Northern Ireland Assembly

Committee for Finance

OFFICIAL REPORT (Hansard)

Non-domestic Rates Valuations (Coronavirus) Bill: Department of Finance

13 December 2021

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:
Dr Steve Aiken (Chairperson)
Mr Keith Buchanan (Deputy Chairperson)
Mr Jim Allister
Mr Pat Catney
Ms Jemma Dolan
Mr Philip McGuigan
Mr Maolíosa McHugh
Mr Matthew O'Toole
Mr Jim Wells

Witnesses:

Ms Sharon Magee	Department of Finance
Ms Angela McGrath	Department of Finance
Mr Ian Snowden	Department of Finance

The Chairperson (Dr Aiken): We will now receive oral evidence from the Department of Finance on the Non-domestic Rates Valuations (Coronavirus) Bill. The session will be reported by Hansard. This feels like welcoming old friends back to the Senate Chamber. I welcome from Land and Property Services (LPS) in the Department of Finance Ian Snowden, the chief executive; Sharon Magee, the director of rating policy; and Angela McGrath, the assistant secretary of the valuation headquarters. The relevant papers are in members' packs.

Ian and team, you are very welcome to the Committee for Finance. Ian, who will speak? Will you give us an opening statement? We will then ask you a few questions.

Mr Ian Snowden (Department of Finance): We have been here already, and there has been quite a lot of correspondence with the Committee, so I will take a minute to do an introduction before taking members' questions.

This is the formal introduction from the Department on the Non-domestic Rates Valuation (Coronavirus) Bill. The Bill consists of one substantive clause, which has been carefully framed to mitigate any associated loss that may occur to the overall net annual value (NAV) from the non-domestic valuation list in the rating system as a result of public health measures implemented by the Executive from 28 March 2020 or any future pandemic that may necessitate similar measures. The purpose of the Bill is to stop the erosion of the tax base from any COVID-related challenges that may come from ratepayers.

The Chairperson (Dr Aiken): I will fire off a couple of questions. The Bill includes a delegated power. Previously, the Committee misunderstood that to mean that the Bill's provisions would continue to apply in the event of a change to the naming convention of the current pandemic only. It appears, however, that the intention of the power is different. From your written response and the long title of the Bill, it appears that the intention is to allow the provisions to apply to any other pandemic. Is that the case, and will the Department explain the intention of the delegated power?

Mr Snowden: Yes, it is the case. The pandemic is, of course, an unprecedented event. A number of emergency measures have had to be put in place, and we have had to try to work out the implications of the pandemic for various aspects of public administration. The rating system, which is quite complex, is one of those aspects that has been quite difficult to work through. Given that we have been through the process and had a pandemic that required closure of business premises, we are attempting to future-proof the Bill in such a way that, if there is another pandemic at some point, a similar problem will not reoccur in the valuation list. The idea behind the delegated power is that, in the event that there were a different pandemic or a mutation of the coronavirus in such a way that it came to be called something different, the Assembly could enact the power to set that aside from the assessment of the appeals about the valuation list through secondary legislation, using the affirmative resolution procedure.

The Chairperson (Dr Aiken): We are going through an avian flu outbreak. I do not want to use the word "pandemic" at the moment, but there has been a significant outbreak that may lead to one. That will considerably affect our poultry businesses and the rest of it. Technically speaking, we could use that legislation to deal with avian flu as well.

Mr Snowden: You could, if you had a situation in which there were widespread problems in the business sector that required those businesses effectively to shut down. You have to relate it back to the matters in article 39A(1A) of the Rates (Northern Ireland) Order 1977 and to which matters affect the "physical enjoyment" of the property or other properties in the vicinity and therefore have an impact on your business. So, if you had another pandemic that was causing those kinds of problems, and those problems were widespread and would become unaffordable, then, yes, you would move to use this legislation.

We have had a foot-and-mouth epidemic and an avian flu outbreak in the past 20 years, but neither necessitated any measure of that nature, because there were not widespread business closures as a consequence. However, if you had, heaven forbid, a smallpox epidemic, or any other kind of pandemic that involved very serious human disease or infection, that required of a lot of measures being put in place to control its spread, including the like of business closures, you would expect to see these powers being enacted again.

The Chairperson (Dr Aiken): Other advice to the Committee suggests that the current incorrect wording of the delegated power could prevent the provision of the Bill being applied in the event of a change to the naming convention of the current pandemic, ie if they decided to call it something else. Will the Department bring forward an amendment to address that error?

Mr Snowden: We do not agree that there has been an error. Clause 1(5) defines coronavirus. So, if the name of the pandemic was changed, you would deal with that by tabling an amendment that would change the definition of coronavirus in the legislation. We are happy to take legal advice again to make sure that that is correct, but that is our understanding.

The Chairperson (Dr Aiken): Clause 1(5) states:

> *'"coronavirus' means severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2)".*

That is what you are referring to.

Mr Snowden: Yes.

Mr Allister: Indisputably, the effect of the legislation will be that an NAV, because it does not take account of the adverse impact of COVID, will be out of kilter with the market. Is that fair?

Mr Snowden: Yes.

Mr Allister: That, in and of itself, is a quite a major and revolutionary step to take in respect rating, in that the basic premise of rates is that they should be a reflection of the rental value.

Mr Snowden: They should be a reflection of the rental value at a date, which is the antecedent valuation date (AVD). As we explained at the previous briefing to the Committee, if there are economic shifts in the property market between the valuation dates, you will have, during that period, some rental values that are, to use your phrase, out of kilter with the market. Those cases are dealt with at a revaluation. We have already set in train the next revaluation, which will take effect from 1 April 2023.

Mr Allister: Except, going by the wording of clause 1(1), that applies for all time to all subsequent NAVs: you can never have a COVID impact on a future NAV.

Mr Snowden: No, you could not. That is the point.

Mr Allister: Is another way of doing it —

Ms Angela McGrath (Department of Finance): Sorry, can I step in?

Mr Snowden: Yes.

Ms McGrath: Chair, I have to correct you: my title is commissioner of valuation for Northern Ireland, not, as you said, assistant secretary.

The Chairperson (Dr Aiken): Oh, sorry.

Ms McGrath: It is not correct to say that there will never be any potential reflection of COVID-19 in the valuations that are put into the valuation list. The correct points in time at which the temperature of the market values are taken are the revaluation date and the antecedent valuation date. In going out to Reval2023, we are taking the temperature of the market as at October 2021 —

Mr Allister: Is that informed by COVID?

Ms McGrath: — reflecting any impact that COVID has had on the rental values in the market.

Mr Allister: Then, explain to me the third line of clause 1(1). Clause 1(1) states:

> *"For the purposes of the application of Article 39A of the Rates Order ... to the net annual value list that came into force on 1st April 2020 and to each subsequent net annual value list, the matters mentioned".*

Ms McGrath: The legislation relates to article 39A, which impacts only when a new valuation list is published. At every other revaluation, the market values and the rental values at the antecedent valuation date are used. Article 39A kicks in where there is a difference — a change or physical impact — that has potentially come in at the date of publication of the new list. At that stage — the date of publication — any difference between the antecedent valuation date and the economic circumstances at the time of a revaluation would be taken into account and ruled out.

Mr Allister: What is the meaning of:

> *"and to each subsequent net annual value list"?*

Ms McGrath: For Reval2023, we are taking the temperature of the market on 1 October 2021. If, for example, something occurs on the date of publication or the effective date of the valuation list on 1 April 2023, similar to what happened in 2020, where there is a lot of legislation or restrictions that prevent the use and occupation of premises at that point, which were not in place at the time of the antecedent valuation date, the provision would kick in at that point.

In effect, the situation could happen again on publication of Reval2023 or Reval2026, if there are continual changes to the Health Protection (Coronavirus, Restrictions) Regulations at the point in time when the valuation list —

Mr Allister: Is that not the point that you contradicted me on? I said that the legislation, as drafted, would in fact inform future valuations in respect of COVID? You said, "No, no, no".

Mr Snowden: I may have misunderstood your question when I first answered you, Mr Allister.

Mr Allister: You gave me a different answer.

Mr Snowden: Yes, I did. Going back to when I was here on 3 November, Mr O'Toole asked me a question about that and somebody else asked me a similar question. What we are doing with this legislation is making COVID an economic effect, and economic effects get taken into account in the valuation list at revaluations. The economic effect of COVID will most certainly be taken into account at the next revaluation, which will take effect in April 2023, and probably again in 2026 when the subsequent one is done. So, the economic impacts of COVID will most definitely be taken into account in the valuation list.

We are attempting to ensure that an event like a pandemic, a reoccurrence of COVID or another wave of COVID — for example, if we have another lockdown because of omicron — that takes effect between the antecedent valuation date and the publication date and affects an individual business or a number of businesses, cannot be used as a way of challenging the valuations that were taken account of with the economic effects. It is about separating the two things: this legislation, which is very specifically about the physical restrictions on a business and your inability to experience physical enjoyment of your hereditament, from treating COVID as an economic impact, which will take place over the longer term.

Mr Allister: I will ask you this, then: what is the meaning of the words:

> *"and to each subsequent net annual value list"?*

Mr Snowden: The articles listed in paragraph 1A of article 39A, cannot be taken into account —

Mr Allister: Those are the articles on physical enjoyment.

Mr Snowden: Yes. They cannot be taken into account if an event happens between the antecedent valuation date and the date of publication.

Mr Allister: If a COVID event occurs?

Mr Snowden: Yes, a COVID event.

The Chairperson (Dr Aiken): Or anything related to COVID.

Mr Snowden: Yes. If, heaven forbid, in February or March 2023, the omega variant of coronavirus requires another lockdown, the legislation says that that will not require an adjustment of the values in the valuation list to be published thereafter, so we will not have the same problem that we currently have —

Mr Allister: Because it will have already been discounted.

Mr Snowden: Pardon?

Mr Allister: Because it will already have been taken into account.

Mr Snowden: Well, the economic impacts of COVID will already have been taken into account.

The Chairperson (Dr Aiken): On the October date.

Ms McGrath: At the antecedent valuation date, yes.

Mr Snowden: That is what we are trying to do by future-proofing the Bill. However, because it is very specifically linked to article 39A, the Bill is not saying that COVID cannot be taken into account in any adjustment to the valuation list; it is being treated as an economic impact.

Mr Allister: I am not sure that I follow you. The point that I was trying to make when you raised that point was that clause 1 is a very dramatic intervention, because it really does, as I have put to you, upset the balance and distort the relationship between the market value and the NAV. Was there not another way of doing it? Could you not have said that all the matters in article 39A would continue to be taken into account but that, in doing that, you would measure and evaluate any financial assistance that was already given?

Ms McGrath: The vacant property is valued: the premises are valued, not the business.

Mr Allister: Yes.

Ms McGrath: The valuation list is a measure of how the market assesses the value of those properties, not the businesses. The relativity of those values relates to the market value of those properties, not any support that businesses in those premises would have taken. What you suggested would create inequalities and bring something new into the valuation aspect of the Rates Order on the definition of how the rateable values are arrived at.

Mr Allister: You are taking something out of the Rates Order that is relevant, namely the impact on the physical enjoyment. COVID has a negative impact on the physical enjoyment of the property, hence the rateable value should go down. You are saying, “Forget about that. We are not taking account of that. We are sustaining the rateable value as if that effect was not there”. How is that fair to those who use those properties?

Ms McGrath: The scale of the support that has been put in place — the two-year rates holiday and all the other supports — is how the Executive have chosen to support those businesses.

Mr Allister: Yes. That is why I am asking whether it would not be fairer, when you look at the adverse impact of COVID on the rateable value, to measure that whilst having regard for the fact that there was, nonetheless, very important governmental assistance. In other words, it cannot be a win-win.

Ms McGrath: Due to the way that the Rates Order is drafted, we took legal advice on whether it would be possible to take into account the degree and level of assistance that had been provided in trying assess the NAV or the rental value for the premises. The legal advice was that we would not be able to take that into account because, in effect, those —

Mr Allister: Yes, but you could if you provided for it in legislation. That is the point. You could have drafted the Bill to allow you to take that into account. I suggest that that would have been a fairer approach than the one that you are taking, which is to liquidate entirely an obvious adverse impact as ever having informed the NAV. The fairer way to do it would be to sustain the NAV, informed, as it is, by COVID, but mitigate that by the fact that there had already been a payment for that.

Ms Sharon Magee (Department of Finance): May I come in?

The Chairperson (Dr Aiken): Yes. Go ahead.

Ms Magee: One of the key tenets of Northern Ireland rating law is that properties are valued by what we call the “tone of the list”.

Mr Allister: Yes.

Ms Magee: If you start to value shops that are subsidised through grant support differently from each other, you will completely displace the tone of the list. Tone is how the valuation list is created and defended. You cannot unpick the tone: you cannot have two shops sitting side by side that are basically the same property but are occupied by different businesses being valued at different levels. Two similar shops sitting side by side will be assessed to have the same NAV. If one happens to get grant support because they have been affected worse by a pandemic than the other and that is taken into account in the valuation, you will end up with two NAVs that do not sit together and are not

aligned. You will have displaced the tone. The tone of the list is one of the key features of the Rates Order. We cannot displace it.

Mr Allister: If the list is not informed by the greatest possible impact that has come from COVID, what does that do to its efficacy?

Ms Magee: The Bill treats the impact of COVID as economic, which is correct.

Mr Allister: It treats COVID as if it never happened.

Ms Magee: No, it treats it as economic, because we will take it into account as an economic factor at the next Reval, which we are doing now, and it will be reflected in the values, which will reflect the rental market on the AVD, which is 1 October 2021. So, COVID will be reflected in the next valuation list, correctly, as an economic matter rather than as a physical matter.

Mr Allister: Can we see the legal advice that told you that?

Mr Snowden: A summary of it has been provided.

Ms Magee: We have already given the summary.

Mr Allister: Yes. Can we see the full legal advice?

Ms Magee: I do not know about that because it has legal privilege.

Mr Allister: The privilege can be waived by the person in the Department who asked for the advice.

Ms Magee: We have been strongly advised to not do that.

Mr Allister: I see.

Ms Magee: Only for the reason that waiving legal privilege would create a precedent.

Mr Snowden: Can I illustrate what you are suggesting by referencing some of the cases that have been identified by members of the Committee in previous sessions?

The Chairperson (Dr Aiken): Yes.

Mr Snowden: OK. Tesco, Sainsbury's, Asda or WineFlair may approach us and say, "We have been affected by the coronavirus".

Mr Allister: Affected positively in their cases.

Mr Wells: Very positively.

Mr Snowden: Yes, they might have been. Alternatively, they may say that they have incurred additional costs and that all kinds of other issues have affected them. They may approach us, and we, on the basis of the evidence that is supplied, which is the basis on which all of these decisions are taken, may decide that there should be a reduction in their NAVs. They have received no financial support to date, so, using your approach, the fair outcome would be a reduction for that kind of ratepayer. By comparison, an estate agent would approach us —

Mr Allister: Sorry, why would they receive a reduction?

Mr Snowden: Because we assessed, based on the evidence, that the NAV ought be reduced because of the impacts.

Mr Allister: But there was no adverse impact for them.

Mr Snowden: How do you know that until you have seen the evidence and made that assessment? There will be some smaller properties in town centre locations owned by some of those retailers that will have been affected, and so they would be entitled to a reduction.

On the other hand, take travel agents, about which Mr Wells made the point quite forcefully. A travel agent may approach us and we will have a look at it and say that there should be, for the sake of argument, a 25% reduction in the NAV of its property. However, we may decide that, because it has received to date a certain amount of rates support and grants, it will get no reduction on its NAV. That is a potential outcome of the approach that you would adopt.

Mr Allister: Yes, I appreciate that. That is the point: if they have got with one hand, they cannot get again.

Ms Magee: They will not under the Bill.

Mr Snowden: The tenor of the discussion at the Committee so far has been that we ought to be helping those types of businesses, which have been the worst affected. There has been very extensive grant support and every single business having received some degree of rate relief — to date, four months, and it will be five after the Budget when an additional month is added next year — so virtually no business in Northern Ireland has not received some degree of reduction.

There are other businesses — utility companies, for example, and others — that have received no support, so they will still to be challenge us. For example, the rail network has an NAV, which Translink would be capable of challenging unless we had some way of restricting its ability to do so because it was a certain type of ratepayer. So, under your approach, we would need to work through all sorts of things, including the detail of how it would be implemented in practice, and I am fairly certain that we would end up in a situation in which none of the classes of business that the Committee is concerned about giving assistance to would actually receive any help.

Mr Allister: Chair, unfortunately, I have to go to Question Time in the House. Are you still quorate?

The Chairperson (Dr Aiken): Yes.

Mr Catney: Can I come in on that point, Chair?

The Chairperson (Dr Aiken): Yes, go ahead. Do you want to make a declaration as a —

Mr Catney: No. I have moved everything over.

I am thinking about the public house sector. You said the businesses and not premises were assessed, but something tells me that an assessment based on turnover was brought in. That is why you could have two pubs, one facing the other, with different rateable valuations. However, you stated that the valuation is assessed on the commercial rental value.

Ms McGrath: There are three different methods of arriving at the net annual value, all of which are, essentially, an estimate of the rental value of the property. For properties that are mainly rented, like shops, offices and warehouses, there will be plenty of rental information on which to assess the net annual value on a comparative basis. For some types of property, there is no ready rental market, but there is trading and turnover information. For the likes of pubs, hotels and petrol filling stations, we use the turnover to assess the rental value of the property. Then, there are other properties for which there is neither comparative information, because they are not typically rented, nor turnover-based information that is suitable for arriving at a rental value. In those cases, we use the decapitalised costs of construction to arrive at a rental value. However, in all three methods, you essentially get to the same thing, which is an estimate of the rental value of the premises. All things being equal, each of the methods should arrive at the same end point.

Mr Catney: Yet, you can have two pubs that are across the street from each other, which do the same amount of business, with different rateable valuations. I am sorry to pick up on that, but it is something that I know about. That creates an unfair competition. I picked up on it when you generalised that all assessments were made on the bricks and mortar rather than on the businesses. However, when you look at the turnovers of pubs, you will see that a lot of them have changed and are now into food-type

business. I am sorry to go on about the issue, Chair, but I want to find out whether any allowance is made for turnover from dry sales, because that is not a monopoly business.

Ms McGrath: We look at pubs and hotels etc on the basis of the types of business that they are. Certain pubs are categorised as wet pubs and others as, essentially, food pubs. We look at the relative turnover in each of those sectors and use the information in the breakdown of the turnover to arrive at a rental value for the type of pub, whether it is a wet pub or a food pub.

Ms Magee: That brings us back, Angela, to what you said earlier, and what we spoke about the last time Ian and I were here, about collecting the rental lease information to tell LPS.

Mr Catney: Collect what — I am sorry?

Ms Magee: Do you remember when you asked me about the rental lease questionnaires when we were here before?

Mr Catney: Yes.

Ms Magee: That is why we are asking for that information now: the publicans can tell us their turnover from wet sales, dry sales and any other income streams. All that will inform the rateable value at the next Reval, because we use that to work out what a hypothetical tenant would pay to rent that pub. He would look at the income to make his decision on what rent he could afford. That is why we ask those questions of publicans and those who run hotels, cinemas, B&Bs and caravan sites. We ask what the income is and how that will help the tenant decide what rent they can afford to pay. All that goes towards the next revaluation, which is why we need people to fill in those forms. Do you remember that I sent you the information on the forms?

Mr Catney: Yes, I do. I am trying to get into it, because is complicated.

Ms Magee: It is.

Mr Catney: It is very complicated, and I thank you for that evidence

I have just one last point. Maybe now is not the time to raise this, but the Ulster University Economic Policy Centre (UUEPC) paper indicates that the adult domestic rates, including water and sewerage charges, in Northern Ireland appear to be £500 to £900 lower than they are in the rest of the United Kingdom. I always thought that our water charges were contained within our rates. What are those figures based on? Are they per individual or per household?

Mr Snowden: Sorry, is that from the Fiscal Commission report?

Mr Catney: Yes. It says that the rate in Northern Ireland is £500 to £900 lower than it is in the rest of the UK. We pay our domestic rates based on the valuation of our houses for domestic rates, so how do you come to that lower figure if water rates depend on the size and value of a house?

Mr Snowden: There are no separate water charges in Northern Ireland, whereas there are separate water charges in England, Scotland and Wales.

Mr Catney: Is that per house or per individual?

Mr Snowden: It is per house. It is quite difficult to work out an exact comparison, because you need to look at the council tax charge of a particular type of property in England, Scotland and Wales and compare it to an equivalent property here. What we have taken is the median rates bill and the median council tax bill. Half of all the rates bills are lower than the figure that has been provided, and half are higher. Equally, the figures for England, Scotland and Wales are median council tax figures. It is quite difficult to pinpoint an average rates bill or council tax bill, because property types are very different. I think that, at the top end, the highest rate bill in Northern Ireland on a domestic property is about £3,600 or £3,700. That is pretty much the same as the highest council tax bill at a band H property in England. Ours is spread out much more. In England, there are eight bands of council tax, whereas ours is based on the value of the property between £20,000 and £400,000. It is a very broad spread.

The Chairperson (Dr Aiken): Which we are going out to consultation to look at changing.

Ms Magee: The cap.

The Chairperson (Dr Aiken): The cap, yes.

Mr Snowden: If you wanted to do something with that, you would essentially have to change the poundage in the rateable value to put it up closer to England's. That would mean that everybody's bill would go up.

Mr Wells: I am sure that you have embedded agents watching everything that happens in the Committee. You can write us replies before we even send you the letter, so I know that we are being watched. I am sure that you watched the *[Laughter.]*

Mr Snowden: We were here when you asked the questions.

Mr Wells: We then met afterwards to discuss what to write to you, and you sent us the letter before we sent it to you, which was well done — I am not criticising you — but that has never happened before in my 27 years in this Building.

Mr Snowden: We will endeavour to be less efficient in future. *[Laughter.]*

Mr Wells: I am sure that you listened to the sessions with the Federation of Small Businesses (FSB) and Hospitality Ulster and the evidence that they gave. Actually, I thought they were quite responsible; they did not demand the sun, the moon and the stars, and they accepted the high level of support. They homed in on the £50 million, which seemed to be the game changer as far as they are concerned. How did you react to the councils saying that they want a slice of that £50 million?

Mr Snowden: We were surprised by that. Councils are tax-raising organisations. Part of the rates is the councils' tax, so the notion that they ought to get relief from the tax that they charge on other people was a little bit confusing to us.

Councils, like central government, pay rates on some, but not all, of the properties that they occupy. I do not know that they need to have relief on their own rates. They have received quite a lot of protection from the rate relief that we put in place. Essentially, what we have done with all the rate relief is take away the risk of non-payment. A business that does not have to pay rates presents no risk of non-payment, and we are paying all its rates for it from the Executive. Councils have been quite substantially protected by that during the course of the pandemic for the two years. All the councils, with the exception of Mid and East Antrim Borough Council this year, will generate quite healthy surpluses on their rates. In that council, it is connected to one valuation case about the valuation of an oil terminal being changed to industrial, which affects the valuation, but the council will be compensated for that from the derating grant. All the councils have been quite substantially protected in their non-domestic rates revenue over the course of the past two years. They have also received quite a lot of support directly from the Department for Communities in additional COVID-related support. We cannot see what the justification or rationale would be for taking money that has been set aside to provide relief to businesses that have been affected by the pandemic and giving that to an arm of the public sector.

Mr Wells: That is a very clear no. You listened to the FSB's evidence. It said that, if this were spread out over all businesses, it would be £670 per business, which, obviously, is very thinly spread. Have you given any thought to how you are going to target that money?

Mr Snowden: There was provision in the Budget announcement for a one-month rates holiday for all businesses.

The Chairperson (Dr Aiken): Ian, how much is that going to cost?

Mr Snowden: For one month for everybody, I think that — we are taking out the large food stores — it is £23 million. There are then two further months for retail, hospitality, tourism and leisure.

Ms Magee: And childcare and airports.

Mr Wells: Does that include off-licences?

Mr Snowden: No.

Mr Wells: No, because they have done extremely well.

Mr Snowden: They are excluded from the rates holiday.

Mr Wells: That is good.

Mr Snowden: They are entitled, like all other businesses, to the one-month holiday.

Mr Wells: Is there even any logic to that, given the fact that their rateable values must have gone sky-high during the pandemic?

Mr Snowden: Well, they occupy —

Ms Magee: Sorry, their rateable values did not go sky-high during the pandemic.

Mr Wells: Even though they made a fortune?

Ms Magee: Their rateable values did not change. You do not put someone's rates up because they happen to do well, in the same way that you do not put their value down if they happen to have a bad year. The rateable value is the value of the property, not of the business that occupies the property. It is the property, vacant and to let, that you value for rates

Mr Wells: Yes.

Ms Magee: It does not matter who is in the property. If someone goes into a property and has a really good year, we do not come along and put their rates up. We do not do that. We wait for the next revaluation and collect the rents. The rents then inform the rateable values.

The Chairperson (Dr Aiken): Sharon, from what you have seen of the market, is it fair to say that there has not been any sort of appreciable drop in property values at all?

Ms Magee: The market is always in a state of flux. There are lots of changes going on. It is too early to say what will happen as a result of this revaluation. The rents that we have collected so far show that there is a bit of stability in some sectors, but there are sectors where rents have increased and other sectors where rents have very clearly dropped. I will not get into what those sectors are, because that would be giving you the results of a revaluation before I actually know them.

The Chairperson (Dr Aiken): Yes.

Ms Magee: The market changes all the time. That is why we do regular revaluations. That is why we are rushing to do this one in three years instead of five years, so that we take account of this particular set of circumstances.

Ms McGrath: There may be businesses that are locked into leases that predate the impact of COVID. Their rent reviews are not coming up just yet, so it will take a bit of time before the impact on the rental markets is seen. We are taking the rental market as it was at October 2021, based on the evidence that we had at that point. New leases from then will give us the best evidence, but it may take a couple of revaluations — 2023 and 2026 — for all that information to go through. It might take a couple of revaluations, or maybe even three, before the impact of the pandemic is fully seen.

The Chairperson (Dr Aiken): I am not trying to prejudge the revaluation that is going on, but — I need to be careful about how I say this — is it that there has not been any indication of a collapse in value?

Ms Magee: We have not seen a collapse in value, no.

Ms McGrath: It is still early days. We are still collecting that information. We are still sending out reminders to businesses to fill in their rental lease questionnaires. It is really too early to say at this time.

The Chairperson (Dr Aiken): OK.

Mr Wells: The idea of a one-month rates holiday is very simple and clear-cut, but some people have clearly got through and had a good coronavirus crisis, business-wise, while others have been absolutely sent to the wall. Is this not a rather blunt way to do it. I keep harping on about the two that I know about: travel agents and dry cleaners. It is awful for travel agents. There are no functions, weddings or dinners, so dry cleaners are doing no trade worth talking about. They will get a one-month rates holiday, but a business that might have done jolly well will also get one month.

Mr Snowden: Part of the rationale for that is that, in this Bill, we are removing the right of appeal from every ratepayer on COVID grounds. Everybody has had that right removed, so we need to find some way of compensating all business ratepayers as part of that and, at the same time, to find a way of targeting those sectors that have been affected most significantly. That is why we are taking the dual approach. We could have taken that £50 million and spent it on two months' rates holiday for everybody. Instead, we have spent it on one month for everybody and a further two months for those sectors that, on the basis of Ulster University's analysis, have been the most severely affected by the pandemic. It is an attempt to balance those two things. A much more sophisticated targeting approach would be very difficult to administer, because the boundaries between different types of businesses are not always as clear-cut as you might think.

Ms McGrath: You would end up in an appeals process like the one that we are trying to resolve now.

The Chairperson (Dr Aiken): We know that the Bill has received Royal Assent. We heard that information earlier on. The Bill has received Royal Assent, so the £50 million Barnett consequentials are coming here anyhow.

Mr Snowden: Yes.

The Chairperson (Dr Aiken): However, when we asked the question about whether the £1·5 billion that was being sent to England and Wales had to be spent within the financial year, the answer came back that it did not, and that they were looking at measures to spread it over the rest of it. We have been told, however, that we have to do this to get the £50 million in, because we need to spend that in-year. Is there any reason for the discrepancy between what is happening in England and Wales and what is happening here?

Mr Snowden: The Barnett consequential comes when the English legislation is passed. The timing is unfortunate in one sense, in that it will come before January monitoring has been completed, on the current schedule for the English legislation. That means that it will be have to be added into the pot of money for allocation at January monitoring and be spent in the current financial year. The Minister has carved out the £50 million in next year's Budget. Effectively, we were not able to get the carry-over into the next financial year, but a decision has been taken in the setting of the Budget so that the money will be available next year.

Mr K Buchanan: I apologise for being late; I had to be in the Chamber to ask a question. If what I am going to ask has been covered, maybe you can summarise it. In the three and a half years' trading figures, which years are you referring to, and how far does that go forward? Are you finishing on 1 October at half a year and working back, or is it running on further than that?

Ms McGrath: We asked for three and a half years of trading figures. Normally, we ask for three years of trading figures when the antecedent valuation date is 1 April. This time, the antecedent valuation date is 1 October, which is three and a half years since the previous antecedent valuation date. That is why we have asked for three and a half years of trading figures from the previous antecedent valuation date, from 1 April 2018 to 1 October 2021.

Mr K Buchanan: Obviously that is going back from 1 October.

Ms McGrath: Yes.

Mr K Buchanan: I asked the Minister this in the Chamber. I appreciate that you have to pick a date, whether the date is right or wrong. Are you going to see enough of a snapshot in that additional half year? Why did you ask for those additional six months? Is that because of the1 October date or to get a better average or fairer method?

Ms McGrath: Well, 1 October is the antecedent valuation date, which is the date at which we are estimating the rental value of the premises. We are trying to get a feel for the trading trend of the particular premises from the last revaluation right through, showing the bottom of the curve in terms of the ability to trade, right up to the antecedent valuation date. It should show us where the trading would have been prior to the pandemic and how the pandemic affected the trading of the property.

Mr Snowden: By way of background, England and Scotland are doing revaluations to take effect in 2023, so all of us faced a choice. England has gone with 1 April this year —

Ms Magee: 2021.

Mr Snowden: — yes, and the Scots have gone with 1 April 2022. We do not think that, if we had taken 1 April 2022 as a valuation date, there would have been sufficient time for us to get through the logistical exercise of doing the revaluation. It would have been too difficult. We thought that 1 April 2021 was difficult. We were still in a lockdown. It would have been very difficult, with very little evidence to work on, so we picked a date in between. There are problems with all these dates, and there are issues around all of it, but that seemed to us to be the best balance between getting the information in and giving ourselves enough time to do the work.

Ms Magee: There is a practical consideration. It takes about two years to do a revaluation. There is an enormous amount of work. To have set the AVD at April next year, we simply would not have had time between then and September to produce the draft values. You have to take those considerations into account as well.

Mr K Buchanan: If I have got this correct regarding hospitality and the three and a half years, how much is footfall weighted? Let us say you have a pub and the footfall, for argument's sake, is down by 50% across those three and a half years, but the rent does not change because, as this lady referred to, you are on a five-year contract or whatever. How much does that weigh on the NAV? How much is that going to reduce that NAV for that business if the rental figure is the same?

Mr Snowden: Are you talking about pubs in particular?

Mr K Buchanan: Hospitality.

Mr Snowden: It depends on the type of operation. Let us say it is a pub. The valuers have to establish what a fair maintainable trade would be. Mr Catney ran a pub. Let us say he is a successful publican and does very well. If I went into it, I am a less successful businessman, so I could make less money out of the same pub than he can, so we have to find a way to balance out that aspect of a good-quality operator compared with a less successful operator. They have to work out this fair and maintainable trade. As professional valuers, Angela and Sharon know far more about how that would be done, but, effectively, you have to make a judgement.

Mr K Buchanan: You will have all the hospitality businesses. Let us say, for argument’s sake, they are down 50% across the three and a half years. They will reckon that their NAV will come down, or you would assume that.

Ms Magee: OK. Following up on what Ian said, that is why we ask for the turnover over three years. You look for a level of fair and maintainable trade over three years. Some pubs will have a good year and then there will be a dip. Others that have just opened will have a honeymoon period. Everybody will be going there, and they will be having a brilliant first year. However, that is not fair or maintainable. The valuers or chartered surveyors who value the pubs will be very experienced in that field and will look at all the trade of all the pubs in the vicinity. Remember what I said earlier about the tone of the list? Those valuers and chartered surveyors will also look at the tone, which is what an average pub could do in that location in that sort of business. They are not looking at an individual’s trading, but at a hypothetical tenant.

We look for that three years' trade to weed out the ups and downs and peaks and troughs. The reason why we are going with three and a half years this time is that the AVD has changed, but it is also to take account of that fallow period when the pubs were all closed. It is different from any revaluation that we have done before, in that we are taking account of COVID in the turnover of pubs, hotels and cinemas — those kinds of things. That is another reason why it takes so long to do a revaluation. There is an awful lot of talking to be done between now and then with the publicans and Hospitality Ulster to work out, hopefully, an agreed scheme of valuation with that sector — that they will agree to our proposals on how we will value them, we will engage with them and try to get their agreement so that, when we publish the next list, they will then be satisfied that we have very fairly taken into account the peaks and troughs over three and a half years.

On the question of what the rent was before, there is very little rental information available for pubs. For the last revaluation, I think that we collected 40 rents. Most of the pubs in Northern Ireland are owned and occupied by publicans. There is not a terrible lot of rental information to go on, which is why we rely so much on the trading information for those three and a half years.

Between now and the end of this revaluation, we will engage with Hospitality Ulster to try to agree the scheme and how we will reflect COVID in their next valuation list entries.

Mr K Buchanan: So —

The Chairperson (Dr Aiken): Just a second. Previously, we received evidence that there was difficulty in getting evidence from the likes of Hospitality Ulster.

Ms Magee: There is. There is a reluctance for them to tell us their turnover. It is a very closed shop. We just try to engage and say that the more they tell us, the fairer the valuations will be. That is to make them confident that the new NAVs, when they are published, actually reflect a hypothetical rent and so that they do not feel that it is maybe too high. This is the time for them to engage with us, but it takes interaction both ways. It really does.

Ms McGrath: In fairness, I should say that it is not Hospitality Ulster that we ask to provide us with the information; it is the individual ratepayer.

Ms Magee: Oh, sorry. Yes.

The Chairperson (Dr Aiken): Yes, but there is a trade body.

Ms McGrath: Yes.

The Chairperson (Dr Aiken): Keith.

Mr K Buchanan: OK. In the Bill, we are obviously looking back at coronavirus. Will that have any effect on the revaluation? With the hypothetical business that we are looking at, we are looking back at his or her business for three and a half years. If it is down, let us say, for argument's sake, 50% because of coronavirus, and the revaluation was to do with the NAV on the previous date, will that have any input on this revaluation exercise at all?

Ms McGrath: It might do. That is what we are doing at the moment. We are collecting the information. As I said, it is too early to say what the outcome will be. The purpose of the revaluation is to take the temperature of the market and the trading information that is available at the antecedent valuation date.

Mr K Buchanan: Yes, but the Bill is only looking at the previous NAV.

Ms McGrath: Yes, the 2020 revaluation.

Mr K Buchanan: You are now doing a revaluation for the new NAV, so coronavirus will be taken into account? Or footfall, whatever has caused it?

Ms Magee: The impact of the pandemic on the rental market will be taken into account. It is a distinction, but it needs to be made.

Mr K Buchanan: OK. I have one other question, if I may, Chair. Ian, you gave the figure of £23 million for one month. Is that sort of compensation to business if the Bill passes?

Mr Snowden: It is sort of in response to the fact that the right of appeal is being taken away. Over the three years of this valuation list, starting on 1 April 2020 and ending on 31 March 2023, all businesses will have received at least five rate-free months at the end of that period. You have to set that against the fact that we are not going to take COVID impacts and closures related to COVID into account when we are assessing challenges to NAVs. We think that, roughly speaking, about 15% will compensate everybody, more or less, for what they might expect to see. Some other types of businesses might have expected to see a larger reduction in NAV on the back of the COVID changes. By the end of this rates package, they will have had 27 months out of 36 paying no rates. When you put those things together, we think that it is a reasonable balance — a compromise — to take away the right of appeal against NAVs.

Mr K Buchanan: One final, final question. Businesses have had two years with no rates to pay. They might possibly get another three months. However, they have been borrowing money and using whatever savings they have. Reality is going to hit them when the rates bill plus other bills — the fuel increase and all; I appreciate that that is not your thing — land on their mat in July or August next year. Whenever that happens, reality will hit those businesses and they are going to struggle. Let us say that they get only the month, and footfall may or may not be down. We do not know that; we do not know what will happen in the new year. What do you say to those businesses? This is the only avenue that they have to breathe, with possibly an appeal, and bear in mind that it is possibly for only, let us say, eight months that the right of appeal is going to last and the new revaluation comes out. They are struggling.

Mr Snowden: The first point I make to you, Mr Buchanan, is that I do not decide how much in rates a business ought to pay. Those decisions are taken by elected representatives, either in district councils or in the Assembly and Executive. If it is felt that there ought to be more rates support for businesses, we will administer it. We have been given the job of working out what is the most equitable, efficient and easy-to-administer way of making use of the £50 million that has been granted to us. I fully accept that lots of businesses will continue to struggle because the environment is difficult. We are always willing to talk to any business about making a payment arrangement to try to spread out that burden and make things as easy as possible for them. However, I can only administer what the Executive and the Assembly give me. At the minute, I have £50 million.

Mr K Buchanan: Thanks. I appreciate that.

The Chairperson (Dr Aiken): Ian, I have just a couple. Just to get this right, what you are saying is that the COVID economic impact will be taken into account, but the closure periods will not.

Mr Snowden: The COVID economic impact will be taken account of at the next revaluation. The impact of the pandemic and the closures is so widespread that it can only properly be dealt with as an economic impact, not as a localised, individual, property-based effect.

The Chairperson (Dr Aiken): Right. OK. I have got that. The final question: in your written response, you appear to offer a review of the outworking of the Bill. Can we clarify that? Is the Department offering to amend the Bill in order to include a power to suspend the relevant provisions pending mandatory review process, with a resumption subject to Assembly agreement?

Mr Snowden: Is this in relation to the exclusion clauses?

The Chairperson (Dr Aiken): Yes.

Mr Snowden: That was about whether we should have a sunset clause. What we proposed was that we would come back at a future date with a proposal to putting something to that effect in, if it were considered necessary. Is that not what we were —

Ms Magee: Yes. We said that we would be happy to review it after six months, a year or whatever, if you wanted us to look to see how it worked.

Mr Snowden: Some sort of agreed timetable.

The Chairperson (Dr Aiken): So you are not going to amend the Bill?

Ms Magee: No.

The Chairperson (Dr Aiken): OK. Matthew has not returned. Thank you very much indeed, Ian, Sharon and Angela, for coming in. If I do not see you before — hopefully not, but do not take that the wrong way — have a really happy Christmas and a happy new year. We will see you in the new year, do not doubt it.

Mr Snowden: I am sure. Thank you.

The Chairperson (Dr Aiken): Cheers, thanks everybody. Give our best to everybody in LPS, please.