

Systems Design Working Group 17 June 2016

A paper drafted by Gordon Heath, Institute of Revenues Rating Valuation

Purpose

To highlight a number of issues that need to be addressed in the consultation and to aid debate.

Tax flexibilities

1. Although I would support full localisation of setting the business rate multiplier, with suitable safeguards, it is clear that this would be strongly opposed by most ratepayers' organisations, rating surveyors and ratepayers themselves. Any increase by way of an infrastructure levy will need to have the support of businesses locally. This is not impossible, as BIDs have shown but it must be for infrastructure that will benefit business in order to gain their support. I suspect that the proposal to judge support by obtaining a majority of business representatives on a LEP will lead to some sort of vote for businesses, possibly a formal ballot as required for a BRS.
2. There are two choices with reducing the multiplier, either the power will be for the billing authority alone, or the billing authority and the major preceptor could be given the power to reduce their proportion of the rate. I would not extend this to minor preceptors. However, the logic of the second option would be for the split to be shown on bills.
3. If the power to reduce the multiplier is split between the tiers, the question arises whether the decision to grant reliefs should be split. This would seem to be overly complicated and I favour reliefs being a matter for billing authorities.
4. Although I support the principle of flexibility by making reliefs discretionary, this would have several consequences. Unless a relief is applied uniformly within a local authority area, state aid limits will apply. 100% small business relief below RV £12,000 was announced in the budget and it would be politically very difficult to go back on this. Any attempt to reduce the 80% mandatory relief for charities would provoke an enormous reaction from the charitable sector and be a political disaster. However, it might be possible to replace the exemption for empty charitable property with a discretionary relief. This would deal with one method of rate avoidance and granting discretionary relief on an empty property to a genuine charity should not attract state aid limits.
5. 100% small business relief below RV £12,000 does not apply to village shops entitled to 50% relief, charities entitled to 80% relief, empty properties and properties occupied by multiple ratepayers. This needs to be reviewed and at the very least rural rate relief should be merged with small business relief

Managing appeal risk

6. Since 1990, there has been a general revaluation of all business properties every 5 years, although the 2010 list has been extended to 7 years. There is pressure from some ratepayers for more frequent revaluations and this may be reduced to every 3 years. A revaluation redistributes the rate liability nationally in line with local movements in rents. A revaluation is intended to do this because rents are negotiated in a free market and indicate ratepayers' relative abilities to pay.
7. However, revaluations are a source of volatility in the system and reduce predictability of the tax for both ratepayers and local authorities. More frequent revaluations will make the tax less predictable.
8. At every revaluation after 1990, the multiplier has been set to produce the same yield as in the previous year, plus inflation. Thus if the total RV of England increased at a revaluation, the multiplier was reduced accordingly, plus an inflation factor. However at each revaluation the multiplier included an increase to pay for losses on appeals, although the estimates for this have not been accurate.
9. Following the 100% rates retention, if as before the multiplier includes an amount for losses on appeals, then logically this should be top sliced nationally to fund the local cost of appeals against initial revaluations, but to take account of any other losses or gains.
10. At each revaluation, there has been transitional relief to phase in the larger increases in rateable values. I support the principle of allowing businesses time to adjust to unpredictable large increases. More frequent revaluations will not eliminate the need for transitional relief because rents are volatile over short periods. However until now such relief has been funded by phasing in the larger reductions that should benefit some ratepayers. It seems wrong that this cost is loaded onto precisely those ratepayers that have a reduced ability to pay, as evidenced by the revaluation. It would be fairer to spread the load by increasing the multiplier nationally, and top slicing it to pay for transitional relief. It should be noted that transitional relief reduces rapidly each year as more properties reach their full charge. However, the need to pay for losses on appeals increases in the later years of the list. Paying for both appeal losses and transition out of a top slice might make a good fit, but the top slice might need to cover a safety net as well. It is extremely unlikely that the new Check, Challenge and Appeal regime will result in a more rapid settlement of appeals.

Central List

11. Traditionally the central list has included national or sub-national networks that span multiple local authority areas. Historically, it also included all Crown occupations but from April 2000 these have been included in the local lists.
12. There have been calls for other major assessments such as power stations, nuclear establishments and oil refineries to be included in the central list in order to reduce

volatility and reduce safety net payments. Some authorities would oppose this because they are anticipating a major gain. As they are local, there is no particular reason from a purely rating point of view why they should not be in the local list. Also, it could be argued that if the local authority is not benefiting locally from the rate income, it might be less inclined to support such developments. However gas processing plants, pipelines, airports and docks are not subject to local planning control and for that reason could be considered for the central list.

13. There is a strong argument that Ministry of Defence establishments should be included within the central list. They can be a large part of an authority's rate income and a major cause of volatility locally. The local authority does not have any information prior to RV amendments and therefore cannot accurately assess an appeals provision. Future developments or demolitions within MoD property have no input from the local authority. Therefore the authority may suffer a major loss of rate income with little advance warning and no opportunity to address it. I attach in an appendix some brief details of the effect that MoD establishments have on Richmondshire District Council where they equate to about 20% of their total rateable value.

Safety net

14. Business rates are by their nature a volatile and unpredictable tax. It is reasonable to incentivise local authorities to attract businesses to their area but it must be recognised that local authorities are not wholly responsible for large businesses closing or moving away. Therefore there will be a continuing need for a safety net.
15. Currently under 50% rates retention the safety net limits losses to 7.5% of rate income. When we move to 100% retention, the risk should be limited to the same amount in cash terms.
16. The safety net could be funded from the central list, a top slice or both. I favour a top slice to pay for the safety net, losses on appeals and transitional relief. The central list is unlikely to be sufficient for this but could be allocated to the top slice.

Appendix – Richmondshire DC and MoD Assessments

Total Rateable Value 01 January 2015 = £33,493,490

Total MOD Assessments = £6,710,000

MOD equates to 20% of Total Rateable Value

March 2015 – Numerous RV adjustments for both 2010 and 2005 list resulting in an Overpayment of £4,000,000.

Garrison Barracks - 2005 List

- WEF from 01.04.05 RV Reduced from £3,450,000 to £3,020,000
- WEF from 01.05.06 RV Reduced from £3,810,000 to £3,030,000

- WEF from 15.11.06 RV Reduced from £3,820,000 to £3,040,000
- WEF from 16.04.07 RV Reduced from £3,990,000 to £3,160,000
- WEF from 28.02.08 RV Reduced from £4,080,000 to £3,200,000
- WEF from 17.07.08 RV Reduced from £4,200,000 to £3,330,000
- WEF from 31.12.08 RV Reduced from £4,270,000 to £3,400,000
- WEF from 01.02.09 RV Reduced from £4,350,000 to £3,450,000
- WEF from 24.04.09 RV Reduced from £4,370,000 to £3,470,000
- WEF from 16.06.09 RV Reduced from £4,420,000 to £3,510,000
- WEF from 16.07.09 RV Reduced from £4,460,000 to £3,500,000
- WEF from 26.07.09 RV Reduced from £4,620,000 to £3,620,000

2010 List

- WEF from 01.04.10 RV Reduced from £5,990,000 to £4,940,000
- WEF from 01.08.11 RV Reduced from £6,080,000 to £5,080,000

Each of the above was as a result of a submitted appeal and the MOD still has 2 appeals outstanding on RV's in the 2010 list.

There were also RV adjustments affecting Marne Barracks.

- MOD assessments dealt with by Specialist Valuer so impossible to obtain any information prior to notification of RV amendment and therefore no possible to accurately assess appeals provision. No other similar establishments to enable us to use as a benchmark.
- The above shows how vulnerable RDC is to this type of RV amendment and provision needs to be put into place for Councils who are very dependant on 1 ratepayer for a large percentage of their income.
- Should assessments such as MOD remain in the local list or be transferred back into a central list (specialised assessments) and if transferred to a central list how would this determine and affect our grant income. Further information on the working of a central list would be needed.
- Future Developments/Demolitions within the Garrison are outside of any input from RDC and thus we are in the position of potentially suffering ongoing detriment with little advance notice & no opportunity to address.