Business Rates: delivering more frequent revaluations.

Response of the Rating Surveyors' Association to the March 2016 Government discussion paper

The Rating Surveyors' Association

The Rating Surveyors' Association (RSA) is a professional organisation for experienced Chartered Surveyors who specialise in the field of Non-domestic rates and can demonstrate that they comply with the highest of professional standards. The Association was founded in 1909 and now has over 460 members drawn from private practice, corporate bodies, the Valuation Office Agency (VOA) and local authorities.

The Association is pleased to be offered the opportunity to comment on the discussion paper which was issued in March 2016.

1. Introduction & General

The RSA finds the discussion paper disappointing. It purports to be a consultation on more frequent revaluations yet it seems to concentrate more on the financial implications . The aspiration for more frequent revaluations is certainly present but there is little discussion of options and ways of achieving greater frequency. Instead the paper concentrates much more on how more frequent revaluations might be paid for rather than how they might be undertaken – the emphasis being on it being 'affordable'. This seems a mistaken focus.

From the VOA Annual Report 2014-15 it seems the VOA cost for its work on Non-domestic Rating is towards £100M pa, perhaps rather less. Non-domestic Rating raises some £22.4bn pa. If the cost of more frequent revaluations was an additional cost of 10% - £10m pa (but it might in practice not have an added cost if the effect on challenges was to significantly reduce their number) - then the additional cost would be 1/2240th of the take or 0.000446%. £10M from the public purse is still £10m but in context it is insignificant. It would certainly in relative percentage terms not bear any great weight on the business decision of a company considering a major project. The company would be looking at the benefits from the project; would it please its customers and encourage greater sales; would it assist elsewhere in its operations; was it a good idea in itself?

The Valuation Office Agency has been subject to continual cuts in its budget for decades. The RSA considers there is a great danger in seeking to save, effectively, pennies that the whole fabric of the Rating System could be damaged. The misguided concern over a marginal additional cost is symptomatic of this. The consultation paper emphasises the importance of a stable rates base. Given the concern of ratepayers and their general desire for more frequent revaluations this should be the prime concern. Will it achieve a better running of the system or not? The saving of small sums of money should not be at the cost of providing ratepayers with a proper service for the very substantial sums in rates which they part with: ratepayers should expect valuations to be properly undertaken, broadly reliable and done in accordance with best, rather than 'make do,' practice.

2. Revaluations under the current system

The paper identifies a number of significant challenges it argues need to be overcome.

2.3 - Collecting and analysing evidence – the RSA agrees with the paper that more frequent revaluations, say three yearly, would require the continuous collection of rental information. However the RSA is surprised at the suggestion this would increase the cost of operating the system 'significantly.' RSA members are well aware that valuation officers issue forms of return not simply at revaluation but as a continuous process as rent reviews and renewals become due and when they are aware of new lettings. Whilst the activity increases at revaluation – significantly in the case of receipts classes – it is already a continuous process and, broadly, what would need to be captured for a three yearly revaluation would be little different from what is already sought. It seems likely there are more efficient ways to gain the information – the enhancement to digital supply will very much assist this – including bulk provision and undertaking on a continuous process is likely to yield savings in itself, but it seems unlikely to the RSA that data capture will add significantly to costs.

2.5 - Access to skills - the RSA is not convinced the effect of more regular revaluations will be to increase costs. It is equally possible the effect may well be to reduce and better focus challenge and be cost neutral. The RSA considers the VOA under resourced and therefore shares the concern about ensuring sufficient professional and support staff are available.. The VOA has already with great success, over many years, tapped into the market for chartered surveyors wishing to work part time either due to family commitments or part retirement but other imaginative approaches need to be used. The RSA welcomes the expansion of apprenticeships replacing the old Cadet Valuer scheme many RSA members benefitted from in the past. This should be expanded and other ways found to develop a new young workforce.

2.6 - Multiple rating lists - the RSA is not at all convinced there is much greater complexity in running a triennial as opposed to quinquennial pattern of rating lists. Dealing with appeals on multiple lists has been normal for valuation officers since 1990. The main example given is that:

A change in one rating list may need to be reflected in the others – for example a change notified to the VOA in the current list may mean the previous list needs to be altered, and may also need to be reflected in the next list under preparation.

This example as it stands is mistaken. Assuming a three yearly revaluation cycle simply replacing the existing five year cycle but regulations etc otherwise left alone, a change notified to the VO could only result in changes to two lists. Clearly the current list would be altered but the former list could only be altered if within the one year window into a new list when the regulations permit the former list to be altered on the VO's own volition. On the other hand if the notification is within the last two years of the three year current list then this may well require amendment to the developing draft next list. This is no different from the current situation for the first and last two years of a five year list with two not three lists needing alteration.

Of course settlement of an outstanding current list appeal where an alteration is needed will require a change to the current list but, again, can only affect other lists in the same way as notifications mentioned above.

The point made about increased complexity appears to the RSA to be very much overstated and is in reality little different to the existing position. Certainly it does not require 'a need to reform' in itself but merely a need to manage carefully. For all parties it is little different from the current system, certainly in the first or latter two years of a list.

2.7 - Appeals - The RSA agrees triennial revaluations provide greater scope and potential for more proposals to be made. However, it does not automatically follow this will happen.

The RSA, in earlier responses to consultations, has set out its strong view that greater transparency in the rental information held by valuation officers would be likely to reduce the numbers of proposals made because the ratepayer could much more easily check the accuracy of the assessment. The paper identifies the government's proposals of 'Check, Challenge and Appeal' as likely to have the effect of reducing the number of cases reaching the appeal stage. The RSA is keen to engage with government on developing these proposals so they form an effective means for ratepayers to be assured of the correctness of their assessments.

The RSA is not convinced the move to more frequent, probably triennial, revaluations will result in greater work for valuation officers in dealing with the appeals process. Reasonably, if ratepayers see the movement in their rateable value matching their perception of movement within the three year period and given their valuations will be more up to date they are less likely to challenge speculatively and only if they consider, or are advised, the valuation is misconceived. There may be a number of appeals for the first of the three yearly valuations , but the RSA considers that this will reduce on the next one as the valuations should become more correct with the benefit of better supporting information . There is, after all, no point in contesting a valuation that is correct as this would just clog up the system .

2.9 Discussion Points on the challenges of delivering more frequent revelations under the current system:

- **Particular stages of the valuation process where reforms would be needed to deliver more frequent valuations**
- As mentioned there is a lack of discussion on actual aspects of a more frequent revaluation. Some aspects which need to be considered are:
- **Frequency of revaluation -** this is perhaps the main question. The RSA can see that annual revaluations are a theoretical ideal but are impractical at least in the short to medium term. Experience of more frequent revaluations would be needed before it would be wise to consider a move to annual revaluations. A two year cycle is probably similarly difficult and a four year cycle is not significantly different from the present. The RSA recommends a three year cycle In view of the General Election in 2020 it considers it might be prudent to avoid moving straight to a three yearly cycle and suggests an interim four year stage giving a revaluation in 2021 before settling into triennial revaluations from 2024.?
- **Antecedent valuation date** - at the present time and since 1990 the valuation date for revaluations has been set two years before the lists come into effect. This means that the basis of the rate is already two years out of date except for the limited range of physical factors which are taken as at the date the lists come into effect. This is not an ideal situation particularly given the reason the majority of responses to the April 2014 Rates Administration discussion document favoured more frequent revaluations. This was to tie valuations closer to current market values given the disquiet over rating valuations not having been able to take into account the recent recession. The RSA considers with modern IT support valuation officers should be able to prepare valuations much closer to the date they come into effect and have a shorter antecedent period. A year seems the obvious choice.

- **Transitional Relief**

- The problem with this is Transitional Relief. Currently a transitional relief scheme is a statutory requirement and whilst very complicated indeed is certainly welcomed by some ratepayers. In order to set the transitional relief scheme the government needs early data on the outcome of the VOA revaluation project. The RSA suggests a much simpler scheme of transitional relief might well avoid this, perhaps as simple as having all new rate payments phased in over the first two years i.e. a rise or fall of a third of the increase/decrease in the first year, two thirds in the second and the proper liability in the third. Without a complex scheme a much shorter antecedent period should be possible.

- **Rolling revaluations**

- Whilst the RSA is not advocating rolling revaluations it is surprised that the idea was not covered in a paper on more frequent revaluations. Certainly revaluing only part of the country at a time or selected classes has the potential for spreading workloads.

- **the effect of more frequent revaluations on appeals**
  As mentioned the RSA does not think appeal activity will be any greater: certainly not when the revised pattern beds in

- **the increased risk of appeals and how could this be avoided or managed**
  See above

- **accessing the skills to deliver more frequent revaluations**
  See comments above

- **how the delivery of rating valuations could be reformed to support more frequent revaluations**
  See comments above

- **collection and analysis of information to support more frequent revaluations, including the role of ratepayers**
  The RSA considers it will improve the system to have VOs continually monitoring the market and engaging with lessees and lessors. A triennial revaluation will most likely improve quality by having a permanent, business as usual focus on valuation.

  As mentioned above more efficient ways of obtaining rental information can be developed reducing the reliance on Forms of Return (FORs) which, really, should be a method of last resort given their burden on ratepayers to complete.

Certainly the RSA would like to see a much more public presentation of rental evidence as has been indicated by the association in previous consultations.

3. A Self-assessment Option

The RSA sees self-assessment as a completely separate consideration from more frequent revaluations. Self-assessment in no way drives more frequent revaluations or vice versa.
The RSA agrees self-assessment is certainly something to explore, though it does not consider at the present time that a full assessment scheme is either practicable or desirable.

The comparison of self-assessment for income tax with self-assessment for Rating is somewhat misleading. Income Tax is broadly a calculation from discoverable data. The task for the taxpayer in undertaking self-assessment is ensuring an accurate return of taxable income and in deciding what is or is not, on the margins, taxable income. It is not really self-assessment if the process is examined. The taxpayer fills in the tax return online in very much the same way as a paper return would be completed with factual details - albeit it can be complicated to research and identify items of income and allowances. The 'self-assessment' part is actually done by the on line program which instantly produces the whole calculation and tax due. This is certainly checked by the taxpayer but this is a checking of inputs not the assessment! Nothing different happens really apart from the process being online from the old position when the Inspector of Taxes sent the calculations to the taxpayer. It is simply an on line version. Self-assessment for Income tax, for example,is based on the facts , Business Rates are based on opinion of value . This is why Self-assessment would give so many challenges.

The RSA believes that it is in the inputs, like with income tax that attention should be directed not the valuation process.

Self-assessment for Rating can be seen as being of two main types:

1. A factual data return option
2. A full valuation option

The discussion paper looks at the second (though it inevitably includes the first) without considering whether the former should be examined on its own. Fairness is a critical aspect of a local property tax system. Assessments should be fair between one ratepayer and another. Fairness in the UK is required to be achieved by correctness rather than simple uniformity .Ensuring the factual details behind a rating valuation are correct goes a long way to achieving that. Requiring ratepayers to check the factual details behind their assessments as part of the proposed 'Check' element of 'Check, Challenge and Appeal' has strong elements of moving the responsibility for accurate physical data to the ratepayer. There is clearly significant future opportunities for expanding this, even requiring details of new properties and extensions to be submitted.

The RSA considers there is considerable merit in exploring the factual data return option.

As mentioned the RSA has great doubts about a full valuation option. The paper identifies the key problem - compliance, 'Compliance is key to the success of any self-assessment system.' The paper suggests a revised role for valuation officers to undertake compliance work. It also suggests VOs would value in default of a submitted valuation. It is, however, light in explaining how this compliance might work.

The paper suggests ratepayers may misrepresent the value of their property and this could be either deliberate or by mistake.

The RSA rejects out of hand the idea lists of rateable values should not be published on the basis the assessments are ratepayers own private assessments and tax details. A key part of any taxation system is fairness and, importantly, perceived fairness. Taxpayers do not expect to see other taxpayers' tax computations e.g. for income tax but rely on Inspectors of Taxes properly assessing according to the tax rules (or the computer programs doing so). For property taxation the key is not in following rules but in the accuracy and relativity of valuations whether on a rental, capital or land value basis. Conceivably ratepayers could be satisfied with knowing valuation officers were ensuring all rateable values for similar properties tied together, so, for example, all identical shops in a parade had the same valuation. But this assurance is much easier achieved by a published list showing the assessments and, indeed, international best practice is for lists of values to be transparent and public. Indeed even in a parade of shops there are bound to be differences on individual shops which may make then not identical after all.

Public or private, lists of rateable values do have to be fair and accurate between different properties. So the duty on VOs must not only be to ensure returned valuations are accurate within valuation tolerances but bear very close relationship one to the other.
So the VOs role must be both to ensure compliance and to achieve uniform (and accurate) lists of rateable values.

To ensure a valuation submitted is accurate the VO will need to carry out a valuation. As mentioned the VO will also need to undertake valuations where the ratepayer fails to submit a valuation on time. If the parade mentioned above is either selected for checking or there is a failure to supply a valuation on one of the shops, the VO will need to undertake a valuation.

Valuations by the VO could be undertaken in one of two ways:
1. valuing from first principles and raw information
2. Auditing the ratepayers submitted valuation calculations (if it is a requirement the submitted valuation has to be supported in detail).

Either way the VO is going to have to properly consider the valuation. If the sampling exercise for compliance is reasonably thorough, the VO will need to undertake a valuation for every location and class where values vary. So in the case of a high street this will be at every significant point that values change moving away from the peak, or for industrial units for every industrial estate. Given the current approach VOs adopt is to assess a level of value for every significant point and apply it using the VOA's Valuation Support Application to other similar properties it does seem that there would be little work saving to valuation officers due to self-assessment. The VOs will still need to undertake the valuation work - effectively undertaking the revaluation as now.

If the VO is unhappy with the accuracy of a valuation or it is not in line with others the VO will need to issue some form of correction notice on the ratepayer. This is likely to result in a challenge in practice not only because (presumably usually) the rateable value will be increased but because there will be some form of penalty attached to the failure to submit an accurate valuation. The VO will then need to deal with the appeals as now.

Ratepayers pay a very great deal of money in rates. The level of property taxation in England and Wales is amongst the highest in the world. Reasonably, ratepayers expect a proper service from the administration of the rate not only in collection but in valuation. It seems quite unreasonable to saddle ratepayers with what will be seen as extra cost in submitting valuations. It will seem to them that the preparation of accurate lists is properly a function of 'the system' and given it is not a simple exercise and given ratepayers' interest in uniformity will expect it to be done for them. This is not to say the valuation work could not be subcontracted to private firms rather than being done directly within government but that is a different question. Either way, within government or sub-contracted, the basic assessment is provided to the ratepayer.

3.19 – Discussion Points on Self-Assessment

The paper seeks views on a number of questions regarding the self-assessment option:

- **the potential compliance regime under self-assessment**
  See above. This is the critical question.

- **the publishing of rental information by the VOA to assist ratepayers when they self assess**
  The RSA is convinced of the importance of publishing rental information not simply for self-assessment but generally. It favours a national register rather than a register run by the VOA.

- **the publication of rateable values of all properties under a self-assessment system**
  See above. This is essential.

- **the role for ratepayers**
  See above. The RSA is sceptical it is at all right to place the burden of valuation upon ratepayers. It does consider there is greater potential for information verification and supply.

- **specific issues relating to smaller businesses or other ratepayers for whom self-assessment could be particularly challenging**
  It is possible there might be greater resistance. Certainly, with the extension of Small Business Relief (SBR), ratepayers not actually paying rates due to SBR will be puzzled why they are preparing valuations and will also be tempted to self-certify that they are below the level for payment if near or quite near the boundary with consequent appeal activity with the VO. The RSA is not at all sure full SBR is fair to other ratepayers or actually assists many ratepayers in the medium term given the propensity of rents to rise to absorb the savings in rates payable. But a discussion of the merits of SBR is outside the scope of the paper.

- **Dual option** It is also suggested that an alternative option would be that the new system could initially involve self-assessment as an option which a ratepayer could elect to go for . This could be restricted to only certain ratepayers, for example a certain use class or level of rateable . A two tiered approach should not be ruled out.

4. A formula option

The RSA considers adopting some form of formula rather than basing Rates on detailed market valuations unwise. Formula approaches are used around the world, particularly in former communist countries, but only where the level of taxation is set at a low level. It is not appropriate to set high levels of taxation based on a simple government formula which is not verifiable by some accepted standard such as open market rental value.

It would be very strange indeed to risk upsetting the existing system which raises some £22.4 billion pounds each year and is widely regarded around the world as a successful means of taxation for the sake of a possible minimal saving in cost.

The objective of the paper is to achieve more frequent revaluations so ratepayers' payments are based on more up to date values. To move to a system perhaps only loosely based on rental values ('the associated move away from a link to market values) would seem to negate the whole object of more frequent accurate revaluations. It is difficult to see quite why frequent revaluations would be required if adopting a formula approach.

4.8 - Discussion Points on a Formula Approach

- **the associated move away from a link to market values**
  Unwise

- **the classes of property that would be suitable for a formula approach**
  None. It is important to retain proper relativities between all classes.

- **the factors that would need to be included in the formula beyond class of the property, size of the property and location**
  This would depend on the degree of sophistication required and the closer it was wished to be to market values. For example for public houses in most locations size is by no means the prime consideration behind value but likely trade.

  It would also not be a single formula by any means. There is a very considerable variety of property types, and, as a consequence a considerable number of formulae would be required.

- **the balance of efficiency, simplicity and certainty that a formula approach would provide against any desire to retain valuations that take greater account of the individual characteristics of properties**
  The RSA is sceptical of the claimed efficiency given the costs of running Rating are, as demonstrated, fairly nominal in comparison with the tax take and, importantly, the reliability of the yield year on year. The RSA considers a formula approach would deliver the certainty of unfairness, a strong degree of arbitrariness between ratepayers' bills because the payments would not be based on a proper verifiable relativity. The relativity would be determined by government rather than independently by statutory officers based on independent market evidence backed up by a full and proper appeals system and recourse to the courts in the event of a real dispute. The danger of determination by government would be compounded by the risk of political interference in the setting process rather as is seen with the determination of the Statutory De-capitalisation Rates which are not determined by some transparent process linked to market yields.

- **the implications for businesses of different sizes**
  The RSA considers the approach would be equally unsatisfactory for businesses of all sizes. An arbitrary assessment is as bad for a small ratepayer as for a large one. It is merely a question of scale.

5. Summary

The RSA thanks HM Government for the opportunity to comment on the paper discussing delivering more frequent revaluations.

The Association believes that we can deliver more frequent revaluations and consider that the three yearly revaluation is the fairest to all parties. With the introduction of Business Rate Relief for small businesses and that the Valuation Office Agency Data is becoming more and more up to date the Association believes that more frequent revaluations will lead to a reduction in the number of appeals. The most important element in delivering the three yearly revaluations will be transparency of exchange of information between the parties.

The Association has considered the self-assessment option and although it does have its attractions and does merit further investigation it is felt that as rateable value is an opinion of value not just facts would lead to complications regarding self-assessment. There are also compliance issues and problems regarding rating owners and occupiers being able to check their assessments to see whether they are in line with comparable properties.

The Association does not believe that a former option is a viable alternative. Formula approaches are used in other countries but this is when the level of taxation is set at a very low level. The Association does not believe that the formula option is a fair method of valuing bulk class properties.

In conclusion, the Association supports the current system and feel that can be adapted to provide more frequent revaluations and we feel that a three yearly revaluation programme would be the best for all parties.

The Rating Surveyors Association would be pleased to amplify any points it makes in its response or attend any meetings to discuss the matter further.

President
Rating Surveyors' Association
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