NEW WEST END COMPANY

Bond Street | Oxford Street | Regent Street

BUSINESS RATES REVALUATION

Consultation on the transitional arrangements for the 2017 business rates revaluation

Response by representatives of London Businesses and Government

1 Overview

1.1 This joint response to the Consultation has been developed through discussion and collaboration between interested organisations, across business and London government, and has been endorsed by all signatories.

1.2 This an unprecedented joint response between the Mayor, London Councils and 37 London business organisations representing over 16,000 small, medium and large businesses from all sectors and throughout the whole of London.

1.3 Our response has three distinct but interrelated elements. We propose that the Government should:

- Revise its transitional relief proposals to give businesses a realistic opportunity to plan for the large rate rises caused by the seven-year period since the previous revaluation.
- Consider positively mitigating proposals that will enable London businesses to generate the income to meet the rise in business costs.
- Review in the long-term the effectiveness of business rates as a way of taxing businesses.

2. Background

2.1 On 30 September 2016 the draft 2017 rateable values for England were published, following a revaluation by the Valuation Office Agency. The revaluation reflects the change in notional rental values for commercial properties since the previous revaluation in 2010, which was in turn based on values on 1 April 2008.

2.2 As expected, London is the only region to experience a net increase in business rate bills. The Government estimates that the average rise for all commercial property types in London is 11% whereas the tax take in each of the eight other English regions will fall. This average, however, disguises a number of very large rises, particularly in central and inner London, while some parts of outer London will benefit from much needed falls in rateable values.

2.3 While this rise was anticipated, the Government’s options for transitional relief schemes were a surprise. The Government’s preferred option, Option 2, proposes a cap on rate rises for large businesses (i.e. those with a rateable value of over £100,000) of 45% in year one. In practice, the rise will be in excess of 50% in London because transitional relief does not apply to the Crossrail Business Rate Supplement which in 2016-17 is 2p or the 1.3p Large

Business Supplement and an inflationary increase of 2% will be applied. Gerald Eve estimate that the cost to London businesses of a 45% cap in 2017/18 as compared with a 12.5%[1] cap will be an additional £520m (the cost to the rest of the country including the Central List is estimated at £425m)[2].

2.4 The risk is that such an increase will slow investment, job creation and profitability for businesses at a time when confidence and stability are needed more than ever.

2.5 The transitional relief scheme is meant to enable businesses to manage the rate rise in a way which minimises "surprises" and permits businesses to continue to invest for growth over the longer term. Indeed the previous three revaluations have seen a cap on annual rises of 12.5% and it was widely expected that a similar scheme would be introduced for 2017. The Government states that "the transitional arrangements will support ratepayers by allowing them time to adjust to their new business rates bills"[3]. It continues "those ratepayers facing increases will see their bills capped each year at a set percentage increase due to the revaluation. Those businesses will be able to plan for their future business rates bills".

2.6 We do not believe that the proposed options enable businesses to plan, for two reasons. First, because the cap is set at an unexpectedly high level, particularly given the very large changes in rateable value caused by the Government's delay in implementing the revaluation.

2.7 London businesses face real difficulties in planning for this unexpected rise in rates bills caused by the high transitional cap. As an example, businesses on Oxford Street will face a 56% average rise, capped at 45% but in reality this will be a 50% rise. A department store which paid a rates bill of £10 million in April 2016 will face a bill of £15 million in April 2017, a £5 million pound hit with just six months' notice to plan for it. Given low profit margins in retail, this store will need to generate an additional £100 million in sales over the next six months simply to pay this increase. However, it is not only retailers who are facing a significant impact from the rise in business rates. Within the area covered by Camden Town Unlimited, the Business Improvement District for Camden Town, the average increase in business rates has been higher in the office sector than in retail (32% vs 26%).

2.8 In addition, by many other measures (e.g. staff employed, turnover) the definition of "large businesses" for the purpose of this transitional relief proposal will actually include many Small & Medium Enterprises because of the cost of commercial property in London. Due to the fact that the thresholds are also based on the new valuations some of these properties which would under the 2010 list have been treated as small or medium sized companies will be treated as large companies in 2017 for the purpose of the proposed scheme.

2.9 As an example a small specialist furniture retailer and small cafe adjacent to each other in one street in the West End had rateable values under the 2010 list of only £35,000 but have seen their rateable values on the draft 2017 list increased by 186% and 209% and will therefore be subject to the large property size transitional scheme. As a result their rates bills will both be more than £15,000 higher over the next two years than would have been the case had they been eligible for the scheme for 'medium sized' firms.

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[1] The transitional relief schemes for the last three revaluations set a cap of 12.5% on year one rises.
[2] Research commissioned by New West End Company
[3] "Business Rates Revaluation" DCLG September 2016 para 6

2.10 The second reason why we do not believe the proposed options enable businesses to plan is because of the very late publication of the transitional relief proposals. In the previous revaluation, the Government published its proposals on 8 July. The current proposals were not published until 28 September. In effect this gives companies just 6 months to plan for this unexpectedly high rate rise.

2.11 This large tax rise comes at a time of increasing costs caused by the introduction of the National Living Wage (and the knock-on effect that has on other wages), the Apprenticeship Levy and purchasing costs caused by the recent dramatic fall in the value of the pound which will only be partially offset, for a short time, for some businesses with an exposure to overseas visitor spend.

2.12 The timing of the revaluation is particularly sensitive coming as it will at exactly the same time that the Government has stated it will invoke Article 50 (by the end of March 2017). At a time of unprecedented uncertainty for Britain's economy, this significant rise in business costs will be a blow for London's economy. And since London is a major net contributor to the UK's finances the impact will affect the whole of the UK.

2.13 The likely negative impact on London's economy is such that London's main businesses organisations have come together with London local government and the GLA to submit a combined response to this consultation paper. This submission does not reflect the full views of each individual organisation and some of these organisations intend to submit separate responses. However, several areas of consensus emerged which this joint submission seeks to highlight.

3. The transitional relief options

3.1 We understand and appreciate that the Government wishes the transitional arrangements process to be revenue neutral. We also appreciate that this will mean that any lowering of the cap on rate rises will impact on the Government's ability to reduce rates in other parts of the country. We recognise that those eligible for a lower rates bill should get this relief as soon as possible.

3.2 We also appreciate that, with the very short period of time available before the scheme has to be approved by Parliament, it would be difficult to recalculate and create a revised series of options.

3.3 However we do not support either of the transitional relief options proposed by the Government, for the reasons given in section 2 of this response. In particular, given the unexpectedly high level of the proposed caps and the very late production the proposals in question, we do not consider that they allow business sufficient time to plan for the rise in a way that is consistent with ensuring growth, investment and competitiveness for the London and wider UK economy. We therefore suggest that the Government sets a lower cap on annual rises, more in line with previous revaluations.

3.4 This could be financed in two ways which do not negatively impact on expected rate decreases elsewhere. First, the transitional arrangements should be revenue neutral over the life of the parliament or the period until the next review, rather than revenue neutral each year as the draft scheme appears to imply is necessary. Section 57a paragraph 9 of the Local Government Finance Act 1988, which provides the legislative basis for transitional relief schemes, only requires that it should be revenue neutral over the period of the new rating list (i.e. five years) rather than in each financial year. This would enable the impact in year one to be reduced, particularly given the unique circumstances that the economy will be facing over the next two to three years, with higher caps being put in place in subsequent years.

3.5 Secondly, a separately financed "transitional pot" should be established to cover the cost of lower caps on annual rises without having an impact on the level of the caps on reductions.

3.6 We believe that precedents have been set for both these proposals by the Wales Government's rate settlement and by the Coalition Government's funding of extended transitional relief for small retailers announced in 2014. The latter scheme provided for transition to continue for a further two years for ratepayers on the 2010 rating list for properties with a rateable value below £50,000. This was achieved by the Government providing Section 31 grants to local authorities to compensate them for the cost of providing additional transitional support using their discretionary relief powers under section 47 of the 1988 Act. This operated in a similar way to the £1,000 and £1,500 discount schemes for retailers funded by the Government in 2014-15 and 2015-16 financial years.

3.7 In addition we would encourage the Government to apply the 'medium property' transitional scheme to ratepayers whose valuations were below £100,000 on the 2010 rating list or alternatively apply a higher threshold than £100,000 for the 'large property' scheme.

4. Mitigating proposals

4.1 The revaluation has produced large increases in rates for many of London's businesses. We believe that this latest shift from the regions to London has increased London's contribution to the total business rate take from 28% to 32% (comparing the change in London's RVs in the 2010 and draft 2017 List with the total of all local Lists in the country).[4] The shift is even greater if the Government's assumed losses due to appeals over the life of the list does not materialise because of the impact of the new Check Challenge Appeals system.

4.2 We urge the Government to look favourably on projects and policies that will enable London businesses to grow so that they can meet this tax rise and continue to contribute to the UK's economy, particularly at this time of uncertainty. Partners in this submission will suggest proposals relevant to their areas as part of their individual responses.

5. Long term review

5.1 In the longer term we believe that the Government should review the appropriateness and effectiveness of the business rates system. The net burden of business rates is being shifted to an ever smaller pool of ratepayers. This is largely due to the artificially imposed constraint that the tax must raise a fixed amount of revenue. Each revaluation sees London contributing an increasingly larger proportion to the business rate total while the business rates tax base is being continually eroded across the rest of England. London will generate almost 35% of the total business rates yield in England by 2020 and, if the existing national revaluation arrangements continue and historic trends in relative rateable value growth are maintained, the GLA has predicated this share will rise to almost 60% by 2040. We believe it is unsustainable to be constantly narrowing the tax base in this way.

[4] Research commissioned by NWEC from Gerald Eve

5.2 We also believe that, within London, the tax base is being concentrated. The level of exemptions and the granting of permissions and use of permitted development rights to convert commercial property to residential is shrinking the business rate tax base.

5.3 Unlike much of England, in many parts of London the increase in notional rental value does not reflect business performance. The 80% increase for West End retailers, for example, is not matched by increases in sales over the same period, which rose by just 30%.[5] Instead, like much of central London's residential market, the rise reflects the attractiveness of central and inner London for international investors and has little relationship to local economic performance.

5.4 The rise in London business rates has an impact on the future of Business Improvement Districts. These depend on a levy from local businesses and may ultimately suffer from a rise in rates as businesses may be less willing to contribute to their funding given rises in their operating costs. This directly contradicts the Greater London Authority and the Government's commitment to increase in the number of BIDs in the UK. At a time of constrained public finances, BIDs play a vital role in delivering local regeneration through private sector resources.

5.5 We understand why business rates are favoured by Government because the amount of tax generated is predictable, it has a collection rate of over 98%, revenues can be allocated to local administrative areas and they are difficult to avoid. But the issues raised above and the dissatisfaction with the transitional relief scheme (both by those facing rises higher than expected and those facing reductions lower than expected) indicate that the system should be reviewed before the next revaluation.

5.6 We suggest that a review might look at issues including –

- The suitability of business rates as a business tax in the 21st century.
- The appropriateness of this current property tax as a way of taxing business while online trading, requiring significantly less space, is growing.
- The need for more frequent revaluations – possibly annually – to do away with large changes and the need for transitional relief schemes.
- The position of London in the system – and whether there is a case for separating London from the national revaluation system to repeated turbulence at future revaluations and the continuing erosion of the tax base in the rest of England.

6. **Conclusions**

6.1 The proposed transitional relief schemes do not allow businesses to plan to meet the very large rises in business rates in London and that an alternative proposal should be made along the lines of the 'transitional grant' and extending the revenue-neutral period, as outlined in this submission.

6.2 The Government needs to look positively on ways in which London businesses can earn the additional income necessary to meet these large business rate increases which do not always reflect occupier business performance.

6.3 The narrowing of the tax base and the difficulty in producing a transitional relief scheme that satisfies both those businesses facing large increases and those expecting large decreases

[5] From £6 billion in 2008 to £8.4 billion in 2015 – NWEC figures

demonstrate a structural problem with the current business rates system. The Government should undertake a fundamental review of business rates before the next revaluation.

7. Signatories

7.1 This response is supported by the following organisations. They represent all of London's government and over 16,000 London businesses small, medium and large, from all over the capital and in all sectors.

London Government

The Mayor of London
London Councils
Westminster City Council
LB Lambeth

Business Associations

British Hospitality Association
British Property Federation
City & Westminster Property Associations
Federation of Small Businesses
London Chamber of Commerce and Industry
London First
Walpole

London BIDs

Angel London	Northbank
Baker Street Quarter Partnership	Old Street Partnership
Brixton	Orpington 1st
Camden Town Unlimited	Paddington Now
E11	South Bank
Euston Town	South Bank Employers' Group
Farringdon and Clerkenwell	South Bank Partnership
Fitzrovia Partnership	Station to Station
Harrow Town Centre	Stratford Original
Hatton Garden	Successful Sutton
Heart of London Business Alliance	This is Clapham
inmidtown	Vauxhall One
Kingston First	Victoria
London Riverside	We Are Waterloo
Marble Arch London	Urban Partners (Kings Cross, St Pancras, Euston)
New Addington	Your Bromley
New West End Company	London Northbank

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