From:	Mark Dance, Cabinet Member for Economic Development John Simmonds, Deputy Leader and Cabinet Member for Finance & Procurement David Shipton, Head of Financial Strategy
To:	Growth, Economic Development and Communities Cabinet Committee - 22 March 2017
Subject:	Impact of 2017 Business Rate Revaluation and Small Business
Classification:	Unrestricted

Summary:
This report explores the background to the 2017 revaluation, how the revaluation has impacted on Kent properties compared to South East and the rest of England. The report also provides further information on the transitional arrangements announced in the 2016 Autumn Budget Statement and Local Government Finance settlement to support the implementation of the revaluation, and the changes for small businesses announced in the March 2016 Budget.

Recommendations:
The Cabinet Committee is asked to note the impact of the 2017 business rates revaluation, including the recalibration of the NNDR multiplier and transitional arrangements, and the additional reliefs for small businesses

1. Introduction

1.1 National Non Domestic Rates (NNDR), or business rates as they are commonly known, were introduced in 1990. Effectively this is a national taxation on all non-domestic properties. The tax is calculated according to the rateable value of the property and NNDR multiplier (rate in the £) set by central government. Since its introduction the multiplier has been increased each year in line with inflation (based on September Retail Prices Index, RPI). The 2016 multiplier is 49.7p in the £ for properties with a rateable value over £18,000 (smaller properties are subject to a lower multiplier of 48.4p in the £).

1.2 The rateable value is determined by the Valuation Office Agency (VOA) based on the open market rental value of the property. Normally properties are revalued every 5 years (quinquennial review). At the same time the NNDR multiplier is reset so that the overall yield from business rates is unchanged following the review (with an allowance for the annual inflationary uplift and estimated impact of appeals).

1.3 The revaluation scheduled for 2015 was deferred until 2017 following a Government announcement in autumn 2012. At the time the rationale for this deferral was that 2010 valuation was based on market values at the height of the property boom (April 2008). The subsequent property crash would have had a significant impact on 2015 values (based on April 2013 market value) and consequently an unsustainable increase to the multiplier. It was claimed this would have had a detrimental impact for many businesses, particularly those where rates are the third largest cost after staff and property rents. The 2017 revaluation, recalibration of the NNDR multiplier and revised transitional arrangements will apply to business rates bills issued from April 2017.

2. Business Rates List

2.1 The vast majority of properties are recorded on the VOA's local list. Business rate collection from the local list is the responsibility of the lower tier local authority (district councils in two tier areas). Under the current local government funding arrangements local authorities retain 50% of the business rates collected in their area from the local list (subject to redistribution against the baseline of previous grants via a system of tariffs and top-ups). These tariffs and top-ups have been recalculated for 2017-18 to ensure the impact of the revaluation on individual local authority budgets is broadly neutral. Any growth (or decline) on this local share is retained (subject to levy and safety net adjustments to mitigate significant changes). The remaining 50% (including the share of growth/decline) is returned to the Department for Communities and Local Government.

2.2 Some properties, notably those in the network property of major transport, utility and telecommunications undertakings and cross-country pipelines, are recorded on the central list. Business rates for properties on the central list are remitted directly to the Department for Communities and Local Government. By law, the 50% returned share from the local list and the proceeds from the central list have to be paid to local authorities to fund local services through grant mechanisms (including revenue support grant).

2.3 The occupier of premises on the local and central lists is liable to pay the business rates. This could be the owner-occupier, leaseholder, or a sub lessee. Empty properties will be assessed according to who is entitled to possession. Sole traders are personally liable to pay the business rates and in partnerships all partners are jointly and severally liable. If a company conducts its business from the premises and the company shows it is in occupation then the company will be liable. Normally only one rates bill will be issued for any property on the list, if more than one person/body is liable to pay the rates then all names will be listed on the bill.

2.4 A liquidated company is still liable to pay business rates where it remains in occupation of a property; effectively this means rates are paid before any secured creditors. The liquidator will seek to terminate occupation at the earliest possible opportunity. A company in administration is similar to a liquidated company i.e. not liable for business rates when not in occupation. Liability for business rates on a property of a company in receivership usually transfers to the receiver.

2.5 Some properties are exempt from business rates and not included in central or local lists. By definition this includes all domestic properties (which are listed on council tax lists); other exempt properties include agricultural land and buildings, places of religious worship (including church halls), properties used for the sole use by disabled persons, public parks, sewers and properties occupied by drainage authorities, Trinity House properties, etc.

2.6 Business rates can be discounted. In some case these are mandatory and other cases are at the discretion of local collection authorities. Mandatory exemptions include empty properties (6 months for industrial premises, 3 months all other categories), small businesses (see section 5 below), and properties occupied by charities or community amateur sports clubs (80% relief). Discretionary exemptions include increasing charitable relief to 100%, cases of exceptional hardship, and certain essential premises serving rural communities (although this will be largely superseded by the extension of mandatory small business rate relief outlined in section 5).

3. 2017 Revaluation

3.1 The initial outcome of the VOA revaluation was announced in September 2016. The revaluation is based on the open market value of properties in April 2015. As a result some areas where property values have increased significantly since April 2008 (particularly in London and South East) have seen substantial increases in rateable values, whilst in other areas where property values have not fully recovered following the recession rateable values have fallen. At the time it was suggested that the revaluation would result in the most dramatic changes in business rates since its introduction. The headline changes in rateable values by local region are shown in table 1 below. The recalibration of the NNDR multiplier and transitional arrangements, were not announced at the same time as the outcome from the revaluation.

Table 1			
	2010	2017	
2010 and 2017 Revaluation Rating List (at 06 Oct 2016)	Rateable value	Rateable value	Percentage Change
	£000	£000	
England Total	57,685,499	63,212,289	9.6
North East	2,165,960	2,145,459	-0.9
North West	6,702,554	6,701,757	0
Yorkshire & Humberside	4,784,819	4,785,621	0
East Midlands	3,656,330	3,925,789	7.4
West Midlands	4,988,464	5,148,781	3.2
East	5,576,067	5,782,510	3.7
London	16,419,047	20,310,982	23.7
South East	8,600,631	9,428,935	9.6
South West	4,791,628	4,982,454	4
Source: VOA administrative data as at 25 September 2016			

3.2 Table 2 below shows the headline changes for south east authorities. This shows that the change in rateable values in Kent was less than most other authorities in the area and well below the overall average for the area. Table 3 shows the same headline analysis for the 12 Kent districts compared to the overall Kent, South East and England averages.

Table 2	Number of Properties	2010 Rateable Value £000s	2017 Rateable Value £000s	Percent Change
County Areas				
Buckinghamshire	14,750	431,010	455,160	5.6
East Sussex	19,260	335,929	367,890	9.5
Hampshire	39,370	1,205,223	1,280,858	6.3
Kent	**48,520**	**1,372,636**	**1,453,832**	**5.9**
Oxfordshire	20,660	732,474	822,149	12.2
Surrey	33,330	1,155,302	1,335,004	15.6
West Sussex	26,740	793,298	852,504	7.5
Unitary Areas				
Medway	6,240	219,901	223,146	1.5
Other	62,300	2,354,857	2,638,393	12.0
Total South East	271,140	8,600,631	9,428,935	9.6

Table 3	Number of Properties	2010 Rateable Value £000s	2017 Rateable Value £000s	Percent Change
Ashford	4,350	115,002	123,222	7.1
Canterbury	5,610	137,002	143,598	4.8
Dartford	3,030	196,303	198,372	1.1
Dover	3,950	89,837	111,264	23.9
Gravesham	2,270	62,183	64,101	3.1
Maidstone	4,830	143,113	145,721	1.8
Sevenoaks	3,820	88,947	95,041	6.9
Shepway	3,730	73,656	78,665	6.8
Swale	4,410	114,101	119,836	5.0
Thanet	4,930	90,240	94,355	4.6
Tonbridge and Malling	3,600	135,149	144,917	7.2
Tunbridge Wells	4,000	127,103	134,740	6.0
Total Kent	48,520	1,372,636	1,453,832	5.9
Total South East	271,140	8,600,631	9,428,935	9.6
Total England	1,856,450	57,685,499	63,212,289	9.6
Dover excl Tunnel	3,949	74,437	76,264	2.5

3.3 The change in Dover in table 3 includes the revaluation of the Channel Tunnel (by some way the largest hereditament in the county) where the rateable value has increased from £15.4m to £35m. Table 3 shows the alternative revised total for Dover excluding the Channel Tunnel. The overall Kent increase would reduce from 5.9% to 4.5% if the Channel Tunnel is excluded. It is also worth noting that the rateable value for the Port of Dover has reduced from £5.25m to £2.75m (the largest reduction in Kent).

3.4 An alternative presentation of the changes in rateable value in the South East is shown in the map produced by the VOA attached as appendix 1.

3.5 Properties are categorised into one of 4 main groups; retail, industrial, office or other. There are some differences in the assessment of the open market value of properties between these categories, particularly those where the current use is not commercial. Within these broad categories there are a number of special sub categories to distinguish the current use of premises e.g. within the retail category there are separate categories for banks/building societies, hypermarkets/large shops, retail warehouses and foodstores, hairdressing salons, as well as general shops. A full list of the subcategories (and the number of properties and rateable values) is attached as appendix 2 to this report. This is presented in the format reported by VOA.

3.6 The national distribution of rateable values in interval bands across the 4 main categories is attached as appendix 3 to this report. This is presented in the format reported by VOA. The analysis shows that the largest increases in rateable values have been in the “other” category where values have increased by 15.9% compared to the national average of 9.6%. Within this properties valued over £51k (the new threshold for the higher multiplier) have increased the most (19.6%). The next highest category is the “office” category, where values have increased by 12.7% (with those properties valued over £51k increasing by 15.6%). Retail increases were 4.8%, with the largest increases for small to medium sized premises with rateable values between £9k and £51k. This has led to a fair amount of national conjecture and commentary that increases could affect the viability of many small local businesses in this category. Increases for industrial properties have been the lowest (4%), once again the largest increases in this sector are those with rateable values between £9k and £51k.

3.7 The regional distribution of rateable values in interval bands across the 4 main categories is attached as appendix 4 to this report. This is presented in the format reported by VOA. Table 4 below shows a comparison of the changes in rateable values across the 4 main categories in Kent compared to the South East and England. This reveals some differences, particularly in the relative size of the individual sectors and changes in rateable values. Tables 5 to 8 show the district make-up of each sector I the 12 Kent districts.

Table 4	Number of Properties	2010 Rateable Value £000s	2017 Rateable Value £000s	Percent Change	Percent of Taxbase
Retail					
Kent	**12,170**	**467,676**	**447,745**	**-4.3**	**30.8**
South East	67,820	2,440,820	2,471,239	1.2	26.2
England	485,440	15,439,866	16,185,154	4.8	25.6
Industrial					
Kent	**12,580**	**338,177**	**351,429**	**3.9**	**24.2**
South East	70,220	2,005,498	2,138,900	6.7	22.7
England	474,050	12,756,642	13,272,251	4.0	21.0
Office					
Kent	**8,990**	**154,900**	**156,711**	**1.2**	**10.8**
South East	55,680	1,534,370	1,732,008	12.9	18.4
England	365,840	13,425,998	15,137,438	12.7	23.9
Other					
Kent	**14,770**	**411,883**	**497,947**	**20.9**	**34.3**
South East	77,430	2,619,943	3,086,788	17.8	32.7
England	531,120	16,062,994	18,617,445	15.9	29.5

Table 5 - Retail	Number of Properties	2010 Rateable Value £000s	2017 Rateable Value £000s	Percent Change
Ashford	880	39,968	39,602	-0.9
Canterbury	1,340	56,998	51,042	-10.4
Dartford	950	106,394	99,920	-6.1
Dover	900	18,213	17,366	-4.7
Gravesham	770	21,539	20,385	-5.4
Maidstone	1,050	42,235	37,443	-11.3
Sevenoaks	830	23,105	24,546	6.2
Shepway	1,070	24,776	23,066	-6.9
Swale	980	24,740	24,515	-0.9
Thanet	1,580	37,438	36,831	-1.6
Tonbridge and Malling	650	23,482	23,756	1.2
Tunbridge Wells	1,170	48,787	49,273	1.0
Total Kent	12,170	467,676	447,745	-4.3
Total South East	67,820	2,440,820	2,471,239	1.2
Total England	485,440	15,439,866	16,185,154	4.8

Table 6 - Industrial	Number of Properties	2010 Rateable Value £000s	2017 Rateable Value £000s	Percent Change
Ashford	1,370	28,712	29,931	4.2
Canterbury	1,120	18,175	19,564	7.6
Dartford	700	40,433	41,292	2.1
Dover	900	22,090	20,489	-7.2
Gravesham	540	17,592	18,208	3.5
Maidstone	1,320	34,677	36,367	4.9
Sevenoaks	1,120	23,015	24,077	4.6
Shepway	940	12,220	13,338	9.1
Swale	1,470	49,227	51,786	5.2
Thanet	1,220	16,530	17,033	3.0
Tonbridge and Malling	1,000	54,364	56,550	4.0
Tunbridge Wells	890	21,143	22,792	7.8
Total Kent	12,580	338,177	351,429	3.9
Total South East	70,220	2,005,498	2,138,900	6.7
Total England	474,050	12,756,642	13,272,251	4.0

Table 7 - Office	Number of Properties	2010 Rateable Value £000s	2017 Rateable Value £000s	Percent Change
Ashford	860	13,080	12,947	-1.0
Canterbury	790	11,566	11,253	-2.7
Dartford	650	14,767	15,564	5.4
Dover	760	10,926	11,386	4.2
Gravesham	290	2,788	2,708	-2.9
Maidstone	1,170	19,769	18,910	-4.3
Sevenoaks	850	17,970	17,764	-1.1
Shepway	500	6,857	7,125	3.9
Swale	650	7,455	7,668	2.9
Thanet	580	4,702	4,918	4.6
Tonbridge and Malling	970	25,830	29,384	13.8
Tunbridge Wells	920	19,191	17,085	-11.0
Total Kent	8,990	154,900	156,711	1.2
Total South East	55,680	1,534,370	1,732,008	12.9
Total England	365,840	13,425,998	15,137,438	12.7

Table 8 - Other	Number of Properties	2010 Rateable Value £000s	2017 Rateable Value £000s	Percent Change
Ashford	1,240	33,242	40,741	22.6
Canterbury	2,360	50,263	61,739	22.8
Dartford	740	34,709	41,596	19.8
Dover	1,380	38,608	62,022	60.6
Gravesham	670	20,264	22,800	12.5
Maidstone	1,290	46,431	53,000	14.1
Sevenoaks	1,010	24,858	28,654	15.3
Shepway	1,220	29,804	35,136	17.9
Swale	1,310	32,680	35,867	9.8
Thanet	1,550	31,569	35,572	12.7
Tonbridge and Malling	980	31,473	35,228	11.9
Tunbridge Wells	1,030	37,982	45,591	20.0
Total Kent	14,770	411,883	497,947	20.9
Total South East	77,430	2,619,943	3,086,788	17.8
Total England	531,120	16,062,994	18,617,445	15.9
Dover excl Tunnel	1,379	23,208	27,022	16.4

3.8 These tables and appendices have been produced to provide a general contextual overview. It is not practical to show more detail of the changes for individual properties.

4. Transitional Relief and NNDR Multiplier

4.1 The NNDR multipliers for 2017/18 have been reduced by 1.8p compared to 2016/17 (47.9p for larger properties and 46.6p for smaller properties). The recalculation allows for the annual inflationary uplift and recalibration to ensure the 9.6% increase in rateable values has no impact on the overall yield. The recalibration of the multiplier also includes the estimated impact of appeals. The government analysis shows that London is the only region which is anticipated to see an overall increase in business rates yield (11%) after taking account of the revaluation, recalibration of the multiplier and estimated impact of appeals.

4.2 The government published consultation on the transitional arrangements to apply from 2017 in order to mitigate the impact of excessive increases and reductions in business rates bills following the revaluation. This consultation was published on 28th September and was open for four weeks up to 25th October. Previous transitional arrangements have seen increases and reductions progressively phased in over a number of years (with increases and reductions getting larger in successive years). The transitional arrangements have previously allowed greater increases for larger properties (those with a rateable value in excess of £18k) compared to smaller properties.

4.3 The transitional arrangements for the 2010 revaluation allowed a maximum increase of 12.5% for larger properties (maximum reduction 4.6%), and a maximum increase of 5% for smaller properties (maximum reduction 20%) on rates bills due in 2010/11 compared to 2009/10. By 2013/14 these had increased to 25% (annual increase) and 13% (annual reduction) for larger properties, and 15% (annual increase) and 50% (annual reduction) for smaller properties.

4.4 The consultation launched in September 2016 acknowledged that these arrangements could not be repeated in 2017 without compromising the principle that transitional arrangements have to be self-financing i.e. the protection from excessive increases is offset by phasing in reductions. The consultation sought views on two options:

Option 1 included:

- large initial increases for the largest properties (those with rateable value in excess of £100k) of 33% in 2017/18, reducing to 13% by 2021/22
- lesser increases for medium sized properties (rateable value between £20k to £100k) of 12.5% in 2017/18 rising to 25% by 2021/22
- lowest increases for smaller properties (rateable value less than £20k) of 5% in 2017/18 rising to 15% by 2021/22

- reductions would be limited to 4.1% for large and medium sized properties in 2017/18 (rising to 5.9% by 2019/20) and 10% for small properties (rising to 55% by 2020/21)

Option 2 included:

- Changes to the limit on reductions for medium sized properties to 10% in 2017/18 (rising to 25% by 2021/21)
- The additional cost of this larger reduction for medium sized properties compensated by higher increases for large properties of 45% in 2017/18, rising to 50% in 2018/19 and 2019/20.

4.5 This consultation was complicated and in total received 173 responses (89 from ratepayers, 40 from local authorities, etc.). KCC submitted a response which supported the principal of small stepped increases and large stepped reductions for small properties. We supported option 2 which allowed larger reductions for medium sized properties. We also expressed concern about the very large increases for some large businesses, particularly those with small profit margins.

4.6 Following the consultation the government announced a hybrid solution which allowed for the larger reductions for medium size properties from option 2 but also reduced the impact on large properties. The final transitional arrangements are summarised in the extract below.

Final: Transitional Arrangements 2017 revaluation (before inflation) funded by 3 caps on reductions						
	Property Size	2017/18	2018/19	2019/20	2020/21	2021/22
Upwards Cap	Small	5.0%	7.5%	10.0%	15.0%	15.0%
	Medium	12.5%	17.5%	20.0%	25.0%	25.0%
	Large	42.0%	32.0%	49.0%	16.0%	6.0%
Downwards Cap	Small	20.0%	30.0%	35.0%	55.0%	55.0%
	Medium	10.0%	15.0%	20.0%	25.0%	25.0%
	Large	4.1%	4.6%	5.9%	5.8%	4.8%
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.						

5. Small Businesses

5.1 Substantial changes to the relief arrangements for small businesses were announced in the Chancellor's March 2016 Budget. This included the permanent doubling of small business rate relief for all properties with a rateable value of £12k or less. This allowed such properties 100% relief from April 2017. Small Business Rate Relief would be available for properties with rateable value of £15k or less on a tapered basis. This would remove business rates of £5,808 for a property with a rateable value of £12k (typically this may be small single story shop, car wash, etc.).

5.2 Previously small business rate relief provided 50% relief for properties with a rateable value of £6k or less, with tapered relief for properties with rateable value up to £12k. Since 2010 this relief has been doubled on a temporary basis with properties with a rateable value of £6k or less receiving 100% relief, tapering to nil for properties with rateable value over £12k.

5.3 Approximately 30,000 of the 48,520 properties on the 2017 Kent list will receive the new 100% relief for a rateable value of £12k or less. A further 3,000 properties will benefit from the tapered relief.

5.4 The March 2016 budget also announced that the threshold for the lower small business NNDR multiplier (46.6p in the £ in 2017/18) would be increased from £18k to £51k. This would reduce the business rates for a property valued at £51k by £633. Approximately 12,000 properties on the 2017 Kent list with a rateable value between £12k and £51k will benefit from the lower NNDR multiplier (2.3% reduction in cost of the rates bill).

5.5 The March 2016 Budget also announced that the annual inflationary uplift to the multiplier will be based on the Consumer Price Index (CPI) from April 2020. Generally CPI is lower than RPI and this change will benefit all businesses.

6. Recommendations

Recommendations:
The Cabinet Committee is asked to note the impact of the 2017 business rates revaluation, including the recalibration of the NNDR multiplier and transitional arrangements, and the additional reliefs for small businesses.

7. Appendices and Background Documents

- Appendix 1: Changes in rateable value in the South East Map
- Appendix 2: List of the property subcategories
- Appendix 3: National distribution of rateable values in interval bands
- Appendix 4: Regional distribution of rateable values in interval bands

- Change in rateable value of rating lists published by VOA https://www.gov.uk/government/statistics/non-domestic-rating-change-in-rateable-value-of-rating-lists-england-and-wales-2017-revaluation
- Consultation on the transitional arrangements for the 2017 business rates revaluation https://www.gov.uk/government/consultations/business-rates-revaluation-2017

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