Alternatives to the Small Business Rate relief Scheme

Draft NILGA response to the DFPNI Discussion Paper

19th April 2016

DFPNI has issued a discussion paper on **Alternatives to the Small Business Rate Relief Scheme**, due for response by **13th May 2016**. The paper below is a draft response to the paper and the questions posed within.

This draft response follows on from a high level NILGA response submitted to the Department in response to a consultation on the extension of Small Business Rates Relief in 2014, and incorporates learning from local government research and policy on business rates in other regions. The paper below will be considered by the NILGA Executive Committee, prior to submission to the Department, by the 13th May 2016 closing date.

Should comments from councils be received by NILGA prior to the 13th May, these will be factored in to the final response.

For further information or to discuss any of the issues highlighted, please contact Karen Smyth at the NILGA Offices: Email: k.smyth@nilga.org Tel: 028 9079 8972

Derek McCallan
Chief Executive **19th April 2016**

Introduction

NILGA, the Northern Ireland Local Government Association, is the representative body for district councils in Northern Ireland. The membership is comprised of the 11 local authorities and the organisation is supported by all main political parties. We consider rating reviews to be of great importance to the local economy and to local councils and have been working closely with the Department of Finance and Personnel for a number of years in relation to work on developing a modernised rating policy.

NILGA believes that the need for transparency, simplicity and increased accountability is the key to any policy regarding rates. The public should be able to understand all charges levied upon them and know how the money raised is used.

Context

NILGA understands that the Small Business Rates Relief Scheme (SBRR) was introduced as a temporary measure in 2010 to assist the local business community during a lengthy economic downturn. We acknowledge and welcome the need to review the Scheme in a participative way, particularly in light of the ongoing Non-Domestic Rate Review, although the reasons for treating SBRR as a separate strand of work are accepted.

Revenues secured through business rates help fund the services on which our communities and business rely. Small businesses are rightly viewed by the citizen and local councils as important not only to the Northern Ireland economy but also for maintaining social cohesion in our small towns and villages and bringing economic diversity and sustainability to urban and rural settlements alike.. It is also the case that local businesses are subject to huge fiscal and regulatory challenges in what is an increasingly competitive commercial market place.

The recent reform of local government and associated transfer of planning and economic development functions have opened up opportunities for working more innovatively on this area of rating policy, with new potential for councils and NILGA to work closely with DFP and the new departments in a new outcome-focussed policy environment.

NILGA seeks to work with DFP, councils and relevant partner organisations including SOLACE to explore a future sustainable platform for small businesses and particularly retail business, to maximise the impact and value of government intervention for local economies and communities.

This would follow and complement the excellent co-operation between NILGA and DFP in relation to Non-Domestic Rates revaluation. We particularly valued the 'innovation lab' approach that was taken to developing the wider policy, which we found to be an extremely inclusive method for policy development.

This is a separate but linked issue to the wider revaluation, so to maintain the principle and practice of inclusive engagement with the purpose of developing policy on a consensus central-local basis, NILGA would suggest that a smaller 'policy hack' type event might prove worthwhile in seeking alternatives to SBRR.

General Comments

<u>NILGA advocates ultimately ending SBRR, along with a reduction in the relief for de-rated properties.</u>

- The whole area of reliefs and exemptions needs to be examined in the context of the fundamental principles of equity and proportionality. It is essential that a set of guiding principles for reliefs is introduced, and that a robust evidence base is established to enable better decision making.
- NILGA would encourage the Department to work closely with councils, which have been recently engaged in a rigorous evidence gathering exercise, using NISRA and other data, to inform the early stages of their community plans, development plans and economic strategies.

Steps should be taken to target future reliefs and exemptions (a) on areas and schemes which will assist in widening the tax base; and (b) on those ratepayers whose ability to pay is less. NILGA believes that local economic resilience testing driven by council's evidence gathering in the preparation of e.g. Community Plans and Economic Strategies will assist in these endeavours. **Specific Comments in response to DFP Discussion Paper**

Question 1: Does targeting BID areas represent an appropriate way in which to use the resources associated with the current SBRR scheme? What are the advantages and disadvantages of such an approach? What other clearly defined areas could be used?

Not exclusively. NILGA acknowledges that the introduction of BIDs in Northern Ireland may provide <u>one</u> solution for targeting initiatives designed to replace SBRR, however, we note that it is highly unlikely that every town centre in Northern Ireland will become a Business Improvement District, more severely limiting the geographical areas which attract reliefs than may be desirable. Use of BIDs as a basis for targeting of interventions may introduce unwelcome disparity in arrangements for small businesses operating in more than one council area/high street.

In discussions with national high street retailers prior to local government reform, it became clear to NILGA that these operators would question the sustainability (for them) of a proliferation of BIDS (and consequent requests for support via a levy) across Northern Ireland, giving 'early adopters' an advantage and - possibly - negatively impacting the high streets of 'late adopters'.

Additionally, BIDS are only at a pilot stage in Northern Ireland, and as the discussion paper notes, are as yet unproven in the Northern Ireland context. NILGA would question the wisdom of introducing an additional variable to the current BID pilot schemes.

Again, NILGA would encourage the Department to liaise with the 11 councils and with the Association as a co-ordinating body to assess in which areas they wish to focus support/relief for small businesses. After all, councils are mapping out their areas in relation to their local economies and designing robust economic strategies to enable the businesses to compete locally and further afield.

There is a strong likelihood that councils may wish to encourage their local businesses to work with them on local 'economic resilience' tests, similar to that used in councils in neighbouring jurisdictions, to map the economic well-being of their areas and to incorporate the views of local businesses. As an example, areas like Hexham in the North East of England have certain industrial estates and areas designated as BID areas, as part of reintroducing local manufacturing into the area, whereas some adjacent areas have Rates Relief for "unhealthy" town centres, and other adjacent areas within the same (Northumberland) Council area have no Relief offered.
http://www.reviveandthrive.co.uk/hexham-bid/

These activities, both in terms of shaping prioritisation and scheme design, if given the necessary credence by NI government departments, will fill the current gaps in the government evidence base and ensure that any public investment is targeted to maximise local business benefit - which is key to economic growth. NILGA will upon request co-ordinate engagement of the illustrated areas, as learning studies, upon request.

Question 2: Do you support this option [maintaining the SBRR in its current form] **and what are the advantages and disadvantages of such an approach?**

It is clear that the SBRR scheme is not based on contemporary evidence, and consequently this intervention does not contribute to improving the economy further than assisting, in a small way, existing businesses which may still be struggling. The funding used to provide this assistance could be better used.

Question 3 (A): Do you support this option [phasing out the SBRR with no replacement scheme] **and what are the advantages and disadvantages of such an approach? Do you consider that the revenue forgone should benefit all ratepayers or would a more targeted approach be a better use of resources?**

Removal of the SBRR must be done on a phased basis to lessen the impact of its removal to those who are currently entitled to this relief. Although the revenue foregone could be used to benefit all ratepayers, it is clear that government and council intervention is necessary to improve the economic 'health' of our town centres and high streets.

This is evidenced by the specific planning policies contained within the Regional Development Strategy 2035 and the DOE Strategic Planning Policy Statement, which place requirements on councils to monitor their town centres and carry out 'health checks' at least once every five years. NILGA would strongly encourage the DFP to use these 'health checks' and wider council economic resilience checks as part of the evidence required for future decisions in relation to application of small business rate relief.

The time period required to phase out the SBRR could be gainfully used to work with NILGA and councils to develop and agree a new relief system which would be consistent across Northern Ireland yet viable at local level, based on robust local evidence.

Question 3 (B): Do you support this option [match funding for Business Improvement Districts**] and what are the advantages and disadvantages of such an approach? Is the availability of additional funding likely to lead to the creation of new BID areas? To what extent would targeting resources at these areas be to the detriment of locations outside of formal BID areas?**

If, it is the policy intent of the Department to encourage the sustainable development of town centres and high streets as multifunctional social centres, it is questionable as to why there is a focus on linking reliefs to BIDs.

The discussion paper observes that BIDs can be established to cover any geographical area, and indeed in other jurisdictions many examples of BIDs can be seen in business or industrial parks. The pilot BIDs that are currently operational in Northern Ireland may have a largely town centre or high street/arterial route focus, but this is not necessarily the pattern that subsequent BIDs may follow.

NILGA notes that a number of local government respondents to the 2014 policy evaluation highlighted the possible relationship to BIDs and the potential for government assistance for participants in BIDs, however, we would emphasise that the evaluation took place prior to reform and before the first BID was set in place. We would again strongly encourage the Department to liaise with all 11 councils and NILGA to ensure there is a contemporary local government view on this issue, taking account of the more robust evidence that has been put together since the evaluation took place.

Question 4: Do you support this option [rate relief to encourage investment and regeneration] **and what are the advantages and disadvantages of such an approach? What properties/business should benefit from this type of relief i.e. how should it be targeted and what should be the overall objective?**

There is 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.

Assuming the discussion paper is using 'marginal' to mean 'weak' businesses, the benefits to the local economy would have to be assessed before using a policy intervention to artificially sustain a business of this kind. There are other models, such as community-run businesses and services (e.g. pubs, shops, post offices) that might be more effective and more beneficial to the local community, working collaboratively with the local council.

NILGA would strongly encourage the Department to further investigate the potential for introduction of a levy system for long term derelict premises and sites, and a linked urban regeneration grant arrangement in a Northern Ireland context.

Question 5: Do you support this option [rate relief to encourage town centre living] **and what are the advantages and disadvantages of such an approach? Do you consider that there would be sufficient demand for this relief and is it likely to significantly influence both developer and ratepayer behaviour? Would an increase in town centre living be beneficial to trading businesses located nearby?**

A diverse town centre with multiple attractors and reasons to visit and live in the area is beneficial. However, rather than look at this solely from a developer incentive and ratepayer discount perspective, NILGA asserts that wider (supply and demand) market and local socio-economic factors need to be provided as a framework for further discussion.

NILGA believes that all forms of business with a property should pay a proportionate element of the rate burden. The rating system needs to take into account ability to pay and also be able to respond to circumstances, such as the broader economic environment.

NILGA agrees that a relief of this nature, if introduced should adhere to the clear principles set out in the wider consultation on the non-domestic rate review, i.e. that:

- The purpose must be clearly stated
- Reliefs should potentially be time bound, with well-defined timescales
- Reliefs should be targeted – for example, at specific sectors, ability to pay or economic growth
- The need for reliefs should be regularly evaluated, including assessments of whether they are achieving their desired purpose and impact
- An exit strategy should be prepared

Question 6: Do you support this option [rate relief to encourage occupation of vacant premises] **and what are the advantages and disadvantages of such an approach? Does the current policy strike the right balance in order to incentivise occupation?**
How significant an issue would this be for a new start up business when compared to other aspects of business planning e.g. rent, location, product offering, stock etc

NILGA is aware that there is a substantial loss of revenue to the rating system via the generous exemption in NI; however the context of unoccupied retail high street property in Northern Ireland indicates an ongoing need for the 50% relief. There is some local government support for reducing the relief to e.g. 33%, or to stage a reduction in relief over time, but a business case and evidence base would be required to set a new level.

<u>An audit of empty properties is strongly recommended to enable proactive identification of properties and the taking of appropriate action.</u>

As identified in our response to the recent Non Domestic Rate Review consultation, NILGA would advocate ending the 50% relief for vacant non-domestic properties, apart from the relief for unoccupied high street retail property.

Increasing the relief (from 50%) is unlikely to be a greater incentive to get the vacant properties re-let/ occupied, but our members are of the view that the 50% relief is an incentive for the landlord to get a building back in use. It is believed that if the relief is reduced, this would be likely to provide an increased incentive to let property to charity shops.

NILGA asserts that the rationale for and value of the current level of this relief, which is minor in cost terms, is in being able to target properties which have been vacant for a longer time and providing help for only the difficult first year of trading.

Finally, NILGA would respectfully suggest that as part of the co-ordinated dialogue with the 11 councils, this matter is tangibly linked to wider discussion in investing in infrastructure across the region, including new investment models, the development of retail, craft, SME and tourism ecosystems and economic performance indicators which, in the latter instance, can produce revenue for councils from devolved government to assist local regeneration, in return for creating jobs, growth and taking people off benefits – a different kind of circular economy.