Northern Ireland Assembly

Research and Information Service Briefing Paper

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Public Finance Scrutiny Unit

Non-Domestic Rates in the United Kingdom

This briefing paper is prepared at the request of the Committee for Finance. It summarises key aspects of non-domestic rating policy and legislation throughout the United Kingdom, to facilitate the Committee's deliberations in this area.

Introduction

In the United Kingdom (UK) non-domestic rates - often called business rates - are a property tax on non-domestic or business premises. (Examples of non-domestic properties that are not business premises include hospitals, churches and schools.) Such rates are the means by which non-domestic and business entities contribute towards the costs of public services.[1]

At the Finance Committee's request, this briefing paper summarises key aspects of non-domestic rating policy in Northern Ireland (NI), England, Scotland and Wales, to facilitate the Committee's deliberations in this area. For each jurisdiction, it highlights key actors' roles and responsibilities, as well as support measures afforded to business by the non-domestic rating system *via* rate reliefs and exemptions including relevant data were possible. Thereafter, key recent developments are noted for each jurisdiction, which may serve to shape future policy and legislation in relation to non-domestic rating policy.

1 NI Non-Domestic Rates

The *Rates (Northern Ireland) Order 1977 (the 1977 Order)*, as amended, provides the statutory basis for levying non-domestic rates on the occupier of the non-domestic property. If the property is vacant (i.e. not occupied), such rates are levied at a lower rate on the person entitled to possession (usually the owner).

Non-domestic property in NI is assessed by the Land and Property Services (LPS), on the basis of its Net Annual Value (NAV). At present, the non-domestic NAV is based upon an assessment of the annual rental value the property could reasonably have been expected to let for on the open market on 1 April 2013, as specified under The *NAV List (Time of Valuation) Order (Northern Ireland) 2013*.[2] Information on how NI non-domestic rate bills are calculated is presented at Appendix 1 of this Paper.

In NI, the amount of revenue to be raised each year *via* the rating system is decided in advance, through the budgeting processes of both the Assembly and 11 District Councils. In 2014-15, the revenue raised by NI non-domestic rates was approximately £592 million (m), with £254m used to fund District Councils and £339m to fund regional services, such as health, education and agriculture.[3]

1.1 NI Exemptions and Reliefs

Various reliefs and exemptions are specified under prevailing legislation in NI, to provide discounts for business that decrease non-domestic rate bills. It is important to

[1] Silk,P (2012) *Empowerment and Responsibility: Financial Powers to Strengthen Wales*: http://commissionondevolutioninwales.independent.gov.uk/files/2013/01/English-WEB-main-report1.pdf

[2] The New NAV List (Time of Valuation) Order (Northern Ireland) 2013: http://www.legislation.gov.uk/nisr/2013/45/made

[3] Department of Finance and Personnel (2015) *Review of Northern Ireland's Non-domestic rating system: Consultation paper*.

bear in mind that they come at a cost in terms of revenue foregone to the public purse - the Executive. Articles 31 and 41 of the 1977 Order prescribe such exemptions and reliefs.

Outlined below is an overview of key non-domestic rates exemptions and reliefs currently in place in NI under the 1977 Order, i.e.:

- Non-Domestic Exemption (Charitable Relief);
- Small Business Rate Relief;
- Industrial De-rating;
- Sport and Recreation Relief;
- Freight Transport Relief;
- Residential Homes Relief; and,
- Vacant Property Rating.

Each provision is explained in the following paragraphs.

1.1.1 Non-Domestic Exemption (Charitable Relief)

The Department of Finance (DoF) explain the Non-Domestic Exemption as follows:

> *If a property is occupied by a charity (or an organisation not established for profit) and is used for purposes that directly facilitate its aims, it is generally not liable for rates.*[4]

The Non-Domestic Exemption is also known as 'Charitable Relief' and is available to organisations established for the following purposes:

- The advancement of religion;
- The advancement of education;
- The relief of poverty; and,
- Other purposes beneficial to the community.

Article 41 of the 1977 Order concerns hereditaments/properties used for public or charitable purposes. From a layperson's perspective, this Article appears to cover hereditaments which are: [5]

- Altogether of a public nature and occupied and used for public service;
- A church, chapel or similar building occupied by a religious body and is used for worship or charitable purposes;
- Occupied by a charity, and used mainly or wholly for charitable purposes;
- Occupied by a body which is not established or conducted for profit, and whose main objectives are concerned with science, literature or fine arts; or,

[4] Department of Finance and Personnel (2015) *Review of Northern Ireland's Non-domestic rating system: Consultation paper.*
[5] RaISe NIAR 088-13(2013) *Rates Reimbursement and De-rating for Clubs and Interest Groups.*

- Used mainly or wholly for purposes declared to be charitable by the *Recreational Charities Act (NI) 1958*.

Non-domestic hereditaments are to be held exempt from rates to the extent that they are used for exempting purposes on the NAV list.

Any hereditament used to generate profit (either through letting or otherwise) is exempt only if it directly facilitates the prescribed exempting purposes.

Article 41A exempts from rates any hereditament which is occupied by a body that is not established or conducted for profit, and is either one of the bodies listed in Schedule 13A, or a member of or affiliated to one of the bodies listed in 13A (Ancient Order of Hibernians, Apprentice Boys of Derry, Grand Lodge of Freemasons of Ireland, Grand Orange Lodge of Ireland, Independent Loyal Orange Institution, Order of the Knights of St Columbanus, Royal Antediluvian Order of Buffaloes, and Royal Black Institution). The hereditament must also be used or made available, to a substantial extent, for purposes considered by the *Recreation Charities Act (NI) 1958* to be charitable, or otherwise charitable:

> *Where the use by the occupying body, subject to charges, if any, not more than necessary to defray reasonable expenses actually incurred by the body by reason of that use; or*
>
> *Where the use is not by that body, for a consideration, if any, not more than necessary to defray such expenses.*[6]

This exemption does not apply to hereditaments on which alcohol may be sold under a licence or protection order, or which a club has registered under the *Registration of Clubs (NI) Order 1996*.[7]

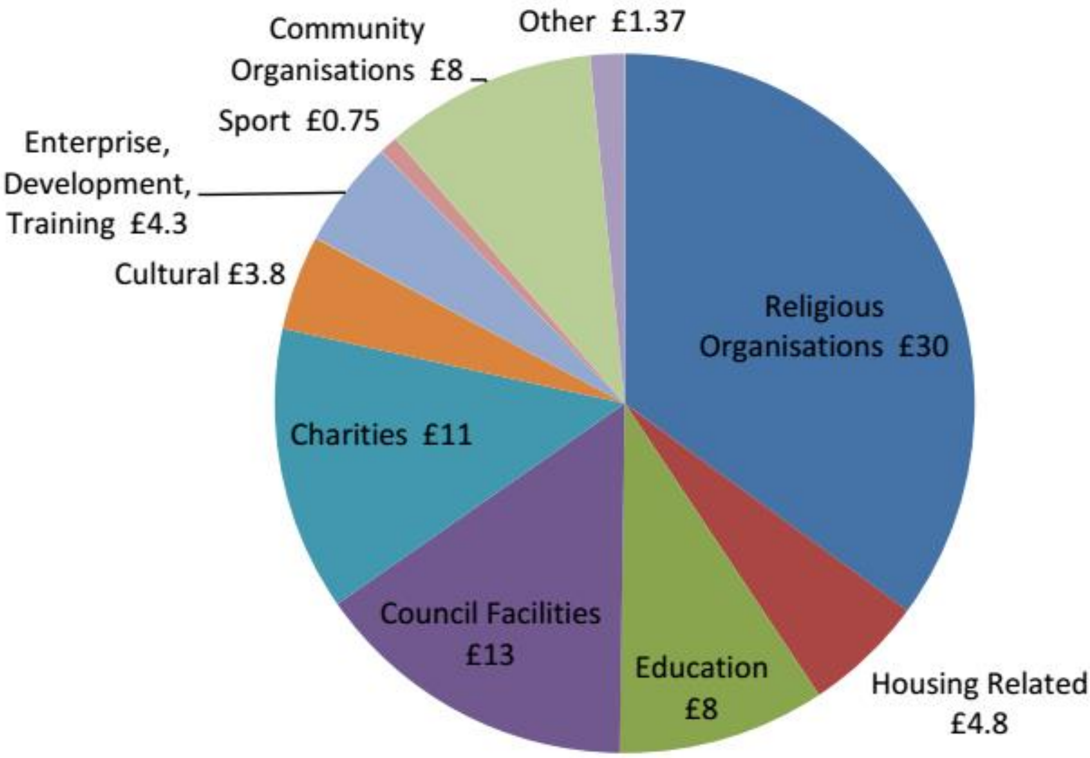
Figure 2 shows a breakdown of the costs of charitable exemption by type of organisation (amounts are in millions):

Figure 2: Cost of Non-Domestic Exemption (Charitable Relief) by organisation[8]

[6] Rates (Northern Ireland) Order 1977. (Section 41A): http://www.legislation.gov.uk/nisi/1977/2157/article/41A

[7] RaISe NIAR 088-13(2013) *Rates Reimbursement and De-rating for Clubs and Interest Groups.*

[8] Figure reproduced by Raise taken from Department of Finance and Personnel (2015) *Review of Northern Ireland's Non-domestic rating system: Consultation paper.*



The total cost of revenue foregone, which is attributable to this exemption, is £87m. Religious organisations are by far the largest beneficiaries of this exemption, amounting to 26% of the total cost.

The DoF appear to justify this level of relief in the recent non-domestic rates consultation (see above). It states:

> *Public benefit not private gain is the underlying distinguishing factor in terms of justifying special treatment for charities and other non for profit bodies under the rating system. Exemption from rates allows them to have a hub and physical presence within communities, facilitating the vital role many play in the social and economic well being of those communities. It follow that it is not only charities that benefit from rates exemption, but society benefits more widely.* [9]

The Northern Ireland Local Government Association's (NILGA) response to the consultation in relation to the exemption argued in favour of charities paying rates based on ability to pay.[10]

A sample of 603 charities registered in NI showed that charities with an income of more than £200K make up less than 20% of the sector. These charities accounted for 80% of the total income of the charities making up the sample. The DoF suggested it may be

[9] Department of Finance (2015) *Review of Northern Ireland's Non-Domestic Rating System*: *Annexe F Exemption for Public, Charitable or other purposes.*

[10] Department of Finance and Personnel (2016) *Review of Northern Ireland's Non-domestic rating system: Consultation report.*

worth examining the financial profile of charities within NI to assess whether it would be possible for them to make a contribution towards the overall rating burden.[11]

1.1.2 Small Business Rate Relief

The Small Business Rate Relief (SBRR) scheme is an Executive initiative that came into effect in April 2010. SBRR provides rate relief (discounts) on non-domestic rate bills for approximately 23,000 ratepayers in NI.[12] Initially the scheme was set up as a temporary measure (from 2010 to 2015) to ease the financial strains placed on small businesses as a result of the 2008 recession. However, the SBRR has been extended past 2015 twice and is due to end 31 March 2017.[13] *The Rates (Small Business Hereditament Relief) (Amendment) Regulations (Northern Ireland) 2016* is the basis for this.

In 2012, a large retail levy was introduced to fund part of the cost of SBRR. The Large Retail Levy applied to large retail premises with a rateable NAV of £500,000 or more. This levy ceased to operate in March 2015.

SBRR costs approximately £18m annually in terms of revenue foregone to the Executive.[14] Eligibility criteria for the SBRR and the current relief levels are shown in Table1:

Table 1: Current eligibility and rate reliefs for the NI SBRR[15]

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%

Exclusions include multiple property owners, “double reliefs”, vacant or partially occupied properties, ATMs, property used for the display of advertisements, car parks, sewage works, telecommunication masts and properties occupied by government/public bodies.[16]

In December 2015, the Northern Ireland Centre for Economic Policy (NICEP) published an evaluation of SBRR on behalf of the DoF (formerly the Department for Finance and Personnel (DFP)). The evaluation concluded that the SBRR was an appropriate policy initiative for the NI Executive to launch when NI was in the “teeth of a recession” in

[11] Department of Finance and Personnel (2015) *Review of Northern Ireland’s Non-domestic rating system: Consultation paper.*
[12] Committee for Finance. *Evidence session from Rating Policy Division: Department of Finance.* 22 June 2016.
[13] Northern Ireland Executive (2016) *Budget 2016-17*: https://www.northernireland.gov.uk/publications/budget-2016-17
[14] Committee for Finance. *Evidence session from Rating Policy Division: Department of Finance.* 22 June 2016.
[15] https://www.nibusinessinfo.co.uk/content/small-business-rate-relief
[16] Northern Ireland Centre for Economic Policy (2014) *Small Business Rate Relief Evaluation*: https://www.finance-ni.gov.uk/consultations/evaluation-small-business-rate-relief-scheme

2010.[17] The NICEP recommended the phasing out of the SBRR as economic conditions improve, arguing that:

> *the SBRR scheme was introduced as a political measure by the NI Executive, rather than via a "Value for Money" approval. The implication is that there are no specific economic targets set within the approval of the scheme, such as increasing employment, investment, productivity or output. It was introduced as an antirecessionary policy, which was a reasonable rationale when the scheme was implemented.*[18]

In terms of the wider economic impact of SBRR, the NICEP stated:

> *The relief helped ratepayers with cash flow, survival and keeping the cost of overheads down. However, there was limited evidence of incentivisation of quantifiable additional economic activity arising from the scheme – some reported investments in signs and a very small number noted that they increased employment. However, this finding may not be surprising in the context of a scheme that was introduced to help reduce costs rather than stimulate economic growth.*[19]

And:

> *...the benefits (both quantifiable and qualitative) are reasonably limited in the context of a price tag of £47m mean that in economic terms, SBRR did not generate enough measureable additional activity and was limited in terms of cost effectiveness. In conclusion from an economic perspective the scheme provided a low level of Value for Money.*[20]

In March 2016, the then DFP Minister launched a discussion paper on the future of SBRR. In response to the discussion paper, the NI Federation of Small Business (FSB) raised a concern in terms of Value for Money (VfM). It stated:

> *The main VfM concern is that there is little evidence that the SBRR scheme resulted in a significant level of economic growth or investment.*[21]

It should be noted that the SBRR was originally set up to help businesses through the recession and not implemented to deliver economic growth. The NICEP view the simplicity of the SBRR as positive:

[17] Northern Ireland Centre for Economic Policy (2014) *Small Business Rate Relief Evaluation*: https://www.finance-ni.gov.uk/consultations/evaluation-small-business-rate-relief-scheme

[18] Northern Ireland Centre for Economic Policy (2014) *Small Business Rate Relief Evaluation*: https://www.finance-ni.gov.uk/consultations/evaluation-small-business-rate-relief-scheme

[19] Northern Ireland Centre for Economic Policy (2014) *Small Business Rate Relief Evaluation*: https://www.finance-ni.gov.uk/consultations/evaluation-small-business-rate-relief-scheme

[20] Northern Ireland Centre for Economic Policy (2014) *Small Business Rate Relief Evaluation*: https://www.finance-ni.gov.uk/consultations/evaluation-small-business-rate-relief-scheme

[21] FSB Northern Ireland (2016) Response to Discussion paper on alternatives to the Small Business Rate Relief Scheme.

All awards within the SBRR scheme were automatically deducted from the Rate bill. There was no application process which minimised the administrative burden to LPS and ratepayers.[22]

Ultimately the future of the SBRR remains undecided. However, in June 2016 DoF officials indicated that a replacement scheme is to be discussed, stating:

We are in the process of developing policy options for ministerial consideration as [SBRR] alternatives.[23]

1.1.3 Industrial De-rating

Introduced in 1929, Industrial De-rating offers a 70% non-domestic rate bill discount for manufacturing firms. Over 4,200 firms in NI benefit from this relief. It costs around £58m per annum in revenue foregone to the Executive.[24] Industrial De-rating predates the European Union (EU) Single Market, and therefore is permissible under State Aid rules. It is one of the ways in which the Assembly can provide direct financial assistance to the industrial sector.[25]

1.1.4 Sport and Recreation Relief

Sport and Recreation Relief relief provides 80% discount on non-domestic rate bills for amateur sport and physical recreation facilities that encourage physical recreation at amateur level and make a significant contribution to healthcare.[26] To be eligible for the relief, organisations must be established as "not for profit" and engaged in 'recreation' as prescribed in the *Rates (Recreational Hereditaments) Order (Northern Ireland) 2007*. Social facilities (bars, restaurants etc.) are excluded from this relief.

1.1.5 Freight Transport Relief

Freight Transport Relief provides 75% non-domestic rate relief to premises that involve the handling and shipment of goods, which are neither owned by, nor intended for the use of the operator. The aim of this relief is to encourage lower freight charges and is intended to benefit exporting firms. Freight transport relief was introduced (in 1929) to help export firms with higher transport costs resulting from NI's geographical position on the periphery of Europe. The relief has an annual cost of approximately £2m in terms of revenue foregone; and applies to 17 individual properties.[27]

1.1.6 Residential Homes Relief

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[22] Northern Ireland Centre for Economic Policy (2014) *Small Business Rate Relief Evaluation*: https://www.finance-ni.gov.uk/consultations/evaluation-small-business-rate-relief-scheme

[23] Committee for Finance. *Evidence session from Rating Policy Division: Department of Finance.* 22 June 2016.

[24] Department of Finance and Personnel (2015) ***Review of Northern Ireland's Non-domestic rating system: Consultation paper***

[25] Correspondence from Department of Finance, Rating Policy Division to the Committee for Finance (*Dated 22 June 2016).*

[26] Department of Finance and Personnel (2015) ***Review of Northern Ireland's Non-domestic rating system: Consultation paper***

[27] Department of Finance and Personnel (2016) ***Review of Northern Ireland's Non-domestic rating system: Consultation report.***

Originally intended to incentivise and promote the provision of residential care homes, Residential Homes Relief applies to around 500 individual properties and costs £38.3m in revenue foregone.[28] Table 2 provides a breakdown of Residential Homes Relief between private and public sector care homes :

Table 2: Cost of Residential Homes Relief

Type	Number	%	Cost £m	%
Private	317	65%	£5.95	28%
Public	170	35%	£2.35	28%
Total	487		£8.30	

In its 2015 non domestic rating consultation paper, the DoF appear to question the appropriateness of this Relief given the preponderance of care homes in private sector ownership. It asks:

> *Is residential homes relief still necessary to encourage the provision of care homes by the private sector? Should it be limited to organisations that can demonstrate charitable status?*[29]

And it further states:

> *Whilst there may be merit in providing rate relief in relation to the care of the elderly; it is perhaps less clear who actually benefits from this exemption. Indeed does this cost saving for residential homes represent a reduced cost and therefore an increase in net revenue for the provider or is it passed onto residents in the form of lower charges? There is also an issue around the appropriateness of the relief given that residential homes benefit from the services (both locally and regionally) that rates pay for.*[30]

Scrutiny Point:

The Committee may wish to ask the DoF for its current views in relation to Residential Homes Relief, particularly in light of the closure announcement of seven care homes owned by Four Seasons Health Care in December 2015 and the potential threat of more closures in future.[31]

1.1.7 Vacant Property Rating

Rates are not payable for three months from either the date a non-domestic property becomes empty or the date LPS has determined as a completion day. After the three month free period, rates are billed at 50% of the normal occupied amount. The property

[28] Department of Finance and Personnel (2015) *Review of Northern Ireland's Non-domestic rating system: Consultation paper.*
[29] Department of Finance and Personnel (2015) *Review of Northern Ireland's Non-domestic rating system: Consultation paper.*
[30] Department of Finance and Personnel (2015) *Review of Northern Ireland's Non-domestic rating system: Consultation paper.*
[31] http://www.bbc.co.uk/news/uk-northern-ireland-34916940

must have been occupied previously for at least six weeks before a three month free period can be applied.

The Executive Budget 2016-17 commits NI to a continuation of the empty shops rates concession and the rural ATM exemption.

Scrutiny Point:

The Committee may wish to ask the DoF for its current views in relation to rate reliefs in rural areas.

1.1.8 Relevant Data

Figure 1 below shows the lost revenue for non-domestic rate reliefs and exemptions, a total of £221 million (m) at 2015-16 figures:

Figure 1: Non domestic rates relief in NI by property type [32]

Property Type	Non-Domestic Exemption	Industrial De-rating	Freight & Transport	Sport & Recreation	Vacant Rating	SBRR
Shops	£5.03	£0.20	£0	£0	£9.32	£7.20
Commercial Office	£12.31	£0.80	£0	£0.14	£9.60	£3.52
Car Parks	£2.29	£0.09	£0	£0	£2.08	£0.26
Schools, Colleges, Universities	£8.59	£0.00	£0	£0	£0.56	£0.01
Utilities	£0.00	£0.00	£0.55	£0	£0.00	£0.00
Large Space User (Inc Supermarkets & Dept Stores)	£0.00	£0.00	£0	£0	£0.54	£0.00
Retail Warehouse (Inc Retail Parks)	£0.49	£0.05	£0	£0	£1.31	£0.02
Warehouse	£1.01	£0.30	£0	£0	£4.39	£0.65
Manufactories	£0.00	£50.19	£0	£0	£3.19	£0.05
Commercial/Store	£0.92	£0.13	£0	£0.09	£5.26	£1.73
Hospitals, Clinics, Surgeries, Homes	£4.89	£0.00	£0	£0	£0.51	£0.00
Law and Order Establishments	£0.00	£0.00	£0	£0	£0.20	£0.00
Filling Stations	£0.00	£0.00	£0	£0	£0.08	£0.16
Commercial Unclassified e.g. airport, wind farms	£0.31	£0.25	£0.16	£0	£0.20	£0.16
Public Service Properties (inc Govt Sewerage Works)	£1.02	£0.00	£0	£0	£0.02	£0.00
Licensed Premises	£0.00	£0.00	£0	£0	£0.29	£0.41
Hotels etc Licensed	£0.00	£0.00	£0	£0	£0.14	£0.00
Other	£49.81	£5.77	£1.26	£4.03	£5.35	£3.13
Total £m	**£87m**	**£58m**	**£1.97m**	**£4.35m**	**£43m**	**£17m**

1.2 Key Executive Developments

Since 2011 there are a number of key Executive developments relating to NI's non-domestic rates that should be noted for their potential future impact in this area:

- Regional Rate cap;
- Reval 2015; and,

[32] Department of Finance (2016) Review of Northern Ireland's Non-Domestic Rating System: *Annexe F(2) Breakdown of Rating Burden by property type*: https://www.finance-ni.gov.uk/consultations/review-northern-irelands-non-domestic-rating-system

- 2015 DFP Public Consultation.

Each is highlighted below.

1.2.1 Regional Rate Cap

Since 2011 the Executive has agreed that revenue raised *via* the Regional Rate should be uplifted in line with inflation. For 2016-17 the Executive Budget states

> *For 2016-17, both the domestic and non-domestic poundage rates […] will continue to be frozen in real terms rising only by the current GDP deflator index (1.7 per cent).*[33]

This effectively caps the amount of revenue the Executive can raise via the rating system. However, this perhaps presents a dichotomy for the Executive as the current finance Minister stated that he wishes to increase the amount of revenue taken from rates (see subsection 1.2.3). If the Executive is committed to keeping rate bills low (i.e. capped by inflation), it will need to find new and innovative ways of raising revenue from the rating system without increasing the regional rate.

Scrutiny point:

The Committee may wish to ask the DoF whether it is prudent to ignore the revenue raising potential of the Regional Rate, given the limited number of options available to the Executive under current devolution for increasing revenue?

1.2.2 REVAL 2015

In April 2012, the Executive commissioned the LPS to carry out a revaluation of all non-domestic property in NI (commonly referred to as '*REVAL 2015')*. It was agreed that the revaluation should be completed by 2015.[34]

The *New NAV List (Time of Valuation) Order (Northern Ireland) 2013* specifies 1 April 2013, as the date NAVs were to be ascertained for the purpose of the new NAV list, which was to become effective on 1 April 2015.[35]

The LPS completed the revaluation in November 2014.[36] Final values were published in February 2015; and non-domestic rate bills issued in April 2015.[37]

[33] Northern Ireland Executive (2016) *Budget 2016-17*: https://www.northernireland.gov.uk/publications/budget-2016-17

[34] LPS (2014). *Reval2015 NI Frequently Asked Questions: Version 2*: Information supplied to Committee for Finance and Personnel 3 December 2014.

[35] The New NAV List (Time of Valuation) Order (Northern Ireland) 2013: http://www.legislation.gov.uk/nisr/2013/45/made

[36] A Schedule of Draft Rateable Values is now available to view on the REVAL 2015 website at: http://www.dfpni.gov.uk/lps/reval2015ni

[37] Department of Finance and Personnel. (2014). *Revaluation of commercial properties will help to rebalance business rates*:http://www.northernireland.gov.uk/index/media-centre/news-departments/news-dfp/news-dfp-november-2014/news-dfp-131114-revaluation-of-commercial.htm

The aim of the revaluation exercise was to equitably distribute the rates burden[38] amongst relevant ratepayers, and thereby redress existing imbalances in the system.

In this context it is important to note that the LPS stated that *Reval 2015* revaluations were designed to be revenue neutral:

> *The amount of money to be raised through rates will not change as a direct result of Reval 2015 NI. The purpose of a revaluation is to maintain fairness in the rating system not to raise more revenue.*[39]

The DFP stated in December 2014 that:

> *..revaluation will merely redistribute the rating burden and this inevitably will lead to both losers and winners.*[40]

The overall amount of revenue generated did not change following *REVAL 2015*. This is largely because an increase in the NAV of a property does not necessarily increase rate bills. If the NAV has increased, this is merely a reflection of rental changes between 2003 and 2013.

Whilst the NAV is a significant element in the calculation of final rates bills (see Appendix 1 below), the regional and district rate poundages are also an important factor. It is also worth noting that poundages could be adjusted downwards during revaluations such as *REVAL 2015*. Such an approach could be used to minimise the effect on rate bills of any increase in NAV after revaluation.[41]

Scrutiny point:

The Committee may wish to ask the DoF if there it has given any consideration to timetable future revaluations on a more regular basis, e.g. every five years?

1.2.3 2015 DFP Public Consultation

In 2015, the DFP began a review of non-domestic rating and undertook a public consultation exercise between November 2015 and January 2016. In June 2016, a DoF official gave evidence to the Finance Committee regarding the consultation's outcome, stating:

> *The outcome of that consultation was that there were no clear or practical ideas for a replacement for rates. Nobody likes rates, but they are essential to raise money. When we asked consultees what they thought about the rating system, we also asked them whether there were alternative ways of*

[38] Rates burden is the amount of revenue to be raised through rates

[39] LPS (2014). *Reval2015 NI Frequently Asked Questions: Version 2*: Information supplied to Committee for Finance and Personnel 3 December 2014.

[40] Correspondence from Department of Finance and Personnel to Committee for Finance and Personnel. Dated: 4 September 2014. Received by RaISe: 4 December 2014.

[41] LPS (2014) *Reval2015: 2015 Revaluation*. Presentation supplied to Committee for Finance and Personnel 3 December 2014.

> *raising the same amount to pay for regional services. The outcome was that there were no real practical ideas for taking that forward. However, the consultation found a lot of shortcomings in the rating system, and it is those that we want to address to improve the rating system for the future.* [42]

In June 2016, the current Finance Minister gave his view on raising more revenue from the non-domestic rates system in NI. He stated:

> *The previous Minister had a review of business rates to come up with some ideas, but I would really like us to open the discussion again about how we can, as you say, get value for money. We are not trying to put extra burden on people. Are there gaps in the rates or, […] smarter ways of affording reliefs? I like the idea of everyone paying something, which was one of the discussions the last time. Let us open the discussion on rates again. […], we do not have enough money to do all the things that we want to do, but is there capacity to raise more money from the rates system? I believe that there is, and I would like to examine that with colleagues.*[43]

Scrutiny point

It appears that the current Finance Minister is minded to raise more revenue *via* the non-domestic rate sector. The Committee may wish to ask how he plans to achieve this without adversely impacting on business by increasing rate bills.

2 English Non-Domestic Rates

The statutory authority to charge non-domestic rates in England is Part III of the *Local Government Finance Act 1988 (the 1988 Act).*[44] Similar to NI, liability for non-domestic rates in England falls to the occupiers of premises rather than the owners.

The three main actors in the English non-domestic rating system are as follows:

- Local Authorities;
- Valuation Office Agency; and,
- UK Government.

The following paragraphs highlight the role of each.

2.1 Local Authorities

In England revenue from non-domestic rates goes solely to pay for local services. However, unlike NI, this revenue **does not fund central government expenditure**.

[42] Committee for Finance. *Evidence session from Rating Policy Division: Department of Finance.* 22 June 2016.

[43] Mr Máirtín Ó Muilleoir MLA (Minister of Finance): *Overview, Priorities and Business Plan 2016-17*. Evidence given to Finance Committee dated 8 June 2016**:** http://aims.niassembly.gov.uk/officialreport/minutesofevidencereport.aspx?AgendaId=18245&eveID=10586

[44] Local Government Finance Act 1988:http://www.legislation.gov.uk/ukpga/1988/41/part/III

Local authorities estimated the non-domestic rating income in 2015-16 to be £23.1 billion (bn).[45]

Local authorities collect non-domestic rates in England. Before 2013, all non-domestic rate income formed a single national pot, which was then re-distributed back to local authorities by central government as part of their 'formula grant'.[46] From 1 April 2013, the Business Rate Retention Scheme (BRRS) introduced a new system that allowed local authorities to retain 50% of their non-domestic rates revenue.

Introduced in April 2013, the Business Rate Retention Scheme (BRSS) aims to incentivise local authorities to take action to promote economic growth by allowing them to keep half of the non-domestic rates they collect.[47]

Under BRRS local government retains 50% of the revenue raised form non-domestic rates and passes the other 50% to central government. The revenue retained by the local authority is known as the "local share" and the 50% that goes to central government is known as central share. The central share is reallocated to local authorities through other grants.[48]

The UK Communities and Local Government Committee (C&LGC) explain how local government is funded *via* the BRSS in more detail:

> *[BRRS] permits local authorities to retain a proportion of their business rates over a set period of time; however, because their revenue varies widely, central government levels the playing field by redistributing revenue according to authorities' spending needs via 'top ups' and 'tariffs' at the start of the retention period. In addition, separate mechanisms, 'levies' and the 'safety net' operate to ensure that authorities' revenues do not diverge too much during the retention period. Overall, local government keeps 50 per cent of locally collected business rates, and thus 50 per cent of any growth, with the other 50 per cent being remitted to central government.*[49]

The system of tariffs, top ups, levies and safety nets is in place to make adjustments for disproportionate gains and losses made by local authorities under BRSS.

Tariffs and Top-ups are calculated by comparing an authority's non-domestic rates baseline against its baseline funding level. Authorities pay a tariff to central government

[45] Department for Communities and Central Government (2016) National non-domestic rates to be collected by local authorities in England 2015-16 (Revised): https://www.gov.uk/government/statistics/national-non-domestic-rates-collected-by-councils-in-england-forecast-for-2015-to-2016

[46] The annual local government finance settlement announces formula grant allocations on an individual council basis, with the total grant divided among councils on the basis of a complex formula that seeks to take into account the relative needs and available resources of different councils.

[47] HM Treasury and Department for Communitites and Local Government (2014) *Administration of business rates in England: a discussion paper.*

[48] HM Treasury and Department for Communities and Local Government (2014) *Administration of business rates in England: a discussion paper.*

[49] Communities and Local Government Committee (2016) *100 per cent retention of business rates: issues for consideration. First Report of Session 2016-2017:* http://www.publications.parliament.uk/pa/cm201617/cmselect/cmcomloc/241/241.pdf

if they have a higher non-domestic funding baseline than their baseline funding level. Authorities receive a top up from central government if they have a lower non-domestic rates baseline than their baseline funding level.

Levies and Safety nets are further explained by C&LGC as follows:

> *Adjustments for disproportionate gains and losses in business rate revenue are made during the reset period via levies and the safety net. Authorities which experience disproportionate growth in business rates income pay a levy, which reduces the share of growth they actually retain. The levy is then used to fund a safety net to protect authorities which experience a significant decline in their business rate income, for example, as a result of the closure of a major business in the area. The safety net guarantees that, each year, local authorities will receive at least 92.5 per cent of their original baseline funding. Therefore, no local authority's business rates income will be more than 7.5 per cent below the baseline funding level. During the first two years of the 50 per cent retention system, the money raised by the levy was not sufficient to fund the safety net.*[50]

The BRSS provides a level of funding certainty for local authorities and therefore facilitates planning for mid-term expenditure. Additionally, the UK Department for Communities and Local Government view it as providing direct financial incentive for local authorities to work with local businesses to create a favourable local environment for economic growth.[51]

2.2 Valuation Office Agency

Non-domestic property in England (and Wales) is assessed by the Valuation Office Agency (VOA) on the basis of its rateable value (RV). Schedule 6 of the 1988 Act defines rateable value as follows:

> *an amount equal to the rent at which it is estimated the hereditament might reasonably be expected to let from year to year.*[52]

The VOA draw up and maintains a full list of all rateable values. This list is revised every 5 years in line with legislation covering non-domestic rate revaluation. (see sub-section 2.3.4).

2.3 UK Government

The UK Government set a multiplier each year. The multiplier is expressed in pence per pound and is used in a similar way as the district rate and the regional rate in NI. In

[50] http://www.publications.parliament.uk/pa/cm201617/cmselect/cmcomloc/241/241.pdf

[51] Department for Communities and Local Government (2016*) Business Rates Information Letter (1/2016): https://www.gov.uk/government/publications/12016-confirmation-of-multipliers*

[52] Local Government Finance Act 1988:http://www.legislation.gov.uk/ukpga/1988/41/part/III

England there is currently a standard non-domestic multiplier for 2016-17 of 49.7 pence in the pound.[53] Hence a property with an RV of £100,000 would have a non-domestic rate bill of £49,700 for 2016-17.

In addition to the standard multiplier, a small business rate multiplier is in operation. This is set at 48.4 pence in the pound for 2016-17.[54] The standard multiplier includes a supplement to pay for the small business rate multiplier (see sub-section 2.4).

Due to its special circumstances, notably its very small resident population, the Common Council of the City of London can set its own multiplier and retain part of the proceeds to help pay for the services it provides. For 2016-17 the City of London standard multiplier is 50.2 pence and the small business rate multiplier is 48.9 pence.[55]

2.4 English Exemptions and Reliefs

Various reliefs and exemptions are specified under prevailing legislation in England, to support business and promote economic growth. Key reliefs include:

- Small Business Rate Relief;
- Rural Rate relief;
- Charitable Rate relief; and,
- Exempted buildings and empty buildings relief.

Other measures to support business *via* the rating system in England include Enterprise Zones and help for business premises affected by local disruption, such as flooding.

A summary of these exemptions, reliefs and business support measures is provided in Table 3 below.

Table 3: Support to business in England via the non-domestic rating system[56]

Business Support Measure	Description and Eligibility
Small Business Rate Relief	The small business rate relief scheme was first introduced in April 2005, revised in April 2010 and further updated by the UK Government in October 2010. The scheme seeks to help small businesses by discounting their non-domestic rate bills. Non-domestic ratepayers can avail of small business rate relief under the following conditions: ▪ The ratepayer only use one property

[53] Valuation Office Agency (2016) *What are the current multipliers?* http://www.2010.voa.gov.uk/rli/static/HelpPages/English/faqs/faq146-what_are_the_current_multipliers.html

[54] Valuation Office Agency (2016) *What are the current multipliers?* http://www.2010.voa.gov.uk/rli/static/HelpPages/English/faqs/faq146-what_are_the_current_multipliers.html

[55] Valuation Office Agency (2016) *What are the current multipliers?* http://www.2010.voa.gov.uk/rli/static/HelpPages/English/faqs/faq146-what_are_the_current_multipliers.html

[56] Table is compiled by RaISe relying on information from UK Government (2016) *Business Rates Relief:* https://www.gov.uk/apply-for-business-rate-relief/small-business-rate-relief

	▪ The property's rateable value is less than £12,000 Ratepayers get 100% relief (doubled from the usual rate of 50%) until 31 March 2017 for properties with a rateable value of £6,000 or less. This means they won't pay business rates on properties with a rateable value of £6,000 or less. The rate of relief will gradually decrease from 100% to 0% for properties with a rateable value between £6,001 and £12,000. Ratepayers can get small business rate relief if the rateable value of each of the other properties is less than £2,600. The rateable values of the properties are added together and the relief applied to the main property. The ratepayer will keep getting any existing relief for one year when you get a second property. If the property has a rateable value below £18,000 (£25,500 in Greater London) you're considered a small business. Even if the ratepayer does not qualify for small business rate relief, the business rates will be calculated using the small business multiplier instead of the standard one. This is the case even if the ratepayers have multiple occupied properties.
Rural Rate relief	Ratepayers can receive rural rate relief if their business is in a rural area with a population below 3,000. They are eligible for a discount of between 50% and 100% from their non-domestic rates bill. Ratepayers can get rural rate relief if the property is: • the only village shop or post office, with a rateable value of up to £8,500; and, • the only public house or petrol station, with a rateable value of up to £12,500. Local Authorities can also: • Top up the mandatory 50% relief to 100%; and, • Give relief of up to 100% to other rural retail businesses (for properties with a rateable value under £16,500).
Charitable rate relief	Charities and amateur community sports clubs can apply for relief of up to 80% if a property is used for charitable purposes. Ratepayers should also check if you can get additional 'discretionary relief' (up to 100%). This is sometimes provided by local councils to 'top up' certain reliefs to give businesses and charities extra help.
Exempted buildings and empty buildings relief	Certain properties are exempt from business rates, exemptions include: • Agricultural land and buildings, including fish farms; • Buildings used for training or welfare of disabled people; and, • Buildings registered for public religious worship or church halls. Ratepayers don't have to pay business rates on empty buildings for 3 months. After this time, most businesses must pay full business rates. Some properties can get extended empty property relief: • Industrial premises (e.g. warehouses) are exempt for a further 3 months; • Listed buildings - until they're reoccupied; • Buildings with a rateable value under £2,600 - until they're reoccupied; • Properties owned by charities - only if the property's next use will be mostly for charitable purposes; and, • community amateur sports clubs' buildings - only if the next use will be mostly as a sports club.
Enterprise Zones	If a business is starting up or relocating to an enterprise zone the ratepayer could qualify for no-domestic rates relief. The local authority works out how the relief is applied. The ratepayer could get up to £55,000 a year over 5 years.

Premises affected by local disruption	Ratepayers may get a temporary reduction in their non-domestic rates if their premises are affected by severe local disruption (e.g. flooding, building or road works).

2.5 Key Westminster Developments

Since 2015, the following key Westminster developments relating to non-domestic rating are highlighted below and should be noted for their future potential impact in this area:

- Changes to BRSS;
- Business Rates Cap;
- Postponement of the 2015 revaluation; and,
- Business Rates Review.

2.5.1 Changes to BRSS

On 5 October 2015, at the Conservative Party Conference, the then Chancellor of the Exchequer announced a commitment to allow local government to retain 100 per cent of business rate revenue by the end of the current UK Parliament. As a consequence, Revenue Support Grant, the main central government grant for local authorities, is to be phased out.

In the 2016-17 UK Budget the then Chancellor announced the piloting of a move to 100% business rates retention in the local authorities of Liverpool, Manchester and London. In July the UK Government published consultation papers on the introduction of full retention (100%) of business rates by all UK local government. It is anticipated that the move to 100% retention will be introduced in 2019-2020 at the earliest.[57]

2.5.2 Business Rates Cap

Schedule 7 of the 1988 Act concerns the Business Rates Cap. It allows the multiplier to be raised annually by the level of inflation as per the retail price index (RPI). However, in 2014-15 and 2015-16 the increase was capped at 2% by the UK Chancellor:

> *With no policy change, business rates for 2014-15 would have risen by 3.2%, in line with September 2013 RPI. Autumn Statement 2013 announces that the government will support all businesses by capping the RPI increase in business rates to 2% in 2014-15.*[58]

[57] House of Commons Library (2016) Briefing Paper 07538 *Reviewing and Reforming Business Rates*: http://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7538

[58] HM Treasury (2013) Autumn Statement: https://www.gov.uk/government/publications/autumn-statement-2013-documents

The UK Budget 2016 announced a shift from RPI to the Consumer Price Index (CPI), it stated:

> *From April 2020, taxes for all businesses paying rates will be cut through a switch in the annual indexation of business rates from RPI to be consistent with the main measure of inflation, currently CPI, in line with the government's previous commitment to consider moving the indexation of indirect taxes from RPI once fiscal consolidation is complete. This represents a business rates cut every year from 2020. In 2020-21 alone it is worth £370 million to businesses and the benefit will grow significantly thereafter.*[59]

Once implemented, this will in turn lower rate bills for business as the CPI rate is lower on average than the RPI rate.[60] However this will also ultimately lead to a reduction in the amount of revenue raised by non-domestic rates.

2.5.3 Postponement of the 2015 Revaluation

Under Section 41 of the 1988 Act, non-domestic property in England is re-valued every 5 years. The revaluation is based on rental values at a specific date two years before the revaluation. The last revaluation came into effect on 1 April 2010. However, Section 29 of the *Growth and Infrastructure Act 2013* amended the 1988 Act to postpone the date of the next non-domestic rate revaluation from 1 April 2015 to 1 April 2017.

This was done primarily to offer stability to businesses recovering from the effect of the recent recession. It remains to be seen as to what the new UK Government's plans are. The Chancellor's Autumn Statement on 23 November may shed some light in this regard.

2.5.4 Business Rates Review

In recent years there has been two separate reviews of non-domestic rates in England. The first review was announced in the 2013 UK Autumn statement[61] and focussed on the administration of non-domestic rates. The 2014 UK Autumn Statement announced a further review of the structure of non-domestic rates in England. The two reviews were integrated as of March 2015.[62]

The UK Government had previously committed to publishing the Business Rates Review, alongside the 2016 Budget, stating:

[59] HM Treasury (2016) *Budget 2016*: https://www.gov.uk/government/publications/budget-2016-documents/budget-2016

[60] House of Commons Library (2016) Briefing Paper 07538 *Reviewing and Reforming Business Rates*: http://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7538

[61] HM Treasury (2013) Autumn Statement: https://www.gov.uk/government/publications/autumn-statement-2013-documents

[62] House of Commons Library (2016) Briefing Paper 07538 *Reviewing and Reforming Business Rates*: http://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7538

> *The government will carry out a review of the future structure of business rates to report by Budget 2016.*[63]

No separate document was published however in relation to non-domestic rates (business rates) the 2016 UK Budget announced the following measures to support non-domestic ratepayers:[64]

> *The government has concluded the business rates review and has decided to cut the burden on ratepayers in England by £6.7 billion over the next 5 years, cutting business rates for all properties and ensuring that the smallest businesses pay no rates at all, while modernising the tax to make it fit for the 21st century.*
>
> *The government recognises that business rates represent a higher fixed cost for small businesses and this Budget cuts business rates from next year for half of all properties – 900,000 smaller properties – starting 1 April 2017. The government will:*
>
> - *permanently double Small Business Rate Relief (SBRR) from 50% to 100% and increase the thresholds to benefit a greater number of businesses. Businesses with a property with a rateable value of £12,000 and below will receive 100% relief. Businesses with a property with a rateable value between £12,000 and £15,000 will receive tapered relief. 600,000 small businesses, occupiers of a third of all properties, will pay no business rates at all – a saving worth up to £5,900 in 2017-18. An additional 50,000 will benefit from tapered relief.*
> - *increase the threshold for the standard business rates multiplier to a rateable value of £51,000, taking 250,000 smaller properties out of the higher rate. This will reduce business rates for many small businesses – including some high street shops.*

Again it remains to be seen how the new UK Government will view these commitments.

3 Scottish Non-Domestic Rates

The *Local Government (Scotland) Act 1975,* as amended, provides the statutory basis for levying non-domestic rates on the occupier of the non-domestic property in Scotland.

There are three main actors in the Scottish rating system:

- The Scottish Government;

[63] HM Treasury (2014) Autumn Statement: https://www.gov.uk/government/publications/autumn-statement-documents
[64] HM Treasury (2014) Autumn Statement: https://www.gov.uk/government/publications/autumn-statement-documents

- Local Authorities; and,
- Scottish Assessors.

Each is explained below.

3.1 The Scottish Government

The Scottish Government sets the annual non-domestic poundage rate. Similar to the rest of the UK, these pence in the pound rate is multiplied by the property's rateable value to calculate the ratepayer's bill (after any reliefs have been factored in).

For 2016-2017 financial year the poundage rate is 48.4p as specified in the *Non-Domestic Rate (Scotland) Order 2016*.[65]

In addition to the non-domestic poundage rate there is a *Large Business Supplement* for business properties with a rateable value in excess of £35,000. This Large Business Supplement is 2.6 pence in 2016-17.[66]

The extra revenue generated by the Large Business Supplement is used to fund rate relief for small businesses *via* the Small Business Bonus Scheme.

The Scottish Government also set out the national framework for non-domestic exemptions and reliefs (see sub-section 3.4).

3.2 Local Authorities

Each local authority collects non-domestic rates from businesses and pays a contribution to the Scottish Government. This contribution is based on each local authority's estimated non-domestic rates income for that financial year.

In 2015-16 non-domestic rates generated £2.79bn in Scotland and are expected to generate £2.77bn in 2016-17.[67]

The Scottish Government pools this revenue (known as the 'distributable income') from all local authorities and re-distributes it back to the local authorities on the basis of need. The Scottish Government describe the process as follows:

> *The Scottish Government guarantees Councils overall funding levels through a combination of business rates and the general revenue grant, so if the actual amount of business rates collected reduces below the estimated amount then the Scottish Government must find an equivalent amount to the shortfall from within existing resources. The opposite is also true and an increase in business rates results in a saving in that year to the Scottish Government. Any surpluses or deficits are paid out or recovered*

[65] Non-Domestic Rate (Scotland) Order 2016: http://www.legislation.gov.uk/ssi/2016/113/article/2/made

[66] The Non-Domestic Rates (Levying) (Scotland) Regulations 2012:http://www.legislation.gov.uk/ssi/2012/28/regulation/2/made

[67] Scottish Government (2016) *Provisional Outturn 2015-16 and Budget Estimates 2016-17*: http://www.gov.scot/Resource/0050/00501884.pdf

from Councils in the calculation of future years distributable business rates totals. [68]

And:

….distribution methodology provides that Councils now retain what it is estimated they can collect in business rates rather than the previous policy where it was redistributed on the basis of population shares.[69]

This distribution methodology is similar to the system of top ups and tariffs in England See sub section 2.1)

3.3 The Scottish Assessors

Scottish Assessors determine the rateable value of non-domestic property in Scotland. Assessors place these values on a Valuation Roll, similar to the NAV list in NI. The Valuation Roll lists all non-domestic property in Scotland and their corresponding rateable values. New properties are added to the Valuation Roll as they become occupied and entries are deleted as when properties are demolished.

A property's rateable value is equivalent to a year's fair market rent at the 'Tone Date', which has been set two years prior to revaluation.[70] Using a single date for all properties ensures fairness and allows the Assessor sufficient time to collect evidence from ratepayers.[71] The current Valuation Roll came into effect on the 1 April 2010, with rateable values based on the rental market conditions that prevailed at 1 April 2008, i.e. the Tone Date.

The Scottish Assessors also amend values of existing properties that are altered, extended or subject to other material change of circumstances and values new properties that are built. In these cases, the rateable values are still based on the levels of value that prevailed at 1 April 2008.[72]

3.4 Scottish Exemptions and Reliefs

Various reliefs and exemptions are specified under prevailing legislation in Scotland, to support business and promote economic growth. Key reliefs include:

- Small Business Bonus Scheme;
- Empty Building Relief;
- Rural rate Relief
- Charitable rate relief;

[68] Scottish Government (2012) *Supporting Business – Promoting Growth*: http://www.gov.scot/Resource/0040/00409068.pdf
[69] Scottish Government (2012) *Supporting Business – Promoting Growth*: http://www.gov.scot/Resource/0040/00409068.pdf
[70] Scottish Parliament Information Centre (2015) *Financial Scrutiny Unit Briefing. Non-domestic Rates*: http://www.parliament.scot/ResearchBriefingsAndFactsheets/S4/SB_15-32_Non-Domestic_Rates.pdf
[71] Scottish Government (2012) Supporting Business – Promoting Growth: http://www.gov.scot/Resource/0040/00409068.pdf
[72] Scottish Assessors Association(2016) *Valuation Roll*: https://www.saa.gov.uk/grampian/gvjbvalroll.html

- Disabled Persons relief;
- Enterprise areas; and,
- Renewable Energy Generation relief.

A summary of these exemptions, reliefs and business support measures is provided in Table 4 below.

Table 4: Support to business in Scotland *via* the non-domestic rating system:[73]

Business Support Measure	Description and Eligibility
Small Business Bonus Scheme	The scheme is based on the rateable value of all an individual ratepayer's business premises, where the combined rateable value is £35,000 or less. The following reliefs are available: • Rateable value up to £10,000 – 100% relief (i.e. no rates payable) • Rateable value up to £12,000 – 50% relief • Rateable value up to £18,000 – 25% relief. Where the ratepayer has more than one business property with a combined rateable value between £18,001 and £35,000, he/she will get relief on each individual property with a rateable value under £18,000. If the ratepayer fails to declare additional properties occupied in Scotland on the application, this may constitute fraud.
Empty Building Relief	All empty properties are eligible for 50% relief from nondomestic rates for the first 3 months they are empty. After 3 months they are eligible for a 10% discount. Empty industrial properties are eligible for 100% relief for the first 6 months they are empty. After 6 months they are eligible for a 10% discount.
Rural Rate Relief	Ratepayers may be eligible for a 50% to 100% discount off non-domestic rates if the property is in a designated rural area with a population below 3,000 and it is: • A small food shop, general store or post office with a rateable value below £8,500; • A small hotel, public house or petrol filling station with a rateable value of up to £12,750; or, • Any other business providing a benefit to the community with a rateable value of up to £17,000. Local authorities may top up the mandatory 50% relief to 100%.
Charitable Rate Relief	Charities and amateur community sports clubs may apply for relief of up to 80% if a property is used for charitable purposes. Ratepayers can also get an additional discretionary relief (up to 100%). Local authorities may top up certain reliefs to give businesses and charities extra help. For example a non-profit recreation club is not automatically entitled to relief, but a local authority can grant discretionary relief up to 100%
Disabled Person Relief	Ratepayers may be eligible for up to 100% rates relief if the property provides: • Residential accommodation for the care or aftercare of people who are ill; • Training for disabled people; and, • Welfare services or workshops for disabled people.

[73] Table is produced by RaISe relying on information and data from Scottish Government (2016) *Business Rates Reliefs*: https://www.mygov.scot/business-rates-relief/

Enterprise Areas	Businesses setting up or relocating to an Enterprise Area site and working in particular sectors may qualify for this relief, which offers up to 100% discount up until March 2020.
Renewable Energy Generation Relief	Ratepayers may be able to receive 100% discount if their renewable energy generation scheme has arrangements in place that entitle one or more community organisations to: • At least 15% of the annual profit; or, • So much of the annual profit as is attributable to 1 megawatt of the total installed capacity of the project (or more). To be eligible for this relief the scheme has to produce heat or power from any of the following sources: • biomass; • biofuels; • fuel cells; • photovoltaics; • water (including waves and tides, but excluding production from the pumped storage of water); • wind; • solar power; and, • geothermal sources. The generation activity should take place at the eligible property itself. The amount of relief depends on the rateable value of the non-domestic property. If the ratepayer has more than one business property, the rateable values are combined. • Rateable value up to £145,000 – 100% relief • Rateable value between £145,001 and £430,000 – 50% relief • Rateable value between £430,001 and £860,000 – 25% relief • Rateable value between £860,001 and £4 million – 10% relief; and, • Rateable value more than £4 million.
New Build Property	Ratepayers may be eligible to receive relief for any new build renewable generation property that is built between 1 April 2016 and 31 March 2017. The property may be eligible to receive 10 % relief if it has a rateable value up to £500,000 and 1.5% rates relief if above that figure.[74]

3.5 Key Scottish Government Developments

Since 2012 there are a number of key Scottish Government developments relating to non-domestic rates that should be noted for their potential future impact in this area:

- Business Rates Incentivisation Scheme;
- Review of non-domestic rates;
- Postponement of 2015 Revaluation; and,
- Matching English Poundage Rates.

The above developments are explained in the following sus-sections.

[74] Scottish Government (2016) *Business Rates Reliefs*: https://www.mygov.scot/business-rates-relief/

3.5.1 Business Rates Incentivisation Scheme

On 1 April 2012 the Scottish Government introduced the Business Rates Incentivisation Scheme (BRIS). The aim of BRIS is as follows:

> *..to incentivise Councils to maximise existing business rates income and also attract new economic growth by allowing all authorities that exceed their annual business rates target to retain 50% of any additional income for the revaluation period. The BRIS target is based on an estimate of what the Council could reasonably be expected to collect.*

Put simply, each authority that exceeds its target can keep 50% of any extra revenue collected through non-domestic rates. The targets are linked to a buoyancy element of the total estimated non-domestic rate revenue for any one year. Buoyancy factors in normal growth in the tax base, which can occur through building new properties or improvements to existing properties which increases rateable value.[75] In this way the Government can estimate if the growth in the non-domestic rates tax base in a particular authority is above and beyond normal expected (buoyancy) level. Each authority has been given a provisional buoyancy target for 2016-17 ranging from 0.7% in Dumfries and Galloway to 1.5% in Aberdeenshire.[76] These figures are down from the previous year, perhaps indicating a more pessimistic forecast of future economic growth across Scotland.

3.5.2 Review of non-domestic rates

The Scottish Draft Budget 2016-17 announced a review of non-domestic rates in Scotland. The review will:

> *.. consider how business rates can respond to wider economic conditions and support business growth and long-term investment.*[77]

The Scottish First Minister stated that the purpose of the review is not to increase revenue. She stated:

> *the intention of the review will be to make recommendations which, overall, are revenue neutral. This is not an exercise in increasing overall tax revenue, it is about ensuring taxation is fair.* [78]

The period for submissions ends on 7 October 2016 and the overall review is expected to end early in 2017.

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[75] Scottish Government (2012) *Supporting Business – Promoting Growth*: http://www.gov.scot/Resource/0040/00409068.pdf

[76] Scottish Government (2016) *Local Government Finance Circular No. 3/2016*.

[77] Scotland Economy Blog (2016) Business Rates Review. by Chair Ken Barclay: http://blogs.scotland.gov.uk/scotlands-economy/2016/07/13/business-rates-review/

[78] Scottish Government (2016) *FM announces chair and remit for review of rates system:* http://news.scotland.gov.uk/News/-1billion-saving-for-small-business-2415.aspx

3.5.3 Postponement of 2015 Revaluation

National revaluations normally take place every five years throughout Scotland. However the revaluation scheduled for 2015 was postponed to 2017 as provided for in the *Valuation (postponement of Revaluation) (Scotland) Order 2013.* The 2017 revaluation will be based on values fixed at 1 April 2015 (the Tone Date).

3.5.4 Matching English Poundage Rates

In 2006-07 the Scottish Government made a commitment to equalise the Scottish non-domestic poundage rate with that of England.[79] In 2012 the Scottish Government committed to match the English poundage rate up to 2016 and stated its contention that higher rates in Scotland put business at a disadvantage:

> *We have also made a public commitment not to allow the poundage or tax rate for business rates to rise above that in England during the lifetime of this Parliament.* [80]

And:

> *The previous administration allowed the poundage rate, used to determine the business rates bill for businesses in Scotland, to be set higher than the rate in England. This damaging policy led to businesses in Scotland paying on average 8.5% more than ratepayers in England for seven continuous years, putting them at a prolonged and significant competitive disadvantage.*[81]

In 2014, the Scottish Government confirmed the increase for the 2015-16 Non-Domestic Rate poundage rate would be restricted to 2%. This was in line which the UK Government's decision to cap the English non-domestic multiplier for 2014-15.

In the Draft Budget 2015-16 the non-domestic rate revenue for 2015-16 was valued at £2,799.5m.[82] As at March 2015 the revised figure for 2015-16 was £2,788.5m.[83] The £11m reduction follows the cap in the poundage for 2015-16. By capping the poundage rate the Scottish Government has cut domestic rate bills for businesses. However, this has also decreased the amount of revenue generated *via* the collection of non-domestic rates.

[79] Scottish Government (2006) Technical Note: Non-Domestic Rates, 2007-08 Poundage Calculation: http://www.gov.scot/Topics/Government/local-government/17999/11199/ndrpoundtechnote07-08/ndrpoundtechnote06-07pdf

[80] Scottish Government (2012) *Supporting Business – Promoting Growth*: http://www.gov.scot/Resource/0040/00409068.pdf

[81] Scottish Government (2012) *Supporting Business – Promoting Growth*: http://www.gov.scot/Resource/0040/00409068.pdf

[82] Scottish Government (2014) *Scottish Budget: Draft Budget 2015-16:* http://www.gov.scot/Publications/2014/10/2706/downloads#res462240

[83] Scottish Government (2015) *Local Government Finance (Scotland) Amendment Order 2015:*http://www.gov.scot/Resource/0047/00472956.doc

4 Welsh Non-Domestic Rates

Responsibility for non-domestic rates in Wales has been fully devolved to the Welsh Assembly since 1 April 2015. Approximately 110,000 properties are liable for non-domestic rates in Wales. In 2016-17 it is estimated that £977 m of Welsh Government expenditure will be financed by non-domestic rates.[84]

There are three main actors in the Welsh rating system:

- Welsh Government
- VOA; and,
- Local Authorities.

The following paragraphs summarise the role of each in the Welsh non-domestic rating system.

4.1 Welsh Government

Similar the rest of the UK the non-domestic rate bills are calculated by multiplying the rateable value of the property by the non-domestic rates multiplier. The Welsh Government sets the multiplier for every financial year, and determines national non-domestic rates policy including the setting of reliefs. The multiplier for the financial year 2016-17 is 0·486.[85] The Welsh Cabinet Secretary for Finance and Local Government has responsibility for non-domestic rates policy and administration.

4.2 VOA

The VOA assesses the rateable value of all non-domestic properties in Wales and England. It is also the first point of contact if a business thinks that its bill is wrong due to the rateable value being inaccurate.

4.3 Local Authorities

All non-domestic rates in Wales are collected by local authorities and paid into a national 'pool' administered by the Welsh Government. They are then redistributed to Welsh local authorities and Police and Crime Commissioners as part of the annual local government settlement and police settlement.

4.4 Welsh Exemptions and Reliefs

Various reliefs and exemptions are specified under prevailing legislation in Wales to support business and promote economic growth. Key reliefs include:

[84] National Assembly for Wales Research Service (2016) How do business rates operate in Wales: https://assemblyinbrief.wordpress.com/2016/07/06/how-do-business-rates-operate-in-wales/

[85] Welsh Government (2016) *Non-domestic (Business) Rates*: http://gov.wales/topics/localgovernment/finandfunding/businessrates/?lang=en

- Enterprise Zones Business Rates Scheme;
- Small Business Rates Relief;
- Rates Relief for Empty Properties;
- Hardship Relief;
- New Developments Scheme; and,
- Self-Catering Properties.

A summary of these exemptions, reliefs and business support measures is provided in Table 5 below.

Table 5: Support to business in Wales *via* the non-domestic rating system:[86]

Business Support Measure	Description and Eligibility
Enterprise Zones Business Rates Scheme	The Enterprise Zones Business Rates Scheme was introduced as a means of providing Small and Medium Sized Enterprises (SMEs) in Enterprise Zones with support in paying their non-domestic rates bills. The scheme targets SMEs demonstrating business growth characteristics, that is, new starts or those increasing the size of their full time workforce. It forms part of the wider set of actions aimed at delivering growth and sustainable jobs in each Enterprise Zone. The scheme is only available within specific time frames. 134 applications by businesses were supported across the first 3 rounds of the Scheme, which continues to deliver support to businesses in the Zones.
Small Business Rates Relief	Small business rate relief was extended in Wales until 31 March 2017. Properties with a rateable value of £6,000 or less are eligible for 100% relief. This means ratepayers do not pay non-domestic rates on those properties. The rate of relief decreases from 100% to 0% for properties with a rateable value between £6,001 and £12,000. If the business currently receives a higher rate of relief, then ratepayers will receive the rate of relief that benefits them most. The following types of business will continue to get relief: • Premises with a rateable value between £10,501 and £11,000 in receipt of 25% retail relief; • Post offices in receipt of 100% or 50% relief; and, • Registered Child Care premises with a rateable value between £9,001 - £12,000 in receipt of 50% relief.
Rates Relief for Empty Properties	Empty business properties are exempt from paying non-domestic rates for 3 months after the property becomes vacant. There are additional exemptions for certain types of property or for properties under a set rateable value. These include: • Industrial premises, such as warehouses, which are exempt for a further 3 months; • Listed buildings which are exempt until they become occupied again; • Buildings with a rateable value under £2,600 which are exempt until they become occupied again; • Properties owned by charities, which are exempt if the property's next use is likely to be wholly or mainly for charitable purposes;

[86] Table is produced by RaISe relying on information and data from Welsh Government (2016) *Business Rates Reliefs*: https://businesswales.gov.wales/business-rates-relief-in-wales

	• Community amateur sports club buildings which are exempt if their next use is likely to be wholly or mainly for a sports club; • A business whose owner is a company which is subject to a winding-up order made under the Insolvency Act 1986 or which is being wound up voluntarily under that Act; • A business whose owner is a company in administration within the meaning of paragraph 1 of Schedule B1 to the Insolvency Act 1986 or is subject to an administration order made under the former administration provisions within the meaning of article 3 of the Enterprise Act 2002 (Commencement No. 4 and Transitional Provisions and Savings) Order 2003; and, • A business whose owner is entitled to possession only in his or her capacity as the personal representative of a deceased person. After the exemption period ends, the ratepayer will be liable for the full business rate bill.
Hardship Relief	Local Authorities can grant hardship relief to businesses if they believe that it is in the interests of the local community to do so.
New Developments Scheme	The scheme is designed to help stimulate construction and encourage development in Wales. It is a temporary measure, which will exempt all newly built, vacant commercial property from business rates for the first 18 months following completion, if completed on or after 1 October 2013 and before 1st October 2016.
Self-Catering Properties	If the property is in Wales and is commercially available to let as a self-catering concern, provided certain criteria are met it will be rated and valued for non-domestic rates. The Valuation Office Agency (VOA) works out the rateable value based on the property type, size and location. From 1 April 2010 in Wales, self-catering property is non-domestic and therefore liable for non-domestic rates, if the VOA is satisfied that: • The property will be available for letting commercially as self-catering accommodation for short periods totaling 140 days or more in the following 12- month period; • The ratepayer's interest in the property enables them to let it for such periods; • In the 12 months prior to assessment the property has been available for letting commercially as self-catering accommodation for short periods totaling 140 days or more; and • The short periods the property has actually been commercially let for, amounted to at least 70 days during that period. From 1 April 2016, a new provision was added to the criteria above so that: ▪ Businesses consisting of several self-catering properties at the same location or within very close proximity have the option to average the number of lettings days of the properties to meet the 70-day criterion where they are let by the same or connected businesses.

5 Concluding remarks

Non-domestic rates are now fully devolved to NI, Scotland and Wales. All 3 devolved administrations may retain the full revenue raised from non-domestic rates within their jurisdictions. They also determine their own rating system, including setting poundage rates, bearing the risk of revenues rising or falling.[87]

It follows that all 3 devolved administrations are free to increase the overall level of funding available to them *via* the rating system in this context. The current NI Finance Minister stated in June 2016:

> *…we do not have enough money to do all the things that we want to do, but is there capacity to raise more money from the rates system? I believe that there is, and I would like to examine that with colleagues.*[88]

This is perhaps a departure from policies of the recent past, as successive Executive Budgets in NI have not raised revenue *via* an up-lift in the Regional Tate beyond the prevailing level of inflation. As the 2016-17 Budget states:

> *Since 2011 the Executive has agreed that both domestic and nondomestic Regional Rate should be uplifted in line with inflation. This was established because the Executive was mindful of not imposing undue additional burdens on households in the difficult economic climate that prevailed at the time.* [89]

And:

> *The Executive's 2016-17 Budget is once again predicated on the continuation of this policy, with overall revenues from both the normal domestic and non-domestic Regional Rates being held in line with inflation. This, alongside the decision not to implement water charges, helps Northern Ireland maintain the lowest household taxes in the UK.* [90]

Hence, generally speaking, any increase in the Regional Rate will result in higher rate bills for customers. Alternatively, any reliefs or exemptions offered to ratepayers by the Executive will result in a decrease in rates revenue.

In November 2012, the then NI Finance Minister expressed the importance of non-domestic rates revenue to the NI economy in a statement to the Assembly. He stated**:**

> *Every pound allowed in [non-domestic rates] relief is a pound less to spend on health, education, roads, and council services.* [91]

This balancing act of trying to raise revenue on the one hand and trying to support to businesses *via* reliefs and exemptions on the other hand, presents a dichotomy for the Executive. It is essentially the biggest problem with attempting to raise revenue *via* the

[87] HM Treasury (2015) *Business rates review: terms of reference and discussion paper.*

[88] Finance Minister Máirtín Ó Muilleoir (2016) Evidence to the Committee for Finance, 8 June 2016: http://aims.niassembly.gov.uk/officialreport/minutesofevidencereport.aspx?AgendaId=18245&eveID=10586

[89] Northern Ireland Executive (2016) *Budget 2016-17*: https://www.northernireland.gov.uk/publications/budget-2016-17

[90] Northern Ireland Executive (2016) *Budget 2016-17*: https://www.northernireland.gov.uk/publications/budget-2016-17

[91] Finance Minister Sammy Wilson, Statement to the NI Assembly 26 November 2012 "Non-domestic Rating"

rating system. This is particularly relevant for devolved administrations with limited fiscal powers such as NI.

However, perhaps in future the biggest challenge for the Executive will be maintaining revenue levels from non-domestic customers given the changing patterns over the last few years of business use and retail transactions in particular.

For example, in 2014, online retail transactions accounted for 9% of all retail sales in the UK.[92] In 2012, mobile retail sales, i.e. online sales using a smart phone or tablet, increased by 304% on the 2011 figures.[93] If this trend continues, then it appears that property as a basis for taxation will need to change reflecting that more and more retailers are opting for online businesses with cheaper overheads, e.g. using less floor space in shops, and thereby decreasing rate liability.

An example of this is seen in the different rate liabilities of the London bricks and mortar retailer Harrods and the online retailer ASOS. Both retailers have similar turnovers, £716.3 m and £769.4m respectively. Harrods, however, faced a non-domestic rates bill of £11.5m in 2014-15, while ASOS' bill for 2014-15 was only £935,000.[94]

Scrutiny Point:

In future it appears that the Executive may have to use a combination of fiscal levers to offset changing retailer trends, making property as a basis for taxation less relevant. How does the Finance Minister plan to address these new commercial and other realities?

[92] Business, Innovation and Skills Committee (2014) *The Retail Sector: Eight Report of Session 2013–14 Volume II* : http://www.publications.parliament.uk/pa/cm201314/cmselect/cmbis/168/168ii.pdf
[93] British Retail Consortium (2012) *Retail Stats & Facts: Sector Stats & Facts*
[94] Emily Young, BBC News online (2013) *Autumn Statement 2014:Business rates reform demanded*: http://www.bbc.co.uk/news/business-30232504

Appendix 1: How non-domestic rate bills are calculated in NI

The statutory authority to charge rates (both domestic and non-domestic rates) is the *Rates (Northern Ireland) Order 1977*, as amended, (the '*1977 Order*'). Section 6 of the 1977 Order states:

6 (1) Rates shall be made for each year in accordance with the provisions of this Order—

(a) by the Department; and

(b) by district councils;

and shall be levied in accordance with the provisions of this Order.

*(2) In this Order, a rate made by the Department is referred to as a "**regional rate**" and a rate made by a district council is referred to as a "**district rate**".*[95] [Emphasis added].

The *1977 Order* provides for a rate to be made and levied at an amount in the pound at Section 6:

In the case of a regional rate, on the rateable values of every hereditament;[96]

In the case of a district rate, on the rateable values of every hereditament in the district.[97]

Both the district and regional rate are often referred to as pence in the pound tax rates, poundage rates or multipliers. In simple terms these rates are multiplied by the NAV to calculate the annual charge.

The **district rate** is set independently by each council. Each district council sets the rate by first calculating its estimated income and expenditure for the forthcoming year. Based upon these estimates, a district rate is set to generate a level of income sufficient to deliver the planned services. The types of services provided for by the district rate are bin collections, recycling and waste disposal, leisure services, street cleaning and parks.[98]

The **regional rate** is set annually by the Executive, and is the same throughout NI. The revenue from the regional rate goes to fund public services throughout NI, such as the costs of providing services like education, health, personal social services, housing, roads, sewerage and water.

[95] Rates (Northern Ireland) Order 1977. (Section 6): http://www.legislation.gov.uk/nisi/1977/2157/article/6

[96] At Section 2 (2) the *1977 Order* defines a **hereditament** as:"property which is or may become liable to a rate, being a unit of such property which is, or would fall to be, shown as a separate item in a valuation list."

[97] Rates (Northern Ireland) Order 1977. (Section 6): http://www.legislation.gov.uk/nisi/1977/2157/article/6

[98] http://www.nidirect.gov.uk/index/information-and-services/property-and-housing/rates/your-rate-bill/what-do-rates-pay-for.htm

Non-domestic Rates bills are calculated as follows:

In each district council area, the regional and district poundage rates are added together to give domestic and non-domestic rates for each council area. To calculate the non-domestic rates payable on the property, the overall poundage rate is then multiplied by the NAV of the property.

NAV of property x (non-domestic regional rate + non-domestic district rate)

The non-domestic regional rate for 2016-17 is £0.324000 or 32.4 pence in the pound.[99]

For the 2016-17 financial year, non-domestic district rate poundages range from £0.2012 (or 20.12 pence in the pound) in Fermanagh and Omagh to £0.283811 (or 28.3811 pence in the pound) in Derry and Strabane.[100]

Illustration

So for a hypothetical non-domestic property in the Fermanagh and Omagh district council area with a NAV of £100,000, the calculation for the 2016-17 financial year is as follows:

£100,000 x (0.2012 + 0.324) = £52,520

Similarly, if the property is situated in the Derry and Strabane district council area the calculation would be as follows:

£100,000 x (0. 283811 + 0.324) = £60,781.10

However, the final non-domestic rate bill calculation may include any applicable allowances such as Small Business Rate Relief[101], Industrial De-rating and Empty Premises Relief.

The average non-domestic rate bill in NI for 2014-15 was £10,819. DFP have suggested that the average UK non-domestic rate bill is somewhere in the region of £15,000 per annum.[102] However they offer the following note of caution when attempting to compare NI with the UK in this regard:

> *…such comparisons are meaningless, however, as we do not have the same scale of big business here in Northern Ireland compared with the rest of the UK. For example high value undertakings such as the City of London, petro chemical plants and airports e.g. Heathrow, significantly distort the average in England.*[103]

[99]LPS (2015) *Rate poundages2016-17*: https://www.finance-ni.gov.uk/articles/poundages-2016-2017

[100]LPS (2015) *Rate poundages2016-17*: https://www.finance-ni.gov.uk/articles/poundages-2016-2017

[101]The NI Executive Budget 2016-17 proposes that the Small Business Rate Relief Scheme be continued for the 2016-17 period.

[102]Department of Finance and Personnel (2015) *Review of Northern Ireland's Non-domestic rating system: Consultation paper.*

[103]Department of Finance and Personnel (2015) *Review of Northern Ireland's Non-domestic rating system: Consultation paper.*