Rating in Brief

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Welcome to Rating in Brief

Leading the debate on business rates and policy.

The identity of our next Prime Minister remains too close to call, but a hung parliament appears very likely. With the smaller political parties possibly having a major say in the running of our country for the first time, the drive towards devolution, regionalisation and localism can only continue apace.

For now, the era of big central government appears to be coming to an end. With it goes the predictability and equality which, today, we mostly take for granted. For business taxpayers, as ever under-represented at government level, an era of even greater uncertainty beckons. When the fog clears, a new taxation landscape will begin to emerge. There will be merit in remaining close to your professional advisers.

What price localism?

The desire amongst local communities for the decentralisation of political and financial power is palpable. In the event of a hung parliament in next month's General Election, tax localisation will become a key bargaining chip.

The Welsh Assembly Government (WAG) has already taken full control of its £1bn annual business rates revenue stream, a first major step towards the complete devolution of Welsh taxation from Westminster to Cardiff.

With commitments in place to cap increases in the business rate multiplier at 2%, introduce an increasingly generous Wales Retail Relief Scheme and further extend Small Business Rate Relief, the WAG appears keen to innovate and is flexing its taxation muscles.

Openness and transparency on the agenda

On the important questions of business rates openness, transparency and valuation frequency, the WAG is demanding even more change. If Westminster fails to act, Wales will consider implementing its own policies.

In a similar vein, the Scottish government, which oversees a £2.7bn annual business rates income stream, has made clear that it is ready to embrace change on revaluation frequency, transparency and the local targeting of reliefs. Its consultation on the non-domestic rating appeals system is ongoing but, on these points, the results appear entirely predictable.

Regions large and small demand a say

The major conurbations of England are also preparing to exercise their rights to vary local taxation, under the 2011 Localism Act. They will no doubt be working behind the scenes in the run-up to the General Election to bring further pressure to bear upon central government.

Not to be outdone, even the Cornish Chamber of Commerce is demanding the rights for Cornwall to set and manage its own business rates. It has presented the local MP with a proposal in good time for the General Election.

Pick and mix taxation to undermine predictability

This is the price of localism. The regions of the United Kingdom could soon be offering myriad pick and mix taxation options, each designed with the best interests of the local economy at heart. Yet, at risk is the equitable and predictable nature of taxation which businesses crave above all else. Will our increasingly fragmented approach to business taxation ultimately end in tears?

No consensus on the future of rating

The government has announced a 'radical' review of the business rates system, to report back in time for the 2016 Budget.

Yet in almost the same breath, the Chancellor has decreed that any review of rates should be "fiscally-neutral". In doing so, he has single-handedly knocked the stuffing out of any motivation to consider radical options.

Radical solutions off the agenda

Fiscal neutrality implies:

a) that the overall tax-take will be the same,

b) any reductions by, for example, removing the smallest businesses from the system, will be paid for by increased liability elsewhere, and

c) whether devolved to the regions or not, central government will seek to continue to influence the agenda.

Radical? Such changes represent a mere tweak to an outmoded system which can suck the life-blood from businesses in unequal measure, appears oblivious to the economic reality facing ratepayers and will too often hammer those least able to pay.

More heat than light

The onus for bringing about genuine radical change rests with UK businesses large and small to show the government what positive disruption could mean for this system of taxation – and that is the real problem. The response on the question of business rates reform emanating from the business community is not always joined up.

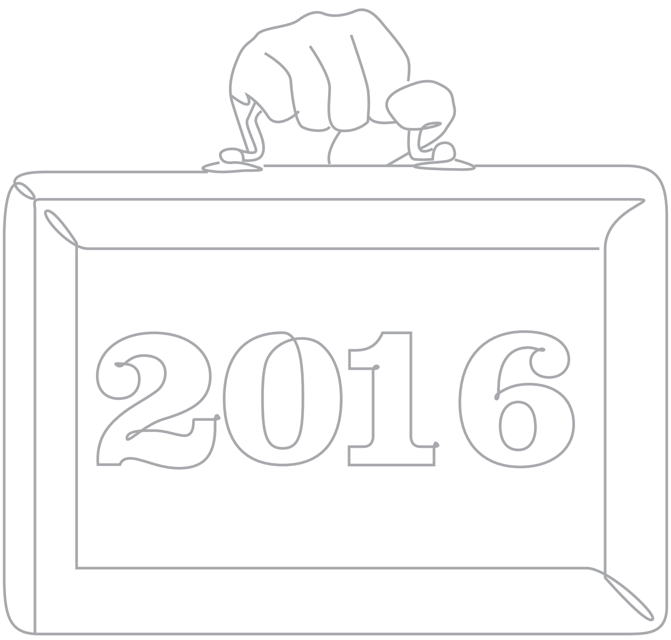
Recognising the divisions which exist across industries and sectors, senior government representatives use every opportunity to prod the business community in the sure knowledge that a coordinated response is unlikely to be forthcoming. It is time for industry representatives such as the CBI, the FSB, the British Chambers of Commerce and/or the British Retail Consortium to pull together a consensus and explain to the government the true meaning of radical change.

Already a missed opportunity?

However, the opportunity for significant positive change in the rating system may already have been missed. In the run-up to the General Election on 7 May, as manifestos harden and pre-election promises abound, it appears that an estimated 60% of UK personal and business taxation has already been 'ring-fenced' to guarantee limits on future increases.

Ratepayers at the mercy of policy-makers

Unfortunately, non-domestic rating is not part of that safe-haven. When it is time to fill the UK taxation coffers again, non-domestic ratepayers will be at the mercy of local and central government policy-makers with funding gaps to fill and increasingly powerful rights under the Localism Act. Businesses may then look back longingly at the offer of a fiscally-neutral national rating system which would have afforded the ratepayer the same protection as that currently being promised in other areas of the UK taxation system. Just how radical dare we be?



Retention Scheme safety net misses the target

The already less-than-transparent Business Rates Retention Scheme (BRRS), designed to allow successful, growing local authorities to retain some of the increases in local business rates receipts, has become even more opaque.

The Local Government Association's analysis of data from BRRS in 2013/14 has concluded that the scheme ended the year £27m in deficit. This means that the scheme paid out more in safety net cushion payments for underperforming authorities than it collected in uplifts from successful authorities.

Blame it on the recession? Upon closer inspection it appears that, in a high stakes game of financial brinkmanship, both central government and local authorities are deploying tactics designed to gain an upper hand.

'De-risking' and 'top-slicing'

At the heart of the issue is the risk/reward equation for local authorities. As BRRS has caused each authority's funding to become more highly correlated with local economic performance, the accuracy of local forecasts becomes paramount. Many authorities have elected to de-risk by making provisions for the full cost of appeals from 2013/14 in one year rather than apportion the cost over the five year life of the revaluation. At the same time, central government has 'top-sliced' £195m from the BRRS pot in order to fund historic appeals.

Whether intended or not, the perverse effect is that some local authorities which ought to have been in surplus have actually been receiving safety net payments.

Ratepayers: mere pawns in a high-stakes game

The devolution of business tax raising power is fraught with difficulty, not least as businesses pay tax yet remain largely unrepresented in the corridors of power. So who is looking out for the beleaguered ratepayer?

Agents respond to Chancellor's sleight of hand

Don't be too surprised if you haven't heard from your rating agent in recent weeks. They haven't abandoned your case, in fact far from it.

The most diligent, including the entire LSH team, have been working hard behind the scenes to react to a change which the Chancellor failed to mention in his December Autumn Statement, yet included in its supporting text.

Rules on backdating have changed

The change effectively closed the window for the backdating of appeals by five years on 31 March 2015. Any appeals lodged after this date can only be backdated to 1 April 2015 thereby costing ratepayers up to five year's refund if the appeal is successful.

The Department for Communities and Local Government justifies the change by arguing that ratepayers have already had five years in which to submit an appeal. However, the change, which was hidden on page 79 of the Chancellor's detailed text, conflicts with the government's existing approach to the timing of revaluations.

Current valuations may not now be challenged

The current five-year revaluation cycle was extended by two years for entirely political purposes. This means that, although liabilities continue to be calculated based upon valuations from 2008, the government has restricted the opportunity to challenge those valuations to the final two years of the extended rating list. This is inherently unfair, and represents a clear ploy by the governmnet to save money at the expense of the less well-informed ratepayer.

Agents with their fingers on the pulse have been working hard to process thousands of appeals before the deadline. Thus, the silence. They have been working in the best interests of you, the ratepayer.

Time for VOA to drop the automation fantasy

Over the years, Rating in Brief has commented on a number of attempts at business rates automation.

They usually seek, through algorithm, calculation and advanced forms of computerised sorcery, to replace human intervention with automated predictions and push-button efficiency. These black box systems invariably fail to garner widespread support outside of the Valuation Office Agency.

Right First Time was just plain wrong

In 2004, the VOA's 'Right First Time' model emerged, and survived, until the plug was pulled more than six years later. Putting the final nail in the RFT coffin, in 2010, Rating in Brief described this programmatic approach to valuation and liability calculation, as 'asinine', and wrote *"The Right First Time ethos, though admirable in theory, is divisive and can never be achieved in practice"*.

In 2007, the VOA's key RFT proponent turned up at a National Rating Day conference and breathed new life into RFT by announcing the 'Automated Valuation Model'. Underpinned by advanced multiple regression analysis, the AVM system promised to "make the adjustments that valuers would make" through what Rating in Brief at the time denounced as "near Orwellian push-button efficiency". The presenter's words hung heavy in the air at that conference. Needless to say, AVM went no further than the drawing board.

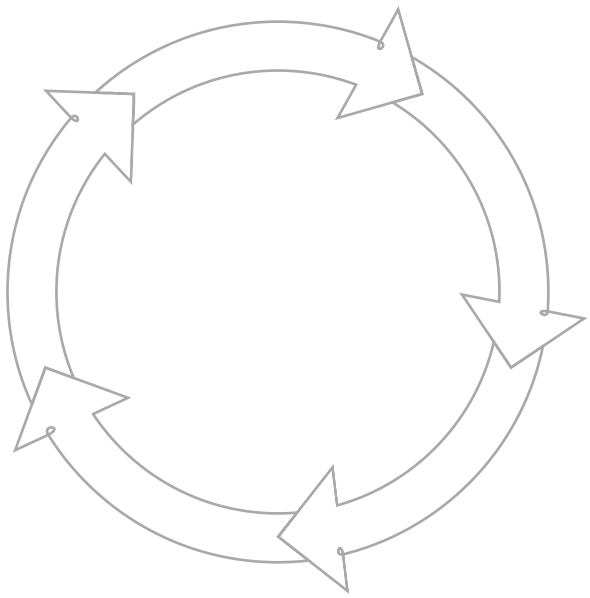
Graphs and charts bamboozle delegates

However, the VOA's taste for computer-based crystal ball gazing remains undiminished. At the recent National Rating Day conference in London which was dominated by the question of revaluation frequency, the VOA begged the question 'Do more frequent valuations make rates less volatile?'. The spokesperson then presented a byzantine array of graphs and charts which purported to assess the effect of more frequent revaluations on relative rental values. The answer to the original question was an inconclusive – "Not necessarily".

As if to once again return power to the people, in a later 'show of hands' question, this room full of professional rating surveyors and experts in the field concluded by a huge majority, within roughly 10 seconds, that a move to three-yearly revaluations would be in the best interests of all.

Beware a resurgent Right First Time

Automated prediction systems all suffer one unavoidable and insurmountable weakness – the strength of the underlying assumptions. Noticeable at the conference were a worrying number of references, by current and former representatives of the government's valuation and taxation departments, to the Right First Time era. Perhaps it is time for the VOA to park its obsession with removing the human element from the rating system. Then we might all benefit.



Business Rates: no progress without transparency

The UK government has committed itself to a detailed review of the business rates system which will begin to report back in around twelve months from now.

If we put to one side the Chancellor's intention to shackle the review by decreeing it 'fiscally neutral', the government would do well to consider the evidence from around the world which the International Property Tax Institute (IPTI) has collected.

Lessons from around the world

IPTI is committed to promoting the fair and equitable use of property taxation systems around the world. Its scorecard report, "The Best and Worst of International Property Tax Administration" provides a detailed, blow-by-blow account of how the various UK devolved administrations compare to other modern systems.

Deluge of data from costly annual revaluations

Hong Kong, a special administrative region of China since 1997, ranks top of the IPTI assessment, but is by no means perfect. Though obviously steeped in UK history, its property taxation system now features an annual revaluation of property, with assessments made each April based upon valuation evidence as at the previous October. The Hong Kong administration has made huge investments in computer technology to facilitate annual revaluations, so there is no lack of publicly available information. In fact, some argue that the challenge now is to make sense of the data.

The overriding features of many of the systems from around the world is that they strive for openness and transparency, and recognise that as evidence ages its ability to represent a sound basis for the fair and equitable allocation of tax liability diminishes.

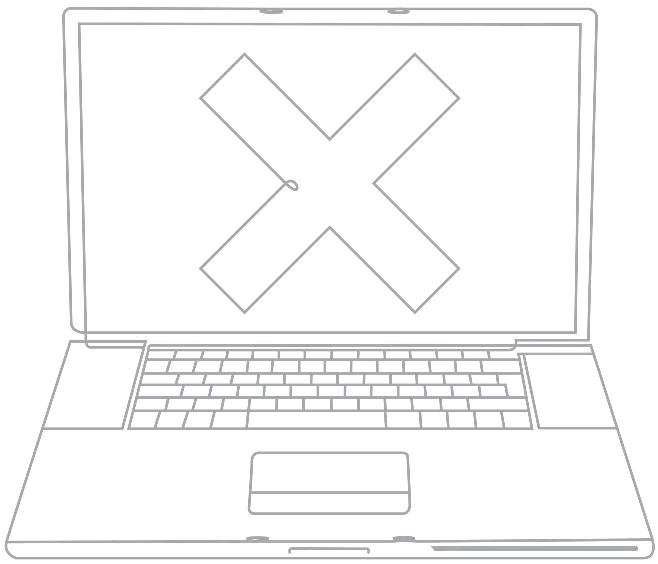
United Kingdom: Could do better

By comparison, though the UK's five-year revaluation cycle appears outmoded, it scores reasonably well across the board and is by no means the worst of all the systems considered in the IPTI report.

On the question of openness and transparency, it is unfortunate that the IPTI report does not see fit to question the UK government's use of the Commissioners for Revenues & Customs Act to hide rental evidence and obfuscate an open conversation on valuation and taxation. The use of legislation to undermine transparency in the UK ought to be a crucial point for IPTI's future consideration.

Lack of transparency blocks progress

The question of revaluation timing for UK business rates continues to grab the headlines, and ultimately things will change. However, the true elephant in the room is the UK government's unwillingness to be open with business ratepayers about rental evidence. It is time to do something about that too.



About us

We are a commercial property consultancy working with investors, developers and occupiers in both the public and private sectors across the UK and Ireland.

Amazon to Zurich: we have partnerships with the complete A to Z of the best organisations in Britain and Ireland.

Transport to telecoms: we have experience of an extremely wide range of sectors.

Capital markets to construction consultancy: we serve an incredibly diverse range of commercial property disciplines.

We value lateral thinking and celebrate enterprise, with a focus on delivering more for our clients. By looking beyond the obvious, we consistently generate impressive results.

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