



# BUSINESS RATES REVIEW

## **TECHNICAL CONSULTATION RESPONSE**

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**PREPARED AND SUBMITTED BY**  
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## INTRODUCTION

### 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.

The BPF and our members welcomed the announcement in the Autumn Budget to increase the frequency of business rates revaluations in England. This is a reform the BPF has long campaigned for, and the current pandemic has shown just how quickly market demand for different types of commercial property can shift.

We also welcomed the commitment from the Chancellor to support investment in renewables by changing the Plant and Machinery (P&M) regulations, as called for by the BPF in our budget submission.

However, the reforms announced to date will not on their own be sufficient to fix the broken business rates system. **We still need fundamental reform. In particular, we need to reduce the overall burden of business rates by resetting the multiplier at a fairer level, abolish downwards transitioning from the 2023 revaluation to ensure that the hard-hit retail sector benefits from a [projected £8.5bn boost](#), and provide additional business rates relief on empty properties.** We know that some of these issues will be explored in further consultations later this year, including one on a potential online sales tax, but Government need to recognise that the case for fundamental reform is as strong and as urgent as ever.

### BPF RESPONSE

Our response to the consultation questions is attached. In summary:

- there is a lack of detail on how the new information provision system will work. Getting this right will be key to the success of the whole programme of more frequent revaluations. Early and ongoing engagement with ratepayers, the sectors and rating professionals will be critical. The system will need to be rigorously tested and piloted before being deployed;
- we should not under-estimate the challenge the new requirements will pose to ratepayers. Ratepayers will need good advice and guidance, including access to real-time support;

- the proposed reforms represent a significant additional burden on ratepayers. This can only be justified on the grounds that the Government's ambition remains moving to one-year AVD and annual revaluations once the new systems are in place. We believe that a one-year AVD should be achievable by 2026;
- we do not support the proposed duty to notify period of 30 days. Ratepayers should have at least three months to provide information to the VOA on changes to occupier and property characteristics;
- there should be a similar obligation placed on the VOA to action any value significant changes reported by ratepayers through the duty to notify within a prescribed time. We suggest a period of between three to six months;
- we do not see the need for an annual compliance return alongside the duty to notify the VOA of relevant events. This is an unnecessary burden on ratepayers. The requirement for an annual compliance return should be dropped;
- we do not support the proposed three-month challenge window. Ratepayers should have at least 12 months from the publication of the list to submit a challenge;
- the VOA should consult on the detail of its proposals for phase two transparency;
- we welcome the offer of improvement relief, but are not persuaded that as currently proposed the relief will have a significant impact; and
- we welcome the proposed changes to the P&M regulations but would like to see a full review of the regulations. We would also like Government to be more ambitious in using the business rates system to accelerate investment in renewables and to support the net zero agenda.

21 February 2022

**QUESTION 1** Do you have any views on the proposed implementation of the information provision system? What issues should be considered in the design of the new system?

### The new system

We support the principle of ratepayers providing real-time information to the VOA in return for significant system improvements and welcome the commitment that the new information provision system will be easy to use, place a minimum burden on ratepayers, adopt a light touch approach on enforcement and be cost effective for both taxpayers and the VOA. Getting this right will be critical to the success of the whole programme of reforms.

To ensure this commitment remains core to the design and implementation of the new system, **we would like to see these principles turned into key performance indicators against which the operation of the final information provision system can be measured.** The VOA should then report on performance against these indicators on a regular basis.

### Issues to consider

There are a wide range of issues that the Government and the VOA will need to consider when designing the new information provision system, and some of these are touched on elsewhere in our response. However, the key issues raised by BPF members are set out below:

- integration with existing commercial systems. To minimise the burden on ratepayers, and ensure the timely provision of data, the new system should be designed in a way which allows ratepayers to upload information from their existing software and systems directly into the new VOA system. This will require early engagement with relevant commercial providers;
- integration with existing Government systems. It will be important that the new system is joined up with HMRC and other parts of Government so that taxpayers are not being asked to provide the same information several times to different parts of national and local government. For example, in our [response](#) to the 2021 consultation on more frequent revaluations, we noted that HM Land Registry (HMLR) is working on protocols for achieving fully digital registration, which under the current law will include registration of leases with terms of more than seven 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 separate systems;

- ongoing funding. We recognise that introducing the new system and moving to a three-yearly cycle of revaluations will present a challenge to the VOA. It will require investment to modernise the VOA's IT infrastructure and systems to enable greater automation and digitalisation. To this end, we welcome the additional funding for the VOA announced at the last Spending Review, which BPF had called for. If more funding and resources are required to complete the transformation, then this too should be made available; and
- ongoing engagement with ratepayers and stakeholders. There is a lack of detail in the consultation paper over exactly how the new information provision system will work and how the programme to design and deliver the new system will be run. Going forward, there should be regular and meaningful consultation with the real estate sector and ratepayers on the detail of the new system. This engagement should be formally reflected in the governance structures for the programme of work.

**QUESTION 2** Can you see any difficulties in collecting this information or providing it to the VOA? Is there any further information that should be provided?

We should not under-estimate the challenges of complying with the new requirements. As the consultation paper notes, these reforms will bring a large body of ratepayers into contact with the system for the first time. For these taxpayers, providing information to the VOA will be a new and challenging experience.

We do not think Government should be looking to collect more information. In fact, we would encourage the Government and the VOA to look again at the extent of the information requirements they are proposing to place on ratepayers. In particular, **we would challenge the need for both an annual confirmation return and a duty to notify the VOA of lease and property changes. This seems an unnecessary burden on ratepayers. We would like to see the requirement for an annual compliance return to be dropped.**

Some members have suggested that the VOA could separate out lease event notification from property changes notification. Lease event notification could be a relatively straightforward process. It will however be substantially more challenging for ratepayers to provide information about changes which may affect the Rateable Value (RV) of a property.

**QUESTION 3** How can the VOA best help customers understand what is needed and how to provide it?

It will be challenging for many 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. Consequently, **ratepayers will need access to comprehensive advice and guidance, including real-time support.**

It will also be important that the new system is thoroughly tested and piloted with a range of users, including first-time ratepayers, before being rolled out more widely. This will help the VOA understand the key challenges and issues faced by ratepayers.

**QUESTION 4** How do you want to be engaged with as this system is developed?

We would like the BPF and BPF members to be consulted on an ongoing basis as the reforms are taken forward. As highlighted above, we would like to see this engagement formally reflected in the governance structures for the programme of work.

This engagement should include those BPF members with first-hand experience of the development of the VOA's Check and Challenge Service. It will be important that the VOA learn the lessons from earlier IT projects, which include the importance of consulting the sector and rating professionals at a very early stage.

**QUESTION 5**

Does the proposed framework strike the right balance between a system of proportionate and flexible sanctions, and one which helps ratepayers to meet their obligations?

We agree that the VOA will need real time data to move to a cycle of more frequent revaluations. We also recognise the need for a compliance regime. However, the framework as currently proposed risks placing too heavy a burden on ratepayers.

We would therefore like to see the following:

- a commitment to a one-year AVD and annual revaluations. The new requirements on ratepayers, and the proposed new sanctions, are significant. However, the BPF and BPF members would accept most of these on the condition that this is a step toward an even more dynamic business rates system. We would like the Government to restate its medium-term ambition of moving towards a one-year AVD and annual revaluations. In particular, we would like to see a commitment of a one-year AVD from 2026;
- as highlighted above, we want to see the requirement for an annual compliance return dropped. The burden on ratepayers with the duty to notify is significant enough without also having an annual compliance return. We are not aware of any similar requirement in other tax regimes;
- the duty to notify period of 30 days should be extended to at least three months. We discuss this more below; and
- there should be a similar “duty to respond” requirement placed on the VOA to action any value significant changes identified as part of the duty to notify process within a prescribed time. We would suggest a period of between three to six months. As will be the case for ratepayers, there should be sanctions on the VOA if they fail to respond with the deadline.



**QUESTION 6** What would you wish to see in an online service to best help ratepayers meet their obligations?

The online service needs to be:

- simple and easy to use for ratepayers. It also needs to be secure, if taxpayers are to have trust and confidence in the system;
- designed with the user in mind, which means the service should be tested and piloted with users. It should also be supported, so that ratepayers can access advice and guidance as they use the service. This should include access to real-time customer support;
- fast, if there are likely to be key points in the year when all ratepayers are accessing the service, then the system needs to be able to support multiple users. It should also be transparent, there should be performance and service standards which are regularly reported; and
- integrated, with commercial systems and with other Government systems and databases.

**QUESTION 7** Under what circumstances would 30 days not be enough time for ratepayers to meet their obligations?

It is difficult to see many circumstances when 30 days would be enough time to expect ratepayers to meet their obligations.

It will be a real challenge for ratepayers new to the business rates system to know which changes to notify, and many ratepayers – including those who are familiar with the system – will still want to seek professional advice before submitting their returns, which will take time.

Given this, **we would like to see the proposed 30-day period extended to at least three months.**

We would also like to see clarity on when the period starts. For example, if changes have taken place to a property which need to be notified to the VOA, does the clock start ticking from practical completion, from when the contractors handover the work, or from first commercial use?

**QUESTION 8** What processes might ratepayers have to put in place to meet their obligations and what costs might this bring?

There is a real possibility that ratepayers will increasingly need to access professional advice and professional services to understand and comply with the new requirements. This will clearly have a significant cost.

We would expect the Government to undertake a rigorous Regulatory Impact Assessment when introducing the legislation to bring the proposed changes into force. This should include a full analysis of the cost to business.

**QUESTION 9** Do you have any suggestions for how this compliance framework could be improved? If so, please provide evidence or scenarios.

There must be absolute clarity on where responsibility for compliance rests. The policy intention is clearly that the ratepayer will be responsible for providing relevant information, and will be the subject of any enforcement action. There may, however, be occasions where a property owner pays the business rates on behalf of an occupier. In such cases, it must still be the legal ratepayer – that is, the party in rateable occupation and not the payer of the rates – who is responsible for providing information and who falls under the compliance regime.

There also needs to be flexibility to account for situations where changes made by an occupier who then ceases to occupy - for example, through forfeiture or through exercising a break clause - have not properly been declared.

**QUESTION 10** Do you consider that the proposed reform to the rules on MCCs will ensure that changes in economic factors, market conditions or changes in the general level of rents are reflected at revaluations? If not why not?

The proposed reforms may well achieve the policy intention of limiting the grounds for a MCC claim. However, we do not support these changes. It seems manifestly unfair that a ratepayer should have to wait until the next revaluation – which could still be up to three years away under the new cycle – before changes in legislation and regulation that impact on the RV of their property are reflected in their business rates. **The proposed reforms should be delayed until we have moved to a system of annual revaluations.**

**QUESTION 11** What are your views on the proposed improvements to the CCA system? How else could we improve CCA in a system under which ratepayers are now providing information under the new duties?

The proposed three-month window for submitting Challenges is unfair and unrealistic. It will not give ratepayers sufficient time to review assessments and prepare cases. It could also limit access to professional advice and services as there may not be enough ratings advisers in the market to meet possible demand. There are agents who act on behalf of ratepayers who are responsible for thousands of properties.

We do accept that there is an argument for challenge windows in systems with more frequent revaluations and where there is real transparency of data. However, even with the reforms set out in the consultation paper, we are still a long way off from achieving the dynamic and fully transparent system that we see in other jurisdictions.

Given this, **the window for submitting Challenges should be at least 12 months from the date the draft list is published.** This would give ratepayers sufficient time to consider the fairness of the assessment, seek professional advice and submit a Challenge. This would also give the VOA sufficient time to complete the Challenge process by the end of the list.

**QUESTION 12** Are there particular considerations that the respondents consider the government should have particular regard to when moving forward with phase 2 of transparency?

The increased transparency measures are a major part of the proposed reforms, and a key reason why the BPF and BPF members have supported the wider package of changes. The Phase 1 measures are disappointing and offer little new but the Phase 2 measures have real potential to address long-standing concerns about how RVs are determined.

It will be critical that the Government and the VOA deliver on its transparency commitments to restore ratepayer confidence in the system. We would not accept any changes to the appeals system until the new transparency measures are in place. We see no reason why the Phase 2 measures should not be implemented for the 2026 lists, which is currently the intention.

There is a risk that ratepayers and the VOA have a different understanding of what a *"fuller analysis of rental evidence used to set an RV for a specific property"* means. We expect this to include all the data currently requested in a VOA Form of Return and a full explanation of how the RV has been determined, including details of any adjustments and assumptions made by the VOA, in order that ratepayers can carry out their own assessment. **To ensure that there is a common understanding, we are calling on the Government and the VOA to consult on the detail of the proposed Phase 2 transparency measures well in advance of the new arrangements coming into force in 2026.**

- QUESTION 13** Will the proposed rules for the improvement relief ensure the relief flows to occupiers who are investing in their business?
- QUESTION 14** Do you consider the 2 conditions will give effect to the stated policy intent? Do you have concerns regarding the practical application of these?
- QUESTION 15** Do you agree the proposed method of reaching the chargeable amount will achieve the objective of preventing ratepayers who have undertaken qualifying works from seeing an increase in their bill for 12 months?

We welcome the offer of some improvement relief but are not persuaded that the current proposal will encourage significant investment or result in substantial improvements to property. The policy intention may be to support small businesses who wish to make small improvements to their properties but, as currently outlined, there is a real risk that uptake of the proposed relief will be low and the impact negligible. We would like to see something more comprehensive, such as something similar to the Business Growth Accelerator in Scotland.

Our concerns about the current proposals are as follows:

- the period of relief. The 12-month nature of the relief means that it is unlikely to unlock large scale investments. Investment decisions are typically taken over a much longer period and a 12-month delay to business rates is unlikely to be sufficient to allow a return on investment. If the Government wants to attract significant sums of investment through an improvement relief, then the period of relief needs to be substantially longer;
- the beneficiary of relief. We understand that there are budgetary constraints which may be why the scope of the relief is so limited. However, it seems only fair that any relief should benefit whoever pays the rates at the time the work is undertaken, whether that is a property owner or an occupier. We also believe that the relief should flow to new occupiers taking over a business and inheriting improvements as this may help to attract new tenants into properties in our towns and high streets that might otherwise remain vacant; and
- the process of securing relief. There is not a lot of detail in the consultation paper on how the process will work, but there is a risk it becomes complex and confusing. The process needs to be simple and straightforward, especially if targeted at small business owners.

**QUESTION 16** Do you agree that the proposed changes to the P&M regulations would ensure that plant and machinery used in onsite renewable energy generation and storage used with EV charging points are exempt?

**QUESTION 17** Do you agree that the tests we are proposing in the heat networks relief scheme will ensure the relief is correctly targeted?

We welcome the proposed changes to plant and machinery (P&M) regulations and support rate relief for heat networks. Our 2020 [response](#) to the Government's fundamental review of business rates called for measures such as these to remove barriers to green investment and accelerate the decarbonisation of our commercial real estate.

We also welcome the proposal that the exemption for renewable plant and machinery will extend until 2035. As discussed above, the period over which exemptions and incentives apply are critical, given the long timeframes over which investment decisions are made and the need to ensure a reasonable return on investment.

Whilst the proposals are a step forward, they are limited in scope. The Government should be more ambitious in exploring how the business rates system can be used to bring accelerate investment in measures to improve the energy efficiency of buildings and in new technologies such as heat pumps and other forms of low carbon heating.

### **P&M Regulations**

Whilst we welcome the proposed exemption for plant and machinery used in onsite renewable energy generation and storage, we would still like to see a full review of the P&M regulations. The regulations were introduced in their current form in the early 1990s. Since then, there have been significant changes in how we do business and in the typical plant and machinery used in buildings. A full and transparent review of the P&M regulations would help make sure that the regulations are up to date and reflect modern ways of doing business – and, importantly, support the net zero agenda. As part of a review, we should consider the proposal that we remove Class 1 from the P&M regulations altogether, thus removing any current or future penalties for self-supply green energy schemes. We should also make sure that plant and machinery exempted under one Class, are not then caught by another Class.

Given the pace of developments in technology, the regulations should be reviewed regularly going forward. We would suggest that every 3-5 years would be appropriate.

We understand from talking to officials that the P&M regulations are under continual review within Government. This is welcome but no substitute for an open and transparent review which allows all stakeholders to input, draws on experience and expertise outside of Government and builds trust and confidence in the appropriateness of the regulations. We have had concerns raised by members that the current regulations are complex and not well understood.

### EPC Ratings

As we set out in our [budget submission](#) we would also call on Government to explore how we use the business rates system to reward investment in greener buildings. We might, for example, provide additional relief according to EPC ratings, or use EPC ratings as a differentiator on the rating multiplier, to encourage and accelerate investment into environmentally better buildings (although we would need flexibility to recognise, for example, the particular challenges faced by heritage properties.)

**QUESTION 18** What are your views on the proposed reform to the administration of the central list?

**QUESTION 19** Do you agree that decisions on the operation of local discretionary relief schemes should be localised to billing authorities in the way proposed? Do you consider any rules should still be imposed from central government and if so why?

**QUESTION 20** Are local authorities, ratepayers or other interested stakeholders aware of any other instances where existing constraints on section 47 relief are giving rise to administrative challenges or unintended practical outcomes?

**QUESTION 21** Would the proposed reforms to the multiplier improve the administration of the system and if not why not? Do you agree that the deadline for confirming the multiplier should no longer be tied to the approval of the local government finance report?

We have no substantive comments on the various administrative changes proposed in the consultation paper.