BUSINESS RATES:
DELIVERING MORE FREQUENT REVALUATIONS

RESPONSE FROM COLLIERS INTERNATIONAL

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Colliers International is a leading worldwide property consultancy and has one of the largest teams dealing with business rates issues advising clients in the UK. We have consulted with a number of our clients and made representations through the Rating Surveyors Association in relation to this discussion paper. Please find set out below our responses.

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THE CHALLENGES OF DELIVERING MORE FREQUENT REVALUATIONS UNDER THE CURRENT SYSTEM

1. PARTICULAR STAGES OF THE VALUATION PROCESS WHERE REFORMS WOULD NEED TO DELIVER MORE FREQUENT VALUATIONS

At Colliers International we have been calling for more frequent revaluations for some considerable time and we have our own manifesto which asks for a three yearly reval in place by 2022. We also call for a register of professional rating advisors similar to a system that is operated in the financial services industry by the FCA which would reduce significantly the unprofessional element that creates a considerable amount of unsubstantiated appeals regularly referred to within this document. However we do not believe that the current level of outstanding appeals require particular reform to the valuation aspects of the system and the
300,000 current outstanding appeals in the system is not solely a product of unscrupulous advisors but is a combination of:

- Under resourced Valuation Office Agency.
- A disconnect between the volume dealt with at Valuation Tribunal and targets imposed on the VOA.
- Considerable pressure put on the VOA by both Central Government be it DCLG, HMRC or at a local level from the Billing Authorities which has taken away the independence of the VOA and its ability to carry out its function in a fair and equitable manner.
- The changes to the cut off for appeals under the 2010 Rating List announced by the Chancellor George Osborne in his Autumn 2014 Statement led to a rush of protective appeals in the following three months.
- The regulations that surround appeals particularly Material Day Regulations related to Material Change in Circumstance (MCC) appeals lead to a considerable volume of protective appeals submitted but later withdrawn.

We believe that if many of the problems outlined above are removed then if not only is possible to have a three yearly revaluation by 2022 but the intention should be to aim for an annual revaluation by 2030.

We believe the more regular and frequent revaluations under a current system could be achieved and easily workable if the above problems and issues were removed which we do not believe is difficult to achieve. We believe a three yearly and then an annual revaluation would ultimately lead to the following benefits:

- A considerably reduced number of appeals – see our comments below with regard to the Netherlands.
- A certainty of income for Billing Authorities, this would be achieved by appeals being dealt with within a 12 month period and would lead to the removal of a situation where appeals can be backdated, not only several years but at the moment through several rating lists.
- Transitional relief would be a thing of the past. The Government’s ill thought out decision to increase the revaluation cycle to 7 years will only lead to considerable increases or decreases in Rateable Value when the 2017 Rating List is published later this year and as a consequence the significant changes will mean a transitional scheme will be necessary. A three yearly or annual revaluation will not require a transitional relief scheme and therefore not only will this give certainty of income to Billing Authorities but it will also make the system far less complicated to ratepayers and remove considerably the criticisms that there is a general lack of understanding of how business rates liabilities are arrived at.
A three yearly or annual revaluation with a system of registered professional rating advisors would lead to a more consultative approach to advice given within the industry and would eventually remove the ‘no win no fee’ culture that has developed and in turn this would lead to a more collaborative discussion based approach between the agents representing ratepayers and the Valuation Office Agency. This would in many ways begin to lead towards, if not a self-assessment, a system very similar to the current system but with the benefits of self-assessment and collaborative approach seen in places like the Netherlands, and will remove us from the world of 2016 which is world of mitigation, confrontation and a culture of ‘them and us’ where battle lines are drawn and the only winner appear to be the legal industry while the losers are as always the ratepayers and inevitably Billing Authorities.

2. **THE EFFECT OF MORE FREQUENT REVALUATIONS ON APPEALS**

The level of appeals under the existing system is higher than the Government wants but it appears to us that the Government probably wants a system without any appeals at all as it gives them greater certainty on capturing income. This is a little like saying that elections and referendums are inconvenient but fortunately we do not live in a totalitarian state so appeals are a fact that will not go away.

The level of the burden of rates on businesses is significant and for many it is the second or third largest outgoing after salary and rental costs – this is the main driver behind appeals – the size of the charge and as soon as Government realise this then they may start to treat ratepayers with a little less contempt. It seems to us at Colliers that they either reduce the burden of business rates significantly or they realise that appeals are a fact of life. The ill-conceived Check Challenge Appeal (CCA) changes will not deter ratepayers from making appeals however cumbersome they make the system.

3. **THE INCREASED RISK OF APPEALS AND HOW COULD THIS BE AVOIDED OR MANAGED**

In previous responses given by Colliers International to consultation papers we have specifically made reference to research carried out in The Netherlands where an annual revaluation takes place for both domestic and non–domestic properties.

In the Netherlands, the appeal rate is significantly reduced because of the annual revaluation. There is however a clear onus on the Government to deal with appeals within the 12 month life of the list and should appeals take longer than 12 months to deal with then there are financial penalties imposed on the Government and Municipality. As long as the Valuation Office Agency have the required resources we see no reason why a similar system could not be imposed on a three yearly or annual revaluation and again this would remove the uncertainty to Billing Authorities.
Authorities that results in appeals once successful, being backdated over several years. The culture of ‘no win no fee’ in private practice would be removed, however the problem is not solely within private practice but lies in the culture of this Government and within the VOA where there is a ‘grab for value’ and resist appeals at all costs culture. Both need to change for the system to modernise.

4. ACCESSING THE SKILLS TO DELIVER MORE FREQUENT REVALUATIONS

A considerable number of people within the private practice have spent time also working within the VOA. For many people the VOA is an excellent employer and is an organisation which helps people with training and produces many Chartered Surveyors and Valuers of the very highest quality. Unfortunately only a cursory glance at the annual staff survey shows quite clearly why there are staffing and retention and recruitment issues within the VOA. In our opinion, if the VOA were freed from pressure and restrictions imposed on them by HMRC, DCLG and Billing Authorities, then they would be freed up to carry out their statutory functions in a way that they have done for many years successfully and this would create a culture of independence of thought and also encourage Chartered Surveyors, Valuers and other professionals within that organisation to carry out their functions independently and to the best of their abilities. It is quite clear from the staff survey that there is little, if any respect for senior managements or indeed faith in how the organisation is currently run. The people at the coalface in many cases are doing a sterling job but with their hands tied behind their backs. If they were free to carry out their duties then it is clear that the culture would improve, morale would improve and no doubt productivity would improve significantly. We believe that once the shackles are removed from the VOA, they would have no problem at all in recruitment and the use of IT, flexible working, excellent training and also a sense of public duty would mean that once again the VOA would be a great place to work. Once these changes are put in place, we see no reason why delivering more regular revaluation is not easily achievable.

5. HOW THE DELIVERY OF RATING VALUATIONS COULD BE REFORMED TO SUPPORT MORE FREQUENT REVALUATIONS

See above.

6. COLLECTION AND ANALYSIS OF INFORMATION TO SUPPORT MORE FREQUENT REVALUATIONS, INCLUDING THE ROLE OF RATEPAYERS

We believe that a more regular revaluation, be it three yearly or annual, would result in a far greater capture of market information by the VOA than there currently is. An example is the Midsummer Retail Report produced by Colliers International which is a market leading research document produced every year on values in prime retail locations in 421 centres throughout the country. This information was offered to the Valuation Officer in return for an allocation of resources to deal with 100 rating appeals. This information would have helped considerably with the VOA
compiling 2017 Rating Lists but unfortunately they did not feel they could take up our offer and instead clearly spent many man hours researching the data that we already had in our possession. A more collaborative approach and a more regular revaluation would mean discussion would take place and exchange of information would continue on a more regular basis which would not only lead to a greater accuracy in the level of values put on these properties by the VOA but would also cut down considerably on the number of appeals as a result. The current ‘scatter gun’ approach with Forms of Return and an increasing amount of information requested only adds to the administrative burden placed on ratepayers and their agents whereas a roundtable discussion with an open exchange of information on what has or is actually happening in the market would be far more productive. The fear that information given to the VOA is manipulated in a manner used to harm or increase ratepayers liabilities again results in an environment of mistrust. There is really no excuse in this day and age with the amount of information that the VOA and Central Government holds on transactions that they are not fully aware of most of the information that they need in order to carry out a revaluation. What they do need to do however is engage with agents in order to understand the background and drivers behind deals carried out rather than what happens at the moment which is often a cherry picking exercise to support the answer they have already arrived out.

A SELF-ASSESSMENT ALTERNATIVE

7. THE POTENTIAL COMPLIANCE REGIME UNDER SELF-ASSESSMENT

There are clearly some advantages from the Government’s perspective and the VOA in a self-assessment regime. Unfortunately however a system of arriving at Rateable Value that has been in existence for over 400 years which concern an opinion of value cannot be accommodated within a simple self-assessment regime. The range and complexity of non-domestic properties would mean that the amount of time spent on checking self-assessment returns would be potentially even more time consuming and litigious than even the existing system. Unrepresented ratepayers would again be at the mercy of unscrupulous and unprofessional rating advisors which could potentially do even more damage than they currently do in the current system. It would certainly do nothing to help small
businesses and would again in our opinion bring the system into disrepute very quickly.

What we would say however is that a system which moves to a more regular cycle, be it three yearly or eventually annual will arrive at a position where there is a regular dialogue on what the assessment of properties should be and in many respects this would lead to if not a self-assessment, a collaborative approach to arriving at the Rateable Value.

8. THE PUBLISHING OF RENTAL INFORMATION BY THE VOA TO ASSIST RATEPAYERS WHEN THEY SELF-ASSESS

One of the biggest criticisms of the current system is the fact that there is little transparency and unfortunately check, challenge and appeal (CCA) does not appear to do anything to help the situation. We are of the opinion that when the Valuation Office Agency publish valuations at the beginning of a Rating List and that valuation is within a scheme, the information on which the VOA have based that scheme should be published and available publicly. Many European countries including the Netherlands have a much greater level of transparency on transactions both capital and rental which has an added by-product of helping to remove for all in property transactions. Unfortunately the VOA have and continue to resist the publication or disclosure of rental information and this has to change whatever the frequency of revaluations.

9. THE PUBLICATION OF RATEABLE VALUES OF ALL PROPERTIES UNDER A SELF-ASSESSMENT SYSTEM

Again, we see no reason why Rateable Values should not all be published. As above this is an issue of transparency, accountability and should not be something that in a democracy we should worry about providing. Fundamentally the level of charge that ratepayers in this country are expected to pay should entitle them at the very least to see not only the evidence on which the VOA is basing its valuation, but all of the values on all non-domestic properties should be published and in the public domain.

10. THE ROLE FOR TAXPAYERS

More and more onus is being placed on the ratepayer/taxpayer in the non-domestic rating system and our view remains that there should be a collaborative approach where the VOA should be transparent and should continue to have a statutory duty to maintain a correct rating list. This appears to have been swept under the carpet and a greater onus placed on the ratepayer. Again as above, in a
more collaborative environment we see no reason why the ratepayer should not share in the responsibility of providing accurate information but this is no different to the current system. At the moment, ratepayers and their representatives are drifting further and further apart from the VOA and Billing Authorities and this cannot be a healthy environment in which to collect such a significant outgoing for businesses. This has to change soon.

11. SPECIFIC ISSUES RELATING TO SMALLER BUSINESSES OR OTHER RATEPAYERS FOR WHOM SELF-ASSESSMENT COULD BE PARTICULARLY CHALLENGING

As mentioned above, we believe self-assessment will leave small businesses prey to the unprofessional advisors in the rating industry. The level of value and the level charged derived from the use of Rateable Values will mean that there will constantly be an incentive for self-assessment to be on the conservative side. This in our opinion would eventually result in a serious breakdown in trust between all parties and bring the whole system into disrepute. In summary, we believe self-assessment is an ill thought out suggestion put forward by people who probably work in HMRC and who have little understanding of how valuation or the business rate system actually works. This will do nothing to remove the criticism of the current system, in fact in our opinion it would make it considerably worse.

A FORMULA ALTERNATIVE

12. THE ASSOCIATED MOVE AWAY FROM A LINK TO MARKET VALUES

This appears to show the current Governments hand very clearly. This country has lead the way on a how to administer a property based local taxation system for over 400 years.

Countries around the world that have formula based systems are countries in Central and Eastern Europe where there is an absence of a developed property market. This is also the case in Chile, Kenya, Tunisia and India – it is an insult to the business community to suggest that this is appropriate in this country.

13. THE CLASSES OF PROPERTY THAT WOULD BE SUITABLE FOR A FORMULA APPROACH

Mud huts on the Serengeti.
14. **THE FACTORS THAT WOULD NEED TO BE INCLUDED IN THE FORMULA BEYOND CLASS OF THE PROPERTY, SIZE OF THE PROPERTY AND LOCATION**

As we have mentioned above we see no merit in pursuing a formula basis but clearly property arrived at by looking at fair maintainable trade particularly leisure based properties will vary enormously even if in a very similar location and of a similar size. The property system in this country is very sophisticated and this broad brush approach would only result in a myriad of different bases on which to value different types of property. This will eventually lead to the conclusion that the formula base is irrelevant and why not continue with the existing system of valuing each property individually.

15. **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**

We believe the premise of this statement is completely flawed. It is our strongly held view that the current system which has operated successfully for arguably centuries has only been recently brought into disrepute by:

1. The increased level of charge placed on ratepayers.
2. The increase in the revaluation cycle from 5 to 7 years.
3. The attitude of the VOA to dealing with ratepayers and their agents.
4. The proliferation of unprofessional agents.
5. The increased complexity in arriving at rates bills such as the increased amount of reliefs, supplements and transitional calculations.
6. The disconnect between the volume of appeals that can be dealt with by the Valuation Tribunal and the VOA.

If these matters were addressed then we believe the existing system would be more efficient, simpler and give greater certainty to all stakeholders. A formula basis is not the answer and would be disastrous for ratepayers in particular and eventually all parties.

**SUMMARY**

We welcome the opportunity that H M Government has given us to express our views on this very important issue of the frequency of more regular revaluations.

The current system has a proven track record and a three yearly cycle leading eventually to a annual revaluation is our preferred option. Our study of other jurisdictions only reaffirms this view.
The other options set out have serious flaws and in our opinion provide no better system than is currently in place. We see some advantages for some parties but the risk attached is so great we see no point in pursuing them.

We have set out clearly what reform to the current system should be carried out and in our opinion this will resolve most if not all of the problems that are currently encountered in the system.

We would welcome the opportunity to discuss in more detail the content of this report or attend any meetings.
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