# Business, Planning and Transport Policy and Scrutiny Committee

City of Westminster

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| **Date:** | **12 June 2017** |
| **Classification:** | **General Release** |
| **Title:** | **Business Rates – The impact of the NNDR Revaluation and recent government legislation changes on Westminster businesses** |
| **Report of:** | **Head of Revenues and Benefits** |
| **Cabinet Member Portfolio:** | **Cabinet Member for Finance, Property & Corporate Services** |
| **Wards Involved:** | **All** |
| **Policy Context:** | **Safeguarding our reputation as a world class city** |
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## 1. Executive Summary

1.1 This report outlines the effect of the 2017 Business Rate (NNDR) Revaluation and subsequent government legislation changes on Westminster businesses.

## 2. Key matters for the Committee's Consideration

2.1 The majority of the government's NNDR changes are statutory with no local discretion and therefore the content of this report is largely factual for the Committee to note.

2.2 The only area highlighted in the report providing any degree of Council discretion is the government's proposed new Revaluation Discretionary Fund (5.1 in the report). It would be helpful to receive the Committee's views on the types of business that the fund could potentially seek to assist.

## 3 The 2017 NNDR Revaluation

3.1 The amount of business rates (NNDR) that an occupier will pay is based on an underlying calculation of the rateable value of the business property multiplied by a government annually set multiplier. The actual amount a business pays will be dependent on a number of other factors, including whether a business qualifies for one or more additional reliefs, including Transitional Relief, Small Business Rate Relief and Mandatory Relief.

3.2 The rateable value of a property is determined by the Valuation Office (central government agency). The rateable value is based on the Valuation Officer's assessment of the annual rental value of the property. The Valuation Office is currently required to undertake a Revaluation of all properties every 5 years. However, the previous Revaluation prior to the 2017 Revaluation was in 2010 as the government extended the period of the Revaluation to 2017 just prior to the original planned 2015 Revaluation date.

3.3 Revaluations do not generate additional income at a national level as the government resets the multipliers at a Revaluation to ensure that the overall national NNDR yield remains the same. However at a local level the amount of NNDR yield can increase or decrease significantly at the point of a Revaluation.

3.4 The City Council will collect around £2 Billion in NNDR in 2017/18, of which the Council currently only retains £78m. The £2 Billion figure will increase over the next few years as the NNDR Transitional scheme phases out (Transitional Relief currently reduces the 2017/18 NNDR yield by £111M).

3.5 Westminster's overall rateable value increased by 25% at the 2017 Revaluation. London as a whole had an overall increase of 22%, whilst the average for the whole country was 9%. It should be noted that the 25% figure for Westminster is an average figure and that this masks a number of much larger percentage increases at an individual property level. To put the 25% increase in to context, the increase in rateable value for Westminster from £4.125B to £5.168B equates at a gross level to increased NNDR payable of £486M per annum. The actual amounts payable by Westminster businesses will be lower (in total around £2B) in 2017/18 due to Transitional relief and other NNDR reliefs and allowances.

| Increase/Decrease in Rateable Value | % of Properties | Number of Properties |
|---|---|---|
| Over 100% | 4.50% | 1622 |
| 90-100% | 1.09% | 392 |
| 50-90% | 9.05% | 3263 |
| 40-50% | 4.81% | 1734 |
| 30-40% | 7.76% | 2796 |
| 20-30% | 14.38% | 5182 |
| 10-20% | 15.93% | 5741 |
| 0-10% | 26.15% | 9425 |
| Decrease | 12.89% | 4644 |

| | | |
|---|---|---|
| Nil rateable values | 3.43% | 1237 |
| Total | 100.00% | 36036 |

3.6 The average increases in rateable value in Westminster also differ significantly depending on the category of property.

| **Property Type** | **Number of Properties** | **Percentage Change In Rateable Value** |
|---|---:|---:|
| SHOPS, BANKS, POST OFFICES ETC | 6692 | 62.64% |
| OFFICES | 19036 | 10.87% |
| CAR PARKS AND PARKING SPACES | 3439 | 10.16% |
| RESTAURANTS, CAFES ETC | 1535 | 41.27% |
| COMMUNICATION STATIONS | 1006 | -0.43% |
| WAREHOUSES, STORES ETC | 898 | 13.24% |
| HOTELS, BOARDING HOUSES ETC | 499 | 41.07% |
| ADVERTISING RIGHTS & STATIONS | 175 | 27.25% |
| LICENSED PROPERTIES | 590 | 77.66% |
| PRIVATE HOSPITALS, CLINICS | 667 | 28.01% |
| EDUCATONAL TRAINING AND CULTURAL | 249 | 48.51% |
| LEISURE | 234 | 23.32% |
| INDUSTRIAL | 220 | 26.49% |
| MISCELLANEOUS | 251 | 19.32% |
| PETROL FILLING STATIONS, GARAGES ETC | 187 | 11.42% |
| MARKETS | 5 | 44.03% |
| OTHER COMMERCIAL | 308 | 43.27% |
| NON-FORMULA ASSESSED PUBLIC AND OTHER UTILITIES | 20 | 7.00% |
| TREASURY | 25 | -2.75% |

| TOTAL | 36,036 | |
|---|---|---|

3.7 It is expected that a large percentage of Westminster businesses will challenge their 2017 rateable values; with the majority using professional rating agents (around 69% of Westminster businesses challenged their 2010 rateable value).

3.8 The Valuation Office has been extremely slow in determining rateable value appeals, with 8,555 appeals still outstanding from the 2010 Revaluation and even some outstanding from the 2005 Revaluation.

3.9 The Valuation Office has implemented a new “Check, Challenge and Appeal” process from 1 April 2017 to try and make the appeal process more efficient and timely. At this stage, it is not possible to assess whether this will reduce the number of appeals or whether the current extensive time taken by the Valuation Office to resolve appeals will be improved.

## 4. NNDR Transitional scheme

4.1 The government is required by law to implement a Transitional scheme at each Revaluation. The aim of the Transitional schemes being to phase in the effect of large rateable increases. The schemes should aim to be cost neutral, which means that the phasing in of rateable value increases has to be compensated for by a phasing in of rateable value reductions.

4.2 The government issued a consultation document relating to the 2017 Transitional scheme in November 2016.

4.3 The consultation proposed a preferred scheme whereby in the first year of the scheme (2017/18) the maximum increase a business could face would be as follows:

| Category | Rateable Value | Percentage Increase |
|---|---|---|
| Small | Below £28,000 | 5% |
| Medium | £28,000 to £100,000 | 12.5% |
| Large | Over £100,000 | 45% |

4.4 The proposal limits were a surprise to both local government and businesses, as previous Transitional schemes had limited Year 1 increases to 12.5%. It appears clear that the government’s aim was to shorten the phasing in period for businesses with a rateable value reduction at Revaluation. This, however, largely benefits only businesses outside of London and the South East.

4.5 The Council submitted a consultation response seeking a more favourable phasing in arrangement (see Appendix A). The Council also contributed to, and signed-up to, a NWEC BID organised pan-London consultation response. The NWEC consultation response largely mirrored the Council’s response.

4.6 The government subsequently published a revised Transitional scheme, as part of the Autumn Statement, which included a small concession for Large properties for Year 1 of the scheme (see below) and a further improvement for Year 2.

| Category | Rateable Value | Percentage Increase |
|---|---|---|
| Small | Below £28,000 | 5% |
| Medium | £28,000 to £100,000 | 12.5% |
| Large | Over £100,000 | 42% |

## 5. The Spring Budget

5.1 The Revaluation and the government’s Transitional Relief scheme generated a significant amount of media interest relating to the negative effect on businesses in London. The government sought to address some of these concerns through three NNDR proposals announced as part of the Spring Budget:

**(i) <u>Supporting Small Business Rate Relief</u>**

The government is to provide some protection to businesses that will lose some or all of their existing Small Business Rate Relief due to the Revaluation. The aim being that no affected business should pay more than £50 extra per month (i.e. £600 over a 12 month period).

**Number of Westminster Properties Affected – 85**

The proposed change is complex and the government has only just published details of how the scheme should be implemented. The Council’s NNDR software provider is now working on delivering the relevant system changes.

The Council has written to the 85 businesses potentially affected by this change.

**(ii) <u>£1000 allowance for public houses.</u>**

The relief is to be given to all public houses with a rateable value of less than £100,000. However, it is currently likely that the relief will be subject to State Aid rules, which effectively means that pub chains will not qualify.

**Number of Westminster Properties affected - 195 public house properties have a rateable value of less than £100,000.**

The government is understood to be preparing a consultation paper on the new relief. However, the current General Election announcement has delayed the issuing of the consultation.

The Council has written to all potential recipients of the relief advising that the Council will recalculate their bill after completion of the government’s forthcoming consultation exercise and subsequent confirmation of the relevant eligibility criteria.

**(iii) <u>New Revaluation Discretionary Fund</u>**

The government announced that it would be allocating funding to local authorities to provide support to businesses most adversely affected by the Revaluation.

A consultation paper was subsequently issued outlining proposed funding levels for each local authority. The consultation proposed the following funding for Westminster:

| 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|---|---|---|---|
| £11,603,000 | £5,636,000 | £2,321,000 | £332,000 |

The 2017/18 funding equals to around 0.5% of our annual NNDR collection.

The City Council's consultation response pointed out that the funding allocation formula had only considered the effect on businesses with a rateable value less than £200,000. This effectively means that our funding allocation takes no account of the borough's 5076 business properties with a rateable value greater than £200,000.

The government's consultation paper also indicated that it would expect local authorities to only assist business with a rateable value increase above 12.5% and also to use their discretion to assist businesses with lower value rateable values. The City Council's response stated that as this is a local discretion, local authorities should have the freedom to assist any property with an increase in their rateable value above 12.5%.

**Number of properties affected** – There are 18,809 properties in the borough with an increase in their rateable value at the Revaluation in excess of 12.5%.

The City Council, along with all other local authorities, have been awaiting the government's formal response to the consultation. However the government has recently confirmed the provisional funding figures shown above and also confirmed that local authorities are not limited to whom they support through the fund. The government has yet to decide whether any unspent allocations can be carried forward between financial years. This should be included in their forthcoming formal response to the consultation.

It is envisaged that the new relief will be included in a revised version of the Council's NNDR Discretionary Relief policy, which will need to be approved by the Cabinet Member for Finance, Property and Corporate Services. The policy is likely to include eligibility rules / guidelines and determination arrangements.

## 6. Financial Implications

6.1 Local authorities do not benefit financially from increases in their rateable value resulting from a Revaluation. This is because the government's Business Rate Retention scheme seeks to neutralise the effect of a Revaluation in order that individual local authorities do not win or lose financially.

6.2 The City Council believes that local authorities play a key role in relation to incentivising growth (e.g. thorough improving public realm and infrastructure) and therefore should receive some financial benefit from rateable value Revaluation growth. Whilst the City Council continues to lobby on this point, the government has not yet made any firm commitment to change their existing arrangements for Revaluations within the Business Rate Retention scheme.

6.3 The government has committed to fund local authorities for lost NNDR income resulting from the Spring Budget announcements.

6.4 In view of the above, there are no direct financial consequences for the City Council relating to the Revaluation, the Transitional Scheme or the changes announced in the Spring Budget.

## 7. Ward Member Comments

7.1 As the report relates to all wards, no Ward Member consultation was required.

## 8. Outstanding Issues

8.1 There are no outstanding issues other than as outlined in this report.

**If you have any queries about this report or wish to inspect any of the background papers please contact: Martin Hinckley , on 0207 641 2611 or via email to**

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**Appendix A – Westminster's response to the NNDR Transitional Arrangement Consultation.**