Northern Ireland
Assembly

COMMITTEE FOR FINANCE AND PERSONNEL

OFFICIAL REPORT
(Hansard)

Policy Evaluation of Rating of Non-Domestic Property

6 January 2010

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:
Ms Jennifer McCann (Chairperson)
Mr Peter Weir (Deputy Chairperson)
Dr Stephen Farry
Mr Simon Hamilton
Mr Fra McCann
Mr Mitchel McLaughlin
Mr Declan O'Loan
Ms Dawn Purvis

Witnesses:

Mr Brian McClure	)	Department of Finance and Personnel
Mr Patrick Neeson	)	

The Chairperson (Ms J McCann):

I welcome Brian McClure, head of the Department's rating policy division, and Patrick Neeson, who is also from that division. We are running very much behind schedule. Therefore, I ask you to make brief opening remarks, after which we will proceed straight to questions.

Mr Brian McClure (Department of Finance and Personnel):

Thank you, Chairperson. I wish you a happy new year.

The Chairperson:

A happy new year to you as well.

Mr McClure:

It promises to be a busy period for rating policy as we give effect to reforms during the next few months. Hopefully, after that, we will enter a period of stability. Certainly, our Minister wants the rating system to settle down.

The purpose of this particular session is to talk about the evaluation of the rating of empty commercial properties, which is an old policy — five years old, in fact. It was introduced in Northern Ireland in 2004. It has been in place in other parts of the UK for substantially longer. The current policy means that when a non-domestic property becomes vacant or is newly built and lies vacant, it is liable for 50% rates after an initial three-month exemption period. Some types of properties are exempt, the most important being industrial properties and listed buildings.

It has always been planned to carry out the evaluation. It has been five years since the policy was initiated. We always like to evaluate policies. Indeed, I would say that this evaluation is, perhaps, running a little bit late. However, in view of the impact of the economic downturn and the effect that it has had on the property market and on people who own vacant properties, its timing is good.

You have copies of the executive summary of the evaluation, which was carried out in two parts. The first part was our own research and analysis. That was supplemented by the second part, which was to take the views of stakeholders, such as the Federation of Small Businesses, the Northern Ireland Independent Retail Trade Association, the Royal Institution of Chartered Surveyors and well as a number of representative local government organisations, such as the Association of Local Government Finance Officers and local economic development officers.

As with any evaluation, we had to look at whether the policy meets the objectives that it first set out. The policy has two main objectives. One is, of course, to raise revenue for public services in Northern Ireland. Secondly, it has always been intended that the policy would encourage property owners to make their properties available on the market and, perhaps, make it more competitive and efficient. In other words, the policy aims to increase the supply of property and, therefore, reduce rents, which, generally, is good for business.

As regards the first limb of the policy, raising revenue, I must say that, in our view, the measure has been quite successful. To date, it has raised around £60 million for both regional and local government. It raises around £15 million each year, including, for example, around £3 million each year for Belfast City Council. Therefore, it makes a significant contribution to expenditure needs for the public sector. During the policy's lifetime, its administrative cost has been around £1·2 million, which suggests that it delivers efficiency and value for money in terms of tax collection.

This is not an operational review of the work of Land and Property Services (LPS): it is a view of the effectiveness of the policy. Nevertheless, one outcome of this is that whereas, when this policy was first introduced, there were 10,000 properties for which owners were not known, that list is now down to 78. That suggests that LPS is becoming more efficient as the years go by.

As to the wider objectives, the policy's impact is difficult to determine. We have suffered the ups and downs of the economic boom and downturn. The impact has therefore been masked in many ways, and we have not had a static period in which to look at it. Some of our analysis is, not guesswork, but conclusions that we are not entirely sure of with respect to the impact on the commercial property market.

We looked at all the equality, New TSN, and rural impact assessments. Perhaps the most significant finding was that non-domestic vacant properties are more likely to be located in more deprived areas throughout Northern Ireland. They are also more likely to be found in urban areas.

We looked at the views of stakeholders, particularly the business community. They were clearly heavily influenced by the recession and the ongoing economic downturn and the impact that that was having on commercial property. Some acknowledged that the original objectives of the policy had some merit, but there was a widely held view that, in view of the recession, some mitigating measure had to be introduced, at least on a temporary basis until the economy improved.

As to the impact of the policy, the business community seemed to be telling us that this was impacting particularly severely on prime retail locations. As I have said, we spoke to representatives of local government, and they had quite a different view. Their view was that there are far too many exclusions associated with this measure. Their focus is on how efficient the policy is in raising revenue.

We raised the issue of rates avoidance with consultees. We wanted to know whether the policy was giving rise to any bizarre or perverse behaviour: were people deliberately knocking down buildings or partially vandalising them? However, there was no evidence of that in Northern Ireland.

The exclusions are a significant aspect of this policy. Our estimate is that £4·5 million of revenue is foregone through the exclusions. The main exclusions are empty factories and listed buildings. Empty factories account for £2 million of the £4·5 million annual loss.

I will move on quickly because of time constraints. The options for change do not include immunising councils from the effects of concessions, even during the economic downturn. It is not a matter of not wanting to; the legislation will not allow it. There is no provision in the existing primary legislation to allow any compensating payments to be made to any councils that have a reduced revenue stream as a result of concessions made, so that is something that needs to be taken into account in looking at this.

Options include: increasing the three-month initial free period; increasing the rateable value limits, which has been done in England and Wales; or adding to the list of exclusions such things as companies in administration. That would follow policy changes in England, Wales and Scotland. None of those changes can be made without cost. Increasing the rateable value limit to, say, £15,000 would cost £6 million in lost revenue. That revenue would be lost to both the regional and the district rate. Again, for councils such as Belfast, the loss in district rates through increasing the rateable value limit would be almost £1 million — around £800,000. It is quite significant.

Mr Weir:

I would not be attracted to any of the eight options on the list. Would it be possible to provide a memorandum on each of them as to what the individual or assessed financial impact would be?

Mr McClure:

That work has been done; it is just not included in the executive summary. I am happy to provide that.

Those are all short-term measures that could be granted, but the downside is the loss of revenue. In the longer term, our view is that it is right to look beyond those concessionary measures. Perhaps consideration should be given to widening the scope of the policy to raise more money or to lessen the rates burden on others. We think that there is merit in looking at that in more settled and positive economic conditions. That could include more structural changes such as increasing liability from the existing 50% to 100%, or ending the exclusion for industrial properties. Both of those measures would align with the long-term position in England and Wales.

That was a very quick gallop through the evaluation. I am happy to answer any questions.

Ms Purvis:

The consultation with the stakeholders raised a number of concerns, one being that the policy has forced landlords to lower rents beneath the market value. I do not necessarily see that as a bad thing. Did the evaluation pick up any hard evidence that that was the case? In domestic properties, there is anecdotal evidence that it has stimulated the rental market.

Mr McClure:

Real, live examples were given to us in various provincial towns throughout Northern Ireland. We were asked to treat them as commercial in confidence, but we were given full details of what I would describe as "desperation deals", where property owners felt that they had to let their premises at a nominal rent to avoid this measure. However, for a business moving into such a property, that is a good thing.

Ms Purvis:

Another point raised was that the policy acts as a preventative to new developments. How can you disaggregate that from the recession at the moment, and the lack of planning applications and new developments? How could you say that the policy was having that disincentive?

Mr McClure:

You are right. One of the problems in handling the evaluation is that the policy has been dealt with through a period of economic boom, and then a very sudden reversal of that. It is very hard to isolate that. The view from our stakeholder consultation and discussions was that we were not aware that it was rendering anything unviable.

Mr Patrick Neeson (Department of Finance and Personnel):

Some of the stakeholders, particular property owners and landlords, said that one of the impacts of the policy was that developers were delaying developments and improvements to their premises. That went against the original objectives of the policy, which were to bring new developments and encourage landlords to make their premises available for rent.

Mr McClure:

It is very hard to see whether that is down to the policy, the availability of finance, general economic conditions or general demand conditions. I take your point; it is very hard to disaggregate that from the wider economic context. Our view is that it did not have a severe impact on property development.

Ms Purvis:

Changes have happened in GB, such as the inclusion of companies in administration on the list of exclusions. When was that done? Is there any information on how that policy has impacted?

Mr McClure:

England and Wales moved from 50% rates liability to 100% in April 2008. In April 2009, a temporary concession was introduced to increase the lower valuation limit from £2,000 to £15,000 because of the recession.

That has since been upgraded, in line with a revaluation, to £18,000 and has been extended for a further year. They do have a different context in that they were then rating at 100% and were also rating empty factories. Northern Ireland could follow suit, but that would have a cost to both regional and local government.

Ms Purvis:

As regards adding companies in administration to the list of exclusions, is there any evidence that companies that are in trouble have been deferring the payment of rates before they go into administration in the knowledge that they will be excluded when they do go into administration?

Mr P Neeson:

One of the reasons why that change was made in England and Wales was that there was almost a perverse incentive whereby a company that went into administration would still have to pay rates, but if it went into liquidation it would be exempt. That is why that exclusion was added. It forms part of a wider strategy to encourage companies to remain in business.

With respect to evidence as to whether companies were taking advantage of that kind of loophole, it is difficult to say.

Mr McClure:

The Department sees merit in the option, because much of the arrears that arise from companies going into administration end up as bad debt in any case. There is logic in extending the exclusions to include companies in administration.

Ms Purvis:

One of the other options is the exclusion of properties where planning permission is being sought. Is that used anywhere else, and is there any evidence that people would use the planning process to —

Mr McClure:

A variation of it is used in the Republic of Ireland.

Ms Purvis:

Is there any evidence that property owners would use the planning process —

Mr McClure:

— as a means of tax avoidance? No. The Department tried to obtain evidence of that but could not.

Mr F McCann:

Dawn has already covered some of the areas that I wanted to explore. Will groups with a charitable status be exempt?

Mr McClure:

Yes.

Mr F McCann:

That would cover a wide range —

Mr McClure:

The legislation states that when a property falls vacant and when next in use is likely to be occupied by a charitable organisation the vacant rate will not be payable.

Mr F McCann:

You have also mentioned the fact that the Department has been able to bring down the number of properties where the owner’s details were unknown to 78. I am a member of Belfast City Council and the reports that the council receives are that we are at the tip of the iceberg, and that a considerable number of properties are still lying vacant.

Mr McClure:

Most of the focus has been on domestic vacant stock, but you are correct in that the exercise also looked at the non-domestic stock, and that is one of the reasons why this has got down to such a low level.

This has been a very successful co-operative exercise that was run between Land and Property Services and local government. It greatly helped in the obtaining of ownership details of the properties, and has meant that we have been able to reduce the number from 10,000 to around 78 since the policy was initiated.

Mr F McCann:

Are landlords or landowners who own listed buildings encouraged by the exemption of those properties to reinvest the money that has been saved and ensure that such properties are maintained to a proper standard?

(The Deputy Chairperson [Mr Weir] in the Chair)

Mr McClure:

No. Unfortunately, the Department cannot do that.

If any part of a property is listed that property will be excluded from the vacant rate. One of the reasons for that is that the cost of maintenance and upkeep for a listed building is higher and it is hoped that if people are excluded from the vacant rate they will have more to spend in maintaining those properties. Hopefully, they will use it in that way.

Mr F McCann:

One of the concerns is that many of the empty factories and properties you have spoken about lie in areas of high deprivation. Has the impact that those buildings have on the general locale of those areas when they begin to fall into disrepair been taken into consideration? Those buildings often present a picture of deterioration in those areas.

Mr McClure:

That situation was a factor when the policy was first introduced; it was envisaged that it would help to avoid urban blight. Once one or two properties become vacant, the situation can escalate, particularly in deprived areas. That was on the mind of the direct rule Ministers when they wanted to introduce the policy, which was intended to have a beneficial effect on deprived areas by avoiding having empty shops and commercial premises and encouraging people to occupy them by levying a rate if they lay vacant.

Mr McLaughlin:

The evaluation exercise was very helpful. Realistically, we should come to the view that it was a sound exercise and should be continued. There may be improvements, but it would probably be sensible and practical to wait until the economy stabilises further before any structural changes are made. My view is that the policy decision was a good one, and it has addressed many relevant aspects.

I am interested in the reference in the draft report, under the implementation and administration heading, to the collection levels, which have improved steadily since 2004, and are at 60%. What does that tell us about current effectiveness and efficiency? It is not one of the evaluation criteria: I do not know why it was not, because it should have been. What is the situation going forward?

(The Chairperson [Ms J McCann] in the Chair)

Mr McClure:

Land and Property Services (LPS) has improved substantially. The policy caught LPS on the back foot in 2004, because it was asked by direct rule Ministers to introduce the policy at very short notice. It did not have the capacity or capability to obtain all the ownership and taxpayer details that it required in order to bill people. It is now building that capacity, and the figures speak for themselves: the number of unknown owners is down from 10,000 to 78. The LPS is becoming more efficient at collecting; and, furthermore, the successful partnership exercise with local government has paid major dividends in the efficiency of that tax.

Mr McLaughlin:

The stakeholder consultation, predictably enough, produced subjective perspectives. Those are, of course, very important, but we have to balance that with the need to support the councils and the delivery of regional services. My perspective on the draft report is not necessarily that of the entire Committee, but I believe that there is a workable arrangement. Delivery can be improved as opposed to moving to further reforms or amendments at this point. My final point is that this evaluation will be ongoing, or at least periodic. When should we expect the next examination of the exercise? Bearing in mind the budgetary process that councils will go through in the event of changes being introduced, will the next evaluation be done in a way that gives councils sufficient time to take account of it?

Mr McClure:

In the normal course of events it would be three or four years before we would re-evaluate the policy. However, because of the finding that it is worth examining more structural change when the economic outlook improves, it should be sooner rather than later. I would welcome the views of the Committee on that issue. I can see merit in looking at it again in a couple of years' time.

As regards pressure from the business community, we receive a lot of correspondence from the business community on a weekly basis, as does the Minister, about the effect of the policy. It is an issue for many people who have to pay the tax.

Mr F McCann:

In the past, I have come across places of business that were lying derelict but whose owners could not be traced. What happens to pieces of land such as those?

Mr McClure:

The LPS would not chase the owners of properties that are lying derelict or are in a seriously dilapidated condition because those would not be capable of commanding a rent and, therefore, would not be capable of being rated. The LPS disregards derelict and seriously dilapidated properties as it could not charge rates on them.

Mr F McCann:

Would councils be responsible for tracking down the owners of such properties in order to do something about them? I am thinking about the serious decay on one side of Royal Avenue. It appears that some landlords there do not make any moves to combat the serious problem of dereliction.

Mr McClure:

Properties that are not readily capable of habitation or occupation are not rated and, therefore, would be excluded from that measure. That is not a particularly good feature of the system. However, it would be difficult to start rating derelict properties because many of them do not have a value in their existing use, which is what the rating system is based on.

Dr Farry:

Which of the eight options that you have set out could be implemented through secondary legislation, and which would require primary legislation. In some respects, the primary legislation is a bit moot now, given that we have a comprehensive piece of legislation in the Assembly.

Mr P Neeson:

Any of the options that involve amending the list of exclusions could be done by subordinate legislation.

Mr McClure:

The rateable value limits can be amended by subordinate legislation. Extending the initial three-month period requires subordinate legislation, as does increasing the minimum NAV threshold. I am not sure about the legislation required to suspend the scheme for a limited period, and I will come back to the Committee on that. Adding companies in administration to the list of exclusions can be done by subordinate legislation, as can ending the exclusion for industrial properties. Excluding properties where planning permission is being sought can be done through subordinate legislation, but that would be difficult as there would be serious issues surrounding definition, and there would also be a lot of research involved. The time needed to get it to the position where we could draw up the subordinate legislation could be quite substantial. Reducing the level of liability below 50% can be done, I think, by subordinate legislation.

Dr Farry:

That is encouraging. I agree with Mitchel that the overall policy has worked well and, obviously, should continue. I would be open to considering some of the changes. However, I am not sure that the forthcoming year would be the ideal time to do it, but there would be a slightly better chance from 2011 onwards. The option that stands out for me is the one to end the exclusion for industrial properties. What was the rationale for ending that exclusion in England and Wales?

Mr McClure:

That was announced as part of the Chancellor's pre-Budget report in November 2008, when it was viewed as a revenue-raising measure rather than there being any wider development rationale for the policy. The Treasury viewed it as an easy way to raise more revenue.

Dr Farry:

Is the definition for industrial properties the same as that used for industrial derating?

Mr McClure:

It is not, but it would capture most of them. The definition used is a building that is constructed or adapted for use for manufacturing purposes.

Dr Farry:

Do you have an idea of how many empty factories in Northern Ireland would benefit?

Mr McClure:

We have that information somewhere: we can easily provide it.

Dr Farry:

I asked the question because the other potential policy benefit from doing this is that if there were a situation in which another policy was, in effect, ossifying an outmoded industrial model — for instance, a lot of factories were used in the past in the textile industry and, clearly, international competition has moved on, and we need to modernise the economy in different ways — such a policy might act as a disincentive to releasing old industrial properties for either new housing or new commercial usage.

Mr McClure:

I will try to answer your question in another way: if we were to rate empty factories at 50% instead of excluding them, it would raise about £2 million a year. There are 219 factories.

Dr Farry:

That is great. However, there may be a policy benefit in trying to move the development along.

Mr McClure:

The executive summary states:

"The latter measure (ending the exclusion for industrial properties) was resisted here in the past because it was felt that such a move would erode Northern Ireland's industrial base. It might be argued, though, that were demolitions of older empty factories to occur because of the imposition of rates, this would not necessarily be a bad thing for the economy. That is, given the impetus it would give to redevelopment or sub division and renovation of often specialised industrial buildings for other purposes, this would result in an industrial property base that is more in keeping with the needs of a modern and responsive economy.”

I take your point, but some of those old textile factories really are not suitable for reuse in their current state. Therefore, the imposition of rates might add an impetus to either get them demolished, redeveloped or adapted.

Dr Farry:

That is great. I am certainly interested in further consideration of that issue. However, I appreciate that we may not be jumping into that straight away given the current economic climate.

Mr O’Loan:

The overall policy objectives remain sound with respect to the essential fairness of raising revenue and the encouragement of best use of property. However, today’s economic circumstances are very different from those that existed when the policy was introduced. I have a deal of sympathy for people who own property that they might like to have in productive use but cannot do so in the present climate.

I do not want to take a definitive position on the matter. In this climate, we have to be careful not to introduce ameliorative measures for any sort of policy area too readily or too rapidly. However, I think that people who own property that they would like to have in productive use but cannot readily do so is a genuine issue. It is certainly worth finding a way of addressing that. I support keeping the long-term policy in place as well as the actual design of the policy and the level of rating, which seems to be sound.

The Chairperson:

There are no other questions. I am conscious that you asked for the Committee's view on the issue and the impact of the policy. Do members agree that the current policy should stand until we get more detailed analysis of the eight options that the witnesses have outlined and the impact that those might have. Once we get that, we can discuss the matter in further detail and take a decision on where we are. Is that OK?

Mr McClure:

We have already costed that, so we can get it to the Committee in a day or so.

The Chairperson:

Please send that to us as soon as possible, and we can have a further discussion on it then. Thank you.