ISPA response to the Treasury Committee inquiry into the impact of business rates on businesses

1. About ISPA

1.1. ISPA welcomes the opportunity to deliver written evidence to the Treasury Committee's inquiry on the impact of business rates on businesses. ISPA has been working with members to engage with Government on this issue and is looking to continue this work further.

1.2. ISPA is the trade association for providers of internet services in the UK, we have over 200 members, 90% of which are SMEs. Our members cover the whole spectrum of access provision using FTTP, FTTC, wireless, satellite and hybrid solutions at a wholesale and retail level, and all play a critical role in delivering broadband and internet services across the UK to consumers and businesses.

2. Introduction

2.1. Faster, more reliable connections drive productivity across sectors, including the retail industry where much of this debate is often centred. It is important to understand the huge impact business rates have across the economy, particularly in the telecoms sector where they act as a dis-incentive to investment. This is largely counter-productive to achieving the Government's aim of extending full fibre networks across the country by 2033.

2.2. By taxing the ultimate foundations of the digital economy, the Government is failing to take account of the crucial role connectivity has in underpinning the economy, both today and in the future.

2.3. Business rates in the telecommunications industry are particularly complex and have previously been a source of contention. The current rules for telecoms infrastructure business rates are applied differently at a national and local level and across different types of infrastructure.

2.4. The business rates system must cohere with wider Government strategy for the sector as set out in the Future Telecoms Infrastructure Review. The fibre ambitions of Government are welcomed by industry and ISPA's members are working hard to roll out these networks which underpin the economy.

2.5. A simpler, more transparent, fair and predictable system is necessary to help the industry further unlock potential in the economy through digital infrastructure. The wider benefits derived from the roll out of high-speed broadband infrastructure are considerable and help businesses across sectors and on the Highstreet to thrive. By properly incentivising telecoms deployment the Government can redouble efforts to reinvigorate Highstreets properly unpinned by future-proof connections.

3. Background

3.1. Business rates are applied to broadband infrastructure in a highly complex and inconsistent manner.

3.2. A key problem for our members is that the type and size of provider affect the rateable value, i.e. a 1 km run of fibre optic cable owned by provider who is assessed at an aggregate level via the Central Rating List due to the scale of its network might attract a different rateable value than the same length of fibre owned by provider who is assessed at a more granular level.

3.3. This had led some providers to agree individual terms with the VOA to address the situation. This is welcomed in the current context of a highly confusing and complex rating system, but it further amplifies the market distorting impact of the rating system, particularly in a market environment where the Government expects competitive network build.

3.4. The UK is moving to a full-fibre future where parts of the country will be covered by numerous competing providers that should be able to compete on an equal footing. The current rating system requires providers to divert valuable resources on reviewing, agreeing and challenging rating decisions and ultimately threatens to slow down broadband rollout. The move to a three-year re-evaluation further undermine the confidence of the broadband industry – with investment cycles of 15-20 years, a rating system that can significantly change the potential return on investment every three years, makes it harder to secure much needed long-term commitment from investors.

Fibre rates relief

3.5. The Telecommunications Infrastructure (Relief from Non-Domestic Rates) Act 2017 provides 5 years of 100% business rates relief for all newly built fibre from April 2017-2022. This was welcomed by the industry as an initial step towards encouraging greater investment in fibre infrastructure. With the publication of the Future Telecoms Infrastructure Review in 2018, Government have made their full fibre ambitions clear, and the industry is keen to deliver on the targets set out in the FTIR.

3.6. Whilst the industry has welcomed this step, there are concerns that this 5-year window is too short to have the full and intended impact that the Government wishes to achieve. Fibre infrastructure projects are planned with timelines of 15-20 years to recoup the investment made, meaning that a five-year window will only have a limited effect.

3.7. Regardless, this fibre rates relief holiday provides a key window of opportunity for Government to fully align its policy on broadband investment going forward as the industry is on the cusp of great growth and change.

4. Principles for reform

4.1. ISPA would urge the Committee to consider the many ways in which business rates in the telecommunications sector could better align with the pillars of good tax policy in the UK, including:

- Fairness
- Coherence
- Providing certainty
- Supporting growth
- Encouraging competition

Equality & fairness

4.2. Reporting mechanism and rateable values should be applied consistently across operators. The current system, whereby individual ISPs are able to negotiate variations in the way their rates are applied, sets a dangerous precedent and must be addressed by the Treasury and VOA.

4.3. As stated in the FTIR, the Government's ambition is for greater competition in the broadband infrastructure market. The differing business rates regimes across the industry will become an increasingly critical issue as the number of available networks increase and ISPs look to switch across platforms. If rates continue to be levied as they currently are by the VOA, the same piece of infrastructure could be differently rated depending on who owned it and how it fitted into their wider network.

4.4. This could create an anti-competitive environment, as retail ISPs looking to switch between providers could face higher business rate charges on one network to another depending on how large their network is and how rates are applied to it. It is clearly essential to establish a level playing field across the industry to mitigate this risk.

4.5. Given the scale of the challenge and the speed with which Government is seeking to roll out fibre networks – 15m premises covered in 5 years – it is clear that this must be tackled sooner rather than later. Furthermore, with the 5-year fibre rates relief coming to an end in 2022, there is a key window now for Government to re-evaluate and rebuild the business rates system for telecoms so that it is fit for the full fibre future.

Link to assets

4.6. Rates should be levied on assets that are generating revenue to give a clear incentive to invest in new networks. This is to some extent mirrored in much of the debate on the highstreet, where thoughts are turning to designing business rates less around just property, but on a transactional basis.

4.7. Reporting mechanism and rateable values should also be applied consistently across similar types of technology – there could be different rates in the business connectivity and local access markets or different rates for fibre and copper networks, but the rateable values should not change just because of a switch from one provider/technology to another provider/technology.

Simplicity & transparency

4.8. Due to the complexities within the current rating system, ISPA would recommend this process shifts to rates being levied exclusively on network providers – i.e. those building networks. This would create a much simpler system with a clear link to assets whilst costs can be passed on to retailers. Ideally these rates should only be applied to assets which are generating revenue.

4.9. This would also reduce the burden on the VOA, as they would only have to collect rates from a small number of infrastructure providers, using the same system across the board.

Predictability

4.10. To reduce the negative impact that business rates can have on the telecoms industry, the rating system must be made more consistent and predictable. Businesses must be able to build business cases for large scale investments with security that rates will not suddenly increase. Clear reporting and revaluation cycles are therefore critical.

4.11. Linking the value of these rates to a clear indexation mechanism will further increase this predictability. Given the existing mechanisms used by Ofcom to regulate prices in the market, this could easily be linked to wholesale prices.

Clarity

4.12. For greater long-term clarity, and as a signal of the true commitment of Government to their full fibre ambitions, ISPA would argue for Fibre infrastructure to be removed from rating lists going forward.

5. Conclusion

5.1. Business Rates are, undoubtedly, a complex and contentious issue across the board. The Highstreet has duly received much of the focus of this and other inquiries, but ISPA is keen to use this spotlight to ensure that such a critical issue is not overlooked in the telecoms sector.

5.2. Importantly, now is the time for change, with rates relief on newly built fibre in place until 2022, and the industry embarking on a huge infrastructural challenge. The Government's full fibre ambitions necessitate a rounded and coherent approach to support industry, which must encompass a consistent approach to business rates.

5.3. The Government has committed to a full fibre future delivered via a competitive infrastructure market, and this must be underpinned by a simple, fair and predictable system clearly linked to revenue generating assets.