What do the coming business rates changes mean for cities?

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Introduction

There has been a lot of attention drawn to the forthcoming changes to business rates, much of it covering those businesses that will be hardest hit by the changes. While some businesses are facing large increases, this isn't reflective of the picture overall. This briefing sets out what April's changes to rateable values – the value of buildings used to calculate business rates - will mean for the business rates paid in cities up and down the country.

Context: What is changing?

The Valuations Office Agency (VOA) undertakes periodic revaluations of all commercial properties in England and Wales so that the business rates levied on a property reflect the rental value of it.[1] The last revaluation was implemented in 2010, and the current revaluation will come into effect from 1 April 2017.

The valuation assigns a rateable value to each property. A multiplier is then used to calculate the business rates due on the property. For example, if the rateable value of a property is £40,000, and the multiplier is 48 per cent, then the business rates charged on that property for the year would be £19,200.

The multiplier is also changing as a result of revaluation. This is because by law the total amount of business rates collected remains fixed (except for adjustments for inflation and the cost of appeals). The result is that as valuations of properties change, then the multiplier must adjust too.[2] There are a number of multipliers – ones for small and large properties, which are different in the City of London, the rest of England and Wales, and all are changing.

Furthermore, the thresholds for who pays what are changing too. Currently businesses in properties with a rateable value lower than £6,000 pay no business rates. This is increasing to £12,000. And the threshold for which business are subject to the small business multiplier is changing too – rising from 18,000 (£25,500 in London) to £51,000. This means that many more properties will be exempted from rates, while many more will also be subject to the lower small business multiplier.

1 In some cases, such as pubs, the rateable value is decided determined on the trade that the pub does, rather than its floorspace.
2 Sandford, M (2017), Business rates: the 2017 revaluation, London: The Stationery Office

1. Most cities will see a fall in their average business rates bills

While the attention has focused on those who will be adversely affected, just two cities – London and Reading – will see an increase in the average amount of business rates levied on their properties.[3]

Of those in the top 10, all but Bristol are located in the Greater South East (see Figure 1), reflecting their stronger economies. And as the map shows, most cities in the North and Wales will see the largest falls, with average business rates bills in Blackburn falling by a quarter.

Of the 100 properties that will see the largest absolute increase, 94 of them are in London, and three are in Reading. This list is headed up by Harrods, which will see its rates increase by £6,000,000.

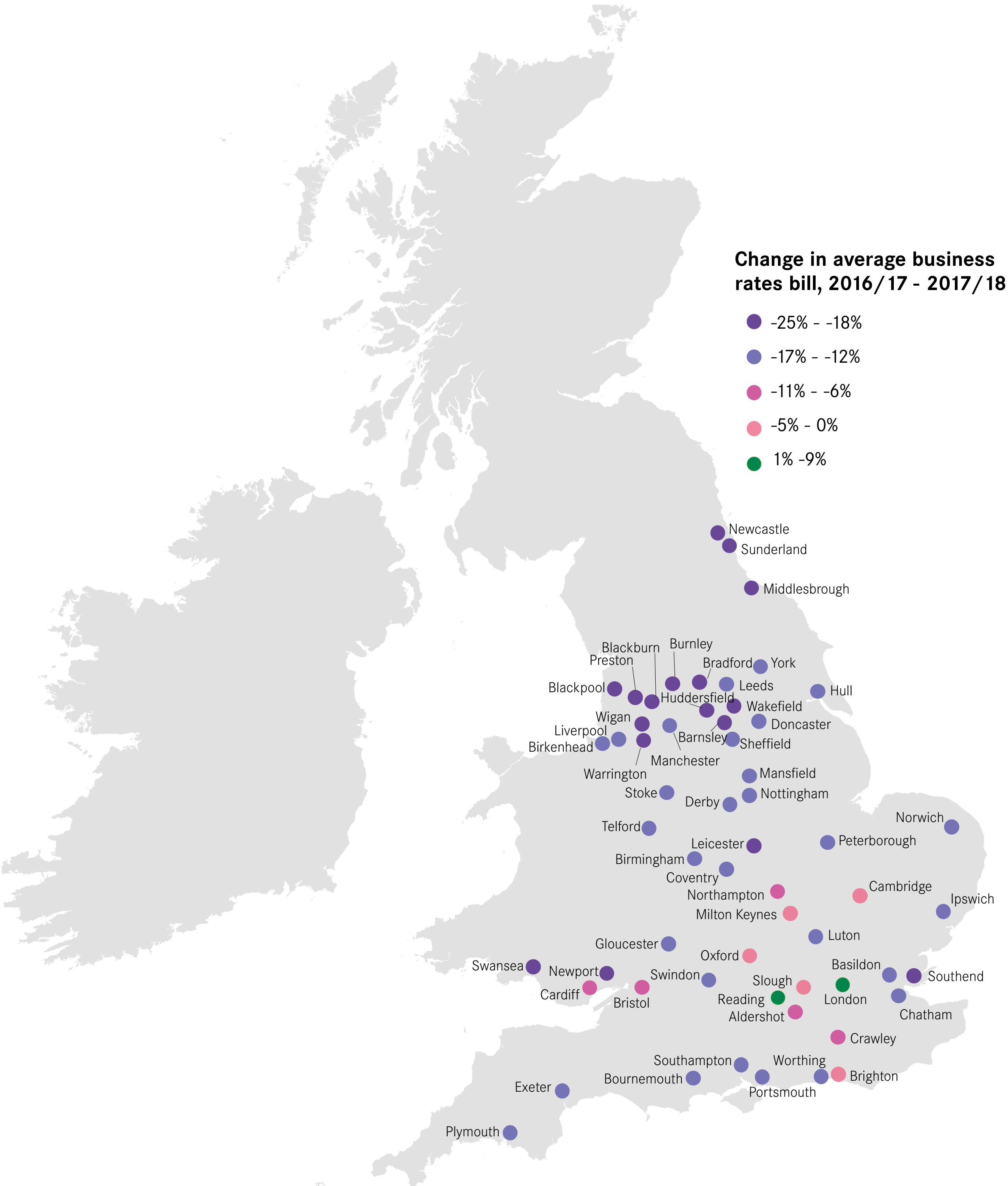
Figure 1: **Average increase in business rates in cities after revaluation**

	City	Change in average business rates bill, 2016/17-2017/18	Average workplace wages, 2016
10 cities with the highest average change in business rates bill			
1	London	8.7%	697
2	Reading	6.3%	634
3	Cambridge	-2.0%	603
4	Slough	-2.4%	588
5	Brighton	-2.5%	471
6	Oxford	-4.3%	576
7	Milton Keynes	-5.3%	626
8	Crawley	-6.6%	634
9	Aldershot	-8.7%	566
10	Bristol	-10.3%	525
10 cities with the lowest average change in business rates bill			
49	Leicester	-19.9%	471
50	Southend	-20.6%	405
51	Wakefield	-20.8%	463
52	Swansea	-21.1%	450
53	Sunderland	-21.3%	476
54	Bradford	-22.1%	468
55	Huddersfield	-22.3%	421
56	Newport	-24.0%	465
57	Blackpool	-24.3%	503
58	Blackburn	-24.8%	481
	England and Wales	-6.7%	529

Source: VOA

3 This includes properties that were eligible for business rates in 2016/17 but are no longer in 2017/18 because of the raising of the rateable value threshold that exempts businesses from paying rates from £6,000 to £12,000. It's important to include these properties in the analysis because their occupiers will see a cut in their rates to zero.

Figure 2: Change in average business rates bill 2016/17 - 2017/18



Source: VOA

2. Central London is making an ever greater contribution to business rates

Looking more closely at city centres shows once again that the average rates on a property will rise in only a handful of places – just four city centres will see an increase. And all four are in the Greater South East.

There is a greater spread in terms of the changes for city centres compared to cities overall. Central London will see a rise of 19 per cent. Meanwhile Middlesbrough city centre will see a fall of 37 per cent (see Figure 3).

The increases seen in central London mean that this small part of the country will contribute an even greater share of the overall amount of business rates generated. In 2016/17, central London accounted for 17 per cent of all business rates generated in England and Wales. In 2017/18, this will rise to 21 per cent. The result is that this part of the country, which accounts for 0.02 per cent of land, will generate more business rates than the next 19 cities – including both their city centres and the wider city – put together.[4]

Figure 3: Average increase in business rates in city centres after revaluation

	City centre	Change in average business rates bill, 2016/17-2017/18
10 cities with the highest average change in business rates bill		
1	London	18.6%
2	Reading	7.1%
3	Brighton	6.4%
4	Oxford	0.3%
5	Milton Keynes	-1.2%
6	Manchester	-3.2%
7	Cambridge	-4.0%
8	Telford	-4.0%
9	Slough	-4.6%
10	Birmingham	-7.2%
10 cities with the lowest average change in business rates bill		
49	Bradford	-23.6%
50	Huddersfield	-23.9%
51	Swansea	-24.6%
52	Preston	-24.7%
53	Southend	-25.8%
54	Sunderland	-27.7%
55	Blackburn	-29.8%
56	Newport	-34.2%
57	Blackpool	-34.3%
58	Middlesbrough	-36.8%
	England and Wales	-6.7%

Source: VOA

4 The wider city here refers to the rest of the Primary Urban Area: htto://www.centreforcities.org/puas

3. Changes to business rates exemptions mean that many small businesses will no longer have to pay any business rates

The conversation around the business rates changes has focused on the impact on small businesses, particularly retailers. But because the threshold that exempts a number of small properties from paying rates is being raised, a large number of small businesses will see their bills fall to zero. These changes mean that in all but five cities, more than half of properties will pay no business rates at all.

Across England and Wales as a whole, the number of properties that will be exempt will increase from 46 per cent to 65 per cent. Southend will see the largest increase in excluded properties, with the number rising from 45 per cent to 70 per cent. And the changes will mean that Burnley will have the highest share of its properties exempted – 82 per cent will not be required to pay business rates in 2017/18 (see Figure 4).

Figure 4: Properties that are exempt from business rates

	City	Exempt 2016/17	Exempt 2017/18	Percentage point change in exemptions
10 cities with the highest average change in business rates bill				
1	Southend	45%	70%	25.7
2	Preston	46%	71%	25.6
3	Basildon	26%	50%	23.8
4	Blackpool	55%	79%	23.5
5	Hull	46%	69%	23.5
6	Peterborough	33%	57%	23.3
7	Northampton	37%	60%	23.1
8	Plymouth	43%	66%	23.0
9	Bradford	52%	75%	23.0
10	Portsmouth	41%	64%	22.9
10 cities with the lowest average change in business rates bill				
49	Derby	46%	64%	17.2
50	Slough	22%	39%	17.1
51	Sunderland	57%	73%	16.8
52	Leicester	51%	67%	16.8
53	Oxford	24%	41%	16.2
54	Mansfield	55%	71%	16.2
55	Gloucester	48%	64%	16.1
56	Crawley	27%	43%	16.0
57	London	30%	45%	15.1
58	Nottingham	54%	69%	14.9
	England and Wales	46%	65%	19.1

Source: VOA

4. But it also means large businesses will bear ever more of the burden

Because the total amount of money generated by the business rates tax system must remain constant, the Government's decision to reduce the contribution of small businesses means that larger businesses must generate more. Where properties have a rateable value over £70,000 in 2017/18, the average business rates bill will rise by 7 per cent.

This increase is again mainly limited to the Greater South East. The average business rates bill for large properties will increase in just 12 cities, nine of which are London or its neighbours. Meanwhile Exeter is the only city in the bottom 10 not in the North or Wales.

Figure 5: Average increase in business rates for properties with rateable values over £70,000

	City	Average change in business rates bill
10 cities with the highest average change in business rates bill for properties with a rateable value over £70,000		
1	London	22%
2	Reading	21%
3	Brighton	15%
4	Slough	6%
5	Cambridge	6%
6	Milton Keynes	3%
7	Mansfield	3%
8	Aldershot	3%
9	Nottingham	3%
10	Leicester	2%
10 cities with the lowest average change in business rates bill for properties with a rateable value over £70,000		
49	Leeds	-8%
50	Wigan	-9%
51	Middlesbrough	-9%
52	Exeter	-9%
53	Warrington	-10%
54	Burnley	-11%
55	Swansea	-11%
56	Newport	-12%
57	Preston	-14%
58	Blackburn	-17%
	England and Wales	7%

Source: VOA

Note: Properties were identified according to their rateable value in 2017/18. The business rates bill that each property was liable to pay for 2016/17 and 2017/18 was then compared on a weighted average basis.

5. And some cities will be very reliant on a handful of properties

In Burnley, the city that will have the highest number of exempt properties in 2017/18, just 30 properties (0.4 per cent of all properties) will account for one third of total business rates generated in the city. But this only places Burnley in third place of all cities, with Barnsley and Worthing seeing their 30 largest properties making an even larger contribution (see Figure 6).

Figure 6: Contribution of the 30 largest properties to total business rates generated in cities

	City	Contribution of the 30 largest properties to total business rates generated in the city
1	Worthing	37%
2	Barnsley	35%
3	Burnley	32%
4	Gloucester	31%
5	Doncaster	31%
6	Basildon	29%
7	Northampton	28%
8	Slough	28%
9	Blackpool	28%
10	Aldershot	28%

Source: VOA

Implications

The revaluation of commercial properties is welcome because it eases the tax burden on business in struggling cities, many of which have been overpaying in recent years. While much of the recent discussion around the revaluation of business rates has been about how businesses - and especially retailers - will be hit by the changes, the reality is that the changes will actually bring some relief to business in most parts of the country.

That business rates are increasing in cities principally in the Greater South East should come as no surprise. As the most successful part of the country, demand for land in these places is very high. And as business rates are a tax on land usage, any adjustment to the system should reflect this.

The bigger issue is not that some businesses will pay higher rates to reflect the fact that they are in strong economies – the focus is of much attention to date – but that the delay in revaluation has meant that many businesses have had to pay more than what they arguably should have been for a number of years. This business rates cut – assuming that landlords do not put up their rents in response – should come as a relief to those businesses and high streets in the places that are struggling the most.

The issue therefore is not the revaluation itself, but that it does not happen often enough. This creates huge uncertainty for businesses. For some, it leaves them facing a substantial jump in business rates that a more frequent revaluation would avoid. For others, it means that they pay higher business rates for a number of years than they would with more frequent revaluations. And it means a number are likely to struggle because of a flaw to the policy. The flip side of course is that those businesses that see the largest increases have avoided paying more tax in recent years, a point largely ignored in recent commentary.

The legal requirement that the overall amount of business rates must remain fixed is also flawed. This causes two main issues. Firstly, it makes the system inflexible to changes in the economy. Business rates do not fall if the economy enters recession, nor do they rise off the back of a growing economy. This means that the business rates tax bill for businesses does not alter if trading conditions they face change.

Secondly, it means decisions to give tax breaks to certain businesses necessarily increases the tax burden on other businesses. And while big businesses will see the largest changes, all firms eligible for business rates pay more than they would otherwise have to because of the breaks given to the smallest businesses.

Both of these issues hurt London businesses in particular. The delay in revaluation means that they have to deal with a single large jump in their rates, rather than a steady increase. And the fixed cap means that those not eligible for Small Business Rates Relief have to make a greater contribution to the system when exemptions are granted elsewhere.

The falls in business rates in many cities is good news for businesses, but not for the cities themselves. The exemptions and reductions reduce the size of the business rates tax base, which local authorities will use, through devolution, to fund social care. These cuts will constrain the budgets of a number of local authorities in the coming years.

By the same token, Business Improvement Districts (BIDs) in these areas will also see their budgets shrink. BIDs are collections of businesses in specific areas – commonly city centres - that pay a levy on their rateable values (usually 1 per cent) to raise money to improve their areas. Cuts to rateable values mean a cut to BID budgets, and a squeeze on what they are able to do. To offset this, the BID would need to increase the number of businesses within its boundaries paying rates, which may be difficult in places with weaker economies.

Both these findings and previous work by Centre for Cities, contrary to a lot of commentary on business rates in recent weeks, provide a number of messages for the Chancellor as he prepares to deliver the Budget:[5]

- **Firstly, he should resist calls to delay or scrap the revaluation, while still ensuring that there is some transitional relief.** While there is something to be done to smooth tax changes for those seeing the largest increases, this should not distract from the fact that this is the outcome of revaluations occurring too infrequently.
- **Secondly, this means that he should introduce more frequent revaluations on a yearly or bi-annual basis, to make the system more accurate and timely, reduce volatility, and to maintain the legitimacy of the tax.** More frequent revaluations would also have the additional effect of reducing the significance of appeals.
- **Thirdly, the Government should replace the fixed yield with a fixed rate.** The requirement that total business rates generated must remain fixed is not helpful. Removing the cap on business rates and moving to a fixed rate system would make it more responsive to the wider economy and the ability of firms to pay.

5 McGough, L & Bessis H (2015) Beyond business rates, London: Centre for Cities

Box 1: Methodology

The Valuation Office Agency's (VOA) summary dataset on individual hereditaments has been used to calculate the estimates presented in this briefing. The postcodes for each property have been assigned to city centres and wider areas of the 58 cities that we look at across England and Wales. The summary dataset contains those properties – around 80 per cent - that have had an individual inspection. A secondary dataset from the VOA, the list entry dataset, also includes properties that have not been inspected because their rateable value is not calculated based on floorspace. While there are properties in this final 20 per cent that will be occupied by private sector businesses, many are publicly-funded services such as schools, universities and museums. Because this briefing is concerned with looking at the impact on businesses of changes in business rates in line with recent commentary, we have used the summary dataset.

The business rates bill of each hereditament was calculated according to the rateable value assigned to that hereditament multiplied by the relevant multiplier, dependent on the size of the property and where in England and Wales it is.

To calculate the average change, the total business rates bill for each city was divided by the total number of properties with a rateable value of £6,000 or above to give a weighted average change. £6,000 represents the threshold for 100 per cent Small Business Rates Relief in 2016/17. This threshold was used for the 2017/18 data too, despite the threshold increasing to £12,000, to capture all the properties that benefited from a 100 per cent fall in their rates as a result of the raising of the threshold.

In the course of estimation it was not possible to identify where a property was occupied by a multi-branch business. We note that multi-branch businesses are not eligible for Small Business Rate Relief. Properties in enterprise zones, which are exempt from business rates for five years, were also not excluded. The Government also intends to offer transition rates relief to help businesses that have been adversely affected by rates changes, which may be changed in the Budget. This relief has also not been included as it could not be identified for specific properties. We expect these exclusions to make little difference to the figures presented in this briefing.

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