

Business Rates

Purpose of report

For discussion and direction.

Summary

This report concerns the LGA's response to the discussion paper 'Administration of Business Rates in England' which was issued by the Treasury and DCLG in April 2014. It also notes that there is growing lobbying from business groups for change to business rates and sets out the key issues for the LGA in responding to this.

Recommendations

That the Panel:

- i. comment on the draft response as attached;
- ii. agree that the final response be signed off by Finance Panel Office Holders; and
- iii. agree the key issues in paragraph 12 of the report which will inform the LGA's response to lobbying on business rates.

Action

Officers to submit response by closing date of 6 June 2014.

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Business Rates

Introduction

1. Business rates has always provided a substantial proportion of funding for local government. Since the partial localisation of business rates last year, alongside the reduction in exchequer-funded grant from the government, the tax has become more important to individual authorities as well as to the system as a whole.
2. At the same time, although there is no consensus on either the nature of the problem or a solution, some commentators including bodies representing business interests have begun to question aspects of business rates as a tax. For example:
 - 2.1. The Federation of Small Businesses found that seven per cent of its members who pay business rates pay more in rates than they do in rent, and for a further six per cent rates and rents are about the same. The FSB claim that it is a tax “not related to economic activity and this needs to be addressed.”
 - 2.2. The Confederation of British Industry in its Autumn Statement submission urged the Treasury to cap rates increases at 2% and commit to an overhaul of the system which it claimed is “acting as a barrier to investment.” This was included in the Autumn Statement which, while not committing to an overhaul, promised to “discuss options for longer-term administrative reform of business rates post-2017.”
 - 2.3. In its Green Budget for 2014 the Institute for Fiscal Studies was critical of business rates, arguing instead for a Land Value Tax (LVT), although it does accept the practical and political difficulties in such a radical change.
 - 2.4. The British Retail Consortium (18 February 2014) published “the road to reform,” presenting options for reform to give positive incentives for investment in property, support high street regeneration and create more jobs.
 - 2.5. A report of the Business Industry and Skills Select Committee (3 March 2014) calls for a wholesale review that goes beyond the administration of business rates to examine whether retail taxes should be based on sales rather than the rateable value of a property; whether retail needs its own system of business taxation; and how frequently revaluations should take place.
3. The government has recognised the need for change to the appeals system and consulted in March reform of the appeals process. The LGA responded on the basis of its broad support, recognising the current appeals system as a significant barrier to the incentive to grow business rates. A Government response is awaited.
4. A further document on the administration of business rates in England as promised in the Autumn Statement was published by DCLG and the Treasury in April 2014.
5. It has been drawn up by a team from the Treasury, the Department of Communities and Local Government and the Valuation Office Agency. The LGA has not been invited to sit

on the group although we have been involved in stakeholder meetings since the discussion paper's publication.

Background

6. Business rates are calculated according to a property's rateable value, which is set by the Valuation Office Agency (VOA) and a nationally set multiplier. The latter is normally increased by the retail prices index increase from the previous September although for 2014-15 the government has used its powers to set it at a lower level – 2 per cent instead of 3.2 per cent.
7. Valuations are determined by the VOA on the basis of the annual rental value of a property at a particular date. In some cases they do this directly by looking at property rents, in other cases, where properties are not normally let, they use more indirect methods such as working out the annual cost of borrowing money to build an alternative property.
8. The review was set up to consider the way the business rates system in England is administered by the Valuation Office Agency and local authorities, with a view to strengthening its responsiveness to changes in property values and its simplicity and transparency for business rates payers in England.
9. Specifically the discussion paper asks questions about:
 - 9.1. The valuation of property; including whether there should be a move to a simpler system than exists at present, for example one with bands or zones;
 - 9.2. More frequent revaluations, possibly 2 or 3 yearly as opposed to the current system of five-yearly revaluations;
 - 9.3. How rate bills are set and the effects of reliefs;
 - 9.4. How rates are collected, including any changes to billing methods, more electronic billing and the possibility of large ratepayers such as supermarkets receiving a single bill; and
 - 9.5. Communications between the VOA; business ratepayers and local authorities, including data sharing.

Principles governing the review

10. The Government set out the following principles which it says will inform its response to the review and the LGA would agree with these aspirations:
 - 10.1. business rates should remain a stable and sustainable tax used to fund local services, maintaining aggregate tax yield following any reform;
 - 10.2. business rates are efficient and continue to provide local incentives to promote growth;

- 10.3. the financial autonomy of local authorities delivered through the implementation of the business rates retention scheme on 1 April 2013 is preserved;
- 10.4. business rates are collected in a fair way with a collection and appeals process that is fair and transparent; and
- 10.5. business rates are simpler to understand and easier to comply with, minimising the administrative burden on small businesses in particular.

Proposed LGA response

11. In responding, it is suggested that the LGA also include a comment on these principles and a statement on what we want to see of a business rates system. The following is suggested as a comment:

- 11.1. We agree that it is important for the aggregate yield of business rates to continue to grow from year to year. We are not in favour of caps to business rates increases;
- 11.2. The LGA has heard criticisms that business rates as currently constituted, based as they are on estimated annual property rents do not provide an incentive to growth. We would like to see an in depth analysis of the impact of business rates on various sectors. This should look at, for example, business rates in relation to turnover;
- 11.3. We welcome the commitment to preserve the business rates retention scheme. The LGA would like to see the local share, currently at 50 per cent, increased gradually. Our aim remains to move to 100% business rates retention, whilst recognising that this would entail a recalculation of top-ups and tariffs and that risk issues such as appeals need to be dealt with; and
- 11.4. We agree that a reform to the appeals system is crucial; we look forward to the early implementation of the proposals for reforming appeals which were recently the subject of consultation.

12. The **key issues** for the LGA in relation to business rates are:

- 12.1. The total quantum of tax revenue should be maintained in real terms and the proportion retained locally should increase;
- 12.2. The buoyancy of the taxbase should be maintained;
- 12.3. The discretion to amend tax rates, discounts at a local level to meet local needs – we would like to see local authorities given discretion to change the multiplier with the ability to keep additional income locally;
- 12.4. The incentive/disincentive effect on behaviours of any proposed tax, and potential indirect costs or distributive issues for local government needs to be considered in any reform;

- 12.5. Ease of collection and any administrative changes which will make this easier; such as data sharing with the Valuation Office Agency. The business rates is currently relatively cheap and easy to collect and this needs to be broadly maintained; and
- 12.6. Minimising avoidance – we look forward to working with government on measures to stamp out business rates avoidance. This may include redefining the concept of ‘beneficial occupation’, which is currently used by the courts to determine liability to business rates.

13. Other key points to the LGA response are:

- 13.1. We are open to discussions on the change in the method in valuation. However there is the risk that without a clear indication that the number of appeals and the time they take to resolve is likely to fall that any reform to the system of valuation, or more frequent revaluations, could merely lead to greater numbers of winners and losers and thus lead to more instability;
- 13.2. We can see the point in more administrative simplicity, such as more electronic billing, as long as it preserves the autonomy of local authorities; and
- 13.3. We would like to see measures on business rates avoidance taken forward at the same time as the review.

Conclusion and next steps

- 14. Officers will continue to engage with DCLG, the Treasury and the VOA on how any proposals will be taken forward.
- 15. Officers will develop an approach to business rates reform based around the key issues in paragraph 12 above.

Financial Implications

- 16. This is core work for the LGA and will be contained within existing budgets.