Nottinghamshire County Council

Report to Finance & Property Committee

20 June 2016

Agenda Item: 6

JOINT REPORT OF THE SERVICE DIRECTOR - FINANCE, PROCUREMENT & IMPROVEMENT AND THE SERVICE DIRECTOR - ENVIRONMENT, TRANSPORT & PROPERTY

BUSINESS RATES: DELIVERING MORE FREQUENT REVALUATIONS

Purpose of the Report

1. The purpose of this report is to inform the Committee of the Government's discussion paper which explores possible options to make the business rates system more responsive and which invites comments and suggestions on the challenges of delivering more frequent revaluations under the current valuation system and alternative options.

Information and Advice

2. As part of the review of business rates administration the Government and stakeholders discussed the merits and challenges of delivering more frequent revaluations under the current valuation system. That discussion confirmed that whilst more frequent revaluations cannot deliver greater bill stability, they can improve the responsiveness to changes in the market. This message was reiterated by stakeholders as part of the Treasury's business rates review. In the 2016 Budget, therefore, the Government announced that it will aim to introduce more frequent (at least 3 yearly) revaluations of properties in England for business rates purposes.

3. On 24 March the government published the Business Rates: delivering more frequent revaluations discussion paper. The paper aims to enable stakeholders to consider the trade-offs of delivering more frequent revaluations against the merits and limitations of the current system, together with alternate approaches including self-assessment and a formula approach. No option is said to be preferred by Government at this stage and details of other approaches are welcomed. Submissions are requested by Friday 8 July 2016.

The Current System

4. Business rates are charged on all non-domestic properties (e.g. shops, offices and factories) that do not qualify for an exemption and are normally payable by occupiers of premises, rather than owners. Where properties are empty, however, the property owner may be liable for business rates.

5. Business rates are calculated according to a property's 'rateable value' which is set by the Valuation Office Agency (VOA) for each non-domestic property in England. Rateable value is an amount equal to the annual rent for which it is estimated a property might be let at a set date.

6. A business rates bill is worked out by:

    - multiplying the rateable value of a property (set by the VOA) by the business rates multiplier (set by the Government) and then,
    - applying any reliefs that the ratepayer is eligible for, which can include transitional relief.

7. The valuation date (known as the Antecedent Valuation Date) is currently set at two years before the revaluation comes into effect. This is to allow the VOA time to collect rental evidence, prepare valuations and consult with ratepayers. It includes six months for ratepayers to check their rateable value and prepare for changes to their rates bills. This approach ensures rateable values are based on evidence and ratepayers are given advance warning of changes to rates bills.

8. Revaluations normally take place once every five years. The purpose of a revaluation is to align rateable values with current rental values set by the market. As a result, revaluations reflect relative changes in the rental value of property between different sectors and locations, so that the total business rates bill is shared fairly across ratepayers. A revaluation does not raise any extra revenue. Its aim is to redistribute the amount businesses pay based on changes in the rental market i.e. rises and falls in the rental value of the property. To maintain the revenue raised through business rates at roughly the same amount when rateable values change at a revaluation, the Government adjusts the business rates multiplier (the tax rate) either up or down.

9. The most recent revaluation came into effect on 1 April 2010 and is based on rateable values set at 1 April 2008. In 2012, the Government postponed the revaluation due in 2015 until 1 April 2017 in order to provide greater stability for businesses during a period of economic difficulty. The next revaluation is currently underway and will come into effect in April 2017.

The Challenges of Delivering More Frequent Revaluations under the Current System

10. <u>Evidence collection</u>
    Under the current system revaluations take place every 5 years. The Valuation Office Agency (VOA) has a 2 year period to collect the vast amounts of data required to undertake valuations. In order to deliver more frequent revaluations the data collection process would need to be continuous resulting in significantly higher delivery costs. The Government would, therefore, need to reform this process.

11. <u>Skills base</u>
    The VOA currently rotates the chartered surveyors it employs from other work such as appeals handling to revaluation activity at key points in the revaluation cycle. More frequent revaluations would mean that this would no longer be possible and recruiting more chartered surveyors, which is already challenging, would be necessary. It would also add to the VOA's pay bill.

12. Ratings Lists
Under the current system the VOA must begin work on a rating list 2 years before it comes into force. More frequent revaluations would mean that there would still be significant work in process from one list whilst the next list becomes current, and the subsequent list is being prepared. As well as being more complex and costly to administer, this would also create more complexity for ratepayers and LAs as they would need to manage appeals, bills or reliefs across multiple rating lists to a much greater extent than they do now. To deliver more frequent revaluations, therefore, the Government would need to reform the way it manages multiple rating lists.

13. Appeals
Rateable values are subject to change following each revaluation. These changes can be appealed against. The current 5 yearly revaluation cycle results in 900,000 appeals. This figure would be expected to increase if revaluations became more frequent requiring more resources from VOA and the Valuation Tribunal to resolve them. A reformed appeals system, Check, Challenge & Appeal, will be introduced in April 2017 promoting early engagement by all parties at all stages so that cases are resolved as soon as possible. This is expected to reduce the number of cases which reach the appeal stage and the time it takes to deal with those appeals. The Government is also working with LAs to examine how the risk of appeals can be better managed in the rates retention scheme. These changes alone are not expected to fully address the challenges of appeal volumes.

A Self-Assessment Alternative

14. In previous consultations the Government has considered various options to deliver more frequent revaluations. None has received widespread support. The Government believes, however, that a self-assessment model should be explored further.

15. HMRC currently uses the self-assessment model most notably in income tax. Individuals are also required to self-assess property values for inheritance tax and capital gains tax purposes. Some of the key features of a self-assessment system for business rates could be:

- A property's rating assessment being undertaken by the ratepayer (or his/her representative) and not by the VOA. This would give ratepayers greater control in ensuring their valuations were up to date so that they pay the right amount of business rates. It could also significantly reduce the number of appeals as customers would be producing their own valuations and so would only need to appeal if there was an issue with the valuation following VOA compliance activity.
- A modern, digital, secure account for ratepayers to submit self-assessed rating information. The VOA would provide help and assistance to ratepayers, particularly small businesses, in the form of accessible guidance and support. It is recognised, however, that many ratepayers might use an agent to provide their self-assessed valuation, much like many businesses use an accountant to fulfil their compliance and administrative responsibilities for other taxes.
- A risk based compliance system, backed up with new powers and penalties, to ensure non-compliance was identified and addressed. The level of any penalty would depend on the nature and size of the inaccuracy, plus the ratepayer's willingness and co-operation in putting it right.

16. Information required to self-assess
Business rates are currently calculated according to a property's rateable value, i.e. how much the property would be let by. For the vast majority of properties the rateable value is based on actual rents being paid by occupiers of similar properties in the locality. This is why collecting evidence is a key part of the current system. Some rental information currently collected by the VOA is commercially sensitive and some businesses, landlords, pension funds and the surveying profession have argued against the publication of rental information during previous engagement on business rates. Conversely other stakeholders have argued that the publication of non-domestic rental information would make the business rates system fairer, more transparent and easier to understand. Under a self-assessment system the Government would, therefore, have to consider whether to publish rental information to support valuations done by ratepayers.

17. Maintaining revenues
As with the current system, under self-assessment the Government would be able to adjust the multiplier to ensure a stable level of income for local authorities.

18. VOA duty to maintain the rating list
The VOA currently has a statutory duty to maintain the rating list ensuring errors or inaccuracies in rateable values are corrected. Under a self-assessed system this would be replaced with a duty on the VOA to undertake compliance work.

19. Publishing a list of rateable values
The VOA currently publishes a list of rateable values for business rates purposes. It would be possible under a self-assessed system to continue publishing a list of rateable values based on the values self-assessed by ratepayers. Businesses, however, may consider their self-assessed valuations to be their own private assessment of the value of their property and not for publication. Nevertheless a list of rateable values would still need to be made available to LAs to enable them to levy the correct amount of business rates.

A Formula Alternative

20. Much of the complexity of the current business rates system is said to be linked to the requirement that property valuations are estimates of what a property might be let for at a set date. As an alternative, a formula could be constructed that centred on the measurement of, for example, shops, offices and factories and the categorisation of the space. A separate approach might be needed for large or specialist properties where any formula could be unwieldy. A formula for common classes of property, however, such as shops and offices could be feasible. The formula could not be too sophisticated otherwise it would become unwieldy for ratepayers to use as well as for the Government to maintain and legislate. The introduction of a formula based system would simplify the valuation process and therefore, potentially, allow for more frequent revaluations. It could also make it simpler for many ratepayers to self-assess. The trade-off would be a move away from a system based directly on market values and the specific aspects of the property, although a loose link to a rental market value could be retained in the formula itself.

21. In a system like this, the Government would:

- define the formula
- provide guidance on how the features contained within the formula should be measured or categorised.

- set different values based on location and property characteristics that would be applied to each formula. They would also set different values per square metre of property for different local authorities or regions.
- conduct compliance activity

Ratepayers would collect and input the data required by the formula online to calculate their business rates assessment and charge.

22. A formula based approach would deliver a simpler system for ratepayers and also provide local government with a more secure source of business rates income. As such, it would allow for more frequent revaluations. For a formula system to be deliverable, however, businesses would have to accept assessments that do not reflect the individual characteristics of their property or its location in the same way as the current system. In such a system subsequent revaluations may have less impact on rate bills and less meaning for ratepayers. It may also mean that smaller scale and marginal improvements to properties do not increase bills and, therefore, do not generate any growth in business rates for local authorities.

Suggested Responses to the Discussion Points

23. A review of the non- domestic rating system is welcome in order to facilitate more accurate rating assessments and avoidance of appeals. Greater transparency on market evidence would assist all parties in reaching an agreed position on rateable value. In terms of the proposals for consideration, the concept of a formula based approach, although relatively simple to implement, would depart from linking rateable value to a market based value. This concept is broadly understood by ratepayers and it is suggested that the response reaffirms the desire to continue with this link.
24. The implications of revaluation on small businesses will also need to be considered alongside the Government's announcement (Budget 2016) on changes to small business rate relief, which will result in a further 600,000 businesses being exempted from paying any business rates at all, whilst a further 250,000 will see their rates reduced.
25. The County Council currently owns 406 properties, the majority of which (267) are schools. With regard to the introduction of a self-assessment regime and the possible increased administrative costs to the County Council, it needs to be borne in mind that under the current system there is already an administrative burden for the Council in completing the reassessments. It is difficult to predict by how much this would increase with a full self-assessment without having more details of the exact information and process required. In the case of appeals then the County Council currently engages agents on a no win, no fee basis and there is no reason to believe that this would change.
26. The discussion points contained in the Paper on which the Government has indicated it would welcome views, together with the suggested responses, are grouped under each of the three alternatives and set out in the attached **Appendix**.

Statutory and Policy Implications

27. This report has been compiled after consideration of implications in respect of finance, equal opportunities, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such

implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION

It is recommended that:

1) the report be noted.

2) Members support the suggested responses to the discussion points as set out in the Appendix.

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Financial Comments (NDR 10/05/16)

There are no financial implications arising directly from the report.

Background Papers

None

Electoral Division(s) and Member(s) Affected

All