

Business Engagement Forum– 27/3/17

The Impact of Business Rate Revaluation

Introduction

Business Rate revaluation has always been a politically sensitive exercise, but the 2016/17 revaluation has attracted particularly high profile criticism, from both national and local business bodies.

This paper sets out the background to revaluation in Hampshire, Southampton, Portsmouth and the Isle of Wight (hereinafter abbreviated to 'Hampshire') and presents the data for different business sectors. It also considers the impact of revaluation in neighbouring Counties.

The data presented are drawn from the Valuation Office Agency's published data sets. Of necessity they are aggregate data, and the analysis presented shows trends across sectors. There will be significant variation between individual businesses within each sector. However, this paper paints an overall picture for Hampshire.

Business Engagement Forum members are invited to consider whether they would value a more detailed discussion on this topic at a future meeting.

Business Rates

All properties have a rateable value, based on the anticipated rent they can attract on the open market. Business Rates (formally known as National Non Domestic Rates – NNDR) are levied as a multiplier of this value. The annual percentage change to that multiplier, and so the year-on-year increases in Business Rates, is set by statute and applied nationally. Unlike Council tax, it is not a matter under local control.

Business Rates are collected locally by District and Unitary Councils and passed to the Treasury. The Government redistributes the total sum across England and Wales to balance out differences in totals collected and local spending need. Councils across Hampshire and the Isle of Wight collected over £700m in Business Rates in 2015-16, and received back from Government over £260m through the Revenue Support Grant.

At present local authorities are also permitted to retain 50% of the annual growth in Business Rate income arising from growth in the business base. The remaining 50% is remitted to the Treasury. In two-tier areas the County receives 20% of the amount retained, the District 80%. The Government propose to allow all income from growth to be retained from 2019 (subject to legislation).

Significant changes will happen in 2017/18 because the VOA have reviewed their valuation (the rateable value) of all non-domestic properties. Normally this process happens every five years, but the revaluation due in 2015 was delayed by the Government, meaning that an additional 2 years of changes in rateable value have to be taken into account.

Nationally, the revaluation is designed to be a 'zero-sum-game', generating no additional income for Treasury. However, there is wide variation across the Country, and across sector, because trends in rateable value can vary between areas. It is the extent and impact of this variation which has caused widespread concern.

Impact of the Revaluation in Hampshire

i) Changes in Business Rate income

The first part of the table at Appendix 1 shows the average percentage increase in Business Rates which will be collected across Hampshire in 2017-18 as a result of the revaluation. On average the increase for all premises ('All' column) is 2.7%. That varies from an average increase of 10.1% in the Isle of Wight to an average reduction of 3.2% in Fareham.

VOA data give a broad breakdown into four categories of premises: retail, offices, industrial and 'other', the latter a portmanteau which includes premises from restaurants to farms or pubs. Columns 2-5 show the average increase by category – again for Hampshire as a whole and by district/city.

Once again, the picture is complex. There is general reduction in Business Rates collected from retail properties, with East Hampshire, Hart, Rushmoor and Winchester bucking that trend. Overall offices see a small increase, although there are falls in some areas. It should be stressed that the table shows the average change in the amount collected in each area/category. Because premises are valued individually there will be significant variation within each.

ii) Neighbouring Areas

The Appendix also shows average percentage changes overall and by sector, in neighbouring County areas. There is no discernible pattern to the changes, with Surrey seeing an overall 11.8% increase, which contrasts with an overall reduction of 2.8% in Wiltshire. There will be wide variations for individual businesses within each of those County areas.

The Appendix also gives average changes in Business Rate income for the South Central Region (ie. all County areas listed in the appendix) and for England. Nationally there is a north/south divide, with more increases in RV, and so Business Rates, occurring in the South.

iii) Transitional Arrangements

To protect businesses from significant increases (or phase in decreases) in the first three years of the new rates, the Government has put in

transitional arrangements. These provide for only a percentage of the total increase to be paid, with that percentage varying by year, business size (as measured by rateable value) and sector.

The Budget of 8 March announced additional provisions to respond to the political concerns caused by the impact of the revaluation. These included £300m to be distributed to local authorities to provide additional protection and a cap on payments for small businesses which lose Small Business Rate Relief as a result of the revaluation.

Issues

The pattern of Business Rate changes across Hampshire is complex. The data presented offer only a summary, and a more detailed analysis could be undertaken to explore local or sectoral impacts. The revaluation raises a number of issues which the Business Engagement Forum may wish to consider further, including:

- The impact of changes on the competitiveness of sectors and of individual businesses;
- How future planning for business growth and inward investment may be affected by changes, in particular when compared with neighbouring areas or other national competitor locations;
- The effectiveness of transitional arrangements designed to cushion businesses against change;
- The likely impact of appeals against new valuations on local income;
- The consequences of these changes for the future localisation of Business Rates.

The Southern Policy Centre has published an interactive map which shows changes in business rate by sector across the South. This can be found at <http://southernpolicycentre.co.uk/2017/03/business-rate-changes-across-the-central-south-essential-background-to-the-budget/Simon>

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Appendix 1

Estimated percentage change in business rates by sector:

	Sector				
	All	Retail	Office	Industrial	Other (inc. restaurants)
Hampshire	2.7%	-7.0%	1.3%	3.8%	11.4%
Basingstoke and Deane	-0.9%	-14.4%	3.7%	5.4%	4.0%
East Hampshire	9.4%	14.0%	1.4%	9.1%	8.9%
Eastleigh	-2.5%	-14.0%	-4.2%	3.4%	5.9%
Fareham	-3.2%	-14.6%	-0.8%	3.6%	0.3%
Gosport	-0.1%	-4.4%	1.7%	4.3%	-0.9%
Hart	7.0%	8.3%	3.0%	13.9%	8.0%
Havant	0.4%	-13.3%	2.7%	9.3%	13.0%
New Forest	2.8%	-1.8%	-0.7%	1.6%	7.2%
Rushmoor	6.3%	0.8%	3.6%	5.0%	14.5%
Test Valley	3.7%	-7.9%	3.6%	5.2%	10.6%
Winchester	7.9%	13.3%	-1.4%	2.3%	14.9%
Portsmouth	3.8%	-8.0%	2.5%	2.7%	15.3%
Southampton	2.8%	-11.9%	1.0%	-2.6%	21.3%
Isle of Wight	10.1%	-0.8%	2.8%	15.3%	16.6%

Neighbouring Counties					
Dorset	1.7%	-7.5%	-0.2%	6.0%	8.5%
Wiltshire	-2.8%	-11.3%	-3.7%	-3.9%	7.5%
Surrey	11.8%	-0.1%	23.3%	2.7%	18.1%
West Sussex	3.7%	-2.9%	-5.3%	9.0%	9.4%
Berkshire	10.1%	-2.4%	24.2%	-1.9%	18.8%

Regional / National Averages					
South Central Region	5.8%	-3.0%	11.0%	3.0%	12.7%
England*	0.0%	-5.0%	1.0%	-6.0%	5.0%

*The England figures are those published by the Government and are calculated before inflation and the adjustment to the multiplier for future appeal outcomes. Taking into account inflation and the adjustment to the multiplier business rates tend to be on average an additional 5-7% higher.