Northern Ireland Assembly

Committee for Finance and Personnel

OFFICIAL REPORT (Hansard)

Rates Issues

24 October 2012

NORTHERN IRELAND ASSEMBLY

Committee for Finance and Personnel

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Members present for all or part of the proceedings:
Mr Daithí McKay (Chairperson)
Mr Dominic Bradley (Deputy Chairperson)
Mrs Judith Cochrane
Ms Megan Fearon
Mr Paul Girvan
Mr John McCallister
Mr David McIlveen
Mr Mitchel McLaughlin
Mr Adrian McQuillan
Mr Peter Weir

Witnesses:
Mr Brian McClure Department of Finance and Personnel

The Chairperson: I welcome Brian McClure, the director of the European division and head of rating policy division and the central finance group in the Department. Brian, do you want to make an opening statement?

Mr Brian McClure (Department of Finance and Personnel): Thanks very much, Chair. I have managed to shed the European work, because there is rather a lot on in rating policy at the moment, so I have not been able to continue holding down two jobs. I am back in rating policy for a time.

Mr Mitchel McLaughlin: You have withdrawn from Europe.

Mr McClure: I have withdrawn from Europe; exactly.

Mr Weir: You are not David McNarry in disguise?

Mr McClure: Thanks for the opportunity to brief the Committee and answer questions on some of the outcomes of the in-year review of the small business rate relief scheme. I will also touch briefly on issues relating to the empty shops rates concession, which was introduced in April, and also the non-domestic revaluation, which you have mentioned. The Minister has some final decisions to make on those three issues, but wants to take account of Committee views before he makes his mind up.

I also want to brief the Committee on, and take questions about, the consequences of welfare reform in terms of supporting those least able to pay rates when the current rate rebate scheme that operates under the housing benefit system disappears. You do not have any papers on that. The reason for that is that things are moving at pace. On Monday, Minister McCausland made some announcements relevant to that, and also some of the issues were discussed at the Executive subgroup. That is why the Committee does not have papers. We will continue to brief you as the months go on, and you will certainly get very detailed papers from us, but this is just to give you a verbal update.

I will start with the non-domestic rating issues. Please feel free to interrupt me if anything is not clear. I will pause for questions after I have explained each of the three business rates issues so that the questions are not mixed up.

Starting with the in-year review of the small business rate relief scheme, which, as members will be aware, was introduced in 2010 for virtually all non-domestic properties below a rateable value of £5,000. I say "virtually", because there are things like car parks, advertising hoardings and telecoms masts that are excluded from the scheme in the legislation. Virtually all others below £5,000 were entitled to help under the small business rate relief scheme in 2010. The limit was doubled this rating year thanks to the large retail levy, which led to properties with a rateable value of up to £10,000 being included.

One of the late changes to the expanded scheme, which the Committee was very much in favour of, was to exclude ratepayers with multiple premises, such as bookies, banks and the like. As that was a late change, the Minister agreed to undertake a mid-year review to establish how well it was working — the new exclusion itself, and also the scheme — and to look at ways of refining the scheme and the possibility of redirecting any savings to extend the upper valuation threshold for entitlement. This is what I want to talk mainly about today.

Members may wish to note that it is not a full policy evaluation. The Department, however, did seek comments from the business community and interested parties on how well the scheme is operating. We were particularly interested in the operation of the multiple properties exclusion and the merits of retaining double relief for business ratepayers who are also entitled to other rate supports, such as industrial derating, sport and recreation relief and freight transport relief. Wider views were also sought on the benefits and limitations of the scheme, bearing in mind that the Department was only considering refinements to the scheme for the remaining life of the scheme, which is up to 31 March 2015.

The consultation closed on 5 October. Ten responses were received in connection with the review, from the following groups or organisations, as outlined in my briefing note: Banbridge District Council, Belfast City Council, Castlereagh Borough Council, Carrickfergus Borough Council, Derry City Council, Lisburn City Council, Cookstown District Council, the Northern Ireland Independent Retail Trade Association (NIIRTA), the Federation of Small Businesses and Smyths Country Sports, which was the one business that responded to us. Carrickfergus Borough Council also advised that it had canvassed the opinions of its local business community before formulating a response to the review. So, in a sense its response represented the views of local business there.

The Department would say that the response to the review was disappointing. However, it was very well publicised. It was advertised in the two main newspapers in Northern Ireland, and there was a lot of coverage in the press about it. I do not know whether there was consultation fatigue or whatever, but it was a little bit disappointing.

It was no surprise that the respondents to the review were universally in favour of the extension to the scheme that was made in April 2012. The Northern Ireland Independent Retail Trade Association and Carrickfergus Borough Council also said that they had received very positive feedback from traders who have been brought into the scheme, with many using the money saved to reinvest in their businesses. All the councils that responded welcomed this year's extension, with Lisburn City Council making the point that it was a sensible intervention in the current economic climate. Eight of the respondents commented on the issue of looking forward and extending the scheme, and all were in favour. The Federation of Small Businesses favoured a general increase in the threshold, while the Northern Ireland Independent Retail Trade Association sought a staggered increase from £12,000 next year through to £15,000 rateable value by 2016. Lisburn City Council favoured an increase in the upper threshold to £15,000. Smyths Country Sports suggested that anyone with a rate liability of £10,000 or less should be exempt from rates, and encouraged the Department to extend the scheme in that way. Carrickfergus also wanted us to adjust the percentages that applied within the scheme, extending the threshold for 50% relief from the current £5,000 rateable value to £7,500 and increasing the 25% relief band from £7,500 to £12,000.

Reservations were expressed in some of the responses about the removal of relief for multiples or those already in receipt of other reliefs within the rating system. The Federation of Small Businesses (FSB) stated that it did not have enough information available to make a recommendation on that, and advised that, in order to continue with the automated scheme, that would require some difficult work from Land and Property Services (LPS).

Derry and Castlereagh councils also expressed concerns about taking those reliefs from businesses in the current economic climate. I will talk about that in some detail, but it is worth noting that I took three phone calls — two from leading business organisations and one from a council — to say that they would not comment on this particular issue but that they saw a logic in removing double relief. They thought that it was a sensible enough policy but, because of issues around their membership, they felt that they would be unable to make that point. It is an interesting sideline to the consultation that I got three phone calls on that.

Lisburn and Castlereagh both supported the continuation of the current arrangements on charity shops relief, which was not really the subject of the consultation, but is worth mentioning. Carrickfergus stated that it would like to revisit rates relief for charities and impose a small levy due to the disproportionately high volumes of them in town centres, particularly in Carrickfergus.

I will give you some figure work now. There are a total of 24,000 properties benefiting from the extended scheme this year, and the annual cost is £13 million. One thousand, four hundred multiples are excluded from the scheme, up to a value of £800,000 in terms of rates. If we also look at removing double relief, that would apply to 2,700 properties. We think that that would be sufficient to allow the extension of the upper limit to £12,000 from the current £10,000. The overwhelming majority of those entitled to two reliefs — about 80%, or 2,400 properties — are in the industrial derating category, so they are currently entitled to 70% industrial derating and then, on top of that, the balance gets a 20% discount. The other big category is those entitled to sport and recreation relief, which is 80% relief, so that category of ratepayer already gets 80% relief. That is just to put that in context.

If we were to remove double relief from those entitled to industrial derating, the average would be £164. If you set that against the benefit they get from industrial derating of £1,688, you can see that the industrial derating is much more significant. If we were to remove double relief from the sport and recreation properties, they would lose £180, based on what they paid this year. Set that against an average reward for sport and recreation relief of £1,800. That puts it in perspective.

That is a quick run though the responses and some of the issues that we are looking at. The key issue is recycling the savings from excluding multiples, and also recycling the savings by removing entitlement to double relief. That latter point, obviously, will be an issue, and I am interested in the Committee's views on that point.

The Chairperson: Thank you, Brian. I think that it is also about consultation fatigue, because a number of departmental consultations are coming before us where there has been very little or no response. That is a general issue that the Department should look at with regard to encouraging more engagement from the public.

A number of Committee members are also on the Public Accounts Committee, which is also looking at rates-related issues today. Some of us will need some rate relief by 5.00 pm this evening, no doubt. What administrative costs have been incurred by LPS in looking at the multiples issue? Can you give us a general overview of what additional pressures have been put on LPS by recent changes to the empty property rates concessions?

Mr McClure: I do not have the figures to hand. However, it has been quite difficult for LPS to remove the multiples from the scheme. At the start of the process, LPS said that it did not think that it could do it. However, there was such pressure to exclude multiples, bearing in mind the views of the Committee and the Assembly, that it was kind of forced into doing it. It was quite a labour-intensive process. A lot of it was set-up and start-up costs. Maintaining the list of multiples is maybe not such an issue. I can provide the Committee with figures, but the point is that LPS has already done it now. It has excluded all the multiples for the £10,000 limit. Therefore, if we were to extend the scheme, it would only be the difference — the marginal change — that we would be excluding the multiples from. I do not think that it would inhibit the Department from wanting to increase the upper threshold of the scheme and exclude multiples. However, I will provide you with a figure after the meeting.

The Chairperson: What kind of savings would be realised by the exclusion of the multiples?

Mr McClure: Currently, there are 1,400 properties excluded through the multiples, and the value of that is £800,000 a year. That money can be recycled to increase the upper valuation threshold to bring in more small or stand-alone businesses.

The Chairperson: As well as that, how do you define multiples?

Mr McClure: Multiples are any ratepayers with more than three properties.

The Chairperson: Would that include small, independent businesses?

Mr McClure: It could. For example, it could include somebody with heel bars in various locations. That would be typical. However, the main intention of the policy, which Mr Girvan alluded to, is to exclude the banks, the bookies, chains of pubs and so on.

The Chairperson: Did you consider tailoring it further?

Mr McClure: That is what we thought when we went out to the in-year review. We wanted to identify whether there were any problems with it, particularly in relation to whether we inadvertently excluded any genuinely very small businesses from entitlement to the scheme because of that provision, but we did not get anything on it. We did ask the question.

The Chairperson: What did FSB say about that?

Mr McClure: FSB was broadly content with the multiples exclusion.

Mr D Bradley: At the moment, is the scheme fully funded by the large retail levy?

Mr McClure: The original scheme is funded through the departmental expenditure limit (DEL) or through the regional rate. The extension to the scheme is funded through the levy. Therefore, the large shops levy, which is a 15% levy on the 77 largest shops in Northern Ireland, paid for a doubling of the valuation threshold and a doubling of the relief provided through the scheme. That levy raises about £6·5 million a year, and that is all used to double the scheme. That levy will apply for three years.

Mr D Bradley: What is the breakdown between the DEL and the large retail levy?

Mr McClure: It is about 50:50. It was a doubling of the scheme, and the original scheme was funded through the regional rate or through DEL at a cost of about £6·5 million. The levy then provided a supplement of £6·5 million, so the total annual cost of the scheme is £13 million.

Mr D Bradley: You were saying that if you were to extend the scheme, it could be paid for by removing double relief on the 2,700 properties.

Mr McClure: Yes, that is right, and also continuing to exclude multiples. As that was a late change to the scheme, we did not know the figure work for the multiples so we did not know what savings it would produce. We now know that information. That will save enough to put the valuation threshold up from £10,000 to £12,000. That would bring in an additional 2,250 business properties, which is not insignificant.

Mr D Bradley: Has any consideration been given to increasing the levy on large retailers, or do you think that they have taken enough?

Mr McClure: No, our Minister has given a commitment that that will not change and will not be extended beyond the three years. By that time — and I will discuss this later — the revaluation will have been carried out.

Mr D Bradley: What is the timescale for introducing any changes that might come about as a result of the review?

Mr McClure: Once the Minister has made a decision, we will draft the regulations and present them to the Assembly for approval. That can be done in time for the issuing of bills in April next year. So, the April bills will have that applied automatically. That is one of the key features of the small business rate relief scheme in Northern Ireland: it is automatic. People do not have to fill in forms to apply for it.

Mr D Bradley: That is certainly helpful. Thanks.

Mr Girvan: I thank Brian for coming along. I would like a bit more detail on the double relief issue. There is an unfairness in the way that it seems to be put across in that some people can avail themselves of two opportunities to reduce their rates bill.

The response from Carrickfergus Borough Council mentioned an issue with high street charities. Could some work could be carried out to identify key sites in our town centres occupied by charities, some of which are very valuable retail sites? I appreciate that nobody wants to take the money out of a charity's pocket, but some of them are extremely wealthy, I might say. Some of them are not just charities; they seem to be more businesses than charities. On the basis of that, is there a possibility that any work could be done by the Department to extract more data so that we could come forward with something better?

It is worthwhile having the review at this stage, because it gives us some insight as to the way forward. The double rate relief issue needs to be seriously looked at. I appreciate that there are those who have made mention of it but do not want to put their heads above the parapet and identify some of the culprits or those who will benefit from it. We need to be willing to make decisions that may not be the most popular, but there is a fairness issue that needs to seriously be looked at.

Mr McClure: In relation to double relief, the majority of the cases involve industrial derating. They are currently entitled to 70% derating so they pay 30%. On that 30%, they get an additional 20% off. To put that in context, the average award for those on double relief in terms of industrial derating is £1,688, and the average reduction under small business rate relief is £164. So, it is a very small proportion of the double relief that they would be getting. However, there is quite a large number of them.

Mr Girvan: It is the number of them.

Mr McClure: That money can then be recycled to increase the valuation threshold so that more shops and the like can be brought into the scheme.Where charity shops and charities occupying premises in town centres is concerned, interestingly, a report came out yesterday from the Welsh Assembly Government looking at the whole charitable status and the prevalence of charitable operations in town centres. I know that Wales is going to look at that. We are not currently looking at it, but we could. I have not had any discussions with the Minister about it, but we are aware that it is in the background. It is mentioned quite a lot. We actually have quite a good policy on charity shops, in that they get exemption that is proportionate only to the amount of donated goods that they sell. If they sell new goods and are therefore competing with local traders, they should be paying rates on that proportion, which is not the way that it operates in the rest of the UK.

Mr Mitchel McLaughlin: Hello Brian. Dominic covered the main point that I want to discuss, but I want to raise something else with you. Will the review consider the objective science of the actual effect of the new relief? You will remember the discussions that we had, and you will know that there were counterarguments as well as support for the proposition. I think that the Assembly was clearly anxious to do something, but, at times, I wondered whether it was anxious to be seen to be doing something. I am just wondering whether there has been a beneficial impact of it. More forensic examination of the issue would perhaps give us a different conclusion.

Mr McClure: Our view was that we could only ever undertake a very quick in-year review of the relief. The economic benefit of small business rate relief is something to be kept for the full policy evaluation, which we are going to undertake in 2014. The reason that we are leaving it until then is, first, to let it bed in, but secondly, by that time, we should know the effects of the revaluation. I am going to discuss the revaluation in a moment. However, if and when a revaluation goes ahead, we will know around 2014 what its impact will be. Therefore, we will be able to marry the assessment of the impact of the revaluation of small business to the continuation of the scheme.

Mr Mitchel McLaughlin: This obviously has to do with the wider economic recession, but there is virtually a town centre blight with businesses going out of business. It obviously had little or no impact on that, and, given the resources that are required to do something like that, we could not really have expected it to. However, I wonder whether that initiative was properly targeted. Again, if there is a wider review, we should put down a marker to say that it should consider those kinds of strategic impacts, if there were any.

Mr McClure: We do not know what the counterposition would have been had we not had the small business rate relief. For example, would the town centres' blight have been even worse? If you are talking about trying to target it in a better way, it is very difficult to start drawing red lines in Northern Ireland, because you can get into all sorts of bother —

Mr Mitchel McLaughlin: My question is more fundamental. We could speculate about whether it would have been worse, but I am more interested in knowing whether it actually saved any business. I think that we could establish that. I suspect that it may not have had as dramatic an impact as people may assume. Again, we get away with being seen to be doing something, as opposed to doing anything real.

Mr McClure: You could be right. The scope of the in-year review was not wide enough for us to be able to consider —

Mr Mitchel McLaughlin: I accept that.

Mr McClure: We have to move fairly fast if we want to extend the scheme and get rate bills adjusted for next year.

Mr Mitchel McLaughlin: It is relatively early.

Mr McClure: It is relatively early, but that is a very valid point, and the situation is has to be looked at through the evaluation to see whether it is significant enough to make any economic difference.

Mr Mitchel McLaughlin: As a last point, we had some dire — they were not threats, but concerns, perhaps, from stakeholders that the scheme could actually have the impact of forcing some of those multiples to either wing in their investment projections or do something that is even worse. Is there any evidence to sustain that?

Mr McClure: Tesco was in the news a couple of weeks ago making some noises about the adverse impact of the scheme. I have to say that that is not our objective assessment.

Mr Mitchel McLaughlin: That is my view as well.

Mr McClure: I was going to make another point, but I am sorry — I have forgotten it. If that is all the small business rate relief —

Mr Weir: Sorry, Brian. To pick up on Mitchel's point about the 77 that were being used, I presume that none of that 77 has closed down or been shut in the meantime?

Mr McClure: No, I think that the list is still intact. In fact, I think that it has been added to.

Mr Weir: There you go. That is useful.

This is more of a comment than a question. The lack of responses was mentioned. An element of that has been blamed on consultation fatigue. Given that pretty much any of the responses were variations on positive, is one likely explanation for that lack the fact that there is a general level of contentment, in that we have gone in the right direction? In my experience of consultations, you tend to get responses where you are producing something new, or if any Department or anybody proposes something that annoys various groups, they are generally very quick to respond. Generally speaking, they tend to be less quick to express satisfaction at something.

Mr McClure: I think that it has been universally welcomed. I have accompanied the Minister on walking tours around Newry, Londonderry, Ballymena and Ballyclare, and I have to say that I have been struck by the number of people who have come up and shaken the Minister's hand and thanked him for saving them £700 a year in rates —

Mr Mitchel McLaughlin: In Newry and Derry? *[Laughter.]*

Mr McClure: Yes, in fact —

Mr Mitchel McLaughlin: Are you sure that it was his hand they were shaking? *[Laughter.]*

Mr McClure: If I had a fancy phone that took photographs, I would have taken photographs, but I can assure you — I was there.

Mr Weir: Will the more fundamental review that you are talking about in 2014 also look at the wider issue of the balance between the domestic and the non-domestic? I think that, broadly speaking, that is one of the issues that —

Mr McClure: Not at the moment. We may look at the balance of the domestic sector and the non-domestic sector in relation to the district rate in the review of public administration. That is a little bit of an issue —

Mr Weir: I appreciate that, and I appreciate that there will be high-level implications.

Mr McClure: It will not be considered in the context of a policy evaluation on the effectiveness of small-business rate relief.

Mr Weir: OK.

Mr D McIlveen: This is just a very quick point. Tagging on to what Paul said, where do you see faith-based organisations slotting in? At the minute, a number of faith-based groups operate food shelters and so on in town centres under charitable status, and there are also places of worship in town centres. Do you see any fundamental changes there?

Mr McClure: No, I do not. Virtually all of them would be exempt. Where a charity engages in overt commercial activity that does not directly facilitate its aims, it may fall foul of the exemption and may not gain any, but by and large, they would all be exempt.

Moving on to a separate issue, I will give you an update on the empty shops rates concession that was introduced in April 2012 with the aim of getting long-term empty shops and other retail premises back into business and helping to rejuvenate town centres. As I said, the Minister has visited businesses in a number of towns across Northern Ireland — in Fermanagh, Larne, Lisburn, Derry and so on — that have benefited from the new scheme. He has been very impressed by the impact that it has had in giving businesses a helpful start and arresting town centre decline. It is interesting that, a couple of weeks ago, the Scottish Government announced that they were going to emulate our policy and adopt a similar scheme there for 2013. Yesterday, I mentioned the Welsh Assembly Government proposals, in that they are also looking at introducing the scheme in Wales. So, Northern Ireland has been leading the way with some innovative policies.

Over the next few weeks, the Minister will be considering the case for extending the scheme for a further period. Currently, it applies for only one year. The reason that it was included for only one year was, first, to attract a lot of initial interest, because if you give people a limited window, you sometimes find that applications will go up. Secondly, we were concerned that it would cause displacement and that there would be some fun and games going on on the high street with people moving about to take advantage of it. However, that has not happened, and we have no evidence whatsoever that it is happening.

There have been 32 successful applications so far. That is 32 businesses that have set up in long-term empty shops. That is significant enough. In Derry, there are about six, and, in some towns, there are none. There are none in Ballymena at the moment, which is disappointing.

The Chairperson: Could we get a breakdown of those figures?

Mr McClure: Yes, of course. I have them, and I will send them to you. At the moment, 32 might not seem a large number, but it must be remembered that those are new businesses that have set up in long-term empty shops. I think that the scheme has been quite successful over the few months that it has been in place.

The Chairperson: How many of those are in Belfast?

Mr McClure: I cannot tell you. We have the figures broken down by district council area, and I will send them to you. With that in mind, the Minister is thinking of extending the scheme for a period, and I was wondering whether the Committee has any views on that.

Mr McQuillan: If we have 32 new businesses into long-term empty properties, I think that it is definitely worth going on for another year. We could double that this year to 64.

Mr McClure: We believe that the cost and rate liability is a deciding factor for many businesses, and, therefore, we believe that the businesses involved would not have done this unless it was for the policy. So, there is no rate loss. It is a pretty neutral cost to the whole scheme. The Department is, I think, in favour of extending it, so I was wondering whether the Committee sees any downsides to it.

Mr McQuillan: The rates are the main factor in any business closing. Anybody who I have talked to has said that that is the biggest pressure on them. I met the Chamber of Commerce in Coleraine two weeks ago, and its main cry concerned the rates. So, I think that we should do anything that we can to help with that and to encourage new business.

The Chairperson: Is the Scottish adoption of the scheme exactly the same?

Mr McClure: From the papers that we have read, it seems that it is exactly the same. We talk to our counterparts in the rest of the UK, and we have shared information on it. They are pretty keen to adopt it line for line.

Mr Girvan: I am looking at it from the angle of the zero-cost option. We receive only 50% of the rate anyhow, and extending it for a further year means that, effectively, if the property in question were not occupied, you would still receive just 50%. So, from that angle, it makes sense to me to try to give every encouragement to any new start-up business in a town centre. That has to be welcomed, and we should accept that approach and endorse an extension to it. That is my opinion, but I appreciate that others might have a slightly different view.

Although I do not know how we could bring this forward, I still believe that we could do work on high street property that is not necessarily in a derelict state but is such that it will not encourage anyone into it. Could any incentive be given to property owners and those who own valuable real estate in the middle of our towns to invest to bring such properties up to standard? Can we look at a measure to use the rates as a process for bringing that forward? I am aware that, in some town centres, some people take advantage by getting a building classed as being in a state of dereliction. Therefore, they remove the roof and create a total eyesore in the middle of a town simply to avoid paying the 50%. There is no incentive for that person to try to improve that building and to bring somebody in who will then pay money back into the rates at some stage. I know that that is not in the scheme, but it could be looked at to see whether some will benefit from it.

Mr McClure: Interestingly, the Minister mentioned that to me about three weeks ago, and we looked at it to see whether there was any conceivable way that we could provide an incentive through the rates to help with that. The problem is that, if a property is sitting semi-derelict, it is a bit of a mixed bag. Some such properties are in the valuation list and some are not. If those that are in the valuation list are in a deteriorating condition, the owners will apply to get them removed from the list. If they are not paying any rates in the first place, you cannot give them an incentive in the rates. Given that this problem is not unique to Northern Ireland, I tried to see whether any other jurisdictions worldwide had a similar scheme, but I could not find anything. The one programme that was relevant to this is the reStore project, which the Department for Social Development (DSD) sponsors. It provides small grants to help to improve the appearance of derelict shops on high streets. However, to be honest, I do not think that there is anything that you can do in the rating system that would help. Given that the rating system is based on the current state of the premises and its current use value, it is very hard to construct an incentive, particularly when many do not pay rates in the first place if the property is lying derelict.

Mr Girvan: I appreciate that.

Mr D Bradley: How is the scheme funded?

Mr McClure: The empty shops scheme? It is not funded. It gives a rate discount. We believe that, in the absence of a policy, it would not cost any more to provide this, because we believe that those businesses would not set up shop without the rates concession. That is certainly the message that we are getting from the individual businesses that we have spoken to, and we have spoken to a good number of the 32 businesses. It made a difference between their doing something and not doing something. So, in that sense, we think that the cost is pretty neutral.

Mr D Bradley: OK.

Mr McClure: If you wanted to do an academic exercise, you would find that the cost is about £80,000 for rates foregone, but we believe that it is really not an extra cost, because we do not think that the businesses would have set up without the rates concession.

Mr D Bradley: Considering what we are hearing about the number of empty shops in towns and villages, there seems to have been quite a small uptake of the scheme during its first year. Do you have any plans to try to increase uptake if the scheme continues into a second year or beyond?

Mr McClure: We are continually trying to improve awareness of the scheme. Northern Ireland Business helps people who want to set up business, and we have put information about the scheme on its website. The Minister gets quite a lot of press coverage on this and has tried to promote the scheme. We have sent information to councils to help them to promote it. I am not sure how much more we can do. We have talked to the communications office in DFP about trying to promote awareness of it. Fact sheets are available, and we try to get as much publicity as we can through ministerial business.

Mr D Bradley: I think that it is a useful scheme, and it has encouraged a certain number of people to set up businesses. Hopefully, if it continues, that number will increase in the year ahead.

Mr McClure: That is what we hope.

Mr Mitchel McLaughlin: It is an interesting issue. I am not certain what impact businesses that set up in these circumstances would have over a period of time. Obviously, they are initially operating at a very low threshold, if that meant that it was such a delicately balanced consideration that the relief tipped the balance in favour of going ahead. I suppose that, if they were like bargain basement-type enterprises, it might have some effect on the businesses and the streetscape in the retail sector. Clearly, economic multipliers such as jobs, footfall and service will offset that. So, I support rolling the scheme forward. There may be logic to rolling it into the 2014 review, which would allow us to perhaps take a two-year perspective on it. We could then gather the data and, at that stage, look at the overall balance of the cocktail of reliefs to see whether we can streamline them to deal with the issues more effectively.

The Chairperson: OK, Brian. There is a consensus.

Mr McClure: I will move on to the third business rates issue, which is the non-domestic revaluation. The Committee will be aware that, on 5 April 2012, the Executive agreed that preparation should be made to undertake a revaluation of non-domestic properties in Northern Ireland that would come into effect in 2015. As the Minister advised the Committee in his letter last Thursday, the Department for Communities and Local Government in Whitehall has postponed the revaluation in England until 2017 on the grounds of giving businesses certainty over the next few years so that they can concentrate on delivering growth. However, the circumstances in England are quite different from those in Northern Ireland. The rest of the UK had a revaluation in 2010 and 2005, but Northern Ireland has not undertaken one since 2003. There is no technical reason why Northern Ireland cannot proceed alone, as it has in the past.

Furthermore, and very importantly, the local business community has been urging the Department to carry out a revaluation as soon as possible to update the values and redistribute the rating burden accordingly. The Minister is inclined to go ahead with the revaluation here, but he has advised the

Executive that he wishes to take into account the Committee's views before a final decision is made later this month. The Committee may wonder what the issue is here. From our perspective, they are twofold and are issues that I think the Committee is already aware of.

First, it is not the panacea that many businesses expect. A high proportion of business sectors and locations have been in decline since 2007, but it is how things have changed since 2001 that matters. We still have to raise the same amount of money to pay for public services, so reductions for some will result in increases for others. The possible outcome of revaluing 75,000 non-domestic properties may be that 5,000 of them go up quite a bit, 15,000 could go up a bit, 20,000 could stay more or less the same, 15,000 could go down a bit and 5,000 could go down quite a bit. That is the scale of things that happen when you redistribute the rating burden. I hope that those figures add up to 75,000. *[Laughter.]* That is what we are talking about. There is a business expectation that this revaluation will radically reduce some businesses' rate bills, but that has not been the experience in previous revaluations. So, the sort of figures that I talked about is how it is likely to pan out.

The second potential issue is the reliability of rental evidence, particularly in the retail sector, where giveaway deals are common and turnover rents are becoming commonplace. We in the Department are concerned that, after the revaluation list is implemented, it will shrink more than after any previous revaluation, as ratepayers challenge their assessments in 2015. Having said that, we believe that the revaluation should proceed as planned, but I am interested in the Committee's view on that. I am particularly interested in the Committee's view on the two issues that I mentioned: the stability of the tax base and unrealistic expectations about what the revaluation will deliver.

The Chairperson: I think that it is worth reminding the Committee of its report that recommended that the revaluation should not be delayed beyond 2015.

Mr Weir: I will pick up on what Brian said about the revaluation.It is clear that there is a need for periodic revaluation. It strikes me that that makes common sense from the point of view of having a certain level of fairness where there have been adjustments in the broader market.

(The Deputy Chairperson [Mr D Bradley] in the Chair)

You raised a point about expectations. What thought has the Department given to handling expectations? One of the things that I am sure that a lot of us get, particularly with the non-domestic market, is a lot of businesses coming to us saying that their rates are too high, that the rating valuation of their business is unrealistic and that their rates would be a lot lower if there was a revaluation. Even with people who you would expect to know better, you have to make it clear that any revaluation would be a relative exercise and that the same amount would have to be raised. Therefore, there will be some people whose business is worth less than it was but who will end up paying more. I share your concerns on that.

Has the Department given any thought to how to handle that? For example, there could be a strong information campaign on the revaluation. My one concern would be the level of unrealistic expectation and people seeing it as an opportunity for their rates to come down. For a lot of people, there would be a high level of disappointment.

Mr McClure: Yes, absolutely. The Department, in conjunction with LPS, has drawn up a communications strategy, and that is one of the key messages that we hope to roll out over the next couple of years to try to manage expectations as best we can. There is an expectation that Donegall Place will get reductions; there is an expectation that the licensed trade will get reductions; and there is an expectation that the Lisburn Road will get reductions, as will Church Street, Ballymena and much of Lisburn. The rates in those areas cannot all go down. The rates in Church Street, Ballymena probably will go down because it has dramatically changed in character since the last revaluation in 2003. However, some places, in relative terms, may not have declined as much as others and, therefore, may face rate bills that are relatively unchanged.

Mr Weir: Leaving aside the wider picture of how it impacts across Northern Ireland, you may have a situation where there is a reasonable reduction in a certain area. I do not know Church Street in Ballymena, but I expect that my colleague will know much more on that. That said, there may well be other business people in the same district who are paying a larger slice of the cake to fund the reduction. At best, those people will see the revaluation as something that will benefit them as they see the valuation of their business going down, or they are blithely moving ahead thinking that it will not have any particular impact on them.

Mr McClure: We are keen that it is seen as a reasonable exercise of adjustment rather than some sort of intervention because of the downturn, which it certainly is not. It is part of the normal cycle of rating activity that you have revaluations every few years. We are a bit concerned that businesses might interpret it as some sort of Executive intervention to help businesses during the downturn, because it is not.

Mr Weir: As we have mentioned in the other areas, there are a lot of welcome interventions that have led to reductions of various descriptions. The complication is that there is a danger that people will see this as another intervention by the Executive to help businesses with the rating situation, and there could be a rude awakening for some folk. That said, that is no excuse for it to not happen, because, where there are people paying too much or too little, the rates bill needs to be calculated on the basis of the current situation rather than something that bit by bit becomes more outdated.

Mr McClure: I think that we have to do it, because people are paying rate bills based on rental levels in 2001, which is far from fair.

The Deputy Chairperson: The point that you and Peter have made is that there are expectations out there. You can hear almost every day in the media that, when the review comes, there will be a huge benefit to businesses. As you pointed out, and as the Minister has said on several occasions, there will be winners and losers. It is important to ensure that people do not have the wrong type of expectations. As you say, you will be working to try to achieve that outcome.

Mr McClure: In some senses, that is the easier issue to deal with. The other issue that I mentioned is to do with the reliability of the market evidence on which to base the tax base. It will be LPS's call as to whether the revaluation is doable. At present, LPS tells us that it is doable, but we have asked for it to revisit that. Subject to that and to the views of the Committee, the Minister is inclined to proceed with the revaluation here.

Mr Girvan: Thank you. I appreciate that in excess of £1 billion is lifted through rates annually, and it is the proportion that is attributed to our commercial or our non-domestic rate collection that is the factor we want to focus on at this stage. The message I have had from some people is that we need to look at the reliance on using the proportion that has to be raised from the non-domestic sector across the board. As there is precious little growth in the domestic housing market — there is not the same number of newbuilds as there was maybe five years ago — the growth potential is reduced dramatically there. It is not a message that I would like to try to sell either: that, from the domestic point of view, the portion of burden is not realistic in comparison with other regions and areas of the UK. Unfortunately, the media are ignorant to a lot of the facts and believe that if people have a valuation of £250,000 and their house is now valued at only £150,000, they are going to end up with a dramatic reduction on their rate. That is not the case and nor would it be the case, because the same amount of money has to be lifted from the same number of premises. The point that people make to me, from a business point of view, is that the proportion that will be attributed to the non-domestic sector is the factor that we need to look at.

Mr McClure: We are doing some work in relation to the review of public administration. At the moment, councils strike one rate, and there are what are called conversion factors, and that is artificially maintaining a particular split between the domestic and non-domestic sector. The question is whether we want to continue with that as we move into RPA. We are looking at it in that context, but it raises the wider issues that you have raised. We are far from concluding work on that, but we have started it. It is an issue.

The Deputy Chairperson: You mentioned the issue of market reliability. What are the main factors that you need to take into consideration there?

Mr McClure: It is mostly something affecting the retail sector. There are a lot of giveaway deals, where people go in on nominal rents to pay the empty property rates, and what are called reverse premiums, where people are enticed in to keep the property occupied so that the rating outgoings are paid for. It is very hard to discern a reliable pattern of values in many high streets. That is one of the issues.

The Deputy Chairperson: Are you saying that, in some cases, there are unrealistically low rents?

Mr McClure: Yes.

The Deputy Chairperson: That throws the picture askew.

Mr McClure: Yes. The tax base has to be underpinned by market evidence. In a typical high street, you could have some people on a nominal rent, some on a historical rent and some on a rent that is being reviewed, and then you could have a couple of empty shops and so on. It can make life difficult to try to establish a defendable level of value, and that is the question that we have asked LPS to revisit.

The Deputy Chairperson: How do you equalise that across all those variables?

Mr McClure: We are getting into territory that is a matter for the commissioner of valuation and his professionals. Those involved in revaluation are trained chartered valuation surveyors, so it is part of their job to do that. However, it is a very difficult environment and a very difficult context in which to do that when you have certain giveaway deals in relation to occupying premises or you have people on turnover rents, which are becoming more prevalent at the moment because of the recession. It is difficult to establish a firm evidence base on which to construct a tax base. I am just making the Committee aware that it is probably the most difficult revaluation that LPS will ever have to undertake, given the market conditions at the moment.

Ms Fearon: Will a commitment be made that the revaluations will be carried out periodically after this, given that the last one was in 2003?

Mr McClure: England, Wales and Scotland are on five-year cycles. We do not have that. Our last one was in 2003. Before that, it was 1997, and, before that, it was 1976. There is no regular pattern of revaluations in Northern Ireland. From a rating policy point of view, we would see great merit in putting it into statute that you have them every five years. It takes it out of any political argument, and it makes sure that they are done on that period. We do not have that currently in our statute — *[Interruption.]*

The Deputy Chairperson: Sorry, members. If you do not mind.

Mr McClure: I think that we used to have, but it is no longer the case. Margaret Thatcher abandoned a revaluation around, I think, 1981. That provision was taken out of our legislation at the time and was never reinstated. From a rating policy point of view, we would like it to be reinstated. However, we have not been asked to do that. If the Committee feels that that is something that it would like us to examine, we will certainly do that.

The Deputy Chairperson: Thanks very much, Brian. No doubt, we will meet you again in due course.

Mr McClure: Those are all the non-domestic issues. If I have enough time, I would like to very briefly update the Committee on welfare reform and the consequences for the rating system.

The Deputy Chairperson: OK.

Mr McClure: As you will be aware, the Executive agreed in May to the continuation of the current rates support element of housing benefit for an interim period lasting no longer than 24 months and that the shortfall in funding that we get from Treasury to pay for that would be paid out of public expenditure. At the Assembly on Monday, the Social Development Minister announced that, as a result of the successful outcome of his discussions with Lord Freud, he is in a position to launch universal credit in April 2014 in Northern Ireland, not October 2013, which was the original date on which we were working. That is an operational flexibility that has been negotiated.

Our Minister has welcomed the Social Development Minister's announcement, and there will now be engagement between DFP officials and DSD officials to discuss options and implications for the rates support agreement. That is maintaining the holding operation. The announcement is new to us, but our view is that we could continue to retain the rate rebate in housing benefit legislation for a further year. Otherwise, we will have to legislate for something that will be quite a short-term holding operation. I am letting you know of our thinking. We have signalled that we wish to take through regulations to bring them under rates legislation. Monday's announcement may give us an opportunity to do something a bit simpler than that.

Mr Weir: Thank you, Brian. I am sure that that is something that, broadly speaking, will be welcomed. What is the cost implication of the extension?

Mr McClure: The holding operation will very soon prove unaffordable and unworkable. The Executive have agreed to fund that for two years. It starts off at a shortfall cost of £13 million. However, if you allowed the holding operation to continue for three years, our current projection is that that will ramp up very rapidly to a shortfall of about £43 million. It will have to be met through the Northern Ireland departmental expenditure limit (DEL).

Mr Weir: Will that be £43 million per annum?

Mr McClure: Yes. It goes up so quickly because Treasury is cash-limiting the amount of money that is available for rates support from next April. It starts off at 10%. That 10% is £130 million, but because there is that cash limit against increasing demand, changing demographics, such as people getting older, and uprating to do with inflation, that £13 million turns into about £43 million within about three years. That very quickly becomes unaffordable. It also becomes unworkable because, with the introduction of universal credit, the current passporting mechanisms will not be available to us anymore. Currently, two thirds of rate rebate claims are dealt with through entitlement to social security benefits such as jobseeker's allowance, employment and support allowance and income support. That is all lost when universal credit comes in, and we will have to design a new scheme. The Minister has to clear it with the Executive, but we hope to agree to DFP taking forward proposals for a redesign of rate rebate after the holding operation runs its course. We do not think that, after about two years, we can continue to work it in that way.

Mr Weir: The holding operation at least gives you a little bit of time to develop that.

Mr McClure: It does, and it gives us a little bit of an advantage. The 10% cut is facing the whole of the UK. It applies to local authorities in GB and to the devolved Administrations in Scotland and Wales. Scotland has done what we are doing, which is to make up the shortfall for a period out of public expenditure. The Welsh have decided to simply reduce the amount of benefit to claimants. If their current proposals go through, they will do that from April.

Mr Weir: I appreciate that you cannot put yourself in the mind of the Scottish Executive, but is theirs also, effectively, a holding operation?

Mr McClure: It is a holding operation for one year, and it comes at a cost of £40 million. The majority of it is paid by the Scottish Executive, but the Confederation of Scottish Local Authorities is making a £17 million contribution towards that.

The Deputy Chairperson: Thanks very much, Brian. You will no doubt come back to us about the small business rate relief scheme.

Mr McClure: At the next opportunity, I will provide a written brief to the Committee on rate support for the domestic sector, which is a very important issue. As the Executive subgroup meeting only took place this week and there was the announcement this week, we were not in a position to give you a written brief on that.

The Deputy Chairperson: The Committee has given its agreement to the continuation of the empty properties rates concession scheme. Thank you very much. As I say, we will no doubt speak about some of those issues again.

Mr McClure: As a point of clarification, apart from the issues that I have mentioned and discussions that we have had, has the Committee no issue with and supports the Minister deciding to proceed with the revaluation?

The Deputy Chairperson: When we are finished with your evidence, we will deal with that.

Mr McClure: OK. Thank you.

The Deputy Chairperson: Thank you.