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Cover illustration by Clifford Harper.
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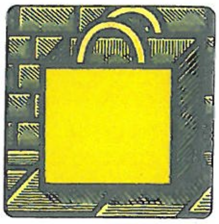
features

Anne Findlay and **Leigh Sparks** on the threat to our communities, town centres and local retailers posed by a business rates system that is 'not fit for purpose'

'houston, we have a problem'



The famous line from Apollo 13, as the spacecraft almost destroyed itself, presaged an all-out effort to find various versions of sticking plasters to bring the astronauts back to earth. As we know, it worked. But importantly it was then followed by a thorough review of the issues, and new permanent solutions were put in place.

Business rates are rather like Apollo 13. Everyone knows we have a problem, various sticking plasters are applied to cover up and salve the worst of the wounds, and the Government hopes they are enough to either get it to where it is going or at least keep it alive to limp along. Perhaps the difference is that the Government has lost sight of the purpose of business rates and what they are, or should be, trying to achieve. Instead it simply spends all its efforts on consoling the survivors, but with no plan to produce a long-term solution. Given the consequences, this is a 'wing and a prayer' approach to local business and high street sustainability, and planners are left dealing with the fallout.

The current rates system[1] is broken. This is pretty much accepted by all, other than the odd UK Government Minister. The House of Commons Business, Innovation and Skills Committee summed it up well in its report on the retail sector:[2]

- Business rates are one of the highest forms of local property tax in the EU.
- Business rates are one of the principal threats to the survival of existing retail businesses.
- Business rates, in their current form, are not fit for purpose.
- The Government's retail strategies are undermined unless the key issue of business rates is addressed.

It is, of course, important to note that these comments were made three years ago, i.e. before the 2017 revaluation[3] and the furore and fury that was unleashed in some quarters[4] and before the various sticking plasters unveiled in England,[5] Scotland[6] and Wales.[7] Things have not improved in the intervening three years; indeed, they have got worse, exacerbated by the 2017 revaluation, increasing annual costs, weak economic performance, competition, and a lack of action on alternatives (despite reviews and ideas for reformulation).[8]

Fundamental problems

The rates system is a local property tax derivative of the late 16th/early 17th century Poor Laws. In its modern incarnation there is a separation of property taxation into domestic and non-domestic charges, but both are based on an extensive legal framework of valuations and formalised approaches. In the case of domestic rates, the most infamous recent attempt to reform it – the Poll Tax – did not go well, so perhaps the nervousness over reforming non-domestic rates is understandable.

Business rates also produce a large and regular known stream of income, which governments both love and have come to rely upon. The relative stability of the business rates as a taxation approach has attracted governments to increase their reliance upon them, to increase their take, and to emphasise them (implicitly) as other taxes (for example corporation tax) have been steadily reduced. The CBI[9] notes that the business rates take rose by 28% between 2007 and 2015, while the total tax take rose by 18% and corporation tax fell by around 7%.

It is widely recognised that business rates are not fit for purpose and are now damaging the very cash cows on which the system relies. This is now a 16th century tax in a 21st century world; an analogue or physical approach in a digital and online world, where property, and commercial property especially, is very different. The base idea, that property use could be a means of raising income to provide for local services, is not necessarily a bad one. But over time the questions of how this is done, and the implications for business and society, have grown. Whether we can agree on the purposes of and needs from business rates is a further problem.

The process itself sounds simple. Business rates consist of a rateable value and a multiplier. The former is calculated by the Valuation Office Agency (VOA) or Assessors in Scotland and the latter by the Government as a rate per pound of rateable value. The business rate charge is paid by the occupier, not the owner of the property. But that is as far as

Table 1
Reliefs and levies (England)

Permanent relief	
	Small business
	Charitable
	Rural
	Discretionary
Temporary relief	
	Flooding
	Retail
	Re-occupation
	Enterprise Zones
	Local newspaper
	Telecommunications
	Empty commercial property
	Business Improvement Districts
Additional levies	
	Business rates supplements (for example Crossrail)
	Infrastructure supplements

Source: Business Rates[1]

simplicity goes. The rating system is hideously complex, with many hidden and no-so hidden complexities and disincentives. These range from the exemptions, bonus and incentive schemes and reliefs allowed, cliff-edges for payments, the approach to valuation and assessment itself in terms of legal frameworks, the mandated yield, the timings of valuations, the rates supplements, the balance between sector and operations, and the avalanche of inconsistency leading to appeals. As an example Table 1 lists the reliefs available in England; different reliefs exist elsewhere.

The current howls of anguish from many smaller businesses over business rates and revaluation were thus entirely predictable given these complexities, the revaluation delay (every five years is very slow, but a further delay for two years stored up problems), and the effects of the economic recession when rates and rents become decoupled. The myopic view of the Government in June 2016 (that the biggest cut ever in business rates for retailers would take place)[10] stands in stark contrast to the unfolding reality of 2017. Likewise, the High Street Futures Forum has remained remarkably silent on the issue, although Mary Portas was vehemently pessimistic on high street prospects.[11]

As in any such exercise there are winners and losers (most revaluations went up and the multiplier fell). Of course, the winners tend to stay silent and the losers tend to shout loudly, or write to their MP, the newspapers, etc. The Government still claims that there are more winners than losers (the Scottish Government claimed 69% of properties had a reduced or maintained rate bill), and that may well be right; but that doesn't wash away the problems or ease the pain of the losers. Thus, rateable values in London and the South East have generally increased, especially in the former, but there will be hot-spots everywhere, even in the North of England, where outcomes are generally down.

For retailing, though, the situation has become ever more critical. The retail sector has been complaining about the rates burden for some time. The total rateable value of retail property in England exceeds that of either the office or industry sectors.[12] Retail as a sector contributes around 25% of the rate 'take'. As a core user of property, and with many high street locations which have in the past had high valuations, retailers – and especially small independent retailers who do not benefit from other tax changes – have seen themselves as uniquely penalised, despite reliefs and bonus schemes. The rise of digital and out-of-town retailing and the lower rates they pay adds to this sense of inequity, and led even the large retailers' organisation, the British Retail Consortium, to say:[13]

> *'The debate about business rates is essentially the debate about the future shape of our cities, our town centres, our high streets and our communities.'*

To make the abstract real and illustrate this point we can consider the case of retailers in Southwold. Analysis by the *Guardian*[14] points to an overall 177% increase in business rates. This has occurred for a variety of reasons, including the removal of exemptions and relief as a consequence of revaluation, in addition to the revaluations themselves. The local butcher has to find £8,000 extra profit to cover the increase; the newsagent estimates she needs £50,000 more in sales to cover her increase; the pharmacy is seeing a £10,000 rates increase on a £4,600 base.

Other examples abound. For a town based around its community and local independent shops, this is indeed catastrophic. Southwold may be extreme; property prices have sky-rocketed and second homes are now in the majority, making local life and shops harder to sustain, but it is not suffering uniquely, nor are its businesses.

It is places like Southwold that have been at the forefront of campaigning over the current revaluation effects. The contrast that can be drawn between Southwold and the reduced rates bill for Amazon is stark.[15] The March Budget produced some recognition and relief, but again it really is a sticking plaster of caps and transition relief.

The same is true in Scotland, where the minority Government had to offer various reliefs in order to get its budget passed. In Wales there is another relief fund as well as transitional relief. In England the appeal system was so overloaded that the Government tried to change the rules to avoid any further appeals; a move that has been withdrawn after protests.[16] In all this, the fundamental issues remain unaddressed.

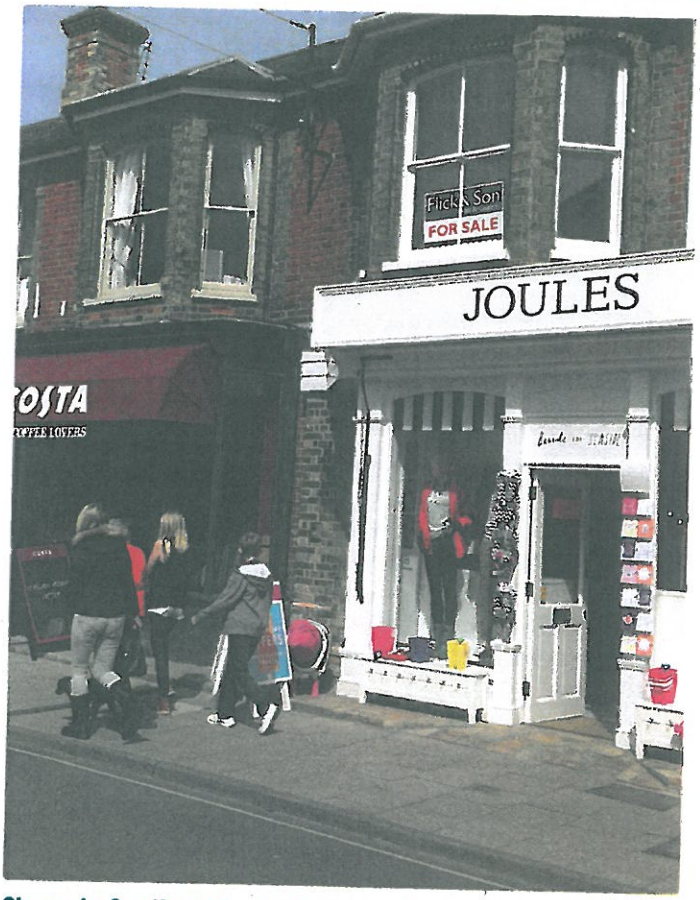
Common themes

In the various sticking plasters and the discussions around them some common themes can be discerned.

There seems to be recognition that, for example, the impacts are most keenly felt by local independent businesses and that their loss, if they close, is damaging to the sense of place and community. This sense of community is a second theme, which is best expressed by concerns over the impact on hospitality businesses such as pubs, which are seen as being the heart of places. Special relief is being given to them (they already have their rates calculated in a different way, although whether this is a benefit is moot). Whether this is warranted over other uses in the core of places is another debate, and the relative merits of a Wetherspoon's versus a community grocer could take up quite some time and space.

Thirdly, because of the way the system works there is seen to be a disincentive to invest in property, and especially in high streets, but an incentive to invest in online retailing based from out-of-town or other industrial properties. This is seen as unfairness. Given the rapid growth of the internet in retailing and its impacts, it is reasonable to ask how much of this success is down to the ability to undercut prices based on exploiting cost loopholes. This is part of a wider debate, of course, which encompasses, for example, Sports Direct's labour practices and Uber gig-economy type operations, as well as the more common internet and VAT sales dodges operated by many large businesses.

Perhaps what this comes back to therefore is the objective of the tax. Taxes should be as simple as possible, fair in their application, and clear in their rationale and intended outcomes. Rates fail on the majority of these points: perhaps only succeeding if the government objective is to fleece business for as much as possible. This cannot be right. So what should we be trying to achieve, and how might that be done?



Shops in Southwold – as in many places, retailers are suffering from business rate increases

It seems to us that we do have a common aim to foster entrepreneurialism (including the development of small local chains) and to build decent places and communities that are interesting, distinct, self-reliant and resilient. At the heart of this, in retail terms, is a retail economy that is based around successful, local independent businesses at the core of towns and high streets. Planners need to think more about how the current system impacts on potential changes to, and planning for, high streets and town centres. Perhaps they need to be more vocal about the problems that their communities are facing and the reasons for this.

Is it really beyond us to construct a system that encourages and incentivises such activities and makes this simple and easy to operate without rebates, reliefs, form-filling, bureaucracy etc.? We had Enterprise Zones with exclusions from rates. Can we not have 'town centre zones' doing the same, but for local, independent businesses only? After all, this would simply be another exemption or relief, and given the extent of these the tax is hardly the fiscally neutral or efficient approach it is claimed to be. Perhaps this is another sticking plaster, but it might buy us enough time to construct a system that is simple, fair and clear and has a shared purpose (and the Barclay Review in Scotland will report in the summer). If we do not, then our towns, communities and local retailers won't be there to save in the future.

● ***Anne Findlay** is an Honorary Research Fellow and **Leigh Sparks** is Professor of Retail Studies at the Institute for Retail Studies, University of Stirling. The views expressed are personal.*

Notes

1 M. Sandford: *Business Rates*. Briefing Paper 06247. House of Commons Library, Feb. 2017. http://researchbriefings.files.parliament.uk/documents/SN06247/SN06247.pdf

2 *The Retail Sector*. HC 168-1. Eighth Report of Session 2013-14. House of Commons Business, Innovation and Skills Committee. TSO, Mar. 2014. www.publications.parliament.uk/pa/cm201314/cmselect/cmbis/168/168.pdf

3 See the UK Government's 'Business rates' webpage, at www.gov.uk/introduction-to-business-rates/revaluation; and *Business Rates: The 2017 Revaluation*. Briefing Paper 07722. House of Commons Library, Jan. 2017. http://researchbriefings.files.parliament.uk/documents/CBP-7722/CBP-7722.pdf

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13 British Retail Consortium in evidence to the Business, Skills and Innovation Committee of the House of Commons, as reported in *The Retail Sector. Volume II: Oral and Written Evidence* (see note 2)

14 A. Gentleman: 'Southwold: welcome to the town where business rates are set to rise 177%'. *The Guardian*, 9 Mar. 2017. www.theguardian.com/business/2017/mar/09/southwold-welcome-town-business-rates-rise-177

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