MHCLG Consultation: more frequent revaluations: Fundamental Review of Business Rates

Response by the Charity Tax Group – 24 August 2021

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

    - The Charity Tax Group (CTG) welcomes the opportunity to respond to this consultation. CTG has over 1000 charity members of all sizes representing all types of charitable activity, as well as a professional membership of over 50 firms of charity accountants, lawyers and tax advisers. It was set up in 1982 to make representations to Government on charity taxation and it has since become the leading voice for the sector on this issue. The comments in this response are designed to be read in conjunction with our submissions to part 1[1] and part 2[2] of the Fundamental Review of Business Rates and a supplementary submission[3], prepared at the request of HM Treasury and MHCLG officials.

    - In most cases charities only receive mandatory 80% charity rates relief. Charities make approximately £450m in rates payments each year and so fair valuations are important to the vast majority of charities.

    - Charities can have significant interests in 'commercial' property. For example, in respect of charity shops and heritage charities such as the National Trust. This response focuses in particular on the circumstances of those charities.

    - More regular valuations could help create a fairer system for charities, although this should be handled in a way that does not place undue administrative burdens or costs for charities. This is particularly the case when ratings and valuation services are outsourced to third parties. Requirements to provide additional information will increase workload and costs. Our response to the Fundamental Review of Business Rates highlighted the major financial impact on the charity sector and called for a commitment from the Government that charities should not be left worse off as a result of the Review, with mandatory rates relief protected as a minimum.

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[1] https://www.charitytaxgroup.org.uk/wp-content/uploads/Voluntary-Sector-Business-Rates-Consultation-Response.pdf
[2] https://www.charitytaxgroup.org.uk/wp-content/uploads/Business-Rates-Review-part-2-response-by-charity-sector-bodies.docx
[3] https://www.charitytaxgroup.org.uk/wp-content/uploads/Business-Rates-supplementary-response-from-charity-representative-bodies.docx

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- We are concerned that the Government's proposals on the 'Duty to Notify' (para 2.6), the 'Annual Confirmation Return' (para 2.12) and the 'Mandatory Provision of Rent and Lease Information' (para 2.14) will place an unnecessary administrative burden on ratepayers. It will result in the need for more ratepayers to deal with the VOA than now under the 'Check Challenge Appeal' (CCA) System or ever have under the previous rating lists.

- In many cases the information will have no bearing or effect on the current liability or the next revaluation. This therefore appears to be an excessive and unreasonable burden on taxpayers. Charitable rates relief in England means that many charities pay little or no business rates. The need to provide an annual confirmation return, simply to confirm that no changes have been made, seems unduly onerous, particularly for those charities with responsibility for hundreds of properties.

- We understand that the VOA already has survey details of every property in the rating list and is also able to track lease event changes. Introducing a mandatory requirement for the annual provision of rent and lease information, as well as trade and cost information used for valuation seems to be a disproportionate increase in the burden on ratepayers, particularly where support for this administration is outsourced to specialist advisers and this information is not otherwise collected. Charities will incur additional costs for no additional benefit and may in some cases find it difficult to access lease information where it is a historic property. Similarly, we understand that all of the provisions set out in the New Duty to Notify include information already in the possession of the Local Authority that could be passed to the VOA. Attention could be better directed on ensuring improved data sharing rather than placing the onus on ratepayers.

- It would be useful to understand the proposed timescales for the provision of information by ratepayers. Many charities are managed by small and often stretched teams of staff and volunteers so ensuring there is sufficient time to return information will be important.

- We are concerned that the introduction of a 'Challenge' fee (para 2.28 and 2.46) will deter less charities from submitting an appeal. Many charities pay lower or no rates but could still face the same fee despite the benefit to a successful appeal being materially lower overall in financial terms. Again, this could lead to charities deciding not to appeal valuations even when a challenge could be valid and a revaluation appropriate.

- In summary, while we recognise the benefits that will result from more frequent valuation cycles, this could be offset by the additional requirements for ratepayers which could result in disproportionate costs and administrative.

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)**

    - Charities are often less well-resourced than other ratepayers and most have limited in-house expertise on rate issues and compliance. Most charities will have experienced limited interaction with the VOA, so tailored guidance would be helpful. It may also be useful for the Charity Commission, HM Treasury, billing authorities and trusted sector bodies to work with the VOA to ensure that clear messages are communicated to the charities about their responsibilities and the changes to the rules. This could include webinars and explanatory videos and examples. It would also be helpful for the VOA to communicate why this information is important and why it cannot be sourced from elsewhere (including from billing authorities).

- Some form of transition period may be helpful. We suggest that there is more time between the preparation of the draft rating list and the new rating list coming into effect. This will give time to review valuations and submit Challenges.

- We are concerned at the suggestion that there will be a fee to pay for the submission of any Challenge (para 2.28 and 2.46) and a fee for transparency information requests (para 2.52). These fees with refunds upon success, could cause cash flow issues for rate payers and dissuade them from engaging in this process. In addition, the possible reduction in the window for making appeals from 6 months to 3 months would provide a further obstacle to challenges.

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 support transparency, but we feel that more clarity needs to be shared about the Government's timescales and the transparency strategy (para 2.19 and 2.49).

- We believe that proposals for multiplier and any relief schemes should be set out clearly for future Revaluations so that costs can be predicted with a greater certainty.

- Proposals to remove landlords from the appeal process seem unnecessary. Many charities act as landlords and this proposal would leave them unable to act proactively to engage with the rates liability of their tenants where appropriate.

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

- Tailored guidance for charities and joined-up messaging from key stakeholders on the nature of the changes and the responsibilities for ratepayers would help. It would be useful if Government could set out the exact timings of the different phases and changes. This is unclear in the consultation documents.

- The Government could delay the introduction of the other changes that place an administrative burden on ratepayers. The current Check process to maintain accurate physical information and the lease register to collate relevant lease information to support the Revaluation could be continued. As these systems are established, they would have the least impact on ratepayers and the VOA, allowing the VOA to focus on delivery of the new revaluation cycle.

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

    - We believe that making an appeal contingent on paying fees upfront is flawed. It will deter some ratepayers from making appeals.

    - Given the minimal contact between charities and the VOA it is important that any penalty system is proportionate and targeted on genuine fraud, not just ratepayers that are unaware of their new responsibilities.

    - It is disappointing that the consultation document's emphasis is on simplifications to support the VOA rather than the ratepayer. We believe that this balance should be reconsidered. Recognition of the specific impacts on charities as part of the impact assessment process would be appropriate.

6. **Do you agree that 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)**

- A move to a three-yearly cycle would produce more accurate rating lists and less dramatic shifts in valuations. This would enable Local Authorities and ratepayers to more accurately budget for future income/liabilities. However, as outlined in our responses to other consultation questions changes to the revaluation cycle should not result in a disproportionate administrative burden.

- We understand from ratings agencies that there are concerns that business rates are too high, as rates are set by the 2017 Revaluation based on rental levels in 2015. These rates are higher than levels today, and do not take account of the current pressures on the property sector. The Government's decision not to accept Material Change of Circumstances appeals has been disappointing given the inability of many charities to use their properties during the pandemic.

- Greater consistency in approach to the valuation method is desirable. There have been a number of valuation issues recently relating to the charity sector, especially for museums. In 2017, the Upper Tribunal (Lands Chamber) ruled in favour of the York Museums Trust[4], that rates should be set based on net income, not the cost of rebuilding, which the VOA has traditionally used for many museums. The case resulted in savings of £100k for the charity in question. Another case involving museums in Exeter[5] reached a similar conclusion from this precedent (at issue was whether the Rateable Value should be £445,000 or £1). As a result, there would be merit in the VOA adapting its valuation methodology for museums and other types of buildings used for a non-commercial purpose.

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[4] Hughes (VO) v York Museums and Gallery Trust [2017] UKUT 200 (LC)

[5] Hughes (VO) v Exeter City Council [2020] UKUT 7 (LC)

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)**

- Moving to annual revaluations could have some benefits, but only if the VOA had sufficient systems and resources in place to manage this. While speeding up the process of revaluation could be helpful it could result in more inaccuracies and inconsistencies. Also, a yearly valuation would likely result in further restrictions to the appeal process.

- As we have outlined in response to other consultation questions, changes to the revaluation cycle should not result in a disproportionate administrative burden that outweighs the benefits.

CTG, August 2021