



Northern Ireland
Assembly

Committee for Finance and Personnel

OFFICIAL REPORT (Hansard)

Rating Issues: DFP Briefing

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The Chairperson (Mr McKay): Are you aware of any available information about those brick-and-mortar businesses that also engage in online activity and sales?

Mr McClure: Sorry, I missed the first point.

The Chairperson (Mr McKay): We discussed bricks-and-mortar businesses versus online retailers, but there is obviously a bit of a crossover there too.

Mr McClure: There is. Some business models involve a bit of a mixture between trading wholly out of a property and online. Click-and-collect businesses are also quite a recent phenomenon. Rates are just a property tax, and they rate the rental value of the premises in which the business is conducted. You could not, through the rating system, charge extra to those who work online. We can charge rates only that are proportionate to the rental value of the premises. If the predominance of online retailers in a particular area leads to an increase in rental values, that can be picked up in the next revaluation, but that is a pretty indirect way of doing it. There is certainly no way of getting at the value of the business or the value of the online business in relation to ratepayers.

That is one of the points that I want to pick up in my discussion of the review of the business rates system. In a sense, that is where this all started. The previous Minister was getting a lot of correspondence from people who were complaining that there was not a level playing field and so on. That prompted him to commit to undertake a fundamental review of business rates.

The bricks-and-mortar character of rates is maybe not fit for the way that business is conducted today, and that is kind of what started the whole issue of whether it was time for a proper look again at the system of business rates. That is particularly the case with the transformation in the way that retailing is conducted, but it applies throughout all business activity in Northern Ireland. Everybody is doing things in different ways. We are shopping differently, living differently and spending our leisure time differently, and that begs the question of whether the taxation system is sufficiently responsive to that change.

Mr D Bradley: Is information from HMRC available to LPS?

Mr McClure: No, it is not, other than transaction details from the tax office through the stamp office. LPS gets market information through that, but it certainly does not get trading information or anything about somebody's financial affairs. That channel is not open to LPS or its counterparts in the rest of the UK. I also do not think that it is available to the Administration in the South through the Valuation Office in Ireland. They do not have access to taxation records either.

Mr D Bradley: The reason I ask is that, in businesses that are conducted from domestic premises, sometimes, let us call them the overheads are shared between business and domestic. HMRC would have that information and would be aware that a business is being conducted from particular premises. However, you said that LPS cannot avail itself of that information.

Mr McClure: Yes, it is my understanding that that channel is not available to LPS. I can come back to the Committee on that point if you want me to, but my understanding is that it does not do that and it does not do it anywhere in the British Isles.

The Chairperson (Mr McKay): In paragraph 4 of your paper, you stated that the review:

"will be much more wide ranging and ambitious than the review of business rates...in England".

In what way will it be more ambitious?

Mr McClure: The terms of reference that were published by the Treasury on 16 March start by stating that it favours a property-based tax. Stating that effectively rules out the consideration of other things. There has been talk this morning about whether an online sales tax or whatever could be used. The review in England will not take that into account whereas our review in Northern Ireland could. That is one of the fundamental points. The Treasury also mentioned that it does not want to disturb too much the current system of reliefs and exemptions within the business rates system in England. That is another limiting factor.

The Chairperson (Mr McKay): To a certain extent, you are talking about potentially starting with a blank sheet.

Mr McClure: That is what we want to do. We want to start with a blank sheet and see where that takes us. That is one of the reasons why we have decided to use innovation labs. I had not heard that term until about three or four months ago, but it is something that has been used successfully in other areas. We thought that it was a good way to get very early engagement with the business community and help kick-start the review, not just to inform the terms of reference but to inform the drafting of the consultation paper because, in the autumn, we will have to go out and consult on this issue. It is useful to get business organisations, the voluntary sector and everybody else who is affected by business rates into the room to decide what sort of taxation system we need for Northern Ireland and to receive some feedback on what the guiding principles for this review should be, what criteria we should judge various options against and how we should conduct the review. We are not bound to accept all of the recommendations from the lab, but I think that it is useful to get business organisations in from square one.

The Chairperson (Mr McKay): On that point, DFP and LPS are not among the participants in the lab. Will they come and make a presentation?

Mr McClure: We are not in the room except by invitation to give presentations. They will want to know from me and my team how the current business rates system works. I will present to them, probably on Monday morning, and I will come back at the invitation of the lab. But we are out of the room, and we think that is very important. This is the way that it has worked. DETI was not in the room for labs that have taken place already on regulatory impact assessment, yet it is the lead Department. It is very important that we allow people to have a free discussion without undue influence being brought to bear by people like me.

The Chairperson (Mr McKay): How were the participants selected and how can you be sure that it covers all bases and that nobody has been missed out?

Mr McClure: We could not possibly cover all the bases. We tried to get as many A-list participants as we can. We have an established list of business organisations, although it is not just about business. We need the voluntary sector to be represented through the Northern Ireland Council for Voluntary Action (NICVA). We need the voice of local government to be in the room as well. We certainly do not claim to have covered everybody. The lab is not the review itself; it is an opportunity to help to establish objectives and criteria for the review. When we go out, we will have a full public consultation with everybody. You could not possibly engage with everybody within the environment of an innovation lab. There would not be a room big enough to house them. We think that we have got most of the main players.

Mr McQuillan: On that point, I see that you are waiting for confirmation from the Ulster Farmers' Union. Are there any other rural groups that you could hit to get rural business people involved in it as well?

Mr McClure: We could still ask the Rural Community Network.

Mr McQuillan: It would be important to get a rural perspective as well.

Mr McClure: I agree. That is why we were very keen to get the Ulster Farmers' Union on board.

Mr McQuillan: Are you still waiting for it to confirm its participation?

Mr McClure: I will get an update this afternoon on who has confirmed. Most of the people on the list have already confirmed, but the Ulster Farmers' Union is one body that has not. I will find out this afternoon whether it is able to attend. Even if it is unable to attend for the full four days, we hope that it will be able to come along for part of it.

Mr McQuillan: It would need to be there on behalf of rural people.

Mr D Bradley: The growing prevalence of online trading has been identified as one of the major causes of the decline of town centres. Town centre traders are being encouraged to have an online

presence to help them to survive and compete with the bigger global online companies. Is it not ironic that we are now talking about taxing that activity, which would virtually wipe out any advantage that town centre traders got from having an online presence?

Mr McClure: That could be the case. We would like to explore all those issues through the review. You are absolutely right: five years ago, we were all talking in black and white terms about high street retailers versus online retailers. Certainly, most high street names have an online presence. Click and collect is a big factor in bringing people back into stores. It is not as black and white as we might have thought in the past. I think that we would want to explore that as part of the review.

Mr D Bradley: I have met business people who previously traded in England. They are constantly telling me that the level of rates in England is much lower than it is in Northern Ireland. Is that the case?

Mr McClure: As a general rule, no, not if you are comparing similar premises. There is no point looking at averages because the average in England is thrown by the likes of the City of London, Heathrow, some of the big petrochemical plants and so on, which are all rateable. The average does not tell the story. My understanding from looking at similar premises — say, comparing a shop in Hull with a shop in Belfast in a similar kind of area — is that the rate liability should be more or less the same. One exception to that is that the English system has a more generous small business rate relief scheme at the moment. Some very low-value properties are actually paying no rates at the moment under their scheme. There has been a temporary enhancement of small business rate relief over there. At the very bottom end, I think that there will be cases where people are paying more in Northern Ireland than they are paying in England, but, as a general rule, they do not.

The Chairperson (Mr McKay): On that point, with regard to overheads for small businesses, there has been the non-domestic revaluation. I am sure that all members have received some complaints about revaluations. How many businesses in general have challenged their net annual value (NAV)?

Mr McClure: Between 1,200 and 1,300, which is around 2%. I am taking out properties that are exempt; people never challenge exemptions. On the net figure, I would say that it is running at around 2%. They are coming in steadily, but they have not come in as an avalanche. However, we are not complacent about that. It still concerns me that a high number of ratepayers would challenge, because that shows dissatisfaction but, at the moment, it is looking OK. It is certainly looking manageable from LPS's point of view.

The Chairperson (Mr McKay): Are there many hotspots? There seems to be one or two towns that are saying that they have been detrimentally affected as a whole, as opposed to some other towns where there has been more of a mixed bag.

Mr McClure: There are, yes. Particular sectors have also faced substantial increases. This Committee was given very compelling evidence by the garage convenience stores. Wind farms are another example. As a sector, some of their values have gone up four to six times as a result of the revaluation.

The licensed trade in the Cathedral Quarter has gone up substantially, admittedly from a very low base. It faces significant increases. It is not just some towns; it is also sectors within towns or throughout Northern Ireland. That is what happens with revaluations. Sectors and locations that have fared better in the past 10 years than others will pay more and those that have fared less well or less successfully will pay less. That is the way revaluation works. The problem has been the time between revaluations. Whilst it has had an adverse effect on some ratepayers — I am not trying to talk that down in any way — revaluation has also had a good effect. If you saw the article in the 'Irish News' yesterday or the day before, you would have seen that many estate agents are saying that Donegall Place is actually being revitalised as a consequence of the revaluation. Previously, the rates were based on 2001 levels, when Donegall Place was thriving. The years went on, and Victoria Square came along. That changed the whole focus of retail in Belfast, but the rate still being high made it even more difficult to attract tenants to Donegall Place. One of the good effects of the revaluation is that it has helped investment in the likes of Donegall Place.

Mr D Bradley: I wanted to raise with you the interval between the revaluations. The rates were previously based on the 2001 valuations. So, if you have a revaluation 13 or 14 years later, some people will get a quite a shock. Are you giving any thought to a more regular review that would avoid

the sort of huge hike that businesses, especially, as was mentioned, garage forecourts and licensed premises have seen in this revaluation?

Mr McClure: The question assumes that, when we get through this business rates review, we will still have the existing system. Assuming, for the sake of your question, that we still have the same business rates system at that stage, the Minister has — sorry, the previous Minister; I keep forgetting — given a commitment to more regular revaluations in the future. As policy officials, we favour that for exactly reasons that you mentioned. If you leave it too long, it becomes quite a shock to some businesses.

Mr D Bradley: How many businesses have been brought into the small business rate relief scheme through the revaluation? What are the figures for those that are now out of it because of increases?

Mr McClure: I can answer the second question. About 800 ratepayers have dropped out of small business rate relief. I do not know the numbers coming in because LPS has to apply rules such as asking whether the businesses are multiples and whether they are entitled to other forms of relief. I simply have not seen those figures yet, but I can get them for the Committee, no problem. The number of businesses dropping out of small business rate relief as a consequence of the revaluation is around 800.

Mr Cree: I know that other business taxes apply, but I am always concerned that the actual rating — the rental value basis — that applies to business does not really take into account the success of that business. For example, you could have a very small outlet doing very big business, and that seems inequitable. Can anything be done about that?

Mr McClure: Hopefully, the review will look at that. If you are asking me today what I think, I would have to say that it is a very difficult nut to crack. There is one word to answer that: Starbucks. You try to tax Starbucks, which is a multimillion-pound business that can move profit around or hide profit. Well, I am not suggesting that it is hiding profit.

Mr Cree: Redeploy.

Mr McClure: Other businesses may well do that. It can certainly move profit around and avoid taxation in particular countries. That is a problem, and I am not sure that anybody has been able to solve it. In the review, we need to look at whether there is some sort of other indicator that would help to create some kind of ability-to-pay equation. I struggle with that, to be honest with you. We have a completely open mind. Something may come out of the review that helps us with that. Every business is different. Trying to adopt some sort of turnover trigger point or profit trigger point is very difficult because every business operates on different lines. Even businesses within the same sector operate with different profit levels, different turnover levels and so on. It is very hard to get some sort of additional measure in there to help the ability-to-pay issue.

The Chairperson (Mr McKay): I want to come back to the innovation lab, Brian. After it is concluded, what are the next steps or milestones in that process?

Mr McClure: The next step is that we will look at the findings and the results of the innovation lab and what it has told us. We will report to the Minister, draft some terms of reference for the Minister to consider and then move forward. The innovation lab will not just advise us on principles, objectives and criteria; we also want it to advise us on how we should undertake the review. I will report to the Minister and, once the Minister has cleared that, I will come to the Committee, hopefully before the summer recess. That is our plan. We have organised the lab for between 1 June and 4 June. That should give us plenty of time to get that through the Minister and to the Committee. We would like to be able to sign off the terms of reference, which will have to go to the Executive in due course.

The Chairperson (Mr McKay): OK, Brian. Thanks again.