



Northern Ireland
Assembly

Committee for Finance and Personnel

OFFICIAL REPORT (Hansard)

Small Business Rate Relief Scheme:
Omagh Chamber of Commerce

25 June 2014

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:

Mr Daithí McKay (Chairperson)
Ms Michaela Boyle
Mr Leslie Cree
Mr Paul Girvan
Mr John McCallister
Mr Ian McCrea
Mr Mitchel McLaughlin
Mr Adrian McQuillan
Mr Peter Weir

Witnesses:

Mr Patrick Bogues	Omagh Chamber of Commerce
Ms Hilary England	Omagh Chamber of Commerce
Dr Nicholas O'Shiel	Omagh Chamber of Commerce

The Chairperson: I welcome to the meeting Nicholas O'Shiel, the chief executive of Omagh Enterprise centre; Patrick Bogues, the proprietor of Bogues Jewellers; and Hilary England, the business development manager of Tyrone Property Company. You are all very welcome to the Finance and Personnel Committee. Perhaps we could start with an opening statement from you, and then I will open it up to members for questions.

Mr Patrick Bogues (Omagh Chamber of Commerce): Thank you very much, Chairman, for the opportunity to talk over a few things with regard to rates with you this morning. I suppose that you have got the context: we have not travelled all the way from Omagh to praise and laud the rating system. We think that there are things that can and should be done. Now is the time to talk to the Committee because, as you know, an extensive revaluation is being undertaken by the agency. The first results of that should be coming out towards the autumn. The time is right to look at it in a serious manner.

I have with me Nicholas O'Shiel, who, as you know, is the chief executive of the local enterprise company. He has extensive experience of property management in his job. Hilary is a director of a property company in Omagh, so, through her daily work, she also has broad experience of the property market in the Omagh area and wider. I am going to say a few words to give some context and background to where we are coming from, and then I am going to ask Nicholas and Hilary to come in after that, if that suits you, Chairman.

The Chairperson: Yes.

Mr Bogues: The context of what we are talking about is in terms of the financial crisis and what has happened since May 2007. There has been such a collapse in the economy, and there has been such pressure on businesses. That pressure is felt by retailers, particularly small retailers. In that context, the rating system has not really adapted to that. I will come to that further down. There has been substantial pressure on individuals' disposable income, so people are not spending as much. That has affected how town centres in Northern Ireland have performed. Retailers in every part of Northern Ireland have suffered. Finally, it is like a double whammy. We have had a fundamental change in the way that business is being done with the advent of Internet trading. There is so much business being done on the Internet. It is increasing at the rate of 20% to 25% a year. That is an absolutely new consideration and something that needs to be taken into account. We are in an e-commerce world and in a world where a system that was developed in Tudor times needs to be updated. We do not think that the rating system is fit for purpose because of what has happened over the past five years.

As you know, rates were originally devised as a local property tax to fund local services. That was the original remit. There are things in favour of them because it is easy to collect. The agency reports that it has 95% to 96% compliance; so, from the point of view of legislators and people looking for revenue, to get in the £1 billion a year is pretty straightforward. Half of that — roughly £500 million to £550 million a year — comes from the commercial rates that we are here to talk about this morning.

The cons are large and growing. First of all, in a recession, it is a regressive tax. A lot of the problems that are referred to are caused by the rates system not being able to respond to the collapse in the rental values of the properties quickly enough. That was pointed out by Michael Lyons, in 2005, in a very prescient review of the system. Nobody listened to him at the time, and it would have been better if people had and if the system was able to respond to the collapse in business, so that the rates would come down in a time of recession and come back up again when the economy recovered. The other thing is that rates are not connected in any way to an ability to pay.

The revenue nowadays is not connected to services. That is a big, fundamental mistake, and the Committee should consider the way in which we can, once again, connect the raising of the revenue with the services that it funds. I do not think that anybody here is saying that the services should be discontinued or that we should give up collecting rates. We know that we need some sort of local mechanism to fund services. So, we need to explain to the people who are paying for it — ultimately, our customers — that there is a connection.

The other thing is that, if you think about it, rates are something that bear down on people who trade out of physical property in town centres. Those who trade in electronic media get a free ride here. Our platform is heavily taxed. The e-commerce platform is not taxed at all. So, for us, it is a system that is not fit for purpose in the e-commerce age. It needs a major overhaul. I refer you to the Business, Innovation and Skills Committee of Westminster, which, in March 2014, called for a similar fundamental review of the rating system in England. Similarly, the British Retail Consortium and Terry Leahy and Philip Green — one a former retailer with Tesco and the other the owner of Arcadia, which has shops in every town in Northern Ireland and every town in the UK and in the South of Ireland — have also said that it is not fit for purpose and is long past the date when it should be fundamentally reviewed. If you look at the New Economics Foundation and the cloned towns movement, you see that think tanks are all pushing for change to the rating system.

The other thing that I will put to you before I pass over to Nick is that the rates are fundamentally a tax on enterprise if you think about it. Given that Executive priorities keep town centres as a social focus in each of the areas that they are in, and the way in which planning will be handled to protect town centres, the rating system works in exactly the reverse. That is why we have so many vacant properties in our town centres. I have a shop in Enniskillen. There are vacant properties on both sides of that shop. There is no sign of any hope of activity. I know that Hilary will want to say something about that challenge to the viability of local town centres and how a change in the rating system could help to improve it.

We know that, through the Sammy Wilson initiative, the Executive have taken some action. We have got the small business rate relief, which is funded by the large retailer levy. They are welcome, but they do not go half far enough. We want something that we know will be in place for the foreseeable future. We also want something that will support enterprise in town centres to protect those town centres. We want a system that can roll with the mood in the economy so that people are not asked to pay enormous rates. I know of small premises just off the main street in Omagh where the rent is £60 a week, which is £3,200 a year. The rates are £5,500 a year. It is absolutely crazy that such a thing could exist. We need to look at those things.

At this stage, I will bring in Nick to talk in a little bit more detail about the issue.

Dr Nicholas O'Shiel (Omagh Chamber of Commerce): Thanks, Chair and members, for inviting us. My main occupation is working with small businesses in the Omagh Enterprise Company. As a small example, there are about 60 businesses on site, and certainly, up to about two or three years ago, when people were talking about starting up businesses, looking at the costs and going through the process with us, rates really was not an issue; it is a key part of the conversation that we have now when people are starting up businesses. One of the reasons why it is a key part of the conversation is that rates are out of proportion as a business expense. They have very much gone out of proportion in the last couple of years.

As well as the points that Patrick makes — the practical points, if you like — and the view on whether the system is fit for purpose, we want to try to get across an idea to the Chair and the Committee, in the context that we all live in a democracy and thank goodness for it, that, in that democracy, one thing that the Executive and the Committee do is raise taxes and that, in order to raise taxes, one thing that is necessary is that they are based on a good, strong value system. In that value system, if you raise a tax, it should be proportionate, affordable and fair. We feel that if it does not fit under those three headings, the system itself needs to be changed. It is not a case of reviewing it in the context of the system where, as Patrick says, you might charge some people less and other people more.

Certainly in the last number of years, the proportionate element of the rates is out of kilter. It has become — I am sure that you have heard this from plenty of people other than us — unaffordable for many businesses and property owners right across the board. Therefore, in a democracy in relation to your Committee, it has now become an unfair tax. One of the things that we ask the Committee to consider in its deliberations is this: while the review is being carried out, we believe or understand that it is in the context of a closed loop, if you like, from the point of view that the system still intends to collect the same amount of money. So, if the figure is £550 million, as we see it, when you net out the relief to some businesses and the extra charges to others, it has still collected £550 million. As we understand it, any future relief and any review that is being done at the moment is still in the context of collecting £550 million.

One of our main points is that, in the context where it is out of proportion, unaffordable and unfair, the Executive and the Committee actually need to change the whole evaluation process and give themselves the challenge of collecting not £550 million but maybe £500 million or £480 million. That would address the proportionality, the affordability and the fairness. Without such a movement from the Committee and from the system, it will continue to be an unfair tax and to put an unfair burden on people. The other thing is that, over a long period, it is just not sustainable. More and more businesses either will not start up or will go out of business, so it will get harder and harder for the Executive and the Committee to raise the money.

Chair, maybe we could come back to that point, because we understand that that might represent different thinking from the current evaluation, which is within the system of how we can tweak this around the edges but still collect the same amount of money. One of our suggestions is that tweaking is good and welcome but perhaps you could consider collecting a smaller amount of money for the reasons that we have given.

Mr Bogues: Thank you, Nick. Hilary, do you want to add to that?

Ms Hilary England (Omagh Chamber of Commerce): Yes. I am from a property management company, and one of the big issues that we are facing at the moment is that of vacant rating. We have a number of properties, and I am not speaking just for myself as I am aware that this is happening across Northern Ireland as well as in Omagh, where we are taking a double hit. We have vacant properties on the main streets of Omagh town, we are not getting any rental income against them, and we have to pay vacant rates. Obviously, from our point of view, that is not sustainable in the long term. It is a manageable situation in the short term, but whenever the vacant rating for commercial properties was introduced in 2004, it was a very different marketplace at that stage than it is now.

One of the issues facing a number of property owners is that they are bringing in tenants at no rent just to be able to pay the rates on the properties. That is obviously skewing the market as well. It is leading to a change in the high street. It is leading to a lot of charitable shops coming in that do not have to pay rates, and so it is changing the face of town centres. You can see that a lot already over

in the mainland. I know that they pay 100% vacant rates where we pay 50%, but is that a road that we want to go down in Northern Ireland as well? Perhaps the vacant rating side could be reconsidered as well in the current market. I am not suggesting that it should be done away with altogether, but perhaps it could be reviewed until the economic climate stabilises again.

The Chairperson: Thanks very much. You make some very interesting points. An issue that we constantly have to grapple with is satisfying business needs and requirements in a difficult economic situation while ensuring that we fund public services. The question is how we get the balance right and whether we get the balance right, particularly at times like this.

Nick, you made a point about the £50 million and between £550 million, £500 million or £450 million, and reducing that overall raising of rates from businesses. Do you have any ideas of where that could come from? Would you take that from, for instance, the business support funds that would come from the centre? Or should the Executive explore the possibility of taking it from elsewhere? What I am asking is whether you would look at taking it from other support mechanisms that are in place for businesses and town centres because this would be a greater priority.

Dr O'Shiel: Our starting point is that, if we accept that as a value, it should be changed as a principle. Given all the points that are made, and we know about the economy, the right thing to do is to reduce the overall amount collected. If we take that as a core value or a principle, and the Committee or the Executive then decide, "Right, we need to do that", I think that, in fairness, given the general amount of money that is raised in the Executive, we have no doubt that, be it this Committee or the Executive in general putting their minds to where they would then balance that £50 million, that could be found elsewhere. We are not coming here today to specifically point to where it could come from. Our main point is that, looking at this in a reasonable, objective way, any interpretation would say that it is out of kilter and, therefore, it is unreasonable to continue to try to raise the full amount and so we should raise £50 million or £80 million less. If that is a core value or a principle that you agree, it is then a case of operationally going to the Executive and finding it. We have no doubt that it could be found.

The Chairperson: Obviously, it is your opinion that the system does not suit this particular economic context and there is some imbalance that needs to be addressed. Does the system itself need overhauled and, if so, how? Would you bring in a system for rates that would be tied more to profit margins?

Mr Bogues: That is a good question. Let us be clear about this. As you well know, what we have all gone through since 2007 has been much worse than any recession or depression in the last 100 years — more than 100 years. I have looked at the statistics of the Great Depression of the 1930s. This has been much deeper and gone on for much longer; therefore, it is incumbent on government and its operation to take that into account. The problems that we are addressing with you come from people who are in business and trying to keep in business with a rates system that has changed very little over that period of great shock and turmoil in the economy. That is the fundamental thing.

We are here this morning talking about where we go from here, how we keep people in employment and how we keep new people coming onto the market and creating businesses, particularly in town centres, and using the assets that we have. How do we use efficiently the capital, land and properties that are there? The current system is militating against that.

What can one do about that? There is a simple choice: we address the current system and make fundamental change to it, or we change to a new system. There are a number of new systems. Commonly, sales taxes are used instead of rates. You could, for example, use a tax on energy use to fall in with the Programme for Government's green agenda. There are other ways of doing it, but I suspect that the Rate Collection Agency will point out, and rightly so, that it is such an efficient mechanism that it is going to be very difficult to get people away from that fundamental idea of raising money from property.

Things can be done to change a property-based system to be much more proactive and efficient in reacting to collapses in the economy, such as has happened. That is the basis upon which a review should take place: what can we do with the current system? If you really want to go out on a limb, have a look at sales taxes, taxes on energy or other ideas that are well-trailed in the literature.

Dr O'Shiel: I agree with what Patrick said. One of the key points we want to leave with you — this is a big issue and a lot of points are made — is the request to the Committee to consider collecting £50 million or £80 million less from this pot, particularly because it is out of proportion. As Patrick said,

none of us have lived through anything economically equivalent to what has happened in the last number of years. Salaries have gone down; jobs, businesses and homes have been lost; and rents have come down. Any metric you take has been adjusted to accommodate for such an earthquake in the economy. If we look at this particular tax in the form of rates, we see that it is the only one that has not been adjusted.

From any line of logic, it does not make sense. If you were to put all the lines on a graph, they would all be going down, yet there is one that sticks out like a sore thumb, which has just chugged along. There is no reason why that has not reduced other than a policy or political decision. In this review, there will probably be lots of tweaking around the edges and things that will be looked at and considered and reviewed, but none of those will change the system. One of the points that we want to leave the Committee thinking about is whether it is reasonable to go over the next number of years without reducing this. Any objective or reasonable person looking at it from afar would immediately point out, "There are six lines or metrics that have all reduced over that period. It's very interesting that there is one that hasn't. Can you explain that to me?" I do not think that any of us could explain that on an objective basis other than to say, "We just didn't reduce it."

The Chairperson: How do you see the future of town centres? There has been some debate about it. You mentioned the challenge of internet shopping. Shops based in town centres face a challenge from people's different and new lifestyles. Are those shops and businesses diversifying and looking to cash in on internet shopping in parallel to their on-street business and looking at other things such as opening hours et cetera? What will town centres look like in 10 or 20 years' time, and how will you try to influence that?

Mr Bogues: First, let me talk about my experience. After that, I will say something a bit wider about other work that has been done on this. My own business and the businesses that I know in Omagh have all geared up as best they can to embrace e-commerce. Most of them have Facebook and Twitter accounts, and a proportion of them will also have e-commerce sites, which are full trading sites. I know of successful eBay retailers: they are retailers who have a specialism and sell on eBay. They are coring down on one very precise product and sell it to a very wide market as opposed to your general store, which has a very small market but sells loads of different things. There are a number of those in the Omagh area.

Those businesses are, no doubt, helped by Government initiatives, retraining and getting people aware of diversification. However, that does not negate the problem that we came to talk to you about this morning: the rates and taxation system is out of kilter with everything else.

You asked what the shape of our town centres will be in 20 years. I think that you are probably talking about our smaller town centres rather than large conurbations. Typical towns are Omagh, Enniskillen, Strabane, Newry and so forth. The question is whether there will be the same need for retail space. There will not. What other use can be made of town centres? There will be more housing in them. The trend over the past generation has been to move people out of town centres, but that will be arrested and reversed, and you will see land use changing back to housing. Those are the two fundamental things that will happen over the next 25 years.

Both are good news. One is inevitable: with so much retail being done on the internet, of course there will not be so much space. If places lie vacant, they will eventually fall down unless they get another use, and the nearest use that I can see is housing.

Ms Boyle: Youse are very welcome to today's Committee. I am well aware of the issues that affect you in Omagh and people in my own town of Strabane. There are many long-term family businesses, as you know, in Strabane and Omagh, and some of them have been in existence for over 60 years and have had to pull down their shutters.

Hilary, I do not have a question as such, but I want to talk about the rates for vacant buildings. Obviously, youse are looking for a reconsideration of the rates. One of the modifications to the scheme in 2012 was to exclude over 1,250 ratepayers on the occupying multiple premises. That was a major issue for some of the developers in my home town and, indeed, in Omagh. Around the time of the property boom, individuals and developers were buying quite a number of properties, and, now, all those properties are sitting and people are paying the vacant rates. Strabane and Omagh have been classed as the towns that have the pound shops and the charity shops as a result.

In moving forward, and extending the small business rate relief beyond 2015, I am sure you will agree that something has to be looked at in terms of the multiple properties also being excluded from that. Last week, officials from the Department told us that they envisage a large increase of appeals to the rating when the new rate goes on the website, in October or early November. Obviously, they will not be able to do anything about that until it comes into being next April. My local chamber of commerce in Strabane meets regularly with businesses. How well are businesses preparing for that almost inevitable rate increase, come autumn? Have they been saying to your chamber of commerce, "Beyond Christmas, it looks as if we will not be able to be opening our doors in spring 2015."?

Ms England: That is a big issue. There are tenants who are struggling all the time. We are trying to work with them to make sure that they can stay in business, because the last thing that we want is to lose them as a tenant, because that brings an extra cost back to us. I can only speak from my own experience, but we have been trying to improve the vacant properties that we have; we have been trying to make them more attractive, and we have been trying to attract new tenants in. However, that is very difficult. If your properties are not in the prime location of the centre of the town, you are very unlikely to attract a retail unit, particularly. There is not a lot else that we can do, apart from continuing to try to market the properties and get tenants. With a changing town-centre economy, and with retail moving away, do we need to look at bringing town centres back into use for residential instead of business use? A lot of money and investment would be required to do that, and that would have an impact on the rates as well. Those things have to be thought about. At the minute, we are waiting for the results of the revaluation, and we will see where we go from there.

Ms Boyle: I am sure that Omagh is no different from Strabane in that the night-time economy plays a big part. The night-time economy in my home town of Strabane is slightly better than the retail daytime economy.

Mr Girvan: Thank you for coming along and speaking. It is good to hear from a person who is on a chamber of trade. It is vital that we try to ensure that town centres are revitalised in some way. Patrick, I appreciate your comment about living in the town centre being one of the ways of coming forward. We need to ensure that that is driven. You alluded to a point on sales tax. I appreciate that that was brought in when we joined the EEC in 1973 or 1974, although there was a different format of dealing with it. VAT was brought in for the first time. Supposedly, it was an EEC tax, but it has become slightly more than that. It is being used to raise revenue at a UK level as well.

We have to be seriously imaginative about how we try to address some of the points. You alluded to a number of businesses that have removed themselves from the high street and are dealing with e-commerce solely from a warehouse or garage. They are not necessarily paying any commercial rates because some of them are operating from their home. They have found their niche market, and they are dealing with it on that basis. There needs to be a little bit more investigation into how those areas are being looked at as well. Some warehousing ends up being turned into retail parks. We have identified that in our area; it starts off with a warehouse or storage units, and, before too long, you find that some of those storage units end up being small retail units. As a consequence, that is affecting the high street. We need to seriously look at how we ensure that there is an even and fair collection of rates across the board.

We are in the process of doing this at present: is there merit in looking at town centres from the point of view of them getting a break to ensure that there is encouragement for people to come in? The Mary Portas report identified areas that could be looked at imaginatively to bring life and vitality back to our retail sector in town centres. Have you had a collaborative view from all chambers throughout the Province? I appreciate that we are listening to you today. It equates very strongly with what happens in the town I live in; it is exactly what is happening in the town centre: shop after shop has closed down. Nobody has come up with an imaginative programme. We have £1.1 billion to raise from rates every year. We are strapped for money everywhere.

If a business case from somebody said, "By cutting our rates from £550 million to £500 million, we can bring back into the Northern Ireland economy £70 million of added value", a businessman will say, "That makes sense to me". That case has to be made. Unless you make those sorts of cases, we will continue to keep going down the line. Those cases need to be made. Unfortunately, we are not hearing all of that; we normally hear all the negatives about this and that going bad and everything else. There are some really good success stories; some are bucking the trend and working against it. I would like to hear from the people who have had the successes. There needs to be collaboration with other town-centre companies and chambers of trade to ensure that we have a united voice coming forward to make a business case — that is what it is — as to how it could stack up.

Mr Bogues: The Federation of Small Businesses, the Northern Ireland Chamber of Commerce and the Northern Ireland retailers are all of the one view. The Federation of Small Businesses pointed out that retailers pay 20% of the rates but account for only 5% of GDP. That is our gripe: it is so out of kilter that something needs to be done.

I welcome what you said, Paul, and add internet shopping to it. It is hard not to see the internet as a massive tax-avoidance scheme. I am a small retailer. I have been paying more corporation tax than Amazon has over the last number of years, because it does not pay any. Despite the size of that operation, it is completely untaxed. It is a similar story with Facebook, Google and Microsoft. They have all domiciled their companies so that they maximise tax avoidance and get higher returns than we do. We are bricks-and-mortar retailers who are stuck with serving local communities; we can never do that. We cannot do it because we face the community. We are not set up to face shareholders and move corporate headquarters around the world to suit the tax breaks. There must be something that can be done to tax that platform. As I said earlier, the platform that we are on is taxed heavily; an e-commerce platform is not taxed at all. If you buy something off Amazon, the transaction takes place in, I think, Luxembourg. You do not transact in the UK; therefore they would say that there is no tax coming out of that.

It is too big and complicated an issue for us all to get around here this morning and try to work out how it can be done, but that is what has to be done, because it is being forced upon us by the internet revolution, which has forced things throughout the economic system. Now it needs to force itself right through the taxation system so that everybody pays their fair share. That is what is needed — everybody paying their fair share. Then it is a level playing field and town centres have a fighting chance against e-retailers. Then we can go forward, and I think that there is hope there.

One area that comes up constantly about town centres is the toleration of rates concessions to charities. I wonder whether there is not a better way of supporting charities than by giving them free rates. I think that there must be.

Dr O'Shiel: Just on Patrick's point, if we put all that in the mix, it screams out — back to the £550 million — that the amount collected from rates is out of proportion. All the things that members have mentioned in relation to town centres and the internet are huge issues. We cannot solve them this morning, but they need to be addressed, as Patrick says. However, in the meantime — this year, next year and the year after — businesses will continue to fold because the taxes and rates levied on them are way out of kilter and proportion. That is one of the key points.

If the Committee agrees that it is out of proportion, something needs to be done about it. If we accept all the points that have been made by us and by members this morning, we have to ask whether it is still reasonable to collect £557 million from that pot. Even from our brief conversation this morning, you would have to say that, given that all those things are happening with town centres and the internet, it cannot be reasonable still to expect that pot to produce the same amount of tax.

Mr Mitchel McLaughlin: In your submission you mention that you had a meeting with the head of rates policy. Did you put that proposition about, say, top-slicing 10%, or whatever, off the target?

Mr Bogues: We had a really good meeting with the head of rates policy, but he was taken aback because he expected us to have a list of properties and to complain about the valuation of each of them, because that is what he normally gets. However, we thought that we would try to be a little bit more strategic in our thinking, particularly as we are now in the revaluation framework. It will come up in September.

Mr Mitchel McLaughlin: Was he strategic in his response? That is what I am getting at.

Dr O'Shiel: He was very strategic in his response.

Mr Bogues: He told us to talk to you.

Dr O'Shiel: He was diplomatic.

Mr Mitchel McLaughlin: The conundrum of pressurising business so that it contracts rather than expands is just complete nonsense, but some of the taxation issues that you are addressing do not reside in the Executive. You are talking about Westminster powers, not devolved matters, and we can

do diddly-squat about them, to be honest. We are not just talking about shifting the burden so that somebody else has to pick up the £50 million to allow business to supply. I am not arguing against that. I can see the business model that Paul was talking about. Where would you shift that burden? You mentioned sales tax, which would seem to address that possible option.

Mr Bagues: As I said before, it is unlikely that it will be possible to put in a completely new system, because there are aspects of the current system that work very well for the administration of collecting taxes. The property is there, it is easily identifiable, and the agency will demonstrate 97% compliance. You cannot argue with that. What you can do is look in a more serious way about where you might address at the edges. We definitely want to see a continuation of the small business scheme, as we see benefit in paying for it with the levy. There may be a better way of paying for charities that creates revenue rather than giving them free rates.

We also need to build in a system whereby the rates levied are directly related to the ongoing value of the property, so that when the property value goes down in a deep recession the amount that has to be paid goes down.

This is a high-level issue. Why should the proportion taken for rates increase in bad economic times? It should not. It should move with the rest of the economy, and that is not the case now, as you know.

Mr Mitchel McLaughlin: We addressed that point. In a recession, there will be new circumstances. If our approach is so inflexible that even 12 years after the last review we are looking at fewer businesses but the same outcome, that works out as quite an easy calculation, namely a higher burden on existing businesses and maybe a higher attrition rate as a consequence. That really does have to be addressed.

I am disappointed that he passed the buck to us. *[Laughter.]*

Ms Boyle: I am not surprised.

Mr Mitchel McLaughlin: They will have to come here and answer these questions because, at the very least, that suggestion should be tested to see whether it can be demonstrated. Again, it is back to the business case model that this would have the benefit of allowing some existing companies to survive the recession and look to better times. We should at least get a response on the options for where that £50 million could be created because we still need that income.

It seems to me that the approach is based wholly on an existing model and an inflexible approach that does not recognise that recessions come and go. If European competition law kicks in, which it will in some circumstances where we are limited as an Executive in our ability to respond directly by providing support or in how we can apply reliefs, all that has to be taken into consideration.

You get the feeling that this rigid approach takes no account of market conditions and does not seem to be the most prudent way of approaching this as an Executive. We have to find ways within a reasonable and competent assessment of the pressures on existing businesses because they are no good to us out of business. They are absolutely no good to anybody out of business.

Mr Bagues: It is important to say that the response to a lot of the argument about rates is, "Look, it's a zero-sum game. If you think you are paying too much and you want a reduction, that means he has to pay more so that we get the same amount".

Mr Mitchel McLaughlin: Yes, that is the question.

Mr Bagues: That is not the case here because we have a huge number of vacant premises, which has come about as a result of people being priced out because the rates are so horrendous for small businesses, even with the scheme that was put in place. It is not a zero-sum game. There is value and economic potential to be gained by taking action. That is bound to be good for every town in Northern Ireland, not just Omagh or Strabane.

Mr Mitchel McLaughlin: Yes, well we are not going to solve it here. In fact, it is not easy to find a solution. "Take action" is a good expression, but it does not tell you what that action should be or where you would find the opportunity to generate that money. In balancing the books and projected expenditure, there is a need to generate a set amount. Other members have already spoken to that. It

seems to me that insufficient attention has been paid to the attrition that there is on existing business, and that costs you more money in the long run, in my view. That is the point that I am getting at. We may need to talk to these people again, Chair.

Dr O'Shiel: On that point, one of the objectives that we have today is, as you outlined, if there is even agreement in principle that it seems unreasonable in a time of recession, it seems to me that if we or our colleague from the rates division had an answer to the question of from where you find the £50 million, it can perhaps be done. So, the issue is not whether it should or should not be done. We are pretty much in agreement that it should be done. It is only a case of from where the money can be got.

The opposite argument is this: just because we cannot find the money this morning does not mean that we should not change the system. If there were agreement in principle, or if we could leave with the Committee that there is an understanding that less money should be raised, the energies can go to the question of from where else would it come. However, that is a secondary question. Up until now, and from our meeting with the rates division, what prompted us to come here was that the feedback from the people whom we met was that the idea of collecting less than the £550 million was not even considered. It had not been thought of, and it was not in the system. One of our key objectives today was to try to get it into the system.

Mr Cree: Thank you very much. It is very interesting. It is good food for thought. I was particularly struck by Patrick's comments on the ratio between the amount of rent that is charged and the amount of rates that are charged. As you will know, the exercise is being conducted on rents rates that the Department will be using to come up with a new set of figures. That is complicated. You referred to baking shops and landlords setting aside the rates income, and therefore having no rent. There are also a high number of charity shops on the main street. How much work have you done, if any, on the rent:rates ratio in your area? Have you canvassed your members?

Mr Bogues: We have had meetings. There is mainly anecdotal evidence. There was no systematic study undertaken of all the premises in Omagh or wherever in which one was compared with another. Businesspeople coming to the meetings will volunteer what they are paying in rent and what the rates are. I know of others similar cases in which the rates are higher than the rent. To me, that patently should not happen.

Mr Cree: I can tell you that they are always higher, but it is by how many times higher. I think that you were quoting about six times higher.

Mr Bogues: The property that I quoted was £60 rent a week, while the rates were £5,500.

Mr Cree: As you know, the survey that Land and Property Services (LPS) conducted for the new non-domestic rates will be based on the rents applicable. I do not think that anybody has done the exercise to see how rent and rates are going out of kilter, if that is the case. My rates are about four times the rent. So, it is perhaps one of those things. It is interesting. It would be good to have that information to mull over to see what variations there are.

Mr Bogues: As we come into the autumn and get the rates revaluation, all those issues will come out. That is when we will see what the situation really is. When we talked to the representative, he stressed that there was not much point in getting into any detail until the work had been done, because it was going to be done by the end of the summer.

Mr Weir: I apologise for missing your presentation. I had to come in from another meeting.

Your contribution has been useful. I have a couple of points to make. I think that there is broad acceptance that this is an issue that needs to be looked at. It is important that we keep under review whether *[Inaudible.]* system and whether the balance is the thing. That would be wrong, because these things have to be heavily evidence-based. It is wrong simply to make an assumption and say, "Yes, there's something to be looked at, and there are reasonable arguments to be made". That is different from saying, "Yes, we accept that £50 million should come off business rates".

I appreciate Patrick's point that a lower business rate, for instance, may stimulate greater economic activity and result in more shop fronts being used. But Mitchel is absolutely right as well: this is a zero-sum game ultimately. Realistically, nobody is suggesting that we could simply take £50 million

out of the system. The £50 million has to come from somewhere. In the sense of a business case, it might be the case that lower rates may stimulate an extra, say, £20 million through increased activity. It is important that it is not just [*Inaudible.*]. I suspect that some of the possible solutions suggested are not necessarily solutions that will mean a sales tax. I am not altogether sure whether a sales tax, for instance, would be doable under European law. I suspect that, what with VAT, that is not realistic.

Reasonable arguments can be made, but unless proper alternatives are put forward, this is not going to go very far. You mentioned charity shops. I can understand how that is from a retailer's point of view, but you then said that you think that there is a better way of supporting charity shops, outside of the rating system. Have you any thoughts on what that alternative could be? If any change is going to be made in the rates of charity shops, it is not going to be made in a vacuum. It would be very interesting to see the fate of any party or individual Back-Bencher who brought in the "Rates on Charity Shops (Amendment) Bill". It would be interesting to see how people would react to that.

Mr Mitchel McLaughlin: Try it and see.

Mr Weir: I do not know, Mitchel. You may be elevated to higher office reasonably soon and be in a different sphere. But you know what I am saying. You need to put a wee bit more meat on the bones, rather than merely say that there has to be a better way to help charities. I am interested to hear whether there is. To be fair, it may be an unfair question to throw at you now, but do you have any thoughts on how that is doable?

I also want to pick up on Leslie's point. I have heard a lot of people's concerns on the balance between rent and rates. By definition, because of the way in which the market has gone, there has been a degree of rebalancing. I am not convinced that it is quite on the scale that you indicated. If there is a strong case for that to be made and, indeed, to support your bid, it has to be done on an evidence-based scientific basis, regardless of whether that comes from you or another organisation. We can all produce a range of examples and anecdotal evidence from your side or our side and say, "I was speaking to somebody who says that their rent is such-and-such compared with their rates". To be honest, from a policy point of view, I doubt whether giving individual examples is going to cut it. I think that it would be useful if you or somebody else could draw things together and say, "Here is a sample size from across Northern Ireland. We have contacted 1,000 businesses right across Northern Ireland. The average rate of those retailers is x, and their average rent is y. Here is what it was five years ago, and here is how they compare". That could have an impact. Anecdotes about what we are told about such-and-such will simply not cut it from an evidential point of view in trying to bring about a policy change.

Mr Bogues: Peter, the basis of our approach is that it is better to keep people economically active in businesses in town centres, if at all possible. That goes back to the question that the Chairman asked at the very beginning about what schemes you would withdraw to allow for the fact that the rates should be lower. In other words, he indicated that lots of things are done to facilitate and help businesses in town centres and that you could not have those and reduce rates at the same time. I think that it is preferable to have people in businesses and working than to have doors closed and people fighting to maintain the viability of the whole town centre. That is a much better approach, and it is why I think that the approach should be that we attack the onerous nature of the rating system as it is now, the fact that it is inflexible and the fact that it does not allow for the rolling of the economy up and down, particularly in this recent depression, in which it has rolled well down while rates have gone on and on at a high level. It is far, far better to —

Mr Weir: Patrick, I see one problem with that, and I can see what the reaction is going to be. I understand the logic of having much more flexibility in the system. However, leaving aside the effectiveness or efficiency of doing that, there is a flip side of the coin. There has been a historical level of rates, and a lot of the other costs — rent, for example — have gone down when rates have not. Rates have not plateaued as such, but they have increased in only a very small way and essentially remained where they are.

Therefore, if you were to have much more flexibility, there would be two weaknesses from a business perspective. First, the certainty aspect of projecting bills would become a much more swings-and-roundabouts situation. If you have a rough idea, you can project two or three years down the line that you may end up paying 5% more on your rates than you are doing at present. The converse logic of that is that, in tough economic times, you pay less, and in good economic times, you pay a lot more. When, because there is a bit of an upswing, you end up with businesses paying 15% or 20% more

than they are at present, do you think that that would be particularly welcomed by the business community?

It is the same as when we are talking about revaluation. Somebody who ended up paying a lot lower in rates on their property as a result of revaluation would say that it is a great thing. However, somebody who was going to be charged a good deal more would be massively up in arms about it, and that is a problem. Are you saying that you would accept potentially swinging large increases in your rates if we were in a more economically advantageous situation and there was flexibility there?

Mr Bogues: Nobody would welcome an increase in their rates. We know that, but, if we go back to the real issue, which is the zero-sum game that you referred to, I think that it is better. It is not a zero-sum game in which you have got vacant premises as a result of the policy as it is now; rather, you have something to gain by operating it in a different way. That is the fundamental point that I make. Therefore, you will keep —

Mr Weir: Ultimately, it is a zero-sum game unless you say that you will take a certain level of expenditure out of things and not make cuts of that nature.

Mr Bogues: But you are going to —

Mr Weir: The argument about the issue in a wider global and national scale, on the basis of levels of taxation through income tax, is this: do you cut income tax to stimulate economic growth? There is an argument that sometimes cutting tax has led to an increased tax take. However, the bottom line is that there has to be a zero-sum game in that the amount of money that has to be brought in by whatever source has to be pretty much the same.

Dr O'Shiel: The main point that we are making is that, yes, it is a zero-sum game. On one of the two sides, if you like — the Assembly and Committee side — a zero-sum game works fine, but it does not work fine on the other side. In a zero-sum game, you will have winners and losers, so, in the past number of years and in the years ahead, unless we change the zero-sum game, the winners will be the Assembly and the Committee, and the losers will be the businesses. The main point, though — we could talk about this 10 different ways — is that either this Committee and the Assembly accept the principle that rates should be proportionate or they do not. If the Committee accepts that they should be proportionate, there is appropriate flexibility in the system. If people are paying rates of 5%, 10% or 15% of their business costs, you can say that that is reasonable, but if the percentage goes up to 40%, 50% or 60% — just to exaggerate things — at some point it becomes unreasonable. At some point, and hopefully in this review, the Committee has to ask what the reasonable proportion is and whether we are at that ceiling, and, if so, change it accordingly. Otherwise, in the zero-sum game, there will be winners and losers, and we know where the losers are, because people are suffering.

Mr Weir: Yes, but, with respect, it comes down to the fact that, if you are saying that it is proportionate — I am keeping an open mind on that — ultimately that will mean that accepting proportionality will mean accepting that there has to be winners and losers. You still have the same envelope of money to come in and, if you accept that it is proportionate and, consequently, the amount that you pay fluctuates in some shape or form, if you are not paying a certain amount of money, somebody else is picking up the tab. Similarly, if you are paying more, you are picking up the tab for somebody else. With respect, you cannot get away from that.

Finally, I encourage you, whether yourselves or through some of the representative organisations, to look at some sort of empirical evidence basis on the rate and rents bit so that we can move away from that. Do you have any specific suggestions — maybe you want to go ahead and think about it — as to how there would be better support for charities? Unless you are saying that this is something that replaces an advantage that they have at present, I do not think that it is realistic that that is even going to be considered as an option otherwise.

Mr Bogues: It is an idea that definitely needs more work. Our concern is that the onward march of charity shops in Omagh town centre does not enhance it as a shopping destination. Lots of town centres in Northern Ireland are the same. The reason that it is a successful model for charities is that they get the concession and do not have to pay staff, as they are staffed mostly by volunteers. I suggested to you that there is a way of reducing the advantage of a rates concession rather than taking it away altogether.

Mr Weir: I accept that. The important thing is that, ideally, we will be looking at trying to provide solutions. I understand the rationale that says that, if you change the mix from the point of view of concessions, you may be able to adjust the mix of shopping in the likes of a town centre to remove that level of advantage. That is a perfectly logical case to make. From a practical point of view, if that is to be a realistic proposition, it needs to be bottomed out by not simply saying that you should reduce the level of advantage that charities have and support them in some other way. You need to have more concrete solutions around the level of support that could be given, from a practical point of view, to charities if there were any change to effectively compensate charities for whatever loss. From a public perception point of view, charities represent a lot of very good causes, and the idea of them simply taking something away with them and saying, "We will get something sorted out" is not good enough. There needs to be some meat put on the bones of that, if that is to be a seriously considered suggestion.

Ms England: To me, that comes back to the issue of the vacant rating. A lot of those charity shops are moving into buildings in which landlords are prepared to give them the building at a very low rent because the rates burden is taken away from the landlord and the charities still do not have to pay it. If that vacant rating policy were not in place, you would not see so many charity shops coming into the high street. It is skewing the market.

Mr Weir: But if you had a situation in which there are no rates to be paid on a vacant property, for example, surely the fact that there is some level of rates burden means that there is more of an incentive for a landlord to go out and find somebody.

Ms England: That is why so many charity shops are moving into the town centre.

Mr Weir: I understand that, but, to be fair, I saw that happening in a range of town centres long before vacant rating was introduced. I would also say that the alternative to a charity moving in, because of that level of pressure, is the property simply remaining vacant. I am not particularly sure that that helps increase footfall either. There are very interesting issues that will hopefully get teased out in the review.

Dr O'Shiel: It is certainly skewing the market from the point of view that, as a result, more charity organisations are popping up in town centres. There is a tipping point, where one or two is reasonably balanced but five, six, seven or 10 is unreasonably balanced, and that has an effect. The basic thing that we are trying to say about the tax rate is that it is out of proportion, and, because of that, it is having unfair and unsustainable effects. The Committee may or may not see those effects now, and, if you are coming from the zero-sum game point of view, where we have to get our £50 million, you will not see those effects, but, in everyday life, in the meantime, while this gets sorted out, it is having an adverse effect that a tax should not have. It is not the purpose of a tax to skew the market and have an adverse effect. The purpose of a tax is to raise reasonable, proportionate income for other services that we all want, and, in this case, the tax has gone way beyond its remit. That is the reason that we are asking for this.

Mr Weir: I will say two things. First, if proposals to rebalance things or to say that this is out of kilter or out of proportion are to be taken seriously, you cannot ignore the zero-sum game. If money is not coming in from one route, you have to address, in some way, how it will be done and have some projections. The issue with the charity shop-type situations has certainly been noticed for quite a long time. I suggest that it is important that, as part of that, if you are to make a case around that and make a case for a change, if that is evidence-based, apart from simply saying that it is going from a few to a bit more, you should choose statistics that say that there were so many charity shops in town centres 10 years ago across the board and that the number is now at such-and-such a level. It is about the evidence rather than simply saying, "Here is a bit of empirical evidence".

Dr O'Shiel: We are not necessarily saying that that is our role. We see it as our role to bring it to the Committee's attention, and, with the resources of the Committee, the Executive and the rating agency, you then say, "This needs to be addressed". We certainly got that feeling from our meeting with the rating agency. One of the questions, just to keep it balanced, was on whether it could be done if the rating agency was asked to collect £50 million less and where it would then come from. It would then put its collective mind to that.

Mr Weir: With the best will in the world, if you are going to lobby on a particular point, you need to provide solutions. There is an old Civil Service saying, "He who drafts wins", and if you not only

indicate what you want but say how you see it being achieved in a practical manner, your chances of getting it will be an awful lot better than if you simply say, "Here is a particular problem. Here is what we want done to solve it. It could be done in a number of ways, but we are not going to give a view on that". It would help your case if you were able to put some meat on the bones.

Mr Mitchel McLaughlin: It is worth mentioning at this point that the £550 million in zero sum does not even tell the full story because the Executive have, in fact, set aside some of that income for the small business rate relief scheme. So, at the end of the day, it is not entirely zero sum and is not entirely the question that the Executive are locked in to getting £55 million under any circumstances.

I wonder whether the re-evaluation exercise provided an opportunity to cast the projections in the absence of what was seen as an economic downturn measure, which was meant to be short term. You did not mention it, which I found very interesting, but lots of businesses are benefiting from that initiative. Maybe it is distorting all our thinking, because the re-evaluation exercise is now designed to achieve a prescribed income being applied to what I think must logically be, given the downturn, a smaller business base. So, it is increased pressure. However, there was an initiative that was extended in a number of ways over the period of the downturn that is drawn directly from that pot of money and is the Executive giving it back again. Maybe we are wasting a lot of time shuffling the cards when we could take a wee look at this again. I do not know how well received the proposition would be at this stage if we said, "Let us just forget about the small business rate relief scheme and set a lower target of income".

The Chairperson: OK, members, we will leave it there for now. It is a fascinating debate, and we will certainly give it some consideration. Thank you very much.

Mr Bogues: Thank you very much, Chair and members of the Committee.