

## **Consultation on the Business Rates Treatment of self-catering accommodation**

### **Response**

#### **About the District Councils' Network**

The District Councils' Network (DCN) is a cross-party, member-led network of 200 district councils. We are a Special Interest Group of the Local Government Association (LGA), and provide a single voice for district councils within the Local Government Association.

#### **District Councils in Financial Context**

District councils in England deliver 86 out of 137 essential local government services to over 22 million people - 40% of the population - and cover 68% of the country by area.

District councils have a proven track record of building better lives and stronger economies in the areas that they serve. Districts protect and enhance quality of life by safeguarding our environment, promoting public health and leisure, whilst creating attractive places to live, raise families and build a stronger economy. By tackling homelessness and promoting wellbeing, district councils ensure no one gets left behind by addressing the complex needs of today whilst attempting to prevent the social problems of tomorrow.

In relation to the current spending review period, as the NAO have recently confirmed "district councils will see a 13.9% real-terms reduction during this period. The majority of district councils... will stop receiving the revenue support grant by 2019-20<sup>1</sup>". Districts are continuing to see reductions in their core spending power for the whole period, compared to other councils who are all seeing an increase. Overall since 2010/11 the median reduction for district councils has been just over 30%. This will need to be addressed in the next spending review period.

District councils are fully supportive of entrepreneurial activity and are in favour of measures than can foster tourism, particularly in some of our more deprived coastal communities. All district councils are billing authorities and therefore are responsible for collecting council tax and business rates.

#### **Key points:**

- The DCN believes that there is scope to explore an alternative where self-catering accommodation is taxed solely through the council tax system, with legislation changed as necessary to deliver this. This accommodation could otherwise be used as housing to address the housing crisis, but in many cases it is exempt from taxation under business rates because of small business rate relief. Owners of self-catering accommodation should be subject to local taxation as the use of properties imposes costs on local communities, and councils should be guaranteed an income from them which is achievable at present only through the council tax regime. We would welcome further discussion with central government on whether this alternative approach could be taken forward.

- If the Government continues with the current approach of self-catering accommodation being subject to business rates, we believe that the time periods set out in the proposed criteria are valid.
- Local government should be fully compensated for any additional costs arising from changes.
- Newly built residential properties that are used as holiday lets should all count towards the New Homes Bonus, regardless of whether they are charged under Council Tax or Business Rates.

**Question 1: Do you have any views on the current criteria?**

The current criteria set a period of 140 days for availability of the property for letting for it to qualify for business rates rather than council tax. The DCN agrees with this proposal. Our alternative proposal is set out in our response to Question 7.

**Question 2: Do you have any views on the possible criteria set out above?**

The proposal is that the time period for how long the property should actually have been commercially let should be 70 days. We agree with this proposal.

**Question 3: Do you have any views on how the criteria set out above could be evidenced?**

We suggest that the same approach to evidence is taken as in Wales<sup>2</sup> which would be simpler for the Valuation Office Agency to then administer. This entails completion of a specific self-catering Request for Information form (VO6048). Property owners may also be required to provide evidence in the form of financial accounts for their business, details to support the marketing of the property such as copies of adverts or invoices, and evidence of lettings such as a guest book or calendar bookings or lettings invoices and receipts.

**Question 4: Do you have any alternative suggestions that would similarly strengthen the criteria?**

No comment.

**Question 5: Do you have any views on the option of backdating business rate bills and reimbursing council tax payments?**

We consider that this option should be available but only if local government is then compensated in full for any resulting Small Business Rate Relief which would need to be backdated to the same point. For the sake of administrative simplicity, we would suggest that the backdating should only go as far back as the start of the financial year (1<sup>st</sup> April) when the request to change to business rates was received by the VOA. E.g. a request submitted in September 2019 would be backdated only to April 2019, even if the applicant sought backdating for a longer period.

**Question 6: Are there any issues regarding the administration and enforcement of the approach outlined in paragraphs 8 - 17?**

We would request that the capacity of the VOA and local authorities to deal with this change and of software suppliers to make any necessary changes in revenue systems should be assessed prior to implementation. Local government would need to be compensated appropriately under the "new burdens" protocol if administrative costs increase on a one off

(e.g. software changes) or ongoing basis as a result of this change in government policy. We would observe that bringing all second homes within council tax as we suggest in our response to Q7 should not require any “new burdens” funding as councils would generate additional council tax income.

**Question 7: Do you have any other comments on the options set out above to strengthen the criteria for holiday lets to become liable for business rates rather than council tax?**

We are of the opinion that the issues with business rates and self-catering accommodation are not simply due to the criteria used, but with the incomprehensibly low rateable values attributed to these properties by the VOA. An analysis of the rating list at King’s Lynn and West Norfolk Borough Councils shows that 78% of our self-catering properties have a RV under £5,000, and 70% receive small business rate relief. This area includes the west and north Norfolk coast and covers many extremely desirable holiday locations (including the infamous Burnham Market, known as ‘Chelsea On Sea’), yet this is not reflected in the RVs of these properties. Further details are in Appendix 1.

There is, it would appear, a level of avoidance by ratepayers with the receipts and expenditure method used by the VOA as they seek to minimise their rates liability. If a more realistic rateable value was used there would be far less incentive for ratepayers to attempt to move their property from council tax into the business rates list to avoid payment. The billing authority, county council and government would also receive a proper amount of income for those properties rightly included in the business rates list.

Any discussion surrounding holiday lets also needs to include a wider conversation about the current relief system. The small business rate relief system needs strengthening. An individual can own multiple properties in differing company names to claim relief on each. This current criterion, combined with rates law, creates a system whereby ratepayers can potentially own unlimited properties, but not pay any property taxation to the local authority. When added to the difficulty of tracing and verifying multiple properties occupied by one ratepayer outside of a local authority’s immediate area, there is too much incentive to use holiday letting as a way of evading taxation under the generous terms of small business rate relief.

We would comment that our response is based on local government being fully compensated via S31 grant where SBRR is awarded for the business. Should any future reforms to business rates mean that this ceases to be the case then this would create a new burden on local authorities. We would then expect that this policy would be revisited, as different criteria might need to be applied to reflect this change.

Where a residential property is newly built and then used as a holiday let, it is important that it is still counted towards allocation of New Homes Bonus (NHB) in the year it is built, regardless of whether it is taxed through Council Tax or Business Rates. Otherwise there is a risk that these properties, having not been counted towards New Homes Bonus in the year they are built, would never be counted towards it. This is a clear disincentive effect. It would be helpful if this could be confirmed when the Government responds to this consultation.

**ALTERNATIVE PROPOSAL**

We believe that there is an alternative approach to taxing self-catering accommodation beyond simply amending the definition of what constitutes commercial holiday letting. There is a national housing crisis. Many holiday lets are in areas where local prices are out of the reach of residents, and there is insufficient supply to meet local demand. In such circumstances, it

seems perverse that accommodation that could be used for housing instead might stand empty for much of the year because it is used for holiday lets.

Our alternative suggestion is that the distinction between second homes and holiday lets should be removed, by amending legislation as necessary, so that all self-contained holiday lets, which are not part of a wider complex or business rates assessment (e.g. holiday parks), are subject to local taxation through the council tax system. As the consultation paper points out, many holiday lets are exempt from taxation under business rates because of small business rate relief.

We believe that owners of self-catering accommodation should be subject to local taxation as the use of properties imposes direct costs on local communities – for example, through litter removal, use of community and leisure facilities and parks etc. – not to mention indirect impacts such as removing accommodation from the local housing supply. We feel strongly that councils should be guaranteed an income from holiday lets which is achievable at present only through the council tax regime.

Our alternative approach would remove the perverse incentive for owners of second homes to seek to avoid taxation by declaring that their property is available to let, and making relatively little effort to let it out. It would also avoid the administration and bureaucracy – both for property owners and the Valuation Office Agency – in proving whether or not a property is used for commercial holiday letting.

We would welcome further discussion with central government on whether this alternative approach could be taken forward.

## Notes

1. <https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-2018/>
2. <https://businesswales.gov.wales/sites/business-wales/files/Non-Domestic%20Rating%20-%20Self%20Catering%20Properties%20-%20Guidance%20for%20ratepayers%20-%20updated%202018%20-%20English.pdf>

## Appendix 1 Rateable Values at a Coastal Holiday Destination District Council

We have included examples below of where the rateable value in the business rates list seems extremely low and we have many more examples across self-catering properties in Norfolk:

### 2 Manor Farm Barns, Brancaster, King's Lynn, Norfolk PE31 8GG

- This is a new build property in a very desirable Norfolk coastal village, sleeping up to 10 people
- Details are here: <https://www.barefootretreats.co.uk/property/2-manor-farm-barns/>
- The property sold on 13 April 2017 for **£1.195m**
- If the property was in council tax it would be a **band F paying £2,446.14 a year**
- The rent cost for seven nights during peak season is **£3,225**
- The cheapest price in low season for seven nights is **£1,100**
- The cheapest midweek price for seven nights is **£880**
- The property is in the rating list with an RV of £6,400 and receives SBRR**

With such a desirable property worth over £1m let at such high rents we are baffled by how the VOA arrives at such a low RV.

### Saltmarsh House, Herrings Lane, Burnham Market, King's Lynn, Norfolk PE31 8DW

- This is another new build property in a highly desirable Norfolk coastal village, sleeping up to 12 people
- Details are here: <https://www.barefootretreats.co.uk/property/salt-marsh-house/>
- The property sold on 13 April 2017 for **£3.1m**
- If the property was in council tax it would likely be a **band H paying £3,445.16 a year**
- The rent cost for seven nights during peak season is **£7,500**
- The cheapest price in low season for seven nights is **£3,500**
- The minimum rental cost is **£3,000**
- The property is in the rating list with an RV of £12,000 and receives SBRR**

We are at a loss to understand how a property worth over £3m, renting out for £7,500 a week only has a RV of £12,000.

### Islington Hall Farm, Islington Green, Tilney All Saints, Kings Lynn, Norfolk, PE34 4SB

- This is a large, recently renovated property [www.islingtonhallfarm.co.uk](http://www.islingtonhallfarm.co.uk)
- 8 Bedrooms, 1 apartment. Sleeps 15
- Estimated value is in excess of **£1,000,000** [www.zoopla.co.uk/property/islington-hall-farm/islington-green/tilney-all-saints/king-s-lynn/pe34-4sb/18299812](http://www.zoopla.co.uk/property/islington-hall-farm/islington-green/tilney-all-saints/king-s-lynn/pe34-4sb/18299812)
- Monthly rental value is in excess of **£4,000**
- Peak Season is **£2,700+** a week
- Cheapest weekly rent is **£1,209**
- The property is in the rating list with an RV of £8,800 and receives SBRR**

We have many more examples of properties at all price ranges being entered in the rating list with low RVs. An analysis of our business rates list at the start of November 2018 shows the following:

Properties described as 'Self Catering Accommodation'	810
Of which in receipt of Small Business Rate Relief	563 (70%)
Rateable Values:	

<input type="checkbox"/> RV under £5,000	632 (78%)
<input type="checkbox"/> RV £5,000 - £10,000	140 (17%)
<input type="checkbox"/> RV £10,000 - £15,000	25 (3%)
<input type="checkbox"/> RV over £15,000	13 (2%)