Response: Tranche Two - Business Rates Review – call for evidence

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DISTRICT COUNCILS' NETWORK
BETTER LIVES – STRONGER ECONOMIES

About the District Councils' Network

The District Councils' Network (DCN) is a cross-party member led network of 187 district councils. We are a Special Interest Group of the Local Government Association (LGA) and provide a single voice for district councils within the Local Government Association.

District councils in England deliver 86 out of 137 essential local government services to over 22 million people - 40% of the population - and cover 68% of the country by area.

District councils have a proven track record of building better lives and stronger economies in the areas that they serve. Districts protect and enhance quality of life by safeguarding our environment, promoting public health and leisure, whilst creating attractive places to live, raise families and build a stronger economy. By tackling homelessness and promoting wellbeing, district councils ensure no one gets left behind by addressing the complex needs of today whilst attempting to prevent the social problems of tomorrow.

District Councils play a crucial role in growing local businesses which is reflected in over £400 million generated in growth since the introduction of business rates retention.

Response from the District Councils' Network

Business rates form an important part of revenue funding for local government.

Districts are already seeing the impact of Covid-19 on business rates collection, and expect this to be significant and ongoing. Data returns provided by districts to MHCLG on a monthly basis indicate £300m lost income from business rates between March and August 2020 (acknowledging the actual impact will be lower given a proportion will fall to a central share). The Institute for Fiscal Studies projects a real terms decline in retained business rates of 6.6% overall by 2024/25 against 2019/20 levels[1], within its analysis of a 'middle scenario' undertaken in August 2020 – and this was well before the introduction of local lockdowns, rising caseloads and before the impact is felt of the end of the furlough scheme. Meanwhile districts face increasing demand, rising costs, and reduced income, only partially offset by government support.

The pandemic has accelerated structural changes to the way we live and work, that need to be taken into account when reviewing business rates. The pandemic will amplify existing high street trends, with high street retail space expected to shrink at a faster rate than previously thought, by up to 25% by 2022-23. Meanwhile online retail will reach 50% of the UK total by 2025, five years faster than had been anticipated. With many high street retail premises struggling, this impacts directly on councils' economic development goals, as well as hitting the business rates growth that districts can deliver.

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[1] https://ifs.org.uk/uploads/R179-COVID-19-and-English-council-funding-what-is-the-medium-term-outlook-1.pdf Page 51, Table 3.2 Funding outlook up to 2024–25, middle scenario

Against this backdrop, it is important that any changes in legislation or policy, including replacement of business rates with other taxes, should not diminish funding for local government. Government should consider carefully and properly how to respond to the new ways of working while ensuring that business continues to contribute to the local services that enable it to flourish.

This includes continuing to ensure that local government has access to growth in business taxes as it does under the current arrangements for business rates; and that there should be arrangements for sharing the growth in shire county areas ("the tier split") based on the approach that the DCN proposed to MHCLG in 2019;

The business taxes that fund local government should be set by councils. This includes any exemptions, discounts or supplements. Councils set council tax and decide the level of council tax reduction support for working age households. There is no reason why they should not decide such issues for business taxes that fund local government.

The Business Rates Review must be considered as an essential element of setting a wider framework for a sustainable future for district councils that enables districts to plan ahead with confidence, rather than on a year by year piecemeal approach. We are disappointed that the consultation is restricted in its scope to just consideration of an alternative derivation of rateable value and one additional form of local taxation, and that it is only concerned with a very narrow area of local government finance. The continuing delay in the Fair Funding Review means that consultations on various aspects of local government finance continue to be issued in isolation rather than being part of a cohesive whole.

4.1 Valuations and transitional relief

10 What are your views on the frequency of revaluations and what changes should be made to support your preferred frequency?

Generally speaking, more frequent revaluations causes both District Councils and local businesses problems. Frequent revaluations will reduce certainty around bills for businesses, while making a key income stream for District Councils more volatile. Historically the volume of appeals received increases significantly after every revaluation. Therefore it can be assumed that appeals are also likely to increase with more frequent revaluations, which will worsen the current backlog situation experienced by the VOA. District Councils already hold large provisions against alterations of lists and appeals, tying up income which could otherwise be used to fund local services; further uncertainty over appeals could significantly worsen this situation. Ultimately, certainty about when revaluations will happen is the most important factor.

We are wary of revaluations based on information supplied by ratepayers as we are concerned that this may be inconsistent or open to manipulation.

11 What are your views on a banded or zone-based valuations system and the trade off with valuation specificity?

Banding has the potential to create a much more stable system and possibly an environment where there is less incentive for businesses to appeal their valuations. However, the bands would need to as much as possible represent appropriate valuation range.

Zoning, again has the potential to create stability, but we would very much want to understand how a geographical zoning might be determined and by whom. Widespread consultation would need to be undertaken in relation to the weighting of zoning in respect of geographical location in order to minimise competition between regions/areas where those regions/areas are not in control of the factors that determine the impact. Overall we firmly believe that valuations should be locally determined by Local Authorities who know their local economies as much as is possible.

12 What are your views on changing the valuation process or the information provided to the VOA, to enable more frequent revaluations?

As above, we do not believe that more frequent revaluations will be of benefit to businesses or local government.

13 What are your views on the relative importance of the period between the AVD and compilation of the list vs. more frequent revaluations?

Minimising the period between AVD and compilation of the list is more important than increasing the frequency of revaluations. We believe more frequent revaluations will not provide business or local government with certainty. We also think that the current gap between the AVD and compilation date reduces the likelihood that valuations reflect current market value, but appreciating the difficulties in reducing this period, we believe it is sufficient.

14 What are your views on changing the definition of rents used in the valuation process? How could this be done in a way that most fairly reflects the value of the property?

The current definition, which uses a hypothetical rent figure across the board ensures that where actual rents are not available the basis of valuation is consistent. However, making use of capital values with bandings would bring alignment of business rates and council tax.

15 If you have had concerns over the specific method of valuation applied to your property, what were these concerns and how could the process be improved?

N/A.

16 What are your views on the design of the transitional relief scheme, and how transitional arrangements should be funded, given the requirement for revenue neutrality?

It is important for districts to understand that any transitional reliefs will continue to be fully funded by central government.

We are supportive of the principle of transitional arrangements, which should be set at an appropriate length of time to protect authorities from significant changes and also reflect changes to income levels within the transitional period, whilst still providing an incentive for growth. Transitional arrangements should unwind within a reset period so that a council experiences its “true” position before the next reset occurs.

4.2 Plant and machinery and investment

17 What evidence is there that the business rates treatment of P&M and changes to property affects investment decisions?

We are not aware of any evidence. However, the inclusion of P&M in business rates calculation would appear to apply an unfair additional burden on the manufacturing industry and could therefore be attributed to a decline in manufacturing in the UK. We are aware there have been reports that have highlighted instances where businesses have decided against installing solar panels for energy efficiency because the resultant savings would have been cancelled out by increases in the rateable value of the property. The Solar Trade Association has recently claimed that supermarket chain Lidl incurred a business rates increase of 530% by installing solar panels across several of its sites. This is clearly an anomaly which needs addressing.

18 Are the current P&M principles and regulations still relevant? How could these be updated if necessary, and what would the effect of any proposed changes be?

The distinction between 'service' and 'process' P&M is still relevant in today's valuations.

19 What evidence is available on the potential benefits of exempting certain types of P&M on a permanent or time-limited basis?

N/A

20 What practical challenges would the implementation of wider exemptions for P&M pose, and how might those be addressed?

Wider exemption for P&M would likely be very beneficial to industry. However, if this were to result in less business rates income to local authorities it could be difficult for local authorities with a large proportion of manufacturing industries in their area to plug the ensuing budget gap without further support from central government.

21 How can business investment and growth best be supported through the business rates system, and how effective would business rates changes be compared to other available measures?

Unknown as far as P&M is concerned. Investment and growth in local areas could be supported by the introduction of a rating system for on-line only or virtual companies allowing a level playing field to be established with more traditional businesses who are location based.

Incentives for investment and growth could be introduced with the provision of business rate free periods for new business or reduced rates for a period of time for new businesses particularly for those located within a business start-up centre.

As per our response in tranche one, we believe Local Authorities should be given more control over business rates. This would include the setting of rates multipliers and reliefs locally so that local businesses can be supported. This infers that local authorities would have more discretion over centrally determined reliefs allowing them to be targeted to local priorities.

22 How could the business rates system support the decarbonisation of buildings? What would the likely impact of any changes be compared to other measures, including other taxes, spending or regulatory changes?

Exemptions or reliefs on carbon neutral properties. This could tie in with the Energy Performance Certificate EPC scheme with penalties applied for buildings with low EPC ratings and discounts for energy efficient buildings. This could be done through locally determined measures.

5.1 Valuation transparency and appeals

23 What further changes would you like to see made to the (a) Check, (b) Challenge and (c) Appeal stages?

As the consultation paper states – the CCA system has not yet gone through a full revaluation cycle and so a full assessment of its impact is not yet possible. Overall, Local Authorities need more transparency about the appeals process so that they are able to, with some degree of certainty, recognise appeals provisions.

24 What are your views on sharing information, such as rental/lease details, with the VOA? What are your views on the risks and benefits of this information being shared with other ratepayers, public sector organisations or more broadly?

If data sharing with the VOA enables it to deal with appeal/valuation or revaluation cases quicker, this would be a positive move. The VOA needs to have sufficient powers to obtain this information from ratepayers.

25 What are your views on who can currently use the CCA system and become party to a challenge or appeal? What are your views on who can use the system, when and on what grounds?

Local Authorities have no oversight of challenge information. It would be useful for local authorities who have to make a provision for outstanding appeals if the appeals process could be time limited for a limited period after a revaluation.

5.2 Maintaining the accuracy of ratings lists

26 What are your views on introducing a requirement to provide the VOA with rental information, either routinely or where changes to a lease occur?

This would be a vital step in ensuring that the valuation list is as accurate as possible. However this could be onerous for all parties to administer.

27 What are your views on making a register of commercial lease information publicly available?

It would be useful to determine liability for business rate purposes but clarity would be needed as to who would be responsible for maintaining and updating. It would also be useful for other purposes such as provision of supporting evidence to assist in determining the value of commercial investment portfolios

28 What are your views on introducing a requirement to notify the VOA or billing authority of changes to a property that could impact the business rates liability?

This would be a positive move in ensuring the rating list is as accurate as possible

5.3 The billing process

29 How can the current billing process be improved? What changes would provide the most significant benefits to ratepayers through for example, cost or time savings?

Districts have a proven track record in administering and collecting business rates.

The present system in our view is fit for purpose however we can see how national businesses might want to have a single view in respect of their rates across multiple authorities – we would support a linkage between district billing systems to HMRC on this basis.

30 What are your views on a centralised online system linked to other business taxes, enabling more joined-up data and management of billing across different locations? How could this best support ratepayers and billing authorities?

As above, districts have a proven track record in administering and collecting business rates. Districts are best placed to serve their businesses – they have local knowledge, know every business and this has been demonstrated through the pandemic, enabling districts to get grants out efficiently. We are concerned that the proposal will be shifting an administrative burden from large organisations on to local authorities. In practice, whilst a local billing process exists, it is not feasible to have a centralised billing system.

31 What sort of support would businesses and agents expect to receive when moving to a centralised online process, and from where would you expect to receive it?

This question is presumably aimed at ratepayers and landlords rather than local authorities. However, there is also an issue of what support billing authorities should receive in this process. We are concerned that billing authorities will lose the direct link with some properties in their area.

32 What, if any, criteria should be applied in exempting certain ratepayers from online billing?

Exemptions should be on an individual basis and not applied to ratepayer groups. It should be based on the value of the bill i.e. if the bill is less than a certain amount the rate payer is exempt from on-line billing

6 Exploring alternatives to business rates

The pandemic has had a fundamental impact on district finances. Stretched after a decade of austerity, they have faced a perfect storm with increased expenditure, and losses across all income streams. It is not yet clear what the overall loss will be for 2020/21, and how quickly income streams, including business rates, will recover. Within this context, confidence in the current system of business rates as a sustainable and long-term source of revenue funding has diminished.

Business rates are currently an important source of revenue for districts, and the current business rate review needs to consider the impact of any changes on their immediate, and longer-term funding needs. Government should consider carefully and properly how to respond to the new ways of working while ensuring that business does contributes to the local services that enable it to flourish.

The DCN is looking more widely at alternatives and will be feeding into the LGA and MHCLG over the coming weeks.

33 What are the likely benefits and costs of implementing a CVT? What are the practical implications of implementing a CVT?

It is widely accepted that taxes should adhere to certain principles of good design. Applied to the local government context, they are:

- Sufficiency – financing for local government services must be sufficient.
- Buoyancy – rises along with economic activity with protection for local government from losses in income given the need to support local government services.
- Fairness – the taxpayer makes a fair contribution and the taxbase is not too narrow.
- Efficient to collect - any tax should be efficient to collect; if the costs of administration and collection of a tax are high then the net yield will be lower than it would be for a more efficient tax.
- Predictability and transparency - income from a tax should be predictable and it should also be relatively straightforward to work out how the tax has been derived.
- Incentive – incentives should be provided to both business and local government.

Property continues to provide a good basis for a local tax on business. Business rates are efficient to collect and has been relatively predictable and buoyant in recent years. However, the changing nature of business alongside the nature of demand pressures on councils means that we cannot look to business rates to form such a substantial part of local government funding in the future and alternative means of funding councils will be needed instead or as well as a reformed business rates system.

In their recent (2019) submission to Treasury Committee inquiry on the impact of business rates on business, the IFS stated that economic theory predicts that, in the long run, higher levels of business rates will be reflected in lower rents, effectively passing the burden of the tax from the occupiers to the owners.

In terms of practical implications, moving away from billing and collecting rates from the owner rather than the occupier brings with it a host of administrative difficulties not least identifying the owner but recovering from them if based overseas.

However, a clear benefit for LAs would be that this tax would retain the connection with the local areas and therefore an entirely local tax which is easier to finance LA. It could possibly also be more stable if used in an event-driven valuation process

It is important though that ratepayers have more certainty from year to year about their tax liability which can help with their tax planning.

34 What evidence is there of the benefits that replacing business rates with a CVT would have in practice, for example, on business investment and growth?

Business could see the introduction of CVT as an additional burden and if applied to the property owner it could have a detrimental impact on investment and growth. As businesses may be less inclined to invest.

It would also affect rent levels as the additional cost to the property owner would be passed to the tenant through an increased rent charge.

35 How can land and property be valued fairly and efficiently under a CVT in England? What evidence is available to do this?

Evidence on land and property sales are available from the Land Registry which publishes details on the price paid for property but not for land. The Land Registry would therefore need to make commercial land value data public. Additional evidence could come from a variety of sources, principally the existing VOA rating lists.

Land and buildings should be valued on their optimum use rather than property being assessed on its current actual use and land not being valued at all. The actual valuation techniques would be a matter on which valuation practitioners would be best placed to provide advice.

36 How would replacing business rates with a CVT affect the distribution of taxation?

It is not believed that it would as the market would adjust itself. Any additional business rates burden would encourage an increase in rental charges in order to maintain the status quo for businesses

37 What are the likely implications of moving the liability for tax from tenant to landowner or property owner? How could the government ensure effective collection from and compliance by these taxpayers?

The implications are

- the correct identification of the owner particularly if it's a shell company,
- the owner not having a vested interest in the local area/economy

A significant proportion of property is owned by pension funds moving to a CVT would place an administrative burden on the pension funds which might see them exit the investment property market.

Rent charges would likely increase.

38 What lessons can be learned from other countries experiences with CVTs?

Unknown

39 What other international alternative approaches to the taxation of non-residential land and property merit consideration for England?

Any other alternative property taxes should be considered

40 What would be the benefits and risks of introducing an online sales tax?

Online businesses pose a challenge to traditional businesses and to business rates as a tax. If an activity can be carried out online without the requirement for premises this will reduce the yield of business rates which goes to both central and local government. However, it may lead to other activities that will pay business rates, such as distribution warehouses or businesses which start off online and then decide to open physical premises.

Taxation should be fair for both physical and online businesses. In January 2020, the LGA launched a report which looked at the potential for an e-commerce levy, which concluded that it is deliverable and offered a number of options on how it could be implemented.

We welcome the fact that the Government is consulting on proposals for an online levy as part of its business rates review, however the proceeds of such a levy should be retained by local government as a way to diversify the local taxbase and protect against further shifts in the balance between traditional and online retail.

41 Which services and products do stakeholders think should be subject to an online sales tax and what evidence is there to support this?

We believe that all services and products should be subject to an online sales tax if their services/products are sold online. However, we recognise that there will likely need to be a commensurate reduction in property based tax for some businesses.

42 What evidence is there for the effects of an online sales tax, for example, on changes in consumer behaviour, or prices?

The introduction of an online sales tax could encourage the business to increase prices in order to recover the additional cost. However, this cannot be supported with evidence.

43 How could an online sales tax affect the distribution of taxation?

An online sales tax would be fairer to many traditional retailers and this would therefore be supported by these businesses. However, the affect this may have on the distribution of taxation is difficult to quantify - if the tax is paid on the basis of the physical presence of a business, then the distribution of the tax income will not be even across authorities. If this is the case will some redistribution be necessary? Will the tax be collected by Government and passed over to local authorities based on a formula? Will the tax be collected on the basis of the location of the point of order or the point of distribution?