Northern Ireland Assembly

COMMITTEE FOR FINANCE AND PERSONNEL

OFFICIAL REPORT
(Hansard)

Large Retail Levy and Small Business Rates Relief Scheme

23 November 2011

NORTHERN IRELAND ASSEMBLY

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FINANCE AND PERSONNEL

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Members present for all or part of the proceedings:
Mr Conor Murphy (Chairperson)
Mr Dominic Bradley (Deputy Chairperson)
Mr Leslie Cree
Mr Paul Girvan
Mr David Hilditch
Mr William Humphrey
Mr Ross Hussey
Mr Paul Maskey
Mr Mitchel McLaughlin
Mr Adrian McQuillan

Witnesses:

Ms Jane Bevis	)	Northern Ireland Retail Consortium
Mr Iain Joannides	)	IKEA
Mr David Paterson	)	Asda
Mr Diarmuid Walsh	)	B&Q
Mr Chris Kenton	)	Royal Institute of Chartered Surveyors
Mr Roger Pollen	)	Federation of Small Businesses
Mr Nigel Smyth	)	Confederation of British Industry

The Chairperson:

You are very welcome. Please make sure that all phones and electronic devices are switched off as they interfere with the recording. We welcome David Paterson, head of regional affairs at Asda; Diarmuid Walsh, divisional director of B&Q; Iain Joannides, finance and operations manager at IKEA; and Jane Bevis, director of the NI Retail Consortium. After you make a presentation, I will open it up to Committee members for questions and discussion.

Mr Iain Joannides (IKEA):

I am the finance and operations manager for the IKEA store in Belfast, where I am based. I have been living in Northern Ireland for 12 years and have worked for IKEA Belfast for four years. IKEA arrived in Northern Ireland in spectacular fashion. At the time, it appeared to symbolise many things, the importance of which was demonstrated by the First Minister and the deputy First Minister's opening the store. Much has changed since then. We now find ourselves in a rather desperate situation, where funding must be found to support the many struggling small retailers that are the backbone of our economy and on whose success we all rely to provide jobs and spending for our customers. We believe that that funding must be sought, and we have no objection to it being sought from large firms that, as the Minister correctly states, can weather the storm better than small businesses. I question, however, why it is that, under the proposals, the levy will be applied only to shops with a net annual value greater than £500,000. We believe that all big businesses should contribute.

We believe that that would increase the number of businesses included from 77 to 251, and we estimate that it would drop the required increase from 20% to roughly 6% and generate £6•5 million. I understand that the Minister has communicated several reasons why other businesses and organisations are not included; however, it seems illogical to target retail simply because it is too difficult to administer a fairer approach. We urge the Assembly to reconsider the levy in its current form and to apply a fairer and more balanced approach. In our store alone we pay £1•67 million in rates. That is equivalent to 50% of our staff costs and is our next greatest cost behind staff costs. Once the levy has been applied, it will have a damaging impact on businesses of any size.

There has been a great deal of press recently about our original submission in which we stated that we face very tough trading conditions. In the past financial year, ending September 2011, our Belfast store sales contracted nearly five times more than that of our average UK store and twice that of our Dublin store. Our Dublin store opened in July 2009, so the effect of this had passed by the start of the last financial year. Let me assure you all that our Belfast store makes a substantial loss. Please do not underestimate the hugely damaging impact that the levy will have on IKEA Belfast.

The Minister and his advisers argued that rates in Northern Ireland are comparably 20% lower than in other regions of the UK. However, I question the value of the Department's investigation in which it assessed the rates in Hull to support that statement. Surely a more balanced and fairer approach would have been to compare the rates in several UK cities. The nearest store that we have to compare ourselves with is the one in Leeds: IKEA Belfast pays £100,000 more than IKEA Leeds. In our submission I have highlighted the fact that we pay far more in Northern Ireland than we do for a number of our units in Great Britain. If you wish, I will happily share with you the amount that we pay for all our units and their comparable sizes.

We were penalised by the cancellation of the rates review in 2010, which we believe would have reduced our rates bill. The levy has been designed to claw back some of the lost revenue that a revaluation would have made. In our case, it appears to be a double charge: not only are we paying more than we believe we should, but we are expected to pay another 20% on top. We cannot understand why the rates review was not conducted last year. Again, we urge the Minister to reconsider the manner in which the levy is applied.

From our perspective, Northern Ireland companies face far higher operational costs, such as utilities and shipping, as well as a more expensive rating system. It is clear that rates in Northern Ireland are not 20% lower today than in other regions of the UK. The proposals completely undermine confidence in the Northern Ireland Government to create fair business conditions and to support all retailers to contribute to the growth of the local economy and the jobs market. There is no question that the proposed levy will place a huge financial burden on IKEA Belfast. As there is no room to absorb those additional costs, the short-term consequences will be job losses. Surely, there should be greater emphasis on the Government's ability to create economic growth and jobs instead of focusing on creating an additional tax for retailers who are also struggling during these tough times. The middle- and long-term consequences for IKEA Belfast caused by worsening business conditions and the levy will be discussed in the privacy of our UK boardroom.

I appeal to you to reconsider the proposals in their current form. If the revaluation would have delivered the same income as the levy, surely the revaluation of rates for all businesses — not only retailers with a net asset value greater than £500,000 — would be a fairer and more honest way of generating that income.

I hope that I have demonstrated, from IKEA's perspective, why Northern Ireland is not a level playing field; we pay far more in rates than our comparable stores in the UK. Finally, I cannot stress enough the damaging impact that the proposed levy will have on our business. As I said earlier, we already pay £1·7 million; we simply cannot absorb any further cost without significant impact on our operation. Thank you.

Mr David Paterson (Asda):
Thank you very much for the opportunity to present to you. Asda employs 4,500 colleagues here in Northern Ireland; we have 16 shops, seven of which will be hit with the new tax. Economists estimate that through our direct and indirect investment, we support about 8,700 jobs, which equates to about 1% of the entire Northern Ireland workforce.

We have followed with interest evidence that has been given to the Committee and have been struck by the extent to which the debate seems to have become about large retailers versus small businesses and the suggestion that it is a zero-sum game. However, as we have grown our business, we have seen that we are investing in small businesses. In 2010, our sales of local produce rose above the £60 million mark. That means that, at present, £1 in every £5 that is spent on food in our stores is spent on products that are sourced in the Republic or Northern Ireland. A number of businesses benefit from that investment.

Our driving purpose is to save our customers money every day; that is what we exist to do. That is crucial for customers in Northern Ireland in the current economic climate. We measure families' disposable income every month. Our income tracker shows that the amount of money that families have left to spend after they have bought their food, paid their mortgages, filled the tanks of their cars and heated their homes is lower now than at any point in the past three years. It is important to point out that, worryingly, it is significantly lower here than in any other part of the UK: families in Northern Ireland have about £80 a week discretionary income left to spend, compared with £100 a week in Scotland and £150 a week on average throughout the UK.

Therefore, we believe that we deliver benefits to the economy in Northern Ireland; we save customers money, and we invest in small businesses. In fact, we help small businesses by being here. The fact that we are here drives competition and drives down prices on items such as fuel, which is a great benefit to many small businesses.

The tax sends the wrong signal; it fails to recognise the nature of our business model. Yes, we are a high-turnover, high-volume business; however, we work on very low profit margins. In fact, we operate on a margin of between 3% and 5%, and our Northern Ireland stores operate towards the bottom end of that scale. That is due primarily to distribution costs here being some 15% higher than in the rest of the UK. Utility costs are about 5% higher. Despite that, we continue to offer customers here the same low prices as in every other part of the UK.
We see other barriers to competition and trade here that we do not see elsewhere: the speed of the planning system is an issue; the alcohol licensing system and barriers to entry to the pharmacy market are others. The tax is damaging because it comes straight off the bottom line of the stores affected. For a business such as ours, for every £1 of tax, we need to ask our stores to sell an additional £25 through the till. That is not an easy thing to do in the current economic climate. Those costs must be factored into the individual profit-and-loss accounts of the stores affected; they do not come straight off our overall bottom line. More important is that it is also factored into our return-on-investment models that inform our decisions on new store development. I would be happy to talk to you later about that, but, given that our capital is funded by Walmart, those are decisions that are taken on a global basis.

We believe this to be an unfair tax. As our colleague from IKEA said, we do not understand why one part of one sector is being asked to subsidise all others. It has been said that, as a matter of policy, the Executive do not want any additional costs to be placed on utility companies because that will simply be passed on to customers. However, we ask you to consider why the Executive should take the view that a sector that is already more profitable than retail and which is putting up costs should not be asked to pay some of that burden, compared to one that is making life that much easier for ordinary people. We do not believe that our customers will understand helping banks and utility companies at a time when they are, arguably, making the cost of living higher.

We understand support for small business rates relief; we are not against that. However, funding it has to be fair. It has been said that it is too difficult to avoid banks and other large companies benefitting. We simply do not accept that. There are schemes in operation in other parts of the UK where that is not the case, and we think that work should be done here too. We have also heard that it is a matter of policy that airports and manufacturing businesses should not be asked to pay more in case that discourages investment, yet rates will rise by 2·2% and 2·7% over the next three years. Those businesses will pay more. Our contention is that a fairer approach would be to ask all large businesses that do not receive the small business rates relief to pay a very small levy in addition. A levy of about 0·6p would raise the funds necessary. That fits very well with the approach that we have seen in Scotland, with the large business supplement of about 0·7p. There has been no evidence there that that has had any deterrent effect on investment. However, a significant levy singling out one sector may well have such an effect.

It is difficult to take any other message from the tax than that the Executive do not want to support our sector by encouraging investment. We are ambitious for Northern Ireland. We would much rather be here today to speak to you about our plans to get more young people into work, to create apprenticeships and to invest in the economy and the food and drinks sector. We believe that more work needs to be done to make the tax fairer. The Executive should think again about that and let us look to how we can avoid the unintended consequences of making Northern Ireland a less attractive place to do business.

Mr Diarmuid Walsh (B&Q):
Thank you for the opportunity to discuss B&Q's concerns about the proposal for a large retail levy in Northern Ireland. I am Diarmuid Walsh. I am Belfast-born and have lived in Northern Ireland all my life. My whole career has been in retail. I started as a shelf-filler in Marks and Spencer in Donegall Place in the mid-1970s and I am now the divisional director for B&Q for Northern Ireland, Scotland and northern England. At the outset, I want to highlight that B&Q in Northern Ireland is fully committed to its stores and its people. It is here to stay. There were comments in the press recently that indicated otherwise, which we have reacted to. Furthermore, we do not support the British Retail Consortium's (BRC) position on that matter. We do not wish to be associated with the more outspoken supermarkets. Through the consultation process, we have tried to engage constructively with the Executive and MLAs to find an outcome that benefits everyone. B&Q supports the levy and backs the Executive's support for small business.

Small and medium-sized enterprises (SME) make up a large number of our customers in B&Q in the building and home improvement trades, and we know that our business only thrives when the high street thrives. Small firms drive consumer confidence, and that, in turn, leads people to invest in their homes, which is very important to B&Q. At the beginning of the downturn two years ago, B&Q anticipated that small businesses would need additional support and that is why we created TradePoint, which is our small business operation. It offers tradesmen discounts of up to 50% on all our products and has successfully passed on huge savings to more than 12,000 small businesses in the Province and has helped to support the economy. Since the start of 2010, B&Q has given more than £750,000 in discounts to small businesses in Northern Ireland.

B&Q is not a supermarket. Therefore, we believe that the rates system should be fair. In these difficult times, those companies that can afford to pay more should do so and those that cannot should not be unnecessarily penalised. During the downturn of the past two years, B&Q has seen a 15% slump in sales in Northern Ireland and we have already undertaken as much as we possibly can by way of belt tightening and efficiency savings. We simply cannot afford to pay a blanket 20% rates increase. Why? It is our business model that prevents us from being able to pay. We have no flexibility in the location or the size of our stores, and those of you who know B&Q will know that we need large amounts of storage space. We sell high-volume, low-value products such as 8ft by 4ft sheets of timber, plasterboard, cement, sand and plaster. Equally, we need larger car parks — unlike some of the tighter car park spaces that you might see elsewhere — to allow those bulky items to be put into our customers' cars and trade customers' vans.

As a result of the proposal, we would be liable to pay the proposed levy on all nine B&Q stores in Northern Ireland. That would not be the case for many other multi-site retailers, including the supermarkets, which have more flexibility in their business models. For example, the largest food retailer in Northern Ireland would only be liable to pay the levy on approximately one third of its store estate in the Province. It has been able to open small stores in town centres, which B&Q cannot do. Our sales are only 8% of that large supermarket retailer's sales, yet, under the proposed levy, we would be required to pay more than 50% of the contribution that it would be asked to pay.

That will have dire impacts for B&Q. It will wipe out our entire profit in Northern Ireland; in contrast, it will not do that to the supermarkets, as they have far higher sales per square foot ratios. We are a responsible business in Northern Ireland: we employ 1,000 people and we pay nearly £5 million in rates, yet we make less than £1 million in profit. The point that was raised by IKEA is that the rates burden in Northern Ireland, compared with other regions, is exceptionally high. Indeed, our store in Newtownabbey pays a third more in rates than equivalent stores in Glasgow or Hull.

The proposal will hurt the ordinary staff in B&Q as well as its business, as we will no longer be able to pay profit-share bonuses. At B&Q, staff are given a share in the profits of the store that they work in, which is worth between £30 and £100 for each member of our shop floor staff. That does not sound like much, but it is very important to every one of those employees. The reward scheme is directly linked to store profit, and wiping out that profit will have a dire impact on the staff profit-share scheme. In 2010, we made £1 million in Northern Ireland, and we gave half of it back to our shop floor staff in profit-related bonuses. Therefore, that is £500,000 that we put into the Northern Ireland economy through the pockets of our employees.

In B&Q, we believe that the current proposal is not workable for businesses like ours. We believe that there is an alternative way to raise the funds that the Executive need to support small business. Having examined the options, we believe that the large retail levy should mirror the Scottish model of a supermarket tax — in other words, a levy on only those large retailers selling alcohol and tobacco. Many companies in the non-food sector have similar business models to B&Q, and they also support the supermarket tax.

In conclusion, I would like the Committee to know that we want to work with the Executive and the Assembly to create jobs and growth in Northern Ireland. B&Q is willing to pay its way. We will continue to help small businesses through TradePoint, and we will be paying £5 million a year in rates. We are also willing to publicly support any alternative suggestion to the levy that creates a fair system.

Ms Jane Bevis (Northern Ireland Retail Consortium):
Thank you for inviting us to give evidence this morning. We are the new kids on the block. The Northern Ireland Retail Consortium (NIRC) was launched back in the spring of this year to represent the largely multiple retailers in the British Retail Consortium membership trading in Northern Ireland. There are many aspects of public policy on which we have views and on which we wish to work in partnership with the Executive and the Assembly in promoting the role of retail in Northern Ireland's economy and society.

As the largest private sector employer, we feel that we can play an enormous role in developing the economy and in supporting the growth and expansion of our many small and medium-sized enterprise suppliers in Northern Ireland by offering flexible working opportunities to the many people who find it difficult to secure work in other sectors, by developing our staff in their careers, and by providing vital services to the communities in which we trade, whether in food, pharmacy, clothes or household electrical goods, for example. Furthermore, we can play a role in ensuring that goods that are safe and of good quality are offered at competitive prices, as David mentioned, thus helping hard-pressed households to stretch their budgets, and in supporting our communities through providing equipment for schools, funding for youth groups, raising funds for charities and encouraging staff to volunteer in local good causes, for instance.

Between them, NIRC members employ around 30,000 people here in the North and, as the Department of Finance and Personnel (DFP) acknowledges, have grown jobs by over 18% over the past few years. They have plans to employ at least an additional 6,150 people in the next few years, which is a further 20% of growth. For that reason, it appears, they have been singled out as a cash cow to be milked by the Finance Minister.

We fully support the extension of small business rate relief as a temporary assistance to genuinely small businesses to give them space to adjust their cost base in these particularly testing times. Our members contribute to similar schemes in Scotland and England but at 0·7p in the pound not 11p, as proposed by Minister Wilson. The rate here would be 16 times higher than in GB. This is a tax on jobs, which is a very strange proposal in these times of growing unemployment. It is the modern equivalent of bleeding the patient to restore his health, and it has many unintended consequences.

We want to see retail of all sizes and descriptions thrive, and today we have come forward with a five-point plan to secure retail's future in Northern Ireland. First, we want a fairly funded small business rate relief scheme. Secondly, we would like lower rates for all businesses and households that are honestly paying their rates at present. Thirdly, we want investment in town centres, including the acceleration of the well-tested business improvement district concept that is operating in the South and in GB. Fourthly, we want a reformed planning system that helps to encourage and sustain inward investment, including a "town centre first" policy. Finally, we have made a commitment and want to work with the Executive in developing the skills of our workforce, as a more skilled and productive workforce ultimately means economic growth and more jobs.

In all those cases, the Executive have put forward proposals that go at least some way to delivering our vision. We are concerned about whether they are delivered as a coherent package of measures and are being taken forward sufficiently urgently to reverse the current economic difficulties. We need more urgent action on administrative reform; collecting outstanding rates rather than writing off millions of pounds of unpaid rates; bringing the business improvement districts (BIDs) legislation forward; planning reforms; and skills training. We need a more considered approach to the large retail levy and the hundreds of suppliers, thousands of employees and millions of pounds of inward investment that that will affect. This Committee has a crucial role in ensuring that these proposals are given the careful scrutiny that such a controversial policy with so many unintended consequences needs. We look forward to working with you in this endeavour.

The Chairperson:

Thank you very much. Obviously, the Committee is very aware of its role. We have been gathering evidence from the Department and the Minister who made the policy proposals and from those with a vested interest in the small retail side and people like you on the larger side. We are trying to approach this with an open mind and to take evidence from across the board. The Committee will then, having put further questions to the Department, come to its own view on the policy proposals and make that available to the Minister of Finance and Personnel.

I want to return to a point that Iain made. You said that you felt that it would be fairer to do a revaluation. I do not think that it is planned or possible to do the revaluation in the next couple of years, and there is obviously an immediate need for small business rates relief. Given that this is a fixed-term proposal — it is intended to die after three years — do you accept that it may well have the same effect as if we were in a position to do an immediate reassessment or revaluation?

Mr Joannides:

I can speak only for the process that happened in our store. If you look at it in a straightforward manner, looking at the value placed on our business and at the rates placed on other businesses in similar markets, it is very clear that we are paying a huge amount more than we should be paying. I do not know the intricacies of why that has happened. To us, it is about parity and fairness. The Minister believes that we should all pay more because we currently pay 20% less, but we do not currently pay 20% less, so surely a revaluation would bring us back to where we should be.

The Chairperson:

You assume that revaluation will benefit you.

Mr Joannides:

Yes, we think so.

The Chairperson:

I am not sure who can answer my next question, as I know that there are some commercial restrictions on what people can tell us. Figures that we have received from the Department suggest that the levy is estimated to represent 0·005% of the combined UK sales turnover of the large retailers and 0·8% of their operating profits. Is that accurate as far as you are concerned?

Mr Joannides:

All that I can say is to repeat the fact that we make a substantial loss in Belfast, and we have only one store in Northern Ireland. You have to look at things in isolation. We do not want to look at things on the back of a UK company. We look at where you are applying the tax. You are applying the tax in Belfast, and we currently make a substantial loss in our store. There is nothing more that I can add to that.

The Chairperson:

Surely, you are part of a network that is across here and in Britain and in Ireland?

Mr Joannides:

Absolutely, but is it right that —

The Chairperson:

I presume that if one store is losing, the entire network can absorb that in some shape or fashion and, hopefully, turn around the individual store.

Mr Joannides:

Potentially, but is it right to subsidise one loss from another store?

Ms Bevis:

I think that the figures used by the Department are the wrong set of comparisons. First, turnover is irrelevant. If you look at many of the other large businesses that are not within the Department's proposals, you see that they have enormous turnovers as well. So, on that basis, why would they not be included? You need to look at profit on a per-store basis. As colleagues have explained, we are a very low margins sector. Everybody sitting here on the panel is cutting margins absolutely wafer-thin in order to offer the best possible offer to customers to attract them in. It is a very competitive situation that we are all facing. We recognise that colleagues in small retailers, equally, have to try to find a way forward within that very competitive environment.

In terms of the profit margin of an individual store, the levy actually represents something like 8·5% or 9%, which is a much bigger figure. To an extent, a retailer will, of course, cross-subsidise between stores in the short term. Ultimately, however, if you cannot turn a store round, you have to close it. If you cannot make the case for a substantial competitive rate of profit on a new store opening compared with investing that same capital somewhere else, you cannot open the store. Although we are not saying that this will result in large retailers withdrawing from Northern Ireland, it will certainly have a significant impact on their future investment decisions.

The Chairperson:

That is a disputed fact, but we are happy to take evidence from you on that.

Mr Cree:

Thank you very much for your submissions, particularly the written ones. There is a lot of detail in them that will be helpful.

In your submission, Jane, you are saying, "Look, treat everyone the same. Ignore the fact that small towns have small stores from big groups." Do you recognise that there is a problem in town centres generally with footfall and everything else? Additionally, in comparing the rates with other regions, are you mindful of the fact that our regional rate has been frozen for the past four years and will be for, hopefully, the next four years?

Ms Bevis:

I very much acknowledge the point that you make that town centres are facing huge challenges. We released figures earlier this week on the number of vacancies that we are seeing not just in town centres but in shops generally, so out-of-town as well. That is a bigger problem in Northern Ireland than anywhere else in the UK. However, I am very pleased to say that it is less of a problem in Northern Ireland now than it was three months ago. Innovative processes are already taking place to encourage pop-up shops in empty shops, etc, and councils are working to encourage more shops into empty properties.

What we need is a long-term plan and that is why we think that the business improvement district legislation is so vital, because that enables private businesses — largely retailers but not exclusively retailers — within the designated area to come together with the local authorities and potentially other partners to come up with a scheme that really addresses the problems that face that particular town. There will be different problems in different places. There is not a one-size-fits-all solution: it must respond to local difficulties.

That concept has been proven in the US for over 25 years and, more recently, in the Republic and in England, Scotland and, to a lesser extent, Wales. There is no need for a long scrutiny process on that. The Executive should be rushing that legislation through the Assembly now. That is what needs accelerated passage so that we can start to put the heart back into towns and look at ways to streamline the planning system and to do all the things that will encourage large retailers to invest. They draw in the footfall for their small neighbours and that is how you get a vibrant town centre again.

Mr Cree:

And the regional rate?

Ms Bevis:

It is always good to have a freeze on any costs. Of course, rates are just one of a list of costs facing retailers in trading. There are certainly areas of Northern Ireland where rates are more expensive than elsewhere in the UK. There are other costs that are more expensive here than elsewhere in the UK.

Mr D Bradley:

Morning, everyone. Thanks very much for your presentations. Jane, if my memory serves me right, it was you who said that you would not mind contributing to the scheme if it was genuinely for small business. I take it from that that you suggest that the scheme has a bit of a scattergun approach. How do you suggest that the scheme should be made more focused and, at the same time, operable?

Ms Bevis:

Indeed. Similar schemes in GB ensure that it is genuinely for small business: either you are trading from single premises or, if you have two or three premises, there is a sliding scale on which you get a reduced rate of relief on your second and third properties, and there is a cap on the total rateable value that qualifies. The proposals that have been brought forward are not a small business rate relief scheme; they are a small business premises rate relief scheme. There is a huge difference. It means that some very large businesses here will be recipients of the scheme, whereas, if they were elsewhere in the UK, they would contribute to funding the scheme. If the administrative arrangements are perfectly applicable and easy to put in place elsewhere, they should be here too. To be honest, we are talking about 9,000 properties. If, at the beginning of the consultation process back in the summer, someone from DFP had got on their bike and taken a clipboard, they could have got round all those properties by now and decided which are eligible and which are not.

Mr D Bradley:

I am not sure, but my understanding is that there will be no sunset clause in the Bill. Do you think that there should be a sunset clause?

Ms Bevis:

It is absolutely vital that there is a very clear end point. Minister Wilson said that he sees it as a temporary measure to help small businesses in a very difficult period. None of us know when the difficult trading conditions will end. The Minister said that he is looking at the BIDs legislation and other tools being in place over a three-year period. I have already made the point that I think that the BIDs tool should be in place a lot faster to enhance confidence among businesses investing in Northern Ireland. I am not talking about just retailers but every other large business. I know that colleagues from the Confederation of British Industry (CBI) will give evidence later. We look at the scheme from the point of view of someone who is saying, “I am in international big business and choosing where to invest my capital. Do I trust that the Government of Northern Ireland will treat me fairly once I have that capital in place?” The scheme, as it is currently, sends entirely the wrong message in that regard. A sunset clause would help significantly towards putting confidence back into those big businesses.

Mr D Bradley:

Some of you mentioned the extent to which you use local suppliers, the amount of money that you invest in the economy here, and so on. Many people's view is that, generally speaking, you are people from outside Northern Ireland who come in and benefit from trading here but leave only a limited benefit behind and that, in difficult times such as those at the moment, it is not really too much to ask you to contribute a bit more. By the way, I am happy to hear all of you answer.

Ms Bevis:

Our 30,000 employees are overwhelmingly local people who support local families and spend in the local economy. Our wage bill, which is one of our biggest costs, is invested in Northern Ireland's economy. We estimate that the average supermarket that trades here has 200 SME suppliers locally. That is more business for them, and that is more wages paid into the local economy. We estimate that, between them, they spend £1·5 billion a year in the Northern Ireland economy. Colleagues from Enterprise Ireland, for example, have said to me that, if Tesco were a country, it would be their third biggest export market. Essentially, that is also true for the North, so there is lots put back into the economy here.

Mr D Bradley:

Some people would argue that you have displaced trade that, previously, was taken up by smaller retailers.

Ms Bevis:

By improving productivity, we stimulate more growth and more spending in the economy. As David said, it is not a zero-sum game. We can get into employment more people who are spending at the local small shops as well as the big multiples.

Mr Paterson:

When we came to Northern Ireland, one of the things that we found was the extent to which we were welcomed by customers and a range of businesses here because we brought competition and that helped to drive down prices. That helped people to have a bit more money in their pocket, which they can spend in other ways. There is a direct benefit from wages and suppliers, but let us not underestimate the impact on inflation. From the recent Office for National Statistics (ONS) figures on inflation, it is clear that competition in our sector was driving prices down and keeping inflation from growing even more. That has a benefit for everyone in Northern Ireland.

Mr Humphrey:

Thank you all for your presentation. I notice that Tesco is not part of your delegation. Do you think that the comments from Tesco helped your cause?

Mr Cree:

Every little helps.

Mr Paterson:

I will certainly not answer for our major competitor. That is for it to do, and you may wish to ask it about that later. Members who have seen our consultation response will know that we have tried to take a constructive approach. We have set out four separate options on how we think that the tax could be made fairer and on issues that could be addressed to do with that. We have also had those discussions with the Finance Minister. We have raised other issues where we think that barriers currently exist. One of those, for example, is the current state of the alcohol licensing system, which brings in great uncertainty and significant cost. That could be revised and could bring in much-needed funds for the public purse. We have tried to be constructive in that process.

Ms Bevis:

Tesco is one of our major members, and I know that it is very committed to Northern Ireland and its stores and colleagues here. It is genuinely worried and frustrated by the proposals.

Mr Humphrey:

The question was: do you think that it has helped your cause?

Mr Walsh:

From the perspective of B&Q, I said that we did not wish to be associated with the more outspoken supermarkets. That is the clear position of B&Q.

In answer to the question of how we support local industry in Ireland: B&Q's policy is to source for all its 350 stores from its vendor base right across the British Isles, including Northern

Ireland and the Republic of Ireland. A lot of the products that we sell in our stores are manufactured and sourced in Northern Ireland and the Republic.

Mr Humphrey:

I have taken cognisance of the overall number of people that you employ and the disposable income that those people have. David, you said that the amount of disposable income that goes on grocery spending is less in Northern Ireland than on the mainland. Many people will contest that that is because wages are lower than on the mainland. I used to work in the food industry, and I know that there are UK agreements on the purchase price for thousands of products. Therefore, I am not entirely convinced of the distribution argument. One of the ways in which you can address that — I am sure that companies continue to do that — relates to Mr Bradley's point. It is not just about the effect of the spend of the 30,000 people collectively employed by companies in your organisation. The purchasing power that you have in buying local products and increasing the volume of such products on your shelves will also have an effect.

I am hugely sympathetic to the point that Diarmuid made about the responsible way in which B&Q is looking at this. There are a number of points regarding rates on which I also have huge sympathy with Jane. I take Iain's point about the rates paid here compared with the mainland. We have a dual rates system in Northern Ireland — a regional and a local rate. The previous Secretary of State for Northern Ireland once increased the regional rate by 19% in one fell swoop, in one year. The difficulty is that that position was inherited by the Minister and the Executive. Many local councils — I declare an interest as a member of Belfast City Council — have sought to keep rate increases below inflation or, in some cases, sought a 0% increase.

I agree with you that business improvement districts are important. The Department for Social Development is looking at that. Rate collection and the Planning Service are also issues. Our Committee has nothing to do with scrutiny of the Planning Service, but I sympathise with your frustration. In support of what the Chairman said: we are looking at this root and branch. We have had the Department's permanent secretary in to discuss how rate collection can be improved. The Department has brought in the performance and efficiency delivery unit (PEDU) to try to improve that. It is a huge problem. The Minister is keen to address the level at which rates are being written off. The responsibility to address that lies with the permanent secretary, and we have questioned him on that.

To come to my question: last week, the Committee heard from the Northern Ireland Independent Retail Trade Association (NIRTA), Pubs of Ulster and small business representatives from across Northern Ireland. They said the converse of much of what you have said today. It is a difficult situation for the Executive, the Minister and MLAs in their constituencies, because small business people come to their offices to make the point made by Mr Bradley, that huge multinational stores have displaced the small trader. How do you argue against that point?

Ms Bevis:

Ultimately, it is customers, is it not, who decide which retailer does or does not thrive? That is why things such as investing in town centres are so important — you need to attract customers to where your shops are. As David explained, the real challenge at the moment is that customers are finding it difficult to balance their budgets and, therefore, do not have a lot of disposable income. You have to offer customers a good deal, whether that means the best price, service, choice of goods or whatever. Small retailers can be very innovative and successful at that, and we absolutely support them as an important part of the mix. However, we do not think that it is right to take the approach of subsidising a failing business. Actually, we need that business to be a better one.

Mr Humphrey:

I do not think that the Minister is taking that view.

Ms Bevis:

That is why we support a temporary relief to help those small businesses adjust. There is always a temptation in these situations to say, “Oh well, we have put a temporary relief in place, but, actually, it is quite difficult to make the decision to take it away now. We will go on making the subsidy.” As we have seen in lots of other industries, ultimately, that does not work because, in retail more than any other area, the customer decides who wins and who loses.

Mr Paterson:

I want to pick up on a couple of points that you made about the relationship with suppliers. It is fair to say that, in Northern Ireland, we source and give more space and prominence to local products than any other part of the UK. However, we do that without adding price for our customers. We believe that we deal fairly with suppliers here: we have a higher cost to operate, but we do not put that through to prices for customers.

One of the other points that you rightly picked up on was rate collection. An interesting point came out from the debate in Scotland last year when the Finance Secretary proposed a large retailer levy that was not too dissimilar to this proposal. At that point, the Finance Secretary said that he required £30 million or there would be a range of cuts. That levy was defeated in the Scottish Parliament, and, when it was, the Finance Secretary told us that, because of increased buoyancy in rate collection, not only was that £30 million not needed but he had found more money from business rates to fund other things. Therefore, one of my questions for the Minister here would be that, if the buoyancy of business rates were higher and if tax collection were greater than expected, would the Executive look at the levy again or would they look to provide a rebate to business? My understanding is that the Minister did not set out as a matter of policy to try to equalise the playing field; he simply wishes to raise the £6·5 million. Therefore, if he finds that that money comes in through increased buoyancy or through improved rate collection, will he look at reducing the tax or at offsetting it?

Mr Humphrey:

I was in IKEA on Saturday. I do not know whether you were there, Iain, but it was bunged. It was quite noticeable that there were a number of cars from the Republic. I have not seen any recently, so shoppers from the Republic are clearly shopping there. There is a great opportunity coming down the line for Northern Ireland retail and business in general, because the Republic's Finance Minister, Michael Noonan, has indicated that value added tax in the Republic will increase to 23%. What effect will that have?

Mr Joannides:

That will obviously present an opportunity for all the retailers in Northern Ireland, especially those in border areas. Newry, Strabane and Enniskillen have suffered greatly over the past 12 months, and it would be great to see some Southern customers returning to those areas.

Going back to your original question, from our perspective, we very much support rates relief for small businesses, and we have never, at any point, said that what the Minister is trying to do is not the right thing. Our customers predominantly work for small businesses, and if they have greater spending power and job security, we will do better. That is very straightforward. The only problem that we have is with the fairness in how the tax will be collected. We already pay more, and we have no problem with a small increase on top of what we currently pay. However, we feel that the increase should not be levied simply at retailers; as David said, there must be a fairer way of administering it. There has to be. Big businesses should contribute to the current conditions, but that should be across the board. Every large business in Northern Ireland should pull together to support smaller businesses.

Mr Humphrey:
Thank you.

Mr Walsh:
B&Q has been in Northern Ireland for nearly 30 years, and we are not aware of having any impact on any of the competition. We need to reinforce the fact that, in Northern Ireland, non-discretionary spend is definitely under pressure. Sales in B&Q in 2010 and for most of 2011 have been down by 15%. We also have nine stores in the Republic of Ireland, and we do not enjoy any of the benefits of cross-border trade.

Mr Hilditch:
My question relates to your first question, Chair. Hopefully, we got an honest answer to that from IKEA. David, if the rate review had taken place on schedule, would it not be the case that Asda, for example, would already be paying at a comparable level to what is proposed or perhaps paying even more?

Mr Paterson:
We do not know, because we do not know what the exact detail of that revaluation would be. What we do know is that that would be at least fair. We would have the opportunity to appeal decisions where we felt that the revaluation was inappropriate for those individual stores. There would be a certainty to that.

We have an additional concern that goes back to the point about the sunset clause. We accept the Minister's intention that this is to be a three-year measure. However, we also think that it would be very difficult to remove that support from small businesses after three years. We are not aware of any other scheme where that has happened. In fact, every other scheme where that has been brought in has been expanded and increased. Therefore, we have a concern that this could prove to be a double whammy, in that not only do we pay more now — that may continue, which is why we would ask for a sunset clause — but the revaluation may hit us again.

However, there is a process to that. That process would not send the same message to our board about investment in Northern Ireland. At the moment, the very clear message is: "We believe that you, the large retailers, should pay more tax and that no other large businesses should, despite having higher profits and turnover."

Mr McLaughlin:

Thank you very much. They were very interesting presentations. I am more interested in the process now, and I thank you for the information that you provided, which, I suppose, will have to be reflected in agreeing a final position.

I also acknowledge that there is a temptation to deal with other issues that are connected with this one. There are ongoing considerations for the business improvement districts. The Executive are intending to produce the primary legislation in 2012. This is November 2011, and you are arguing that they should do it more quickly. I do not know exactly what the impact of that would be, but we have found that there are issues, even in our preliminary investigations, particularly where the power relationships between the big operators and those associated smaller businesses are concerned. There are also questions about whether there is the same commitment to ensuring that the BIDs achieve their purpose. However, that, for us, is for another day.

I am concerned about your engagement with the Department. We heard from today's presentations that people are not arguing against the principle of providing support if that would have the desired effect of ensuring that small business survives this downturn. The difficulty with the sunset clause is that none of us knows when we will come through this or whether we are heading into another dip, which would put intense pressure on the Executive to respond.

However, the point is well made that, if you provide those reliefs, it would be very difficult to cut them off when the dependency emerges. However, if we cannot get that competitiveness, those businesses would not survive anyway. So, the Executive, in their general approach, will have to bear down on all that. The sunset clause is probably too prescriptive to be an effective measure if we end up having to double ourselves over again on the basis of a continuing economic crisis.

I would really be interested to hear about the Department's responses when you indicated that the scheme is, in fact, a blunt instrument and that there are businesses that really do not need it as much as others. Those businesses will benefit and could move in immediately and claim the relief. Do you think that that point has been recognised and accepted?

Ms Bevis:
It is not just us who think that it is a blunt instrument; the First Minister said that it was a blunt instrument. In our discussions with the Minister and the Department, they indicated that they are very open to other suggestions on ways to fund the small business rates relief. It is just that every time we come up with a suggestion, they tell us that it would be contrary to policy and that they do not want to proceed that way. We think that there needs to be a policy that is pro-retail, as well as a policy that is pro-manufacturing. All we are asking for is equal treatment.

Mr McLaughlin:
I understand why you are making the case. In fact, I have some sympathy for that. I am asking whether you got a response and whether you think that the point was made.

Ms Bevis:
On each specific proposal that we came up with, reasons have been given as to why they do not think that they can actually do it that way.

Mr McLaughlin:
We have met those civil servants as well. Can anybody else respond?

Mr Paterson:
We had similar responses, as some said that there may not be time to do some of the administrative work on, for example, differentiating between banks operating out of small premises and so on. We think that that is unfortunate, because that is something that, frankly, we raised right at the start of the consultation process. Therefore, we do not see why you had to wait until the end of that process to begin to do the work that would give greater flexibility in the rates system. That could have started long ago, and we put it to the Minister back in early summer.

Mr Walsh:
I endorse David's point. Concerns have definitely been raised that, if the scheme is in place for

the start of April, there is no time to allow alternative schemes to be considered and consulted on.

Mr McLaughlin:

OK. Nevertheless, we have a responsibility in the Assembly and the Executive for policy, so if things change, the system will have to respond. We have had four very interesting submissions, and they made some similar points, but there is also a clear divergence. In fact, there are some people who are not here today who we probably could have heard from. I think it would help everyone if we could boil it down to heads of agreement and have an engagement on that. Given the time factor, perhaps we should do more work at that end of it.

Ms Bevis:

We would be very happy to work with the Committee or with individuals on that.

Mr McLaughlin:

And, I suggest, with the Minister and his officials, given the urgency of the situation.

The Chairperson:

I want to expand on Mitchel's point, because he brought up a concern that we raised here. I think that you referred to it, Jane. The scheme does not target some businesses that perhaps should be targeted, and it provides a benefit to businesses that perhaps should not receive it on the basis of the size of their premises. Given that our rates are based on property size, you can see the departmental officials' argument that they do not have flexibility there. You suggested that rates relief should be approached on the basis of the type of business rather than on premises. Have you put any argument to the Department? That is something that we have heard in the Committee and about which we have our own concerns, even though we understand in principle the necessity of support to assist small businesses. One of the concerns that we have, which Mitchel identified, is that some larger businesses that perhaps should be in the picture are not and that some of the beneficiaries are people who are doing quite well as they are part of multiples. The only difference is the size of their property. Have you put any specific propositions to the Department on how to achieve the outcome that you suggested?

Ms Bevis:

We put two main proposals in our submission. One was that, if the idea is that it is to be a retail scheme, the only recipients should be small retailers. You can use planning classes to broadly distinguish who they are. There will be a few little pinches around the edges, but it will broadly get you to the place that you need to get to. Alternatively, you could say that it is a complete cross-sectoral approach for all small businesses, in which case all large businesses contribute. You cannot have a hybrid that has a broad range of beneficiaries but only a very small base of funders.

The Chairperson:

OK. You also suggest that the BIDs initiative could be an alternative to that, although, as Mitchel suggested, there is a time frame for bringing that in. Is there not a mix of both schemes in Britain, where there is a BIDs scheme as well as rates relief from targets?

Ms Bevis:

Yes, but to put it into context, we are talking about 0·7p in the pound being the contribution to supporting small businesses and typically around 1p in the pound — a few are edging up towards 2p now — contributing to the BIDs scheme. Even where you have both in place, which applies in an increasing number of town centres in Scotland and England, that still amounts to only 2p or 2·5p in the pound, compared with a much bigger figure here of 11p in the pound. That is why the proposal is so damaging.

Mr Paterson:

In our response, we suggested a number of options as to how that could be distributed that could be looked at. As Jane said, you could take an approach similar to that taken in Scotland, with 0·7p in the pound as the contribution. A similar approach here would mean that, we think, around 0·63p would be the contribution.

However, other options could be fairer. For example, you could take the current threshold that the Executive are proposing, which is £500,000, and apply that to all large businesses. We think that that would result in a levy of around 2·8p. Alternatively, you could look at something smaller, say a threshold of £100,000, which would work out as a levy of around 1·13p. The point is that we do not believe that larger businesses being asked to pay at that level would find that a deterrent to further investment.

At the level we are talking about now, if our board is taking decisions on investing and sees a 20% increase in business rates, that would have an impact, because we have a two-stage process in our investment decision. We decide what schemes we want to put forward across all countries in the UK, and that gets whittled down. We do not support schemes where we do not believe we will make a profit. We then have to take that to our board at Walmart, which adjudicates among 14 different countries. We are talking about global capital being invested in Northern Ireland and in other parts of the UK, and we have to show a clear return on investment. Adding costs such as this tweaks the investment model. It makes it harder to make a return more quickly, and a 20% increase would have a clear impact. If you are looking at a levy supplement of 0·6p or 0·7p, or even 1p or 2p, that would not have nearly the same impact on the return on the investment model. That is why we are asking for a bit more parity.

Mr Walsh:
Again, we made representation to the Minister along similar lines to those that David discussed. We believe that that is much fairer.

Mr Paterson:
I have one thing to add. On the question of whether there is time to sort this out before April, we are not convinced by the answer that there is not. We think that work could be got on with. If the Minister is saying that this is a three-year measure, why not make year 1 the current position and do the work in the intervening time? That could be the fallback position, and it would mean that, at some point, perhaps in October, banks and other large businesses that will be beneficiaries would stop being beneficiaries and start paying their way from there. We would ask for that work to be done.

The Chairperson:
OK. We have run beyond our time, so thank you very much for your presentation. As I said, the Committee will continue to take evidence — we have another evidence session now — and we will come to our own views with further evidence from the Department as well.

We will now have a further evidence session on the same issue, so could anyone who is either in the Public Gallery or here to give evidence please switch off any mobile phone or electronic devices? We are joined by Roger Pollen, head of external affairs for the Federation of Small Businesses (FSB); Nigel Smyth, director of the Confederation of British Industry; and Chris Kenton, the head of the property group in the NI Royal Institute of Chartered Surveyors (RICS). You are very welcome, gentlemen. We received an apology from Janice Gault, the chief executive of the Hotels Federation. She is unable to attend due to unforeseen circumstances. We are one witness down, but, given that we have run over time already, that might not do any harm.

I am not sure whether you have agreed a speaking order among you, but I invite each of you to make some opening remarks. You will have had a flavour of the previous session through some of the questions asked and the discussions that arose. The purpose of the session is to help to inform the Committee so that it can go back to the Department with further questions, observations and points that have been put to us. We intend to distil all the information that various interested parties have given us and come up with a report on the Department's policy proposal. Would you like to kick off, Nigel?

Mr Nigel Smyth (Confederation of British Industry):
I am happy to do that. First, thank you; we welcome the opportunity to appear before the Committee to provide a short statement. As you are aware, the CBI has provided a detailed response, and I will take this opportunity to highlight a few key points.

First, as set out in the Department's summary of consultation responses, there is strong evidence that consumer expenditure and confidence have declined, largely because of fairly low wage increases, significant inflationary pressures and, indeed, a reduction in the number of consumers from the Republic of Ireland. Business confidence is in significant decline as well. Most businesses face a situation in which there is weak demand combined with rising costs, which, overall, create difficult market conditions. To give a little bit of context, we are very keen to see the rating system used to encourage economic activity for inward investment and, indeed, for the development of indigenous businesses. Indeed, we believe that any proposal to significantly increase rates would be unhelpful to encouraging investment in Northern Ireland.

The CBI is strongly opposed to the proposed 20% levy for large retail premises. The measure has been considered by our economic affairs committee and our council, which does not have any retailers on it. We have also consulted our retail members, from whom you heard. We strongly believe that the proposal sends out the wrong messages to investors in Northern Ireland. The Minister has stated that he is targeting a sector that is perceived to be faring better than others. However, our evidence shows that the levy will place a major burden on large retailers. Our concerns apply to not just the retail sector; they go much wider. The Executive's decision to target a sector because it is perceived to be doing well sends out a very negative message.

The timing of the decision could not be worse. As I highlighted, the retail sector is operating under difficult market conditions, which are likely to remain for a considerable time. That is impacting on large and small stores. The levy increases uncertainty and undermines confidence in future investment. Faced with such significant cost increases, we believe that stores will have to respond by cutting costs. We have highlighted that we do not believe that stores will close, although some think that that will not be a certainty in the new year, given the pressures on the retail sector in Belfast. Our evidence indicates that companies will either cut staff numbers, social responsibility activities or other investments, particularly those on the environmental side. The proposal will undermine town and city regeneration. We believe that the consultation, which is very much based on turnover figures at a national level, undermines the impact of the levy on store profitability in Northern Ireland. It is very unfortunate that the rating revaluation did not take place. We believe that that is the fairest system, and we have argued for a long time that it needs to be done regularly.

On the issue of the small firms rates relief scheme, our members with small businesses will clearly benefit from the proposals and will strongly welcome them. They stand to benefit from a reduction in rates of between around £600 and £1,200 over the next three years. However, it is fair to say that we highlighted in our response that it is unclear what impact the extension of the small business rates relief scheme will have. The anecdotal evidence that we have picked up on certainly indicates that it will not help to create jobs. Indeed, if we look at the evidence from Scotland and Wales, we will see that the scheme's main achievement there has been that support has been given to some very small and marginal businesses, particularly those with turnovers of less than £100,000. It will certainly help such businesses in the current difficult market trading conditions.

We certainly believe that job creation should be the key short-term focus for the Executive. Indeed, the CBI and seven other organisations highlighted that earlier in the year in our jobs plan. We proposed something that would bring additional leverage. We were very keen to see the rates system being used to encourage investment and to incentivise investment in areas such as energy efficiency.

We oppose what the Minister is bringing forward. We want to support town and city regeneration, and we have highlighted alternatives. You heard about business improvement districts, which are, we believe, a very sensible way to go, and we would like to see proposals on those brought forward with urgency. We believe that serious consideration should be given to material change of circumstances. I see that the Department's response suggested that that would undermine the local rate base. However, it would get more rates from the large store of whatever kind that a regional centre is developing. There should be an opportunity for smaller shops in particular to be able to challenge and respond, because their market conditions would obviously change on the back of that out-of-town development. We clearly need more effective planning policies in place.

Critically, we certainly believe that the Committee should be asking about the outcomes of those proposals, particularly where maintaining and creating jobs is concerned.

For comparison, the Invest NI jobs fund of £19 million will create 4,000 jobs by 2014, and our latest business plan from the green new deal, which will use about £12 million of public expenditure, will certainly create several hundreds, if not thousands, of jobs over a similar period.

Mr Chris Kenton (Royal Institute of Chartered Surveyors):
The Royal Institute of Chartered Surveyors (RICS) welcomes the opportunity to brief the Committee on the commercial rating consultation and, in particular, the proposal to extend the small business rates relief to be funded through a supplementary levy on large retail premises. RICS is the principal body of its kind in the world for professionals engaged in property, construction, land and related environmental matters. As an independent and chartered organisation, RICS regulates and maintains the professional standards of over 91,000 qualified members and over 50,000 trainees and students. In Northern Ireland, RICS represents some 3,000 members. It is governed by a royal charter and is approved by Parliament, which requires it to act in the public interest.

I will briefly address a number of the issues regarding the proposal to introduce a supplementary levy, and I will outline a number of the recommendations on commercial rating and support for small business in Northern Ireland.

RICS welcomes the Northern Ireland Executive's desire to provide support for small businesses in the current economic downturn and notes that many businesses are finding trading conditions difficult in the current climate. However, we are not convinced that the proposal, as outlined in the consultation document, is the best way of providing that assistance to small businesses. We concur with some of the findings of the Economic Research Institute of Northern Ireland's (ERINI) 2008 investigation into the small business rates relief for Northern Ireland.

The Northern Ireland Executive have advised that there should be four drivers as the focus of government policy: an increase in research and development; promotion and encouragement of enterprise; upskilling the workforce; and ensuring a modern infrastructure for workers. Policies should be durable, and by that I mean that they should be sustainable without periodic public assistance, and there should be spillovers for the wider economy. According to the strategy, those principles were devised to ensure that limited public resources are used in the most effective way.

Under the proposed extension of the small business rates relief, commercial premises of a net annual value (NAV) of between £5,000 and £10,000 will receive relief on their rates bill, which will amount to approximately £730 per annum. Although small businesses would, no doubt, welcome relief of that amount, it is unlikely that that would be sufficient to make the difference between a business being viable and closing down. Neither is the proposal likely to impact on employment figures. More importantly, the average assistance of £730 is not going to impact on staff retention, nor is it likely to create additional employment opportunities. It is our view that the support will do little to meet the criteria established for drivers of government policy, and it is not the optimum method of using taxation to assist those businesses in greatest need.

As the Finance Minister has noted, the measure is a blunt instrument, and we note that the proposal does not reflect that there are many profitable business organisations operating from small premises and that they may not need the support provided. Similarly, not all retailers occupying large retail premises will be highly profitable.

In our response to the consultation, RICS called for a fair rating system, which is revaluated regularly to ensure that anomalies are addressed. It also called for the establishment of a system in which investors can have confidence. In 2009, RICS acknowledged the rationale behind the Executive's decision to postpone the 2010 revaluation, given that the local councils required certainty on the rates base. If we are looking at job creation and investment from business organisations, it is imperative that they are given the same stability and confidence in the rating system. Had the postponement of the 2010 non-domestic revaluation not taken place, it is our contention that some of the stores identified in the consultation document, such as those in

Donegall Place, could have reasonably expected a reduction in the NAV, given the proximity of the Victoria Square development. Many of those stores have already been impacted on by the decision to postpone the revaluation, given that their NAV was maintained at existing levels. In effect, those stores will be paying a supplement on an NAV that is already above levels that they would have been paying had the revaluation proceeded.

Among the proposals put forward by RICS is that revaluations need to take place regularly to address anomalies and to provide certainty in the rating system and that non-domestic revaluation should commence as soon as is reasonably practicable. RICS also considers that small business rates relief is not the optimum vehicle for providing assistance to small businesses and concurs with the view that the measure is a blunt instrument that is unlikely to impact on business viability or employment creation. In fact, we are concerned that the proposal could lead to a contraction in employment, as those large retailers identified attempt to assume the cost of the supplement.

Thirdly, although the consultation is not directly linked to the survival of town centres, the argument has moved in that direction. RICS Northern Ireland supports the development of business improvement districts as a means of marketing and developing town centres across Northern Ireland, and although BIDs legislation is not within the Committee’s remit, RICS believes that BIDs legislation should be introduced as soon as is practicable.

Fourthly, it is the opinion of RICS that the Northern Ireland Executive should, as a matter of urgency, work in a cross-departmental manner to address the needs of town centres. At present, the approach is fragmented. For example, the Department for Social Development has a remit for urban regeneration, the Department of the Environment has a remit for planning, the Department for Regional Development has a remit for car parking and transportation, and the Office of the First Minister and deputy First Minister has a remit for cohesion and integration. If relevant Departments choose to work in a co-ordinated way, town centres can become more sustainable.

Fifthly, we urge the Department to re-examine the rating of car parks in the next revaluation. Sixthly, we believe that support should be given to those who need it most. Starting up is one of the most challenging times for a business, and rating assistance should be provided to genuine start-ups that occupy vacant premises where there is a prospect of job creation.

I welcome the opportunity to explore these issues in the question-and-answer period. Thank you for hearing me.

Mr Roger Pollen (Federation of Small Businesses):
Thank you, Chairman, for the opportunity to give evidence to you and your colleagues. The Federation of Small Businesses (FSB) is the largest business organisation in Northern Ireland, with nearly 8,000 members. We survey our entire membership annually and carry out monthly panel surveys to find out what our members think about the issues that affect them and what they are experiencing on a wide range of issues. That means that FSB speaks for the typical businesses of Northern Ireland.

FSB supports the proposed extension of the small business rate relief scheme. Indeed, when the current scheme was introduced in April 2010, we called for it to be extended further because we could see the benefits that it was starting to deliver. In fact, we are not aware of a single Member of the Assembly who is not supportive of the idea, so we are agreed that the principle of small business rates relief is something that we all want to achieve.

It is worth considering why small businesses need rates relief. Rates are a disproportionate burden on small businesses; in some cases, they make up nearly 15% of their overheads. In our surveys, business taxes have been identified as a key barrier to doing business, with half of our members identifying rates as their preferred target for cutting.

Cash flow is another issue for small businesses, and it is magnified by the difficulties of obtaining bank lending and the increasing culture of late payments. Against that backdrop, a reduction in one of the largest overheads — rates — is an effective way of leaving cash in the business. It has been mentioned that small business confidence is significantly lower here than in the rest of the UK. Small business rates relief will have some impact in bolstering confidence.

Perhaps the greatest concern is the raw numbers that reflect private sector employment throughout Northern Ireland: small to medium-sized enterprises make up more than 99% of all businesses here, and the vast majority of those employ fewer than 10 people. During the last Assembly mandate, from 2007 to 2011, the number of small, medium and self-employed enterprises fell by more than 10,000, from 132,000 to 122,000. In the same four-year period, employment by SMEs has fallen from 81% to 77%, representing about 35,000 employees.

In bringing about these changes, we are trying to assist in that. We have seen it through the number of shops that have closed, with the negative effects that that has on their neighbours and on the appearance of towns and villages for tourism. We are also very supportive of the proposals to allow window displays in vacant properties, as a way of revitalising premises and of lessening the negative impact on neighbouring properties, and as an interim measure towards the return of the properties to an occupied status. Therefore, we add our voice to the proposal to allow the 50% vacant rate to continue for the first year of occupation, although the criteria for qualification will require further consideration.

We also suggest that, to encourage community cohesion and corporate social responsibility, businesses should be allowed to and be encouraged to sponsor community projects, and they should be given the opportunity to have a discreet logo on those window displays without triggering a rates liability for that small commercial advantage.

Echoing what has been said, we support an expeditious review of the rates revaluation system. Not only will that measure benefit retail, but it will benefit a large number of other small enterprises. Often, those enterprises are in rural locations where employment is difficult to stimulate. We must keep that in focus.

Chairman, I took the liberty of looking at half a dozen or so of the constituencies that are represented by members of the Committee, and it is clear how widespread the proposal's benefits will be. I will use your own constituency as an illustration, if I may. There are 24 businesses in the Mall in Newry, seven of which are in receipt of small business rates relief. If the proposal is implemented in the way in which it has been put forward, a further 10 businesses would come into the scheme. That means that 71% of businesses in the Mall would benefit from the proposal. As I said, there are other illustrations from constituencies that are represented around the table. Broadly speaking, the lowest number of beneficiaries would be 40% of businesses in a typical area — which, I believe, is the case in your own area, Chairman — right up to about 81% of businesses in typical areas in constituencies. It is, therefore, a direct way of delivering benefits throughout Northern Ireland.

The figure of £700 was mentioned as the typical amount of relief that each business could expect to receive. What could be done with that money? In the simplest terms, it would pay bills; it would provide working capital for stock and overheads rather than having to get overdraft facilities; it could pay a part-time member of staff for a month; or it could pay one employee's national insurance for a year.

Interestingly, one of our recent surveys found that, despite the economic turmoil, 71% of our members said that they would like to employ staff or additional staff, and 65% said that the most effective and helpful measure that the Assembly could introduce to encourage businesses to employ would be to reduce business taxes. Again, the ability to survey members enables us to find out what they say about creating jobs and what they would do with that sort of money.

It seems that no one disputes that the proposal has valuable benefits; the only point at issue is how it should be funded. We are aware that there is some unease among a relatively small number of large stores that will be affected. However, it is important to highlight some key facts: it is a short-term measure; it is intended to deliver immediate relief to a vital and immensely stressed part of the private sector for a time-bound period. I take your point that a sunset clause may not be appropriate or applicable. However, if we look at it over the next three years, the proposal could be introduced quickly and deliver benefits that will be felt throughout all constituencies. It is a downturn measure, not a rates reform. We still want the revaluation to be conducted.

I am aware of pejorative attempts to malign the beneficiaries of the relief: "banks, bookies and boozers". That sort of alliteration may create a cheap headline; however, it ignores the fact that many betting shops and pubs are small independent businesses that employ people and which play an important role as social hubs in communities.

By way of clear illustration of how the rates levy will fit into the business tax environment over the next three years, we could look at Dunnes Stores. I will unpack it for a moment. Notwithstanding the corporation tax measures that are being discussed in the Assembly — and there seems to be a strong appetite to pursue that option — throughout the UK, the corporation tax rate is falling from 28% at the start of the current Parliament to 23% by the end of it. Dunnes Stores in Bangor made a pre-tax profit of almost £28 million in the year ending 30 January 2010; it paid about £8·4 million in tax. Dunnes Stores has four stores in Northern Ireland. According to the consultation paper, the rates levy would trigger its paying an increased tax bill of about £340,000. However, assuming that its profitability will remain fairly constant over the next few years, its tax bill will fall from £8·4 million to £7 million in 2012 and to £6·4 million in 2014. In other words, although the proposal introduces new local taxes, its corporate tax bill will decline because of measures taken at Westminster. Therefore it seems that there is a need to look at the overall tax position rather than to focus on what the specific extra increase that is applied locally will do.

A large retail levy will not have significant adverse impact on the sector, nor on potential investors, and the benefits to small businesses, both financially and in confidence levels, will be good value for money. We commend it to you.

The Chairperson:

We heard the phrase “banks, boozers and bookies” before. Members were not as exercised about the boozers and the bookies as they were about the banks, given that they benefited from this. I do not think that it struck as much of a chord here.

I want Roger to address this point. There was a sense in the previous discussion that some small properties that are not necessarily small businesses will benefit from the scheme and that larger properties may not be required to contribute to it. Have you a view on that?

Mr Pollen:

We are all more or less on the same side of the fence; we are all trying to do something that will assist small businesses rapidly and manageably. The Asda representative referred to how it has been done in Scotland. However, the private sector is very much smaller here, so although a 0•7p increase across Scottish businesses will deliver a certain result, we do not have the critical mass of small businesses here to do it as evenly as that. It has been called a blunt instrument, and it probably is. That is why going back to the revaluation would probably be much more effective.

We are looking at how to deliver immediate, or almost immediate, benefits to small businesses, because 99% of businesses in the private sector in Northern Ireland are small to medium-sized enterprises. If we can do something that will assist the most vulnerable of those businesses, we should do it. There may be unintended beneficiaries for big businesses that operate from small premises, and that is not ideal. However, we need to keep the focus on the overall objective of trying to deliver relief to those who need it.

Mr McQuillan:

Nigel and Chris both said that they did not know what differences rate relief would make to small business. Last week, we heard from the Pubs of Ulster that it could mean the difference between someone getting a wage and not getting a wage. That is very important, especially in rural areas, as Roger touched on. Chris said that car parks should be rated. Will you expand on that a wee bit?

Mr Kenton:

We have raised that in discussions before. It has been put to us that there is difficulty in separating car parks from the larger retail stores as that is inherent in the rate that they already pay and a condition of the planning permission. However, we believe that that issue should be examined and researched further, because there is potential to increase the rate take.

Mr McQuillan:

I want to thank Roger for bringing a wee bit of reality to the whole thing; what you said this morning is probably the most reality that we have heard in the whole process. Thank you very much.

Mr D Bradley:

You said that it is a bit of a blunt instrument. I think that you were here for the previous session when Ms Bevis from the Northern Ireland Retail Consortium said that a model in England worked on a sliding scale and made it possible to sift out unintended beneficiaries. Could we modify the scheme to achieve that here?

Mr Pollen:

The challenge is the very short timescale in which to deliver a benefit. The other point about the proposals that I understood Ms Bevis to be making is that you would need regular and detailed information from Revenue and Customs to make that judgement. I am not aware that that is within the Department's access. You can always find solutions and a means of achieving what you want to do. The question is whether it is the best approach and whether it will deliver what you want in the timescale that you want, if that answers your question.

Mr D Bradley:

Partially. You say that there is urgency with the scheme. Is there not a danger that, in that urgency, we rush into something that is not the best and most targeted scheme?

Mr Pollen:

The Assembly gave long consideration to previous calls for small business rates relief that were eventually enacted in April 2010, so there has been a great deal of consideration of how to deliver benefit to small businesses. This is an extension of that, which aims to catch more businesses and give them assistance. Bear in mind that we are talking about giving assistance, despite comments made this morning about giving a subsidy. We are not subsidising anything; we are calling for less money to be taken out of those businesses so that they can sustain current activity. I do not think that the rush to introduce the relief is of concern, but we all question how best to deliver it.

At the moment, there is a clear proposal before us. Suggestions were put forward by the British Retail Consortium, which were discussed with the Department and were rejected for a number of reasons; for example, the idea of including the utility companies probably runs in conflict with fuel poverty issues. Other proposals that would include manufacturing companies would run in conflict with policies that are determined to see exports and manufacturing activity rise, so although it is easier for them as an organisation to suggest ways of raising funds, it needs to take on board all the other priorities as have been clearly stated. That is why we are supportive.

If there were a less painful way of raising the money or if, as the gentleman from Asda suggested, the collection of rates improves further and more money was to come in from that source, it might well be applied by the Assembly to deliver the same benefits without putting the levy on larger stores or without putting it on the same rate. However, delivering the relief is the objective that we need to keep in sharp focus, and the timescale for that is urgent.

Mr Smyth:

It is important that we keep this administratively simple. Although we accept that it is a blunt instrument and that there are question marks over the outcomes, we need to be very careful that we do not create a complex system with a massive administrative cost for companies and businesses on one side and for the Department and Land and Property Services on the other.

The Chairperson:

Nigel, David Paterson from Asda suggested that perhaps there should be a fallback position.

Some of the arguments from the Department have been around not being able to introduce a more refined system. Your argument is also that neither should it be too complex, but part of the argument against having a more refined and targeted system was the timeframe. David suggested that perhaps if the proposal has to be introduced in its current form in April, that the next year should be spent refining that process further and including others in it, perhaps in the following year. That would lessen the burden on some of them. As an umbrella organisation, is that something that your membership could subscribe to? He may just have been flying a kite for Asda or that proposal may just be off the top of his head, but I wonder what your views are on that graduated approach to including more people in the scheme.

Mr Smyth:

Stability and certainty in rating are extremely important when encouraging investment; businesses do not like uncertainty or shocks. In this case, a bit of a shock has been introduced on the back of that. The Executive have proposed that retail rates overall should not go up. We have questioned that; no one wants rates to go up any more than they have to, particularly at this time. As I stressed, we believe that a rating system should be used to encourage rather than undermine economic development. Those are the broad principles that we would look at.

Nobody wants to pay more; that is why everybody who sees a rating discount will welcome it. However, the real challenge to policy making is what this will actually deliver. For those who have to face it, a 20% increase is very substantive levy. Previous speakers suggested that the levies in England are much more modest; they are of 1% or 2%, and businesses can plan and work around that. However, this is a pretty harsh levy. The CBI's concern is not just coming from the retail sector; it is a much broader worry coming from the business community and various sectors: investors will ask if this is the attitude taken here because a sector is perceived to be doing well, and there are serious questions about that, what will the impact be on other potential sectors down the line. It has already created uncertainty.

Mr Humphrey:

Adrian touched on the dichotomy that the Committee, MLAs and the Minister face on this issue. Chris mentioned the £700, and Adrian is quite right: we had representatives of small business here last week telling us that £700, although a miniscule amount to the people we heard from earlier, is important to them.

Mr Kenton:

I am sure that it is.

Mr Humphrey:

If they are making normal profit, with the shopkeeper not getting a wage, that £700 means that perhaps he will get some income in that particular month. There is a huge dichotomy between those people who we heard from earlier and the small businesses that we heard from last week, and, indeed, Roger today.

You mentioned car parking. When I talked to the chamber of commerce in Belfast, one of the complaints that it has is that car parking in Belfast is too expensive. If you add rates to those who own the car parks, they will pass that on to the people using the car parks. Therefore car park costs will increase, and there would be a disincentive for people to go into car parks in the city centre. That will not help city centres in the current climate.

Can you compare Scotland with Northern Ireland or parts of England with Northern Ireland and get a similar picture? I do not believe that you can. The Asda representative said that distribution costs for getting a product onto the shelf are more expensive here than elsewhere in the UK. I know for a fact that thousands of products are agreed prices across the United Kingdom. Therefore I do not buy into that argument; I do not accept it at all. One of the ways around that was to buy more local produce, and the distribution costs, if that is an issue, will be reduced significantly. That will help local food production as well.

Can you compare Northern Ireland with Scotland or parts of England in the way that happened this morning? Do you accept that there has been a freeze in the regional rates and that will continue for the duration of this Assembly? There is much criticism of the Minister and Executive, but there has been a freeze in the regional rate, and compliance by many local councils in holding the local rate to inflation or below or in some cases no increase. There is an acceptance in local government that it is difficult out there as well.

Mr Kenton:

It is recognised that increasing the cost of car parking may disadvantage town centres. However, the car park in town centres serves a number of occupiers and different businesses. If you applied a rating to the car park serving an out-of-town store, the impact is directed at that one store.

Therefore it has a balancing effect in that respect. However, it is still just a proposal that requires further research.

You mentioned the costs of operating in Northern Ireland. Although we are not retailers, we are aware that many large retailers have national price agreements. That exacerbates the problem because the normal response when costs go up is to increase prices to recover the cost. If you cannot increase prices, our fear is that the only variable available to the large retailers is to cut labour costs, and that may affect employment, which is perhaps one of the more important benefits of trying to support local businesses.

On your point about the comparison with towns and places in the UK, every area is different from every other area. Take, for example, Newry and Derry, which are of similar size but which have different characters: one is a market town and the other is an historic walled town. You could argue that there is no comparison of one with the other, yet comparisons are drawn. It is justifiable to make a comparison with Scotland, Wales and England, in so far as there may be ideas and policies in place that we could examine and take the best bits of to apply to suit local needs. That is what RICS recommends. This is a blunt instrument. To achieve what needs to be achieved in the longer term and in a more stable and sustainable way, business improvement districts are perhaps the better weapon.

Mr Humphrey:

The Executive and the Department for Social Development are looking at business improvement districts. You made the point about the area around Donegall Arcade and Castle Junction and you said that the city centre in Belfast has moved towards Victoria Square rather than along Royal Avenue. I accept that point entirely. However, I have been in contact with traders recently — in fact, in the past 24 hours — about this issue. The Minister has been clear that this will be a temporary measure for three years. It is a genuine attempt to provide the stability and confidence for small businesses while, at the same time, trying to spread the burden.

I find it hard to believe that a huge supermarket organisation has profit margins of 3% to 5%. Many people would ask why, as you suggested, you would look to reduce employment rather than reducing your profits.

Mr Kenton:

As I said, we are not a trade organisation; therefore I cannot comment on what retailers might do. Although I have no information one way or the other, it is our fear that that is an option that may present itself to retailers.

RICS does not doubt the genuine nature of the proposal and the genuine need that is out there, nor does it doubt that this is an attempt to address that need. We would not argue with that in principle; our only argument is whether the proposed levy is the best way of doing it. If it is decided that it is to go forward, our secondary recommendation is that the cost of carrying out this rates relief should be spread more widely to avoid negative impacts on the larger retailers, which are just as important to the future of Northern Ireland's economy.

Mr Humphrey:

I think that it was Iain from IKEA who suggested that we progress as has been proposed in year 1 and use year 2 and year 3 of the three-year process to refine the scheme. Would that make sense?

Mr Kenton:

RICS would support any refinement that would spread the burden and minimise any detriment as well as providing benefits.

Mr Cree:

Nigel, in your submission you made an interesting comment about the interpretation of EU state aid rules. Will you develop that a little? I found that particularly interesting.

Mr Smyth:

I will have to remind myself.

Mr Cree:

It is on page 8.

Mr Smyth:

Sorry. That came up in our various consultations. Questions were asked about whether there would be a risk that government was trying to target one sector with an incentive and then putting the burden on another sector in one marketplace with the effect of distorting the market, and whether it would meet European rules.

I assume that the officials will have taken a view or will have checked on that.

Mr Cree:

I thought from what you said that you were taking an alternative view. Your submission states:

> "This consultation seems like a clear misinterpretation of that framework."

Mr Smyth:

We have suggested that it could be a misinterpretation; that will be open to legal judgement. I hope that officials will have taken good legal advice that this is a fair and reasonable measure. It was raised as an issue when we were consulting our members.

Mr Cree:

It looked interesting. Thank you.

The Chairperson:

Thank you for giving evidence, which has been helpful. We will take into consideration the evidence from you and others, and, in the next number of weeks, we will be working towards our report on the matter.