Discussion Paper Response

Administration of business rates in England: discussion paper

Response by London Councils

London Councils represents all 32 London boroughs and the City of London. It is a cross-party organisation that works on behalf of all of its member authorities regardless of political persuasion. We develop policy, lobby Government and others, and run a range of services designed to make life better for Londoners.

Introduction

1. London Councils welcomes the opportunity to respond to the Government's discussion paper on the administration of business rates in England. Rather than answer every individual question, the following response comprises an overview of the broad principles that London Councils believes should underpin any review of business rates administration, followed by a discussion of each of the 5 areas covered by the discussion paper:
    - how property is valued;
    - how often property is valued;
    - how rates bills are set;
    - how business rates are collected; and
    - how information about ratepayers and business rates is used.

2. London Councils understands that the discussion paper is not proposing reforms but is asking questions in order to open up a discussion. We firmly believe that local government should have a strong voice in that discussion.

3. The business rates retention system that came into effect in April 2013 significantly increased the level of funding risk borne by local government. While we recognise the scope of the discussion paper is limited to the administration of business rates, London Councils is concerned that little regard seems to have been paid to the potential impact these changes would have on local government funding. Specifically, the changes to valuation methods and timing that are discussed would significantly affect the dynamics of the complex business rates retention system and create further uncertainty over funding levels.

4. London Councils is concerned that the focus of the paper is primarily directed at ratepayers while there appears to be minimal regard for the role of local government in the administration of business rates. Billing authorities, being responsible for the collection and administration of business rates, play a fundamental role in the system and should therefore have a strong voice in how any decisions about this tax are made. Any changes to valuation methods, frequency of valuations or setting and collection of business rates should not be considered without detailed consultation and engagement with local government.

Overarching principles

5. London Councils believes any system of funding for local government should be underpinned by the fundamental principles of stability, certainty and transparency. The significant uncertainty created by appeals and the continuing lack of clarity about the impact of revaluations on the dynamics of the system already create a significant level of funding uncertainty for local authorities. London Councils would argue that some of the possible changes discussed within the paper risk increasing uncertainty and could reduce stability even further.

6. Within this context, London Councils is disappointed about the lack of evidence to support the proposals for discussion within the paper. In particular, discussion points about changing the method and timing of valuations have little evidence to support their inclusion and there is little detail about how they would be implemented in practice. London Councils feels that more evidence is needed about the benefits of changing the system for both ratepayers and local government before any proposals are seriously taken forward.

7. London Councils supports the recommendation of the London Finance Commission that the full suite of property taxes should be devolved to London government. This includes the devolution of 100 per cent of business rates, through an appropriate governance mechanism. London government should have authority over all matters including: the timing of revaluations; the setting of the business rates multiplier; discounts; and the freedom to use business rates to undertake ‘Enterprise Zone’-style interventions.

8. London Councils agrees with Government that the principles of financial autonomy and the incentive to grow business rates should not be impacted by any changes to the way business rates are administered. This is compounded by the fact that core funding to local government has been cut by 44 per cent in real terms since 2010, and the current funding system penalises London boroughs, which experienced higher than average cuts in 2014-15. The ability of local authorities to retain business rates growth is therefore becoming more important every year as overall resources fall.

9. At the same time demographic changes are putting unprecedented pressure on the local government services in London where a significant increase in population is increasing demand for adults and children’s social care, school places, housing, waste and transport infrastructure.

10. London Councils agrees that any changes should not impact the efficiency of the tax or the aggregate yield of business rates. Billing authorities in London have worked hard to improve collection rates in recent years. Business rates is one of the most efficient taxes, with in-year collection rates of around 98 per cent (i.e. a collection gap of 2 per cent) which compares well with the overall collection gap of around 7 per cent for all taxation in 2011-12[1].

11. Despite this, London Councils would urge the Government to consider in greater detail potential options to combat business rates avoidance, which the paper fails to discuss. In particular the rules around charitable relief and empty property relief should be tightened

[1] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/249533/131009_MTG2013_tables_-_web_version.xls

up as these are two of the biggest areas of rates avoidance. A more focussed approach to rates avoidance would benefit local government, central government and ratepayers without requiring radical changes to the current system.

How property is valued

This section of the discussion paper outlines the current methods of valuation and explores how this might change in future to a less individualised system that may include banding, zones, indices or rolling revaluations. It explores the possible merits and consequences of such systems and asks what the acceptable levels of variance in bills might be compared to the current system.

12. London Councils understands that the business rates system is underpinned by the fundamental necessity to value property. However, any changes to the way hereditaments are valued are likely to have a knock-on effect on the level of business rates collected and retained by local authorities. London Councils is concerned about the level of volatility in tax receipts that this may cause.

13. Government should be mindful that changes to valuation methods should be reflected in corresponding changes to the business rates retention system, specifically the calculation of business rates baselines (including the system of tariffs and top ups) against which growth is measured. Any changes should therefore only be implemented at the time of a full reset of the rates retention system. Changes implemented before such a reset risk undermining the fundamental principles that underpin rates retention: namely local autonomy and incentivising business rates growth.

14. It is still unclear exactly how a reset of the rates retention system will be implemented in practice, and London Councils would urge government to provide further details on this. It also remains unclear exactly how the proceeds of growth will be treated in a revaluation year. Local government needs further clarity on these arrangements before any changes to valuation methods are given serious consideration. London Councils would urge the Government to provide more detail about any process for transition from one system to another.

15. London Councils is particularly concerned about the potential impact a change in valuation method may have on the volume and value of business rates appeals. London has a higher number of appeals than other parts of the country, which are also of much higher value than elsewhere. As of 31st September 2013, London had 17 per cent of hereditaments on the rating list, but 30 per cent of all hereditaments linked to outstanding appeals in England on the 2010 list and 48 per cent of the national total for the 2005 list. Appeals also take longer to clear in London than other regions in England (with a median time of 400 days compared to 360 for England as a whole)[2].

16. Based on their latest forecasts, London billing authorities are expecting to make provisions for in-year and backdated appeals of £772 million over 2013-14 and 2014-15. London boroughs will therefore forego up to £232 million of funding over 2 years, based on their retained share of 30 per cent.

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[2] VOA Official Statistics, Local Rating Lists: Business Rates (Experimental Statistics): Table As, November 2013 http://www.voa.gov.uk/corporate/_downloads/xls/NDR_TableA_All_2010.xls

17. Any changes to valuation methods, such as the introduction of banding or zones, is likely to result in an increase in the number of appeals, if not permanently then at least while ratepayers adjust to the new system, thus giving greater financial uncertainty to local authorities during that time.

How often property is valued

The discussion paper explores possible changes to the frequency of valuations in response to ratepayers' concerns about the current time period (normally 5 years). It discusses the trade-off between increased frequency of valuations and reduction in individualised valuations, specifically asking what levels of variation from current rate bills would be acceptable and whether this would increase or decrease the number of appeals.

18. London Councils is concerned that the Government has not fully considered the potential impact of changes to revaluation cycles on the dynamics of the business rates retention system. A revaluation is likely to have a significant impact on local business rates yields, either upwards or downwards. The status of those local authorities that currently have very small tariffs or top-ups could therefore change following a revaluation, which would have profound consequences for the risk profiles of those authorities. Increasing the frequency of revaluations would increase the level of uncertainty for local authorities, seriously hindering their ability to make robust medium term financial plans and risking their ability to benefit from local growth – one of the key principles underpinning the rates retention system.

19. As with changes to valuation methods, the frequency of property valuations has an impact on the volume of business rates appeals which disproportionately affect London boroughs. There is currently no evidence to suggest that increasing the frequency of revaluations would reduce the number of appeals. At the very least, more frequent valuations would lead to the potential for more appeals - as there would be more valuation lists to appeal.

20. Local authorities and ratepayers understand the current system which has been in place for 20 years. Collection rates of 98 per cent would suggest it works relatively well from an administrative point of view. Also, the Government states that around three quarters of appeals result in no change in valuation[3]. This low success rate suggests that the current system of valuation is relatively accurate. London Councils would therefore question the justification for wholesale changes to the frequency and method of valuations. This risks creating profound problems for local authorities by changing their risk profiles as a result of both the dynamics of the retention system and of more appeals.

How rates bills are set

This section of the discussion paper looks at how rates bills are set; focussing on the ratepayers' awareness of how the tax is administered. It outlines potential changes to help ratepayers understand their rates bills, asks where responsibility should sit for identifying entitlement to rates reliefs and how these should appear on bills.

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[3] This figure comes from the DCLG consultation "Checking and Challenging your Rateable Value" (December 2013): https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/263015/Checking_and_Challenging_your_Rateable_Value.pdf

21. London Councils believes it is in the best interests of ratepayers, local and central government for ratepayers to have accurate and consistent information about their rates bills. Poor or inconsistent information can cause confusion, leading to incorrect payments or non-payments and unnecessary rating appeals. London boroughs work hard to ensure their ratepayers receive the relevant information in a timely and accessible way. Guidance already exists about what rates bills should include. London Councils believes it should be up to individual authorities to decide locally how reliefs should appear on their bills.

22. London Councils believes the number and complexity of business rates reliefs in the current system is too great, causing confusion for ratepayers and financial uncertainty for local authorities. The challenge for billing authorities is that bills must explain a very complex system to ratepayers in a way that is easy to understand. The Government's recent tendency to introduce short-term relief policies at each Autumn Statement only serves to increase complexity and confusion for ratepayers and local authorities.

23. The wide variety of relief schemes not only causes confusion, it can impact on the ability of local authorities to implement local growth plans around, for example, high street regeneration. London Councils would urge the Government to simplify the system of reliefs to aid ratepayers' understanding of their rates bills, and to help local government in its financial planning.

24. London Councils believes that ratepayers are best placed to provide information to local authorities about their eligibility for certain reliefs, rather than the onus being on the local authority. Making billing authorities responsible for the automatic calculation of reliefs could be a significant undertaking for some authorities and would require additional resources. Any new burdens on local authorities with regard to reliefs should be fully funded.

How business rates are collected

This section of the discussion paper outlines how the current system of rates collection works including what is included on rates bills and how this can vary across authorities. It asks for views about how to make bills easier to understand and whether there are opportunities for modernising the collection of business rates using digital solutions. It also outlines the current process for backdating appeals and asks whether this is an issue for ratepayers and what all parties could do to limit these.

25. London Councils would again stress the fact that business rates is a relatively efficient tax and that wholesale changes to how business rates are collected may risk undermining this.

26. London Councils agrees with the principle of making rates bills easier to understand and easier to pay for rate payers. However, we would ask that any new approaches to the collection of business rates using digital solutions should be consulted upon in full and co-designed with representatives from local government. Some of the changes discussed in the paper would require considerable investment in IT infrastructure, and additional staff training costs. Were the government minded to impose a national solution this should be fully funded under the new burdens doctrine.

27. London Councils is extremely concerned about the current approach to backdating appeals, which creates huge uncertainty for London Boroughs trying to forecast their business rates yields and ultimately to budget accurately. In London, up to 75 per cent of the appeals provisions (amounting to £135 million) for 2013-14 are expected to relate to backdated appeals for periods prior to 1 April 2013.

28. London Councils believes there should be a legal requirement for ratepayers to inform their local authority when material changes to their properties are made. The discussion paper notes that within the business tax system more broadly self-assessment is commonplace with taxpayers being required to provide information on their tax affairs. The business rates system should be no different. Accurate and timely reporting of changes to hereditaments by ratepayers would significantly reduce the number and value of backdated appeals, meaning the correct bills are paid by ratepayers, improving the cash flow position and reducing the level of uncertainty for local authorities' budgeting.

29. While ratepayers may object to the increased administrative burden, the Government could help by assessing the financial cost of this burden and funding the initial transition by factoring it into the national NNDR multiplier in a similar way that the 2 per cent cap has been implemented this year.

How information about ratepayers and business rates is used

The final section of the paper looks at the information needed to: set or change the rateable value of a property; issue accurate bills; and forecast business rates receipts. It asks for views on whether ratepayers should play a greater role in providing or gathering information. It also explores the data the Valuation Office Agency can legally share with ratepayers, seeking views on how this could be improved.

30. London Councils would again reiterate the importance of accurate and timely information in the business rates system. Ratepayers should not only be legally required to provide information to the VOA and local authorities when material changes to their properties are made, but the process of providing rental information to the VOA should occur annually. An annual return alongside other business tax returns seems appropriate, as is routine in other forms of business taxation.

31. London Councils is disappointed that the discussion paper focusses solely on information sharing between the VOA and ratepayers. Following the introduction of the Business Rates Retention Scheme it has become increasingly important for local authorities to obtain accurate and up-to-date data from the VOA. In particular local authorities need current and historic data on local rating lists in order to forecast the potential revenue lost due to backdated, current and future appeals.

32. London Councils believes the VOA should routinely provide billing authorities with access to all information relating to hereditaments within their boundaries in order to facilitate more accurate forecasting and financial planning. The current arrangements are cumbersome and do not reflect Government policy on sharing data between public bodies[4].

[4] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/78947/Open-Data.doc