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Committee for Finance and Personnel

OFFICIAL REPORT (Hansard)

Rating Issues:
Department of Finance and Personnel

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That is the consultation paper. It is a much narrower issue, of course, than that which we have just heard about, which raises fundamental issues about rate relief for sport and recreation clubs and, in particular, the treatment of private members' clubs. Some of the issues that you heard this morning are reflected in our consultation paper — our other, much broader, consultation paper — in relation to the review of business rates. We are aware that the rating policy position is far from ideal and that it creates some unfairness.

There are two levels to this. One is what I describe as "policy quirks". One of those quirks is the 20% rule, which Mr Logan referred to, which acts to the benefit of the two biggest golf clubs in Northern Ireland, which will enjoy 80% relief, not just on the golfing facilities but also on the social facilities. There is something not quite right there, and we readily admit that. Another quirk is the fact that councils pay no rates on municipal golf clubs. Whilst you might say that there is a circular money argument, only half a rate bill goes to the council; the other half comes to the Assembly. We have also asked whether it is right that municipal golf clubs should be exempt from rates, given what appears to us to be an oversupply of golf courses in Northern Ireland.

The Chairperson (Mr McKay): How do you come to that conclusion, Brian? How is there an oversupply?

Mr McClure: From my discussions with those involved in the industry, there seems to be a little bit of an oversupply. Is there a need for municipal golf clubs? Maybe there is not the need that there was in the past. Is it right that they should continue to enjoy full exemption? Those are two of the quirks.

The more fundamental issues are around the treatment of the larger, successful clubs; not just golf clubs but other sporting clubs. This morning, we have been talking about the quality end of the golf market, as to whether sport and recreation should apply. Wentworth was mentioned. I am pretty sure that Wentworth pays rates, but it would not pay rates if it were in Northern Ireland. We have quite a broadly based policy in Northern Ireland, a much more generous policy, in some respects, than applies in the rest of the UK. All private members' clubs — provided that they are not set up to make a profit, that is, so that money is circulated within the club and they do not employ professional players — will enjoy the 80% relief. There is a more fundamental issue as to whether we should have such a broadly based policy, a policy that dates back to 1978, when the golf market was quite different.

These are all issues that are raised as part of the review of rating policy. We do not have answers to them yet, and I am not sure that we will ever get ideal answers, but I think that we can make the situation better.

The Chairperson (Mr McKay): Is the idea of a turnover threshold for clubs, golf clubs and some rugby clubs as well one that DFP would consider?

Mr McClure: That is more of an issue in relation to the treatment of community amateur sports clubs, which is kind of a subset of the wider sector. It is something that we address in the consultation paper. We have said that we readily accept that some clubs will run a bar once a week after a game on a Saturday and really will not make an awful lot of money. However, differentiating between one type of bar and another type of bar is quite difficult. At the moment, the Department is taking a cautious approach to policy; that is why it is the Minister's intention to take forward policy for unlicensed clubs. A more discriminating policy could be taken forward in the future, if we can find an easy way to do it, but we need to have something that is proportionate in administrative costs as well.

The Chairperson (Mr McKay): I presume that, when you are talking about golf clubs on this scale, you are talking about those with bars and restaurants. So, at the upper end of the scale, there would be only a small number of cases to be looked at —

Mr McClure: Sorry, I was talking in the context of community amateur sports clubs. None of the private members' clubs, certainly not those at the successful, quality end of the market, will convert into community amateur sports clubs, because they will have to relinquish some control over their affairs. I do not think that many of them would be prepared to do that, so they would not fall into the community amateur sports club treatment.

In relation to private members' clubs, the current stipulation is that a club is not established for profit, does not employ professional players, and has all the proper articles of association and so on so that it has private members' club status. Provided that it does that and that there are sporting facilities of more than 20% of the value of the property, it will get relief on the sporting facility. I mentioned this as

a quirk of the system: if those facilities exceed 80% of the value of the entirety — that is the whole club, bars and everything — the whole lot will get 80%. So, I do not think that introducing a differentiation will affect that. It is an issue for the community amateur sports club, and we say so in the consultation paper.

At the moment, the Department is taking a more cautious approach. We are not the policy-competent Department for sport. We are the Finance Department: we are dealing with a revenue-raising measure to help to pay for schools, health and all the other services provided by Departments. We are very conscious that we are not the policy-competent Department for deciding such matters. That may explain the more cautious approach that we take, but I think that we are right to do that. This is a very complex issue, as you have heard this morning and from other evidence sessions. I think that this is about the third or fourth session that the Committee has had on the issue. There is a range of interest groups here, and quite a range of issues is coming into play, which explains why we are not jumping to give relief here or give relief there. We need to understand the whole picture better, and that is what the business rates review is trying to do. We have identified some of the issues, and new issues have come out this morning that I was not aware of.

Mr Wells: I do not think that the proprietary clubs are specifically demanding relief. They are saying —

Mr McClure: No, I am sorry; I was not suggesting that.

Mr Wells: Royal County Down in my area is a fabulously successful course; it is rated one of the top 10 in the world. It is a fabulously successful business that is doing very well for the entire community and employs a lot of people. It is membership-owned and so is entitled to all those reliefs. Meanwhile, a few miles down the road, you could have a club getting 10% of the income but having to pay all the extra burden. Therefore, to be fair, everyone should be treated the same.

The threshold issue is an important one, and the total turnover of the club is crucial. If a fabulously wealthy proprietary club is making a fortune, which is unlikely at the moment, there might be some sort of rule that it pay more. What we are dealing with here are small businesses in the vast majority of cases. A farm diversification scheme came out about 30 years ago, and farmers were encouraged to turn their land over to golf courses. I think that many of them now regret that, because, whilst there might have been a capital grant to do the work, there certainly was no grant to pick up the tab when things started to go badly wrong. The stats show that there has been a significant drop in member numbers in clubs. The Golfing Union of Ireland states that it is about a 20% fall, so the stats show that life is very hard for the clubs. My concern is that we may not have much time and that some clubs could go to the wall before this is all sorted out. The rules and regulations were set at a time when things were very different. Clubs in my area have effectively become big businesses, and the golfing element is a small proportion of what they do. The membership-only clubs are big restaurateurs, and they hold functions, weddings and christenings. Therefore, the legislation needs to be upgraded to take account of the dramatic change that has occurred since the two sets of clubs were established.

Mr McClure: I agree entirely, and we raised some of the issues in the review. The establishment of a threshold was considered. It is worth reading the Lawrence committee report from 1977. The issue goes as far back as that. That was the last time that policy was established in relation to sport and recreation. Those changes were implemented in 1978, but that committee report looked at whether you could differentiate between successful clubs and normal struggling common or garden clubs. That committee came to the conclusion at that time that it was not worth the effort, but maybe it is now. You are absolutely right: the context has changed. Those are some of the questions that we are asking.

Mr Wells: What time span are we talking about?

Mr McClure: At the moment, with the review of business rates — that is the context in which we will consider this — we have already drawn up the consultation report. It has been validated by Ulster University, is with the Minister to note, and it will then come to the Committee. Following that, we will do more research and analysis and put forward recommendations for the next Executive.

Mr Wells: Are we talking 2016?

Mr McClure: Primary legislation would be required to make any change to the current regime on sport and recreation relief. With a fair wind, it could be 18 months. In normal circumstances, it would probably be two years. We are not involved in a quick fix, but something needs to be fixed.

Mr Cree: Brian, you mentioned that local authority municipal courses are exempt. Does that apply if they are franchised out?

Mr McClure: Probably not; I would say that they are not. If a course is franchised out and the franchisee has paramount control of the premises, which is the rating test, it would be treated like any other business. It should be treated like any other business.

Mr Cree: Is that the case even if a course is held on a licence?

Mr McClure: I am not sure. I would need a lawyer beside me to answer that. If the de facto position is that the licensee is in paramount control and has full management of the premises and facilities, that person should be classified as the rateable occupier and would, therefore, pay full rates. If that occurs, I would expect LPS to action that.

The Chairperson (Mr McKay): Brian, are there any other points before we move on?

Mr McClure: Are we moving on to derelict land tax? I thought that was what was on agenda this morning. *[Laughter.]* That is what I did my homework on.

Mr Ó Muilleoir: Can we move on to derelict land?

The Chairperson (Mr McKay): Yes.

Mr Ó Muilleoir: Are you sure that you have golfed all you can golf? You birdied that.

Thank you for the paper on derelict land; it is very comprehensive and useful. Brian, would it be helpful if, instead of approaching this in our silos, we talk about the non-domestic sector and derelict land and vacant properties — I suppose that you would call them derelict properties? We used the example of Carryduff shopping centre previously. You mention derelict houses, and there are such houses in Wellington Park, Sans Souci Park and Malone Park in my constituency. It would probably be useful, Chair, to look at both of them together because they are related. Among the many at fault in these situations are the banks. After the crash, for example, beautiful terraced homes in Wellington Park ended up in this NAMA limbo whereby a developer goes bust, and the houses become more and more derelict. Some rates may have been payable at the very start, but the houses then became derelict, and, of course, no rates are payable. That is pulling down the district, affecting local residents and making it difficult for people to revive the area if there is a big clump of derelict houses in the middle. Maybe we should try to tackle that as well. In the new mandate, could we make a push on both of those together? Do we really need to separate them out?

Mr McClure: I think we need to separate them. If we were to contemplate — I say "we" but I mean the Assembly — the introduction of a levy on derelict property, it would have to sit separately outside the rating system. Under the rating system, you can rate a house only if it is capable of being lived in or reasonably capable of being lived in. Maybe a weekend's work would render it so. You can rate a commercial property only if it is capable of commanding a rent in more or less its present state. If you were to start placing a meaningful charge on a property to encourage it back into use or more productive use or whatever, you would have to do it outside the rating system.

Mr Ó Muilleoir: You mentioned the Dublin case. Could you explain that? I saw it just recently.

Mr McClure: Do you mean what they are doing in the South?

Mr Ó Muilleoir: Yes.

Mr McClure: In the South, a Bill was introduced through both Houses last year — the Urban Regeneration and Housing Bill. It will allow local authorities to impose a levy on land in urban areas either for the purposes of encouraging regeneration or to bring forward land for housing purposes.

That legislation states that a levy of 3% could be charged on the estimated market value of that property, which would be its development value.

Mr Ó Muilleoir: Brian, could a vacant site mean a derelict house rather than a brownfield site?

Mr McClure: Yes, it could. My understanding is that it could include that.

Mr Ó Muilleoir: I note that our friends in Barcelona — you and I will have a fact-finding mission to Barcelona to check this out further — the council there introduced a tax on banks. If a bank is holding a vacant home for two years, they charge it €60,000. Again, that is to tackle homelessness and encourage those homes back into use. I suppose that it would be useful, because the issue is very complex, to follow how it goes in Dublin to see whether it is successful and helps.

Mr McClure: It is early days because, next year — I do not know why it is taking so long — every council in the South will draw up its own register of derelict or idle sites. In 2019, the levy will be imposed annually in arrears. There will be exemptions for property owners who are in negative equity, contaminated properties and uneconomic land. It will apply only to 0.1 hectares. What is that? It is about a quarter of an acre or something like that. You mentioned a terraced house. A terraced house would probably not fall within that net unless there were a series of them, because the land area has to be 0.1 hectares.

Of course, we do not have to follow that here, and we could decide to do something different. We first need to be very clear about the problem that we are trying to tackle before we decide what mechanism we should use. A tax on derelict properties sounds like a good idea, but, to formulate a good policy on that, we need to be absolutely clear as to what we are trying to do. Is it to help housing supply? Is it to free up town centre sites to encourage regeneration? We heard quite a lot on that during the consultation meetings on the review. People said, "There is a block at the bottom of the town. It has been sitting there for years and is obstructing any sort of development". That seems to be an issue, certainly with the business community in Northern Ireland. Are there issues beyond that? The measures that are being taken in the South are not only to do with regeneration but to do with increasing the supply of land for housing. I am not sure whether it is the same problem here.

Mr Ó Muilleoir: It is interesting that it is often three or four houses together. Someone bought one house, then bought the neighbouring house and had a plan to develop, and then the crash came. It is almost 10 years after the crash, and, in conservation areas like Malone, we still have all these empty houses. At the last meeting, we talked about what is fair. It seems to me that it cannot be fair for an organisation like Cerberus to hold the 16-acre Sirocco site and pay no rates, no tax — nothing — yet a cafe on the Ormeau Road will pay £3,000 or £4,000 in rates. A bank owns a manse in Wellington Park, had it sitting there for eight years and made no contribution, but the person who owns an optician's shop at Finaghy crossroads has to pay £4,000 or £5,000. The difficulty is trying to get a fair system. Then, of course, if we increase the quantum that we bring in, we can ease the burden on some of the people who are finding it tough.

Mr McClure: Yes, we can. We hope to tackle speculators, but we do not want to do something that will have a negative effect on the construction industry in Northern Ireland. We need to make sure that we have a proper balanced approach. That is why I said that we need to be clear about what we are trying to do before we look at the exact mechanism.

Mr Ó Muilleoir: These properties all lay derelict and empty, vacant and idle for eight years, and it was terrible for the construction industry. People were going to Scotland and down South to work because owners were holding on to all these properties. They were just waiting and waiting, and there was not a penny to pay. My view is that, hopefully, it would help people to get work if owners realised that they had to pay 3% of the value of the site each year. Anyway, that is the theory. It has been very useful to talk.

Mr McClure: There was a lot of support for that through the public consultation. I have not had a proper conversation with the Minister about what we should do in advance of the new mandate, because this will be a decision for that new mandate. I suspect that he will be sympathetic to it, given the support that it gained from the consultation.

The Chairperson (Mr McKay): Brian, what about charity shops? A number of charities have been in contact with members in recent weeks. There has been a growing awareness over the consideration

of this relief. Has the Department received much correspondence? Obviously, the Committee will be considering evidence from charities next week.

Mr McClure: We got a very healthy response to the charities issue as part of the review and consultation. About 30 charitable organisations wrote to us, clearly opposing any change in the status quo. On the other hand, a large number of business organisations took the view that everybody should pay something or at least pay a little. Charity shops are a very complex issue. Some businesses feel that charity shops distort the market and are competition, and businesses feel that they are being crowded out. On the other hand, charity shops might be a symptom of the state of the market in many towns. You can also take the view that charity shops compete with one another more than they compete with adjoining businesses.

The Department is keeping an open mind on the issue and will do further work. Certainly, our Minister will not do anything in the meantime. Even if he wanted to, any change in the status quo would require primary legislation to be taken through the Assembly.

There was quite a strong body of opinion that everybody should pay something. The position in GB is that most charity shops have an 80% exemption. Some boroughs and council areas will top that up to 100%, but they are in the minority. In the rest of the UK in adjoining council areas, some charge 20% rates and some charge no rates, so that is an interesting study area where you can see whether it has an adverse impact on the sector. I would say that the case has not yet been proven as to whether we should change matters. However, it was an issue, and it requires a lot more work. We certainly do not have any compelling evidence to suggest that it is having a distorting effect. The business community feels quite strongly about the matter.

Mr McCallister: To follow on from the Chair's point, there is quite a strong lobby around charity shops. There is a feeling that some towns are getting to the stage that, if they lost their charity shops, there would not be much else going on. A town in my constituency is set to lose a fairly prominent business in the next few weeks. That will have a pretty devastating impact on the town, and not much will be left in the centre bar charity shops. It is a big issue, and money raised in charity shops is often invested and spent in Northern Ireland communities to provide services. The issue has to be looked at.

If you look at the evidence since we started to rate vacant properties, what money has it brought in? Has it had an impact on the number of vacant properties?

Mr McClure: Gosh — I will struggle to give you a figure because LPS does not differentiate now. Vacant homes in Northern Ireland are rated at 100% and there is no initial exemption, so they are treated like any ratepayer and LPS does not identify the ones that are vacant. However, when we started off —

Mr McCallister: It started off at 50%.

Mr McClure: No. When we started off at 100% in 2011, we reckoned that it was bringing in about £15 million to £20 million revenue a year.

Mr McCallister: It was significant.

Mr McClure: It was significant enough. Let me come back to you, just in case I do not have that figure quite right. I think that it was at that level. It has broadened the tax base.

Mr McCallister: Given that you do not keep that data —

Mr McClure: That data is not collected separately, so an owner is treated as an occupier in the LPS rating database. It does not have a flag highlighting that a property is vacant. Every property is rateable at 100%, and there are no initial exemptions associated. There is an exemption for a listed property.

Mr McCallister: Given what Máirtín said about whether it had an impact and encouraged people not to have vacant properties, that would be useful to know. It widened the tax base for what we were looking for — that is fine — but did it change behaviour towards vacant properties? We do not know that.

Mr McClure: We do not know that because vacant properties are not separately identified. I answered an Assembly question about two or three months ago on this issue, and I think that we ended up saying that we were sorry but we did not have the figures. Let me come back to you on that.

Mr McCallister: It might let us know where the policy base is. You said that, in the review, there was fairly strong support for looking at things like how to deal with derelict land, and you said that you would not do it through the rating system.

Mr McClure: No.

Mr McCallister: Might you do it through LPS but legislate for a separate levy?

Mr McClure: Yes, and it would probably be administered by another Department. The properties that are on our radar as DFP are ones that are sound, weathertight and capable of being lived in. There are many more derelicts around the place for which we do not have a record. They are not on the valuation list, so we are not aware of them. The Housing Executive has done work to identify the location and number of such properties, but the Department does not hold that information on its databases. We just do not know the number of derelicts in Northern Ireland. DSD or the Housing Executive will have much better information on that.

Mr McCallister: If they do not have that information, would it be technically possible, between different parts of government, to do that and to start to identify land and other things?

Mr McClure: It would. The approach being taking in the South is, next year, to get local authorities to start to draw up a register of those properties. That will include not only derelict houses but vacant lots, derelict factories and all sorts of properties. When that is complete in 2019, a 3% levy will be charged on the market value of such a property — that is, the development value.

Mr McCallister: That sounds positive. Any one of us could go and see something on the edge of our town that is not attractive for people who are trying to build the town up, live near it or develop a tourist product. It is positive that, if places are lying derelict, the owner and who should pay the levy is identified.

Mr McClure: Yes, and that would act as an encouragement to free up property. It may be that, since the collapse in the property market, many landowners are holding on to these properties in the expectation that their value will rise. I am pretty certain that those values will rise because they are coming from such a low base, but people have no incentive at the moment. If no holding cost is associated with letting their properties sit there, they will just let them sit, and that is not good for the community.

Mr McCallister: Is this a halfway house to moving them to a complete land value tax?

Mr McClure: Yes, it is land value lite. My personal view is that you do not need to do it right across Northern Ireland. You need to target particular central urban areas where the problem lies. However, you need to decide which issue you want to address first. Is it about freeing up land for development, helping the regeneration of town centres or increasing the supply of land for housing or some other purpose? We need to be very clear about what we want to do, and we can then try to construct a sensible policy.

Mr McCallister: All the issues that you have identified need to be addressed at some point, but do you not think that —

Mr McClure: I do not know. Will increasing the land for housing development increase the supply of housing? I do not know the current rate of house building, but I am sure that it is about 5,000 a year compared with about 15,000 at the peak. I suspect that there is also an issue with the capacity of the construction industry in Northern Ireland. There is bound to be a lag after the very hard times that the sector has been through. A bigger cause for the shortage of new housing may relate to capacity rather than land issues. We need to have a better understanding of that before we try to construct a policy to help. It came out of the consultation that there is an issue with land preventing the regeneration of parts of our high streets. In virtually every town in Northern Ireland, you can identify a block that has been sitting idle for many years, and maybe now is the time to give it a bit of a nudge.

Mr McCallister: In fact, people struggle to identify who the owners of some places are.

Finally, are there any estimates as to how much the 3% levy will raise in the South?

Mr McClure: I am sure that they do not have an answer for me. I have not asked the question, but I will. What I do know is that the South had powers through the Derelict Sites Act, 1990, but it was a bit of a toothless tiger. A number of levies were raised but very little was collected, so it proved to be ineffective. The new legislation has more teeth, but it does not go so far as to place a charge on a property for non-payment, and I do not think that the South will take that step. I would have thought that that was necessary to ensure that we collect those levies.

Mr Cree: Brian, I will return very quickly to charity shops, which now have a very high profile on our high streets. I wonder whether there is more to it than meets the eye. Do landlords who are liable for rates — I see you smiling; you know where I am coming from — and who are unable to get what they want because of the lack of demand on the high street reduce rents to avoid paying the rates themselves? A charity shop slots in and does not have the big problem with rates either. If that is the case, the difficulty is that you have a cuckoo-in-the-nest effect, whereby charity shops often sell things in competition with other shops nearby that are paying full rates. That is an unfair situation, and shops that pay rates disappear. The prevalence of charity shops in my area is quite marked. I have no problem with that, but I wonder whether it is part of a vicious circle that we really need to know about. Rather than charity shops being the salvation of the high street, the fact that nobody else is there becomes, in effect, the damnation of the high street.

Mr McClure: It is an option for a landlord, to avoid paying empty property rates, to entice a charity in. The charity will pay no rates and a concessionary or small rent, which suits both parties. Landlords will put charity shops on a tenancy at will until they manage to secure another commercial tenant. However, many businesses feel that that almost crowds them out of the high street. I am not sure whether that is correct, but it is certainly the perception of the business community.

Mr Cree: Charity shops are not supposed to sell new goods, for example.

Mr McClure: That is right. They are supposed to get an exemption only to the extent that they sell donated goods. If they sell 20% of new goods out of their shop, they should be paying 20% rates, but it is very difficult to police, and virtually all charity shops get a 100% exemption.

Mr Cree: Unless other shops move onto the high street, town centres will die, anyway. Charity shops are not enough to support —

Mr McClure: There are too many shops in many parts of Northern Ireland. It is a simple fact. Things have transformed in recent years. There are other policy interventions that we might want to look at to encourage change of use. It is a very big issue.

Mr Ó Muilleoir: With that register, if Claire came back as Minister of Finance and Personnel —

Ms Hanna: Definitely.

Mr Ó Muilleoir: — would she be able to ask the Department to do the register, or would a register of derelict homes and idle sites in our towns and cities take legislation?

Mr McClure: You would need legislative backing to ensure that you got the information.

Mr Ó Muilleoir: Even to do the register.

Mr McClure: Anyone can draw up a register, but you would need some powers behind you to be able to demand the information. I would have thought that, if people are going to fall victim to a levy, they would be less than cooperative.

Mr Ó Muilleoir: I am sure that LPS is very capable of dealing with that. The only reason you did not mention for doing it was to bring in more money for the coffers, so that we could ease the burden on those who are being hit very hard with rates. We will see what Claire says when she is Minister.

The Chairperson (Mr McKay): Brian, this is your last session with the Committee, so thank you for all your cooperation over the last five years.

Mr Wells: Are you retiring? *[Laughter.]*

Mr McClure: No. This Committee may well be.

Ms Hanna: Apparently we are, Jim.

Mr Wells: I say that because Brian was here when I was here in the early 1980s, so he must be my age.

Mr McClure: As a child intern. *[Laughter.]* Actually, I will be taking partial retirement from next year. Thank you very much.

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