already in the public domain and the Department expects the consultation process to both contribute to this work and significantly supplement it. The Department welcomes views on both this preliminary analysis. Following consultation the information provided will be used to help shape the final analysis and policy, and assist with decision-making. Information on the consultation process is set out in the main consultation paper.

Data Sources

11. The following data sources have been used:

i) Data from the Valuation List supplied by Land Property Services (LPS) as at April 2011, containing information on non-domestic properties.

ii) Census 2001 information, from the Northern Ireland Research and Statistics Agency (NISRA).

iii) The Northern Ireland Multiple Deprivation Measure (NIMDM), at ward level. Each ward is scored according to its level of deprivation – the higher the score, the higher the level of deprivation.

Limitations of Analysis

12. The following limitations of the analysis have been identified:

- A problem with using ward level analysis is that pockets of deprivation in relatively affluent wards are unidentified.

- It is assumed that the characteristics of those living in the wards where the small businesses are located are the characteristics of those who would benefit from the relief. It is expected that smaller firms would tend to have more staff from the local area in which they are located than larger firms. It would, however, not necessarily be the case that those working (or shopping) in the affected areas would live in that area.

- No reliable evidence is currently available for the Section 75 categories of sexual orientation or political opinion. This is a gap in the data for the initial EQIA analysis. However as part of the consultation process any evidence of differential impacts on people in these groups is particularly welcome. Data from the census was available for the seven remaining Section 75 groups.

Financial Impact

13. The table below sets out the estimated annual cost of both the existing scheme and the additional cost of the proposed extended scheme (at 2011/12 levels).
Estimated cost of the SBRR scheme (at 2011/12 levels)

NAV (Current scheme)	Level of Relief	Rate Relief	Average Relief
Less than £2,000 £2,001 - £5,000 (excluding Post Offices)	50% 25%	£1.75m £4.5m	£312 £445
		£6.25m	
Extended scheme (additional cost)			
£5,001- £10,000	20%	£6.5m	£730
Total		£12.75m	

14. If 20% relief is to be provided to those with an NAV of between £5,001 and £10,000 the cost of this (at 2011/12 levels) would be in region of £6.5m.

15. The cost of the additional relief is likely to be in the region of £6.7m, £6.9m and £7.2m for the three years through to 31 March 2015. This assumes that eligible numbers remain constant and that the average rate increase in each year is in the region of 3.5%. Changes to these assumptions would impact on the sums involved.

Initial Equality Impact Assessment

16. In accordance with the statutory duties contained in Section 75 of the Northern Ireland Act (1998), the Department of Finance and Personnel has given an undertaking to carry out an Equality Impact Assessment on each policy where screening has indicated that there may be significant equality implications. In other words, any new policy must have due regard to the need to promote equality of opportunity between nine categories of persons, namely:

- Between persons of different religious belief, political opinion, racial group, age, marital status or sexual orientation;
- Between men and women generally;
- Between persons with a disability and persons without;
- Between persons with dependants and persons without.

17. The aim of an EQIA is to determine whether any of these nine groups are significantly affected, either positively or negatively, by a change in policy. This is not only best practice to ensure good policy making, there is also a statutory requirement to put initial EQIA's out to consultation. It is important that additional evidence relevant to the initial EQIA is brought forward through the public consultation process to assist decision-making. Further analysis will take place following feedback obtained through the consultation. This similarly applies to the other initial impact assessments in this paper.

Approach to Analysis

18. The approach taken in this initial EQIA has been to examine the population characteristics of those wards in Northern Ireland that would benefit from the proposed enhanced relief.

19. For the purpose of the EQIA it is assumed that the characteristics of those living in the wards where the small businesses are located would be the characteristics of those who would benefit from the relief. It is expected that smaller firms would tend to have more staff from the local area in which they are located than larger firms. It would, however, not necessarily be the case that those working (or shopping) in the affected areas would live in that area.

20. The wards where the small businesses are located are considered to be those

within which there is a relatively high (i.e. above average) representation of eligible small businesses that would be entitled to receive the enhanced relief (i.e. with an NAV of between £5,001 and £10,000).

21. Wards were ranked according to the proportion of non-domestic properties in each ward that would be entitled to receive relief. They were then grouped into two – those above average (i.e. above the proportion for Northern Ireland as a whole) and those below average. It would be expected that the first group of wards would benefit more from the scheme than the second group. The population characteristics of the two groups were then compared. The intention is to identify whether any Section 75 sub-groups are under- or over-represented in the wards that would benefit from the scheme.

Results

Comparison of Section 75 Characteristics of the two groups

	Group of wards with above Northern Ireland average proportion of small businesses*	Group of wards with below Northern Ireland average proportion of small businesses*
Under 60	82.30%	82.43%
60 +	17.70%	17.57%
Male	48.25%	49.06%
Female	51.75%	50.94%
No Dependants	63.91%	63.28%
With Dependants	36.09%	36.72%
Married	54.71%	55.13%
Single	32.75%	33.34%
Widowed/Divorced	12.54%	11.53%
Protestant/Other Christian	43.41%	46.95%
Catholic	41.56%	39.42%

Other None	15.03%	13.63%
White	99.05%	99.22%
Non White	0.95%	0.78%
With Disability	20.63%	20.18%
Without Disability	79.37%	79.82%

*Northern Ireland average refers to the percentage of non-domestic properties eligible for enhanced relief in Northern Ireland as a whole.

22. For all Section 75 sub-groups, the initial analysis indicates that there would be no significant difference in population structure between the wards that would be most affected by the relief and those that would be relatively unaffected. This suggests that there would be no significantly disproportionate impact (favourable or unfavourable) to any of these groups if the proposed expansion of the SBRR scheme was implemented.

Analysis of Deciles

23. Further analysis was carried out to confirm these findings. Wards were ranked in the same way as before and grouped into deciles (decile 1 being that group of wards which has the highest proportion of businesses eligible for relief – 22.4%, compared to only 2% in decile 10). The characteristics of each decile were then compared to detect any pattern as the proportion of eligible businesses increased or decreased.

24. For the majority of the Section 75 groups there would appear to be no discernible differential relationship across the deciles. That is, as the proportion of businesses in a ward which would be eligible for relief increases, there is no change in the characteristics of those wards.

25. Two Section 75 groups do show some variation across the deciles - Community Background and Ethnic background, but these variations would be minor. In decile 1, those of a non-whites ethnic background and Protestants would be slightly over-represented, while those of a white ethnic background and Catholics are slightly under-represented, compared to the Northern Ireland average. While this would suggest a negative differential for Catholics and

white persons, none of the differences are statistically significant, and are not reflected in deciles 2 to 4 (the other deciles with above average proportions of small businesses), where percentages of both Catholics and whites would generally be similar to the Northern Ireland average, or over-represented.

Initial New TSN Analysis

26. New Targeting Social Need (New TSN) is a policy designed to tackle social need and social exclusion by targeting efforts and available resources, within existing departmental programmes towards people, groups and areas in greatest social need. Within the context of the rating system in Northern Ireland, the aim is to ensure that any new policy does not disproportionally impact on deprived areas to their detriment.

27. It is possible to consider the impact that the proposal to extend the SBRR scheme could have on disadvantaged areas, by examining the incidence of small businesses (who would benefit from the scheme) within the most deprived wards, as measured using the Northern Ireland Multiple Deprivation Measure (NIMDM) [1].

28. For the purposes of deprivation analysis, wards are grouped into deciles according to their Multiple Deprivation Score: decile 1 is the least deprived decile; decile 10 is the most deprived. For the wards in the least deprived decile, the average proportion of properties with an NAV between £5,001 and £10,000 is 13.5% of total properties. In the most deprived, the average proportion is 10.3%. The highest proportion (14.1%) is in decile 8, which has an average deprivation score of 27.9 – higher than the overall average level of deprivation.

<u>Comparison of Proportions of Small Businesses across deciles of deprivation</u>

Decile	Average deprivation score	No. of businesses £5,001-£10,000	Total no. of non-domestic properties	Average proportion

[1] The Northern Ireland Multiple Deprivation Measure (NIMDM) 2010, constructed by NISRA (Northern Ireland Statistical Research Agency), is a composite measure of several different forms or types of deprivation. It is the official measure of spatial deprivation in Northern Ireland. More information is available at www.nisra.gov.uk

1	4.76	585	4347	13.5%
2	8.46	639	5351	11.9%
3	11.88	546	4615	11.8%
4	14.64	834	6135	13.6%
5	17.40	802	6351	12.6%
6	20.30	958	7352	13.0%
7	23.54	1145	8195	14.0%
8	27.91	1060	7515	14.1%
9	33.26	675	5942	11.4%
10	50.52	1542	14905	10.3%

29. The analysis indicates that there would be no real discernible variation across the deciles – the less deprived deciles would have similar proportions to the more deprived deciles, and so would be likely to experience a similar beneficial impact. The scheme could therefore be considered to be neutral in that deprived areas would benefit from the scheme to the same extent as areas that are less deprived.

Initial Rural Proofing analysis

30. Rural Proofing has been recognised as a key element in policy development and evaluation. The rural proofing exercise allows policies to be assessed for their impact on rural areas. The Government has made a commitment to ensure that the rural dimension is routinely and objectively considered as part of the making and implementation of policy. In the context of rating policy, rural proofing aims to ensure that rural areas would not receive disproportionately fewer benefits from any proposals compared to urban areas.

<u>Methodology</u>

31. Analysis was carried out at a ward level, with each ward in Northern Ireland defined as urban, rural or mixed urban/rural, as defined by NISRA.

32. There are over 6,000 businesses with an NAV of £5,001 to £10,000 in urban areas, compared to 1,800 such businesses in rural areas. Just under 1,000 businesses are located in mixed areas.

Proportions of Eligible Businesses in Urban, Rural and Mixed Areas

	No. of businesses £5,001-£10,000	Total no of non-domestic properties	proportion
Urban	6032	44097	13.7%
Rural	1848	19026	9.7%
Mixed Urban/Rural	906	7585	11.9%

33. A comparison of proportions shows that total business properties with an NAV of £5,001 to £10,000 account for 14% of all business properties in urban areas, compared with 12% in mixed areas, and 10% in rural areas. These businesses would therefore account for a slightly larger section of the urban economy than the rural economy. The initial analysis would suggest that expansion of the SBRR scheme would have a greater impact on urban areas, in that relatively more businesses in these areas would benefit from the proposals, but not markedly so.

Initial Regulatory Impact Assessment

Objective

34. The objective of this assessment is to assess the potential impact of the proposal to enhance the current SBRR scheme in Northern Ireland, which would increase the numbers of those who would benefit.

Underlying Considerations

35. In terms of justifying a new or changed policy, the rationale for Government intervention normally lies in addressing inefficiencies in the operation of markets or institutions resulting from market failure and the achievement of equity or distributional objectives. ‘Market failure’ refers to situations where the market has not and cannot of itself be expected to deliver an efficient outcome.

When considering equity reasons for intervention, an assessment should be made of the extent of the inequality to be redressed and the reasons it exists. It should be noted that Government intervention itself can incur costs and cause distortions, and these should be taken into account when deciding if intervention is worthwhile.

Rationale for Intervention

36. In the case of small businesses, the rationale for this intervention relates largely to the impact of rates on small businesses, particularly given the current economic climate. That is, rates bills tend to be a larger proportion of overall costs for small businesses than for businesses of a bigger scale. This can act as a barrier to the formation and growth of such firms, a situation which needs to be considered, given the importance of small business within the economy (in the UK as a whole, small businesses[2] make up around 99%[3] of all enterprises, and there is evidence to suggest that such enterprises are even more important in Northern Ireland)

37. During the economic downturn, small businesses have tended to suffer more than those large businesses that would be affected by the proposed retail levy. The proposals to extend the SBRR scheme and fund the expansion of that scheme through a levy on large retailers is intended to rebalance the non-domestic rating system to ensure that some of the largest businesses (for whom rates are generally a smaller percentage of their sales turnover) provide assistance to smaller businesses through to economic recovery.

Risks

38. The extension of the SBRR scheme could give rise to several risks:

- Landlords not passing on any savings incurred from the scheme to their tenants.

- The risk of deadweight, i.e. expenditure to promote a desired activity that would in fact have occurred without the expenditure. Likewise, provision

[2] As measured by the number of employees, less than 50
[3] BERR “SME Statistics for the UK and Regions” (2007)

of the relief may not be sufficient to provide significant benefits to businesses. The viability of businesses and ability to grow may not be directly related to the expansion of this relief, especially given the current economic climate.

- The relief targets small businesses on the basis of NAV. However, some businesses that may be considered 'small' on the basis of other definitions (for example solely on the basis of the number of employees or size of turnover) may not necessarily be eligible for relief.

- State Aid Implications –The state aid guidance to member states from the EU is against awarding any assistance to firms that would distort the market. There is however a de-minimis level, which sets a limit of relief to any firms at €200,000 over a rolling three year period, for all relief awarded to a firm. It is considered unlikely that the proposals to expand the SBRR scheme would generally see these limits being exceeded.

39. It is not necessarily the case that these risks would materialise. The Departments considers that likelihood of this to be low.

Equity and Fairness

40. The initial Integrated Impact Assessment details the impacts on Section 75 groups, disadvantaged areas and rural areas of implementing a SBRR scheme.

41. The initial Equality Impact analysis shows there would be no detrimental impact on any of the subgroups within the Section 75 categories. The rural proofing analysis indicates that the enhanced scheme would have a moderately more beneficial impact on urban areas, while the New TSN analysis suggests that the proposed scheme would be neutral in its impact on deprived areas.

Small Business Impact test

42. Businesses with an NAV of between £5,001 and £10,000 would benefit from this proposed measure. Smaller businesses, with an NAV of £5,000 or less, are likely to be unaffected, as they would retain their current levels of relief.

Other small businesses, with an NAV above £10,000, would not be detrimentally affected, as their rates liability would remain the same.

Competition Assessment

43. The initial analysis indicates that the proposed expansion of the SBRR scheme would be a broad based scheme, available to a range of different companies in different business sectors. It is therefore difficult to predict the potential impact of the measure in the market for particular goods or services.

44. The proposed expansion of the scheme is most likely to have a positive effect on competition through assisting small businesses with their running costs, thus adding to the diversity and range of suppliers of goods and services available within a particular market.

45. In broad terms, however, the initial assessment would suggest that expanding the SBRR scheme should not have an adverse impact on the number and range of suppliers available in any particular market, nor is it likely to have a significant impact on the ability of suppliers to compete with others. It is considered that the relief would be unlikely to have a significant effect on the degree of competition in individual markets.

Monitoring and Review

46. It is intended that the expanded SBRR scheme would only be operational for three years, until 31 March 2015. An evaluation of the proposed expansion of the scheme would be carried out before the end of this period and its impact would be monitored over the three years.