

Response to:	"A Rates Rethink" Posted 15 December 2016 by the Department of Finance
From:	Charity Retail Association
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Response from the Charity Retail Association to the "Rates Rethink" consultation from the Department of Finance

Summary

We welcome the chance to contribute to the Department's rethink of the system of business rates relief in Northern Ireland. This response has been developed in conjunction with our members in Northern Ireland using unique research we recently conducted to find out exactly what the impact would be of any change to the local system of charitable rate relief.

This document will demonstrate how the current system of rates relief in Northern Ireland is affordable and fair and ensures that there can be a thriving charity retail sector. A thriving sector is important, because it adds a significant amount of social value to economies and communities in Northern Ireland.

In particular:

1. Raising significant funds for local good causes
2. Supporting high streets
3. Providing jobs
4. Providing volunteer opportunities
5. Boosting reuse and recycling

Even slightly tampering with the current system would jeopardise this great work and is therefore **not worth the risk** to the Northern Ireland Executive.

Who we are

The Charity Retail Association

The Charity Retail Association (CRA) is the only body in the UK which represents the interests of charity retailers. We have nearly 400 members – representing around 80% of all charity stores

in the UK and including **14 chains** in Northern Ireland. Our members range from national chains, to individual hospice shops, and everything in between.

Every year the charity retail sector raises around **£10.5m** for good causes in Northern Ireland including; tackling poverty; funding world leading medical research; and running local hospices.

We are very active in Northern Ireland and host an annual regional conference to discuss issues impacting on charity retail in Northern Ireland. The next of these meetings is scheduled for February 2017.

#MoreThanAShop

The CRA played an active role in establishing the #MoreThanAShop campaign. The campaign began in January 2016 and comprises 16 prominent charities in Northern Ireland.

The campaign was set up in reaction to the Review of Northern Ireland's Non-Domestic Rating System by the Department of Finance and Personnel (now the Department for Finance). It aims to protect the rates exemption for charity shops and to highlight and promote the role they play delivering public benefit and contributing to local economies.

What the #MoreThanAShop campaign has achieved so far

In the first few months of 2016 the campaign:

- collected **18,684** signatures in opposition to any reduction in the level of business rates relief local charity shops currently receive (**in just two months!**) from people who shop in charity shops across Northern Ireland, and handed them in to Department of Finance and Personnel;
- encouraged over **1,380** people in Northern Ireland to email their MLAs to oppose any reduction in business rates relief;
- secured Political Meetings with the five major political parties in Northern Ireland including previous Finance Minister Mervyn Storey;
- briefed the Committee for Finance and Personnel on the campaign;
- held meetings with business groups such as NILGA, NI Chamber of Commerce, NIIRTA, and FSB.

More recently, in October 2016, we hosted an event in Stormont's Room 115 where we briefed several MLAs about the additional social value which charity shops generate for the community, economy and environment in Northern Ireland.

The Social Value of Charity Shops

The total annual cost of exempting premises used by charitable and not-for-profit organisations from business rates in Northern Ireland is approximately £87m per year. The amount of this overall figure taken up by charity shops is tiny, at just £2.8m or **3% of all charitable rate relief**.

In return for this tiny contribution from taxpayers, Northern Ireland's 336 charity shops are able to raise four times as much money for good causes and also provide important social value to their communities.

Some key examples of this are listed below.

- 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.
- 2) **High Streets:** Charity shops help to reduce vacancy rates and therefore keep the high street populated and busy, even during the recent severe economic downturn. This has a clear advantage to local economies.
- 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.

72. "everyone should pay something"

Point 72 in the consultation document expresses the belief that the current system of rate relief in Northern Ireland is unfair because it does not ensure that all retail outlets "pay something" and because the system in Northern Ireland is "the most generous [on] these islands."

We believe that these assertions are mis-guided and based on a misunderstanding of the system which operates in Great Britain.

Furthermore, we are disappointed that this statement is formed around an explicit assumption that the only way a shop can contribute to its local economy and community is by the paying of tax. Charity shops already contribute a huge amount of social value to Northern Ireland, and we would hope that this could come to be recognised.

Paying something

It is unrealistic to expect charity shops to seamlessly adapt to what would amount to a significant new tax rise simply because charity shops elsewhere in the UK and Ireland already operate under different systems.

It should be remembered that the charity retail sector in Northern Ireland has developed in accordance with existing system of rate reliefs with each shop's business plan written with this system in mind. If shops in Northern Ireland were suddenly required to pay 20% of rates there would still be significant damage to the sector and the wider benefits it brings to Northern Ireland.

Contributing something

Overall, we believe that the Executive should take a broader view and recognise that paying tax is not the only way a retailer can contribute to its local area.

As outlined above, the charity retail sector in Northern Ireland contributes huge amounts to the community by providing volunteer opportunities, reducing vacancy rates and supporting charities which relieve the burden on the state.

Furthermore, the Northern Ireland taxpayer, can see a direct positive financial impact flowing from this work.

Case study

The charity retail sector is able to re-use or recycle almost every item donated to it. Last year, BHF shops in Northern Ireland alone, received **290 tonnes** of clothes, books and other items which otherwise would have been thrown away and gone to landfill.

In doing so, the sector saves local authorities in Northern Ireland very significant sums in landfill tax, which is now £84.40 per tonne in England, Wales and Northern Ireland.

The mantra of the Executive should move from insisting that everyone must "pay something" to that everyone must "contribute something". The charity retail sector clearly meets this latter test.

Comparison with the system in the rest of the United Kingdom

In England, Scotland and Wales, all charity shops received a mandatory 80% relief on their Business Rates bill.

This is not tapered according to the ratio of donated/new goods they sell, as in Northern Ireland, but granted to any shop raising funds for charities if the majority of their trade is in donated goods.

In addition to the current system of mandatory rate relief local authorities may grant an additional 20% of discretionary rate relief. **So, just as in Northern Ireland, many charity shops in GB do not pay any rates.**

Charity shops and chains in GB report that the basis on which an additional 20% relief is granted can fluctuate greatly between (and even within) Councils.

Case Study

One of the CRA's smaller members is based in East London. Five of their seven stores are in the London Borough of Tower Hamlets, where each store receives the full additional 20% of charitable rate relief from the council. The other two stores are run on the same basis and raise funds for exactly the same cause. However, they are located only a couple of miles away in other East London Boroughs and do not receive a penny of discretionary rate relief.

This **postcode lottery** can lead to a lot of unnecessary costs for charities as they apply to many different local authorities for further relief under many different policy frameworks.

In this sense, we believe that switching to a similar system **would not represent a fair and equitable improvement to the system of rates relief**, as is the Department's goal. Not only would it reduce the overall funds going to charity in Northern Ireland, but it would do this in an **unequal way**. Charities in poorer areas – where Councils are likely to be more cash-strapped and less inclined to give extra discretionary relief – are likely to lose out the most.

73. "rating liability of up to 20%"

Point 73 in the consultation document sets out the Department's plans to ask charity shops in Northern Ireland to pay up to 20% of business rates after the next scheduled re-evaluation in April 2019. The unique research we have carried out with our members indicates that asking shops to pay 20% would have a significant impact on the sector's ability to deliver additional social value to communities across Northern Ireland.

Impact on charitable fundraising

The significant new cost imposed on charity retailers by such a change would inevitably impact on the bottom line of money going to charities in Northern Ireland. Charity shop profit would likely drop by 5%, leading to a reduction of over **£0.5m** for charitable causes in Northern Ireland.

This would have a clear impact on the lives of local people.

Case Study

Each year Action Cancer screens 10,000 women in Northern Ireland. The process detects around 50 cancers a year, undoubtedly saving the lives of many of those screened.

If Action Cancer had to pay 20% of business rates for their shops they estimate that they would have to close 10% of their shops and **cut 325 vital breast screenings from their screening target**. This will inevitably lead to more cancers in women going undetected in Northern Ireland.

Shop closures

CRA investigations suggest that the number of charity shops could decline in Northern Ireland by 16% if the charity shops had to pay 20%.

British Heart Foundation would be the most affected, estimating it would have to close **50% of their shops** in Northern Ireland, followed by Barnardo's, estimating it would have to close a quarter.

Job losses

The CRA estimates that if charity shops in Northern Ireland started to pay 20% of business rates then 130 jobs in charity retail (**20% of the current total**) would be lost.

We know from broader research that these employees are often closely integrated into their community. 70% of charity shop managers are from the local area in which the charity shop is located and with 40% having lived there for more than 20 years.

These local jobs are also **stable**. Just over 40% of shop managers have worked in their charity shop for more than five years, of which almost **a third have been involved for more than ten years**.

Volunteer opportunities

The CRA would estimate that if charity shops in Northern Ireland started to pay 20% of business rates around **15%** of local volunteering opportunities would be lost. This would have many negative knock-on effects.

Volunteering in charity shops can provide a huge range of social benefits to both young and old, and it is clear that people in Northern Ireland value these opportunities with over 5,400 people getting involved.

Environmental impact

In 2012 Minister Alex Attwood highlighted the significant contribution that the charity retail sector makes to the Northern Ireland environment, in saying: "**donations to charity shops have diverted over 11,000 tonnes of textiles from land-fill.**"

In 2015, CRA research estimates that Northern Ireland charities diverted over **21,000 tonnes** of textile from landfill. However, with the probability of shop closures arising from the proposed tax increase on charity shops this positive environmental impact could be reduced.

These facts make it clear that the social value brought to Northern Ireland by charity shops is severely threatened by plans to charge such shops 20% of business rates.

74. "discouraging charities [from] occupying prime retail areas"

Point 73 in the consultation paper introduces the idea of a "healthy mix" on the high street, and point 74 elaborates on this by proposing to cap relief for new charity shops to prevent them moving deemed to be "prime retail areas" in some way.

We believe that this viewpoint depicts an unnecessary rivalry between commercial and charity retailers.

Contributing to high streets

It is extremely important to realise that charity shops are not direct competitors to commercial interests, but their partners on the high streets. Charity shops contribute to footfall on the high street and help to keep vacancy rates low. **The donated stock that our members sell is not available to other retailers.**

Furthermore, Northern Ireland's shop vacancy rate is 14.5% - which is down from 15.3% in July 2016 - but is still the highest rate of anywhere in the UK.

If charity shops were to close, then even more premises would become unoccupied, high streets would attract less footfall, and this would have a detrimental knock-on impact on other retail outlets.

Partnership working

In the main, the relationship between commercial and charity retailers is both strong and productive. 80% of CRA members in Northern Ireland report a **positive or good relationship** with local businesses and commercial retailers, and 70% report that they worked together with local business on specific projects.

Examples of this work include partnerships between the British Heart Foundation and Primark in Belfast, B&M in Lisburn and Asda in Bangor to recruit volunteers and fundraise, or Cancer Research UK's to receive end-of-line donations from other commercial retailers.

Furthermore, charity shops can add to the vibrancy and attractiveness of the high street.

Case Study

As Concern Worldwide have noted: "Our shop in Derry is a second-hand book store. Derry is the second largest centre of population in Northern Ireland and has no dedicated national book retailer. Concern run the only charity book store in the city, [thereby] adding to the vibrant mix on the high street."

Relief capping

It is generally always better for a whole high street to have units filled rather than left vacant. Like any other organisation wishing to operate on the high street, charity shops have to negotiate their rents with landlords and agree a deal.

A recent investigation by the respected cross-party think tank Demos found that there was no evidence that charity shops were getting lower rents than other high street chains or that the presence of charity shops on the high street affected the rents of other stores.

Any examples of landlords acting in this way should be treated as example of fraudulent behaviour to be tackled under existing legislation. There does not seem to be **any justification for a drastic change in legislation** as proposed in point 74.

Conclusion

One of the most frequent arguments which has been presented to the #MoreThanAShop campaign is that it would be “fairer” if all charity shops “paid some rates”.

We do not believe such a move would be practical or fair.

As outlined above, CRA research has demonstrated that reducing charitable rate relief to charity shops, even slightly to 80%, would have an overall detrimental impact on the sector and the social value it provides. The current rate relief system is affordable at just 3% of the overall charitable rate relief system and works well.

In altering the current settlement on rates relief, the NI Executive would in effect be **picking out charity shops as the first target for its new tax raising powers**. As the table below demonstrates this is actually likely to create additional costs for the Northern Ireland taxpayer in the long run.

Savings from a 20% tax rise	Costs of a 20% tax rise
£468,427 in additional business rates income to the Executive (this figure takes into account the expected shop closure following from a 20% tax rise)	£294,317 additional landfill tax bill to local authorities in Northern Ireland as shops close and are able to take in fewer donations £500,000 of funding lost to local charities 130 jobs in charity retail lost, reducing the total amount of income tax collected in Northern Ireland 1.3m volunteer hours lost in Northern Ireland each year 55 shop closures, increasing the vacancy rate on Northern Ireland’s high streets and impacting on sales in commercial retail outlets

The #MoreThanAShop campaign’s huge success in gaining the support of the general public in Northern Ireland (**1% of the whole population** have signed the petition against any tax increase on charity shops) demonstrates that the proposed policy represents a huge reputational risk for one would likely be a negative financial return. **It’s not worth it!**

Sources

CRA report, Northern Ireland Business Rate Survey. Based on sample of 47% of all charity shops in Northern Ireland published in 2016

Demos report, Giving Something Back, Measuring the social value of charity shops. Authors: Ally Paget, Jonathan Birdwell. Publication date 25.11.13

Data on vacancy rate in NI is from November. Source, Springboard research:
<http://www.belfasttelegraph.co.uk/business/news/northern-ireland-high-street-footfall-down-in-spite-of-improvement-in-shop-vacancy-rate-35208395.html>

Minister Alex Attwood comment taken from: <http://www.northernireland.gov.uk/news-doe-140312-charity-shops-make>