Business Rates – delivering more frequent revaluations

1 July 2016

1. The Local Government Association (LGA) welcomes the chance to comment on the discussion paper on delivering more frequent revaluations.
2. The LGA is here to support, promote and improve local government. We will fight local government's corner and support councils through challenging times by making the case for greater devolution, helping councils tackle their challenges and assisting them to deliver better value for money services.
3. This response has been agreed by LGA Resources Portfolio Lead Members.

Key points

4. The LGA considers that:

- The business rates system should be buoyant, responsive to local needs and fair to all. With the move to 100 per cent business rates retention reforms are vital. The success of business rates retention depends on the ability to reform appeals.
- The current model of valuations and appeals is broken and requires fundamental reforms. We supported the reforms to appeals embodied in section 32 of the 2016 Enterprise Act. We now await the Government response to the consultation on Check, Challenge, Appeal and the detailed regulations under the Act. The reforms to the system need to be assessed by the effect they have on the backlog of appeals and on the need of councils to hold provisions.
- New regulations should provide more clarity on the circumstances in which an appeal can be made. A shift to a more formulaic system which is transparent about how values are calculated should enable a significant reduction in allowable appeals but it would be vital to set out what the grounds for appeal could be. The LGA would not support more frequent revaluations unless there is a significant change to the way valuation is done and a restriction on appeals.
- Within this context we welcome the current consultation, in particular the detailed consideration it gives to ratepayer self-assessment, an idea which the LGA put forward in “Spending Smarter”, its submission to the

Submission

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2015 Spending Review. The LGA would like to see this developed further, particularly with reference to more digitalisation and automation. A formulaic, self-assessment approach could lead to automatic annual updates for the majority of premises.

- As stated above, we would be extremely concerned about more frequent revaluations if nothing were to change other than the timing of revaluations, as suggested in the section on **revaluations under the current system**. The Valuation Office Agency already has a backlog of 300,000 appeals and the LGA understands that Valuation Officers are now prioritising work on the 2017 revaluation.
- If revaluations are to be made more frequent, serious consideration needs to be given to **self-assessme**nt. The key to this will be to establish a credible compliance system.
- A **formula system** could work alongside self-assessment but more work needs to be done to model and pilot this. A particular concern is the effect on business rates retention.
- With the move to further local government retention of business rates retention, serious consideration needs to be given to the role and functioning of the Valuation Office Agency, particularly as its role could change in the future to one of assurance.
- We also look forward to further work on reliefs and on business rates avoidance.

5. Our reply to the detailed points in the consultation are set out below.

Delivering more frequent revaluations under the current system

6. The discussion paper seeks views on:

   • *particular stages of the valuation process where reforms would be needed to deliver more frequent valuations*

   • *the effect of more frequent revaluations on appeals*

   • *the increased risk of appeals and how this could be avoided or managed*

   • *accessing the skills to deliver more frequent revaluations*

   • *how the delivery of rating valuations could be reformed to support more frequent revaluations*

   • *collection and analysis of information to support more frequent revaluations, including the role of ratepayers.*

7. As the document indicates, the current revaluation process requires the VOA to assess around 1.8 million properties and to collect significant amounts of information relating to properties, rents and occupation. This currently takes around two years. Some of this, such as

information relating to rents, is time sensitive which is why the antecedent valuation date is two years before the new list comes into force. The consultation points out that if revaluation were to be carried out more frequently, it would become a more resource-intensive and complex procedure which would require managing more than one list at a time.

8. There is already concern that some of the appeals under the current system will not be resolved in time and this could have a knock-on effect on the 2017 list. An example of this is appeals following the Mazars case which relates to how properties with the same occupier which are near to each other (such as non-adjacent floors of the same building) are rated. A related point is that currently work on the 2017 list is being prioritised at the expense of solving appeals. As acknowledged in the document, increasing the frequency of revaluation, with the same number of appeals, would slow down the appeals system significantly, increase uncertainty for both ratepayers and councils and increase the cost of administration substantially. It seems inevitable that this would have a knock-on effect on services, particularly if interest rates were to rise in the future, adding to increased costs.

9. It is not clear whether more frequent revaluations would just lead to more appeals. Although the hope is that the Check, Challenge, Appeal process will lead to these being resolved more frequently there is no guarantee that this would be the case.

10. There is also a concern that more frequent revaluations could have an effect on the business rates retention incentive, although we note that in the current 50 per cent system the policy aim is that revaluation should not lead to windfall gains or losses for authorities.

11. As the document indicated, it would not be easy, in the short term, to significantly increase the number of qualified chartered surveyors, so backlogs would be likely to develop. This would be particularly the case if it was necessary to carry out a full revaluation once every three years or more frequently. This would require valuers to revisit the basis on which the valuation is based from scratch.

12. For all these reasons the LGA would not be in favour of more frequent revaluations without reform of the system that led to a significant reduction in the number of appeals or an even greater backlog of appeals than exists at the moment. It is also likely that this would require the government to commit significantly more resources to the system than is the case at present.

13. There could be a restriction in the form of a time limit for appeals except in exceptional circumstances or where there was a material change of circumstances. This is the case in Scotland where there is a six month time limit for appeals after a new list comes into force.

Self-assessment

14. The discussion paper welcomes views on:

- *the potential compliance regime under self-assessment*
- *the publishing of rental information by the VOA to assist ratepayers when they self-assess*
- *the publication of rateable values of all properties under a self-assessment system*
- *the role for ratepayers*
- *specific issues relating to smaller businesses or other ratepayers for whom self-assessment could be particularly challenging.*

15. The LGA proposed a more digitalised self-assessment approach in Spending Smarter. We would welcome a move to an approach that involves digitalisation and automation. We agree that the compliance regime would be crucial. This could be done by the VOA or another body or bodies, in a similar way to how self-assessment is determined for income tax.

16. The discussion paper says that a self-assessment system could benefit businesses by delivering a more responsive system, by giving ratepayers control to ensure that their valuations were up to date, bringing business rates more into line with other taxes, for example income tax. This could potentially reduce the number of appeals as an appeal would only arise if there was an issue with VOA assurance.

17. We note that under 'Check, Challenge, Appeal' secure individual ratepayer accounts are proposed. We agree that these could be used for submitting valuations.

18. Ratepayers could submit a valuation using a common basis such as a single valuation date. The process for submitting valuations should be as simple as possible and ratepayers should be able to seek the advice of agents, if needed, to give them help to submit their self-assessment return.

19. A proportionate risk-based compliance system is vital to assuring all stakeholders self-assessed valuations are correct. HMRC can give advice from its experience of other systems of self-assessment. There would be a role for online tools to check that assessments are compliant and for pre-submission checks such as outlined in the discussion paper.

20. We agree that the system should be backed up by fines and penalties in the way that there are penalties for income tax self-assessment. This should drive positive behaviour amongst ratepayers and act as a disincentive to non-compliance.

21. At the same time it is very important to establish exactly who has the responsibility for paying rates; particularly in multi-occupied properties. This should prevent different ratepayers from being in doubt who has the responsibility for rates, which can sometimes persist until the billing authority has to take enforcement action. There should be a legal requirement on the ratepayer to establish liability for business rates and to report any changes of circumstances.

22. We agree that the regime should not be excessively onerous for small businesses particularly for those with low rateable values and which might benefit from 100 per cent small business rate relief.

23. The consultations asks if rental information should be published. The LGA agrees that rental information should be published. This would increase the transparency of the process.

24. We note that the Government would maintain yield through adjusting the multiplier. Yield should be maintained in this way. This is particularly important in 100 per cent business rates retention.

25. We agree that rateable values should continue to be published, as at present. They would have to be made available to local authorities.

26. Finally, we consider that self-assessment would be a major cultural change for all involved in the system; ratepayers, agents, the VOA and billing authorities. We would urge the government to carry out a pilot before implementing it definitively. The advantage of this is that it would show what behavioural changes were occurring due to the implementation of a new system. In particular it would be possible to see how ratepayers reacted to such a new system and to minimise the risk of negative reactions and any reputational damage, which might lead to a knock-on effect on collection rates.

A formula approach

The discussion papers asks for views on a formula approach to business rates in England.

- *the associated move away from a link to market values*
- *the classes of property that would be suitable for a formula approach*
- *the factors that would need to be included in the formula beyond class of the property, size of the property and location*
- *the balance of efficiency, simplicity and certainty that a formula approach would provide against any desire to retain valuations that take greater account of the individual characteristics of properties*
- *the implications for businesses of different sizes*

27. The LGA would support a move to a formula approach if one could be found which was simpler than the current method of valuation and did not lead to too many winners and losers. However we would be

concerned for the implications for business rates retention if growing businesses were not reflected by an increase in rateable value.

28. Because of that we would like to see further work which identifies exactly where increased business rates yield have come from in the current 50 per cent retention system and how this would be affected by a more formulaic system. For example if a ratepayer refurbishes property it would be expected to increase its market rent and so should lead to an increase in rateable value, whatever system is used. At the same time we can see a role for a simplified valuation system and more use of a formula approach particularly at the lower end.

29. We note that according to statistics produced by the VOA in 2014 in response to a Freedom of Information request (see the table below) 96% of the hereditaments (and 90% of total rateable value) was arrived at by using the rental method. There should therefore be room for more use of a formula.

Method	Number of hereditaments	%	Total RV (£bn)	%
Contractors	48,820	3%	£4.2	7%
Receipts	14,420	1%	£0.8	1%
Rental	1,824,860	96%	£53.5	90%
Unknown	7,190	0%	£1.0	2%
Total	1,895,290	100%	£59.5	100%

Other points

30. With the implementation of 100 per cent business rates retention the Government should give serious consideration to the role and functioning of the Valuation Office Agency, particularly as its role could change in the future to one of assurance.

31. We note that the government has not announced a way forward following the consultation on business rates avoidance. The government stated that options for avoidance would be coordinated with the business rates review which was evaluating the effectiveness of reliefs and exemptions and would complement the ongoing commitment to give local authorities in England greater power over their budgets. Although the business rates review reported in March 2016, this did not address business rates avoidance.

32. The LGA considers that measures to address avoidance should be taken alongside greater flexibility on reliefs and exemptions, particularly in light of the development of 100 per cent business rates retention.

Local Government Association

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