Heart of London Business Alliance

Response to consultation: Business Rates Revaluation 2023, transitional arrangements

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Heart of London Business Alliance (HOLBA) *is a Business Improvement District acting on behalf of over 600 businesses and property owners in the Heart of London – the area surrounding Piccadilly Circus, Leicester Square, Piccadilly & St James's – and includes some of London's most iconic hospitality and retail destinations, of all sizes, which make a sizeable contribution to the UK's economic, cultural and tourist industry.*

Our purpose is to protect and promote the commercial and cultural wellbeing of London's West End on behalf of our members, cementing its position as the greatest city in the world to live, visit, work, trade and invest. As set out in our Business Plan and recently endorsed by our members in the March 2022 Ballot, we have an ambitious programme for the next five years, taking the West End out of crisis, into recovery and towards a thriving new future as the UK's cultural and commercial powerhouse. We strongly believe that a thriving London is good for the rest of the UK, and that London – supported by the right trading environment and targeted Government support – can play a leading role in the nation's post pandemic recovery.

We welcome the opportunity to respond to this consultation. Our principal policy position is that the business rates system needs root-and-branch reform in a way that levels the playing field between online and bricks-and-mortar retail and recognises the heightened cost of doing business in the centre of London. We also believe that increasing local authorities' retention of business rates could help local authorities provide more targeted relief where it is most needed to mitigate the impact of business rate rises. More generally, the City of Westminster has much higher costs for running a business than elsewhere in the country, and we believe that given this, Government policy should move beyond the default one-size-fits-all approach and seek to reflect the differences between areas, sectors and needs within the businesses community.

We have historically welcomed work to reform business rates by increasing the frequency of revaluations. Commercial property is volatile in downturns and this is especially the case in prime locations. This can create significant problems in a situation whereby commercial tenants are left paying business rates derived from a valuation that took place under very different circumstances (i.e. that is much higher). Equally, we want to avoid the situation whereby businesses, especially in prime locations, have been caught out by significant spikes in business rates following revaluations, and to this end, the transitional relief scheme has been a major help for Central London businesses managing significant increases in business rates. Though more frequent revaluations would reduce the need for this scheme, given recent volatility we believe that the scheme remains important.

1. Business rates revaluations

1. Business rates revaluations update rateable values, and therefore, rates bills to reflect changes in the rental market. This helps ensure that shifts in economic activity which have driven changes in market values are fairly reflected in business rates liabilities.

2. The final report of the government's Review of Business Rates announced that the frequency of revaluations would be increased to 3 yearly starting from the next revaluation in 2023. The next revaluation of properties for business rates will, therefore, take effect from 1 April 2023 based on the rental market at 1 April 2021. The move to 3 yearly revaluations will make the system fairer and more responsive for all ratepayers, meaning bills will more closely reflect current rental values. Some stakeholders in the Business Rates Review also suggested that more frequent revaluations could reduce the need for and scope of future transitional arrangements.

3. It is too early to know the result of the 2023 revaluation. However, the government is required by law to introduce at each revaluation transitional arrangements which we have previously used to support businesses to adjust to their new bills. Therefore, this consultation seeks views on the format of the transitional arrangements for the 2023 revaluation. The government will then have regard to the responses to the consultation before deciding in the Autumn upon the transitional arrangements to be adopted once the revaluation outcomes are known.

4. The transitional arrangements are calculated based on changes in gross rates bills before changes to other reliefs. In the past the government has also introduced a separate relief scheme (called Supporting Small Business relief) to help those ratepayers losing other reliefs as a result of the revaluation. The government will separately consider whether to introduce a scheme such as Supporting Small Businesses in the Autumn of 2022 once the outcomes of the revaluation are known. Whether to introduce or continue other relief schemes, such the Supporting Small Business relief, is outside the scope of this consultation.

5. In July 2020 the government published a Call for Evidence as part of its review of business rates which, in part, sought views on the transitional arrangements scheme in the context of moving to more frequent revaluations. A summary of the responses to that in respect of the transitional arrangements was included in the Interim Report to the review (at paragraph 3.24 to 3.22).

6. Since their introduction in 1990, the format of the transitional arrangements have been designed to provide support to businesses facing increases in their bills. Consultations have considered different changes to the transitional arrangements with common considerations for each scheme but broadly speaking, only the level of support provided has varied following fiscal decisions made by the Exchequer. Therefore, the government will on conclusion of this consultation review whether continued consultations at future revaluations are necessary for the transitional arrangements.

2. The role of the transitional arrangements

7. Revaluations serve an important role in the rating system by ensuring rates bills reflect the up to date value of properties. They, therefore, ensure everyone pays the correct and fair share of business rates.

8. For some ratepayers – broadly speaking those whose rental values have been falling in comparison to the national average – the revaluation will mean reductions in bills. But inevitably other ratepayers – broadly speaking those whose rental values are doing better than the average – see their rate bills rise at the revaluation. The transitional arrangements have been used at previous revaluations to provide that these changes in bills are gradual and phased in over time.

9. By law the government are required to have a transitional arrangements scheme at each revaluation. That legislation also requires the government to have regard to the object of securing (so far as practicable) that the aggregate amount of business rates collected is unaffected by the transitional arrangements scheme.

10. Therefore, there is a trade-off in the design of the transitional arrangements between allowing the full impacts of the revaluation to feed through into rate bills quickly or dampening the effects of the revaluation over time. A more generous transitional arrangements scheme provides more support to those facing increases (i.e. those whose rental values have grown beyond the average) but means the effects of the revaluation are felt more slowly – so it takes longer for ratepayers to move to the right bills.

> **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?
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> *Within HOLBA's territory in the heart of London, businesses have recently been facing rising rents (partially driven by reduced supply) coupled with continued headwinds in the trading environment and a long-standing structural problem with extremely high Central London business rates relative to turnover or profit. This creates a particularly difficult set of circumstances, not least given that pandemic-era reliefs (including to business rates) are slowly being phased out at a time when businesses face inflationary, raw materials and supply chain pressures. Additional spikes to business rates caused by an uplift in rental values could add a further economic shock to businesses in the West End, and we would therefore urge, at this challenging economic juncture, to prioritise ensuring that ratepayers facing increases to their bills are adequately supported.*

3. Transitional relief

11. Typically, the transitional arrangements have capped increases in bills due to the revaluation at a set percentage level each year – these caps on increases are known as "transitional relief". Previous schemes have included different caps for different sizes of properties recognising that, generally speaking, occupiers of smaller properties are less likely to be able to manage large increases in their rates bills. For example, in 2017 the following caps on increases were adopted:

Transitional Arrangements 2017 revaluation (before inflation) caps on increases (upwards cap)

Property Size	2017/18	2018/19	2019/20	2020/21	2021/22
Small	5.00%	7.50%	10.00%	15.00%	15.00%
Medium	12.50%	17.50%	20.00%	25.00%	25.00%
Large	42.00%	32.00%	49.00%	16.00%	6.00%

Note: these are year on year caps on increases. For instance, the maximum increase for small properties over 5 years would be 64%. But a small property with an increase of 7% would reach their full bill in year 2.

Medium is above £28,000 rateable value in London and £20,000 elsewhere. Large above £100,000.

12. This type of transitional relief scheme gives all ratepayers a degree of certainty over their new bill. Ratepayers may still see their bill change for other reasons but it does provide a relatively simple assurance to ratepayers about the annual change in their bills due to the revaluation. However, this type of transitional relief scheme does mean that all ratepayers (within size categories) see their increases capped at the same percentage irrespective of the underlying increase in their full rates bill.

13. Some practitioners have suggested the scheme should be redesigned so that all ratepayers reach their full bill by the end of the rating list irrespective of the size of increases that might involve. For the future three yearly rating cycle, such a scheme could take ratepayers to their full bill in even steps – i.e. paying one third of their increase in the first year, two thirds in the second year and their full bill in the third year. Under that approach, transitional relief would end after the 2nd year. This approach would ensure all ratepayers transition to their full bill within the life of the list. However, it also means that compared to most caps in previous 'capped' schemes, such an approach would provide less relief to those ratepayers most affected by the revaluation. It would also be more complicated than the previous schemes.

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

Giving ratepayers a degree of certainty over future bills is vital in terms of business planning and particularly so given the current economic situation. We agree that occupiers of smaller properties are less likely to be able to manage large increases in their rates bills, and that in circumstances where there has been a significant increase, we believe it is important that the transition is eased. For that reason, we would not support a redesign of the scheme so that all ratepayers reach their full bill by the end of the rating list, as this would be irrespective of the size of increases that might involve and, particularly given the elevated rents in Central London, this risks considerably increasing the financial pressure on businesses.

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?

We think that, owing to the challenging economic circumstances, this will continue to be important for West End businesses and arguably even more so than in previous years, and would urge that this feature be maintained.

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

We believe that although the principle of different caps is sound, it is misleading to refer to the different tiers as judged by size when it is in fact rateable value that is the distinguishing factor. Within that, we believe that the system should go much further to take into account the disproportionately higher rents in prime locations and specifically the centre of London, where many businesses that would be classed as "small" in terms of size will also be paying extremely high business rates: the average rateable value within HOLBA's area is in the region of £600k, so the current London uplift between small and medium is of nugatory impact. We would therefore urge considerably greater consideration, not just of raw rateable values, but of how they relate to other businesses within the area, so that the system can better reflect the realities of doing business in London.

14. The level of relief and the rateable value thresholds for the different levels of relief will be decided in the Autumn once the outcomes of the revaluation are known and is outside the scope of this consultation.

4. Funding transitional relief

15. When introducing a transitional relief scheme the government must have regard to the object of securing (so far as practicable) that the scheme is revenue neutral over its life.

16. To meet this requirement the government has at previous revaluations applied caps on reductions as well as on increases in bills. As with transitional relief, different caps on reductions have in the past been adopted for different sizes of properties. For example, in 2017 the following caps on reductions were applied to bills:

Transitional Arrangements 2017 revaluation (before inflation) caps on reductions (downwards cap)

Property Size	2017/18	2018/19	2019/20	2020/21	2021/22
Small	20.00%	30.00%	35.00%	55.00%	55.00%
Medium	10.00%	15.00%	20.00%	25.00%	25.00%
Large	4.10%	4.60%	5.90%	5.80%	4.80%

Note: these are year on year caps on increases.

Medium is above £28,000 rateable value in London and £20,000 elsewhere. Large above £100,000.

17. This approach ensures that those who are seeing the greatest reductions at the revaluation meet the cost of funding the transitional arrangements, recognising that those ratepayers are best placed to meet the cost – because they have seen a fall in their rates bill. However, this approach does also mean that the cost of transitional relief is met in large part by a relatively small number of ratepayers.

18. Alternatively, the government has previously considered meeting the cost of transitional relief by applying a supplement to the rate bills of other ratepayers. In effect this would mean an increase to the business rates multipliers - so some ratepayers would pay a higher multiplier to fund upwards transitional arrangements. The level of the supplement would depend on the outcomes of the revaluation and the cost of the transitional relief.

Question 5: what are you 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?

In general terms we believe that businesses could be supported during times of economic turbulence by removing, at least temporarily, the requirement for the scheme to be revenue neutral, so that if their rateable value falls then they can see that rapidly reflected in their business rate bills. However, we accept that this is outside the scope of this consultation. We therefore would echo our response to Question 4 and say that when looking at the three tiers, the system should continue to take into account the disproportionately higher rents in prime locations and specifically the centre of London: currently, it is very unlikely that the differences between tiers will be of much value to West End businesses.

In addition, we note that those who are seeing the greatest reductions at the revaluation will typically be doing so due to other factors that also affect their ability to do business, meaning that they may not be best placed to meet the costs of funding this tax relief.

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

We have set out our wider comments in the introductory paragraphs.