ANNEX 1

Tonbridge & Malling Borough Council

Response to Business Rates Review – June 2015

1. What evidence and data can you provide to inform the government's assessment of the trends in use and occupation of non-domestic property?

   The Tonbridge and Malling Employment Land Review (December 2014) helps to give an overview of use and occupation of non-domestic property. In short, it highlights the following trends:

   - Vacancy rates for office accommodation are at 12% in the borough, however at Kings Hill the vacancy rate is around 18%.
   - Vacancy rates for industrial accommodation are very low at around 6% in total suggesting a high level of latent demand. Of those premises that are vacant, a large number (82%) are clustered in and around Aylesford.

   Kings Hill is a high quality strategic employment location traditionally catering for larger office based businesses and experiencing a high level of inward investment since it started in the late 1990s. However, recent trends have seen many of these businesses reduce their floorspace take up as a result of flexible working arrangements and efforts to reduce costs – and as a consequence businesses are now taking up single floors of premises rather than the whole building.

   In addition, there has been a growth in the number of small business centres on the site – such as that provided by Churchill Square Business Centre and Regus.

   The low vacancy rates for industrial accommodation can be partly seen as a sign of success, and vibrancy in this part of the economy. However, it should be noted that it also reflects the very low rate of new build accommodation. As with other parts of Kent, there is very little in the way of speculative industrial development due to the lower levels of return in comparison to residential development, and concerns about being left with empty premises and the associated costs falling on the developer. Indeed, there is considerable pressure from developers to build houses on allocated employment land due to the higher returns and lower risks.

2. Is there evidence to suggest that changing patterns in property usage are affecting some sectors more than others?

   The local evidence suggests that the largest changes are taking place in the service industries with the following trends clearly happening, such as:

   - Back office functions are moving to more flexible ways of working including an increase in homeworking which is reducing the need for larger call centre/office locations.
   - To some extent, retail businesses are moving away from the high street towards an online presence, although a number of retail businesses are capitalising on the benefits of both sales outlets.

   In addition, more efficient production line processes have enabled manufacturing firms to reduce their floorspace take up.

3. What, in your view, does this evidence suggest about the fairness and sustainability of business rates as a tax based on property values?

   The evidence suggests that the current system, which was first brought into use in the early 1990s, is in many ways out of date. However, a tax based on property values would still be one of the fairer options, **IF** it also took into consideration additional features which recognise the fact that not all businesses are reliant on commercial premises to function, or some larger firms are able to significantly reduce floorspace take up using flexible working methods.

4. What evidence is there in favour of the government considering a move away from a property based business tax towards alternative tax bases? What are the potential drawbacks of such a move?

   The information, as stated above, suggests that a move away from **SOLELY** a property based business tax could have its merits in reflecting more accurately the ability of a business to pay rates. However, the balance does need to be struck between setting up a system which is more reflective of the economy but at the same time does not become too convoluted or difficult to assess. Although the current system does have its grey areas/nuances, it is relatively well established and understood. If considered appropriate, the introduction of additional features such as turnover or employee numbers needs to be done in a way that is clear and transparent, as well as easily gathered, especially as there are likely to be winners and losers with any change to the system as the stated intent is for any changes to be fiscally neutral.

   Also we have reservations about linking business rates directly to the number of employees, as this may provide an incentive (admittedly in probably a relatively small number of cases) to some businesses to look at rationalising staff numbers in order to reduce their rates.

5. What examples from other jurisdictions and tax systems should the government consider as part of this review? What do you think are the main lessons for the business rates system in England?

   Unable to comment.

6. How can government use business rates to improve the incentive for local authorities to drive local growth?

   It would appear that whilst directly linking local authorities to the performance of its economy overall has its merits; it is not without its flaws.

   As things stand at the moment, a local authority can in some instances be rewarded or punished for economic events that are largely out of their control, therefore creating somewhat of a lottery. Although a local authority has a level of control and influence on its economy, through the planning process or the work of its economic development departments, the fate of a local economy, especially a smaller economy, can be disproportionately impacted by events it has very little or no control of whatsoever.

   At Tonbridge and Malling, the closure of Aylesford Newsprint came with no warning, and was caused in most part by international competition and the strength of the pound, and certainly not due to local issues that the local authority could have had an impact on. However, because of its size and hence rateable value, the closure of this business will have a hugely detrimental impact on a small local authority which

is supportive of local business and invests what it can in helping grow the local economy. The complex nature of the site will be a factor in its redevelopment, and therefore it is likely that the Borough Council will be financially penalised for a lengthy period of time. This is a matter that was taken up with the (then) Minister for Local Government, Kris Hopkins, via the local MP, Tracey Crouch. **Please see the attached correspondence in which the Minister advises that this unusual case has already been brought to your attention on the basis that it is pertinent to this review**.

Situations like these are a double-blow to the community – not only is there the loss of 230 jobs from a business that has been part of the local area for around 100 years, but the local authority is hit financially, potentially for a number of years until the baselines are reset, thus reducing its ability to help reinvigorate the economy. There is a perversity about the fallout from such a significant case as this. Since the financial impact on the local authority is SO significant and it is highly unlikely that whatever it does the local authority will not get back to baseline within the business rate retention model, hypothetically there is little incentive for the authority to put resources into growing the business rate base until the 'reset' occurs. Whatever new business rates are generated will be more than swallowed up by the significant loss and therefore the authority sees no reward whatsoever, through the business rate retention model, for its efforts.

As such, we do not believe the system is flexible enough in responding to exceptional 'events' and we believe there should be an exceptions policy that takes into account special circumstances such as this to ensure that any incentives or disincentives are fair and proportionate.

7. What impact would increased local retention of business rate revenue have on business growth? What would the impacts be on local authorities?

In theory, increased local retention would ensure that there was an even closer working relationship with businesses in the local economy and encourage a stronger focus on local business growth. If the local retention of business rates translated into an increase in revenue, then it could enable the borough council to consider further investments into the local economy – such as business rate relief through the Localism Act 2011, investing in commercial property or providing additional local support to stimulate apprenticeships.

However, with the mechanics of the system as they are presently set, we must also be mindful of the impact of appeals. The current appeals system does not aid certainty and predictability. For the local authority, the period over which a successful appeal can be backdated is entirely outside of its control and makes financial planning extremely difficult especially when the backlogs at the VO are significant. One suggestion is that there should be no backdating of appeals with the outcome being implemented from date of judgement. We do acknowledge that this would, no doubt, put additional pressure on the VO to turn cases around quickly.

In terms of impact on the local authorities, the vast majority already have a strong focus on supporting the local economy and so we wouldn't see it creating a change of focus, albeit it may reinforce it further. The perception amongst a large number of the business community is that local authorities retain all of the business rates as they are the organisation that collects this payment, as such by having a greater share of the rate revenue would actually provide greater local accountability and in many ways, should help to demonstrate transparently the relationship between what business pay and what the revenue has contributed towards locally.

8. What other local incentives should the government consider to further incentivise business growth?

   Whilst there are incentives for local authorities to encourage house building within their area through the New Homes Bonus – recognising the need to increase housing stock to meet an ever growing demand – and developers are incentivised to build housing due to increased values, there is a much lower incentive to build new commercial and industrial premises that would ultimately increase a business rate base and meet a large latent demand.

   Information from Locate in Kent and the council's Employment Land Review indicates that whilst there is demand from businesses to expand into larger premises, the availability of suitable accommodation is lacking and the levels of speculative development of commercial and industrial premises is extremely low as values are considerably lower than residential values.

   A financial incentive that makes speculative development of commercial and industrial more attractive would not only help to stimulate business growth, it would also help to create more balanced communities.

9. Should business rates be reformed to make them more closely reflective of wider economic conditions and if so, how?

   In general terms, the 5 year cycle does provide additional certainty, helping business to forecast expenditure over the medium term as well as give local authorities a clearer indication of future funding. Indeed, if there were more regular reviews, whilst businesses might find that their rates decreasing, they could increase sharply depending on where the economy is in its economic cycle. However, there are problems with a 5 year cycle such as:

   - As per the response to Q6, in circumstances such as Aylesford Newsprint the local authority is 'punished' over a longer time frame.
   - Businesses are more vulnerable to economic changes, especially in a down turn.

   A change to a 3 year cycle might help to make the system more responsive to economic fluctuations and yet still provide a degree of certainty over the short/medium term.

10. If business rates remain a property tax, how do you suggest business rates could take into account the individual circumstances of businesses such as their size or ability to pay rates?

    As stated previously, whilst we are of the view that business rates should remain chiefly a property tax, we think there could be additional features attached to it that recognise turnover, and possibly even give some recognition to certain sectors that are particularly 'floorspace hungry'.

    With the backdrop of the challenging future climate change goals for central government, the rating system could be a potential 'conduit' to incentivise renewable energy as an alternative to the Feed-In Tariff system. This could have the potential

to encourage landlords to take a closer look at their roof space for solar PV if it led to a reduction in rates. Having said that, in line with the comments made in response to question 6 and the uncertainty regarding issues outside of the local authority's control, the financial impact of any reductions in rates collectable in pursuance of the achievement of wider government targets should not be borne by the local authority.

11. How does the proportion of total operating costs accounted for by business rates vary by the sector and size of a business?

Unable to comment

12. What is the impact of the business rates system on the competitiveness of UK businesses? Are there any particular impacts on SMEs?

It is difficult to state the extent of a direct correlation between business rates and competitiveness of UK businesses as there are so many variables involved – such as staff costs, energy costs, and property prices.

However, with regards SMEs, the vast majority of business in the Tonbridge and Malling area fit into this category and many of these benefit from Small Business Rate Relief. The fact that this relief is in place and has been widely promoted to businesses by local authorities shows the extent that small businesses (or at least those businesses with a small floorspace requirement) are supported. Despite this, the 3 year survival rate for businesses that set up in the Tonbridge and Malling area is still quite low – at only 59% - suggesting that there are issues impacting upon the competitiveness of small businesses locally.

13. How could the government better target support for SMEs given that the size of a company may not be reflected in the rateable value of a property it uses?

Introduce turnover into the overall calculation of rates? This would probably require a more regular review however.

14. Should investment in plant and machinery, energy efficiency improvements or other similar property improvements, be treated differently by the business rates system? If so what changes could be made?

In Tonbridge and Malling borough, like many other parts of the county, the stock of commercial premises is rather dated and in need of investment. Whilst the impact on rateable value, and therefore business rates, is clearly a consideration, there are a number of other reasons for this:

- The key reason is the low rates of return for any investor given the comparatively low values attached to commercial premises.
- Many small businesses that own their premises still struggle to access finance from conventional sources to carry out improvements.
- In a very small number of cases, property owners purposefully look to run down a site in the expectation that it will make it easier to obtain permissions for residential use.

Without these broader issues being addressed in some way, it is likely that investment in commercial premises will continue to be inhibited in many instances.

However, where a business is considering investing in plant or energy efficiency improvements there could potentially be a short term discount to provide an additional 'carrot'.

As with other business grant and loan schemes, such a financial incentive is unlikely to the sole or main stimulus for action, but as part of an overall package of support, it could prove quite an incentive to improve business survival and efficiency.

15. What evidence and analysis should the government take into account when evaluating the impact of and any changes to the range of reliefs and exemptions present in the business rates system?

Small Business Rate Relief:

- VAT registrations
- 1-5 year Business Survival Rates
- Vacancy rates of premises with a rateable value of under £6,000 and under £12,000.

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