Non-Domestic Rating (Lists) Bill
HL Bill 198 of 2017–19

Summary

The Non-Domestic Rating (Lists) Bill is a government bill that brings forward by one year the next revaluation for non-domestic rates in England and Wales to 1 April 2021. It also moves the cycle of new rating lists thereafter in England from every five years to every three years. The Government believes that this change will make business ratings more responsive to economic conditions. Wales is not changing its cycle.

The bill was introduced in the House of Commons on 12 June 2019. It had its second reading on 17 June 2019 and completed its House of Commons stages, without amendment, on 22 July 2019. During the House of Commons stages, Labour "welcomed" bringing forward the new ratings list by a year but described the bill as "narrow". The Labour Party said it shared concerns raised by several stakeholders about the impact of business rates on the retail sector, the viability of businesses and the future of high streets and town centres. At public bill committee stage, organisations such as the British Retail Consortium called on the Government to reform the business rates system. In addition, more than 50 British retailers, signed a joint letter in August 2019 to the Chancellor of the Exchequer, Sajid Javid, asking the Government to freeze increases in business rates.

The bill was introduced into the Lords on 23 July 2019 and is scheduled to receive its second reading on 30 September 2019.

Background

Business Rates

Business rates are an annual tax on non-domestic property. A property's business rates bill is determined by its rateable value, which is its estimated open market rental value on a specific date. The rateable value is assessed by the Valuation Office Agency (VOA), which is independent of government.[1]

As of March 2018, business rates raised £23.9 billion in England annually. The income from business rates are collected by billing authorities (district and unitary councils), pooled centrally and then redistributed to local authorities. Under the business rates retention scheme, which commenced in 2013, local authorities retain 50 percent of the business rates they collect, unless they are a 100 percent business rates retention pilot authority.[2]

The Government has stated that business rates are an "important source of funding" for local services.[3] In May 2018, the Welsh Government estimated that £1.05 billion of government expenditure would be financed by business rates in 2018–9, representing 6 percent of the Welsh Government's total budget.[4]

Revaluations

Revaluation is the process of reviewing rateable values of all business and other non-domestic property in England on a specified date. During revaluation, the business rate multipliers are adjusted to keep total revenue from business rates at the same level. This currently takes place every five years.[5] The timetable for revaluations is set out in sections 41, 52 and 54A of the Local Government Finance Act 1988.[6] According to the Government, revaluation is done to "maintain fairness in the system" by redistributing the total amount payable in business rates, therefore reflecting changes in the property market.[7]

In April 2014, the Government published a discussion paper on the administration of business rates in England. As part of this, it called for views on increasing the frequency of revaluations, revising the five-year cycle.[8] In December 2014, the Government published its interim findings. The findings revealed that some respondents called for more frequent revaluations.[9] In the explanatory notes for this bill, the Government revealed that a "key theme" of the responses was "for the business rates system to be made more responsive to economic conditions".[10]

In March 2016, the Government published a consultation document on proposals for more frequent revaluations. It noted several challenges that could emerge from moving from a five-year to a three-year revaluation cycle. These included:

- more regular calls for ratepayers to provide "evidence", to enable the VOA to generate a rateable value for each property; and
- increasing workloads for staff at the VOA.[11]

In March 2018, the Government published its response to the views raised by stakeholders in the consultation. In its response, the Government stated that it would "ensure" that at the next spending review the VOA would be "sufficiently funded" to continue carrying out valuations. In addition, it argued that "efficient management of appeals" would support the implementation of a three-year revaluation cycle.[12] The Government also noted that 'Check, Challenge, Appeal', which came into effect in April 2017, was designed to "improve" the appeals system by "uncovering evidence early and encouraging the resolution of issues before formal appeal". This, the Government argued, would resolve cases "more quickly".

The then Chancellor of the Exchequer, Philip Hammond, announced the move to a three-yearly revaluation cycle in the 2017 autumn budget. He stated that the Government had "heard the concerns about the five yearly revaluation system" and that "shorter revaluation periods" would "reduce the size of changes in valuations".[13] Consequently, Mr Hammond announced that the change would be put in place after the next revaluation.

In March 2018, Mr Hammond announced that the Government would be bringing forward the next business rates revaluation by one year to 2021, so that ratepayers could "benefit from three-year revaluations at the earliest point".[14] Rateable values reflect open market rental values at a fixed date two years prior to a new rating list coming into force. Therefore, the Government has stated that revaluations will be based on market rental values as at 1 April 2019.

In July 2018, the then Cabinet Secretary for Finance in the Welsh Government (now the First Minister of Wales), Mark Drakeford, published a written statement. It said the next non-domestic rates revaluation in Wales would take place in 2021, in line with England. However, Mr Drakeford argued that it would be "premature" at that stage for the Welsh Government to also "commit" to a three-yearly revaluation cycle after 2021.[15]

Provisions of the Bill

The bill is formed of four clauses.

Clause 1 amends sections 41 and 52 of the Local Government Act 1988 to provide for the next English rating lists to be compiled on 1 April 2021 and every three years thereafter. The move to a 2021 revaluation would also apply to Wales, although the change to a three-yearly revaluation would not. The requirement to prepare draft rating lists in both England and Wales would move from no later than 30 September to no later than 31 December preceding the new rating list coming into force.

Clause 2 sets out transitional provisions in England and Wales. As part of this, it would make consequential amendments to section 57A of the 1988 Act and to the Non-Domestic Rating (Chargeable Amounts) (England) Regulations 2016 (SI 2016/1265). These amendments would reflect the shortened period of the 2017 rating list and the new three yearly cycle (in England) from 1 April 2021.

Clauses 3 and 4 contain miscellaneous provisions. The bill will come into force two months after royal assent and will apply to England and Wales. As business rates are devolved to Wales, the part of the bill affecting Wales required a legislative consent motion. The motion was approved by the National Assembly for Wales on 9 July 2018.[16]

House of Commons Stages

Second Reading

The bill received its second reading in the House of Commons on 17 June 2019. Introducing the bill, Rishi Sunak, the then Parliamentary Under Secretary at the Ministry for Housing, Communities and Local Government, said that the bill "delivers on government commitments" and "makes a major improvement" to the business rate system.[17]

Speaking for the Labour Party, Roberta Blackman-Woods, Shadow Minister at the Ministry for Housing, Communities and Local Government, said that her party "supports this reform". She noted that in February 2017, Labour had also pledged to "introduce more regular revaluations, coupled with simplifications in the business rate system".[18] Despite this, Ms Blackman-Woods contended that the challenges identified by the Government's consultation were "yet to be addressed", such as increasing workloads for staff at the VOA.[19]

Committee Stage

Committee stage for the bill took place on 25 June 2019.

In the first sitting, the committee heard evidence from interested bodies, which supported more frequent revaluations. However, representatives from bodies such as the Confederation of British Industry and the Chartered Institute of Public Finance and Accountancy (CIPFA) expressed concern at the impact that frequent revaluations would have on the VOA. According to the lead revenues adviser for CIPFA, Adrian Blaylock, the VOA was already "struggling with its capacity" in terms of backlog from the 2010 list.[20] He argued that moving to three-yearly revaluations would "certainly have an impact" on the VOA's resources, which, in turn, could impact local government because of the financial resources it had set aside for loss on appeals.[21] Consequently, he stressed that it was "really important that the VOA is resourced sufficiently […] to deal with the revaluations and the appeals".[22]

In a wider discussion with the committee on business rates and its impact on the country's high streets and town centres, Dominic Curran, the policy adviser from the British Retail Consortium (BRC) expressed concern at the current rates system. He stated that the "prohibitive" level of business rates was "hindering" BRC members' ability to invest in their stores.[23] The view of the BRC was echoed by more than 50 British retailers, who signed a joint letter in August 2019 to the Chancellor of the Exchequer, Sajid Javid. This letter called on the Government to freeze increases in business rates. In response to the letter, a government spokesperson stated that the Prime Minister, Boris Johnson, had announced a £3.6 billion fund to support town centres and high streets in the previous month. Further details of the Government's policy programme would be unveiled by Mr Javid in the "coming weeks and months".[24]

Other bodies who gave evidence at the first sitting included: the Association of Convenience Stores; the Federation of Small Businesses; and the Local Government Association.

The committee considered the bill in the second sitting, making no amendments. Jim McMahon, the Shadow Minister at the Ministry for Housing, Communities and Local Government, indicated that Labour welcomed the move to bring forward the new ratings list by a year to 2021.[25] Despite this, he described the scope of the bill as "narrow", stating that Labour shared concerns about the impact of business rates on the retail sector, the viability of businesses and the future of high streets and town centres. Consequently, he "hope[d]" that such concerns were "heard and acted on" by the Government, beyond the scope of the bill.[26]

Responding to Mr McMahon, Mr Sunak said that the Government had already introduced £13 billion worth of "various reforms" on business rates, including the retail relief scheme. However, he stated that the Government would "continue to watch" the issue "closely".[27]

Third Reading

The bill did not receive a report stage, moving straight to third reading on 22 July 2019.

Rishi Sunak described the bill as "small but significant", reaffirming that the bill "delivers what businesses has asked for".[28]

Jim McMahon repeated Labour's concerns about the challenges of frequent revaluations. He argued that the Government had to ensure that the VOA had capacity to "deal with" the backlog of 60,000 appeals going back to 2010 and the new process. Mr McMahon also argued that as part of the Government's wider review into revaluations, MPs needed to "ensure" that they were "clocking the geographical shift in valuations that take place with every revaluation". As part of this, he contended that moving to different retention schemes would "naturally have an impact on the financial stability of local authorities that are part of those schemes".[29]

The bill passed third reading without division.

Further Information

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[4] National Assembly for Wales, *Constituents Guide: Business Rates—Frequently Asked Questions*, May 2018, p 1.
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[8] HM Treasury, *Administration of Business Rates in England: Discussion Paper*, April 2014.
[9] HM Treasury, *Administration of Business Rates in England: Interim Findings*, December 2014, p 6.
[10] Explanatory Notes, p 2.
[11] HM Government, *Business Rates: Delivering More Frequent Revaluations*, March 2016, p 7.
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[13] HM Treasury, 'Autumn Budget 2017: Philip Hammond's Speech', 22 November 2017.
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[15] Welsh Government, 'Written Statement: Non-Domestic Rates Revaluation', 11 July 2018.
[16] UK Parliament Website, 'Legislative Consent Motion: Letter to Dr Benger', 15 July 2019.
[17] HC *Hansard*, 17 June 2019, col 73.
[18] ibid, col 77.
[19] ibid.
[20] HC *Hansard*, 25 June 2019, col 9.
[21] ibid.
[22] ibid.
[23] ibid, col 4.
[24] Alice Hancock and Naomi Rovnick, 'Retailers Push for Overhaul of Business Rates System', *Financial Times (£)*, 12 August 2019.
[25] HC *Hansard*, 25 June 2019, col 18.
[26] ibid, col 19.
[27] ibid, col 20.
[28] HC *Hansard*, 22 July 2019, col 1163.
[29] ibid, col 1164.