

NIIRTA and Hospitality Ulster's Submission on an Alternative to the Small Business Rate Relief (SBRR)

Introduction

NIIRTA and Hospitality Ulster welcomes the opportunity to provide our views on an alternative to the Small Business Rate Relief Scheme. We felt strongly that this should be a joint submission as we truly believe that what we are proposing as an alternative to the SBRR focusing on both the Retail and Hospitality sectors has the power to re-invigorate and rejuvenate Northern Ireland's cities, towns and villages and provide the much needed boost to Northern Ireland's recovery that this economy so desperately needs.

Together NIIRTA and Hospitality Ulster represent the interests of over 2,600 independent retailers and hospitality businesses located in every village, town and city in Northern Ireland. Member businesses are generally owned and managed by local families rather than large multi-national companies, meaning that they are absolutely vital in providing local employment as well as a strong focal point within local communities.

The burden of business rates has been a significant and on-going concern for our members in both sectors. It is one of the biggest costs they face and in many instances can mean the difference between making a profit or loss. DETI's recent 'Cost of Doing Business'¹ report highlighted that the burden of property costs on both sectors is very significant. The report noted that *'Hotels & restaurants have – by far – the largest share of property costs'* accounting for 13% of turnover. In Retail property costs account for a significant 6% of turnover. The report also highlighted that retailers and hotels/restaurants were more likely than any other sectors in Northern Ireland to have reported rates increases during 2013 (47% in Retail and 36% in Hotels/Restaurants). Shops, supermarkets, hotels etc. are already the largest contributors to business rates in Northern Ireland.

We have made our position on the current rating system clear in our submissions to the overall review of business rates. We do not believe that the system supports business and more particularly our sectors. Our fundamental issues with the tax is that it does not reflect *'ability to pay'*, acts as a disincentive to investment and has in place a series of ad hoc reliefs and exemptions which highlight a complete lack of strategic thinking around how the business rating system should be used to support the Executive priority's for economic growth.

What we are proposing is a replacement to the Small Business Rate Relief scheme that focuses on the Retail and Hospitality sectors as key catalysts to economic growth. We have set out below some context to the relief which highlights the huge importance of our sectors within the Northern Ireland economy along with the challenges faced by members in not only trying to do business in Northern Ireland

¹ 'The Cost of Doing Business in Northern Ireland', DETINI Analytical Services Unit, September 2015

but actually stay in business here too. We have also set out a detailed proposal on introduction of the Retail/Hospitality relief which outlines not only the cost of the relief but also makes recommendations on the way in which the relief should be funded through existing rate relief schemes.

The Importance of the Retail and Hospitality Sectors Locally

The Retail and Hospitality sectors lie at the heart of the economic and social fabric of Northern Ireland. Together they support almost 150,000 jobs in Northern Ireland meaning that they account for a considerable 1 in 5 employee jobs here. They make up 14% of Northern Ireland's registered business base² ranking them second highest only after Agriculture in terms of the number of businesses they represent. These businesses have a presence in every neighbourhood across Northern Ireland's cities, towns and villages.

Given the sheer scale of these sectors within the Northern Ireland economy their wider contribution in terms of wages, diverse range of jobs opportunities (part-time, seasonal etc.), supply chain and multiplier effects are substantial. Much more of the spending effects of these sectors remains within the local economy compared to others. There is also a strong tourism dimension to both, Hospitality being a key element of the tourism offering here and Retail a vital support to the tourism industry as well.

What is often overlooked is just how critical these sectors are to the built environment in Northern Ireland with important consequences for the appearance of our villages, towns and city centres. They also play a crucial part in the social dynamic of these areas providing the 'social glue'³ that holds local economies together supporting communities to be more integrated and cohesive.

The Challenges Facing Both Sectors

The Northern Ireland Retail and Hospitality sectors fared worse than other UK regions during the recession. Local retailers and the accommodation/food sector experienced the largest fall in jobs within the services sector. Vacancy rates and footfall have contracted sharply and recovery has been extremely slow. Northern Ireland's vacancy rate is still highest across the 12 UK regions with 1 in 6 shops lying empty. Recent figures suggest that there was a 7% drop in high street footfall in Northern Ireland in April 2016, second lowest only to Scotland which has the benefit of a much lower vacancy rates (1 in 12). Research suggests that store numbers will continue to fall here over the next few years⁴.

Both sectors face their own challenges. The impact of on-line retailing has and will continue to have huge implications for retail with evidence suggesting that the average 'bricks-and-mortar' retailer has seen trade falling by between 1% and 3%

² Based on Retail and Accommodation & Food

³ New Economics Foundation, 2005

⁴ Retail Futures, 2013

every year since 2006. These challenges, along with the growth of the discount/value sector (another outcome of the recession), have meant that our independent retailers have experienced constant pressures to reduce prices. Figures show that in February 2016 shop prices fell for the 34th consecutive month in a row for food prices and 35th month for non-food prices⁵. This in turn has meant that profit margins for the sector have been significantly squeezed. Small independents have been the main casualties and in the words of Mary Portas have been *'progressively squeezed out, incapable of keeping up with the soaring costs of doing business'*. She also notes that as independent retailers are closing, new independents are not replacing them and that is starkly evidenced by the high shop vacancy rates in Northern Ireland. The viability of shops in rural areas particularly has been put under considerable strain. Many shops have closed and this has and will continue to undermine the very heart of local communities here.

The Hospitality (and wider Tourism) sector continues to suffer the fall out from the recession, during which it saw a closure rate of a staggering one pub per week. Large parts of the sector have failed to bounce back and the sector has a legacy of over-lending which coupled with a sharp fall in performance and property values has meant that it will take it some time to recover. The sector also faces greater challenges in getting people to eat out and drink in local hotels and restaurants (another impact of the recession). Northern Ireland's Hospitality and Tourism sector faces a further and unique challenge in having to compete with its near neighbour in the Republic of Ireland. The Republic of Ireland charges a tourism VAT rate of 9% on accommodation, food and visitor attractions. It is more than double this in Northern Ireland at 20%. Northern Ireland is losing out, particularly in terms of domestic tourism, the numbers of which has been falling steadily in recent years. The Republic of Ireland's cost advantage is playing a large part in this.

The Case for a Retail/Hospitality Relief

We have both made our case on the need for change in business rate reliefs in our submissions to the *'Review of Non-Domestic Rates'*. Mary Portas sums this up by stating in evidence to the Communities and Local Government Committee in 2013:

*'If we are going to get businesses back on to the High Street, whether they are new businesses or some of the bigger businesses, we need to have some incentives, and Business Rates seem to be the biggest stop for growth at the moment. [...] If nothing is done about Business Rates, we will not see the development of new and exciting ideas'*⁶.

A report by the Business, Innovation & Skills Committee⁷ noted that business rates are a substantial cost to doing business and one of the highest forms of local property tax in the European Union. The Committee highlighted that its evidence

⁵ BRC-Nielsen UK Shop Price Index

⁶ Oral evidence taken before the Communities and Local Government Committee on 2 September 2013, HC 612-i, Qq 46 and 48

⁷ House of Commons, Eighth Report of Session 2013–14

'overwhelmingly cited' that business rates was one of the principal threats to the survival of existing business. It also stated that business rates were the biggest obstacle to new retail businesses starting up. These businesses have both an economic and social worth and the current system of business rates is doing nothing to value that worth.

Other parts of the UK have recognized retail's pivotal role in the economy and have set in place reliefs explicitly focused on the sector. Nationally the Department of Communities introduced an explicit relief for retailers of up to £1,000 (increased to £1,500 in Budget 2014) to all occupied retail properties with a rateable value of £50,000 or less for 2014-15 and 2015-16 in recognition of the challenges the sector faces, particularly with on-line competition. Eric Pickles, Secretary of State for Communities and Local Government, said that in some cases shopkeepers could see their bills cut by a third extra or even more, which is worth thousands of pounds in tax breaks. Almost 300,000 retail businesses in England are thought to have benefited from the relief. Wales introduced a similar relief in April 2015 for one year.

A rural rate relief is also available in England, Scotland and Wales for businesses in rural areas with a population below 3,000. The relief is between 50% and 100% for eligible businesses. Eligible businesses include small food shops, general stores, post offices, small hotels, public houses, filling stations and other businesses providing benefit to the local community.

NIIRTA and Hospitality Ulster's Proposal for a replacement to the Small Business Rate Relief

The Small Business Rate Relief Scheme is one of a number of ad hoc reliefs currently in place in Northern Ireland. Many of these reliefs form part of a legacy that has become difficult to change despite the lack of strategic thinking in how they support the economy and in our view high level of deadweight associated with them. The SBRR is one such relief that has been judged as being of little economic benefit in terms of increased employment or other additional impacts by the Ulster University's Economic Policy Centre (UUEPC). While both NIIRTA and Hospitality Ulster have been supportive of a scheme providing relief to small business (and indeed many of our members have been beneficiaries) we agree with the findings of the UUEPC report that a more targeted approach should be taken.

We have considered the options for change set out in your discussion paper but believe that this largely takes a very 'town/urban centric' approach). We believe that any replacement for the SBRR needs to be much more inclusive and impact on businesses across Northern Ireland's cities, towns and villages. We are committed to the concept of regeneration but believe that the proposals on offer in your discussion paper do not go far enough in driving this forward.

With this in mind, what we propose takes a much more inclusive approach which recognises the importance of both urban and rural areas in the overall regeneration process. Our proposal is therefore focused on a relief targeted at the Retail and

Hospitality sectors combined recognizing the strong role played by both in local communities as we have articulated above.

We have carefully considered the scale of the relief that must be targeted at these sectors to truly impact upon local businesses and drive forward Northern Ireland's recovery and growth. We have also considered the additional cost imposed by this relief and have taken steps to address this by recommending changes to an existing relief, the Vacant Property Relief, to compensate for the additional cost.

Properties are eligible for relief when they become vacant. A relief of 100% applies in the first three months after they become and a rate of 50% relief applies thereafter. Northern Ireland has the most generous vacant property relief scheme in the UK and in total it costs £44m per year. What we are proposing does not entirely remove the relief but it does reduce its scale after the initial 3-month period of 100% relief.

The reason why we have selected the Vacant Property Relief is that we believe it can actually act as a deterrent to the occupation of and investment in premises. This point was made by a number of consultees during the recent Review of Business Rates⁸. Indeed a leading research think tank, the Institute of Fiscal Studies, described Vacant Property Relief as *'a tax incentive to keep properties vacant'*⁹. We also note that you outline in your discussion document an option to encourage occupation of vacant premises and *'bring long term empty shops back into use'*. We believe that the Retail/Hospitality Relief combined with a reduction in the Vacant Property Relief has the potential to meet that aim.

In our view the level of deadweight with this relief will be minimal as what we believe it will do is bring new businesses into urban and rural areas and help those already there to survive and prosper. In overall terms, we believe that this relief will represent value for money because it will act as a key driver for growth.

Indicative costs of our proposed Retail/Hospitality Relief are outlined in the table below. This includes 2 scenarios with different cost implications for each. Both scenarios recommend a tiered system of reliefs which would apply to all retail/hospitality businesses with an NAV below £25,000.

⁸ 'Review of Northern Ireland's Non-Domestic Rating System: Consultation Report', DFPNI, February 2016

⁹ http://www.ifs.org.uk/budgets/gb2014/gb2014_ch11.pdf

Under **Scenario 1** the tiered system of reliefs range from 100% for those with an NAV under £10,000, 50% for those with an NAV of between £10,000 and under £15,000 and 25% for those with an NAV of between £15,000 and under £25,000. The total cost of this relief would be £36m which would mean that an additional £18m is needed above the £18m that it currently costs to provide Small Business Rate Relief. In order to fund this additional £18m we recommend that the Vacant Property Relief after 3 months should be reduced from its current 50% to 15%.

Under **Scenario 2** the tiered system of reliefs range from 70% for those with an NAV under £10,000, 50% relief for those with an NAV of between £10,000 and under £15,000 and 25% relief for those with an NAV of between £15,000 and under £25,000. The total cost of this relief would be £28m which would mean that an additional £10m is needed above the £18m that it currently costs to provide Small Business Rate Relief. In order to fund this additional £10m we recommend that the Vacant Property Relief after 3 months should be reduced from its current 50% to 30%.

Scenarios on Cost and Funding Requirements for the Proposed Retail/Hospitality Rate Relief Scheme

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

Note:

- 50% vacant property relief costs an estimated £25m annually

We propose that this relief scheme is introduced for an initial 3-year period. It should then be evaluated to understand its impact both on the Retail/Hospitality

¹⁰ Figures are indicative and subject to rounding

sectors and on vacant property. We believe that during this 3-year period steps should be also be taken to address the issue of rates avoidance particularly in relation to vacant property. This may include the introduction of appropriate legislation to tackle avoidance measures.

We propose that the Retail/Hospitality relief is introduced as a direct replacement for the SBRR in 2017/18.

Summary

In summary, supporting change under the current business rating system is a top priority for NIIRTA and Hospitality Ulster. Our members cannot continue to deal to with the challenges they face including the impact of the recent rates revaluation, the national living wage, auto enrolment pensions and increasing business costs more widely. We simply cannot cope with the burden of spiraling costs particularly those imposed on us by government.

We believe that the alternative we have offered to the Small Business Rate Relief Scheme in the form of a Retail/Hospitality Relief is critical to regenerating and rejuvenating Northern Ireland's cities, towns and villages. We believe that we have an economy that is stalling and businesses need support.

In our view the benefits of the Retail/Hospitality relief scheme are numerous. They include:

- Its inclusiveness in targeting not only Northern Ireland's towns but also its cities and villages
- Providing some certainty to the retail and hospitality sectors to plan for investment and growth (leading to more jobs, wages, supply chain effects etc.)
- Preventing the further disintegration of areas through even higher vacancy rates
- Adding to the value of commercial property as localities are re-invigorated and rejuvenated
- Supporting communities in regenerating their localities
- Reducing vandalism and anti-social behaviour associated with high shop vacancy rates
- Developing localities as multifunctional social centres that people want to visit and live in

Overall, we strongly believe that this relief will actually benefit the government financially in the medium to longer run. We look forward to discussing our proposal with you!