Administration of Business Rates in England

XX June 2014

1. The Local Government Association (LGA) welcomes the chance to comment on the discussion paper on the administration of business rates in England.
2. The LGA is here to support, promote and improve local government. We will fight local government's corner and support councils through challenging times by making the case for greater devolution, helping councils tackle their challenges and assisting them to deliver better value for money services.
3. This response has been agreed by lead members of the LGA's Finance Panel.

Key points

4. The LGA wants to see a business rates system which is buoyant, responsive to local needs, fair to all which promotes growth through incentives.
5. We welcome the fact that the discussion paper recognises that business rates should be a stable and sustainable tax to fund local services, that the aggregate tax yield should be maintained and that the business rates retention arrangements, which were set in place in 2013, need to be preserved.
6. Following the introduction of business rates retention appeals has become a key issue and the LGA will measure any reforms to the system by the effect which they have on the backlog of appeals.
7. 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.
8. We can see the point in more administrative simplicity, such as more electronic billing, as long as it preserves the autonomy of local authorities.
9. We would like to see measures on business rates avoidance taken forward at the same time as the review.

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Submission

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Business rates and local government

10. Business rates raised around £22bn in 2012-13 to fund local services. There are nearly 1.8 million properties liable for business rates in England. Business rates account for around 19% of the income of local government.

11. The LGA notes that the government will consider responses to the consultation in line with the following principles

    - business rates remain a stable and sustainable tax used to fund local services, maintaining aggregate tax yield following any reform;
    - business rates are efficient and continue to provide local incentives to promote growth;
    - the financial autonomy of local authorities delivered through the implementation of the business rates retention scheme on 1 April 2013 is preserved;
    - business rates are collected in a fair way with a collection and appeals process that is fair and transparent;
    - business rates are simpler to understand and easier to comply with, minimising the administrative burden on small businesses in particular.

12. We would comment as follows on these principles

    - 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.
    - 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.
    - We welcome the commitment to preserve the business rates retention scheme. The LGA would like to see the local share, currently at 50%, 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.
    - We agree that a reform to the appeals system is crucial; we look forward to the early implementation of the proposals in 'Checking and Challenging your Rateable Value'.

13. The key issues for local government are, therefore

    - The total quantum of tax revenue retained locally; that relates to both the total quantum collected and the proportion retained locally.
    - The buoyancy of the taxbase;

- 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;
- The distribution of taxation revenue among local authorities;
- The incentive/disincentive effect on behaviours of any proposed tax, and potential indirect costs or distributive issues for local government.
- Ease of collection and any administrative changes which will make this easier; such as data sharing with the Valuation Office Agency;
- Minimising avoidance – we look forward to working with government on measures to stamp out business rates avoidance and a redefinition of the concept of beneficial occupation.

14. The LGA has the following specific comments on the different sections of the discussion paper

How property is valued

15. The discussion paper asks for views on moving to a system of banding (similar to the council tax) or zoning and moving away from the current individualised approach.

16. The LGA considers that moving away from the existing approach would be likely to lead to large numbers of winners and losers. This would lead to instability. It would only be of interest to local government if it lead to a decrease in the number of appeals outstanding and the time they take to be settled. We note that the document states that those who argue for a banded system argue that this would be simpler and give rise to fewer appeals. We consider that more work needs to be done to examine these propositions further .

17. We consider that if the Government were to consider any banded system that the bands should apply below a threshold. Above the threshold individual valuation should continue. We consider that more work needs to be done to determine the level at which the threshold would be set; we would not like to see it set too high

How often property is valued

18. The document asks for views on moving to more frequent revaluations, which could be 2 or 3-yearly.

19. The LGA is in favour of regular revaluation to ensure that the taxbase is up to date and reflects current market conditions. However it notes that the current system of five-yearly revaluation (exceptionally seven years given the two year postponement of the 2015 revaluation) can lead to large numbers of appeals – we have heard from Treasurers that up to 25% of their business rates taxbase can be subject to appeal at any one time.

20. Since the implementation of business rates retention and the Government's decision that councils should bear 50% of the risk of backdated appeals this has become a significant risk issue for local government. Therefore we would not want to see a more frequent revaluation cycle if the only result was that the number of appeals increased.

How rates bills are set

21. This section asks questions about understanding rates bills and the effect of reliefs. It is mainly aimed at ratepayers.

22. The LGA notes that the current reliefs system is very heavily weighted towards centrally determined reliefs. The ability to give reliefs, both mandatory and discretion, is determined by statute, central regulations and case law. We would like to see local authorities having more discretion in this area.

23. One area where authorities do have discretion is reliefs under the Localism Act, although they must pay for these themselves. We would like to see more incentives to authorities to use these powers – for example the ability to retain 100% under rates retention in a similar way to enterprise zones and New Development Deals.

24. On the whole the reliefs system is administered well. We would not want to see any reforms place more burdens on authorities.

How business rates are collected

25. The paper asks whether any changes is needed to the system of ratepayers receiving bills in paper form, the format of bills, a separate bill for each property or rebilling in the event of change to rateable value.

26. Under the current system 98% of collectable business rates are collected in year. The LGA considers that there is scope for looking at reform as long as this preserves the autonomy of local authorities.

27. For example, we would be interested in exploring the scope for more electronic billing. For example this could be done through a central portal, possibly through gov.uk – which would go to individual billing authorities and would make it clear that it was the billing authority that was responsible for collecting. We would expect the Government to bear the software development costs for this.

28. There should also be scope for rationalisation so that large ratepayers such as supermarkets only receive one bill; clearly showing how the bill is divided between different properties and different billing authorities. We look forward to further discussions with officials on ideas such as this.

29. We consider that businesses should remain liable for any sums payable in business rates subject to appeals.

How information about ratepayers and business rates is used

30. This section considers communications between ratepayers, the VOA and local authorities.

31. There are currently constraints to the VOA being able to share valuation data with local authorities, due to its coming under regulations affecting HMRC. The LGA looks forward to early resolution of this issue.

32. There is currently no obligation on ratepayers to notify changes to the VOA or local authorities. The LGA would like to see the law reformed so that, for example, the VOA and the ratepayer have an obligation to inform the local authority when an appeal is made; covering the nature of the challenge and the effect on the rateable value. The VOA has started to provide some information for authorities.

33. The LGA would also like to see more summary statistics prepared by the VOA. For example, this could cover the nature of appeals, the sector which they cover and the proportion of total rateable value under appeal.

Avoidance and properties not on the taxbase

34. Business rates avoidance is not discussed in the document, although it is a current live issue, with cases such as the Public Safety Charitable Trust being

35. The LGA looks forward to the early resolution of business rates avoidance issues. This could be through a new power for the Secretary of State to make regulations to deter business rates avoidance.

36. The LGA has also heard concern that there are properties which don't pay rates because they are not on the valuation list. An example could be a former shopping centre waiting for redevelopment which is currently boarded up and an eyesore. One way would be to reform the concept of beneficial occupation to bring such premises onto the valuation list.

37. The LGA has also heard concerns that councils are not empowered to use all their levers to ensure that business rates are paid. For example, consideration could be given to a change whereby whether or not a property is up to date with its business rates would be a relevant consideration in planning and licensing applications.

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