CVS

Business Rent & Rates Specialists

Business rates review: terms of reference and discussion paper

CVS’ response to the Government’s discussion paper

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June 2015

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About CVS

CVS, the business rent and rates specialists, is a RICS regulated commercial property agent which has been involved in business rates for 16 years. CVS employs more than 250 dedicated rating staff including over 60 surveyors nationwide.

As of the end of December 2014, CVS had represented ratepayers on over 58,000 appeals against the 2010 Rating List in England and Wales. CVS has submitted some 18.4 per cent of the total number of challenges against the current Rating List, a market share significantly larger than any other rating agent. In 2014, CVS represented its clients on challenges for more than 12,000 properties. Over half of the CVS challenges concluded in 2014 were successful, with an average reduction in rateable value of 8.8 per cent.

CVS welcomes the opportunity for interested parties, including rating agents, to comment on the discussion paper from HM Treasury. We estimate that 93 per cent of all challenges against the 2010 Rating List were undertaken by agents on behalf of ratepayers, with only 7 per cent made directly by ratepayers.

CVS responded previously to DCLG's December 2013 consultation paper, 'Checking and Challenging your Rateable Value', and both of the HM Treasury and DCLG's 2014 papers, 'Administration of business rates in England' and 'Administration of business rates in England: Interim Findings'.

Executive Summary

CVS welcomes the opportunity to participate in HM Treasury's business rates review. CVS represents more than 50,000 ratepayers and sees first-hand the challenges and weaknesses in the current system, as well as it's strengths and the necessary compromises in place. This response draws on both the practical experience of our market-leading team of professional rating surveyors and the direct input from our clients.

CVS has championed the need for transparency and fairness within the business rates system over many years. We welcome this opportunity for a more wide-ranging review of the business rates tax system and hope that, following its conclusion, there can be a resolution to this debate which provides stability and confidence to businesses in England and Wales.

CVS notes the terms of reference for this review and recognises the Government's preference for "business rates to remain a tax based on property values, collected by local authorities". We also recognise the Government's commitment that the outcome of this review will be fiscally neutral. In view of the alternative tax systems available for raising similar revenue, and considering the changing trends in commercial property as outlined in the discussion paper, CVS supports the retention of a business rates system based on property values. We also support the maintenance of a system of business rates based on a calculation of annual rental values at a fixed point in time for non-domestic property. We believe that a system based on the annual rental values of individual properties is the fairest and most appropriate method for establishing business rate liability.

Nonetheless, as set out in CVS' response to the Government's previous consultation, 'Administration of business rates in England', we see scope for significant improvement within the current system of business rates.

The system has become, in our opinion, adversarial, opaque and bureaucratic. In addressing this, cultural change is as important as procedural change. CVS hopes that through the four consultations undertaken since the beginning of 2014, the Government and Valuation Office Agency (VOA) will embrace the opportunity for positive, lasting reform.

CVS recognises the importance of delivering a more effective system for ratepayers while also having regard to the dependability of business rates income for local authorities and HM Government, and we would welcome active involvement in any further consultations.

Our recommendations to HM Treasury remain the same. We call on the Government to make six firm commitments.

1. While DCLG and HM Treasury remain committed to a fiscally-neutral and property-based business rates system, this system must retain individual property assessments based on a calculation of annual rental values at a fixed point in time. Within the confines of a fixed aggregate tax income, we believe that a system based on the rateable values of individual properties at an antecedent valuation date (AVD) is the fairest and most appropriate method for establishing business rates liability. The interim period between the AVD and the list taking effect should be shortened in principle, though CVS recognises the challenges to achieving this.

2. DCLG and HM Treasury should retain and commit to a five-year cycle for revaluation. Five-yearly revaluations deliver certainty and predictability of business rates costs, which is very important to businesses, local authorities and HM Government alike. A five-year cycle mirrors normal rent review periods and lease lengths. Previous consultation papers from HM Treasury and the Department of Communities and Local Government have provided valid exposition of the case for more frequent valuations. This highlights that more frequent valuations do not necessarily align more closely with economic cycles or lease patterns and will not mean that reductions in rent automatically lead to reductions in rates. CVS believes that more frequent revaluations risk greater inaccuracy of rateable values. In addition, 60% of respondents to CVS latest client survey expressed their preference for retention of a five-year cycle, while only 31% preferred three-yearly cycles.

3. Previous consultation papers have examined ways to improve the business rates appeals process and information sharing between ratepayers, local authorities and the VOA. It is CVS' strong view that any reform to the appeals process must not introduce new barriers and disincentives to progressing a challenge without much greater transparency and disclosure of data to ratepayers and their agents. Business rates are an assessed tax. Ratepayers have the right to understand and challenge the basis of that assessment. As such, a reduction in the volume of appeals per se should not be the objective of reform. After all, there has been no increase in the number of appeals on this list, compared to the 2005 list. CVS agrees that the challenge and appeal process should be quicker, with fewer cases reaching the Valuation Tribunal for England. But improving overall efficiency should be the end goal, and this requires greater transparency, more collaboration and the improvement of information sharing.

4. CVS welcomes the Government's recognition that there should be better sharing of information between ratepayers and the Government and also between public bodies. However, for any such reforms to have a meaningful and constructive impact, DCLG and HM Treasury must take action to improve the disclosure of rental data and evidence which fundamentally underpin the VOA's assessments of rateable values. If necessary, this should extend to reviewing the implications on the Revenue and Customs Act 2005 and the Rating Surveyors Association has provided a legal opinion from David Holgate QC to DCLG on this subject.

5. CVS welcomes the Government's 'digital by default' approach and would encourage HM Government to fast-track the use of digital technology by the VOA and billing authorities where possible and appropriate. The consensus among respondents to a CVS survey taken in January 2015 showed that ratepayers would like to see the introduction of online bills which provide more information about how rateable values and final bills are calculated. Digital technology could also be used more widely during revaluation periods to enable ratepayers to "systematically provide bulk rental information". CVS would also endorse greater use of online forms of return.

6. CVS is disappointed that HM Government has not taken the opportunity to investigate the potential to switch business rates' link with the retail price index (RPI) to the consumer price index (CPI). There is broad consensus in the industry that CPI is a more stable, consistent and reliable indicator of inflation and CVS hopes that this reform will be investigated in the full, structural review of the business rates system to be reported in the 2016 Budget.

With these changes made, we believe that the business rates system in England will continue to be fit for purpose and to meet the needs of HM Government, while also being better understood and accepted by ratepayers.

CVS Client Survey

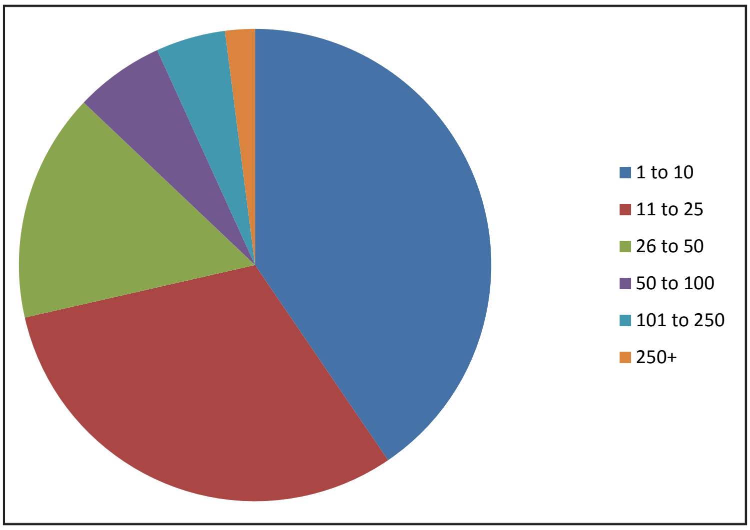
CVS recognises that through this discussion paper, HM Treasury is seeking to receive feedback on the future of the administration of business rates from ratepayers, as well as their representatives. To inform its response, CVS has therefore undertaken an industry survey of our clients.

CVS commissioned an online survey of our clients, which ran in May 2015. The survey asked participants to provide responses to a number of the questions raised in the discussion paper. A total of 294 ratepayers completed the survey and this submission reflects these responses, as well as CVS' view as a leading business rates agent.

The table and charts below indicate the size and sectors of companies which responded to CVS' survey. A majority of those businesses which responded to the survey were small businesses, with ratepayers employing one to 25 employees making up 71% of respondents.

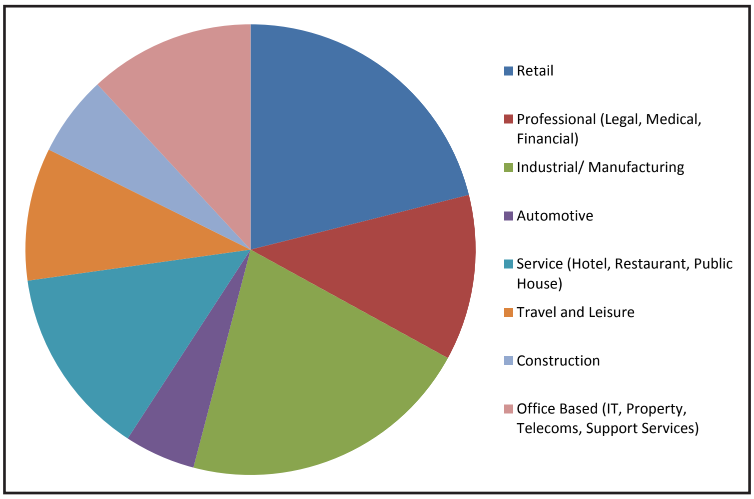
How many employees do you have in your business?

Number of Employees	Percentage	Number of Responses
1 to 10	40.48%	119
11 to 25	30.95%	91
26 to 50	15.65%	46
50 to 100	6.12%	18
101 to 250	4.76%	14
250+	2.04%	6
TOTAL	**100%**	**294**



What industry is your business in?

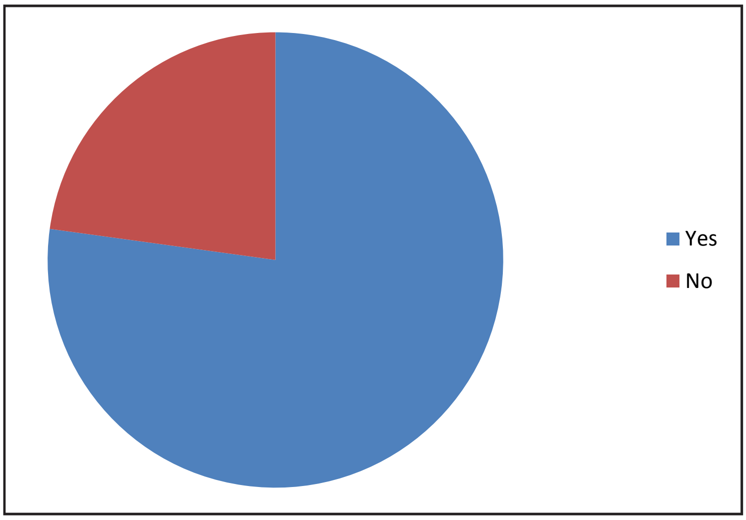
Number of Employees	Percentage	Number of Responses
Retail	21.09%	62
Professional	11.90%	35
Industrial/ Manufacturing	21.09%	62
Automotive	5.10%	15
Service (Hotel, Restaurant, Public House)	13.61%	40
Travel and Leisure	9.52%	28
Construction	6%	17
Office Based (IT, Property, Telecoms)	11.90%	35
TOTAL	**100%**	**294**



CVS Client Survey Continued

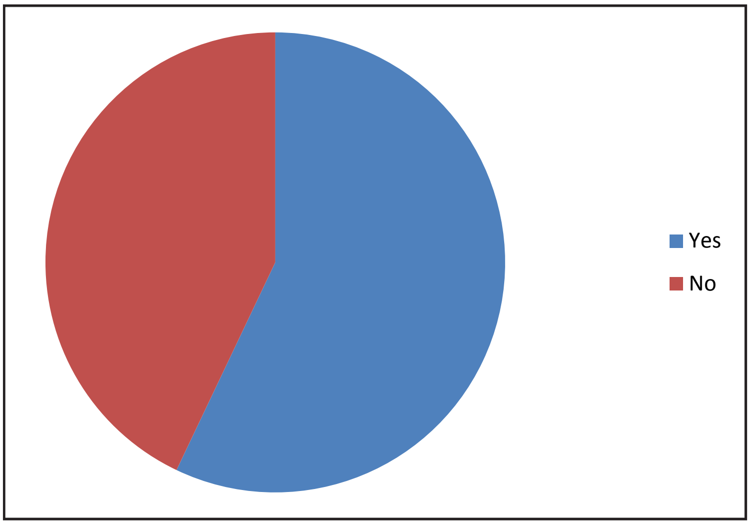
Should business rates be reformed to make them more closely reflective of wider economic conditions?

Answer	Percentage	Number of Responses
Yes	77.18%	186
No	22.82%	55



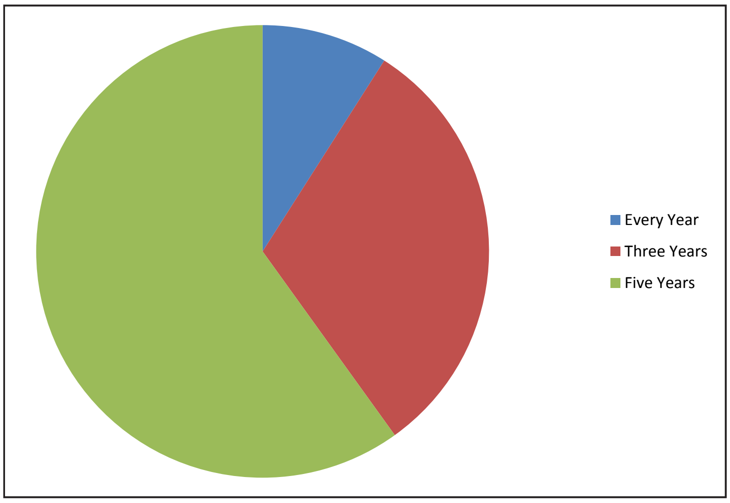
Should investment in plant and machinery, energy efficiency improvements or other similar property improvements, be treated differently by the business rates system?

Answer	Percentage	Number of Responses
Yes	21.09%	62
No	11.90%	35



Increased frequency of revaluation would likely lead to less predictability in business rates bills. What frequency of revaluation would you prefer?

Answer	Percentage	Number of Responses
Every Year	9.03%	25
Three Years	31.05%	86
Five Years	59.93%	166



Discussion Paper Questions

1. What evidence and data can you provide to inform the government's assessment of the trends in use and occupation of non-domestic property?

2. Is there evidence to suggest that changing patterns in property usage are affecting some sectors more than others?

3. What, in your view, does this evidence suggest about the fairness and sustainability of business rates as a tax based on property values?

The fairness and sustainability of business rates as a tax based on property values

A local property tax based on rental value was first introduced in 1601. Since that time, there have been immeasurable changes in total floor space, property occupation and property usage, as well as changes brought about by foreign competition, new technology and myriad other influences. Over the past several centuries entire industries have come into being and all but disappeared. Landowners will always respond to economic change and produce buildings suited to the requirements of occupiers at that point in time. Paragraphs 1.10 to 1.12 of the discussion paper highlight that the property sector has consistently adapted to changing occupation patterns in the past.

In general, the business rates system has responded to these major changes with little difficulty and continues to be an effective form of taxation. This is despite the seven-year time lag between revaluations (from the antecedent valuation date (AVD) to the next revaluation) which can mean that business rates liabilities fall out of kilter with upswings or downturns in the economy.

Paragraph 1.11 of the discussion paper identifies the growing importance of the internet and wider digital economy as a cause of significant change in the use of property. The paper also identifies some manifestations of these changes, including the increasing popularity of internet shopping, online banking and working from home. Comment on these specific sectors is provided below.

However, in general these issues are not new. For example, in the report of the Lyons Inquiry (2006), it was recognised in paragraph 8.10 that e-commerce was changing the pattern of retailing. In addition, as part of its client survey, CVS asked its clients whether the internet has enhanced or undermined their business in recent years. 48% of businesses responded that the internet had enhanced their business and 28% reported that it had no effect.

There is no doubt that internet shopping has impacted large high street retailers by reducing the proportion of in-store sales. However, many retailers have adapted their operating model by using their high street presence to display their goods and support online sales. Many retailers are taking advantage of the opportunities offered by 'click and collect' services. Argos, for example, has benefitted from by developing in-store collection points for goods purchased online and also from partner companies. Importantly, click and collect service requires premises in locations accessible to shoppers. Recently, Network Rail and Transport for London have announced initiatives to provide click and collect points, using space from redundant ticket offices. This is an example of a new trend in retail, bringing new space into use which otherwise might remain unused within the complex of a station. This space will almost certainly be rented to a business partner, which will generate evidence on which a business rates assessment can be based.

Online-only retailers, such as Amazon and Asos, do not require large high street premises with the high cost burden of rents and business rates, but they do require large distribution warehouses for the dispatch of internet goods to customers. As the demand for this type of property increases, so do rents and business rates.

With the increase in online banking, the need for an extensive branch system for banking has diminished, but redundant premises are frequently converted to office or retail use and will continue to pay contributions to local business rates. Any loss of premises to the residential sector will still mean that the local tax base is enhanced by an increase in council tax from the new occupiers.

In terms of patterns of office occupation, there is a general trend towards increased home working, encouraged by new computer technology and the introduction of open plan working environments with a diminishing amount of space allocated per employee. Nonetheless, the impact of this trend will vary according to the quality of the accommodation and its location, and statistics produced by the VOA demonstrate that the total number of office properties and total floor space in England has increased indexed against year 2000 figures. This suggests that the impact of new technology on the office market in terms of its floorspace usage has been exaggerated.

All sectors are subject to change over time. Large out of town food stores are in decline in the face of increasingly localised shopping patterns and competition from discount retailers. However, as rent levels for types of property stabilise or fall in some locations, rents for medium-sized food retail units in urban locations can be expected to rise. This is reflected in business rates liabilities at each valuation. Similarly, while village pubs have declined, there has been growth in the number of gastro bars in urban areas. The bingo and cinema sectors have always been subject to wide variations in profitability as leisure trends and fashions change, but because most property in the leisure sector is valued by reference to turnover, these trends have been reflected in the business rates assessments for those classes. In summary, this evidence serves to illustrate that the property market, rent levels, and therefore business rates, do adapt to changing economic circumstances. While trends in use and occupation vary, this is accounted for in the market. Albeit that the current five-year cycle of rating revaluations and associated AVD do create a a time lag in the reflection of changing market conditions, in general the system is remarkably resilient in adjusting local property tax levels to the state of the property market and general economic conditions.

Improving the fairness and sustainability of the current system of business rates

CVS' views on how the business rates system can be improved to be fairer and more sustainable are provided in the executive summary of this consultation response. We believe that these recommendations would assist ratepayers' understanding of the relationship between business rates and wider movements in the property and rental market.

In the context of the Government's preference to retain a property-based system of taxation, CVS recommends – in summary – that the Government:

- Retains individual property assessments based on a calculation of annual rental values at a fixed point in time
- Retains and commits to a five-year cycle for revaluation
- Undertakes reform of the appeals process which does not introduce new barriers and disincentives to progressing a challenge without much greater transparency provided for ratepayers
- Takes action to improve the disclosure of rental data and evidence which fundamentally underpins the VOA's assessments of rateable values
- Fast-tracks the use of digital technology by the VOA and billing authorities where possible and appropriate
- Switches business rates' link with the retail price index (RPI) to the consumer price index (CPI)

Taken together, we believe these measures will help address some of the perceived disconnection between patterns of property occupation and business rates liabilities.

4. What evidence is there in favour of the government considering a move away from a property based business tax towards alternative tax bases? What are the potential drawbacks of such a move?

In the course of recent debate on the future of the business rates system, a replacement tax linked to sales, turnover or profit have commonly been raised as alternatives to the current property-based system. CVS believes that such systems are wholly inadequate replacements for the current business rates system which, while flawed, provides stability for both Government and ratepayers, as well as a level of fairness between ratepayers.

Many properties included in the leisure class such as pubs, hotels, restaurants, cinemas, bingo halls and amusement parks, among others, are already valued by reference to turnover based on adjusted accounts. This is a complex and time-intensive process. To introduce a tax based on turnover for all non-domestic properties would be to introduce a system that assesses the scale of the business via a single metric, with no clear advantages over using rental values. It would create an inherent unfairness between businesses with different profit margins, penalising those with a high margin. There can also be challenges in establishing and assessing suitable evidence, such as obtaining the necessary information, adjusting it to a common statutory basis, and apportioning the income and expenses between a number of establishments operated by the same company, where many of the core expenses are shared.

A tax assessment based on profit is little different to levying a local corporation tax and would give wide scope for tax avoidance and evasion. This activity may, for example, include companies domiciled overseas avoiding a locally based tax, or firms allocating income to loss-making companies. In addition, non-profit-making occupiers such as public bodies and charities would require either the continuation of the current basis of business rates or an alternative form of tax assessment.

Both profit and turnover levels are closely linked to the economic cycle, so although a local tax on profit or turnover may be more responsive to economic changes than the current system, there will be a great loss of certainty to occupiers, local authorities and central government. In its commitment to a fiscally neutral review of business rates, the Government has indicated that it does not wish to take such risks with the £28 billion it receives in income from business rates. Areas of the country with low levels of economic activity would suffer disproportionately from a loss of tax receipts, thus widening the North and London and the South East divide.

As a result, CVS does not support the introduction of an alternative system based on profit or turnover.

6. How can government use business rates to improve the incentive for local authorities to drive local growth?

Before the changes in local government funding in 2013-14, there was little incentive for local authorities to promote local growth with the aim of increasing their revenue. Nor was there an incentive to keep valuation officers abreast of new floorspace delivered or building alterations which might increase the rateable value base. Now that local authorities have the ability to retain 50% of any growth in business rates receipts, there is a clear incentive for local government to promote such schemes. In addition, the introduction of new local supplements, such as Business Improvement Districts, have proven popular.

CVS considers the current 50% rate for local retention to be positive and appropriate. CVS also notes the potential for 100% local retention to be introduced in certain 'Combined Authorities' and supports the Government's proposal that this requires a joined-up, regional approach.

CVS does not believe that there should be a return to the system before 1990 when local authorities set the multiplier and retained 100% of receipts from business rates. Devolution of the control over the multiplier would affect the ability of Government to equalise resources between local authorities and many of CVS' clients which occupy properties across the country would be adversely affected by a return to a system involving myriad local rates. This would also adversely distort the rental market between local authority areas.

8. What other local incentives should the government consider to further incentivise business growth?

CVS consulted its clients on what local incentives should government consider to further incentivise business growth. A significant number of respondents noted that business growth would improve where broadband internet speed is improved, with quicker roll out of superfast broadband and 4G. This is particularly of concern to businesses located in rural areas and SMEs which increasingly rely on internet technology.

Car parking charges are also a concern for a number of our clients. Town centre parking charges are seen as obstructive to town centre retailers and employers of office staff, particularly because many out of town office and retail park locations offer free parking.

Many of CVS' clients report in general terms that the burden of business rates is excessive and is a deterrent to economic growth. Businesses – in particular SMEs and 'start ups' – complain that the rate at which business rates are currently levied is unfair. The Government could explore overcoming these problems by continuing to provide small business rate relief and potentially extending this scheme. This could be achieved by reducing the multiplier for small businesses, continuing to raise the rateable value threshold for business rates, and continuing to give relief to businesses in rural areas for certain categories of property.

9. Should business rates be reformed to make them more closely reflective of wider economic conditions and if so, how?

In CVS' client survey, 77% of respondents stated that business rates should be made more closely reflective of wider economic conditions. CVS' views on how the business rates system can be reformed to be reflective of wider economic conditions are provided in the executive summary of this consultation response. The most relevant recommendations are that the Government:

- Retains and commits to a five-year cycle for revaluation

A five year cycle mirrors normal rent review periods and lease lengths. Previous consultation papers from HM Treasury and the Department of Communities and Local Government have provided valid exposition of the case for more frequent valuations. This highlights that more frequent valuations do not necessarily align more closely with economic cycles or lease patterns and will not mean that reductions in rent automatically lead to reductions in rates. CVS believes that more frequent revaluations risk greater inaccuracy of rateable values. In addition, 60% of respondents to CVS' client survey expressed their preference for retention of a five-year cycle, while only 31% preferred three-yearly cycles.

- Undertakes reform of the appeals process which does not introduce new barriers and disincentives to progressing a challenge without much greater transparency provided for ratepayers

Improving the efficiency of the business rates appeals process, without compromising its fairness, is important to help better align the business rates system with wider economic conditions. Helping businesses to correct or adjust their rateable value will naturally bring business rates liability closer into line with the market conditions. A swifter appeals process will also ensure that appeals on the basis of a Material Change of Circumstances, where a ratepayer may be responding to a direct change in immediate economic conditions, can be processed quickly and reflected in rateable values.

- Takes action to improve the disclosure of rental data and evidence which fundamentally underpins the VOA's assessments of rateable values

As well as improving transparency and fairness, better sharing of information by the VOA will help ratepayers to assess their rateable value against their actual circumstances, market rents and local economic conditions.

- Fast-tracks the use of digital technology by the VOA and billing authorities where possible and appropriate

CVS believes, in principle, that it would benefit ratepayers to reduce the time lag between the AVD and the introduction of the new rating list. This would help rateable values to correlate more closely with market rents. CVS acknowledges the inherent logistical challenges for the VOA in achieving this time reduction, but also agrees that digital technology could be used to improve the collection of forms of return and the systematic collection of bulk rental data.

- Switches business rates' link with the retail price index (RPI) to the consumer price index (CPI)

There is broad consensus in the industry that CPI is a more stable, consistent and reliable indicator of inflation and CVS hopes that this reform will be investigated in the course of this consultation.

10. If business rates remain a property tax, how do you suggest business rates could take into account the individual circumstances of businesses such as their size or ability to pay rates?

CVS' views on how to improve the responsiveness of the business rates system are summarised in response to questions 1, 2, 3 and 9. The Government could also consult on the introduction of discretionary reliefs for specific sectors or use classes, though this would further complicate the existing business rates system.

11. How could the government better target support for SMEs given that the size of a company may not be reflected in the rateable value of a property it uses?

One of the challenges of the existing business rates system is that the size of a company is not always reflected in the rateable value of the property it occupies. However, as outlined above, CVS does not believe that this can be resolved by replacing business rates with a tax on turnover, profit or number of employees. Indeed, the fact that a business is classed as an SME is not necessarily reflected in turnover or profit.

Notwithstanding these arguments, CVS notes that there remains a correlation between the size of a business and the rental value of the property it occupies. For this reason, CVS supports the efforts made by the previous government to increase relief for small businesses based on a rateable value threshold. CVS would support further extension of relief to lift more ratepayers out of business rates, provided that this does not further increase the burden on larger businesses.

In the responses to CVS' client survey, there was no consensus on how the Government could better target support for SMEs. However, one common theme raised was that ratepayers may be more accepting of business rates if they were more clearly aligned to the services provided by local authorities. For example, additional payments are often required for services such as waste collection and parking charges. Greater collaboration between business groups, such as LEPs and Chambers of Commerce, and local authorities may help businesses to understand how businesses rates are spent.

12. Should investment in plant and machinery, energy efficiency improvements or other similar property improvements, be treated differently by the business rates system? If so what changes could be made?

CVS wholeheartedly agrees that plant and machinery, energy efficiency improvements and other similar property improvements should be treated differently by the business rates system.

Many respondents to CVS' survey considered that the current system penalises ratepayers for making improvements to their property. This is clearly a barrier to growth and inhibits businesses' ability to respond to market demand by improving or extending premises. CVS suggests that legislation could be introduced to prevent the VOA from increasing an assessment during a rating list on the basis of structural alterations to the property, unless there is a change of occupier. The improvements will otherwise be reflected at the next revaluation. This is similar to the council tax model, in which a council tax band cannot be altered between valuation lists unless there has been a disposal of the dwelling, at which point a change in the band can be triggered.

Plant and machinery which is on the property and is used (or intended to be used) in connection with manufacturing operations or trade processes is excluded from rating under Class 2 of the Valuation for Rating (Plant and Machinery) (England) Regulations 2000 as amended. However, there are often disputes about what constitutes a trade process, as evidenced by a recent Lands Chamber decision in relation to an airhandling system in an Iceland retail warehouse. CVS recommends that a review of the current regulations is undertaken with the objective of removing such rateable items from the regulations. In our view the regulations should retain only such items that form part of the structure or fabric of the building. This should include building services and utilities without which a building cannot function. These items should continue to be valued because they are reflected in the rental evidence provided by a landlord when letting a building. Items that will normally be provided by the tenant – such as a freestanding mezzanine, platforms and floors – should not be rated.

In terms of energy efficiency, there are already incentives contained in the current plant and machinery regulations, but these are limited. There is an inherent challenge here in that business rates are based on rental values and energy efficiency improvements will generally give rise to higher rents. The Lyons Enquiry (2006) rejected proposals for reducing rates payable on energy efficient buildings because this would increase the complexity of the present system and would result in the benefit being transferred to landowners in the form of higher rents for high efficiency buildings. It is hard to disagree with that analysis.

CVS suggests that the Government may wish to re-visit this question as part of its wider carbon reduction and energy efficiency strategy for commercial property.