

# Create a Better Environment for all Small Businesses

## 3

Certain issues are faced by all small businesses, irrespective of their sector, size, stage of development, or rate of growth. These issues – which are vital to the health of the whole small business sector – are dealt with in this chapter. These include the regulatory environment, the burden of local authority charging, the ease of access to information and advice, and quality infrastructure.

### 3.1 Better Regulation

In principle, regulations are designed to protect businesses, consumers and employees, and legislation and subsidiary regulations have a critical role to play in key areas of economic and social life, including

- To protect and enhance the rights and liberty of citizens;
- To promote an equitable, safe and peaceful society;
- To safeguard health and safety and to protect citizens from hazards;
- To protect consumers, employees and vulnerable groups;
- To promote the efficient and orderly working of markets;
- To protect the environment and promote sustainable development; and
- To collect revenue and ensure it is spent in accordance with policy objectives.

Good regulation is effective and efficient – it protects without being unduly restrictive or burdensome, and it encompasses the principles of transparency and proportionality. Such regulation is essential in creating a positive environment within which small business can flourish.

### 3.1.1 The regulatory environment in Ireland

The Small Business Forum commissioned original research from Indecon to examine Ireland's regulatory environment as it affects the small business sector.<sup>15</sup> In Ireland, the current regulatory framework includes a wide range of requirements with which businesses must comply. These include:

- Tax compliance
  - Income tax and PRSI
  - Corporation tax
  - VAT
  - Excise
  - Local taxes (e.g. rates, waste disposal)
- Annual accounts and auditing
- Annual returns to the Companies Registration Office
- Environmental legislation
- Operating licences
- Statistical returns
- Trade-related compliance (e.g. tariff collection)
- Intellectual property legislation
- Legislation dealing with quality of goods and services
- Working conditions, including health and safety
- Employment contracts, employee participation, dismissal regulations
- Equality legislation

Ireland has evolved a regulatory structure that is for the most part transparent and efficient. Compared with other countries, regulatory requirements in Ireland are relatively light. For example, in 2006, the World Bank benchmarked business regulation in 155 countries and ranked Ireland 11th in terms of ease of doing business.<sup>16</sup> In particular, Ireland ranked well on the ease of starting a business and on taxation. In the area of employment regulation, however, Ireland's performance was poorer. This issue was also identified by small businesses in consultation with the Small Business Forum.

The Irish government is committed to continually improving the regulatory environment. The Government's White Paper *Regulating Better* (2004) set out the principles of good regulation (necessity, effectiveness, proportionality, transparency, accountability and consistency) and a programme of actions across a wide range of areas including the introduction of Regulatory Impact Analyses (RIAs) for new regulations. A Better Regulation Group, chaired by the Department of the Taoiseach and with representatives of key Government Departments, sectoral regulators, the Director of Consumer Affairs and the Competition Authority, is overseeing the implementation of the action programme set out in the White Paper.

The establishment of the Business Regulation Forum in November 2005 is also a very positive development. The Forum is mandated to advise the Minister for Enterprise, Trade & Employment on outdated, inefficient or disproportionate regulation, and expert representation is drawn from business, Government Departments and Agencies.

15 Regulating the Small Business Sector: Report for the Small Business Forum, Indecon International Consultants, April 2006, [www.smallbusinessforum.ie](http://www.smallbusinessforum.ie)

16 Doing Business in 2006: Removing Obstacles to Growth, World Bank, September 2005

The regulatory burdens on small businesses are also explicitly recognised as an issue at broader EU level. The objectives of the Lisbon Strategy are to drive growth and competitiveness in the EU over the next four years. A key objective is to improve and simplify the regulatory framework within which business operates in EU member states. In this context, the European Council recently stated that a simple, transparent and easy-to-apply regulatory environment is required throughout Europe.<sup>17</sup> This environment should be one in which the principle of ‘Think Small First’ is systematically applied, and this principle should be a guide for all relevant legislation at Community and national levels.

### 3.1.2 Costs of compliance

The costs to business of complying with regulations can be in the form of:

- **Substantive compliance costs** (costs that businesses incur in order to comply with their obligations – for example the cost of installing physical facilities to comply with working conditions regulations), and
- **Administrative compliance costs** (costs that businesses incur in complying with the information obligations in a regulation).

Despite the positive efforts of Government, both survey research<sup>18</sup> commissioned by the Small Business Forum and submissions received by the Forum indicate that compliance costs are increasing for small business.

Seventy-one per cent of respondents to the survey of small business believe administrative burdens have increased and 23 per cent believe that the increase has been significant. A number of regulations are considered to be either a ‘significant burden’ or a ‘very significant burden’ by a large percentage of respondents. These include health and safety regulations, employment regulations, and tax and VAT administration.

While the precise cost of regulatory administrative compliance in Ireland is not known, an indication may be gleaned from experience elsewhere. In the Netherlands, for example, studies have shown that the cost of administrative compliance is approximately 3.6 per cent of GDP<sup>19</sup> (around €16 billion), while the UK’s Better Regulation Commission reports similar percentage costs for the United Kingdom.

### 3.1.3 Disproportionate burden on small business

The burden of regulatory compliance is not spread proportionately across companies of different sizes. Several UK studies have demonstrated that average compliance costs fall as business size increases,<sup>20</sup> and that the disproportionate cost of compliance is the primary issue affecting small business.<sup>21</sup> It is estimated that small businesses in the UK with two employees spend over six hours per month per employee on Government regulation and paperwork, while those with over 50 employees spend less than two hours per employee.<sup>22</sup>

17 Brussels European Council 23/24 March 2006 Presidency Conclusions

18 Survey undertaken on behalf of the Small Business Forum by Lansdowne Market Research and Indecon International Consultants, 2005

19 Dutch Bureau of Economic Policy Analysis, April 2004

20 The Impact of the Budget on the Small Business Economy, Chittenden, F., Poutziouris, P., and Michaelas, N., Manchester Business School, 2000

21 Estimating and Alleviating the Goods and Services Tax Compliance Cost Burden upon Small Business, Pope, J., Department of Economics, Curtin University, 2002

22 Survey of Small Business, SBRC/NatWest, 2003

**Table 3.1:** : Time spent per month on Government regulation in UK, by size of business

| Number of Employees | Total Hours | Average Hours per Person |
|---------------------|-------------|--------------------------|
| 1 – 2               | 12.8        | 6.4                      |
| 3 – 4               | 16.4        | 4.1                      |
| 5 – 9               | 23.8        | 3.4                      |
| 10 – 19             | 31.8        | 2.4                      |
| 20 – 49             | 41.1        | 1.4                      |
| 50 +                | 76.7        | 1.3                      |
| All Companies       | 22.6        | 3.9                      |

Source: *Quarterly Survey of Small Businesses in Britain, Vol. 16, No.3. Small Business Research Trust, NatWest. 2000*

In the United States, it is estimated that firms with fewer than 20 employees face an annual regulatory cost of \$6,975 per employee – nearly 60 percent above that facing a firm with more than 500 employees.<sup>23</sup>

Separately, the OECD has estimated that the regulatory burden on businesses with fewer than 20 staff is five times greater than that on businesses with more than 50 staff.<sup>24</sup>

### 3.1.4 The small business sector and regulation

Government policy needs to recognise that compliance costs are significant for small business and not add to that burden unless the benefits clearly outweigh the costs. Steps must be taken to address the effect of increasing regulation on business in general, but in particular on small businesses, where it has a disproportionate and negative effect.

While the Forum welcomes the introduction of the requirement to conduct Regulatory Impact Analyses (RIA) for all significant new regulations, it notes that the regulations already in force have not been subjected to this process.

Areas of regulation that small businesses consider a significant burden include:

- Tax and VAT administration;
- Health and safety regulations; and
- Employment regulations.

Appropriate RIA methodologies should be applied to existing regulations in these areas and these regulations should subsequently be amended to reduce unnecessary regulatory burdens on small businesses.

Impact analyses on existing regulations can be very demanding on time and resources, however, and for that reason, they should be undertaken only for those regulations identified as most directly impacting upon small businesses. To identify such regulations, Government departments should be required to plan for a systematic review of the existing stock of regulations and then undertake a detailed analysis of the most burdensome in the regulatory areas highlighted above. Such a process could be expected to take seven years to complete, and should be subject to annual targets. The review should complement the work of, and be carried out in consultation with the Business Regulation Forum.

23 The Impact of Regulatory Costs on Small Firms, Small Business Administration, September 2005

24 From Red Tape to Smart Tape, OECD, 2003

### 3.1.5 New regulations

The Government's 2004 White Paper *Regulating Better* recognised that the planned Regulatory Impact Analysis (RIA) procedures should take specific account of the effects of regulation on small businesses.

This should be made more explicit. Government departments should formally assess the merits of exempting small businesses from new regulations or of modifying such regulations to make allowance for the special needs of small business. Officials preparing RIAs should be made aware of the problems and costs that compliance can pose for small firms, and given additional guidance on how to assess regulatory impact on small businesses. In particular, they should identify new regulations that bear disproportionately on small firms, and consider options such as thresholds and exemptions for small business that could be introduced in that context.

### 3.1.6 Risk-based approach to regulation

When implementing regulations, Government departments and their agencies should ensure that the requirements imposed on small businesses are proportionate to the risks arising from non-compliance. The objective of such a 'risk-based approach' is to place the most significant burden on those businesses that operate in the areas that pose greatest risk to the objective of the regulation. As the burden is relative to the risk, it minimises the cost of compliance on those businesses whose activities do not pose significant risk.

A similar attitude should be adopted to the on-going enforcement of regulations. Applying a risk-based approach to enforcement while maintaining appropriate regulatory standards will result in greater efficiencies. For example, low-risk businesses would no longer need to over-invest simply to comply with regulations that may not be directly relevant to their activities. A risk-based approach could also allow regulatory bodies to direct their resources more effectively and efficiently towards areas of greater need.

For example, in the area of Health and Safety legislation, while the overall benefits cannot be strictly measured against costs, small businesses do incur substantial compliance costs. As some activities are clearly more dangerous than others, it is reasonable that enforcement efforts should focus on these areas. The Health and Safety Authority already applies this principle in some areas, and further moves are desirable, especially in the context of the Safety, Health and Welfare at Work Act 2005.

Other countries are increasingly focused on risk-based enforcement as a means of reducing the administrative burden on business. The Hampton Review in the UK<sup>25</sup> argued that 'scarce resources should not be used to inspect or require data from businesses that are low-risk, either because the work they do is inherently safe, or because their systems for managing the regulatory risk are good'. Similarly, in its Workplace Health and Safety Strategy to 2015, the New Zealand Government clearly set out the requirements of its health and safety regulatory regime in which regulatory enforcement 'is targeted at the worst offenders, including those responsible for the greatest number and severity of work-related illnesses and injuries'.

All regulatory implementation and enforcement bodies in Ireland should apply these principles, and those that are already doing so should ensure that they are applied as extensively and consistently as possible.

### 3.1.7 Timing of new regulations

Small businesses are required to know the regulations that apply to them, but they generally lack the resources to keep up to date with new regulations and with amendments to existing regulations. The Small Business Forum believes that, as far as possible, new or amended regulations should be introduced on a maximum of two days in any year, and that they should be supported by a targeted publicity campaign co-ordinated across Government departments. This would enable small businesses to track and plan for new regulations and any additional costs that might arise.

In the UK, two common commencement dates (April 6th and October 1st) have been set for the introduction of new and changed regulations in all domestic policy areas.

The Small Business Forum recognises that it may not be possible to deal with changes to social welfare or taxation regulations in this way, nor with the transposition of some EU legislation.

### **3.1.8 Immediate actions proposed**

The Small Business Forum proposes immediate actions on the following regulations.

#### *Audit requirement*

There are clearly advantages to obliging companies to undertake statutory audits, given their limited liability status. However, these advantages can be outweighed by the costs of compliance for companies with relatively low turnover. This is particularly the case where the shareholders are the directors of the company, where the risk to them as shareholders is negligible.

At present, the turnover threshold above which an Irish company is obliged to be audited is €1.5 million, whereas in the UK (including Northern Ireland) the threshold is set at the EU maximum, currently €7.3 million.

Increasing the audit threshold to €7.3 million will bring Ireland into line with its nearest competitor and a number of other EU member states. The requirement that all companies maintain accounts in which their finances are accurately recorded will remain, whether or not they are exempt from the audit requirement.

Many small companies whose turnover falls below the threshold undertake an annual audit for their own reasons – for example, to satisfy their own requirements or those of investors, customers or bankers. Increasing the threshold to the EU limit will, however, give approximately 5,000 additional small companies a choice that they currently do not have, with a consequent opportunity to reduce their costs.

#### *VAT turnover thresholds*

The operation of VAT is an administrative burden on all businesses, but especially on start-ups. The Small Business Forum recognises that Ireland, together with the United Kingdom, already has the highest VAT registration thresholds in the EU. (Several EU members have no threshold at all.) The fact that Ireland has a threshold for VAT registration is of benefit to many small companies with low turnovers, as it saves them the related bureaucracy.

The turnover thresholds for VAT registration remained unchanged from 1994 until they were increased in the 2006 Finance Act from €25,500 to €27,500 for services and from €51,000 to €55,000 for goods. Businesses with turnovers below these levels are exempt from VAT and while the increased thresholds are welcome, they are relatively modest and will affect only a limited number of companies. Many small companies remain above the thresholds.

If the VAT registration thresholds had been simply increased in line with inflation over the past ten years, the current thresholds would stand at around €35,000 for services and around €70,000 for goods. Increasing the VAT thresholds to these levels would cost around €55 million, and would benefit approximately 8,000 small businesses.

#### *Preliminary payment of corporation tax*

At present, most companies must pay preliminary tax based on their projected liability for the current year. However, there is a concession for companies whose Corporation Tax liability for the previous year was below €50,000. These companies have the option of basing their preliminary tax payment on their liability for the preceding year. As well as being a potential lower liability, which would aid cash-flow, this option eliminates the risk of underpayment, which can give rise to a significant liability for penalty interest.

This is an important concession for those small companies that qualify. The Forum believes that the threshold should be increased to €100,000, and that this will benefit approximately 2,000 small firms.

### *Cash basis of accounting for VAT*

At present, once turnover in a business exceeds €635,000, the business is required to remit VAT on invoices raised in the current period, irrespective of whether or not payment has been received.

This can result in serious cash-flow difficulties for relatively small enterprises, often at a critical time in their development, and it can act as a disincentive to growth.

Raising the threshold for using the cash basis of accounting for VAT (for non-retail businesses) to at least €1 million will help alleviate this problem for many small businesses.

### *Employee financial participation*

Employee Financial Participation enables companies to share the benefits of success with their employees, whether through share ownership, profit-sharing or gain-sharing. Having a financial interest in the company's success can stimulate employee commitment to the achievement of corporate goals, and thereby help firms to perform better. Both the National Competitiveness Council and the Enterprise Strategy Group have recommended employee financial participation as a way of enhancing performance and productivity.

To encourage small businesses to practise employee financial participation, a number of barriers in the current tax-incentive schemes need to be removed in consultation with the small business representative bodies. The Small Business Forum considers that the following measures would be beneficial:

- Increase the maximum value of shares that can be purchased out of an employee's own resources from 7.5 per cent of basic salary to an option of an aggregate amount of €100,000 over 5 years.
- Remove the requirement that each participant must receive at least one free share for each share purchased. Unless this is done, the number of small businesses who will be interested in participating is likely to be extremely low.
- Replace the requirement that participation in schemes must be open to all employees with the requirement that a minimum of 50 per cent of employees should be eligible.
- Waive the Revenue requirement that approved profit-sharing schemes must use a trust, and simplify the conditions for Revenue approval.

### *Online tax returns*

At present, individual taxpayers who file their returns online receive a three-week extension. This provides an incentive for taxpayers to file online, with benefits for both taxpayer and the Revenue Commissioners. A similar incentive should be considered for small businesses – this would incentivise additional online filing (consistent with the Government's policy of encouraging eCommerce) and help to reduce the administrative cost of filing tax returns.

### *Employment law*

Issues relating to employment legislation and the role of the various employment rights bodies in that context are of particular concern to small businesses. The Employment Rights Bodies Review Group was established to review the role and relationships of the employment rights bodies and to recommend options that would enhance the coherence and user-friendliness of the employment rights adjudication and enforcement systems.

A number of submissions to the Review Group, which are included in the final report,<sup>26</sup> pointed out overlap and duplication of activities and procedures between the employment rights bodies. Others pointed to an increasing trend in legal representation, which is eroding small employers' ability to represent themselves and adding significantly to costs.

For all businesses, and especially small businesses, the current system is time-consuming, extremely complex and expensive. The experience for small businesses of claims brought before the Employment Appeals Tribunal is that, in many cases, the employer is presumed liable, and proving otherwise can be a difficult and costly exercise.

In the light of these serious issues, the establishment of the Employment Rights Group (ERG) in 2005 was a welcome initiative. The ERG draws its membership from the Department of Enterprise, Trade & Employment, the employment rights bodies and the social partners. It is mandated to address the issues raised and recommendations made by the Review Group to improve the services provided by the individual employment rights bodies. The ERG is also to consider how best to simplify and streamline the complaint, appeal and enforcement procedures and documentation across all the various employment rights bodies.

The Small Business Forum sees the various employment rights bodies as crucial to maintaining and developing an agreeable labour environment in Ireland. The full implementation of the Employment Rights Bodies Review Group recommendations and the work of the Employment Rights Group will be important in delivering an employment rights system that is balanced, effective and efficient.

#### *Removing restrictions to entry in the legal profession*

Regulations that inhibit competition in professional services can unnecessarily add to the costs incurred by businesses. Restrictions in Ireland's professional sector and in particular the legal sector are of interest to small businesses, given that they are major consumers of such services.

Proposals to improve and reform the functioning of the market have been made in recent years, including in a Competition Authority report.<sup>27</sup> The Small Business Forum believes that the proposals made by the Competition Authority should be implemented as a priority. Over time, their implementation would have the effect of improving service, lowering legal costs and increasing value for money for service users.

A specific example is conveyancing services. The Competition Authority has shown that reforms in the UK led to a fall in prices for consumers, and recommended opening this aspect of the market to licensed conveyancers.

26 Report of Review Group on the Functions of the Employment Rights Bodies, Department of Enterprise, Trade & Employment, April 2004

27 Assessment of Restrictions in the Supply of Professional Services, Indecon for the Competition Authority, March 2003



### 3.1.9 Recommendation: Better regulation

#### The Small Business Forum recommends:

**Existing regulations:** Use the Regulatory Impact Analysis (RIA) mechanism to conduct a systematic review over a seven-year period, with annual targets, of regulations that have greatest impact on small businesses (Taxation, Health and Safety, and Employment) and amend these regulations to reduce the burden of compliance. The review should complement the work of, and be carried out in consultation with the Business Regulation Forum.

**New regulations:** During Regulatory Impact Analysis, explicitly consider amendments or exemptions for small businesses. Provide Government Departments with specific guidelines on the treatment of small business in that context.

#### Implementation:

- Wherever possible, use a risk-based approach to regulatory implementation and enforcement.
- Allow new regulations to come into effect on only two dates each year to facilitate small businesses keeping track of regulatory change.

**Specific, immediate actions:** The following actions should be taken immediately to benefit small businesses:

- Increase the turnover threshold above which businesses are required to be audited from €1.5 million to the EU limit (currently €7.3 million).
- Increase the turnover thresholds for VAT exemption from €55,000 to €70,000 (on goods) and from €27,500 to €35,000 (on services);
- Allow the preliminary payment of corporation tax to be based on the previous year's assessment where the tax for the previous year is less than €100,000 (currently €50,000).
- Raise the threshold for using the cash basis of accounting for VAT (for non-retail businesses) to at least €1 million.

**Responsibility:** All Government departments; Business Regulation Forum.

## 3.2 Balanced Local Authority Charges

### 3.2.1 The contribution of local authorities

Local authorities contribute significantly to quality of life, providing a wide range of services that make communities throughout Ireland attractive places in which to live, work and do business. Individuals and enterprises, small and large, benefit. An efficient, well-administered and properly funded local authority structure is an absolute necessity if the objectives of national economic growth and shared prosperity are to be achieved.

### 3.2.2 Challenges facing local authorities

The rapid growth in the number of households and businesses in recent years has brought about a greatly increased demand for local authority services. Local authorities have generally risen to such challenges by providing more and better quality services. EU Directives, many with environmental objectives (for example in the areas of waste and water quality), are also placing long-term demands on the nature, cost and scale of services provided by local authorities.

### 3.2.3 Local Authority Expenditure

The increased levels of service in recent years have resulted in very significant increases in local authority current expenditure – total expenditure on services increased by 114 per cent between 1996 and 2004. Specifically:

- Expenditure on environmental protection increased by 177.7 per cent;
- Expenditure on road transportation and safety increased by 118.9 per cent; and
- Expenditure on water supply and sewerage increased by 120.3 per cent.

Other key areas of increase have been in local authority staffing levels and in pay rates. For example, local authority employment increased by 23.2 per cent over the period 1996–2002 while pay rates increased by 45 per cent.<sup>28</sup>

#### *Funding local authorities*

Funding of local authorities comes from three sources:

- Central Government;
- Households; and
- The business sector.

In 2004, Government grants and subsidies accounted for 23 per cent of funding, while the general purpose grant provided 21 per cent (this is funded by both motor taxation receipts and the Exchequer).

There are essentially five types of local authority charge: commercial rates, water charges, waste charges, planning and development fees, and development charges.

Charges for goods and services increased by 112 per cent between 1996 and 2004, and accounted for 31 per cent of funding in 2004. While it is not possible to get an exact breakdown, the business sector pays a very substantial proportion of these charges.<sup>29</sup>

Commercial rates increased by 111 per cent between 1996 and 2004, and accounted for 25 per cent of funding in 2004.

Such increases in local authority charges are a significant issue for all businesses, but particularly for small ones. Increased charges are impacting negatively on competitiveness, and will stifle growth. These concerns were clearly expressed in the Small Business Forum's consultation meetings and in a number of the submissions made to the Forum.

### 3.2.4 Future required funding levels

Indecon was tasked by the Minister for the Environment, Heritage & Local Government to undertake a comprehensive review of local authority funding. Their brief included:

- Projecting likely local authority expenditure and income requirements to 2010;
- Assessing alternatives and options in relation to both income and expenditure; and
- Examining and identifying potential improvements in local authority service delivery.

Their report released in February 2006 made a number of key recommendations. Most fundamentally, the report called for significant changes in the system of local government funding, including:

- New approaches to achieving efficiencies in local authorities – for example through the provision of certain services on a shared regional or national basis, or by private sector supply;
- A move towards more locally based sources of funding, comprising increases in local charges (including the extension of water charges on an equitable basis); and

28 Indecon Review of Local Government Financing, Report Commissioned by the Minister for the Environment, Heritage & Local Government. Indecon International Consultants and the Institute of Local Government Studies, University of Birmingham, October 2005

29 Local Government Financing – Business Pays, Chambers Ireland, 2005

- The introduction of selected and targeted local taxation (including the introduction of mechanisms to secure a contribution from non-principal private residences and from commercial buildings not covered by commercial rates).

These and other recommendations were formulated following detailed projections on the future funding requirements of local government to 2010. Based on current policies, the report estimates that there will be a requirement by 2010 for additional expenditure of between €1 billion and €2 billion per annum (in nominal terms) compared to 2004 expenditures, if current service levels are to be maintained. Taking existing sources of revenue into account, this equates to an estimated funding gap of between €415 million and €1.5 billion and €1.5 billion for 2010.

### 3.2.5 Funding challenges

If there are no changes in the structure of funding, local authorities will face major funding challenges over the coming years. And given recent trends, there is a real danger that business will be required to absorb sustained and disproportionate increases in local authority charges.

The Small Business Forum endorses the findings and the recommendations of the Indecon report. While recognising the Government's reluctance to increase the contribution of households to local authority funding, the Small Business Forum stresses that it is unreasonable – and ultimately economically inefficient – to expect the business sector to absorb sustained increases in local authority charges. The continued upward trend in the amount charged to business is unsustainable and contrary to broad national enterprise objectives. The business community, like households and central Government, should be required to pay only its fair share of local authority funding. Applying the 'Polluter/User Pays' principle will not only provide a more equitable basis for local authority funding, it will also contribute to the achievement of broader national and EU environmental and economic objectives.

### 3.2.6 Principles of local authority charging

The Small Business Forum believes that local authority charges should be based on five clear principles: Consistency, Transparency, Equity, Efficiency and Accountability.

Greater transparency and clarity is required around the preparation of local authority accounts and especially around development charges. Currently, there are no clear guidelines setting out the charging methods for local authority services. The introduction of such guidelines would provide greater transparency and would clarify the economic basis for local authority charges.

### 3.2.7 Development charges

A development charge is a contribution paid to a local authority towards the cost of the infrastructure that facilitates the development – including roads, water supply and sewerage. Development charges are levied on both domestic and commercial/industrial properties.

The Chambers Ireland study cited earlier found that in 1999, development charges covered 3.9 per cent of total local authority gross expenditure; in 2003, they covered 6 per cent. Between 2002 and 2003, development charges grew by 43 per cent: in 2003, local authorities received over €215 million from these charges.

Businesses have a clear responsibility to pay for developments from which they directly benefit. However, excessive development charges can act as a disincentive to small companies that want to expand. Development charges should be imposed on small businesses based on the costs that are directly attributable to the proposed development.<sup>30</sup>

30 This recommendation is intended to benefit small businesses wishing to expand and that currently incur development charges. It would exclude property developers

### 3.2.8 Accountability and responsiveness

From the submissions it received and from its consultation meetings, the Small Business Forum formed a clear view that better consultation with the business community is necessary to improve the responsiveness of local authorities. With this in mind, each local authority should establish a Business Users' Forum to improve consultation and responsiveness to the specific needs of business in their area.

Strategic Policy Committees are already in place in local authority areas to assist City and County Councils in the formulation, development and review of policy in relation to functions of a strategic nature.<sup>31</sup> A Business Users' Forum in each local authority area could be used to complement and inform these committees.

The proposed Forum should include representatives of local business (including small businesses) and be chaired by the County or City Manager. This Forum will improve relationships between each local authority and their business customers through improved accountability and transparency.

### 3.2.9 Recommendation: Balanced Local Authority charging

#### The Small Business Forum recommends:

Collect from the business community only its fair share of local authority funding by:

- ❑ Rebalancing the contributions of business, central government and domestic sources by introducing base-broadening measures and applying a 'User Pays' principle; and
- ❑ Providing greater transparency and clarity in the preparation of local authority accounts.

**Specific, immediate actions:** The following actions should be taken immediately to benefit small businesses:

- ❑ Base development charges to small businesses on the incremental costs that are directly attributable to the proposed development.
- ❑ Establish a Business Users' Forum in each local authority area to improve consultation with and responsiveness to businesses.

**Responsibility:** Department of the Environment, Heritage & Local Government; Department of Finance; Local Authorities.

### 3.2.10 Other considerations

Without full implementation of the recommendations in the Indecon report, the funding structure for local authorities is likely to remain unchanged, and unless steps are taken to prevent it, the business sector will suffer increases in costs that will place them at a serious competitive disadvantage. In light of these realities, the Small Business Forum believes that Government should consider alternative approaches to local authority funding, including those outlined overleaf.

31 These policy areas typically include housing and community services, environment, roads and transportation, development and planning, and recreation, amenity and culture. Strategic Policy Committees in each local authority are made up of councillors and representatives of outside bodies

### *Apportion any uplift value on re-zoned lands*

Ireland is one of the few countries in Europe that allows the full increase in the value of land following rezoning to accrue to the landowner.<sup>32</sup> A detailed consultation process was recently completed in the UK on this specific issue following a recommendation in the Barker Report.<sup>33</sup> The UK government is currently considering responses to the consultation process and discussions with stakeholders are continuing.

In Ireland, many proposals have been put forward over a number of years to deal with this issue, most notably the Kenny Report in 1973.<sup>34</sup> The issue was revisited in the context of the review of private property undertaken by the All-Party Oireachtas Committee on the Constitution.<sup>35</sup>

Such proposals warrant further examination in the present context, as they could offer alternative sources of funding for local authorities. For example, consideration should be given to auctioning the development rights of the land to be rezoned and retaining the proceeds within the local authority area. Alternatively, applying a higher capital gains tax rate on the uplift value of rezoned lands could offer a viable source of funding.

### *Impose a cap on business contributions*

The imposition of a cap on the contribution of businesses to local authorities should be considered (the cap could be increased annually only in line with inflation). This would provide cost certainty for businesses, and at the same time drive greater efficiencies in the use of local authority resources. Ultimately, the imposition of a cap should be designed in a manner that recognises the business sector's responsibility to pay its fair share, while at the same time removing the business sector from its current role as 'funder of last resort'.

## 3.3 Enhanced Access to Information and Advice

### 3.3.1 The role of information

Information plays a key role in helping entrepreneurs and owner/managers to create, develop and grow their businesses. To identify business opportunities and make appropriate and timely decisions, they need ready access to comprehensive, relevant and up-to-date information. As small businesses typically operate under severe time and capacity constraints, they are often unable to search through the wide range of available sources in order to discover the relevant items, or to carry out the in-depth research needed to answer their specific questions.

Similarly, those advising entrepreneurs and small business owner/managers need access to high-quality business information so that they can maximise their role in assisting businesses.

### 3.3.2 Sources of information

Entrepreneurs and small business owner/managers in Ireland currently have access to a very wide range of information sources, particularly over the Internet.

The Business Access to State Information and Services database (BASIS) ([www.basis.ie](http://www.basis.ie)) was developed by the Department of Enterprise, Trade & Employment in response to the recommendations of the 1994 Small Business Task Force. Its aim is to provide business with a single point of access to all Government information and services. While BASIS is seen as a strong first step in organising business information, a number of shortcomings have been identified in its operation, including:

32 Providing Affordable Housing and Infrastructure Choices for Ireland: A Report for ISME, Casey, J., 2004

33 A Review of Housing Supply, Barker, K., March 2004

34 Report of the Committee on the Price of Building Land (Kenny Report), 1973

35 Private Property, All-Party Oireachtas Committee on the Constitution, April 2004

- A low public profile;
- Limited capacity to address and respond to users' specific needs; and
- Limited use of interactive business information tools, such as templates and case studies.

The State development agencies (for example Enterprise Ireland, and the City and County Enterprise Boards) also play a significant role in information provision, as does the private sector (for example accountants, bankers, solicitors, industry representative organisations and websites such as [www.startingabusinessinireland.com](http://www.startingabusinessinireland.com)). However, while these resources can often be very helpful, the information that entrepreneurs and owner/managers currently obtain from them varies in breadth, depth and quality. None of these sources can be seen to offer a comprehensive one-stop business information point.

Overall, the general perception is that the available sources are often:

- Incomplete;
- Of uneven quality and reliability;
- Supplier- rather than user-driven;
- Difficult to find; and
- Difficult to use.

### 3.3.3 A gap in business information

It is apparent from many of the submissions received by the Small Business Forum and from discussions in the consultative meetings held around the country by the Forum that entrepreneurs and small business owner/managers in Ireland are simply not getting the information they need to help them create, develop and grow businesses here.

Research reinforces this anecdotal evidence: one-third of the Irish respondents to a 2004 Eurobarometer survey found it difficult to obtain sufficient information on how to start a business.<sup>36</sup>

### 3.3.4 No single point of contact

At each stage of business development, the entrepreneur or owner/manager faces many questions. The lack of a readily available single point of contact to answer these questions may result in frequent referrals and a rising frustration on behalf of those seeking the information. A further problem is that some people looking for initial start-up business information may not be aware of where best to access such information and may resort to a source that is ill-suited to their needs.

A coherent strategy on information provision would mean that entrepreneurs and small business owner/managers would have a single, well-publicised point of contact to deal with all their enquiries at each stage of developing their business.

### 3.3.5 Lessons from local initiatives

While some initiatives have been undertaken to address this issue at local level in Ireland, these efforts have been somewhat piecemeal: there is no evidence of a joined-up nationwide strategy. These local initiatives have, however, identified a number of the key challenges in providing business information domestically, including:

- The cost of designing and implementing suitable information resources;
- The need to secure broad public and private sector buy-in; and
- The importance of dedicated project management in such initiatives.

36 Flash 160 "Entrepreneurship" Eurobarometer Report, EOS Gallup Europe, June 2004, [http://europa.eu.int/comm/public\\_opinion/flash/fl160\\_en.pdf](http://europa.eu.int/comm/public_opinion/flash/fl160_en.pdf)

### 3.3.6 International practice

The Small Business Forum has examined how other countries respond to the issue of information access. In general, countries with a strategic approach to business information report positive results. For example, New Zealand's Business Information Zone (BIZ) is seen as a good example of comprehensive business information provided via a web portal supported by telephone, e-mail, fax and face-to-face advisory and mentoring services (see case study).

### 3.3.7 Recommendation: Enhance access to information and advice

#### The Small Business Forum recommends:

Develop, launch and promote a first-stop 'Knowledge Base' – a comprehensive central resource of relevant, up-to-date, user-led business information for entrepreneurs, owner/managers and their advisers.

This Knowledge Base will be available to businesses by telephone and over the Internet, and will support a wide range of information channels, including the development agencies and other business advisors.

The Knowledge Base as envisaged will be substantially different from anything currently available from public or private sources, but it will build on the best of those sources.

**Responsibility:** Department of Enterprise, Trade & Employment.

### 3.3.8 Impact

A properly resourced, well-managed Knowledge Base with a high level of co-operation between the public and private sectors would ensure that quality, uniform and up-to-date business information is provided through a broad range of channels to aspiring entrepreneurs and owner/managers. This would have the effect of improving the information flow to potential entrepreneurs, as well as improving the capability and sustainability of small businesses.

### 3.3.9 Implementation

The development and maintenance of the Knowledge Base will require a project manager who is clearly focused on the users' needs. The project will require cross-department and private sector commitment at the highest level, both during the initial gathering of the content and in the key task of keeping it up to date.

The design and implementation of the resource should draw on best international practice. The business information should be provided in a user-friendly manner and organised by stage of business development. The Knowledge Base will stop short of providing advice, but it will provide links to the most appropriate sources of business advice, along with interactive business tools, such as templates and case studies.

## Case Study:

## New Zealand's Business Information Zone

New Zealand's Business Information Zone (BIZ) ([www.biz.org.nz](http://www.biz.org.nz)) provides business information for SMEs via a web portal supported by telephone, e-mail, fax and face-to-face advisory and mentoring services.

The continued provision of accessible, appropriate and relevant business information through BIZ has been an important element in New Zealand's enterprise policy, and a budget of NZ\$9.9 million (approximately €5.3 million) has been allocated to further extend the functionality of BIZ over the period 2005 to 2009.

A critical success factor for the resource has been the project structure, which involves cross-ministry support, complemented by groups of business stakeholders and information providers. The project as a whole has been coordinated by a designated portal director. This has ensured strong cross-sector buy-in in both the content and management of the information.

The resource is organised in a simple, user-friendly manner, with business information categorised into four stages of business life:

- Considering starting a business;
- Starting a business;
- Growing a business; and
- Closing, selling or winding up a business.

A wide range of business tools is available for the user, including:

- Online training facilities;
- Relevant online transactions and forms; and
- An online library of business publications.

Useful links are provided throughout the resource, including site links and contact details of various organisations that can provide additional information for the user.

The New Zealand government's overall approach to small business has resulted in New Zealand being ranked first in entrepreneurial activity in the Global Entrepreneurship Monitor in 2004 and 2005.

### 3.3.10 Cost

An adequate budget to fund the development of the Knowledge Base, as well as its active promotion and on-going management, is clearly central to its success.

Based on the outlay for the New Zealand BIZ model and the costs of BASIS,<sup>37</sup> it is estimated that implementation of this recommendation would accrue a total annual cost of between €1 million and €1.5 million.

<sup>37</sup> Costs allocated for the operation of BASIS in 2005 were approximately €533,000. Source 2006 Revised Estimates for Public Services, Department of Finance 2006



## 3.4 Required Infrastructure

An excellent physical infrastructure is necessary for long-term, sustained economic development. However, the very success of the Irish economy over the past ten years has put a huge strain on our physical and social infrastructure. The National Development Plan (2000-2006) has played a significant role in closing many infrastructure gaps, but despite these investments, deficiencies remain, and infrastructure developments in many parts of the country are lagging behind demand.

The views and concerns expressed by small businesses in the course of the Forum's consultation meetings and in submissions made directly to the Forum revolved around four key areas: Broadband, Transport, Energy, and Waste.

### *Broadband*

Broadband connectivity and penetration are increasing and costs are falling. These are positive developments and demonstrate the high priority the Government has given to the transition to broadband technology. The Small Business Forum acknowledges this priority, and welcomes initiatives such as the Metropolitan Area Network (MAN) and the Group Broadband Schemes. However, Ireland continues to lag behind many OECD countries in broadband take-up, and these positive developments may not be happening fast enough. Improving the competitiveness of small business in the regions through broadband availability, take-up, quality and choice will be a central element to future productivity gains and competitive advantage in small business.

### *Transport*

An efficient transport infrastructure is an essential condition for enterprise development, as it provides the basis for significant improvements in small business costs through reduced journey times, improved journey time predictability, and better labour mobility.

With the launch of *Transport 21* in late 2005, the Government outlined an extensive range of projects for the road and interurban rail networks, and for rail projects in cities, principally in the Greater Dublin Area. Provisions for both Dublin and provincial bus development were also outlined. *Transport 21* identifies the major suite of projects that will be delivered under the next National Development Plan. The total capital cost of *Transport 21* has been estimated by the Department of Transport at just over €34 billion over the period 2006 to 2015 inclusive. While *Transport 21* is welcome, components contained in the Plan's framework will require prioritisation and must be subject to cost-benefit appraisal to ensure value for money is achieved.

### *Energy*

An efficient and resilient energy infrastructure is crucial for economic development. The Small Business Forum recognises the significant capital investment that has been made in renewing and extending the electrical transmission and distribution systems in recent years. It is likely that similar investments will be required in the future on the basis of predicted economic growth.

The Small Business Forum also acknowledges on-going work between the Department of Communications, Marine & Natural Resources and the Northern Ireland Department of Enterprise, Trade & Investment to develop an all-island energy market. The objective is to provide competitive, sustainable and reliable markets in electricity and natural gas on the island of Ireland at the lowest cost possible. This will have positive implications for the entire enterprise sector, including small business.

Such initiatives are urgently required. Submissions to the Small Business Forum highlighted increased energy costs as a major concern. A number of them noted that the liberalisation of the energy market is not having the desired effect in reducing prices. Consistency in the quality of service provided by the main utilities was also an area of concern, and in particular the relative unresponsiveness of the main utilities to small businesses in the event of network failures.

## Waste

Population and economic growth have driven an increase in municipal, industrial and hazardous waste over the past decade. Waste costs are becoming a major issue for Irish business: the total cost of waste disposal for business in Ireland has risen from €32 million in 1995 to over €800 million in 2004.<sup>38</sup> Lack of access to suitable recovery and disposal outlets is impacting on every enterprise in Ireland.

Ireland's dependence on landfill remains high relative to other countries. Limited progress has been made in delivering other waste treatment options, such as thermal treatment and biological treatment. Specific infrastructure requirements have been identified in the *National Hazardous Waste Management Plan*<sup>39</sup> and the *Draft National Biodegradable Waste Strategy*<sup>40</sup> as well as in regional waste management plans, but these have not been implemented, due mainly to lengthy delays in the planning process.

## National Development Plan 2007–2013

The National Development Plan is currently being formulated for the period 2007–2013. The Small Business Forum views this as an important opportunity to build on the infrastructure successes of recent years, to address current deficiencies and to anticipate future infrastructure requirements. However, planning and regulatory process issues remain as constraints to the timely implementation of projects of strategic importance. In this context, the Forum welcomes the publication in February 2006 of the Strategic Infrastructure Bill. The fast-tracking of major projects through the planning process will accelerate the delivery of important infrastructure and improve cost-effectiveness. However, the time taken for judicial reviews of planning cases has been identified as one of the main causes of delays and must be addressed if the planning process for major infrastructure projects is to be expedited.

### 3.4.2 Action needed

The Forum stresses the critical importance of addressing these infrastructural issues, noting that their importance is already widely recognised, and that they have been the subject of a number of other reports. Rather than re-analyse these issues in depth and make new recommendations, the Forum emphasises the need for sustained action and accelerated delivery on plans and recommendations already formulated.

38 Annual Competitiveness Report, National Competitiveness Council, November 2005

39 National Hazardous Waste Management Plan, Environmental Protection Agency, 2001

40 National Biodegradable Waste Strategy, Draft Strategy Report, Department of Environment, Heritage & Local Government, April 2004