

**Initial Integrated Impact Assessment:
Large Retail Levy**

June 2011

Introduction and Background

1. It is intended to rebalance the system of business rates during this economic downturn and through to recovery, so that more smaller businesses get help, while the very largest retailers pay more. It is proposed to do this by expanding the small business rate relief (SBRR) scheme and funding it by applying a levy to the largest and highest value retail properties.
2. The economic downturn has adversely affected almost all areas of business but to varying degrees. However, there is evidence to suggest that large retailers are better placed to cope with the current economic conditions than the small business sector.¹
3. In general the smaller a business is the higher rates tend to be as a proportion of its outgoings. For this reason it is proposed to double the amount of relief currently provided through the main SBRR scheme (increase from £6.3m (at April 2011) to around £13m) and to fund this through a levy on the largest shops and retail outlets.
4. Given the current economic climate both measures need to be in place by 1 April 2012, in order to maximise their impact. It is intended that they would then apply for three years, through to 31 March 2015, covering the remainder of the current spending review period and coinciding with the next rates revaluation.
5. Subject to consultation, and the final decisions taken, the levy could affect up to 80 premises.

¹ Based on analysis of data in the Department for Business, Innovation and Skills SME statistics for the UK and Regions 2007, 2008 and 2009 and also the Northern Ireland Annual Business Inquiry data 2008 and 2009.

Initial Integrated Impact Assessment

6. The initial Integrated Impact Assessment (IIA) includes
 - an initial Equality Impact Assessment – an assessment of the potential impact on persons of different Section 75 groups;
 - an initial Rural Proofing exercise, examining the impact on urban and rural areas; and
 - initial New TSN analysis (Targeting Social Need), which examines the impact on deprived communities.
7. There is also an initial Regulatory Impact Assessment, which examines the impact on businesses of any new legislation.
8. The IIA is a means of ensuring that both intended and unintended impacts are identified and influence the policy making process. The Regulatory Impact Assessment examines the impact on businesses of any new legislation. These impact assessments are carried out on the preferred approach set out in the main consultation paper.
9. It is estimated that the average cost of the levy would equate to around 0.25% of indicative individual store sales turnover for those affected. Its scale and three year duration suggest that any impact should and would not be significant in terms of affecting the behaviour of the companies concerned when it comes to investment and employment plans.

Data Sources

10. The following data sources have been used:
 - i) Data from the Valuation List supplied by Land Property Services (LPS) as at April 2011, containing information on non-domestic properties.

- ii) Census 2001 information, from the Northern Ireland Research and Statistics Agency (NISRA).
- iii) The Northern Ireland Multiple Deprivation Measure (NIMDM), at ward level. Each ward is scored according to its level of deprivation – the higher the score, the higher the level of deprivation.

Limitations of Analysis

11. The following limitations of the analysis have been identified:

- A problem with using ward level analysis is that pockets of deprivation in relatively affluent wards are unidentified.
- In order to carry out impact assessments with the available data, it is assumed that any impact of the levy would be local to the retailers affected so that the characteristics of those living in the wards where the large retailers are located are the characteristics of those who would feel any impact of the levy. However, it should be recognised that this will not necessarily be the case. Those working in, and shopping at the retail premises, will not necessarily live within the affected areas.²
- No reliable evidence is currently available for the Section 75 categories of sexual orientation or political opinion. This is a gap in the data for the initial EQIA analysis. However as part of the consultation process any evidence of differential impacts on people in these groups is particularly welcome. Data from the census was available for the seven remaining Section 75 groups.

² Affected refers to those wards that would, or would not, contain properties that would be subject to the levy.

Initial Equality Impact Assessment

12. In accordance with the statutory duties contained in Section 75 of the Northern Ireland Act (1988), the Department of Finance and Personnel has given an undertaking to carry out an Equality Impact Assessment on each policy where screening has indicated that there may be significant equality implications. In other words, policy must have due regard to the need to promote equality of opportunity between nine categories of persons, namely:

- Between persons of different religious belief, political opinion, racial group, age, marital status or sexual orientation;
- Between men and women generally;
- Between persons with a disability and persons without;
- Between persons with dependants and persons without.

13. The aim of an EQIA is to determine whether any of the nine groups defined above are significantly affected, either positively or negatively, by a change in government policy. This is not only best practice to ensure good policy making it is also a statutory requirement and as part of the assessment process there is a need to consult on the initial EQIA. Following consultation any additional evidence relevant to the initial EQIA can be used to help shape the policy and assist decision-making. Further analysis will take place following feedback obtained through the consultation. This principle applies to all the other initial impact assessments in this paper.

Approach to Analysis

14. The 582 wards in Northern Ireland were divided into two groups, according to whether they contained properties that would be affected by the large retail levy or not. Under this definition, 43 wards were identified as containing properties that would be subject to the levy and 539 would

not. Initial analysis suggests that the ward most affected would be Shaftesbury, in Belfast, with 15 properties located there – see Appendix 1.

15. The population characteristics of these two groups were compared, along with the population characteristics of Northern Ireland as a whole, to see if any Section 75 sub-groups would be under- or over-represented in the wards affected by the levy. There is a lack of data on two Section 75 groups (political opinion and sexual orientation). As part of the consultation process any evidence of differential impact on these groups is particularly welcome. Data from the 2001 census was available for the seven remaining Section 75 groups (Age, Dependants, Disability, Gender, Marital status, Race, Religion):

Section 75 characteristics of wards likely to be affected by the Levy, compared to those not affected, and the Northern Ireland average

	Northern Ireland average	Wards affected by Levy	Wards not affected by Levy
Under 60	82.4%	80.2%	82.6%
60 +	17.6%	19.8%	17.4%

Male	48.7%	47.7%	48.8%
Female	51.3%	52.3%	51.2%

No Dependants	63.5%	68.6%	63.0%
With Dependants	36.5%	31.4%	37.0%

Married	55.0%	50.9%	55.3%
Single	33.1%	34.6%	33.0%
Widowed/Divorced	11.9%	14.5%	11.7%

Protestant/Other			
Christian	45.6%	49.4%	45.2%
Catholic	40.3%	34.1%	40.8%
Other None	14.2%	16.5%	14.0%

White	99.2%	98.9%	99.2%
Non White	0.85%	1.1%	0.8%

With Disability	20.4%	23.2%	20.1%
Without Disability	79.6%	76.8%	79.9%

16. For the majority of Section 75 sub-groups, the analysis indicates that there would be no significant difference in population structure between

the wards affected by the levy and those not affected. This suggests that there would be no significantly disproportionate impact to any of these groups if the proposed levy was implemented.

17. For two Section 75 sub-groups, there is likely to be an over-representation in the wards affected by the levy compared to those not affected – the Widowed/Divorced group, and the Non-Whites group. However, for the former, the proportion in the affected group is not significantly higher than the Northern Ireland average; it would only be significantly higher than the unaffected group, which has a slight under-representation compared to Northern Ireland as a whole.
18. Only for the Non-Whites group is there a suggested over-representation in the affected wards compared to those wards not affected and also compared to Northern Ireland as a whole.

Initial New TSN Analysis

19. New Targeting Social Need (New TSN) is a policy designed to tackle social need and social exclusion by targeting efforts and available resources, within existing departmental programmes, towards people, groups and areas in greatest social need. Within the context of the rating system in Northern Ireland, the aim is to ensure that any new policy does not disproportionately impact on deprived areas to their detriment.

Methodology

20. The 582 wards in Northern Ireland were grouped into two groups – those containing properties that would be affected by a large retail levy and

those that would not. The average Multiple Deprivation Measure³ of all the wards in each of the two groups was calculated and compared.

Comparison of Average Deprivation Scores of the Two Groups

	Av. MDM Score of wards affected by Levy	Av. MDM Score of wards not affected by Levy	Northern Ireland average
Average MDM	23.33	21.21	21.37

21. The initial analysis suggests that those wards that would be affected by the levy would have a higher average level of deprivation than either the Northern Ireland average or the wards that would not be affected (which would have a lower level of deprivation than the Northern Ireland average).
22. It can be argued that the average of 23.33 is skewed by three high deprivation wards, all in Belfast, covering the shopping areas of Victoria Square, Castle Court, Donegall Place and Boucher Road, in which 22 of the properties would be located. Excluding these wards, the deprivation score (for the remaining 40 wards affected by the levy) would fall to 20.71, suggesting that, outside these retail clusters, those properties affected by the levy are not located in deprived areas.
23. In terms of these three specific areas of high deprivation, the findings are considered to be somewhat misleading for the following reasons. It cannot be assumed that the entire impact (should there be any) would be concentrated within the area immediately surrounding what is Northern Ireland’s main city shopping area and that it would affect only the

³ The Northern Ireland Multiple Deprivation Measure (NIMDM) 2010, constructed by NISRA (Northern Ireland Statistical Research Agency), is a composite measure of several different forms or types of deprivation. It is the official measure of spatial deprivation in Northern Ireland. More information is available at www.nisra.gov.uk

residents of the central wards. Given the transport network into the centre of Belfast, it is likely that a higher proportion of people (than would be the norm in other areas) would travel from further afield to work and shop there. Furthermore, the immediate locality would have a greater capacity to absorb any impact, through alternative employment opportunities and consumer choices.

Initial Rural Proofing Analysis

24. Rural Proofing has been recognised as a key element in policy development and evaluation. The rural proofing exercise allows policies to be assessed for their impact on rural areas. The Government has made a commitment to ensure that the rural dimension is routinely and objectively considered as part of the making and implementation of policy. In the context of rating policy, rural proofing aims to ensure that rural areas do not receive disproportionately fewer benefits from any proposals compared to urban areas.
25. Of the 43 wards that would be affected by the proposed large retail levy, 38 would be defined as ‘urban’ – accounting for 67 properties. Four would be mixed urban/rural (seven properties), and one would be rural (accounting for three properties).

Proportions of Urban, Rural and Mixed wards and properties in the affected group

	Proportion of affected wards	Proportion of affected properties
Urban	88%	87%
Rural	2%	4%
Mixed	10%	9%

26. The fact that 88% of affected wards (87% of affected properties) would

be urban indicates that the policy impact would be predominantly urban – suggesting that rural areas would be largely unaffected. This would be to the benefit of rural areas.

Initial Regulatory Impact Assessment

Purpose and Intended Effect of the Measure

27. The levy would apply to the highest value and largest retail premises. Given the need to provide additional support to small businesses as soon as possible the levy would need to be in place from 1 April 2012. It is intended to apply for three years through to 31 March 2015 and would need to raise around £6.5m per year, at 2011/12 levels, to cover the proposed expansion of the SBRR scheme.
28. The preferred approach is to raise the revenue through a levy on all retail properties with a rateable value of £500,000 or above. To raise the required £6.5m would equate to a regional rate supplement of around 11p (at 2011/12 levels), increasing rate bills on those properties by around 20% on average. The actual impact of the levy on bills would vary by district council area, from around 18.5% to 22.5%, given that district rate levels differ by council area.
29. The objective of this impact assessment is to assess the potential impact of introducing a large retail levy, on different business sectors and groups within Northern Ireland. It also intends to provide justification for the intended measure, in terms of the rationale behind it.

Background

30. Subject to the outcomes of consultation the preferred approach for the levy would affect just under 80 properties, the majority of which (just over

three fifths) are located outside of town centres.⁴ However, it would also cover some of the largest retail stores in prime locations in cities and major towns across Northern Ireland. It should be noted that the preferred approach would not deliberately target premises that are outside of town centres, although the majority would be located in those areas.

31. In relation to the proposed large retail levy it is the Department's assessment that this does not constitute state aid, given that it would be unlikely to confer a competitive advantage on businesses not subject to the levy. There would be no reduction in the rates liability for those retail premises below the threshold for the large retail levy, but outside the scope of an extended SBRR scheme.

Rationale for scheme

32. The rationale for placing a levy on large retailers is to redistribute the rates burden from small businesses, for whom rates tend to form a higher proportion of profit and turnover, compared to larger retail businesses, which tend to have a lower proportion of rates to profit and turnover. Extending relief for small businesses would help reduce operating costs for these businesses, providing increased assistance through into recovery. This relief would be funded by the large retail levy.

Risks

33. Part of the task of an RIA is to identify the risks that could arise as a result of the proposed policy. Some potential risks are listed below, although there is no indication at this stage of how likely each is to occur or the precise impact if the outcome did arise. These possible risks must necessarily be based on the assumption that the increase in rates liability

⁴ Town centre has been determined with reference to area plans from the Department of the Environment's Planning and Local Government Group.

would be sufficient to make a significant impact on profits and thereby affect behaviour. The analysis suggests this is unlikely to be the case, given that the levy is estimated on average be around 0.25% of indicative individual store sales turnover for the affected companies.

34. In addition, it must be borne in mind that the scheme is intended to be temporary – it would only be operational for three years until 31 March 2015. Therefore, it is considered that the levy would be unlikely to impact on decisions made by large retailers, certainly with a view to the medium and long term.

- The introduction of a large retail levy incurs the risk of strong opposition from those affected. Large multi-national retailers may lobby and challenge any proposals, either individually or as a group.
- The introduction of the levy could affect the location decisions of large retailers, with potential implications for local economies within Northern Ireland. It could also be argued that, if they are multi-national companies, the levy could risk bringing into question the location of further large retail premises in Northern Ireland, or impact on the operation of existing premises, if the additional costs are considered to be too high. The risk of this happening is considered to be low.
- A further risk would be an increase in behaviours aimed at reducing rate liability – such as locating or relocating in district councils with traditionally lower district rates, or moving out of town centres such as Belfast where rental levels tend to be highest. Given the number of alternative available premises the risk of this happening is considered to be low.
- Where feasible, retailers may limit the size of new premises to below the rateable value threshold that the levy would apply to

(£500,000 or above). The risk of this happening is considered to be low, given the time frame for the levy.

- To compensate for increased costs, large retailers may reconsider their employment levels and structures. It is estimated that the cost of the proposed 20% levy would equate on average to around 0.25% of indicative individual store sales turnover for those affected. This, combined with the three year duration of the measure, is considered to minimise any impact of the levy in a range of areas.
- There is the potential that prices in Northern Ireland may be increased as a result of the levy (in the same way, for example, that the large foodstore operators use regional pricing variations with their fuel sales). While this is a possibility, experience does not suggest this would occur. At the last general rates revaluation in 2003 rate bills for large retail premises increased significantly with no discernable impact on the price of goods sold. In addition, given the level of competition among the companies affected, particularly the supermarkets, it is considered that there would be a strong incentive not to pass the increased rates on in higher prices. Therefore the Department considers that even small price increases are likely to be avoided. Passing the increase onto suppliers could also be difficult. The risk of this happening, particularly in the short term, is also considered to be low.
- Given the global nature of the supply chain to large retailers, it is considered unlikely that local suppliers would be asked to reduce the price of goods supplied, due to the relatively small proportion (across the range of goods that are sold) that would come directly from the local Northern Ireland market.

- The risk of a reduction in the choice and range of goods available to consumers, as a result of the introduction of the levy is not considered to be high.

Options

35. **Option 1 – ‘Do Nothing’:** Maintain the rating system as it currently exists, without introducing a large retail levy. If this option were progressed the additional rates revenue would not be available to extend the SBRR scheme.
36. **Option 2 – Introduce large retail levy:** The levy would be introduced for those properties with a rateable value of £500,000 or above, with an average increase in rates bills of 20% against what they would otherwise be.
37. The proposed measures would be temporary, applying from 1 April 2012 for the remainder of the spending review period, through to 31 March 2015.

Benefits and Costs of Options

38. The cost of option 1 would be foregone potential regional rate revenue of around £6.5m (2011/12 levels) which would mean a lack of funding for the proposed extension of the SBRR scheme. The SBRR scheme in its current form would be unaffected.
39. The obvious beneficiaries of option 1 would be the large retailers that would have been affected by the levy and who would no longer face an increase in their rate liability. If option one were pursued they would see no increase in costs, while profits would be unaffected.
40. It is considered that the absence of an increase in rates should have no impact on the retail businesses within Northern Ireland or service

provision to consumers. It is not possible to predict the decisions that would be taken by large retailers in the absence of the large retail levy, particularly given that this would represent no change to their present position.

41. A cost of introducing the levy (option 2) may be that increased costs and reduced profit for large retailers could lead to a levelling off of business in this sector, which may impact on employment structures, service provision and consumer prices.
42. The Department has considered the risk on areas such as investment, employment, service provision, etc. In this respect it is important to look at the levy in perspective. It would be a temporary measure that would only apply for three years. It is not considered that the sums involved would adversely impact on investment in new large retail stores or continued occupation of current properties by large retailers. It is estimated that the levy would be, on average, around 0.25% of indicative individual store sales turnover for the affected companies. In terms of the companies affected a 20% levy is likely to be approximately 0.006% of their combined UK sales turnover and 0.09% of their combined UK operating profit.
43. The beneficiaries of option 2 would be those small businesses who would become eligible for relief under an extended SBRR scheme. This would help reduce operating costs for these businesses and provide increased assistance following the economic downturn and through into recovery.
44. In some cases the profits may be relatively insignificant, and so may not affect behaviour in the desired fashion. Some of these benefits and costs may either not materialise or not to the extent that is envisaged.

The table below summarises the potential costs and benefits for the two options:

Option	Costs	Benefits
Do Nothing	<ul style="list-style-type: none"> • Potential tax revenue foregone. • No additional monies to fund any proposed extension to SBRR scheme. 	<ul style="list-style-type: none"> • Avoidance behaviour of retailers does not occur.
Introduce Levy	<ul style="list-style-type: none"> • Profits of large retailers affected. • Avoidance behaviour of retailers that could impact on consumers and employments levels and structures. • Possibility that extension of the SBRR scheme may not bring the expected benefits 	<ul style="list-style-type: none"> • Additional rates revenue of around £6.5m would be raised, funding expansion of the large retail levy. • SBRR scheme would be extended, benefiting a wide range of small businesses.

Equity and Fairness

45. The following sections of the Integrated Impact Assessment detail the impacts on Section 75 groups, disadvantaged areas and rural areas of expanding the SBRR scheme.

46. The initial Equality Impact analysis suggests no detrimental impact for the majority of subgroups within the Section 75 categories. Two subgroups would be disproportionately affected – those who are

widowed/divorced and the 'non-white' racial sub-group. However, it is considered that for the former, the proportion in the affected group is not significantly higher than the Northern Ireland average. Only for the Non-Whites group is there a suggested over-representation in the affected wards compared to those wards not affected and also compared to Northern Ireland as a whole.

47. The initial New TSN analysis suggests that those wards affected by the levy would have a higher average level of deprivation than either the Northern Ireland average or the wards that would not be affected (which would have a lower level of deprivation than the Northern Ireland average). In terms of these three specific areas of high deprivation the findings are considered to be somewhat misleading for the following reasons. It cannot be assumed that the entire impact (should there be any) would be concentrated within the area immediately surrounding what is Northern Ireland's main city shopping area and that it would affect only the residents of the central wards. Given the transport network into the centre of Belfast, it is likely that a higher proportion of people (than would be the norm in other areas) would travel from further afield to work and shop there. Furthermore, the immediate locality would have a greater capacity to absorb any impact, through alternative employment opportunities and consumer choices.
48. The initial rural proofing analysis indicates that the proposed levy would not have a negative impact on rural areas.

Small Business Impact test

49. The aim of a small businesses impact test is to consider whether a change in policy will have a differential impact on small firms compared to other, larger units. Any impact of the levy on small businesses is expected to be positive, given that monies raised from the levy would be used to cross-subsidise an expansion of the SBRR scheme. Other small businesses that are above the threshold for the expanded SBRR scheme

would not be detrimentally affected, as their rates liability would remain the same.

Competition Assessment

50. A Competition Assessment, as outlined in the Cabinet Office guidance, aims to assess any potential effects on competition that the proposed policy may have, with the purpose of identifying any significant detrimental impact on competition that might occur. The issue to be considered is whether or not the proposed levy would make large retailers less competitive than their competitors.
51. Because the levy would apply to all large retailers with a rateable value of £500,000 or above, the policy is not considered to be detrimental to their competitiveness, as all comparable competitors would be affected.
52. While slightly smaller retail premises selling similar goods would not have an additional rates burden, they are not considered to be at an unfair competitive advantage. They would normally pay less rates than the very largest stores and their rates burden would not be reduced. It is also considered unlikely that the large retailers would pass the increased rates liability on in the form of increased prices, as most operate national pricing policies. To apply slightly higher Northern Ireland prices as a means of recovering an average increase in rates of 20% could be expensive to administer and not considered worthwhile. Furthermore, the majority of the smaller retail premises would not generally be considered to be true competitors with the larger supermarkets, DIY stores etc. who would be affected by the levy. This is likely to relate to differences in patterns of shopping, the range of goods sold and the price competitiveness of the larger retailers.

Monitoring and Review

53. The Department intends to monitor any impact of the Large Retail Levy. The scheme is time limited, to 31 March 2015. An evaluation of the scheme would be carried out before the end of this period and its impact would be monitored over the three years.

Appendix 1: Wards that would be affected by the large retail levy

Ward	District Council	No. of properties
Shaffesbury	Belfast	15
Sydenham	Belfast	4
Newtownbreda	Castlereagh	3
Falls	Belfast	4
Blaris	Lisburn	4
Valley	Newtownabbey	3
Blackstaff	Belfast	3
The Cuts	Coleraine	2
Massereene	Antrim	2
Bloomfield	North Down	2
Castlecoole	Fermanagh	2
Kernan	Craigavon	2
Harryville	Ballymena	1
The Cut	Banbridge	1
Strand	Derry	1
Portora	Fermanagh	1
Oldtown	Cookstown	1
North	Strabane	1
Mount Sandel	Coleraine	1
Lisnagelvin	Derry	1
Lisnagarvey	Lisburn	1
Killycrot	Carrickfergus	1
Falls Park	Belfast	1
Enagh	Limavady	1
Drumgullion	Newry & Mourne	1
Drumgor	Craigavon	1
Drumalane	Newry & Mourne	1
Dergmoney	Omagh	1
Coolnagard	Omagh	1
Conlig	North Down	1
Church	Craigavon	1
Central	Coleraine	1
Carn Hill	Derry	1
Bradshaw's Brae	Ards	1
Bloomfield	Belfast	1
Belmont	Belfast	1
Ballysaggart	Dungannon	1
Ballykeel	Ballymena	1
Ballyclare South	Newtownabbey	1
Annagh	Craigavon	1
Bryansburn	North Down	1
Castle Demesne	Ballymena	1
Beechill	Castlereagh	1
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District Councils that would be affected by the large retail levy

District Council	No.of Properties
Belfast	29
Craigavon	5
Lisburn	5
Castlereagh	4
Coleraine	4
Newtownabbey	4
North Down	4
Ballymena	3
Derry	3
Fermanagh	3
Antrim	2
Newry & Mourne	2
Omagh	2
Ards	1
Banbridge	1
Carrickfergus	1
Cookstown	1
Dungannon	1
Limavady	1
Moyle	0
Magherafelt	0
Limavady	0
Larne	0
Down	0
Ballymoney	0
Armagh	0
Total	75