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Business Rates Revaluation 2023: Consultation on Transitional Arrangements

Introduction

The London Property Alliance brings together the Westminster Property Association (WPA) and the City Property Association (CPA). The LPA provides a unified voice for the leading owners, developers, investors and professional advisors of real estate across the City, the West End and their neighbouring commercial districts. We represent over 400 member organisations on joint campaigns, thought leadership, research and policy representations. We are grateful for having the opportunity to provide a submission in relation to the government's consultation on transitional arrangements associated with the revaluation process for 2023.

We note that the scope of the consultation is limited to the format of the transitional arrangements for the 2023 revaluation and that it does not extend to the level of transitional relief or the rateable value thresholds for the different levels of relief which will be decided in the autumn once the outcomes of the revaluation are known.

Question 1: How do you believe the government should strike the balance in the 2023 transitional arrangements between supporting ratepayers facing increases to their bills and allowing the effect of the revaluation to flow through into bills?

Current valuations are around seven years out of date as they are based upon values from 2015. This was before the referendum on leaving the EU; the Covid pandemic struck; the war in Ukraine and before inflation, driven in part by external events reached double digit figures. Interest rates are now rising. Together, these factors are presenting businesses with an unprecedented series of challenges. That pressure is being felt most profoundly in our city centres where changes to working habits and a secular decline in the retail sector have put immense pressure on high streets and the "bricks and mortar" business rate model. Meanwhile, partly in response to the impact of the UK leaving the EU but also due to the structural shift towards on-line retail, logistics and warehouse assets are likely to register significant increases in their market values. As a result of these businesses in some sectors will have rating valuations in the run up to 2023 that are materially different from market-based values.

These changes, along with the very high level of CPI that is likely to be used in any formulaic uplift of rates in 2023, present serious challenges to the revaluation process – whereby some firms will face very substantial increases in their bills that might well prove unsustainable, whilst others may see much more modest reductions than they were perhaps otherwise anticipating (due for example to the inflation uplift and impact of the overall revaluation).

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Notwithstanding the government's preferred (and indeed the statutory) position namely to operate business rates as a charge rather than a tax (raising a similar amount from property occupiers/owners irrespective of rateable values), we consider that the government should pass on reductions in full to businesses eligible for them. This would mean in effect abolishing so-called downwards transitional relief. Furthermore the government should provide upwards relief for those businesses facing material increases. This obviously raises the question as to how any shortfall in revenue raised would be provided for. Upwards transitional relief could be provided over a sufficiently long period of time to allow for legislative reform of the business rates system to take place – as promised by successive administrations. This is where for example, an on-line sales tax could be deployed. We recognise that this might take some time to put in place. A less optimal alternative would be to apply a small increase in the Uniform Business Rate spread across three years of the revaluation period.

We recognise that a material departure from the so-called "self-funding" model for business rates would require legislative change and that despite many years of consultation and manifesto commitments, fundamental reform is yet to be forthcoming. However, this surely cannot be allowed to leave firms exposed to another increase in their pre-profit costs. The challenges of creating a workable 2023 set of transitional arrangements is fundamentally a reflection of the fundamental shortcomings of a business rates system that is now effectively broken.

Question 2: What format of transitional relief do you think should be provided for the 2023 revaluation?

As noted about, ideally we would like to see businesses that experience a rate rise given some form of transitional relief. This might take the form of capping increases and offsetting the shortfall from other sources. As noted above, we do think that businesses due a fall should benefit from the full reduction in their rates bills immediately.

Question 3: Do you think that we should continue to provide assurances through transitional relief that bills will not rise by more than a set percentage due to the revaluation?

Yes, we would support the principle of capping bills for those who would otherwise have experienced material increases. This could be for say two years so that a situation is avoided whereby "transition on transition" relief occurs. We note that the Shopkeepers' Campaign has come up with one such proposal[1] which could perhaps provide the basis for such an approach. In the meantime, more fundamental statutory reforms could be progressed.

Question 4: Do you think we should provide different caps for different sizes of properties?

We consider that different caps could be provided but this should be based on rateable value rather than size. Many smaller central London businesses are paying higher business rates than larger enterprises elsewhere in the country.

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[1] https://bpf.org.uk/media/5248/bpf-response-business-rates-revaluation-2023-consultation-on-transitional-relief-july-2022.pdf

Question 5: What are your views on how we should fund transitional relief within the requirement for the government to have regard to the object of securing (so far as practicable) that the scheme is revenue neutral over its life?

As noted elsewhere in this response, we consider that reductions in business rates should be implemented in full. We do not think the principle of revenue neutrality is sustainable. The government should therefore use transitional arrangements to firstly help those businesses that would otherwise be facing substantial increases in their business rates and secondly, to provide time for business rates to be reformed more fundamentally to introduce offsetting sources such as an on-line levy.

Question 6: Do you have any other views on the format of the transitional arrangements for the 2023 revaluation?

A move towards annual revaluation would help to reduce the scale and impact of transitional relief arrangements and make business rates more reflective of market conditions.
We agree with the submission of others such as New West End Company which states that a system based on notional rental values, is no longer fit for purpose. We agree that an increase in short-term leases in some sectors such as retail and the increasing use of turnover rather than (just) premises values should be incorporated into the Valuation Office Agency's revaluation model.

Finally, we maintain that the business rates system is no longer fit for purpose as it is currently configured and is in need of urgent reform.

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