



Northern Ireland  
Assembly

Committee for Finance and Personnel

# OFFICIAL REPORT (Hansard)

Non-domestic Rates Revaluation:  
Department of Finance and Personnel

26 February 2014

# NORTHERN IRELAND ASSEMBLY

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Non-domestic Rates Revaluation: Department of Finance and Personnel

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**Members present for all or part of the proceedings:**

Mr Dominic Bradley (Deputy Chairperson)

Mr Leslie Cree

Mr Paul Girvan

Mr John McCallister

Mr Ian McCrea

Mr Mitchel McLaughlin

Mr Adrian McQuillan

Mr Peter Weir

**Witnesses:**

Mr Alan Brontë

Department of Finance and Personnel

Mr Brian McClure

Department of Finance and Personnel

**The Deputy Chairperson:** I welcome back to the Committee — you are frequent visitors now — Brian McClure, head of rating policy division, DFP; and Alan Brontë, who is the commissioner of valuation, land and property services at Land and Property Services (LPS). If you would like to make an opening statement, short and all as it may be, you are welcome to do so.

**Mr Brian McClure (Department of Finance and Personnel):** OK, I will make that short and to the point. Thank you very much, Chair, for giving us the opportunity to provide an update on this important process.

In the previous session, Mark Bailey mentioned raising expectations and managing expectations, and this is a classic example of something that we are concerned about in arriving at a broadly acceptable outcome for the revaluation. In all areas of rating policy that I am currently engaged in — that is, in relation to the review of public administration, rate rebate and welfare reform — I think that we can arrive at broadly acceptable outcomes, but I am not so sure that the market is going to dictate a broadly acceptable outcome in relation to revaluation. LPS staff are involved as technicians in the whole exercise, which is to interpret the market. Although we cannot give you any pointers as to what will happen with the revaluation at this point — we hope to be able to do that in a month's time, and Alan can speak about that later — there is a very widespread expectation that the revaluation will deliver reductions for most parts of the business sector, and that will not be the case, as the Committee well knows. Another important issue is that the rental values that Alan's staff are working on currently are likely to total to a lower figure than is currently in the valuation list at present. The outcome of this is that the tax rate —

**The Deputy Chairperson:** More bad news.

**Mr McClure:** Yes. As I advised the Committee on the previous occasion, the regional rate may have to go up as a consequence. It will be against lower values generally, but there is a handling issue and a very serious communication issue. Similarly, this applies to the district rate, so the tax base is likely to diminish following this revaluation. The previous revaluation was in 2003, and we know what has happened with the decline of retail and other business sectors. Alan's valuers have to operate against a very difficult backdrop. That is by way of context, background and concern about the process, and Alan will talk about how that process is going.

**The Deputy Chairperson:** Alan, in paragraphs 2 and 3, you talk about the complexity of the rental validation task. What were the difficulties?

**Mr Alan Brontë (Department of Finance and Personnel):** The difficulties are probably well enough known. We are dealing with a very different market than we had heretofore in that there are many deals that landlords will do in order to get a tenant in. People have described the market as being dysfunctional, but the job of my valuers or surveyors is to assess the value of every property, using evidence that is more difficult to interpret than it has been before. I am confident that we can do that and that we can get an even basis on the high street, in the neighbourhood shops and in all of the other properties that we have to do.

The process has been difficult because the market is difficult, but we have got the returns from the business sector. We could always do with more from certain sectors, and we are still pursuing that, but that is the background. It is a difficult market to interpret, but I believe we can do it. It is the complexity that, in fact, took us a bit longer. The previous time I was at the Committee, I said that we were four to six weeks behind time. I am pleased to say that we have now clawed that time back, and have gone from what we describe as an amber status to a green status. We are back on schedule to deliver, and the big delivery target is at the end of March, as stated in paragraph 3 of our submission. I am confident that we have brought it back and rescheduled. We are back on target, but there are complexities and there was time-consuming work that needed to be carried out.

**The Deputy Chairperson:** Thank you. You mention bulk and non-bulk properties in paragraphs 3 to 6. How do you ensure fairness and relativity on the former? For example, is the turnover of shops analysed in the same way as for some of the non-bulk properties you describe?

**Mr Brontë:** In every situation, the legislation asks us to bring this back to rental value. There are different approaches to assessing rental value, but they are all based on the rental value of the property on 1 April 2013. That is the common base on which every single property in Northern Ireland will be valued. With what we describe as bulk properties — shops, offices, warehouses and factories — you often have quite a lot of rental evidence because they are, commonly, let. Obviously, properties that are owner-occupied are not let. For other properties, there are different approaches that are well established through many years of valuation practice and through court decisions by which we can reach a rental value. So, whether properties are bulk or non-bulk, they are all assessed by looking at rental value.

**The Deputy Chairperson:** There is a deferral of the decapitalisation rate. When will the position on that be clearer?

**Mr McClure:** Public consultation concluded on 10 January, and we have analysed the outcome. One of the messages we got from the consultation was that people said that they really needed to see how the valuations will pan out and see some of the other things that will affect the valuation. We have taken that message on board and, as a consequence, are going to wait before we make recommendations to the Minister, because this could have a major impact on the distribution of the rating burden. For properties valued on a cost-based approach, such as schools, hospitals and airports, a small adjustment to the decapitalisation rate can affect their liability significantly. So, we have decided to wait until the LPS is able to tell us some of the other components of that valuation, such as the costs and land values, and see the outcomes before we make recommendations to the Minister to strike a new decapitalisation rate.

That is very much the flavour of the responses to the consultation. The proposal we had was to follow England and Wales. We have decided to hold off on that until we see the outcome, which should be within a month or two. We will come back to brief the Committee on that.

**The Deputy Chairperson:** One of the major difficulties will be the one you outlined at the beginning. A lot of businesses were banking on this review giving them what they consider to be a better deal on

rates; in other words that their rates would go down. That is now far from being guaranteed, so there will be a need to manage those expectations. What measures have you in mind or have you taken to align expectations with reality?

**Mr McClure:** We have a communication strategy to help manage those expectations. We just need to keep repeating the messages. The business community thinks that the revaluation is going to be a revamp of the rating system for business ratepayers, but it is not. It is simply shuffling the pack, so there will be winners and losers.

I think I mentioned the last time I was before this Committee that the Minister attended a meeting at the offices of the Northern Ireland Independent Retail Trade Association (NIIRTA) shortly after it opened. There were 12 business people around the table and the Minister said, "Three quarters of you will not see a reduction in your rates". Everybody left the table happy, thinking, "Well, I know which quarter I am in". *[Laughter.]* That is the measure of the problem.

Even though you can say, in stark terms, what the outcome of this revaluation will be, people emotionally still think, "Well, my rental value has gone down since the boom, therefore how can I possibly pay the same or more rates?" However, that is not the case. The reference point is the last revaluation in 2003 and it is how things have fared since then and all the socio-economic changes that occurred in the interim. It is not simply what has happened since the boom times of 2007-08.

**Mr Brontë:** In many ways, my job is to reshare the same burden. In general, the same amount of money has to be collected through the rates for Northern Ireland, whether it is through the regional or district rates. The job of the revaluation is simply to redistribute the burden in a different, fairer way, but it is the same burden that has to be distributed.

As Brian said, in taking forward communication, some of the work we are currently doing is, for example, with the finance officers of local authorities. They are the first people who will have to deal with some of the issues. A couple of weeks ago, I spoke at a Society of Local Authority Chief Executives (SOLACE) lunchtime event to explain and communicate some of the real issues that are around. It is about liability, so if the total value goes down, as Brian said, and if the rate has to go up, then, at the end of the day, it is an  $A \times B = C$  equation. The term 'C' is what we have to collect in Northern Ireland: 'A' may fall but 'B' will go up as the liability remains the same. It will be redistributed in a different way that is fair, and the basis for that redistribution happens to be the rental value of a property.

Brian said that we will be communicating. As we come through to the autumn, when we are working more directly with councils, they will get, in bulk form, the values within their council area. That will be at the end of September to the beginning of October. From that period to the end of the year, we will be working with finance officers and councils, and then we will move to dealing with the public in general. The path was well laid out and communicated.

**The Deputy Chairperson:** You said that you made up the four weeks of slippage and are back on schedule. What assurances can you offer that the work will be completed as scheduled, especially taking into account the dependencies regarding the 11 councils?

**Mr Brontë:** The first big target for us is at the end of March, which is not far away. I know that we are well under way with the 53,000 bulk properties. Basically, all the offices are valued. We are well on top in the other areas. The target is just four weeks away, but I am fairly confident that we are going to hit it. We have done a lot of replanning and reprioritisation, and we have looked at our plans. I am also reasonably confident that we can hit the target at the end of September. In fact, there was a project board yesterday, and, having re-examined all the plans, it agreed that the project is on target to deliver at the end of September. There is a lot of work to go on between now and the end of September, but I am reasonably confident that it will be achieved. We will have slippage in some places and gains elsewhere, but we have thought long and hard about it, and I think the replanning has been successful.

**Mr McClure:** It is also worth mentioning that there has already been a gateway review health check, and we are planning another one in early June. That is an external validation of where we are with the project. So, it is not just a case of our telling you that we are on target or that we are doing this or that. We are getting external experts in to look at it, and this is going to happen in early June. The current status is green.

**Mr Girvan:** I am concerned that there is a greying of the area between domestic and non-domestic, which is probably affecting our high street. People who previously ran a shop and who had a shop window might no longer have a shop window but may well have an e-window or some other presence on the web. As a consequence, they might turn their domestic garage into a warehouse and distribute from home. We were dealing with it here, because we were talking about flexible working. A property that is termed "domestic" ceases to be so when it starts taking on a commercial identity. Is any work going on to identify such properties?

We also have planning restrictions that should apply in this matter. We have to be very careful about how all these are being managed, because some people are probably competing because they are not paying commercial rates. That has probably happened in quite a number of cases. Has any work been undertaken to identify domestic properties that have turned into a mixture of domestic and commercial properties?

**Mr Brontë:** There are a lot of grey areas, Mr Girvan. I will start at the clearer end of the scale, where most houses have a study in which someone does some work in the evening, while, at the other end, there is the full commercial property. At some point, a property will have received planning permission, and part of it will have been adapted or converted from domestic to non-domestic use. The normal trigger for the LPS, as far as that is concerned, is building control, where there is a physical change or adaptation. At that stage, we will get notification, and then we can assess it. If appropriate, the property will have a non-domestic rateable net annual value (NAV) rather than a capital value. In between, it can be very difficult to discover cases when something is going on behind a fabric that looks like something else. However, this is not normally the case. Quite honestly, they are normally fairly clearly domestic properties with perhaps some home work within them, which are still domestic residences. When someone really does try to hide an issue, it can be quite difficult to find, and I would not say otherwise.

**Mr McQuillan:** How confident are you that you can use this process to rebalance town centres and out-of-town shopping centres? Is there any hope for town centres to be rebalanced through this process?

**Mr McClure:** I think that there is. Maybe Alan is better placed to give you an idea on that.

**Mr Brontë:** The figures will rebalance on the basis of the way in which the market has responded. For example, if rents fall in a small town centre — and in many instances that has been the case — and perhaps rents have been maintained in a large out-of-town shopping centre, then the rates will be balanced based on that relationship. Therefore, where the market has shown it, that relationship will follow through to the rating liability. In many prime shops in town centres, there has been a fall in rental value. In some out-of-town shopping centres, the values have been maintained, or at least have not fallen to the same extent. Therefore, the rateable value of those properties will be based on that analysis. We follow the market, and if it shows that relationship change, then the NAVs will be based on that and, therefore, the rate liability.

**Mr McQuillan:** So, there is hope.

**Mr McClure:** Yes; in those sectors and locations that have experienced a dramatic reduction in rental value, we should see that coming through to a rebalancing of the business rates.

**Mr McQuillan:** Are there any thoughts about rating car parks in out-of-town shopping centres? That is something that has always been left on our desks.

**Mr McClure:** Out-of-town shopping centre car parks are treated in much the same way as malls. They are reflected in the rental value that the individual units can command and, therefore, are already taken into account. The units would not be able to command such high rents without the presence of car parks. To charge rates on the car parks as well would be double-counting. You could decide to introduce another measure outside the rates and charge a levy. However, that is a different question.

**The Deputy Chairperson:** Gentlemen, thank you very much. No doubt, you will be back again before the conclusion.