Westminster City Council

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City of Westminster

COUNCILLOR TIM MITCHELL
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The Rt Hon Sajid Javid MP
Secretary of State for Communities and Local Government

By email to: ndr@communities.gsi.gov.uk

25th October 2016

Dear Mr Javid

Transitional Relief Consultation Response

Westminster City Council welcomes the opportunity to contribute to the consultation on the transitional arrangements for the 2017 Business Rates Revaluation.

It is noted from paragraph 5 of the consultation document that the government's aim is make the Revaluation have a neutral effect on the outcome of the Business Rate Retention scheme for local authorities. The City Council accepts that this is the current position, but continues to hold the view that local authorities should be given the ability under the forthcoming 100% Retention scheme to retain an element of Revaluation growth, i.e. to reflect local authority investment in local infrastructure and public realm improvements. However, the City Council does not intend to address this issue further in this consultation response, as we believe that our position is adequately addressed in the previous Business Rate Retention scheme consultations and is also being taken forward through our representation on the LGA / DCLG System Design working group.

In terms of this consultation, the City Council's response is split into three sections:

- Issues with the government's preferred transitional scheme option
- The disproportionate effect on London
- Our asks of central government

Issues with the government's preferred option

It is clear that the government's current proposals (both Options 1 & 2) are aimed at accelerating the speed at which gainers from the Revaluation (ratepayers who have had a rateable value reduction) will receive their full reduction. It is also clear that the scheme is based on the premise that the transitional arrangements will be self-

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funding. This in turn means that the acceleration of the phasing in of reductions for gainers comes at the expense of the losers from the Revaluation (ratepayers with rateable values increases), in that the period for phasing in of their rateable increases is significantly shortened. It can be seen from the Council's response below that, whilst we understand the principle of providing rateable value reductions quickly, this does not necessarily have to come at the expense of businesses seeing an increase in their rateable values at Revaluation.

The City Council believes that the proposals for phasing in small and medium sized property reductions in both options are relatively fair and not dramatically out of step with previous Transitional schemes. The key issue is the proposed phasing in of rateable value increases for "Large" properties (rateable values greater than £100,000). In this regard it should be noted that the City Council has 8,962 properties on the 2017 Draft Valuation list with a rateable value in excess of £100,000. Of these 2,348 have a proposed rateable value increase in excess of 50% and 814 have an increase of over 100% so will therefore face increases in bills approaching 50% in April as a result of the 45% upwards cap. There are 33,940 properties with a rateable value above £100,000 across London as a whole, of which 7,675 see a rateable value increase of over 50% and 2,248 over 100%.

The consultation document's Option 1proposal includes a 33% increase in Year 1 for Large properties, whilst Option 2 (the government's preferred option) includes a Year 1 increase of 45%. The Year 2 & 3 phasing increases for both options are equally as aggressive. These are unprecedented levels of increase and need to be considered against the Year 1 percentage increase for Large properties under the 2010, 2005 and 2000 revaluation Transitional schemes which were only 12.5%.

The consultation document seeks to justify the exceptionally large increases by stating that "the largest ratepayers are better placed to anticipate and manage the impacts of the revaluation" The Council would question this assumption.

In terms of time, the consultation has provided businesses with less than 6 months to make plans to meet the extremely large increase in their cost base (one Oxford Street business will have to try and manage a £5M increase in Year 1).

The City Council would also question the sustainability argument, particularly for businesses that have single properties. It is accepted that some national chains will have the ability to net off the London increases against decreases in rateable value for their properties outside of London. However, this is not the case for businesses with just London properties. The proposed business rates increase for retailers in Oxford Street, Regent Street and Bond Street in 2017-18 is around £85m or nearly 50% - based on typical profit margins this means that they will collectively have to generate an additional £1.7 billion in turnover annually to cover the costs of their higher rates bills.

There is anecdotal evidence that some businesses will not be able to manage the increased costs and will close and that other businesses will defer proposals to grow their businesses, both of which outcomes are completely contrary to the growth aim

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of the Business Rate Retention scheme. The short turnaround timescale for this consultation has prohibited the City Council from obtaining evidence from individual businesses in Westminster. However the Council understands that the Westminster based Business Improvement Districts (BIDS) and other business representative organisations in London will be responding to the consultation with specific examples of the detriment that will be caused to their members. I also anticipate that these organisations will highlight the disconnect between the recent history of the rise in property costs (rent and business rates) and the much lower increase in sales income

The dis-proportionate effect on London

The 2017 Revaluation has resulted in the rateable values in London increasing, whilst the rateable values in the majority of the rest of the country have reduced. This obviously results in the government's phasing in of increases disproportionate affecting London.

It is clear from the Revaluation and all other business performance indicators that London is delivering the government's aim for economic growth, whilst the majority of the rest of the country is not. Whilst it makes sense to try and assist the rest of the country, it makes no sense to harm the one area of the country that is delivering, i.e. the tax burden should not dis-proportionately shift to London. Any attempt to do so, will not only hurt London, it will also adversely affect the national economy, which in turn will put pressure on jobs and consumer prices and reduce overall income to the Treasury.

Our asks of central government

The City Council believes that both Options within the consultation paper will cause unnecessary detriment to London businesses, particularly businesses categorised as "Large" within the scheme. It is considered that the government's preferred Option 2 is completely unsustainable. We would therefore ask that the government, as a result of the consultation, draws up a more reasonable third option that is more akin to the 2010 Transitional scheme.

In order to deliver the above, the Council would ask that the government re-phases the proposed transitional scheme and reduces the cap on increases for larger ratepayers in 2017-18. While we recognise existing legislation requires that the transitional scheme be self-funding, this only has to be the case over the life of the list. The government could therefore cash flow the scheme with the objective of ensuring it is self-financing by 2021-22 rather than having to be self-financing each year – in effect by having a lower cap in 2017-18 and a higher cap in subsequent years.. This temporary funding would enable gainers to still receive their reductions early and provide a reasonable period of time for businesses with rateable value increases to adjust their business to accommodate the full revaluation rateable value increases. This ask is not without precedent, as the government has previously followed a similar path of short-term funding to allow a sustainable phased

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implementation of other new schemes, e.g. the additional funding provided for the implementation of the Council Tax Support scheme.

The City Council would also ask that the government provides some avenues for business to increase their income in order to meet their increased NNDR liabilities. In London this would include support of the West End Partnership proposal for the West End.

The government should also consider providing a higher rateable value threshold for the categorisation of "Large" properties in London – potentially £150,000. Separate thresholds are included within the consultation paper for "Medium" properties, but not for "Large" properties (the Large property threshold for properties both inside and outside London is set at £100,000 rateable value).

Finally, the government should confirm that New Burdens funding will be available to meet local authority additional software / administration costs for the implementation of the new "Medium" category under the Transitional scheme.

Yours sincerely

Tim Mitchell

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