

GOVERNMENT CONSULTATION: MORE FREQUENT BUSINESS RATE REVALUATIONS



HM Treasury
Ministry of Housing, Communities and Local Government

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GOVERNMENT CONSULTATION ON MORE FREQUENT REVALUATIONS: FUNDAMENTAL REVIEW OF BUSINESS RATES

Background

The British Property Federation (BPF) represents the real estate sector, an industry which contributed more than £116bn to the economy in 2020 and supported more than 2.4 million jobs.

We promote the interests of those with a stake in the UK built environment and our membership comprises a broad range of owners, managers and developers of real estate as well as those who support them. Their investments help drive UK economic success, provide essential infrastructure and create great places where people can live, work and relax.

The burden of business rates

The current system of business rates is broken. A tax supposed to reflect market rents has failed to respond to the significant changes in the economy in recent times. For example, while rents in the retail sector outside of London have come down by over 50% in real terms over the last decade, the business rates bills paid by occupiers have continued to rise. As a result, the business rates system is not reflecting market rent. In fact, it is distorting market rent and, in some cases, stifling any leasing activity at all.

The system is also undermining the retail and hospitality sectors at the very time when those sectors must undergo significant transformation in order to deal with the structural changes affecting our high-streets. This is hampering the ability of town centres to adapt, modernise and remain at the heart of local communities.

The system needs wholesale reform and we look forward to seeing the outcome of the Government's fundamental review of business rates.

More frequent revaluations

Increasing the frequency of revaluations is one reform that the BPF has long campaigned for. The current pandemic has shown just how quickly market demand for different types of commercial property can shift. A modern business rates system must be agile enough to respond to such changes across all types of property.

We note that the Government first committed to 3-yearly revaluations in 2016. We also note that many other jurisdictions already have systems that are more transparent and

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responsive than England. Fundamental reform is long overdue, and this time Government must deliver on its commitments.

Our response to the consultation is attached. In summary:

- the introduction of more frequent revaluations is only one of a number of reforms needed to make the business rates system fit for the future. Government must also reset the business rates multiplier at a fairer level, abolish downward phasing and provide additional business rates relief on empty properties;
- we would accept a duty on ratepayers to provide real time information on lease events to the VOA in return for more frequent revaluations and real transparency. Information must be provided on a confidential basis;
- we do not support the proposed 3-month Challenge window or the introduction of fees. This is neither fair nor practical;
- we cannot accept the proposed restrictions on the rights of property owners to make appeals in cases where they are not the ratepayer. Owners must retain this right;
- greater transparency on how rateable values have been set is a critical element of the proposed reforms. The consultation paper is, however, silent on timings. Until this is delivered we would not agree that transparency has been achieved;
- we recognise the need to move in phases, but we want the Government to commit to annual revaluations in the medium term. We also want to see a shorter AVD introduced as soon as possible; and
- we are calling on Government to publish a roadmap setting out key milestones for delivering more frequent revaluations. We would expect to see the new 3-year cycle of revaluations start in 2023. We believe that a 1-year AVD is achievable in time for the next cycle of revaluations in 2026. The roadmap should then set out a timeline for moving to annual revaluations.

We look forward to discussing our response in more detail.

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1. **Does the proposed package of measures represent a fair and balanced trade-off for ratepayers between new benefits and new requirements? If not, please detail what adjustments you would like to see, to ensure a balanced package of measures that would support a 3-yearly cycle while taking account of deliverability constraints.**
 - 1.1 The BPF and our members have been calling for more frequent revaluations of business rates for some time. It is now critical that we move to a more responsive system as soon as possible.
 - 1.2 We would note, however, that more frequent revaluations are only one element of a series of reforms needed to make the business rates system fit for the future. As set out in our [September 2020](#) and [October 2020](#) responses to the [HM Treasury review of business rates](#), we also need to reset the business rates multiplier at a fairer level, abolish downward phasing and provide additional business rates relief on empty properties.
 - 1.3 In terms of the proposed package of measures set out in the consultation paper, there are parts of the package that we believe are unfair and unbalanced. In particular:
 - the proposed new duty on ratepayers needs to be balanced by genuine transparency from the VOA on how the rateable value of individual properties is determined (including the evidence on which the valuation is based). The consultation paper suggests that this information will be available to ratepayers in “Phase 2”. We want to see this made available as soon as possible;
 - the proposed restrictions on appeals and the introduction of fees appear driven more by a desire to cut the number of appeals than by any ambition to improve the system and the service to ratepayers. The proposals are wholly unfair and impractical; and
 - the proposal to restrict the ability of property owners to make appeals in cases where they are not the ratepayers is not acceptable. It is essential that property owners retain this right.
 - 1.4 More detail on each of these points is set out below.
 - 1.5 We would also question some of the assumptions in the consultation paper about the delivery constraints involved in moving to more frequent revaluations. We note that Assessors in Scotland, who undertake the same revaluation work as the VOA in England, will be delivering their 2023 revaluation with only a one-year gap between the AVD and the revaluation. We also note that the 2025 revaluation in Northern Ireland is due to have an 18-month AVD. Indeed, many jurisdictions are able to deliver annual revaluations and short AVDs and there appears to be no good reason why ratepayers in England deserve any less of a service. We would challenge the assumption in the consultation paper that the Netherlands and Hong Kong, which have annual revaluations, as not reasonable comparisons. We accept that they are

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smaller territories but the VOA has a commensurately larger resource available in order to deliver its services in England.

Duty to notify

- 1.6 As previously set out in our [September 2020](#) response to the HM Treasury call for evidence, we support the principle of ratepayers providing real time information to the VOA in return for significant system improvements. These system improvements include more frequent revaluations and real transparency from the VOA over how rateable values are set for individual properties. If these are not delivered, then we would not support the introduction of this new duty.
- 1.7 Any notification process should be as simple as possible and we note the commitment that notification systems will be user friendly and not overly burdensome on ratepayers. The BPF has previously suggested how we might keep the reporting burden to a minimum by using existing data sets and combining any new reporting requirements with existing compliance processes. These suggestions are replicated below for ease of reference.

We support a greater provision of information to the VOA to enable it to have the data necessary to conduct a valuation. There are two primary sets of data that the VOA needs access to in this regard: lease information and details of any capital improvements. These naturally lend themselves to slightly different approaches to data collection – we set some suggestions below which seek to balance the need for the VOA to have access to relevant information, whilst keeping the additional reporting or compliance burden of ratepayers to a minimum.

Lease information. *The VOA should be automatically provided with lease data when new leases are granted and when existing leases are amended at lease events. In order to reduce the administrative burden on business, the administration could be incorporated with an existing compliance process, such as the SDLT filing return, to ensure that taxpayers are only supplying data to government once – and this information would be shared with both HMRC and the VOA as appropriate.*

Capital improvements. *It is challenging to require ratepayers to disclose to the VOA where a capital improvement has impacted on a rateable value – because this requires professional judgement and detailed knowledge of the rules. Therefore, as a starting point, the VOA should make use of existing information sources that are already held within central and local government, which indicate when building works have been done or where a capital improvement has been made to a building. For example, local authorities will grant planning permission before construction works take place, and a fire safety inspection will be carried out after a new development is complete. In addition, ratepayers are required to disclose capital expenditure separately in their corporation tax return – which will also give an indication of when improvements have been made to a building. The VOA could make use of these existing sources of information within central and local government, to either indicate where a new building should have a survey or site inspection – or simply to allow data requests to taxpayers to go out in a more targeted way.*

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- 1.8 It will be important that the VOA is joined up with HMRC and other parts of Government to make proper use of data submitted once by the taxpayer. We note that HM Land Registry (HMLR) is working on its protocols for achieving fully digital registration, which under the current law will include registration of leases with terms of more than 7 years. There should be an opportunity to pull out key lease information automatically, if the VOA, HMRC and HMLR are properly joined up. There will clearly be a time lag before this could work but this issue should be considered now, not after HMLR and the VOA have each developed a separate system.
- 1.9 If the duty to notify is introduced then ratepayers will need help to understand what information is required, particularly when it comes to capital improvements. The VOA should consult on draft guidance for ratepayers well ahead of any new duty coming into force.
- 1.10 Alongside a new duty to notify on ratepayers, there should be an equivalent duty placed on the VOA to give effect to that information. For example, we would argue that the VOA should be required to change the rating list within 3 months of having been notified of a physical change to a property.

An annual confirmation return

- 1.11 It is not immediately clear why an annual confirmation return will be needed if ratepayers are already under a duty to notify the VOA of changes to the occupier or to the property in real time. As a general principle, we should keep any additional reporting burden on ratepayers to an absolute minimum in order to keep our tax regime efficient.

Mandatory provision of lease information

- 1.12 We note that the lease information required will be similar to that requested in the current Form of Returns. We would expect the Government to consult on the proposed final set of information requirements.
- 1.13 We agree that this information should not be shared outside of the VOA, to avoid disclosing commercially sensitive information.

2. What steps could be taken to support ratepayers to comply with the new duties? For example, elements to reflect in the design of the reporting portal, or content that would be helpful to include in the supporting guidance.

- 2.1 We welcome the recognition in the consultation paper that the design and implementation of any new compliance regime will need to be proportionate and avoid placing an unnecessary burden on businesses, particularly during the initial period of familiarisation and adjustment.
- 2.2 We note the commitment that the VOA will engage with the sector on the design of a new compliance regime and implement new measures in a phased way. Any phasing should not delay the introduction of the new 3-yearly cycle.

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- 2.3 We would expect the VOA to work with ratepayers and representative bodies on the design and delivery of the proposed awareness campaign which will support the rollout of any new arrangements.

Removing the check stage of CCA

- 2.4 If new reporting requirements on rate payers are introduced, we would agree that the Check stage of CCA could be removed. This could simplify the process for rate payers and speed up the process for resolving Challenges and Appeals.

The challenge window

- 2.5 We do not agree with the proposal to introduce a 3-month challenge window.
- 2.6 This proposal seems designed primarily for the benefit for the VOA: to help the agency better manage and process Challenges by limiting the number of Challenges that can be made. This seems to us the wrong way round. The focus of the reforms should be on improving the service for taxpayers and ensuring the accuracy and fairness of valuations. This is best achieved by making the system more responsive to the market and through genuine transparency. Simply restricting the ability to make Challenges is a retrograde step.
- 2.7 There would also be huge practical challenges involved. There are agents who act on behalf of ratepayers who are responsible for thousands of properties. Managing Challenges on behalf of such ratepayers within such a small challenge window would be next to impossible.
- 2.8 We accept there is an argument for challenge windows in systems with far more frequent revaluations and where there is real transparency of data. However, restricting appeals in the way proposed without these accompanying reforms cannot be right or fair.

Fees

- 2.9 For similar reasons we oppose the introduction of a fee for submitting a Challenge. Ratepayers do not want to go through the process of making a Challenge, but currently this is the only way of understanding how the rateable value of an individual property is determined. Until the system is more transparent, the introduction of fees would be unjust.

Material Changes of Circumstances (MCCs)

- 2.10 The consultation paper states that the Government is considering reviewing when Material Changes of Circumstances (MCC) should apply. We would argue that this is a valid and necessary appeal right that will still be needed in a system with a 3-yearly cycle of revaluations. We would accept that in a system of annual revaluations it could be possible to limit MCCs only to instances where there has been a physical change to the property concerned. Changes within the vicinity of a property would then be picked up as part of an annual revaluation cycle.

Restricting the ability to make appeals

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- 2.11 We do not accept the proposed restrictions on the rights of property owners to make appeals in cases where they are not the ratepayer. Property owners have a legitimate need to interact with the rating system, including where they are not the ratepayer, and must retain this right.
- 2.12 For example, a property owner may wish to appeal in advance of a property coming back into control to ensure the viability of the asset and reduce void risk. There will also be examples where properties are occupied on a total occupation basis and the owner is actually responsible for the rates and wants to appeal (even though the tenant is the ratepayer as far as legislation is concerned). Owners may also need to appeal where claims for compensation following objection to a tenant's desire to renew are being made under the Landlord and Tenant Act 1954 (where compensation is linked to the rateable value of the property, and the owner needs to ensure that the valuation is correct).
- 2.13 We understand that officials may be considering an approach whereby an owner who is not the ratepayer can still appeal, but only with the ratepayer's consent. This would be equally unacceptable to the BPF and BPF members. Rating appeals are a necessary part of the asset management process and essential to ensure the asset is being efficiently managed in all aspects. In addition, in cases where the owner and occupier are in dispute, and where a compensation payment linked to the rateable value of the property is in play, it would wholly improper to attempt to limit the ability of the owner to challenge the accuracy of the valuation/compensation. This would also undermine the principle of the Landlord and Tenant Act which is to ensure a fair balance between the competing interests of both landlord and tenant.
- 3. Are you supportive of the proposed approach to Transparency? Are there further elements you think should be made available as part of a Transparency offer?**
- 3.1 We want to see more transparency at every stage of the process. This will build trust and confidence in the system with ratepayers and lead to fairer and faster valuations.
- 3.2 More transparency will also reduce the number of appeals in the system, as many Checks and Challenges are raised simply to understand the basis on which valuations have been made.
- 3.3 The single most important element of the proposed transparency reforms is the provision of complete information on how a rateable value has been set for an individual property (which we believe should include the relevant rental or other evidence used by the VOA to arrive at its valuation assessment). The BPF has long called for this and until this is delivered we would not agree that real transparency on valuations has been achieved. The consultation paper proposes making this information available in "Phase 2", although is silent on when "Phase 2" would be. We want to see this information made available to ratepayers as soon as possible, and certainly no later than in time for the revaluation in 2026.
- 3.4 We do not support the proposal that a fee should be charged to access the "Phase 2" information. Taxpayers should be entitled to understand the basis on which their tax is calculated. Introducing a fee runs counter to the principle of greater transparency.

4. What steps could the Government, stakeholders, or industry take to support a smooth move to a 3-yearly cycle?

- 4.1 We recognise that moving to a 3-yearly cycle of revaluations will present some challenges to the VOA. In particular, it will require investment to modernise the VOA's IT infrastructure and systems to enable greater automation and digitalisation. It will also require process change and culture change. The funding required for this transformation should be reflected in the Government's next spending review.
- 4.2 The proposals in the consultation paper are quite high level. Going forward, there should be further consultation and engagement with the real estate sector and ratepayers on the proposed detail of the new measures.
- 4.3 We note that the Government is still considering timings for moving to a 3-yearly cycle. We acknowledge that there will be a short period of transition as we move from a 5-year to a 3-year cycle but we should also aim to realise the benefits – for ratepayers, Government and the economy – of moving to more frequent revaluations as soon as possible. We would like to see a commitment from Government that the new 3-year cycle will start in 2023.

5. Do you have any other comments on the proposed approach to the move?

- 5.1 As already stated, more frequent revaluation is only one of a series of reforms needed to fix our broken business rates system. This needs to take place alongside these other long overdue reforms.
- 5.2 As we move to a new cycle of revaluations we should at the same time abolish downwards phasing. Some businesses' rates bills are still based to some extent on the 2010 rating lists (which was based on valuations carried out in 2008) due to the phasing mechanism. Given that retail rents outside of London have come down by over 50% in real terms since then, it is completely inappropriate for businesses to be paying tax based on these valuations. Abolishing downwards phasing would go some way to alleviating the hardship caused by the delay to the next revaluation.
- 5.3 Similarly, as we move to a new cycle, we should reset the business rates multiplier. We have suggested the best way to achieve this would be to fix the multiplier at a fair and sustainable level – we would recommend a fixed rate of 35% - close to the rate that was set when business rates were introduced in the 1990's. We note from paragraph 1.3 of the consultation paper that the Government still view revaluations as a redistributive exercise. No other national tax works in this way and it should no longer apply to business rates. The UBR needs to be fixed, with rate liability at revaluations therefore changing directly in line with each property's change in rental and thus rateable value.
- 5.4 We should also introduce additional business rates relief on empty properties.
- 5.5 More information on all these reforms is set out in the BPF [September 2020](#) and [October 2020](#) response to the [HM Treasury review of business rates](#).

6. Do you agree that that moving to a three-year cycle should be the Government's priority for this stage of reform, and that going further should remain an option for the future?

- 6.1 We recognise the need to move in phases, but we want the Government to commit to annual revaluations in the medium term. The high-street does not have another decade to wait for rates reform. Going further should be an express ambition.
- 6.2 We acknowledge that moving to a 3-year cycle for revaluations is a step forward but we should be aiming for a world-class system. Other jurisdictions have been able to deliver annual revaluations for many years.
- 6.3 We would challenge some of the assumptions in the consultation paper about the drawbacks of annual revaluations. The paper suggests that a negative consequence of annual revaluations would be that *"in a rising market, economy-wide or localised economic growth would more quickly pass through to higher rateable values, and relative burdens would shift more rapidly"*. We do not agree this would be a negative outcome. We would welcome a more responsive system and a more rapid shift in rateable values – up or down - that better reflect prevailing market circumstances.
- 6.4 The paper also suggests that *"a rapidly updating system would mean less certainty for firms and local authorities, because liabilities could not be forecast more than 12 months in advance"*. We believe that there is much less certainty under the current system because of the significantly greater shifts in rateable values that take place every five (or more) years with no warning. Many advanced property tax systems, such as those in certain states of the USA and France, manage with annual valuations. Certainty should not be confused with inflexibility. Businesses want certainty that the liability will flex with the market, not certainty that the figure will not change from year to year.

7. Would you support a move to an annual revaluations cycle or a shorter AVD in the future, accompanied by the necessary enabling reforms set out in this chapter?

- 7.1 We would support a move to annual revaluations. The BPF called for this in our recent responses to the Government's fundamental review of business rates. Annual revaluations are essential to ensuring that business rates are truly responsive to market rents.
- 7.2 We would also support a shorter AVD. We, however, challenge the need for further trade-offs in order to achieve this. The reforms proposed in the consultation paper to deliver 3-yearly revaluations should be sufficient to enable the VOA to move to a 12-month AVD.
- 7.3 Indeed, the consultation paper acknowledges this and recognises the proposed reforms may allow for some shortening of the AVD period. This should be an express ambition of the UK Government, particularly as Scotland will be moving to a one-year AVD in 2023.
- 7.4 To this end, we are calling on Government to publish a roadmap setting out key milestones for delivering more frequent revaluations and a shorter AVD. We would hope to see the new 3-year cycle of revaluations start in 2023. We also believe that a

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1-year AVD would be achievable in time for the next cycle of revaluations in 2026. Going forward from 2026, the roadmap should then set out a timeline for moving to annual revaluations.