Name of meeting: Cabinet
Date: 16 June 2015

Title of report: Business Rates Review

Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	**No**
Is it in the Council's Forward Plan?	**No**
Is it eligible for "call in" by Scrutiny?	**No**
Date signed off by Director & name **Is it signed off by the Director of Resources?** **Is it signed off by the Assistant Director – Legal, Governance & Monitoring?**	**David Smith** **David Smith** **N/A**
Cabinet member portfolio	**Resources**

Electoral wards affected: ALL
Ward councillors consulted: YES

Public or private: PUBLIC

1. Purpose of report

1.1 To update members on the Councils response to the review of business rates proposed by HM Treasury in response to concerns from many business ratepayers that business rates are in need of reform to make them fit for purpose in a 21st century economy, the closing date for submissions is 12th June 2015.

2. Key points

2.1 The intention behind the business rates tax system is to provide stable and sustainable revenues to fund public services. The debate about the future of business rates centres on whether the tax is sustainable, fairly targeted and sufficiently flexible to respond to both changing patterns of property usage and conditions in the wider economy.

2.2 The government wants to ensure the widest possible debate about how the system can be improved to meet these concerns. Recent changes allowing local authorities to retain the 50% Local share of the business rates they collect have concentrated thoughts on whether the system could better incentivise investment and growth. Some have put forward suggestions for changing the way that business rates raise revenue, ranging from major changes (such as basing them on business turnover) to adaptations of the existing system (such as changing the frequency of revaluations).

2.3 Others have highlighted the value of keeping business rates broadly as they are to retain stability and predictability which allows both businesses and local authorities to make decisions with improved certainty and confidence.

2.4 The government's preference is for business rates to remain a tax based on property values, collected by local authorities. However, the government welcomes suggestions of alternative ways of raising local business taxes and how they could work in practice.

2.5 So while there is agreement across business sectors that the business rates system is in need of reform, there is no clear consensus on how best to achieve this. This is why HM Treasury are undertaking this consultation with the intension of reporting the findings by Budget 2016.

3. Implications for the Council

3.1 Kirklees Council is a top-up authority and we receive a combined grant and top-up payment of £20.854 million in 2014/15, £21.252 million in 2015/16 and forecast to change to £21.677 million by 2017/18.

3.2 The total collectible rates in 2014/15 were £101,821,337. The local share of this is (49%) £49,892,455.13, the Fire Authority share is (1%) £1,018,213.37. and finally the Government share is (50%) £50,910,668.50

3.3 Kirklees has joined a rates pool including Bradford, Calderdale, Wakefield (all top up authorities) along with Leeds, Harrogate and York (all tariff authorities) the current expectation is that this should result a benefit to the region of up to £3.1 million in 2014/15. We have agreed to continue in the pool in 2015/16.

3.4 The main risks to the pool are backdated rateable value adjustments that go back a number of years, in 2014/15 this cost Kirklees £7.6 million and the business rate pool figure has yet to be determined.

3.5. To inform its recommendations, the review will assess a broad range of options for reform and:

- conduct a robust analysis of trends in the use of non-domestic property and property values
- review alternative and international examples of local property and business tax systems and draw lessons from them

- consider the impact of the current system of business rates on businesses' decisions to invest, grow and create jobs – this will include evaluating the effectiveness of existing reliefs and exemptions that are designed to support particular types of ratepayers
- consider the role of business rates within the wider tax system, including its responsiveness to economic conditions
- assess the impacts of any potential changes on the ability of the business rates system to deliver fairness, simplicity and stability to ratepayers
- encourage a wide-ranging debate among stakeholders of potential options for reform and their impacts

When considering possible alternatives or changes to the business rates system, the government will bear in mind:

- the advantages of predictability and economic efficiency presented by the existing business rates system
- the suitability of a tax base as a local tax used to fund local public services
- the practicalities of making a transition to a new system
- any 'trade-offs' or other changes that would be required to implement successfully any reforms

3.6 The government will need to assess carefully the impact of any changes to business rates on the level of funding available for public services. For this reason, the government has confirmed that the outcomes of this review will be fiscally neutral and consistent with the government's agreed financing of local authorities. The next Spending Review also provides the opportunity to consider any changes alongside other decisions on allocation of public spending

3.7 Even given the government intention on fiscal neutrality across the whole of the finance settlement, there remains a risk that both the Councils grant allocation and the business rates pool could be affected by this review.

4. Recommendation

4.1 That Cabinet notes the content of this report and Appendix A for information. The consultation response contained in Appendix A has been endorsed by Cllr Turner and the Leader Cllr Sheard in advance of the Cabinet meeting; this was to ensure that the response may be submitted to Government by the deadline of the 12th June 2015.

5. Contact officer and relevant papers

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Business Rates consultation terms of reference:-
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file413070/business_rates_review_final.pdf

Business rates review – May 2015
Kirklees is a large metropolitan council in West Yorkshire. The land available is relatively hilly and not suitable for large outlets or corridors of warehouses, although we do have a few medium sized retail outlets and business parks. The council has excellent transport links and this is an asset for the occupation of non-domestic properties and business opportunities and growth.

1. **What evidence and data can you provide to inform the government's assessment of the trends in use and occupation of non-domestic property?**

    - We have approx.15000 business hereditaments and an RV total of £282,465,544. The trend over the last 5 years has seen the number of properties increase but the RV total decrease and therefore revenue income reduce.

    - The stock is mainly of smaller assessments – 80% have an RV of less than £18,000. The largest RV assessment has a rateable value of £3,620,000.

    - We have high numbers of small businesses who receive small business relief (SBR).
      A high number of the properties with low RV's are occupied by companies with only the one business and so qualify for SBR – this may also be due to no charge or a small charge if properties are occupied – but any empty property would attract a full charge

    - The "new" retail relief has helped many businesses. Currently we have 1673 accounts benefitting from this relief (11% of our total properties).

    - Recent trends in use and occupation have been: cafes, betting shops, charity shops, cheque convertors, hire purchase shops and "Pound" shops. This is an increase in common with most other authorities.

2. **Is there evidence to suggest that changing patterns in property usage are affecting some sectors more than others?**

    - More small properties with an RV of less than £18,000 are trending as occupied – as in many cases they can claim SBR however if empty they may have 100% charge. We currently have 7,077 accounts getting SBR which is 47% of our total properties).

    - The retail relief is being maximised by the type of businesses in occupation who qualify for this relief

    - Change of use of pubs into food retail shops a number becoming large chain express shops. This is a planning issue.

    - Change in use of mills – being split into smaller assessments to attract SBR

- Reliefs are depressing the overall yield which has an administrative burden and a reduced collection figure.

- Due to make up of properties in Kirklees we have no evidence of large warehouses holding stock for items bought on the web and mailed out

- We are now finding new types of assessment included in the list e.g. ATM's are now separate, electronic delivery lockers (these are used for internet shopping for customers to use to collect and deliver goods by using a unique code into a pin pad) advertising boards on roundabouts are now rated separately

3. What, in your view, does this evidence suggest about the fairness and sustainability of business rates as a tax based on property values?

- Retail trend is no longer looking to build or occupy larger assessments

- Food retail are looking at occupying express shops in small RV's and often in old pubs so no planning application is required for any change of use – often these occupations also attract the lower multiplier

- There is a growth in internet business, mobile working and self-employment which attract no business rates costs due to the de minimis rule.

4. What evidence is there in favour of the government considering a move away from a property based business tax towards alternative tax bases? What are the potential drawbacks of such a move?

- To base any new business rates tax on turnover – would suggest that successful companies are penalised for making a profit and doing well. Also this would be a difficult scheme to administer.

- Turnover could be considered but also has drawbacks if running costs are high and reducing the level of profit and ability to pay

- Should businesses without business rates to pay i.e. self- employed, internet companies etc. contribute in some way?

5. a.) What examples from other jurisdictions and tax systems should the government consider as part of this review?

- Not in a position to respond.

b.) **What do you think are the main lessons for the business rates system in England?**

- The intention from government and comments in the consultation document indicate that the intention is to keep a property based tax with collection via the local authority for business rates

- The money raised and retained as revenue is then used to pay for local services

- Historic data shows this is good system to collect revenue as it is fiscally neutral.

- New business and growing business “good practice” is already there that the business rates is part of the business plan and an important overhead cost that must be included to determine the viability of a business or any profits for business expansion

- Tax avoidance and evasion are low for business rates in comparison to other taxes – (this area does need some attention – and needs to be tied in with BIS – to control the setting up of LTD companies and be robust at managing.

- The number of properties in a local authority is stable – but the appeals process does need more resilience and stability

- As properties are physical and visual – collection can be seen

6. How can government use business rates to improve the incentive for local authorities to drive local growth?

- Encourage business with packages

- Good infrastructure: roads broadband, sharing services

- Networking

- Local authorities are aware of the stock in their area – this needs to managed and particularly empty assessments

- Use this knowledge and information to target companies into spaces available and work better with private landlords

- Thriving areas are good for all and bring improvements to the whole community increasing the local economy and footfall for businesses

- Freedom to use business rates data (including individuals and not just companies) to promote growth i.e. to give information regarding ownership of properties

- All growth to be retained

7. What impact would increased local retention of business rate revenue have on business growth? What would the impacts be on local authorities?

- Improve help packages

- Improve the wealth of the area and make it more sustainable and improve income and revenue. Increased demand on business supplies – improve company profits

- Improve the area for all citizens

- Improved work and job prospects reduce the level of residents on benefits

8. What other local incentives should the government consider to further incentivise business growth?

- Improve roads and infrastructure
- Develop shared working areas
- Get people into work – may cause less burden on local authority services and costs – e.g CTR
- More local discretion over reliefs
- To foster local collaboration with local businesses

9. Should business rates be reformed to make them more closely reflective of wider economic conditions and if so, how?

- They should be robust enough to be able to adapt quickly to change and this may be by reliefs – but also not impact seriously on the revenue income of local authorities
- Businesses in large properties where the trend changes so that they have a down turn in sales and therefore the ability to pay may be reduced – should they be helped if the business itself is sustainable and they were now in a smaller property with a lower RV

10. If business rates remain a property tax, how do you suggest business rates could take into account the individual circumstances of businesses such as their size or ability to pay rates?

- Trends now show businesses need smaller properties but can have a high turnover and profit – so they have a good ability to pay – should they help support the business rates system – see above example
- A much faster quicker slicker appeals process – if this should be required
- Size is already included in the current system with the SBR scheme and also all properties where the RV is less than £18,000 who get the lower multiplier
- Review all relief's including looking at the rules on empty properties – should there be any new ones considered?

11. How does the proportion of total operating costs accounted for by business rates vary by the sector and size of a business?

- Unable to respond

12. What is the impact of the business rates system on the competitiveness of UK businesses? Are there any particular impacts on SMEs?

- Unable to respond

13. How could the government better target support for SMEs given that the size of a company may not be reflected in the rateable value of a property it uses?

- Our experience is that smaller businesses are occupying properties with an RV less than £18,000 – this also fits our portfolio of properties as 80% have an RV of less than £18,000 – these business tend to be thriving as they have little or no business rates to pay

- Medium businesses who occupy properties with an RV £18,000 to £50,000 seem to suffering the most especially those not meeting the criteria for the retail relief

- Should help be diverted here – this may be a reason why some of these businesses are not expanding – they may need bigger premises to grow but the extra rates may hit profit margins

- Larger businesses and particular the bigger chains do not seem to be affected

14. Should investment in plant and machinery, energy efficiency improvements or other similar property improvements, be treated differently by the business rates system? If so what changes could be made?

- As the current business rates is property based along with market rents then it would seem logical that any improvements would affect the rates due

15. What evidence and analysis should the government take into account when evaluating the impact of and any changes to the range of reliefs and exemptions present in the business rates system?

- A full overhaul is due and possibly new ones considered to take into account current trends and changes i.e. local discretion
- Listed building exemption also needs a full review. Consideration needs to be given to making this time bound and/or consider a tapering out of this exemption. Does there need to be some liaison between owner/LA to find out future plans for the building as the current exemption does not provide an incentive for the building to be occupied
- The disparity between occupied and empty charges and also the misuse of the “6 week rule”
- The new relief re occupation of an empty property for 12 months to get the 18 month 50% relief is often not available for the new occupier due to a short 6 week occupation to stop an empty charge

- Consideration should be given to reviewing the exemption for agricultural land and buildings, this should include; advertising trailers that are parked on agricultural land alongside our motorways.

How to engage

A.1 During April, May and June 2015 the review team at HM Treasury will begin evidence gathering and internal analysis. The team will also consider written submissions and research provided by respondents during this period.

A.2 The government welcomes contributions from all stakeholders throughout that period to help inform this work. The review is particularly interested in seeking views from stakeholders on the questions set out in this paper and as summarised below, and evidence in support of any views put forward.

A.3 The government would also welcome submissions on other issues which stakeholders believe to be pertinent to this review but which are not explicitly listed in this paper. To contribute your views, please send written submissions and research to businessrates.review@hmtreasury.gsi.gov.uk. The deadline for final contributions to the initial stage of analysis is 12 June 2015.