Central London Forward – response to HM Treasury Consultation: More Frequent Revaluations

Who we are

Central London Forward (CLF) is the strategic sub-regional partnership of the central London local authorities.[1] Our goal is to improve the lives of residents by working together with our member authorities and other partners to drive inclusive growth within central London.

Introduction

We welcome the aims of the Fundamental Review of Business Rates to reduce the overall burden on businesses and to improve the current valuation process. However, the suggested move to three-yearly revaluations is a repetition of previously stated government policy and does not constitute fundamental reform of the business rates system.

The business rates system must be fair for businesses and a reliable source of funding for local government. Business rates is an increasingly important part of local government revenue as central government grant funding has reduced over time. The 12 local authorities that make up Central London Forward collect 24% of business rates in England.

Addressing the longstanding issues in the business rates system to create a progressive tax which provides a stable income for local government is more important than ever as local authorities face continued spending pressures due to COVID-19. Local authorities in London are crucial to supporting economic recovery, helping residents back into decent work, and ensuring resilience against future shocks. It is vital that local government has the financial security and capability to carry out this role.

With more business being conducted online, away from commercial or retail premises, we are faced with a shrinking tax base. The rise in the UBR from around 34p at inception to 51p today reflects the need for government to raise revenue, but business rates at this level – coupled with the perceived unfairness of rates not reflecting rental values - make it harder to grow the tax base.

In progressing with fundamental reform to business rates it would be preferable that any proposed changes in this review and beyond are coordinated with other planned reforms which will affect local government finance, as the current system is fragmented and complex. The government is currently conducting a Fair Funding Review alongside the Levelling Up white paper, and long-awaited reforms to social care. We encourage the government to ensure that it takes a holistic approach to reform, bringing together these different processes to ensure we develop a system that is fit for purpose, and that local government is fully consulted on the process.

Consultation questions

1. **Does the proposed package of measures represent a fair and balanced trade-off for ratepayers between new benefits and new requirements? If not, please detail what adjustments you would like to see, to ensure a balanced package of measures that**

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[1] Camden, the City of London, Hackney, Haringey, Islington, Kensington and Chelsea, Lambeth, Lewisham, Southwark, Tower Hamlets, Wandsworth and Westminster

would support a 3-yearly cycle while taking account of deliverability constraints. (2000 words)

CLF supports the direction of the measures included in this consultation. However, three-yearly revaluations do not represent a fundamental change in government policy, given that the then Chancellor Phillip Hammond announced an intention to move to a three-yearly cycle of revaluations at the Autumn Budget of 2017. We have previously called for more frequent revaluations and agree that implementing such a reform requires more than just increasing financial resources for the VOA. The government should be more ambitious in its reform of the business rates system and pursue annual revaluations.

More frequent revaluations will ensure that rateable values better reflect changing economic conditions and market values.

More frequent revaluations would also reduce uncertainty both for businesses and for local authorities. With shorter delays between valuations, businesses would see less volatility and less significant changes in business rate bills. More frequent revaluations should also help reduce the volume of appeals and delays in dealing with them. This will reduce uncertainty for local authorities and make it easier to forecast revenue from rates.

However, we feel that the proposed policy changes and additional requirements on ratepayers for three-yearly revaluations is not proportionate. Ratepayers would be required to provide significantly more information to assist the VOA but without a concurrent requirement on the VOA to be transparent to ratepayers as to how valuations are made. This does not represent a fair and balanced trade-off. The requirements on businesses to provide information to the VOA should be simple and convenient.

We welcome reform to the Check Challenge Appeal (CCA) system, including the removal of the Check stage, the introduction of a duty to notify, and the deadline to submit challenges. It should however by a commitment by the VOA to be more transparent as to how each assessment is arrived at. This could help improve the accuracy of the list, reduce appeals, and increase stability for local authorities. The additional burdens should be more equally shared between ratepayer and VOA.

While we welcome the government's intention to provide guidance and support to ratepayers through the transition period for reform, it should also provide the VOA with the means of establishing a modern, digital and transparent register which can be inspected by ratepayers and local authorities alike. It is a fundamental principle of taxation that taxpayers should know how their tax bills are calculated; and it is good practice for local government to budget in advance based on accurate predictions of future revenue.

2. **What steps could be taken to support ratepayers to comply with the new duties? For example, elements to reflect in the design of the reporting portal, or content that would be helpful to include in the supporting guidance. (500 words)**

We welcome the government's intention to provide guidance and support to ratepayers through the transition period for reform.

Government should work with business groups and with local authorities to communicate the change to businesses in advance of its implementation, so that they are aware of their new responsibilities.

Businesses should be given time to adapt to the new system, with government taking a permissive approach in the early stages in the event that employers do not notify as required.

Given many of the changes that would require a duty to notify would also require a planning or licensing permission from the local authority, government should work with local authorities to ensure that businesses making such changes are reminded of their duty to notify.

To further increase transparency for local authorities, any change of use should be notified not only to the VOA but also to the local authority, with information pathways set up between the VOA and the local authority.

A more balanced system would involve the VOA producing adjusted ratings assessments annually to reflect the obligations on businesses to comply with the duty to notify and provide lease information. A mandatory requirement on businesses to provide lease information annually, for example, should lead to annual valuations by the VOA. This could be achieved through a new online system which holds information from previous years and updates assessments in real time.

Reducing the window for challenges to 3 months from the beginning of any new lists will make it easier for councils to estimate risk and appeals provision. However, the timeframe of 3 months does not seem reasonable for three-yearly revaluations, this would be a more acceptable timeframe for annual revaluations.

3. **Are you supportive of the proposed approach to Transparency? Are there further elements you think should be made available as part of a Transparency offer? (500 words)**

We welcome the aims of this consultation to increase transparency in the valuation process through increased guidance and fuller analysis, separate to the appeals process. This could both assist ratepayers in understanding how their rateable value is determined, and thereby increase trust in the system and reduce the number of appeals. This would be beneficial both for businesses, and for local authorities.

We would encourage government to introduce these transparency measures as soon as is practicable with the storage of lease information within a fully digitised IT system to provide assurances to ratepayers about the accuracy of valuations, reduce the need for appeals, and give an incentive for ratepayers to comply with the proposed new duties to submit information to the VOA.

4. **What steps could the Government, stakeholders, or industry take to support a smooth move to a 3-yearly cycle? (1000 words)**

Progressing with fundamental reform to business rates will impact both local government and businesses significantly. Government should continue to engage with both local authorities and ratepayers to ensure that the timetable for the implementation of the changes is practical.

The change should be piloted in a local area before national roll-out and should attempt to implement annual revaluations. A more ambitious proposal would help to rejuvenate town centres and high streets and create a more stable source of local government funding.

Government should work with employer organisations and local authorities on a communication campaign to ensure that businesses are aware of their new responsibilities ahead of implementation.

Government should ensure a user-friendly IT system is in place in time for roll-out. Improving the VOA's existing monitoring and valuation processes alongside any proposed additional requirements on businesses to provide lease information.

HMRC for example has illustrated that it is possible to modernise the tax system through self-assessments and Making Tax Digital. The VOA, with support from the HMRC and Treasury, should pursue the same reforms.

5. Do you have any other comments on the proposed approach to the move to a 3-yearly cycle? (1000 words)

It is important that central government builds on this to deliver fundamental reform to the whole business rates system which reduces the overall burden on businesses, provides stability and certainty for local authorities, incentivises growth and reduces the complexity in the system. A reduction in the multiplier, annual revaluations, increased transparency and access to assessment information, and a streamlined appeals process will all contribute to a modernised tax system which supports high streets and better reflects market conditions.

Prior to phasing in of these reforms, the government must consider how this can be coordinated with other planned reforms which will affect local government finance including the Fair Funding Review, Levelling Up white paper and reforms to social care. Plans affecting local government funding cannot be addressed separately as this will lead to more fragmentation and instability in the system.

With high streets and town centres across London in particular experiencing decline and hardship over the past year, the government needs to act quickly. Fundamental reform of the business rates system and additional reforms affecting local government finance can help to revitalise the London economy and drive economic growth.

6. Do you agree that moving to a three-year cycle should be the Government's priority for this stage of reform, and that going further should remain an option for the future? (1000 words)

Infrequent revaluations (including three yearly revaluations) mean that the rates that business pay often do not reflect property values or the local economic situation. The next revaluation in 2023 means businesses will go from paying rates based on property values from 2015 to rates based on values from 2021. Significant and permanent changes to commuting, tourism and retail have taken place since then, all of which will impact on the rateable value of central London properties.

This issue is exacerbated by the Antecedent Valuation Date (AVD) gap of two years between revaluation assessments and new rates coming into effect. Property values and the wider economy will likely have changed within this time, and any change in business rates introduced as a result may have disproportionate impacts.

Whilst we recognise the need to delay the revaluation due to extreme circumstances, such lengthy time lapses between revaluations creates unnecessary volatility to the system, which leads to uncertainty both for businesses and local authorities.

The government should be looking to go further in their reforms now and not wait for the future when more high street businesses could be forced to close. Annual revaluations will guarantee a reflective business rates valuation.

CLF is supportive of moving towards more frequent revaluations. The government should evaluate the impact on businesses and local authorities and consider annual valuations in order to ensure business rates reflect up to date values and economic conditions.

7. Would you support a move to an annual revaluations cycle or a shorter AVD in the future, accompanied by the necessary enabling reforms set out in this chapter? (1000 words)

CLF would support a move towards annual revaluations as an immediate ambition. This would address many issues in the business rates system, ensuring gradual changes in rates, a closer link to real market values, reduced uncertainty for businesses, and a reduction in the number of appeals.

We recognise implementing annual revaluations requires significant investment and resource. However, this reform would create long-term savings. Savings could arise from:

- Reducing the number of **appeals**. In the Netherlands, a move to annual valuations was followed by an 80% drop in appeals (Centre for Cities, 2020).
- Reducing the need for **reliefs** including transitional relief which could save £230.8m per annum (New West End Company, 2018) (British Property Federation, 2014)

When the Netherlands implemented annual revaluations this resulted in a 20% reduction in valuation costs (Centre for Cities, 2020). The BPF estimates that an annual system in England would mean administrative savings of between £56m and £183m per annum. Annual revaluations could help simplify the system, by removing the need for reliefs including the transitional relief. This would also create a more consistent source of income for local authorities.

We would be hesitant however to support a reform which significantly restricts the appeal rights of ratepayers. Instead we would support finding ways to shorten the AVD gap without compromising the quality and validity of valuations. Monitoring the success of the Mandation of Information measure and consulting with businesses on this would be an essential step towards this reform.