Department of Finance and Personnel

Alternatives to the Small Business Rate Relief Scheme

A Discussion Paper

Contents

Introduction

1. The Small Business Rate Relief (SBRR) scheme was introduced in 2010 to support small businesses at a time of economic downturn. Since then 110,000 SBRR awards have been made to non-domestic ratepayers at a total cost of £61.5m. Annually, some 26,000 properties receive relief under the scheme at a cost of around £18m.

2. In order to assess its continuing relevance and effectiveness as a policy intervention, the Ulster University's Economic Policy Centre (UUEPC) was commissioned in 2014 to undertake an evaluation of the scheme. The report concluded that despite the scheme's popularity, it provided little economic benefit in terms of increased employment or additional investment. Consequently UUEPC recommended that the scheme should be phased out as economic conditions improve. In addition, it was recommended that if a replacement scheme was to be considered it should take a more targeted approach focusing on economic growth, to ensure value for money was maximised.

3. The SBRR scheme was extended for 2015/16 and provision has been made within the budget for its continuation during 2016/17. This was to allow for further research into its potential replacement thus avoiding a sudden increase in rates bills for those adversely affected by the district rates convergence process as well as the revaluation exercise introduced in April 2015.

4. A review of the non domestic rating system is currently ongoing, however, this matter is being taken forward as a separate piece of work, because the scheme has already been the subject of a public consultation in 2014 and following the evaluation there are sufficient grounds to look now at alternatives. As stated in the associated consultation paper published in October 2015:

   "The one year extension to the scheme is due to expire on 31st March 2016. Consequently any decision on its potential replacement will have to be made outside this review and in the context of the budget progression. Any proposals to replace the scheme will be taken forward as part of a separate consultation and include input from the Department of Finance and Personnel, Department for Social Development as well as the Department for Enterprise, Trade and Investment".

5. This document sets out the case for change to the SBRR scheme and seeks to draw upon the evidence contained within the evaluation to examine how to best use the budget provision for the scheme from 2017/18 onwards. However as the cost of the scheme currently represents revenue forgone any new scheme will be subject to prioritisation of spending through the normal public expenditure processes.

Background to SBRR & Evaluation Conclusions

6. The SBRR scheme was introduced on 1 April 2010 for a period of five years to help small businesses cope with the impact of the recession. At this time Northern Ireland

had suffered three consecutive years of recession. The key economic indicators[1] at that time revealed that:

- Real GVA had fallen by 10.3%
- Working age employment had fallen by the equivalent of 11,350 jobs
- The ILO working age unemployment rate had almost doubled to 5.2%; and
- 33,500 more individuals were either unemployed or economically inactive.

7. These challenging economic conditions along with the fact that small businesses in England, Scotland and Wales were already in receipt of SBRR, led the NI Executive introduce a similar SBRR scheme to Northern Ireland. The scheme provided a stepped reduction in rate bills for businesses based on an individual property's NAV using the following qualifying criteria:

Non-domestic properties		**Post Offices**	
NAV	**Level of Relief**	**NAV**	**Level of Relief**
£2,000 or less	50%	£9,000 or less	100%
£2,001 - £5,000	25%	£9,001 - £12,000	50%
£5,001 - £15,000	20%	£12,001 - £15,000	20%

8. The evaluation concluded that the main beneficiaries of SBRR are "Retailers, wholesalers and offices". The most recent data demonstrates that the largest percentage of these where shops (42%). When the top three categories of property were considered together, they accounted for more than four out of every five properties in receipt of SBRR and 84% of the total relief provided by the scheme. This is summarised in the following table:

Property Class	**% of SBRR awarded (2014)**
Shops, Showrooms, Supermarkets[2]	45.2%
Offices (Includes Banks & Post Offices)	19.9%
Warehouses, Stores, Workshops, (Non-IND) Garages	18.6%
Other	16.3%

9. It is also important to consider the geographical location of those benefiting from the relief. The analysis carried out by UUEPC demonstrated that the more rural areas of NI had a greater proportion of properties qualifying for SBRR whilst the more urban areas e.g. Belfast, benefited from the highest average level of award. This is perhaps unsurprising as it would be expected that rural areas would have a lower proportion of high value property compared to Belfast.

10. Consequently whilst it is evident that the Belfast City Council area received the most overall support, areas outside of Belfast did fair better when considered in the context of number of awards relative to the number of properties in each council area. In addition it is evident that the number of properties qualifying in areas outside of Belfast

[1] Source – NICEP Evaluation (NICEP & ONS)
[2] N.B This classification includes supermarkets however no supermarket chains are in receipt of SBRR

is evenly spread, with the percentage of qualifying properties in each new council areas falling within the range of 36% - 41%[3].

11. As has been noted previously, the evaluation concluded that the scheme offered limited quantifiable economic benefits and provided a low level of value for money. Indeed whilst it helped ratepayers with cash flow, survival and keeping the cost of overheads down, there was little evidence that the scheme incentivised any significant additional economic activity. The evaluation suggests that this is perhaps unsurprising given that the amount of aid is relatively small (£700 on average) and is a tax relief rather than a grant or subsidy that may have been easier to link directly to outcomes for businesses.

12. That is not to say that the scheme did not serve a purpose in alleviating some of the pressures experienced by business during the recession. Furthermore the scheme recognised the valuable contribution that small businesses make to the Northern Ireland economy. However the VFM concerns stem from the fact that there was little measurable evidence of any significant economic return from a scheme, which to date has had a total cost of £61.5m.

Policy considerations & continuing need for intervention

13. As noted in the preceding sections “Retailers, wholesalers and offices” are the main beneficiary of SBRR. In addition, relief provided by the scheme was spread evenly throughout Northern Ireland. Phasing out small business rate relief will mean current recipients will face an increase in their bill and therefore it is important that any replacement scheme is more targeted and creates clear added value for many of those same ratepayers.

14. While the proposals set out in this discussion paper contain some options related to the rating system, they also include initiatives that are the responsibility of other government departments. Furthermore, the proposals are all focused on the high street and town centres, not simply because the existing rates scheme applies most of its relief in these areas, but because the evidence suggests that town centres are important and need help.

15. Indeed recent survey results suggest that NI retail vacancy rates remain amongst the worst in the UK at 16.3% compared to a UK average of 9.1%. The Department of Enterprise Trade and Investment also suggests that the retail sector is facing challenging times with the sector having lost approximately 5,500 jobs for the year up to 31 March 2015. These views are further reinforced by the findings contained within the Department of the Environment’s Town Centres and Retailing Research project, which suggested that:

> *“Whilst there are positives for Northern Ireland towns, there are weaknesses and threats which indicate that it would be appropriate to have a stronger policy stance on protecting and*

[3] As a percentage of all properties within each Council area for 2015/16

enhancing town centres, encouraging private sector investment and development and making town centres the focus for not just retail but other significant footfall generating uses".

16. However it is not simply an issue about shops and the retail sector. From a policy perspective we need to develop interventions that will move us from a predominately retail centric approach to one which develops town centres as multifunctional social centres that people want to visit and indeed live in. The SBRR evaluation suggested that if a replacement scheme is to be introduced it should look to ways of supporting town and city centres beyond the downturn. The long term vision must recognise the inevitability of change and that to regenerate our town and city centres we must be more innovative in assisting their diversification from predominately retail centric locations to multifunctional social centres, not simply competitors for consumers.

17. This view is supported by - **The 2013 report Centre for Cities: Beyond the High Street: Why our city centres really matter stated that**:

"By focusing too much on High Street shops and not enough on helping city centres to attract and retain a wide range of jobs, policymakers are failing to help our cities adapt to a changing economy and potentially damaging national economic growth. We have to stop just thinking about shops and start thinking about how best to support different city centres as places to do business. More and more attention has been paid to the High Street in recent years. Many policy documents, column inches and even TV shows have been dedicated to the woes of the High Street. All too often, they portray retail as an isolated activity".

18. However, when considering policy interventions in this way it is important to be mindful of the potential risks. Firstly as the UUCEP's evaluation has stated:

"There are considerable risks associated with sectoral or location specific incentives and though they were popular with the majority of stakeholders care must be taken when assessing their merit. They may result in moving economic activity (displacement) and thus damaging other locations or missing out key businesses in need if a broad sectoral classification is used. The current scheme responded to a particular economic need at a point in time and any future scheme should be tied to a similar clearly identified need."

19. In addition, there are major problems in defining "town centre boundaries". This is despite most town centres having boundaries defined within Development plans. However it is considered that these categories are neither current nor accurate enough to use for the purposes of local taxation. This was an issue that was highlighted and examined by DFP during the 2011/12 Interim Review of Commercial Rating. A town centre rate relief scheme was seen as posing risks by creating an unfair competitive disadvantage for those ratepayers situated just outside the chosen areas and increasing the likelihood of causing displacement.

20. The displacement effect had been evidenced previously within the NI rating system in the form of sub-regional Enterprise Zones in the late 1980s. The evaluation carried out on that policy experiment found such schemes to be poor value for money and assessed designating key areas caused notable displacement. It also noted that any rates holiday awarded was simply swallowed up in higher rents at that time. Importantly those issues were accompanied by the challenges associated with

designating where such areas would be. As alluded to above it was not simply a matter of deciding what area would be included, rather it entailed the much more pressing issue of the area to be left out. Such considerations remain key in relation to support for town centres, in particular in designating what is or isn't within a town centre boundary.

21. There is also the issue of ensuring that any replacement scheme is compliant with EU State Aid Rules. The SBRR scheme itself was assessed as having had a negligible impact upon competitive and comparative advantage, as it was/is such a small amount of aid paid to a large number of ratepayers. Indeed, that is the premise upon which de-minimus aid is predicated – that it will not have a significant impact on displacement or competition. Given that a large proportion of shops and offices were in receipt of aid and that the aid provided was a small amount in relative terms, it is highly unlikely that either the displacement effect referred to above or any competitive advantage would have been conferred as a result of SBRR.

22. Such considerations will be a key factor in the design of any replacement policy of support.

Stakeholder views (on SBRR scheme replacement)

23. It is worth reflecting on the views of some leading business organisations and other stakeholders who were consulted as part of the 2014 policy evaluation on the issue of targeting support. Indeed only one of the consultees (Federation of small business) stated that the scheme (as currently specified) should continue. Some of the views expressed are set out in the following section:

> *"The SBRR has provided relief to a significant number of our small businesses, and we would strongly urge that it be retained for at least the final year of this Assembly term. This will provide a degree of continuity in what may be a period of significant turmoil, due to the revaluation and convergence exercises."* ***FSB***
>
> *'NIITRA has always recognised that SBRRS is not a 'silver bullet' but it was a welcome response by DFP in providing a practical form of assistance. While we are happy for the current SBRRS to continue, NIIRTA believes that a new, targeted approach to addressing the twin challenges facing Independent Retailers and Town Centres is needed." There is an argument to look at a targeted approach to support town centres, arterial routes and retailers. There is a current unbalanced situation where town centre traders can pay more per sq ft in rates that large multinational out of town hypermarkets. To complement this, we would call upon DFP to establish a targeted Town Centre Rate Relief Scheme, which would provide a 25% reduction for town centre retailers and those in the hospitality sector".* **NI Independent Retailers Association. (NIIRTA)**
>
> *"It is clear that the scheme is not the answer. Small businesses do need support; there is a problem and high streets need to be rejuvenated. BIDs would provide a better solution but in order to do this successfully, a joined up Government and taskforce working together and being proactive are required. Something needs to be set up that works at a local level; look at what is unique to the area and how to use that to attract and keep people within the area. It is an opportunity to build on destination retailing, 'café culture' and increase footfall***."*** **NI Retail**

Consortium (NIRC)

"*From an economic standpoint the continuation of the scheme does not provide large benefits to small businesses and therefore funding could potentially be used to address more pressing issues within the small business sector*" **DETI**

"*We appreciate rates must be a revenue neutral scheme, but believe a more beneficial outcome criteria should dictate the direction of relief along with a need based measurement will result in showing relief in a more tangible and beneficial way. Serious consideration should be given to the BID concept."* **Ballymena Borough Council**

"A blanket approach with regard to the SBRR scheme would be preferable whilst making changes to the percentage relief available in order to increase the threshold. If this is not possible the scheme needs to be targeted and specific which is sympathetic to the needs of small businesses" **Derry City Council**

"There is scope to develop local Business Improvement Districts, with this money potentially going into a central fund which would provide services which the participating businesses may not be able to afford on an individual basis" **Lisburn City Council**

Indeed according to the evaluation report:

"A number of respondents were in favour of using the current funding to rejuvenate town centres. It was suggested that this could be done by introducing BID's. They suggested that current amount of relief received is spread too thinly across too many businesses and could be better used if it was pooled together to collectively enhance business areas. Another option was to offer a rate relief scheme for those businesses operating within town centres."

Options for Change

24. The following options are outlined for further consideration. Each of these on their own may not necessarily have a major impact on town centres or wider economy, but together with other government initiatives they have the potential to make a difference. They involve proposals that are outside the rating system, as well as several proposals to 'flex' the rating system in defined areas.

25. A criticism of government, both here in NI and elsewhere, is that there is not enough 'cross government' action to tackle issues around town centres. The proposals outlined in this paper seek to think beyond the normal departmental silos in looking at alternatives to small business rate relief. They are not, however, put forward as solutions to the massive difficulties facing our commercial town centres. Up to £18m of funding per year will not address those problems on there own. Nevertheless, the proposals are expected to make a contribution in terms of helping to create the right conditions for increased enterprise and investment.

26. The targeting of reliefs and other initiatives on town centres is something that has already gained significant support from stakeholders. As noted above, there are difficulties in defining city and town centres and choosing which cities or towns to target. As noted above, town planning maps are not sufficiently up to date for this

purpose and urban centres can often have satellite clusters of commercial activity that would miss out on the ‘red lining’ of town centres.

Business Improvement Districts (BIDs)

27. Business Improvement Districts may offer a better solution for targeting, or at least testing or piloting, some innovative policies and initiatives.

28. BIDs are self-help schemes initiated by the business community, in partnership with local government[4]. A BID can occur where a group of interested businesses get together with their local authority to consider what improvements are needed in their area over and above statutory provision.

29. In 2013, DSD put in place primary legislation to allow for the establishment of statutory BIDs in Northern Ireland. As noted above, BIDs are an opportunity for local businesses to work with their local council to have a say in what additional services or amenities their own area needs to attract more business and providing those through funding from a BID levy – a way for traders to help themselves.

30. A BID can be established covering any geographical area; examples range from town centres to industrial parks. There is no upper or lower limit to the number of businesses that can be covered by a BID. It empowers interested traders and business owners to get together with their local council to look at improvements their area may need. A BID can cover almost any project or service that the businesses agree would be of benefit and worth funding. Projects can include core services such as additional cleaning and security or more wide-ranging projects such as recycling, business support, improved infrastructure, joint purchasing, area branding and promotion. Basically, a BID delivers what businesses want it to deliver.

31. A BID is not intended to replace public investment in the area; instead, additional services or projects are funded through the BID levy. All businesses within a potential BID area have the opportunity to vote on proposals before the levy is imposed. Proposals are developed by local business-led partnerships, usually in co-operation with their local council. A ‘proposer’ must develop a proposal describing the additional services and the proposed levy upon ratepayers. All non-domestic ratepayers in the BID area vote on the proposal in a ballot. It is not possible for businesses to refuse to pay a BID levy once it’s in place; the only option would be to argue and vote against the BID being extended after its term ends. The proposal must also specify the length of time that the BID will last; almost all last for the maximum five-year period. It may also include provisions for discounts or exemptions from the levy (for example, for properties below a certain rateable value).

32. DSD is currently providing support to promote the BID concept here through a NI BIDs Academy (http://nibidsacademy.co.uk/). The Mosaic Partnership leads this Academy

[4] For further information about BIDs and their operation in an Northern Ireland context see http://nibidsacademy.co.uk/

and provides intensive capacity-building support and training to six BID Pilots (Ballymena, Belfast City Centre, Belfast Cathedral Quarter, Enniskillen, Newry and Strabane) to help them prepare for the establishment of a BID in their area. The first three of the pilot areas to go to ballot - Ballymena, Belfast City Centre & Newry have successfully voted to establish a BID in their town or city and will raise a sustainable investment of £9.7m in those areas over the next 5 years. The remaining Pilot areas are scheduled to go to ballot in April 2016.

33. Given that BID areas are clearly defined they may provide a good basis for testing or targeting additional measures and in the process encourage the creation of more BIDs. Indeed one such area is the Belfast BID that has 227 ground floor units out of a total of 1230 that are currently vacant (18%)[5].The focus of most of the following options therefore considers providing targeted support within BID areas. Needless to say there may be other options for area based targeting and it also needs to be recognised that BIDs are still at pilot stage and their future success is unproven in an NI context. These proposals therefore are illustrative and any eventual solutions that emerge from this process may be aligned with other geographical areas.

Question 1 – Does targeting BID areas represent an appropriate way in which to use the resources associated with the current SBRR scheme? What are the advantages and disadvantages of such an approach? What other clearly defined areas could be used?

Option 1 - Do nothing (Maintain the SBRR scheme in its current form)

34. This would involve maintaining the current SBRR scheme after it is due to expire in 2016/17. This could be achieved by simply introducing a Negative Resolution Statutory Rule through the Assembly to extend the necessary legislative requirements.

35. Whilst this may prove popular with those ratepayers that currently benefit, it would perpetuate the value for money concerns highlighted by UUEPC i.e. it would fail to deliver any significant additional economic activity.

36. The annual cost of maintaining the current scheme in terms of revenue forgone is likely to remain within the region of £18m.

Question 2 – Do you support this option and what are the advantages and disadvantages of such an approach?

Option 2 – Phase out SBRR with no replacement scheme

37. This could be carried out over a two year period and would involve those currently in receipt of SBRR receiving a decreasing level of support each year to lessen the impact of withdrawing the relief. This would result in the increased levels of revenue generated from ratepayers (£18m) being used to fund central government services e.g. health, education, transport etc.

[5] Based on recent evidence from a survey undertaken by Belfast Chamber of Commerce

38. The additional rate income could also be used to reduce rate bills for all ratepayers. This would work by reducing the regional rate poundage by an equivalent amount to the annual £18m cost of the SBRR scheme. Whilst those currently in receipt of SBRR would still see their rate bills increase, this increase would be lower than would otherwise be the case, while all other ratepayers would experience a small reduction in their bill. Given that the current level of revenue forgone associated with the SBBR scheme amounts to £18m, this could reduce the 2015/16 non-domestic regional rate by around 4% or 5% and total non-domestic (district & regional) rate bills by approximately 2% - 3%.

39. Whilst using the additional revenue for central government purposes would not necessarily result in a direct corresponding benefit for those losing out, using the revenue to lower the rate poundage would result in ratepayers having a reduced tax burden and would marginally lower the cost of doing business within Northern Ireland and help, albeit marginally, to make the local economy more competitive. Consequently it could be viewed as a positive signal by ratepayers that the Executive is committed to reducing the cost burden on all businesses within Northern Ireland.

Question 3 – Do you support this option and what are the advantages and disadvantages of such an approach? Do you consider that the revenue forgone should benefit all ratepayers or would a more targeted approach be a better use of resources?

Option 3 - Match funding for Business Improvement Districts (BIDs)

40. Match funding could be provided to prospective BIDs through a central fund. This could either be a start up grant to allow an individual BID proposer to access expertise to take it through the various stages of the process from inception to ballot and implementation, or the funding of an organisation such as a BIDs Academy which would provide support to a number of BID proposers.

41. The advantage of such an approach is that it is likely to incentivise the creation of other BID areas if retailers and traders in other towns consider that the increased funding on offer makes the entire package of potential benefits more desirable. Furthermore the additional funding should in itself deliver more benefits to the area being targeted.

42. However as is mentioned elsewhere within this paper, economic deadweight is likely to be an issue as some of the 'new' economic activity will simply be moving from areas outside BIDs to within them. In addition, more and more BID areas being in receipt of funding may lead to a dilution of the overall benefits on offer.

Question 3 – Do you support this option and what are the advantages and disadvantages of such an approach? Is the availability of additional funding likely to lead to the creation of new BID areas? To what extent would targeting resources at these areas be to the detriment of locations outside of formal BID areas?

43. Aside from match funding there is scope for influencing the economic environment in a BID (or other defined) area through the rating system. The following options may offer potential benefits in their own right or collectively they could form part of a suite of measures to help businesses mitigate the impact of withdrawing SBRR.

Option 4a - Rate relief to encourage investment & regeneration

44. This option would offer the potential of a rates reduction for properties within an area to assist in local regeneration by encouraging increased levels of business investment. However, the difficulty with this approach is that, as with the relief provided under the SBRR, there would be no guarantee that the saving to established business would be reinvested back directly into the business or local area. Furthermore despite the relief being more targeted (and likely to be of a slightly larger average monetary value), it is likely that it would still be spread over a relatively large number of properties and so result in a marginal economic impact. It is for these reasons that some form of highly targeted application based system would be needed.

45. Alternatively the relief might be better directed at attracting a new business or service to an area (or sustaining a marginal business) thus helping to address the particular problem of vacant premises, which, arguably, should be one of the main objectives of whatever option is taken forward.

46. Some form of levy on long term derelict premises or sites could also be introduced. Similar proposals are currently being introduced in ROI with a proposed vacant sites levy giving local authorities the power to apply a levy of between 3%-6% of the value of the site (greater than 0.05 hectares) as well as a “use it or lose it” ultimatum on planning permission.

47. Although this would be revenue generating and would not use the resources currently forgone with the SBRR scheme it could act as a useful tool to help regenerate particular areas. Alternatively the resources associated with SBRR could be used to fund some form of Urban Regeneration Grant scheme to help assist the private sector to bring buildings and derelict sites back into use within priority areas. In order to make a material impact this would necessarily entail directing funding towards a small number of genuinely significant developments rather than spreading resources thinly.

> Question 4 – Do you support this option and what are the advantages and disadvantages of such an approach? What properties/business should benefit from this type of relief i.e. how should it be targeted and what should be the overall objective?

Option 4b - Rate relief to encourage town centre living

48. Current policy interventions in this area have been led by DSD and the Housing Executive as part of the “Living over the Shops” (LOTS) scheme or as it is often referred to as the “Town Centre Living Initiative Areas” (TCLIA) scheme.

49. When considering options in relation to how the rating system could be used to incentivise and increase “city/town centre” living, it will be necessary to examine the

ultimate objective in order to determine where the relief should be targeted. If the objective is to increase numbers living in town/city centre areas, this would suggest that creating a scheme to incentivise occupancy, rather than to assist with any capital costs makes the most sense. However it is recognised that by incentivising occupancy, the incentive for a developer to convert an underused area above a shop might be automatically increased, as there may be an increase in demand for such properties; especially if a critical mass can be established.

50. Furthermore, it is unlikely that the rating system could be used to provide any meaningful assistance with the capital costs of converting a property. An annual rating liability is likely to represent a small proportion of any capital costs and is unlikely to significantly influence investor behaviour. However it should be noted that the developer would fall within the provisions under Article 13(1)(c) of the Rates (Northern Ireland) Order 1977, i.e. there would be a reduced valuation from the date at which the property first comes out of occupation on the grounds of structural alteration (required to facilitate the converted use).

51. It is therefore apparent that the main option to consider in relation to incentivising occupancy would be whether a full or partial exemption should be applied to an otherwise vacant property for a defined period once it becomes occupied. This could include vacant space above a shop that is currently not being put to domestic use. This begs the question of whether it should be limited to properties that would require a change in use or whether domestic properties in city/town centres that are currently vacant should also be given relief – for a period when reoccupied if the objective is to simply increase the number of people living within town centres.

52. Consequently when trying to define potential policy options, the following issues will have to be examined:

    1. Should be full or partial relief (if partial what level)?
    2. How long should the relief be applied e.g. 2 years?
    3. Should relief be applied only to those properties requiring conversion?
    4. Should relief also be applied to existing domestic accommodation that has been vacant for a period of time e.g. 1 year?
    5. Should it only apply to property above shops or should it be applied to a particular sector e.g. any retail/commercial unit?
    6. Should it applied only to certain designated/geographical areas e.g. BID areas or those being designated as TCLIAs?
    7. Should a pilot programme be used to introduce any policy?
    8. Should there be a sunset clause for the scheme?

53. Although it would appear appropriate to provide rate relief only when the property becomes occupied, there might still be a case for providing the relief irrespective of whether it is occupied, provided it was being changed from non-domestic to domestic occupation. Such an approach is likely to be beneficial to the owner (or person entitled to occupation) of the property, as the risk associated with potential rating liability will be mitigated, which might be enough to encourage a developer to convert the property

and take on the risk that the property would remain vacant. Indeed it could be argued that a developer might be willing to take on the prospect of converting a first floor unit in the hope of it becoming occupied, especially if they were not going to be liable for rates if it was to remain vacant.

54. It will be important, however, to consider the potential for such a scheme to become a rates avoidance measure. This might be the case if, following minimal redevelopment works, the owner of a property will be better off having avoided a 50% vacant rating charge as well as the amount of rating relief being provided under the scheme.

Question 5 – Do you support this option and what are the advantages and disadvantages of such an approach? Do you consider that there would be sufficient demand for this relief and is it likely to significantly influence both developer and ratepayer behaviour? Would an increase in town centre living be beneficial to trading businesses located nearby?

Option 4c - Rate relief to encourage occupation of vacant premises

55. This would involve relaxing the criteria for the empty shops rates concession. Currently any commercial property that has been vacant for at least a year can benefit from a 50% discount on its rates bill for one year after it comes back into occupation. The scheme is primarily intended to bring long term empty shops back into use, helping to regenerate high streets and other core shopping areas.

56. This scheme could be modified for long term vacant properties located within a BID area by increasing the level of relief or the period to which it would apply. The main advantage is that it would serve to act as an increased incentive to occupy vacant premises. However there is likely to be a large degree of economic deadweight with such an approach, as it could be argued that there is already a sufficient incentive in place with the current empty shops rates concession of 50% for one year and any further increase to the level of this relief is unlikely to have a material impact on investor decisions.

57. Alternatively, flexibilities could be introduced by either shortening the qualifying vacant period from 1 year to e.g. 6 months or increasing the period of time to which the relief applies e.g. from 1 year to 18 months. However the problem with shortening the qualifying period is that properties within the normal marketing period for letting may be brought within the scope of the scheme and thereby increasing the level of deadweight. Similarly, extending the period of relief could also result in deadweight as it could be argued that the trading business should be well established within one year and there may be a perception amongst other retailers that an unfair competitive advantage has been created for that particular business.

58. Consequently in doing so, it will be important to balance the interests of established businesses in an area and avoid this becoming a rates avoidance mechanism.

Question 6 – Do you support this option and what are the advantages and disadvantages of such an approach? Does the current policy strike the right balance in order to incentivise occupation? How significant an issue would this be for a new start up business when compared to other aspects of business planning e.g. rent, location, product offering, stock etc

Value for money (VFM) issues

59. The main value for money concern relating to the SBBR scheme was that despite it being an anti recessionary measure, the scheme failed to deliver any significant level of economic growth or investment. This was largely due to the relatively small average awards of around £700 that the scheme provided. It will therefore be important to ensure that any replacement scheme does not replicate these results. As UUEPC recommended that any replacement scheme should be more targeted, the potential for this VFM risk to materialise in future should be reduced and options should only be taken forward if is thought that sufficient resources can be made available to make a substantial difference.

60. However as alluded to earlier, the main VFM concern with a more geographically targeted scheme is likely to be displacement. Focusing resources on a particular area will mean be that other areas could lose out or be left behind. There is therefore is a risk that some of the options outlined above would simply divert investment and expenditure away from areas outside of these locations, with the likelihood that there would be limited overall growth when considered at a regional level.

61. That is not to say, however that there could be wider benefits with such an approach. Improving town centres could result in benefits such as improvements in the built environment, increased pride by local residents and social benefits related to improved cultural/leisure offerings etc. All of these issues would need to be explored in more detail if it is decided to take any options forward to full policy development and impact analysis.

Future management & budgeting

62. It is anticipated that options involving BIDs will operate within an overarching framework established by Departments, such as DFP or DSD, but there will need to be local participation in deciding individual cases, whether that be the BID Management Committee or the District Council.

63. The evaluation report also highlighted issues with uptake and awareness of any schemes that require an application based process. This includes the costs for both businesses and the administering authority in completing forms, processing of the applications (plus carrying out any investigations). For this reason Land and Property Services (DFP) would not be responsible for the initial consideration of individual cases. LPS involvement will be around oversight and final management of awards.

64. Reliefs also carry a cost in forgoing revenue and this will have to be carefully controlled within whatever budget is set aside following the phasing out of small business rate relief. There may also be scope for Councils to fully fund reliefs beyond the set budget.

Next Steps

65. This paper covers potential ideas to replace the current SBRR scheme with a more targeted approach, which seeks to help many of those that would lose out with the ending of the current scheme. The options noted above should not be viewed as exhaustive and both DFP and DSD are willing to consider any other ideas that are suggested.

66. This engagement process will end on 13th May 2016. Responses should be sent to:

Rating Policy Division
Department of Finance and Personnel
Carleton House
1 Cromac Avenue
Gasworks Business Park
Belfast
BT7 2JA

Or, preferably, by email to : ratingpolicy.cfg@dfpni.gov.uk.

67. The paper can be made available on request in alternative languages and formats.

68. The Department welcomes direct engagement with stakeholders and meetings can be arranged by contacting Rating Policy Division on 028 9090 9325.

69. In due course a summary of the views expressed during the process will be published on the DFP and DSD websites along with individual responses – individual ratepayer addresses will be removed.