Northern Ireland Assembly

Committee for Finance and Personnel

OFFICIAL REPORT (Hansard)

Non-domestic Rates Revaluation: Department of Finance and Personnel and Land and Property Services

13 November 2013

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 Paul Girvan
Mr John McCallister
Mr Ian McCrea
Mr Mitchel McLaughlin
Mr Adrian McQuillan
Mr Peter Weir

Witnesses:

Mr Brian McClure	Department of Finance and Personnel
Mr Alan Brontë	Land and Property Services

The Deputy Chairperson: I welcome Alan Brontë, the commissioner of valuation at Land and Property Services (LPS). Brian McClure from the Department of Finance and Personnel (DFP) is still with us. Alan, would you like to start?

Mr Brian McClure (Department of Finance and Personnel): I will start, Chair. This is a very important issue, and I know that the Committee is keen to see this happen. I will pass over to Alan in a minute to update you on what is happening.

This is the first revaluation to have been undertaken in the UK during a prolonged downturn. That raises some issues, and I will come back to you on three in particular. I will let Alan inform you about where the project is at the moment. I will come back to the three issues and take questions.

Mr Alan Brontë (Land and Property Services): To ease us into the subject, it is a revaluation exercise first and foremost. It is my responsibility to oversee the revaluing of over 70,000 non-domestic properties in Northern Ireland. This year, 2013, is a key year, because the legislation directs me to value the properties as at 1 April 2013, and, as you are well aware, the new property values come into effect in April 2015. You will recall that a revaluation of this type was carried out previously in Northern Ireland in 2003. Therefore, it had a 2001 valuation date. I believe that it is right that we are engaged in a revaluation at this time. There is a need to rebalance business rates. The relativities have changed substantially since 2001. The Committee is well aware that a revaluation does not alter the total amount of rates payable; rather, a revaluation is about how that same burden is shared out. That is really important but, as Brian said, brings considerable challenges to all of us. As he said, it is the first time that we have had a revaluation in the UK during a recession. Revaluation is evidence-based, and it is about collecting rental evidence and other business data and building cost data that assists in forming the values and giving LPS the steer. We follow the market; we do not invent values from nowhere. The collection of reliable data in this business climate is particularly challenging, but that is what we must do, and I believe that it is critical that we have robust and reliable rental lease data.

We have been engaged very much in that collection process from businesses and have also been carrying out some validation of the data and, where necessary, inspection. We have been consulting with stakeholders, specialist operators, professional bodies, trade associations and the like. We are now very much at the analysis stage and will move towards establishing the draft values over the next months, looking at shops and offices, warehouses, factories and everything else, as we said in the paper, from an abattoir to a zoo, which is the A to Z of properties. We then move from that analysis into the valuation process. We are not at the valuation process at this point, but we are very much validating and analysing the current market. Over the next 10 months or so, that valuation will advance to a draft valuation list, and, by autumn 2014, it will certainly inform, in a bulk form, the rate-setting process to the 11 new councils. That is a very important stage of the process. By late 2014, we will provide individual ratepayers with a draft list. Those values will then be used as the basis for the 2015 rate bill.

Communication is key throughout the process at all levels, and I really welcome the opportunity to brief the Committee. Perhaps we will get a chance later to discuss some of the critical areas around communication while managing expectations. That is absolutely key. I suspect that we will perhaps have an opportunity to talk about that. That is my summary at this stage. Brian, you wanted to make a couple of other points.

Mr McClure: I will start with the point that Alan made about expectations. The entire business community is united in wanting this revaluation. When the values are published, they will not be united in that view about the need for revaluation, because there will be winners and there will be losers. We are now operating in a climate in which rates are a seriously big deal to businesses. That is not to say that they were not a big deal in the past, but they are a much bigger deal when times are tight. There is an expectation of what this revaluation can deliver and, I think, an unrealistic expectation among the business community about what it can do. There is also the fact that everybody will form a view on what has happened to rents since the height of the market in 2007-08. That is not the relevant date in showing how things have shifted; rather, it is about what has happened since 2003. It is very hard for people, even us, to get our heads around how much things have changed. The revaluation will have a different effect on different sectors and different trading locations, and I do not think that that is well understood out there. That is one issue with undertaking a revaluation during a downturn.

There are two other issues, one of which concerns the stability of the valuation list once it is published. At the moment, even though we might well be at the tail end of this downturn — let us hope that we are — the property market is still behaving quite erratically, and there are a lot of distressed deals out there, such as people letting their premises for very little rent. It can work both ways for tenants and landlords, depending on their individual circumstances. It is a very difficult market to read, so it will be a difficult valuation list to defend once it is published. It will reduce in value after it has been published. Government finances at a regional level and, in particular, at a district council level are something that we will have to manage.

The third issue is that there is a very real prospect that the regional rate could go up following the revaluation. If you add up all the values in 2001, which is the current valuation list, and you set those against all the values in 2013, the total value could go down, which means that, to raise virtually the same amount of money, the regional rate and the district rates might have to go up to compensate. That is a very difficult issue for the Department. It is also a very difficult issue for the Assembly to consider.

Those are three things that are different from when the revaluation was done before. That is not to say that the Department is not doing its level best to deliver on this. It is, but there are three external issues impacting on it. It is the first time that a non-domestic revaluation has been undertaken in a prolonged downturn in the UK. Interestingly enough, Dublin is revaluing in 2014, so there might be some lessons that we can learn from how they have handled things down there, but it is the first time that Northern Ireland, or any part of the UK, has tried it during a downturn.

The Deputy Chairperson: Thanks very much. I wrote some notes when you were speaking, and one of the things that I wrote down was about managing expectations, considering that you said that you still have to collect the same amount of rates overall. To some extent, that is made worse by the other information that you gave us, which is that the valuation in 2003 compared with the valuation in 2013 may not produce the same amount of rates. Therefore, that could lead to an increase.

Mr McClure: It might not add up to the same amount of total value that is in the current valuation list. Therefore, you are right. To compensate for that, the tax rate might have to go up. I am not saying that it will go up, but there is the prospect that it could go up.

The Deputy Chairperson: Having listened to the business community over the past number of years, I know that rates have been a huge bugbear, as you said earlier, and businesspeople have been on the radio and television complaining about them. People in urban areas and town centres in particular are holding out a great deal of hope that the revaluation will bring them a huge boost in the form of a reduction in rates. It will be a kick in the teeth for them if it happens to deliver the opposite. What plans are you making to manage people's expectations and to make them aware that this may not be the panacea that they are hoping it will be?

Mr McClure: It is a key message. The Minister attended the opening of the Independent Retail Trade Association, and there was a meeting of about a dozen businesspeople around the table. The Minister said that three quarters of them may well find that their rates will not go down. Everybody thought, "My goodness".

The Deputy Chairperson: They probably thought, "I'll be one of them".

Mr McClure: Intellectually, everybody will understand that message, but, emotionally, everyone around that table was thinking, "I know that I am in the one quarter whose rates will go down", so everybody left happy. It is a very difficult message to get over, and we just have to keep doing that. This is not some grandiose relief scheme coming to the rescue of all struggling businesses in Northern Ireland. That is not to say that the town centres that you referred to, which have not fared as well in the past 10 years, will not find benefit from the revaluation, but it will not deliver reductions in rates across the board for town centres.

Mr Brontë: I will add to that because I think that there is a need for total clarity. The rate poundage increase has to be there to balance the reduction of value, but the important thing for businesses is the liability. The multiplier, the rate poundage, in itself, does not increase anyone's liability. It is a matter of where a business is in relation to the average. Where the total value falls, the multiplier must rise. It is an A x B = C equation. We need to be careful that we do not set a hare running, suggesting that a revaluation gives rise to an increase in everyone's rates — it does not. As I said earlier, it rebalances rates. It is when someone's value does not decrease as much as the average that the message is difficult to get over. A revaluation does not, in itself, increase the rate take in Northern Ireland; that comes from elsewhere.

My job is to put the different and new values on so that we rebalance and re-share the same burden. As Brian said, and as the Minister has said, some people will find that they pay more, others will pay less and others will pay the same. It is a rebalancing, but revaluation, in itself, does not increase the total liability in Northern Ireland. It is difficult to get that message across and explain it. How have we done that? We have been sitting down and working with organisations such as Pubs of Ulster, the Hotels Federation, Manufacturing NI and the Federation of Small Businesses. They well understand the issues and are trying to explain them to their members. We had good cooperation from those groups as we pulled in the rental information.

It is important that we engage with stakeholders, including the Royal Institution of Chartered Surveyors, for example, who represent many landlords and tenants, and that we work with the community. It is now a matter of moving through the next year particularly and dealing with the expectation. As more information becomes available towards the latter part of next year, we will provide that information to prepare hearts and minds.

Mr McQuillan: You mentioned the council rate. When the councils reorganise through RPA, there will be a convergence that will be in addition to this revaluation. So will that mean a double whammy?

Mr McClure: There was that potential, but the Executive have agreed funding of up to £30 million for a transitional relief scheme to avoid sudden and excessive increases as a direct consequence of RPA. Clearly, from a policy perspective, reforming local government to make it more effective in providing services at the same time as putting up rates does not have a logic that the public would understand, nor would I understand it. We are working on that scheme.

Mr McQuillan: Is that not a short-term measure?

Mr McClure: It is likely to be for two, three or four years. Presumably, if RPA does its job right, the economies of scale in provision of services will start to kick in and result in efficiencies. We hope that that, in itself, will moderate district rates after two or three years.

Mr McQuillan: I think that we have to try to rebalance rates in town centres and out-of-town shopping centres, because the town centres are suffering. I am speaking about Coleraine, where, last week, the Diamond Centre went into liquidation. The only shopping centre in Coleraine, it is only one third full. Retailers would not set up there because they said that the rates were too high. We need to try to rebalance that in some way, whether that is by adding to the rates of out-of-town shopping centres so that we can give more rate relief in the town centre or by some other means.

Mr McClure: As Alan explained, the job of LPS in delivering this revaluation is that of interpreting the market. So LPS has to follow the market. No bias can be given to any particular area; LPS must make sure that everything is evidence based.

Mr Brontë: I will pick up on Mr McQuillan's point. Revaluation is very evidence based. Let us take the town centre versus the out-of-town shopping centre: the demand of the market is reflected in the rent that is negotiated and paid. We will look at the rent being paid by an out-of-town shopping centre unit and compare that with the rent being paid by a traditional town centre unit. The rateable values are then established in relation to those rents. Where a town centre is under pressure, rents come down. If demand is reduced in favour of an out-of-town shopping centre, for example, the rates will mirror that. However, at present, the rates being paid reflect the 2001 position. There are, undoubtedly, places in Northern Ireland paying too much in rates and others not paying enough. Put simply, we seek to follow that market. The difficulty, as we said earlier, is trying to get a firm basis on which to do that and making sure that we have credible evidence on which to base this revaluation. That is what we are working hard to do.

Mr McQuillan: Do you have any evidence to back that up? Have you done any homework on places where people are paying too much or not enough?

Mr Brontë: You would probably know that by walking down any street. We have not finished the analysis, but there are areas of some town centres from which businesses have moved away because of a new centre. One such example is in Belfast. In 2001 and 2003, the Victoria Square shopping centre did not exist. The footfall that it attracts has pulled trade in another direction. Streets close to Victoria Square probably benefit from that; other streets have been left in a more difficult position. The rents paid reflect that. Some will rise and others will fall, and the revaluation will follow that. That scenario could be replicated in a number of towns around Northern Ireland, so we seek to reflect that. Perhaps a more straightforward answer to your question is that, if an out-of-town shopping centre shows a higher level of rental value than it did in 2001 when compared with the town centre, the rate equation will shift.

Mr Mitchel McLaughlin: You are both very welcome.

As well as being overdue, this is a very fraught process. I think that you put your finger on it when you described people having expectation and hope rather than any evidence-based approach. However, given the significance of rates in the overall economy that the Assembly can manage, there are significant changes. In addition to the global downturn, the economy itself has changed in character. You are taking account of the growth in telecommunications and so on that reflect that change. I fully expect that the analysis of the 10 years since the previous revaluation in 2003 will reflect those changes and inform our projections. I hope that we can get back on to a regular revaluation cycle after this one.

I think that there will be a massive reaction to this and probably a fairly massive lobby as well. For businesses already in dire straits, even a fairly modest reduction will increase their costs and may be the tipping point for some. You mentioned the development at Victoria Square, and we can point to similar developments across the region. Clearly, such developments displaced businesses previously in place. The impact of that was that those businesses disappeared off the rates income register.

Is there any emerging evidence? This is only the start of the process of briefing us, so you could defer any answer until our next briefing, if necessary, but I would be very interested in what the analysis of the past period tells us about how the economy is changing and, presumably, will continue to change.

Mr McClure: Alan will advise you on the process. The economy has been transformed in the past few years. In particular, retail has been transformed in recent years because the way in which people live, shop and spend their leisure time has changed significantly.

Mr Mitchel McLaughlin: It keeps changing.

Mr McClure: It continues to change at an exhilarating pace, all of which shows through in the property market. Alan can give you the reasons for that, but my understanding is that they have to validate all the rents that they have got in before doing that analysis. It is too early to give any sort of indication, but I would like to think that, in the new year and certainly by February or March, we will be giving you much better pointers to who are the likely winners and losers from the revaluation.

When it comes to the losers, another important consideration for the Committee is the need for a transitional relief scheme for those who will face significantly increased liabilities as a consequence of the revaluation. We had fairly modest transitional relief schemes for the past two revaluations. It may well be that we will have to be a bit more ambitious this time, which might mean that it will cost more. We will not be able to do that until we see the effect of the revaluation, but the need for a transitional relief scheme associated with the revaluation is an important issue that the Committee will want to examine in the future.

Mr Mitchel McLaughlin: What are the implications for state aid and the various relief schemes that we have?

Mr McClure: There are always implications for state aid. At least, when it comes to industrial derating, Northern Ireland has the cover that it is a pre-accession aid, and that will continue. The entitlement of all 4,300 industrial firms that get industrial derating will be totally unaffected by the revaluation.

As you know, we are doing a policy evaluation of the small business rate relief next year. However, even without that, there will be changes because they use the valuation thresholds. Those entitled to small business rate relief are ratepayers of premises valued at £15,000 or less. The £15,000 figure will be redundant when premises are revalued, so we will have to decide new thresholds for that if we continue the way we are.

There are entitlements to other reliefs. The empty premises relief is due to expire anyway to coincide with the revaluation. That is not dependent on valuation levels, so, if it were to be extended, it would be unaffected as well. The small business rate relief will be affected, but the other reliefs will not, I think.

Mr Cree: Good morning. You said that the revaluation schemes were running four weeks behind. Quite rightly, you also highlighted the importance of RPA. You said that you would commence advising ratepayers of the new valuations by November 2014. That is a very tight time frame. Do you see that working and being online for 1 April 2015? What is the situation for people who appeal? Do you anticipate a certain number of appeals? How long will that appeal process take, and will it all be done by 1 April 2015?

Mr McClure: I will answer the last question, on appeals, first. We are engaging very regularly and carefully with the Department of Justice on the appeal arrangements after publication of the revaluation because there are resource issues with the external tribunals that decide valuation cases. That work has already begun, and we are engaging very closely with the Department of Justice on that weekly. Alan is probably best placed to answer on the other issues.

Mr Brontë: There are many milestones in a project of this nature. The collection of rents was a more complex undertaking, and there is a four-week slippage in the project. At this stage, however, I do not see any danger of not meeting the key milestone end dates. In fact, there cannot be, so I am not unduly concerned by that. I see this project as amber, and, in due course, it will go back to green. There is some slippage in dates, but we have reprioritised and reordered, so, for example, although we have talked a lot this morning about retail, many other classes of property are involved. Retail is probably the most difficult area at the minute, so, by reordering, we will give ourselves a bit longer to deal with shops. We can look, for example, at schools, hospitals and offices. We have to look at the whole communications networks, and we can look at utilities. All of that work is ongoing. If I had any major concerns about the end date, I would be coming to tell the Committee about them.

On the date for advising ratepayers, statutorily, there cannot be a formal appeal against a valuation until that valuation becomes statutory in force, which is on 1 April 2015. If time permits, I will look at a process for when a ratepayer contacts us immediately when something is clearly wrong. We can look at and try to correct that, but, in a sense, that is outside the statutory process at this time. It really is a matter of whether time permits because, during that period towards the end of the project, we will, in a sense, have two valuation lists to maintain at the same time. If a new property comes into existence in October, November or December 2014, it will go on to the old valuation list. So we have to put the old value on that list and assess its new value. We call that dual list maintenance.

There will be a lot happening around that time, but, as soon as possible, we will let people know what their valuation is. Hopefully, we will have the opportunity for at least some discussion, and advice lines should be open at that stage. As far as the statutory process is concerned, 1 April 2015 is when a formal appeal kicks off. So, at that stage, we will look to see how, as soon as practical, we can deal with the number of appeals coming through. Clearly, that will not be done in year 1. It would be very unusual to deal with all appeals in the first year. We will seek to resource the organisation and deal with things as quickly as possible within that process.

Mr McClure: The question is a good one because how quickly the valuation list settles down is very important for public finances. If there is only a short period between ratepayers being aware of their new value and new liability, and the bills issuing, that will present a significant challenge for the Department in handling it in a very compressed time.

Mr Cree: Given that appeals cannot be made until April 2015, do you envisage any difficulties with the payment or collection of rates during the appeal process?

Mr McClure: Yes, we do. Since collection and valuation came together under Land and Property Services, more and more courts are deciding not to enforce recovery while valuation appeals are outstanding. That is despite the fact that the legislation states that people should pay their rates and that any adjustment will happen later. The non-enforcement of recovery is becoming a more common practice in the court system, so there is a significant issue.

Mr Cree: Have you done any modelling on that?

Mr McClure: We have not yet done any direct modelling. We are looking at trying to take some sort of test case through to underline the point that the legislation says that you must pay your rates and that there will be an adjustment if you get a valuation reduction in the future.

Mr Weir: A lot of the stuff have been covered. I appreciate the point made about hearts and minds. Informing people will be vital because, in my experience of non-domestic and domestic ratepayers, it is a very difficult message to get across. It is difficult to explain to people why their rates are higher when they are earning less from their business than they did, say, five years ago. I appreciate that the time frame is 10 years. Similarly, domestic customers ask why they are paying higher rates when their house is worth 30% less than it was. It is difficult explaining to people that a revaluation might not be helpful, because their reaction is relative to their situation.

There are two significant elements to RPA. The first is rate convergence, and Adrian expressed his concern about that. Of course, the flip side of rates convergence is that people whose new council, after RPA, has a lower rate will see a reduction.

Secondly, although the overall rates bill should remain the same, there is likely to be, at some stage, a rebalancing between the local rate and the regional rate because, effectively, £100 million of services are transferring directly to councils. The best way to do that is probably by adjusting the balance between the two so that the overall rates bill is the same.

Mitchel mentioned various schemes that will be unaffected. I presume that when we talk about rebalancing the regional rate, although the overall headline figure will, ultimately, be the same, it will be ring-fenced in the non-domestic sector. I appreciate, Brian, that you have been circumspect in saying that it will not necessarily be the case. However, for the sake of argument, say that the overall regional valuation is 5% down on 2003. That might not have any impact on the balance between non-domestic and domestic rates. It will be a purely internal rebalancing. Is that right?

Mr McClure: I think that that is fair to say. When talking about being revenue neutral, we do so in the context of the non-domestic rating system. So, if there is a shortage or a shortfall, it will not come from domestic ratepayers. I do not think that there is any prospect of that happening. It will have to be addressed in another way.

Mr Weir: I understand the equation. It will, in effect, be a slightly false trade-off: the regional rate may go up, but, if someone's valuation goes down, their final position might be about the same. Ultimately, liability is the crunch issue for people.

Mr McClure: You opened up another door on what happens with the transfer of functions at RPA and how that is funded. I am very keen to advise that Committee on the Department of Finance and Personnel (DFP) and the Department of the Environment's current thinking on that.

Mr Weir: Little has been said by the current Environment Minister, who is relatively new to the post. The previous Minister felt that the fairer and better long-term option was a one-off shift in the balance between the two, rather than some form of annual grant to councils. I appreciate that it is not ring-fenced.

Mr McClure: We have developed our thinking on this, as have Ministers. Mr Wilson and Minister Hamilton have an alternative, which they have shared with the Minister of the Environment. I would like to brief the Committee on that at the earliest opportunity. I could talk about it for some time, but it might detract from this session.

Mr Weir: I appreciate that. It might be a subject for another day.

Mr McClure: I think that it is. As I said, I am keen to come back to the Committee at the earliest opportunity to share our thinking on it.

The Deputy Chairperson: We will make arrangements for you to do so, Brian. Thank you very much.

Mr Girvan: Thank you for coming along this morning. Leslie raised a point on appeals. You said that a quarter of people might notice a reduction, but three quarters might notice an increase.

Mr McClure: A high proportion will stay more or less the same.

Mr Girvan: Irrespective of that, we expect a large number of appeals to be lodged against bills once they hit the doormat in April. A consequence of that will be the marked effect on the revenue stream. Is any guidance being issued to tell people to pay in accordance with their previous bill, even if they are appealing the new one? In that way, we could at least be sure of regular payments coming through. Otherwise, a hiatus could be created. As was said earlier, it could be well in excess of a year before all appeals are heard. That brings me on to my second question: what mechanism has been put in place to ensure that appeals are heard in a timely fashion? Have staff numbers increased to ensure that the appeal process moves forward?

Mr McClure: In answer to your first point, the legislation simply states that ratepayers must pay their bill and that any valuation challenges can be dealt with outside that. Making ratepayers at least settle their existing bill would mean a change because the current position is that ratepayers simply must pay. However, the courts are choosing not to enforce that legislation.

Mr Girvan: Why? Has DFP had any correspondence with the courts on that? The courts' varying from the legislation suggests that they are interpreting something differently and being more lenient.

Mr McClure: It is a matter of concern to us. As I said earlier, we hope to take a test case through the courts at the earliest opportunity in order to underline what the legislation says.

Mr Brontë: I will pick up on the staffing issue. At this stage, we are trying to anticipate what the challenge rate might be. We are working closely with DFP on that. Historically, Northern Ireland has had low challenge rates, certainly considerably lower than those in England, Scotland and Wales. We are trying to anticipate what percentage of bills might be challenged and build that into staff projections. A plan is going through the Department, and discussions are ongoing between the chief executive and the permanent secretary about anticipating staffing so that we will be in a position to deal with appeals as soon as practical. We will seek to build up the appropriate numbers of staff so that we do not face some of the very long timetables of the past, certainly in 2003, and all the issues that were caused by that. Plans are being worked up to deal with that very issue.

Mr McClure: There are two aspects to appeals, the first being the internal handling of an appeal in LPS. However, at some point, an appeal will leave LPS and go to a tribunal. We have been talking to the Department of Justice about this, and the Judicial Appointments Commission has been extremely helpful to us. It has been looking at term appointments to the Lands Tribunal. That would be a period of one or two years to deal with the blip. The commission has not done that before, so it is quite a departure for it. In agreeing to look at term appointments, the commission has been very helpful, and the process has already started.

The Deputy Chairperson: Thanks very much, gentlemen. You mentioned a future briefing on rebalancing the rate burden at council level after RPA, and we look forward to that. You will, no doubt, be back to talk about this issue, too.

Mr McClure: Yes, we would like to come back to the Committee, say, every two or three months to update you on where we are and feed through the emerging findings on effects: for example, who and where we think the winners and losers will be.

The business community is united in wanting the revaluation. At some point, members of the business community will suddenly realise that, at an individual business level, revaluation is not as good as they had hoped. So there is disappointment ahead, which is clearly an issue for us and the Committee.

Mr Brontë: As we move towards the rate setting for the next financial year, it is important to talk about liability rather than about increases in rate poundage. The liability is what is really important. I know that, in the past, some councils talked about the number of pence by which their rate in the pound increased. By next year, that will, in a sense, be a very different ball game. It is, therefore, more important to start talking about liability for certain types of properties so that rate poundage does not become the focus. Ultimately, the liability — the rates bill — is what is important. The Committee has a key role in communicating some of the messages that we have talked about, as indeed have local government colleagues. So we welcome the opportunity to come back to the Committee.

The Deputy Chairperson: You provide us with the good news, and we will disseminate it.

Mr Brontë: Oh, absolutely.

The Deputy Chairperson: Thank you very much.