

ISPA response to Treasury Call for Evidence on the fundamental review of business rates

About ISPA

ISPA is the trade association for providers of internet services in the UK. ISPA has approximately 150 members, 90% of which are SMEs as well as large multinational companies. We are proud to be an organisation which covers the entire Internet value chain, including companies that provide access, hosting and other online services. We represent the full ecosystem including communications providers that serve consumers and businesses, those that build their own networks and those that resell services via the fixed and wireless networks.

Introduction

The telecommunications industry welcomes the opportunity to feed into the Treasury's fundamental review of business rates, given the specific impact that business rates have on the sector and their wider influence on the economy. Faster, more reliable connections drive productivity across all sectors, and the last year has proved how crucial connectivity is to our modern lives and working practices.

Business rates have a huge impact 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 manifesto commitment of gigabit-capable networks extended across the country by 2025. The business rates system must cohere with wider Government strategy for the sector, as the industry continues to work hard to accelerate rollout.

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.

A simpler, more transparent and predictable system would help the industry unlock potential in the economy through digital infrastructure and deliver on the ambitions set out by Government to level up communications throughout the UK.

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.

Reliefs

Extension to current fibre rate relief period

The current business rates relief for the sector made via the Telecommunications Infrastructure (Relief from non-domestic rates) Act 2017 gives a moratorium on business rates for new fibre until 2022. This was welcomed by industry as a first step in encouraging investment in fibre. However, in the context of the updated Government ambition, the disparity between the manifesto commitment for full coverage by 2025 and the 2022 fibre relief cut off seems even more glaring. This is particularly relevant given the payback period

for communications infrastructure investment, noting that it can take up to twenty years or longer to generate a positive return on investment.

Fibre penetration has rapidly accelerated since 2017 – from 3% of residential properties¹ to 14% in the latest Connected Nations update² - however with over 85% of premises still to cover, ending relief on fibre business rates will only dampen this curve. Rates relief is also being used to drive investment effectively in other regions of the UK, with the Scottish Government extending the relief on fibre rates to 10 years. Scotland has also legislated to prevent liability to rates on new build properties until the premises are occupied providing a favourable investment case for operators and incentivising build.

Furthermore, when assessing a period of extension, the Government should consider the time taken to mobilise and complete large-scale infrastructure projects such as this. With larger deployments taking multiple years to complete and subsidised builds forecast to continue into 2025, rates relief must be extended significantly past this point to provide an effective incentive. This is particularly important to incentivise rural infrastructure deployments where new, lengthy fibre spines are required to reach smaller density areas and the addition of rates have a large commercial impact.

Government must align its policy objectives and fiscal measures if it is serious about upgrading connections nationwide in such a short timeframe and should extend the current relief period for at least another ten years.

Alignment with wider Government policy

Similarly, it is important that Government assesses the inconsistency between their stated ambition to achieve nationwide gigabit connectivity via a technology neutral approach, and the specific fibre carve out given in the existing relief. This disparity was raised in the Treasury Select Committee's report on business rates³, and Treasury should use this review to align their relief with Government's broadband ambitions by expanding the relief to cover all technologies and infrastructure used to deliver gigabit connectivity.

Interaction with Government funding

The Government's focus and funding has so far been in the hardest to reach areas of the UK, whilst the industry builds the majority of the UK's gigabit capable network. The £5bn funding commitment will be a considerable boost to these non-commercial areas. However, this should not represent the sum total of fiscal support for industry as they embark on this huge infrastructural challenge. Business rates are one of the key factors in informing business and investment cases, and as such any reform to or further relief of business rates for gigabit connections would allow more parts of the country to become economically viable. This would allow state funding to go as far as possible. Given the scale and pace of the project, this could have a widely felt impact in bridging the digital divide and ensure that public funds are most appropriately targeted.

¹ Ofcom, [Connected Nations update](#) 2018, p 12

² Ofcom [Connected Nations Update](#), Summer 2020, p1

³ Treasury Committee, [Report on Impact of Business Rates on Business](#), 2019

Clarity

Given that clarity is a key principle of good tax design, ISPA's members would also encourage an extension to the relief to be made as quickly as possible, especially given the 2025 coverage target. Similarly, noting that certainty matters, the industry would encourage future revaluations to be kept within a reasonable scope to allow operators to plan more effectively without concerns over considerable taxation variables.

Transitional reliefs

We understand that transitional relief is out of scope for this part of the review, and we will provide our broader views on this area in our response to the second tranche, but some of our members believe that the downward transitional relief in particular should be addressed by the Government in the upcoming Budget. Scrapping the downward transitional reliefs would allow the benefits of lower revaluations to be felt by businesses immediately. Meanwhile, the upward transitional relief should remain in place as it helps businesses deal with shocks in rates increases, but it should be funded from general taxation instead. This would help drive investment and economic growth, which is very much needed as the country looks to recover from Covid-19.

Conclusion

ISPA believes the economic case for incentivising the deployment of fibre infrastructure is still just as potent as it was in 2017. The first steps towards nationwide gigabit capable connections have been made and the rapid acceleration of infrastructure build has been possible in part due to the existing relief. However, five years of relief, for infrastructure with a 15-20-year recoup cycle is insufficient.

Gigabit networks are a long-term commitment and should be treated as such by Government. These connections underpin our economy, bridge digital divides across the UK and future-proof our infrastructure for the data revolutions to come. This is something this Government seems to understand because of its 2025 ambitions and therefore should be kept at the forefront of decisions in this review.

The end of fibre rates relief in 2022 will no doubt dampen the acceleration of rollout we are currently seeing just as it steps up. A more rounded and practical approach to stimulating build beyond the £5bn for the hardest to reach areas is imperative to making these ambitions a reality. As such, extending the relief period for another ten years would be a basic first step to aligning these goals and levelling up the nation's connections.