

BID Insight: Business Rates Revaluation

Introduction

This paper provides a background to the business rates revaluation changes in Winchester and summarises the impact of the revaluation and the thoughts of a number of BID Members who attended a breakfast briefing arranged by Winchester BID and the Southern Policy Centre on Friday 24 March.

The bulk of the data analysed are drawn from the Valuation Office Agency's published data sets. Of necessity they are aggregate data, and the figures presented shows trends across sectors: retail, offices, industrial and 'other' premises. There will be significant variation between individual businesses within each sector, and the BID has sought data from individual Members.

Subsequently, the BID suggests a number of recommendations to Winchester City Council in the administering of the central government discretionary relief scheme, to direct help where we believe it is needed most.

Background

All properties have a rateable value (RV), based on the anticipated rent it 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 changes 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 Winchester City Council 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. Winchester City Council collects about £57m in Business Rates each year, and receives back from Government around £3m through the Revenue Support Grant.

Significant changes will happen this year because the VOA has 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 Central 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 UK, 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 in Winchester.

Impact of the Revaluation in Winchester District and the Winchester BID Area

Two sets of data have been analysed.

The first data set analyses the Winchester district, which equates to RV of 4,500 businesses. The first line of Table 1 (attached) shows that the overall increase in Business Rates, which will be collected in Winchester in 2017-18 as a result of the revaluation, is 7.9%. VOA data gives a broad breakdown into four categories of premises. The table shows the average change in the amount collected varies across those categories below:

- 13% **increase** in retail premises
- 1.4% **decrease** in office premises
- 2.3% **increase** in industrial premises
- 14.3% **increase** in 'other' premises (a broad category which includes, for example, restaurants and pubs – a key area of Winchester's commercial offer)

Table 1 also shows the comparable increase or decrease in centres likely to be competing with Winchester. There is a mixed pattern of increases and decreases overall and within sectors but overall business rates are falling slightly in Salisbury and Eastleigh.

The second data set analyses 857 properties, which equates to the Winchester BID area, which shows the change in RV (not actual rate payable). Whilst the data is commercially sensitive, and so cannot be shared in detail, in aggregate it shows 562 properties face an increase in RV, 218 a decrease and 77 see no change. The mean change is +25.5%, the median +12%. The greatest increase faced by a BID member is a staggering 344%, whilst one business sees RV fall by 66%. Overall the data shows that retail and hospitality businesses face the largest increases in RV. The data also shows the tremendous variation in RV changes across Winchester and reinforces messages about the challenges the revaluation will cause for some BID Members, as indicated in their feedback.

Table 2 (attached) illustrates overall percentage change in Business Rates due for key business sectors in Winchester by business size. For example, small retail businesses (those occupying less than 500sq.m) see an average increase of 22%, large retail an average increase of 0%. This provides a strong argument that the transitional relief fund should be aimed to assist small independent businesses.

Transitional Arrangements

To protect businesses from significant increases (or 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. In this definition a 'small' business has an RV < £20k, a 'large' business a RV > £100k.

The Budget of 8 March announced additional provisions to respond to the political concerns caused by the impact of the revaluation.

The Chancellor made available to local authorities an additional £300m nationally, with £180m available in 2017-18, to be distributed as a discretionary relief fund.

Winchester City Council has announced that it will receive £900,000 over three years although, a large proportion of this is to be allocated in the first year (17/18).

BID Members Challenges

- i) The extraordinary change in RV reflects the supply of property available in Winchester. The lack of available property in the city compared with Southampton results in Winchester suffering from higher rates. We believe local factors need to be taken into consideration by Winchester City Council when administering the discretionary relief fund.
- ii) There isn't a level playing field for some sector businesses. One Member within the independent hospitality sector has invested a huge amount of time and personal finance in revamping run-down units and turning them into successful and popular establishments. The businesses turn over a substantial sum of money but operational costs, wages and the use of fresh local produce results in low profitability, thus the rates increase (an additional £65,000 to raise) make three out of their five businesses unviable. It is unrealistic to pass these costs onto the customer as the business is already competing in a crowded market, against national competitors with greater economies of scale. In addition to the increase in rates, there is a particular increase in competition in the restaurant sector with over 900 new covers open in Winchester in 2015/16. Also, broadcaster Sky uses a tariff based on business rates so an additional increase also need to be factored into operational costs for one of the businesses, which features live sport screenings, integral to their offer.
- iii) Another independent hospitality business is facing similar worries. They are a fairly new business and so haven't been able to factor in building a cushion for the revaluation. The discretionary relief fund over a three-year term isn't long enough to allow businesses to try and renegotiate other occupational costs for their premises, i.e. rent, where review cycles offer 3 or 5-year reviews, although it is noted that some businesses only have upward only rent reviews.
- iv) An independent service business stated that the increase in RV is removing their eligibility for small business rates relief. Without this support, they indicated that this would lead to reviewing their growth and employment plans in Winchester.
- v) The appeals process hasn't been effectively communicated and the national transitional arrangements aren't responsive to the challenges Winchester is facing. Small businesses do not understand the percentage cap increase within certain thresholds – more clarity is needed in the billing procedure.

- vi) A lack of supply through the delays of Silver Hill and Station Approach need to be considered. There is no available grade A office space in the city, which has resulted in increased rents and a subsequent increase in rateable value. The question now faced by many service sector businesses is whether they can afford to stay in Winchester with the rates increases to contend with too.

- vii) In some circumstances, there are exceptional issues rates, where the rates are more than the rent payable on the property yet similar national properties on the same street see less of an increase. The feeling is that independents are being penalised for their success.

Summary and Recommendations

Winchester has a strong reputation nationally and thrives off its independent businesses to create a unique offer in the city. Some independent businesses have indicated to the BID that the business rates revaluations will be a contributing factor to their decision to close in the next couple of months. Many more who have not spoken up are likely to face financial challenges. Local influences such as the delay to Central Winchester and Station Approach developments also have a long-term affect on the viability of businesses in the city.

It is obvious that the picture of Business Rate increases in Winchester is complex. It varies by sector and size, and is complicated by transitional arrangements. Moreover, this analysis can only show averages, the position of individual businesses in any sector will vary depending on the VOA's assessment of the change in RV of their premises, as well as any reliefs due.

BID Members also noted the inconsistent pattern of changes in other local centres. For example, retail valuations in Basingstoke, Salisbury and Southampton were reducing. This could put Winchester businesses facing increasing costs at a competitive disadvantage.

There is a perception that the business rates system is broken and disproportionately affects certain businesses. The South East of England is the hardest hit, with extraordinary figures reported for Winchester City Centre, thus the BID is suggesting the following recommendations to Winchester City Council.

- i) Based on reviews of BID Members rates, £900,000 discretionary relief for all businesses across the district is not enough to help those that need it. Based on our calculations, if only half of the businesses in the district (2,250) need the funding, this would result in only £400 being available per business – further lobbying of funding to central government is required.
- ii) Provide clear criteria for the discretionary relief fund to help assist and thus protect independent businesses.
- iii) Create a mechanism, which allows the funding from central government to be ring-fenced to be used in the second and third years, rather than the majority in the first year and review the eligibility of extending the relief beyond three years.

- iv) Provide clarity by issuing a step-by-step guide to businesses on the transitional arrangements and appeals process once it has been finalised.
- v) With assistance from Winchester BID, monitor the effect the change in rates has on the opening and closure of businesses within the city.

Advice to Winchester BID Members

- i) If you are unsure about the breakdown of your bill, please contact Winchester City Council's Taxation department who will be able to assist you.
- ii) If continuing with an appeals process use a RICS qualified rating surveyor – Winchester BID can provide contact details, if required.
- iii) Await details on Winchester's discretionary relief scheme, which will be available after 7 April. The BID will communicate this to Members.

Table 1

	Change in Business Rate Income to 2017-18				
	All	Retail	Office	Industrial	Other (inc. restaurants)
Winchester	7.9%	13.3%	-1.4%	2.3%	14.9%
Basingstoke and Deane	-0.9%	-14.4%	3.7%	5.4%	4.0%
Chichester	10.3%	4.6%	7.8%	4.5%	19.7%
Guildford	12.0%	3.6%	16.0%	-4.0%	25.0%
Eastleigh	-2.5%	-14.0%	-4.2%	3.4%	5.9%
Salisbury	-1.4%	-7.0%	-3.4%	3.2%	12.0%
Southampton	2.8%	-11.9%	1.0%	-2.6%	21.3%

Table 2

	Change in business rate by size of premises	
	Premises <500m²	Premises >500m²
Retail	22%	0%
Offices	-14%	-1%
Restaurants	21%	N/A*

*Restaurants over 500m² do not form a statistically significant population.
