Belfast city Council Response to the Department of Finance consultation on Business Growth Accelerator and Non-Domestic Vacant Rating

It is important that any changes in the structure of the rating system linked to improvement and investment should be designed to efficiently achieve their objective without creating any unintended consequences and are designed to create an environment that delivers meaningful support that stimulates economic activity in all local authority areas. Currently there are various forms of exemption, relief and fiscal adjustment which support the level of economic activity. The challenge is to ensure any changes in approach deliver "real" incentives which are coordinated to achieve maximum impact. There is a strong argument to bring together the various schemes and create a longer-term package of support which targets specific geographic areas and various types of economic activity. This radical approach would encompass small business rate relief, the back in business scheme and the proposed business growth accelerator.

Business Growth Accelerator

The Business Growth Accelerator is a form of improvement relief. There are three schemes currently operating in Scotland, England and Wales. If this is seen as an effective form of support for ratepayers who invest in projects to stimulate business activity it is important that any scheme has an effective administration process to manage take up of the relief. Having analysed the three schemes both in terms of take up volume and delivery we have created an approach which we believe would maximise take up. This is outlined in bold below: -

The Business Growth Accelerator (BCA) will ensure that no ratepayer will face higher business rates bills where the increase in the bill was due to making certain improvements to a property. The relief will last for a grace period of 24 months (rather than the 12 months mentioned in the consultation) from when the improvement works were completed.

To qualify, the improvements to the property must:

- ***increase the rateable value of the property,***
- ***be completed on or after the start date of the scheme,***
- ***meet an occupation criterion, this means that the ratepayer must have occupied the property during and after the improvement works.***

Qualifying improvement works include:

- ***a physical extension or enlargements***
- ***a new building within a larger hereditament***
- ***Where the building is a shop, the removal of a structural wall which increases zoning***
- ***works such as the addition of lining to an old industrial unit to improve insulation***
- ***improvements to capacity or productivity such as the addition of a structural mezzanine floor in an industrial unit***
- ***works which result in a reconstitution such as a split or merger – where qualifying works are undertaken***
- ***works that increase rateable value***

You will not qualify for BCA relief if the works are due to:

- ***a new hereditament,***
- ***a redevelopment scheme which has taken a property out of the valuation list,***
- ***a change of use where no qualifying works have been undertaken,***
- ***repair works***

Ratepayers should not need to apply for BCA relief. LPS will automatically consider this when they are notified of changes to your property.

If the alterations are qualifying works, the ratepayer will receive a certificate from LPS. The Revenues Directorate will automatically apply the relief and send a revised bill assuming the occupation requirements are met.

There should be a right to make representations if the ratepayer has carried out qualifying improvements, but no BCA relief has been awarded.

Non-Domestic Vacant Rate Relief

With vacant non-domestic rate set at 50% it is still regarded by those liable as a relief simply because it is a lower charge than the occupied levy. The behaviour of the ratepayer has generally been passive with collection being relatively straight forward and avoidance limited to applications for exclusions and applications to reduce the value. The latter is triggered by actions which render the property uninhabitable. In recent years other jurisdictions in the United Kingdom have increased vacant rate liability to 100%. This decision has resulted in numerous “mitigation” schemes to either reduce or remove the levy. These schemes were adopted by legitimate charted surveyor companies and others created to promote specific schemes. These entities built their activity on the “Ramsey Principle” and the creation of strategies for rate mitigation. A typical example follows a situation where a property becomes vacant, it becomes liable for non-domestic rates after an initial period of relief. The ratepayer is then faced with three options, to either pay the liability, create a case for an exclusion application or employ strategies to mitigate lability. These forms of mitigation can involve various actions to bring the property within the statutory rules of exclusion or exemption. Until recently these “schemes” have been successful. However, decisions in the courts in England and legislative action in the devolved governments (Wales and Scotland) have begun to curb activity.

To ensure LPS have sufficient legal powers to deliver this vacant rating reform serious consideration should be given to introducing appropriate statutory rules to discourage mitigation activity. It is important that the rules are framed in such a way to prevent avoidance schemes from being "adjusted" to circumvent any legislation. In Scotland and Wales, the regulations have been specific to the mitigation activity which has created problems in enforcing the rules. With the benefit of hindsight, a better solution would have been the introduction of a non-specific GAAR (General Anti Avoidance Rules) like the current powers in England used by the Treasury. Unfortunately, these rules only cover taxes under the direct control of HMRC which has left local authorities in England without any anti-avoidance powers.

There is no doubt that increasing the levy to either 75% or 100% in Northern Ireland will result in the use of mitigation schemes. Our main concern in relation to this change will be the pressure it places on LPS. To date there has been limited challenges to liability and these appear to have been resolved without litigation.

The Council is sure it will encourage occupation of vacant buildings, but we suspect a large proportion of that use will be linked to mitigation strategies such as snail farms, faith rooms, art exhibitions, warm rooms and other non-economic occupation. As part of the reform process consideration should be given to developing policies in partnership with the landlords of the vacant properties to significantly reduce rents to a level where they achieve meaningful economic occupation. This could be developed at a UK wide level by tax concessions being offered by the Treasury. Belfast could offer to pilot a scheme in partnership with the DOF and the Treasury.

Long term vacancies will only be reduced by the adoption of a coordinated and targeted rate relief programme linked to the development policies in partnership with the landlords of the vacant properties to significantly reduce rents to a level where they achieve meaningful economic occupation. This could be developed at a UK wide level by tax concessions being offered by the Treasury. Belfast could offer to pilot a scheme in partnership with the DOF and the Treasury.

This change will have considerable "unintended consequences". Logic would expect a doubling of the levy to result in a significant increase in revenue however existing liabilities based on the 50% charge would immediately trigger a defensive response from existing ratepayers which would result in the revised liabilities being challenged. Rather than seeing an immediate increase in revenue there may be a period of retrenchment where existing ratepayers will seek advice on the current liability and the increase which may result in a loss of the existing levy and the increase.

There is a need to look at day to day rating administration. The losses on collection due to delays in billing new liabilities, growth in arrears and write-offs are having a significant impact on the rate product.

Questions on the Business Growth Accelerator

Q) **Do you support a Business Growth Accelerator?**

A) Yes, providing it follows the suggestions in the model outlined above.

Q) **Does the current system discourage investment?**

A) Belfast City Council does not hold the data to enable a meaningful answer to this question.

Q) **Would this policy incentivise new activity, or mainly defer valuation increases that would already be occurring?**

A) Belfast City Council believes this will incentivise new activity. Significant investment often requires an extensive payback period and initial cashflow challenges for businesses which could often result in the investment not being progressed.

Q) **What is the appropriate grace period that could be adopted?**

A) The grace period should be at least two years to give the ratepayer the opportunity to develop their business model in the improved property.

Q) **Should enhanced support apply where vacant property units are brought back into use? (e.g. as part of any extension or improvement work)**

A) The support should be holistic and encourage activity that brings empty properties back into use. See the qualifying improvements in my model scheme above.

Q) **How should "qualifying improvements" be defined?**

A) They should be defined in the regulations and have a degree of flexibility. See the model scheme above.

Q) **Should minimum or maximum thresholds apply within the policy?**

A) No, thresholds would damage the flexibility of the scheme.

Q) **Are any property types best excluded? (e.g. publicly owned property, utilities, etc)**

A) Yes. Belfast City Council believes that public sector owned properties/ utilities should be excluded from any proposals. The schemes objectives are to stimulate economic activity.

Q) **How can administrative burden be minimised? (This question refers to the impact on the applicant; however, views can also be submitted on how the proposal can best align with the current rating and valuation system).**

A) Belfast City Council believes the scheme should be aligned to building control and planning which should minimise administration for the business.

Q) **Should advance notification be required from an applicant before any extension or improvement works commence?**

A) Belfast City Council believes the scheme should be aligned to building control and planning which would remove the need for advanced notification.

Q) **How should the policy align with the completion notice process that applies within the rating and valuation system?**

A) Belfast City Council believes that providing the requirements are met the scheme should deliver the relief. We cannot see the completion notice process preventing this.

Q) **What economic benefit (if any) would result from this policy proposal?**

A) Belfast City Council believes that providing the scheme is sufficiently flexible and given effective publicity it should generate increased economic activity. There are good examples of positive outcomes of cases in England

Q) **Are there more effective alternatives to achieve the same policy goals?**

A) Belfast City Council believes there is a strong argument to bring together the various schemes and create a longer-term package of support which targets specific geographic areas and various types of economic activity. This radical approach would encompass small business rate relief, the back in business scheme and the proposed business growth accelerator and could be underpinned by a profit related element linked to income and corporation taxes.

Questions on non- domestic vacant rating liability

Q) **Do you support increasing non-domestic vacant rating (NDVR) liability to 75% and 100%?**

A) Yes, Belfast City Council supports increasing the NDVR Liability, providing the administration has sufficient legislative tools to deal with the challenges from ratepayers.

Q) **Should current NDVR exclusions remain?**

A) Yes, Belfast City Council believes the current NDVR exclusion should remain, but the awarding process needs to be rigorous.

Q) **What is the appropriate timing for introducing any increased NDVR liability locally?**

A) Belfast City Council believes as the change to the level of the vacant rate levy only requires secondary legislation therefore the 1st of April 2028 would give sufficient time to pass the regulations, amend software and train staff.

Q) **Are alternative approaches preferable aside from increasing rating liability?**

A) Belfast City Council believes that the introduction of an increased rating liability will be the most effective measure in addressing the development and occupation of vacant properties.

Q) **How should this change align with the rating and valuation system?**

A) Belfast City Council believes that the proposals should seamlessly align as the system implementation should be nothing more than an adjustment of parameters.

Q) **What complementary measures are needed to promote occupancy?**

A) No Comment

Q) **What do you see as the behavioural impacts associated with the policy proposal?**

A) Belfast City Council believes it will encourage occupation of vacant buildings, but we suspect a large proportion of that use will be linked to mitigation strategies and other non-economic occupation.

Q) **Are additional anti-avoidance measures required prior to implementation?**

A) Belfast City Council believes to ensure LPS have sufficient legal powers to deliver this vacant rating reform serious consideration should be given to introducing appropriate statutory rules to discourage mitigation activity. It is important that the rules are framed in such a way to prevent avoidance schemes from being "adjusted" to circumvent any legislation. In Scotland and Wales, the regulations have been specific to the mitigation activity which has created problems in enforcing the rules. With the benefit of hindsight, a better solution would have been the introduction of a non-specific GAAR (General Anti Avoidance Rules) like the current powers in England used by the Treasury. Unfortunately, these rules only cover taxes under the direct control of HMRC which has left local authorities in England without any anti-avoidance powers.

Q) **Should treatment vary by sector or property type**

A) No, Belfast City Council believes a uniform scheme will avoid confusion. The introduction of different levies for either a sector or property type would have little impact on the Ministers objectives

Q) **How can collection be maximised upon introduction of the policy?**

A) Belfast City Council believes this change of policy will increase the administrative burden on LPS particularly at the decision-making level. There will be concerted attempts to avoid liability and reduce the impact on rate payers. The level of challenge and complexity is illustrated by the volumes of case law in the other jurisdictions together with the introduction of avoidance legislation. Collection will become more demanding.

Q) **Should mitigation measures apply in cases of market failure?**

A) No, Belfast City Council believes any such proposal would be exploited by those wishing to avoid liability.

Q) **Should increases depend on duration of vacancy?**

A) No, Belfast City Council believes it is best to stick to a uniform approach and not consider increasing liability that is linked to duration of the vacancy.

Q) **What wider impacts do you foresee because of this proposal? (Impacts may include social, economic, rural, environmental, s75 etc.)**

A) Belfast city Council foresees the following as the wider impacts of this proposal:

- Attempts to convert office blocks into domestic housing units.
- Quicker decisions by owners to demolish properties particularly those on development sites.
- Creating smaller commercial units of occupation.
- Attempts to convert retail units in secondary areas into residential units.
- Removal of key elements of a building to make it unfit for occupation.