Trade NI

**Trade NI Submission to Business Rates Consultation**

## Introduction

Trade NI is an alliance made up of the three largest sectors of industry and the majority of businesses in Northern Ireland - Hospitality Ulster, Manufacturing NI and Retail NI. We are the largest business collective in Northern Ireland representing the majority of businesses in Northern Ireland.

Our aim is for politicians and key influencers to understand Northern Ireland's economic needs and help to reform the policies that are holding us back in our growth

We are delighted to submit our views to this vital consultation.

## Setting the context.

Together we represent the interests of thousands of independent retailers, manufacturers 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.

We are working jointly on this submission because it is a policy issue that is of huge importance to both organisations and to our members. Northern Ireland has the highest level of business rates in the UK with very few of the reliefs that businesses in other parts of the UK receive.

Let's be very clear - our system of antiquated business rates is broken and not fit for purpose in the 21st century. It is a scandal that Northern Ireland has now the highest business rates in the UK, which is restricting the growth of our retail, hospitality and SME sectors.

Together our sectors contribute up to a half of business rates in Northern Ireland even though we contribute less than half that in value added to the economy[1]. The rates burden on our sector is excessive.

It has been a significant and on-going concern for our members and is one of the biggest costs they face. In many instances this cost can mean the difference between making a profit or loss and in some instances going out of business. The government's own 'Cost of Doing Business' report[2] highlighted that the burden of property costs fell disproportionately on the retail and hospitality sectors.

[1] Around 10% of GVA

[2] 'The Cost of Doing Business in Northern Ireland', DETINI Analytical Services

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. 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 on numerous occasions. 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 priorities for economic growth. In simple terms, we believe that the business rates system is not equitable and is damaging investment and growth.

**About our sectors**

The manufacturing sector provides 88,000 jobs, which are often highly skilled, well paid and responsible for cutting edge research and development. It contributes 14% of our total economic output and has been the largest employment growth sector in the Northern Ireland economy since 2012.

Retail is the largest sector of our private sector economy. It provides over 140,000 jobs and makes up around 15% of Northern Ireland's economic output. The hospitality sector sustains 65,000 jobs in Northern Ireland and is one of the largest private sector services employers in the region after wholesale/retail. It contributes £1.6bn in value added (GVA) annually to the local economy. The hospitality sector makes up 57% of tourism GVA and 75% of direct tourism jobs, highlighting its critical role in driving growth in one of Northern Ireland's key emerging sectors.

However, despite our scale, there are huge challenges facing our sectors. Around 12,000 jobs have disappeared from the retail sector in Northern Ireland over the last 10 years. The shop vacancy rate at 14% remains by far the highest in the UK. Latest figures show a 3.1% drop in consumer footfall figures[3] with the region the worst performing in the UK, according to the latest figures released by Springboard covering August 25th to September 28th 2019. The latest Ulster Bank PMI (October 2019) shows that Retail shed jobs at its fastest rate in 7 years.

The Hospitality sector has struggled to survive in a changing consumer environment. This includes changing consumer behaviour as people go out/spend less, the demand for a more 'experiential' product pushing up costs and the specific challenge in Northern Ireland brought about by lower disposable income of our customer base coupled with more restrictive opening hours for licensed premises. The Northern Ireland hospitality sector is an extremely price sensitive sector and is already competing with a lower VAT rate compared to the Republic of Ireland. High business rates are yet another factor that erodes our competitiveness.

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[3] Springboard, August 25th to September 28th 2019

Latest figures[4] suggest an extremely challenging environment for the sector with a 7% loss in the Hospitality offering in Northern Ireland at a time when the sector should be gearing up to meet increased consumer and tourism demand. The restaurants sector lost 13% of its offering over 2016/17 alone. The number of pubs has been decreasing steadily for several decades. In Northern Ireland, pub numbers have fallen by 35% from 2001 to 2018 compared to an average for the UK of 25%[5].

There were 2,000 fewer employees in 2018 compared to 2001, which is a 22% fall. While the sector contributes 2% to business rates in Northern Ireland[6], it accounts for just 0.7% to the 'profitability' of the local business economy. Northern Ireland pubs have lower margins than their GB counterparts because their independent/owner occupied status means that they have reduced buying power compared to the mainly multiple retailers and brewery owned pubs in GB. Diversification of the industry into food has been hampered by comparative position against restaurants, which generally have a much lower NAV impacting the margin of pubs offering food.

## Our Key Asks

The centre point of this submission is our proposal to introduce a dedicated rate relief scheme that focuses on the Retail and Hospitality sectors as key catalysts of economic growth. By focusing on services that are at the heart of communities, this relief has the propensity to prevent further deterioration of our village, town and city centres and provide a huge regeneration incentive at a time of significant uncertainty. It will boost investment and growth with all of the accompanying benefits in terms of jobs, wages, supply chains etc. and add value to both the commercial and private sectors as localities are reinvigorated.

Trade NI wants to see the targeted approach to small business rate relief, which was put forward in 2017, by the last Finance Minister, *Rethinking Rates,* as a vital starting point for this review. These proposals include enhanced and targeted rate relief for the mainstays of the high street-independent retail and hospitality businesses.

We should not forget that the '*Rethinking Rates*' had very widespread support with over thirty business organisations and Chambers of Commerce giving it their backing.

These proposals did not just support the growth in retail and hospitality, but also, given the independent retail and hospitality sectors' commitment to sourcing local produce, could be a real boost for the local supply chain and for the agri-food sector among others.

The future of urban centres is at stake and we believe that this, alongside wider government interventions, has the potential to develop localities as multifunctional social centres that people want to visit. This is particularly timely in relation to the impetus provided by the City Deals to Northern Ireland.

[4] 2017 latest available statistics

[5] https://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-8591#fullreport

[6] DoF 2015/16

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.

**Our Proposals are:**

1. We fully support the Department of Finance *Rethinking Rates* proposals, which recommended a **targeted system of rate relief** that would apply to all independent retail/hospitality businesses with an NAV below £25,000. This proposal is based upon Retail NI/Hospitality Ulster proposals in 2016 and should be included in the recommendations of this Review.

2. We believe that the existing **Small Business Rate Relief** should be left in place but with some amendments. The Relief should be application based and businesses should make the case for relief and demonstrate the difference made to the business. It would mean a different application process that would have to be streamlined to minimise any burden on business to complete. There will be some cost involved for both government and business but in our view, it is an investment that government here needs to make.

3. **The Rates Hardship Fund** should be reformed to make it easier to access and more streamlined in its application. There should be a much more flexible approach to rates hardship, including qualifying businesses that can demonstrate serious loss of revenue as a result of public realm or other major disruption.

4. A special case must be made for **Public Houses**. Licensed premises in Northern Ireland are currently valued differently under antiquated case law which focused on the 'monopoly' provided by the license and that traditionally pubs were more profitable that other businesses. This is most certainly no longer the case and the statistics set out above highlight the demise of this key part of the hospitality offering in Northern Ireland. The Pub sector is also being unfairly penalised in its food offering in that pubs where the majority of sales are food-led pay higher rates than restaurants.

5. An **investment incentive scheme** should be introduced in Northern Ireland – if business invests to create new jobs and add value to the economy then it can write off some of investment through business rates. In line with a recommendation by the Barclay Review in Scotland, we support the concept of a 'Business Growth Accelerator', aimed at boosting business growth, and encompassing a twelve-month delay before rates are increased when an existing property is expanded or improved, and also before rates apply to a new build property.

6. Northern Ireland should embrace '**green growth'** and encourage companies to deliver sustainable business value. Businesses should be encouraged and rewarded to grow by improving their environmental credentials. The business

rates system should be used to incentivise businesses to embrace 'green growth' and reward sustainable behaviours. A Green Rate Relief Scheme should be introduced by 2022 to incentivise businesses to invest in green technology.

7. The **Empty Premises Rate Relief Scheme** for town centres and high streets should be revised to (1) reduce the qualifying period from 12 to 6 months and (2) extend the first year 50% rate reduction to year two with a 25% rate reduction to provide further support to the new business.

8. A long-term commitment to **industrial derating** is required, extending existing arrangements through to at least 2030.

9. Businesses in Northern Ireland are to have their rates bills **revalued every three years** rather than five years as it currently stands

10. There must be a much more serious attempt to link the **sectorial contribution of rates** to the value generated by those sectors to the local economy. It is imperative that every business and sector is seen to be making a 'fair' contribution to the system and not one that reflects.

11. The Department of Finance/LPS should ensure **parity** with the treatment of rates in the rest of the UK. While it is important to have a devolved approach to business rates this should not be at the expense of creating disparities between the UK's constituent parts. In the UK 2018 Budget, the government announced a reduction of one-third to business rates for properties in England with a rateable value below £51,000 which are classified as retail premises; typically be shops, pubs, restaurants and cafes which would apply until 2021. This reduction was not afforded to businesses in Northern Ireland despite the fact that this region is one of the poorest in the UK.

12. Ways to broaden the tax base should be examined including the potential for an **On line Sales Tax** focused on businesses that sell a substantive amount of goods on line. The introduction of an online sales levy would create a level playing field, incentivise investment and do so in a way that is revenue neutral for the government. New West End calculated that a 1% sales tax on online businesses could raise more than £5bn. This would allow the government to cut business rates by an average of 17.5%, at no cost to the Treasury. The tax implications of an increasingly digital economy has to be considered regionally and proposals put forward by the Northern Ireland Executive as to how to address the growing inequity of a system where the current rates burden paid by bricks and mortar businesses and service providers (particularly retail and hospitality) will be divided amongst an increasingly small tax base as more activity moves online.

13. The **regional rate** should be reduced by between 5% and 10% to support businesses and the economy to cope with Brexit. This is the only tax power that the Secretary of State has control over and it should be used to send a message to business that government is supporting it as the UK transitions out of the EU.

14. The role of business rates in supporting Northern Ireland's **3 City and Growth Deals** should be explored. For example, the potential of pooling business rates across City Deal Councils should be explored, as has been the case with other City Deal regions across the UK. Wales, for example, has considered a conceptual city-region shared-gain business rates incentivisation model which would enable regional growth partnerships to retain a portion of the business rates they generate and incentivise them to grow their business rate tax base[7].

15. The Department should examine ways to give the eleven **Councils flexibility** with the revenues raised through the District rate and to allow rate relief to be target at specific council interventions such as urban dereliction and/or support packages for new Foreign Direct Investment. There is a more fundamental consideration here around the role of Regional Rate in the context of its small contribution to Executive spend (6%) and its arguably greater potential to be used in a more targeted way to support localities.

16. A **Business Rates Forum** should be established that is made up of a broad range of representatives from the business community who can provide guidance and challenge for the development of a much more progressive business rating system.

17. We believe that there should be a fundamental **review of Land and Property Services (LPS).** As an organisation and as a model in implementing rating policy we believe that it is not fit for purpose. In our view it is too rigid, slow to make changes and put simply, does not understand the implications of its decisions on business. Fixing our broken and antiquated system of Business Rates is vital and it is our view that as LPS currently stands it will not be the right organisation to do this.

**Conclusion**

In conclusion, we believe that the Retail, Manufacturing and Hospitality sectors have the power to re-invigorate and rejuvenate Northern Ireland's cities, towns, villages and provide the much-needed boost to Northern Ireland's recovery that this economy so desperately needs.

The business rating system needs to support our sectors to achieve this.

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[7] http://www.walespublicservices2025.org.uk/files/2018/03/NDR-policy-report-final.pdf