Business Rates

May 2007

debrief

What landlords and developers need to know about business rates changes on the way

Jerry Schurder, partner and head of rating at Gerald Eve

Sir Michael Lyons' long awaited review of local government was finally published on Budget Day – 21 March 2007. It was immediately followed by the Chancellor's announcement of significant changes to empty rates relief, which will have real financial consequences for landlords and developers.

In this issue of **debrief**, we summarise the key issues and recommendations arising from the Review, and in particular the proposed changes to empty rates for individual properties and portfolios. These potential changes will require careful consideration and bespoke solutions. As leading rating advisers in the UK, we would be happy to meet with you and share our ideas for mitigating the potential impact of the new tax.

If you are interested, please contact me on **020 7333 6324** or **jschurder@geraldeve.com**, or speak to your usual Gerald Eve contact.

Finally, if you would like us to add a colleague to the **debrief** subscription list, simply email **debrief@geraldeve.com**, or call **Clair Laidlaw** on **020 7333 6252.**

debrief keeps you up to date with the latest legislative developments affecting the property industry. Presented in a succinct, concise manner, **debrief** identifies the key issues relevant to your business and their associated implications for you.

HIGHLY RATED BY THE OVERRATED

GeraldEve

Lyons on Business Rates

Good news on the UBR

In the context of business rates, the report does make some strong recommendations, two of which will be welcomed by business ratepayers. The first is that the Uniform Business Rate — the centrally set rate poundage which is multiplied by Rateable Value in order to determine rate liability — should continue to be linked to the Retail Prices Index and should not be allowed to increase above inflation. The second is that control of the business rate should not be returned to local authorities. However, this is presented as a possibility in the long term, facilitated by improved relations between business and local councils that Lyons wants to see established.

These decisions will be regarded as victories by business, which benefits from the stability and predictability of the current system. Businesses were understandably concerned about the removal of the current level playing field had rates been placed within the control of local authorities and about the potential for above inflation UBR increases.

New supplementary local business rates recommended...

But the good news that the UBR will remain index linked (and therefore predictable), will be undone by new supplementary local rates, recommended by Lyons. He says that as soon as a slot for primary legislation can be found, councils should be allowed to levy an additional rate. The amount of this supplement is not specified but he notes that some Business Improvement Districts (BIDS) have levied supplements as high as 4p and that there might be a case for allowing a higher limit in some instances.

With a current UBR (2007/8) of 44.1p, 4p represents a supplement of over 9% which, according to data included in the Lyons Report, would mean that English companies will face the highest corporate property tax rate in the EU.

...although previously rejected

The Government's initial response is that it will consider and consult on the recommendation for the supplementary local rate. But it should be reminded that as recently as December 2001, following consultation, this Government rejected its own proposals for a supplementary local rate. In a White Paper* the Government abandoned its plans for a local rate supplement because 'it is clear from many of the local authority responses that the supplementary rate was seen primarily as a means of raising revenue,' and 'business organisations pointed out that the only way in which local businesses could be sure a supplementary rate would not be imposed on them was to vote against.'

Taxation without representation

Lyons has decided that businesses should not be invited to vote and instead recommends designing the proposal 'in a way that can gain credibility with business', yet it seems to us that it is the power of a vote which has given BIDS their credibility. Lyons' call for local businesses to be given a 'strong voice in the final decision on whether there should be a supplement, and the purpose to which the proceeds are put' is a poor substitute for a vote.

Lyons calls for review of reliefs and exemptions

Landlords hit by the abolition of empty property relief

Whilst Lyons calls for a comprehensive review of all reliefs, he pays particular attention to empty property rates relief. Most vacant property receives 100% relief for the first three months and 50% relief thereafter, although empty factories, warehouses and listed buildings receive 100% relief at all times. His report recommends reform including a reduction in the 50% relief after three months and a removal of the additional relief for factories and warehouses. He floats the possibility that there should be an element of local discretion on empty property relief so that councils could determine the appropriateness of charging empty rates having regard to local economic and property market circumstances.

Chancellor jumps the gun

Whilst it took two and a half years for Sir Michael to recommend a thorough review, the Chancellor had completed it two hours later! In his Budget speech, he announced major changes to empty property relief to come into effect in April 2008. There will be three months free of rates for most properties and six months for factories and warehouses, but after that full rates will become payable. His stated rationale for this decision, 'that reductions in this relief could help encourage more efficient use of, and a readier supply of property and lower rents for businesses' seems to reveal little understanding of business decision making or of the property market.

Landlords of vacant buildings and completed developments have a strong incentive already to let them as soon as possible. In a depressed market or location, the additional rates penalty will do little to ensure a willing purchaser or tenant. The Chancellor runs the risk that the change might result in a return to the scenario last seen during the recession in the 1980s, when property owners removed the roofs of their vacant properties in order to escape business rates altogether.

Draft legislation already published seeks to avoid this, but in reality, such legislation is fraught with complexity.

The impact on the property market may be the opposite of that claimed by the Chancellor as development activity could be adversely affected by the increased rates burden levied on vacant properties. Developers may be more reluctant to build speculatively if there is a risk that a tenant may not be found within three months of completion. The effect could be severe on those who undertake redevelopments of redundant factory/warehouse buildings. Their holding costs will be increased whilst they work up schemes and obtain planning etc, which may render some schemes unviable.

Some reliefs remaining

Listed buildings will continue to receive 100% relief when vacant. We understand that empty property held by charities will also receive 100% rates relief, if the next use is likely to be for charitable purposes. The temporary relief for part vacant buildings granted at a local authority's discretion will continue to be available, but only for a maximum of three months (six months for factories/warehouses).

**'Strong local leadership — quality public services'*
Department for Transport, Local Government and the Regions: December 2001

Neither the Scottish Executive nor the National Assembly for Wales have announced whether they intend to revise their empty rates provisions, presently similar to those applicable in England, although the legislation proceeding through Parliament would allow for the same provisions to be adopted in Wales.

Mitigating the effect

As the firm with the largest team of rating surveyors in the UK which has saved clients over £1bn in rates liabilities since the 2000 Revaluation, we are focusing on creative ideas to ensure this empty rates time bomb is mitigated or removed for property owners.

We have already formulated active plans for a number of scenarios facing developers and funds. One size will not fit all and we will fashion a bespoke service to fit individual circumstances.

If you would like to arrange a face-to-face meeting to explore any ideas and see how Gerald Eve can save you money, please speak to your usual Gerald Eve contact, or get in touch with me at **jschurder@geraldeve.com** or **020 7333 6324**.

Leading our sector, not following it

"We believe technical expertise should come as standard with any property consultancy. What sets us apart is our role in driving change and influencing policy. Many of our partners are at the top of their profession, playing influential roles in advising Government and guiding clients through change."

Here at Gerald Eve, we strive to be leaders in our field and to pass on the many benefits of our creative approach to you, our clients and friends.

debrief is just one of the many ways we communicate the key issues in our swiftly-changing property world.

International Financial Reporting Standards. The 2005 Rating Revaluation. Reforms to the Landlord and Tenant Act 1954. The Planning and Compulsory Purchase Act 2004. All these and more have seen input from our specialists.

Key Gerald Eve personnel — people like Hugh Bullock, Graham Foster and Jerry Schurder — all play a role in advising on legislative, statutory and regulatory changes. It's that involvement that keeps our clients ahead of the game on issues that directly affect their interests. We are at the vanguard of our sector and believe our leadership can only be of benefit to our clients.

If you would like to know more, please contact me at **dbutters@geraldeve.com** or call **020 7333 6237**.

David Butters, Senior Partner

A subscription to **debrief** is free. If you'd like to join our mailing list, you can:

- email **debrief@geraldeve.com**
- call **Clair Laidlaw** on **020 7333 6252**

We never share your information with anyone else and you can unsubscribe at any time.

Where to find out more

Sir Michael Lyons' final report 'Place-shaping: a shared ambition for the future of local government' can be downloaded from www.lyonsinquiry.org

London (West End)
7 Vere Street
London W1G 0JB
Tel. 020 7493 3338
Fax. 020 7491 1825

London (City)
46 Bow Lane
London EC4M 9DL
Tel. 020 7489 8900
Fax. 020 7489 8800

Birmingham
Bank House
8 Cherry Street
Birmingham B2 5AL
Tel. 0121 616 4800
Fax. 0121 616 4801

Cardiff
32 Windsor Place
Cardiff CF10 3BZ
Tel. 029 2038 8044
Fax. 029 2034 4177

Glasgow
Caithness House
127 St Vincent Street
Glasgow G2 5JF
Tel. 0141 221 6397
Fax. 0141 204 2226

Leeds
28 Park Place
Leeds LS1 2SP
Tel. 0113 244 0708
Fax. 0113 244 0722

Liverpool
8 Princes Parade
Liverpool L3 1DL
Tel. 0151 236 3009
Fax. 0151 236 5041

Manchester
No 1 Marsden Street
Manchester M2 1HW
Tel. 0161 830 7070
Fax. 0161 832 7060

Milton Keynes
Avebury House
201-249 Avebury Boulevard
Milton Keynes MK9 1AU
Tel. 0151 236 3009
Fax. 0151 236 5041

West Malling
Suite 24
30 Churchill Square
West Malling
Kent ME19 4YU
Tel. 01732 229420
Fax. 01732 873184

Disclaimer & Copyright
debrief is a short summary and is not intended to be definitive advice. No responsibility can be accepted for loss or damage caused by reliance on it.

This publication is strictly copyright and reproduction of the whole or part of it is strictly prohibited without permission from Gerald Eve.