

# Promoting Growth through Business Rates Reform

ACS (the Association of Convenience Stores) and BCSC (British Council of Shopping Centres) is calling for a **2% cap on business rates starting in April 2012 for the duration of this Parliament**. This is a pro-growth proposal will help struggling retailers and high street businesses.

We know that Ministers are concerned about the burden of the rate increase on business growth. We welcome the intention behind the Chancellor's deferral scheme announced in the Autumn Financial Statement. This allows businesses to defer 60% of their business rates for two years. However it does not go far enough and only delays the inevitable need to pay these inflated rates at a time when businesses are under significant pressure.

## Convenience Sector

- The 5.6 per cent business rates increase will cost a convenience store an average of £883.<sup>[1]</sup>
- Business rates are the second largest outgoing for convenience retailers after employment costs.
- The business rates increase will cost the convenience store industry alone £35.7 million.<sup>[2]</sup>

## Retail Sector

- The total cost of the 2012 business rates increase to the Retail Sector will be £350 million.<sup>[3]</sup>
- High street shops pay 28% of all business rates, even though they are responsible for just 5% of the country's GDP.<sup>[4]</sup>

## All Business

- Business rates cost UK business £23.6 billion and the proposed increase of 5.6% for 2012 equates to £1.32 billion.<sup>[5]</sup>
- Capping the increase at 2% would save UK business £849m.

## Why 2%?

The Government inflation target is 2%. We believe that Ministers should impose taxation on business in line with its economic objectives rather than the uncertainties of the economic conditions.<sup>[6]</sup>

The use of RPI has been abandoned by government in a number other areas such as public sector pay settlements and benefits calculations.

Capping business rates at 2 per cent will provide business with:

- **Relief** from the 20 year high RPI inflation rate increase that has no bearing on projected inflation rates for 2012-13.
- **Certainty** on the future rates allowing them to prepare for the long term.
- **Confidence** to grow and increase employment levels.

## Is a Cap Affordable?

In the short term there is no doubt that reducing the increase in rates by 3.6% would present a challenge to budgeting. However, it amounts to an economic investment; encouraging business growth, driving investment in existing businesses expansions and job creation.

Unsustainable and uncompetitive business rate levels ultimately contribute to retail insolvencies which impact on the rest of the economy through job losses, subsequent National Insurance (NI) and income tax reduction, VAT collection reduction due to reduced spending capacity, less corporation tax due to falls in company profits and reduced Stamp Duty Land Tax (SDLT) on leases and property transfers as commercial activity and development declines. This in turn reduces the overall pool of business rates, due to less retail space coming on to the market and rents in existing, and particularly secondary and tertiary, stock falling.

Over the longer term the cap would more than pay for itself through, in particular, the stimulus it would provide to local council revenues through the new structure of local government finance. From 2013 as councils experience business rate growth they will retain the increased revenue to re-invest locally.

## Why Doesn't the Current System Work?

Annual business rates fluctuations are determined by the September Retail Price Index (RPI) inflation measure and introduced in the following April. In September 2011 RPI inflation reached 5.6 per cent, a 20 year high. The Treasury's own analyses of independent forecasts predict a much lower rate of RPI inflation in 2012. It shows that the average rate of RPI inflation in 2012 is estimated to be 2.7%.<sup>[7]</sup>

The current system for setting business rates is unfair and has no clear correlation to future inflations rates. RPI has grown by 94 per cent since 1990 and has varied between -1.4 per cent and 5 per cent.<sup>[8]</sup>

## Who Else Suffers From the Current System?

The impact of increasing business rates is not just felt by occupiers. It constrains the ability of developers to deliver town centre regeneration schemes. The feasibility of any retail development is dependent upon achieving acceptable levels of rental income for the schemes. As occupiers' business rates liability continues to increase, a greater share of occupancy costs will be absorbed by rates, eroding potential rental values and therefore the viability of proposed developments. Given Government's support for increased levels of sustainable development it seems perverse that it allows property taxation to act as such an impediment to achieving this outcome.

## Why is the Deferral Scheme Set Out in AFS Not Enough?

The Chancellor announced in the Autumn Financial Statement a deferral scheme for businesses. This allows them to defer 60 per cent of their business rate payments for two years. ACS and BCSC welcomed this announcement but we believe that it does not go far enough to support businesses with this inflated cost.

The deferral scheme only delays payments; it does not address the fundamental difficulties businesses are facing or the inconsistencies of the annual indicators. Moreover, the Chancellor's Deferral scheme followed directly on from the previous Government's deferral scheme, meaning those that deferred in 2009-10 will have to pay the previous 60 per cent they deferred now regardless.

### Why Doesn't Small Business Rate Relief Help?

The thresholds for small business rate relief will not help the majority of convenience stores or high street retailers. £18,000 rateable value threshold is set too low to support retail businesses.

ACS recommends that the Government's considers extending the Small Business Rate Relief Threshold to incorporate essential high street businesses.

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1. ACS evidence to the Autumn Financial Statement
  2. ACS evidence to the Autumn Financial Statement
  3. [British Retail Consortium](#)
  4. [British Retail Consortium](#)
  5. <http://www.hm-treasury.gov.uk/d/201201forcomp.pdf>
  6. *The Secretary of State has the power to set the business rates below the RPI inflation index, RPI inflation represents the upper limit.*
  7. <http://www.hm-treasury.gov.uk/d/201201forcomp.pdf>
  8. [BPF Portas Review Submission](#)