2019 BUSINESS RATES REVIEW Consultation Report

Land & Property Services
Department of Finance

Published in October 2022

Land & Property Services
Seirbhísí Talún agus Maoine

Department of Finance
An Roinn Airgeadais
www.finance-ni.gov.uk

Preface to the Business Rates Review 2019 Consultation Report

In May 2019, the Department of Finance announced plans to undertake a full and comprehensive review of business rates in Northern Ireland. An eight-week public consultation process began on 18 September 2019 and continued to 11 November 2019. The Terms of Reference for the review stated that the planned timeline for the Review included publication in the spring of 2020. The Northern Ireland Executive and Assembly were restored in January 2020. Almost immediately, the Department, Minister and the Executive as a whole were forced to reorient their work to address the urgent challenges of the largest public health issue of our time with the outbreak of the Covid-19 pandemic.

Publication of the Business Rate Review report was deferred while the Executive took steps to address the pandemic, and the normal functions of the business rates system were re-purposed within a package of pandemic support. The rating system was used to provide a 27 month rates holiday for those businesses most affected by the pandemic, with the system also being used to identify and target the distribution of the Executive's direct grant payments, to compensate sectors of the economy for the effects of the restrictions placed on trade.

Although the report could not be published, the 2019 Review has resulted in some policy changes. The consultation responses informed the setting of the Regional Rate for the 2020/21 year, with the key step taken to reduce the non-domestic Regional Rate by 12.5% in real terms after the effects of the 2020 Non Domestic Revaluation exercise had been taken into account. This was a direct response to the headline finding from the 2019 Review process that the business rate poundage in Northern Ireland was too high and placed too much of a burden on business ratepayers. Subsequent Regional Rate freezes for 2021/22 and 2022/23 have consolidated and protected this cut to the Regional Rate for businesses.

In other policy changes informed by the 2019 Review, the Department has reintroduced an expanded Back in Business Scheme, aimed at reinvigorating high streets, extended Small Business Rate Relief and rural ATM exemption annually, and delivered on a commitment to make revaluations frequent and consistent.

In February 2022, the Executive ceased to function following resignation of the First Minister. Since that point it has not been possible for the Executive to collectively consider the effect of the pandemic on the findings of the 2019 Review. Businesses now also face the significant dual and related challenges of the cost of living crisis and the impact of the global energy crisis.

It is accepted that, due to the seismic nature of global events in the pandemic plus the contemporary crisis arising from the energy markets, the responses received in 2019 may not reflect the views of businesses and stakeholder organisations in October 2022.

Despite this, because of the amount of work that stakeholders put into the process, and the residual value it still has in informing Departmental policy thinking in the medium to long term, the Department felt that it should proceed to publish the factual report originally prepared in 2020, and to acknowledge the high standard of engagement undertaken by stakeholders during the 2019 Review process.

This report will be used to inform any incoming Executive, which can assess its contents in light of the subsequent world events.

Department of Finance
October 2022

Business Rates Review and Consultation Process

1. This consultation report provides a summary of the responses received during the public consultation process on the Business Rates Review (the Review). It is a factual report outlining the views expressed during the consultation.

2. In May 2019 the Department announced a fresh appraisal of the fundamental features of the business rates system here with a view to examining options to ensure the rating system is fit for purpose.

3. As an early part of the Review the Department jointly hosted an Innovation Lab along with colleagues from the Departments for Communities (DfC) and Infrastructure (DfI). The theme of the lab was ‘how can we help our high streets?’ and it was attended by a wide range of stakeholders from various interested sectors both here and in Britain. The findings of the Lab fed into the Review and helped establish the key consultation questions. The 2 questions relevant to DoF were incorporated within the Business Rates Public Consultation phase and became part of the 6 consultation questions. The 2 lab questions were -

   - How do we reform the tax system to ensure we have sufficient revenue to pay for public services and the tax burden is fair?
   - How do we reduce the individual rates burden without decreasing the level of funding that rates provides?

4. The Department carried out the public consultation on the Review from 16 September 2019 to 11 November 2019. The consultation sought views on the following issues -

   - How can revenues from district and regional rates be raised in a way that is fair and equitable and without placing an unacceptable burden on business ratepayers?
   - What ways can be found to widen the tax base that could facilitate a lower level of business rates?
   - How can a fair distribution between district rates and regional rates be sustained?
   - How can a fair distribution between non-domestic and domestic rates be sustained?
   - What reliefs and supports are necessary and might be introduced, changed or ended, targeted in line with Executive priorities and recognising ability to pay?
   - What alternative taxation options should be considered to complement or partially replace property based non-domestic rates and to allow for lower levels of revenue from business rates?

5. During that period the Review Team also provided some 32 briefings to Councils, Chambers of Commerce and business organisations, and received valuable feedback.

6. 239 written responses were received by the closing date; the number and variety of respondents was highly encouraging. Responses were received from individual ratepayers, district councils, businesses, voluntary and community organisations and professional bodies.

7. The consultation process was of strategic importance to the Department's ability to assess whether the business rating system continues to operate in a way that is fit for purpose. The rating system, Northern Ireland's only devolved tax, is essential in order to fund key services, both at regional and district level. The system, together with the suite of support measures, needs to be positioned to allow it to respond to ever-changing marketplaces and local economic conditions.

8. The consultation process was advertised in the local press and attracted a significant amount of coverage in local and national media, social media coverage and specialist stakeholder events. In addition the process was supported by three additional Innovation Labs. More information about the Innovation Lab process can be found at the link below:

https://www.finance-ni.gov.uk/articles/introduction-innovation-lab

9. A numerical breakdown of the written consultees responding to the consultation is set out in the following table:

Sector	Responses
Retail Business	52
Small Business Owners	31
Charity	24
Manufacturing	20
Local Government	11
Child Care	11
Health & Wellbeing	11
Property Rating Profession	9
Hospitality	9
Chamber of Commerce	8
Business Landlords	7
Other	5
Trade and Business Organisations	5
Education	4
Freight / Transport	4
Built Environment	3
Business Improvement District	3
Church	3
Community	3
Not for Profit	3
Sport and Recreation	3
Agriculture	2
Political	2
Postal Services	2
Utilities	2
Government	1
NDPB	1
Total	239

Key themes from responses

10. The key themes emerging from the Review are as follows -

- Business ratepayers felt they are overtaxed and the **rate poundage excessive** and probably the highest in the world, effectively placing a 55-65% tax on the rent/rental value of a business premises;
- The **future of industrial derating,** including the need to consider the potential for re-profiling or re-targeting the provision;
- The **future of Small Business Rates Relief,** including the need to consider the potential for re-profiling or retargeting the provision and recognition that the issue of high business rates is much wider than small businesses;
- The need for a fundamental "root and branch" **review of all rate support** provision in both domestic and non-domestic sectors to include potential for reliefs to be **timebound**;
- The need to examine existing operation of **vacant rating provision** in the non-domestic sector;
- The examination of options for **widening the tax base** including scoping the possibilities of taxation on derelict sites and agricultural land and buildings;
- An exploration of policy to grant **district councils** an enhanced role in relation to discretionary support provision and the potential for district councils to have a more enhanced role in striking the rate;
- Review of **Sport and Recreation** provision;
- A detailed examination of the issues relating to the rating of the **charitable** and charity retail sectors, including charitable trading;
- A need for new **high street** "rates incentives" including the restoration of the 'Back in Business' scheme;
- Greater **transparency** around rate revenue expenditure from local and central government;
- Consideration of the **balance between the non-domestic and domestic tax bases** within both district and regional rate setting/rates striking.

11. These issues, and the diverse range of opinions expressed in relation to them is explored by policy area in the remaining sections of this report.

RATE POUNDAGE

12. There was widespread consensus that the rate poundage is excessive and that the overall rates burden is too high on both business and domestic fronts, but particularly on businesses. The overriding theme that pervaded the entire consultation was that business rates were too high and this needed to be addressed to help our business community.

13. In total 100 consultees raised the issue of the rates poundage, with 69 expressly citing their view that rate poundage levels were too high in Northern Ireland. A number of stakeholders including the **Northern Ireland Retail Consortium** and **Belfast Chamber of Commerce** felt the rate poundage was an issue which needed to be addressed. **Trade NI** stated that the poundage should be on parity with the rest of the UK.

14. 38 respondents commented on both the domestic and non-domestic elements of the rate, there were varying views on this issue with a number of the comments on the removal of the conversion factor to allow District Councils to set different rates for Domestic and Non-domestic properties.

15. In relation to the district rate poundage, 12 consultees suggested that an improvement could centre on the review or removal of conversion factors to allow Councils the power to strike separate rates to decouple the non-domestic and domestic rates. NILGA proposed that these should be made optional and serve as a guide to allow greater flexibility in rate striking. A number of councils also supported this with **Newry, Mourne and Down, Fermanagh and Omagh** and **Derry City and Strabane** acknowledging that this could help to shape the future of the new council areas.

16. A small number of consultees focused upon the delivery of efficiency savings within district councils with some commenting that efficiencies anticipated from the reorganisation of public administration which resulted in the creation of larger councils had not been delivered. **Inform CPI** raised the concern that the reorganisation has not yielded any administrative and operational savings in relation to economies of scale and streamlining of administration particularly in the rationalisation of the estate and staff savings.

17. A small number of consultees including **NILGA** highlighted the need to drive efficiencies in collection of rates. They stated that this could be improved by -

- Publishing a register of commercial properties along with information on the reliefs accorded to that property
- Publishing information on the rates of collection by industry sector and by council area
- The introduction of an Anti-Avoidance Rule to reduce avoidance and make it harder for loopholes to be exploited in future (as provided for in Scottish legislation). This could include a statement that indicates who the liable party was for any potential avoidance (Directors of a business or property owner) to deter blatant violations.

FUTURE OF INDUSTRIAL DERATING

18. There was a wide spectrum of responses in relation to Industrial Derating, which is unique to Northern Ireland and means that Manufacturing rates are held at 30 per cent liability. 28 comments were received on this issue, of the views expressed 20 comments favoured retaining the relief, 8 comments wanted to see the level of relief reviewed or advocated the removal or retargeting of the relief.

19. Those in favour of retention, including those stakeholders from the manufacturing sector such as **Mineral Products Association Northern Ireland (MPANI)** and various Chambers of Commerce took the view that it should be retained at the same level, with government's focus being placed on supporting and growing the sector. The **Northern Ireland Chamber of Commerce** felt the scheme provided both recognition and commitment by Government to support the sector. **Queen's University** expressed their support for the scheme and also added that the scheme should be enhanced to 100% for new manufacturing businesses.

20. **Trade NI** (of which **Manufacturing NI** are a part) outlined their view that there should be a long term commitment to Industrial Derating until 2030 while **Manufacturing NI** (in their standalone response) stressed the importance of the sector to the wider economy and the impact of any job losses on the economy.

21. Other stakeholders including the **IFA Stadium Project, Royal Society of Ulster Architects** and some retailers were of the opinion that the relief should be reduced or removed with others of the view that ability to pay should be recognised when awarding the relief. **IRRV** also suggested that consideration should be given to reassessing the application of the liability cap while ensuing State Aid rules compliance.

22. It was also suggested, for example by **Almac Group** in their response, that the legislation governing Industrial Derating should be amended to reflect more modern industry.

FUTURE OF SMALL BUSINESS RATE RELIEF

23. This issue also generated a significant number of responses, 27 in total, from a wide variety of stakeholders. Of those that responded 19 consultees demonstrated a strong support for the Small Business Rate Relief (SBRR) provision being retained. 11 of which, made the case for further enhancement to the scheme. In particular, there were robust calls for consideration to be given to full utilisation of the Barnett Consequential funding (provided to Northern Ireland by Westminster) in order to fund enhancements to the scheme to help to bring it more closely into line with the generous GB thresholds for SBRR support in these jurisdictions.

24. Elsewhere views were expressed that SBRR should take into account ratepayer ability to pay and that relief should be allocated to specific areas/sectors.

25. Other respondents, 11 in total pressed the case for an expansion to the scheme and increase NAV thresholds. Others asked for the scheme to be less regressive and for it to be expanded to a wider range of businesses, not limited by NAV.

26. **Sinn Fein** and **Trade NI** expressed support for a dedicated relief scheme with focus on retail and hospitality as a key catalyst of economic growth. **Trade NI** reiterated the case they made as part of the Rates Rethink proposals in 2016 and outlined their view that the relief should be application based and businesses should make the case for relief and demonstrate the difference made to the business meaning a different application process that would have to be streamlined to minimise any burden on business to complete. There will be some cost involved for both government and business but in their view, it is an investment that government here needs to make.

ROOT AND BRANCH REVIEW OF ALL RATE SUPPORT

27. 57 responses were submitted in support of a comprehensive or "root and branch" review of all rates relief to be undertaken. Among the key stakeholders who expressed this view were **Mid Ulster Council, RICS, IRRV, NILGA** and the majority of local councils

28. Some of the comments from key stakeholders included that consideration should be given to how reliefs are targeted, a ratepayer's ability to pay, the impact of the support provision on economic growth and the insertion of time limits to relief provision. The points raised tie into the more general point about the high level of poundage: as additional rate support provision can often lead to less revenue, which leads to a higher poundage being set to meet expenditure pressures.

29. A number of responses took the view that reliefs in general were economically inefficient, creating market distortions and that they could be avoided by ensuring the core tax is fair. Again this point ties in with the overall poundage level (see above), as a lower level of tax all round creates a reduced need to insert reliefs or "pressure valves" into the system.

30. It was also suggested by some stakeholders that consideration should be given to new reliefs. These included -

- relief aimed at incentivising business growth,
- a new relief for day nurseries to support childcare provision,
- targeted reliefs for start-ups businesses,
- targeted relief for regeneration of vacant properties to stimulate investment and future rates income growth,
- targeted relief for business engaged in the Circular Economy (businesses engaged in repair - shoe menders, electronics repair, bicycle repair, etc.).

EXAMINE EXISTING OPERATION OF VACANT RATING PROVISION

31. This issue attracted 27 responses across a range of perspectives. There was a distinct split in opinion over this area with 11 consultees advocating for vacant rating to be used as an incentive mechanism to promote use of property, and 16 consultees stating that vacant rating as a tax created difficulties - either in relation to owners who couldn't let property, or in terms of deliberate dereliction.

32. 11 consultees were of the view that relief from vacant rating needed to be evaluated to address issues associated with absentee landlords, with some suggesting that the relief provided on vacant properties should be reduced or phased out the longer the property is not in use. **Fleming Agri** stated that *'vacant buildings should have a rateable value on them based on a per square metre value so that they are not allowed to lie dormant on an investment purpose. Those that are under renovation should have a 1 or 2 year back into use relief'.*

33. **Fermanagh and Omagh District Council** took the view that a further review was necessary in this area as and when there is strong economic recovery, at which stage a tapered relief could apply based on the length of vacancy.

34. Some concerns were raised about landlords who have been able to let a property to a charitable organisation at a higher rent due to the charity being exempt from rates and therefore helping to distort the market and spoil the retail offering.

35. There was also a view expressed, however, that Non-Domestic Vacant Rating should be retained and others stated that it should be reduced to help landlords with empty property that they were unable to lease. **MPANI** stated, *'it is fundamentally unfair that Government should "tax" vacant property that has become vacant due to economic circumstances. The approach in the RoI, our nearest neighbour and competitor, where the charge is Nil if the property owner can demonstrate that it is actively trying to let the premises at a reasonable rent seems a much fairer and equitable approach'.*

WIDENING THE TAX BASE

36. As with the issue of vacant rating provision (above) there were a wide range of responses in relation to methods for widening the tax base. 42 responses were received on this issue with a majority of respondents proposing that the tax base should be broadened in some form or other so as to spread the rate burden more evenly. A number of the responses highlighted the related point that the system should have a greater focus on the ability to pay, and raising the possibility of everyone making a contribution.

37. There were suggestions as to a range of new taxes to be introduced as a supplement or complement to rates, including (but not restricted to) online sales tax, tourist tax, Derelict Land Tax, Land Value Tax, Green Related Taxes and a mobile phone tax. A small number of others consultees also suggested options to widen the tax base including the introduction of a 'household tax' to pay for 'extras' such as climate change and improved environmental services provided this was at a low level.

38. Other suggestions included amendment or removal of some of the rates exemptions or again time limiting exemptions that currently exist. There was also a number of suggestions regarding removing the support for the larger multi-national charity shops.

39. Elsewhere there was some limited support for the introduction of domestic water charges, the removal of early payment discount and for the domestic cap to be increased or removed altogether.

40. A number of consultees, including **Queen's University** proposed that those agricultural lands and buildings or perhaps at least agricultural rearing buildings which are not currently subject to rates be reviewed and brought into the rates base, with the domestic farmhouse valuation allowance also subject to review.

41. Another area which consultees raised was the growth of properties valued under the domestic rating system which are being used to undertake business activities and called for the Department to ensure that these properties contributed to the Non-Domestic system where appropriate.

DISTRICT COUNCIL ROLE IN RATES

42. There was prominent consensus that there should be greater accountability and transparency around what business rates pay for both regionally and locally and tax should be linked to the level and quality of the services provided.

43. **NILGA** and a number of local councils including **Newry, Mourne and Down** felt that there should be greater cooperation between LPS and councils to help reduce evasion and to help increase collection levels. **NILGA** stated in their response that 'Member councils are extremely keen to see further development of the better partnership approach between councils and LPS, to develop better 'policing' of rates evasion, utilising the skills of building control and other council staff on a contractual basis. The use of performance indicators as a mechanism to improve collection rates and the piloting of projects with councils to identify evasion is to be encouraged'.

44. **IRRV** and **Inform CPI** highlighted that District Rates increases were disproportionately high in some council areas in relation to the Regional Rate and that there was insufficient control over the setting of District Rate levels.

45. A number of responses including the **Ulster Farmers' Union** and some local councils felt that there should be local flexibility of reliefs so as to allow councils greater powers to manage their reliefs and respond to local economic conditions e.g. to target specific areas that are suffering disadvantage and decline so as to aid their recovery.

46. Some consultees including **Quinn's Dungannon** felt that there should be a greater onus on councils to fully justify their spending (particularly in light of the 2015 Local Government Reform process) and reduce costs where possible to ensure that all revenue collected from rates is used in a necessary, effective and efficient manner.

47. Other policy areas suggested for consideration by respondents included the introduction of a new uniform business rate for Northern Ireland (encompassing a regional and district rate element), the review or removal of conversion factors to allow Councils the power to strike separate rates and the possibility of decoupling of the regional and district rates (as covered in 'Rates Poundage' above).

REVIEW OF SPORT & RECREATION PROVISION

48. There were 11 responses in relation to this provision during the consultation period. 5 respondents took the view that there should be a review of the qualifying hereditaments and the prescribed recreations should be expanded to include private gyms, golf clubs and local universities. **Inner City Trust** took the view that consideration should be given to the level of relief provided and that the level of relief be lessened so as to reduce the burden on other non-domestic properties.

49. There were also very specific issues raised regarding the valuation of sports stadiums and private member golf clubs, highlighting ways in which the legislation, including the application of aspects of the de minimis principle, could be improved in both these discrete areas of Sport and Recreation provision. One business ratepayer called for *'all sports facilities to be rated in the same manner and with the same rate or exemption'.*

RATING OF THE CHARITABLE AND CHARITY RETAIL SECTORS

50. There was a distinct split in the views on this issue which was commented upon in a total of 58 responses. 33 responses took the view that the present exemption for the charitable sector needed to be reformed or reviewed.

51. The rationale provided in order to support such a review was advanced by **IRRV** in their response, where they stated that the review should consider:

- Could the exemption be viewed as inefficient and acting against general market forces?
- Is it appropriate to apply exemption to all registered charities?
- How should not for profit entities best be treated?
- The application in respect of operating companies,
- The appropriateness to all types of activity and whether there should be different classes of occupation attracting differential treatment?
- Growing use of charity occupation to enable empty rate to be avoided.

52. Other potential areas for review included -

- Review of the definition of religious places of worship from other charities with particular attention being given to those revenue generating charitable properties such as the Ulster Independent Clinic.
- Review of how the charity shops legislation is operated and enforced.
- Review of the level of relief provided and for a minimum charge to be introduced.

53. Conversely, however, 25 responses, the majority received from within the charity sector itself, particularly stakeholders from the charity retail sector advised that any changes to the support provided would have an adverse effect on the sector resulting in job losses, loss of volunteering opportunities and also increased landfill.

54. **Age NI** stated that *'the existing business rates exemption for charity shops should be retained. We urge the Department to recognise the value and positive contribution made by charity shops to the life of communities including the enhancement of skills, experience and connections of local people through volunteering, training and employment opportunities; the diversion and reduction of waste; enabling people on low income to purchase clothes and other items at a reduced rates; acting as a gateway for older people to Age NI services'.*

55. The **Charity Retail Association** advised in their response that, "replacing the current exemption with 80% discount would result in the closure of 24% of charity shops".

HIGH STREET "RATES INCENTIVES"

56. A total of 73 responses were received on various support packages for the high street. 12 responses called for the reintroduction of the 'Back in Business' scheme (a scheme that provided 12 months rates support to a new occupier of a retail property which had been vacant for 12 months or more) to help stimulate the high street. For example, **Trade NI** stated that 'The Empty Premises Rate Relief Scheme for town centres and high streets should be revised to (1) reduce the qualifying period from 12 to 6 months and (2) extend the first year 50% rate reduction to year two with a 25% rate reduction to provide further support to the new business.' in relation to the Back in Business scheme, while **Jane Collins Childcare** suggested 'that new business should be encouraged into towns by a programme of reduced rates e.g. 50% for two - three years to ensure they are established and then increase to full rate after this period.'

57. In addition to this, 13 stakeholders made the case for a business growth accelerator to be implemented similar to Scotland which provides support to new builds or property improvements for a specified period, by delaying any valuation increase associated with the improvement for a set period of time.

58. **CBRE** advocated the introduction of the measure outlining, 'as is the case in Scotland, rates policy in Northern Ireland should look to introduce a "Business Growth Accelerator". This provides an incentive to invest by -

- Preventing liability to rates on new build properties until the premises are occupied, the ratepayer will continue to receive full 100% Rates relief for a further 12 months; and
- For expanded or improved premises, the resultant rateable value increase will not be liable to a rate liability increase for 12 months.

59. Respondents also felt that the development of any new reliefs within the rating system should be informed by the broader economic environment within which they were operating. Other suggestions included the re-introduction of rural ATMs support scheme and the provision of some form of relief to subsidise co-working office spaces through the rating system.

60. There was also some support for the existing Hardship Rate Relief scheme to be reviewed, extended and/or made more accessible to retail/services businesses. It was also suggested that consideration should be given to potential reliefs which aim to incentivise business growth such as a start-up business relief.

TRANSPARENCY AROUND RATE REVENUE EXPENDITURE

61. One view expressed by various responses from across different sectors (for example a number of **Chambers of Commerce, (CBRE)** requested greater accountability and transparency around what business rates pay both regionally and locally.

62. There was a feeling expressed by some consultees that more effective public sector efficiency savings should be introduced which would reduce the burden on business to contribute so much of the government's revenue through the business rating system.

BALANCE BETWEEN THE NON-DOMESTIC AND DOMESTIC TAX BASES

63. There was recognition within the consultation that domestic and non-domestic rates are intricately linked and it would be impossible to ensure a completely fair split between the burden placed on each of the respective revenue streams.

64. Some consultees expressed the view that the overall rates burden is too high on both business and domestic fronts and that current costs should be evaluated.

65. There were also distinct arguments made by consultees that business rates should be cut with the shortfall being made up from the domestic sector. **IRRV** in their response said they 'believe there is a strong argument to say that the balance of funding between the domestic rate and the non-domestic rate is out of kilter. In fact, we would go so far as to say that a carefully managed increase of the domestic rate in Northern Ireland could be utilised to relieve the burden of the non-domestic rate.' Likewise, as highlighted earlier in the report, there was a sentiment from some ratepayers that domestic rates are now becoming unaffordable.

66. Other issues highlighted by respondents included the review of domestic charges (Water) and that a domestic property revaluation should be undertaken to provide balance between the valuation lists. Also **Advice NI** suggested that LPS conduct an internal review of potential costings re: implementing Severe Mental impairment reductions for ratepayers in Northern Ireland similar to the Council Tax scheme currently in operation in GB.

67. There was general consensus from a number of stakeholders that regular revaluations should take place with a timescale of every 3 years being proposed with the antecedent valuation date (AVD) date set one year in advance of the publication of the list as opposed to two which is currently used.

Land & Property Services,
Rating Policy Division, Lanyon Plaza,
7 Lanyon Place, BELFAST BT1 3LP

Department of Finance
(finance-ni.gov.uk)

Land & Property Services
Seirbhísí Talún agus Maoine

Department of Finance
An Roinn Airgeadais
www.finance-ni.gov.uk