HOUSE OF LORDS Library Briefing

Non-Domestic Rating (Lists) Bill [HL]
HL Bill 109 of 2019–21

The Non-Domestic Rating (Lists) Bill is a government bill that would bring forward by one year the next revaluation for non-domestic rates to 1 April 2021 in England and Wales. The bill also moves the latest date by which draft rateable values must be published, from no later than 30 September 2020 to no later than 31 December 2020, in both England and Wales.

The bill was introduced in the House of Lords on 18 March 2020 and is scheduled to receive its second reading on 29 April 2020.

A similar bill of the same name was introduced in the 2017–19 session. It received its first reading in the House of Commons on 12 June 2019. That bill contained an additional provision that would have moved the cycle of new rating lists from every five years to every three years. This provision is not included in the current bill. Instead, the Government has stated it "continues to recognise the benefits of frequent revaluations" and will consider the revaluation process as part of a "fundamental review" of business rates. The 2017–19 bill passed its Commons stages without amendment. It had received a second reading in the House of Lords, but did not progress further due to the prorogation of the 2017–19 session.

In recent years, the Government has consulted on making changes to the administration of business rates. This included a consultation in April 2014, which found some respondents calling for more frequent revaluations. In March 2016, the Government consulted on proposals to move from a five-year to a three-year revaluation cycle.

In the 2017 autumn budget, the then Chancellor of the Exchequer, Philip Hammond, announced the move to a three-yearly revaluation cycle. In March 2018, Mr Hammond also announced that the Government would be bringing forward the next business rates revaluation by one year to 2021. The Welsh Government also said that the next non-domestic rates revaluation in Wales would take place in 2021, in line with England.

In the Queen's Speech on 19 December 2019, the Government announced that it would be considering the revaluation process as part of a review into business rates. The review began on 11 March 2020, with a report set to be published later this year.

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1. Background

1.1 Business Rates

Overview

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 September 2019, business rates raised £25 billion in England annually.[2] Billing authorities (district and unitary councils) collect the income from business rates, which are then pooled centrally and 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.[3]

The Government has stated that business rates are an "important source of funding" for local services.[4] In May 2018, the Welsh Government estimated business rates had financed £1.05 billion of government expenditure in 2018–19, representing 6 percent of the Welsh Government's total budget.[5]

Recent government statements

In its manifesto ahead of the December 2019 general election, the Conservative Party pledged to "cut the burden of tax on business" by reducing business rates. To achieve this, it planned a "fundamental review" of the business rates system. In addition, the Conservative Party stated that it would further reduce business rates for retail businesses, as well as extending the business rates discounts to grassroots music venues, small cinemas and pubs.[6]

On 11 March 2020, the Chancellor of the Exchequer, Rishi Sunak, announced in his Budget speech that all hospitality, leisure and retail businesses with a rateable value of less than £51,000 would be eligible to pay no business rates for the next financial year. In his statement, Mr Sunak contended that the policy was a "tax cut worth over £1 billion" and would save each business up to £25,000.[7]

The chancellor also revealed that a review into the long-term future of business rates would immediately begin.[8] The review would aim to:

- reduce the overall burden on businesses;

[1] UK Government website, 'Business rates: how your rates are calculated', accessed 20 March 2020.

[2] House of Lords, 'Written Question: Non-Domestic Rates', 9 September 2019, HL17553.

[3] Ministry of Housing, Communities and Local Government, *National Non-Domestic Rates to be Collected by Local Authorities in England 2018–19 (Revised)*, 1 March 2018, p 10.

[4] HM Government, *Business Rates: Delivering More Frequent Revaluations—Summary of Responses*, March 2018, p 2.

[5] National Assembly for Wales, *Constituents Guide: Business Rates—Frequently Asked Questions*, May 2018, p 1.

[6] Conservative Party, *Conservative Party Manifesto 2019*, November 2019, p 26.

[7] HM Treasury, 'Budget speech 2020', 11 March 2020.

[8] ibid.

- improve the current business rates system; and
- consider more fundamental changes in the medium-to-long term.[9]

As part of this, the work of the review would focus on four areas:

- improvements that could be made from April 2021;
- reforms to the current business rates system to put tax on a "more sustainable basis";
- the administration of business rates, covering the valuation and appeals process, billing, and tax compliance; and
- exploring alternatives to business rates, in particular within the taxation of land and property.[10]

HM Treasury states that the review will publish a report by autumn 2020.[11]

On 17 March 2020, in response to the impact that the coronavirus epidemic was having on business, the Chancellor extended the business rates discount to cover businesses of any size in the hospitality, leisure and retail sectors, "irrespective of rateable value".[12]

1.2 Revaluations

Consultations

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 usually takes place every five years.[13] The timetable for revaluations is set out in sections 41, 52 and 54A of the Local Government Finance Act 1988.[14] 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.[15]

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.[16] In December 2014, the Government published its interim findings. The findings revealed that some respondents called for more frequent revaluations.[17] 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".[18]

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[9] HM Treasury, 'HM Treasury fundamental review of business rates: terms of reference', 11 March 2020.

[10] ibid.

[11] ibid.

[12] Rishi Sunak, 'Personal Twitter account', 17 March 2020.

[13] UK Government website, 'Business rates: revaluation', accessed 23 March 2020.

[14] Ministry of Housing, Communities and Local Government, 'Factsheet: Non-Domestic Rating (Lists) Bill', 12 June 2019. As of March 2020, the factsheet has been removed by the Ministry of Housing, Communities and Local Government.

[15] HM Government, *Business Rates: Delivering More Frequent Revaluations—Summary of Responses*, March 2018, p 2.

[16] HM Treasury, *Administration of Business Rates in England: Discussion Paper*, April 2014.

[17] HM Treasury, *Administration of Business Rates in England: Interim Findings*, December 2014, p 6.

[18] Explanatory Notes, p 2.

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.[19]

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.[20] 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".[21]

Proposed changes

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".[22] 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".[23] 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.[24]

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.[25]

2017–19 bill introduced

On 12 June 2019, the Non-Domestic Rating (Lists) Bill 2017–19 was introduced in the House of Commons. It sought to bring forward by one year the next revaluation for non-domestic rates in England and Wales to 1 April 2021. In addition, it aimed to move the cycle of new rating lists

[19] HM Government, *Business Rates: Delivering More Frequent Revaluations*, March 2016, p 7.
[20] HM Government, *Business Rates: Delivering More Frequent Revaluations—Summary of Responses*, March 2018, p 9.
[21] ibid.
[22] HM Treasury, 'Autumn Budget 2017: Philip Hammond's speech', 22 November 2017.
[23] HM Treasury, 'Spring Statement 2018: Philip Hammond's speech', 13 March 2018.
[24] HM Government, *Business Rates: Delivering More Frequent Revaluations—Summary of Responses*, March 2018, p 6.
[25] Welsh Government website, 'Written Statement: Non-Domestic Rates Revaluation', 11 July 2018.

thereafter in England from every five years to every three years. This provision is not included in the current bill. Instead, in the 2019–21 bill's explanatory notes, the Government has said it "continues to recognise the benefits of frequent revaluations" and will instead consider the revaluation process as part of a "fundamental review of business rates".[26]

2017–19 bill progress

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 delivered on "government commitments" and made "a major improvement" to the business rate system.[27] Speaking for the Labour Party, Roberta Blackman-Woods, the then Shadow Minister at the Ministry for Housing, Communities and Local Government, said that her party supported the reform but highlighted an issue.[28] Ms Blackman-Woods noted that challenges identified by the Government's consultation were "yet to be addressed", such as increasing workloads for staff at the VOA.[29]

Committee stage for the bill took place on 25 June 2019. 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.[30] Despite this, he described the bill's scope as "narrow". He said 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.[31]

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".[32]

The bill passed the Commons on 22 July 2019 without amendment. Having completed its House of Commons stages, it was introduced in the House of Lords on 23 July 2019. The 2017–19 bill had its second reading on 30 September 2019 before failing to progress before Parliament prorogued on 8 October 2019.[33]

2. Overview of the Bill

The bill is formed of four clauses.

Clause 1 amends sections 41, 52 and 54 of the Local Government Act 1988 to provide for the next English and Welsh rating lists to be compiled on 1 April 2021. The requirement to prepare draft rating lists in both England and Wales would move from no later than 30 September 2020 to no later

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[26] Explanatory Notes, p 3.
[27] HC *Hansard*, 17 June 2019, col 73.
[28] ibid, col 77.
[29] ibid.
[30] HC *Hansard*, 25 June 2019, col 18.
[31] ibid, col 19.
[32] ibid, col 20.
[33] UK Parliament website, 'Non-Domestic Rating (Lists) Bill 2019–21', accessed 20 March 2020.

than 31 December 2020 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 sections 57A and 58 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 lists in England and Wales.

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 previously approved by the National Assembly for Wales on 9 July 2019.[34]

3. Further information

- HM Treasury, 'HM Treasury fundamental review of business rates: terms of reference', 11 March 2020

[34] UK Parliament website, 'Legislative consent motion: letter to Dr Benger', 15 July 2019.