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Issued by
Department of Finance and Personnel
Rating Policy Division
Longbridge House
20-24 Waring Street
Belfast
BT1 2EB

Telephone: (028) 9127 7606
E-mail: ratingpolicy.cfg@dfpni.gov.uk
Website: www.dfpni.gov.uk/rating-review

Department of Finance and Personnel
www.dfpni.gov.uk

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

Way Forward Report

December 2011

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Ministerial Foreword

The road leading to final decisions on the rating of commercial properties has been an interesting and eventful one. I have been impressed by the number and diversity of businesses and organisations that have responded to the proposals for a "20% large retail levy" and expansion of the small business rate relief scheme.

There has been a lot of media coverage in recent weeks about the proposals which was helpful in drawing attention to the issues but added little in terms of evidence. What I found particularly useful were the numerous meetings I held with businesses, large and small, and the organisations that represent them. I was particularly heartened to hear companies expressing the view that, while they had concerns about the impact of the levy, they remain committed to the Northern Ireland market. B&Q and Ikea were a case in point and I recognise the particular difficulties they face given the fragile state of the housing market.

Given a modest increase in regional rates revenue since my original budget announcement I have decided, with the support of the Executive, to moderate the impact of the levy. While I remain of the view that the large retail levy is the most viable funding option for expansion of the small business rate relief scheme, for a variety of reasons, the Executive has agreed to this being reduced from 20% to 15%. This represents a 25% decrease in the amounts companies will have to pay.

The money raised through the levy will be used to provide much needed support to small businesses, which continue to struggle during these difficult economic times. While there was broad support for additional help being provided to small businesses I have also taken on board concerns about relief being provided to businesses that occupy multiple premises, particularly where that business is a national or multi national company. For that reason I would intend to exclude those occupying multiple premises from the small business rate relief scheme, by excluding ratepayers who occupy more than three business properties. It would be my intention to review whether a more sophisticated approach can be introduced for 2013/14 and 2014/15, bearing in mind the desire to retain an automated scheme and minimise administrative costs.

A final area where consultation has actively shaped final policy decisions has been the call for measures to revitalise our towns and city centres, through encouraging and promoting the use of empty shops and getting them back in business. As a result I intend to provide 50% relief, essentially the continuation of empty property relief, where long term empty retail premises become occupied. The property will have to have been empty for a period of 12 months or more, with relief then awarded for up to 12 months.

Taken together these changes demonstrate the benefits of real and meaningful consultation. I look forward to the support of the business community as I take these measures through the Assembly.

Finally, and something that I cannot emphasise enough, the levy and small business rate relief expansion will be limited in the legislation to three years, through to 31 March 2015 when the next general revaluation takes place.

Sammy Wilson MP MLA

SECTION 1: WAY FORWARD SUMMARY

1. The Executive, along with the Finance Minister, has now agreed changes to rebalance the non-domestic rating system over this continued period of economic downturn. The measures will be introduced in time for next year's rate bills and will be time limited to three years. The final decisions taken are set out below.

- **20% small business rate relief** will be provided on eligible premises with a net annual value of £5,001 - £10,000, roughly doubling the level of overall help and increasing the number of recipients by around 50% under the main scheme.
- The small business rate relief scheme will be modified so that those ratepayers that occupy **multiple** (more than three) **premises** of any size, or are part of a chain, are not eligible for small business rate relief. This could provide savings of around £1m a year in total from both the current and expanded scheme.
- A levy will apply to retail properties with a rateable value of £500,000 or more. Given a modest increase in available regional rates revenue the level of the **large retail levy** will be moderated. It will be set at 15% on average (a reduction of around £20,000 compared to the original 20% levy). This should help address the concerns expressed about its impact on jobs and investment, particularly in view of its temporary three year nature.
- Where **shop fronts or shop windows** of empty retail premises are used for non-commercial purposes ratepayers will continue to receive 50% empty property relief (or an exclusion if applicable).
- To help get **long term empty shops** (retail premises empty for 12 months or more) back in business next year new occupiers will be allowed to retain 50% empty property relief for a year.
- To clarify the **valuation assumptions used at non-domestic revaluation** the legislation will set these out to ensure that the revaluation can go ahead as planned in 2015. Changes will also be made to repeal the rule applied to properties referenced by their volume of trade, for example public houses.

SECTION 2: OVERVIEW OF POLICY AND CONSULTATION PROCESS

Rebalancing the rating system

2. Views have been expressed on a range of measures aimed at rebalancing the rating system during a period of economic downturn through to recovery. The original proposals that went out to consultation involved:

   (i) extending the reach of the small business rate relief scheme;
   (ii) paying for this by introducing a levy on the largest/highest value retail properties.
   (iii) disregarding the use of window displays in empty shops for non-commercial purposes; and
   (iv) clarifying the legislation relating to valuation assumptions for the next revaluation in 2015.

Consultation Process

3. The consultation paper was published on 28 June 2011, allowing 16 weeks for the public to respond. It was issued to a wide range of interested parties, placed on the Department's website and its publication was advertised in the local press. The issues also generated extensive coverage in both the local and regional press over recent months.

4. During the consultation period the Finance Minister, Sammy Wilson, held a series of meetings with both large and small businesses and their representative organisations. This included meetings with *Asda*, *B&Q*, the *Belfast Chamber of Trade and Commerce,* the *Coleraine Chamber of Trade and Commerce*, the *CBI*, *Ikea*, the *NI Independent Retail Trade Association*, *Sainsbury's* and *Tesco* as well as attendance at a range of business meetings. Officials also met representatives from the business community.

5. By the end of the consultation period, on Tuesday 18 October, 70 written responses had been received. The responses largely focused on the proposed expansion of the small business rate relief scheme and its funding through a large retail levy.

6. A consultation outcomes report was published on 9 November, summarising the views of those who responded to consultation. The consultation paper, Outcomes report and Way Forward report are all available on the Rating Review website (http://www.dfpni.gov.uk/rating-review.htm).

Finance and Personnel Committee consideration

7. As part of the consultation process the Finance and Personnel Committee considered and reported on the original policy proposals and also held evidence sessions with key stakeholders and Departmental officials. Detail of the evidence sessions, as recorded in Hansard, and the written evidence provided can be found on the Committee's website http://www.niassembly.gov.uk/record/committees2011/hansard_finance_personnel.htm.

8. The key stakeholders that provided evidence to the Committee included *Belfast Chamber of Commerce*, *Larne Traders Forum*, *Londonderry Chamber of Commerce* and *Newry Chamber of Trade and Commerce*. Other representative organisations (of small and large businesses) included the *CBI*, the *Federation of Small Businesses*, the *Northern Ireland Local Government Association*, the *Northern Ireland Independent Retail Association*, the *Northern Ireland Retail Consortium*, *Pubs of Ulster* and the *Royal Institution of Chartered Surveyors*. Individual businesses that also attended evidence sessions included *Asda*, *B&Q* and *Ikea*.

9. Given that all of these organisations had responded to the Department's consultation exercise many of the issues raised were similar to those set out in the consultation outcomes report. A brief summary of the issues raised during the evidence sessions is set out below. Those in favour of the small business rate relief scheme expansion and/or the levy advised:

   - of the benefits of the small business rate relief scheme, for example, allowing an employee's national insurance contributions to be paid or overheads reduced;
   - that the relief would help reduce what some viewed as a disproportionate rates burden for small firms;
   - that small business rate relief would also enable businesses to sustain their current activity and increase business confidence;
   - that the expanded scheme was a downturn measure, rather than a long term rating reform, that needs to be in place as soon as possible; and
   - that the scheme needs to be administratively simple for both government and businesses.

10. Those opposed to the large retail levy and/or having concerns about expansion of the small business rate relief scheme stated that:

   - alternatives to a large retail levy should be considered. This included a public health levy, a levy on out of town car parks, a levy on all large businesses or all those not in receipt of small business rate relief;
   - account needs to be taken of the potential impact of the levy on investment and jobs;
   - there should be a sunset clause in the legislation;

- if rates revenue or tax collection were higher than anticipated that consideration should be give to looking at the level of the levy;
- relief should not be awarded to larger businesses that occupy small premises; and
- schemes in other parts of the UK limit the award of relief where ratepayers occupy multiple premises or the cumulative rateable value of their properties exceeds a certain threshold.

11. Other general issues were raised including concerns about growing numbers of empty shops and the need for a revaluation exercise to be undertaken. There was also strong support for Business Improvement Districts to be introduced as soon as possible.

12. The final Committee report on the expansion of the small business rate relief scheme and the large retail levy will be available at http://www.niassembly.gov.uk/Assembly-Business/Committees/Finance-and-Personnel/. This sets out the details of the Committee's key recommendations and findings. In summary some of the key aspects were that the Committee:

    (i) supports in principle the introduction of a levy on all large businesses to fund extension of the small business rate relief scheme;
    (ii) supports the principle of excluding businesses with multiple premises from the small business rate relief scheme and considers that any savings should be used to increase relief for other small businesses;
    (iii) considers that the burden of the levy should be shared with other commercial undertakings with large business premises and that the Department and Executive should carefully consider the case for extending/reviewing the scope of the levy beyond large retail, particularly in 2013/14 and 2014/15;
    (iv) also considered that it would be appropriate for the Department to engage further with key stakeholders over the coming months to establish broad agreement on how such an improvement can take effect;
    (v) suggests that the scope of the levy could be extended to include banks, financial institutions, telecommunication companies, wholesalers and hotel groups and asks the Department to pursue other options for years two and three;
    (vi) would be supportive of measures to protect town centres; and
    (vii) considers that it a revaluation of business properties must take effect in April 2015, to coincide with the end of the expansion of the small business rate relief scheme and the levy.

13. In reaching final decisions the Minister and Executive have considered the views expressed during consultation as well and those of the Committee.

SECTION 3: LARGE RETAIL LEVY

The way ahead

- **Levy to apply to large retail properties with a rateable value of £500,000 and above.**
- **Given a modest increase in regional rate revenue the levy will be reduced from 20% to an average of 15%.**
- **The average levy will be around £66,000 in 2012/13, a decrease of 25%.**
- **The levy will be time bound for three years, though to 31 March 2015.**

14. The circumstances in which the levy is required is one where local communities, and the small businesses within them, are struggling to survive. There is evidence to suggest that large retailers are better placed to cope with the current economic conditions than the small business sector, with rates representing a lower proportion of their outgoings than small businesses.

15. A range of arguments were raised during consultation about the need for the levy and also its potential impact. The Minister has considered the points made both for and against the levy. He was particularly impressed with the measured response adopted by some retailers, in terms of raising their concerns while maintaining a commitment to their operations in Northern Ireland. Final decisions draw a balance between the concerns raised during consultation and providing additional assistance to small businesses during one of the worst downturns in our time.

Committee position

16. As part of their deliberations the Committee considered responses to the consultation exercise on the large retail levy and also undertook evidence sessions with a wide range of businesses and representative organisations. Further detail on this, along with the Committee's final report will be made available on their website http://www.niassembly.gov.uk/Assembly-Business/Committees/Finance-and-Personnel/. The Committee's key findings and recommendations relating to the large retail levy are provided at **Annex A**. In summary, the Committee:

    (i) supports in principle the introduction of a levy on all large businesses (or businesses with large premises) to fund extension of the small business rate relief scheme;
    (ii) supports the principle of excluding businesses with multiple premises from the small business rate relief scheme and

considers that any savings should be used to increase relief for other small businesses;

(iii) considers that the burden of the levy should be shared with other commercial undertakings with large business premises and that the Department and Executive should carefully consider the case for extending/reviewing the scope of the levy beyond large retail, particularly in 2013/14 and 2014/15;

(iv) suggests that the scope of the levy could be extended to include banks, financial institutions, telecommunication companies, wholesalers and hotel groups and asks the Department to pursue other options for years two and three;

(v) would be supportive of measures to protect town centres; and

(vi) considers that it a revaluation of business properties must take effect in April 2015, to coincide with the end of the expansion of the small business rate relief scheme and the levy.

Reconsideration of policy following consultation

17. The key concerns that were raised during both consultation and the evidence sessions with the Committee related to the potential impact of the levy on investment and jobs and the higher cost of doing business in Northern Ireland.

18. A further key concern raised by consultees related to the time period that the levy would apply for. The Minister has made it clear, and the Executive has agreed, that the changes will only apply for three years. The legislation to be brought before the Assembly, early next year, will stipulate an end date of 31 March 2015. There are no plans to extend the period of the levy. Should a future Executive take a different view this would require new primary legislation, preceded by further research and public consultation.

19. The Minister and Executive have considered how the impact of the levy could be tempered while still meeting the primary objective of providing increased help to small businesses. Since the budget announcement there has been a modest increase in anticipated regional rates revenue that can be used to reduce the impact of the levy on large retailers.

20. More importantly, a revaluation of all non-domestic properties will also take effect at that time, redistributing the rating burden so that sectors and locations that have fared better than others will pay more and those that have not fared as well will pay less.

21. Alternative ways of funding the expansion of the small business rate relief scheme were suggested during the consultation. These have been examined but rejected because they are considered unworkable or would run contrary to Executive policy in other areas. For the reasons set out below it is intended to proceed with a large retail levy.

22. **A levy on all large non-domestic properties**: To include such properties as:

- large manufacturing premises – industrial derating is retained for the spending review period.
- utility companies –any increase would be passed onto customers through higher bills, increasing cost for businesses and increasing fuel poverty for households.
- major airports – this would act against policy on air passenger duty.
- banks – large bank premises include inward investment projects such as software development centres and international call centres.

23. **A levy at a lower threshold or applied to those not receiving small business rate relief:** This would run the risk of increasing rates liability for smaller independent retailers in large premises. Applying the levy to all those not in receipt of small business rate relief (i.e. to those above a £10,000 threshold) would also mean that smaller businesses, operating out of premises just above the threshold, would be helping those in very small premises.

24. **Levy on out-of-town stores**: There are major difficulties defining when out of town becomes edge of town, and when edge of town becomes in town. While reference was made to DOE area plans to broadly categorise the large retail properties, a number of these plans date back to the 1980s or have never been adopted. This is not a clear enough basis for imposing a taxation measure.

25. **Levy on supermarkets only/public health levy**: While there was no real support for a supermarket levy (which could require a 50% levy to raise the same amount of money) a few respondents supported the Scottish public health levy, which would primarily target large supermarkets selling both tobacco and alcohol. However, the aims and potential impact of this policy are quite different to Northern Ireland's large retail levy and are to be used for funding preventative health measures.

26. More generally, given the need to have additional support for small businesses in place by April 2012, it would not be possible to introduce a number of these alternatives in time for next years bills given the need to fully research and consult on the matter.

27. **General regional rate increase**: Such a measure would be contrary to the Executive's agreed freeze (in real terms) in the regional rate through to 2015. It would also add cost to the most vulnerable businesses, during the worst economic downturn in living memory.

28. During both consultation and the Committee evidence sessions there was strong support for the introduction of Business Improvement Districts (BIDs), as soon as possible. The introduction of BIDs has the

support of the Finance Minister and is being taken forward by the Social Development Minister. However, BIDs are very different to the large retail levy and could not be used as an alternative means of funding the expansion of the small business rate relief scheme. A typical BIDs levy would be around 1% for businesses (likely to be a few hundred pounds), would be area specific and would fund general improvements in that area. Funding would not be targeted toward individual small businesses.

Agreed way forward

29. The Minister and Executive have noted the concerns expressed during consultation about the possible impact of the levy. On balance, and given the need to provide support to small businesses as soon as possible, it has been agreed to introduce a large retail levy. This will be in place for a period of three years, through to 31 March 2015, and will be specifically time bound in legislation.

30. Taking account of comments from the Committee and consultees about the impact of the levy the Executive has agreed, given a modest increase in regional rate revenue, to moderate the level of the levy with a reduction from 20% to 15% (on average). This will enable the levy burden to be reduced by 25% on average, or around £1m per year in total, compared to that set out in the June consultation paper. This, along with its temporary nature, should help address the concerns expressed during consultation about the impact of the levy on jobs and investment.

31. The levy will apply, from 1 April 2012, to large retail premises with a rateable value of £500,000 or more. Around £5m will be raised in 2012/13. The average 15% levy will be over and above what rate bills would otherwise have been (the precise amount will vary by district council area). A regional rate poundage of 8.52 pence will apply in 2012/13. This has been determined using an estimated average district rate increase for that year of 2.1%.

SECTION 4: EXPANSION OF THE SMALL BUSINESS RATE RELIEF SCHEME

The way ahead

- **20% relief to be automatically awarded to eligible small business ratepayers with a net annual value of £5,001 to £10,000.**
- **This would roughly double the level of overall help provided under the main scheme, and increase the number of recipients by around 50%,.**
- **This will be worth, on average, around £740 in 2012/13.**
- **Around 8,300 small businesses could benefit.**
- **The scheme will last for three years, from 1 April 2012 through to 31 March 2015.**
- **Ratepayers occupying multiple premises, that is more than three in total, will not be entitled to any small business rate relief. As a result those occupying four or more premises will not be eligible for relief.**

32. The policy aim is to increase the number of ratepayers receiving relief rather than give more to those already getting relief. A key consideration in reaching decisions has been the need to keep the scheme simple and automatic.

Committee position

33. As part of its deliberations the Committee considered the proposals relating to the expanded small business rate relief scheme. The Committee has indicated that:

(i) it supports in principle the introduction of a levy on large businesses (or businesses with large premises) to fund extension of the small business rate relief scheme for the next three years;
(ii) supports the principle of excluding businesses with multiple premises from the small business rate relief scheme and considers that any savings should be used to increase relief for other small businesses;
(iii) considers that the burden of the levy should be shared with other commercial undertakings with large business premises and that the Department and Executive should carefully consider the case for extending/reviewing the scope of the levy beyond large retail, particularly in 2013/14 and 2014/15;
(iv) suggests that the scope of the levy could be extended to include banks, financial institutions, telecommunication companies, wholesalers and hotel groups and asks the Department to pursue other options for years two and three;
(v) a comprehensive evaluation of the effectiveness and value for

money of the existing small business rate relief scheme should be undertaken at the earliest opportunity;

(vi) steps should be taken to identify longer term alternatives to the small business rate relief scheme; and

(vii) there is a need to determine the most effective way of supporting growth and the success of the small business sector in the longer term.

Reconsideration of policy following consultation

34. In deciding to temporarily expand the small business rate relief scheme the Minister has reflected on the overwhelming support from small businesses for additional. While recognising that there are limitations to the scheme (given that relief has to be linked to property value), there was a consensus among small businesses that the scheme helps to address cost issues and help sustain smaller business through these difficult and uncertain times.

35. Making the scheme more targeted would involve an application based approach, creating additional burdens for both businesses, who have to apply for it, and Government in terms of administration. In deciding to provide relief to all business, rather than simply retailers, account has been taken of the limited support during consultation for a retail only option.

36. A major issue raised during consultation was the award of relief to banks, chains of bookmakers and other larger businesses conducted through a number of small premises.

37. The small business rate relief scheme will last for three years, which will take us up to the next revaluation. That revaluation will redistribute the rating burden so that sectors and locations that have fared better than others will pay more and those that have not fared as well will pay less.

Agreed way forward

38. For the next three years 20% relief will be provided to eligible premises with a net annual value of between £5,001 - £10,000. The average award will be worth around £740 in 2012/13 and will help around 8,300 businesses. No additional relief will be provided to those already in receipt of small business rate relief, that is with a net annual value of £5,000 or less.

39. The Minister and Executive have listened carefully to the concerns expressed about help being provided to businesses that occupy multiple premises, particularly where that business is a national or multi national company. It is therefore intended to exclude business ratepayers occupying multiple premises from entitlement to relief. For 2012/13 ratepayers can occupy no more than three properties of any size to receive relief. Those that occupy four premises or more in total will not

be eligible for relief. A review of this condition will be undertaken for the years 2013/14 and 2014/15, bearing in mind the desire to retain an automated scheme and minimise administrative costs.

40. The Minister and Executive have also agreed that should the savings from the exclusion of ‘multiples’’ prove to be significant the money will be redirected towards enhancing the scheme rather than further reducing the levy in 2013/14 and 2014/15.

41. An evaluation of the current small business rate relief scheme will begin in 2012/13. This will include an examination of ways to further refine the scheme. However, the Department is determined to preserve the automatic nature of the scheme which is important to both business and government.

SECTION 5: WINDOW DISPLAYS IN EMPTY RETAIL PROPERTIES – DISREGARDING NON-COMMERCIAL USE

The way ahead

- **Where shop fronts or shop windows are used in empty retail premises for non-commercial purposes ratepayers will continue to receive 50% empty property relief (or an exclusion if applicable).**
- **The depth of the window display must not exceed 1.5 metres and the area of the window display must not exceed 5% of the floor area of the part of the building fronted by the window display.**
- **The window display must not be for the purposes of (or identify) a trade or business, be for political purposes or be detrimental to the advancement of good community relations.**
- **The change will apply for three years, from 1 April 2012 to 31 March 2015, to both in and out of town empty retail properties.**

42. Measures are to be introduced to make town and city centres more vibrant and attractive to shoppers. Where shop fronts or shop windows are used for (non-political) community, artistic or other non-commercial purposes ratepayers will continue to receive 50% empty property relief (or an exclusion if applicable). This change is intended to improve the appearance of shopping areas, both in and out of town, without ratepayers being penalised.

43. The principal aim is to ensure that the rating system does not discourage shop owners from working with their local communities to improve the appearance of shopping areas. The change will last for three years.

Committee position

44. While the Committee briefly considered this issue it was not possible for it to explore it in detail. However, in light of the responses to the public consultation the Committee generally welcomes the proposals that were put forward by the Finance Minister.

Reconsideration of policy following consultation

45. During consultation there was strong support for the proposals contained in the consultation paper, that window displays in empty retail premises should be permitted without incurring full occupied rates where used for (non-political) community, artistic or non-commercial purposes.

46. The Minister has noted the comments from some consultees that the measure should apply to a greater range of activities and uses, being extended to include other activities and uses beyond window displays. This raises issues around creating a competitive advantage for some

and it also creates a potential loophole for avoiding full rate liability for commercial use.

47. However, decisions around 50% relief for occupying long term empty retail premises should go a long way to addressing the views expressed on this matter. Further detail on this can be found in **Section 6**.

Agreed way forward

48. This policy was first suggested by the Belfast Chamber of Trade and Commerce as something that would help revitalise towns and city centres, through encouraging the use of empty retail premises. In light of the consultation findings, and the support for the measures, the proposals will be implemented as set out in the consultation paper.

49. The use of shop fronts or shop window displays for (non-political) community, artistic or other non-commercial purposes will be allowed so that full occupied rates are not charged on otherwise empty properties. This will effectively preserve entitlement to 50% empty property relief (or an exclusion if applicable). The change will apply for three years, from 1 April 2012 until 31 March 2015, to empty retail premises in both town centres and out of town.

50. For the relief to apply the following conditions must be met:-

- the depth of the window display must not exceed 1.5 metres and the area of the window display must not exceed 5% of the floor area of the part of the building fronted by the window display.
- the window display must not be for the purposes of (or identify) a trade or business, be for political purposes or be detrimental to the advancement of good community relations.

51. The advertising of goods and services, storage or any form of business activities will not be allowed. The exclusion will apply to non-domestic property that when last occupied, was used for retail purposes. If the property has never been occupied it must have been constructed or adapted for retail purposes.

SECTION 6: RELIEF FOR LONG TERM EMPTY RETAIL PREMISES

The way ahead

- **Over the next year any business ratepayer occupying retail premises that have been lying vacant for 12 months or more, will be entitled to 50% relief for the first 12 months of trading.**
- **The award of any relief will not be allowed to exceed the EU de minimis level, which is a rolling total of €200,000 over three years.**
- **In applying for this relief the ratepayer will have to forgo entitlement to any other occupied reliefs or exemptions.**
- **Where a landlord is liable for rates on a property the benefit will have to be passed on to the tenant.**
- **This measure will apply for the 2012/13 rating year.**

52. As a direct response to concerns expressed during consultation about the current high level of vacant shops the proposal in relation to getting long term empty retail premises back into business use have been brought forward in order to tackle the problem and revitalise areas that have been most adversely affected. The measure will apply to both town centre and out of town retail properties.

Committee position

53. While the Committee briefly considered this issue it was not possible for it to explore it in detail.

Reconsideration of policy following consultation

54. A number of consultation responses commented on the need for measures to encourage empty retail properties back into use. In terms of the window display proposals, covered in **Section 5**, there was support for that measure to be extended covering a wider range of activities and uses than just window displays.

55. In addition, around one in five consultation responses specifically raised the issue of support for new ventures where they occupy empty premises. By and large this referred to the use of empty shops. It was suggested by some consultation respondents that this should take the form of an extension of empty property relief, for six or 12 months, for new businesses.

56. Consideration was given to restricting support to new businesses. However, this would be difficult to define and administer, therefore it has been decided that all business ratepayers will be eligible for this one year concession. Furthermore, confining it to long term empty retail

premises for a limited period is expected to reduce any unwanted displacement and also ensure it does not create a significant competitive advantage over established traders; indeed it is expected that existing shopkeepers will welcome this measure if it succeeds in getting empty premises occupied.

Agreed way forward

57. The Executive has agreed to effectively allow 50% empty property relief to continue, for up to a year, for long term empty retail premises when they become occupied. This will apply to retail premises that have been empty for at least a year (on or after 1 April 2012) before becoming occupied.

58. This measure will only apply for the 2012/13 rating year, in the first instance, and will be application based. The maximum level of relief awarded over the 12 month period will be subject to the EU de minimis threshold, that is a rolling total of €200,000 over three years. Where a property is rented, and the landlord is liable to pay the rates, there will be an onus on landlords to pass the benefit on to tenants. While this will be an occupied relief no other occupied reliefs or exemptions will be awarded for the period in question. The relief will apply whether or not the property is used for retail purposes on occupation. It will also apply whether the properties are located in town or out of town.

SECTION 7: CLARIFYING ASSUMPTIONS FOR FUTURE NON-DOMESTIC REVALUATIONS

The Way ahead

- **Changes will be made to clarify the legislation relating to the valuation assumptions used at non-domestic revaluation.**
- **This will be more specific about the matters to be taken into account when valuing a property for the purposes of a new valuation list.**
- **Changes will also be made to repeal the rule applied to properties referenced by their volume of trade, for example public houses, which will clarify the law and provide for greater consistency of treatment with other non domestic properties.**
- **These changes will take effect at the 2015 revaluation.**

59. Rating legislation sets out a range of assumptions that have to be adopted in valuing non-domestic property. 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. This will not affect the custom and practice adopted at previous revaluations.

60. It is considered that broadly similar provisions to those that operate in the rest of the UK should be adopted and in particular those found in the Local Government Finance Act 1988 (Schedule 6, paragraph 2(7)).

61. In a Northern Ireland context consideration was 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.

62. The Department also considered 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 valuations.

Committee position

63. While the Committee briefly considered this issue it was not possible for it to explore it in detail.

64. It was noted, however that in giving evidence to the Committee, the CBI expressed the view that material change in circumstances would only

arise as a consequence of major new development, therefore it would not lead to an unexpected reduction in the tax base. They stated in their consultation response that this is a major weakness which acts against the interests of smaller retail businesses. The Department has noted the CBI's view but does not consider this to be the case and therefore will not be making this additional change.

Policy considerations during consultation

65. The overwhelming majority of consultation responses supported the Department's approach on the general clarification measure. There was also broad support for the repeal of measures to value certain properties by reference to their volume of trade. No significant issues were raised during the consultation process.

66. On a related matter some responses commented on the issue of material change of circumstances. However, there are considerable differences between rates legislation locally and in the rest of the UK. In Northern Ireland, between revaluations, the valuation list is only altered for physical changes to a property or its immediate locality. The legislation in the rest of the UK allows for much wider circumstances to be taken into account. However, the uniform business rate system in GB protects local councils from major swings of rateable value in year, thus making the material change of circumstances issue more appropriate in that jurisdiction.

Way forward

67. In light of the support garnered from the consultation responses the Executive has agreed to clarify the legislation relating to the valuation assumptions used at non-domestic revaluation, by being more specific about the matters to be taken into account when valuing a property for the purposes of a new valuation list. Changes will also be made to repeal the rule applied to properties referenced by their volume of trade, for example public houses, which will clarify the law and provide for greater consistency of treatment with other non domestic properties.

68. These changes will take effect at the next general revaluation in 2015.

SECTION 8: OVERVIEW OF FINAL INTEGRATED IMPACT ASSESSMENT

69. The integrated impact assessment (IIA) is a policy tool designed to inform the policymaking process, by determining the potential impact of a policy change. Initial IIAs were carried out on the main policy proposals relating to the large retail levy and expansion of the small business rate relief scheme. These were published in June alongside, and as part of, the consultation paper on the rating of commercial properties.

70. Following consultation the impact assessments have been finalised making use of any evidence that emerged from the consultation process, as well as other data that has been gathered during this period. This section summarises the findings of the final IIA.

71. The final integrated impact assessment considers the policy changes from a New TSN, rural proofing, Section 75 and regulatory impact assessment perspective.

72. 12 responses commented specifically on the initial impact assessments. This comprised one business, two political representatives, three organisations and six district councils. 10 of these responses noted, agreed with or had no comment on the impact assessments. The response from *Belfast Chamber of Trade and Commerce* stated that it disagreed with the impact assessment on the large retail levy due to concerns about investment decisions. *Derry City Council* agreed with the findings on the small business rate relief proposals, while wanting to ensure that the large retail levy would not have an adverse impact on Section 75 groups.

73. A number of responses, while not referring specifically to the integrated impact assessment, or regulatory impact assessment, also commented on the impact of the policy proposals more generally. However, consultation did not provide further significant evidence to inform the final IIA.

74. While there have been some adjustments to the initial policies in relation to the large retail levy (reduction from 20% to 15%) and the expansion of the small business rate relief scheme (exclusion of multiples) the Department considers that this does not materially affect the underpinning outcomes of the initial impact assessments.

Small business rate relief scheme

75. For the expansion of the small business rate relief scheme the final impact assessment suggests that there should be no disproportionate impact (favourable or unfavourable) on any of the Section 75 sub-groups. In terms of New TSN the impact of expansion of the scheme is considered to be neutral in that deprived areas would benefit from the

scheme to the same extent as areas that are less deprived. From a rural proofing perspective the analysis shows that an expanded small business rate relief scheme would have a greater impact on urban areas but not markedly so.

76. A regulatory impact assessment was also carried out. This found that the policy should not have an adverse impact on the number and range of suppliers or the ability of suppliers to compete and that it is most likely to have a positive effect on competition through assisting small businesses with their running costs.

Large retail levy

77. In relation to the large retail levy the final impact assessment shows that there would be no significantly disproportionate impact for any Section 75 sub group from the large retail levy.

78. From a new TSN perspective those wards affected by the large retail levy would appear to have a higher average level of deprivation. However, the findings are considered to be somewhat misleading. Outside three wards in Belfast the properties affected by the levy are not located in deprived areas. In terms of the three areas of high deprivation in Belfast it cannot be assumed that any impact would be concentrated in those areas, given the higher number that would travel from further afield to shop there and the greater capacity of the immediate locality to absorb any impact, though alternative employment opportunities and consumer choices.

79. From a rural proofing perspective rural areas would be largely unaffected by the large retail levy.

80. The Regulatory Impact Assessment that was undertaken suggests that the large retail levy will not be detrimental to competitiveness, given that it will apply to all large retailers with a rateable value of £500,000 or above. The levy will only be operational for three years. Considering the scale of the levy, its duration and the competition that exists between the large retailers, it is considered that the levy is unlikely to affect behaviour or long term decisions made by large retailers.

SECTION 9: NEXT STEPS

81. The Executive has now agreed the final policy position on the large retail levy and expansion of the small business rate relief scheme (as well as a range of other policy areas) as set out in this paper.

82. Any queries should be addressed 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 90347435**

Should you wish to contact us by e-mail, any queries should be sent to **ratingpolicy.cfg@dfpni.gov.uk**. Alternatively you can contact us on **028 9127 7606**.

83. The relevant primary and subordinate legislation, giving effect to final decisions, will be brought forward for Assembly consideration in early 2012. The measures will be operational from 1 April 2012.

84. The small business rate relief, large retail levy and window display measures will apply for three years through to 31 March 2015. The relevant legislation will specify the time limited nature of the measures, ending on 31 March 2015. The 50% relief on occupation of long term empty retail premises will apply for the 2012/13 rating year only, in the first instance.

ANNEX A: EXTRACT FROM THE FINANCE AND PERSONNEL COMMITTEE REPORT ON THE EXPANSION OF THE SMALL BUSINESS RATE RELIEF SCHEME AND THE LARGE RETAIL LEVY

Large Retail Levy

1. The Committee has some sympathy with the view expressed by various stakeholders that a non-domestic revaluation in 2010 would at least have provided a more transparent and fair way of rebalancing the distribution of rates than the current proposals.[1] It is essential therefore that the revaluation takes effect from no later than April 2015 and that the Department ensures that all the necessary preparatory work, including provision for reviews and appeals and advance communication with non-domestic ratepayers, is concluded in good time to enable a smooth transition. In this regard, the Committee requests to be provided with an implementation plan and timetable for the related work, to enable members to monitor progress on a regular basis. In the meantime, the Committee supports, in principle, the introduction of a levy on large businesses to fund the extension to the small business rate relief scheme.

2. In noting the suggestion from the evidence that family disposable income in NI is significantly lower than in GB, the Committee believes that the importance of competitive pricing to consumers here should not be underestimated when assessing the risks associated with a large retail levy.

3. Despite the Department's assertion that the proposed large retail levy is not aimed at arresting the growing trend for out-of-town retailing, it is clear to the Committee that there still appears to be some confusion in this regard. While acknowledging the Department's arguments as to why the levy could not be applied solely to out-of-town shops at present, the Committee would, in principle, be supportive of measures to protect town centres, and would therefore call for work to be undertaken to bring forward a clear definition of what is considered "out-of- town". Furthermore, steps should also be taken to ensure that the revaluation of non-domestic properties, scheduled to come into effect in April 2015, takes location into consideration to help address the issue of out-of-town stores and the impact that they have on town centres.

4. The Committee welcomes the assurance from DFP that a "sunset clause" is to be included in the forthcoming Bill, which would require additional primary legislation to apply a levy beyond March 2015. The Committee believes that this should help to address some of the concerns raised by stakeholders but members also recognise a need to ensure no gap occurs between the ending of a levy and the non-domestic revaluation taking effect.

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[1] Official Report, 23 November 2011, Appendix x

5. In light of the generally positive attitude of stakeholders, including the large retailers, towards the principal aim of supporting small businesses through the current downturn, the Committee believes that DFP and the Executive should carefully consider the case for extending the scope of the levy to help ensure that the burden of funding the extended small business rate relief scheme is shared equitably across the large business sectors. Towards this end, it would be appropriate for DFP to engage further with the key stakeholders over the coming months to establish broad agreement on how such improvement can take effect, particularly in 2013-14 and 2014-15. In this regard, the Committee recommends that the Department ensures flexibility in the legislation to allow the scope of the levy to be extended in the last two years.

6. The Committee notes the argument by some supermarkets that they are being targeted because they are keeping prices down, while utility companies are being 'rewarded' for increasing their prices. In examining the case for wider application of the levy, the Committee considers that, in principle, the utility companies should be expected to make, what would be a relatively modest contribution to funding the extended small business rate relief scheme, without passing the cost on to consumers. The Committee therefore calls on the Department to further investigate the scope for the Utility Regulator to require the utility companies to make efficiency savings, rather than automatically passing additional rates costs on to consumers.

7. It is the view of the Committee that widening the scope of the temporary levy to include banks and financial institutions would not act as a significant disincentive to inward investment in this sector. Moreover, the Committee would point out that the logical conclusion to any fatalistic argument against extending the levy to include financial services, on the basis that this would deter inward investment, or to utility companies, on the basis that they would pass on costs through price increases, would be that similar consequences would arise from any future increase in rates for these sectors, including from a decision to unfreeze the regional rate or as a result of revaluation.

8. Through its scrutiny of the proposed levy, which has been actively facilitated by the responsible DFP officials, the Committee has identified a range of viable options for the Department and the Executive to examine with a view to ensuring that the burden of the levy is shared fairly across the large business sectors in the local economy. In particular, some of these options would allow for the scope of the levy to be expanded in a measured way to include, for example, banks, financial institutions, telecommunication companies, wholesalers and hotel groups.

9. Members believe that various of the options identified would enable the cost of the levy to be spread fairly across large business ratepayers to help mitigate any risk of the levy being the "tipping point" in terms of forcing individual businesses into decisions which would have

detrimental implications for consumer prices, future investment or employment. The Committee, therefore, calls on DFP and the Executive to pursue these options as a matter of urgency.

Small business rate relief scheme

10. The Committee recognises that some well-founded concerns were raised in respect of the small business rate relief scheme, both in response to the DFP consultation and in evidence to the Committee. Members therefore consider that it is imperative that the Department undertakes a comprehensive evaluation of the effectiveness and value of the existing small business rate relief scheme at the earliest opportunity.

11. The Committee believes that steps should be taken to identify longer-term alternatives to the relief scheme, that take account of the concerns raised during this process and which also align with the Executive's future policy direction, including priorities in the Economic Strategy and any changed context in the event of the devolution of corporation tax powers, from which small companies could benefit. The options in this regard will require to be fully explored and costed, to determine the most effective way of supporting the growth and success of the small business sector in the longer term.

12. The Committee recognises that the Executive presently has only a limited range of economic levers at its disposal. Therefore, notwithstanding the need for evaluation of the existing small business rate relief scheme and research into future options, in considering that an additional 9,000 small businesses could be eligible for relief, in the current economic climate, the Committee is, in principle, supportive of extending the scheme for the next three years to premises with NAV of £5,001 to £10,000. That said, while serving a purpose in easing the burden on smaller businesses, the Committee concurs that small business rate relief is a "blunt instrument" and urges DFP to undertake urgent work to further refine the scheme to target, as far as is practicable, those small businesses most in need.

13. While recognising the divergence of views among stakeholders on whether the expanded small business rate relief scheme should be targeted at small retailers only, members are mindful that many small businesses face difficulties in the current economic climate and that the most needy are not necessarily confined to the retail sector. As such, the Committee concludes that a scheme targeting relief at small retailers only would be too narrow in focus.

14. Members support the principle of excluding businesses with multiple premises from the small business rate relief scheme, but would emphasise the importance of carefully defining "multiples" in the legislation. The Committee recommends that any savings resulting from the exclusion of multiples is used to increase the relief available to other

small businesses under the scheme, rather than to mitigate the impact of the levy on large businesses.