



## BRIEFING PAPER

Number 07722, 23 November 2017

# Business rates: the 2017 revaluation

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## Summary

Non-domestic properties in the UK pay business rates to local authorities. Business rate liabilities are based on each property's assigned 'rateable value'. This is multiplied by a 'multiplier' or 'poundage' to arrive at the property's annual liability. Rateable values are normally assessed on the basis of the annual rental value of a property. They are reassessed, normally at five yearly intervals: this is known as a 'revaluation'.

The most recent revaluation of non-domestic properties in England, Scotland and Wales took effect on 1 April 2017. This note sets out the background to the revaluation and some of the main effects on ratepayers and local authorities; and information on how to appeal against new valuations.

This revaluation was postponed for two years, from 1 April 2015. It is coming into force alongside a number of other changes in rating practice. The combined effect of these may cause some ratepayers' bills to change significantly:

- The thresholds for small business rate relief in England are rising for the 2017-18 financial year. 100% small business rate relief will be available for qualifying properties with rateable values of £12,000 or less, rising from £6,000. Tapered relief will be available up to £15,000 (previously £12,000).
- There may be substantial changes in valuation practice arising from the 2015 case of *Woolway v Mazars*. This judgment will in future oblige valuation officers to give separate valuations to properties which are physically separate. For instance, where an office is rented together with a car parking space, valuation officers previously had discretion to assign a single rateable value, reflecting the realities of business. In future they will have to assign a separate rateable value to each 'part'. At the 2017 Budget, the Government committed to reversing the effects of this case via legislation;
- The Government is introducing, for England only, a new system for appealing against rateable values, called *Check, Challenge, Appeal*. The intention of this system is to agree on the facts underlying valuations at an early stage in the process, hence removing the need for a large number of formal appeals. This system went live on 1 April 2017.

Details of the functioning of the business rate system can be found in the Library briefing [Business rates](#). Details of recent proposals for reform, changes in the 2016 Budget, and an explanation of the Business Rate Retention Scheme, can be found in the briefing paper [Reviewing and reforming business rates](#).

This note applies to England, Scotland and Wales. Northern Ireland held a business rate revaluation in 2015, and is not affected by the 2017 revaluation in the rest of the United Kingdom.

# 1. Revaluation

## 1.1 Property valuation for business rates

All non-domestic properties in England, Scotland and Wales pay non-domestic rates or 'business rates'. Each non-domestic property is assigned a 'rateable value', which represents the open market rental value of a property on a specified 'valuation date'. The rateable value is then multiplied by a 'multiplier' (set separately in each territory) to produce the annual business rates bill. Hence a property with a rateable value of £20,000, alongside a multiplier of 49.3p, will pay £9,860 per year (i.e.  $20,000 \times 0.493$ ). More details are available in the Library briefing paper [Business rates](#).

Rateable values are subject to regular updating in England, Scotland and Wales, normally every five years. This is done to ensure that they stay broadly in line with properties' annual rental value. Revaluations are carried out by the Valuation Office Agency (VOA) in England and Wales and by the Scottish Assessors in Scotland.

The most recent revaluation came into effect on 1 April 2017, with a valuation date of 1 April 2015. Business rate bills for the financial year 2017-18 are based on the new valuations. The previous revaluation came into effect on 1 April 2010.<sup>1</sup>

The 2017 revaluation took place in England, Scotland and Wales. Northern Ireland held a business rate revaluation in 2015, which proceeded along similar lines. It is not affected by the 2017 revaluation in the rest of the United Kingdom.

## 1.2 The revaluation procedure

In England and Wales, the Valuation Office Agency (VOA) conducting the revaluation from April 2015 to August 2016. It published draft rating lists, containing all properties' rateable values, on 30 September 2016. The list of rateable values, and related information, for England and Wales is available [on the VOA's website](#).

The Department for Communities and Local Government (DCLG) and the Welsh Government funded billing authorities to send letters to all ratepayers informing them that the draft rating lists were published, and inviting them to access their draft rateable value online.

The UK Government has published multipliers for 2017-18 for England. The standard multiplier in England for 2017-18 will be **47.9p**, and the small business multiplier will be **46.6p**.<sup>2</sup> The Welsh Government has set its indicative multiplier at **49.9p**. Taken together with the rating lists, these figures allow ratepayers to calculate their rate bills for 2017-18, in advance of any reliefs.

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<sup>1</sup> Sections 29-30 of the [Growth and Infrastructure Act 2013](#) delayed the 2015 revaluation until 2017 in England. Both the Scottish and Welsh governments subsequently also chose to delay revaluation to 2017.<sup>1</sup> The following English and Welsh revaluations will take place in 2022.

<sup>2</sup> See DCLG, [Business Rates Information Letter 2017/3](#), March 2017

## 1.3 How properties are valued

Properties' rateable values are assessed as at a specific date (the 'antecedent valuation date' or AVD). The 2017 revaluation was based on rental values at 1 April 2015.

Most properties' rateable value is based on their 'annual rental value', i.e. the amount for which they would let on the open market in good condition.<sup>3</sup> In cases where it is difficult or impossible to determine a meaningful annual rental value from direct rental evidence, other methods may be used: for instance, pubs and hotels are normally valued on the basis of 'fair maintainable trade', which relates to turnover levels (see the Library briefing paper [Business rates](#)).

Some properties' rateable values are calculated on the "contractor's basis". This is most commonly used for unusual or unique buildings. The cost of reconstructing the building from scratch is estimated. This figure is multiplied by a 'decapitalisation rate' (a percentage) to produce the rateable value.<sup>4</sup> For England, the Government has announced that it will maintain the current practice of prescribing two rates, one for educational, healthcare and defence properties, and one for all other properties valued on the contractor's basis.

The current decapitalisation rates for these classes of property are 3.33% and 5% respectively.<sup>5</sup> For the 2017 valuation list, these will be changed to 2.6% and 4.4% respectively.<sup>6</sup> For Scotland, the Scottish Government has set rates of 2.9% and 4.6% respectively. In Wales, the Welsh Government has set rates of 2.1% and 3.8% respectively, with the lower figure also applying to public conveniences but not church property.<sup>7</sup>

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<sup>3</sup> This does not mean that the rateable value must be exactly equal to the rent paid on the valuation date. Valuers will seek to ensure that similar properties in similar areas attract similar rateable values.

<sup>4</sup> This represents the rate of interest that funds would attract if they were not used for a rebuild. The decapitalisation rate is prescribed in secondary legislation, and is subject to [a consultation process](#).

<sup>5</sup> This is prescribed in secondary legislation: see the [Non-Domestic Rating \(Miscellaneous Provisions\) \(Amendment\) \(England\) Regulations 2004](#) (SI 2004/1494)

<sup>6</sup> Details of the analysis leading to these figures can be found in [the DCLG consultation paper and response](#), published in September 2015 and April 2016 respectively, See DCLG, [The decapitalisation rate for the 2017 business rate revaluation: Government response](#), April 2016, p. 6

<sup>7</sup> National Assembly for Wales, [Non-Domestic Rating \(Miscellaneous Provisions\) \(Amendment\) \(Wales\) Regulations 2015](#), 8 October 2015

## 2. Appealing against rateable values

### 2.1 How do I dispute my rateable value?

Ratepayers may believe that the new rateable value assigned to their property is incorrect. In this scenario, the ratepayer has the option of a formal appeal. This is known as a 'proposal' to alter the valuation list. A formal appeal relating to the 2017 revaluation can only be made after 1 April 2017. A new appeals process was introduced in England in April 2017 (see below).

Similar properties nearby having a much lower rateable value can be, but are not necessarily, a justification for a reduction in the ratepayer's rateable value. There may be other reasons for differences in rateable value.

Details of how to appeal are [available on the VOA website](#) for England and Wales, and on [the Assessors' website for Scotland](#). If the ratepayer is dissatisfied with the VOA's decision, s/he can appeal to the Valuation Tribunal, and after that to the Lands Chamber of the Upper Tribunal.

If a ratepayer is seeking a reduction in their rate **bill**, as opposed to the rateable value itself, they should approach the billing authority.

**The existing business rate liability must be paid for the duration of any appeal:** they will be reimbursed afterwards if the appeal is successful and the rateable value is lowered. Billing authorities have a **discretionary** power to defer payment within the current financial year. Any change in rateable value can be backdated to a date from which the VOA agree that it should have applied.<sup>65</sup>

Businesses taking forward a formal appeal against their rateable value or their bill may wish to appoint a professional valuer or rating agent, though there is no obligation to do so.

### 2.2 Appeals: England - new system

A new business rate appeals system was introduced in England as of 1 April 2017. This is called *Check, Challenge, Appeal*. The 'check' and 'challenge' elements of the service are provided by the VOA, with the Valuation Tribunal handling appeals.

#### Check

At the 'check' stage, ratepayers will be required to check and confirm "the accuracy of the facts on which their rating list entry is based". The intention is that the majority of disagreements over rateable value will be resolved quickly at the 'check' stage.<sup>8</sup> The Government's response to consultation states that the VOA intends to "respond ... to the great majority of cases within 3 months" at this stage.<sup>9</sup>

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<sup>8</sup> See DCLG, [Reforming business rates appeals: Government response to consultation](#), July 2016, p. 4

<sup>9</sup> *Ibid.*, p. 5

## Challenge

Ratepayers who disagree with their rateable value following the 'check' process may initiate the 'challenge' stage. This must be initiated within four months of the end of the 'check' stage (although any case that has spent more than twelve months at 'check' stage without an extension being agreed will move on automatically). Ratepayers will be able to enter this stage immediately if they have "confirmed, within the last 4 months, that property specific details held by the VOA are correct".<sup>10</sup>

A challenge must contain:

- The name, address and contact details of the proposer;
- Details of the (legal) grounds for the challenge;
- A proposed alternative rateable value;<sup>11</sup>
- Evidence or analysis supporting the proposed alternative rateable value.

Challenges lacking these four elements will be returned as 'incomplete'. If an incomplete challenge is to be resubmitted, this must be done within four months of the end of the 'check' stage.<sup>12</sup> The VOA will then respond to the ratepayer's arguments and evidence.<sup>13</sup> It is expected that the information presented at the beginning of the challenge stage will normally be sufficient for the case to be determined:

It should not be assumed that new evidence or arguments, or amendments to the challenge, will automatically be accepted. It is therefore in ratepayers' interests that they and their professional representatives make full disclosure of all relevant evidence at the beginning of the process.<sup>14</sup>

The Government will introduce a "pre-challenge clearance process" to permit multiple ratepayers to provide evidence regarding valuations in their area. This in effect will allow the VOA to agree on a common approach for a group of businesses or a particular class of property, allowing quicker progress through the challenge stage.

If the ratepayer and the VOA cannot reach an agreement during the challenge stage, the VOA will issue a letter setting out a summary of their decision on outstanding matters, with the reasons for their decision. This will formally end the challenge stage and the ratepayer will have four months in which to lodge an appeal against the VOA's decision. Ratepayers will also have the right to move to appeal stage after 18 months without a decision at challenge stage unless an extension has been agreed.

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<sup>10</sup> Ibid., p. 5

<sup>11</sup> An alternative valuation is required under the current appeals system, but there is no requirement to back it up with evidence.

<sup>12</sup> DCLG, [Check, challenge, appeal: reforming business rates appeals](#), 2015, p. 12. The time limit pauses whilst the VOA is deciding whether to accept the challenge as valid.

<sup>13</sup> Ibid., p. 5

<sup>14</sup> DCLG, [Check, challenge, appeal: reforming business rates appeals](#), 2015, p. 13.

## Appeal

Appeals will take place, as now, before the Valuation Tribunal for England.

The introduction of substantial new evidence at appeal stage by either party to the appeal will be restricted, save at the mutual agreement of the parties.<sup>15</sup> The Government has introduced a fee for the appeal stage, of £300 for large businesses and £150 for small businesses.<sup>16</sup>

The regulations propose that the Valuation Tribunal should only order a change in rateable value if the valuation is not seen as 'reasonable'. The response to consultation published in March 2017 stated:

The Government will not impose an arbitrary fixed percentage boundary on decisions by the VTE. Instead it will be for the VTE to take a view, based on the available evidence, on whether they consider the valuation to be reasonable. Where they consider that the current list reflects a reasonable valuation, it is right that they should not order a change.<sup>17</sup>

The consultation on the regulations, published in August 2015, had proposed that:

... the VTE, in considering an appeal, should order a change in the rateable value only where their view is that the valuation is outside the bounds of reasonable professional judgement. In cases where the VTE consider the extant valuation is within the bounds of reasonable professional judgement, no change will be made to the valuation.<sup>18</sup>

This approach is known within the valuation profession as 'blunting'. It provoked an adverse response from the profession. The local finance officers' website *Room 151* quoted John Webber, Head of Rates at property consultants Colliers, as saying:

Valuations can vary between 10% and 20% within the bounds of reasonable judgement. This is saying your rates bill could be 20% higher than you think it should be and it doesn't matter.

That is bad enough for a ratepayer. For a local authority it will mean a flurry of appeals come in before the new rules are introduced.

After that, more challenges will end up at appeals. The initial Valuation Office Agency will just fold its arms at the first stage.<sup>19</sup>

Specific percentages demarcating the bounds of 'professional judgement' were not included in the consultation or the draft or final regulations.

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<sup>15</sup> Ibid., p. 16

<sup>16</sup> DCLG, [Reforming business rates appeals: consultation on statutory implementation](#), August 2015, p.10

<sup>17</sup> DCLG, [Check, challenge, appeal: reforming business rate appeals – consultation on statutory implementation](#), March 2017, p10

<sup>18</sup> Ibid., p12-13

<sup>19</sup> John Webber, Colliers, quoted in Colin Marrs, ["Business rates 'bombshell' could worsen appeals backlog"](#), *Room 151*, 18 August 2016



## 2.3 Appeals: Wales

In Wales, appeals should be made to the Valuation Office Agency. Where an appeal is unsuccessful, it can be progressed to the Valuation Tribunal for Wales. Appeals may be submitted at any time during the life of the valuation list; but each occupier can only appeal once against any particular set of facts. This system is the same as the one that operated in England until 1 April 2017.

Some property consultancies, such as [Gerald Eve](#) and [Blake Penfold](#), have suggested that the Welsh Government may follow England in changing the appeals process for cost reasons, as it would be more costly to engage the VOA to continue with the current process in Wales when it changes in England.

The practice of the Valuation Tribunal for Wales differs slightly from that in England. Its [best practice protocols for appeals](#) state that:

- the Welsh Tribunal, wherever possible, will arrange for the first hearing of an appeal within 6 to 8 weeks of the target date unless it has been determined that the appeal should proceed initially to a pre hearing review (shorter timescale than in England where it is intended that appeals take place within 6 months of the target date);
- the Welsh Tribunal will give a minimum of 28 days' notice of the date, time and place of the hearing (less than in England where it is 6 weeks);
- the Valuation Officer must provide details of the rental evidence that they wish to refer to at the hearing at least 3 weeks before the hearing date (in England the VOA must submit its Statement of Case at least 4 weeks before the hearing date);
- the Welsh Tribunal expects that all parties to the appeal discuss and exchange evidence at least 2 weeks before the hearing day (in England those making an appeal must submit their Statement of Case to the VOA at least 6 weeks before the hearing date).<sup>20</sup>

## 2.4 Appeals: Scotland

In Scotland, appeals may only be made within six months of the new valuation list taking effect (i.e. by 30 September 2017), within six months of a new rateable value being set for the property, or within six months of the property gaining a new owner, tenant or occupier. Guidance is available on [the website of the Scottish Assessors](#).

Appeals must be made to the relevant Scottish Assessor in the first instance. Where an appeal cannot be resolved by negotiation between the appellant and the Assessor, it will be heard by a Valuation Appeal Committee. These are committees of lay persons. The ratepayer must provide details of their appeal at least 35 days in advance of the hearing. Complex appeals may be heard by the Lands Tribunal of Scotland (which forms part of the Scottish court system).<sup>21</sup> Appeals

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<sup>20</sup> See VOA, [How to appeal your rateable value](#), 22 January 2016

<sup>21</sup> See the [Valuation Appeal Committee \(Procedure in Appeals under the Valuation Acts\) \(Scotland\) Regulations 1995](#)

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against decisions of the two bodies are heard by the Lands Valuation Appeal Court.

In Scotland, a statutory time limit exists for the disposal of appeals. For the 2010 list, Valuation Appeal Committees are required to have resolved all appeals arising by 31 December 2013.<sup>22</sup>

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<sup>22</sup> Scottish Government, [Consultation on the non-domestic rating valuation appeals system](#), December 2014, p.15. See the [Valuation Timetable \(Scotland\) Order 1995](#) (SI 1995/164), as amended by the [Valuation Timetable \(Scotland\) Amendment Order 1997](#) (SI 1997/1781).

## 3. Effects on rate bills

### 3.1 Rateable values and multipliers

The VOA published high level statistics and analysis of the effects of the revaluation on 28 September 2016. They published a [fuller set of analyses](#) on 6 October 2016, updated on 18 October 2016.

In advance of the publication of the VOA's statistics in September 2016, a number of rating and property companies produced forecasts of the changes to rateable value likely to result from the 2017 revaluation.<sup>23</sup> These forecasts were based on their analyses of the rental market in 2015, which forms the basis of property valuation (see section 1.4).

The majority of forecasts anticipated a reduction in overall rateable value in England, Scotland and Wales compared to 2010 valuations. However, the draft lists show total rateable value in England **increasing by 10.6%**, and total rateable value in Wales **reducing by 2.9%**.<sup>24</sup>

### 3.2 How the multiplier is adjusted at a revaluation

Ratepayers may believe that a reduction in their rateable value will lead to a reduction in their business rate bill. This is not necessarily the case.

Business rate bills are calculated by multiplying a property's rateable value by the 'multiplier'. Separate multipliers are set for England, Scotland and Wales. For instance, a property with a rateable value of £20,000, and a multiplier of 49.3p, will have a business rate bill of £9,860 per year (i.e. £20,000 \* 49.3p).

The law requires that the overall level of business rate revenue remains the same at a revaluation. This means that if total rateable value rises, the multiplier must fall; and if total rateable value falls, the multiplier must rise. This principle applies separately in England, Scotland and Wales. Thus the rise in rateable value in England triggers a fall in the multiplier; and the fall in rateable value in Wales triggers a rise in the multiplier (see section 1.3).

Most previous revaluations have seen a rise in the overall quantity of rateable value in each territory, which has triggered a fall in the

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<sup>23</sup> See, for instance, GL Hearn / MSCI, [UK Rating Revaluation 2017](#), 2015; Andrew Hetherton, [Business Rates Update: revaluation 2017](#), Property Managers' Association, 2016; Gerald Eve, "[West End shops face 80% surge in business rate bills](#)", 2013; Colliers International, [How the 2017 rating revaluation will affect high street retailers, December 2015](#), p. 12; JLL, [2017: a brave new world?](#), 2015; Bilfinger GVA, [April Fool: the revaluation that never was](#), 2015; BNP Paribas, [Revaluation 2017: who will the winners and losers be?](#); Ryden, [Scottish business rates - how will you be affected by the revaluation?](#), August 2015; Welsh Retail Consortium, [Radical reform of business rates needed now to prevent Wales falling behind the rest of the UK](#), 30 March 2016

<sup>24</sup> VOA, [Summary statistical release](#), 28 September 2016, p. 2. Both figures in this paragraph take into account large rises in rateable value on the central lists in England and Wales.

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multiplier. The following table shows these effects for England, Scotland and Wales:

### Impact of previous revaluations

	Rateable value (£ millions)	Increase in RV	Multiplier	Multiplier (previous year)
<i>England:</i>				
2000-01	29,337	29%	41.6p	48.9p
2005-06	39,715	17%	42.2p	45.6p
2010-11	46,934	20%	41.4p	48.5p
<i>Scotland:</i>				
2000-01	3,748	16%	45.8p	48.9p
2005-06	4,444	14%	46.1p	48.8p
2010-11	5,299	25%	40.7p	48.1p
<i>Wales:</i>				
2000-01	n/a	n/a	41.2p	44.3p
2005-06	1,666	14%	42.1p	45.2p
2010-11	1,963	20%	40.9p	48.9p

Sources:

[VOA: Non Domestic Rateable values data](#)

[Scottish Local Government Finance Statistics](#)

### 3.3 Interaction with Small Business Rate Relief changes (England)

As of 1 April 2017, changes have been introduced to Small Business Rate Relief, which reduces rate liability for some smaller properties. The 2017 changes increase the thresholds for small business rate relief:

- Properties with a rateable value of £12,000 or less will attract 100% relief i.e. they will pay no business rates;
- Properties with a rateable value of £12,000 to £15,000 will attract some business rate relief on a tapering scale;
- Properties with a rateable value between £15,000 and £51,000 will be subject to the small business multiplier.

A business may only claim small business rate relief on one property. Businesses with more than one property are only eligible for small business rate relief if their additional property or properties all have rateable values of under £2,600, **and** the total rateable value of all their properties does not exceed £17,999 (£25,499 in London). These figures increased to £2,900, £19,999 and £27,999 as of 1 April 2017.<sup>25</sup> The relief is only available on the main property, not on any smaller properties that the business occupies.

<sup>25</sup> DCLG, [Business Rates Information Letter 1/2017](#), 24 January 2017: see also the [Non-Domestic Rating \(Reliefs, Thresholds and Amendment\) \(England\) Order 2017](#) (SI 2017/102).

Local authorities will be compensated by Government grant for the revenue lost as a result of these changes.

### 3.4 Transitional arrangements

Large changes in rateable values at a revaluation can translate into large or very large sudden increases, or decreases, in business rate bills. To protect businesses from sharp effects of this kind, transitional arrangements (also known as 'transitional relief') can be used to dampen the effects of revaluations on business rate bills.

Previous transitional schemes in England have phased in both increases and reductions in rate bills. When this happens, although transitional relief softens the effects of revaluation on 'losers', it also means that 'winners' (i.e. businesses whose rate bills have fallen) do not receive their full 'win' for a few years following the revaluation.<sup>26</sup> The options set out in the DCLG's September 2016 consultation on transitional schemes included estimates of the number of properties whose rate bills are likely to be affected under each option.<sup>27</sup>

#### Wales: transitional relief in 2017-22

On 30 September, the Welsh Government published a consultation on a transitional relief scheme for the 2017-22 period.<sup>28</sup> This is the first transitional relief scheme in Wales since the 2000-05 rating list.

Transitional relief in Wales will be available solely to ratepayers who currently receive small business rate relief, and who will receive less small business rate relief as a result of the 2017 revaluation. All such ratepayers will have any increase in their rate bills phased in over a four-year period. 25% of the increase will apply in the first year following revaluation (i.e. 2017-18); 50% in the second year; 75% in the third year; and the full increase will apply in the fourth year.

The transitional relief scheme will be funded by the Welsh Government. Unlike in England, there is no requirement for falls in business rate bills in Wales to be 'capped' to pay for the scheme (see above). The Welsh Government states that over 7,000 ratepayers will benefit from the relief scheme.

#### Scotland: transitional arrangements

The Scottish Government has published [a consultation on the principle of introducing a transitional relief scheme](#). The consultation closed on 11 October 2016.

On 21 February 2017 the Scottish Government announced a decision to cap rises in rate bills to 12.5% for 2017-18 for hotels, pubs, restaurants and cafes; office space in Aberdeen City and Aberdeenshire; and small-scale hydro-electric schemes.<sup>29</sup>

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<sup>26</sup> Possible effects of this are summarised in JLL, *2017: A brave new world?*, 2015, p.15

<sup>27</sup> DCLG, *Business Rates Revaluation 2017: Consultation on the transitional arrangements for the 2017 business rates revaluation*, 2016, p. 9-10

<sup>28</sup> Welsh Government, *Proposed arrangements to provide transitional relief to support small businesses adversely affected by the 2017 non-domestic rates revaluation*, 2016

<sup>29</sup> Scottish Government, *Business Rates Statement*, 21 February 2017

Scotland did not operate transitional schemes for the 2010-17 rating lists, though it did operate a scheme for the previous lists beginning in 1995, 2000, and 2005.

### England: transitional scheme in 2017-22

There is a legal requirement for England to use a transitional scheme to phase in substantial increases or decreases in a ratepayer's bill following a revaluation.<sup>30</sup> Regulations to enact a transitional scheme must come into force in advance of 1 January before the financial year to which they apply.<sup>31</sup>

Two options for a transitional scheme were published in a Government consultation document on 28 September 2016.<sup>32</sup> The scheme used was a modified version of the consultation's 'Option 2'. The scheme is detailed in the table below. It sets percentage limits on the amount by which a property's business rate bill can increase or decrease in individual financial years, subject to an adjustment for inflation. The supplement on large properties that pays for small business relief is excluded from transition. These limits are calculated before any other reliefs are applied to a property's business rate bill. The percentage limits apply to ratepayers' **bills**, not to changes in rateable value.

The September 2016 consultation states that London "will benefit more than anywhere else in the country from the transitional relief scheme".<sup>33</sup> This is because London stands to see the largest rise in rateable values and rate bills as a result of the revaluation.

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<sup>30</sup> See section 57A of the *Local Government Finance Act 1988*, inserted by section 65 of the *Local Government Act 2003*.

<sup>31</sup> The current scheme is governed by the *Non-Domestic Rating (Chargeable Amounts) (England) Regulations 2009* (SI 2009/3343).

<sup>32</sup> DCLG, *Business Rates Revaluation 2017: Consultation on the transitional arrangements for the 2017 business rates revaluation*, September 2016

<sup>33</sup> DCLG, *Business Rates Revaluation 2017: Consultation on the transitional arrangements for the 2017 business rates revaluation*, September 2016, p.6

Rate increase limits			
Year	Small property (RV below £20,000: below £28,000 in London)	Medium property (RV=£28,001-£100,000)	Large property (RV above £100,000)*
2017-18	5%	12.5%	42%
2018-19	7.5%	17.5%	32%
2019-20	10%	20%	49%
2020-21	15%	25%	16%
2021-22	15%	25%	6%

\*Changes to this column were announced at Autumn Statement 2016.

Rate decrease limits			
Year	Small property (RV below £20,000: below £28,000 in London)	Medium property (RV=£28,001-£100,000)	Large property (RV above £100,000)
2017-18	20%	10%	4.1%
2018-19	30%	15%	4.6%
2019-20	35%	20%	5.9%
2020-21	55%	25%	5.8%
2021-22	55%	25%	4.8%

### The 2010-17 transitional scheme

This scheme is similar in format to the scheme that applied to the 2010-17 valuation list, as shown in the following table:

Rate increase limits			
Year	Small property (RV<£18,000)	Large property	Inflation factor
2010-11	5%	12.5%	-1.4%
2011-12	7.5%	17.5%	4.7%
2012-13	10%	20%	5.6%
2013-14	15%	25%	2.7%
2014-15	15%	25%	1.9%

Rate decrease limits			
Year	Small property (RV<£18,000)	Large property	Inflation factor
2010-11	20%	4.6%	-1.4%
2011-12	30%	6.7%	4.7%
2012-13	35%	7%	5.6%
2013-14	55%	13%	2.7%
2014-15	55%	13%	1.9%

Local authorities had the discretion to continue to apply transitional relief for increases in bills in the financial years 2015-16 and 2016-17, following the postponement of the 2015 revaluation to 2017. The cap on rate increases in both years was 15% for small properties and 25% for large properties. This was not implemented via regulations: the Government simply agreed to compensate local authorities for any relief

## 16 Business rates: the 2017 revaluation

given. This scheme did not apply to properties with a rateable value of over £50,000.<sup>34</sup>

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<sup>34</sup> See DCLG, [\*Extension of Transitional Relief for small and medium properties - Guidance\*](#), January 2015. As such, there was no legal obligation on local authorities to give transitional relief from 2015 to 2017. However, when they did so they would be compensated via 'section 31' grants.



## 4. Sectoral impacts

### 4.1 VOA analysis of impacts in England

The Valuation Office Agency published a number of statistical releases on 28 September 2016.<sup>35</sup>

As noted above, the statistics showed total rateable value in England **increasing by 10.6%**, and total rateable value in Wales **reducing by 2.9%**.<sup>36</sup> The changes differed by region:

- Rateable value in the North-East, North-West and Yorkshire & Humber will fall marginally, whilst in London it will rise by 22.8%;
- Rateable value on the English central list (consisting mostly of former nationalised industries and utilities) will rise by 41.9%.

The Government consultation included a table showing estimated effects of the revaluation on **business rate bills** by region and sector. This is reproduced below:<sup>37</sup>

**Estimated percentage change in bills at 2017 revaluation**

	Central	Retail	Offices	Industry	Other	Total
<b>North East</b>		-16%	-21%	-9%	-1%	<b>-11%</b>
<b>Yorkshire &amp; Humber</b>		-11%	-21%	-9%	-4%	<b>-10%</b>
<b>North West</b>		-15%	-14%	-12%	0%	<b>-10%</b>
<b>West Midlands</b>		-11%	-16%	-7%	1%	<b>-7%</b>
<b>East Midlands</b>		-5%	-2%	-7%	3%	<b>-3%</b>
<b>East</b>		-13%	-7%	-7%	2%	<b>-6%</b>
<b>South West</b>		-14%	-10%	-5%	1%	<b>-6%</b>
<b>South East</b>		-8%	-3%	-4%	6%	<b>-2%</b>
<b>London</b>		14%	10%	4%	14%	<b>11%</b>
<b>Central list</b>	28%					<b>28%</b>
<b>Total</b>	<b>28%</b>	<b>-5%</b>	<b>1%</b>	<b>-6%</b>	<b>5%</b>	<b>0%</b>

The figures in this table are based upon high-level estimates of bills *after* taking into account the preferred transitional relief scheme (see section 3.3) and the new provisions for small business rate relief.

### 4.2 Valuation of solar power installations

The Solar Trade Association has raised concerns over the effect of the 2017 revaluation on the rates payable on small-scale solar installations:

[The VOA's] assessment of solar panel values would lead to a sixfold to eightfold rise in business rates that would make it "completely uneconomic" for companies to install such systems, said Paul Barwell, chief executive of the Solar Trade Association.

<sup>35</sup> VOA, [Non-domestic rating: High-level estimates of change in rateable value of rating lists](#), September 2016

<sup>36</sup> VOA, [Summary statistical release](#), 28 September 2016, p. 2

<sup>37</sup> DCLG, [Business Rates Revaluation 2017: Consultation on the transitional arrangements for the 2017 business rates revaluation](#), September 2016, p. 6.

...

The association has calculated that a factory with a 100 kilowatt solar system that now pays about £350 a year in business rates faces a bill of up to £2,600 from next year.<sup>38</sup>

A report from *Green Business* on 30 September suggested that the VOA and the Solar Trade Association had negotiated some mitigation of these changes for companies that export the solar power they produce to the National Grid.<sup>39</sup>

Installations of under 50kw are exempt from business rates for the duration of the 2010 rating list.<sup>40</sup> This exemption will no longer apply in the 2017 rating list: these installations will be separately valued from 1 April 2017. This could produce business rate bills where none previously existed: for instance, for a small solar installation on the roof of a building. A rateable value will be applied even where energy is not being generated for commercial use.

Separately, larger solar installations were valued at a fixed rate on the 2010 rating list. This was because the industry was in its infancy at the last revaluation in 2008. It was therefore difficult to obtain valuation evidence. For the 2017 rating list, different approaches will be used. Where energy is being generated for commercial sale, installations will be valued via the receipts and expenditure basis (i.e. rateable values will be related to the installation's turnover). Where energy is being generated for the property's own use, installations will be valued on the contractor's basis. Either of these methods could produce different rateable values from those that applied in the 2010 rating list.

### 4.3 Changes to valuation of physically separate properties

Judgment in the case of *Woolway v Mazars* (2015 UK SC53) was [given by the Supreme Court on 29 July 2015](#). The case concerned the second and sixth floors of an office block near Tower Bridge, in London. The accountancy firm Mazars occupied these two floors under separate leases, with other occupants in the intervening floors. The two floors were rated separately. Mazars sought to have them rated as one property. The judgment found that Mr Woolway, the valuation officer, was correct to have rated the two floors separately.

The effect of this case is to prevent valuation officers from assigning a single rateable value to properties that are not physically contiguous but are (for instance) covered by a single lease to a single occupant. The case will apply to valuation practice in England and Wales.

The question of whether two or more properties that are used by the same company, possibly jointly leased, whilst not being physically

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<sup>38</sup> Pilita Clark, "UK tax revaluation casts cloud over solar boom", *Financial Times*, 5 July 2015

<sup>39</sup> James Murray, "[Solar business rates to be cut for some firms, but others still fear huge tax hike](#)", *Green Business*, 30 September 2016

<sup>40</sup> See the [Valuation for Rating \(Plant and Machinery\) \(England\) \(Amendment\) Regulations 2008](#) (SI 2008/2332)

contiguous, had previously been a matter of discretion for local valuation officers. For instance, where an office and a car park were rented together to an occupier, they might be valued as a single property, if this reflected the reality of business operations. On the other hand, where separate leases were in operation (as in *Woolway v Mazars*), separate valuations might be justified.

Possible impacts of this decision include the following:

- Many ratepayers will find themselves with separate valuations for properties that had previously been valued singly. This could affect larger ratepayers and smaller ratepayers;
- It is possible that separate valuations of this kind will lead to a rise in rateable value for these ratepayers, and thus a rise in their rates bill *compared to what they would otherwise have been paying*. Previously, valuation of linked properties as a single hereditament often resulted in a 'quantity discount' for the ratepayer;<sup>41</sup>
- The change will require a large number of new valuation entries, over and above the revaluation exercise itself. Some of these may generate additional appeals; others may not be resolved by 1 April 2017, and will thus require adjustment after the new rating list has become operational.

At the 2017 Budget, the Government committed to legislating to reverse the impact of the case:

[The Government will legislate] retrospectively to address the so-called "staircase tax". Affected businesses will be able to ask the Valuation Office Agency (VOA) to recalculate valuations so that bills are based on previous practice backdated to April 2010 – including those who lost Small Business Rate Relief as a result of the Court judgement. The government will publish draft legislation shortly...<sup>42</sup>

The VOA has produced [guidance for ratepayers on the implications of the case](#). In addition to its effect on the 2017 revaluation, it may also imply revisions to ratepayers' liability for business rates between 2010 and 2017. The VOA's Rating Manual contains a section on the issues to be addressed by valuers in such situations. It states that, following *Woolway v Mazars*:

the test of whether one part could be separately let and therefore separately occupied without significant detriment to the other part is very much more likely to be met where the two parts are geographically very close and the geographical separation small. In the rare cases to which the functional test applies to aggregate two geographically distinct parts it is likely that if the two parts are not close that they will reasonably be capable of separate letting and therefore remain two hereditaments.<sup>43</sup>

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<sup>41</sup> See Radhika Kapila, [Case comment: Woolway v Mazars](#), UK Supreme Court blog, 10 September 2015

<sup>42</sup> HM Treasury, [Budget 2017](#), p34

<sup>43</sup> VOA, [Rating Manual 4.2: Occupation and the Hereditament](#). This section of the Manual is not dated, but it takes account of *Woolway v Mazars*.

## 5. Revaluation and local authority budgets

As noted above, a revaluation cannot itself change the total amount of business rate revenue within England (or within Wales, or within Scotland). Section 3 noted that business rate revenues within different regions of Great Britain would vary by different amounts, as rental values have changed to different degrees between 2010 and 2017.

By the same token, individual local authorities may see their business rates revenue rise or fall, possibly substantially, purely as a result of the revaluation.

In England and Scotland this could have a direct impact on local authorities' income levels, due to the existence of the Business Rates Retention Scheme (BRRS) in England and the Business Rates Incentivisation Scheme (BRIS) in Scotland. Under the BRRS, each English local authority's core funding is directly linked to its business rate revenue.<sup>44</sup> In Wales, the Wales-wide pooling system means that the additional revenue will be redistributed on a needs basis.

Changes in properties' values will feed through into changed business rate bills, and, therefore, to the total amount of revenue received by each local authority. Some local authorities will receive more rate revenue than previously and some will receive less, purely as a result of the revaluation. Each local authority's business rate revenue formed part of the context for the setting of tariffs and top-ups (the redistributive element of the BRRS) and targets (fixing levels above which extra revenue could be retained within BRIS).

Therefore, the Government has stated that, where an authority's rate revenue changes as a result of the revaluation, this will be balanced by an adjustment to the authority's tariff or top-up level.<sup>45</sup> A consultation on the mechanism for achieving this was published on 15 September 2016.<sup>46</sup> The aim of the 'revaluation adjustment' is to cancel out these changes by adjusting each authority's tariff or top-up. This consultation concerns the technical details of how this adjustment will be carried out.

In Scotland, individual local authority targets within the BRIS will be rebased as a result of the 2017 business rates revaluation.<sup>47</sup>

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<sup>44</sup> For further details on the Retention Scheme, see the Library briefing paper [Reviewing and reforming business rates](#).

<sup>45</sup> DCLG, *Self-sufficient local government: proposals for 100% business rates retention*, July 2016, p. 27

<sup>46</sup> DCLG, [Local government finance settlement 2017 to 2018: technical consultation](#), September 2016

<sup>47</sup> See Scottish Government. [Local Government Finance Circular 9/2014](#), 2014, Annex N paragraphs 12-13.

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