

# **Department of Finance**

## **Discussion on alternatives to Small Business Rate Relief**

### **Summary of responses received**

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## Introduction and Background

1. On 21st March 2016 the Department of Finance launched a discussion paper seeking views on alternatives to the Small Business Rate Relief Scheme. The discussion period lasted for 8 weeks and ended on 13th May 2016.
2. Details of the discussion paper were published on the DoF website and were also emailed to a wide range of key business stakeholders. A total of 14 written responses have been received and a list of these organisations is outlined below. Full details individual responses are available on the DoF website [DN Insert Link].

No	Organisation responding
1	Agricultural Valuers Association
2	National Union of Students – Union of Students Ireland (NUS-USI)
3	Northern Ireland Local Government Association (NILGA)
4	Newry, Mourne Down District Council
5	Northern Ireland Retail Consortium (NIRC)
6	Enterprise NI
7	Federation of Small Business (FSB)
8	National Federation of Retailers and Newsagents (NFRN)
9	Larne Traders Forum
10	Association of Town and City Management (ATCM)
11	Boots
12	Mid & East Antrim District Council
13	Confederation of British Industry (CBI)
14	Northern Ireland Independent Retail Traders Association (NIIRTA) & Hospitality Ulster
15	Portadown Chamber of Commerce
16	Lisburn & Castlereagh Council <sup>1</sup>

3. This paper seeks to summarise the general views expressed in relation to the issues being considered. Where specific quotations have been used or an individual organisation has been referenced, these have been chosen at random to illustrate the general point being made.
4. In addition, this paper attempts to present some other options and alternative views that have been suggested in relation to how the SBRR scheme could be replaced.

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<sup>1</sup> N.B Lisburn & Castlereagh endorsed the NILGA response in its entirety. Consequently references to NILGA are assumed to represent the views of Lisburn & Castlereagh Borough Council as well.

## Targeting Business Improvement Districts (BIDs)

5. The discussion paper sought to establish whether BID areas would represent an appropriate way to target support at town centres. It was thought that these areas could facilitate a more targeted scheme as they are clearly defined and already have a purpose in helping to stimulate economic growth/regeneration. Such an approach would have fulfilled one of the main recommendations from UUEPC i.e. that any future scheme should be more targeted in order to ensure value for money is maximised.
6. However, overall there appears to be limited support for targeting resources at BID areas. Whilst many organisations supported the concept of BIDs and thought they could deliver benefits for their local area, it was thought that they were perhaps not well enough developed at present to take on additional responsibilities. This was the view put forward by Boots, NILGA, ATCM and the Larne Traders Forum that stated ***“The forum does not consider that targeting BID areas is appropriate, they are only just being introduced in Northern Ireland and are yet to demonstrate their track record of delivery”***.
7. Furthermore, it was thought unfair that businesses outside of BID areas e.g. in rural villages, would miss out, a situation that could lead to a considerable amount of displacement. This view was expressed by the Association of Agricultural Valuers, Mid & East Antrim Council as well as Newry, Mourne and Down District Council that stated ***“...it would be unfair to target BID areas only. The council area is diverse and contains a number of prominent towns and villages which have many SME’s with high rates”***.
8. The response from Boots also outlined the practical difficulties of using BIDs as a framework for targeting resources as they ***“operate in a diverse range of destinations including industrial parks, office communities and cultural and leisure areas – all situated away from traditionally defined town centres”***. Mid and East Antrim also highlighted the potential problem that BIDs operate to a five year business plan and that once established any changes to the planned activity could warrant another ballot to ratify any changes.
9. The Belfast Chamber of Commerce was the most supportive of using BIDs to target resources and thought that all towns in Northern Ireland should apply for BID status ***“as this must become the central mechanism for creating regeneration areas that are clearly defined...”***.

## Option 1- Do Nothing – Maintain SBRR in its current form

10. Views were more mixed in relation to whether the Small Business Rate Relief scheme should continue in its current form. The FSB stated that this was its preferred option and that it was unconvinced that any of the other options presented in the paper ***“would have a greater***

***impact on increasing economic activity than SBRR, or indeed, any impact at all***". Newry, Mourne & Down District Council, along with the NFRN both thought that it should be retained and increased with the NFRN suggesting that the qualifying threshold be increased to include properties with an NAV of up to £18,000.

11. Enterprise NI stated that microenterprises and small businesses are the backbone of the economy and that the SBRR scheme plays an important role in enabling these businesses to survive and grow. Portadown Coc also tentatively supported maintaining the SBRR scheme although recognised the issues around value for money.
12. NIRC suggested that whilst small businesses do require support, the SBRR scheme is not fit for purpose due to the value for money issues highlighted by UUEPC. Issues around the poor value for money of the scheme were also highlighted by the CBI as well as Boots who stated that ***"maintaining the current system of reliefs is not an option and their continuation will not address the current pressures facing town centre businesses in Northern Ireland"***.
13. NILGA thought that the funding could be better used and that the intervention ***"does not contribute to improving the economy further than assisting, in a small way, existing businesses, which may still be struggling"***.

## **Option 2 – Phase out SBRR (No replacement)**

14. This option examined the possibility of phasing out the current SBRR scheme over a two year period and using the additional rate income to fund either central government services or a reduction in the regional rate.
15. Phasing out the scheme was the preferred option for both the CBI as well as the NIRC, with the CBI suggesting that the revenue forgone should be used to reduce the regional rate. It was thought that this would improve Northern Ireland's cost competitiveness and help with our ability to attract and retain business investment.
16. Similarly whilst recognising that the impact would be small, Boots was also broadly supportive of using the revenue to reduce the regional rate. However it did consider that the benefits could be increased if the full £18m was used to reduce the liability only to shops and other complementary uses in town centres e.g. food and drink establishments. Boots also noted that the potential for state aid would have to be considered with whatever option is taken forward.
17. The Larne Traders Forum along with the NFRN is opposed to phasing out SBRR. Both of these organisations considered that the scheme is still needed to support businesses and keep people in jobs.

18. This view was reinforced by comments from the FSB who stated that phasing out the scheme **“would send a strong message to the SME community that the NI Assembly does not value the vast majority of its private sector base”**. The FSB also raised the point that if the scheme was to be phased out, Northern Ireland would be the only nation of the UK which does not support its small businesses through the rates system.

### **Option 3 – Match funding for Business Improvement District**

19. This option would have involved ending the current SBRR scheme and using the revenue to assist with the aims and objectives of Northern Ireland’s Business Improvement Districts.
20. Most respondents offered little or no support for this option. NILGA questioned why the focus should be on BIDs and noted that BIDs may not necessarily be located in predominately retail areas. Newry, Mourne and Down District Council thought that to target only BID areas would not support the majority of businesses and disagreed that offering match funding would act as an incentive to encourage additional BIDs.
21. Whilst NIRC stated that it was supportive of BIDs, it thought that at most, only a percentage of the £18m revenue forgone should be made available as match funding. A similar view was expressed by the CBI, which stated that its members support the concept of BIDs, particularly those engaged in the retail and tourism sectors.
22. The Larne Traders Forum was also opposed to this option as were the FSB who thought it inappropriate to focus any of the options on town centres exclusively. The response from Boots stated that whilst supporting the principle of BIDs **“we believe the quality and governance of BIDs in N. Ireland requires a stronger supportive framework to be in place before extending the number of current BID organisations”**.

### **Option 4a – Rate relief to encourage investment & regeneration**

23. Consideration was given to whether the rating system could be used to encourage investment & regeneration through e.g. relief for specific investments, or to attract new businesses or services to a particular area. Views were also sought on whether some form of levy on long term derelict premises or sites could also be introduced.
24. NILGA considered that there was merit in considering a relief for start-up businesses and in working with councils to enable targeting of particular business sectors in particular areas e.g. artisan rural businesses. NILGA also stated that they would **“strongly encourage the Department to further investigate the potential for the introduction of a levy system for long term derelict premises and sites, and a linked urban regeneration grant arrangement in a Northern Ireland context”**.

25. A similar view was expressed by Newry, Mourne and Down District Council that thought that relief could be targeted to help occupy vacant premises by providing incentives for new businesses or services into a local area. In addition, it supported the concept of a derelict land levy and stated “**our Council in the past has many times lobbied for a levy on long term derelict premises or sites to be introduced**”. Newry, Mourne and Down also thought that the funding available could be used to fund some form of urban regeneration grant scheme, a view also expressed by the Larne Traders Forum as well as the Portadown Chamber of Commerce.
26. The CBI urged caution with the possibility of a derelict land tax and thought that further research would be necessary as it could deter speculative development and impact on Northern Ireland’s ability to attract investment.
27. The FSB stated that whilst they support measures that would encourage investment and regeneration, they did not believe that they should be confined to particular areas. Furthermore they expressed concerns that there would be no guarantee that the relief would be invested back in the business or local area and may only result in a marginal economic impact.
28. NIRC stated that “**there would need to be a further full discussion on the amounts of funding, criteria for funding and the desired outcomes before any support could be given to this measure**”. The response from Boots suggested for the any such scheme to be successful, the funding would need to be directly to a small number of significant development/regeneration schemes rather than spread thinly.

#### **Option 4b – Rate relief to encourage town centre living**

29. The discussion paper considered whether that the rating system could be used to incentivise town centre living by providing rate relief to the first time occupiers of such accommodation.
30. The ATCM stated that mixed use town centres are good for economic vibrancy, productivity and environmental sustainability. However, it considered that targeting funds at town centre living might only benefit some towns and encouraging this type of behaviour is likely to be challenging where town centres have low vacancy rates and where new residential uses are not accompanied by the necessary services or planning.
31. The Larne Traders Forum further reinforced this point by stating that town centre living can be accompanied by a range of challenges e.g. design, planning, parking and practical refurbishment. It did however state that Town Centre Living Initiative Areas (TCLIA) and property rate relief could be complementary incentives.
32. The FSB agreed that it was desirable to encourage the residential use of town centres, however felt that these schemes should not replace the SBRR scheme. They did however

suggest that ***“an additional rate relief may be relevant, where evidence exists to support the suggestion that there is a demand for town centre residency that could be stimulated and that a relief would encourage property conversion”***.

33. The NIRC thought that this option would have a medium to long term impact due to the amount of development work that would need to be undertaken to make this a reality. NIRC thought that this would have a real focus on Belfast and the cities, but could disadvantage smaller towns that simply are not equipped within their built environment to provide accommodation in central areas.
34. Newry, Mourne and Down District Council appeared to be broadly supportive of this option and thought that ***“more initiatives should be introduced to encourage this activity”***. It also stated that it would be content to participate in a pilot project if one was to be offered.
35. The Belfast Chamber also thought that the future of town centres should be build around a mix of residential and business and suggested that there should be rate relief for up to 5 years from the time of occupancy.

#### **Option 4c – Rate relief to encourage occupation of vacant premises**

36. Views were sought on whether relaxing the criteria for the empty shops rates concession could help incentivise the occupation of vacant premises. This could be achieved by either increasing the 50% relief for the first year once occupied or by reducing the qualifying period from one year to e.g. 6 months.
37. The FSB stated that it supports measures to encourage the occupation of vacant premises. It also stated that a relief is already available within the rating system to help encourage the occupation of vacant premises and that owners of vacant property should not be subject to rates where the property is hard to let due to economic circumstances beyond their control. It also thought that there should be cross governmental action to take the issue of vacant properties and derelict/neglected buildings.
38. NILGA responded by suggesting that ***“it would advocate ending the 50% relief for vacant non-domestic properties, apart from the relief for unoccupied high street retail property”***. It also noted that there is some local government support for reducing the relief to e.g. 33% given the loss of revenue to the rating system vacant rating relief represents.
39. Both the Belfast and Portadown Chambers of Commerce supported this option and along with the NFRN thought that there should be a relaxation of the criteria for the empty shops rates concession in order to promote growth and regeneration. However contrary to this point of view, Boots stated that it was not aware of any evidence that applying a 50% discount to



the first year for a long term vacant property had altered investor behaviour. Furthermore it stated that ***“providing a greater relief than 50% or for a longer period runs the risk of alienating existing ratepayers by what can be seen to be an uneven playing field”***.

40. NIRC agreed with the assertion that there may be a large degree of economic deadweight with altering the qualifying period for the empty shops rates concession as there is already a sufficient incentive in place.

### **Other views put forward**

41. Some alternative views have been expressed in relation to issues not directly anticipated within the main discussion paper. A summary of these points is as follows:

- The Association of Agricultural Valuers suggested that if the focus of a replacement scheme was to be on town centres, consideration should be given to a small rural business rate relief scheme similar to that operating in England.
- The NUS-USI thought that the rating system should be based on an ability to pay. It also wanted an end to Industrial de-rating and thought that the resources saved should go towards funding higher level education.
- The ACTM thought that the best approach for town centres would be to develop a central fund with criteria and guidelines for how the money can be used but that is not overly prescriptive. This would enable each town centre to invest in whatever is best for that location.

### **Alternative SBRR scheme being suggested**

42. NIIRTA and Hospitality Ulster made a joint submission that focused on a proposal to introduce a new small business scheme targeted specifically at the retail and hospitality sectors.
43. Both NIIRTA and Hospitality Ulster considered that the options detailed within the consultation paper were too town/urban centric and that attempts should be made to design a scheme that was more inclusive. They also recognised the limitations of the current scheme, as suggested by UUEPC, and thought that directing relief at these two sectors would make it more targeted whilst at the same time, ensuring many of the small businesses that form the backbone of the Northern Ireland economy benefited.
44. The following table outlines the parameters of the scheme as well as NIIRTA/Hospitality Ulster’s View on how the scheme could be funded:

Scenario	Retail/Hospitality Rate Relief Scheme	Number of Beneficiaries	Cost	Change required in Vacant Property Relief to Fund additional costs <sup>2</sup>
1	<ul style="list-style-type: none"> <li>• Less than £10,000 NAV = 100% relief</li> <li>• £10,000 to &lt;£15,000 NAV = 50% relief</li> <li>• £15,000 to &lt;£25,000 = 25% relief</li> </ul>	<ul style="list-style-type: none"> <li>• 9,300</li> <li>• 1,800</li> <li>• 1,700</li> </ul>	£36m (costing an additional £18m on top of SBRR)	15% relief after 3 month period of 100% relief (compared to current 50%)
2	<ul style="list-style-type: none"> <li>• Less than £10,000 NAV = 70% relief</li> <li>• £10,000 to &lt;£15,000 NAV = 50% relief</li> <li>• £15,000 to &lt;£25,000 = 25% relief</li> </ul>	<ul style="list-style-type: none"> <li>• 9,300</li> <li>• 1,800</li> <li>• 1,700</li> </ul>	£28m (costing an additional £10m on top of SBRR to fund)	30% relief after 3 month period of 100% relief (Compared to current 50%)

45. As noted in the table, NIIRTA and Hospitality Ulster have suggested that this could be funding by using the existing £18m associated with the current SBRR scheme and with the additional resources necessary being generated by reducing the relief available under the current (50%) vacant rating relief.

46. It is also suggested that this scheme be introduced for an initial 3 year period.

## Conclusion & Next Steps

47. The wide range of views submitted as part of this discussion has been particularly useful in charting a way forward. Whilst there has been support for the concept developing a more targeted scheme, no clear consensus view has emerged in relation to how best this should be achieved. However, what is apparent is that there seems to be limited support for using BIDs as a mechanism for targeting these resources. This is largely due to BIDs being at an early stage of development and the fact that targeting resources in this way would exclude many areas of Northern Ireland, especially rural areas.

48. The Department of Finance will reflect upon the findings of this discussion in the coming weeks and consider what options should be taken forward. This will include a detailed analysis of the proposal submitted by NIIRTA & Hospitality Ulster that could provide a basis for a more targeted scheme. However there are likely to be many challenges with this proposal, not least the practicalities of defining retail and hospitality activities, administering such a scheme and its economic efficiency.

<sup>2</sup> Figures are indicative and subject to rounding

49. Consideration will also be given to the possibility of taking forward other more targeted measures as part of a pilot scheme with an emphasis on particular geographical areas. This could provide a mechanism to carefully study the impact of particular options and test whether similar schemes should be rolled out to other areas within Northern Ireland.
50. Options will be considered carefully and put to the Executive for decision later this year. Further consultation may be required before implementation, depending on what choices are made.