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Debate Pack
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Business Rates and Levelling Up

Summary

A Westminster Hall debate has been scheduled for Tuesday 13th December at 9:30am on Business Rates and Levelling Up. The subject for this debate was determined by the Backbench Business Committee.

This Debate Pack sets out changes to the business rates system for the 2023/24 financial year that were announced by the Government at the November 2022 Autumn Statement. These apply in England only, as business rates is a devolved matter in Scotland, Wales and Northern Ireland. It also notes coverage of business rates reform in Parliament, in the media, and by think-tanks.

1 Business rates

1.1 Introduction

Non-domestic rates ('business rates') are payable to local authorities by the occupants of non-domestic properties. The basic workings of business rates are described in the Commons Library briefing paper Business rates.

Many types of property, or classes of occupation, attract reliefs from the full business rate bill. Some of these are set out in the Library briefing paper Business rates: reliefs and grants.

In most parts of England, local government retains up to 50% of the increase in business rate revenue, using the 2012-13 financial year as a baseline. Some areas retain more: in London, the Greater London Authority and the London boroughs retain 67% between them. In Greater Manchester, the West Midlands, West of England, Liverpool City Region and Cornwall, 100% of rate revenue is retained locally.

Local authorities, and mayoral combined authorities, have the power to raise a business rates supplement. This must be agreed by affected businesses in a referendum, in which a majority must be obtained both in number and in rateable value. The only existing supplement so far is in London, forming part of the financing arrangements for Crossrail. More details can be found in the Commons Library briefing paper Business rates.

The Government published guidance in July 2021 on business rate reliefs for businesses located within freeports. 100% rate relief for five years will be available to all businesses moving into a freeport, and partial relief will be available to businesses that expand their use of a building within the freeport area, through to 30 September 2026. The Government will reimburse local authorities for this foregone revenue.[1] The guidance says that local authorities will have discretion to reduce the relief where the applying business has moved from a location near to the freeport area.

1.2 Business rates: changes in England in late 2022

The 2022 Autumn Statement announced a number of changes to business rates for England regarding the 2023/24 financial year, and regarding later

1 PQ HC 45549 2022-23, 2 Sep 2022

years. Business rates are a devolved matter, and policy in Scotland, Wales and Northern Ireland is handled by the devolved administrations.

Retail, hospitality and leisure relief

Businesses in the 'retail, hospitality and leisure' sectors will receive 75% business rates relief in 2023/24, up to a cash cap per business of £110,000. This will take the form of a discretionary discount applied at local authority level, funded by the Government.

Properties in these sectors are currently receiving 50% business rates relief in 2022/23. In 2021/22 they received 66% relief for the first three months of the financial year.

Guidance was published in respect of the 2022/23 financial year defining 'retail, hospitality and leisure' properties. The Government intends to publish new guidance for the 2023/24 financial year.

Transitional relief

A business rates revaluation will take effect on 1 April 2023. At this point, many properties may face large increases in their bills. The Valuation Office Agency (VOA), which undertakes revaluations, published draft rating lists for the revaluation on 17 November 2022. These included a high-level statistical commentary on the effects of the revaluation for different regions and economic sectors.

The Government will operate a transitional relief scheme for 2023-26. The 2023-26 transitional relief scheme will set maximum percentages by which the business rates bills on individual properties may rise in each of these three financial years. These limits are set out in the table below.[2] The aim is to prevent businesses from being hit by very large rate increases in the year immediately following the revaluation. Some sectors have already expressed concern about the impact of the revaluation (see section 2 below).

2023 revaluation: rate increase limits

Year	Small property (RV below £20,000: below £28,000 in London)	Medium property (RV=£20,001-£100,000)	Large property (RV above £100,000)
2023-24	5%	15%	30%
2024-25	10%	25%	40%
2025-26	25%	40%	55%

The Treasury's response to consultation estimates the cost of the transitional relief scheme at £1.6 billion over the 2023-26 rating list. This funding will be

2 DLUHC, Business Rates Revaluation 2023: Consultation on the transitional arrangements – summary of responses and government response

paid by the Treasury to local authorities, reimbursing revenue that they lose due to the transitional scheme.

Supporting Small Businesses

The Government is also introducing a separate scheme titled 'Supporting Small Businesses'. The Autumn Statement said that this would ensure that properties seeing reductions in their small business rate relief, or rural rate relief, as a result of the 2023 revaluation will see the rise in their rate bills capped at £600 per year during the 2023-26 rating list. This will also apply to properties that lose their eligibility for either of those reliefs (because of their rateable value rising following the revaluation).[3]

In effect this scheme sets a lower limit on rises in bills than would be available under the standard transitional relief scheme. A similar scheme operated during the 2017-23 rating list (see the Library briefing Business rates: the 2017 revaluation). This scheme will be funded by the Treasury.

Freezing the multiplier

Business rates bills are obtained by multiplying a property's rateable value (RV) by the England-wide multiplier. So, for instance, a property with a rateable value of £20,000, alongside a multiplier of 49.9p, will pay £9,980 per year in business rates.

Ordinarily, the multiplier is increased at the outset of each financial year in line with inflation. Legislation states that the maximum increase possible is the level of the Retail Price Index at the previous September (e.g. September 2019 for the 2020/21 financial year), though the Government has used the Consumer Prices Index in recent years.[4] In 2021-22 and 2022-23 the multiplier was frozen, and it will be frozen again in 2023-24.

Without this decision, the multiplier for 2023/24 would have been increased to take account of CPI, and then decreased to offset the increase in rateable value resulting from the 2023 business rate revaluation. These calculations would have caused the multiplier to increase to 54.2p (with a small business multiplier of 52.9p).[5]

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3 HM Treasury, Autumn Statement 2022, p54

4 HM Treasury, Budget 2017, p34

5 HM Treasury, Autumn Statement 2022, p59

2 Reports

The Centre for Cities published a report in 2020 proposing eleven changes to the business rates system:

- Introduce annual business rates revaluations
- Devolve the valuation process to local government
- Ensure the valuation process uses the most up to date local economic information transparently
- Reform the system of discounts and incentives
- Make landlords take on 50 per cent business rates liability
- Abolish business rate relief, with some exceptions for community groups
- Equalise the empty rates relief between retail and industrial units
- Remove plant and machinery from the valuation process
- Allow local authorities that participate in a new pooling system to retain 100 per cent of business rate revenue growth
- Remove the cap on total business rates revenue.[6]

The Institute for Fiscal Studies published a lengthy report in 2022 entitled Does funding follow need? Page 109 of this report contains a short summary of local government finance income, and pages 115-116 explain the business rates retention scheme that operates in England.

The academic economist Professor Philip McCann, of Sheffield University, published a paper in 2021 entitled The Fiscal Implications of Levelling Up and UK Governance Devolution. Pages 26-31 address the challenges of devolving business rates in the context of providing support for levelling up.

6 K. Enenkel, T. Aubrey and T. Sells, Reforming business rates: fixing a broken system, Centre for Cities, 2020

3 Press and journal articles

The following is a selection of news and media articles relevant to this debate.

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Business rates hike a ‘ticking time bomb’ for London economy, Mayor warns

City AM | 29 November 2022

Thousands of squeezed London businesses are now facing a “ticking time bomb” in the form of coming tax hikes, London Mayor Sadiq Khan has warned.

Business rates: Government's golden goose

BBC news | 29 November 2022

Business rates rake in nearly £3bn a year in Scotland, but they're widely seen as unfair - and most unfair on those that want to invest.

Town centre report ‘ignores key business rate issue’

Daily Business | 29 November 2022

A new report aiming to breathe life back into crumbling town centres has already sparked concern that it fails to tackle a basic problem with business rates and re-heats a discredited plan to hike costs for retail parks.

Business rates hike could mean financial collapse for many, warehousing sector warns

The Grocer | 28 November 2022

The warehousing and logistics sector is warning “eye-watering increases” in business rates due to come into force next April will lead to increased food prices and supply chain disruption.

Amazon's UK tax bill could rise by £29m amid business rates overhaul

Guardian | 28 November 2022

Amazon's UK tax bill jump could jump by £29m next year as a result of changes to business rates that are scheduled to hit warehouses and online retailers the hardest.

The online retailer is likely to be among firms facing big tax rises following the chancellor's autumn statement, according to analysis from the real estate adviser Altus Group.

What does the revaluation of business rates tell us about the economy?

Centre for Cities | 25 November 2022

Last week the Valuation Office Agency released the updated rateable values for all commercial properties in England and Wales from April 2023. Although the commentary focused on business rates, the relative relief granted to high street retail and the higher rates placed upon industrial and logistics space, far more can be drawn out from this semi-regular revaluation.

UK warehouse operators criticise business rates tax rise

Guardian | 17 November 2022

The UK's warehouse sector has criticised a business rates tax rise targeted at online retailers such as Amazon as the chancellor used the levy to "soften the blow" for high street shops.

England's nurseries demand relief on business rates

FT (sub needed) | 15 November 2022

Government funding for childcare in England is being undercut by "damaging" business rate burdens that are pushing nurseries into making a loss, according to an organisation representing the sector.

Don't make a "reset" of Business Rates an anti-growth policy

Conservative Home | 14 November 2022

The ability of central government to fulfil many of its objectives depends on the health of local government. Levelling up, for instance, depends upon whether or not local leaders have the empowerment and resources required to regenerate their towns and cities and bring in investment. If local government is weaker, central government is weaker.

4 Parliamentary Material

Business: Government Assistance

26 October 2022 | HL2937

Asked by: Lord Taylor of Warwick

To ask His Majesty's Government what plans they have to introduce new business support packages; and what financial resources they will make available.

Answered by: Baroness Penn

The Government recognises the challenges faced by people across the UK due to rising living costs. This is why the Government is helping all eligible UK businesses with their energy bills through the Energy Bill Relief Scheme.

The Chancellor has announced the Autumn Statement will be delivered on 17 November. This will contain the UK's Medium-Term Fiscal Plan and will be accompanied by an OBR Economic and Fiscal Outlook. This will set out how the government will further support businesses.

We have brought forward a number of measures to support businesses this year, including extending the Recovery Loan Scheme until June 2024; freezing the business rates multiplier for 2022-23; cutting business rates by 50% for eligible retail, hospitality and leisure businesses in 2022-23 up to a cash cap of £110,000 per business; and permanently setting the Annual Investment Allowance at its highest ever level of £1 million from 1 April 2023.

Empty Property: Business Rates

3 March 2022 | 134056

Asked by: Maskell, Rachael

To ask the Chancellor of the Exchequer, if he will make an assessment of the potential merits of charging empty high street properties additional business rates in the event that they do not allow local start-up businesses from utilising their space at a reduced cost.

Answered by: Lucy Frazer **Department**: HM Treasury

The business rates system ensures that the owners of most empty buildings pay 100 per cent of the business rates bill once the property has been unoccupied for three months, or six months for industrial buildings. This current structure strikes the right balance between not penalising landlords who lose a tenant at short notice, whilst incentivising property owners and landlords to secure new tenants.

In the Levelling Up White Paper, the Government committed to going further in supporting places to tackle blight and reviving our high streets by exploring new powers for local authorities to require landlords to rent out long-term vacant properties to prospective tenants, such as local businesses or community groups.

Retail Trade: Buildings

11 July 2022 | 33859

Asked by: Maskell, Rachael

To ask the Secretary of State for Levelling Up, Housing and Communities, if he will make it his policy to create a growth strategy for new businesses on the high street to help facilitate (a) growth in urban centres and (b) moves from shared premises to single units.

Answered by: Lia Nici **Department**: Department for Levelling Up, Housing and Communities

This Government is committed, through the Levelling Up and Regeneration Bill, and the Levelling Up missions, to reinvigorate high streets and town centres.

We want to see thriving town centres and high streets. Government has already taken strong action by cutting business rates for many retail, hospitality and leisure properties and providing billions in regeneration funding and provided new powers to help places to reinvent their high streets and town centres.

High Street Rental Auctions will seek to increase cooperation between landlords and local authorities to make town centre tenancies more accessible and affordable for tenants, including SMEs and community groups.

Rental rates reflecting market value will allow a broad spectrum of tenants to occupy town centre properties, who might otherwise not have been able to afford higher rents. For example, local SMEs and community groups. In turn this will increase vitality, footfall, pride in place and business growth.

Business

28 January | 113738

Asked by: Malhotra, Seema

To ask the Chancellor of the Exchequer, what assessment his Department has made of the impact on business survival rates of the concurrent ending of the reduced rate of VAT, business rates support and rent protections.

Answered by: Lucy Frazer **Department**: HM Treasury

The Government has provided around £400 billion of direct support for the economy since the start of the pandemic, which has helped to safeguard jobs, businesses, and public services in every region and nation of the UK. This includes the £1 billion Omicron package announced in December 2021, which was focused on supporting the hospitality, leisure, and cultural sectors.

Now that we have returned to Plan A, and as individuals and businesses learn to live with Covid-19, it is right that this exceptional support comes to an end as planned. This is vital for a strong economy and to help rebuild the public finances. However, support is being withdrawn gradually, so that businesses can plan and adjust over time. For example, the rate of VAT for hospitality and tourism businesses was increased gradually to its current level of 12.5 per cent in October 2021 before reverting to its pre-pandemic level of 20 per cent as planned in March 2022.

The Government is aware that the high street faces long-term challenges and is committed to supporting the businesses that make our high streets and town centres successful. While the Government has provided unprecedented business rates support worth £16 billion to businesses in the retail, hospitality, and leisure sectors throughout the pandemic, it is right that we move back towards pre-pandemic levels of support now that restrictions have ended.

At Autumn Budget 2021, the Government announced a new temporary business rates relief set at 50 per cent up to a maximum of £110,000 per business for the retail, hospitality, and leisure sectors worth almost £1.7 billion in 2022-23. This will support the businesses that make our high streets and town centres successful to evolve and adapt to changing consumer demands until the next revaluation.

The multiplier will be frozen in 2022-23, a tax cut worth £4.6 billion over the next 5 years. This will support all ratepayers, large and small, meaning bills are 3 per cent lower than without the freeze.

On the topic of rent protections, following mandated closures during the Covid-19 pandemic, the Government introduced an eviction moratorium and related protection measures to protect businesses from eviction and insolvency. As a result, some businesses have accrued rental debts, estimated at a total of £1.5 billion as of March 2022, creating the risk of insolvencies and job losses, should these debts not be resolved through sustainable repayment plans. Many landlords and tenants have come to voluntary agreements on this rental debt. Where these agreements have not been reached, the Government is passing legislation this Spring to support the orderly resolution of these debts, including a set of principles for negotiation and a binding-arbitration backstop. This builds on a Code of Practice for commercial property relationships published by Government in November 2021, and sets out a clear path for both landlords and tenants to move from dispute to resolution.

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