Northern Ireland
Assembly

COMMITTEE FOR
FINANCE AND PERSONNEL

OFFICIAL REPORT
(Hansard)

Large Retail Levy and Small Business Rates Relief Scheme: Consultation Outcome

9 November 2011

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:
Mr Dominic Bradley (Deputy Chairperson)
Mrs Judith Cochrane
Mr Leslie Cree
Mr David Hilditch
Mr Ross Hussey
Mr Paul Maskey
Mr Adrian McQuillan

Witnesses:

Mr Brian McClure	)	Department of Finance and Personnel
Dr Veronica Holland	)	

The Deputy Chairperson:
I welcome, once again, Brian McClure, the head of rating policy division in the central finance group of the Department of Finance and Personnel, and Dr Veronica Holland of the rating policy division of the central finance group. You are very welcome, and I invite you to make an opening statement.

Mr Brian McClure (Department of Finance and Personnel):
Thank you, Deputy Chair. Before I do that, I was interested to hear Mr Pidgeon's presentation.

Would you like me to make a couple of comments on that before moving on?

The Deputy Chairperson:

That would be welcome; yes.

Mr McClure:

The integrated impact assessment that the Department will produce will probably come out before the end of the year. The impact assessment that we have published is an initial one. The Department does not regard an impact assessment complete until we have consulted on it, and that is what we have done through this consultation process. I just want to make it clear that we do not regard ourselves as being at the end of that process. The integrated impact assessment will be published before any measures are taken forward.

Secondly, on the Scottish proposals, I can tell the Committee what I understand is happening with the public health levy, as I think it is described in Scotland. They expect to raise £110 million for the supplement over the next four years. It is estimated that the levy will raise £30 million in 2012-13. Around 240 properties in Scotland would be affected, and the money raised through that will contribute towards preventative spend measures that will be taken forward jointly with the Scottish Government, local authorities, the National Health Service and the third sector. It is targeted at retail outlets above a valuation threshold of, we think, £300,000 rateable value. It is for outlets that sell alcohol and tobacco. As I said, it is being put in place to fund the preventative spend measure.

Our understanding is that, in Scotland, they will consult on that as part of the Budget consultation. They already have existing powers in their business rates legislation to allow them to do that through subordinate legislation. They have quite a different process from us. I do not think that it is right to say that they will not be consulting; they will consult as part of the Budget. They do not need primary legislation to take that through. I am not making any comment about the merits or otherwise of that; I am just providing some information.

Turning to our evidence, I would prefer to take as many questions as possible, rather than taking up a lot of the Committee's time by repeating what is in the consultation report. Before continuing, I would like to say something about where we are with this, a little bit about the rating system, which has already been discussed in Mr Pidgeon's presentation, and explain the basic rationale behind the changes and the origins of the policy. The Minister has not made up his mind, and he will not take the matter to the Executive until he has the views of the Committee. He is very clear about that. If anything that I say today implies certainty about the measures, please treat it with a pinch of salt. I am doing it for the sake of brevity rather than continually saying that it is the preferred option.

Before I go further, it is worth restating that the business rates system is a fairly simple property tax. It does not attempt to relate the level of that tax to particular businesses and their activity levels or performance figures, which is what was previously discussed. Rather, it is a government charge for the occupation of premises that is based on their assessed rental value at a particular point in time. In Northern Ireland's case, that is 2001. The more successful retail businesses tend to locate in the highest value premises, but that is as far as the rating system can ever go in aligning with profit or business activity. From a policy perspective, it is not possible to zero in on particular businesses. Furthermore, Land and Property Services (LPS) does not hold data on businesses. Even the property descriptions in the valuation list reflect the way in which the property is valued, rather than describing the business activity that goes on. A building society in a row of shops, for example, will be described by LPS as a shop rather than an office or financial institution.

LPS does not send out single composite bills to particular businesses. It is often the case that individual bills will be sent out to companies, one for each property. I mention all of that because I think that there is a public expectation that the rating system can be engineered in such a way that enables it to target particular types of business for a levy or exclude them from the relief. As has been mentioned already, the banks are a particular case in point.

The Department is satisfied that there was a very good response to the consultation in respect of the number of business organisations that took the trouble to put together submissions. All of those submissions have been on our website for some days now. A wide range of views was expressed, which is hardly surprising given that the measures are about charging some ratepayers more and many ratepayers less. In other words, there are winners and losers in the proposals.

I have to say that it was a bit disappointing that, despite the Minister making a special plea for businesses and business organisations to provide evidence on the impact or potential impact of proposals, most confined their responses to expressing opinions. The consultation, however, was a useful exercise in terms of what it revealed. In a sense, it was also informative because of what it did not reveal. What I mean by that is that the Department asked for some estimates of how proposals would impact on particular businesses. In other words, we asked about the difference that it would make to the businesses concerned in relation to both the levy and the small business rates relief scheme.

Virtually no businesses provided any meaningful information that would throw new light on the issue. B&Q, at least, pointed out what we knew already, which is that different businesses, or different sectors of the retail business, work to different business models and have different margins. That is fully accepted, and the average figures provided by the Department in the consultation paper were put there to stimulate the production of further analysis by the business sector. None was forthcoming, nor did we get any useful information about the comparative rate costs between here and the rest of the UK and Ireland. Only IKEA pointed out that its Belfast store paid more than its Scottish stores and a number of its English stores.

The Department fully accepts that the measures will have more of an impact on some businesses than on others, but that it matters to them all. Nevertheless, the key point is that rates, as a proportion of business outgoings, are significantly higher for smaller businesses compared with major businesses. The Economic Research Institute for Northern Ireland (ERINI) reported on that issue in 2008 and it is something that previous studies have identified. The ranges are quite startling. At one end of the scale, rates for small businesses — those with a turnover of less than £50,000 — can account for around 8% of turnover or a third of profits, whereas the largest businesses — those with turnovers of £1 billion or more — the percentage is in small single figures at around 1% of turnover or 3% of profits. Some have suggested that an average £700 a year saving for the 9,000 small businesses in question is marginal; they will not hire a new employee on the back of it, for example. However, the point is that many of those businesses are at the very limits of viability, which is not a position in which many of the major retailers find themselves.

Another disappointment of the consultation was the fact that no one identified any credible way of raising the required £6·5 million a year to fund the expansion of the small business rates relief (SBRR) scheme, aside from raising the regional rate or charging all large premises a levy — that is to say all those outside the retail sector as well. You will note that the Minister's foreword to the consultation report explains some of the difficulties in adopting such alternative approaches. It runs contrary to a number of policy decisions already made by the Executive.

I would also like to clear up a misunderstanding that the current or expanded small business rates relief scheme is or should be a retail rates relief scheme. That is not its purpose, nor was there support for it during the consultation, albeit half of those who could benefit would be retail premises.

I would like to mention one more thing before taking questions. The policy had its origins in the Budget review group, and is viewed very much as a downturn measure. It is not something, therefore, that the Department has been developing as part of a wider reform of the rates system. I am here today to present the policy, outline the views expressed during the consultation, indicate roughly what is in the Minister's mind in relation to the policy, and explain as best I can why some other ideas will not work terribly well.

That is all I have to say by way of introduction. I am more than happy to take questions. As I said, the Minister will not be putting any views to the Executive Committee until he has the views of the Committee for Finance and Personnel.

The Deputy Chairperson:

I remind members that an issues paper is available in the tabled papers. The Department's public consultation document referred to evaluations of the equivalent SBRR schemes in Wales and Scotland. Although the Northern Ireland scheme was introduced only in April 2010, is there any emerging evidence locally to indicate that the scheme is supporting economic sustainability or that the benefiting businesses are reinvesting the savings for growth and development?

Mr McClure:

The Department has not done any work on the evaluation, because it is too early to undertake it. You need the scheme to have been operating for well over a year before you can carry out a proper assessment of it. Many of the businesses and business organisations that responded to the consultation were very much in favour of it and its expansion, but of course, that is not surprising. Very strong views were expressed in favour of it.

The Deputy Chairperson:

The departmental report on the consultation states that the introduction of business improvement districts (BIDs) in Northern Ireland has the support of the Minister and is being taken forward by the Minister for Social Development. Is the Department concerned when stakeholders such as Boots, which is supportive of business improvement districts, question the merits of contributing to this and to the large retail levy?

Mr McClure:

To put this into perspective, a typical BIDs levy would be of around 1% on businesses, whereas what is proposed in this consultation is a levy of 20%. We also believe that the rates proposals are being brought forward as a downturn measure to be introduced from next year. We think that the DSD proposals would take a considerably longer period to put in place, because there is a raft of subordinate legislation to be taken through that would have to be consulted on.

At best, it would take two years before the BIDs levy would be passed legislatively, and then maybe a further period to get those established. Bearing in mind that there is a three-year timescale on this retail levy scheme, if there were any overlap, it would be of one year at most. However, we do not expect that that overlap will occur. Again, to put this into perspective, a BIDs levy is a 1% levy, and we are talking here about a 20% levy.

Mr McQuillan:

Why did you say that we cannot charge the banks a levy? Why are they being excluded?

Mr McClure:

As I said, the rates system does not identify particular businesses, so there would be difficulties in trying to establish a valuation limit that would capture the banks. There is also a question around whether to include credit unions and mutual societies. If you include mutual societies, does that mean that you would charge Northern Rock a levy, but not charge the Nationwide? Once you get into that territory, you are very vulnerable to legal challenge both locally and also in relation to state aid in taking a differential approach to different types of financial institutions. Those are a couple of reasons, but one of the principal reasons is that it is very hard to identify them through the rates system.

Mrs Cochrane:

I just wanted to come in on that point. If you are basing it on the rateable value of the property, how can you not tell what the rateable value is of a bank or building society in the centre of

Belfast? Surely they pay their rates.

Mr McClure:

Yes, they do, but if we wanted to charge a levy above —

Mrs Cochrane:

You are telling us that the levy is 20% above the rateable value of the property. If you know what the rateable value of the property is —

Mr McClure:

And you do, yes, and you know the address of every property and you know who is in it, but I do not think that you can then just name individual companies that would be subject to that levy. I do not think that would —

Mrs Cochrane:

That is fair enough, but your example was that we cannot decide to charge Northern Rock and not the Nationwide. In the same way, we are not suggesting that we charge Marks and Spencer but we will not charge Boots.

Mr McClure:

We are charging a levy on all major retail premises in Northern Ireland.

Mrs Cochrane:

Yes, but the argument is whether the levy should purely be put on retail premises or on large business premises, so that would include utility companies, banks — everything. I do not understand why that is not being considered.

Mr McClure:

There are certain policy reasons why you would not want to charge utility companies. The regulator would allow the utility company to pass on the additional rating cost to consumers, which would not improve fuel poverty, and which would add cost to business.

Mrs Cochrane:

I agree, but, in the same way, the retailers can pass it on.

Mr McClure:

That is a moot point because, as we have said in our consultation paper, all the major national retailers operate national pricing policies. Our assessment is that they will not change those national pricing policies for Northern Ireland for a three-year period. To give you an example, at its last revaluation, B&Q's valuation went up 37% and its rates liability went up nearly 20%, but it did not change its prices in Northern Ireland. There is no evidence that that would happen. That is not to say that they will not do it, but there is no evidence that they would. The costs of changing systems, marketing campaigns and advertising would also have to be taken into account. It is our view that they will not change their pricing policy.

Mr McQuillan:

You mentioned IKEA, and said that the rates here are more expensive than in Scotland. How do the rates for supermarkets here compare to those in Scotland?

Mr McClure:

We asked for that information. We asked all the major retailers if they could provide comparative costs between here and England, Scotland, Wales and the South, but that information was not forthcoming, so we undertook our own analysis. CACI, a consultancy firm that is a market leader in retail planning, advised us that, socio-demographically, and so on, the Hull area was probably the best comparator for the Belfast area. We looked at comparable stores there and found that, certainly for all of the major food retailers, the rate level in Belfast was around 60% of those in the Hull area, and generally in the north-east of England, which is widely accepted as a socio-economic comparator for Northern Ireland.

Mr Hilditch:

Some of the folks that I have met have been concerned, worried, and perhaps nervous about the three-year temporary period that has been suggested. Will you say something about that?

Mr McClure:

There are a number of sound policy reasons for wanting to confine it to three years. First, that is the length of time remaining in the mandate of the current Assembly. Secondly, it coincides with what we believe to be the downturn. It is a downturn measure, not a long-term measure. Thirdly, it also coincides with the next non-domestic revaluation, which is scheduled for 2015. That will redistribute the rating burden among the business sector so that those sectors, locations and types of property that have fared relatively well since 2001 will pay a bit more, and those that have fared less well will pay less. The need for that and the need for the small business rates relief expansion will also, hopefully, disappear. If the revaluation does its job properly, we fully expect that there will not be a need for it.

We will ensure that the legislation is drafted in such a way that new legislation would have to be passed if we were to extend it beyond the three years. The Minister is on public record as saying that he sees it as a three-year measure. We are very conscious of not wishing to give confused signals to business. Business needs certainty so, if the Assembly agrees to it, the Minister will put the measure forward very clearly as a three-year measure.

Mr Hilditch:

Thank you. You touched on the revaluation and the absence of that at the moment in Northern Ireland. How has that affected the relative amounts that businesses pay in rates?

Mr McClure:

The reason for revaluation is to bring the values that are used for assessing rates up to date, and it is our assessment that the continual growth of major retailing will mean that, proportionally, major retailers will pay more. The converse of that is that the smaller businesses will pay less. We expect that to occur at revaluation. We would have expected it to have occurred if we had had the planned revaluation in 2010. That went ahead in the rest of the UK but did not go ahead here, so the absence of a revaluation will have helped many of the major retailers. I fully accept that it will not have helped them all, but many of them.

Mr Hilditch:

Is the timeline — to adjust the bills by April 2012 — going to work?

Mr McClure:

It will go very close to the wire, but, given that it is a downturn measure, and given the very difficult circumstances faced by small business in Northern Ireland at the moment, the Minister is very keen to press ahead with it as soon as possible to ensure that rates bills are adjusted so that, next turn-of-year, rate bills will reflect the discount for small businesses. Of course, the converse of that is the levy on larger retailers.

Mr P Maskey:

I want to follow on from Judith's point about the financial institutions. Brian, you raised a point about utilities: if it was passed on to them, the Utility Regulator could agree that it is passed on to the customer. Surely that could be handled in the same way as in the retail sector. I do not think that you can have separate arguments for different types of businesses.

A financial institution is in business to sell money; that is what they do. How can you not impose the measures on financial institutions and the biggest banks in Belfast city? It is determined by the size and rateable value of a property. It is beyond belief that you cannot take the same argument that is used in the retail sector and put it up to the banks and other financial institutions.

Mr McClure:

To do that, you would have to list every single financial institution.

Mr P Maskey:

You have listed the name of every single retail business.

Mr McClure:

Yes, but it is the value of their premises that determines whether they are in or out. Anything in retail that is above that will be included and put on our list. There is an issue with office accommodation. Take a large office block, such as Bedford House or Windsor House, which has a lot of floors and may house a financial institution. It can very easily subdivide and arrange its business in such a way to avoid any charge that is levied above a certain valuation level. We have concerns about the practicality of that. In effect, to take through a levy that you wish to apply to banks, you would have to list every single bank and every single address.

Mr P Maskey:

You have done that with Tesco, Sainsbury's, Boots and all the others.

Mr McClure:

Yes, but they will not be listed in the legislation. You would have to list the banks in the legislation.

Mr P Maskey:

Sainsbury's, Asda and many of those stores have restaurants and offices for staff. Is that taken into account as well?

Mr McClure:

That would be part of the composite evaluation.

Mr P Maskey:

If that is taken into account, why can you not do the same for a financial institution?

Mr McClure:

You can subdivide offices and put separate entries on the evaluation list. However, you cannot do that with a big Tesco, Asda or Sainsbury's store, because it is one entry in the valuation list.

Mr P Maskey:

This is a shame. It seems that the banks are getting away with it again, which is unfortunate. From the point of view of the Department, or anyone else, the banks have caused major problems in society. They have hurt the retail sector, because people do not have money to spend now. It is wrong that they are being let off. I would like the Department to look into that issue further. It is not good enough that people who make much more money than some retail stores are getting away scot-free. We should look at that, and I hope that you will take those views back to the Minister.

Mr McClure:

I am here to listen to the Committee. I will take those views back, and we will respond to the Committee accordingly.

Mr P Maskey:

I appreciate that. I am torn. I meet small retailers in my own constituency day and daily. The cost to them will be somewhere in the region of £700. It is not enough to create other employment opportunities, but £700 could stop some small businesses going under, especially if it is over a couple of years; that is the unfortunate reality. If you are looking at the issue, you need to do it right and include banks and financial institutions.

The other issue concerns the LPS. This will start at the end of March or the start of April next year. We have seen issues with LPS in recent years where it has estimated costs for councils and has got it wrong. Some councils have ended up having to put their own rates up because the valuations have been wrong and because that money was supposed to be incoming. How will we make sure that that put right? It is only a short time away, yet the policy is not even formulated at this stage.

Mr McClure:

Are you talking specifically about these measures or the more general, broader issue of getting the estimates right?

Mr P Maskey:

The estimates is a separate issue. This is another issue. I suppose you could probably wrap it all up in one because the issue for me is that if this is given to them now and we ask them to sort it out between now and the end of April, how will we ensure that that will work? If £600 or £700 needs to go to the small businesses in my constituency and in everybody else's constituency, that needs to happen because you cannot be promised one thing and then get it wrong and not be able to do it.

Mr McClure:

The straight answer is that the small business rates relief scheme will fall on the regional rate, and the levy will come to the regional rate. So, it will not affect district council finances. That is a very clear policy.

Mr Cree:

I am still trying to get to the bottom of the point about non-retail. This is a retail rates levy. Does the Department consider the likes of financial institutions, building societies and estate agents non-retail?

Mr McClure:

We currently do not consider those as retail.

Mr Cree:

Never mind all the talk about the size and subdivision, is that why are you are excluding them?

Mr McClure:

None of them are above the £500,000 rateable value limit anyway. A couple of the banks are.

Dr Veronica Holland (Department of Finance and Personnel):

The numbers are small in comparison to the overall numbers at that threshold.

Mr Cree:

I am trying to get to the basic principle. Is it because it is not considered to be a retail outlet?

Mr McClure:

Yes, that is right.

Mr Cree:

Never mind all the other flannel; it is nothing to do with that.

Mr McClure:

Mr Maskey has raised a number of issues as to why we do not include them but the policy is related wholly to the large retail sector, which does not include the financial institutions.

Mr Cree:

You do not consider them to be retail. Are estate agents the same?

Mr McClure:

This is an issue of policy, and what policy people want.

Mr Cree:

What policy are you talking about?

Mr McClure:

The policy I am talking about is the one presented in the consultation paper, and that people commented on. That relates to retail only, and excludes the financial institutions.

Mr Cree:

Or anything else that is not retail.

Mr McClure:

Anything that is not involved in the sale of goods.

Mr Cree:

Throughout the consultation paper, you use quite a lot of examples and statistics from the UK generally. I am particularly intrigued about the retail sales index example, because that is going down in the UK. However, you conveniently set that aside by saying that, whilst it excludes Northern Ireland, things might be different here. What evidence do you have for saying that? I contrast that with the other statistics that you quote, which are all about the UK and suit the purpose. However, the negative one is discounted.

Dr Holland:

Which paragraph of the paper are you referring to?

Mr Cree:

Paragraph 60 on page 12, where it states that the retail sales index excludes Northern Ireland and cannot be relied upon. It is a small point, but I want to know the logic behind it.

Mr McClure:

I am sorry; we were looking at the consultation report, not the initial public consultation paper.

Dr Holland:

We were trying to flag up the fact that the figures were at a UK level and that we could not isolate an impact for Northern Ireland. That was simply to provide a caveat in that section.

Mr McClure:

The important thing about the consultation paper is that it presents a lot of high-level information, and, through publishing that, we wanted to try to stimulate responses on the following questions. What does it mean for me? What does it mean for my business? What does it mean for the business organisations that I represent? That was there simply as a piece of background information, and we caveated it. There was no agenda at work there. We just said: "Here are the most recent seasonal retail sales index figures that we have." We simply said that they exclude Northern Ireland. We had hoped maybe to stimulate something out of the consultation in providing something specific to Northern Ireland.

Mr Cree:
It looks as if it does not suit the picture because it is negative, whereas, three paragraphs up, it talks about retail sales proving robust and growing by 1·9%.

Mr McClure:
Maybe that was clumsily drafted. If we were of the mindset to try to dismiss something, we probably would not have included it, but we like to include everything with regard to background.

Mr Cree:
I have an opinion but I would like it confirmed: will the proposed levy apply to only single stores with a valuation of £500,000 plus?

Mr McClure:
That is correct.

Mr Cree:
No aggregation or anything like that?

Mr McClure:
That is correct.

Mr Cree:
Thank you.

Mrs Cochrane:
I want to be quite clear that I am in support of the small business rates relief scheme as it stands, and I would like to see it expanded. I have worked with a number of small businesses in different sectors, and not in just retail, so I am in favour of that. However, I want to make sure that, whatever way it is funded, it is funded fairly.

You made a point with regard to the consultation that you were disappointed that large retailers provided only an opinion and not evidence of the negative impact the scheme would have on them. At the same time, you had opinions from the people who would benefit but they have not demonstrated the impact the scheme would have either.

Mr McClure:

Yes. One of the first questions in this session was about what evidence we have that the small business rates relief scheme is a success. The answer is that we have not done any work because it has not been up and running long enough. I then went on to say that there were very strong opinions in favour of it. The same applies, however, in that there was not the same evidence in respect of the small business rates relief scheme or the levy.

Mrs Cochrane:

Bearing in mind what I said about my being supportive of trying to expand the rates relief programme, a few other options have been mentioned of potential ways to fund this. Has research been undertaken into those options, and, if not, how have they been dismissed?

Mr McClure:

Are you talking beyond the options of increasing the regional rate or putting it onto other large properties such as utility companies, airports, large office users and manufacturing? Those are not dismissed yet but the Minister’s thinking is outlined in the foreword to the consultation report. Maybe you are talking more specifically about having a levy on simply out-of-town stores, for example.

Mrs Cochrane:

Options that have already been raised include a levy on all large properties with an NAV over £500,000, levying out-of-town stores, a banded levy and a public health levy.

Mr McClure:

Nothing is completely ruled out but there are difficulties with them, and I am more than happy to go through what the Department sees as difficulties with some of them, if you would like me to do that.

In relation to a levy on out-of-town stores, you have an issue of definition to start with. When does out-of-town become edge-of-town, and when does edge-of-town become in-town? What about the big stores in Craigavon? A more fundamental issue is applying a levy that will give a competitive advantage to one major retailer versus another major retailer. That is a fundamental issue that we would have with applying it across the board.

Other proposals such as increasing the regional rate run contrary to Budget decisions made by the Executive. Applying it to other large properties, say Bombardier, for instance, runs contrary to established Executive policy on industrial de-rating.

We have already discussed applying it to the utilities. Applying it to the airports, which, some say, should perhaps attract the levy, also runs contrary to policy on passenger duty. Once you start going through some of the lists, you will understand that there are other policy reasons why you would not wish to do that.

There is talk about having a banded or graduated levy, but we still have to raise £6·5 million a year to pay for the expansion of the small business rates relief scheme. You can cut and dice it any way you want, but if you try to graduate it, that will affect the very largest stores disproportionately. Some of them may have something to say about that. There are issues. IKEA is one of the largest stores in Northern Ireland; should it take the highest rate of levy? I am not sure whether it should, but I would be interested in the Committee's views. The bottom line is that £6·5 million a year has to be raised to help fund the expansion of the small business rates relief scheme. It has to be raised in such a way that we are certain about it, so that charging a 20% levy on the major retailers will allow a 20% discount to be applied to 9,000 small businesses in Northern Ireland.

Mrs Cochrane:

But not just retailers; you are hitting one sector and helping all.

Mr McClure:

I am trying to say that we are struggling to see what sectors it could be extended to without causing a major issue in respect of existing Executive policies on a number of areas.

The Deputy Chairperson:

Perhaps, Brian, we could have a written response on the various alternatives outlined in paragraph 66 of your paper.

Mr McClure:

Yes.

Mr D Bradley:

Thank you very much for your presentation. We may meet again in future on this issue.

Mr McClure:

I am more than happy to come back.

Mr D Bradley:

Thank you very much.