Northern Ireland Assembly

COMMITTEE FOR FINANCE AND PERSONNEL

OFFICIAL REPORT (Hansard)

Large Retail Levy and Small Business Rates Relief Scheme

9 November 2011

NORTHERN IRELAND ASSEMBLY

COMMITTEE FOR FINANCE AND PERSONNEL

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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 Cathal Austin	)	Newry Chamber of Commerce
Mr Joe Jordan	)	Belfast Chamber of Commerce
Ms Sinead McLaughlin	)	Londonderry Chamber of Commerce

The Deputy Chairperson:

I welcome Mr Joe Jordan from the Belfast Chamber of Commerce, Mr Cathal Austin from Newry Chamber of Commerce, and Ms Sinead McLaughlin from the Derry/Londonderry Chamber of Commerce.

Ms Sinead McLaughlin (Londonderry Chamber of Commerce):

Good morning. Thank you for inviting the Londonderry Chamber of Commerce to address members today. My oral evidence is submitted on behalf of the largest and most proactive business representation network in the north-west region. We represent 500 members companies, from large corporations to the smallest small and medium-sized enterprise (SME), who collectively employ approximately 20,000 local people.

On behalf of our members, I would like to present the views of the Londonderry Chamber of Commerce in relation to rebalancing the rating of non-domestic properties, and, in particular, to respond to the preferred approach as outlined by the Minister of Finance and Personnel in the consultation document.

First, we applaud the Department's initiative in its effort to support small businesses. The small business sector is a vital component of our economy and we welcome any supporting measures delivered by the Government that will help sustain it through the current economic downturn. We favour the need to extend the small business rates relief scheme, particularly in these harsh economic times.

The economy of Northern Ireland is facing significant challenges. Figures released this week confirm that our economic prospects remain muted. Over the past 12 months, Northern Ireland has experienced a 6% decrease in export demand from the Republic of Ireland, and the ongoing difficulties in the euro zone suggest that the outlook could deteriorate further. With that backdrop, it is essential that supportive economic legislation is developed in a manner that helps those who most need it and does not penalise or act as an economic deterrent to those that already make a significant investment in Northern Ireland.

That is the reason why the Londonderry Chamber of Commerce disagrees with the Minister's preferred approach. We take the view that the imposition of a 20% extra rates costs on retail premises with a rateable value of £500,000 or more is a very blunt rating mechanism.

The consultation document makes many references to rebalancing the rating system. In wider discussions and debates, this levy has been framed as an out-of-town levy that will stimulate growth and rejuvenate town and city centres. However, 60% of the premises that will be affected are, in fact, located in or near city centres. Although the levy will apply to a relatively small number of premises — 77 in total — some of those properties are at the heart of the retail effectiveness of our city centres, mainly here in Belfast. This new retail tax will discriminate against Northern Ireland's retail stores, discourage investment plans, impact negatively on jobs and make Northern Ireland a less attractive target for retail expansion.

In relation to Derry city centre, we believe that the suggested rating system will ultimately make attracting large retail investors to our city centre all the more difficult, and it will curb our ambitions to grow our retail offering as our taxation base would be discriminatory towards large retailers.

The retail sector is facing extremely challenging trading conditions. Consumer and business confidence is low, and many of our retailers have told us that sales volumes are down. This week, we heard that Marks and Spencer's first half-year profits fell as cash-strapped shoppers cut back on purchases of clothes and furniture. M&S is just one of the many victims that have been caught in the drastic slowdown on our high streets. Its chief executive has indicated that the slowdown is set to continue.

Most of the large retailers rely on high turnover and low profit margins, and are assessed as stand-alone commercial entities by their parent companies. The chamber would caution the Committee not to make a short-term taxation decision based on the perceived success of this sector.

Where do we go from here? The proposed rates relief scheme is welcome, but it is just a small piece of the support that small businesses need. The estimated savings of £730 per annum is not substantial enough to ensure the survival of small businesses or to encourage more business start-ups. Retailers face a number of difficulties including lack of demand, securing finances, online retail growth, high inflation, difficulty in passing on rising costs and very fragile customer confidence. We must be realistic about what this extra taxation support can do in terms of supporting our city centres.

I ask the Committee to consider looking at a number of alternative solutions, and I will give some examples. Instead of a large retail levy, we would ask the Committee to consider a public health levy on business that sell alcohol with a net annual value (NAV) of more than £500,000. That would also tie into the public health policies of other Committees as well as rebalancing the out-of-town versus city centre discrepancies. This would raise 75% of the £6·5 million required, with the remainder being raised through efficiency savings in the rates department itself, by making sure that the considerable rates revenue owed is collected.

The Londonderry Chamber of Commerce would also like the Department to consider bringing forward legislation to support the development of business improvement districts. The chamber believes that Northern Ireland requires good, expedient planning policies to support and protect town centres.

Finally, I commend to the Committee the Scottish Government's economic plan, "Plan McB". They have prioritised capital spending, and they want George Osborne to give them money to invest in building more houses and a series of road projects. Putting Northern Ireland back to work, capital investment in roads infrastructure and our universities are what will ultimately protect our small businesses and, indeed, our town and city centres.

The Deputy Chairperson:
Thank you very much, Ms McLaughlin.

Mr Cathal Austin (Newry Chamber of Commerce):
On behalf of Newry Chamber of Commerce and Trade, I thank the Committee for giving us the opportunity to outline our position on the consultation entitled 'Rating of Commercial Properties: Small Businesses, Large Retail Properties and Empty Shops'.

Newry chamber acknowledges the Department's proposals as a step in the right direction to help to support our towns and city centres, many of which have been decimated over the past decade by bad planning decisions that have led to exponential growth in out-of-town retail developments. The future of many locations, like Newry, is under threat because of multiple major out-of-town planning applications.

As you are all well aware, the recession has hit the retail industry extremely hard. Newry is no exception. Perhaps it suffered a sharper decline, given the economic problems in the South, which forms a sizeable portion of our hinterland. Shuttered-up shop windows are now commonplace on our high streets. Our towns and city centres require urgent attention, rejuvenation, investment and a reason for people to return. The Department's draft proposals, although not ideal in their current format, show that the Department is attempting to address some of the issues in our city centres. We welcome that as a first step on the road, but it is not really the final destination. That has to be the rejuvenation of our city centres.

To set the position of Newry chamber in context, our membership database and the Newry business community primarily consists of small businesses. The extension of the small business rates relief scheme will assist a large number of our members by alleviating some of the burden of rates from what are cash-strapped businesses. Newry chamber supports the 'Fair Rates for Small Traders' five-point plan. Newry Chamber of Commerce and Trade broadly welcomes the Department of Finance and Personnel's proposals to extend the small business rates relief scheme towards a NAV of £10,000, which will paid by large retailers. Three fifths of that will be met by large out-of-town multiple superstores, many of which pay less per square foot in rates than many town centre independent traders.

To ensure that the scheme assists those who require it most, Newry chamber proposes that the beneficiaries be restricted to independent retailers and the independent service sector providers. That measure will reduce the overall number of beneficiaries of the rates relief scheme, and the subsequent increase in reserves should be apportioned to those that were defined previously, namely independent retailers and service providers. That would increase their rates relief from the proposed £750 a year to a more substantial and meaningful amount.

Newry Chamber of Commerce also supports the serious consideration of the small business rates relief scheme to be funded by an alternative funding mechanism of an additional rate levy on large out-of-town stores, which currently have large free car parks. That would address concerns of the stores in city and town centres that are liable for the additional rate levy. Newry chamber would also like the Department to consider elements of the Scottish model, whereby those large retailers that do not sell alcohol and cigarettes would be exempt from the additional levy. Such a measure would benefit large city-centre stores and household names such as House of Fraser, Boots, Next, B&Q, etc.

Newry chamber recognises the problem of vacant units in many of our towns and city centres and the need to incentivise new business start-ups. Therefore, we call on DFP to examine ways of getting empty shops back into business. That would apply to large and small retailers alike. We appreciate that there are issues with subsidising new businesses to compete with established ones and that there are difficulties in deciding what is genuinely a new business. All that we are proposing is a modest rate concession that involves newly occupied premises retaining their 50% empty property relief for the vulnerable first year of trading. In the long term, that will help to stimulate business, not stifle it. Full rates will be payable when those businesses become established. That measure will encourage independent retailers and service-sector providers, such as coffee shops, restaurants, etc, to open in the centres of towns and cities, breathing new life into those centres and stimulating economic growth and job creation.

Newry Chamber of Commerce would also like the Department to consider mechanisms that assist small businesses to open premises on high streets. The current model whereby retailers bid against others that are exempt from paying rates gives the other retailers an unfair advantage and makes it difficult for independent retailers, in particular, to compete on a level playing field.

Newry Chamber of Commerce also supports the green new deal and investment in green technology and energy efficiency. To incentivise sustainable investment, DFP should give rates reductions to any small business that makes such a commitment. That is a sure way to support a radical extension of the green new deal and address the challenge of climate change. The chamber supports an early rates revaluation for Northern Ireland.

In conclusion, Newry Chamber of Commerce believes that the above proposals will have a measurable impact on assisting some of those businesses that are most in need of additional help and support in surviving this difficult economic period. The proposals will assist new business start-ups, along with providing a much-needed lifeline for revitalising our towns and city centres. They are fair in that those who are most able to afford an additional levy will pay and those who cannot afford to do so will get much-needed support. I trust that our views will be taken into consideration. Thank you.

The Deputy Chairperson:
Thank you very much, Mr Austin.

Mr Joe Jordan (Belfast Chamber of Commerce):
Thank you, Chair. I thank the Committee for inviting Belfast Chamber of Commerce. I am here to represent the commercial rates base of Belfast city centre. You have our response in your packs. It was put together in consultation with a company called Mott MacDonald.

First, I would like to concur with what my two colleagues have said on the issue. I do not have much to add on the content of their comments, except to say that the Belfast Chamber of Commerce has an objection in principle: we believe the levy to be inequitable. It is a property tax that bears on particular firms, rather than on firms generally. For instance, it affects only retailers, and not banks and utilities. It is particularly galling to work out that some small bank branches will actually benefit from the scheme. We believe there to be a wider risk to people's perception of and confidence in investing in Northern Ireland. Everybody knows that income tax was introduced as a temporary measure in 1797. It is still here today. We are afraid that the 20% levy might well last longer than three years. I know that Brian McClure has given evidence today that it will not. However, that is a concern.

It also concerns us that it may well demonstrate the Government's willingness to countenance levies on certain firms simply because, as it has been claimed, they can afford to pay more easily than others. That suggests to outside investors of all kinds that Northern Ireland is a place where the tax regime is liable to change to the detriment of business, unpredictably and without clear justification. That contrasts markedly with the defence of low corporation tax rates by the Government in the Irish Republic in the face of intense economic and political pressure to raise those rates.

Finally, I want to focus on the threat to Belfast. The chamber believes that Belfast has a special role as the capital city of Northern Ireland and a focus for tourism and investment. Its vibrant city centre is one of the most obvious outcomes of the peace process. The major retail stores anchor the city centre's economy as a whole. It is only a slight simplification to say that the 77 stores to be affected by the proposed retail levy comprise of supermarkets on one hand and the large city centre stores of Belfast on the other. The city centre stores operate at varying degrees of commercial success. It would be inappropriate to identify specific stores by name. However, some have experienced financial difficulty. Although it may well be true that the impact of the levy on supermarkets would be limited, that is, by no means, obviously true of the Belfast stores. We have spoken in particular to one CEO, whom I cannot name but who indicated that, if the 20% levy is introduced, his store in Donegall Place will close.

If the levy tips one major Belfast store over the edge and into closure, it will have a major impact on the part of the city that is affected. We suggest that that will have a greater adverse impact on the economy than the benefits from the business relief. We have already noted Belfast's need to step up the collective league table of British and Irish retail centres by attracting retailers beyond the mainstream chains. That endeavour will be rendered markedly more difficult by the implementation of the levy. We concur with Newry's suggestion that there are inefficiencies in Land and Property Services (LPS) that we believe has led there to be £150 million of uncollected rates. A small increase in the efficiency of that agency would cover the £6·5 million that the Minister is looking for.

The Deputy Chairperson:
Thank you very much, Mr Jordan. Some members have indicated that they wish to ask questions.

Mr P Maskey:
I will have to go shortly because I have to attend a meeting of the Public Accounts Committee. I do not mean to be rude by walking out just after asking my questions. You mentioned the public health aspect, and companies that might sell alcohol or cigarettes. Do you mean pubs or clubs, or just retail units?

Ms S McLaughlin:
We have indicated that our alternative mechanism adheres to the parameters set out in the consultation document. It relates to firms with an NAV of over £500,000, so it is the major supermarkets that we suggest will have to pay the extra public health levy, as opposed to a large retail business levy.

I have spoken to my friends in the Scottish Chambers of Commerce. I believe that, before we came in, the Committee was briefed on the Scottish model. That type of model was put before the Scottish Chambers of Commerce and was rejected, but it is now back before them as a public health levy. It is different to what I am trying to describe. It applies to both tobacco and alcohol, and there could be some difficulties with that. Large supermarkets might not bother selling cigarettes because they do not have a big profit margin; however, no one will cease selling alcohol. It is, then, is a public health levy, as opposed to a retail levy.

Mr P Maskey:
I think that 77 businesses in Belfast would be affected by this. I am concerned by that because I live in and represent a part of Belfast. I am in a dilemma: a lot of the small retail businesses in the area that I represent are finding business very hard, just as other big retail businesses do. No one escapes. You were saying that there are a lot of boarded-up premises in Derry and elsewhere, but that is the case all over. I have them in my constituency, and they are in the constituencies of every Member. I do not think that £700-odd is a great deal of money, but in some cases it may be offset against a bill, which is a great help. Another example of this is that, last weekend, £1

million was spent last weekend on the MTV awards in Belfast and that brought in an income of £10 million. People who discussed the figures with the Minister said that £10 million came into the city centre. However, small retail units in west Belfast did not get much of that. My point is that, whereas £1 million was spent to draw in £10 million, that income mostly benefited the city centre. The businesses that you represent today would not have received any of that much-needed income. We have to find ways to support those businesses. I appreciate that you have given a number of examples of how we might support small businesses.

This follows on from some of the questions by Adrian and Judith about the financial institutions. Are some of the financial institutions members of chambers of commerce?

Ms S McLaughlin:

Yes. Probably all the major banks are members. I am here on behalf of all of my members.

Mr P Maskey:

I am glad to hear your stance on the financial institutions, even though they are members of the chambers of commerce. They might be in conflict with you; or are they in agreement? Have they seen and accepted your proposals?

Mr Jordan:

Speaking on behalf of the Belfast chamber, the document that we prepared for submission was shown to all the membership before it went in, so everybody had a chance to comment on it. Not everybody did comment on it, particularly the institutions you just mentioned.

Mr Austin:

In the case of Newry, all our members support the position that the chamber has outlined.

Mr P Maskey:

That is an important point because the departmental representatives are still here and they say they will takes these views back. The chambers shared their submissions with their members, and some financial institutions are members. It is important for the Department to take heed of that and look at ways to see how something could be done on that. We want to share the wealth, and that is important. However, we also want to share the cost, and that is another important aspect.

Ms S McLaughlin:

I want to qualify one thing in case we have seemed misleading. When we get consultation documents into the Londonderry Chamber of Commerce, we process them through a policy committee and assess what is best for our wider membership. Turkeys do not vote for Christmas. Therefore, some of the legislation coming in will adversely affect some of our members but we have to take the wider good into consideration and make a considered response based on that. When the Londonderry Chamber of Commerce makes responses on legislation, we also take into account what is good for Northern Ireland and not for just Derry city centre. So our submission is based on the wider good.

Banks will get a 20% small business rates relief, and even they know that that is not a fair way for government to give support. The rating system itself is unfair because you are reading the value of the property as opposed to the turnover or profitability of the organisation. In some ways, it is too simple just to say: "That property spends £50,000 on rates, so we will give them 20% relief." What we should be doing is that if there are 20 branches of Bank of Ireland, amalgamate them and cost them as major premises. They are, collectively, large premises and a branch should not be seen as one entity just because it is small. It is the same with building societies: if there are five or six branches, collectively amalgamate their taxations.

Mr P Maskey:

I do not know whether the Department has even thought of that. You could also look at that for bookmakers and turf accountants, because there are lots of them.

Mr Hilditch:

Some of them are small retailers as well.

Mr P Maskey:

The point is whether they benefit from this. Will the multiples benefit when they are probably massive profit organisations? That is the issue.

Mr Austin:

From Newry's point of view, our city centre has been decimated by the recession. We would encourage, I suppose, investment in small, independent retailers. We would see the exclusion of multiple chains from rates relief as providing more money for genuine start-ups and small independent businesses.

Mr Hussey:

How would you differentiate between larger businesses? Banks, for example, trade under Bank of Ireland, Northern Bank or whatever, and there are the larger businesses such as Tesco. Then you have the Supervalus and the Spars. They are obviously stand-alone businesses. A Spar shop is an individual unit but is still Spar. How do you differentiate between who, what, when and where, if you know what I mean?

Mr Austin:

A Spar shop may trade under the Spar banner but it is certainly an independent retailer that has invested his or her own money in the business.

Mr Hussey:

I accept that.

Mr Austin:

Newry has the Good Food Shop, which is a small, local independent business that gives much-needed jobs to the city centre, and that needs to be encouraged.

Mr Hussey:

Without a doubt. I would have a concern when we start to look at bringing all the large stores together as one.

Mr McQuillan:

I agree with a lot of what Cathal said, especially about the 50% rates relief in the first year of business. I think that is a good idea to try to get some of those empty premises filled. You have all mentioned the financial institutions, which we should be looking at. I just want to know how many members each of you have who would actually benefit from the scheme. What worries me a bit about the Chamber of Commerce is that all big businesses can afford to be in the Chamber of Commerce, but the smaller businesses cannot. I know what it is like in Coleraine. I talk to small business representatives every day who would benefit from this, and they tell me that they cannot afford to join the chamber.

Ms S McLaughlin:

Well, 87% of our members are small businesses.

Mr McQuillan:

Would they be small enough to apply for the scheme?

Ms S McLaughlin:

Absolutely.

Mr Austin:

It is a similar position in Newry. In fact, some of the small business owners in Newry — there are some behind me today — are main drivers in the chamber.

Mr Jordan:

The Belfast chamber is slightly skewed the other way. Around 30% would benefit from it.

Mr Cree:

I have a question for Sinead. You mentioned the question of aggregating the small stores of multiples. Do you not think that that would have an adverse effect on footfall in the town centres?

Ms S McLaughlin:

Sorry, I do not understand your question.

Mr Cree:

You were suggesting, if I understood you correctly, that large stores that have small branches downtown should be aggregated, so a small one, like a small Co-op or a small Boots in a town centre would have to be taken into that. If that were the case, surely that would adversely affect footfall and therefore the well-being of town centres.

Ms S McLaughlin:

To clarify, we were speaking about the financial institutions. I was saying that, for example, if the Bank of Ireland had five branches within an area, which were all paying very small amounts in rates, maybe we should aggregate those. I take on board what you are saying, Ross, about Centras, Spars, etc. They are actually privately owned individual franchises or independent stores, and that is different, because each individual is paying their own rates. However, it is Bank of Ireland plc that is paying the rates for all of its branches. That is what I was qualifying. I suppose it would be difficult. It would be messier and would not be as easy, but sometimes we need our civil servants to not just look for the simple solutions, and put a 20% levy in here and take it out there. It is not that easy, and it is going to cause city centres to suffer.

Fundamentally, the view expressed by all of the chambers is that we support the small business rate levy, but we are just not comfortable with the fact that the larger retailers are being penalised, because we feel that the smaller retailers are actually going to suffer for that. We need the larger retailers in order to drive the footfall in our city centres. It needs to be seen by the outside world and investors that we are a place where you can come and do business, and we respect the investment that large multiples make within our city centres.

Mr Cree:

So you would not really support aggregating those small ones for the purpose of levying extra rates?

Ms S McLaughlin:

We would need to see what that formula looked like, but I was particularly talking about the banking institutions.

Mr Cree:

I have no sympathy with the banks. We will leave that alone.

Mr McQuillan:

On that point, would that not go against what you are arguing for on public health, because it would be large retailers that would be hit by that as well.

Ms S McLaughlin:

They certainly would, but the general language in the consultation paper spoke of the rebalancing of the rate system: out of town versus city centre. Quite frankly, 60% of those affected are in or near city centres.

Mr McQuillan:

I think we heard this morning that that was not the case. It was not out-of-town versus town centres; it was all business over a certain size. That is what we were told by the Department this morning.

Ms S McLaughlin:

Yes, but 77 stores are affected: 29 are in Belfast, 16 in greater Belfast and 32 are elsewhere. Four are in Derry, but not particularly in the city centre. However, quite a substantial number of them are predominantly in town or out of town. So, if the essence of the issue with the consultation document is out-of-town versus city centres, the public health levy will deal with that in totality.

Mr McQuillan:

I cannot really see where you are coming from but I can see where the Belfast Chamber of Commerce is coming from. However, the chambers in Londonderry and Newry will be a bit like my own in Coleraine, where any stores that will be hit with this tax will be based outside town centres.

Ms S McLaughlin:

When the consultation document comes out, we do not reply to it just based on what is outside our front door. It is Government legislation, and we have to future-proof it. In three years, because of the financial situation and its fluidity, there is absolutely no guarantee that this will taken off the legislative table and given back to the large retailers or that there will be more support. Given the way things are going, we will not be in a much better position in three years. So, future-proof any legislation that comes before you. Will it stand up?

Mr McQuillan:

Any legislation will have to come back to the Assembly after three years to be renewed. So we have to future-proof it again. I think that the three years will cover it, and if it is not covered within those three years, those of who are here in three years can do that again.

Ms S McLaughlin:

What happens if the situation is still the same in three years?

Mr McQuillan:

We will know in three years whether it is worthwhile doing again.

Ms S McLaughlin:

OK.

The Deputy Chairperson:

Thank you very much for your evidence. Just to explain the process to you: we will take evidence from a variety of panels that will present different angles on this issue, and the Committee will prepare a report, which will be a compilation of the evidence that we have taken on the issue, and we will reach a decision on it by 7 December. Thank you all for coming today. If you wish to send any further information to us, that will be very welcome.