

Consultation Response: Rates Rethink

1. Summary

We welcome the opportunity to respond to the Department of Finance's 'A Rates Rethink' consultation. This response has been developed in collaboration with our members and through ongoing engagement with the Department. We thank the Rating Policy team in the Department for attending a consultation event in NICVA on Wednesday 1 February.

We are responding to the policy consultation document and not the Finance Minister's Ministerial Statement delivered to the Assembly on 22 November 2016. We have concerns that there are several discrepancies between the statement and the consultation document.

The [Ministerial Statement](#) contained a 10% charity shop rate proposal and stated:

"If, for example, we reduced support for charity shops on the High Street from 100 per cent to 90 per cent — that is, they paid one tenth of their rates — that would only represent a small revenue gain for the Executive... I agree with that direction of travel with the caveat that I would like to see any future income from charity shops on the High Street go towards supporting entrepreneurship in the social enterprise sector."

However, the [consultation paper](#) contains a proposal of up to 20%. It also states that if charity shops were liable for 20% rates the department:

'would see an increase in government revenues or a reduction in the rating burden of approximately £600k. This would equate to around £20 per week for a typical charity shop'

This is contrary to the 'revenue neutral' approach presented in the previous Rates Review consultation paper by the DFP and this consultation paper does not mention the social enterprise sector support fund. We therefore must assume that any monies generated by the proposed change to charity shop rates exemptions would go to general funds and not be ring-fenced for any specific use as the Minister originally stated.

This charitable exemption on rates is the largest tax relief available to charities and is vital for their continuing work. There is a real risk that the additional burden of a rates bill could force many charity shops to close (estimates are around 16% of shops could close¹) which will have an impact on the level of charitable work they can continue to undertake.

For the purposes of this consultation response, we shall be responding on the basis of a 20% increase of rates on charity shops. We shall not be answering the questions posed in the consultation paper and instead will make more general points about the direction of travel posed in this consultation. The use of the term 'relatively small' has regrettably turned one into a leading question.

¹ CRA (2016), *Northern Ireland Business Rate Survey*. Based on sample of 47% of all charity shops in Northern Ireland.

2. Scope of the 'rethink'

We commend the department and the Minister for undertaking a holistic approach to our rating system and for considering both domestic and non-domestic in this 'rethink'. NICVA have long argued against the rating cap for domestic properties that are worth over £400,000 and have taken issue that this has not been adjusted for inflation.

We support the recognition of the rating system as a lever for economic and social development and the proposal of innovative ideas that could harness the power this policy possesses. In light of this, it is challenging to reconcile the conflicting proposals laid out in this overall approach. To acknowledge the issue of vacancy rates and to only propose tackling it through empowerment zones and residential conversions is short-sighted and does not take into consideration the significant contribution charity shops make to high streets and local communities.

3. Everyone should pay something

We strongly refute that charity shops compete commercially with private sector retailers, and where they do in the sale of new goods, charity shops pay 100% rates relative to their donated/new goods ratio. While the contribution to the public purse that would be made by charging charity shops 20% of their rates bill is quite small, that money is extremely important to the charities operating shops in delivering on their charitable purposes. The consultation does not reference the existing 100% rating r.e new goods and it is unclear whether the new proposals for 10-20% would run in addition to or instead of the current 100% rating.

Every pound which would be paid by charity shops in rates is a pound not available for charitable benefit, in many instances benefits for the public of Northern Ireland. We argue that any proposal to introduce rates for charity shops is, essentially a tax on funds generated and donated by the public for charitable activities which is without precedent in other policy.

4. Everyone should contribute something.

We agree that everyone should *contribute* something, and charity shops contribute substantially to the local community, high street and in savings to the public purse.

The value of the charity retail sector's charitable rate relief is £2.8m or 3% of all charitable rate relief. In return for this, Northern Ireland's 336 charity shops are able to raise four times as much money for good causes, often directly aligned with governmental priorities, and also provide important social value to their communities.

- 1) **Reuse and recycling:** The charity retail sector is able to sell or recycle over 90% of donated clothing, over 90% of donated books and 85% of donated electrical goods. This diverts waste away from landfill, improves recycling and re-use rates and saves the public purse significant disposal costs. In 2012, the Environment Minister stated that charity shops diverted 11,000 tonnes of textiles alone from landfill. This brought a saving of £928,400 to local councils at the Standard

Landfill Tax rate of £84.40 per tonne. The Charity Retail Association estimated that in 2015, 21,000 tonnes of textiles were diverted from landfill by NI Charity shops which would bring a saving of £1,772,400 at current landfill rates. Those are excellent savings for Councils and their non-domestic and domestic rate payers.

- 2) **High Streets:** Charity shops help to reduce vacancy rates, currently at 14.5% in Northern Ireland which is the highest level in the UK, and therefore keep the high street populated and busy even during the recent severe economic downturn. This has a clear advantage to local economies. In some towns charity shops offer the only shops of their type, for example in Derry Concern Worldwide offer the only dedicated charity book shop, there is no national book retailer, an obvious addition to the retail mix of the city.
- 3) **Employability:** Volunteering in charity shops can help equip young people and the long term unemployed with the skills they need to find full time work in the retail sector. 80% of charity shop volunteers believe that volunteering has helped to learn new skills and valued this process.
- 4) **Mental Health:** Volunteering can also help to combat social isolation and loneliness amongst older volunteers. 61% of charity shop volunteers believe that volunteering has a positive impact on their physical and mental health and over 80% think it improves their self-esteem and confidence. This is why Community Service Volunteers (CSV) for every £1 spent on volunteers, £3.38 of value was created including through improved health outcomes.

Furthermore, charity shops are seen as the 'face' of the charity which means they are ideally placed to enable the public to connect with the charity's work. They are a valuable route in the provision of health information leaflets about cancer prevention, symptom awareness, access to services and other advice.

5. Contribution to charitable purposes

It is undeniable that the current economic environment is difficult for all sectors. Charities in Northern Ireland are receiving considerably less in public funding but are increasingly being utilised in the delivery of vital public services and in the delivery of governmental priorities.² Voluntary and Community Sector organisations are being advised by government to explore ways in which to become more sustainable and reduce what is seen as dependency on government grants. Many organisations have heeded this guidance, created social enterprises and opened charity shops which have diversified how they raise funds. It is inconsistent for government to now suggest this might be unfair competition.

² NICVA's recent state of the sector resource indicates that there has been a reduction of funding in the sector from £741,886,597 in 2009/2010 to £587,673,569 in 2013/2014. Some caution must be used with regard to this figure as much of the government sector funding is respectively recorded which can lead to an underreporting of funding data. In addition, a different methodology was used with regard to the public donations and grant making trust data.

If a 20% rates were introduced for charity shops in Northern Ireland, the Charity Retail Association UK argues that charity shop profit would likely drop by 5%, leading to a reduction of over £500,000 for charitable causes in Northern Ireland. These charitable causes include cancer screening, emergency food and shelter for families in need, life-saving research, child protection, patient services to name a few. Charity Retail Association UK's research also states that 130 jobs would be lost in the charity retail sector, 16% of charity shops would close and 15% of volunteering opportunities would be lost.³ Many of our members identify that it would largely be shops in rural areas, smaller towns and villages that would close as these generally have lower sales income and would therefore be impacted harder with an introduction of rates. This could then contravene the Rural Needs Act by disproportionately disadvantaging smaller towns and those in more rural areas.

With the projected closure of 16% of charity shops with any rates introduction, there would likely also be increased amounts of textiles and other items going to landfill, resulting in higher costs for local authorities.

6. High Street revitalisation

There is an assertion within the consultation document that charity shops lead to a reduction in the overall retail mix. It is NICVA's view that charity shops are not the cause of the economic downturn of our highstreets but a symptom. Charity shops mainly sell second hand items (diverting over 21,000 tonnes of textile from landfill) and, again, all of the money made is used to contribute funds to the organisation's overall charitable purposes.

It should also be noted that charity shops are not taking leases on properties to the detriment of commercial interests or start-ups as there is currently a high number of vacant properties in Northern Ireland. The vacancy rate is currently at 14.5% in Northern Ireland⁴. Furthermore, there is no evidence to support the widely-made assertion that charity shops are somehow 'crowding out' commercial businesses through unfair competition on the high street. We'd be keen to see evidence on the proliferation of charity shops on our high streets and an understanding of how many is too many.

We will support any holistic measures taken by government to address the complex problems that affect the development of our high streets. Instead of being identified as the cause of the decline, given the footfall and community benefit, charity shops should be part of the solution.

7. Abuse of the rating system

We have seen no evidence that landlords are using charities to avoid paying rates is a significant problem in Northern Ireland and feel that any such activity could and should be tackled in a more appropriate manner. We would be happy to support the

³CRA (2016), *Northern Ireland Business Rate Survey*. Based on sample of 47% of all charity shops in Northern Ireland.

⁴ Springboard (2016), *Springboard Footfall and Vacancies Monitor – October 2016*.

department in exploring options to deal with this issue if there is compelling evidence. It is a disproportionate response to penalise the entire sector through a change of legislation if enforcement avenues have not been explored.

Background to NICVA

NICVA (the Northern Ireland Council for Voluntary Action) is the umbrella body for the voluntary and community sector in Northern Ireland. It provides over 1,000 members with information, advice, training and support services on a wide range of issues, together with representation for the sector as a whole.

NICVA works to achieve progressive social change, based on equality and equity, working through a community development approach, to empower local communities to pursue their own needs and agendas

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