



Northern Ireland
Assembly

Committee for Finance and Personnel

OFFICIAL REPORT (Hansard)

Non-domestic Rate Revaluation: Department
of Finance and Personnel

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We are going back to 2001, which is a reference point for this revaluation. You might recall that, back in 2001, shops were advertising one punt for £1. That tells you how long ago it was. Since then, there has been quite a transformation in various business sectors, particularly in retail. Of course, that works both ways. Retail as a whole is down more than 10% in terms of the impact. That reflects a decline in the high street, the impact of internet trading and the rationalisation of retailing into large regional centres, such as the Tesco and Sainsbury's of this world. A lot has happened in that time.

I have listened to some of the NIIRTA session. I think an expression that was used by Glyn Roberts on frequent occasions was that Land and Property Services (LPS) is clobbering the larger convenience stores. LPS has no discretion in what it does. LPS does not decide that one sector should pay more than another. LPS is there to interpret the property market. That is all it has to do. I am not undermining the difficulty in doing that, but that is what it is charged to do. Alan's valuers, most of whom are chartered surveyors, have to interpret the property market. They are expert in doing that. It is not a matter of DFP deciding that some people are not paying enough, or whatever; the cards will fall where they fall in relation to the evidence that is available to LPS. There is no incentive for LPS to value one sector higher than the other, and there is certainly no interference from the core Department in relation to that. That is worth saying.

Why have these convenience stores' rates gone up so much? I will let Alan go into some of the detail on that. An extremely competitive convenience market exists today that did not exist back in 2001. So, it is no surprise that some of these stores are paying significantly more. It also reflects changing shopping habits after the downturn. I think that the days of the weekly or fortnightly shop that I had to endure up at the local Tesco are a thing of the past. People are shopping in these stores a lot more than they used to. An article in the 'Business Telegraph' stated that the combined turnover of the Henderson Group and Musgrave Group is £1.25 billion. That is the size of this market. I am not saying that those ratepayers are big business, but, as a sector, it is a big business sector that did not exist back in 2001 when the last revaluation took place. Also, for that reason, the rates that the convenience stores currently pay are very low; so, very low current assessments plus a very successful sector lead to assessments going up significantly.

Has LPS got the assessments right? I would like to think that it has got most of them right, but it is not infallible, and it may not have got them all right. It is dependent on the market evidence that is made available to it, and, certainly, LPS is very open to looking again and reviewing those valuations. That process is entirely free and we have outlined some of that in our letter in response to the Committee's initial queries.

That is all I want to say for now. You will want to talk to me about transitional relief and small business rate relief, but I am probably better answering questions on that than talking about it.

The Acting Chairperson (Mr Weir): On that point, as has been highlighted by the Minister, everybody appreciates that when you have a revaluation after quite a gap, the one complication is that you then see either big increases or big reductions. A good point was made about the need for revaluation to be more regular. Understandably, we are in a situation where, essentially, the cake is the same size but is being carved up differently. Where people have seen tougher economic circumstances, sometimes they do not see the logic where, understandably, if it is tough across the board, that does not mean that they benefit.

You mentioned the length of time that has elapsed and the transitional situation. Given that the nature of rates will always be an isolated photograph of a frozen moment in time, and compared on that basis, that inevitably means that various businesses have to move from A to B, in terms of what they are paying. The two issues that arise out of that are what thought is given to some form of transitional relief so that, where there is a large increase, there is some level of phasing; and, from a practical point of view and leaving aside whether there is any phasing, where businesses have significant increases, what help can LPS be in providing some flexibility, or making some level of arrangement for tailored payment arrangements? Obviously, it is of no particular benefit if, suddenly, because of the leap overnight, a business takes the view that it can no longer afford, from a cash-flow point of view, to pay rates and will go bust or lay off staff. That would not help anybody. Can you respond on those two issues? Will there be any form of phasing where there is a large increase, and, leaving aside the amount that is being paid, are you open to the idea of the tailoring of arrangements with businesses?

Mr McClure: Those are big questions. Let me start by saying that, as a Department, we are required to bring in £650 million of revenue through the regional rate, both domestic and non-domestic. That is what drives us.

The Executive have already agreed a rates relief scheme of up to £30 million for rates convergence and £20 million for small business rate relief. We have no budget, at the moment, to deliver on a small business rate relief scheme, so there is a very real issue of affordability. Then there are the policy considerations as well. Before I came to the Committee, I thought that I would look at what happened last time we had a revaluation. I am going to read from a note that I drafted at the time in relation to the retail warehouses, which were the big losers at the last revaluation. Many were paying 50% more, but quite a few were paying 100% more following the revaluation. In relation to transitional relief:

"Arguments could be mounted to justify transitional relief. However, such an arrangement at this end of the market"

— the retail warehouses —

"would have to be funded by other ratepayers. In other words, those who would benefit through revaluation, that is, sectors that have not fared so well in recent years, would have those benefits phased in to allow deferment of increases for others. This would undermine the fairness of the revaluation process and add complexity to the system."

What that is really saying is that, if you are to have an affordable transitional relief scheme, everywhere that has benefited from lower rates as a result of the revaluation — many high streets, Donegall Place in Belfast and other parts of Belfast and indeed Northern Ireland, including Derry/Londonderry and Strabane — would not experience those benefits as quickly. That is the way that transition schemes have operated in England, Wales and Scotland in the past. We have never had a transitional relief scheme for our non-domestic revaluations except for the very lowest value properties. Since then, of course, we have had small business rate relief. The Executive have agreed to extend small business rate relief for at least another year, despite the Northern Ireland Centre for Economic Policy's policy evaluation, which said that there was really no full economic rationale post-downturn to continue with that. It has been decided to fund that to the tune of £20 million next year because of the revaluation and not wanting to cause any further effect on, in particular, smaller businesses that may well be affected. In a roundabout way, I am trying to answer your question.

The Acting Chairperson (Mr Weir): On the other issue of the practical arrangements, if you have a situation where a business is looking for a bit of flexibility with arrangements for paying rates, is there a sympathetic ear to that, potentially? I appreciate that that is not a policy issue but one on the practical outworking of it.

Mr McClure: I listened to Mervyn Adair in the last session talking about payment arrangements, and he said that people should come and talk to LPS where they have difficulty paying. I imagine that that extends to this category of ratepayer. I am on the policy side of things, and maybe Alan is better placed to answer.

Mr Alan Brontë (Department of Finance and Personnel): The first thing to say is that any business will put into payment on a 10-month basis, so no one is forcing anybody to pay the entire Bill on 1 April or early May, and that is important. We need to anchor some of what has been said in the past around significant increases. Percentages are very misleading, and I think that we need to anchor some of this in the reality of the businesses that we have been talking about. In no way am I taking away from the increases that are being faced. Not that far away from here is the nearest Tesco to this Building, I presume, at Knocknagoney. That Tesco has a bill of £1 million. Many of the supermarkets in Northern Ireland will face bills of over half a million pounds, right up to three quarters of a million pounds. This sector of the market is not the large, out-of-town supermarket, but they are very popular locations for shopping, as Brian said.

We just need to anchor some of the things that we are saying in the reality of the £650 million that has to be brought in. The increases, percentage-wise, are large; however, when you actually look at the amount of money from the seven sites that were brought to us earlier in the discussion, the range of the bill was from £6,000 to £18,000 for those properties. The range now is that the lower property is less than that, and it will go up to about £23,500. Percentages have been very emotive, and we need to stand back a little and look at what the actual bills are. Those are now available on the website and so are very open for everyone to see. Business rates are difficult for everyone, and, in LPS, we certainly will look at situations where, clearly, there is a real hardship issue. Where we are looking

business failure in the face, I think that colleagues will look and talk. It is better to talk at that stage than to let people get into trouble.

The Acting Chairperson (Mr Weir): We will open it up now to questions.

Mr McCallister: You are certainly right, Brian: it was a very powerful presentation led by NIIRTA and including some of the business owners. Essentially, you are saying that it is a combination of things: low rates historically, moving to a very successful business model that has tapped into modern life effectively, and throw in with that 13 or 14 years of a time gap. You were trying to move us away from percentages, but, from memory of the presentation, they were talking about 70% rises in valuations. Those businesses are not only finding a huge bill; they have invested heavily in delivering that very successful model. At this point, having taken on a fair amount of debt to invest and build up a successful business, they find that suddenly they are getting absolutely thumped by government to pay more rates.

On the Chair's points, effectively you are telling us that there is very little that you can do. You can work with somebody in crisis, but, as regards looking at payments or phased payments, you cannot extend much difference other than what is already in place.

Mr McClure: Phased payments is maybe the step before that LPS could take, but, in terms of any sort of policy intervention, such as transitional relief or something like that, DFP has no budget for that. Anything we did would have to go back to the Executive. DFP, as a Department, is charged with bringing in £650 million for every Department. If we are going to have to fund an expensive transitional relief scheme, something's got to give. Where do you cut? It is the tightest Budget that I have ever known in all the years that I have worked in DFP. There is simply no room to manoeuvre. The Executive have agreed up to £30 million for a transitional relief scheme to manage rates convergence. It is a four-year scheme, but next year's spend is £15 million because it is front-loaded. Next year's spend on small business rate relief is £20 million. These are not insignificant sums. If you then put on top of that a transitional relief scheme for particular businesses, that is going to add a burden. Where is the money? I struggle to think where it is. Clearly, it is not for officials to make decisions; it is for politicians to decide what is a priority. However, as a Department, we do not have a budget for it, and we do not have a case for doing it at the moment.

Mr McCallister: If welfare reform goes badly, you might not have a Budget either.

The Acting Chairperson (Mr Weir): On that cheerful note, does anybody have any other questions? I have one other area that I want to touch on.

Mr Cree: I picked up an interesting one, Brian: on the non-domestic revaluation lists, I see that LPS has recruited additional staff on a permanent and fixed-term contract basis to manage the appeal process. I thought that there was a freeze on recruitment.

Mr Brontë: On the valuation side, the numbers of staff have been reduced over the last couple of years. We have not been filling posts. Even at one stage during the revaluation, we were covering our posts with about 50 casual staff. A business case was put through the permanent secretary to the Minister. That would probably have been in and around the September/October period. The Minister agreed to that. However, since the moratorium and the Budget difficulties, where we would have filled entirely with permanent staff, we are now going to take a proportion of the staff on a fixed-contract basis. That is probably a wise thing to do. We certainly need staff there to be able to deal with the challenges that we are well aware will come our way. It is important that we have the right staff to deal with that, but we are certainly not going to be flush with staff.

Mr Cree: There is a certain amount of wisdom there, but you have recruited new permanent staff.

Mr Brontë: Yes. They are non-qualified staff. Some of those staff will, no doubt, come up through the ranks at some stage, but we will be reorganising, as Colum said earlier, to try to put the best people in the best places to deal with whatever comes our way. We will need staff to check surveys of properties and issues like that. We can do that with an unqualified member of staff, and the valuer can check out the actual valuation details. There are ways and means of doing our best to provide as good a service as we can. Some of those staff have arrived, and we are expecting others.

The Acting Chairperson (Mr Weir): To follow up on Leslie's question, when you are talking about the appeals side of things on the non-domestic side, the volume will be a lot less than when you have domestic revaluations just by the nature of the beast. Are you reasonably confident that you have sufficient staffing resources in place to deal with the appeals mechanism efficiently and effectively?

Mr Brontë: It is difficult to answer that, because the crystal ball is not always accurate. It depends on the number of challenges that we get. We have been disappointed, in a way, that we have not had more people contact us since we put the valuation list out on the web on 13 November. We have given you the figures on that. I would have expected more. I do not know whether they are all keeping their powder dry or whether there are not going to be as many as perhaps we thought. In 1997, 11% to 12% of people challenged it. In the first period in 2003, it was about 6%. Now I would expect it to be higher than both those figures, but at this stage —

The Acting Chairperson (Mr Weir): You would have thought to some extent that, if you were in a business where you were getting notified of what was going to be a reasonable rates increase, there would be a likelihood that you would move fairly quickly to challenge that, but that does not appear to have been the case in most cases. Whether some people are waiting until the bill comes through the door —

Mr McClure: I think that is the issue. We thought that the early publication would give us some sort of signal as to what the degree of acceptance of this valuation list would be, but it really has not because of the very low numbers. People stall until the bill hits the mat, and then they go ballistic. We could find ourselves in the middle of April saying, "Well, that wasn't too bad", but I suspect that it will be significantly worse than any previous revaluation that we have had. I have been in front of this Committee a number of times trying to curb everybody's enthusiasm on this revaluation and to say that this is the most difficult ever. For everybody that is going to win, there will be somebody who will lose out of this revaluation, given the length of time, as you have said, Chair, since the last one. It has exaggerated the effect.

I have also said in front of this Committee that this is the one policy issue that almost causes me to lose sleep. We deal with welfare reform in relation to rate rebate; we deal with small business rate relief policy; we deal with rates convergence; and we have dealt with a whole range of policies this year. This is the one that is difficult to control.

Mr Brontë: The other point to clarify is that applications and appeals are still coming in as we speak on the existing list, and they will do so up to 31 March. So we start at 1 April with a workload of challenges and appeals against the existing list, which still have to be cleared. We will not be rushing in on 1 April as the first challenge comes in to deal with that. We cannot, otherwise we would leave behind all the challenges on the existing list. There is sometimes quite a party piece by some people about putting in a number of challenges on 31 March just to safeguard their position, so there is a workload there. We will use the first month or two to assess what is coming in, where it is coming in and the type of properties that are coming in so that we deal with things in an organised way and not just in the order in which they come in. That will be important.

Ms Boyle: I have more of a comment than a question. As you said, Brian, we said at the outset that there would be a lot of winners and losers in this, and what we are seeing now is the fallout of the losers and the hardship issues that they are facing. We heard that when the presentation was given to the Committee from the retailers. I suppose that what came out of that, for me, was a lack of transparency. You have addressed that in your correspondence with us: we said that there was no breakdown for the criteria used to increase the rateable value but, in your correspondence with us, you addressed that by saying that retailers will be afforded the opportunity to discuss their individual valuations with the LPS.

I do not want to put sugar over salt, but confidence has now to be put back into the sector. Will that be done through the appeals mechanism? If people present, is that how confidence will be got back into the sector? How robustly will you be dealing with those appeals?

Mr Brontë: For many people, this is not a surprise, though some retailers thought it was. We asked every single non-domestic property in Northern Ireland to return to us details of their rent. Some of them will be owner-occupiers, in which case there is no rent to return. We asked petrol filling stations for their throughput, in terms of the number of litres. For other businesses like pubs, returns went out, and they will have responded. So, for many of them, it is not a surprise and they will have been prepared. When we get into detailed discussion with individuals, we will be absolutely open as to how

we have assessed the value of the convenience store, petrol station or whatever. We will agree the survey and resurvey the physical environment. Again, we will check the amount of throughput, look at the number of pumps in the petrol station, check all the details and be very open with the individual.

We can be reasonably open, as we said in the note, in terms of the general rental in the area. Again, that should not be a surprise. Some of these convenience stores are rented. This is evidenced-based revaluation, so we have a lot of rental evidence in the convenience market sector, as we have in the other sectors. We will be very open. The operators were open with you, but a £5 million investment in a range of stores, looking to another £5 million of investment: I think that the rental assessments are reasonable, given the scale of investment in some of these particular premises and the figures that Brian cited earlier. It is based on evidence. As I have said, we will be open. We will agree the details with each individual who puts in an application, and, as we said in our note, they do not need to appoint an agent. We are happy to work with their agent, if they appoint one, but we are very happy to deal with an individual. We will have local valuers dealing with local people.

Mr Cree: Let me just pick up on that last point. One of the things that came out of the information supplied to us, Alan, is that it looked as though people were taking the appeal route — a formal tribunal. There is no need to do that.

Mr Brontë: That is right. There are two stages after revaluation. The first is to make an application to the district valuer. Once the district valuer has reached his decision, if someone is not content with that, they can appeal to the Commissioner of Valuation. If they are not content with the Commissioner's decision, they can take it to the Lands Tribunal for Northern Ireland. In none of those forums does anyone need to be professionally represented. You could go to the Lands Tribunal and represent your own case. Some people might choose at that stage — or any stage — to bring in an agent. Those are the stages of the process. It has worked in the past, and I have confidence that it will work now and in the future.

Mr McClure: I attended a public meeting organised by the Northern Ireland Independent Retail Traders Association, last month or January. The petrol retailers were there, and arguments were put forward that, in many cases, they represented special purchasers because you have the Musgrave Group retailers and the Henderson Group retailers all trying to get market share and, therefore, they have almost got involved in a Dutch auction which has artificially inflated rents. The Department maintains that that is the market, but that is an argument that they could put forward as a test case, if they wanted to, through the Lands Tribunal, if necessary, and get that issue dealt with quickly and economically, if it is dealt with almost like a class action, to deal with that point of principle.

There is nothing to prevent an individual retailer saying, "My shop's too high in comparison to that shop. My shop only rents for such and such and yet you've assessed my rates at such and such. Why is that?". All of those arguments can be mounted without professional representation.

Mr Cree: Once upon a time, the valuation lists were available in the local council offices. Is that still the case?

Mr Brontë: They are available online.

Mr McClure: They are all on the Internet.

Mr Brontë: Any of us can go online and look it up. At the minute you can look up and find the liability for last year or this current year and the liability in the forward year.

Mr Cree: I am thinking more for planning purposes. If you have a garage and Joe Bloggs next to you has a garage, you know what he is like and you can see what his —

Mr McClure: Everybody can see everybody else's valuation.

Mr Brontë: I would like to have more of the physical survey details online. That is something that we will move to at some stage, but there is a lot of work in tidying up the information so that it comes across in a very structured way online. Again, individuals can look at our survey and we can discuss that and check it out, so hopefully it is as open as I can make it.

Mr Cree: Maybe the old lists were a better way of doing it.

Mr Brontë: The list was out of date as soon as you printed it. It was out of date before you got it on the shelf.

Mr Cree: The changes were minor though, were they not?

Mr Brontë: No, there were many changes. Do not forget that we make 40,000 changes a year to the valuation list, because you add in properties and take properties out, so it is always moving. Our lists are now updated completely live, so if we make a change it is live on the Internet.

Mr McClure: The previous system for the paper list would inhibit a ratepayer from easily forming a view as to whether he was too high in comparison to his neighbour. Now you can do it from your own home, check out the valuation and do it that way.

Mr Brontë: And print it off in a form like this one. Everybody can go on, print it off in a PDF and provide it to an individual. For example, an agent would be able to download a PDF and send it to their company, wherever it is. We have tried to make it very open and accessible now, but I presume that, if someone goes into a council office or any of our front-line customer information centres, they will be able to use the Internet if they do not have access to it. We would be very pleased to guide people through that and look at it.

The Acting Chairperson (Mr Weir): OK, folks. Brian and Alan, we thank you for the session today. I suspect that it may be an issue that we will come back to at various stages and we ask you, if there is any further information that we require —

Mr McClure: We realise that it is a very difficult issue. We are certainly not complacent about it. We have tried to explain it today, but that still does not diminish the fact that people are facing substantial difficulties. They are local businesses. They are not particularly small businesses, but they are local businesses and they are important to the Northern Ireland economy. We fully appreciate that, but, in terms of the process, we are completely blind as to who is worthy and who is not worthy. It all goes back to the market evidence.

Mr Brontë: The other important thing is that — I am not taking away from that, but on the flip side of that — there are many properties in Northern Ireland that will now be let because the rates equation is now put back in a proper, balanced way. There are deals being made in Donegall Place and downtown Belfast that would not have been made had we not carried through the revaluation.

The Acting Chairperson (Mr Weir): I think Paul has a very brief final question.

Mr Girvan: On the point of the revaluation, I appreciate that the time factor between the last non-domestic and this one has probably added to the problem. The difficulty that I have is that on a daily basis people were demanding a revaluation. I appreciate that it is fraught with all sorts of difficulties. Everybody thought that they were going to be a winner out of it. Yes, there are some areas that have benefited. Look at the list of where the complaints have come from. I know that some town centres have benefited because they have had a reduction, but it is about how fairly we have attempted to receive the money. Petrol stations were the ones that brought the biggest gripe to me.

The Acting Chairperson (Mr Weir): Because we are wee bit tight for time, we will just take that as a comment. Thank you, gentlemen.