



Department of  
**Finance and  
Personnel**

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# **Rating of Commercial Properties: small businesses, large retail properties and empty shops**

## **Public Consultation Paper**

June 2011

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## Section 1: Summary

1. This paper sets out a range of measures aimed at rebalancing the rating system during a period of economic downturn through to recovery. It is intended that the main measures would apply from 1 April 2012 through to 31 March 2015 (covering the remainder of the spending review period).
2. The main proposals are about:
  - (i) extending the reach of the small business rate relief (SBRR) scheme; and
  - (ii) paying for this by introducing a levy on the largest/highest value retail properties.

In addition, other measures are also being consulted on:

- (iii) allowing the use of window displays in empty shops for non-commercial purposes, preserving 50% empty property relief (or any exclusion); and
- (iv) clarifying the legislation relating to valuation assumptions for the next revaluation in 2015.

The preferred approach outlined in this paper can be summarised as follows:

### Rebalancing the Rating of Non-Domestic Properties – Preferred Approach

- General expansion of the small business rate relief scheme. 20% relief to be provided to eligible premises with an NAV of £5,001 - £10,000.
- No additional relief would be provided to those currently receiving small business rate relief (NAV of £5,000 or below).
- An average levy on rate bills of around 20% to be applied to those retail premises with a rateable value of £500,000 or more, in the form of a regional rate supplement.
- Allowing the use of shop fronts or shop window displays for (non-political) community, artistic or other non-commercial purposes so that the full occupied rate is not charged on otherwise empty properties. Entitlement to 50% empty property relief (or exclusion if applicable) would be preserved.
- The above changes would apply for three years from 1 April 2012 until 31 March 2015.
- Clarifying the legislation relating to the valuation assumptions used at non-domestic revaluation, by being more specific about the state and circumstances to be taken into account in compiling a new valuation list. This would take effect at the next general revaluation in 2015.

3. The main measures outlined above need careful consideration and getting the right balance will be the key consideration in finalising policy. Overall, these proposals are intended to help the Northern Ireland economy as it struggles to emerge from the economic downturn. It is about co-existence, not favouring small over large business.
4. The large retail sector is an important part of our economy and the proposed levy is not considered severe enough to adversely impact on investment and employment. It is also important that in considering these matters a sense of proportion is maintained. This is not about exempting small businesses from rates nor is it about doubling the rate liability of the largest shops. It would represent an adjustment of around plus or minus 20% to annual rate bills for those affected over a three year period.

**1. Do you have any general comments on the preferred approach presented in this paper? (specific questions are posed later in this paper)**

## Section 2: Introduction – Rebalancing the Business Rates System through to Economic Recovery

5. The Executive wishes to rebalance the system of non-domestic rating so that during this continuing economic downturn more smaller businesses get help, while the very largest retailers pay more. Economic conditions are poor, particularly for small businesses, and it is important that they are given assistance to help sustain them through to recovery and to allow them to grow. The small business sector is important to both the economy as a whole and to the vitality of towns and villages across Northern Ireland. The benefits of the small business rate relief (SBRR) scheme are set out in **section 4**, including the evaluation findings of similar schemes in Scotland and Wales.
6. It is proposed to rebalance the non-domestic rating system by expanding the SBRR scheme and applying a levy to the largest and highest value retail properties. 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. Expansion of the SBRR scheme would be funded through the levy. Further information on the rationale behind that levy is set out in **section 3**.
7. Importantly, these two changes are redistributive in nature so there should not be further pressure on the public purse. District rate revenue is unaffected as the measures involve adjustments to the regional rate system.
8. The SBRR schemes in England and Scotland are funded by applying a rates supplement to larger business ratepayers. Those who do not qualify for small business rate relief, and occupy properties above specified valuation thresholds, pay a supplementary rate. In Northern Ireland the scheme is funded by the Executive, through a loss to regional rate revenue, with no additional cost to other ratepayers (in the form of a supplementary rate).
9. For the reasons set out in **section 3** it is intended that the levy in Northern Ireland would apply only to the highest value retail premises. Analysis would suggest that some sectors of the economy have fared better than others during the economic downturn.<sup>1</sup> The large retail sector is a case in point.
10. Subject to the outcomes of this 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.<sup>2</sup> However, it would also cover some of the largest retail stores in prime locations within our cities and major towns. It should be noted that the preferred approach is not intended to deliberately target premises that are outside of town centres, although the majority would be located in those areas. 75%

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<sup>1</sup> 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.

<sup>2</sup> Town centre has been determined with reference to area plans from the Department of the Environment's Planning and Local Government Group.

of the revenue would come from the main supermarkets (Asda, Sainsbury's and Tesco) and properties that are located outside of town centres.

11. In terms of the SBRR scheme its expansion would reduce outgoings for more small businesses during the economic downturn. The preferred approach is to extend the reach of that scheme rather than provide additional help to those already benefiting from it.
12. SBRR expansion could assist up to 9,000 small business premises (an increase of around 50%) and double the overall relief currently provided through the main scheme. In 'today's money' this would double the savings provided through the main scheme, adding about £6.5m of savings to the small business sector.

## Other matters

13. In addition to the main measures summarised above, another proposal is set out in this paper. This concerns the issue of empty shops and the blighting effect they are having on our city and town centres during the downturn. At present almost any use of an empty shop will trigger full commercial rates. It is proposed to disregard the use of window displays in empty shops for non-commercial purposes, so that 50% empty property relief (or an exclusion from vacant property rating) can still apply. This would cover use for (non-political) community and artistic purposes, which are not commercial in nature. Comments are welcome on appropriate permitted uses.
14. The change would be intended to ensure that owners and landlords are not discouraged from brightening up 'dead frontages' that are appearing in shopping streets as more premises lie empty during the economic downturn.<sup>1</sup> This is also an economic downturn measure and would apply from 1 April 2012 through to 31 March 2015.
15. Finally, the consultation paper deals with the arrangements for future business rates revaluations. Proposals to help clarify the legislation for ratepayers are outlined in the paper. This proposed change does not affect the long established operational practice, rather it makes the legislation more explicit providing greater clarity for ratepayers. It would apply only for the purpose of producing a new valuation list. The last revaluation was planned for 2011 but was cancelled. The next one is expected to occur in 2015.

## Consultation on changes to the rating of non-domestic properties

16. This consultation paper provides more detail on the main proposals, contains some initial analysis outlining both the context and reasons for the proposed changes and explains who would be affected.
  - **Section 1** provides a summary of the proposals. This includes an outline of the preferred approach.

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<sup>1</sup> The most recent data shows an increase in the number of empty non-domestic properties between 2010/11 and 2011/12.

- **Section 2** sets the context for the proposed changes to the non-domestic rating system, including the Executive’s wish to rebalance the rating system over the next few difficult years.
  - **Section 3** deals with the levy on large retail premises and explains how it could operate. It also considers some alternatives.
  - **Section 4** covers background on the SBRR scheme, its main aspects, comparable schemes elsewhere and options on the way forward. This includes the issue of providing additional relief across all sectors of business or confining it to small retail premises.
  - **Section 5** sets out proposals to help smarten up empty shop fronts during the current economic difficulties, without incurring occupied rates.
  - **Section 6** sets out proposals to clarify the legislation relating to the valuation assumptions used for non-domestic revaluation purposes.
  - **Section 7** summarises the financial impact of the proposals, covered in earlier sections.
  - **Section 8** provides a summary of the initial findings from the new targeting social need, rural proofing, equality and regulatory impact assessment exercises. The detail of this analysis is included in the initial Integrated Impact Assessment (IIA). Given its length it is only available on DFP website [www.dfpni.gov.uk/rating-review](http://www.dfpni.gov.uk/rating-review). A hardcopy can be provided on request by contacting Rating Policy Division (see below).
  - **Section 9** sets out what will happen following the consultation (assuming nothing emerges from the process that would significantly change the approach set out in this paper). This section also highlights the expected timescale for the introduction of the measures and their duration.
17. The Department is seeking comments on the preferred approach set out in this paper and the alternatives. Comments are also welcome on possible alternatives that have not been identified in this paper. However, in doing so respondents are asked to consider the constraints presented in this paper, such as operational viability (in terms of keeping measures as automatic as possible for both business and government) and also the need to deliver support to small business without it becoming a draw on public expenditure.
18. It should be noted that the analyses set out in this paper are preliminary, based on information already in the public domain and the Department expects the consultation process to both contribute to this work and significantly supplement it. The Department welcomes views on both the proposals contained in the paper and the initial analysis. Following consultation the information provided will be used to help shape the final analysis and policy, and assist with decision-making.

19. Each of the policy sections sets out a number of questions to guide your response. The questions are collated at **Annex A**. Respondents are not restricted to answering these questions and comments are welcome on all matters related to the proposals in this paper.
20. Consultation will last for 16 weeks, given that it will take place over the summer, ending on **Tuesday 18 October 2011**. You may submit your comments in a variety of ways including written correspondence, by fax or e-mail. Written responses should be sent to:

**Rating Policy Division  
Department of Finance and Personnel  
3rd Floor  
Longbridge House  
20 – 24 Waring Street  
BELFAST  
BT1 2EB**

Comments may also be faxed to: **028 9034 7435**

21. Should you wish to contact us by e-mail, any queries and consultation responses should be sent to: **ratingpolicy.cfg@dfpni.gov.uk**
22. If you require any further information about this consultation exercise you should contact Rating Policy Division on **028 9127 7606**. The consultation paper may be made available, on request, in alternative languages and formats.
23. It is intended to publish a summary of the views expressed during consultation, following completion of the consultation process. This, along with all individual and organisational consultation responses, will be presented on the DFP website **www.dfpni.gov.uk/rating-review**. It should be noted that your response, and all other consultation responses, may be disclosed on request. **The Department can only refuse to disclose information in exceptional circumstances.**

## Section 3: Large Retail Levy

### Background to the large retail levy

24. The levy is intended to fund an expansion of the small business rate relief (SBRR) scheme. It is proposed to apply the levy to the highest value retail properties. The circumstances in which these measures are required is one where local communities, and the small businesses within them, are struggling to survive. The economic downturn has 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.<sup>1</sup>
25. In general the smaller a business is the higher rates tend to be as a proportion of its outgoings (see section 4). 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 charging a levy on the largest shops and retail outlets.

### How would the levy work?

26. The levy would apply to the highest value and largest retail premises; that is those premises used wholly or mainly for the display and retail sale of goods to members of the public. For reasons explained below, the only known and practicable way to determine which properties are to be subject to the levy is by reference to rateable value (the assessed rental level used for calculating rate liability). It is likely therefore to cover all retail sectors including the major supermarkets as well as clothing, DIY, and the largest department stores.<sup>2</sup> Some other retailers would also be covered (such as one major car showroom complex).
27. 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.<sup>3</sup> Given that both regional and district rates will increase over the three year time period these need to be factored in. This is expected to broadly follow inflation (the regional rate is set to increase by 2.2%, 2.7% and 2.7% in those three years). Over the three years it is estimated that the levy would need to raise £6.7m, £7m and £7.2m in the respective years.
28. The overall cost may fluctuate slightly as the valuation list, and also numbers eligible to SBRR, changes over time. Furthermore, the number of businesses paying the levy may change over the proposed three year life.

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<sup>1</sup> 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.

<sup>2</sup> References to individual companies in this section are taken from publically available information.

<sup>3</sup> The majority of rating figures in this section refer to revenue/costs at 2011/12 levels. The operating profit/sales turnover figures largely refer to 2009/10.

29. Having said that it is recognised that certainty is required by the businesses concerned for financial planning and budgeting and therefore any unexpected variations that could give rise to a significant increase in the levy would not be imposed.
30. The preferred approach is to raise the revenue through a levy on all retail properties at the £500,000 rateable value threshold and above. To raise the required £6.5m would equate to an 11p regional rate supplement (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.

## Position in the rest of the UK

31. Currently no other part of the UK operates a large retail levy. Earlier this year the Scottish Government attempted to introduce a similar measure. However, this was not progressed. In both England and Scotland a business rates supplement is effectively applied to properties not covered by the SBRR scheme thresholds in order to provide funding for that scheme. Some further details on the GB schemes can be found at **Annex B**.

## Why large retailers?

32. The economic contribution of the retail sector (as expressed by Gross Value Added or GVA<sup>1</sup>) has grown significantly over the last 10 years, outpacing the growth rate in the Northern Ireland economy as a whole and also outstripping growth in the retail sector in the rest of the UK.<sup>2</sup> At March 2010 9.4% of Northern Ireland businesses (VAT registered or PAYE based) were in the retail sector, slightly higher than the UK level.<sup>3</sup> Recent data also shows the retail sector in Northern Ireland to have fewer registered businesses with a turnover of less than £100,000 and more registered businesses with a turnover of £1m or more (17%) compared to all business sectors (10%).<sup>4</sup>
33. According to Northern Ireland Annual Business Inquiry (NI ABI) data between 2008 and 2009:
  - Turnover, GVA and employee numbers for all sectors in Northern Ireland declined by 4.5%, 1.3% and 7.6% respectively.<sup>5</sup>
  - For large businesses (including large retailers) both turnover and contribution to the economy (GVA) increased (turnover and GVA increased by 3% and 0.8% respectively for large retailers).
  - While employment levels for large retailers declined this was at a lower level than the employment decrease across Northern Ireland for all business sectors.

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<sup>1</sup> GVA measures the contribution to the economy of each individual producer, industry or sector.

<sup>2</sup> Taken from analysis by the Department of Enterprise, Trade and Investment Northern Ireland.

<sup>3</sup> UK Business: Activity, Size and Location.

<sup>4</sup> UK Business: Activity, Size and Location.

<sup>5</sup> Northern Ireland Annual Business Inquiry data 2008 and 2009. The NI ABI data covers businesses registered for VAT and PAYE and is somewhat unrepresentative of the very smallest businesses. However, this more detailed estimated data is needed in order to compare types of businesses, for example retail. 2007 data cannot be used due to changes in methodology.

- Small business employee numbers, turnover and contribution to the economy declined at levels either similar to or worse than the position across all sectors.
34. Between 2007 and 2009 data from the Census of Employment indicates that:
- Employment in the retail and wholesale sector held relatively steady for that period.
  - Employment levels increased for the large retailers that would be affected by the levy (information is available for 71 out of the 77 properties. Six properties were not operational in 2009).
  - For the companies that would be affected by the levy their employment levels across Northern Ireland increased by around 10%, with an increase of around 18% for employment levels at the properties that would be affected by the levy. The majority of this growth would appear to have been from new sites.
35. Data from the Department for Business, Innovation and Skills (BIS) for 2007-2009 indicates that turnover and contribution to the economy (GVA) for large businesses increased, while employment held steady.<sup>1</sup>
36. Together these would suggest that large businesses (including retailers) have fared better in relative terms than small businesses over that period.<sup>2</sup> Further information on the position of the large retail sector can be found later in this section. Comparative information on large retailers versus small business is also presented in **section 4**.
37. An overview of the NI ABI employee, turnover and GVA data used in this section and **Section 4** can be found at **Annex C**.
38. From a more general perspective there may be those who argue that a levy should not be taken forward at this time, given the inequities that have occurred as a result of the postponement/cancellation of the planned revaluation in 2010 and 2011. The counter argument is that with the continuing growth and dominance of the major retailers, it was not an unreasonable expectation that the revaluation would have increased the share paid by large retailers and thus the postponement until 2015 could be viewed as working in their favour. Therefore, the levy could be said to compensate for this effect.
39. It is impossible to quantify this, however, given that the valuations for all 70,000 - 75,000 non-domestic properties had not been finalised when the decision was made to cancel. It is worth noting that at the last revaluation, in 2003, larger retail premises experienced a substantial increase in rate liability. Retail warehouses, for example, went up by an average of 30%.

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<sup>1</sup> The Department for Business, Innovation and Skills SME statistics for the UK and Regions data covers all enterprises operating VAT or PAYE schemes and then estimates how many very small unregistered enterprises there are.

<sup>2</sup> 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.

## Alternatives to a levy on large retail properties

40. Applying the levy to all large/high value properties, regardless of sector, can be considered. Such an approach is not without its drawbacks. In total there are 260 properties with a net annual value (NAV) of £500,000 and above, which can be categorised as below.

### Categorisation of properties with an NAV of £500,000 or over

Category	Proportion
Public bodies, receive public funding, etc.	50%
Retail properties	30%
Electricity or gas companies	10%
Miscellaneous (banks, hotels and call centres, etc)	10%

41. Applying a general levy to all high value properties, with such a high proportion of value attributable to publically funded or supported undertakings, may be inefficient and raise issues around the recirculation of public money. It may work reasonably well in England and Scotland but in Northern Ireland, apart from retail, there is not the same scale of big business within the property tax system to support it.
42. There are also issues around mobility. Large shops are not like large factories, they need to locate here to sell their goods and for our largest retailers this is still a market place that secures significant sales from across the border (despite it being less dramatic than the boom times and recent claims of increasing price equalisation).
43. There may be some that would wish the levy to apply to particular classes of shop such as the big food retailers. Others may wish to apply it only to out of town locations. To do so would present difficulties. Virtually all of the large food based retailers have diversified into fashion and household goods. Defining what is out of town is also not straightforward. Furthermore, such approaches may distort competition and concentrate the levy on a smaller number of retailers, thus making it a greater imposition on those required to pay. Notwithstanding these concerns, views on this issue are welcome.

## Alternatives to a fixed percentage levy

44. One alternative to a fixed percentage levy would be **banding**, so that the level of the levy increases as the rateable value of a property increases. For example, the following retail levy scenario would raise around £6.5m per year.

### Impact of rateable value banding on the levy

Rateable value	Level of levy
£500,000 - £599,000	10%
£600,000 - £799,000	17.5%
£800,000 or above	27%

45. This would reduce the burden for those close to the £500,000 threshold. However this, or any similar banded combination, would significantly increase the burden on the very largest retail premises. It would also make this temporary measure more complex to administer and understand. For these reasons it is not a preferred approach.
46. Another variation on a fixed percentage levy could be to apply a cap, or maximum payment, to limit the amount paid by those occupying the very highest value properties. For example, a £1m rateable value cap (which would mean that any value above that would be disregarded in calculating the levy) would add around 1.75% to the average levy (increasing it to around 21.5%) to raise the same amount of money overall. Views on this are also welcome.

### **£500,000 rateable value threshold**

47. It is not considered practical, in a property tax system, to apply business criteria (such as sales turnover, profitability or employment) to establish what the largest retail businesses are and where they are situated. Instead, it is considered necessary to use property value. Nevertheless, the companies affected include retailers with some of the highest profits and turnover. 11 of the 26 companies that would be affected are in the top 20 UK retailers.<sup>1</sup>
48. It is proposed to use the rateable value of a property, which, for the retail sector, is the same thing as net annual value (assessed rental value). Views are welcome on this approach. A balance has had to be struck between sharing the burden amongst a broad range of retail businesses and keeping the levy proportionate. For this reason it is proposed that the levy should apply to properties with a rateable value of £500,000 or more. At April 2011 this would cover 77 retail stores. A list of those that would be affected can be found at **Annex D**.
49. The table below sets out how changes to the rateable value threshold would impact on the level of the levy and the numbers affected.

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<sup>1</sup> UK Retail Rankings 2011 edition (produced by Mintel). Companies are ranked on the basis of UK retail sales.

### Impact of changes in the threshold for the large retail levy

Rateable value threshold	Number of properties affected (April 2011 data)	Indicative average levy
£400,000 or more	100	17%
£500,000 or more	77	20%
£600,000 or more	48	27%

50. Restricting the levy to properties valued at £500,000 or more would aim it towards chains of large retailers that have a UK wide presence and/or are part of a global group. There are one or two exceptions but those businesses are still large ones. Ownership is not an issue nor is it something that this levy would wish to target in any way. As noted at the start of this paper, it would instead apply a levy to a sector of the economy that, broadly speaking, has fared better than small businesses through the downturn.<sup>1</sup>
51. Reducing the threshold below £500,000 would include more retailers in town and city centres. This could potentially undermine any secondary benefit of supporting small retailers, through the SBRR expansion, in those areas.
52. A further alternative would be that all business ratepayers above the SBRR threshold pay a little extra to fund expansion of the SBRR scheme. This would take the form of a regional rate supplement. While this has some merit it could be argued that during the current economic climate it would adversely impact on medium sized firms who, similar to small businesses, generally have been more adversely affected by the recession than large businesses.<sup>2</sup>

### **How much would the levy cost?**

53. The amount raised from individual properties would depend on final decisions taken and the amount needed for SBRR expansion. It would also be subject to the final number of properties covered by the levy and their cumulative value.
54. Assuming an average 20% rates bill increase, for retail properties with a rateable value of £500,000 or over, the average cost of the levy, per store, would be around £85,000 per year at 2011/12 levels. This would bring the average annual rate bill for the affected properties to around £515,000. The proposed levy would range from around £55,000 to £320,000 per year. The company with the most affected properties (Tesco with 18 stores) would have a potential levy of around £1.5m per year. However, this compares to UK operating profits of £2.4bn, and sales turnover of almost £39bn, in 2009/10.<sup>3</sup> The lowest increase from the levy would be around £55,000 per year.

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<sup>1</sup> 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.

<sup>2</sup> 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.

55. Based on the figures that are publicly available, a £6.5m levy would be raised from companies that had a combined UK sales turnover of at least £115bn in 2009/10 and combined UK operating profits of at least £7bn in 2009/10.<sup>1</sup>

## The retail market

56. Generally speaking consumer spending power has reduced as a result of the recession. However, information from Mintel Retail Rankings (2011) considered the impact of this on consumer confidence, in the form of retail sales, to be minimal for 2009/10. Retail sales in that year proved robust, growing by 1.9%. Other retail reports suggest that while consumer spending slowed, retail sales had remained surprisingly strong, not least driven by the demand for necessities.<sup>2</sup>
57. Large food store operators have managed to increase their market share and profit. Mintel shows the major supermarkets making substantial UK profits, remaining in the top five of the UK's leading retailers. Locally the three major supermarkets (Asda, Sainsbury's and Tesco) occupy around 45% of the properties that would be subject to the levy. Their UK operating profit for 2009/10 was around £4bn.<sup>3</sup>
58. Leaving aside the major supermarkets trade figures for the UK's top retailers have held up well overall. Value clothing retailers, such as Primark, have increased profits while mid-market operators such as Next and Marks and Spencer (M&S) continue to show profits. Indeed M&S have recently announced a jump in annual pre-tax profits, along with plans to spend £600million on modernising their stores in the UK.<sup>4</sup> The DIY stores that would be affected (B&Q and Homebase) increased their UK operating profits from 2008/09 to 2009/10, with B&Q out performing the market.<sup>5</sup>
59. The largest single store that would be affected (in terms of the proposed levy) is IKEA. While the company did not publish UK profit figures for the year ending 2010, a sales rise of 7.7% and net profit increase of 11.3% has been reported.<sup>6</sup>
60. The retail sales index published in March 2011 (which excludes Northern Ireland) indicates that between March 2010 and March 2011 non-seasonally adjusted retail sales held relatively steady (declining by around 0.1%).<sup>7</sup> However, given that it excludes Northern Ireland it cannot be relied upon. More recent indications over the past financial year have shown retail sales to be under pressure from the increasing burden of fuel costs, with sales of big ticket electrical items reducing in particular. However the UK retail sector is not uniform in nature and therefore the impact varies.<sup>8</sup> In the context of this paper, what is of significance is not so much the position of the retail sector across the board, but rather how large retailers fare compared to small businesses. More generally, large retailers would also appear to have fared better than the retail sector as a whole in terms of contribution to the economy, turnover and employee numbers.

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<sup>1</sup> UK Retail Rankings 2011 edition (produced by Mintel)

<sup>2</sup> Davis Langdon, Retail Market Report Autumn 2010 page 4.

<sup>3</sup> UK Retail Rankings 2011 edition (produced by Mintel)

<sup>4</sup> Guardian News and Media 'M&S goes for tailoring in £600m overhaul', 24 May 2011.

<sup>5</sup> The parent company Kingfisher hailed a near 50 per cent jump in annual profits for 2009/10. The Independent 25 March 2010

<sup>6</sup> Guardian News and Media 'Ikea opens its books, reveals solid profit' 4 October 2010

<sup>7</sup> Office for National Statistics, Retail Sales Index.

<sup>8</sup> Guardian News and Media, 'Electricals sector running out of options as consumers switch off', 18 June 2011.

61. Looking ahead, in terms of sectoral forecasts, the Northern Bank has predicted growth of 2% in 2011 and 2.7% in 2012 for the retailing and distribution sector.<sup>1</sup> This is broadly equivalent to predicted growth across Northern Ireland as a whole. Longer term (2010 to 2020) Ernst and Young predict that the distribution and retailing sector in Northern Ireland will grow by 2.9% compared to 2.3% across all Northern Ireland business sectors. This is slightly lower than the position of the retailing and distribution sector in the rest of the UK (3.1%).<sup>2</sup>

## Position of the large retailers subject to the levy

62. The preferred option of a levy on retail properties with a rateable value of £500,000 or over would affect 77 properties (26 companies), based on data at April 2011. Of those companies that have reported (21) all have shown UK operating profit (2009/10). The majority saw an increase in their profit from the previous year. Only two experienced a slight decrease. The table below shows the combined UK sales turnover and operating profit of those in the top 20 UK retailers that would be subject to the levy, and the rates levy as a proportion of this.<sup>3</sup>

### Profit and turnover position of companies subject to the levy

No of companies	Levy sum	Combined UK Sales Turnover (2009/10)	Combined UK Operating profits (2009/10)	Levy as a % of sales turnover	Levy as a % of operating profit
11 (in the top 20 UK retailers)	£4.8m	£107bn	£6.4bn	0.005%	0.08%
26 (21 available turnover and profit figures)	£6.5m	£115bn	£6.9bn	0.006%	0.09%

63. Around three quarters of the properties are occupied by 11 companies in the top 20 UK retailers, with a combined UK sales turnover in 2009/10 of £107bn and £6.4bn UK operating profits (around £4bn if Tesco is excluded). To put the levy into proportion, for those 11 companies, it is estimated to represent 0.005% of their combined UK sales turnover (and 0.08% of their UK operating profits).
64. The Department has also considered rates liability on the 77 properties against average estimated store sales turnover figures.<sup>4</sup> This would suggest that the current rates bill, for the stores that would be subject to the levy, is, on average, around 1.2% of indicative individual store sales turnover, or less than 1.5% if the levy is included. The levy is estimated to be around 0.25% on average of indicative individual store sales turnover for the affected companies.<sup>5</sup>

<sup>1</sup> Ernst and Young Economic Eye Forecast, Winter 2010.

<sup>2</sup> Northern Bank quarterly forecast, Quarter1 2011, February 2011.

<sup>3</sup> UK Retail Rankings 2011 edition (produced by Mintel)

<sup>4</sup> These figures have been derived by applying Mintel Retail Rankings – 2011 Edition turnover per sq ft to estimated net sales floor space of the individual properties. Net sales floor space has been estimated by taking gross floor space figures provided by Land and Property Services and applying a 30% reduction to reflect storage and ancillary spaces. A similar approach is used in retail studies submitted to, and carried out by, the Department of the Environment's Planning and Local Government Group.

<sup>5</sup> Calculated using turnover data from UK Retail Rankings 2011 edition (produced by Mintel)

## Broader considerations

65. As noted in the introduction, large retail is an important part of our economy. These balancing proposals are aimed at co-existence; it is not favouring small over large business. The proposed levy would add an average of 20% to the rate bills of the largest retailers and at this level it is not considered severe enough to adversely impact on consumer prices, investment and employment.
66. Nevertheless, before any decisions are made, it is necessary to gain a good understanding of the importance of the sector to society; in terms of employment opportunity, consumer benefit, investment behaviour and accessibility. The following sections are merely intended to 'set the scene' in which this policy is being taken forward. It is essential, therefore, that businesses, consumers and representative organisations come forward with both opinion and evidence on the context as well as respond to the detailed proposals.

## Retail concentration

67. Retailing is the largest sector employer in Northern Ireland, which is also the case in the rest of the UK.<sup>1</sup> The sector has been characterised by the growing importance of the large retailer, a trend that is common in virtually all European countries. Economies of scale have brought benefits to consumers in the form of lower prices. Consumers have also benefited from the ability of large retailers to respond to market changes by expanding their choice of goods, for example through developing own label products at lower prices. Suppliers of produce have also been able to access larger markets as their products have been taken on by the large retailers.
68. In its 2008 report the Competition Commission (UK) concluded that across the UK as a whole between 1980 and 1990 the number of larger stores (2320m<sup>2</sup> +) had more than doubled, similarly between 1990 and 2007. The share of groceries being sold by large or regional grocery retailers had also significantly increased.<sup>2</sup>
69. While there have been significant benefits from retail concentration, what is less clear is the impact this has had on existing jobs within retail, as the amount of money available for spending by consumers within the local economy does not change. This presents an issue around displacement. Research by the National Planning Forum examined the impact on local employment of the opening of 96 superstores in England and Wales.<sup>3</sup> It estimated that each superstore opening resulted in an average net loss in employment of 276 full time equivalents.
70. It is expected that the levy, through enabling a temporary expansion of the SBRR scheme, would provide an impetus to smaller businesses (including retailers) and help create growth in that sector. Smaller locally owned businesses are most likely to benefit from the expansion of the scheme, with the financial benefits also more likely to be retained within Northern Ireland.

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<sup>1</sup> Northern Ireland Workforce Jobs by Sector, December 2010.

<sup>2</sup> The Competition Commission (2008). 'The supply of groceries in the UK market investigation' pages 33 and 34.

<sup>3</sup> Occasional Paper No 2: The Impact of Out-of Centre Food Superstores on Local Retail Employment. National Retail Planning Forum.

## Impact on investment in retailing

71. A range of factors affect decisions to invest in new retail floor space, including retailer demand, developer confidence and funding. Rates liability is only one of a number of considerations.
72. Indications are that large food store operators are continuing their expansion plans, with the major supermarkets having recently brought forward new stores. Indeed it has been stated that “despite the recession it's hard to see any sign of the supermarket expansion slowing down”.<sup>1</sup>
73. Outside of the large food store operators the creation of new retail floor space has declined in recent years. Retail sector analysis would suggest that there is limited new major retail floor space coming on stream that could be covered by the levy. Given the short term nature of the proposal it is not considered that the levy would exacerbate this trend while the demand for non-food retail space recovers.
74. It is estimated that two new large food stores would be built and become operational during the three year period. In other cases under consideration, and for which planning consent has yet to be granted, the stores are unlikely to be constructed within the levy’s timeframe, even if consent is forthcoming relatively soon. In addition, there are currently understood to be no empty large retail properties available on the market (rateable value of 500,000 or more), or large premises with the necessary retail planning consents that would allow a large property to be readily used for that purpose.
75. A further issue that has been raised is the potential for companies to choose to locate in the Republic of Ireland, over Northern Ireland. Concerns have been raised that retailers could opt for a Republic of Ireland location, taking advantage of the lower rate of corporation tax. Tax costs (including rates) are just one consideration for retailers to take into account when locating. At present Northern Ireland has a higher rate of corporation tax, though this is currently under review. However, Northern Ireland can generally offer retailers lower wage rates than the Republic of Ireland. Consumer demand across the border will also be dependent on the exchange rate and with a high Euro relative to Sterling in recent years this has given Northern Ireland a competitive locational advantage.
76. Taking account of all relevant factors, it is considered that additional newly constructed properties (or the number of current large retail properties that would be subject to the levy) are unlikely to be adversely affected. A preliminary estimate is that the levy would amount to, on average, 0.25% of indicative sales turnover per store. When weighed against the substantial costs involved in construction, the temporary increase in rate liability is relatively modest.
77. For example, the construction of a new food superstore in Newtownards is estimated to be £18m. The company estimates the rates bill to be £648,426 per year, the

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<sup>1</sup> Professor Cliff Guy from the School of City and Regional Planning at Cardiff University, BBC News ‘Tesco riot drives call for supermarket planning review’, 19 May 2011.

equivalent of 3.6% of construction costs. On this basis the proposed levy would account for less than 0.25% of the company's estimated first year £56m turnover.<sup>1</sup> This is similar to the estimated average determined by the Department. 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 retailers.

78. Consideration has also been given to the possible impact of the levy on the property market. The majority (around 75%) of the properties that would be affected are owner occupied. Given the Department's assessment that few new large retail premises are likely to come on stream during the limited time period of the levy, it is considered that the impact on the property market (in terms of reduced demand) is likely to be minimal. Given the bias towards owner occupation, and the other issues set out in this section, the Department considers that the direct impact on rents should also be small. Furthermore, in recent years it would appear that there has been a strong rental market for large retail premises, even with the recession.
79. In terms of the potential impact of the levy on a range of areas such as investment, employment, demand for retail properties, etc. it is considered important to look at the levy in perspective. This would be a temporary measure that would only apply for three years. 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.
80. A final issue relates to how the levy would tie in with the policy of introducing Business Improvement Districts (BIDs) to Northern Ireland, which could also involve the charging of a levy (typically 1%) on any business ratepayer located within a BID. The levy proposed in this paper would apply for three years, through to the end of 2014/15. New primary and subordinate legislation will be needed for BIDs, which is normally a two year process. Allowing for the time taken to establish BIDs after the relevant legislation is passed, it is considered unlikely that any large retailer would get caught with two levies.

## **Impact on consumers**

81. Consideration has been given to the impact of the levy on consumers. There may be concern that the companies affected would attempt to pass on any rates increase through higher prices.
82. 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. For instance, the bills for retail warehouses increased by an average of 30% with no discernable impact on the price of goods sold. It is understood that national pricing policies apply to virtually all of the large retailers and that the cost of changing pricing structures for Northern Ireland stores could be an expensive exercise for the companies concerned, even if they wished to do so. In addition, given the level of competition among the companies affected, particularly the supermarkets, it is

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<sup>1</sup> Extracted from submission to DOE Strategic Projects Team for Planning Application X/2009/0465.

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.

## Location analysis

83. The majority (just over three fifths) of the stores that would be affected are located outside of town centres. Not surprisingly the largest concentration of stores would be in Belfast city centre (19), having a regional trade draw as Northern Ireland's capital. Excluding Belfast, 80% of the remaining properties are located outside of town centres. Around 75% of the levy revenue would be raised from properties located outside of town centres or occupied by the three major supermarkets. The preferred approach is not intended to deliberately target premises that are outside of town centres, although the majority would be located in those areas.
84. It is anticipated that a secondary benefit of the levy would be to help redress the recent trend towards out of town centre shopping by providing assistance to smaller businesses and retailers that tend to operate within the traditional high street of town centres. Nevertheless, the large retail levy would apply to those with a rateable value of £500,000 or above, regardless of where the property is located.

## Preferred approach

85. The preferred approach is to apply a 20% levy on large retail premises with a rateable value of £500,000 or more. This would be an average 20% increase against what the bill would otherwise be without the levy (the precise amount would vary by district council area), taking the form of a regional rate supplement. If the levy had been in place for 2011/12 the supplement would have been around 11p. The average rates bill for the affected properties would have increased from around £430,000 to £515,000.

2. Do you agree that the proposed large retail levy should be used to provide additional help to small businesses?
3. What are your views on the preferred approach of an average 20% levy (against the overall rates bill) on high value retail premises?
4. Do you have any views on the alternatives to a fixed percentage retail levy?
5. What are your views on a levy being applied selectively, for example confined to supermarkets or properties outside of town centres?
6. Have you any other views on the issues covered in this section?

## Section 4: Expansion of the Small Business Rate Relief Scheme

### Background

86. The small business rate relief (SBRR) scheme was introduced in Northern Ireland on 1 April 2010. Until then Northern Ireland was the only part of the UK that did not offer small business premises relief from their rate liability. The aim of the scheme in other regions was largely to alleviate rates liability that often can have a greater impact on small businesses.
87. Small businesses are viewed by many as important not only to the Northern Ireland economy but also for maintaining social cohesion in our small towns and villages. The SBRR scheme was introduced to support the growth and sustainability of small businesses locally. At that time it was intended that the scheme would have a life of five years (through to 31 March 2015), prior to which it would be evaluated to establish its effectiveness and value for money.

### Rates burden on small firms

88. Analysis undertaken as part of the 2008 report by the Economic Research Institute of Northern Ireland (ERINI), as well as in other parts of the UK (GB green paper on local government finance (2000)), would suggest that rates form a larger proportion of small businesses profit or turnover, compared with larger businesses, and place a greater burden on them.<sup>1</sup> The GB green paper highlighted that rates as a percentage of turnover, overheads and profits are lower as the turnover of a company increases (based on notional rates costs). For companies with a turnover of less than £50,000 rates were 7.7% of turnover, 13.7% of overheads and 35.9% of profit. This reduced to 0.7%, 3% and 3.3% for those with a turnover of £1bn or more.

#### Relative Impact of Rates based on notional rates costs<sup>2</sup>

	Rates as % of Turnover	Rates as % of Overheads	Rates as % of Profit
Total	3.1%	5.7%	19.0%
<b>Turnover</b>			
Less than £50k	<b>7.7%</b>	<b>13.7%</b>	<b>35.9%</b>
£50k – £99.9k	5.5%	10.3%	31.8%
£100k – £499.9K	2.5%	5.2%	7.2%
£500k – £1.9m	1.4%	3.7%	15.9%
£2m – £9.9m	1.8%	3.4%	16.8%
£10m – £49.9m	1.3%	3.2%	13.6%
£50m – £999.9m	1.4%	3.1%	16.4%
£1bn or more	<b>0.7%</b>	<b>3.0%</b>	<b>3.3%</b>

<sup>1</sup> Economic Research Institute of Northern Ireland, 2008, Investigation into a Small Business Rate Relief Scheme in Northern Ireland; GB Green Paper on Local Government Finance (2000).

<sup>2</sup> GB Green Paper on Local Government Finance (2000).

89. The ERINI report also suggested that while the overall impact of rates on the profits of businesses is small it is the smallest businesses where the impact is the greatest.
90. A 2010 evaluation of the Welsh SBRR scheme found that rates can account for a very significant proportion of turnover for many small businesses (in excess of 10% for many).<sup>1</sup> It can also be argued that a tax based on property weighs more heavily on small firms, often located in rural or other areas where local communities tend to rely more heavily on small businesses.

## Position of the small business sector

91. Unfortunately there is no single database that contains details on every active business in Northern Ireland. This section and **section 3** draw on data from the Department for Business, Innovation and Skills (BIS) to compare the position of small businesses in Northern Ireland and the rest of the UK.<sup>2</sup> It also uses Northern Ireland Annual Business Inquiry (NI ABI) data to compare the position of small and large businesses locally between 2008 and 2009 (it is not possible to use 2007 data due to changes in methodology).<sup>3</sup> It should be noted that small, in terms of the BIS and NI ABI data, will not necessarily align with small for rating purposes, where NAV is the key determinant. However, it would be reasonable to assume that firms occupying properties with an NAV of £10,000 or less would generally be small businesses.

### UK Small Business Private Sector Make-up 2009<sup>4</sup>

All sectors	No of enterprises (< 50 employees)	Employee Numbers	Turnover	Enterprises %	Employee Numbers %	Turnover %
NI	122,910	336,000	£31,597m	99.3%	63%	57.5%
England	4,157,875	9,403,000	£1,025,392m	99.4%	47.8%	35.8%
Scotland	198,955	475,000	£33,270m	99.4%	63.4%	43.2%
Wales	321,515	794,000	£66,523m	99.1%	48.7%	34.5%

92. The table above sets out the comparative size of the small business sector in Northern Ireland and the rest of the UK at the start of 2009.<sup>5</sup> There are estimated to be around 120,000 – 125,000 small businesses in Northern Ireland.<sup>6</sup> Of these the vast majority are deemed to be small (less than 50 employees). Around three quarters have no or one employee, while almost 95% have fewer than 10 employees (micro businesses).

<sup>1</sup> <http://wales.gov.uk/docs/dsjlg/research/101207smallbusratesenv2.pdf>

<sup>2</sup> The BIS data covers all enterprises operating VAT or PAYE schemes and then estimates how many very small unregistered enterprises there are.

<sup>3</sup> The NI ABI data covers businesses registered for VAT and PAYE and is somewhat unrepresentative of the very smallest businesses. However, this more detailed data is needed in order to compare types of businesses, for example retail.

<sup>4</sup> Department for Business, Innovation and Skills SME statistics for the UK and Regions 2009.

<sup>5</sup> Department for Business, Innovation and Skills SME statistics for the UK and Regions 2009.

<sup>6</sup> This estimate includes VAT registered and PAYE businesses as well as some of the very smallest businesses that fall below the VAT and PAYE thresholds.

93. Overall the proportion of small businesses is similar to the rest of the UK. However, generally they make a greater contribution towards private sector employment and turnover, providing around 60% of the turnover and employment in the local economy.
94. In terms of how the small business sector has fared BIS data suggests that between 2008 and 2009 the number of enterprises decreased by around 10,000. NI ABI data shows that employee numbers fell by over 22,000 (7.5%) while turnover also reduced by £1.7bn (5.6%). In 2009 NI ABI data indicated that small businesses provided 53% of Northern Ireland's turnover and 58% of employees. These figures are lightly lower than the BIS figures, most likely due to the fact that small unregistered businesses are not covered in the ABI data. An overview of the NI ABI employee, turnover and GVA data used in this section can be found at **Annex C**.
95. In terms of the contribution made to the economy, measured through GVA<sup>1</sup>, between 2008 and 2009 small businesses saw a slight decrease (1%) to provide around 55% of the overall Northern Ireland total. For all small businesses employee numbers, turnover and contribution to the economy (GVA) declined at levels either similar to or worse than the position across Northern Ireland as a whole. For large retailers NI ABI data suggests that between 2008 and 2009 turnover and GVA increased, while employee numbers declined. While BIS data affirms the GVA and turnover position for the period 2007-2009 it (along with the Census of Employment<sup>2</sup>) shows employee numbers for large businesses holding relatively steady over that time period.<sup>3</sup>

## Small business rate relief in the rest of the UK

96. Small business rate relief or bonus schemes are in place in GB, either funded centrally or through other business ratepayers paying more. Under a number of these schemes the level of relief is temporarily increased until 31 September 2012. Interestingly the highest rateable value for which 'relief' is granted against the bill in England and Wales (as opposed to simply a reduction in the rates poundage applied against a rateable value) is £12,000. As property values in GB were updated in 2010 (using a 2008 valuation date) a similar threshold in Northern Ireland will be lower.
97. Some further details on the GB schemes can be found at **Annex B**.

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<sup>1</sup> GVA measures the contribution to the economy of each individual producer, industry or sector.

<sup>2</sup> Office for National Statistics, Census of Employment

<sup>3</sup> The BIS data covers all enterprises operating VAT or PAYE schemes and then estimates how many very small unregistered enterprises there are. The NI ABI data covers businesses registered for VAT and PAYE and is somewhat unrepresentative of the very smallest businesses.

## Key aspects of the small business rate relief scheme in Northern Ireland

98. In Northern Ireland eligibility for SBRR is based on a property's net annual value (NAV). 50% relief is awarded where the NAV is £2,000 or less, while 25% relief is provided where the NAV is £2,001 - £5,000. More generous relief is also provided to around 600 post offices with an NAV of up to £12,000.
99. The scheme locally is based on the broadly comparable Welsh scheme, subject to some modifications. While the SBRR scheme has a general application, certain property types are not eligible. This covers unoccupied or partially unoccupied properties, ATMs, property used for the display of advertisements, car parks, sewage works, telecommunications masts and properties occupied by government/public bodies. Otherwise all property types generally qualify for the relief, provided that the premises are within the NAV limits.

### SBRR relief awarded in 2011/12 (at April 2011)

NAV	Level of relief	Average award	Cost/help provided	Number of properties <sup>1</sup>
Up to £2,000	50%	£312	£1.75m	5,601
£2,001 - £5,000	25%	£445	£4.5m	10,149
All		£398	£6.25m	15,750

100. At the start of the 2011/12 rating year the main SBRR scheme provided assistance of around £6.3m to just under 16,000 small businesses, with an average award of around £400. Of these around a third received 50% relief, the remainder receiving 25% relief.

## Benefits of the Small Business Rate Relief scheme and GB evaluations

101. The SBRR scheme helps reduce rates liability for smaller businesses, which can assist them in redirecting resources towards employment, product creation and investment. It is also assumed that the recycling of local money, through the provision of rate relief to small businesses, has a positive impact on the wider economy. Furthermore, it may encourage new entrants. Given that the SBRR scheme has only been operational locally since 1 April 2010 it is considered too early to judge its effectiveness in these respects. It is also not possible at this point to gauge its success in sustaining and stimulating economic activity.
102. However, evaluations have been undertaken in Scotland (2004) and Wales (2010) on the schemes that operate in those parts of the UK.<sup>2</sup> The SBRR scheme locally is more closely aligned with the Welsh scheme.

<sup>1</sup> References to numbers of properties (including within NAV thresholds) in this section refer to properties that fall within the scope of the small business rate relief scheme i.e. are not excluded.

<sup>2</sup> <http://wales.gov.uk/docs/dsjlg/research/101207smallbusratesenv2.pdf>;  
<http://www.scotland.gov.uk/Publications/2004/12/20357/47857>

103. The Welsh evaluation, undertaken by the Centre for Regional Economic Development (University of Cumbria), was more extensive than that undertaken in Scotland. It established an overall consensus that the Welsh SBRR scheme is appropriate in terms of the balance between complexity, fairness and practicality. It also found that those in receipt of the relief take differing views on its benefit, ranging from a small reduction in their monthly costs while others view it as a large annual grant to be invested in the business.
104. The survey undertaken as part of the Welsh evaluation discovered that rates can account for a very significant proportion of turnover for many small businesses (often in excess of 10%). The Scottish analysis agreed with this assessment and also found that rates are around 2% of turnover for large businesses (with 1000 employees or over). The analysis in this paper would suggest that for large retailers locally rates currently are around 1.2% of individual store turnover.
105. The main finding in the Welsh evaluation was that the financial assistance provided through the SBRR scheme is supporting their economic sustainability in the current economic environment. The evaluation also reported that the automatic nature of the scheme should be maintained.
106. The Scottish evaluation, while not as extensive as the Welsh study, also concluded that the scheme was worthwhile and relatively well targeted.

## Proposed options

107. The overriding aim is to rebalance the rating system, so that more smaller businesses get help during the economic recovery. While various options would meet this objective there are three overriding factors. The expansion is to:
- (a) increase the number of premises receiving relief, rather than enhance help for those already getting relief;
  - (b) be time limited, making an easy to understand and administratively straightforward measure the most attractive; and
  - (c) be as revenue neutral as possible to the Executive, with the amount of relief to be in line with the amount raised through the large retail levy.
108. Assuming funding of around £6.5m through the large retail levy (2011/12 levels) relief for current recipients could double.<sup>1</sup> In this scenario, however, the number of businesses getting help could not be increased, given the limited amount of funding that can be made available. It is considered better to provide some help to a greater number of businesses rather than provide more help to those that are already getting assistance with their rates. Views on this approach are welcome.
109. Possible options include increasing the NAV threshold across the board or targeting relief towards small retail premises, redirecting money from large to small premises within that sector.

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<sup>1</sup> The figures set out in this paper relate to numbers and funding levels at 2011/12 values. This will increase in subsequent years as a result of regional rates and district rate increases.

110. **Increasing the NAV threshold:** With restricted funding a range of NAV thresholds and levels of relief could be provided. For example 25% relief could be provided to around 7,400 premises where the NAV is £5,000 - £8,900 or 15% relief awarded to around 11,200 premises where the NAV is £5,001 – £13,000.
111. A balance is needed between providing as much help as possible and the level of relief not being too low. 20% relief, for those with an NAV of £5,001 - £10,000, is therefore considered appropriate. The amount of relief under the main scheme would be doubled, increasing the number receiving help by over 50%.
112. Relief would be awarded to almost 9,000 additional premises, with an average award of around £730 per year. The total relief provided under the SBRR scheme would increase to around £13m a year and help up to 25,000 smaller businesses. Around a third of all non-domestic properties would then receive some help with their rates.
113. **Targeting small retail premises:** An alternative would be to target relief at small retail premises, which would have the merit of redistributing money within the retail sector. It can be argued that the existence of successful local businesses and retail premises can increase the viability of an area by driving footfall to other enterprises located there, increasing general business turnover and spending levels in that area. This encourages the flow of local money, with more of this money possibly retained by local companies in the local economy.
114. Aside from a greater recycling of local money within the local economy it is also expected that supporting the small business sector, particularly retail, would have a positive effect on social inclusion and community life particularly in more disadvantaged and isolated areas.
115. A key consideration for this option would be the definition of retail. The Department considers that a primary purpose of the business would have to be the sale of goods to the public, rather than the provision of a service. This would include traditional shops but consideration would have to be given as to whether this should include other retail businesses such as food take-aways, restaurants and licensed premises. There would also be the issue of hairdressers, beauty salons, etc. The latter could be viewed not to constitute retail, given that the primary role is the provision of a service.
116. If 25% relief were provided solely to retail premises, and not those primarily providing a service, around 5,700 extra premises could be brought into the scheme, within the £6.5m funding limit. This could apply to properties with an NAV of £5,001 - £13,500. The average award would be in the region of £1,140.
117. There are, however, important operational and policy considerations with the retail only option. Data held by Land and Property Services (LPS) for the administration of the rating system does not lend itself to automatic award of SBRR to shops on their own. Any type of business occupying a shop will be categorised as a shop (for valuation purposes) even if no goods are sold, for example a building society.

118. Therefore ratepayers would have to apply for the relief, and each case individually examined, leading to costs for both business and government and also giving rise to delays.
119. In addition, there is evidence to suggest that small businesses face serious challenges across the board which are not simply confined to retail. Indeed, those challenges may be even greater in other sectors. NI ABI data would suggest that between 2008 and 2009 the turnover of small retail premises locally remained constant while the contribution to the economy (GVA) increased by £16m (1.2%). Employee levels declined, at slightly less than the average for all sectors. In contrast, the position for all small businesses was one of a decline in employee numbers, turnover and GVA (7.5%, 5.6% and 1.2% respectively), at levels either similar to or worse than the position across all sectors in Northern Ireland as a whole.<sup>1</sup>
120. For these reasons, it is proposed to extend relief towards all small businesses rather than small retail premises.
121. **New start up and exporting businesses:** Some have argued that the SBRR scheme should be targeted towards new start up businesses. However, this could create a competitive advantage for new entrants and established businesses could suffer as a result. If the subsidy was attractive enough some businesses might close at the end of the qualifying period, to subsequently re-open and qualify again elsewhere. It has also been argued that the SBRR scheme should be targeted towards businesses that are export orientated. However, this could give rise to state aid issues. It would also require such companies to be identified and monitored, most likely requiring some form of application based scheme.

## State aid considerations

122. SBRR generally provides support for an undertaking's running costs. It is the Department's assessment that any expansion of the SBRR scheme would continue, as at present, to operate on a de minimis state aid basis (i.e. the permitted threshold). Arrangements are in place that allow small volumes of aid (currently €200,000 in total over a rolling three year period from all public sector sources).
123. The current assessment is that the aid provided would operate well below the €200,000 threshold. The Department would also continue to notify all SBRR recipients about the level of permitted state aid and their obligations in the unlikely event that there is a potential breach.
124. 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, who would continue to pay the normal level of rates.

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<sup>1</sup> Northern Ireland Annual Business Inquiry data 2008 and 2009.

## Preferred approach

125. The preferred approach is for a general uplift in the main SBRR scheme, that is 20% relief to those premises with an NAV of £5,001 – £10,000. There would be no change for those currently receiving help (NAV of £5,000 or less). At 2011/12 levels around £6.5m would be provided. On the basis of numbers at April 2011, and broadly inflationary rate increases, around £6.7m, £7m and £7.2m would be provided for the three years 2012/13 to 2014/15.
126. Importantly, final decisions on expansion of the SBRR, as well as the applicable thresholds and level of relief, will depend on decisions on the large retail levy. Any reduction in the proposed level of the levy would have to be reflected in lower levels of SBRR relief. The additional relief would not be available without the levy.

7. Would you agree with the proposal to extend the small business rate relief scheme for three years, as a temporary downturn measure?
8. Would you agree with the proposal to fund this through the imposition of a rates levy on the highest value retail properties?
9. If not, how should this be funded?
10. What are your views on the proposal to extend the reach of the existing scheme rather than provide additional relief to current recipients of small business rate relief?
11. Do you agree that 20% relief should be provided to eligible premises with an NAV of £5,001 - £10,000?
12. Do you agree that the relief should be applied to all non-domestic premises (with some limited exclusions) regardless of use?
13. What are your views on the small business retail relief option, taking account of the issues associated with this option?
14. Do you have any views on the general issues raised in this section?
15. Are there any other matters that you think should be considered?

## **Section 5: Window Displays in Empty Shops – Disregarding Non-commercial Use**

### **Background**

127. The Minister has listened to concerns from the business community about the impact that empty properties can have on town centres, making them feel and look run down. The proposed temporary change should ensure that steps can be taken to improve the appearance of shopping areas without extra rates being incurred. It should also ensure that efforts to brighten up shopping streets with colourful displays in shop windows (for non-commercial purposes) do not incur a financial penalty.
128. Empty shops are normally entitled to 50% empty property relief (subject to some exclusions) and this policy is set to continue. However, at present almost any use of an empty shop will trigger full commercial rates at 100%. This proposal is to allow limited use of window displays in empty shops, without incurring full occupied rates. The use of any hoarding, placards, boards, notices or awning, etc. employed wholly for the purpose of (non-political) community, artistic or other non-commercial purposes would be allowed to qualify as 'empty' for rating purposes.
129. The principal aim of the policy is to make sure that the rating system does not discourage shop owners from working with their local communities to improve the appearance of shopping areas.

### **Preferred approach**

130. It is proposed to disregard the use of window displays in empty shops providing such use is for (non-political) community, artistic or other non-commercial purposes. Similar to the other measures in this paper this change would apply from 1 April 2012 through to the end of the current spending review period, 31 March 2015.
131. Views are welcome on this proposal, what uses should be allowed and how this could operate. In relation to the latter; this could be based on a percentage of floor space, an allowable area or depth or other means.
132. It is proposed that this change would exclude the following uses of a window display:
- advertising goods or services;
  - storage;
  - any form of business activity.

16. Do you agree with the proposal and the suggested approach?
17. Do you have any views on the issues raised in this section?
18. Is the scope of the suggested categories of use sufficient to meet the policy objectives?
19. Have you any views on how this should operate?
20. Have you any views on the type of activities that should be excluded?

## Section 6: Clarifying Assumptions for Future Non-Domestic Revaluations

### Background

133. Rating legislation sets out a lot of assumptions that have to be made in valuing property for business rates. It is important that these are as clear and as explicit as possible to deal with all eventualities and ensure relativity and consistency of assessment between business ratepayers.
134. This proposed change concerns one of the assumptions underlying the compiling of a new valuation list. This is necessary well in advance of the next non-domestic revaluation planned for 2015, which will have a valuation date of 1 April 2013. The Department wishes to make this change because the current provisions are not clear enough, in terms of what can be taken into account in the two years between the valuation date and the billing date. In other words, it is being made for the avoidance of doubt. In general it is not a change that would alter the way revaluations have always been undertaken, but it is being made to clarify the issue for business ratepayers. This would ensure consistency and relativity between ratepayers and also provide stability for local councils who rely on certainty in these matters.
135. The current legislation merely provides that, for the purpose of a non-domestic revaluation, at the valuation date a property was in the same state and circumstances as at the time the list actually comes into force (some two years later).
136. The Department considers that the legislation relating to this issue needs to be made more explicit to reflect the practicalities of revaluation, which can only operate effectively if changes that occur in the intervening two year period are localised and physical in nature. If this was not the case, general changes in the economy could change some assessments in that period, thereby seriously undermining consistency and relativity between ratepayers.
137. The main aim of a revaluation is to establish relative values at a particular point in time rather than attempting to adopt actual values which are prone to change. In the intervening two year period between the valuation date and a new valuation list coming in to effect it is not practical, to reflect wide economic and social changes that occur over time. What is important is maintaining the relativity between localities/properties. This applies equally to both a downward and rising market.
138. If, however, the physical state of a particular locality is affected in the interim period (for example vacant shops appear on a main street) the proposed changes in the legislation would ensure that these circumstances can be taken into account.

139. This change would only apply in relation to the preparation of a new valuation list. There would be no wider change in the context of the general revision of a valuation list already in force or other matters.

## **Proposed amendment**

140. The Department wishes to adopt broadly similar provisions to those that operate in the rest of the UK and in particular those found in the Local Government Finance Act 1988 (Schedule 6, paragraph 2(7)), insofar as is possible taking into account established custom and practice in Northern Ireland.

141. In a Northern Ireland context consideration is therefore being given to allowing changes due to the following:

- matters affecting the physical state/enjoyment of the property;
- the mode and category of occupation of the property;
- matters affecting the physical state of the locality in which the property is situated; and
- the use or occupation of other premises in the property's locality.

142. The GB provisions provide for some other matters which are already specifically legislated for in Northern Ireland. No change is therefore needed in those respects.

143. The Department would also consider the repeal of legislation applied to properties valued by reference to their volume of trade, for example public houses. This would have the effect of standardising the premise of valuations. LPS may still, in principle, take into account any trading evidence which would properly help it to ascertain the net annual value of a hereditament at the antecedent valuation date. There would be no change for properties where the net annual value is fixed wholly or partly having regard to the quantity of minerals or other substances extracted from it.

144. The intention is simply to provide greater clarification, with no real change to the operational practice that is already in place.

## **Preferred approach**

145. Clarifying the legislation about the valuation assumptions used at non-domestic revaluation, being more specific about the state and circumstances to be taken into account in assessing the value of non-domestic property, for new valuation list purposes. Generally this would take effect at the next general revaluation in 2015. This would not change the way revaluations are undertaken but would provide clarity about what can be taken into account between the valuation date and date of the new valuation list. This would also align more closely with the approach taken in the rest of the UK.

21. Do you have any views on the issues raised in this section?

## Section 7: Financial Impact

146. This section sets out the financial impact of the proposals in this paper. This has already been covered to some extent in the preceding sections. It should be noted that the figures contained here, and in this paper, are estimates based on current valuation information, plus regional and district rate levels, at the beginning of the 2011/12 rating year. Both of these elements change over time; values can increase and decrease (which can affect numbers subject to the levy and the SBRR scheme) and the 'rates in the pound' go up each year.

### Small business rate relief expansion

147. It is intended that the expansion of the SBRR scheme and the large retail levy should be undertaken at broadly no cost to the Executive. There would be no revenue implications for district councils, given that the measures affect regional rate revenue. The sums involved in SBRR expansion and the large retail levy, using valuation data and rates poundages at April 2011, are estimated to be in the region of £6.5m per year. Increases in both the regional and district rates over the proposed three years should broadly represent an inflationary type increase. Over the three years funding in money terms of around £6.7m, £7m and £7.2m is likely to be needed (assuming average rate increases of around 3.5%).

148. This overall cost may fluctuate slightly as the Valuation List, and also numbers eligible to small business rate relief, changes over time. If 20% relief is provided to those with an NAV of £5,001 - £10,000 the cost of this (at 2011/12 levels) would be in region of £6.5m per year. Relief would be awarded to almost 9,000 additional premises, with an average award of around £730 per year.

### Large retail levy

149. The number of businesses paying the levy may change over its proposed three year life. It is recognised that business needs certainty and stability for financial planning and therefore any unexpected significant increase in the amount of the levy in years two and three would be unacceptable. Therefore unexpected variations that could give rise to a significant increase would not be imposed.

150. At April 2011 there were 77 retail properties valued at £500,000 or more, with a combined rates bill at that date of just over £33m. With around £6.5m to be raised (at 2011/12 levels) the levy would represent a supplement on rate bills for these properties of around 20% on average.

151. Depending on the district council in which the property is located the increase may be somewhat higher or lower and is likely to range from 18.5% to 22.5%. The table below sets out the likely increase (rounded to 0.5%) by district council area (seven district council areas do not have a retail property with a rateable value of £500,000 or more).

Levy variations by district council area

<b>District Council</b>	<b>Level of levy</b>
Antrim	18.5%
Ards	20%
Ballymena	19%
Banbridge	19%
Belfast City	19%
Carrickfergus	18.5%
Castlereagh	22.5%
Coleraine	20%
Cookstown	20.5%
Craigavon	19.5%
Derry City	18.5%
Dungannon & South Tyrone	21%
Fermanagh	22%
Lisburn	21.5%
Newry and Mourne	20%
Newtownabbey	19%
North Down	21%
Omagh	20%
Strabane	20%

152. The above is based at 2011/12 levels and would change slightly over time, depending on how district rates change in subsequent years. The average rate bill increase is based on what bills would otherwise be without the levy.

### **Smartening up of shop fronts and revaluation provision**

153. The shop front proposal is expected to have a negligible revenue impact; vacant rates would continue to be collected from any affected properties as normal. Furthermore, as the purpose is to preserve the attractiveness of our town and city centres it should help protect the rate revenue paid by surrounding traders.

154. The revaluation provision should have no impact on revenue levels given that this change is about bringing more clarity to ratepayers and generally would not affect the way in which revaluations are undertaken.

**22. Do you have any views on the financial impact of the measures contained in this paper?**

## **Section 8: Summary of Initial Impact Assessments**

### **Summary of findings from Initial Impact Assessments**

155. Before final policy decisions are taken views are also sought on various impact assessments. The initial Integrated Impact Assessment (IIA) includes an assessment of the potential impact:

- on persons from different Section 75 groups;
- on urban and rural areas; and
- on deprived communities.

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 this paper.

### **Extension of Small Business Rate Relief Scheme**

#### **Initial Equality Impact Assessment**

156. Any new 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; and between persons with dependants and persons without. 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 an initial Equality Impact Assessment (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 similarly applies to the other initial impact assessments in this section.

157. The initial EQIA examines the population characteristics of electoral wards that would benefit from small business rate relief (SBRR) expansion. These are the wards with an above average representation of eligible small businesses (i.e. those with an NAV of £5,001 - £10,000). For the purpose of the initial EQIA it is assumed that the characteristics of those living in the wards where the small businesses are located are the characteristics of those who would benefit from the relief. It is expected that smaller firms would tend to have more staff from the local area in which they are located than larger firms. It would, however, not necessarily be the case that those working (or shopping) in the affected areas will live in that area.

158. Due to a lack of data on two Section 75 groups (political opinion and sexual orientation), the analysis did not investigate these groups. However as part of the consultation process any evidence of differential impacts on people in these groups is welcome. Data from the census was available for the seven remaining Section 75 groups.
159. The 582 wards in Northern Ireland were divided into two groups; the first group contained those wards with an above average representation of eligible small businesses; the second group contained those wards with a below average representation. It would be expected that the first group of wards would benefit more from the scheme than the second group. The population characteristics of the two groups were then compared.

Comparison of Section 75 Characteristics of the two groups

	<b>Group of wards with above NI average proportion of small businesses*</b>	<b>Group of wards with below NI average proportion of small businesses*</b>
Under 60	82.30%	82.43%
60 +	17.70%	17.57%
Male	48.25%	49.06%
Female	51.75%	50.94%
No Dependants	63.91%	63.28%
With Dependants	36.09%	36.72%
Married	54.71%	55.13%
Single	32.75%	33.34%
Widowed/Divorced	12.54%	11.53%
Protestant/Other Christian	43.41%	46.95%
Catholic	41.56%	39.42%
Other/None	15.03%	13.63%
White	99.05%	99.22%
Non White	0.95%	0.78%
With Disability	20.63%	20.18%
Without Disability	79.37%	79.82%

\*NI average refers to the percentage of non-domestic properties eligible for enhanced relief in Northern Ireland as a whole.

160. The initial analysis shows that there would be no significant difference between the two groups of wards in the representation of all Section 75 sub-groups. This suggests that there is no disproportionate impact (favourable or unfavourable) on any of these sub-groups.
161. Further analysis indicates that in the top 10% (decile) of wards with the highest proportion of small businesses, those of a non-white ethnic background and Protestants would be slightly over-represented while those of a white ethnic background and Catholics would be slightly under-represented, compared to the Northern Ireland average. It also suggests that none of these differences are likely to be statistically significant, and are not presently reflected in any of the other deciles with above average proportions of small businesses.

- 23. Do you have any views on the estimated impact on Section 75 groups?**
- 24. Do you have any additional evidence that could be used to inform the final impact assessment?**

### **New TSN analysis**

162. 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.
163. The impact that extending the SBRR scheme could have on disadvantaged areas is considered by examining the incidence of small businesses (who would benefit from the scheme) within the most deprived wards, as measured using the Northern Ireland Multiple Deprivation Measure (NIMDM)<sup>1</sup>.
164. For the purposes of deprivation analysis, wards are grouped into deciles according to their Multiple Deprivation Score. For the wards in the least deprived decile (1) on average 13.5% of properties would have an NAV of between £5,001 and £10,000. In the most deprived (decile 10) the average proportion would be 10.3%.

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<sup>1</sup> 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](http://www.nisra.gov.uk)

Comparison of Proportions of Small Businesses across deciles of deprivation

Decile	Average deprivation score	No. of businesses £5,001-£10,000	Total no of non-domestic properties	Average proportion
1	4.76	585	4347	13.5%
2	8.46	639	5351	11.9%
3	11.88	546	4615	11.8%
4	14.64	834	6135	13.6%
5	17.40	802	6351	12.6%
6	20.30	958	7352	13.0%
7	23.54	1145	8195	14.0%
8	27.91	1060	7515	14.1%
9	33.26	675	5942	11.4%
10	50.52	1542	14905	10.3%

165. The analysis indicates that there would be no real discernible variation across the deciles – the less deprived deciles would have similar proportions to the more deprived deciles, and so would be likely to experience a similar beneficial impact. The scheme could therefore be considered to be neutral in that deprived areas would benefit from the scheme to the same extent as areas that are less deprived.

**25. Do you have any views on the estimated impact on deprived areas?**

**26. Do you have any additional evidence that could be used to inform the final impact assessment?**

### Rural proofing

166. Rural proofing is a key element in policy development and evaluation and allows policies to be assessed for their impact on rural areas. 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.

167. Analysis was carried out at a ward level, with each ward in Northern Ireland defined as urban, rural or mixed urban/rural (defined by NISRA). There are over 6,000 businesses with an NAV of £5,001 to £10,000 in urban areas, compared to 1,800 such businesses in rural areas. Just under 1,000 businesses are located in mixed areas.

Proportions of Eligible Businesses in Urban, Rural and Mixed Areas

	No. of businesses £5,001-£10,000	Total no of non-domestic properties	Proportion
Urban	6032	44097	13.7%
Rural	1848	19026	9.7%
Mixed Urban/Rural	906	7585	11.9%

168. Business properties with an NAV of £5,001 to £10,000 account for 14% of all business properties in urban areas, 12% in mixed areas and 10% in rural areas. These businesses therefore account for a slightly larger section of the urban economy than the rural economy. The analysis would imply that an expanded SBRR scheme would have a greater impact on urban areas, in that relatively more businesses in these areas would benefit from the proposals, but not markedly so.

27. Do you have any views on the estimated impact on rural areas?

28. Do you have any additional evidence that could be used to inform the final impact assessment?

**Regulatory Impact Assessment**

169. The objective of a Regulatory Impact Assessment (RIA) is to assess the potential impact of enhancing the current SBRR scheme, which would increase the numbers benefitting. As part of this a small business impact test and competition assessment are undertaken.

170. **Small Business Impact test:** Businesses with an NAV of between £5,001 and £10,000 would benefit from the proposed measure. Smaller businesses, with an NAV of £5,000 are likely to be unaffected, as they would retain their current levels of relief. Other small businesses above the £10,000 NAV threshold are likely to be unaffected as their rates liability would remain the same.

171. **Competition Assessment:** A competition assessment aims to assess any potential effects on competition that the proposed policy may have, with the aim of identifying any significant detrimental impacts. The issue to be considered is whether or not the proposals would make businesses less competitive than their competitors.

172. The initial analysis indicates that the proposed expansion of the SBRR scheme would be available to a wide range of companies in different business sectors. It is therefore difficult to predict the potential impact of the measure in the market for particular goods or services.

173. In broad terms, however, the assessment would suggest that the policy should not have an adverse impact on the number and range of suppliers available in any particular market, nor is it likely to have a significant impact on the ability of suppliers to compete with others. It is considered that the relief would be unlikely to have a significant effect on the degree of competition in individual markets.
174. The scheme is most likely to have a positive effect on competition through assisting small businesses with their running costs, thus adding to the diversity and range of suppliers of goods and services available within a particular market.

**29. Do you have any views on the outcome of the Regulatory Impact Assessment?**

**30. Do you have any additional evidence that could be used to inform the final impact assessment?**

## **Large retail levy**

175. 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 help minimise any impact of the levy.
176. In order to carry out impact assessments with the available data, the assumption has to be made that any impact of the levy would be local to the retailers affected (so that the characteristics of those living in the wards where 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, in terms of any impact. Those working in, and shopping at the retail premises, will not necessarily live within the affected areas.

## **Initial Equality Impact Assessment**

177. The initial analysis shows that out of the 582 wards in Northern Ireland 43 wards are likely to be affected by (contain properties subject to) the levy and 539 would not. It also suggests that the ward most affected would be Shaftesbury, in Belfast, with 15 properties located there.
178. Similar to the analysis on the proposed SBRR scheme expansion analysis there is a lack of data on two Section 75 groups (political opinion and sexual orientation). Data from the 2001 census was available for the seven remaining Section 75 groups (Age, Dependents, 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%	<b>11.7%</b>
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%	<b>0.8%</b>
With Disability	20.4%	23.2%	20.1%
Without Disability	79.6%	76.8%	79.9%

179. For the majority of Section 75 sub-groups the analysis indicates that there would be no significant difference in representation between the wards likely to be affected by the levy and those not affected. It also suggests that there would be no significantly disproportionate impact for any group if the proposed levy was implemented.
180. For two Section 75 sub-groups, there is likely to be a significant over-representation in the wards affected by the levy compared to those not affected – the Widowed/Divorced group, and the Non-Whites group. However, it is considered that 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.

181. 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.

31. Do you have any views on the estimated impact on Section 75 groups?
32. Do you have any additional evidence that could be used to inform the final impact assessment?

### New TSN analysis

182. The average Multiple Deprivation Measure of the wards that would be affected by the levy and those that would not be affected by the levy was calculated and compared.

#### Comparison of Average Deprivation Scores of the Two Groups

	Average MDM Score of wards affected by levy	Average MDM Score of wards not affected by levy	NI average
Average MDM	23.33	21.21	21.37

183. This implies 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).

184. 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) is likely to fall to 20.71, suggesting that, outside these retail clusters, the properties affected by the levy are not located in deprived areas.

185. 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.

33. Is there any further evidence of how the proposal would impact on disadvantaged areas?
34. Do you have any additional evidence that could be used to inform the final impact assessment?

### Rural Proofing

186. Of the 43 wards 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%

187. The fact that 88% of affected wards (87% of affected properties) would be urban indicates that the policy impact is predominantly urban. It also suggests that rural areas would be largely unaffected. This would be to the benefit of rural areas.

34. Is there any further evidence of the impact of the proposal on rural areas?
35. Do you have any additional evidence that could be used to inform the final impact assessment?

### Regulatory Impact Assessment

188. **Rationale for scheme:** 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 larger proportion of profit or turnover, compared to larger retail businesses (see section 4). Extending relief for small businesses would help reduce operating costs for these businesses, providing increased assistance following the economic downturn and through into recovery. This relief would be funded by the large retail levy.

189. **Risks:** Part of the task of an RIA is to identify the risks that could arise as a result of a proposed policy. Some potential risks are that the levy could affect the location decisions of large retailers, with implications for local economies within Northern Ireland. It could also be argued that, if they are multi-national companies, the levy could bring 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. Where feasible, retailers may limit the size of new premises to below the rateable value threshold for the levy, or reconsider employment levels and structures to compensate for the increased costs.
190. The risk of any of these events happening is considered to be low, as they are based on the assumption that the increase in rates liability would be sufficient to affect behaviour. The initial analysis suggests that this is unlikely to be the case, given that the levy is estimated to be on average around 0.25% of individual store sales turnover for those affected. 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 is unlikely to impact on long-term decisions made by large retailers.
191. **Small business impact test:** The aim of a small firm impact test is to consider whether a change in policy will have a differential impact on small firms compared to larger businesses. The 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 to the SBRR scheme. Other small businesses above the £10,000 NAV threshold are likely to be unaffected as their rates liability would remain the same.
192. **Competition assessment:** 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 competitiveness. While slightly smaller retail premises selling similar goods would not have the additional rates burden, they are not considered to have a competitive advantage. They would normally pay less rates than the very largest stores and there would be no reduction in their normal rates liability. 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.

37. Do you have any views on the outcome of the Regulatory Impact Assessment?

38. Do you have any additional evidence that could be used to inform the final impact assessment?

## Monitoring and review

193. It is intended that these schemes would only be operational for three years, until 31 March 2015. An evaluation of the schemes would be carried out before the end of this period and they would be monitored over the three year period to assess their effectiveness.

## Section 9: Next Steps

194. Consultation on the issues set out in this paper will last for 16 weeks, ending on **Tuesday 18 October 2011**. The Department would welcome comments on both the questions raised (**Annex A**) and the key issues more generally. Details of where to send consultation responses are set out in **section two**.
195. Responses to the consultation exercise will be made available on the Rating Policy website [www.dfpni.gov.uk/rating-review](http://www.dfpni.gov.uk/rating-review). A paper setting out the main issues raised during consultation will also be made available in due course. The results of the consultation exercise will be analysed and shared with both the Finance Minister and the Committee for Finance and Personnel. Decisions will then be reached on the way forward.
196. The Executive already has the power to change the scope of the SBRR scheme, in terms of the properties that are covered, the NAV thresholds that apply and the level of relief that is awarded. New subordinate legislation would be brought forward once final decisions have been reached.
197. New primary legislation would be required to give effect to final decisions in relation to the large retail levy, the brightening up of shop fronts and windows (providing that occupied rates are not charged and 50% empty property relief is preserved) and clarifying the valuation assumption for revaluation purposes.
198. The relevant primary and subordinate legislation would be brought forward later this year, with the intention of being operational from 1 April 2012. This would be subject to consideration by the Executive, the Assembly's Finance and Personnel Committee and the legislative process of the Assembly itself. The new measures would then apply for three years through to 31 March 2015.



## **Annex A: Questions for Consultees**

### **Section 1: Summary**

1. Do you have any general comments on the preferred approach presented in this paper?

### **Section 3: Large retail levy**

2. Do you agree that the proposed large retail levy should be used to provide additional help to small businesses?
3. What are your views on the preferred approach of an average 20% levy (against the overall rates bill) on high value retail premises?
4. Do you have any views on the alternatives to a fixed percentage retail levy?
5. What are your views on a levy being applied selectively, for example confined to supermarkets or properties outside of town centres?
6. Have you any other views on the issues covered in this section?

### **Section 4: Expansion of the small business rate relief scheme**

7. Would you agree with the proposal to extend the small business rate relief scheme for three years, as a temporary downturn measure?
8. Would you agree with the proposal to fund this through the imposition of a rates levy on the highest value retail properties?
9. If not, how should this be funded?
10. What are your views on the proposal to extend the reach of the existing scheme rather than provide additional relief to current recipients of small business rate relief?
11. Do you agree that 20% relief should be provided to eligible premises with an NAV of £5,001 - £10,000?
12. Do you agree that the relief should be applied to all non-domestic premises (with some limited exclusions) regardless of use?
13. What are your views on the small business retail relief option, taking account of the issues associated with this option?
14. Do you have any views on the general issues raised in this section?
15. Are there any other matters that you think should be considered?

## **Section 5: Window displays in empty shops – disregarding non-commercial use**

16. Do you agree with the proposal and the suggested approach?
17. Do you have any views on the issues raised in this section?
18. Is the scope of the suggested categories of use sufficient to meet the policy objectives?
19. Have you any views on how this should operate?
20. Have you any views on the type of activities that should be excluded?

## **Section 6: Clarifying assumptions for future non-domestic revaluations**

21. Do you have any views on the issues raised in this section?

## **Section 7: Financial impact**

22. Do you have any views on the financial impact of the measures contained in this paper?

## **Section 8: Summary of initial impact assessments**

### **SBRR expansion**

23. Do you have any views on the estimated impact on Section 75 groups?
24. Do you have any additional evidence that could be used to inform the final impact assessment?
25. Do you have any views on the estimated impact on deprived areas?
26. Do you have any additional evidence that could be used to inform the final impact assessment?
27. Do you have any views on the estimated impact on rural areas?
28. Do you have any additional evidence that could be used to inform the final impact assessment?
29. Do you have any views on the outcome of the Regulatory Impact Assessment?
30. Do you have any additional evidence that could be used to inform the final impact assessment?

## **Large retail levy**

31. Do you have any views on the estimated impact on Section 75 groups?
32. Do you have any additional evidence that could be used to inform the final impact assessment?
33. Is there any further evidence of how the proposal would impact on disadvantaged areas?
34. Do you have any additional evidence that could be used to inform the final impact assessment?
35. Is there any further evidence of the impact of the proposal on rural areas?
36. Do you have any additional evidence that could be used to inform the final impact assessment?
37. Do you have any views on the outcome of the Regulatory Impact Assessment?
38. Do you have any additional evidence that could be used to inform the final impact assessment?

## Annex B: Small Business Rate Relief/Bonus Schemes in GB

### England

A small business rate relief scheme was introduced in England in 2005. Those properties that are eligible for small business rate relief have a slightly lower business rate, of around 0.7 pence in the pound, compared to other businesses. This applies up to a rateable value threshold of £18,000. A discount (relief) on rates liability is also provided where the property has a rateable value of less than £12,000.

The level of relief has been temporarily increased (for the period 1 October 2010–30 September 2012) as follows:

- **Rateable value below £6,000:** Small business rate relief set at 100%, rather than the standard 50%.
- **Rateable value £6,000 - £12,000:** The tapering (on a sliding scale) of small business rate relief is set at 100% at the bottom of this range through to 0% at the top, rather than the standard 50% through to 0%.
- **Rateable value between £12,001 and £18,000:** No small business rate relief is provided, instead the small business rate multiplier is used.

### Wales

A small business rate relief scheme was introduced in Wales in 2007. Similar to the position in England some of the provisions of the Welsh small business rate relief scheme have been temporarily extended (due to end 30 September 2012). The threshold for the 25% relief category was also permanently increased in 2010. The standard provisions for the scheme are as below:

- **Rateable value up to £2,400:** Small business rate relief set at 50%.
- **Rateable value £2,401 - £7,800:** Small business rate relief set at 25%.
- **Rateable value between £7,801 and £11,000 (retail premises) (previously £6,501 - £9,000):** 25% relief applied to higher value retail premises.

Additional provision is made in relation to post offices, similar to the scheme locally, as well as credit unions, childcare facilities and retail premises (until 31 March 2012). Following the 2010 budget the Welsh Assembly introduced provisions similar to the temporary uplift that applies in England. For the period between 1 October 2010 and 30 September 2012, business premises with a rateable value up to £6,000 receive 100% relief and those with a rateable value between £6,001 and £12,000 will receive relief that will be reduced on a tapered basis from 100% to zero.

## **Scotland**

In Scotland a small business rate relief scheme was in place between 1 April 2003 and 31 March 2008. This provided a discount of between 5% and 50% on the rates poundage for those properties with a rateable value up to £11,500. Those properties with a rateable value of £29,001 or above paid a supplement in their rates poundage of 0.3 pence to cover the additional costs of the small business rate relief scheme.

From April 2008 the scheme was replaced with a small business bonus scheme. Under this the discount rate depends on the total rateable value of the properties occupied and ranges from 25% to 100% for businesses occupying property with a combined rateable value under £25,000. Where the rateable is over £35,000 a small supplement is paid of 0.7p.

## **Proposed changes in Northern Ireland**

In the rest of the UK various temporary enhancements have been made to the small business rate relief schemes in operation there. As part of the wish to rebalance the rating system and ensure that some of our smallest business premises receive assistance with their rates during the period through into economic recovery it is considered that similar provision should be made in Northern Ireland.

A number of options have been considered including a general expansion of the small business rate relief scheme and the option of targeting assistance towards small retail premises.

## Annex C: Northern Ireland Annual Business Inquiry Data 2008 and 2009

### Retail Employee, GVA and turnover estimates from the Northern Ireland Annual Business Inquiry 2008 and 2009

DOMAIN*	PARMDESC	2008 estimate	2009 estimate	Absolute change	% change
Small retail (by 147)	turnover (£ millions)	5,479	5,481	2	0.0%
Small retail (by 147)	Employees	56,173	52,777	-3,396	-6.0%
Small retail (by 147)	GVA (£ millions)	1,286	1,302	16	1.2%
Large retail (by 347)	turnover (£ millions)	1,169	1,204	35	3.0%
Large retail (by 347)	Employees	10,886	10,271	-615	-5.6%
Large retail (by 347)	GVA (£ millions)	249	251	2	0.8%
Retail total	turnover (£ millions)	8,977	8,724	-253	-2.8%
Retail total	Employees	90,248	83,392	-6,856	-7.6%
Retail total	GVA (£ millions)	2,047	2,040	-7	-0.3%

## Employee, GVA and turnover estimates from the Northern Ireland Annual Business Inquiry 2008 and 2009

DOMAIN	PARMDESC	2008 estimate	2009 estimate	Absolute change	% change
Small - all NI sectors	turnover (£ millions)	30,924	29,198	-1,726	-5.6%
Small - all NI sectors	Employees	297,191	274,848	-22,343	-7.5%
Small - all NI sectors	GVA (£ millions)	9,598	9,486	-112	-1.2%
Large - all NI sectors	turnover (£ millions)	12,347	12,650	303	2.5%
Large - all NI sectors	Employees	82,627	78,348	-4,279	-5.2%
Large - all NI sectors	GVA (£ millions)	3,333	3,491	158	4.8%
All sizes - All NI sectors covered	turnover (£ millions)	57,687	55,081	-2,606	-4.5%
All sizes - All NI sectors covered	Employees	513,624	474,457	-39,167	-7.6%
All sizes - All NI sectors covered	GVA (£ millions)	17,470	17,237	-232	-1.3%

Small is where selected employees are less than 50, medium is 50 – 249 and large is 250 +

Retail is sic2-47

\* more details of the sectors covered can be found in the background notes at [http://www.detini.gov.uk/ni\\_abi\\_2009\\_on\\_lu\\_basis-5.pdf](http://www.detini.gov.uk/ni_abi_2009_on_lu_basis-5.pdf)

## **Annex D: List of Retail Properties with a Rateable Value of £500,000 or more**

Arcadia – British Home Stores	13 Castle Lane, Belfast, BT1 1GB
Arcadia – Wallis	Unit 9/10 Forestside Shopping Centre, Belfast, BT8 6FX
Arcadia – Top Shop	Msu 2, 1 Victoria Square, Belfast, BT1 4QG
Asda	43 Asda Railway Road, 43 Railway Street, Strabane, BT82 8EQ
Asda	Unit D1, Ards Shopping Centre, Circular Road, Newtownards, BT23 4EU
Asda	2 Ring Road, Coleraine, BT52 1QN
Asda	31 Dromore Road, Omagh, BT78 1QZ
Asda	8 Derrychara Road, Enniskillen, County Fermanagh, BT74 6TG
Asda	85 Park Street, Ballyclare, County Antrim, BT39 9DQ
Asda	150 Junction One Outlet Centre, Antrim, County Antrim, BT41 4LL
B & Q	2 Balmoral Road, Belfast, BT12 6QA
B & Q	1 Marlborough Retail Park, Craigavon, County Armagh, BT64 1AG
B & Q	15 Braidwater Retail Park, Ballymena, County Antrim, BT42 3ES
B & Q	300 Airport Road West, Belfast
B & Q	1 Faustina Retail Park, Londonderry, BT48 8QN
B & Q	Unit 1 Sprucefield Park, Lisburn, BT27 5UJ
B & Q	5 Damolly Retail Park, Newry, Armagh, BT35 6PR
B & Q	Unit 4, Abbey Retail Park, Church Road, Newtownabbey, County Antrim, BT36 7GU
B & Q	20 Riverside Regional Centre, Coleraine, BT51 3QQ
Boots	35 Donegall Place, Belfast, BT1 5AW
Charles Hurst Ltd	60 Boucher Road, Belfast, BT12 6HR
Debenhams Plc	Unit 34, Castle Court, Belfast, BT1 1DD
Dunnes Stores Ltd	1 High Street, Belfast, BT1 2AA

Dunnes Stores Ltd	Fairgreen Shopping Centre, 1 Forthill Street, Enniskillen, County Fermanagh, BT74 6AJ
Dunnes Stores Ltd	Riverside Centre, 2 Irishtown Road, Omagh, BT78 1EF
Dunnes Stores Ltd	1 Bannside Wharf, Coleraine, Londonderry, BT52 1BW
Eason & Son (NI) Ltd	20 Donegall Place, Belfast, BT1 5BA
H & M	Queens Buildings, 8-10 Royal Avenue, Belfast, BT1 8DE
H & M	Unit Ug 17, 1 Victoria Square, Belfast, BT1 4QG
Harvey Norman Leasing (NI) Ltd	Units A-D, 304 Airport Road West, Belfast
Homebase Ltd	1 Crescent Link Retail Park, Londonderry, BT47 6SA
Homebase Ltd	Units 1-3, Balloo Retail Park, Balloo Link, Bangor, County Down, BT19 7QY
Homebase Ltd	Unit 1 Shane Retail Park, 105 Boucher Road, Belfast, BT12 6RH
House Of Fraser	1 Victoria Square, Belfast, BT1 4QG
Ikea	306 Airport Road West, Belfast, BT3 9EJ
Indulge Retail Ltd T/A Head	Unit Msu 03, 1 Victoria Square, Belfast, BT1 4QG
Marks & Spencer	No 1 Abbey Centre, Old Glenmount Road, Newtownabbey, BT36 7DN
Marks & Spencer	48 Donegall Place, Belfast, BT1 5BB
Marks & Spencer	1 Sprucefield Shopping Centre, Lisburn, BT27 5UJ
Marks & Spencer	Unit 1B, Store 2 Forestside Shopping Centre, Upper Galwally, Belfast, BT8 6FX
Marks & Spencer	Unit 29, Bloomfield Shopping Centre, South Circular Road, Bangor, BT19 7HB
New Look	Fountain House, 19-21 Donegall Place, Belfast, BT1 5AB
Next	40 Donegall Place, Belfast, BT1 5BB
Peacocks	49 Donegall Place, Belfast, BT1 5AG
Primark Stores	33 Castle Place, Belfast, BT1 1GA
River Island	Unit Ug 19, 1 Victoria Square, Belfast, BT1 4QG

Sainsbury's	14A Forestside Shopping Centre, Belfast, BT8 6FX
Sainsbury's	5 Sprucefield Park, Lisburn, BT27 5UQ
Sainsbury's	10 Riverside Regional Centre, Coleraine, BT51 3AW
Sainsbury's	1 Braidwater Retail Park, Ballymena, County Antrim, BT42 3AG
Sainsbury's	18 Rushmere Centre, Craigavon, County Armagh, BT64 1AA
Sainsbury's	Hollywood Exchange, 302 Airport Road West, Belfast, BT3 9ED
Sainsbury's	4 The Quays, Newry, County Down, BT35 8QS
Sainsbury's	150 Strand Road, Londonderry, BT48 7PB
Sainsbury's	Supermarket (Unit 28), Kennedy Centre, 580 Falls Road, Belfast, BT11 9AE
Tesco	4 Marlborough Retail Park, Balteagh, Craigavon, BT64 1AG
Tesco	29 Knocknagoney Road, Belfast, BT4 2PW
Tesco	Unit 1, Abbey Retail Park, Church Road, Newtownabbey, BT36 7GU
Tesco	28 Castle Way, Antrim, BT41 4BU
Tesco	47 Orritor Road, Cookstown, BT80 8BH
Tesco	1 Minorca Place, Carrickfergus, BT38 8AU
Tesco	170 Newtownbreda Road, Belfast, BT48 4PZ
Tesco	45 Millenium Way, Lurgan, BT66 8DH
Tesco	90 Larne Link Road, Ballymena, Antrim, BT42 3HB
Tesco	11 Dublin Road, Enniskillen
Tesco	Unit 1, Springhill Retail Park, Killeen Avenue, Bangor, County Down, BT19 1ND
Tesco	Unit 1, Bloomfield Shopping Centre, South Circular Road, Bangor, BT19 7HB
Tesco	Unit 25, Connswater Shopping Centre, 115-117 Bloomfield Avenue, Belfast, BT5 5LP
Tesco	Unit 1, 1 Lisnagelvin Shopping Centre, Londonderry, BT47 6DF
Tesco	1 Beechvalley, Dungannon, County Tyrone, BT71 7BN
Tesco	Bentrim Centre, 2 Bentrim Road, Lisburn, BT28 2GB
Tesco	27 Castlewellan Road, Banbridge, BT32 4BW
Tesco	M 13 The Meadows Centre, Portadown, Craigavon, BT62 3TN
TK MAXX	32-40 Rosemary Street, Belfast, BT1 1GA

Toys R Us Us	1A Sprucefield Park, Lisburn, BT27 5UQ
WH Smith	44 Donegall Place, Belfast, BT1 5BB
Zara	3 Donegall Place, Belfast, BT1 5AA



# Rating of Commerce

## small businesses, large retail

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