Discretionary business rates relief scheme - consultation response

31 March 2017

The Heritage Alliance

Introduction

The Heritage Alliance is England's biggest coalition of heritage interests, bringing together over 100 mainly national organisations supported by over 7 million members, friends, volunteers, trustees and staff. Heritage Alliance members own, manage and care for the vast majority of England's historic environment. They are organisations representing commercial, private, and third sector bodies.

The Heritage Alliance welcomes this opportunity to respond to the Department for Communities and Local Government's consultation on the £300m of discretionary business rates relief announced in the Budget to support those most affected by the business rates revaluation. Many of our members are concerned about the impact of the business rates revaluation, and evidence demonstrates that they will be amongst the most highly affected in certain areas.

Response

Question 1: Do you agree that individual local authorities should be responsible for designing and implementing their own discretionary relief schemes, having regard to local circumstances and reflecting local economies?

While local authorities should have discretion in designing a scheme appropriate to their local circumstances, Government should provide a framework which prioritises helping charities affected by the rates revaluation. Failure to do so may see them having to reduce their activities which may have wider societal impacts. The discretionary relief fund announced in the budget would not have previously been as relevant to the charity sector. However, for the reasons set out below, numerous heritage charities have been severely impacted by business rates increases following the revaluation.

Valuation Office treatment of heritage charities

Business rates are a property tax using a property's rental value as the starting point for calculating liability. In the heritage sector there is often little market evidence of rents for museums or other historic buildings unless they have uses such as offices or warehouses. Without a body of rents on which to base the valuations the Valuation Office has two options, a valuation based on the accounts i.e. receipts and expenditure, or based on the cost of replicating the building - the contractors method.

Members report that the Valuation Office often appears to consider that organisations with significant social, cultural or educational value must therefore have monetary value and places high value on buildings such as museums as a result. Therefore, when looking at receipts, the Valuation Office appears to take a percentage of gross income (estimated from limited information) or it adopts the contractors approach.

However, we understand that the Valuation Office has not been consistent in its approach to dealing with heritage charities and their trading arms and whether shops and cafes have been rated independently of the property they are attached to. It is believed that, largely, where a shop is located in a part of the property that is not considered to serve any other other function, it is subject to a separate valuation. Yet in most cases, the shops are also the admissions and membership recruitment points for Heritage Alliance member sites. Both these income streams are classified as charitable income and should therefore be subject to charitable relief.

At Kenwood House which is free to visit, due to the terms on which the house was endowed, English Heritage (Alliance member) pays the business rates for the café operated by a concession caterer. The rates were £14,000 but after revaluation the payable rates will be £146k. The scale of increase will be subject to transitional phasing so the actual increases in 17/18 and 18/19 will be stepped to the full £146k but it still represents a significant increase in costs per annum. English Heritage has applied to Camden Council for charitable relief but has been told that this will be unlikely. English Heritage stresses that the profits from commercial activities undertaken at heritage & cultural sites are critical contributors to financial sustainability and, in the case of English Heritage, the profits from commercial activities are fundamental to the New Model plan to become independent of Government subsidy. Increased business rates impinge its ability to become self-sustaining.

An article[1] published by the Museums Association states that ‘the British Museum’s rateable value is set to increase by more than 50%, from £7.9m to £12.4m’. Similarly, the article states that the Imperial War Museum (IWM)'s rateable value is due to increase from £2.4m to £3.9m.

Heritage Alliance member, The Association of Independent Museums (AIM), reports that York Museums and Gallery Trust is arguing for the use of full receipts and expenditure (R&E) for four properties in York. The Valuation Office is arguing for the use of contractors method. Yorkshire Museum, which is loss making, has a value of £1 using the R&E method - very different to the result under the contractors method. The Valuation Office has also separated out the shops and a wedding venue at the museums in York.

AIM, is currently waiting for a decision of the Upper Tribunal in this case which will consider the Valuation Office’s interpretation of both the way that unique properties occupied by charities should be valued and their interpretation of what aspects of a charity’s organisation should or require a separate assessment.

The Upper Tribunal decision in the York appeals could be pivotal for business rates treatment of heritage sector charities. Given that whether shops and cafes should be included or excluded is in part a question of law, it could therefore be subject to further appeal as far as

[1] https://www.museumsassociation.org/museums-journal/news/20022017-museums-facing-business-rate-hikes

the Supreme Court. However, even if the Valuation Office loses the York cases it is likely that whether there should be separate assessments for the shops and cafes from the museum or heritage attraction etc. will still depend on the facts of each case.

Revenue raised in charities' trading arms in cafes and shops is used to cross subsidise charitable aims. Therefore, we urge the Government to provide clarity to the Valuation Office to ensure that charities do not lose vital revenue to increased business rates. This could in part be addressed by bringing charities in line with the situation for education, Healthcare and the Ministry of Defence which have a lower decaptialisation rate[2] applied to valuations under the contractors method.

In an era of decreasing public funding for charities, and with Government sending the message that charities should become more self-sustainable, it would be perverse to see huge rises in business rates at the same time. Many visitors to heritage attractions would not want their donations spent offsetting a tax hike.

If these problems can be addressed, then there is less need for discretionary relief considered in this consultation.

Question 2: Are the Government's assumptions about the design of local discretionary relief schemes reasonable?

DCLG should issue guidance to Local Authorities on discretionary relief which considers protecting heritage assets and incorporates that goal in their discretionary relief guide lines.

In addition to the problems noted above, business rates are also affecting heritage charities as:

- More charities are not getting the 20% discretionary element of charity rates relief, meaning more are paying rates, often for the first time. They often don't realise their rateable values are incorrect until they start having to pay; and
- Small charities are not being allocated small business rate relief at 100%, where they already receive 80% charity rate relief.

Question 3: Is the allocation methodology reasonable?

Currently the proposals see the discretionary funding allocation falling over successive years with £175 million allocated in 2017/18 but just £5 million in 2020/21.

For many charities, the business rates increases will be felt most in the second or third years of this period due to the buffering of transitional limitations on increases from 1st April 2017. Therefore, a more even spread of the £300m over the 4-year period would be of greater

[2] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/518696/decapitalisation_rate_government_response.pdf

assistance than initial assistance that is drastically cut in the later years when it is needed most.

The Alliance is not responding to questions 4-6.

Question 7: Do you agree that the grant conditions are appropriate?

The current grant conditions should be modified to make clear that the discretionary relief can be applied in addition to 80% charity rate relief.

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