Wednesday, 26 October 2016

BRC submission to the transitional arrangements for the 2017 business rates revaluation consultation

Key points:

- More frequent revaluations would be responsive to the actual state of the property market and have economic advantages by reducing the burden of taxation in economic downturns and encourage investment in depressed areas
- The timescale for developing and implementing a transitional scheme is inappropriate compared to 2010 when the consultation was published in July rather than the last week of September on this occasion; six months is an inadequate length of time to prepare for up to a 45% increase
- Rates burden has grown from approximately a third of annual rental value in 1990 to nearly half of rental value today despite property values having no bearing on a business's ability to pay which leads to high street vacancies, fewer jobs
- Neither the proposed Option 1 or 2 is supportable; Government should instead fully fund an immediate 100% reduction for those expecting a reduced rates liability and the same 2010 upward caps for all properties expecting an increase (without corresponding increases to the multiplier)
- The Government's proposals would mean retailers are worse off in excess of £250 million in year one, and the total retail loss ranging from £619m to £867m over the five-year period to 2020/21

The retail industry is the largest sector contributor to business rates – approximately £7.3 billion each year – due to the property intensive nature of retail. Business rates have steadily increased since their introduction in 1990 representing almost half of a property's annual rental value. However, property is no longer an indicator of economic success reinforcing the fact fundamental reform of business rates is needed.

The current system is simply not sustainable given UK business rates are the highest local property tax among OECD and European countries which is contributing to the cumulative burden of business which includes the National Living Wage and Apprenticeship Levy. Given the transformational change underway within the retail industry such as investment in online we urge Government to cap the business rate multiplier and enable local government to gradually reduce the burden closer to a third of annual rental value compared to nearly half today. The continually high burden of business rates deters investment, putting high streets at serious risk.

The high burden also actively discourages investment in property and people. To assist in the short-term, it is imperative Government introduce a fair transitional arrangements scheme. The consultation paper published merely two days before the 2017 draft assessments were released in late September and allowing just four weeks for considered responses is wholly insufficient. It does not provide for proper consideration of the huge and detrimental burden of business rates. Providing only six months to plan for up to a 45% increase is inadequate. In comparison, ahead of the last Revaluation in April 2010, Government published a consultation paper on transitional arrangements in early July 2009. It is unreasonable to expect businesses facing substantial increases in their rates bill to be able to effectively prepare in such a short period of time.

Transitional arrangements should ensure fairness and predictability. The proposed arrangements fail on each of these two criteria.

> Fairness: Retailers at-large (irrespective of size) are worse off from the proposed transitional arrangements. Overall retailers are worse off from either proposed transitional option ranging from a loss of £619m to £867m. Those retailers seriously in need of a reduction to their rates bills following a two-year delay to the revaluation are not receiving the immediate relief due to them. Furthermore, those retailers facing huge increases have very little protection and an incredibly short time to prepare their finances for April 2017.
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> Predictability: For the 2010 transitional arrangements Government consulted on the options in July 2009 compared to September 2016 on this occasion. Furthermore, this delay in consultation on transition follows a two-year delay to the revaluation itself. Given the seven years which has passed since the last revaluation and little insight from the Valuation Office Agency and the Department for Communities and Local Government regarding the valuations based on April 2015 values the current system is far from predictable. Four weeks is an inadequate amount of time to consult on the important topic of transitional arrangements.

The risk of the proposed arrangements is that it slows investment, job creation and profitability for businesses at a time when confidence and stability are needed more than ever. Instead, Government should demonstrate it understands the challenges facing the retail industry and the transformation underway.

Consideration of Options 1 and 2

We oppose both the proposed Options 1 and 2. Neither option supports a fair and predictable system irrespective of the size of the property. Relief is needed immediately given there has been a two-year delay in an already inadequate system of five-yearly valuations. In Options 1 and 2 the same upwards and downwards cap exists for small businesses as currently exists under the 2010 arrangements. However, we propose immediate 100% relief for all properties expecting a decrease irrespective of size given the two-year delay, and the same upwards cap properties received in 2010.

2017 arrangements – Small businesses – Options 1 and 2

	2017/18	2018/19	2019/20	2020/21	2021/22
Upwards cap	5%	7.5%	10%	15%	15%
Downwards cap	20%	30%	35%	55%	55%

As proposed under both options, the upwards and downwards caps for large businesses based on Rateable Value (RV) are proposed to change dramatically. It is unclear why Government has taken the view large businesses deserving of a rates decrease should only receive a 4.1% reduction in year one compared to a 20% reduction for small businesses. The proposed 4.1% reduction is even less than the 4.6% reduction implemented in 2010 when it increased to 13% in the final year compared to just 4.8% in 2021/22 under both proposed 2017 options. Furthermore, the downwards cap becomes even less fair in year 2 of Option 2 (a mere 4.6% reduction compared to 5.6% reduction in Option 1). However, the RV of a property is not an indicator of a business's ability to pay business rates.

2017 arrangements – Large businesses – Option 1

	2017/18	2018/19	2019/20	2020/21	2021/22
Upwards cap	33%	29%	30%	27%	13%
Downwards cap	4.1%	5.6%	5.9%	5.8%	4.8%

2017 arrangements – Large businesses – Option 2

	2017/18	2018/19	2019/20	2020/21	2021/22
Upwards cap	45%	50%	50%	16%	5%
Downwards cap	4.1%	4.6%	5.9%	5.8%	4.8%

2010 arrangements – Large businesses

	2010/11	2011/12	2012/13	2013/14	2014/15
Upwards cap	12.5%	17.5%	20%	25%	25%
Downwards cap	4.6%	6.7%	7%	13%	13%

In 2010, large businesses faced a 12.5% increase, whereas, in April 2017 they face either a 33% increase under Option 1 or 45% increase under Option 2. This proposed increase is unfair considering the fact ratepayers have only six months to prepare following seven years since the previous revaluation. As previously stated RV is not an indicator of the ability to pay which will likely mean businesses irrespective of size facing large increases in rates bill (in addition to the National Living Wage, Apprenticeship Levy, etc.) combined with falling margins may very well take the first available opportunity to close shops – leading to further vacancies across UK high streets.

It is unclear how Government has taken the view that large businesses defined as having an RV more than £100,000 are in a better financial position to receive very little protection. In its own analysis of Option 2 it states that of the 10,000 properties remaining in downward transition in year five, 100 would be considered small, 200 considered medium and the remaining 9,700 considered large properties. Retailers examine specific properties individually so the impact of annual rates increases of 33 - 45% will be strongly felt from next year, so it is mistaken to conclude large businesses will be able to easily absorb these operational cost increases. The reality is that retailers large and small face the same challenges and are equally deserving of relief from business rates.

We oppose both Options 1 and 2. Overall retailers are worse off from either proposed transitional option. The options result in a retail loss ranging from £619m to £867m over five years. According to the Government's analysis found within the supplementary tables accompanying the consultation, under Option 1 retailers would have to face a £619m increase in year one and receive just a £360m decrease. Under Option 2 retailers would have to face a £562m increase in year one and receive just a £311m decrease. Because of the proposed transitional arrangements retailers will be worse off in excess of £250 million in the first year alone (2017/18).

Costs, yields and retail loss of Transitional Arrangements – Option 1

£m	2017/18	2018/19	2019/20	2020/21	2021/22	Total
Gov. Yield	619	392	255	166	119	1,551
Gov. Cost	-360	-175	-87	-41	-21	-684
Retail Loss	-259	-217	-168	-125	-98	-867

Costs, yields and retail loss of Transitional Arrangements – Option 2

£m	2017/18	2018/19	2019/20	2020/21	2021/22	Total
Gov. Yield	562	331	171	91	58	1,213
Gov. Cost	-311	-148	-79	-38	-19	-594
Retail Loss	-251	-183	-92	-53	-39	-619

BRC proposal

Given the fact there has been a two-year delay to the five-year revaluation, Government should ensure there is no delay in businesses receiving a reduction in their business rates bill while ensuring protections like those that existed in 2010 are in place for those expecting a rates increase.

BRC proposal (immediate 100% downward relief, 2010 Upwards cap)

		2017/18	2018/19	2019/20	2020/21	2021/22
Small	Upwards cap	5%	7.5%	10%	15%	15%
	Downwards cap	100%	100%	100%	100%	100%
Large	Upwards cap	12.5%	17.5%	20%	25%	25%
	Downwards cap	100%	100%	100%	100%	100%

Eliminating downward transition and implementing 2010 protections would produce additional costs to Government. However, given the fact the business rates burden has increased steadily since its introduction in 1990 and current challenges facing UK industry this seems to be a practical short-term solution following the 2017 Revaluation.

Some have proposed a small supplement be applied to ratepayers to fund immediate relief in addition to a more beneficial upwards cap. This approach would likely mean both those expecting a decrease and those expecting an increase would be required to pay a small supplement. The reality is that the Government has given itself too little time at this late stage to easily implement transitional arrangements funded at least partially through a supplement. The most feasible short-term solution is to implement immediate 100% downward relief and the same upward protections in place in 2010 to be fully funded by Government (without corresponding increases to the multiplier).

Further reform

In the longer term we believe that Government should review the appropriateness and effectiveness of the business rates system. Inaction when it comes to business rates reform will lead to further high street vacancies and job losses – thereby ultimately costing Government more in diminishing tax revenues from National Insurance Contributions, Value Added Tax and Corporation Tax.

Business rates contribute to the cumulative burden of business which includes the National Living Wage and Apprenticeship Levy. The current system is simply not sustainable given business rates is the highest local property tax among OECD and European countries, and given the net burden is being shifted to an ever smaller pool of ratepayers.

Reform to the business rates system must address the need to reduce the burden of a tax that discourages investment in jobs and growth. The national multiplier needs to be frozen, and then reduced to encourage growth. In addition to implementing fair and predictable transitional arrangements it is imperative Government:

- Switch to CPI indexation in 2017, remove indexation entirely in 2020
- Implement more frequent revaluations from 2020
- Implement a business ballot to fund infrastructure levies across combined authorities with elected mayors
- Ensure a fair appeals system taking account of a property’s unique rateable value

We are committed to work with Government to enable more frequent revaluations every three years, which we recommend should commence from 2020. The benefits of doing so are to make the system fairer and more reflective of economic conditions. There is a strong case for increasing the frequency of rating valuations, coupled with a shorter period between the antecedent date and the implementation of the new rating list. More frequent revaluations would mean each property paid a bill proportionately as close to actual rental value as is possible – whereas in the present system rateable values are seven years out of date. This would make the tax responsive to the actual state of the property market and have economic advantages by reducing the burden of taxation on businesses in economic downturns and encourage investment in depressed areas.

More frequent revaluations would also have an overall positive impact by decreasing value shifts and reducing the number of appeals because the incentive to appeal will be greatly reduced as costs will outweigh savings. More frequent revaluations should ensure that each property pays a fair share of the rates burden relative to all other properties and greatly enhances transparency as the tax levied is based upon recent market valuations.

It is also essential each ratepayer pay its fair share – no more, no less. Leading to growing concern is the suggestion that despite an inaccurate valuation the Valuation Tribunal for

England (VTE) may be instructed to only order a change in valuation and corresponding liability if the valuation is "outside the bounds of reasonable professional judgement". The BRC fears if the 'reasonable professional judgement' clause proceeds this may in fact have the opposite desired effect by increasing uncertainty. Appeals in the short term would be reduced, but it would almost undoubtedly lead to court challenges and if overturned would open a floodgate to appeals creating added uncertainty. Instead the BRC hopes for a collaborative working relationship between the VOA and ratepayers where information and evidence can be shared and appeals avoided.

We understand why business rates are viewed favourably by Government because the amount of tax generated is predictable, it has a collection rate of more than 98% and they are difficult to avoid. However, fundamental reform of business rates is the best option to ensure a sustainable system which is both fair and predictable to ratepayers.

Summary

The BRC opposes both Options 1 and 2. Neither approach is fair or predictable given the high burden of business rates. Government should instead eliminate downward transition for those expecting a rates decrease and re-introduce 2010 protections for those expecting an increase to be fully funded by Government (without corresponding increases to the multiplier). Overall retailers are worse off from either proposed transitional option ranging from £619m to £867m. Considering retailers already contribute more in business rates than any other industry this is unacceptable. Furthermore, property is no longer an indicator of economic success reinforcing the fact fundamental reform of business rates is needed. The national business rates multiplier needs to be frozen, and then reduced to encourage growth alongside more frequent revaluations and a fair appeals system ensuring individual hereditaments pay their fair share based on their unique rateable value.

About the BRC

Retail is an exciting, diverse and dynamic industry undergoing transformational change. The BRC is at the forefront – enhancing, assisting, informing and shaping. Our mission is to make a positive difference to the industry and to the customers it serves. Our broad range of stakeholders demonstrates how retailing touches almost every aspect of our culture. The BRC leads the industry and works with our members to shape debates and influence issues and opportunities that will help make that positive difference. We care about the careers of people who work in our industry, the communities retail touches and competitiveness as a fundamental principle of the industry's success – our 3Cs.

More information

Jim Hubbard
Policy Adviser – Local Engagement, Property and Planning
British Retail Consortium
020 7854 8957
jim.hubbard@brc.org.uk