

Report of the Committee for Finance and Personnel's Response to the Review of Rating Policy Consultation Paper

SESSION 2002/2003 SECOND REPORT

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COMMITTEE FOR FINANCE AND PERSONNEL

TOGETHER WITH THE MINUTES OF EVIDENCE, WRITTEN SUBMISSIONS,
MEMORANDA AND MINUTES OF PROCEEDINGS RELATED TO THE REPORT

COMMITTEE FOR FINANCE AND PERSONNEL: MEMBERSHIP AND POWERS

POWERS

The Committee for Finance and Personnel is a Statutory Departmental Committee established in accordance with paragraphs 8 and 9 of Strand One of the Belfast Agreement and under Standing Order No. 45 of the Northern Ireland Assembly. The Committee has a scrutiny, policy development and consultation role with respect to the Department of Finance and Personnel and has a role in the initiation of legislation.

The Committee has the power to:

- consider and advise on departmental budgets and annual plans in the context of the overall budget allocation;
- approve relevant secondary legislation and take the Committee Stage of relevant primary legislation;
- call for persons and papers;
- initiate enquires and make reports;

- consider and advise on matters brought to the Committee by the Minister of Finance and Personnel.

MEMBERSHIP

The Committee was established on 29 November 1999 with eleven members, including a Chairperson and Deputy Chairperson and a quorum of five members.

The membership of the Committee is as follows:

- Mr Francie Molloy (Chairman)
- Mr Roy Beggs Jnr (Deputy Chairman) (appointed in replacement of Mr James Leslie on 20 February 2002)
- Mr Alex Attwood
- Mr Billy Bell
- Mr Seamus Close
- Mr Derek Hussey
- Mr Roger Hutchinson (appointed in replacement of Mr Nigel Dodds MP on 12 November 2001)
- Ms Patricia Lewsley (appointed in replacement of Mr Donovan McClelland on 15 January 2001)
- Mr Alex Maskey
- Mr Maurice Morrow (appointed in replacement of Mr Peter Robinson MP on 12 November 2001)
- Mr Peter Weir

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1. EXECUTIVE SUMMARY

1.1 This report sets out the Committee for Finance and Personnel's response to the public consultation on the Review of Rating Policy. It includes a commentary on the consultation document, titled "Review of Rating Policy: A Consultation Paper", and responses to the key questions presented in this paper. In addition, the Committee has raised some ancillary issues.

1.2 The findings and recommendations of the Committee have been informed by the written and oral evidence presented to the Committee and by the preliminary views emerging from the public consultation undertaken by the Department of Finance and Personnel (DFP), including the conferences and events which Committee members attended.

1.3 The Committee recognises the changed context in which the Review of Rating Policy has

taken place, namely the announcement of the Reinvestment and Reform Initiative in early May 2002, which increased pressure to raise additional local revenues.

1.4 The Committee has concerns around both the timing and the quality of the consultation process.

1.5 The key recommendations of the Committee are:

- a) That there should be no change from taxing occupation to taxing ownership in respect of the Domestic sector, however, the concept of “sole or main residence” should be examined;
- b) That a discrete capital value based system for the Domestic sector should be examined in detail and that this will require an impact analysis;
- c) That consideration should be given to Domestic reliefs for groups such as sole householders, the elderly and the disabled, and that existing reliefs should be reviewed in terms of their relevance and effectiveness;
- d) That there should be no change from taxing occupation to taxing ownership for the Non-Domestic sector;
- e) That a switch to capital value for the Non-Domestic sector should not be considered;
- f) That consideration should be given to taxing vacant property but that certain exemptions will be required and that a distinction should be made between the Domestic and Non-Domestic sectors;
- g) That a meeting should be arranged between the CBI and DTZ Pleda to discuss the report on Industrial Derating and the fundamental differences of opinion between the parties and, if necessary, commission further research.
- h) That further consideration should be given both to rural reliefs and to relief for small businesses;
- i) That hardship relief schemes should be developed for both the Domestic and Non-Domestic sectors;
- j) That all proposals for relief, new and existing, should be subject to thorough TSN evaluations, Equality Impact Assessments and effectiveness evaluations;
- k) That a review of the present appeals system should be considered;
- l) That the existing process regarding the financing of District Councils should be examined with a view to providing District Councils with more certainty;
- m) That the issue of water charges should be considered separately from the reform of the rating system and should be subject to a separate public consultation; and
- n) That consideration should be given to the arguments for other means for raising local revenues, including tax varying powers for the Assembly.

2. INTRODUCTION

2.1 The *Review of Rating Policy: A Consultation Paper* was launched on 27 May 2002 and this marked the beginning of a public consultation by the Department of Finance and Personnel. As part of this exercise the Assembly committees were invited to respond to the Department's consultation paper.

2.2 To inform its response the Committee for Finance and Personnel undertook its own public consultation, which included placing an advert in the newspapers inviting written submissions and proactively seeking the views of stakeholder groups. A series of evidence sessions were also held and minutes of this evidence together with transcripts of the written submissions are attached in the appendices.

2.3 The Committee also commissioned the services of specialist advisers from the Institute of Revenues, Rating and Valuation, Mr. Patrick K Doherty and Mr. David Magor.

2.4 The Committee's response, as set out in this report, includes a commentary on the consultation paper, and responses to the key questions presented in the paper. The Committee also raises a number of ancillary issues.

2.5 The Committee recognises the changed context in which the Review of Rating Policy has taken place, namely the Reinvestment and Reform Initiative announced by the Prime Minister, the Chancellor of the Exchequer, the First Minister and the Deputy First Minister in early May, which increased pressure to raise additional local revenues.

2.6 The Minister makes it clear, in his Forward to the consultation paper that the Review of Rating Policy is at the heart of this. The Minister has also stated that the present system is unfair, out-of-date and does not meet our needs.

2.7 It appears to the Committee that the consultation paper only considers a narrow range of issues and is, essentially, about how the present system can be altered to assist the policy objective of raising additional revenues.

2.8 The Committee is concerned at the timing of the consultation process in that it took place over the summer holidays and this left limited time for organisations to respond because of holiday commitments. The public meetings were called at short notice and this may have contributed to the poor response.

2.9 A significant issue raised in the consultation paper is that of the introduction of water and sewerage charges and the fact that it is presented almost as a *fait accompli*. It appears that the only decision to be made is how the charges should be raised. It is surprising that the use of water meters appears not to have been examined in detail and has been dismissed, whereas the consultation response suggests that this is a missed opportunity.

2.10 The proposals in the consultation paper set out options for calculating water and sewerage liability between outdated systems similar to that which currently exists in GB but which is slowly being phased out by the introduction of meters in all new properties and the ability of consumers to request the installation of meters in their properties.

2.11 It is pleasing to note that the authors of the consultation paper appear to have taken note of many of the comments made by the Committee in its response to the initial report highlighting the issues, particularly in relation to the presentation of the consultation paper and more emphasis on reliefs and exemptions.

2.12 However, there is a lack of adequate discussion and explanation in some areas and comment is made under the appropriate section below. It is the Committee's view that this lack of detail may have impacted on the quality of the consultation process particularly in relation to domestic ratepayers.

2.13 The Minister's statement about phasing the changes in gradually is welcomed but no options are contained in the body of the consultation paper for discussion. The Committee would have thought that in seeking the "views of householders and businesses" they would have been given the opportunity to discuss possible options for transition.

2.14 The Committee can only assume that at some point in the future there will be an opportunity to comment on possible schemes of transition. It is the Committee's view that transition is an

important element of easing the changes and the inevitable shifts in the burden of the tax.

2.15 The Committee is disappointed to note that other than the reference to 2004 no timescales are identified in the consultation paper.

3. COMMENTS ON CONSULTATION PAPER

3.1 Background

3.1.1. The background to the review is set out clearly in this section as are the key areas examined by the review. The Committee's principle comments are in relation to the following two areas: -

- a) The range of reliefs and exemptions, and
- b) The system for determining and collecting regional revenue together with the interaction of the financing of District Councils.

3.1.2 Firstly, it is pleasing to note that greater emphasis has been placed on exemptions and reliefs, particularly in relation to the domestic sector. The Committee notes that the document touches on the issues of hardship relief, and relief for disadvantaged areas etc. The Committee does not believe, however, that the consultation paper explores the issues in sufficient detail. Further comment is made in the appropriate section.

3.1.3 Secondly, the Committee cannot see that "the system for determining, collecting regional revenue and the interaction with the financing of District Councils" has been examined unless the statement in paragraph 5 of the consultation paper refers to the question of liability, which in the Committee's opinion has not been discussed in any depth.

3.1.4 Whilst determining the nature of the tax base is important for reasons of equity, an essential element of any property tax is its collectability and decisions about who is the liable person. These issues are critical to its success.

3.1.5 The interaction with the financing of District Councils is raised but not discussed in the paper and during the consultation process, and particularly at the Northern Ireland Local Government Association (NILGA) seminar; several local councillors raised concerns about the accuracy of the penny rate product calculations. Further comment is made in paragraph 3.5.6.

3.1.6 Whilst the Committee note that the "scope of the Review is constrained by the Northern Ireland Act 1998" the Committee believes that the Executive should consider the full range of arguments for other means for raising local revenues, including providing the Assembly with its own tax varying powers (albeit limited) in the same way as Scotland. The reasons for this are outlined later in the report.

3.2 Domestic Rates

Paragraphs 35 to 38 - Liability for payment

3.2.1 These sections discuss the issue of taxing ownership as opposed to occupation or the concept of "sole or main residence" but only present a one sided argument, which is in relation to ownership. No explanation is given of the implications of continuing with the present system or of changing to a "sole or main residence" basis.

3.2.2 The Committee would question whether the informed "views of householders and businesses" can be obtained without them having an explanation of the differences between the proposals.

3.2.3 In relation to treating the owner as liable, the Committee would make the following comments –

- a) Paragraph 36 implies that taxing owners would lead to the inclusion of vacant property in the tax base. The taxation of vacant property can be catered for in an occupier-based system, as is the case in GB. Overall the impression is given that the rating of owners is the preferred option in the consultation paper.
- b) Savings, if there are any, are marginal.
- c) There is no evidence that debt recovery problems are reduced.
- d) Enforcement is only effective if possession is applied.
- e) UK collection levels appear to be higher than in other jurisdictions that treat the owner as liable, for example, Canada and the USA
- f) By rating owners there is an erosion of the tax base
- g) Lastly, and importantly, taxing ownership does not promote accountability

3.2.4 With the exception of the Rate Collection Agency (RCA) and the Committee on the Administration of Justice (CAJ) those who responded to the consultation process expressed no preferences. The Valuation and Lands Agency (VLA) do not express a strong opinion but do comment that taxing ownership will “fit well with capital value rating.”

3.2.5 The RCA are strongly in favour of taxing ownership and state that it would bring a number of advantages to the collection process. The Committee have examined those arguments and believe that very much the same arguments could be brought to bear for taxing the occupier by simply changing the current legislation e.g. by making it a statutory duty for occupiers to notify the RCA when they occupy or vacate a property.

3.2.6 Whilst the Committee would not necessarily advocate the GB system for determining liability it is believed that a detailed examination of the principle of “sole or main residence” that applies in GB should be undertaken. It is worthy of examination because of the significant changes in property taxes over the past 12 years, and the experience gained from that, and its ability to cope with the taxation of both occupied and unoccupied properties.

Paragraphs 39 to 58 - Method of Valuation

3.2.7 The paragraphs on the need to change the valuation base are well presented and the arguments for the options are much more evenly balanced than the sections on the liability issue. Clear explanations are given in relation to the options.

3.2.8 The Committee considers that a discrete capital value based system should be examined in detail, however, because such a system is likely to result in a significant shift of incidence an impact analysis should be undertaken.

3.2.9 More evidence needs to be drawn from the studies undertaken by the University of Ulster and the Committee would recommend that the VLA utilises its IT resources to carry out detailed modeling exercises and, crucially, a detailed impact analysis.

3.2.10 The results of any modeling exercises and the consequential impact analyses should be made available for public discussion.

Paragraphs 59 to 64 – Domestic Reliefs

3.2.11 The rating review offers an ideal opportunity for innovative reliefs and exemptions to be explored that correlate with the new TSN. Unfortunately the consultation paper fails to explore in any depth the issues and also fails to discuss, in any detail, the potential for some form of hardship relief to assist domestic taxpayers.

3.2.12 The Committee notes that the paragraphs on domestic reliefs are presented in a negative manner and leaves the reader with the impression that reliefs are not welcome in a new property tax regime, particularly those relating to single person discount.

3.2.13 The comments about single person discount being “a broadly acceptable measure in the context of moving from a charge on individuals (the Community Charge/Poll Tax) to a hybrid property tax such as The Council Tax” is, in the view of the Committee’s Specialist Advisers, simply wrong. It is acceptable because it resolves, albeit in a simplistic and universal manner, the political issue about the single occupier living next door to the large family and paying the same in property tax.

3.2.14 The consultation paper effectively dismisses single person discount without fully understanding the rationale behind it. Whilst the “single person” syndrome is recognised in the report there is no suggestion as to how to resolve the argument or indeed the inherent issue that single people raise generally, irrespective of their age or financial circumstances. It is seen as unfair that one person on their own should pay the same as a multi-occupied property. Single person discount also seeks to address the point about the efficiency of the tax, particularly in relation to how those who receive services should pay for them.

3.2.15 The Committee considers that the discussion should have been more positive about finding a resolution to this issue rather than virtually dismissing it as an option. It is not about following the GB model but finding a solution in the Northern Ireland context. There is no doubt that during the consultation process the issue of the single householder residing next door to a large household was raised on a number of occasions. It is important, therefore, that further consideration be given as to how to address this issue.

3.2.16 It is also disappointing to note that there is only limited discussion on the range of reliefs that might be considered. There is clearly a range of people who could be targeted for relief such as the disabled, students and lone parents. The Committee do not believe that there was sufficient detail in the consultation paper to enable “the views of householders and businesses” to be obtained.

3.2.17 The Committee concludes that this is an area that is underdeveloped in the consultation paper. A number of consultees expressed concern about those who live on their own and the size of their tax bill relative to large households. For these reasons the Committee consider that –

- a. Existing reliefs should be reviewed to determine if they are still relevant and effective, and
- b. Reliefs for other groups such as sole householders, the elderly and the disabled should be examined.

3.2.18 All proposals for relief, new or existing, should be subject to thorough TSN evaluations, Equality Impact Assessments and effectiveness evaluations.

Paragraphs 65 to 69 - Selective relief

3.2.19 The options for allowing some form of selective relief are presented in a very positive manner without examining the disadvantages such as loss of cash flow resulting from deferment programmes. Although it is stated that these are widely used in the USA they are, nevertheless, crude instruments and there is no common system in use. They vary from State to State.

3.2.20 Mention is made of “circuit breakers” and whilst the Committee is advised that these are widely used in the United States they also are a very crude tool used for rebating property tax at particular income levels. Circuit breakers leave a lot to be desired and are hopelessly regressive and expensive to administer in comparison with GB and NI models, particularly housing benefit.

3.2.21 This question should be considered in conjunction with the review of a wider basis for reliefs.

Paragraphs 70 to 73 - Graduated income relief

3.2.22 This would appear to make the tax system extremely complicated and the Committee cannot see any argument for pursuing a graduated income relief scheme bearing in mind the social security system in GB and Northern Ireland.

3.2.23 The Committee recognises that the introduction of any form of relief calculated on an income basis could be outside of the devolved powers of the Assembly, though this is likely to depend on how similar in character to income tax such a system might be.

3.2.24 This question should be considered in conjunction with the review of a wider basis for reliefs.

3.3 THE NON-DOMESTIC SECTOR

Paragraphs 74 to 76 - Liability

3.3.1 The presentation of these paragraphs assumes that readers of the consultation paper will know and understand the advantages and disadvantages of continuing with the present system of taxing occupiers rather than owners and may explain why few respondents to the consultation process have commented on this issue.

3.3.2 The comments give the impression that the rating of vacant properties can only be achieved if taxing of owners is adopted. This is clearly not the case since the rating of vacant properties has operated effectively and efficiently in GB since 1967.

3.3.3 Taxation of vacant properties can be achieved without solely taxing ownership. The Committee would, therefore, question what would actually be achieved by moving from taxation of occupation to taxation of ownership.

3.3.4 The Committee are advised that taxing ownership would actually reduce the tax base, for example, under the present system office blocks, parades of shops and shopping centres in single ownership have separate assessments for each of the units of occupation and the sum of the individual assessments is greater by a factor of anything between 15% and 40% (depending on the circumstances) than having one assessment, as would be the case if the owner were taxed.

3.3.5 In addition, by reducing the number of taxpayers and issuing bills to owners there will be a loss of accountability.

3.3.6 A disadvantage that appears to have been omitted is that, under the present system, there is no need to enquire whether the person occupying the property has a right to use the property or whether they have the requisite planning permission and bye-law consent to use the property in the way that they are using it. Once you tax the owner, then any unlawful use cannot be taxed because the illegal

use does not confer any benefit to the owner by way of increased value.

3.3.7 It would appear to the Committee that there is a further disadvantage in relation to charitable relief. At present eligibility depends on the charitable body occupying the property and this would have to continue, otherwise a charity or similar body would be able to claim the relief for property that they own but do not occupy.

3.3.8 The submission by the RCA favours taxing ownership but is not clear as to whether this relates to Domestic or Non-Domestic properties or both.

3.3.9 The Committee concludes that the consultation paper did not fully draw out the issues relating to changing from taxing occupation to taxing ownership particularly –

- The loss of accountability because of a reduction in the number of taxpayers,
- The fact that the tax bill will be lost in the overall property charges made by the landlord, and
- The impact on rate income of combining rating assessments.

For these reasons and the fact that the Non-Domestic sector is essentially a rented market sector it would seem appropriate to continue with the present system

Paragraphs 77 to 83 – Method of Valuation

3.3.10 The consultation paper states that the current rental value system works well and the VLA state in their submission that they have successfully carried out one revaluation in 1997 and a second revaluation comes into effect on 1st April 2003.

3.3.11 The meeting with the Landed Professions concluded that the present system works well because there is more rental evidence than there is capital evidence and the rental market is well understood and so satisfies the transparency test.

3.3.12 The Confederation of British Industry (CBI) states in its submission that the current system of taxing occupation and basing rateable value on rental value is the most appropriate system and that no substantive reasons have been put forward for change.

3.3.13 The Committee concludes that as the present rental value based system is working well and is understood there is little point in changing it.

Paragraphs 84 to 89 - Vacant Property

3.3.14 Representatives of the Landed Professions who represent ratepayers are strongly against the rating of empty properties stating that it would act as a deterrent to potential developers and would act as an incentive to owners to ensure that vacant properties were left to deteriorate so that they would become non rateable.

3.3.15 On the other hand the CBI states, “A clearer understanding and assessment are required of the impact of introducing rating to vacant property. There is no clear rationale for Northern Ireland to be different from the rest of the UK.”.

3.3.16 The Committee recognises that this is an emotive subject, which will inevitably face opposition, however, it must also be recognised that services such as Fire are available to vacant properties.

3.3.17 The Committee supports the principle of the rating of vacant property and considers that further investigation should be undertaken in relation to the GB model to determine if the concerns expressed by the business community are realised in practice.

Paragraphs 90 to 94 - Industrial Derating

3.3.18 The DTZ Pida report concludes that Industrial Derating is not cost effective and not good value for money as a tool of economic development. It is recommended by DTZ Pida that de-rating be abolished with reasonable notice – say two years from the date of the announcement being given to industry in Northern Ireland

3.3.19 Based on the research undertaken by DTZ Pida the Committee would concur that, in principle, the case for the removal of Industrial Derating appears to have been made.

3.3.20 However, the Committee has a number of reservations:

- a. Although some of the evidence is not conclusive, a fact recognised by DTZ Pieda themselves e.g. in Section 4 of their report (Performance of Manufacturing in Northern Ireland) the analysis undertaken does lead to the conclusions set out in section 6 of the report.
- b. One of the arguments put forward for retaining de-rating is the cost of overheads including electricity and insurance costs and the fact that these are higher in Northern Ireland. If this is the case then the cost of the overheads in Northern Ireland is the issue not the introduction of the rating of industrial properties. It seems to the Committee totally illogical to use a property tax as compensation for excessively high utility and other costs.
- c. Whilst the period of notice recommended by DTZ Pieda may be adequate phasing is not mentioned, which in the Committee's view is a serious omission. If phasing is not introduced the Committee have no doubt that many companies will suffer hardship and will need time to adjust to making payment of the full rates burden. Phasing will also allow time for the impact on rental and capital values to start to take effect.
- d. The Committee suggests that a period of phasing is more appropriate. When de-rating was abolished in Scotland in 1963 Industries were allowed 50% relief. This remained until 1990 and the remaining relief removed as follows:
 - i. 1990 / 91 - 35%
 - ii. 1991 / 92 - 25%
 - iii. 1992 / 93 - 17.5%
 - iv. 1993 / 94 - 10%
 - v. 1994 / 96 - 12.5%

3.3.21 If Industrial Derating is removed then consideration will need to be given to introducing targeted relief for economic development purposes.

3.3.22 The CBI in their evidence to the Committee made the following statements about the DTZ Pieda report -

- a. Poor assumptions, inconsistencies and incorrect conclusions;
- b. No sectoral assessment;
- c. The conclusions on the impact of rates on profitability were incorrect;
- d. DTZ Pieda failed to understand the importance of the total cost package – it is not one particular item;
- e. Incorrect in assumptions in typical business planning cycles.

3.3.23 The CBI did not advocate the retention of Industrial Derating in the long term but given their very serious reservations and those of the Committee, and the fundamental importance of Industrial Derating to the whole reform process, the Committee considers that the Rating Policy Branch should arrange a meeting between the CBI and the consultants to discuss the differences and, if necessary commission further research. The Committee would like to be kept informed of the outcome of any discussions.

3.3.24 The Committee would add that if a decision were made to discontinue Industrial Derating then an appropriate time would seem to be from the commencement of the non-domestic revaluation that would be due to come in to effect on 1st April 2008. However, a lead in time of two years as recommended by DTZ Pieda is not adequate to allow industry to adjust to the charges and a longer transitional period would be required.

Paragraphs 95 to 99 – Rural Rate Relief

3.3.25 These paragraphs make statements rather than providing a basis for discussion. For consultation purposes it would have been helpful if more explanation had been provided.

3.3.26 It was clear from the consultation process that the Ulster Farmers Union are in favour of introducing some form of relief, however, no basis for a scheme of relief was identified, although providing assistance to farmers who diversify would be considered helpful. In addition, the Rural Development Council highlighted opportunities to use reliefs as “a flexible means to support important and emerging industries and businesses”, particularly in areas of identified deprivation.

3.3.27 The consultation paper indicates that evidence suggests that schemes similar to those in GB would not be a good way of sustaining rural services in Northern Ireland. Regrettably the consultation paper does not give any indication as to the rationale behind this comment.

3.3.28 The Committee believe that further consideration should be given to rural reliefs to determine if some form of relief would help to sustain the economies of declining areas. All proposals for relief, new or existing, should be subject to thorough TSN evaluations and Equality Impact Assessments

Paragraphs 100 to 103 - Existing Charitable, etc.

3.3.29 These paragraphs simply list the properties that currently enjoy a measure of relief and do not ask for an opinion, however, it is the Committee's view that in the light of the review all of these reliefs should be reconsidered and a decision made as to whether they are still relevant.

3.3.30 In its submission to the Committee, Queen's University Belfast (QUB) highlighted an anomaly in that it is not exempt from rates whereas other local educational establishments have obtained exemption. QUB also points to the fact that under equivalent English legislation universities and colleges receive charitable exemption.

3.3.31 The general thrust in GB over the last 5 years has been to bring all public sector property into rating so there is a level playing field particularly in regard to the financial wealth of public sector organisations against private sector organisations.

3.3.32 Also there are arguments that public sector properties should be rated in order to retain the credibility of the tax base and for the simple fact that the public sector should not be treated any differently than the private sector

Paragraphs 105 to 108 - Reliefs for Small Businesses

3.3.33 The arguments are well presented but it is worth noting that the way in which the small business relief will work in GB is that the person entitled to the relief will receive it if they are occupying one hereditament only. This effectively excludes large companies from receiving the relief even if they are occupying small hereditaments.

3.3.34 Given the importance of small businesses to the economy it is the Committee's view that further consideration should be given to developing a small business relief scheme but one that is targeted to provide assistance where and when it is needed including start up businesses. This could be linked to a hardship scheme.

3.3.35 It is essential that any scheme developed be tailored to meet the needs of the Northern Ireland economy and the needs of the new TSN.

Paragraphs 109 to 111 - Hardship Relief

3.3.36 The potential impact of hardship relief should not be underestimated on the new TSN; in particular, there are situations where hardship relief can be used to protect jobs and communities. This can be an important part of stabilising employment particularly in relation to new businesses.

3.3.37 There are also circumstances in relation to declining areas, and town centres which are in decline, where such a relief can provide much needed assistance. This is not withstanding the fact that such circumstances can be dealt with through the valuation system given that the incidence of a property tax should be determined by value and, of course, values kept up to date by regular revaluations.

3.3.38 However, between revaluations hardship relief can provide assistance on an individual basis and is an excellent way of targeting relief as recent events in GB in relation to Foot & Mouth disease have shown.

3.3.39 The evidence received by the Committee suggests that a hardship scheme would be welcome. It is the Committee's opinion that this would be a good vehicle to assist any size of business whether operating in a rural area or an urban area.

3.3.40 Further work should be undertaken to determine the shape and scope of any scheme.

Paragraph 112 to 113 - Relief for disadvantaged areas / declining town centres

3.3.41 Whilst it is correct to say that the forthcoming revaluation will address some of the issues of declining areas, at least in relation to rates payable, the statement is too simplistic and does not take account of what happens between quinquennial revaluations.

3.3.42 A hardship relief scheme would resolve some of the very serious concerns that the Committee has in relation to declining town centres. (see paragraphs 3.3.37 to 3.3.40)

3.4 FUNDING WATER AND SEWERAGE CHARGES

3.4.1 It is noted that the consultation paper makes it clear that there is, effectively, no option about the introduction of water charges. Basically it is a requirement of the Treasury in order to meet the commitments that the Northern Ireland Executive will face in the coming years.

3.4.2 It is noted that the Treasury is expecting the Executive to commit to the principle of direct water charging and that it will be implemented by April 2006. Under the rules in respect of Resource Budgeting Stage 2, as from 1st April 2003 Departments will be obliged to manage depreciation of assets as a controllable budget item. This will have a heavy impact on the Departmental Expenditure Limit (DEL). However, this rule would not apply where assets are not a cost to the taxpayer – such as in the case of self-financing public bodies. As an encouragement to the Executive to introduce water charging the Treasury will allow the Water Service to be treated as if it is already self financing providing a commitment is made to move to that status over a number of years.

3.4.3 However, whatever the rationale for introducing water and sewerage charges, going from a no-charge position to a charging regime will have a dramatic effect on the new TSN, and in particular, it will impact heavily on low income families and those in receipt of income support.

3.4.4 This is a major issue that has many problems, not least the inter-action with the social security system. Because charges were introduced in GB many years ago an allowance is already made in income support levels. If a charge were to be introduced in Northern Ireland it will not attract additional benefit for those on income support. This would mean those in the community on the lowest income would not receive any extra income to meet the new charge.

3.4.5 Furthermore both water and sewerage charges are outside of the housing benefit and rate rebate schemes so there would be no additional help for those on incomes above the income support level.

3.4.6 The Committee has been informed that in Scotland, prior to 1996, water and sewerage charges were part of the council tax and, therefore, subject to the benefit system. Separate charges were introduced in 1996 and for low-income households and, particularly those on income support, this has meant significant increases that were not covered by any parallel increases in income support or housing benefit

3.4.7 The charges have raised serious affordability issues and Scotland is now on its second transitional reduction scheme to help low income households.

3.4.8 The transitional schemes, however, have not addressed the basic problem of low-income families' ability to meet the charges. This has resulted in these families falling in to permanent indebtedness. The position is worsened by significant annual increases in charges that are not subject to the transitional rules as there is a need for investment into capital and infrastructure projects.

3.4.9 The basic problem is that not enough attention was paid to the effect on households moving from a charge included in local taxation, and subject to benefit, to one that is not.

3.4.10 Scotland is now in the 6th year of the current regime and large numbers of households just cannot afford the charges. The Confederation of Scottish Local Authorities has proposed that a benefit system, aligned to the national scheme, needs to be introduced. The issue is cost.

3.4.11 The responses to the consultation suggest disappointment that the question of introducing water meters has been dismissed on the grounds of equity and cost. The same equity arguments apply to a greater degree to the alternatives as does the argument about the Housing Benefit system not being available for the other methods of charging for water and sewerage.

3.4.12 It is clear from the submissions received by the Committee that water metering is considered as the fairest option to determine water usage and, therefore, the only way to ensure charges are based on consumption as with the other utilities. This method of charging also meets the issue of sustainability.

3.4.13 In exploring this option a long-term view could be taken to enable existing properties to be charged on the basis of one of the options discussed, but with all new properties being metered. The cost of installation would be met by the developers and passed on in the price of the new house. In the long term a programme of conversion could be applied to existing properties and, in the meantime, occupiers could be given the option to have meters installed at their own cost.

3.4.14 Not to include a discussion on water metering, and to merely dismiss it as an option, seems

from the consultation response to be a lost opportunity to debate the long term charging policy.

3.4.15 The Committee is of the opinion that the issue of Water and Sewerage Charges is such a significant proposal because of the affordability and method of charging issues that it should be separated from the review of rating.

3.4.16 Introduction of charges, even on a phased basis, will have a significant impact on low income families particularly those on income support and to have included the proposal as part of the review of the rating system was, the Committee believe, ill conceived and does not provide an adequate vehicle for discussion and debate.

3.4.17 In addition, the Committee considers this to be such a contentious matter that it will detract from discussion on the other reforms and should be the subject of a separate and further consultation process. A separate consultation process would ensure that all the implications are examined in detail and, importantly, an impact analysis is undertaken and different charging methods modelled.

3.5 ANCILLARY ISSUES

Appeals System

3.5.1 The point was made at the Landed Professions consultation that the appeals system in Northern Ireland was fundamentally different than that in GB and was not perceived by them as being as fair.

3.5.2 It would seem to the Committee that a review of the present appeals system should be considered during the course of the reform process.

Alternative Tax Varying Powers

3.5.3 The removal of industrial derating and the introduction of water and sewerage charges has the potential for having a significant impact on the level of income raised for public services but at the same time having a significant impact on those liable for the charges. These are both radical changes. Reform to the rating system is essentially technical in nature even though it will have a significant redistributional impact on taxpayers. All of these changes, particularly those related to domestic properties will impact on the same taxpayers.

3.5.4 In order to spread the burden of taxation the Committee is of the opinion that the Executive should explore the possibility of obtaining wider tax varying powers, as is the position in Scotland. The Committee note that the “scope of the Review is constrained by the Northern Ireland Act 1998”. However, when launching the Review of Rating Policy, the Minister of Finance and Personnel stated that “Nothing is ruled in, nothing is ruled out by the Executive” (apart from domestic water metering and the rating of agricultural property).

3.5.5 It could be argued that having additional tax varying powers would help to ensure one of the aims of the Review “that a fair share of the tax burden should be borne by households and businesses”. This would be achieved by enabling a sharing of the tax burden between a local property tax and a local income tax. It would also offer the fairness, vis-à-vis ‘ability to pay’, which is inherent in an income tax system.

Financing of District Councils

3.5.6 The interaction with the financing of District Councils is raised but not particularly discussed in the paper. During the consultation process, and particularly at the NILGA seminar several local councillors raised the issue of the accuracy of the penny rate product calculations.

3.5.7 It is the Committee’s view that as part of the ongoing review of the rating system further consideration should be given to this aspect of the tax and how the estimating process can be improved to provide District Councils with more certainty. This issue should form the subject of a consultation process with NILGA and the District Councils.

Review of Public Administration

3.5.8 Any new rating system will not fundamentally be affected by the Review of Public Administration, which is essentially a redistribution of services and hence will result in the re-apportioning of the tax between the levels of government.

3.5.9 However, in an ideal world the Review of Public Administration should be linked to the review of the rating system and the grant system because all three reforms will have a re-distributional impact. It would have been better to bring all three together to minimise the impact of changes on taxpayers.

4. COMMITTEE'S RESPONSE TO KEY QUESTIONS PRESENTED IN CONSULTATION PAPER

4.1 *Should we consider taxing ownership instead of occupation?*

The Committee considers that the consultation paper did not fully draw out the issues relating to changing from taxing occupation to taxing ownership particularly–

- The reduction in the number of taxpayers with the resultant loss of accountability and transparency,
- The fact that the tax bill will be lost in the overall property charges made by the landlord, which again leads to a loss of accountability and transparency, and
- The impact on rate income of combining rating assessments.

The Committee concludes, therefore, that no change should be made, however, the Committee does consider that further consideration should be given to the concept of “sole or main residence”.

4.2 *Should a capital value based system be examined in detail (individual or banded) for Domestic properties?*

The Committee considers that a discrete capital value based system should be examined in detail, however, because such a system is likely to result in a significant shift of incidence an impact analysis should be undertaken.

More evidence needs to be drawn from the studies undertaken by the University of Ulster and the Committee would recommend that the VLA utilises its IT resources to carry out detailed modeling exercises and, crucially, a detailed impact analysis.

The results of any modeling exercises and the consequential impact analyses should be made available for public discussion.

4.3 *Should consideration be given to providing some form of relief for groups such as sole householders, the elderly and the disabled?*

The Committee believes this is an area that is underdeveloped in the report and, in addition, a number of consultees expressed concern about those who live on their own and the size of their tax bill relative to large households. For these reasons the Committee considers that –

- Existing reliefs should be reviewed to determine if they are still relevant and effective, and
- Reliefs for other groups such as sole householders, the elderly and the disabled should be examined.

All proposals for relief, new or existing, should be subject to thorough TSN evaluations, Equality Impact Assessments, and effectiveness evaluations.

4.4 *Should further consideration be given to some form of relief graduated on an income basis?*

The Committee believes that this question should be considered in conjunction with the review of a wider basis for reliefs under paragraph 4.3 above.

4.5 *Should we consider taxing ownership instead of occupation for the Non-Domestic sector?*

The Committee considers that the consultation paper did not fully draw out the issues relating to changing from taxing occupation to taxing ownership particularly –

- The loss of accountability and transparency because of a reduction in the number of taxpayers,
- The fact that the tax bill will be lost in the overall property charges made by the landlord, and
- The impact on rate income of combining rating assessments.

For the above reasons, and the fact that the non-domestic sector is essentially a rented market sector, the Committee concludes that no change should be made.

4.6 *Should a switch to capital value be considered in more detail for Non-Domestic property?*

The Committee does not believe that there should be any consideration given to a switch to capital values for Non-Domestic properties because the efficiency of the existing system, and the wealth of rental evidence available, speaks for itself.

4.7 *Should further consideration be given to taxing vacant property?*

The Committee believes that the taxing of vacant properties is an important part of the reforms in Northern Ireland. This is an opportunity to introduce a new source of revenue and further consideration should be given to taxing vacant property.

In considering the taxing of vacant property it is essential that there is the recognition of the need for exemptions, for example, where town centres are in decline, properties that are subject to Insolvency,

probate, planning restrictions and other actions of public bodies that prevent the occupation of property.

It is also important that a distinction is made between the Domestic and Non-Domestic sectors because the arguments on taxing vacant property are different and, therefore, separate schemes would be required.

4.8 *Should the removal of Industrial Derating be considered?*

Based on the research undertaken by DTZ Pida the Committee would concur that, in principle, the case for the removal of Industrial Derating appears to have been made, and should, therefore, be considered.

However, the CBI and Bombardier Aerospace have called into question the evidence put forward by DTZ Pida. For this reason the Committee recommends that discussion takes place between the parties to see if the differences can be resolved.

4.9 *The Executive is not reconsidering the rating of agricultural land and buildings, however, should further consideration be given to wider rural reliefs to help sustain the economies of declining rural areas?*

The Committee concurs with the decision not to reconsider the rating of agricultural land and buildings. The Committee believes, however, that further consideration should be given to rural reliefs and that all proposals for relief, new or existing, should be subject to thorough TSN evaluations, Equality Impact Assessments and effectiveness evaluations.

4.10 *Should relief for small businesses be considered further?*

The Committee believes that if the system is being modernised every opportunity should be taken to review the impact of the tax.

For this reason relief for small businesses should be considered further.

4.11 *Should there be provision to provide undue hardship relief under exceptional circumstances?*

The Committee believes that hardship relief schemes should be developed for both domestic and non-domestic properties.

4.12 *If, following consultation, it is agreed by the Executive and the Assembly to move towards the introduction of water charges, how might any water and sewerage costs be distributed among Domestic consumers?*

- a. *a uniform contribution per household;*
- b. *a contribution based on NAV;*
- c. *a contribution based on the capital value of the property; or*
- d. *a combination of a flat rate and a valuation based contribution?*

Introducing water and sewerage charges will have a significant impact on taxpayers and the Committee understands and appreciates the major problems that this will create especially in relation to the new TSN.

For this reason the Committee believes that this issue should be considered in a separate consultation from the reform of the rating system and should be the subject of a separate review. The consultation process supports this opinion.

The Committee believes that the four alternative charging methods shown above do not create a fair distribution of the charging mechanism. The responses to the consultation suggest that the only fair way of distribution is through a metering system, which will also meet all the demands of sustainability included in EU Directives.

APPENDIX 1

MINUTES OF PROCEEDINGS OF THE COMMITTEE RELATING TO THE REPORT

SEVENTY SEVENTH MEETING TUESDAY, 15 JANUARY 2002 COMMITTEE ROOM 144, PARLIAMENT BUILDINGS

Present: Mr Francie Molloy (Chairman)

Mr James Leslie (Deputy Chairman)

Mr Seamus Close

Mr Derek Hussey

Mr Roger Hutchinson

Mr Alex Maskey

Mr Maurice Morrow

Mr Peter Weir

In attendance: Mr Alan Patterson (Principal Clerk)

Ms Sheila McClelland (Clerk)

Mr Joe Sloan (Assistant Clerk)

Ms Sharon Bowman (Executive Support)

Miss Shauna McDaid (Executive Support)

Mr Jonathan Briggs (Administrative Support)

6. Rating Policy Review

6.1 The Committee considered the CVs received from potential specialist advisers for its consideration of the Rating Policy Review by the Department.

Mr Close attended the meeting at 4.26 pm.

6.2 The Clerk briefed the Committee of the need to decide on selection by interview and/or paper sift. Members notified the Committee of their availability for an interview panel.

Resolved: That the Clerk seek advice from the Assembly's Procurement Officer for selection of the specialist adviser and present this advice to the Committee at its next meeting..

FRANCIE MOLLOY

Chairman

[Extract]

SEVENTY EIGHTH MEETING

TUESDAY, 22 JANUARY 2002

COMMITTEE ROOM 144, PARLIAMENT BUILDINGS

Present: Mr Francie Molloy (Chairman)

Mr James Leslie (Deputy Chairman)

Mr Billy Bell

Mr Seamus Close

Mr Roger Hutchinson

Ms Patricia Lewsley

Mr Maurice Morrow

Mr Peter Weir

In attendance: Mr Alan Patterson (Principal Clerk)

Ms Sheila McClelland (Clerk)

Mr Joe Sloan (Assistant Clerk)

Miss Shauna McDaid (Executive Support)

Mr Jonathan Briggs (Administrative Support)

8. Rating Policy Review

8.1 The Committee considered an evaluation by the Clerk of potential specialist advisers to the Committee during its consideration of the Rating Review Policy.

Resolved: The Committee agreed that the evaluation was satisfactory and that four of the six potential specialist advisers should be interviewed by the Committee's interview panel.

JAMES LESLIE

Deputy Chairman

[Extract]

SEVENTY NINTH MEETING

TUESDAY, 29 JANUARY 2002

COMMITTEE ROOM 144, PARLIAMENT BUILDINGS

Present: Mr James Leslie (Deputy Chairman)

Mr Seamus Close

Ms Patricia Lewsley

Mr Maurice Morrow

Mr Peter Weir

In attendance: Mr Alan Patterson (Principal Clerk)

Ms Sheila McClelland (Clerk)

Mr Joe Sloan (Assistant Clerk)

Miss Shauna McDaid (Executive Support)

Mr Jonathan Briggs (Administrative Support)

The Deputy Chairman declared the meeting open at 2.38.pm. The meeting began in closed session.

5. Rating Policy Review

5.1 Dr Andrew McCormick and Mr Brian McClure attended and briefed the Committee and answered questions on the progress made in the Rating Policy Review.

5.2 The briefing and questioning was conducted in closed session.

The Deputy Chairman declared the meeting open to the public at 3.51.pm.

JAMES LESLIE

Deputy Chairman

[Extract]

**EIGHTIETH MEETING
TUESDAY, 5 FEBRUARY 2002
COMMITTEE ROOM 144, PARLIAMENT BUILDINGS**

Present: Mr Francie Molloy (Chairman)

Mr Billy Bell
Mr Seamus Close
Mr Derek Hussey
Mr Roger Hutchinson
Ms Patricia Lewsley
Mr Maurice Morrow
Mr Peter Weir

In attendance: Mr Alan Patterson (Principal Clerk)

Ms Sheila McClelland (Clerk)
Mr Joe Sloan (Assistant Clerk)
Miss Shauna McDaid (Executive Support)
Mr Jonathan Briggs (Administrative Support)

The Chairman declared the meeting closed to the public at 4.40 pm.

7. Rating Policy Review

7.1 The Committee met with its specialist advisers Mr David Magor and Mr Pat Doherty who detailed the major issues they had encountered during previous experiences of local taxation reviews and implementation.

Mr Hutchinson left the meeting at 4.55 pm.

7.2 The specialist advisers answered questions from the Committee.

JAMES LESLIE

Deputy Chairman

[Extract]

**EIGHTY FOURTH MEETING
TUESDAY, 5 MARCH 2002
COMMITTEE ROOM 144, PARLIAMENT BUILDINGS**

Present: Mr Francie Molloy (Chairman)

Mr Roy Beggs (Deputy Chairman)
Mr Alex Attwood
Mr Billy Bell
Mr Seamus Close
Mr Derek Hussey
Mr Roger Hutchinson
Ms Patricia Lewsley
Mr Alex Maskey
Mr Maurice Morrow
Mr Peter Weir

In attendance: Mr Alan Patterson (Principal Clerk)

Ms Sheila McClelland (Clerk)
Mr Joe Sloan (Assistant Clerk)
Miss Shauna McDaid (Executive Support)
Mr Jonathan Briggs (Administrative Support)

The Chairman declared the meeting in closed session at 4.19 pm.

6. Review of Rating Policy

6.1 The Committee's specialist advisers Mr David Magor and Mr Pat Doherty attended the meeting and briefed the Committee on their initial analysis of the Rating Policy Review First Stage Report.

6.2 The specialist advisers answered questions from the Committee.

6.3 Departmental officials Dr Andrew McCormick and Mr Brian McClure attended the meeting and briefed the Committee on the Rating Policy Review First Stage Report.

Mr Hutchinson left the meeting at 4.54 pm and Ms Lewsley left the meeting at 5.00 pm..

6.4 The officials answered questions from the Committee and invited the Committee's view on the key questions being asked in the document and their suitability for inclusion in the public consultation document being drawn up by the Department of Finance and Personnel.

Mr Molloy left the meeting at 5.05 pm. Mr Beggs chaired the meeting from 5.05 pm and declared the meeting open to the public.

FRANCIE MOLLOY

Chairman

[Extract]

EIGHTY FIFTH MEETING

TUESDAY, 19 MARCH 2002

COMMITTEE ROOM 144, PARLIAMENT BUILDINGS

Present: Mr Francie Molloy (Chairman)

Mr Roy Beggs (Deputy Chairman)

Mr Billy Bell

Mr Derek Hussey

Mr Roger Hutchinson

Mr Alex Maskey

Mr Maurice Morrow

In attendance: Mr Alan Patterson (Principal Clerk)

Ms Sheila McClelland (Clerk)

Mr Joe Sloan (Assistant Clerk)

Miss Shauna McDaid (Executive Support)

Mr Jonathan Briggs (Administrative Support)

The Chairman declared the meeting closed to the public at 3.21 pm.

5. Review of Rating Policy

5.1 Mr Molloy, Mr Beggs, Mr Bell, Mr Hussey, Mr Hutchinson, Mr Maskey and Mr Morrow declared personal interests in relation to this business item.

5.2 The Committee's specialist advisers, Mr David Magor and Mr Pat Doherty attended the meeting and presented a draft report of their analysis of the Review's First Stage Report and the issues being addressed in the proposed public consultation document being drawn up by the Department..

Mr Hussey returned to the meeting at 3.32 pm.

5.3 The specialist advisers answered questions from the Committee.

5.4 The specialist advisers presented draft responses to the Committee on the key questions posed in the First Stage Report.

Mr Hussey left the meeting at 4.20 pm.

5.5 The specialist advisers agreed to present a final report of their analysis of the Review's First Stage Report and responses to the key questions taking on board the comments made by the Committee.

The Chairman declared the meeting in open session at 4.45 .m. Mr Maskey left the meeting at 4.45 pm.

FRANCIE MOLLOY

Chairman

[Extract]

EIGHTY SIXTH MEETING

WEDNESDAY, 10 APRIL 2002

COMMITTEE ROOM 152, PARLIAMENT BUILDINGS

Present: Mr Francie Molloy (Chairman)

Mr Roy Beggs (Deputy Chairman)
Mr Alex Attwood
Mr Billy Bell
Mr Seamus Close
Mr Derek Hussey
Mr Roger Hutchinson
Mr Alex Maskey
Mr Maurice Morrow
Mr Peter Weir

In attendance: Mr Alan Patterson (Principal Clerk)
Ms Sheila McClelland (Clerk)
Mr Joe Sloan (Assistant Clerk)
Mr Jonathan Briggs (Administrative Support)

The Chairman declared the meeting open at 12.07 pm. The meeting began in closed session.

2. Review of Rating Policy

2.1 The Committee was briefed on the report provided by the specialist advisers on the Review's First Stage Report and agreed that it could be forwarded to the Department fully endorsed by the Committee.

2.2 The Committee noted that the draft public consultation document had been considered by the Executive Committee on 28 March 2002 and would be further considered at the Executive Committee meeting of 18 April 2002. The Department were currently not proposing to allow further formal input to the draft consultation document by the Committee.

Mr Maskey attended the meeting at 12.11 pm. Mr Bell attended the meeting at 12.12 pm

Resolved: The Committee agreed to forward the report by the specialist advisers and to request sight of the draft consultation document prior to its issue.

The Chairman declared the meeting open to the public at 12.14 pm.

FRANCIE MOLLOY

Chairman

[Extract]

EIGHTY SEVENTH MEETING

TUESDAY, 16 APRIL 2002

COMMITTEE ROOM 144, PARLIAMENT BUILDINGS

Present: Mr Francie Molloy (Chairman)

Mr Roy Beggs (Deputy Chairman)
Mr Alex Attwood
Mr Derek Hussey
Mr Roger Hutchinson
Ms Patricia Lewsley
Mr Alex Maskey
Mr Maurice Morrow
Mr Peter Weir

In attendance: Mr Alan Patterson (Principal Clerk)
Ms Sheila McClelland (Clerk)
Mr Joe Sloan (Assistant Clerk)
Miss Shauna McDaid (Executive Support)
Mr Jonathan Briggs (Administrative Support)

The Chairman declared the meeting closed to the public at 4.44pm

7. Review of Rating Policy

7.1 Departmental officials Dr Andrew McCormick and Mr Brian McClure attended the meeting and briefed the Committee on the progress of the public consultation document. The officials advised the Committee that they had found the Committee's input through its specialist advisers very helpful

and that a draft consultation paper was being presented to the Executive for consideration.

7.2 The officials answered questions from the Committee.

7.3 The Chairman expressed the Committee's wish to view the completed consultation document before it was released to the public. Dr McCormick agreed to relay this view to the Minister of Finance and Personnel.

The Chairman declared the meeting open to the public at 5.07pm.

ROY BEGGS

Deputy Chairman

[Extract]

EIGHTY EIGHTH MEETING

TUESDAY, 23 APRIL 2002

COMMITTEE ROOM 144, PARLIAMENT BUILDINGS

Present: Mr Roy Beggs (Deputy Chairman)

Mr Alex Attwood

Mr Billy Bell

Mr Seamus Close

Mr Derek Hussey

Mr Roger Hutchinson

Ms Patricia Lewsley

Mr Alex Maskey

Mr Maurice Morrow

Mr Peter Weir

In attendance: Mr Alan Patterson (Principal Clerk)

Ms Sheila McClelland (Clerk)

Mr Joe Sloan (Assistant Clerk)

Miss Shauna McDaid (Executive Support)

Mr Jonathan Briggs (Administrative Support)

Mr Michael Gibson (Administrative Support)

7. Review of Rating Policy

7.1 Specialist advisers Mr David Magor and Mr Pat Doherty attended the meeting and briefed the Committee on their analysis of the DTZ consultant's report on the Economic Impact of Industrial De-rating forwarded by the Minister.

7.2 The specialist advisers answered questions from the Committee.

Resolved: The Committee agreed not to respond to the report at this point but to commission from the specialist advisers further work in relation to the report on potential 'Hardship Schemes'.

The Chairman declared the meeting open to the public at 3.48pm.

FRANCIE MOLLOY

Chairman

[Extract]

NINETY SECOND MEETING

TUESDAY, 21 MAY 2002

COMMITTEE ROOM 144, PARLIAMENT BUILDINGS

Present: Mr Francie Molloy (Chairman)

Mr Alex Attwood

Mr Billy Bell

Mr Seamus Close

Mr Derek Hussey

Mr Roger Hutchinson

Mr Maurice Morrow

In attendance: Ms Sheila McClelland (Clerk)

Mr Joe Sloan (Assistant Clerk)
Miss Shauna McDaid (Executive Support)
Mr Jonathan Briggs (Administrative Support)

The Chairman declared the meeting in closed session at 4.40 pm.

9. Review of Rating Policy

9.1 The Committee noted the report by its specialist advisers on their analysis of the public consultation document for the Review of Rating Policy.

Resolved: The Committee agreed to reschedule full consideration of the report to its meeting on 28 May 2002 but in the interim it would send a copy of the report to the Review team.

FRANCIE MOLLOY

Chairman

[Extract]

NINETY THIRD MEETING

TUESDAY, 28 MAY 2002

COMMITTEE ROOM 144, PARLIAMENT BUILDINGS

Present: Mr Francie Molloy (Chairman)

Mr Roy Beggs (Deputy Chairman)

Mr Alex Attwood

Mr Billy Bell

Mr Seamus Close

Mr Roger Hutchinson

Ms Patricia Lewsley

Mr Alex Maskey

Mr Maurice Morrow

Mr Peter Weir

In attendance: Mr Alan Patterson (Principal Clerk)

Ms Sheila McClelland (Clerk)

Mr Joe Sloan (Assistant Clerk)

Miss Shauna McDaid (Executive Support)

Mr Jonathan Briggs (Administrative Support)

11. Review of Rating Policy

11.1 The Committee considered a Report from its specialist advisers on the draft Rating Policy consultation document.

Resolved: The Committee agreed to write to the Minister of Finance and Personnel to acknowledge the commencement of the public consultation period.

11.2 The Committee considered the timing of its response to the public consultation document.

Resolved: The Committee agreed to request that the Department of Finance and Personnel should provide copies of all responses to the public consultation document to the Committee and to place a public notice requesting submissions from the public to the Committee in relation to the review.

ROY BEGGS JNR

Deputy Chairman

[Extract]

NINETY FOURTH MEETING

TUESDAY, 11 JUNE 2002

COMMITTEE ROOM 144, PARLIAMENT BUILDINGS

Present: Mr Francie Molloy (Chairman)

Mr Roy Beggs (Deputy Chairman)

Mr Seamus Close

Mr Roger Hutchinson
Ms Patricia Lewsley
Mr Alex Maskey
Mr Maurice Morrow
Mr Peter Weir

In attendance: Mr Alan Patterson (Principal Clerk)
Ms Sheila McClelland (Clerk)
Ms Shauna McDaid (Executive Support)
Mr Jonathan Briggs (Administrative Support)

The Chairman declared the meeting open at 2.09pm. The meeting began in closed session.

6. Review of Rating Policy

6.1 Specialist adviser Mr Pat Doherty attended the meeting and advised the Committee on the progress of the Rating Policy Review and on how the Committee might best approach the consultation process.

Mr Maskey attended the meeting at 3.24pm

6.2 Mr Doherty suggested a one day workshop for the Committee to discuss the process in detail followed by a one-day 'hearing' to collect the views of stakeholder groups in relation to Rating Policy.

Resolved: The Committee agreed to participate in a one-day workshop and a one-day evidence session.

6.3 The specialist adviser agreed to submit a paper in relation to these events.

FRANCIE MOLLOY

Chairman

[Extract]

SUB COMMITTEE MEETING

WEDNESDAY, 11 SEPTEMBER 2002

SENATE CHAMBER, PARLIAMENT BUILDINGS

Present: Mr Francie Molloy (Chairman)
Mr Roy Beggs (Deputy Chairman)
Mr Seamus Close Mr Roger Hutchinson
Mr Maurice Morrow
Mr Peter Weir

In attendance: Mr Alan Patterson (Principal Clerk)
Mr Shane Mc Ateer (Clerk)
Mr Joe Sloan (Assistant Clerk)
Ms Shauna McDaid (Executive Support)
Mr Stephen Ball (Administrative Support)

The Chairman declared the meeting open at 11.26 a.m.

1. Apologies.

1.1 None

2. Review of Rating Policy - Evidence Session.

2.1 Representatives from CBI, Mr Nigel Smyth, Mr Terence Bradley, Mr Brian McCann, Mr Eric Reid and Mr Jonathan Killiner, attended the meeting and gave evidence and answered questions from the sub-committee regarding the Review of Rating Policy.

Mr Hutchinson attended the meeting at 11.53 a.m.

2.2 Representatives from the Northern Ireland Hotels Federation, Ms Janice Gault, Mr Ramesh Rama and Mr Nick Rose, attended the meeting and gave evidence and answered questions from the sub-committee regarding the Review of Rating Policy.

The meeting adjourned for lunch at 1.06 p.m. The meeting resumed at 1.36 p.m. .

2.3 Representatives from the Ulster Farmers' Union, Mr Wilbert Mayne, Mr Greg Shannon, and Ms Gillian Briggs, attended the meeting and gave evidence and answered questions from the sub-committee regarding the Review of Rating Policy.

2.4 Representatives from the Rates Collection Agency, Mr Arthur Scott and Mr Bill Hagan, attended the meeting and gave evidence and answered questions from the sub-committee regarding the Review of Rating Policy.

3. Correspondence

3.1 The sub-committee noted the invitation to the final public consultation sessions on the Review of Rating Policy in the Europa Hotel, Belfast on Monday 23 September 2002.

4. Any other Business

4.1 The sub-committee noted the date and time of the Assembly debate on the Report into the use of Public Private Partnerships in Northern Ireland and the Executive's consultation on Financing our Future.

The Chairman declared the meeting closed at 3.17 p.m.

FRANCIE MOLLOY

Chairman

[Extract]

ONE HUNDRED AND THIRD MEETING

TUESDAY 17, SEPTEMBER 2002

ROOM 144, PARLIAMENT BUILDINGS

Present: Mr Francie Molloy (Chairman)

Mr Roy Beggs (Deputy Chairman)

Mr Seamus Close

Mr Derek Hussey

Mr Roger Hutchinson

Ms Patricia Lewsley

Mr Alex Maskey

Mr Maurice Morrow

Mr Peter Weir

In attendance: Mr Alan Patterson (Principal Clerk)

Mr Shane Mc Ateer (Clerk)

Mr Joe Sloan (Assistant Clerk)

Mr Stephen Ball (Administrative Support)

The Chairman declared the meeting open at 2.15 p.m.

4. Review of Rating Policy

4.1 The Committee noted the report by the sub-committee of its meeting on Wednesday 11 September 2002.

Mr Close attended the meeting at 2.25 p.m.

4.2 The Sub Committee considered the Minutes of Proceedings of the sub-committee's meeting on Wednesday 11 September 2002.

Resolved: The Sub Committee agreed the Minutes of Proceedings of the sub-committee's meeting on Wednesday 11 September 2002.

4.3 The Committee noted the transcript of the presentation made by the CBI to the sub-committee on Wednesday 11 September 2002.

4.4 The Committee considered a proposed formal meeting and workshop in the Europa Hotel on the 23 September 2002 to deliberate on its response to the public consultation on the Review of Rating Policy.

Resolved: The Committee agreed to hold a formal meeting and workshop in closed session in the Europa Hotel, Belfast from 5.00-7.00 p.m. on 23 September 2002.

FRANCIE MOLLOY

Chairman

[Extract]

ONE HUNDRED AND FOURTH MEETING

TUESDAY 23, SEPTEMBER 2002

EUROPA HOTEL, BELFAST

Present: Mr Francie Molloy (Chairman)

Mr Roy Beggs (Deputy Chairman)
Mr Seamus Close Ms Patricia Lewsley
Mr Peter Weir

In attendance: Mr Alan Patterson (Principal Clerk)

Mr Shane Mc Ateer (Clerk)

Mr Joe Sloan (Assistant Clerk)

Mr Stephen Ball (Administrative Support)

The Chairman declared the meeting open at 5.06 p.m.

4. Review of Rating Policy

4.1 The Committee considered a recommendation from its specialist advisers on the structure of its response to the public consultation on the Review of Rating Policy.

Resolved: The Committee agreed the structure and main headings for its report.

4.2 The Committee considered options regarding the format of its response.

Resolved: The Committee agreed that its response should be formatted and published as a Committee Report.

4.3 The Committee considered the inclusion of written submissions in its report made by:

Bombardier Aerospace

Confederation of British Industry

Northern Ireland Housing Executive

Northern Ireland Hotel Federation

Rates Collection Agency

Rural Development Council

Ulster Farmers Union

Valuations and Lands Agency

Committee on the Administration of Justice

Queen's University, Belfast

Resolved: The Committee agreed the inclusion of the written submissions in its report.

4.4 The Committee considered the inclusion in its report of a summary of the responses to the Department's public consultation as outlined in an Annex to a letter of 16 September 2002 from the Minister.

Resolved: The Committee agreed that a summary of the responses to the Department's public consultation should be included in its report.

4.5 The Committee considered the key questions asked in the public consultation document.

4.5.1 Should we consider taxing ownership instead of occupation?

Resolved: The Committee agreed that no change should be made but that further consideration should be given to the concept of “sole or main residence”.

4.5.2 Should a capital value based system be examined in detail (individual or banded) for Domestic properties?

Resolved: The Committee agreed that a discrete capital value based system should be examined in detail and that this should involve an impact analysis.

4.5.3 Should consideration be given to providing some form of relief for groups such as sole householders, the elderly and the disabled?

Resolved: The Committee agreed that consideration should be given for such reliefs, that existing reliefs should be reviewed for effectiveness, and that thorough TSN evaluations and Equality Impact Assessments should be undertaken in all cases.

4.5.4 Should consideration be given to providing some sort of relief graduated on an income basis?

Resolved: The Committee agreed that this should be considered as part of a wider review of reliefs.

4.5.5 Should we consider taxing ownership instead of occupation for the non-domestic sector?

Resolved: The Committee agreed that there should be no change from taxing occupation to taxing ownership for the non-domestic sector.

4.5.6 Should a switch to capital value be considered in more detail for the non-domestic property?

Resolved: The Committee agreed that consideration should not be given to a switch to capital value for non-domestic properties.

4.5.7 Should further consideration be given to taxing vacant property?

Resolved: The Committee agreed that further consideration should be given to taxing vacant property but that certain exemptions would be required and a distinction should be made between the domestic and non-domestic sectors.

4.5.8 Should the removal of industrial de-rating be considered?

Resolved: The Committee agreed that the removal of industrial de-rating should be considered but that further discussion should take place between the parties concerned.

4.5.9 The Executive is not reconsidering the rating of agricultural land and buildings, however, should further consideration be given to wider rural reliefs to help sustain the economies of declining rural areas?

Resolved: The Committee agreed that further consideration should be given to rural reliefs and that all proposals for relief should be subject to thorough TSN and Equality Impact Assessments.

4.5.10 Should relief for small businesses be considered further?

Resolved: The Committee agreed that relief for small businesses should be considered further.

4.5.11 Should there be provision to provide undue hardship relief under exceptional circumstances?

Resolved: The Committee agreed that a scheme of hardship relief should be developed for both domestic and non-domestic properties.

4.5.12 If following consultation, it is agreed by the Executive and the Assembly to move towards the introduction of water charges, how might water and sewerage costs be distributed among domestic consumers?

- A uniform contribution per household;
- A contribution based on NAV;
- A contribution based on the capital value of the property; or
- A combination of a flat rate and a value based contribution?

Resolved: The Committee agreed that this issue should be considered separately from the reform of the rating system and should be subject to a separate consultation.

4.6 The Committee considered and agreed a number of issues, which could be raised in its response.

FRANCIE MOLLOY

Chairman

[Extract]

ONE HUNDRED AND FIFTH MEETING

TUESDAY 24, SEPTEMBER 2002

ROOM 144, PARLIAMENT BUILDINGS

Present: Mr Francie Molloy (Chairman)

Mr Roy Beggs (Deputy Chairman)

Mr Billy Bell Mr Seamus Close

Mr Derek Hussey

Mr Roger Hutchinson Ms Patricia Lewsley

Mr Maurice Morrow

Mr Peter Weir

In attendance: Mr Alan Patterson (Principal Clerk)

Mr Shane Mc Ateer (Clerk)

Mr Joe Sloan (Assistant Clerk) Mr Stephen Murphy (Executive Support)

Mr Stephen Ball (Administrative Support)

The Chairman declared the meeting open at 2.08 p.m.

7. Review of Rating Policy

7.1 Departmental official Mr Brian McClure attended the meeting to provide an update to the Committee on the progress of the public consultation on the Review of Rating Policy.

Mr Hutchinson left the meeting at 3.55 p.m.

7.2 Mr McClure provided details of the organisations and individuals who have participated in the consultation process.

7.3 The Committee considered the inclusion of a written submission in its report made by Queen's University Belfast.

Resolved: The Committee agreed that the submission should be included in its report.

FRANCIE MOLLOY

Chairman

[Extract]

ONE HUNDRED AND SIXTH MEETING

TUESDAY 1, OCTOBER 2002

ROOM 144, PARLIAMENT BUILDINGS

Present: Mr Francie Molloy (Chairman)

Mr Roy Beggs (Deputy Chairman)

Mr Seamus Close

Mr Derek Hussey

Mr Roger Hutchinson

Mr Maurice Morrow

Mr Peter Weir

In attendance: Mr Shane Mc Ateer (Clerk)

Mr Joe Sloan (Assistant Clerk)

Miss Shauna Mc Daid (Executive Support)

Mr Stephen Murphy (Executive Support)

Mr Stephen Ball (Administrative Support)

4. Review of Rating Policy.

4.1 Members of the Sub-Committee considered the Minutes of Evidence to the Sub-Committee on Wednesday 11 September 2002 by the Confederation of British Industry, the Northern Ireland Hotels Federation, the Rate Collection Agency and the Ulster Farmers Union.

Resolved: Members of the Sub-Committee agreed the Minutes of Evidence to the Sub-Committee on Wednesday 11 September 2002 by the Confederation of British Industry, the Northern Ireland Hotels Federation, the Rate Collection Agency and the Ulster Farmers Union.

Resolved: The Committee agreed that the Minutes of Evidence to the Sub-Committee on Wednesday 11 September 2002 by the Confederation of British Industry, the Northern Ireland Hotels Federation, the Rate Collection Agency and the Ulster Farmers Union should be appended to its report of its response to the Review of Rating Policy.

4.2 The Committee considered the additional information to Minutes of Evidence to the Sub-Committee on Wednesday 11 September 2002 by the Rate Collection Agency.

Resolved: The Committee agreed that the additional information to Minutes of Evidence to the Sub-Committee on Wednesday 11 September 2002 by the Rate Collection Agency should be appended to its report of its response to the Review of Rating Policy.

Resolved: The Committee agreed that the Clerk should write to the Rate Collection Agency for further additional information.

4.3 The Committee considered the Minutes of Evidence to the Committee on Tuesday 24 September 2002 by the Department of Finance and Personnel.

Resolved: The Committee agreed the Minutes of Evidence on Tuesday 24 September 2002 by the Department of Finance and Personnel.

Resolved: The Committee agreed that the Minutes of Evidence on Tuesday 24 September 2002 by the Department of Finance and Personnel should be appended to its report of its response to the Review of Rating Policy.

4.4 The Committee considered the Statement by the Minister of Finance and Personnel to the Assembly on the launch of the Review of Rating Policy public consultation exercise.

Resolved: The Committee agreed that the Statement by the Minister of Finance and Personnel to the Assembly on the launch of the Review of Rating Policy public consultation exercise should be appended to its report of its response to the Review of Rating Policy.

4.5 The Committee considered the title of its Report.

Resolved: The Committee agreed the title of the Report as "Report of the Committee for Finance and Personnel's response to the Review of Rating Policy Consultation Paper".

4.6 The Committee considered paragraphs 2.1 to 2.15 in the Draft Report.

Mr Morrow left the meeting at 2.44 p.m. Mr Close attended the meeting at 2.44 p.m. Mr Hutchinson left the meeting at 2.53 p.m.

Resolved: The Committee agreed paragraphs 2.1 to 2.15 in the Draft Report subject to the

amendments provided.

4.7 The Committee considered paragraphs 3.1.1 to 3.1.6 in the Draft Report.

Resolved: The Committee agreed paragraphs 3.1.1 to 3.1.6 in the Draft Report subject to the amendments provided.

4.8 The Committee considered paragraphs 3.2.1 to 3.2.6 in the Draft Report.

Resolved: The Committee agreed paragraphs 3.2.1 to 3.2.6 in the Draft Report subject to the amendments provided.

4.9 The Committee considered paragraphs 3.2.7 to 3.2.10 in the Draft Report.

Resolved: The Committee agreed paragraphs 3.2.7 to 3.2.10 in the Draft Report.

4.10 The Committee considered paragraphs 3.2.11 to 3.2.18 in the Draft Report.

Resolved: The Committee agreed paragraphs 3.2.11 to 3.2.18 in the Draft Report subject to the amendments provided.

4.11 The Committee considered paragraphs 3.2.19 to 3.2.24 in the Draft Report.

Resolved: The Committee agreed paragraphs 3.2.19 to 3.2.24 in the Draft Report subject to the amendments provided.

6. Review of Rating Policy

6.1 The Committee resumed its consideration of its report of its response to the Review of Rating Policy.

6.2 The Committee considered paragraphs 3.3.1 to 3.3.9 in the Draft Report.

Resolved: The Committee agreed paragraphs 3.3.1 to 3.3.9 in the Draft Report subject to the amendments provided.

6.3 The Committee considered paragraphs 3.3.10 to 3.3.24 in the Draft Report.

Resolved: The Committee agreed paragraphs 3.3.10 to 3.3.24 in the Draft Report subject to the amendments provided.

6.4 The Committee considered paragraphs 3.3.25 to 3.3.43 in the Draft Report.

Resolved: The Committee agreed paragraphs 3.3.25 to 3.3.43 in the Draft Report subject to the amendments provided.

Mr Hussey left the meeting at 4.25 p.m.

6.5 The Committee considered paragraphs 3.4.1 to 3.4.17 in the Draft Report.

Resolved: The Committee agreed paragraphs 3.4.1 to 3.4.17 in the Draft Report.

6.6 The Committee considered paragraphs 3.5.1 to 3.5.9 in the Draft Report.

Resolved: The Committee agreed paragraphs 3.5.1 to 3.5.9 in the Draft Report subject to the amendments provided.

Mr Hutchinson left the meeting at 4.44 p.m.

6.7 The Committee considered paragraphs 4.1 to 4.12 in the Draft Report.

Resolved: The Committee agreed paragraphs 4.1 to 4.12 in the Draft Report subject to the amendments provided.

6.8 The Committee considered the Executive Summary in the Draft Report.

Resolved: The Committee agreed the Executive Summary in the Draft Report subject to the amendments provided.

6.9 The Committee considered that the Draft Report, subject to the amendments provided, should be printed as its second report in the Assembly session 2002/03.

Resolved: The Committee agreed that the Draft Report, subject to amendments provided, should be printed as its second report in the Assembly session 2002/03.

6.10 The Committee considered a distribution list for its report.

Resolved: The Committee agreed the distribution list.

6.11 The Committee considered a draft press release in relation to the publication of its report.

Resolved: The Committee agreed the draft press release in relation to the publication of its report.

6.12 The Committee expressed its thanks and appreciation to its specialist advisers Mr Pat Doherty and Mr David Magor for their assistance during the consideration and deliberations on the Review of Rating Policy consultation exercise.

FRANCIE MOLLOY

Chairman

*[Unapproved extract. Agreed Minutes are published on the Northern Ireland Assembly website
www.niassembly.gov.uk/finance/financemin.htm]*

APPENDIX 2

LIST OF STAKEHOLDERS CONTACTED BY THE COMMITTEE

Child Poverty Action Group

Citizens Advice Group

Confederation of British Industry (NI)

Disability Action

Faculty of Engineering and Built Environment, University of Ulster, Jordanstown

Faculty of Law, Queen's University, Belfast

Federation of Licensed Trade

Help the Aged

Rate Collection Agency

SOLACE

Valuations and Lands Agency

Northern Ireland Anti Poverty Network

Northern Ireland Association of Town Centre Management

Northern Ireland Economic Council
Northern Ireland Hotels Federation
Northern Ireland Housing Executive
Northern Ireland Tourist Board
Rural Development Council
Ulster Farmers Union

APPENDIX 3

WRITTEN SUBMISSIONS TO THE COMMITTEE

Bombardier Aerospace
Committee on the Administration of Justice
Confederation of British Industry (NI)
Northern Ireland Hotels Federation
Northern Ireland Housing Executive
Queen's University Belfast
Rate Collection Agency
Rural Development Council
Ulster Farmers Union
Valuation and Lands Agency
Bombardier Aerospace

Committee on the Administration of Justice
Confederation of British Industry (NI)
Northern Ireland Hotels Federation
Northern Ireland Housing Executive
Queen's University Belfast
Rate Collection Agency
Rural Development Council
Ulster Farmers Union
Valuation and Lands Agency

**COMMITTEE FOR FINANCE AND PERSONNEL
REVIEW OF RATING POLICY - PUBLIC CONSULTATION**

**WRITTEN SUBMISSION BY:
BOMBARDIER AEROSPACE**

6 August 2002

Thank you for the opportunity to provide our views on the Rating Policy Review to the Committee for Finance and Personnel. I commence with the company's view on the proposal and then, specifically, some comments on the issue of industrial de-rating.

GENERAL VIEW OF THE INDUSTRIAL DE-RATING PROPOSAL

The potential abolition of industrial de-rating is a move that would affect many companies' competitiveness, including that of our own company, and could harm employment prospects and the Northern Ireland economy in the long-term.

The issue of de-rating is a major one for all manufacturing companies in Northern Ireland. This sector of the economy currently benefits from 100% de-rating, which was introduced in response to the deteriorating competitive position of the industrial sector and the erosion of the manufacturing base, and difficulties in attracting inward investment. Industrial de-rating currently saves the sector £61 million per annum. The removal or reduction of the current 100% de-rating would directly increase the costs of companies operating in Northern Ireland and therefore, reduce competitiveness and their ability to both retain and win new business. In the case of our own company, such a move would lead to an increase in costs of £2million per annum.

This is against a background where there are already significant local issues affecting our competitiveness. Utilities prices in Northern Ireland, and in particular, electricity prices, already put companies here at a distinct disadvantage, as we are forced to pay costs well above that of our counterparts both in the UK and internationally. Water costs, too, are in the highest quartile in the UK. Transport costs are significantly higher than our competitors. Given that our own company exports 100% of what it produces, and that there is no land border with any of our customers, transport costs are a significant proportion of overall costs.

Insurance costs and waste disposal costs are also significantly higher than in the rest of the UK.

As the Committee will be aware, Bombardier Aerospace has been forced to implement significant downsizing and cost-cutting measures, as a result of the economic downturn, which was exacerbated by the events in the US on September 11th. Management and trade unions are currently continuing to try to mitigate the numbers of redundancies we may have to make later this year.

A move to remove or reduce the current 100% de-rating before the aforementioned cost issues are addressed would adversely impact our international competitive position and would place jobs at further risk.

Northern Ireland needs to provide a competitive base to sustain and develop its existing manufacturing

industries, as well as being able to offer incentives to attract new inward investment – industrial de-rating is an important part of that incentive package.

SPECIFIC VIEWS ON THE CONSULTATION DOCUMENT

Our comments are limited to the non domestic sector and specifically address the key issue of industrial de-rating:

■ International Competitiveness

We disagree with the statement made by DTZ Peda that it is no longer appropriate to consider international competitiveness as a reason to continue with the current policy.

Many sectors of manufacturing in Northern Ireland have been in decline for some time, while still others compete against companies located in low cost economies in Eastern Europe and the Far East. The Government has been trying to arrest the decline of traditional industries but with limited success. Within the aerospace industry we are faced with an on-going requirement to reduce our cost base in order to remain competitive within the Global marketplace. Due to the internationally mobile nature of aerospace programmes, it is vitally important that no actions are taken to increase overall operating costs without addressing the significant Northern Ireland cost penalties which already exist.

For example, electricity prices in 2001/02 increased by over 20% for many industrial customers in Northern Ireland against no or very modest increases in Great Britain. The table attached compares the unit cost of electricity in a number of countries and shows that Northern Ireland is significantly more expensive, for example, prices would have to fall by 41% to match the UK price level.

■ Cost Penalties

We disagree with the contention that the increased cost, arising from the removal of de-rating, is not significant. Against the back-drop of intense price competition within the aerospace industry and the requirement to achieve ‘real’ price reduction in order to retain existing work and attract new aircraft programmes, a £2M cost increase is highly significant, given our inability to pass the increase on to either our customers or our shareholders.

■ Inward Investment Incentive

We view industrial de-rating as an essential element of the overall investment context within Northern Ireland and therefore reject the proposition put forward by the consultants that it does not act as an investment incentive.

■ Social Objectives

The statement made by the consultants that “the manufacturing sector is not concentrated in areas of high deprivation or high unemployment nor is it concentrated in areas where the population is predominately Protestant or predominantly Roman Catholic” is inaccurate in relation to our company.

It takes no account of the mobility of labour nor the effects of the Troubles, which in some areas have led to imbalanced workforces. As the largest private sector employer in Northern Ireland, our company employs 7000 people and, like many industries, is located at several sites in the Belfast area. Many of our 7000 employees are from areas of high unemployment and deprivation. A high proportion of employees travel each day from South Down, Armagh, Tyrone and Antrim from areas where there are pockets of high unemployment. A significant proportion of employees are from Belfast itself. The concentration of deprivation and unemployment in Belfast has been well documented and is acknowledged by the Department of Social Development in its draft strategy for the Belfast Regeneration Office which is currently under public consultation. It has also been recognised by DSD, DEL and DETINI in the setting up of the Greater Shankill/West Belfast Task Force to recommend measures to deal with the highest unemployment black spots in Northern Ireland. A significant number of our

employees are from these areas. Bombardier has been an active participant in the Task Force, and indeed has now initiated training programmes in the areas concerned in order to attract more employees from these areas.

Once again, I would like to thank the Committee for the opportunity to share the company's perspective on this important issue and would be happy to provide any further clarification if required.

ALEC McRITCHIE

Director – Communications and Public Affairs, Europe
Bombardier Aerospace, Belfast

**COMMITTEE FOR FINANCE AND PERSONNEL
REVIEW OF RATING POLICY - PUBLIC CONSULTATION**

**WRITTEN SUBMISSION BY:
COMMITTEE ON THE ADMINISTRATION OF JUSTICE (CAJ)**

25 July 2002

Please find enclosed a preliminary submission from the Committee on the Administration of Justice (CAJ) on the Rating Policy consultation paper issued by the DFP in May 2002.

The consultation paper raises many important questions and issues, and it seems that evaluations of different options should now be conducted before the consultation period can conclude and decisions made about rating policy. We look forward to contributing further as the consultation process continues.

MARTIN O'BRIEN
Director

July 2002

INTRODUCTORY REMARKS

According to the "Review of Rating Policy: A Consultation Paper", issued by the Department of Finance and Personnel in May 2002, Northern Ireland's rating policy is in need of significant reform (page 2). The rating system has not been radically changed since its introduction in 1852, despite the fact that it has a serious impact on all sectors of society – both in terms of the demands made on ratepayers and in terms of the opportunities the revenue provides.

It is particularly important to note that evaluation of the rating policy comes at a time when the Northern Ireland Executive is deciding how best to address the £6 billion infrastructure deficit. Needs and Effectiveness studies are currently being prepared in response to the first two Northern Ireland budgets; the Executive is contemplating its policy on Private Finance Initiatives and long-term budget issues; and, very significantly, the May 2 Gordon Brown announcement allowed the Executive new borrowing powers. A re-assessment of the Barnett Formula, the system by which Whitehall allocates budgetary funds to Northern Ireland, is also said to be underway, although to what extent is not clear. Income from rates offers great potential to the Executive to supplement money allocated by the Treasury, and can also be used as a lever in further borrowing.

The Committee on the Administration of Justice (CAJ), as a local cross-community human rights group, is eager to see this Review used as an opportunity to address inequalities and inefficiencies rooted in the current arrangements. If handled properly, this long-overdue review could serve to promote greater equality, and meet the objectives of targeting social need and promoting social inclusion which were set out in the Programme for Government.

In the following submission, page numbers of the Consultation Paper relevant to the issues we raise are referenced where appropriate. The document is divided into three sections:

- The Rating Policy Consultation Process (page 3);
- General Rating Policy Issues and Current Policy (page 4);
- Response to the 12 Key Issues identified by the DFP (page 6).

1. THE RATING POLICY CONSULTATION PROCESS

CAJ believes that during the consultation period, the following issues should be addressed by

the DFP:

- (a) Thorough Targeting Social Need (TSN) evaluations and Equality Impact Assessments (EQIAs) must be completed on all reform options during the consultation period. (See para. 6.)**

Rating policy is an area where analyses should be relatively easy to conduct accurately, because of existing data on rates and property values, titles and deeds. The Review includes a New TSN analysis on the current system, concluding that

“inequities exist in the current Rating system”

(para 45)

but postpones conducting additional EQIAs and TSN analyses until

“it comes to developing options at a later stage”

(para 49).

Generally TSN evaluations and EQIAs on reform options should be conducted before or during the consultation period, so that equality impact determinations can be incorporated into policy decisions. For example, the Review states that

“First indications are ... that a discrete capital value system is highly likely to be positive in terms of New TSN as it would tend to reduce the relative burden on people and areas that are less well off”

(para 49),

but provides no more specific details. The DFP should have brought together the relevant statistics and data during the ‘development of policy options’ stage (cited on the rating policy website as Stage 2, *before* the consultation period), so that consultees would be in a position to make informed comparisons, and comment knowledgeably on the different options. This data is also necessary to the government in determining suitable options, and therefore needs to be done at the first opportunity.

- (b) Additional public meetings should be considered**

The public consultative meetings on this important topic were not widely publicized, and CAJ knows of many community sector groups who were not aware that they happened until after they occurred. Notice was fairly short, and the business and domestic rate discussions were unhelpfully separated out (see on for a discussion of this). As the different options begin to emerge, it is vital for members of the public and community and voluntary sectors to be given an opportunity to participate actively in this process. Such meetings should be held in areas accessible to local communities and obviously they must take place before the DFP moves to initiate legislation in this area. To facilitate this, it will likely be necessary to extend the consultation period. The recently announced event on September 23 is welcome, but is being held after the consultation period is technically completed. We anticipate that after rating policy options are evaluated, additional public meetings will be useful in considering the findings.

- (c) Consultations on business and domestic rates should be held in combination**

The domestic and business rates are “two sides of the same coin” and it is illogical in our view that the discussions be run separately. Yet the public consultation sessions to date were divided by sector with “issues for business ratepayers” discussed in the mornings,

and “issues for domestic ratepayers” discussed in the afternoons. Clearly changes made in either sphere will have an impact on the other, and it is vital that consultees have an opportunity to the extent possible to hear the concerns of all affected constituencies. It is particularly important that domestic ratepayers, who will be dramatically affected by decisions made about the business rate policy, are made aware of those debates. Any domestic/non-domestic separation may undermine the DFP’s stated purpose of seriously reforming rating policy and securing the necessary public support for amassing more revenue to address infrastructure demands.

(d) Effective information flow

The rating policy website recently published a brief summary of the issues raised at last month’s consultation sessions. This release was welcomed and there should also be a mechanism for timely information exchange as TSN, EQIA and other analyses are conducted on policy options. As proposed above, consultations should be continued long enough so that the public can react to the evaluations of rating options. This will facilitate the development of a more informed and knowledgeable debate of the various options.

2. GENERAL RATING POLICY ISSUES AND CURRENT POLICY

On the basis of the information we have to date, CAJ believes the following aspects of current rating policy are most in need of immediate reform:

- (a) Currently manufacturing industry and agricultural land and buildings are “de-rated”. (See para. 94 and 99; Questions 8 and 9 below.) Industrial derating was introduced in the UK in 1929 to discourage foreign competition. It was abolished in England and Wales in 1963 and in Scotland in 1995 and, according to the review

“is unique in the world and no other region or country gives blanket relief to industry or, for that matter, any business sector”

(para 90).

This provision results in a loss in revenue to the public purse of £64.3m. Alternatively, as the Review indicates, if this provision did not exist there could be a reduction in the non-domestic regional rate of 16%, because other businesses are compensating for this subsidy. Agricultural land is also excluded from the tax base, resulting approximately in a loss of revenue of £200m for land and £15m for buildings. CAJ is not aware of any justification for this situation, and believes that in principle both the industrial and agricultural sectors should be subject to payment of rates (see on for reliefs).

- (b) Rental values that determine domestic rates were established in 1976; those for non-domestic properties were established in 1995. According to the Review,

new and altered properties are assessed by direct comparison with similar properties already in the [Valuation] List and not at current rental levels”

(para 26).

The market has changed extensively since 1976 (and probably even 1995), and unfairness has crept in (para 39-43). CAJ believes that both domestic and non-domestic rates should be updated to 2002 levels. Once these rates are set, they should be adjusted at regular intervals, or alternative methods of keeping the numbers current should be used. It would be important to consider international systems that don’t rate property based on direct comparisons but instead based on a property’s market value or another

determination.

- (c) The tax base in NI is currently regressive, meaning that it consists of a smaller percentage of income as income rises. Instead, the percentage of an individual's income that goes to rates should be steady or rise as wealth or income rises (a 'progressive' system). **(See para 58, Question 2 below, and related discussion throughout Review.)**
- (d) Relief is given to a wide range of groups and organisations, so currently there are reliefs for charitable use, church property and that occupied by full-time clergy, traditional charities, public sector leisure centres, charity shops, freight transport, sport and physical recreation, farm houses, and nursing and residential homes. **(See paras 69, 73, 94, 99, 108 and 111; Questions 3, 4 and 8-11 below.)** But, according to the Review,

“the effectiveness, relevance and value for money of our current range of reliefs have never been reviewed or considered collectively”

(para 33).

Strangely, however, the Review does not proceed to remedy this situation by discussing different options and carrying out a substantive collective review of current reliefs, even though an ending of current reliefs and exemptions would increase rates revenue by 20%. Instead, the Review brings up reliefs at various points in the document and indicates that the Executive is considering adding further reliefs – eg a small business relief, “wider rural reliefs”, reliefs for single householders, the elderly and people with disabilities. Others have pushed for new reliefs for hotels, Orange Halls, equestrian centres, catering services, etc (para 101). In addition to a collective review of reliefs, CAJ believes that there should be regular reviews to ensure that those reliefs that exist in fact benefit constituents who are in most need. In particular, we recommend that all current reliefs be examined carefully, as well as any proposed further reliefs, and that all reliefs be decided upon in a systematic manner – aimed at addressing genuine social need and disadvantage.

The Review notes that those in England pay significantly higher rates, in addition to paying water and sewage charges (para 12). Because average house prices and incomes are lower in NI than in GB – and rates are used for other powers there – it is difficult to make a direct comparison. To the extent that comparisons are made, they should also be done between NI and the Republic of Ireland and other countries. The Review dismisses a comparison with the Republic because it

“has an entirely different tax regime”

(page 5, fn. 4),

but clearly social conditions make such an analysis relevant. In general, international examples can be useful in deciding on new policy and should be looked at during this consultation period.

More generally, there is an implication in the document that the Executive may be considering increasing rates beginning with the 2004-05 budget. This is a somewhat surprising starting point, given that:

- (i) there appear to be many savings to be made by reforming the rates system. Many millions of pounds can be relatively easily raised by reforming the system prior to determining that additional charges, if any, must be made;
- (ii) there are a number of other funding sources available to the Executive (see earlier references to new borrowing powers, etc).

A decision in principle to increase rates – after an examination of the results of this review – will need to be properly argued in follow up consultation exercises. The duty to conduct TSN and EQIA evaluations applies to rate increases as well.

3. TWELVE QUESTIONS RAISED BY DFP

The DFP identified 12 key issues to be focused on during the rating policy consultation period. CAJ has attempted to respond to most of these issues, but has already argued that more information would be required to contribute fully to this debate. In particular, it is of the utmost importance that thorough TSN and EQIA evaluations, mandated by Section 75, are conducted on all reform options. Consultees cannot effectively respond to the DFP's questions – nor can government conclusively decide between various options – until an assessment has been made of social need and equality concerns.

(1) Should we consider taxing ownership instead of occupation? (See para 38)

CAJ believes that taxing ownership could increase the tax base and would have the additional advantage of discouraging the under-use of property. The Review says that in moving from an occupation to an ownership rate, the

“New TSN impact is likely to be neutral”

(para 36).

However, without New TSN and EQIA evaluations, it is difficult to determine the overall impact on the population. For example, it is likely that taxation of landlords will trickle down to tenants, who may or may not be negatively affected by the change. Would it not be more efficient to tax ownership? CAJ notes that administrative costs are cited as a disadvantage to switching to an ownership taxation system (table A). While wanting a system that is cost-effective, it may well be that an increased tax base would greatly outweigh any such additional costs.

(2) Should a capital value based system be examined in detail (individual or banded) for domestic properties? (See para 58.)

CAJ believes that a capital value based system should be thoroughly evaluated because it is likely to have a positive TSN impact. According to the Review, a capital value system is

“highly progressive in redistributing the rating burden in that it would tax a larger percentage of the income of those on higher incomes. ... New TSN impact is likely to be positive”

(para 79).

The current system is regressive, and is a particular burden on the poorest households. CAJ believes that creating a fairer system should be a key organising principle for the DFP in carrying out this review.

As noted in the Review, any such switch will imply financial costs to set up a new system and appropriate transitional arrangements (table B). Expenses of this nature are difficult to avoid if one is determined to make changes to rates to ensure greater equality of treatment. These costs are, however, one-off, and if a capital value system is indeed TSN positive, and the current system is regressive, administrative and transitional obstacles should not impede important reform. It should be kept in mind that the inefficiencies and inequities in the current system are costly.

As to ‘banding’ versus an individual approach, CAJ believes that banding may be a less attractive option. Although banding (which consists of graduated groupings of property values) is a less expensive option, and is used in Britain, it can be a regressive tax system. Banding may be easier to implement, but it can result in those at the top end of the market paying disproportionately less rates than others. It also over-simplifies the rates landscape, grouping people together so that some pay too much and some too little. A more precise system, although more expensive to set up, is ultimately likely to be more cost efficient and fair. Accordingly, CAJ would argue that the banding option would need to be carefully scrutinized for TSN and equality impact before being seriously explored. (This same question is asked in regard to non-domestic properties in Question 6 below. CAJ has argued that it is unhelpful to separate out domestic and non-domestic ratings systems, since they are inter-dependent. It seems to us that a consistent system across domestic and non-domestic sectors regarding valuation systems is likely to be more efficient.)

(3) Should consideration be given to providing some form of relief for groups such as sole householders, the elderly and the disabled? (See para 69.)

CAJ believes that instead of simply adding further reliefs to the list that already exists, the DFP should carry out a systematic review of the relief system, and assess current – and proposed – reliefs for their TSN/equality impact. Any relief scheme creates an increased rate burden which is felt by the rest of the population, and must therefore be carefully scrutinised and well argued.

When looking at current reliefs, it will also be important to ascertain that the reliefs are being properly administered. For example, are the authorities able to confirm that those receiving benefits still qualify? Just by way of example, it is worth noting the fact that there are currently reliefs for farmhouses, presumably to encourage small farming, but farmhouses are likely nowadays to be owned by non-farmers.

When giving consideration to the appropriateness or otherwise of granting reliefs to a single-person household, one needs to note that such a relief would not automatically take into account ability to pay. Such a move is unlikely to be beneficial from a TSN/equality perspective; in Britain where single adults receive a 25% discount the system has been widely criticised as not encouraging the efficient use of property.

Again while CAJ believes that there will need to be reliefs for low-income residents based on need, it is unclear if reliefs for the elderly and the disabled as categories are optimal. Instead, it is necessary for the DFP to subject all these relief proposals (and any additional ones proposed) to TSN/EQIA evaluations. (It is also important that terms are defined: the Review does not clarify how the DFP defines disabled people for purposes of rating relief.) Reliefs based on income or assets, although more expensive to administer, are likely to be fairer than blanket reliefs for disadvantaged groups. Circuit breakers, common in the United States, place limits on the proportion of income that can be taken by property taxes. This method of relief – and other options, including deferment programmes and those not mentioned in the Review – should also be assessed and the costs properly estimated.

(4) Should further consideration be given to some form of relief graduated on an income basis? (See para 73.)

Given that CAJ is unclear how this option differs from targeted low income relief, we believe that this proposal should be explained in more detail before a determination can be made. The option proposes basing the tax rate on income bands or income tax thresholds, and the review claims that no such system exists internationally. Since the Review notes there are targeted schemes operating in other countries, further clarification and comparisons between these systems should be made. It is particularly

important to compare relief options after TSN/EQIA evaluations are conducted and issued for consultation. According to the review, at the present time,

“those on low incomes have their rate bill paid through the housing benefit system”

(page 5, para 9)

How does this compare to the proposed relief and targeted low income relief? Has a TSN evaluation been completed to determine if this is an effective system?

- (5) **Should we consider taxing ownership instead of occupation for the non-domestic sector? (See para 76.)**

As before, CAJ would assume that taxing ownership rather than occupation would be more efficient and fairer. However, TSN, EQIA and economic analyses are necessary before a final decision can be made by government, in addition to details on how the system will be implemented. If it is decided to make a change, it may be worth noting that taxing ownership is likely to be less expensive to administer than taxing occupation. Currently, non-domestic vacant properties result in a revenue loss of £36m.

- (6) **Should a switch to capital value be considered in more detail for non-domestic property? (See para 83.)**

CAJ believes that a capital value based system should be thoroughly evaluated because it is likely to have a positive TSN impact. The Review suggests that a full study of the market impact would need to be carried out before a switch to a capital value system is made, but without conducting such a study it notes that the existing system “works quite well” (Table E) and a capital value system would cause redistribution, requiring complicated transitional arrangements. A full study should be carried out *now*, while this policy is being assessed. In addition, CAJ believes that bureaucratic obstacles should not be barriers to reform, particularly in regard to an outdated system with a negative TSN record.

- (7) **Should further consideration be given to taxing vacant property? (See para 89.)**

In order to make a useful comment on this issue, evaluations should be made to determine the implications of taxing vacant property. £36m is lost by not taxing non-domestic vacant property (and £9m from domestic property). The Review considers that the role of rates may be one that has shifted from being a charge for services to a property tax (para 18). This conceptual shift is relevant to taxing vacant property, and should be considered together with this question and Questions 1 and 5. CAJ would like the DFP to consider the justifications for the current system, and benefits to changing it, in light of TSN/equality evaluations.

- (8) **Should the removal of Industrial Derating be considered? (See para 94.)**

CAJ believes that no serious case has been made for retaining this arrangement dating from 1929. De-rating should be introduced, after equality and TSN analyses on industrial rating are conducted. We were surprised to discover that the industrial and agricultural sectors were derated. The agricultural sector is addressed in Question 9, but we believe it is quite crucial to address these sectors in a similar way – recognising that in principle they should both be subject to rates, but that reliefs to promote development and assist small business owners/farmers may well be needed.

- (9) **The Executive is not reconsidering the rating of agricultural land and buildings. However, should further consideration be given to wider rural reliefs to help sustain the economies of declining rural areas? (See para 99.)**

The proposal to not challenge the derating of the agriculture sector is not well argued. In

principle, CAJ believes that blanket reliefs for entire sectors are counterproductive. Accordingly, CAJ believes that the DFP should not take this major sector out of the review, and should re-examine the exemption of agricultural land and buildings. As stated in regard to the domestic sector, the more precise the system, the fairer the system will be to *all* sectors. Proper assessments of the sector should be made, but it seems there is no reason why businesses like those that involve large-scale agriculture should be viewed differently than other corporate enterprises.

It seems sensible to examine the rating of agriculture at the same time as industrial rating and other reforms. Apart from being logical, it is more cost efficient to make any changes at one time. Moreover, the discussion of reliefs needs to be dealt with in a systematic manner and it is best to examine relief for small farmers and those in disadvantaged rural areas in the one process. Equally, the DFP should ensure that the valuation of agricultural and rural areas is updated, so that non-agricultural businesses do not benefit from agriculture derating. For example, the outdated valuation system is likely to allow buildings once used for agricultural and now used for other commercial purposes to escape from rates.

All rural reliefs, like other domestic and non-domestic reliefs, should be decided after TSN/EQIA evaluations are conducted and different options can be compared. The DFP doesn't provide details on the "Rural Rate Relief" it is considering. This information should be included in rating materials during the consultation period. An overall relief policy must take into account all aspects of NI society, including domestic and non-domestic sectors, and cannot be considered piece-meal. A broad vision should be taken when creating a relief system, so that they are considered carefully and collectively.

(10) Should relief for small businesses be considered further? (See para 108.)

CAJ has argued above for a comprehensive, systematic approach to reliefs, rather than a piece-meal approach. In principle, we would argue against blanket reliefs (small businesses included). As in the domestic sector, any reliefs should be considered after TSN/EQIA evaluations are conducted and a broad view of rating policy can be considered. Reform of rating policy may improve revenue, and correct inequalities, without the use of additional reliefs.

The DFP, surprisingly, does not propose the revocation or re-evaluation of those reliefs that do currently exist. In the next phase, the DFP should clarify the amount of revenue lost through reliefs given to church property, freight transport, leisure centres etc and discuss if these are the most optimal recipients of relief. A similar exercise should be applied to any new reliefs that have been or are being proposed (eg per para 101: for community halls, commercial equestrian centres, hotels, catering facilities, licensed premises, small businesses and businesses in historic town centres, and businesses affected by hardship).

(11) Should there be provision to provide undue hardship relief under exceptional circumstances? (See para 111.)

CAJ believes that the whole system of rates should be geared to promoting equality, targeting social need and promoting social inclusion. Therefore, in principle, one would hope that "hardship relief" is not needed, but clearly we could only comment when the particular provisions of any hardship relief scheme are elaborated. The Review states that currently there is no mechanism for addressing emergency hardship situations that occur between revaluations, and mentions Foot and Mouth epidemic and border petrol filling stations as areas where hardship relief would be considered (para 109). The Programme for Government already reserves a portion of the budget for emergency and priority allocations, so the DFP should clarify that such a relief will not be redundant. Clearly TSN/EQIA evaluations need to be considered, so that hardship

relief is not given at the expense of regular service provision for disadvantaged groups.

One would also need to consider in this context:

- What will be the process for deciding who benefits, and in what emergencies?
 - How will the lost revenue be accounted for, and be allocated without hindering budget expenditures? Will a certain amount of “proposed lost revenue” for hardships be assumed each year? If so, how much?
 - What safeguards will be provided so that the mechanism of hardship relief provisions is not abused?
- (12) If it is agreed to move toward the introduction of water charges, how might any water and sewerage costs be distributed among domestic consumers?ⁱ (See para 130.)**

Four options are proffered:

- (a) a uniform contribution or flat rate;
- (b) a contribution based on net annual value (as in England);
- (c) a contribution based on the capital value of the property (as in Scotland); or
- (d) a combination of 1 and 2.

Of those on offer, rates linked to the capital value of the property seems to be the least regressive. **CAJ would argue that TSN/EQIA evaluations need to be carried out** to confirm this and/or determine which of these options is most likely to benefit the most disadvantaged in society.

A cursory review of the topic would conclude that flat rates unduly burden disadvantaged households, and would be the least acceptable solution. None of the alternatives being considered reflect *use* of water and sewerage services, despite the positive environmental impact that such a move might make. We are told that the introduction of domestic metering is not being considered because it would mean that larger households, or those using large volumes of water because of health conditions, would pay more in charges than smaller households regardless of ability to pay (para 126). CAJ recognises these important concerns but wonders if consideration was given to the option of allowing households a choice between paying a flat rate or with a metered rate (no mention is made of this option in the Review).

Any of the proposed options could allow for an exemption of some domestic consumers that do not benefit from aspects of the services and/or introduce legislation to protect vulnerable or low-income users. The Executive should clarify its proposals regarding exemptions, and incorporate them into proposed options.

In general, the Review does not consider social benefit analyses, although this is clearly essential to any introduction of water charges and easily assessed with existing data. CAJ believes that it is the duty of the DFP, in order to comply with its section 75 duty, to make these comparisons, instead of simply presenting the public with questions about complex alternatives. Clearly it is crucial to conduct these studies now, and present the results to consultees to allow a more informed contribution.

4. CONCLUSION

CAJ believes that the DFP has raised many important issues in this consultation paper around much needed rating reform. At this stage, we believe that it is essential that various reform possibilities and options discussed in the paper are carefully scrutinized to determine if they meet Targeting Social Need and equality standards. We believe this can be done thoroughly and efficiently, given the available information on rates and water costs. It is important that CAJ and other consultees are able to consider the results of these studies, so as to comment more

knowledgeably as the consultation process evolves.

With new rating legislation, the government has a very important opportunity to promote fairness and remedy existing inequities; CAJ looks forward to helping in whatever way possible to achieve those goals.

**COMMITTEE FOR FINANCE AND PERSONNEL
REVIEW OF RATING POLICY - PUBLIC CONSULTATION**

**WRITTEN SUBMISSION BY:
CBI NORTHERN IRELAND**

September 2002

NI 14 02

EXECUTIVE SUMMARY

- The Reinvestment and Reform Initiative is welcome, but it is essential that the Northern Ireland Executive, as a priority, secures efficiency savings from existing expenditure – there are a number of key areas where savings are achievable.
- The business community already pays a disproportionately high percentage (c 57%) of rating revenues relative to the rest of the UK, where the rates burden is shared evenly between the domestic and non-domestic sectors.
- Industrial de-rating should be retained until 2010. This is required in order to reduce the significant negative impact (particularly on investment and jobs) of removing de-rating. The Executive must reduce Northern Ireland's high cost base in the intervening period.
- A CBI Northern Ireland survey to assess the impact of the removal of de-rating, covering 72 companies employing 36,000 people, reveals that:
 - over 50% of companies indicate a substantial reduction in employment;
 - over 65% indicate a substantial reduction in capital investment;
 - over 25% of respondents will face a rate bill in excess of 50% of their profits;
 - 50% of companies identify having the lowest cost base as the most important factor influencing investment.
- An expensive tax with lots of reliefs is a bad tax – the CBI does not favour the introduction of more reliefs, other than having some form of Hardship Relief.
- Commercial rate payers are already paying rates marginally higher than in the rest of the UK – the Executive needs to ensure that this sector of the economy is not penalised further.
- A clearer understanding and assessment are required of the impact of introducing rating to vacant property. There is no clear rationale for Northern Ireland to be different from the rest of the UK.
- The current system of taxing occupation and basing rateable value on rental value is the most appropriate system – no substantive reasons have been put forward for change.

INTRODUCTION

1. The CBI is an independent, non-party political organisation funded entirely by its members in industry and commerce. The CBI represents companies from every sector of UK business, including more than 250,000 public and private companies, over 90% of which are small firms with fewer than 200 employees and more than 200 trade associations, employer organisations and commercial associations. The CBI is widely recognised to be the UK's business voice and is therefore well placed to make representations on behalf of employers.

2. The CBI welcomes the opportunity to comment on the Rating Policy Review. This paper is based on extensive consultation with our members including approval by the CBI Northern Ireland Council, and includes a survey into the likely impact of the removal of industrial de-rating. Our response is set out as follows:

- Section on the Reinvestment and Reform Initiative.
- Principles which should underpin rating policy.
- Non-Domestic rating issues, including Industrial De-rating.
- Funding for Water and Sewerage services.
- Set of Appendices.

3. The CBI represents business interests and we are therefore best placed to comment on issues which impact on businesses. We have therefore focused our comments on non-domestic rating issues. With regards the domestic sector we wish to make a few short comments only. These are as follows:

- It is difficult to argue for similar standards of public services as in the rest of the UK if we are not prepared to contribute similar funding – there appears to be a strong case that domestic rate payers should pay more.
- We would be concerned at any sharp, sudden rise in domestic rates in the near future. Any increases must be phased and adequate warning given. They must also take account of other high costs, including energy costs, and to some extent Northern Ireland's lower average earnings. Average NI earnings are 18% below the GB average but this heavily influenced by the high earnings in London and the Southeast (58% and 26% higher). Compared with Wales and several of the other English regions, average earnings in Northern Ireland are within 5% of these areas yet these regions all face much higher domestic rates and water charges.
- We must consider the higher level of disadvantage in Northern Ireland.
- A substantial increase in domestic rates will impact on the economy by reducing consumer spending power – this impact should be considered as part of the overall assessment.
- Careful consideration must be given to the issue of an equitable distribution of the total rate bill – compared to GB the non-domestic sector in Northern Ireland pays a disproportionately high percentage of overall rate revenues. The non-domestic sector also pays for water and waste management services and appears to be cross-subsiding the domestic sector.

REINVESTMENT AND REFORM INITIATIVE (RRI) – EFFICIENCY SAVINGS MUST COME FIRST

4. We have long argued that there is a need for significant additional investment in the strategic road infrastructure, public transport, water, sewerage, and capital projects in health and education. The proposed borrowing facility and low interest loan is clearly a welcome opportunity to provide an additional means of securing upfront investment – paid back over an extended period. The RRI will have an important contribution to make combined with other approaches, including the appropriate use of Public Private Partnerships (PPPs), which we believe have a key role to play in meeting three objectives: addressing the infrastructure deficit; helping to improve the quality of public services and securing better value for money from public expenditure.

5. We do not believe, as was suggested on the day of the announcement, that the funding needed to address the infrastructure deficit should be entirely related to an increase in rates. There are certainly major opportunities for savings in relation to improving the efficiency and effectiveness of public expenditure. CBI Northern Ireland has identified several areas where significant cost savings can be realised, including public procurement, use of e-commerce, reducing absenteeism and extensive benchmarking across public services. A firmer control of administration costs including less

administration is clearly required. It is therefore critical that we secure reform of public services – the commencement of the Review of Public Administration is therefore welcome. The business community, and indeed domestic rate-payers, will increasingly want to know that the money is being used wisely and not on excessive administration, duplication or waste.

6. Furthermore we hope that the Executive will identify redundant and/or under-utilised properties and land within its own control, and embark on realising funds which could be used for more urgent and relevant investment. The CBI has been pressing for a wide-ranging property audit for some time.

7. A major increase in investment both in public infrastructure and services must be managed effectively. We therefore support the establishment of the Strategic Investment Body. In terms of a significant increase in investment levels the impact of this on the Northern Ireland economy should also be assessed. For instance:

- while increasing employment directly in construction and related supply activities there may be negative implications for other sectors in terms of labour availability and additional upward pressure on wage rates;
- intelligent purchasing is required to ensure best value for money and to help develop new capabilities in Northern Ireland based companies ensuring that the multiplier effect of this investment is maximised.

THE PRINCIPLES WHICH SHOULD APPLY TO RATING POLICY

8. We believe the following key principles should apply to rating policy:

- Business rates are a tax and, as with all taxes, the Executive/Assembly needs to take into account the impact on business competitiveness (and jobs)
- Business needs predictability on future bills and plenty of time to plan ahead for any changes – it is important that the review’s recommendations recognise the importance of this principle
- There should be a fair distribution of the rates burden across business sectors
- Wide ranging rate relief arrangements within the business rates system should be avoided – an expensive tax with lots of reliefs is a bad tax
- Rating policy should encourage fair competition and not lead to distortions in competition – any departures from a “level playing field” between different types of business, or between different business behaviour, must be clearly and objectively justified
- The impact of any significant changes proposed must be fully assessed on a sectoral basis.

We have used these principles to develop our considered response to the issues raised in the consultation paper.

9. For 2000/1 £307m was raised by the Regional Rate and £226m raised from District rates. Of this total £533m, business contributes £304m – 57% of the total. This contribution is significantly higher than in GB where the rate burden is more evenly shared between the domestic and non-domestic sectors – broadly 50:50. CBI members are concerned at the lack of transparency on how costs are incurred and the level of cross-subsidy which exists, including

- cross-subsidy by business re Water and Sewerage costs (companies already pay for water and sewerage disposal);
- cross-subsidy re Local Council rates – an assessment of the Local Council Rates would suggest that c38% of costs should be borne by non-domestic sector, although this sector is actually bearing c48% of the costs.

There is a real danger that Northern Ireland will get flagged up as the region within the UK with the most inequitable distribution of rates, acting as an additional burden on the business sector. We also note that the Commercial sector is already paying rates marginally higher than in the rest of the UK – the Executive needs to ensure that this sector of the economy is not penalised further.

KEY NON-DOMESTIC ISSUES

Taxing Ownership instead of occupation

10. The CBI is opposed to changing the current system which is based on occupation. We see no substantive reasons for doing so while there are significant downsides and disadvantages which the paper highlights. In addition it would weaken the link between the rate payer and the public services provided (which should be to the benefit of the occupier) and it would also result in another wealth

tax.

11. We see no reason for having a different system from that which applies in the rest of the UK.

Using Capital Value rather than Rental Value

12. The CBI does not see any need to move away from the current system based on the rental value. The capital value is generally captured reasonably well in the rental value. Changing to a capital value system would be more difficult as there are much fewer capital values to compare compared to rental values. Again we see no strong arguments to change from the system that currently applies throughout the UK – any changes would be expensive and of little, if any, value. Furthermore, as the paper states, the existing system works well.

13. We strongly oppose any change to the current system.

Vacant Property

14. We support amendments to the legislation to overcome shortcomings in informing the RCA when occupation is taken up.

15. There are mixed views within the business community on the benefits and disadvantages of rating vacant property. While on the one side there are those that argue that the situation is no different from the rest of the UK (and hence rates at some reduced level should apply) to those that argue that there would be a negative impact on development and the risks, and costs of development, would increase.

16. We do believe there is an essential need to more fully understand the impact of any changes in this area and indeed to get a better understanding of the nature of the vacant property which exists. This assessment should take into account:

- The impact on the property market and values (- it is clear that many companies will reduce their holdings of vacant property – this will influence market values in the short/medium term and potentially impact on the value of local pension funds).
- The impact on speculative building and development – there is significant risk that speculative building work will decline. Vacant property provides no benefit to the owners but can incur considerable expense eg insurance, maintenance, etc.
- The costs of building and subsequent rental costs.
- The impact on the ability of companies to grow ie will this reduce their flexibility due to the desire to reduce their property holdings?
- Rural impact – the development of space for start-ups and the value of property in rural areas could be disproportionately affected (due to the limited market demand with resale values often less than building cost).
- The condition of buildings – for properties in a poor condition the imposition of rates may lead to further degradation and dereliction, so as to make them not fit for purpose (and hence not rateable).

17. We recognise that rating of vacant property will also weaken the link between rates and the provision of services – although the rating of vacant property should not exceed 50% of the full rating value. It is also unclear how such a policy on its own will assist in regenerating rundown town centres, although property owners will clearly be “incentivised” to find new tenants. The administrative difficulties in trying to identify “*areas where demand for property is low and the market sluggish*” (Para 87) may be significant and potentially expensive.

18. Overall the CBI has concluded that while there may be a significant short-term impact on the property market there is no clear rationale for a different position than that which pertains in the rest of the UK. Some caution is required with regard to timing of changes and phasing arrangements, in order to ensure that risks and any negative consequences are minimised. Any changes to the current position must have a sufficient lead-in time in order to reduce the negative impacts.

Industrial De-rating

19. In September 2001 the CBI published a policy paper on Industrial De-Rating. This is attached to this response and it is also available on the CBI website (). This paper concluded that industrial de-rating should be continued until 2010 with the principle rationale being that that Northern Ireland manufacturers face significantly higher costs than their competitors in GB and further afield. The loss of de-rating will add to business costs, reduce profits, reduce the amount of funds available for reinvestment and lead to job losses.

20. The CBI September 2001 paper also makes the following points:

- manufacturing matters - there is a need to maintain a balanced economy including a strong and dynamic manufacturing sector;
- a significant number of jobs in the service sector depend on manufacturing – we estimate that 40% of private sector employment is dependant on the industrial sector;
- industrial de-rating is one of the few benefits which Northern Ireland offers to offset an attractive investment regime in the ROI;
- manufacturers face particularly high costs and risks relative to the rest of the UK, and elsewhere in Europe, in a range of key areas including:
 - energy costs are significantly higher – In 2001/2 industrial users paid an additional premium of £40m in generating costs alone compared to what they would pay if based in GB;
 - transport costs – additional costs of importation of raw materials and supplies and distribution of goods to export markets – two thirds of manufactured goods are transported outside of Northern Ireland;
 - environmental costs – high water costs and waste management costs, combined with lack of recycling facilities;
 - insurance costs, and particularly Employers Liability Insurance as a result of the “claims culture” which prevails in Northern Ireland.
- Many of the advantages that companies have traditionally benefited from are reducing – with a less attractive labour market (and particular concerns re lack of relevant skills) and increasing property costs.

21. This CBI paper also stressed that any changes to industrial de-rating need to be reviewed as part of a broader assessment of taxation policy especially vis a vis the ROI and the impact on Northern Ireland’s international competitiveness. We do recognise that the rationale is likely to weaken around 2010 as the full impact of electricity contracts unwind and the Executive will have had time to implement policies to reduce other current excessive burdens on the business community. In some cases, eg in energy it was the Treasury that gained substantially at the expense of consumers due to the structure of the privatisation and the nature of the long-term contracts.

22. Since last September the industrial sector has been under significant strain. Weak international markets and intensifying competitive pressures, increasing costs of insurance, and from April 2003 an increase in National Insurance costs, have resulted in a further reduction in profit margins, weak investment intentions and a loss of jobs.

CBI Survey on Industrial De-Rating

23. As part of the process for developing a CBI response to the current consultation process we undertook a survey of manufacturing companies who currently benefit from the de-rating regime. The findings of the survey provide a reasonable estimate (based on responses from 73 companies employing over 36,700 people) on how companies will respond if de-rating is removed. The results of this survey are shown in Appendix I. Key points from this survey are summarised in the following paragraphs.

24. Companies were asked to identify how they would respond to the imposition of rates.

- Over 49% of companies indicated that there would be a significant reduction in employment.
- 63% indicated a significant reduction in capital expenditure.
- 39% indicated a significant reduction in Research and Development expenditure.
- 77% indicated that they would have to absorb the costs with only 15% suggesting that they would be able to pass some of the costs on.
- 44% would put significant pressure on their supply chain to reduce costs.
- 8% of companies believe they would not be viable and another 56% believed their viability would be under serious threat - only 7% believe there would be no impact.

25. While these results are startling they reflect the impact of a significant additional cost burden on their businesses. In terms of profitability the survey showed that the rating burden will be significant for a large number of companies.

- For 5% of companies it will exceed 100% of profits.
- For 19% of companies it will be between 50% and 100% of profits.

- For 20% of companies it will be between 20% and 50% of profits.

Rating costs will be less than 10% of profits for 34 % of companies. This clearly indicates that the financial return that companies need to secure on their investments will be significantly reduced for a very large number of companies.

26. These results contradict the DTZ Report (see section below) which concluded, erroneously, that the rates burden would be less than 3% of profits. Other studies, quoted by DTZ support the CBI findings. We believe we have a much better understanding of the impact of the imposition of rating on the industrial sector than DTZ.

27. To get a better understanding of the key factors that influence investment decisions the respondents were invited to identify the factors of most importance to them.

- Having the lowest cost base is considered to be the most important factor – 54% of respondents identified this factor as being very important (and a further 35% as important).

- The availability of skilled labour was the second most important factor – identified by 42% of respondents as very important and a further 49% as important.

- Access to markets was considered more important than access to suppliers.

- Grants were considered to be very important to 24% of respondents.

28. Finally the survey sought to establish the typical business planning cycle for a significant capital investment. The survey findings show:

- 19.1% of companies have cycles greater than 4 years
- 28.8% for 3-4 years
- 30.1% for 2-3 years and
- 22.0% for less than 2 years.

This indicates that companies need to be given a lengthy warning of any significant change in the environment in which they are working. Again these findings undermine the DTZ assumption that most companies have a typical planning cycle of 2/3 years.

DTZ Report on Industrial De-rating

29. We have reviewed the DTZ Pieda report “*The Economic Impact of De-Rating*” prepared for the Rating Review Steering Group. We have major concerns about key aspects of this report which we have set out in Appendix II. Some key concerns are set out below

- poor assumptions and inconsistencies within the report;
- incorrect conclusions;
- the survey has a particular focus on very small companies – only 24 companies employing 56 or more people were surveyed, yet it is these companies that are most exposed to international competition;
- there is no sectoral assessment, yet there will be significant implications for certain manufacturing sectors;
- the conclusions regarding the impact of rates on profitability are misleading, and inaccurate. This undermines the conclusions reached in the report;
- they fail to understand that it is the whole cost package, rather than one particular item that will influence investment decisions;
- DTZ are incorrect in their assumptions regarding typical business planning cycles.

We believe the findings of the DTZ Report should be treated extremely cautiously. Their conclusion that

“the overall effect on the level of economic activity in the medium term would be negligible”

is misleading – significant implications for the manufacturing sector are ignored and no evidence is put forward to how increased (public) expenditure elsewhere will benefit the economy, and in particular the manufacturing sector.

Sectoral impact

30. Clearly the removal of de-rating will impact on companies in different ways. But it will have particular impacts on certain sectors – with some sectors more exposed than others.

Agri- food sector

- a major employer across Northern Ireland providing opportunities for adding-value to local agricultural output;

- sector operates with low profit margins, and is very exposed to increasing costs;
- over 50% of survey respondents indicate that significant additional pressure would be applied to reduce supply (raw material) costs eg the agricultural sector which is already in difficulties;
- sector increasingly dependent on large multiples and thus lacks pricing power;
- rural areas will be most exposed to company closures, with disproportionate impact on specific locations;
- sector needs to increase profitability in order to invest in innovation and higher value products.

Clothing/textiles sector

- sector continues to be particularly vulnerable to low cost international competition;
- a further increase in cost base will exacerbate the situation and lead to more offshore sourcing;
- the CBI survey reveals that this sector is most at risk of further job losses if de-rating is removed;
- sector needs to improve profitability to invest in design, branding and specialised products.

Engineering/Electronics

- sector is large energy user which together with other costs make Northern Ireland an expensive location;
- high export orientation with tough competition from both the rest of the UK and around the world;
- sector faces more difficult labour market with higher training costs than it has traditionally had to deal with;
- certain subsectors, including polymers/plastics, and electronic assembly are highly vulnerable to increased costs;
- many multinationals concerned that higher cost base is making Northern Ireland less attractive for future investment – higher costs result in less attractive financial returns relative to investment in other locations.

31. We have also set out in Appendix III a number of quotations from business executives to give a better feel for the impact of removing de-rating.

32. Having taken all the factors into consideration we have concluded that the position we set out in September 2001 remains sensible resulting in the least damage to the Northern Ireland industrial base and economy overall:

- industrial de-rating should continue until 2010 – a lengthy lead in period is critical to minimise the negative impact of this additional cost burden;
- during this period the Executive must take appropriate measures to reduce the high cost of doing business in Northern Ireland;
- a phasing in of rates beyond 2010 provided that a more competitive environment has been created.

Rural Reliefs

33. As we have set out in Para 8 as a matter of principle we do not believe there should be wide ranging reliefs. We are conscious that across Northern Ireland there are many small towns and villages with a dependency on a single large employer – thus making the area highly vulnerable to any significant market or cost base changes. Many of these employers are in the traditional manufacturing sectors of clothing/textiles and food processing. The removal of industrial de-rating would clearly impact on these companies and the local communities.

34. There is a danger that the introduction of additional reliefs will distort competition. As stated elsewhere (para 37) we believe other more targeted measures and support should be used to support enterprises. For companies facing particular difficulties we do believe the introduction of hardship relief should be considered – this might be the most appropriate way of addressing this issue.

Other Reliefs

35. An expensive tax with lots of reliefs is a bad tax. Our preference is to move to a situation where there are fewer reliefs and not to a situation where there are more reliefs. The current reliefs need to be reviewed to assess whether they are justified. In some cases such as in public sector leisure centres it is not clear why the public sector does not pay rates while the private sector does pay rates. Surely the cost of these facilities should be paid for by the people in the Council area who benefit from their existence. There are increasing complaints about charity shops which benefit from relief and the impact this is having on town centres and distorting local markets.

36. With regards to freight transport relief our primary concern is to ensure that Northern Ireland

ports remain competitive and provide the lowest possible charges. Any increase in their costs will inevitably be passed on to industry and consumers generally in higher charges on the movement of raw materials, finished products and people. This is therefore one relief which the CBI believes should remain.

Reliefs for Small Business

37. As we have set out in Para 9 we do not believe there should be wide ranging reliefs. With regard to whether small firms should be given relief we have concluded that a substantive case has not been made with regards the provision of reliefs for small companies. A review of this issue must take into account the following points:

- the majority of very small businesses tend not to grow and are less internationally exposed;
- survival rates for small businesses in Northern Ireland are the highest of any region in the UK – our problems stem from not having enough start-up businesses in the first place;
- rate relief is a blunt instrument to support growing small firms – there are other more effective measures and support available that should be used to assist small firms;
- there is evidence to indicate that rate reductions/reliefs will be offset by increased rental – small firms may be more exposed here;
- with rate reliefs, growing businesses would have additional barriers once they achieved a certain size.

38. If the decision is taken to provide small firm relief it is essential that this is funded by the Executive and not be an additional burden on other rate payers. In addition support relief needs to be simple and should apply automatically rather than requiring an application to be made.

Hardship Relief

39. In principle we would support having some form of hardship relief. This is preferable to a range of other reliefs. This should be only used in exceptional circumstances and preferably be time limited.

40. One issue which is not raised in the consultation document is the issue of change of circumstances. We believe that an Appeal based on “material change in circumstances” should be introduced – this is available elsewhere in the UK and it seems inequitable that Northern Ireland occupiers do not have this ability to appeal their valuation.

41. It is also important to stress the importance of ensuring adequate transitional relief is available following revaluations, in order to minimise the damaging consequences of sharp increases in rate bills. There must also be a commitment to undertaking regular revaluations – at periods of no longer than 5 years. This will help to reduce the amount of transitional relief required.

42. We also believe that interest should be payable on refunded rates where they have been successfully appealed – this is not the case at present and is clearly unfair and an additional unjustified burden on business.

Funding Water and Sewerage Services

43. CBI Northern Ireland believes the charging regime must be transparent, fair and affordable and that cross-subsidisation across consumer groups must be avoided. The current regime for some customers of paying via regional rates and metering is unsatisfactory.

44. We note that the consultation document in Para 126-128 does not consider the use of water metering. We believe this is extremely short-sighted. The analysis is particularly weak and the assumptions incorrect. For instance:

- Water metering is common place in GB and other countries – within England and Wales over 20% of households are now metered. The Regulator, Ofwat, states that metering is the fairest method of charging for water.
- Water metering need not be expensive, especially when implemented on new properties or where maintenance work is being undertaken (in Northern Ireland it is estimated that some 30% additional homes will be constructed over the next 25 years).
- It ignores the potential of new technology in terms of setting up metering systems and monitoring them.

45. We believe there should be immediate steps to increase visibility and transparency - as a first step water and sewerage charges could be shown separately in the rates bill with information on how

the money is spent. We believe the charging should be cost-reflective – a contribution based on NAV rather than a uniform contribution per household would therefore be preferable. Whilst it is desirable to have separate billing it may not be cost effective to introduce - a detailed assessment of the value and cost of introducing separate billing is required. We would encourage and facilitate the use of metering particularly in “new build” but provide (domestic) customers with the choice of metering or paying on the basis of rateable value. It may also be appropriate to offer low occupancy rebates eg to single pensioners.

46. In terms of sustainability, metering would provide important incentives to reduce water usage and improve water efficiency. We believe a charging strategy should involve water metering – though we accept there should not be universal metering.

CBI Northern Ireland

13 September 2002

Appendix I Summary of CBI Survey into Impact of the removal of De-rating

Appendix II Comments on DTZ Report Economic Impact of De-Rating

Appendix III A selection of quotations re the impact of losing Industrial de-rating

Acknowledgements

CBI Northern Ireland is grateful for the assistance of Northern Ireland Food and Drink Association, the Northern Ireland Textiles and Apparel Association and the Northern Ireland Polymers Association in distributing the survey. We are also grateful of the support of Ernst and Young who provided a secondees to assist in the development of this response.

APPENDIX I

CBI SURVEY ON IMPACT OF THE REMOVAL OF INDUSTRIAL DE-RATING

The postal survey was undertaken in August 2002 targeted at CBI members and members of a number of trade associations. There were 73 responses (a response rate of over 30%) to the survey covering 36,698 employees. The results are as follows:-

Companies were asked to list their sector and number of employees

Company Sector	No of Firms	No of Employees
Food/ Agriculture	22	8,362
Clothing/ Textiles	8	3,616
Engineering	13	11,379
Manufacturing/Other	17	10,919
Plastics	13	2,422
Total	73	36,698

Companies were asked what will your annual rating bill be if de-rating is abolished?

Rating Bill (£)	No of Firms	%
Don't Know	1	1.4
Less than 20,000	8	11.0
20,000 - 50,000	10	13.7
50,000 - 100,000	17	23.3
100,000 – 200,000	14	19.2
200,000 – 500,000	15	20.5
500,000 - 1,000,000	5	6.8
Over 1,000,000	3	4.1

Companies were asked to identify (approximately) what percentage of profits will their rates bill will be?

% of PROFITS	No of Firms	%	As % of respondents
Over 100%	3	4.1	5.1
50% - 100%	11	15.1	18.6
20% - 50%	12	16.4	20.3
10% - 20%	13	17.8	22.0
Less than 10%	20	27.4	33.9
n/a or did not respond	14	19.2	

An analysis of companies that did not complete this section reveals that several of them are not making profits at present (and thus could not respond to the question) – some others appear not to have responded for confidentiality reasons. Figures quoted in the text are based on those companies that responded.

Companies were asked to assess what will be the impact on their business if industrial de-rating is

abolished?

	Significant Reduction	Small Reduction	No impact	Don't know
Capital investment	46 (63%)	13 (17.8%)	4 (5.5%)	10 (13.7%)
Employment	36 (49.3%)	20 (27.4%)	8 (11%)	9 (12.3%)
Research & Development	29 (39.7%)	15 (20.6%)	18 (24.7%)	11 (15.1%)
	Pass all costs on	Pass some costs on	Pass no costs on – cost absorbed	Don't know
Ability to pass costs on to customers	1 (1.4%)	11 (15.1%)	56 (76.7%)	5 (6.85%)
	Significant pressure on supply base	Some additional pressure on supply base	No impact	Don't know
Seek to reduce supply base	32 (43.8%)	21 (28.8%)	11 (15.1%)	7 (9.6%)
	Company will not survive	Serious Threat	Small Threat	Not Impacted
Viability of Business	6 (8.2%)	41 (56.2%)	21 (28.8%)	5 (6.9%)

In deciding to invest in Northern Ireland companies were asked to identify the important factors influencing their decision

	Not important	Important	Very Important
Availability of skilled labour	5 (7.9%)	31 (49.2%)	27 (42.9%)
Access to markets	8 (12.7%)	37 (58.7%)	18 (28.6%)
Access to suppliers	20 (31.7%)	30 (47.6%)	13 (20.6%)
Lowest cost base	7 (11.1%)	22 (34.9%)	34 (54%)
Grant Assistance	16 (25.4%)	32 (50.8%)	15 (23.8%)

Companies were asked to consider that when making a significant capital investment in their business, what is the typical business planning cycle used?

Time Required	No of Firms	%
Less than 2 years	16	22
2-3 years	22	30.1
3-4 years	21	28.8
Greater than 4 years	14	19.2

APPENDIX II

CBI COMMENTS ON DTZ REPORT ECONOMIC IMPACT OF DE-RATING

General Comments

The Rating Review Steering Committee commissioned DTZ Pidea to review the system of industrial de-rating, including an evaluation of the impact of de-rating on the Northern Ireland economy.

We have carefully considered the report's findings which give rise to considerable concerns – in regards the assumptions underpinning the report, inconsistencies within the report and incorrect conclusions. Some of the conclusions emerging from the survey are highly questionable. Furthermore the report fails to undertake a sectoral analysis which we believe is essential as clearly some sectors will be impacted more significantly than others.

We have set out below our primary concerns.

Policy Rationale

3.11 The report recognises that electricity prices as a cost are considerably higher than in the UK. Para 3.11 suggest a maximum of 25% differential in electricity prices with GB. CBI evidence suggests for most larger manufacturing plants the current differential is higher than this – for smaller companies the 25% figure is correct).

The Survey Sample

5.2 The sample size is particularly poor, 0.25% of 3,800 manufacturing companies in Northern Ireland leading to 100 companies surveyed. In an effort to take in the geographical factors the sample did not concentrate on the geographic placement of manufacturing, but on council areas. Significant areas of manufacturing in Belfast and Craigavon only saw 18 companies surveyed.

Only 22 companies in the survey employed more than 50 people – yet it is likely that this group will pay around 80% of the total rating bill and the impact on the economy will be most pronounced

depending on the impact on these companies.

Cost Structure

5.10-5.11 The survey sample found that

“the imposition of rates would add a sum equal to 0.5% of turnover and just under 3% of profits”.

This is, as a minimum, misleading and more likely, to be inaccurate. It reinforces concerns about the nature of the sample. With all categories of turnover, other than the “Over £5m” reporting rates as a percentage of profits at between 7.4% and 45% the conclusion reached is to put it mildly surprising. In para 5.14 reference is made to the IFF study which found that rates represented about 20% of profits – but this is ignored. Recent CBI evidence supports the IFF figures but also reveals that many companies will be disproportionately impacted.

Company Attitudes

5.17 DTZ notes that locally owned companies

“compete primarily with other businesses located in Northern Ireland”.

Yet 99% of sales of large foreign owner companies and 77% of sales of large indigenous companies were external sales (£7.1 bn.). Representation from these companies was particularly weak in the sample. The focus on small companies (over 50% of sample employed less than 20 people) in the survey fails to recognise the increasing importance of competition and its impact on growing SMEs.

5.24

“Among the externally owned firms, none stated that they would not have opened in Northern Ireland without de-rating, while 55% would have opened and 45% did not know.”

Inward investors look at the entire package of costs and not one individual item – it is the total cost of doing business that matters (as the CBI survey has shown), so it is not surprising that when asked about one item it is not considered critical in its own right

5.26

“Imposition of rates would impose a relatively small burden on most businesses in Northern Ireland.”

– this fails to understand the global pressures and the need to have a low cost base. We also believe it is inaccurate - as we highlighted above it raises serious questions regarding the findings of their survey. While clearly for some companies this is true we have extensive evidence to suggest that the removal of de-rating will amount to a major burden and in many cases make the current business unviable. Evidence collected by DTZ indicated that 20% of companies who knew the size of their rating bill would close – this seems to be ignored.

Conclusions reached

6.12 The report fails to recognise that selective financial assistance has been decreasing sharply in recent years, and continues to do so. The value of industrial de-rating is thus an increasingly important part of the overall incentive package.

6.17 Equating the impact as increase of costs against turnover (0.5%) is a meaningless statistic. This does not take into account the profit levels made by any business, the company cost base, or the demands placed on the business by shareholders or markets operated in. The implication that 0.5% of turnover is not significant totally fails to understand the global competitive pressures that companies are operating within and the choices an increasing number of companies have for relocation. Companies will seek to maximise their Return on Capital Employed (ROCE), assuming that the risks associated with the investment are the same.

There is no strong possibility that industrial rents will fall as suggested in the report. This is due to the nature of lease agreements which according to the report some 59% of premises are owned. Many of the 41% of the companies sampled who rent their premises are likely to be smaller businesses – 82% of very small businesses in the survey rent. Furthermore TSN areas will suffer more due to the higher level of property which is owner occupied (68%).

6.18 The report overall appears to dismiss the fact that a significant number of companies will face rate bills which are a significant percentage of profits – indeed 3 out of 15 companies surveyed by DTZ reported they would close (para 5.20)– that is 20% - this startling finding appears to be discounted.

6.19 The report concludes that

“the most adverse impacts would be likely to be on very small firms”.

We disagree – CBI evidence suggests that it will be companies (both large and small) operating in traditional industries (particularly food and clothing, but also other sub-sectors eg plastics, electronic assembly operations) which will be effected the most – these tend to be low margin businesses operating in intensely competitive markets. We are very surprised that the report did not undertake a sectoral impact assessment.

6.20

“The overall effect on the level of economic activity in the medium term will be negligible”

– the evidence does not support this. There will be significant impact in key sectors, some of which have a particular geographic concentration. No evidence is put forward on how using the funds raised by removing de-rating would offset the impacts on the manufacturing base and the associated companies who provide services to it.

6.21 The report concludes that

“the clearest potential benefit appears to the possible value of de-rating as an inward investment incentive”

– this fails to recognise the increasing mobility of indigenous companies and the increasing tendency to outsource manufacturing activities. Increasing the Northern Ireland cost base further will only lead to an increase in this activity and a consequent loss of jobs. It also fails to take into account the general downward trend in selective assistance seen in recent years.

The report concludes that typical planning cycles are 2-3 years. For small firms and for companies operating in the technology focused sectors this may be true. But for many companies the typical business cycle for large investments is longer than this period.

The recent CBI survey found that over 48% of companies have typical planning cycles of 3-4 years or more.

Factors not considered by DTZ Report

■ The report points out that the revenue forgone is estimated at £64m – but this could be misleading. On the one hand industrial NAVs have never been challenged and thus are likely to be high. On the other currently, currently the plant and machinery element of valuations is very low but if rates were actually being paid on these valuations, this may result in higher valuations than at present – companies have noted that those with high energy usage (ie with extensive machinery and equipment) have higher NAVs.

■ The report did not take account of any multiplier effect between companies/sectors of the withdrawal of industrial de rating or additional burden created by the closure of any companies by the imposition of charging industrial rates. For example we believe the food sector will be one of the sectors most at risk – and there will be impacts on the supply side (ie the farming sector).

■ The report recognises but discounts the fact that not all industrial property can be rented. Indeed it ignores the fact that in the majority of rental agreements, including industrial premises, there will be upward only rental review clauses.

■ Manufacturing will locate in those locations that will result in the lowest manufactured cost into an internal or the external market. This is an increasing trend, and will accelerate further with EU enlargement.

■ A substantial amount of our larger employers have shareholders outside Northern Ireland. Profits are important – if they don’t exist the companies will not invest and will not survive. But it is relative profitability which is key when investors have choices regarding where they make their investments – a focus on Return on Capital Employed (ROCE) is more appropriate. Companies that invest many tens of millions in their operations need to achieve significant profits to achieve their investment return. This will reinforce the need to have the lowest cost base.

APPENDIX III

A SELECTION OF QUOTATIONS RE THE IMPACT OF LOSING INDUSTRIAL DE-RATING

In responding to the CBI survey a range of comments were volunteered by survey participants. A

selection of these are highlighted below.

“As part of an international group already under serious threat due to profitability – the additional cost of this would almost certainly result in closure.”

“This would on top of transport, economic, insurance and government bureaucracy be suicidal for NI manufacturers.”

“The company has undertaken research into the viability of transferring significant production to Germany (mainly to be closer to raw material and European customers, representing over 30% turnover). We are sitting on offers of assistance from local authorities. Changes to current rating policy may well accelerate final decision to move!”

“This could possibly be the last straw – I would seriously consider closing as I do not see any future in manufacturing in the UK.”

“Manufacturing plants around the world compete as lowest cost into the market. By adding cost we may lose volume to sister plants with a lower cost.”

“As rate saving is built into our cost structure any increase would have to be absorbed. This will lead to NI being uncompetitive in the group.”

“Rising costs will force us to consider outsourcing to Eastern Europe, India, Far East where costs are lower.”

“May consider re-locating the manufacturing activity.”

“Ridiculous to attack manufacturing activity at a time when it is in decline.”

“Will consider re-location outside Northern Ireland.”

“Rating is another form of tax, therefore, pressure to relocate to low tax areas such as ROI would increase.”

“If reintroduced, and no cost saving (on power etc) to balance it, we will be lucky not to be forced to close.”

“The additional cost impact onus of the overheads mentioned above make trading very difficult. The impact of de-rating would be unsustainable.”

“This could be one of the most serious mistakes made by politicians with respect to this individual sector.”

13 September 2002

INDUSTRIAL DE-RATING – BRIEFING PAPER

BACKGROUND

1. 100% derating of industrial plant was introduced in the early 1980s in response to the deteriorating competitive position of the sector and the erosion of the manufacturing base, and difficulties in attracting inward investment. A review of de-rating was undertaken in 1992 which we understand concluded that the rationale for providing de-rating remained, partly to counter-balance higher energy and transport costs and to assess the impact of new water and trade effluent charges. Industrial sites will pay rates on their office premises, if above a certain size. Commercial rates in the Province are in line with Great Britain.

2. The Programme for Government, launched in March 2001, committed to undertaking the following:

“by May 2002 complete a review of rating policy, taking into account issues relating to equality of opportunity and new TSN, so as to have any relevant legislation in place to implement any policy changes by April 2003”

An Interdepartmental Review Group was established in July and they have since agreed to set up a separate but linked review of Industrial De-rating. This paper sets out CBI's views on the importance of maintaining a strong and dynamic manufacturing and industrial sector in Northern Ireland and the rationale for maintaining de-rating at least until 2010.

WHY DOES MANUFACTURING MATTER?

3. De-rating for industrial operations applies to factories, quarries, mines and manufacturing processes and is determined by the Valuation and Lands Agency (VLA) under Schedule 7 of The Rates (NI) Order 1997. Direct employment in these sectors is considerable:

Quarries and mines	1,850
Manufacturing	103,460

(Figures March 2001)

4. This is some 24 % of total private sector employment. However a considerable number of people are employed in the service sector who are totally dependent on the manufacturing and production industries. In fact security, cleaning, logistics and other outsourced service sector jobs would previously have been counted in the manufacturing statistics. The traditional boundaries and definitions of manufacturing are constantly changing. The CBI estimates that for every 1000 people employed in manufacturing at least 500 people are employed in the service sector. This would indicate that **almost 40% of private sector employment is dependant on the industrial sector** of the economy.

5. Manufacturing is important to the economy. It is the key contributor to our traded goods and services – of course this means that it is the sector most exposed to competitive pressures from other regions and countries. Northern Ireland cannot survive on service provision alone. It must remain a mixed economy with a strong base of manufacturing and productive industries. However manufacturing will have to change – even faster than it has done over the last decade. Increasing developments in e-commerce and a constant drive for greater value-added in terms of innovation, product development and customer service are all changing the nature of manufacturing.

6. Global competitive pressures are intense and the introduction of the Euro is leading to higher levels of transparency and intensely competitive conditions across the European Single Market. These pressures apply just as much to the high technology sectors as they do to our more traditional sectors. At the same time liberalisation of key services across Europe eg energy markets, is leading to lower costs for our competitors.

“The greater price-transparency resulting from EMU will require Northern Ireland to become more competitive”

(Pg xvi NIEC Report, Regional Economic and Policy Impacts of EMU, 1998)

7. Relative to the rest of the UK the Northern Ireland manufacturing base has performed well in the last 5 years. However employment has fallen by around 4000 people from over 107,600 in 1997.

While there are encouraging indications that a transition to become a more innovative, knowledge-based economy is underway, there are significant structural weaknesses within the industrial sector, including a disproportionately high percentage of people employed in low value-added (and generally lower profit) sectors.

8. Profit margins are under intense pressure across the manufacturing base, made worse by the strength of sterling against the Euro. The Office of National Statistics (July 2001) reveals that manufacturing companies rate of return fell to 3.7% in Q1 2001 – the lowest quarterly figure recorded since 1992 while annual returns have dropped sharply since 1995.

9. There are no specific figures available for Northern Ireland for the industrial sector. However DARD has undertaken an assessment for the food and drink sector (employing around 19,000) with figures showing that between 1989 and 1998:

- profit margins steadily decreased throughout the 10 year period from 4.1% to 2.0%
- rate of return on capital employed decreased from 17.1% to 6.9%

10. CBI survey evidence indicates that long-term investment intentions remain weak. We do not have regional estimates but the CBI forecasts that manufacturing investment will fall 5% this year and a further 3.9% in 2002. These trends do not bode well for UK manufacturing.

11. Northern Ireland needs to provide a competitive base to sustain and develop the existing manufacturing and productive industries base and to offer an attractive platform to attract inward investment – industrial de-rating is an important part of the incentive package. **The CBI is concerned that the competitiveness of the environment necessary to develop a dynamic, high value-added manufacturing base is already being undermined** – and the removal or reduction of 100% industrial de-rating will provide a further major blow leading to the weakening of the industrial base across Northern Ireland and the service sector jobs that rely on it.

12. In addition to assessing the competitive position with the rest of the UK it is vital that account is taken of the situation in the Republic of Ireland (ROI). A very attractive fiscal regime is a major incentive, and clearly outweighs the modest rating costs across the entire business sector. Overall property taxes in the ROI are low (0.4% of GDP) compared to GB (1.9% of GDP). Indeed local authority rates raised c£330m in the ROI (1999) compared to £304m in Northern Ireland. Combined with lower energy costs and transport costs, a more technically focused education system, and critical mass in key manufacturing sectors, the ROI poses a significant threat to Northern Ireland's ability to attract and encourage higher levels of manufacturing investment.

IS THERE STILL A RATIONALE FOR MAINTAINING 100% INDUSTRIAL DE-RATING ?

13. Our assessment of the evidence clearly shows that the manufacturing sector bears significant additional costs relative to the rest of the UK and companies are in an increasingly uncompetitive position relative to their counterparts in the ROI, and many other European countries. The advantages that many Northern Ireland manufacturing plants had access to in the 1980s and early 1990s no longer exist, particularly regarding the labour market and property costs. In the following paragraphs we highlight the key issues.

14. Northern Ireland companies, particularly in the industrial sector face high costs relative to the rest of the UK in a range of key areas:

■ **energy costs** (especially electricity) **are the highest in Europe**. Indeed the problems in this area are caused by long term contracts in place until 2010 from which the Treasury benefited by securing inflated prices for generating plant linked to long term contracts. Work for Ofreg by London Economics in 1997 estimated that the costs of generation were 43% higher than in GB, while the Regulator stated in June 2001 that the unit cost of availability is still about twice what customers should be paying for modern competitive generation.

What does this mean to industrial consumers? For example in the current year:

- a Lurgan (c100 employee) company's electricity bill is £500,000 more than a similar plant in GB (where 23 suppliers are offering to supply compared to 2 in Northern Ireland)
- a large Londonderry manufacturing plant faces an electricity price premium in Northern Ireland of between 25% and 100% with its different European competitors
- a Co Antrim based company faces electricity costs 60% above comparable plants in GB
- a major food manufacturer has electricity costs which are between 39% and 59% more than

comparable sites in GB.

Northern Ireland is unduly exposed to high fuel costs – this exposure presents higher risks for the manufacturing sector and particularly to energy intensive plants. For example electricity prices in 2001/2 increased by over 20% for many industrial customers in Northern Ireland against no or very modest increases in GB. Liberalisation in Europe means that prices are still on a downward trend. While overall comparisons with GB are difficult our best estimate is that current prices for industrial consumers are in the order of 30% more than in GB (Based on latest published Electricity Association figures (Jan 2000) and taking into account the reduction in prices in April '00 and the increases in April '01). Total generating costs are in the order of c£340m in 2000/01. With industrial users accounting for 40-45% of this total, that is around £135m, this means that they are **paying an additional premium of £40 million per year** in generating costs alone compared to what they would pay if based in GB.

We have an **emerging natural gas market** but it is currently geographically limited thereby restricting choice to many customers.

■ **transport costs** – high fuel costs, combined with the costs of crossing the Irish Sea, impact on the cost of importing raw materials and components and add to the cost of distribution of goods to export markets. Additional costs are also incurred through air fares by sales/marketing staff and indeed from suppliers who service and maintain specialised capital equipment. Northern Ireland companies are faced with some of the highest transport costs in the UK. For example

- extra transport costs make the costs of printing paper 6% higher in Northern Ireland than in GB, and there are additional costs of exporting finished product back to GB.
 - in the agri-food industry feed costs are c8% higher in Northern Ireland than in GB due to the additional transport and handling costs involved – eg this adds an additional £2 million to the costs of feed for a major food processing company.
 - Clothing/textiles – we estimate additional import costs of up to 3% and export costs of 1% due to Northern Ireland's peripherality
 - Engineering – higher added value means that transport costs are less of a burden than in other sectors – even so, additional transport costs are estimated to be in the order of 1.5-2.0% for imports and for exports
- Transport costs are high relative to the rest of Europe largely as a result of high fuel costs and Vehicle Excise Duty. Running a fleet of trucks in the UK is over 25% more expensive than running the same fleet in the ROI – this will naturally be reflected in higher haulage rates which manufacturers have to face.

■ **insurance costs** – companies across all industrial sectors face substantially higher insurance costs than their counterparts in GB, largely due to the frequency of claims (180% higher in NI). This is of concern considering that major accident rates in Northern Ireland are less than in GB eg latest figures available indicate that in 1997/8 accidents reportable under Riddor were 65.8 per 100,000 employees in Northern Ireland compared to 126.7/100,000 in GB.

Typical Insurance Rate Comparisons (as a percentage of Wage Costs) are as follows:

Sector	GB	NI
Light Engineering	1.50	3.75
Electronics	1.00-1.10	2.00-2.20
Food (processing)	2.25	3.00

■ **water costs** – Northern Ireland companies pay costs which are in the highest quartile in the UK. The business sector pays a disproportionately high cost for its water relative to the cost allocated to the domestic sector (NB domestic sector does not pay separate water rates).

- water charges in Northern Ireland in 1997/8 were 68p/m³ against an England & Wales average of 65.8p/m³ and Scottish average of 48.8p/m³

■ **waste disposal costs** are significantly higher than in Great Britain and the principle of polluter pays is fully applied to the industrial sector. Certain wastes have to be transported across to GB incurring additional costs.

- an expensive monopoly at Dargan Road has developed as a site for waste disposal. Costs of disposal of £28/tonne compare with £20-22/tonne for Scotland and most of the northern half of

England. (Prices ex-tax)

- certain wastes in the food sector have to be sent to GB for disposal incurring additional costs
- lack of recycling capabilities in Northern Ireland (largely due to scale and peripherality) result in much higher waste costs for some manufacturing sectors eg in GB the waste material from printing companies is purchased from manufacturers while in Northern Ireland there is a cost to disposal due to lack of recycling facilities
- Northern Ireland has no long-term provision for special wastes

Advantages reducing

15. Over the last 10 years some of the offsetting advantages of being located in Northern Ireland have considerably reduced. Such areas include the following:

■ **a much less attractive labour market.** High unemployment and a ready supply of labour were key features of the 1980s and early 1990s. However there has been a dramatic reduction in unemployment during the 1990s and a considerable tightening of the labour market in recent years. Companies have had to face:

- increasing difficulties of recruiting and retaining suitable labour
- higher levels of staff turnover(and associated costs)
- higher training costs as the critical mass of skilled and semi-skilled workers available has reduced or in some cases does not exist (eg in semi-conductor industries)
- high costs of attracting professional and technical staff – there is evidence that some companies are having to pay a premium to attract specialist staff to Northern Ireland

PricewaterhouseCoopers report that

“Our own survey work suggests that recruitment difficulties are significant particularly for larger manufacturing firms and that this creates additional costs for business”

(Northern Ireland Economic Review & Prospects June 2001)

Pay rates across the main manufacturing sectors remain broadly in line with the rest of the UK – indeed in some sectors eg printing, clothing etc wage agreements are nationally based. Within the engineering sector the wage differential between Northern Ireland and GB for manual employees has reduced to less than 3% (from 7.3% in 1995)

■ **increasing property costs** relative to the rest of the UK. Figures from the DTI Regional Competitiveness Indicators reveal that the gap in industrial property costs has been closing Capital Value Index of Type 3 Industrial Property

	UK	NI
1994	100	63.2
1995	100	69.9
1996	100	80.0
1997	100	86.4
1998	100	81.8
1999	100	92.2

(Source DTI Feb 2000)

■ **Taxation changes** – the introduction of recent taxes such as the Climate Change Levy has increased the cost burden on the industrial sector. The proposed introduction of the Aggregates Tax in April 2002 will be a considerable blow to the quarrying sector in Northern Ireland which is particularly exposed to competition from the ROI – job losses are guaranteed as added-value processing is transferred to the ROI. Additional costs will only accelerate the shift in employment to the ROI and further weaken the sector.

CONCLUSIONS

16. CBI Northern Ireland believes that any changes to industrial de-rating need to be reviewed as part of broader assessment of taxation policy especially *vis a vis* Republic of Ireland and the impact on Northern Ireland's international competitiveness - this is particularly important for those sectors in the economy exposed to international trade and competition.

17. CBI strongly opposes any change to industrial de-rating in the short/medium term unless Northern Ireland can secure more tax incentives to encourage higher levels of investment and improved returns on investment in Northern Ireland. The rationale for maintaining 100% derating

clearly remains although we recognise that the strength of the case is likely to weaken around 2010 as electricity contracts unwind. Reduction or removal of 100% de-rating will impact on Northern Ireland's competitiveness: it will add to business costs; reduce profits (by an average of 15-20% but in some cases by much more); reduce the amount of funds available for reinvestment and lead to job losses. Many existing companies across a range of sectors will not be in a position to survive these additional costs, while potential investors will face lower returns.

18. We believe the following key principles should apply to rating policy:

- Business rates are a tax and, as with all taxes, the Executive/Assembly needs to take into account the impact on business competitiveness.
- Business needs **predictability on future bills and plenty of time to plan ahead** for any changes – it is important that the review's recommendations recognise the importance of this principle.
- We support a **fair distribution of the rates burden** across business sectors.
- We are against wide ranging rate relief arrangements within the business rates system – **an expensive tax with lots of reliefs is a bad tax.**
- **Rating policy should encourage fair competition** and not lead to distortions in competition – departures from a “level playing field” between different types of business, or between different business behaviour, must be clearly and objectively justified.
- The impact of any significant changes proposed must be fully assessed on a sectoral basis.

19. We understand the desire of the Executive to address the infrastructure deficit – this is a major business concern. However the business community believes that the priority for the Executive is to improve the efficiency and effectiveness of existing expenditure (see CBI Northern Ireland Paper NI 10 00 Addressing Northern Ireland's Infrastructure Deficit) rather than focusing on increasing taxation and reducing Northern Ireland's ability to compete internationally.

CBI Northern Ireland

14 September 2001

COMMITTEE FOR FINANCE AND PERSONNEL REVIEW OF RATING POLICY - PUBLIC CONSULTATION

WRITTEN SUBMISSION BY: THE NORTHERN IRELAND HOTELS FEDERATION

September 2002

THE ECONOMIC CASE FOR RATES RELIEF ON HOTELS CONTENTS

1. Introduction
2. Executive Summary
3. An Industry in Crisis
4. The Blueprint for Tourism
5. Proposals
6. Conclusion

APPENDICES

1. Blueprint for Tourism (September 2001)
2. Scheme 2: Apportionment of Net Annual Value
3. Scheme 2: Estimated Cost

1.0 INTRODUCTION

1.1 This Submission is made by the Northern Ireland Hotels Federation (NIHF) in response to the Consultation Paper on the Review of Rating Policy.

1.2 It outlines the economic case for Rates Relief on hotels.

1.3 This is a major issue for the Hotel Industry and the Federation has formed a special committee to consider the subject in detail and prepare this submission.

2.0 EXECUTIVE SUMMARY

2.1 The Hotel Industry is uniquely placed. It has the potential to:

- quickly create jobs,
- attract foreign earnings,
- generate significant spin-off benefits for the rest of the economy.

2.2 The tourism and hospitality sector has the potential to create at least 20,000 new jobs. With this goal in mind, the Assembly's target is to increase visitor numbers by 25% over the next 3 years.

2.3 This will require the creation of a world class tourism produce that is unique, high quality and good value for money.

2.4 The hotel industry is ready to play its part by investing in facilities and staff. However, funding such an investment is extremely difficult for hoteliers in the current trading environment.

2.5 Rates Relief would provide the industry with a badly needed shot in the arm. It would release funds for:

- refurbishment of existing facilities,
- investment in staff training and recruitment,
- development of additional facilities such as new bedrooms, conference centres and leisure suites.

2.6 100% rates relief on hotels would create the maximum benefits. Alternatively, derating non-food and beverage facilities would still produce major benefits.

2.7 Either scheme would be simple to operate and the cost would be insignificant compared to the major spin-off benefits for the economy as a whole.

3.0 AN INDUSTRY IN CRISIS

3.1 The Tourism Industry was decimated by the Troubles – visitor numbers halved and remained virtually stagnant for 25 years. Hotels were often used as a soft target by paramilitaries and many closed as a result.

3.2 The industry has experienced a roller coaster ride since the first ceasefires in 1994/5 due to the see-saw political situation.

3.3 There was a dramatic increase in visitors during 1995 but an equally dramatic fall-off following the Canary Wharf bomb in February 1996 and the Killyhevlin Hotel bomb in July that year.

3.4 The resumption of the ceasefires in 1997 brought renewed optimism in the industry that there would be a sustained increase in tourism and business travel.

3.5 However, the adverse publicity created by the Drumcree stand-off and political uncertainty continues to deter visitors.

3.6 The problem has been compounded by the strength of sterling creating a significant deterrent to cross-border trade and encouraging domestic customers to go south.

3.7 More recently, the terrorist attacks in the United States on September 11th last year had a devastating impact on foreign travel.

3.8 Most hotels have experienced a decline in turnover in real terms over the past 6 years and profit levels have fallen below the level achieved in 1994/95.

3.9 The industry is currently "treading water" in the hope that a stable political and economic climate will lead to a sustained improvement in visitor numbers.

3.10 NIHF has tried to respond to this situation in a positive way by commissioning the "Blueprint for Tourism" which sets out an imaginative package of measures (including rates relief) to help the industry realise its enormous potential to generate foreign earnings, employment and disposable income for the benefit of the whole economy.

4.0 THE BLUEPRINT FOR TOURISM

4.1 NIHF published its "Blueprint for Tourism" in September 2001 following an exhaustive period

of consultation conducted by PricewaterhouseCoopers.

4.2 The document represents the most extensive study of the industry ever undertaken. A copy is attached as **Appendix 1**.

4.3 The study contains a number of interesting facts that underline the huge potential for tourism in Northern Ireland:

- Tourism is the world's largest industry (estimated to be worth \$4.2 trillion per annum) and also the world's fastest growing industry.
- Average visitor growth in NI was 1% per annum from 1968 to 1995, compared to growth in GB of 6.1% per annum over the same period.
- 1.67 million people visited NI during 2000 but the figure would have been around 5 million without the Troubles.
- Tourism represents 1.8% of GDP in NI (compared to almost 5% in GB and 7% in the ROI).
- The hospitality sector employs around 38,500 people – equal to total employment in construction.
- "Strategy 2010" states that the tourism and hospitality sector could create jobs at a lower cost to government – and faster – than any other sector.

4.4 Our survey of hoteliers revealed that refurbishment and investment in staff is a priority.

4.5 It is only by upgrading our existing facilities and enhancing the quality of service that we can create a truly world class product that will attract new visitors and generate significant foreign earnings.

4.6 However, it is extremely difficult for hoteliers to fund refurbishment and staff investment when profit levels are down and there is a lack of reserves for reinvestment in the business.

5.0 PROPOSALS

5.1 Our survey revealed that 61% of hoteliers believe the level of rates they pay is a major hindrance to investment and growth.

5.2 Rates Relief would improve cash-flow and give hoteliers the ability to invest in refurbishment, staff and new facilities.

5.3 The Federation proposes the following alternative relief schemes for hotels:

SCHEME 1: 100% RATES RELIEF HOTELS

5.4 The Scheme would be extremely simple to administer and it would produce the maximum benefits for the economy as a whole.

5.5 The cost would be around £4.75 million per annum.

SCHEME 2: DERATING NON-FOOD & BEVERAGE FACILITIES

5.6 The Federation appreciates that derating food and beverage facilities may be a sensitive issue.

5.7 As an alternative to 100% rates relief, we propose that all non-food & beverage facilities (bedrooms, conference facilities, leisure suites, etc) are derated.

5.8 This scheme would still produce major spin-off benefits for the whole economy, albeit less than Scheme 1.

5.9 Scheme 2 would be relatively straightforward to administer (see **Appendix 2**) and the estimated cost would be around £2.25 million per annum (see **Appendix 3**).

5.10 The Federation suggests that the adopted scheme should be reviewed in 5-8 years to ensure that it remains appropriate to the circumstances prevailing at that time.

6.0 CONCLUSION

6.1 The Capital Grants have successfully encouraged the development of new hotels throughout Northern Ireland.

6.2 The cost to DETI averaged £3.15 million per annum from 1997 to 2001.

6.3 The Federation believes that now is the time for a system that encourages investment in existing hotels and staff.

6.4 A Rates Relief Scheme would allow hoteliers to help Northern Ireland create a world class tourism product that exceeds customer expectations and generates significant new and repeat business.

6.5 The cost would be between £2.25 and £4.75 million per annum but it would create a significant number of new jobs and spin-off benefits for the economy as a whole.

6.6 In addition, Rates Relief would help create an expansion of the tourism and hospitality sector that will increase rates revenue in the longer term.

APPENDIX 2

SCHEME 2: APPORTIONMENT OF NET ANNUAL VALUE

Valuation For Rating Purposes:

Income Source	Income (pa)	Percentage	£ NAV
Accommodation	£250,000	8%	£20,000
Food	£400,000	4%	£16,000
Beverage	£300,000	6%	£18,000
Function room, health suite, etc	£150,000	4%	£6,000
Total:	£1,100,000		£60,000

Apportionment [derived from valuation above]

Food & Beverage: £34,000

Other facilities: £26,000

Total: £60,000

Note:

1. The above hypothetical example has been provided by the Federation's property advisors, Gerald Eve, Chartered Surveyors & Property Consultants.

APPENDIX 3

SCHEME 2: ESTIMATED COST

Total Net Annual Values(1):	£9,500,000
Non F & B Net Annual Values(2):	£4,450,000
Average rate poundage(3):	<u>£0.5064</u>
Estimated cost:	£2,253,480 per annum

Notes:

1. *The total of current assessments on all hotels.*
2. *This estimate has been provided by Gerald Eve, Chartered Surveyors & Property Consultants.*
3. *The average commercial rate poundage for 2002/3.*

COMMITTEE FOR FINANCE AND PERSONNEL REVIEW OF RATING POLICY - PUBLIC CONSULTATION

WRITTEN SUBMISSION BY: NORTHERN IRELAND HOUSING EXECUTIVE

3 September 2002

I refer to your letter dated 21st August 2002 concerning public consultation on the review of rating policy. In general the Review of Rating Policy should not have a major impact on the Housing Executive but there are a number of points which we consider may be relevant. These are:-

■ There is a proposal that direct water charges should be introduced as elsewhere in the UK. Although every tenant will have this additional expense the NIHE is likely to see some level of increased arrears from those tenants not receiving full Housing Benefit. If tenant's budgets are under increasing pressure arrears will almost inevitably increase.

■ Benefit levels are unlikely to increase to reflect any new charge as; theoretically, this is already included in basic Income Support amounts. Benefit levels do not reflect any regional variations in costs and are already the same in Northern Ireland as elsewhere in the UK where direct water charges are levied. Water charges are also specifically excluded from Housing Benefit in GB so it is likely that a similar exclusion would apply in Northern Ireland.

■ Some of the key issues suggest that a Council Tax and Benefit type system is being considered for Northern Ireland. This is evidenced by the questions concerning capital value, banding, reductions for single persons and the elderly etc. If so this is considerably more complex than the existing arrangements (although no more complex than in GB) and poses the question of how this will be administered. If such changes were made and particularly is some form of rebate for water and sewage charges was introduced, this would strengthen the case for a single agency to administer all property related benefits (rents, rates, water and sewage charges). While this function could be carried out by the NIHE there is also the possibility of a separate agency being established or indeed that this function could be carried out by the private sector or Social Security Agency.

■ Currently the NIHE has an arrangement whereby it receives a discount from the RCA in respect of

rates charges on its properties in return for claiming adjustments for short term vacancies. This is administratively convenient for both organisations and its continuation needs to be considered in the light of any changes following the review.

I hope you find these comments useful and would ask to be kept informed of developments as the review progresses.

P McINTYRE

Chief Executive

**COMMITTEE FOR FINANCE AND PERSONNEL
REVIEW OF RATING POLICY - PUBLIC CONSULTATION**

**WRITTEN SUBMISSION BY:
QUEEN'S UNIVERSITY BELFAST**

20 September 2002

I refer to the recently published Consultation Paper in respect of the Review of Rating Policy and write to confirm that the University has now responded to The Rating Policy Branch at Rathgael House.

A copy of the Briefing Paper prepared by Queen's University Belfast, which clearly outlines the way we feel the current rating system unfairly impacts the University, is attached.

While the enclosed paper summarises the view of Queen's University Belfast, I would be happy to expand upon this matter in greater detail with members of the Committee for Finance & Personnel. I trust that the points realised in the enclosed Briefing Paper will be given careful consideration by the Committee and look forward to hearing from you in due course.

GARY JEBB

Director of Estates

BRIEFING PAPER - REVIEW OF RATING POLICY

1. Rates Relief

Rating is a complex issue and the purpose of the Review on Rating Policy is to move towards a local revenue system that is fair and takes account of the wider economic, social and environmental policies and priorities within The Executive's Programme for Government. The review will also seek to address the wide range of reliefs, exemptions and exclusions which have developed over the years within the rating legislation.

2. Issue – Exclusion from Exemption

Under Article 41 of the Rates (Northern Ireland) Order 1977, provision has been made for hereditaments used for public, charitable or certain other purposes to be distinguished in the Valuation List as exempt from rates. However, Schedule 13 of the Order specifically lists Queen's University and the University of Ulster as hereditaments excluded from exemption from rates.

3. Impact of Exclusion

Under the terms of the equivalent English legislation, universities and colleges receive charitable exemption from the payment of rates. Northern Ireland universities do not enjoy this benefit with the result that Queen's University Belfast and the University of Ulster incur significant additional recurrent costs which have to be funded from general funds. This is a major disadvantage within a very competitive UK higher education sector and requires both universities to divert limited resources from the core activities of teaching and research.

The Open University is not specifically referred to in Schedule 13 and, as a result of this, it has successfully obtained exemption from rates. Interestingly, Campbell College has also been granted exemption on the grounds of being an educational establishment.

4. The Way Forward

It is the University's contention that it should not be included in Schedule 13 of the Order, as the passage of time has resulted in fundamental changes to the way in which higher education is funded. Universities are required to operate in a fiercely competitive environment to attract funding and students and the current differential between Northern Ireland and England, Scotland and Wales in relation to rates relief requires immediate amendment.

It is the University's intention to make representations to Dr Sean Farren, the Minister of Finance and Personnel, to highlight the obvious inequities in the current system at the forthcoming Review on Rating Policy.

COMMITTEE FOR FINANCE AND PERSONNEL

REVIEW OF RATING POLICY - PUBLIC CONSULTATION

WRITTEN SUBMISSION BY: THE RATE COLLECTION AGENCY

INTRODUCTION

1. The Rate Collection Agency (RCA) is responsible for the calculation and collection of rates due to the 26 District Councils in respect of the District Rate and to the Department of Finance and Personnel in respect of the Regional Rate. The Agency also manages the Housing Benefit Scheme for owner-occupiers and the Disabled Person's Allowance Scheme. Comments on the consultation paper are therefore provided from an operational perspective and limited to the Agency's area of responsibility.

Constraints of the Existing Rating Scheme

Establishing Liability for Payment

2. Determining the effective date for liability for payment currently presents operational difficulties in terms of identifying occupiers of property and the effective date of occupation.

Limitation of Current Rating Legislation

3. There is no legal requirement for an occupier of a property to notify RCA of a change in

occupation details/liability for payment.

4. Data Protection legislation restricts RCA's ability to access information from other organisations to assist in determining the occupier and an effective date for liability for payment.
5. There is no effective deterrent or penalty for non-payment of rates due. Local Authorities elsewhere in the UK (eg Ayrshire) impose a percentage surcharge on late payment of Council Tax.
6. There is no provision to effectively pursue people for non-payment if they are outside the jurisdiction.
7. There is no provision to provide "hardship" relief in exceptional circumstances (eg the outbreak of foot and mouth disease).

Limitations of Current IT Systems

8. The RCA's current IT systems need to be replaced and have very limited capability to readily accommodate the introduction of any wide-ranging change. It is unlikely that any replacement computer system/service will be in place before 1st April 2005. RCA's present IT constraints and progress towards procuring a new systems/service need to be taken into account in considering the development and introduction of changes to rating policy.

Key Operational Issues For RCA Associated With The Key Issues Set Out In The Consultation Paper

9. Key areas for RCA are:

General

10. The options outlined in the consultation paper are all considered achievable but will need to take into account a detailed analysis of the practical implementation issues. However, any move away from a property-based tax is likely to present significant implementation issues – particularly in terms of establishing any new data sets to create a comprehensive and reliable tax base.
11. The current rating system is complex and not easily understood. Any changes and/or new system should seek to simplify and improve understanding. In particular, care should be taken not to further complicate the calculation of rates due to District councils (ie penny product calculations). The Review presents an opportunity to overhaul the arrangements for estimating and paying rates to District Councils.
12. RCA faces significant challenges in taking forward the recommendations from the recent Quinquennial Review, replacing the current IT systems, implementing the revaluation of non-domestic properties and planning for the possible revaluation of domestic properties. Implementation of any change or new rating system will place a considerable additional challenge on RCA and will require appropriate additional resources including the necessary training and development of staff.
13. RCA has a good track record of performance and is well placed to contribute and respond positively to the implementation of the outcome of the review.

Collection Levels

14. RCA has achieved high levels of collection in the past, however, rate bills have been low in comparison to the rest of the UK. If there is a substantial increase in rate bills collection levels may fall below current levels (around 98%) with a corresponding increase in recovery activities and the associated costs.

Taxing Ownership Instead of Occupation

15. This option offers significant benefits for collection:
 - Clearly establishes liability and removes the opportunity to avoid tax and removes the need to impose and enforce reporting duties on those who occupy properties.
 - Could significantly reduce the cost of collection by reducing the number of bills to be issued.
 - Could significantly assist and reduce the cost of administration of Housing Benefit for owner-occupiers by removing the need for individual applicants to provide proof of ownership.
 - Provides a robust means for pursuing owners who live outside the jurisdiction as a charge can be made on the property.
 - Would assist in the collection of rates if taxing vacant property and capital value assessment were introduced.
 - Could contribute to improving the recovery of rate arrears.
 - The establishment of an "ownership" database could draw on property transaction information

currently provided under statute to the Land Registers for Northern Ireland and the Stamp Office. While, initial indications are that the establishment of an “ownership” database would present some challenges it is considered that these would be outweighed by longer-term benefits.

16. A potential negative, from an environmental perspective, regarding the taxation of vacant property is that it could encourage owners to demolish property to avoid payment. This may also have social and economic consequences in less affluent areas.

Relief

17. The consultation paper raises the question of a range of possible areas for relief. In establishing any form of relief it will be important that clear, unambiguous qualifying criteria for entitlement is set out together with clarity of responsibility for decisions and an appropriate appeals mechanism. This will be particularly important in the case of any hardship relief in “exceptional circumstances”. Any reliefs introduced should be considered from the perspective of “ability to pay” and seek to maximise equity of treatment and limit the potential opportunity for fraud. Relief for businesses must be linked to wider government objectives and be seen to be relevant and working. Perhaps specific targeted grant-aid might be a more appropriate vehicle (eg for rural development, utilisation of “brown-field” sites etc).

The administration of any new reliefs, including any transitional relief arrangements falling to the RCA, are likely to place significant additional work on the Agency and increase administration costs.

Water Charges

18. The consultation paper raises the question of the introduction of water charges. While this does not fall within the current remit of RCA, if water charges are introduced, it is considered that this function could sit comfortably with the collection of rates. The customer billing base overlaps and collection of water charges could be combined with the collection of rates to achieve economies of scale and a “joined up” customer interface.

COMMITTEE FOR FINANCE AND PERSONNEL REVIEW OF RATING POLICY - PUBLIC CONSULTATION

WRITTEN SUBMISSION BY: RURAL DEVELOPMENT COUNCIL (RDC)

2 September 2002

With reference to your invitation of 21st August 2002 to provide a written response to the Committee for Finance & Personnel, we would like to make the following return.

The RDC is a broad based partnership of rural stakeholders representing a diversity of views; political, economic, social and environmental on the countryside. Our client base is predominately the community and voluntary sector within a wider economic regeneration context.

Subsequently, the RDC would concur with the objectives of the proposed rating review in so much as it seeks to put in place a fair system of local revenue generation to enable vital reinvestment in our aging infrastructure. It is however also an important tool of government to impact upon local economic regeneration and development. To this end our primary concern is to highlight the opportunities to use rate relief as a flexible means to support important and emerging industries and businesses. We particularly support the use of rate relief under relevant qualifying criteria for:

- tourism and hospitality industries (in areas of recognised tourism potential).
- small rural businesses (particularly in areas of identified deprivation).
- social economy and community based capital projects (an extension of charity relief).
- continued rate relief for charity shops and their operations.
- temporary hardship rate relief (both sectoral and individual).

We believe that the failure to use rating policy as a tool for economic development would be to miss a significant opportunity for the benefit of the wider Northern Ireland community.

We would further support the introduction of rating of vacant properties both as an instrument of landscape and streetscape regeneration.

In view of the increasing global concerns for the sustainability of our water systems and the local concerns on water quality, we suggest that provision of water (and sewage) services is significantly under funded. There is a recognition that the current water service infrastructure is in need of significant maintenance and modernisation and the required capital programme will be high cost. Funding needs to be made available and again this is most acceptable if the consumer (both domestic and non domestic) can clearly appreciate and value the direct reinvestment of any charge made for the service provision. We would therefore support the metering of water and direct charging to both the domestic and non-domestic user.

We acknowledge the dichotomy between taxation of the user (ie occupier) or the benefactor (owner) and tend to support the ethos of taxation at source, however, the RDC's membership would have a diversity of opinion based largely on the respective fundamental and political values of individual members.

In conclusion we reiterate the need to ensure the rural proofing of all new Government policies across all Government departments and suggest that the outcome of the review of rating policy would be a priority for the attention of the Interdepartmental Rural Proofing Steering Group.

I apologise for failing to meet your deadline of 21st August, but hope this written submission is of value to the Committee.

NIGEL FLYNN

Director of Policy

COMMITTEE FOR FINANCE AND PERSONNEL

REVIEW OF RATING POLICY - PUBLIC CONSULTATION

**WRITTEN SUBMISSION BY:
ULSTER FARMERS' UNION**

INTRODUCTION

The Ulster Farmers' Union represents a wide spectrum of rural interests both within its membership and beyond.

It accepts that the fundamentals of rating need questioned, and as support for agriculture and rural economies are a continuing policy objective in the programme for government the following points require careful consideration:

The UFU regards rates as a system now being asked to fund actions well beyond its means even with the majority of funds coming from direct taxation.

There is a fundamental anomaly in requiring local taxation to fund any part of the National Social Security system which is a clear function of the NIC system, and as poorer areas (those with lower income households) get further assistance from central funds, through social security payments, there is no case for increasing the rates contribution. As such it becomes a highly progressive tax on persons already heavily taxed directly and indirectly through VAT

The UFU also is firmly against the principle of applying rates through any system based on assumed valuations of premises. This militates against single persons, single wage-earners, pensioners and the disabled. Even the current system creates the anomaly that two householders living side by side pay vastly different charges for the same services. If this were suggested for electricity supply it would be a political timebomb.

The UFU believes that as the services offered from the rating system are generally used by all in approximately the same proportion, charges per person or per dwelling should be similar. Thus the need for a complicated and challengeable system of valuation will be avoided.

It also remains to be proven by DOE, whether the differential rating of premises really brings in significant new money, unless the increased valuation is applied to quite low value properties. Taken into

consideration along with the earlier comment about rate support through the social security system shows that such a suggestion is a non-starter.

The UFU also brings to the Committee's attention the accepted, if rough way of dealing with rural dwellers who do not have complete access to all services, and consequently are granted a rebate. In effect this is based on the principle that if a service is denied then it is not chargeable.

The UFU is aghast at the suggestion that vacant property should be liable for rates. The key riposte is that such premises cost the rate-payers nothing so why charge? Also the suggestion is backed up by a further suggestion that there should be reliefs for special circumstances, this not only creates anomalies but increases the cost of administration. This violates the basic principle that any tax should be cheap to collect.

Domestic Farm dwellings which have an "agricultural tie" placed upon them, are in turn valued at half the rate, which the dwelling would be valued at, if the "agricultural tie" was lifted. (The majority of dwellings that have this agricultural restriction placed on them, considerably reducing their value, are retirement dwellings).

Therefore it is only right that dwellings which have such a restriction placed upon them, should in accordance, have a reduction in the rate bill ie halved.

Farm Diversification

The issue surrounding tourism in rural areas, mainly Bed and Breakfast accommodation and self catering accommodation needs to be re-examined concerning rating issues. At present tourist accommodation is rated at the same rate as a domestic dwelling, even though a self catering accommodation may only have an average 60% occupancy rate, therefore such rating systems need to be taken into account surrounding the entire farm diversification process, to encourage farmers to diversify and in turn create a healthier economy in rural areas.

Government Departments need to work closer together as DARD is encouraging diversification to sustain rural communities, Planning Service to date have looked unsympathetically to such applications, and then rates are applied at the same level as a domestic dwelling on to the likes of self catering accommodation.

The UFU therefore seeks proposals from DOE as to how it will cut the rates collection cost as this will free up more resources than any proposal to increase current charges will do unless a major political battle is waged.

The UFU is therefore generally disappointed with the general thrust of this Paper which ignores the possibility of reducing costs, switching burdens to more logical fund-raising sources and fails to make a case for the increased costs proposed to be applied.

I trust that these comments are of use and will be fully considered.

GILLIAN BRIGGS

Assistant Secretary

COMMITTEE FOR FINANCE AND PERSONNEL

REVIEW OF RATING POLICY - PUBLIC CONSULTATION

WRITTEN SUBMISSION BY: THE VALUATION & LANDS AGENCY

1.0 INTRODUCTION

1. The Rating system in Northern Ireland has close links with that in GB as well as other property tax systems that exist in most countries throughout the developed world. The Valuation and Lands Agency has over the years developed close working links with the Valuation Office Agency (VOA) in GB, the Scottish Assessors and the Valuation Office (Ireland). Also, through membership of bodies such as the Commonwealth Chief Valuer's Association and the International Association of Assessing Officers (IAAO), the Agency has achieved a working knowledge of property tax assessment worldwide.

2. The Valuation and Lands Agency is responsible for:-
- **the property valuation or assessment function** – maintaining the Valuation List which contains the 741,000 Net Annual Values, on which rate liability is based; and
 - **the granting of reliefs and exemptions** – with its responsibility to interpret the legislation and distinguish the properties within the List, for example, as ‘exempt’ or ‘industrial derated’.
- The calculation of rates liability and collection function is performed by the Rate Collection Agency. This submission will therefore comment only on the issues that are directly linked to the Agency’s areas of operational responsibility, experience and professional knowledge.

2. BACKGROUND

3. Before commenting on the specific issues it may be helpful to the Committee to briefly outline relevant VLA operational activity and also its capability and preparedness for change.
4. The valuation assessment function can be considered under two main business areas, firstly the **revaluation** process and secondly, the **revision** process.
5. **Revaluations**, while ideally planned to occur every five years, have not taken place on this cycle. The last General Revaluation of all property was in 1976. The 70,000 properties in the non-domestic sector, however, were successfully revalued by the Agency in 1997; a further revaluation, again solely of all the non-domestic property, is in its final stages of completion. The new List will be published by the end of 2002 and come into effect on 1 April 2003. Domestic properties will continue to be based at pre-1976 values.
6. **Revision** activity, valuing all new or altered property, involves over 40,000 or so valuations annually, including:
- 13,000 new domestic properties;
 - 20,000 domestic alterations;
 - 4,500 new and altered non-domestic properties;
 - 2,000 cases for reliefs and derating.
7. VLA delivers its valuation assessments through an experienced workforce, comprising a substantial group of chartered valuation surveyors, together with technical, administrative and support staff.
8. VLA makes extensive and increasing use of information systems and technology. Most of VLA’s rating processes and databases were computerised in the late 1980s, when the mainframe Valcom system was installed. VLA is at an advanced stage in the process of procuring a replacement main operating system – the core of which will be a proprietary software package that will allow the Agency to be highly effective in using its extensive property database.
9. VLA has experience in the production of computer assisted valuations; for both the 1997 and 2003 Non-Domestic Revaluations the initial valuations for the majority of the properties were and have been computer generated, based on valuation models developed in-house. Also, in preparation for the possibility of some form of domestic revaluation at some future date, over the past few years a small-scale research and development programme has been undertaken into the Computer Assisted Mass Appraisal (CAMA), of domestic property. The results from this work so far have been encouraging, suggesting satisfactory levels of accuracy can be obtained in predicting the value (capital or rental) for the vast majority of individual properties at any given time. This sort of approach to valuing domestic property is commonplace in other parts of the world.

3.0 VLA COMMENTS ON KEY ISSUES

10. The narrative in the Consultation Paper that precedes the identification of each Key Issue, identifies in most cases all of the operational pros and cons involved. For the benefit of the Committee, this submission will highlight and emphasise certain points within the Consultation Paper and raise additional issues where appropriate.
11. We are conscious that this consultation process is concerned primarily with defining and deciding principles. Once policy has been decided, more detailed impact analysis, including identification of operational costs, timeframes, transitional arrangements and so on would follow.

The Domestic Sector

Key Issue 1: Taxing ownership instead of occupation?

12. A shift to taxing ownership as opposed to occupation would have little impact on the rating

assessment side. Two points to note are: there would be a small reduction in the number of assessments needed, due mainly to houses converted to flats and owned by one person becoming a single valuation; and such a change would be relatively non-controversial, given the high percentage of owner occupation and fact the Housing Executive stock would be unaffected.

13. With regards the listed Advantages and Disadvantages we think the fact taxing ownership fits well with capital value rating is worth stating. Or put another way - if there was a move to capital value assessment but taxing occupation remained, problems would arise with occupying tenants because of the obvious mismatch between the valuation basis of liability and that of occupation.

Key Issue 2: Should a capital value based system be examined in detail (individual or banded) for Domestic properties?

Key Issue 2: Do Nothing Option

14. The existing rental value system dates back to the introduction of rating in Ireland in the mid 1800s when most houses were rented from private landlords and few properties were owner occupied. The current List for domestic properties was published on 31 December 1975 and came into effect 1 April 1976 – 26 years ago.

15. In the current List, the average rateable value of a new semi-detached house, is £200. This is what it would have let unfurnished for in 1969/70, when work on the 1976 Revaluation began.

16. Today with very few privately rented properties, and those that are letting doing so at 30 times 1969 prices, the average ratepayers bemusement and more often incredulity with regards the current valuation basis is wholly understandable. This is exasperated by the lack of progression in rental values. Very similar rental values can be achieved for properties with quite different capital values.

17. Appeals are regularly entered on basis “my house is worth £70,000 and has a rateable value of £200 yet I see bungalow for sale in the country with a similar rateable value yet asking price is £200,000 – how can this be fair?”

18. VLA staff spend a considerable amount of time at revision and appeal stages explaining to ratepayers these fundamental facts, that the current domestic List is based on historic rental values over 30 years old and rental values are not as progressive as capital values. Based on this, it is VLA’s opinion that the level of dissatisfaction with the current system is only containable due mainly to the relatively (in historic terms) low levels of liability, currently the average rate bill is £445. This conclusion is supported by the fact there was a marked drop off in NAV challenges in the early 1990s following the universal reduction of rate bills for domestic property due to the increase in VAT and compensatory increase in Domestic Rate Aid Grant.

Key Issue 2: Modern Rental Value Option

19. The current rental value of the typical semi-detached house is around £6,000 per annum. There are, however, overall very few rents: this scarcity factor increases as location and type improve. Compared to 1969/70 there are much fewer rents and the pattern – variation for type and location - is also much flatter. Therefore we would strongly support the statement in the paper that such a system would be arbitrary and therefore should be ruled out.

Key Issue 2: Individual or Discrete Capital Value Option

20. Clearly this is the biggest issue for VLA. At this stage we propose to limit comment to the main identified advantages and disadvantages – table B on page 16.

21. **Advantages** - The fairer distribution of the rate burden under capital value rating is unquestioned. In addition we think two other advantages should be listed. We feel that the increase in ‘understandability’ from a shift to capital values should be added to the List as a major advantage. Not only will the system be fairer (more progressive) it will be easily seen and recognised as such. The volume of sales evidence that the VLA receives under statute from the Stamp Office and Land Registry and ratepayers’ knowledge of local sales, will greatly increase the accountability of the assessment process.

22. **Disadvantages** - The **financial costs of setting up** such a system are only significant compared to the “do nothing” option. The cost of a new rental value domestic revaluation on current rental values would be in the same ball park. Also, in both instances with advances in information technology, particularly data storage and access, once established maintenance and future revaluations would be relatively inexpensive – after a settling in period annual revaluations would be possible.

23. With regards any **initial appeal rate** we would be hopeful that this might be less than some would anticipate given:

- the understandability of a capital value system;
- full disclosure of all facts surrounding individual assessments; and
- publication of detailed analysis of market sales by type and locality.

24. It is worth noting that the considerable investment in data capture for the domestic stock made in 1989/90 was done so to facilitate domestic revaluation. This factor together with recent work on CAMA should produce cost effective, accurate and acceptable valuations.

25. In several jurisdictions where such systems are in place the assessment notice would typically, in addition to stating the capital value, include: the physical details held by the assessor, floor area, accommodation, services etc; and list relevant information on market sales. In British Columbia, for example, which carries out annual revaluations and has a tax rate equivalent to Council Tax in GB, the number of assessments appealed is less than 1%.

Key Issue 2: Banding Option

26. This is a sub option within a capital value based system. The consultation paper notes that the GB banded capital value system is unique. The architecture of Council Tax, as well as having been shaped by the policies of then government, also reflects the timescale, database and technical support available for its introduction. The Valuation Office Agency (VOA) in England and Wales in 1992/1993 had to value 23 million properties in a space of 12 months with only paper records that had not been kept up-to-date following abolition of rating and introduction of the Community Charge in 1990.

27. The paper states this approach would be “cost effective” - VLA has reservations as to how significant a factor this would be. A great deal would depend on the number and value range of bands as well as the gearing between bands; considering the various possible options likely cost savings on the assessment side would be in a range “modest to minimal”. Maintenance of the same core data as for a discrete system would be necessary and the computer valuation modelling process would also be similar.

Key Issues: 3 & 4

No comment.

THE NON-DOMESTIC SECTOR

28. The existing Non-Domestic rating system in Northern Ireland appears to enjoy a high degree of acceptance or probably more accurately tolerance. The fact that a large percentage of business premises are rented, that there was a Revaluation in 1997, and another will come into force on 1 April 2003, means the “understandability” factor is now very high.

Key Issue 5 – Should we consider taxing ownership instead of occupation of the Non-Domestic sector?

29. VLA have few comments to make here. In general terms from the valuation perspective a shift to taxing ownership and vacant rating only looks viable if it is in association with a move from rental to capital value valuations.

30. With regards the identified advantages we think that “savings in billing and collection” could be expanded to include “assessment” reflecting the fact shopping centres and like complexes would become single assessments. On the disadvantage side “does not align well with rental value assessment” could be added.

Key Issue 6: Should a switch to capital value be considered in more detail for Non-Domestic property?

31. As noted earlier the existing rental values approach is working well: having said that capital value rating for commercial property is the norm elsewhere in the world. The narrative in the consultation paper covers most, if not all, of the ground here and the main advantages and disadvantages have been highlighted. A brief explanation of how a shift from rental values to capital values would in turn affect rate liability may be helpful for the Committee in considering whether this issue should be looked at in more detail (see Annex 1).

32. The plain fact is, that a move to capital value rating for non-domestic property would have

very major redistributive effects – there would be a large number of significant winners and losers and some impact on the property market as a whole. Winners could well be small owner occupied businesses whilst losers could be multi-national owners and investment companies. If this issue is to be given further consideration detailed and extensive research of those effects would be necessary to identify all of the pros and cons of such a move. However, given the current non-domestic revaluation cycle, a decision on such a basis would not necessarily have to be taken to at least 2006.

Key Issue 7

No VLA comment necessary.

Key Issue 8: Removal of Industrial Derating

33. VLA is responsible for deciding whether or not properties qualify for Industrial Derating. This often involves detailed investigation of how the premises are used, how the business is conducted, prior to application of various statutory rules and precedents established by the large volume of associated case law.

34. The original legislation dates back to the 1920s and many of the landmark cases were decided in the 1930s, when manufacturing processes were much different to today. It can, therefore, be readily appreciated that as time goes by administration of the existing system only becomes more and more difficult and less credible – especially to many modern high tech businesses which have received support from bodies such as IDB and LEDU but do not qualify for industrial derating.

35. Should Industrial Derating be removed, the VLA resources saved in administering it would be needed to defend the considerable slice of rateable value that would then become real rather than notional.

Key Issue 9: Rural Reliefs

36. VLA would like to note two facts. Firstly, the level of rateable values for rural properties are low as the market rents on which they are based are correspondingly low, reflecting location, potential profitability of occupying businesses and so on. Secondly, as all agricultural buildings are not rateable, distinguishing such from commercial, and even domestic uses in a farm holding is at times a difficult task. A building can be used for both commercial and agricultural purposes or often a commercial use will be scattered in a number of buildings and so on. Also, some commercial uses such as equestrian businesses and agricultural contractors, are difficult to define because of their very nature.

Key Issue 10: Relief for small businesses

37. Not an issue for VLA other than to note that if blanket reliefs such as those under consideration in GB are introduced – 50% for properties with a certain rateable value or less – the probability is that most of this will end up in the landlord's pocket! Properties will be marketed with the relief: rents will inevitably inflate to reflect the benefit available. This is what happened in Enterprise Zones in the 1980s and would inevitably be repeated if such a relief scheme was introduced for small businesses.

Comment on Reliefs

In consideration of any reliefs for rural and small business users, detailed work will undoubtedly be required. It will require to establish that the reliefs are necessary, will have the desired effects, and be effectively administered at reasonable costs.

Key Issue 11:

No VLA Comment.

4.0 FUNDING WATER AND SEWERAGE SERVICES

38. VLA would simply note that if water charges are tied to valuation in any form this would inevitably increase the volume of appeals or challenges to rateable valuations.

ANNEX 1

CONSIDERATION OF SWITCH TO CAPITAL VALUE FOR NON-DOMESTIC

The capital value of commercial property is usually assessed by first estimating the rental value for it and then capitalising this by applying a multiplier. The multiplier will be determined by a number of factors in addition to age, repair and location of the property such as: if rented, how secure the rental income is likely to be, the tenant's covenant, and how much rental growth is expected in the future.

The range of multipliers to cover virtually every commercial property in Northern Ireland would be say 5 to 20 with the average 12, (assuming a larger percentage of the total value would be attributable to higher value properties).

Applying the above multipliers, in **very simplistic terms** the sort of effects we could see from a shift to capital value rating are as follows:

The rate bill calculation for a poorly located workshop might change from Rental Value £5,000 at 50p = £2,500 per annum to say Capital Value £25,000 (multiplier 5) at 4p = £1,000 per annum – a decrease of 60%.

At the other end of the spectrum, the calculation for a prime retail property might go from Rental Value £50,000 at 50p = £25,000 per annum to say Capital Value £1,000,000 (multiplier 20) at 4p = £40,000 per annum, an increase of 60%.

APPENDIX 4

MINUTES OF EVIDENCE

Confederation of British Industry (NI)
Department of Finance and Personnel
Northern Ireland Hotels Federation

MINUTES OF EVIDENCE

Wednesday 11 September 2002

Members present:

Mr Molloy (Convenor)
Mr Beggs
Mr R Hutchinson
Mr Morrow
Mr Weir

Witnesses:

Mr T Bradley)
Mr B McCann) CBI
Mr E Reid) Northern Ireland
Mr N Smyth)

1.

The Convenor: I welcome Terence Bradley, Brian McCann, Eric Reid and Nigel Smyth of the Confederation of British Industry (CBI) Northern Ireland to today's hearing. Good morning, gentlemen.

2.

I should perhaps explain that we are a Subcommittee of the Committee for Finance and Personnel; there are four members present and two advisers who will brief us on the rating review. We cannot take decisions independently but shall record the proceedings and report back to the full Committee, which will then make recommendations and provide a report for the Department of Finance and Personnel. That is the basic format and remit of the Subcommittee. We have set aside approximately 45 minutes for today's meeting. Perhaps you might open with your presentation.

3.

Mr Smyth: Thank you, Mr Chairman. First, I thank the Committee for the opportunity to present oral evidence. I am Nigel Smyth, director of CBI Northern Ireland; on my right is Terence Bradley, the managing director of a small engineering company involved in the automotive industry; on my left is Eric Reid, director of Moy Park, which as the employer of approximately 3,000 people is the biggest food processing company in Northern Ireland. Further to my left is Brian McCann from Clarehill Plastics Ltd; he is also chairman of the Northern Ireland Polymers Association.

4.

I have circulated a short presentation which we intend to work through, after which I shall ask my colleagues to make some brief opening remarks. Thereafter that I am keen to enter into dialogue with the Subcommittee.

5.

I wish to put the rating policy review into context. I have one slide on the domestic issues, but as the CBI represents the business community we are focused on non-domestic rates. There are many aspects to industrial derating, which is one of the biggest concerns of our members. I shall end with a slide on the funding of water and sewerage services.

6.

The Committee will be aware that the CBI recognised the increasing infrastructure deficit two years ago. From our members' perspective, we are keen to see how that can be addressed, and shall be proactive in providing some ideas. We have been involved in various reviews and welcome the reinvestment and reform initiative.

7.

We are currently finalising our consultation. We shall make a written submission to the Department on Monday, which we shall copy to the Committee; we are unable to present it to the Committee today. However, we circulated a position paper which we prepared last year on industrial derating.

8.

A key message from our members is that we must first secure efficiency savings and get our act in order before we go out to tap ratepayers for more revenue. We shall emphasise that public-private partnerships are a key part of the solution — and only part of the solution. However, they will be important in delivering value for money and improving the quality of public services. Our other point is that we must manage the significant increase anticipated in funds invested in public services and be aware of its impact on and consequences for the overall economy.

9.

I wish to speak briefly on domestic issues. There is a strong case for increasing the domestic rate burden. Non-domestic ratepayers currently pay about 57% of the total rate revenue, while their domestic counterparts pay approximately 43%. It is much closer to fifty-fifty in the rest of the United Kingdom. We are concerned that there should not be a sudden sharp rise in rates. From a domestic perspective, we must consider such issues as the higher energy costs in Northern Ireland. We must also give further thought to the impact of taking a significant amount of money from the broader economy; that should be incorporated in the review.

10.

I wish to focus on the key non-domestic issues. We have set out several key principles in the paper circulated to the Committee, and we stand by those. We oppose any change from occupation to ownership in determining liability for rates, but we continue to support using rental rather than capital value to calculate them. We shall outline the details and reasoning for that in our submission. No case has been made for changing those two areas.

11.

There has been much discussion during the consultation period about relief. Our view is that we should keep relief to a minimum. One of our key principles is that a high tax with many instances of relief is a bad tax, and we should not move in that direction. The freight-transport relief, which is fairly modest, should be retained. It is not in anyone's interest for costs at our ports to be increased, so that is one relief for whose retention we shall argue. There should be a wrap-up of hardship relief. That could address many of the difficulties facing certain sectors. Rather than having rural or small firms' relief, it would act as a cover-all. No case has been made for small firms' relief during the consultation period. We shall also outline in our paper why we should take a cautious approach to that.

12.

There has been significant consultation on vacant property. We have concluded that we should take a cautious approach to reviewing that position. However, many of our members question why Northern Ireland should differ from the rest of the UK in relation to vacant property.

13.

Manufacturing matters: it currently accounts for the direct employment of just under 100,000 people in Northern Ireland. It is a significant wealth-creator in Northern Ireland. As we should hear from colleagues round the table, significant elements of the service sector depend on manufacturing. About 40% of the private sector depends on a strong manufacturing base. It provides a wide range of choices for work, which is important for people and is a key part of a balanced economy. We recognise that we are moving towards more knowledge-based added value, and it is important that companies continue to move up the value chain.

14.

We are operating in a much tougher economic climate. We have learnt from recent meetings that it will not simply remain so for the next six or 12 months but will become increasingly difficult over the next few years. With globalisation we have seen an intensification in competition. We are looking forward; we can see EU enlargement and significant competitive pressures from eastern Europe. The manufacturing sector has been particularly exposed to the strength of sterling. There has been some slight weakness recently, but sterling is still relatively strong. That has put the manufacturing sector under particular pressure.

15.

Markets have weakened over the last 18 months, and that means that margins have been reduced and investment returns depressed. A growing concern of the CBI is that Northern Ireland has an increasingly high cost base, meaning it is losing its competitive edge. Investment intentions remain weak, and the

uncertainty associated with rating and industrial derating is not helpful.

16.

There is certainly a rationale for continuing derating until 2010. Northern Ireland has an increasingly high cost base, and its energy costs are the highest in Europe. There are considerable risks associated with energy costs, and it is difficult to predict what will happen with them. Northern Ireland has high transport costs, and that has an impact not only on export costs — 75% or more of our products are exported outside Northern Ireland — but also on the cost of importing raw materials.

17.

Northern Ireland suffers high insurance costs, and while such costs have increased around the world, Northern Ireland is particularly exposed to employer's liability insurance costs because of the highly developed claims culture. Northern Ireland's water and environmental costs are in the highest quartile in the United Kingdom. The CBI believes that the Executive should focus on certain areas and bring them into line with the rest of the United Kingdom.

18.

Some of the disadvantages which Northern Ireland has suffered have been declining in scale.

Traditionally there was a favourable labour market, but we have moved into a situation where there is higher employment and much lower unemployment. It has therefore become more difficult to recruit and retain staff recently. Staff turnover has increased, and companies are exposed to higher training costs. There are some significant problems with basic skills; we welcome the fact that the Executive have that on their agenda. Companies face higher training and retraining costs, and in some areas — particularly specialised areas — it is difficult to attract people into Northern Ireland.

19.

Property costs in Northern Ireland have traditionally been a major advantage. However, property costs have been rising faster here than in the rest of the United Kingdom. Northern Ireland also has an increasing tax burden vis-à-vis its international competitors. Some decisions in the regional budget — for instance, the environmental tax or, from April 2003, the increase in National Insurance contributions — are not helpful for the manufacturing sector. Just down the road in the Republic of Ireland there is an attractive rate of corporation tax with which Northern Ireland cannot compete.

20.

As part of the CBI's response it has undertaken a survey of over 70 companies and over 30,000 employees. That information is still coming in. Companies were asked about the potential impact of removing derating, and many key points emerged. Over 50% of companies indicated a significant reduction in employment; over 65% indicated a substantial reduction in capital investment, which will have an impact on profits. The survey indicates that the rates bills of more than 25% of companies will exceed 50% of their profits. In some cases the rates bill will exceed 100% of profits, and the average will be over 20%. CBI also discovered that over 50% of companies have identified having the lowest cost base as the most important factor influencing investment decisions, followed by having a skilled labour force.

21.

The survey also showed that just under 50% of companies have typical business planning cycles of more than three years. That is all relevant, particularly since one of the areas which we examined was the DTZ report. The CBI is critical of that, and its submission will include three pages of evidence undermining it. The report has poor assumptions, a number of inconsistencies and incorrect conclusions. Another weakness is that there is no sectoral assessment. The CBI believes rating will affect certain sectors more than others. Its conclusions on the impact of rates and profitability are wholly incorrect, and it fails to grasp the importance of the total cost package. The report asked 100 recipients what their rating value was, but only 15 knew, and of those three would go out of business. However, the report reached the conclusion that the loss of derating would not be a big issue. Its conclusions confounded us.

22.

Asking people about one area is not what should be done. The issue is the total cost package of a company investing in Northern Ireland. The report comes to incorrect assumptions regarding typical business planning cycles, and the CBI has evidence to refute that.

23.

Northern Ireland has a high cost base, and additional taxes and costs will undermine our competitiveness. That will mean lower profits and lower returns on investment. That lower investment will have a significant impact on jobs. We accept that the rationale for derating will weaken after 2010. However, the message must be that we need to reduce our cost base. We believe energy costs will come down over the next few years, but there are other areas where the same must happen. We must create an attractive economic environment.

24.

We suggest phasing in rates after 2010. That could tie in well with the use of public-private partnerships over the next three to four years, where revenue streams will be required for as long as 20 years. The argument is that business would be paying its share, but in the medium and longer term. There is a quotation in the submission from the Amalgamated Engineering and Electrical Union (AEEU), now known as Amicus, which supports our position.

25.

There must be transparency in the funding of water and sewerage services. We must have a fair and affordable system and avoid cross-subsidy. Our members in industry pay water rates. Businesses pay for waste disposal as well as local rates, so there is disquiet about cross-subsidy. We are concerned that metering is not being considered; it appears to have been ruled out.

26.

We shall put the case that in Great Britain more than 20% of domestic is now rated. Our argument is that it should form part of the charging strategy. Through the use of new technology, there is the potential to take a more innovative approach. We shall argue that charging should be cost-effective, and we shall suggest using net annual value (NAV) calculations rather than a uniform contribution per household.

27.

My colleagues will briefly discuss their businesses regarding the impact of industrial derating.

28.

Mr Reid: Thank you for the opportunity to address the Committee. We are a food company based on chicken. We import 99% of our product and export 95% of our end production, so we are in a global market, and we have grown dramatically each year. We are an example to the community, as we have worked with all sections of it, and we expanded our business throughout the troubles.

29.

Over the past two or three years we have spent more than £30 million trying to become an efficient global company and reduce our costs as much as possible. It is a low-margin business; we are part of an international global private company operating in 60 countries, but it expects profits. The proposal will take £1.74 million from profits of roughly £3 million, and that is dramatic.

30.

On top of that, insurance costs increased by more than £0.5 million this year, National Insurance costs are going up by £0.25 million, and we also have excess energy costs. We operate in France and Brazil, and I know what those countries' costs are — Northern Ireland is horrendous in comparison. I have heard figures as high as 60%; however, Northern Ireland is approximately 40% more expensive than our operations in France.

31.

We are fighters, and we work in partnership with all our farmers. We employ 3,000 people directly and approximately 1,500 indirectly. Those people are scattered all over the countryside supplying, in partnership, to the company. We work in partnership with retailers, such as McDonald's. It is a strong partnership, and we want to include the Government in that. We want to see the industry survive in Northern Ireland. I witnessed the egg industry decline from 13 million layers to slightly more than 2 million. In the past few years I have witnessed the pig industry decline by almost 75%. If something of that sort happens in our industry, profits will be decimated, and we shall have a huge battle convincing our shareholders to stay in Northern Ireland. You must remember that I have mentioned that 99% of the raw material comes in and 95% goes back out.

32.

Why would you stay in Northern Ireland? I am Northern Irish, born and bred. I want business in Northern Ireland to survive. I want to stay here and continue to grow the business. I cannot do it without your support. We need that help.

33.

Mr McCann: I wear two hats. One is as general manager of Clarehill Plastics Ltd, which has 45 employees who work in polymer processing. The second is as chairman of the Northern Ireland Polymer Association, which represents 40 companies with about 6,000 employees. About half of those companies are multinationals which by definition have subsidiaries elsewhere in the world or throughout the United Kingdom.

34.

The association has examined the effect of rating on its members in an environment in which electricity is the second most expensive raw material — 60% higher in like-for-like comparisons with Great Britain. Insurance is also higher, and labour costs are now similar. Distribution costs are significantly higher. Selective financial support is a distant memory, and essentially the only inside track for the manufacturing or polymer industries is the continuation of industrial derating. If rating were introduced, Northern Ireland would be the most hostile environment for manufacturing or polymer processing in the United Kingdom, and probably the British Isles.

35.

The feedback from members shows that 75% regard rating as a significant or serious threat to their survival which will have a significant effect on employment, research and development, and a total inability to pass on costs. There is a continuous squeeze on costs in the polymer industry, because most of its customers are in export markets and insist on continuing price reduction. The effect on the polymer industry would therefore be the devastation of a diverse industrial base — from North Antrim to Fermanagh, Upper Bann, and South Antrim — with the disappearance of many multinational companies, and the survival of some smaller indigenous firms being called into question.

36.

The Convenor: Thank you for your comprehensive assessment, which raised some new questions.

37.

Mr Beggs: Thank you for giving evidence. I want to tease out some more information on why you disagree with the conclusions of the DTZ report and its recommendation that industrial derating be phased out. Industrial rates are paid in the Republic of Ireland and Great Britain. That includes the north-east of England, which is not a prosperous area. If hardship relief were built into the system, would that be a suitable way to progress? How do you get round the current blanket system, in which the potential exists for highly profitable companies to avoid paying rates?

38.

Mr Smyth: Northern Ireland needs more highly profitable companies in which to invest. Indeed, for many companies it is not just a matter of profit, but of where they can make the best profit. If those companies could make a better profit in Great Britain, France and eastern Europe, they will move there. Profits are important because they encourage investment. However, we must be careful to take other factors into consideration.

39.

With regard to the DTZ report, I have said that CBI Northern Ireland will submit three pages with its evidence on Monday 16 September 2002. There are a range of assumptions and inconsistencies in the report. One of its main conclusions is that the survey sample found that the imposition of rates would add a sum equal to 0.5% of turnover — which is an irrelevant feature — and just under 3% of profits. CBI Northern Ireland believes that the information in the report does not support that conclusion. Indeed, the survey clearly shows that, for about a third of the manufacturing base, rates would be equivalent to at least 20% of average profits, and for a large proportion the figure would be over 50%. It will have a significant impact.

40.

That is the basis for the rest of the assumptions in the report. Unless the Committee wishes to go into detail now, I refer it a range of other issues which CBI Northern Ireland has highlighted in its own report, which it will make available.

41.

The administration cost can distort competition. Our view is that as many companies as possible should contribute to the tax, which must be fair and should not distort competition. A low tax paid by more companies is required rather than a high tax paid by a few, with distortion and relief elements.

42.

The report suggests that, where unique circumstances obtain, for example, the commercial sector with petrol stations or in a foot-and-mouth disease outbreak, there would be good reasons and benefit in having hardship relief. That would be time-limited and specific to various sectors where conditions were beyond their control. Our argument is that we do not want a rating system with a great many opportunities for relief in it, since people will distort and try to take advantage of the situation.

43.

Mr Beggs: Your submission stated, and you have reiterated, your strong argument against wide-ranging rate relief arrangements because of high energy costs in Northern Ireland. Would it not be better to tackle that problem directly rather than cross-subsidising from rates? Will the cost of energy not level out with European competition in the electricity supply market and the proposed expansion in natural gas provision?

44.

Mr Smyth: We are waiting for that to happen. Competition exists in Northern Ireland, and my colleagues have indicated energy price differentials of between 40% and 60%. The DTZ report states a price differential of about 25%, which we believe applies to small companies, but it will be significantly higher for larger firms. We have argued for many years for the energy problem to be addressed, but we do not seem to be getting there.

45.

Our submission makes the point that over the next seven to eight years the energy situation will become a more level playing field. There are many additional costs for companies in Northern Ireland, some of which are under the control of the Executive. Some are the responsibility of the companies, but they must all be addressed. Our argument is that, if companies are to move up the value chain, they require profits and also time put money into the research and development of new products and to make new investments.

46.

Mr Beggs: You commented about favouring occupation rather than ownership for determining rates liability. Vacant properties in town centres have become eyesores. There is no incentive to force the development or reuse of those properties. There might be an argument for vacant industrial property, but should vacant town-centre properties be rated to encourage the reuse and redevelopment of those brownfield sites?

47.

Mr Smyth: An owner is not gaining on a vacant property, and it is not in his interest for that situation to continue. Our feeling is that the case is not strong enough for a change to the existing system, which works fairly well.

48.

The Convenor: Given the varied and, in some cases, international nature of the manufacturing in the Province, why should industrial derating be applied indiscriminately across that sector, part of which operates solely in Northern Ireland? That ties in with your submission where it states that

“The traditional boundaries and definitions of manufacturing are constantly changing. The CBI estimates that for every 1,000 people employed in manufacturing at least 500 people are employed in the service sector.”

49.

There seems to be a changing role for the manufacturing sector.

50.

Mr Smyth: We strongly challenge the claim, also in the DTZ report, that many small firms compete only in Northern Ireland. That is not the case. Mr Bradley, do you wish to comment on that aspect?

51.

Mr Bradley: We are an engineering manufacturing business established in 1976 and employing 60 people. We are 100% export-oriented, either directly or through our customers, which contravenes the DTZ report's suggestion. I consider ours a typical Northern Ireland business forming part of a

substantial body of local manufacturing. We are vexed by problems such as international market pressures and competition from the former Eastern bloc. Ours is not a complicated product, we deal in engineering components for the automotive industry. Costs for energy, distribution and insurance all build up and add to our cost base. To add another burden to that cost base will directly affect our competitiveness.

52.

Mr Morrow: I welcome the CBI and am interested in its comments. I have some follow-up questions. I certainly agree that it is imperative that companies based in Northern Ireland be highly profitable, for we need that to stimulate the economy. However, how does that fit with those who pay rates and see companies issue very handsome profits only to be told that the latter are exempt from rates? Mr Reid, you said that rates will pull out something like £1.74 million per year from your profits. Desmond's say that they cannot recruit workers in Northern Ireland because of the competitiveness of the market. In other words, there is enough employment here. I am not saying that myself but quoting from the statement which they issued. How do you defend that and say that we should be exempt from rates?

53.

Mr Reid: I can only speak about the intensive food industry. There is evidence that the intensive industry has been decimated over the past few years. I need not defend it any more. The same is true of the pig and egg industries. Our profits are probably 1% to 2% of sales, which is extremely low. That is a global food margin; we should love to have 7% or 8%, but we shall not get it. We deal with the retail trade and have done everything that the Government have asked of us. We have added value to the raw material and sustained hundreds of community businesses, among them farmers in every county in Northern Ireland. Those people have made a good living on our low margins.

54.

We shall do £100 million worth of business with our best customer in the large-scale retail trade. Two years ago that company had 13 suppliers in Europe. It is not interested in Northern Ireland plc, for Europe is its customer supply base. That figure for suppliers was brought down to seven companies and is currently being reduced to five. You can imagine what happens in that process. There is no price increase each year but a price reduction for whomever survives; such is our business, the food industry.

55.

I was asked in Brussels a few years ago why I stayed in Northern Ireland, for I should not exist. I accepted that challenge because I believe that we have a right to exist in Northern Ireland. What is the alternative industry? Who will set up a shipbuilding industry in Northern Ireland? Who will set up a textile industry in Northern Ireland when you have to import everything and export everything? What is the core industry which we shall have left? Is it tourism — looking at and photographing the few farmers left in the countryside? Farming is our core industry, and we are trying to maintain it.

56.

The European Union is trying to reduce the number of farmers by 50%, and that will happen in Northern Ireland too. Roughly 300 farmers, or 1%, are contracted to us. We are trying to secure those people some form of income so that they can at least afford to send their children to school and enjoy a reasonable standard of living. We are not making them fortunes, but at least we are keeping them in business, and that is allowing money to be spread round the local community. That is the food sector, and the pain will continue.

57.

Mr Smyth: It is about relative profitability. Ultimately, if we squeeze their profits and increase the cost base, those companies, particularly the multinationals, will decide to invest elsewhere. They are quite clearly examining that continuously. If the risk is the same and the profits lower in Northern Ireland, they will move elsewhere, so we have to ensure that they are profitable here in Northern Ireland. At the same time, many of our larger companies, particularly in engineering, have large supply bases here; many small local companies in the supply chain depend on them. Large elements of the service sector obviously depend on them. They also create employment, and it is those who are employed who pay the rates; that is important. The bottom line is that we must be careful of relative profitability.

58.

Mr Morrow: We are in a vicious circle. Mr Smyth, you welcomed the fact that the domestic rate was to be reviewed. Those who pay domestic rates are in your employ and that of Mr Reid and Mr McCann. If we passed everything to the domestic sector, that would also have an impact, for it will take more money out. If Mr Reid hands one of his employees his cheque on a Friday and discovers that he is to lose out because of the rating review, there will be another £10 or so to pay from that pay packet.

59.

You seemed to welcome the domestic rate, but you were not as enthusiastic on the non-domestic rate, but perhaps that is understandable. I agree with most of what Mr Reid said. Moy Park is agriculture-based, and no one doubts its input and importance as an employer in Northern Ireland. However, this is also about equity, and profits must be made. You would not be sitting here if you were fiddling over unprofitable companies, as the companies would be quick to get someone else to do the job if you were incapable.

60.

There must be equity. First, why is Northern Ireland different from the rest of the United Kingdom? I could give some reasons, but I want to hear the experts telling me why labour costs are more expensive in Northern Ireland, as I am being told that wages are greater in the rest of the United Kingdom. You are going to tell me that they are not, and I am happy to listen to that.

61.

Secondly, your submission states that we pay higher insurance costs and water costs. Why is that? If half of the news which we hear is correct, we shall be paying even higher water costs, because we are told that there are all kinds of problems there.

62.

Thirdly, some firms whose primary business is retail receive industrial derating in spite of that fact. Is that acceptable? Where do you draw the line? Where do you go from retail to industrial or vice versa?

63.

Fourthly, would it be more appropriate to have a targeted package of relief, including rate relief, to attract industries to Northern Ireland?

64.

Mr Smyth: With regard to equity, we should argue that you give us a playing field level with the rest of the United Kingdom; that would be fine. Last year manufacturers paid £40 million more for energy than they would have if they had enjoyed access to supplies in Great Britain. That is only one example. We have never argued that labour costs are higher in Northern Ireland. On average, they are lower, but it is difficult to get people with a range of skills, whether essential or vocational. The labour market is now much tighter and more difficult. Wage rates in some engineering companies are on a par with Great Britain. Some companies such as Bombardier show that the wage gap has closed in recent years. We have never argued that costs are higher, but many companies might not be here if that were not the case.

65.

We worked on insurance claims in the mid 1990s, but we have been examining them again in the light of current difficulties. You are three times as likely to have a claim against you in Northern Ireland as in Great Britain. That information is taken from many multinational companies with plants and also the same health-and-safety culture in Northern Ireland. There are more accidents here and a great many more claims.

66.

Mr Morrow: Why?

67.

Mr Smyth: There is a claims culture in Northern Ireland. At the beginning of the week, I visited a company with operations in France and Northern Ireland. The company in Northern Ireland is larger and has a better health-and-safety record. The claims culture is crazy here, but there are no claims in France. There is a culture in Northern Ireland which is reflected there and also in employment tribunals. There are more claims per employee in Northern Ireland than in the rest of the United Kingdom. We have seen the reforms in the UK, but we need those reforms in Northern Ireland, otherwise companies' managements will continue to spend a long time trying to defend against weak and vexatious cases.

68.

Water has been privatised. The companies are efficient and regulated, and they have been driving costs down, on average reducing costs by 12% across Great Britain over the next three to four years. In Northern Ireland, they appear to be going up again. That is in the Executive's hands.

69.

We should not support derating for retail businesses, but there is a rationale for the manufacturing sector. I was surprised to hear that some of what I should call retail companies enjoy derating, and the definition may need to be reconsidered. We know that other sectors are seeking it. That rationale will weaken by 2010 and, in principle, we have accepted that rating could be increased. If a signal is given, companies can prepare. Some businesses will decide to leave Northern Ireland by then, and we shall have to live with that, but at least they will be given time to reinvest in their businesses.

70.

Mr Beggs: Twice you have stated that in 2010 there may be an opportunity to reconsider the situation. What is the significance of 2010, and what happens after that date?

71.

Mr Smyth: The electricity contract with Kilroot power station runs out in 2010, and the repackaged contract with Ballylumford power station, where a levy is currently being imposed, runs out in 2012. The energy situation is significant, as Ballylumford power station will be taken down by about 20%. That goes back to the privatisation of electricity in 1991.

72.

Mr Reid: Moy Park alone pays £2.5 million extra on raw materials coming into Northern Ireland, and that is a political decision. We are not allowed to import raw materials from the world market without a tariff. That cost is straight off our bottom line. You may not be aware of the fact that UK retailers are now importing cooked products from Brazil, a country which has policies aimed at low energy and labour costs. The retailers are then defrosting the product and selling it as fresh. That is the challenge we face. How do we win that battle, which affects not only Moy Park but also all of us in this room? The Food Standards Agency and all of us must address that problem, as our industries could be killed off, leaving nothing but whins and bushes out there — whether it is Dungannon or Enniskillen, it makes no difference. We need your support to prevent that.

73.

Importing raw materials is just one cost, although I can list a whole other range of others. I disagree with those political decisions, as does our food industry and every other sector. Why should we have to carry that burden? Why should the retail industry be allowed to fool the consumers by importing a frozen product, defrosting it and passing it off as fresh. It is reaping the benefits of cheap energy, raw materials and labour and shipping it in.

74.

Mr Weir: I was interested in what you had to say about chickens from Brazil. I am tempted to say that I shall make sure I buy my chickens from Moy Park.

75.

Your written submission states that your aim is to have a fair distribution of the rates burden across business sectors. How, though, do you square that with your continued support for industrial derating? Is it not placing too much of the burden on the non-industrial business sector — the retail sector? How would it make do on that? If industrial derating is retained, even for a period, other sectors and people will presumably benefit from relief. You have indicated your preference that the relief system be reined back so that there is a low tax with few instances of relief rather than a high tax with many instances. If various sectors are applying pressure to have relief retained, industrial derating is retained. Do you have any suggestions for alternative means of paying for services which you have not touched on?

76.

The date 2010 seems to be important because of fuel costs and the fact that the case for industrial derating weakens thereafter. If any changes to the current rating system were in the offing, there would probably be consensus from the point of view of business planning, or even in the non-business sector, that the changes should be phased in. You wished that phasing in to occur after 2010, but how

would you react to the suggestion that industrial derating be ended in 2010 rather than the phasing in starting then?

77.

Mr Smyth: On the matter of balancing the industrial and the commercial, we should say that we must try to look after those sectors most exposed to international competition — quite clearly, that means the manufacturing sector. Small retailers are battling it out with one another, so they have a level playing field, but the vast majority of small manufacturers employing 10 or 20 people compete against international firms, and we must be very wary of that. Given the attractive environment in the Republic, particularly for tax and skills, that is a major challenge.

78.

I am not sure if there is any alternative. A great many companies pay for such services as water and waste management. Indeed, some of our members question why they pay rates at all and what they get out of it. We should like to see some connection, in that we pay a great deal of money in rates and should like some influence on how that is spent and invested. There is no argument about investment in education and training infrastructure being of benefit to business, and we have lobbied for improvements. Companies have already invested for the next four to five years, and they have expected returns; that will be upset. The sooner you end derating, the more significant the risks are. There is no level playing field if you start introducing the measure in 2007-08. If all those other things are brought into line and we can do something on the tax incentive scheme for Northern Ireland, we should be prepared to reconsider.

79.

Mr Weir: If phasing in started in 2007 in the run-up to 2010 and businesses operate on a three-year cycle, there would be some degree of advance warning. Would that not be helpful?

80.

Mr Smyth: That is the minimum. At least 20% to 25% of companies have cycles above three or four years, and some of the more traditional sectors are exposed to that. We need a long lead-in period, and we should support some sort of signal to say that it is happening.

81.

Mr Weir: If you are considering phasing, irrespective of precisely when it has an impact, and move at some stage to industrial derating, how long a lead-in is needed?

82.

Mr Smyth: Our consensus opinion is that phasing should start around 2010. Perhaps about five years.

83.

Mr Weir: Five years?

84.

Mr Smyth: Yes, that sort of level. It would certainly be no less.

85.

The Convenor: Thank you for attending. It is a big subject, and we could talk about it all day, but the input of the CBI is very important, giving an insight into the whole issue of derating. I hope that your comments will be of use to us in future.

MINUTES OF EVIDENCE

Tuesday 24 September 2002

Members present:

Mr Molloy (Chairperson)

Mr Beggs (Deputy Chairperson)

Mr B Bell

Mr Hussey

Mr R Hutchinson

Ms Lewsley

Mr Morrow

Mr Weir

Witnesses:

Mr McClure) Department of Finance and Personnel

86.

The Chairperson: Mr McClure, you are welcome to this afternoon's Committee session. Perhaps you will update the Committee on what is happening and then there will be an opportunity for questions.

87.

Mr McClure: Things are changing by the minute. I can give the Committee a list of the consultation responses to date and read out those that were received today. Some 16 organisations responded. Today we received responses from the Rural Community Network, the Presbyterian Church, Sinn Féin, the Northern Ireland Council for Voluntary Associations (NICVA), the Northern Ireland Grain Trade Association and the Simon Community.

88.

The Chairperson: The Federation of Small Businesses said that it would have a response for you today.

89.

Mr McClure: I spoke to Ms Quinn yesterday at the consultation event. She thought that it might be a couple of days before the response was ready, and I said that I would keep that open for the federation.

90.

The Chairperson: How effective do you think the consultation was? Attendance at some events was disappointing. At the Stormont event, people said that some individuals — even those involved in business — did not know the review was happening.

91.

Mr McClure: The Department wrote to over 400 organisations inviting them to the public consultation events. Those consultations were the major events, but there were also sectoral meetings, bilateral meetings and consultation forums around the consultations. However, more than 400 organisations were invited to the big events. Fifty-five attended yesterday's concluding event, and, importantly, those who attended represented organisations and groups.

92.

Ms Lewsley: Do you keep a list of those who attended?

93.

Mr McClure: The Department holds that information. I do not have it with me, but I would be happy to forward it to you. The Department wants to know who was not represented at those events.

94.

Ms Lewsley: How many people attended who were not representing organisations?

95.

Mr McClure: I do not have that to hand but I can get it easily. The organisers registered everybody there.

96.

Mr B Bell: Can every Committee member have a copy of that list?

97.

Mr Morrow: I am shocked by your comments about the Federation of Small Businesses. Mr McClure said that the Department wrote to 400 organisations, so it is hard to believe that some people did not know about the events. Are we consulting with the wrong people? The Federation of Small Businesses will be affected by the review of rating policy, but it was not represented at the consultations.

98.

Mr McClure: I addressed a meeting of the Federation of Small Businesses in the Stormont Hotel about two weeks ago, and a colleague addressed a meeting in the Evergaldes Hotel the following evening. We have consulted the Federation of Small Businesses; it has simply been slow to respond.

99.

Mr Morrow: What sort of responses did you get at those meetings?

100.

Mr McClure: They were well attended, although it is difficult to estimate how many people were there. About 40 people attended the Stormont meeting, as did the Committee Chairperson.

101.

The Chairperson: Yes. About 40 people attended.

102.

Mr Morrow: What about the meeting in the Everglades Hotel?

103.

Mr McClure: That meeting was poorly attended; there were only about 10 people.

104.

Mr Morrow: No matter what decision is made about rates, it will hit the front pages of the papers. The issue should hit the headlines now.

105.

The Committee Clerk: I noticed that the headline in today's business section of the 'Belfast Telegraph' says that

"Jobs will go if derating is scrapped, warns CBI."

106.

Mr McClure: Despite the meeting on Saturday and the success of Armagh, the Department managed to get a slot on Radio Ulster to publicise the event. However, it was disappointing that so few people attended. The groups that were represented were of good quality, although few in quantity.

107.

Mr Beggs: There has not been much public interest in the topic. I found some startling information by examining the annexes, which I had to download from the web site. It was not easy to access. Table 3 of annex 6, for example, shows large increases for anyone who owns property valued above £66,000. If that information was publicised, it would generate a huge public debate.

108.

Why was that information tucked away? Do you know how many people downloaded that information from the web site? If you do not have the figures, will you provide them? I would appreciate that, because I am concerned that the public has not been engaged in this debate.

109.

How did the Department arrive at the figures for progressive capital value band ratios in table 3? How were the increases in segments of the property market calculated?

110.

Mr McClure: I was alerted to the possibility of being asked those questions this afternoon. The information I received was that it is impossible to say how many times annex 6 was downloaded, because all the annexes are contained in one file. There were 5,101 successful downloads of the whole file.

111.

Mr Beggs: That refers to downloading the annexe file as opposed to the remainder of the report?

112.

Mr McClure: Yes, that is correct. All the annexes are contained in one file.

113.

Mr Beggs: Taxing the owners instead of the occupiers was not well covered in the consultation paper. How was the subject developed for consultation? I am concerned about that, because it might result in a loss of accountability. The Department might bill a small number of individuals, who are responsible for many properties. For example, in the Housing Executive, one person might be responsible for the rates, and that rate element would be hidden away in every tenant's rent bill. Reduced accountability is a huge issue. In Oxford only about 18 people in the entire city own property freehold. Has that been considered? I have not seen any evidence that it has?

114.

Mr McClure: Are you asking about the domestic or non-domestic sectors?

115.

Mr Beggs: The domestic sector.

116.

Mr McClure: It is not a big issue in the domestic sector. Perhaps 72% or 73% of the housing stock is owner-occupied. Rent and rates are dealt with together in the substantial body of social housing for which the Housing Executive is sole landlord. The text applies to owners of privately-rented property.

117.

Mr Beggs: That is why I should like to know whether the coverage of the matter and the consultation

paper reflect its relative importance. Collectable amounts could be lost in the non-domestic sector, because the collectable amount for individual units may be greater than a single rate based on a large-scale office block, for instance. Has that been thought through? Have you considered the GB model, which has proven to be a technically successful method of dealing with rating?

118.

Mr McClure: In answer to your first question, we have been speaking to the Rate Collection Agency about associated operational issues, and we asked its views. In the long term, it would be cheaper and more efficient to follow the GB model. However, in the short term, there is a set-up cost that is associated with compiling a comprehensive ownership database. We have not taken it beyond that, because it is still only an idea in the consultation paper.

119.

The GB model is mentioned in the consultation paper. We should examine that closely, because it seems to work there. However, it has generated no interest as far as public consultation is concerned; it is not a big issue in the domestic sector because of the high number of owner-occupiers and also because the Housing Executive is the sole owner of social housing.

120.

Mr Beggs: Do you accept that lessons can be learnt from successful legislation across the water?

121.

Mr McClure: Yes.

122.

The Chairperson: The Confederation of British Industry (CBI) and Bombardier Shorts in particular queried the origins of the figures and the effectiveness of the DTZ Pieda Consulting report. Can you give us any feedback on that?

123.

Mr McClure: The CBI made the point that sample sizes were particularly poor. The report says that 0.25% of companies were surveyed. That is a typing error that should have been corrected in the final version, but that would have been clear from examination of the text. It should have read 25% of companies — 100 firms from a population of 3,500. The steering group's sub-committee, which was chaired by the Department of Enterprise, Trade and Investment, was content that the sample size was large enough to be representative of manufacturing in Northern Ireland.

124.

The Chairperson: Do you have any ideas on how to bring the CBI and DTZ Pieda Consulting together to compare their figures?

125.

Mr McClure: The survey sample was drawn at random from the valuation list and married to information that the Department of Enterprise, Trade and Investment provided. That enabled firms to be classified as either indigenous or externally owned before they were further divided into three sectors: advanced manufacturing; traditional manufacturing; and others. The sub-group's view was that the sample of those sectoral categories was adequate.

126.

The Chairperson: Is there a plan to bring the CBI and DTZ Pieda Consulting together to discuss their thoughts?

127.

Mr McClure: No, but it sounds like a good idea.

128.

Mr Hussey: You explained how the sample was selected. Are you content that it is representative of the entire business sector?

129.

Mr McClure: Yes.

130.

Mr Hussey: The majority of businesses in Northern Ireland are small and medium-sized enterprises (SME). Is that reflected in the sample?

131.

Mr McClure: An attempt was made to ensure that the sample was broadly representative of the manufacturing population in size and spatial distribution. The CBI criticised the fact that only 18 of the top 100 businesses that were surveyed were located in Belfast and Craigavon. However, the geographical circumstances of Northern Ireland may be different. There was also an attempt to grade the businesses according to their size.

132.

Mr Hussey: Some of the examples given in the presentation in Craigavon had only a tenuous link to industrial derating. However, the connection was made so, naturally enough, business people make that connection. I am worried that that element has been over-emphasised.

133.

Mr McClure: Those examples were given to show the range of properties that qualify for derating, including engineering businesses and so on. The examples were not typical, but they were not uncommon.

134.

The Chairperson: Some of the examples from Dungannon sent alarm bells ringing. We could pay for the rest of the rates with that money. ...

135.

Mr Hussey: It led some ratepayers to consider looking into industrial derating for their businesses.

136.

The Chairperson: No proper, separate consultation on water and sewerage charges has been carried out — they are only an afterthought. However, this is an important issue and, from the limited consultations that have been carried out, it is clear that it is also a contentious one. People want to know how much they will have to pay in charges over and above what they pay in rates. Will there be separate consultation on this? I hope that I get a better response to that question than I did to the last one.

137.

Mr McClure: There is a historical connection between water supply and rates — the old corporation water rate and funding through rate revenues, which have now ceased. Charges for water supply have been considered as part of the wider consultation. My understanding is that there are no plans for separate consultation, although many consultees think that there should be.

138.

The Chairperson: It is suggested in the Minister's summary of the consultation document that blanket relief should be avoided.

139.

Mr McClure: Is that in relation to the domestic or non-domestic sector?

140.

The Chairperson: The suggestion seems to be that, in general, blanket relief should be avoided.

141.

Mr McClure: The commonest term for blanket relief is dead weight. Some of the arguments against it are that people who do not need to benefit from relief do so; that it does not effectively target those whom it should; and that it does not take sufficient account of individual circumstances. The same considerations apply in the domestic sector as in the non-domestic one, although in the domestic sector, account must be taken of how the relief would affect the welfare system. Of course, that is not the case with the business sector.

142.

The Chairperson: I would like to touch on the welfare system and rates — particularly domestic rates and the “poll-tax effect” of benefits relief. Has any consideration been given to separating those? For instance, at the meeting with the Northern Ireland Local Government Association (NILGA) in Craigavon, it was suggested that complete domestic derating should be introduced. Two reasons were given: first, problems with the welfare system would be avoided and, secondly, a more progressive taxation system would be created. Proposals to introduce a more progressive taxation system were included in the consultation document — what type of system would that be?

143.

Mr McClure: It was suggested at the meeting with NILGA that domestic rating should be abolished.

However, what would replace it? There was a lot of debate among the delegates in the Europa Hotel yesterday on local income tax, and the panel was not really involved. The debate seemed to tease out a lot of difficulties associated with that, and it has been a live issue throughout the public consultation. There is a body of opinion in favour of a local income tax, and there is equally a strong body of opinion in favour of changing the rating system.

144.

Mr Hussey: Was it fair to include water and sewerage charges in consultation on rates, or, given the strength of feeling, does it deserve separate consultation?

145.

Mr McClure: The main issues in the consultation process were industrial derating and vacant rating. The third issue, and some way behind, was regular revaluations, whether in the domestic or non-domestic sector. Next came capital valuations followed by water funding. Although there is a strength of opinion, the consultation process did not bring out a lot of views on the water-funding issue.

146.

The Chairperson: There were certainly strong views expressed at the meeting in Craigavon where the consultation ruled out water-metering completely. The feeling was that if there had to be charges at all, there should be a metered system that met European regulations on reducing the use of water. That would be a fair system that meant that no one would use the maximum allowed.

147.

Mr McClure: The public consultation process and the consultation paper are trying to establish what the public would want if the Executive and the Assembly were to have a charging system. Ministers are not promoting domestic metering as an option, hence the other alternatives in the paper. A lot of views have been expressed in favour of metering because it links consumption with charge, but that would involve the costs associated with a metered system and the ability of consumer to pay.

148.

The Chairperson: There is the matter of the ability to pay in rural areas, and there could be an allocation of a certain number of gallons for each household. It would be easy to control it in that way. It would be wide open for anyone to use the maximum amount of water if there were no metering system.

149.

Mr Hussey: I can understand why Ministers would balk at the idea of metering. I asked how much it would cost for meters, and the amount of money outstripped the benefit of recouping the cost over a workable timescale.

150.

The Chairperson: Developers could be made responsible for installing meters in new houses.

151.

Mr McClure: The installation of meters has been a requirement in new developments in GB under building regulations since about 1980 — the rating advisers could give a precise date for that — so there has been a progressive move towards metering as a choice. However, Ministers here do not want to promote metering, and I am not here to advocate it.

152.

Mr B Bell: Metering would do a great deal to reduce the amount of water that is wasted. Some £70 million a year is lost through water leakage. To a great extent that would take care of the cost of installing meters, which is a point that Mr Hussey made.

153.

Mr McClure: Ministers are not minded to do that. If water were metered, large low-income families might find it difficult to pay for water, so there are concerns about that and the associated public health issues. Then, of course, there is the installation cost. It is not being promoted for those reasons.

154.

Mr Beggs: I wish to turn to hardship relief. There is the question of whether it would apply to the domestic or non-domestic sector; it would probably apply more to the non-domestic sector. For example, it would be required if someone experienced a change in business circumstances because of foot-and-mouth disease, or if a business in the tourist industry suffered because of this year's adverse

weather. Has much comment been made during your consultation to date on whether this would be a useful measure? Admittedly, it would have to be regulated and controlled, so that it would be manageable. What is the general opinion on the matter so far?

155.

Mr McClure: We have not carried out a scientific analysis of the views collected, but I can give you an overview of the responses, which we are still receiving. There have not been many responses on that, but, marginally, people are in favour of it. It operates with some success in GB, where it is provided at the discretion of local authorities. Some use it more than others, and it was used during the foot-and-mouth crisis.

156.

Mr Beggs: Could such responsibility be delegated to local authorities here if the Minister was so minded? In that way, ultimately, representatives would have to consider the adverse effect on, or benefits to, their communities? Would there be any problem with local authorities operating the scheme?

157.

Mr McClure: Yes. There would have to be a cost implication for local authorities to ensure that they operated the scheme with due discretion.

158.

The Chairperson: Will you be carrying out TSN impact analyses of the various systems to identify the options?

159.

Mr McClure: Yes, we are required to do so. We are considering several options to ensure that we are ready for this. We have carried out analyses of the existing domestic system. Some preliminary TSN analysis is associated with the consultation paper, and we will carry out an equality impact assessment on every option put forward, as we are required to do.

160.

The Chairperson: How long will it take to complete that?

161.

Mr McClure: It will take a month or two. Some sort of consultation on that must also be carried out. Any figures produced by the Department must be subject to scrutiny, so there is a consultation requirement associated with that as well.

162.

The Chairperson: Will that delay the report?

163.

Mr McClure: We hope not, but it is difficult to judge. We have yet to receive a large collection of views from local authorities. Once we have received them, we will be able to gauge how clear the way ahead is and identify the options. If that is done fairly quickly, we will be able to move immediately to the analysis. We are already engaged in a process of analysis, and we are preparing for likely scenarios. So a great deal of the groundwork has been done.

164.

The Chairperson: One matter discussed was how much it would cost to collect the £64 million from industrial derating, if that were to happen. The figure of £23 million was given, which seemed excessive. For the record, can you tell the Committee how much it would cost?

165.

Mr McClure: I do not know where that figure came from — it is crazy. My guess is that it would cost less than £1 million. I am sure that the chief executive of the Rate Collection Agency could give you a more accurate figure, but I would be most surprised if it exceeded £1 million.

166.

The Chairperson: Thank you for giving us your time, Mr McClure.

MINUTES OF EVIDENCE

Wednesday 11 September 2002

Members present:

Mr Molloy (Convenor)

Mr Beggs
Mr R Hutchinson
Mr Morrow
Mr Weir

Witnesses:

Ms J Gault)
Mr R Rama) Northern Ireland Hotels Federation
Mr N Rose)

167.

The Convenor: We are taking evidence today as a subcommittee of the Committee for Finance and Personnel under Standing Order 58(8). No decisions will be made today. We shall take evidence back to the full Committee, and that will become part of the report. I welcome Ms Janice Gault, Mr Ramesh Rama and Mr Nick Rose from the Northern Ireland Hotels Federation.

168.

Ms Gault: The Northern Ireland Hotels Federation has done a great deal of work on the current status of the hotel industry in Northern Ireland. We have set up a committee of our own to look at the general issue of rates and have produced a brief document, which we will submit to the Committee next week.

169.

There are several positive factors for the hotel industry at the moment, such as the ability to create jobs, to provide employment and to give a good impression of Northern Ireland on a world scale. The tourism industry has been challenged to increase its business by 25% over the next three years, and in order to do that we will have to provide a world-class product. Today's world tourist has the choice of going anywhere in the world. If he comes to Northern Ireland, he will expect to see a world-class product.

170.

The last six or seven years have been difficult for the industry. There was a surge before 1995 and 1996 when the industry did relatively well, but since those years hotels have experienced some trading difficulties. There has been investment to bring the sector up to world-class standards. We should like to ensure that it remains at that level so that, when things pick up, people will be able to experience a world-class product. A rate relief scheme would allow the hotels to invest heavily in staff training and refurbishing their existing premises, as well as considering additional facilities.

171.

The industry has undoubtedly suffered from the political unrest in Northern Ireland but has also been subjected to a worldwide downturn since 11 September, particularly in the business and American market. We estimate that it will be about three years before that market fully returns to its normal level. That is based on the presumption that there is world peace and no further difficulties in the Middle East or additional terrorist activity.

172.

In Northern Ireland we also have the difficulty of being in a sterling region. That presents some difficulties to the hotels, which are not in the euro zone and are perceived to be somewhat more expensive than their competitors across Europe. At the moment the industry is treading water, and we should like to be in a position to reinvest in the product. We have examined different proposals in a document that we produced and have referred to a report called 'Strategy 2010', which gives a strategy for the tourism sector. We feel that we can grow a great deal at a lower rate for the Government. We can provide employment and additional spending by bringing out-of-state money to the area.

173.

We have come up with two different schemes, which may slightly differ from the draft which we presented: one is 100% relief for hotels with a five- to seven-year review period; the second is derating hotel business not connected with food and beverages, which would involve derating accommodation. That would be quite simple, since most hotels report the two functions separately, so we should be in a position to provide the information.

174.

We realise that the sector is currently in crisis, and we should like to draw attention to the difficulties

being experienced. Some hotels are probably now at the stage where they may consider moving away from the business and changing their focus from the hospitality and accommodation sector — not a good thing for the future. We shall give figures regarding how that will be managed. We estimate that the cost in the loss of rateable income would be between £2.5 million and £4.75 million per annum. At present it would be difficult for us to assess an additional benefit in National insurance and spin-offs for the economy as a whole. We also feel that rate relief would allow members to embark on marketing plans and other such initiatives that would allow them to attract tourists from overseas.

175.

To date, we should say that there has been significant investment in the area, and we feel that investment in the property market is ongoing. The additional capital investment put forward must be backed up by a system of freeing cash flow to allow members to continue to invest.

176.

Those are the real reasons why we feel that rate relief is an option for the hotel sector, and we should like it to be considered in that light.

177.

Mr Beggs: You say that the money allocated by the Department of Enterprise, Trade and Investment for capital grants to hotels has averaged more than £3 million per annum over a five-year period and propose to distribute that to existing hotels in the form of rate relief on accommodation. How could you justify giving that money to those hotels that are highly profitable?

178.

Ms Gault: The grant money has already been paid out, and the hotels have already been built. We do not plan to redistribute the money; what we should like is a rate relief system. There will be no considerable grants to build new hotels, for we already have the quota of hotels which we require in Northern Ireland, though there are possibly one or two exceptions in some areas. The idea would be to take the money from rate relief and redistribute it instead of handing it over to the Exchequer.

179.

Mr Beggs: It is not going to the Exchequer but to the Northern Ireland Assembly. We are talking about the future and a certain amount of money is going to be available. Why should a highly profitable hotel be given rate relief? Why should we indiscriminately give assistance to hotels on a blanket basis?

180.

Ms Gault: Hotels will have the ability to attract a larger amount of tourist activity. What they will have to do will be significantly more expensive than what they are currently doing. Some of them are undoubtedly profitable, but the only fair way is to create an open playing field and give them all the chance to go abroad, look for new tourism and perhaps invest in schemes such as those offered by Tourism Ireland Ltd or the Northern Ireland Tourist Board, to discover which foreign tourists are available and how to attract them and also how to attract conferences, and so on. That is something they will have to do to go forward.

181.

Mr Beggs: What proportion of your overheads is comprised of rates, and how does that compare with your other major overheads? How do rates as an overhead compare with your competitors in the Republic of Ireland or in Scotland?

182.

Ms Gault: Our rates are slightly higher than those of members in the Republic of Ireland.

183.

Mr Rama: It varies from hotel to hotel, but rates would represent a couple of percentage points of total revenue of the hotel. That translates into a large amount of cash. Rate relief allows hotels to cut some of their fixed costs without negatively impacting on the level of services the hotel provides. Hotels, unlike other industries, cannot shed staff and continue to operate as they did yesterday or the day before. This is a way in which hotels can cut costs, retain staff, retain the level of service, retain the star rating and not downgrade their property. Downgrading your property is the only way to cut your costs.

184.

Mr Beggs: You said that you are on a par with the Republic of Ireland. How do your rates — and, for that matter, your water rates — compare to your Scottish competitors?

185.

Ms Gault: The Scottish market is similar to our own. Rates in Scotland would be around the same level, and there is no significant difference. It depends on the local authority. Our members are paying anything from 2% to 8%, depending on their location.

186.

Mr Morrow: In your opening remarks, Ms Gault, you rightly said that over the past 30 years your industry has been at the cutting edge of what has been going on here. We are trying to look to the future, pick up the pieces and go on. Did I hear you right when you said that you have marginally changed your submission and are now asking for a review every five or seven years? Are you satisfied that that would achieve your objectives, bearing in mind that the rates bill is not based on receipts or profits?

187.

The hotel industry is a two-tiered thing. There are hotels and bed and breakfasts. Where do you draw the line? Do you see this relief being handed out to the bed-and-breakfast industry?

188.

Ms Gault: Bed and breakfasts are registered and are in a similar industry. They would also be in a position to benefit if they are in a similar situation. You cannot differentiate between types of accommodation. We represent hotels, but bed and breakfasts view themselves as accommodation providers and will look for something similar. They are in a relatively similar position with a similar range of difficulties. I cannot speak for the bed-and-breakfast providers; they have a number of bodies to speak for them. However, I imagine that their views would be similar to our own with regard to the accommodation part of the business.

189.

The only area of difference might be in costing bed and breakfast together. It tends to be done as a package, and it may be more difficult to account for that. However, I imagine that something similar will be wanted.

190.

Mr Morrow: I have a particular interest in Fermanagh, where the bed-and-breakfast industry is quite something. Where is the line drawn? Where does the relief start and stop?

191.

Ms Gault: Registered bodies provide people with details of accommodation and accommodation providers, from hotels to guest houses to bed and breakfasts. The definition runs into difficulty when a private home is run as a business, or when a separate bed-and-breakfast entity is a part of the dwelling. In some areas, that might be difficult to define. Many people belong to a body or an organisation. If we are asking for rate relief for accommodation, and private homeowners might go down the same route. The difference may be that some people have a private home which they engage as a bed and breakfast over the summer months. In Fermanagh and in some other parts of the country it is slightly different. People have a bed and breakfast as part of their business. However, if it is in a private dwelling you will perhaps find that there will be anomalies in the system.

192.

Mr Rose: I want to raise a point that was mentioned in our draft submission, but will not be in our final submission. Hotel rating assessments are implicitly based on achieved turnover. The rating system therefore acts as a disincentive to hoteliers to invest in their properties to provide additional facilities because that leads to an increase in their rates liability.

193.

Mr Morrow: To clarify, you are happy that the five-to-seven-year review mentioned by Ms Gault picks up on your points. For instance, if profits move annually, this year's hotel profits are down because of the wet climate, as are those of bed and breakfasts and tourist-related facilities. Surely the five-to-seven-year review will pick that up?

194.

Mr Rose: Our belief is that granting short-term rate relief, whether five years, seven years or

whatever, will encourage hoteliers to reinvest in their hotels. In the longer term that will lead to a larger rates take from the industry. However, because of the current difficulties in the industry a shot in the arm is necessary to improve cash flow, to finance new facilities and to reinvest in other ways. In the longer term, through the rating revaluation process, the net annual values of hotels will go up and the sector will pay more in rates. By that stage it is hoped that the business climate for the industry will have been transformed. In that case the payment of those additional rates will not become an issue.

195.
Ms Gault: There have been exceptional circumstances in the last three years, such as foot-and-mouth disease, 11 September, and difficulties in the Province with regard to civil unrest. Those things in particular heightened the difficulties with regard to profitability.

196.
Mr Morrow: And the weather.

197.
Ms Gault: If you have any control over that, we will be grateful.

198.
Mr Weir: I shall follow up on a point made by Maurice Morrow.

199.
Mr Weir: A dividing line could possibly be drawn between hoteliers at one level and those who provide bed-and-breakfast accommodation, for example, at another. However, perhaps the domestic accommodation that people occasionally avail of is a more realistic point of differentiation. It is unclear whether you were referring to the lower end of the bed-and-breakfast scale or to hoteliers. Did the figures you gave relate only to hoteliers, or did they include the bed-and-breakfast end of the market?

200.
Ms Gault: We were referring to hoteliers only.

201.
Mr Rose: Those figures relate to the 130 hoteliers.

202.
Mr Weir: If providers of bed-and-breakfast accommodation were registered, it is possible that more money could be raised on both sides of that dividing line through rates and possibly reinvestment.

203.
You have quantified to some extent what you believe would be the differences in the money that would not be raised by rates. Perhaps you are not in a position to do so, but can you quantify the inward investment that would be generated if relief existed?

204.
Ms Gault: We estimated it to be approximately £2 million.

205.
Mr Weir: You indicated that the principal spin-off of this would be the level of investment in refurbishment, staffing and new facilities. If the Committee or others were to push for the relief as part of the scheme by encouraging changes to the rates, what guarantees could they have that reinvestment and refurbishment would take place in the hotels, as opposed to some hoteliers simply using those funds as additional profit?

206.
Ms Gault: That will work because hotels are currently struggling to reinvest. Most people are sensible enough to see — and we actually discussed this earlier — that the purchase of a BMW, while very nice, will not benefit your business in the long term. Ultimately, hoteliers realise that to survive, they will have to improve their product and bring it to a wider market. All of that costs money; therefore adding it to your bottom-line profit will not necessarily improve matters. Coupled with that, several hotels would not be in an entirely profit-making situation at this time.

207.
Mr Weir: Is it possible that the relief that is proposed could be available only to those who are reinvesting? Would that be impossible to administer?

208.

Ms Gault: It would be quite difficult.

209.

Mr Rose: It would be very bureaucratic to administer. To reinforce what Ms Gault said, there are some hotels, which we cannot name, for which this relief could be the difference between surviving and not surviving. I am sure that you are all aware of hotels that have closed in the last five or six years, and that trend, unfortunately will continue.

210.

Mr Rama: You made a good point. Picking up on that, the branded hotels are under an obligation by the terms of the franchise to reinvest a certain percentage of their revenue every year so that the brand is consistent throughout the world or the region. Therefore they already have an incentive to try to find that money to invest. If hotels are not branded, they compete with the branded hotels, so there is an inherent impetus to reinvest.

211.

Mr Weir: I am aware of the phrase that is often used that says, "Hard cases make bad law". There is sometimes a danger that when there is a relief, for example, or something that is, generally speaking, beneficial, a few people will abuse the system, thus bringing the trade into disrepute while the majority are reputable. How can that be avoided?

212.

Ms Gault: With regard to the administration of the system, you could be talking about everything from somebody perhaps painting 15 bedrooms, down to sending somebody to the Marriott Group in America for three months to learn about international standards, down to re-inventing their web site and sending it all over the world.

213.

To come up with a bureaucratic system that could cope with that, and the amount of legislative material that would be necessary, would require considerable work. It would be a large process and I do not know how you could tie it in. However, if anybody comes up with a way that would make it feasible, the hoteliers would be happy to look at it.

214.

The Convenor: If there were an investment grant for instance, other than rate relief, which would ensure that the money was going back into investment and development in the hotel, would that be another means of reinvesting in the hotel business?

215.

Ms Gault: It would be. However, traditionally the grant route has been quite cumbersome in what it covers, and it has gone down the capital route. Some of the things that hoteliers would like to do may not necessarily be capital-based; they may be improvement-based, training-based, or marketing-based. Belfast has a wide range of hotels, each of which has different needs. You could come up with a scheme, but you would probably end up having to invent five to six schemes to cover all aspects. Traditionally, people have tried to fit in with a scheme, as opposed to doing something that would benefit the hotel in the long term.

216.

Mr R Hutchinson: The tourist industry has suffered in the past through no fault of its own. However, you must understand that there are other sectors putting the same case for their sector. If rate relief were granted to yourselves and the other sectors, that would put a tremendous burden on the amount of money raised by the rates to be spent on services. Can you come up with any other suggestion as to how the services could be paid for?

217.

Ms Gault: If there were an increase in the number of tourists and an increase in the number of people who used the sector, as well as an increase in employment, that could possibly offset the amount of money that was raised in lieu of rates. It would be an additional income to another area where it could be reallocated back to cover services of that nature.

218.

Hotels have about a 60% occupancy in a good week, and the chance of increasing that and raising more money from VAT or other areas could make it possible to offset that with the number of people

using the facilities.

219.

Mr Rose: The total rates that the hotel sector pays is currently £4.75 million, and that is a relatively small proportion of the amount which the industrial sector gets at the moment. Industrial rating and the money that is foregone on vacant property are live issues, so that is a relatively small amount in terms of the rate take. The hotel industry is unique in its ability to create jobs, and to create them quickly.

220.

The grant system is quite bureaucratic, and there is quite a long lead-in time until projects get grant approval. The beauty of rate relief is that it could potentially be almost immediate. Hoteliers could be creating jobs and reinvesting in their properties, which could have huge spin-off benefits for the economy as a whole.

221.

Ms Gault: One of the other big differences between the hotel and accommodation sector and the other sectors is that if you have a banana and you have grown it and you do not sell it today, you can sell it tomorrow. If you have a hotel room and you do not sell it that night, you are not in the position to sell it tomorrow. That is one of the critical differences, coupled with the fact that if you have a hotel property that is a magnificent building, you can spend a million pounds on it and still be valued on your turnover when you go to sell it. It is a slightly different sector to other sectors. If you produce goods in the manufacturing sector you can sell them the next day, even intellectual technology can be sold the next day.

222.

Hotels do not have that facility. If you do not sell 40 bedrooms tonight you are not in a position to sell them tomorrow. It is a different sector to others and in the realisation of the asset that it has. It has to be realised on the day.

223.

Mr R Hutchinson: You appreciate that services have to be paid for. If rate relief is given, some other formula must be found to pay for these services.

224.

Ms Gault: If hotels' business increased significantly they would create a large amount of additional revenue. If hotels were given rate relief on the accommodation side and they increased the throughput in food and beverages by 25% there would be an estimated £2.75 million increase in revenue. That is not taking into account the other spends and other areas that could increase the amount of money coming in through the revenue streams.

225.

Mr R Hutchinson: Would a targeted relief scheme be of any value in identifying those businesses that need help?

226.

Ms Gault: You can look at targeting it into certain businesses, but in many ways that is a penalty for those who have struggled and kept going. It is difficult to decide which sectors should have rate relief, and it is hard to come up with a system that is fair to everyone.

227.

Mr R Hutchinson: So you do not favour that?

228.

Ms Gault: It could present certain difficulties, and many of the issues involved are beyond the control of the hoteliers.

229.

Mr Morrow: How many people are in full-time employment in the hotel industry?

230.

Mr Rose: There are 38,500 people.

231.

Mr Morrow: Are those people employed full time?

232.

Mr Rose: That is equivalent full time.

233.

Ms Gault: Three part-time employees represent one full-time employee.

234.

Mr Rose: That is equivalent to the construction industry.

235.

The Convenor: The amount of rates paid by hoteliers is based on the turnover. Would the reverse of that, an incentive scheme of grant aid paid according to the turnover, create the opportunities for people to develop and expand rather than to curtail as the present method does? At present, the higher an employer's turnover the higher the rates bill, and that is a disincentive to produce their figures. If employers were rewarded for the increase in business, would that give them the incentive to reinvest?

236.

Ms Gault: That would be a difficult mechanism to work round. For instance, if that mechanism had been in place last year, from September hotel turnovers would have plummeted, and this spring there would have been a similar situation. Therefore it would have been quite difficult for hotels to accept that scheme. Most hotels are making a genuine effort to make more money. There are circumstances within that — for example, if sterling rises significantly and the Bank of England reduces interest rates, turnovers would be affected and it would be impossible for the hotelier to work for or against. There would be world trends that would be more or less impossible for our members to influence.

237.

The Convenor: Have you any idea what the effect of the euro/sterling situation has on the business here?

238.

Ms Gault: It is difficult to give an exact figure; much of it is a state of mind. I was given a good example yesterday. People were staying in Italy and went to Switzerland for the day. They did not bother changing money, looked at a few castles — they did not even buy a bar of chocolate — and left. Border areas, in particular, are euro friendly, but if, for example, a car park does not accept euro coins that presents difficulties. There is also the hassle of having to change money. It is difficult for people on a budget to plan their spending based on the different currencies.

239.

In the context of European tourism, the pound is considered to be a different type of currency. People perceive the Province to be 10% to 15% more expensive than the rest of Europe. Whether that is the case is hard to calculate, and depends on the value of the currency on any given day, where someone goes for his or her sandwich and cup of tea, and where he or she stays. Tour operators selling Northern Ireland as part of a tour will tell you that Northern Ireland is more expensive.

240.

Education is part of dealing with that problem, and our members are keen to address that. We need to send out the message that Northern Ireland is not more expensive, and that people should come and see what is on offer. Additional familiarisation trips and visits by tour operators are required so that they can see that Northern Ireland's product, in the context of world tourism, represents good value for money, and is sustainable. Investment from members would be required to organise trips so that people could come to see the product. Inviting five or six journalists would help to publicise what is on offer. People's perception is part of the problem.

241.

The Convenor: Thank you. The Committee will be holding more hearings. We have two advisers, who will produce a report, and your contribution will be included.

MINUTES OF EVIDENCE

Wednesday 11 September 2002

Members present:

Mr Molloy (Convenor)

Mr Beggs

Mr Close

Mr R Hutchinson

Mr Morrow

Witnesses:

Mr A Scott)
Mr B Hagan) Rate Collection Agency
Mr P Doherty)
Mr D Magor) Special Advisers to the Committee
 for Finance and Personal

242.

The Convenor: I welcome Mr Arthur Scott and Mr Bill Hagan from the Rate Collection Agency (RCA). This subcommittee, which was set up under Standing Order 58, shall take evidence for the review of rating policy. We shall not make decisions, but shall report back to the Committee. The Committee for Finance and Personnel's special advisers, Mr Pat Doherty and Mr David Magor, are also in attendance. Members will ask questions after your presentation.

243.

Mr Scott: Thank you for the opportunity to address the subcommittee on this important matter. The Rate Collection Agency is responsible for the calculation and collection of district rates due from 26 district councils, and to the Department of Finance and Personnel in respect of the regional rate. The agency also manages housing benefit for owner-occupiers in the disabled persons allowance scheme. The comments in the consultation paper come, therefore, from an operational perspective and are limited to the agency's area of responsibility.

244.

The Committee has already been provided with our written submission. I propose to highlight several key issues from the agency's perspective and to respond to members' questions. The submission identifies several key constraints in the existing rating system. They are operational in nature and relate primarily to difficulties associated with establishing liability for payment, the limitations of the current computer system and the impact on the agency's ability to maximise collection levels. The rating policy review offers the opportunity to address those issues.

245.

Areas of particular interest are the taxing of ownership instead of, or in addition to, occupation and the administration of reliefs. Taxing ownership additionally offers significant benefits with regard to establishing liability, removing the opportunity to avoid tax, and reducing administration costs. It provides a hierarchy of liability that can be used to levy and collect rates that are due.

246.

The introduction of reliefs will increase the costs of administration, and they can be open to abuse. In establishing any form of relief, it is important that clear, unambiguous, qualifying criteria for entitlement are set out, together with clarity of responsibility for decisions and an appropriate appeals mechanism. That will be especially important in the case of hardship relief to deal with exceptional circumstances. Many reliefs introduced should be considered from the perspective of ability to pay, should seek to maximise equity of treatment and should limit the potential opportunity for fraud.

247.

All the options outlined in the consultation paper are considered achievable, and agency staff and I are committed to meeting future challenges. The rate collection agency has a proven track record of performance and is well placed to contribute positively and to respond effectively to the implementation of the review's outcome.

248.

Mr Beggs: In your submission, you mentioned the limitations of your aged computer system. What limitations exist, and what constraints will there be in replacing it? You must have a new computer system in place before any significant changes can be made.

249.

Mr Scott: The current systems are nearing the end of their useful life. They have limited capability to accommodate the introduction of any major change. Therefore, the scale of change may dictate that it would be better to install a new system. The main cause for concern with the existing system is technical obsolescence; it is not up to modern standards. Any change must be assessed against the

impact that it will have on the system.

250.

A project is under way to secure a strategic partner to replace the existing systems with modern IT systems, which will maximise the opportunities for improvements in electronic service delivery and accommodate changes in the rating policy. Several key issues place restraints on the project. First, given the uncertainty with how the service's future requirements will be affected by the review of rating policy, it is difficult to develop a business case that will specify the future requirements and secure funding. Secondly, there is a need to minimise disruption to normal business, and to accommodate the tests and introduction of the new system in the billing cycle — it would be impractical to introduce change to the rating system midway through the tax year. Therefore, we aim to introduce it on 1 April 2005. Depending on the scope of the project and the relationship with the business partner, the need to comply with procurement legislation and the complexities of the procurement process, which includes negotiations with suppliers, would also take time. We must also consider the lead time for those changes agreed by the review of rating policy. A new system gives us the opportunity to make the changes in a modern and cost-effective way. If changes are required before the introduction of the new system, we must consider them alongside our existing commitments and requirements. Other changes are to be introduced soon, and we must assess what resources are required in the short term.

251.

Critical success factors for the implementation of any change resulting from the review include early decisions about the basis of a new taxation system, which will inform our IT systems' design; the strategic development of a more joined-up business process, especially for the assessment and collection of tax, and the customer interface with the ratepayer; and the need for adequate resources to effectively manage the change process and introduce new systems, while retaining current arrangements. Likewise, effective sanctions for non-payers will be important to ensure that the new sense of fairness, which it is to be hoped the new arrangements will deliver, can be maintained. One of the most important measures will be a ratepayer education programme. To ensure that ratepayers are aware of the new system, their liability and the Bill's implications, it is vital that the changes are communicated to, and understood by, them.

252.

Mr Beggs: Your submission states that it is unlikely that the new computer system will be installed before 1 April 2005. Why does it take more than two and a half years to install a new computer system? That seems to be a lengthy lead time. Apart from putting the infrastructure in place, there must be training and education to ensure that a fully functional service is delivered without interruption. Once the new equipment has been introduced, when will the service be delivered?

253.

Mr Scott: April 2005 date is our best planning assumption. It does not take account of the need to incorporate specific changes that might be needed following recommendations from the review of rating policy. It is a working assumption based on discussions with other collecting authorities in the UK and internationally. A modern, open system, with the expertise of a strategic partner, should facilitate the implementation of changes likely to emerge from the review. However, in progressing the current exercise, we must monitor developments from the review and include them as the way forward becomes clear.

254.

The timescale allows for the competitive tendering process, negotiations with suppliers, the contractual aspects and the need to secure funding. We can introduce changes before the new system is installed, but, without knowing the detail of what the changes might entail, they would have to be performed with a system that just about copes with existing requirements. We shall be building many add-on systems. It is likely that the system will cope, but I am concerned about its effectiveness; it requires a more detailed analysis.

255.

Mr Beggs: Do you intend to get a bespoke system, or do you want an existing, proven system?

256.

Mr Scott: We shall purchase an off-the-shelf system that can be tailored to meet our needs. The

challenge is to engage with a partner that will take the risk of designing the system and making it capable of dealing with the, as yet unknown, changes that will result from the review.

257.

Mr Weir: You mentioned some of the IT requirements. However, no matter what conclusions the rating review reaches, you will need some sort of new system. What additional resources will the Rate Collection Agency need to implement the new system?

258.

Mr Scott: The agency was given an initial allocation of £2.1 million to begin a project to replace the IT system.

259.

Mr Weir: What about other changes?

260.

Mr Scott: The business case is being considered to fully assess the resource requirements, but that will not be finalised until early 2003. We do not know what changes the review will propose, but they will have to be incorporated into the new system. A more detailed analysis, which takes on board the practical implementation issues arising from the review, including the assessment of the resource requirements, must be undertaken in due course.

261.

Mr Weir: First, one of the main justifications for shifting from occupation-based to ownership-based assessment is that the agency believes that it will reduce administration costs. Can you explain the rationale behind that? I understand how that change would bring in more income. However, will administration costs not increase initially? For example, is there not additional work in identifying owners of unoccupied buildings?

262.

Secondly, do you draw a distinction between ownership of domestic and non-domestic buildings?

263.

Mr Scott: Taxing owners rather than occupiers offers significant benefits. It establishes liability and removes the opportunity to avoid paying tax. It also removes the need to impose and enforce reporting duties on those who occupy properties, as was recommended by the quinquennial review of the current arrangements. The agency consumes considerable resources in trying to establish who the occupier is and the effective date from which to charge them. To move to a dual system could significantly reduce the cost of rate collection. It would reduce the number of bills that the agency issues, because some people own many properties.

264.

The cost of administering housing benefit for owner-occupiers would also be reduced. The agency will rely on the statutory database of titles that is maintained by the Land Registry, although it is not yet complete. Although 80% of the land in Northern Ireland is registered, only 50% of the titles are registered with Land Registry. However, the Registry of Deeds is undergoing IT improvements to make it possible to search for owners under their addresses.

265.

The cost of establishing that database is relevant to Mr Beggs's earlier point about timing. If we approach the changes gradually, I am confident that we can build up a comprehensive database over time. We cannot switch systems overnight, because we cannot build a complete ownership database overnight. Likewise, we do not have a complete occupation database, because occupation is always changing. Considerable resources go into inputting and maintaining that database, because occupiers have no statutory responsibility to inform the Government that they occupy a property.

266.

To move to an ownership system allows for additional sanctions. For example, the agency could secure rates on properties where, at present, it is chasing unknown occupiers for unknown periods. If the RCA switches to charging the owners, it could simply place charges on the property, and that would also eliminate the problems associated with vacant properties. A much more detailed analysis would be required for the costs and benefits.

267.

Mr Weir: Finally, do you not draw any particular distinction between the domestic and non-domestic sector with regards to the benefits or drawbacks you would see?

268.

Mr Scott: We have less difficulty with ownership in the non-domestic sector because businesses are operating there. If the property is occupied it is relatively easy to contact them, whereas a domestic occupier is often out at work or away, and therefore not in the property.

269.

Mr Weir: The benefits of shifting towards ownership are marked for the non-domestic sector.

270.

Mr Scott: Yes. I would be less anxious about moving to ownership for the non-domestic sector.

271.

Mr R Hutchinson: What changes would you like to make to existing arrangements for estimating and paying rates to district councils?

272.

Mr Scott: We have had some difficulty with that in the past. We are not entirely clear as to what changes might emerge from the review, and we are keen to avoid anything that might complicate matters. Past internal problems in the Rate Collection Agency have been corrected, and the system has worked reasonably well since. The Department of the Environment is reviewing the general Exchequer grant. That review is not yet complete, so I cannot comment further. We are really trying to avoid making it any more complicated than it already is.

273.

Mr Morrow: In your introduction you made a comment about “the ability to pay”. If I had a mortgage on a house and did not have the ability to pay, should I have to pay that mortgage?

274.

Mr Scott: Under present arrangements you may be entitled to housing benefit. We divide people who do not pay into two categories: those that have the funds to pay and do not pay because of the limitations of our recovery arrangements; and those who appear to be above the benefit thresholds and have difficulty in paying, which is perhaps more to do with a wider social difficulty of their financial management capability. We are working with several voluntary organisations to provide debt counselling and financial advice.

275.

Mr Morrow: The rate of home owners in Northern Ireland stands at 72%, which is the highest rate of any region in the UK. Those people have obviously demonstrated an ability to pay when they entered into that agreement. To leave aside the benefit system, which I know from two different angles, if they then discover that they cannot pay, is it only those who demonstrate on paper their ability to pay who should pay?

276.

Mr Scott: The question concerns the use of resources to take to court people who have an inability to pay. The courts are being used in some cases. People who pay as we go down the recovery process — from a final notice, to a Magistrate’s Court, towards a bankruptcy hearing — incur additional expense for all ratepayers because it is much more expensive to collect a bill from them. They pay up before the end of that process is reached, so clearly they must have had the means to pay. There are other people who, despite going through that process, do not pay. The question is whether those are people who avoid paying no matter what sanction is imposed against them or whether they have a genuine difficulty.

277.

At present, we rely on the housing benefit system to clear the collection amount that is due. That provides a support to many ratepayers to meet the cost of their rates. The problem is those other ratepayers, and whether we can do something else to help them? We have been addressing that problem with voluntary and community groups rather than introducing specific reliefs. The more reliefs that are introduced into the system, the less clear the taxation base becomes. That is when people get confused about the basis on which the taxation system operates.

278.

Mr Morrow: As tax collectors, would it aid collection if you had discretion to allow reliefs in individual cases in which you were convinced and knew beyond reasonable doubt that financial hardship existed — both domestic and non-domestic?

279.

Mr Scott: To return to the general point, in establishing any form of relief it would be essential to set clear, unambiguous qualifying criteria for entitlement, together with a clarity of responsibility for the decisions. Moreover, who will fund the relief? Is it to be paid for by central Government, local government or both? That would be especially important in the case of hardship relief in exceptional circumstances.

280.

Administration costs will increase with the number of reliefs that are introduced, particularly where an element of discretion is introduced. Introducing relief for a single householder is straightforward to apply, although the measure is possibly open to abuse. If it is for a business in trouble, all sorts of questions must be asked about what constitutes “trouble” — is it that particular sector or some overarching outside factor that causes the difficulty? That type of relief becomes difficult to administer. If there are particular areas of activity that require specific assistance, it may be better to simply rate everyone on the same basis and provide incentives or assistance in a more direct way from the particular area of Government that seeks to secure help for that particular business.

281.

Mr Morrow: What are your views on the nature of the tax base for domestic and non-domestic properties, rental values and capital value?

282.

Mr Scott: We do not have any specific views on the nature of the tax base other than to point out that any move away from a property-based tax is likely to present significant implementation issues, especially in establishing the data required to create a comprehensive and reliable tax base. Property does not move — it is static. It provides a robust basis on which to base the tax. If reliefs are going to be introduced into the tax base, they should be reviewed to ensure that they remain relevant to wider Government objectives.

283.

Mr Morrow: What are your views on the retention of industrial derating?

284.

Mr Scott: Recovery costs, including the administration of any transitional relief scheme, will increase if industrial derating is removed. That is linked to my point about whether reliefs are the best method. We must ask what a relief is intended to do? Is it to provide a support to a particular business, is that the best way to do it, or should there be a direct grant for a specific objective, which is measurable in output terms to clearly see whether the assistance is having the desired effect? I also made the point earlier about ensuring that the relief remains relevant and is reviewed.

285.

Mr Morrow: I am talking specifically about industrial derating. Should it be there or not?

286.

Mr Scott: That is essentially a policy matter, and it is not the RCA’s responsibility to comment. I am commenting on it from a collection perspective. If it is removed it will bring new people into the billing system, and that will mean more work for us. I assume that it may be phased in as opposed to removed; it would be a shock to businesses were they to be rated, having been completely derated. They would see it as an additional overhead. As with all relief, I would query its purpose, and ask whether it meets the purpose. That is actually a policy question. If reliefs are introduced in future I wish to see them having clear criteria and measures, as those would show whether they are having the desired effect. That makes the question of whether they should be removed much easier to assess and much more transparent.

287.

Mr Morrow: The information that I have, whether it be right or wrong, is that there is a potential capital lift here of £64 million. For society as a whole, should that not be addressed?

288.

Mr Scott: The answer to that question rests on what was the intention of industrial derating, and whether it is meeting that objective. One would have to be in possession of that information. I do not know whether it has been good value to the taxpayer to answer that question for society. If it meets the desired objectives, and one has that information, one can make a judgement. However, without the information I am not prepared to answer that question.

289.

Mr Morrow: However, do you accept that revenue, be it £64 million, £34 million or £164 million, is not being collected because of industrial derating?

290.

Mr Scott: I do not accept that, because it is deemed not to be collectable.

291.

Mr Morrow: Should industrial property be rated?

292.

Mr Scott: Reliefs should be limited, and the specific measure that wider Government policy seeks to achieve should be tackled in another way. Further reliefs that are introduced to the rating system confuse the average ratepayers as to the purpose and fairness of the system.

293.

The Convenor: I attended a rating review meeting last night at which a figure was quoted for the collection of the £64 million. What extra costs would be involved for the Rate Collection Agency to collect that sum?

294.

Mr Scott: I cannot provide that figure today, but I could conduct some analysis and provide it in writing to the Committee.

295.

The Convenor: The figure that was quoted last night was that it would cost £23 million to collect £64 million, which seemed excessive. Perhaps you will consider that in your analysis.

296.

Mr Scott: It depends on how it is done. Those figures could simply remove all reliefs. Alternatively, those figures could allow for the collection of full amounts or allow for the design and implementation of a transitional relief scheme, which would phase in the gradual reduction. We shall do some work on it and respond to the Committee by the end of the week. Any form of relief is not collected, not only industrial relief.

297.

Mr Close: I concur that the fewer reliefs that there are, the less complex the situation is. If we were starting — as we should be — with a clean sheet, what are your views on being radical by proposing district rates for local authority expenditure? It would not make any difference to the RCA, as it would simply collect the district rate. There are no reliefs in the district rate system. The local authorities charge them and you collect them, and all reliefs and the ability to pay, or vice versa, are taken account of by a replacement of the regional rate with local income tax. Furthermore, the tax coding takes account of all reliefs. Surely that simplifies the entire system, makes your job much easier and cuts down on your administrative costs. Moreover, you may not even need a new computer on which to do it.

298.

Mr Scott: That is an option. Again, it is a policy matter to which we would not have given detailed consideration.

299.

Mr Close: Do you have any views on that? Do you not want the process to be simplified?

300.

Mr Scott: Those would be my personal views.

301.

Mr Close: The RCA must be one of the few organisations with which water charges sit comfortably. I am cherry-picking, but you said that the water charge function could sit comfortably with rate collection. Have you ruled out the possibility of water metering? For water metering to sit comfortably

with rate collection, as currently devised, a flat rate would have to be applied on the rating bill, immaterial of how much water individuals or households use.

302.

Mr Scott: We did not rule out metering. We were making a general economy of scale point that our database for billing, which covers every rateable property in Northern Ireland, overlaps with the customer billing base for the existing water revenue branch in the Department for Regional Development, and it would overlap with any future change that may be introduced.

303.

We were not determining the basis of how water charges would be billed. We were simply saying that there are economies of scale in undertaking the exercise jointly. If you transferred to a metering system, more regular bills would be issued. However, if there was a flat charge, it could be done once a year along with the rating bill.

304.

Mr Close: That would only sit comfortably were it a flat charge to be collected in the same way as the rates are collected.

305.

Mr Scott: We were thinking about potential economies of scale in terms of recovery and joining up customer interface services. Instead of the customer having to contact several different Departments, we envisaged a new system with a contact centre for customers that would handle calls for more than one business. In that way, we would be able to make the most of the asset. We could accommodate the billing either way.

306.

Mr Close: How could you marry Revenue Branch lifting water from businesses et cetera with your system?

307.

Mr Scott: There is scope to join together those services, but, again, that depends on the nature of the billing. However, even if it is decided that metering is the best option, there is still potential to marry both services, although that may not be economically viable.

308.

Mr Close: That would be my view also.

309.

The Convenor: Your submission states that the RCA has a good track record. From a district council perspective, that is not true in respect of the administration of the penny product in the past few years.

310.

Mr Scott: I accept that there were errors in administering the penny product. However, our submission referred to the collection of rates and the general customer satisfaction that was expressed by ratepayers in independent surveys. We have a commendable collection rate, compared with other collection authorities.

311.

The Convenor: Why do district councils have such difficulty in finding out how much they will receive from the RCA? Why can they not be given an estimate at the beginning of the year?

312.

Mr Scott: We have made improvements in this area since our previous appearance before the Committee. However, the necessary information only becomes available in September. We must wait for the audit of last year's business before we can work out what will be paid. We are now working on this year's estimate.

313.

Most of the councils that we contacted last year were at least satisfied, if not pleased, with the improvement in our performance. We are trying to make more improvements this year, but that is linked to the general revenue grant that is administered by the Department of the Environment.

314.

The Convenor: Would derating domestic properties simplify the system? There would be no need for calculations based on housing benefit, and no ownership problem. Those properties would be completely

taken out of the system.

315.

Mr Scott: If domestic properties were derated?

316.

The Convenor: Yes.

317.

Mr Scott: What would the tax base be then?

318.

The Convenor: Some form of local taxation would be necessary. Would the rate collection system be simplified by the derating of domestic properties because it would do away with the ownership issue?

319.

Mr Scott: It depends on the robustness of the general taxation base — would it be based on a headcount? The difficulty is tracking individuals. We are tracking individuals within property that does not move. Over time, property provides a constant base against which to assess individuals' liability. The problem with basing the system on individuals rather than property is that people can move around much more easily, and to track them down would involve additional administration costs.

320.

The Convenor: Surely those individuals are already within the taxation system through the fact that they are working or are on benefits.

321.

Mr Scott: Undoubtedly, many of them are in the system, but how many are outside it? The bases are different — I do not know whether we are comparing like with like.

322.

The Convenor: Would doing away with domestic rating simplify the system?

323.

Mr Scott: It would significantly reduce the scale of operation because there would be fewer properties. Who would then be responsible for collection? Would it be based on a headcount?

324.

The Convenor: A local taxation system would be introduced that would perhaps be based on the income tax system and would be completely outside the rating system. It would not be necessary to make calculations for housing benefit, the number of occupants of a house et cetera. The housing benefit system is like the poll tax system in that the number of people in the house is calculated by working out how much housing benefit they get or do not get. When a person reaches the age of 18, and if his or her mother and father receive housing benefit, they are lost off the system completely.

325.

Mr Scott: Those are factors to be considered in assessing options, as well as the fact that the housing benefit system is means-tested. If a completely new system and database is being set up and the cost of that must be considered. Through previous public investment, the Land Registers of Northern Ireland and other public organisations have considerable data sets, which could be utilised together with a property base. The Inland Revenue also has a database. Therefore, data would have to be shared with it.

326.

The Convenor: If you work on a property base, will reliefs be awarded according to the number of people in the house who have the ability to pay?

327.

Mr Scott: Yes. Any reliefs are possible; however, clear criteria about what those reliefs are intended to achieve must be put in place. We are not opposed to reliefs. However, if financial hardship is being dealt with and more discretion is introduced, the reliefs become more expensive to administer. The more reliefs that there are and the more complicated they become, the higher will be the administration costs.

328.

The Convenor: Whether the move is made to a property-based tax or rates, or the present system is

retained, both procedures will involve reliefs, as well as people who will avoid the system.
329.

Mr Scott: The latter will always be a factor.
330.

The Convenor: Thank you for coming along and answering our questions.

MINUTES OF EVIDENCE

Wednesday 11 September 2002

Members present:

Mr Molloy (Convenor)

Mr Beggs

Mr Close

Mr R Hutchinson

Mr Morrow

Mr Weir

Witnesses:

Mr G Shannon)

Mr W Mayne) Ulster Farmers' Union

Ms G Briggs)

331.

The Convenor: This subcommittee of the Finance and Personnel Committee is created under Standing Order 58(1) to (8) to take evidence and compile a report on the rating review. I welcome representatives of the Ulster Farmers' Union (UFU) to this meeting. I would ask you to introduce yourselves, and then make a short presentation.

332.

Mr Mayne: I thank the Committee for inviting us to give evidence. We have submitted a written paper, which we hope Members have read. Gillian Briggs is the secretary of the legal and commercial division of the Ulster Farmers' Union (UFU); Greg Shannon is the vice chairperson; and I am Wilbert Mayne, the chairperson.

333.

Mr Shannon: The Ulster Farmers' Union represents the majority of commercial farmers. By virtue of the links between farmers and other people in the country, UFU must pay as much attention to rural dwellers as it does to commercial farmers. There are many links between agriculture and the industries that either support it or operate because of its production, which form a symbiosis that creates a situation in which we sink or swim together. It is vital that that is realised.

334.

There are three major points concerning rating: the concept of rates; the calculation of rates; and the concept of concessions. The UFU notes that the rates have moved away from the original concept of local support services, which started with the poorhouse, and a few local policemen or officials. Now there is a multitude of functions carried out by councils, and the rates fund much central government activity in Northern Ireland simply because of the way in which the water service and various other services are operated. These functions are carried out by the councils and are based on local democracy principles, but one of the unique things about it is that the vast majority of the money comes from central government. We are very concerned that the current paper totally fails to deal with the fundamental issues that these developments have created. This aspect needs a full examination before any options for calculation of rates, or raising of additional revenue through the rates, are evaluated.

335.

As I said, the important thing to note is that there is a high level of central government support guarantee, and a relatively low yield from the actual rates paid by the ratepayer. It would take very large increases to make a significant impact on income. As well as that, there is the effect of the social security system picking up the bill for the low paid. A person moving from a situation where the social security picks up the full rates bill to where you are expected to pay your own is a substantial change in personal circumstances.

336.

The Ulster Farmers' Union position is that the broad, general basis of calculating rates needs a more fundamental review than has been afforded in this paper. This paper produces a series of options based on the perceived but unquantified and unjustified theory of raising more money, which is putting the cart before the horse. The ability of ratepayer horse is not properly considered, nor is the size of the cart stated. To carry that analogy further, the loading of the individual horse and provision for its ability to pull its share of the cart is not properly examined. To us, what is vitally important is that house size or perceived rental value is not, and never can be, a guide to paying ability. Income tax at least looks at whether or not you can afford to pay. Rates do not accept the straight chop off if you are below a certain income level. Also, the effect of this is that it is putting differential charges for the same service on the individual, depending on status, and we question whether that is right.

337.

Our third point is on concessions. If you finish up with high rates bills, then inevitably concessions come into play — the higher rate bill, the more concessions. Really, you have to consider whether this is the right way to pay for a lot of the services that are included, nominally anyway, in the rates burden.

338.

Finally, we appeared before the Enterprise, Trade and Investment Committee last week talking about industrial rating. Looking at this in industrial terms, industry is being asked to pay rates. However, they have to pay for their own waste disposal, their water, their electricity and so on. They get little direct value from the rates at all, and yet a rate burden is put on them. It is charged regardless of whether the business is profitable or not. In our view that is not the proper way to justify rates.

339.

Mr Mayne: I would like to highlight a couple of points. The first is bed and breakfast accommodation. Those businesses are probably struggling to get up and going, yet they are rated fully — the same as everybody else. They are probably only being occupied at 50% to 70% capacity, depending on the area. Why should they have to pay full rates on their dwellings?

340.

Anyone wanting to diversify from agriculture into the engineering sector, for example, to generate additional income would probably have to pay full rates on the buildings used, unless something is being manufactured. It can be a struggle to keep things going financially for the first couple of years. I am also involved in the community business sector, and in a small business in Cookstown Enterprise Centre Ltd. We pay roughly £600-£700 in rates each year. Paying such high rates has a knock-on effect for business start-up programmes in their first few years. We do not get any extra services — we do not get our bins emptied, nor do we have access to a leisure centre, unless we already go to it. We have no access to many services for which we pay rates.

341.

Mr Beggs: In your written submission, you suggest that all charges on persons or dwellings should be similar. To take that to its logical conclusion would involve the introduction of some kind of community charge or poll tax, which was tried in Great Britain. Is that what you are proposing for the people of Northern Ireland?

342.

Mr Shannon: We are not proposing that. The size of a house — be it 500 square feet or 5,000 square feet — is no measure of the occupant's ability to pay rates. Moreover, there could be anything from one occupant to five in any one house. I take your point that the poll tax in Great Britain was an attempt to deal with that situation. The current rating system does not reflect the individual's ability to pay. We must examine the matter further before we consider the proposal to increase rates by 6% or more to pay for hospitals, and the Health Service in general. The Chancellor has already increased taxation considerably to pay for that service. It is a double-counting exercise — which things go in which box?

343.

We know what happened to the poll tax in Great Britain; I do not know whether poor introduction was to blame. A solution must be found so that homeowners are not disadvantaged; otherwise the homeowner will get cleaned out while the non-homeowner will get away scot-free.

344.

Mr Beggs: The Northern Ireland Assembly does not have the power to introduce local income tax, if that is what you are advocating. However, we are attempting to use what power and influence we do have. You have knocked our proposal, yet you have made no suggestions of your own. What solutions can you suggest?

345.

Mr Shannon: We have pointed out the major difficulty with the proposal, which, in effect, is that revenue is to be raised for services that are being funded in other ways — services that, to a certain extent, are specified, but sometimes unspecified. People already pay for these services through their National Insurance contributions, VAT and so on. The proposed system is completely unfair and could substantially increase an individual's outgoings. I am not sure whether those losses could be recouped in other ways. The problem lies with the many constraints placed on taxation by Brussels and London. The Scots have the power to increase the rate of income tax — they have not actually tried to do that yet, but they probably will. I do not know if that will work.

346.

However, before one talks about raising revenue, one has got to sort out what could be done. Some ideas have been tried. Local income tax is a possibility — the same as in Scotland — and it could be tried here. It is merely a question of changing the legislation, and I have never seen legislation yet that could not be changed. At this stage, the view of the Ulster Farmers' Union is that you cannot go ahead with what is, in our opinion, a poorly argued paper for raising more money from rates.

347.

Mr Beggs: You made the case for the bed and breakfast businesses. Are you saying that somebody who owns a substantial house with a bed and breakfast business should be paying the same rates as someone who has a three-bedroom semi in the middle of a town? There was an indication that either charges per person or dwelling should be similar, and your written submission is advocating a similar form of taxation for each of those. How do you defend that?

348.

Mr Shannon: The major problem is that if someone wants to start such a business, they do not know on day one whether they will get 10 visitors a year or 500. Ten visitors a year at £20 a night is £200, but the rating change for their house would be about £1,000, so they do not even start the business.

349.

Mr Beggs: Would some form of relief during the start-up period be helpful?

350.

Mr Shannon: Again you come back to our point about introducing concession after concession. You suddenly are saying: "we will put up the valuations or the rates to raise 6% more money" and then you start to chop at it. At the Enterprise, Trade and Investment Committee last week I used the example of local enterprise zones. The idea was that they would be free of duty and rates. This actually brought the businesses in because that was a reduction; but this caused the other businesses greater stress because they were still carrying charges that the others were not. What were they getting for their rates?

351.

Mr Beggs: How do you finance sewerage improvements and the Health Service?

352.

Mr Shannon: The Health Service is already financed by the National Insurance contributions and central taxation, so I do not see why it comes into the rates at all.

353.

Mr Beggs: Do you accept that we need more expenditure to improve our Health Service in Northern Ireland?

354.

Mr Shannon: Everywhere needs to improve their Health Service, but they have got to do it from the people who are using it — not leaving it to 10% of the population to fund it. The sewerage system is the same problem; everybody is using it.

355.

Mr R Hutchinson: You are arguing strongly for someone starting up a bed and breakfast business, and the unseen difficulties they face. However, would you also argue the case that anyone setting up any sort of business does not know if they are going to make profit or not — they still have to pay rates?

356.

Mr Shannon: There are two points in that. You would be better to think about industrial derating. However, if there has to be rates in industry, there are two possible ways to go about it. One is to give concessions for the first two or three years until the person sees how the business is going to go. The other is to run your rating system for business on the same basis as the taxation system. If they do not make money this year, they do not pay rates. If a business has just lost £10,000 because of a problem in shipping goods to America, for example, and is then asked for £10,000 in rates, they are now £20,000 in the red. It will take four to five years to recover that, or it may put the person out of business and put people on the dole. There is no sense in that.

357.

Mr R Hutchinson: You state in your submission that the Ulster Farmers' Union regards rates now as a system being asked to fund actions well beyond its means, even with the majority of funds coming from direct taxation. What do you mean by that?

358.

Mr Shannon: Unfortunately, I do not have figures for Northern Ireland, but in GB 85% of local government revenue comes from central government. Only 15% comes from the public. The Northern Ireland situation is clouded, because the Department of the Environment gets central government funding and input from rates.

359.

When it is convenient central government hands a job to the councils, it coughs up some additional money and hopes to cover the rest from rates. Councils get involved in subsidising public transport or running the social security system. Everything is becoming intertwined, and it is nearly impossible for a good accountant in a district council to work out where the money is going and why. One might be able to say where the money went, but was it paying for something that could not be paid for from another source, and was it spent fairly?

360.

That brings us back to the question that we asked originally. Why are you raising money from a small percentage of the population, and a section of the population is actually getting 100% central government funding through social security? For example, in one business that I know well, a part-time worker receives about £80 a week. However, because of the tax credit system, she effectively earns £289 a week, and she does not pay rates. The money is going round and round.

361.

Mr R Hutchinson: Twenty percent from central tax, 20% from business rates and 10% from local charges equals a 50% grant.

362.

Mr Shannon: That is good, but it is much lower than in GB.

363.

Mr Morrow: The Committee notes your opposition to charges for vacant properties. However, we should remember that people who own vacant properties also expect some services, such as policing or the fire service. Should there not be some charge for those properties? Why should they be totally free? They have monetary value, and many of them may qualify for a substantial replacement grant — up to £32,000 in some cases. Some of them may be eligible for improvement grants of up to £25,000. Is it right that there should be no levy on those properties?

364.

Mr Mayne: What benefit is there in having an empty building and paying rates on it? Does the rates system provide an incentive to use that building?

365.

Mr Morrow: My point is that the building has potential revenue value. It can be replaced as a dwelling — perhaps attracting a grant of £32,000. It might attract a grant of £25,000 for renovations

and improvements. Secondly, if, for example, it caught fire and the fire brigade had to be called, or the police had to be called, those services must be paid for.

366.

Mr Shannon: A building must be classified in one of three categories. If it is industrial, we must ask why it cannot be used. It may not be fit for any purpose, or the business that might use it may be non-profit making. I reckon that a very small percentage of houses in Northern Ireland are actually vacant. They must then be divided into houses that are vacant for a specific reason such as change of ownership, where somebody is not moving in for another six months while renovations are carried out, or houses owned by people who are letting them as holiday homes for six months a year. It comes back to the simplest way of dealing with a vacant house. I do not approve of a vacant house system and want it used as you suggested, but most houses are vacant for a particular reason.

367.

To be fair to everyone, it will be necessary to stop levying rates on houses that have become uninhabitable. I do not want to create a situation where people deliberately make houses uninhabitable simply to avoid paying rates. It will start another spiral of queries, questions and concessions, when the current system is clear, simple and understood by everyone.

368.

Mr Morrow: I have first-hand knowledge of that situation in Dungannon. An application for a replacement grant or dwelling through planning may be granted on condition that the existing property is demolished. I contend that there are many valuable vacant properties across Northern Ireland that would make very good homes, either by some improvements or by a substantial replacement grant. Is there an abuse there, and a loss of revenue, because an asset —worth anything from £30,000 to £130,000, which is a fair asset by anybody's standards — is lying vacant? Should no rates have to be paid on such a property?

369.

Mr Shannon: That just demonstrates what I said about things moving in circles. If a house is razed to the ground and another one built, no VAT is payable. Where renovations and changes are made to a house, VAT of 17·5% is payable. The result is that environmental resources are wasted and people are stopped from doing the very things that have been suggested. I agree that something must be done, but we are not making it simple for people to do it.

370.

I am sticking my neck out here, but it might be better if a vacant house is not being used for any purpose for a certain period of time that some sort of charge is made on income tax or whatever. To levy rates, however, where the services that are used by the house are minimal, would be unfair. In percentage terms against the total number of houses in the district, the cost of policing and the Fire Service and so on for a vacant house is minimal.

371.

Mr Mayne: It is likely that an application for a replacement grant will be means-tested. There is no guarantee that a grant will be awarded.

372.

Mr Morrow: A replacement grant cannot be applied for unless there is a property to replace in the first place.

373.

Mr Mayne: On the other hand, people are almost being forced into developing their property. A grant must be awarded or the property must be levelled, leaving only a site. People are almost being forced into something that they do not want. Do we want to force people into doing things in present day society? People are supposed to be free to do their own thing.

374.

Mr Morrow: You are quite right. We do not want to force people to do things, but we do not want to lose sight of the original question. Is it right that a potential asset, of whatever market value, should be sitting free? If I had a home that I was never going to use, I would probably summon the bulldozer. Perhaps I am wrong, but I suspect that many homes are vacant because they are of potential value that will be used in the future. As the gentleman has said, it would be far better for all those properties to

be occupied; that makes a vibrant society.

375.

The Convenor: The corresponding urban situation is where someone buys three or four properties in a town centre or street and just leaves them derelict. Dungannon is a perfect example of that. These people can degenerate the entire town by doing that. Nobody can rent or repossess those houses. There may also be vacant ground that is lying derelict, and there is again no means of development. There is no incentive for those people to do anything with that land or houses. Could a charge not be put on those so that the person will either open the buildings up and make them viable or build on vacant ground that has become derelict?

376.

Mr Mayne: My home town of Cookstown is probably a good example of that. If you try to encourage someone to develop those properties in the town, which sometimes are an eyesore, do you give a concession to people who live in a rural area that they are not going to be forced into this situation?

377.

Mr Shannon: There is another aspect. I am familiar with Edinburgh. The heart of that city was vibrant, commercial and had quite a lot of living space because of the popularity of apartments. Due to the pressure of rates, and the attitude of the council to transportation and access, Edinburgh is now in the process of turning itself inside out. All the industrial and commercial businesses are moving rapidly to the ring road and leaving vacant premises. If the council attempted to charge them rates on those premises, they would simply gift them to the council, let the council look after them and pay its own rates.

378.

The Convenor: That may be a form of regeneration.

379.

Mr Weir: I notice that the last part of your paper deals with farm diversification. You have concentrated on other aspects and have not really touched on that. In the rest of the UK, there are discretionary schemes that allow rate relief for up to three years for farmers diversifying to other businesses. I presume that you would support a similar sort of initiative here. In a practical sense, what impact would that have? What level of encouragement would it give to farmers to diversify in Northern Ireland?

380.

Mr Mayne: Farmers are currently not going to get grants upfront, such as the old sub-programme for agriculture and rural development (SPARD) scheme, to do projects on the farm. The farm business needs some alternative income. The way things are going currently, you are almost being directed towards diversification. The Department of Agriculture and Rural Development has several schemes. LEADER + and others are pushing in that direction — getting people to seek other income. It would be a good incentive to create a scale whereby you do not pay in the first year, pay a bit in the second year and perhaps three quarters in the third year.

381.

It is off-putting if you create a self-catering bed and breakfast, which quite a few of my friends have done. In the first year they attempt to build the business up, and it can be difficult to get established and make people aware of it. You probably do not lift a large income while getting established, and you have many other costs too, such as paying off renovation costs. Generating concessions for the first three years may be a good idea.

382.

Mr Shannon: It comes back to the fundamental question of whether you should be charging rates on those properties at all. Bed and breakfast accommodation is a difficult example because it involves people living in a house and using the services that the council supplies. Therefore, if there are more people living in a house, they use more services. On a broader scale, one of the problems in many diversification projects is that if you seek money from a source to get started, you usually produce a three-year business plan. However, if your rates were to begin in year four, you would soon have to produce a year four and five business plan to show what would happen to the business in the fourth and fifth year. Otherwise, many businesses would run for three years and then start up elsewhere because

of the concessions. It is difficult, but we would opt for concessions.

383.

Mr Mayne: At present, the majority of domestic farm dwellings have an agricultural tie placed on them, which allows them to have half the rate value. However, if that tie is lifted, the dwellings are then charged the full rating value, but some of them retirement dwellings. That is an example of how it works in some cases.

384.

Mr Morrow: By the same token, that would change the valuation of the property.

385.

Mr Mayne: It would probably half the valuation of the property.

386.

Mr Morrow: It could also change things the other way as you can only sell to someone who is involved in agriculture if you have an agricultural justification put onto the planning. Therefore, it would reduce the potential value of the property. However, if that stipulation is lifted, it throws the property into an open and freer market.

387.

Mr Close: I have a great deal of sympathy with the general principles that you appear to be following. I do not necessarily agree with the detail that you have expounded, for example, saying that businesses that do not make any profit should not pay any rates. If I were a businessman, I would ensure that I was not making any profit because I would simply increase my salary and translate the payment of rates into my salary. However, the concept of ability to pay must be fundamental. I also share your view that clarity and accountability in any revenue-raising stream must be self-evident.

388.

Do you draw any distinction between the district rate and regional rate? I can justify most of what you are saying as it applies to the regional rate, but I would have more difficulty applying the same argument as it relates to the district rate. There seems to be a general muddying of the water with regard to rates — this monolithic tax. Let none of us run away from the fact that rates are simply a tax — there are no ifs, buts or maybes about it. In your submission you refer to a fundamental anomaly in requiring local taxation to fund any part of the national social security system. Why do you believe that local taxation — I take it you mean rates, and that is why I am drawing the distinction between regional and district — plays any part in the social security system?

389.

Mr Shannon: Mr Close, as a former Lord Mayor, knows about funding in Lisburn, which happens to be my council. Councils are getting more drawn in to the social aspects through leisure services, and through support in the areas for visiting people, et cetera. In England, an effort is being made to shift this sort of thing towards councils. The result was a muddying of the waters. The funding is coming from about five different sources, and there is no way to see what we are getting. One might ask whether councils should be asked to deal with this at all. It began 100 years ago because councils were dealing with poorhouses. The Health Service took over, and in recent years, private enterprise has dealt with that in care homes, but the majority are still paid for through the social security system. I do not know to what extent there is charity derating.

390.

There was a problem, which someone fixed by sticking a piece of plaster over the cracks. Now, we can see the plaster, but not the problem, and we want to see that straightened out. If people are to pay a pound on the pound following the new valuation of rates — which would mean a 10% increase — they should be told exactly what it is for so that they can challenge whether they are getting value for money.

391.

Mr Close: Making a clear distinction between the district and regional rates would go some way towards achieving your aim, with which I have absolute sympathy. Local authorities can tell you exactly what they spend the revenue from district rates on. There are some overlaps through the relief system, where it gets muddy. An example that touches on health, with regard to social security, is that local authorities receive a grant from the Department for Social Development to deal with funding

Citizens Advice Bureaux, for example. That can be justified as providing a service to the local community. The lines of diversification in such a case are relatively clear.

392.

The real problem, and this is where I have absolute sympathy with you, is the question of what the regional rate pay for. It comprises two-thirds of the rates. It is a blunt tax instrument that takes no account of people's ability to pay. I favour local income tax, which would be more accountable. It is unfortunate that several doors have been shut by the legislation, and it has been decided that the review cannot consider certain matters. That only adds to the frustration that I share with Mr Shannon because, regardless of the outcome of the review, the type of questions that we are asking will still be unanswered.

393.

Mr Shannon: To a certain extent, we have challenged the Committee to think about what could be considered to be the Holy Grail. The chance of getting that far is negligible, but we should push in that direction. Secondly, the whole accounting and payment system needs to be tidied up, so that we know where the money is coming from and where it is going to, and so that there are no overlaps of responsibility.

394.

The third point, which I made at the start — and which I was helpfully corrected on — is that 50% of the money comes from central government. In cases where someone cannot afford their rates, 100% comes from central government. That is included in a different budget so it does not show up in this budget. That matter needs to be straightened out. The principle of the ability to pay exists, but much research would be required before a workable solution could be found for applying that to the various categories of the economy. It seems anomalous that some people are asked to pay, regardless of their ability to do so.

395.

That would be a major issue for industry. In the businesses such as bed-and-breakfast accommodation, as mentioned by our chairman, start-up costs are high enough without having another cost to bear. These issues must be sorted out. Our point is that before someone says they need 6% more money from the rates to pay for something, they should consider where we are going and who should pay the extra amount.

396.

Mr Close: Does the Ulster Farmers' Union support the concept of local income tax as an alternative to rates?

397.

Mr Shannon: That issue has never been discussed as local income tax, but we would take a position on whatever is proposed. On a personal basis, income tax, whether we like paying it or not, is reasonably fair: everyone who can pay is asked to pay. However, it is nowhere near as progressive as a rating system in which there is one threshold above which payment is made in full.

398.

The Convenor: Would domestic derating be a way of dealing with the problems you have highlighted about the numbers of people in a house and comparing one house with another? The largest asset in rural areas is land. What is your view on the rating of land?

399.

Mr Shannon: Our compatriots in the South have abolished rates entirely. One problem with that is that you leave central government in charge of everything — you would practically abolish local democracy and there would be firm rules about how district councils could spend the money allocated to them. District councils would be spending all their time arguing for £10,000 or £10 million for their areas.

400.

Looking at land, per se, two facts must be recognised about agriculture. In most parts of the world there is no rates or property taxes on land. There may be property taxes on farmers' dwellings and on farm buildings, but there is either a very negligible rate on the land itself or it is non-existent. If we consider the issue in terms of the present profitability of agriculture, then the average figures — and

we quoted them recently for the Lisburn area — show that farmers are living as a household on £80 per week. They are living on their depreciation allowance — and that cannot go on. To talk of loading on another cost is the same as saying that if you go into cheese making you will have to have a stainless steel vat, etc. That is perfectly correct for public health reasons. However, it will force everyone to get into grant assistance in order to get businesses started. There is a balance to be struck everywhere.

401.

Mr Mayne: At present a supermarket can bring a product from anywhere in the world and Northern Ireland tries to compete with such a product. If we go down the route you are suggesting we would be on a very uneven playing field. How can we compete unless we rate all agricultural land? You are actually suggesting a tax on production.

402.

The Convenor: To clarify that point, I am not making that suggestion, I am simply asking the question. It is one of the things being looked at in the course of the review.

403.

Mr Morrow: I want to make it clear that we are not suggesting anything. We have to pose the questions in order to get you to react.

404.

The Convenor: We are gathering the evidence to help us compile a full report. Thank you for answering our questions.

**ADDENDUM TO MINUTES OF EVIDENCE FROM:
RATE COLLECTION AGENCY (DEPARTMENT OF FINANCE AND
PERSONNEL)**

17 September 2002

In response to a request from the Committee Chair during the Committee's session with RCA on 11 September 2002 it was agreed to provide details of the estimated cost of collection associated with properties that currently benefit from Industrial Derating if that relief was removed. Details of the estimated cost of collection and associated assumptions are attached. If you require any further information please contact me.

NORMAN IRWIN

**ESTIMATED COST OF COLLECTION AND ASSOCIATED ASSUMPTIONS IF
INDUSTRIAL DERATING WAS REMOVED**

Using the revenue forgone figure of £64.3M contained in the Review of Rating Policy Consultation Paper RCA estimates the cost of collection would be in the region of **£1.02M**.

Basis Of Calculation

The calculation is based on figures in respect of the 2001/02 financial year for the cost of operations (£8,986,882) and net amount of rates collected (£566,974,640).

The average cost of rate collection has been applied on a pro-rata basis.

Assumes that a similar level of collection and recovery activity will be required.

Does not include any additional administrative costs that might be incurred if a Transitional Relief Scheme was introduced to assist affected ratepayers.

**ADDENDUM TO MINUTES OF EVIDENCE FROM:
COMMITTEE FOR FINANCE AND PERSONNEL**

25 September 2002

Thank you for your letter of 17 September 2002 in follow up to the Committee's evidence session with RCA on 11 September.

The Committee welcomed the advice on the estimated cost of collection that could be incurred if Industrial Derating was removed. However, the Committee would like clarification on the following points:

- Is the calculation based on the costs of operation and net amount of rates collected for the Domestic and Non-Domestic sectors combined? If so, what would be the estimated cost of collection if the calculation were to be based solely on the figures for the Non-Domestic

sector?

- Is the 'costs of operation' merely a reflection of the total current costs including overheads? If so, what would be the estimated cost of collection if the calculation were to be made on a marginal cost basis?

I should be grateful if you could provide this clarification before the Committee's meeting on Tuesday 01 October 2002.

SHANE McATEER

**ADDENDUM TO MINUTES OF EVIDENCE FROM:
DEPARTMENT OF FINANCE AND PERSONNEL**

30 September 2002

You wrote to me on 25 September 2002 on behalf of the Committee seeking clarification on a number of points from the Rate Collection Agency (RCA) in relation to the estimated cost of collection that could be incurred if Industrial Derating was removed. I understand that the issues raised by the Committee are a follow up to the information provided by RCA on 17 September 2002.

RCA's responses to the issues raised are outlined in the paragraphs below.

ISSUE

Is the calculation based on the costs of operation and net amount of rates collected for the Domestic and Non-Domestic sectors combined? If so, what would be the estimated cost of collection if the calculation were to be based solely on the figures for the Non-Domestic sector?

RCA RESPONSE

The figure provided on 17 September 2002 was based on the costs of operation and net amount of rates collected for the Domestic and Non-Domestic sectors.

In relation to the second point, RCA does not operate a detailed activity based costing system and as such costing information for the non domestic sector only is not readily available.

ISSUE

Is the "costs of operation" merely a reflection of the total current costs including overheads? If so, what would be the estimated cost of collection if the calculation were to be made on a marginal cost basis?

RCA RESPONSE

The "costs of collection" figure reflects the total current costs including overheads.

In relation to the second point, RCA has recalculated the figure using only the variable costs taken from the Agency's 2001/2002 accounts. Fixed costs such as capital and notional charges have been removed. Taking this calculation into account the estimated cost of collecting derated industrial properties (approximately £64.3M) is £711,129.65* as opposed to approximately £1.02M using the Agency's full operating costs.

(Note: *Assumes that a similar level of collection and recovery activity will be required and does not include any additional administrative costs that might be incurred if a Transitional Relief Scheme was introduced to assist affected ratepayers.)

Estimating the likely future cost of collecting rates currently foregone in the absence of an activity based costing system is problematic. There are a number of approaches. The Committee's questions focus on the value of rates to be collected.

Alternatively, the number of properties to be billed could be used. This is around 5000 and, based on the 2001/02 average unit cost for collection and recovery (£12), provides an estimate of £60,000. If industrial de-rating is removed further detailed analysis will be required to determine precise resource needs. This alternative approach relies on the same assumptions about the level of activity required and does not take account of the cost of any transitional relief scheme.

Please contact me if you require further information.

NORMAN IRWIN

APPENDIX 5

MEMORANDA SUBMITTED TO THE COMMITTEE

STATEMENT TO THE ASSEMBLY BY: DR SEÁN FARREN MLA, MINISTER OF FINANCE & PERSONNEL

27 May 2002

1. With permission, Mr Speaker, I would like to make a Statement on behalf of the Executive to open up for public consultation the important issue of our local rating system.
2. The Executive agreed in 2000 that a full review of our revenue system was needed. Following detailed research and discussion, involving the Committee for Finance and Personnel as well as all Departments and Ministers, we are now launching this afternoon the Consultation paper on the Review of Rating Policy. The paper you have before you is the final version of the text – though it will appear in a better printed form within the next couple of weeks.
3. The Executive decided to embark on this review, in recognition of the fact that the present system is unfair, out-of-date and does not meet our current needs.
4. I am sure I do not have to tell Members that this particular subject is not an easy one to address; it is complex and it provokes strong reactions. However we are not in Government so that we can avoid the difficult issues. Any proposals for a local taxation system, which is what the rating system is, will touch the lives of all households and businesses in Northern Ireland.
5. We, therefore, have been mindful of the consequences of radical change. Having said that, I have been asked recently: why can we not be more imaginative in seeking ways of raising local revenue – why do we have to look to the rates? Well the answer to that is: we don't have to restrict ourselves to rating property but our options are limited by the Northern Ireland Act 1998 – we cannot readily introduce anything like income tax or VAT. More importantly, international experience tells us that almost all developed countries continue to operate successfully a property value based local tax to help pay for local services. The Consultation paper therefore focuses on such systems but other ideas are not ruled out providing they can be easily administered, they are stable, recurring, fair to all and do not cause undesirable economic, social or environmental effects.
6. The consultation paper is not exclusively a DFP product; rather it is an Executive paper into

which all Ministers have been consulted and have had an opportunity to make an input. I would also stress that there has been a significant engagement with the Committee for Finance and Personnel, who have employed a team of Rating experts from outside Northern Ireland. The Committee have been most helpful to the process and have helped shape the document. I appreciate their input.

7. It has been our intention to address the issues in a considered balanced, open and transparent way. I would also emphasise that the Consultation paper does not make any proposals or recommendations but expresses the issues and the general options available in as neutral language as possible, setting out objectively the pros and cons of the possible changes that might be considered.

8. Nothing is ruled in, nothing is ruled out by the Executive - apart from two particular issues: domestic water metering and the rating of agricultural property on which the consensus among Ministers was that they should not be put forward as options in this paper. I would reassure members that any decisions on changing the system or elements of it will take full account of the views that will be expressed in the consultative process.

9. There are twelve key issues identified in the report. Although the question of how individual bills compare with what ratepayers and council taxpayers contribute in GB is addressed, the core of the review it is about developing a system that distributes local revenue requirements in a fairer way here.

10. I do not intend to go through all the key issues that are covered in the paper, but I think it might be useful if I mentioned 2 of the more difficult choices that face us - domestic rating and industrial derating.

11. The reality is that the present domestic rating system is very hard to defend. In presenting the options in the paper, we have included a dispassionate description of the existing system. However, I have to point out that it is quite difficult to find any defence for the existing domestic system. The facts are:

- The present domestic rating system does not Target Social Need. Indeed on the contrary, in distribution of the tax burden, it tends to disadvantage the less well off because - whilst there is a gradual upward curve the amounts levied flatten out quite markedly for those in more expensive housing.

- The system means that a higher proportion is paid by those on low incomes (just above the housing benefit threshold) than in a fairer system: in the language of taxation, it is not “progressive”;

- Another way of putting this point is that the Valuation List is a relatively flat one, which does not discriminate very much between levels and sectors of the market.

- A Revaluation is long overdue; the last one occurred in 1976, and was based on late 1960s rental values, which of course, in relative terms reflected the social and economic conditions prevalent at that time.

12. The system also lacks clarity or transparency - the figures in the Valuation List are meaningless to the ratepayer. Because the rateable values are artificial, the vast majority of payers cannot understand the basis on which they are asked to pay. This impacts on an individual’s ability to form a view about whether his or her assessment is fair, and affects the public’s attitude to the appeal process.

13. While we have presented the options neutrally, it is widely accepted that a Revaluation cannot be conducted on a rental value basis because an active private rental market exists only in certain areas and sectors of the market. If the independent market evidence is not widely available that would render the system arbitrary.

14. The main case for domestic Revaluation is about redistribution and the relative contributions of those in prosperous areas compared to those in less well off areas. However, the inequities of the current system will be exposed all the more should the Assembly choose to increase revenues significantly using the current tax base. That, after all, is where the Review began, following the outcry about the increases proposed in the autumn of 2000. This is why the First Minister and the Deputy First Minister and I have given assurances that there will be no abnormal increase unless and until a fairer system is in place.

15. If there is doubt about the difficulty of defending the present system, colleagues may refer to the many occasions when my predecessor and I have faced questions or criticism of the system in this

Assembly. The calls to review the system urgently were clear and strong, as they have been for many months. Furthermore, if we agree to look at any change to the way the domestic rating burden is distributed we must ensure that there are appropriate safeguards and protections for vulnerable groups and individuals that are beyond benefit support. This means allowing for ability to pay, the avoidance of genuine hardship and ensuring that we do not distort benefit calculations in a way would put us at a disadvantage, in comparison with other regions.

16. Industrial derating has been with us since 1929 and is unique to Northern Ireland – no other region anywhere now provides this particular tax break. It costs Northern Ireland £64M a year. It is another area likely to generate strong views. Indeed it was felt that this was such a sensitive subject that we examined separately this issue with assistance from external consultants. We wanted to determine the purpose, continuing relevance and the need for, and effectiveness of, industrial derating.

17. A copy of this report will be made available alongside the Consultation paper to inform debate and I have arranged for copies to be placed in the Assembly library today. The study found that the justification for continuation of industrial derating was questionable and there are strong points in favour of phasing it out over time. Furthermore, the consultants make the case that the overall economic impact of its removal will be negligible in the medium term and that it is not a cost effective tool of economic development.

18. I acknowledge that there are strongly held opposing views. A variety of interests take the view that derating is a significant incentive in attracting inward investment (a useful counter measure for the attractive fiscal regime available in the South) and it partially compensates for additional costs faced by industry here. The review will take all of these views into account.

19. I have mentioned two of the more difficult issues in the paper. Other issues that are tackled are mostly around what we pay rates on - existing and potential rate reliefs are covered, so too is the issue of how best to deal with vacant rating and/or making owners ultimately liable.

20. The paper includes an examination of relief for particular groups ranging from broad reliefs such as the single person allowance to more selective ones, such as assistance to pensioners or those who find it hard to make ends meet. The paper also covers some ideas for new reliefs for the commercial sector, such as small business relief and hardship relief. The list in the Paper is not exhaustive and consideration of different reliefs may emerge from public consultation. Again, we will welcome any views on this subject.

21. I understand that the pressure for introducing additional or a different set of reliefs will be immense and diverse but in considering these we do need to maintain a careful balance. After all, the Rating system is the mechanism through which businesses and households pay their contribution towards regional and local services. Therefore, if reliefs are very wide ranging the result is an unfair burden being placed on the remaining ratepayers.

22. Funding Water is another question considered in the paper. The Assembly is well aware of the investment requirements of the water and sewerage systems; estimated by the Minister for Regional Development to amount to some £3billion over the next 15 - 20 years. Because water services are no longer in the public sector in GB we do not receive any Barnett consequentials and all funding has to be found within our DEL. So however difficult it is we have to face this issue and the paper sets out some of the options we can consider and there may be others identified in the course of the consultation.

23. Mr Speaker this Executive is not in the business of promoting financial hardship for anyone. I emphasise that for any change that occurs in the Rating System following the review there will be carefully planned transitional arrangements to avoid hardship and to allow time for those paying to adjust to any significant changes that emerge from the Review.

24. This brings me to the timetable for the Review. Our intention is to run this consultation period beyond the summer, until mid September. We intend to run 3 or 4 public seminars around Northern Ireland in June, followed by a series of meetings with interest groups and organisations. We also have a web site ready both to provide information and to elicit feedback.

25. The assessment of responses will begin in the early autumn and a range of options can be identified, impact analysis carried out on these options and a report made to the Executive, with the Committee for Finance and Personnel involvement, in the Autumn.

26. Needless to say, this programme will be sensitive to the results of consultation and feedback and the extent of amendments and additional work deemed necessary. Legislation would follow on once final decisions are made. I would envisage the legislative process occurring during 2003 and possibly into 2004.

27. During the various stages some useful links can be made between the Reviews of Rating Policy and Public Administration. There are aspects of these Reviews, however, that are distinct. I do not agree with the point made by some members that conclusions from the Review of Public Administration are needed before we can make substantive progress on the rating issues. One is a matter of ratepayer contribution; the other involves distributing revenues in the most appropriate way to any new structures that emerge. We need to address the basis on which we raise revenue for regional services as well as those currently covered by the Councils. Those services will continue to exist no matter what structures are in place.

28. I fully expect the consultation on rating to be complex and contentious. Time will be needed to assess the implications of the response to consultation both from an official and political point of view and it seems realistic to plan on the basis that we will need to consider carefully when to take substantive decisions and how implementation of possible options might be phased. As I have said, responses to the consultation will clarify the range of issues which in turn will affect the timetable for decisions. Furthermore, I think it underscores the genuine neutrality and openness of the consultation by saying that we will decide in the autumn the phasing on which any substantive decisions will be taken.

29. The recently announced Reinvestment and Reform Initiative was not even conceived until the Rating Review was well advanced but there is a relationship, in the sense that any additional revenue we decide to raise locally will have to be from a reformed and fairer system.

30. How we address the issues related to the review of rating will be a measure of how far we are prepared to face difficult issues in a responsible way. The issues are complex and the challenges considerable. I am keen to hear what members have to say on these difficult issues, both now and over the coming months.

MEMORANDUM TO THE COMMITTEE FROM: DEPARTMENT OF FINANCE & PERSONNEL

16 September 2002

I am writing to update you on the progress of the Rating Policy Review.

Since the launch of the Consultation Paper and website on 27 May, there has been a generally good response. Feedback so far has included letters from members of the public, e-mails to the website and a written question in the Assembly. There has also been a written submission from the Committee on the Administration of Justice. Up to the end of August, there were 17,418 hits on the website, and the Consultation Paper was downloaded 7027 times. In addition to this, there have been 65 direct requests to the Branch for a copy of the paper. There has also been a reasonable response to the “wrap up” conference to be held on 23 September, with over 50 people so far registering to attend.

Three public consultation conferences were held in June – in Enniskillen, Belfast and Londonderry. Numbers attending were disappointing – 27 in Belfast, 20 in Enniskillen and 20 in Londonderry. At these conferences, there were representatives from various District and Borough Councils, the Rate Collection Agency, Charities, church organisations, Public Sector bodies, local businesses, political parties, Chambers of Commerce and government departments, along with individual members of the public.

A meeting was held at the beginning of July with the Association of Local Government Finance Officers (ALGFO). Twenty-three out of twenty-six District Councils were represented at the meeting. Three further consultation meetings were held in Belfast at the beginning of August, with the following:

1. charitable groups, including representatives from Age Concern NI, The Nexus Institute, The Prince's Youth Business Trust, and the Simon Community;
2. the business sector, represented by the Federation of Small Businesses (FSB) and the Confederation of Business Industry (CBI); and

3. trade union groups, with representatives from the Irish Congress of Trade Unions (ICTU), The Northern Ireland Public Service Alliance (NIPSA), and The Ulster Farmers Union (UFU).

4. Two Forums were held at the end of August, with estate agents, valuers and surveyors (the Landed Professions), and with the Northern Ireland Local Government Association (NILGA).

The last of these events drew an audience of around 90 with all District Councils represented by members and officials.

Meetings hosted by the FSB (one at Stormont and the other in Londonderry) took place on 10 and 11 September. A meeting of NICVA, on both the Rating and Public Private Partnerships Reviews, took place on 11 September. My officials addressed all these meetings and answered questions.

Meetings have also been held with the Federation of Licensed Clubs and the Independent Retailers Association.

In addition, by mid September my officials will have addressed Council meetings in Fermanagh, Castlereagh and Omagh. Meetings have also been held with the Federation of Licensed Clubs and the NI Independent Retailers Association.

I have set out, in the annex, the main issues raised during the consultation. It should be noted, however, that this represents only a summary of preliminary views emerging from attendance at consultation events, meetings and correspondence. It is not in any way a proper analysis of these views, something that will follow in due course, when final submissions are received from organisations and individuals.

I will, of course, keep you informed.

I am copying this letter to Roy Beggs Jnr MLA.

DR SEÁN FARREN MLA

Minister of Finance and Personnel

ANNEX

CONSULTATION FORUM WITH NILGA

On the domestic side, there were mixed responses. Some favoured a capital based banded system, taxed on ownership. Vacant property should be taxed, at a lower level initially, increasing over time. They were strongly in favour of water metering, rather than a flat rate. They were opposed to domestic reliefs, feeling they complicate the rates system and that hardship is better dealt with by the benefits system. Any reliefs that did exist should be targeted and means tested. On the non-domestic side, the rental value should remain as the basis for valuation, and rates liability should be with the owner rather than the occupier. Industrial derating should be removed, and small/medium enterprises given relief instead. Charity shops and hostels should pay rates.

CONSULTATION FORUM WITH THE LANDED PROFESSIONS

The domestic system should be capital based, using a discrete values rather than banding. There was very strong support for water metering. On the non-domestic side, frequent revaluations, as often as every three years, were advocated. There was strong opposition to vacant rates liability, as it could dampen regeneration. Charity shops should be exempt from rates, as should other non-profit making groups. Were industrial derating to be lifted, it should be phased out gradually, and at the right time (following a revaluation).

THE COMMITTEE ON THE ADMINISTRATION OF JUSTICE

In their written submission, the CAJ favoured the removal of industrial detrating and the rating of agriculture land. Any reliefs that did exist, both non-domestic and domestic, should be well targeted (blanket reliefs were not felt to be effective), and should be based on income or assets. The Committee favoured a system that taxed ownership, was capital value based, and used a discrete value rather than a banding method (they didn't feel it was useful to make a distinction between domestic and non-domestic properties). Frequent revaluations were considered important. CAJ felt that full Equality, TSN and economic impact analyses should have been made before the consultation, as these could have been useful for the debate.

ISSUES RAISED IN THE CONSULTATION PROCESS

Industrial Derating

The Magherafelt Business Forum expressed written concerns about the possible removal of industrial derating, given the strong pound and high electricity costs experienced by the manufacturing sector in Northern Ireland. Others who defended derating included the NI ICT Federation, the Northern Ireland Economic Council, and the CBI, on the grounds that firms would relocate outside Northern Ireland if they had to start paying rates and removing derating would put companies out of business which, in turn, would lead to job losses.

Those who argued for industrial rating to be removed included CAJ, NILGA, NIPSA, the Federation of Small Businesses (FSB), and Representatives of Charitable Groups. It was considered unfair for everyone else to pay a higher bill to compensate for it, in particular, the small business/commercial sectors. If derating is aimed at compensating for high electricity costs, why not subsidise the electricity bill, and not the rates bill? The Landed Professions felt that if derating is removed, the change should take place at a revaluation and be phased in gradually. A period of five years would be too short; ten years would be more appropriate.

Vacant Property

NILGA and NIPSA were in favour of a tax on vacant property, while the FSB and CBI were not. The Landed Professions were strongly opposed, feeling it would discourage developers from taking the speculative risks needed to develop property. The argument was advanced that rating property would reduce the likelihood of it sitting vacant. On the non-domestic side, this would aid regeneration in urban areas (where vacant properties can discourage investment in an area), and on the domestic side, taxing vacant property could help meet the demand for housing, as landlords would be encouraged to rent out vacant properties. The Landed professions, however, disagreed with these views, arguing instead that

landlords did not deliberately keep property vacant, as it would be against their interests to do so. They did not choose to have vacant properties, and so to rate them would be to doubly penalise them.

Rental to Capital Values

A transition from Rental to Capital Value as the basis of domestic rates was favoured by the CAJ, NILGA and the Landed Professions and was well supported at the public conferences. It was said that people understand the capital value of their house easier than the rental value, and this would help clarify the rates system. It is also easier, from a valuation perspective, to get information on capital than rental values. But it was also agreed that, for the non-domestic sector, rental values are a better basis for valuation, as there is more information available on rents on commercial property.

Need for Clarity of Rates Bill and Transparency of System

This issue emerged at all the Consultation events. There is a lack of understanding of rates – how they are calculated and what they are used for. People do not understand their bill, and are reluctant to appeal – it was generally agreed that an efficient, easy appeals system and more information about rates in general is required. There also needs to be greater accountability so that rate-payers can be assured that they are getting value for money. NILGA and ALGFO also felt that bills should be separated into their Regional and District elements.

Need for Regular Revaluations

The dominant opinion among all those who attended the consultation events was that regular revaluations are necessary, both in the non-domestic and domestic sectors, to take account of changes and ensure that the information upon which the tax is based is up to date. The greater the time gap the greater the distortions become. Frequent revaluations would remove some of the inequalities that currently exist within the system. They can more efficiently take into account specific hardships, such as those recently faced by petrol stations along the border.

Tax Ownership Instead of Occupation

The general opinion at the public conferences, from the CAJ submission, and from the consultation forums with the Landed Professions and NILGA, was that it is more equitable to tax the owner as opposed to the occupier, both within the domestic and non-domestic sectors.

Water and Sewerage

The introduction of any form of water charge would be controversial and unpopular. It was felt that water charging is such a major issue, it should be brought to consultation on its own. Were charging to be introduced, it was evident that water metering was the favoured option among (despite the fact metering is not being promoted in the Review). The Forums for the Landed Professions and NILGA were unanimous in favour of metering, seeing it as the fairest way of charging for water (those who use more, pay more), and as a way to encourage careful use of resources. Installing a meter to every house would be expensive but new building regulations could require water meters to be fitted at the construction stage – gradually phasing in meters.

It was also felt important to consider what happens to those who are sick, or unemployed and who cannot afford to pay for their water. It was felt that charges should not be related to the ability to pay, and water should not be cut off in cases of inability to pay. Also, since the biggest users and polluters are the big companies, they should have to pay more.

Reliefs

Blanket relief needs to be avoided. Some pensioners are very well off, and don't need relief, and the same is true for some single person households. This means reliefs need to be linked to the ability to pay. In addition, an excessive number of reliefs puts an unfair burden on everyone else. A move to a more progressive tax system would remove the need for many reliefs, as would more frequent revaluations.

The rates system should not, through the administration of domestic rate reliefs, be duplicating the business of other government agencies that deal with poverty and hardship – the Social Security Agency etc. The rates system should be kept separate from the benefits system, with greater coordination between the two. In cases of hardship, it would be better for the government to give aid to the person directly rather than through the rates system.

TABLES OF RESPONSES - DIFFERENT ISSUES EMERGING FROM THE CONSULTATION PROCESS

Issues Raised	Total Responses	Public Conference Responses	Written Responses	CAJ Submission
For Removal of Industrial Derating	14	7		1
Against Removal of Industrial Derating	10	5	4	
For Rating Vacant Property	12	8		
Against Rating Vacant Property	14	10	2	
More Frequent Revaluations	14	8		1
More Transparency	13	9		
For Move from Rental to Capital Valuations	12	7		1
Against Move from Rental to Capital Valuations	5	2	1	
For Introducing Water Metering	12	7		
Against Introducing Water Metering	3	2	1	
Tax Ownership rather than Occupier	6	3		1
Against taxing ownership	2			
Hardship Relief Only	9	2		1
Relief for Rural Villages	8	5		
Relief for Pensioners	8	6	1	
Relief for Single People	6	5	1	
Relief for Small Businesses	5	2	1	
Relief for the Disabled	3	3		
Relief for Low Income Households	3	3		
Change to Income Tax	12	8	1	
Change to Banding System (like Council Tax)	3	1	1	
Against Banding System	2			1
Charity Shops should be taxed	3	1		
More Accountability	3	1	1	
Relief for Hotels	3	3		
Abolish Rates	3		1	
Regional Access should be taken into account	3		2	
Equality Impact Assessment needed	3	2	1	
Government departments working closer together	3	3		
Farmers should pay rates	3	1	1	1
Relief for Orange Halls	3		3	
Separate review for Water and Sewerage	2			
Tax Public Sector Properties	2			
Other Issues	36			
Total	243			

ⁱ Domestic water and sewerage services were partly funded from Regional Rates prior to April 1999, but now are deducted as a regional budgetary expense. (In fact, it is surprising that Regional Rates were not lowered when this change occurred in 1999.) The Review argues that water and sewerage are “a significant pressure on the Executive’s spending programmes” (para 118) because the Treasury does not provide additional funding for these services. Non-domestic water charges do provide £39m toward the cost of the services. The Review also claims that water service faces a £3bn investment requirement over the next 20 years to comply with EU directives on water quality, to meet demand, and to replace ageing infrastructure (para 119). It seems the government is leaning toward introducing water charges to offset these costs.