PMA Business Rates Update and CPD Seminar -11th November 2021

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GL Hearn
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Agenda

Subjects to be Covered:

- Chancellors Autumn Budget & 2022/23 – England
- Wales & Scotland
- Fundamental Review of Business Rates in England – Where are we now
- 2023 Revaluation update
- Covid19 legislation update

2022/23 Liabilities update

Business Rates 2022-23: England

- Chancellor will freeze Multiplier for England 2022/23 49.9p SBRS remains at 1.3p = Large hereditament multiplier (over £51,000) 51.2p.
- Inflation - CPI - would have been 3.1%
- Expanded Retail Discount scheme to be retained: 50% relief from 1st April 2022 on “pre-pandemic retail relief scheme rules” (RV’s below £51,000) AND – capped at £110,000 per business (likely to be at a Group company level as per 2021 ERD caps). Relief may be optional as per 2021/22 100% and 66% reliefs.
- Limited Transitional Relief to be extended: Increases in rates as a result of TR ending will be capped for Small properties (RV up to £20,000/£28,000 in London) at 15% and for Medium properties (RV’s up to £100,000) at 25%.
- The TR “relief” is subject to subsidy control limits and are likely to be administered as a “one-off” relief rather than an actual extension of the TR scheme
- Government’s response to Fundamental review also published

Business Rates 2022-23: England

- Other announcements at the Budget:
- “Green Investment” Relief - A new exemption will be introduced in 2023 for eligible “on site” P&M used for renewable energy generation & storage (e.g. PV panels, electric car charging points). Plus a new 100% relief for eligible low carbon heat networks “with their own rates bill”.
- This all supports the decarbonisation of non-domestic buildings agenda & worth £750M pa according to the Chancellor.
- “Property Investment “ relief - A new property investment relief as recommended by the CBI and BRC to be introduced from 1st April 2023. Details will be consulted on but intention is that 12 months relief at 100% will apply to all improvements carried out to properties that increase the RV – e.g. extensions, installing CCTV, bike sheds etc.
- Sounds very similar to the Business Growth Accelerator relief already applicable in Scotland - will be welcome news to those carrying out improvements to their premises from 2023.
- Explore merits of “UK wide” Online Sales Tax - The government will “explore the arguments” further for an Online sales Tax and use the proceeds for reducing business rates “for retailers with properties in England” and block grants for devolved administrations. A Consultation will be launched “shortly”

Business Rates 2022-23: Scotland & Wales

- National multiplier 2021/22 frozen in Wales (53.5p) & Scotland (49p/50.3/51.6p)
- No announcement yet by either Government on whether 2022/23 will also see the same multipliers as per England
- Retail Leisure & Hospitality relief:
- Retail Leisure & Hospitality scheme provides 100% relief in 2021/2022 on same qualifying criteria as 2020/21. Will there be similar relief in 2022/23?
- Wales - Changes to Empty Property Relief coming:
  Empty property occupation “reset” period will be 6 months not 6 weeks from 1/4/2022, which will significantly hamper options to mitigate empty rates liabilities in Wales.
- But no further changes to appeals system have yet been announced in Wales. A move to a CCA type scheme is expected from 1/4/2023
- Scotland - Changes to appeal system being consulted on as we speak wef January 2023 with information provision a pre-requisite before any appeal can be submitted

Fundamental Review of Business Rates – where are we now?

Business Rates has got to change……right?

- Significant reform recommended by 2018 Treasury Select Committee Inquiry into Business Rates – referenced in Queen's Speech December 2019. Then came Covid19…………
- Proposed Revaluation 2021 cancelled
- 2022 revaluation deferred to 1/4/2023
- Valuation Date – April 2021 (England/Wales) Really?
- Govt announced the terms of reference for a "Fundamental Review of Business Rates" in the March 2020 Budget.
- "Call for Evidence" consultation conducted Summer 2020:
    - Tranche 1 on multiplier and reliefs: Deadline 18/09/2020 (Autumn Budget then cancelled)
    - Tranche 2 on all other issues: 31/10/2020

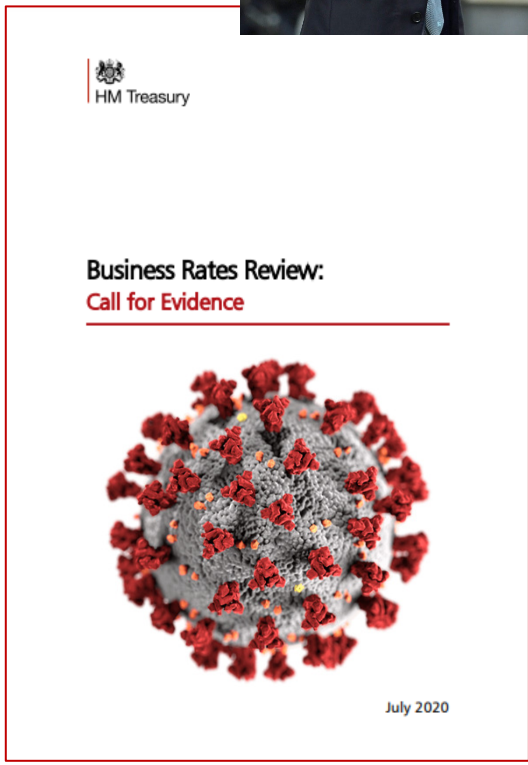
BT urges UK government to cut business rates on new fibre lines to hit broadband target

Telecoms group says pledge to remove onerous planning laws must be honoured

BT, via its Openreach networking unit, could 'build like fury' if Ofcom delivered a pro-investment regulatory framework, said chief executive Philip Jansen © Bloomberg

Government’s Fundamental Review:

- Objectives of the current review are:
  - reducing the overall burden on businesses
  - improving the current business rates system
  - considering more fundamental changes in the medium-to-long-term.
- Response promised for “Spring 2021” but further delayed to “Autumn 2021”. Fear that costs of CoVid19 pandemic would scupper genuine reform
- Business Rates Review: Interim Report published with March 2021 budget giving analysis of respondents comments – didn’t give much hint that fundamental reform was on the cards.
- “Stand alone” Consultation launched June 2021 on delivering “More Frequent Revaluations” – concluded August 2021
- Labour announced at party conference September 2021 they will scrap business rates to “level the playing field” on the high street.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Business Rates Review:
Call for Evidence

July 2020

Main asks of retail sector?

- Reduce multiplier from £0.51p to £0.35p as per 1990 revaluation when multiplier was last "politically" set
- Remove downwards Transition – fundamentally unfair and has cost the retail sector over £100 million on 2017 List. Prevented the revaluation from "doing its job"
- More agility. Move to annual revaluations or at least move AVD to one year before List compilation
- Reduce the burden of business rates on bricks and mortar retailers by introducing online sales tax (not universally supported)
- Autumn budget 27/10/21 – All has been revealed……

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Reform business rates or risk a high street collapse, say firms

Tesco, B&Q and Waterstones join call for tax change to save thousands of retail jobs and shops

An empty high street in Cardiff in the traditionally bustling run-up to Christmas. Photograph: Matthew Horwood/Getty Images

The leaders of household names including Tesco, B&Q and Waterstones have warned the chancellor that the business rates burden on shops is putting thousands of high street jobs at risk, and called for online retailers to pay their "fair share" of tax.

In a letter to Rishi Sunak before next month's budget, the chief executives of 18 retail and property organisations, representing more than a million employees and tens of thousands of shops, say failing to overhaul the commercial equivalent of council tax will hamper the ability of high streets and town centres to recover from the pandemic.

The letter, which is also signed by the bosses of Asda and Morrisons as well as major shopping centre operator Hammerson, says the current system is "not sustainable in the long term and without reform, shops at the heart of communities will be at risk".

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CURIOUS?
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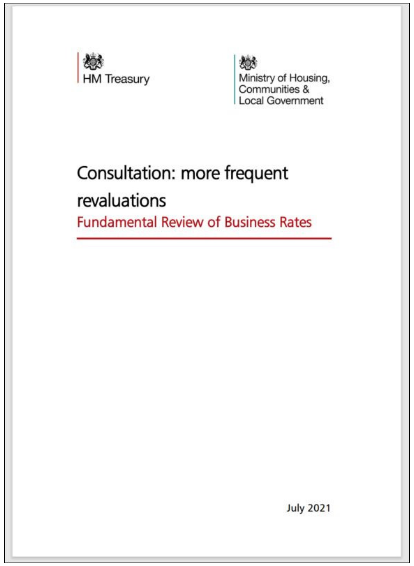
Business Rates Review – Final report:

- Stand alone Consultation launched 29/06/2021 on "more frequent revaluations" in England
- First potential policy change as part of Fundamental review but essentially "old news" dating to 2016 albeit with specific proposals to achieve 3 yearly revaluations.
- Govt stated it wanted to "test its assumptions" that costs of annual revaluations would "outweigh benefits" but such options remain "under consideration" for the longer term.
- Consultation period ended 24th August 2021
- Objectives of the consultation:
    - to improve the accuracy of valuations via a more regular flow of information to the VOA
    - reform and streamline the appeals system via a more systematic approach
    - deliver greater transparency on valuations iso ratepayers can see more detail earlier and "outside the Challenge process"



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Ministry of Housing, Communities & Local Government

Consultation: more frequent revaluations

Fundamental Review of Business Rates

July 2021

Business Rates Review:

Final Report

October 2021

Business Rates Review – Final report:

Does the Final Report Deliver on its objectives?

Chapter 1 – The "role of business rates"

- ✓ *raises revenue in a way which is less distortionary than some other taxes;*
- ✓ *a relatively efficient tax to collect – tax avoidance and evasion are lower for property taxes than for other taxes;*
- ✓ *a more practical and appropriate way to fund local authorities than, for example, taxes linked to earnings or profits; and*
- ✓ *a relatively stable and predictable tax when compared with other taxes, which means ratepayers have more certainty from year to year about their tax liability, which can help with forward planning.*

"This review has not found evidence to contradict these advantages" Advantages to who seems to be the question!?

Ultimately the government is firmly not for turning – business rates are a *"vital component of the business tax mix".*

"The government is not proposing changing the nature of the tax, or the basis of valuation".


Business Rates Review:
Final Report

October 2021

Business Rates Review – Final report:

Does the Final Report Deliver on its objectives?

Chapter 2 – How the government has reduced the burden of business rates”

1) Should the multiplier fall to 35p as per the level it was introduced at in 1990 as has called for by some respondents?

- *the revenue raised through the business rates system between 1990 and 2018 has fallen as a percentage of GDP, from 1.8% to 1.5%.*

Cutting the multiplier to 35p would cost £9Bn pa whereas freezing the multiplier in 2022/23 will save £4.6Bn over 5 years……………

2) How has the government supported retail and the high street?

- *Covid19 reliefs in 2020/21 and extending into 2021/22 with no liability for 15 months and £16Bn of relief in total*
- *15 Town Deals worth £335M to “revitalise towns)*
- *Temporary relief for 2022/23 worth £1.7Bn*
- *Levelling Up Fund/projects including 21 projects from the Community Ownership Fund and £3.6Bn Towns Fund for 101 towns across England*


Business Rates Review:
Final Report

October 2021

Business Rates Review – Final report:

An online Sales Tax to help reduce the burden on business rates?

Despite “a high level of interest” no decisions on whether to proceed with an OST have yet been made by government

1-2% OST “would not raise sufficient revenue to be a feasible alternative” for business rates. But it could help to “rebalance the tax burden between bricks and mortar shops and online retail”

“The evidence provided has not established that business rates is responsible for the shift from bricks and mortar to online or for broader problems on the High Street”. Issues with OST?

- *“It is expected that” OST would be passed onto consumers at a high rate = much of the burden of the new tax would be on households*
- *Design choices would need to be made involving potential arbitrary decisions on the items that are taxable or not – e.g.:*
    - *click and collect & online reservations*
    - *sales agreed by other channels such as e-mail*
    - *via web-based apps in-store, essential goods such as food*
    - *how it applies to small retailers.*


Business Rates Review:
Final Report

October 2021

Business Rates Review – Final report:

Improving the Reliefs system

Business rates offers *"a range of reliefs designed to target support on the businesses most in need".* Ensures a *"fairer distribution"* of the tax.

Reliefs play a "vital role" in ensuring the overall sustainability and fairness of the tax but need to be "well targeted and proportionate".

In the light of the impact of the CoVid19 pandemic on public finances they also need to offer value for money – e.g. small business rates relief already provides 100% relief to 700,000 businesses.

All current Reliefs will be kept "under review" to ensure they are fit for purpose but "The government does not intend to remove any of the existing reliefs at this time."

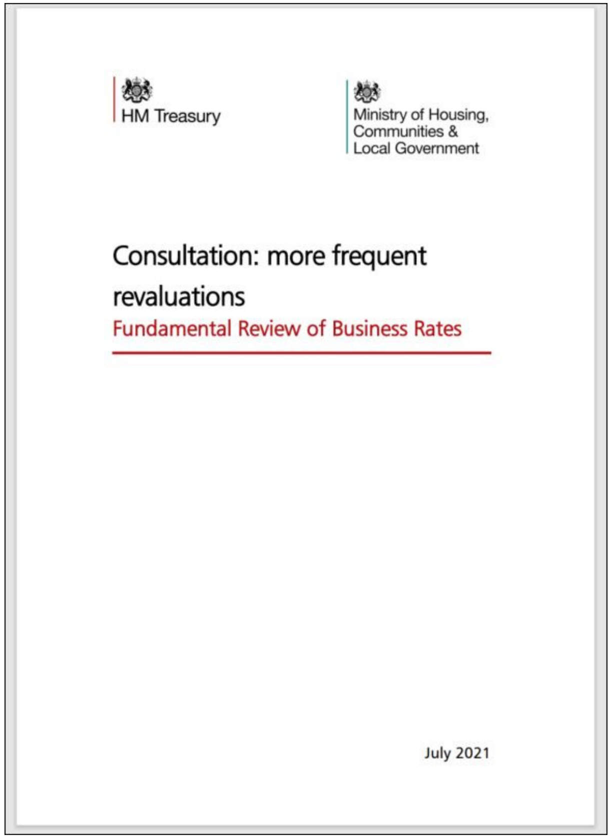
Report states that reliefs must not be misused and government undertaking "further detailed work and will consult on measures next year" as regards rates avoidance and "particular concerns" on misuse of Empty Property Relief…………….


Business Rates Review:
Final Report

October 2021

Business Rates Review – Final report:

- What won't be pursued From the Consultation?
- No move to annual revaluations – Govt is only committing to 3 yearly revaluations only and will *"legislate over the course of the next list"* to give effect to the new cycle……..
- Annual cycle creates concern over volatility and potential impacts on valuation accuracy. "Changes "necessary to ensure the deliverability of an annual cycle would be highly unpalatable to ratepayers, & the costs of these restrictions would outweigh the benefit of an annual cycle".
- No shortened gap between the AVD and List compilation – this only remains an aspiration "once the new 3 yearly cycle and supporting changes are "bedded in"
- The 2023 List now has a valuation date set in law of 1st April 2021. Going forwards that 2 yearly gap will be maintained.
- No fundamental reform of the P&M system – the current system is fit for purpose according to government and exempting further items would cause "unfairness to other ratepayers"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Ministry of Housing, Communities & Local Government

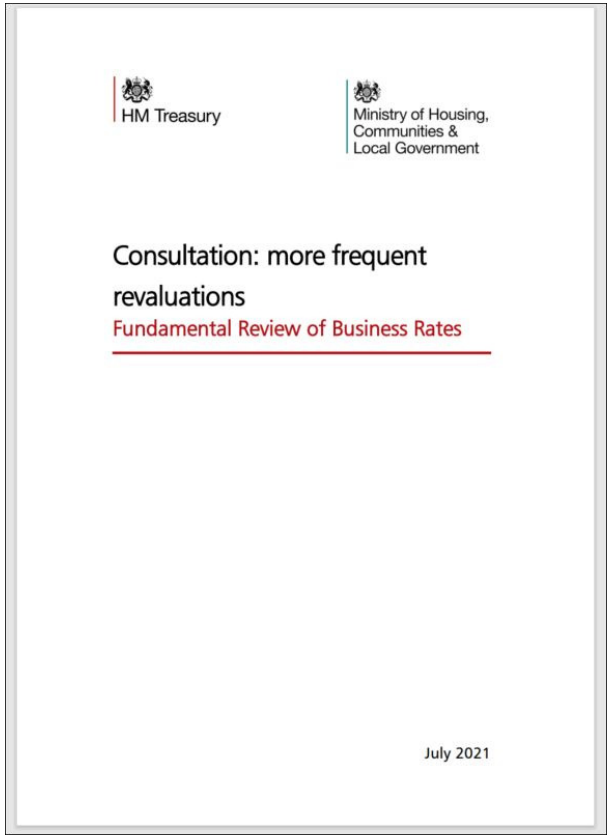
Consultation: more frequent revaluations

Fundamental Review of Business Rates

July 2021

Business Rates Review – Final report:

- What won't be pursued From the Consultation?
- No costs for submitting Challenges or for requesting Transparency data - Government recognises the potential unfairness here, particularly on small business
- No further restrictions on appeal rights – Landlords will continue to have the automatic right of Challenge/appeal. Some concerns exist around the scope of third parties to Challenge ratepayer assessments and government will *"continue to explore alternative options to address this concern"*
- No wider restrictions on MCCs beyond "legislative and regulatory factors"– Consultation had flagged the possibility of widespread restrictions to MCC Challenges. As a result ratepayers will retain "broad and substantial grounds for appeal"
- Retaining such ratepayer rights *"does mean that the VOA will be dealing with a higher volume of cases, which may affect timeliness of Challenge clearances"*



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Consultation: more frequent revaluations

Fundamental Review of Business Rates

July 2021

Business Rates Review – Final report:

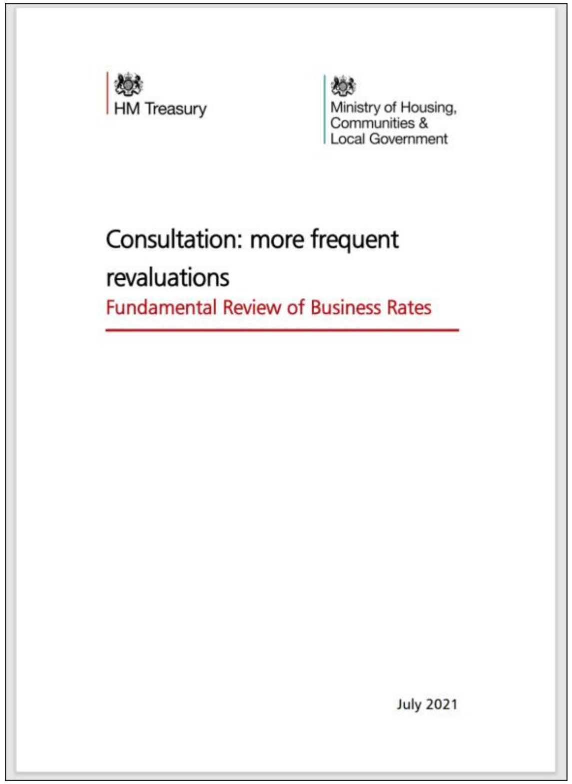
- What changes are needed to move to 3 yearly revaluations?
- 1 - Introduce a *"Duty to Notify"* the VOA of changes to the occupier and to the property (extensions, alterations etc)
- This will be a *"self-declaration"* system that applies *"reasonably soon"* after any such changes arise.
- Duty to Notify will be augmented by an *"annual confirmation return"* requirement administered through an online portal *"aligned to annual billing".* This will confirm that all data held for their properties is correct in a *"light touch"* process.
- 2 - Introduce a mandatory provision to *"pro-actively provide"* rent and lease information, including side agreements etc, which *"would not be shared outside the VOA"* as part of the proposed "annual confirmation" return. This to include trade information, where used for valuation
- These measures to replace "Check" as part of the CCA process from 1/4/2026 with measures being introduced progressively during the 2023 List following a technical consultation later this year.


Business Rates Review:
Final Report

October 2021

Business Rates Review – Final report:

- What changes are needed to move to 3 yearly revaluations?
- 3 – The above would also accompany the introduction of a *"fair and proportionate compliance system".* This will include:
- Conditional entry to the appeals system – It will not be possible to submit a Challenge unless the "Duty to Notify" and mandatory provision of lease information requirements have been met. "Phase 2" Transparency data will also be provided only if data has been submitted in a compliant way
- Provision of late information regulations will be amended to deal with ratepayers that seek to benefit from providing late or incorrect information. No further detail on this is provided but retrospective Notices increasing RV's can potentially be expected here.
- Penalties for non-compliance for "missed deadlines" or providing missing or incorrect information but subject to a new "Review" stage so that *"consideration of mitigating circumstances"* and appeals for penalties could be dealt with.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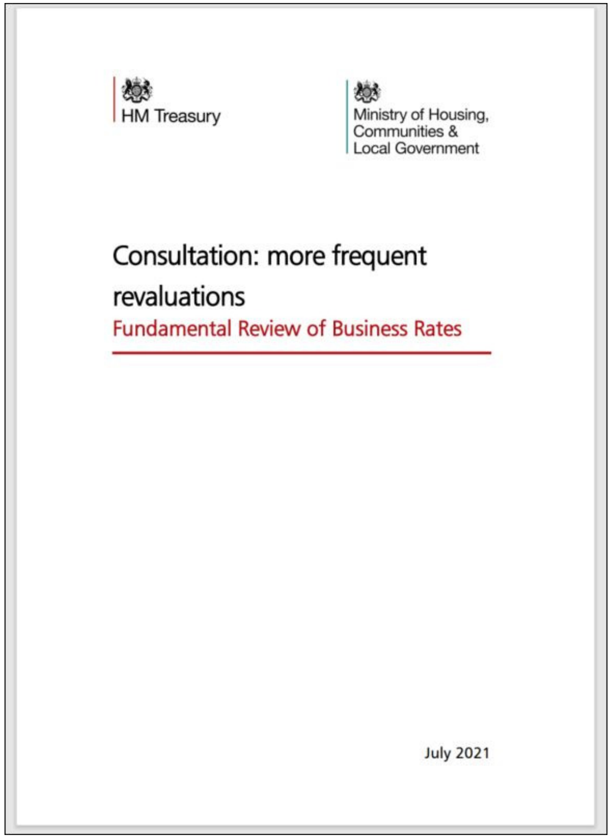
Business Rates Review – Final report:

- What changes are needed to move to 3 yearly revaluations?
- 4 – Restrictions around the administration of Challenges will be introduced
- A time limited 3-month window for Compiled List Challenges to be submitted – this to mainly reduce uncertainty for local authorities and to give the VOA the ability to group Challenges for them to deal with efficiently. To come in from 1/4/2026.
- A statutory deadline - 2 years 9 months from the end of the Challenge window for all Challenges to be disposed of will be introduced for the 2026 Rating List. This to be very similar to the existing statutory disposal date in Scotland.
- MCC amending legislation to be introduced – *"to clarify that factors arising from legislation, regulations, licensing changes, or guidance are not in scope for MCC claims".*
- But no changes planned more widely than this.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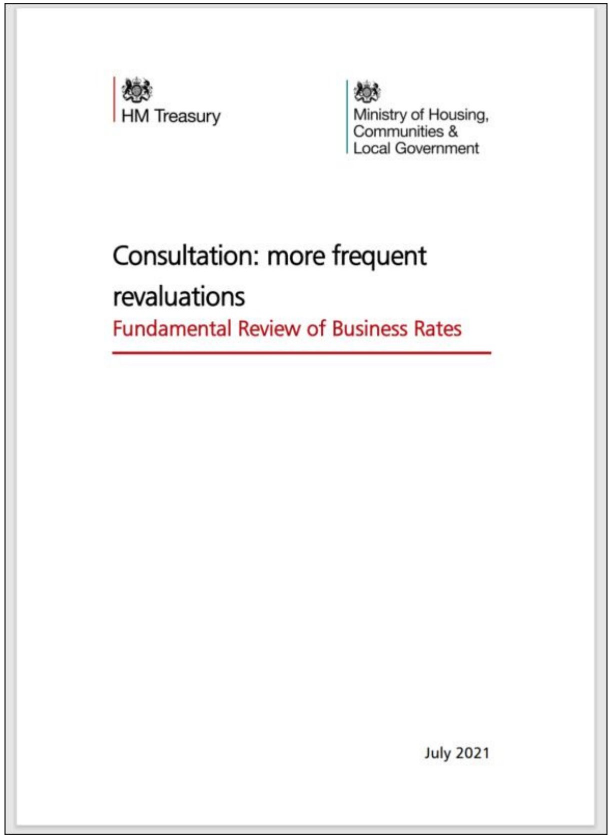
- What changes are needed to move to 3 yearly revaluations?
- 5 – Providing greater transparency on valuations – providing ratepayers with information to better understand their RV, how it has been arrived at and including comparators.
- *"Timings are indicative and subject to change"*!
- Phase 1 (before 2023 Rating List): Release of improved guidance covering rating principles and class specific valuation approach, *"ensuring guidance is readily accessible and ratepayer-friendly".*
- Phase 2 (expected for 2026 rating List): Providing fuller analysis of rental evidence used to set the RV for a specific property, e.g. analysed price per m2 and an explanation of what evidence has been used to arrive at the RV - accessible on request to the VOA, and available separately from and prior to the Challenge process.
- This will pose administrative problems for ratepayers given a 3-month Challenge window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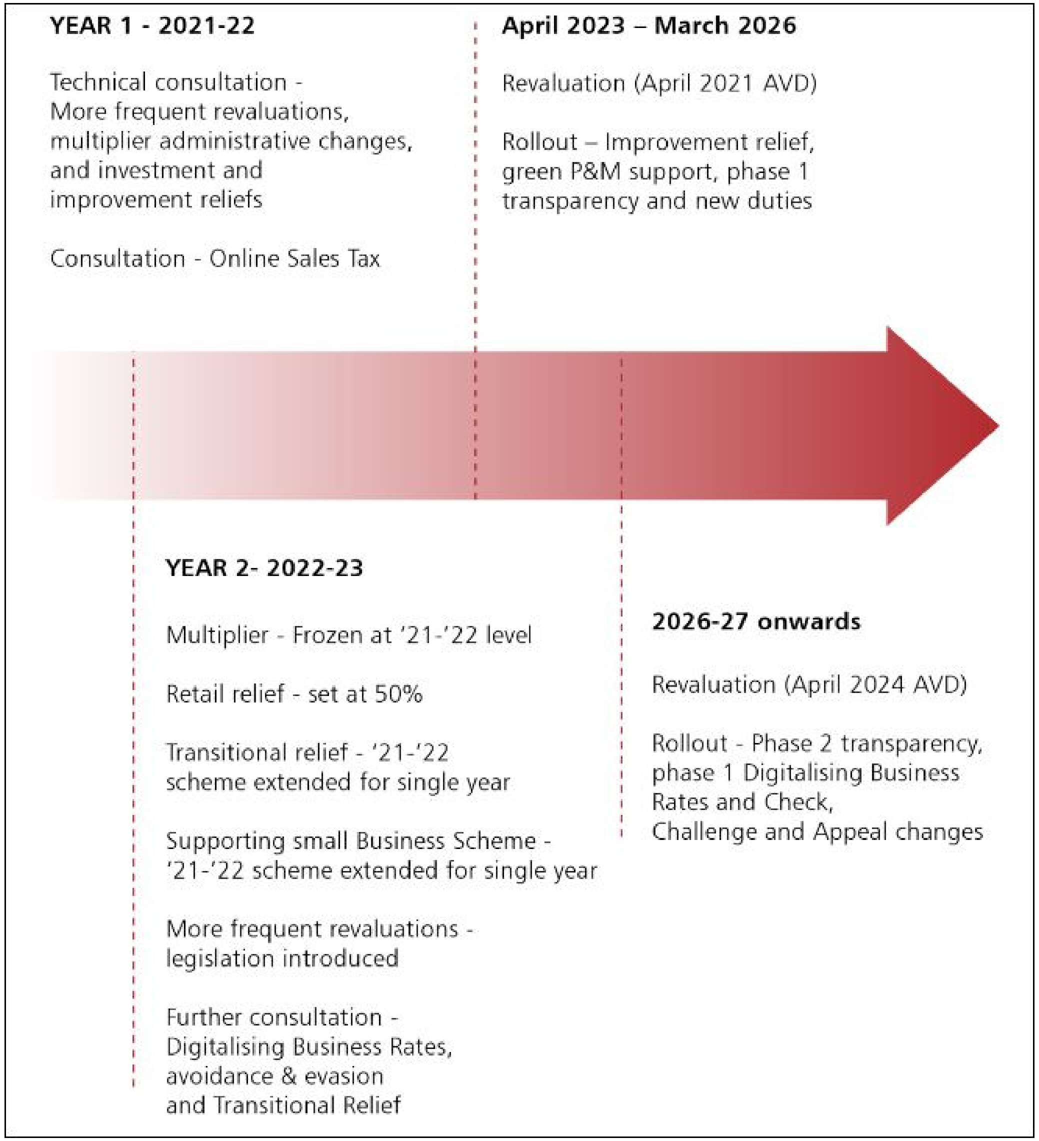
Fundamental Review of Business Rates

July 2021

Business Rates Review – Final report:

- **Roadmap for "Reform":**
- Plenty more consultations to come but no real "genuine" reform in the foreseeable perhaps?
- Concern that much of this will be technical "window dressing" or of limited financial benefit?



The huge importance of Transition to the Retail Sector

Why TR is so important

ENGLAND - 2017 REVALUATION

	2017/18	2018/19	2019/20	2020/21	2021/22
Small hereditaments – TR phased up	5%	7.5%	10%	15%	15%
Medium hereditaments – TR phased up	12.5%	17.5%	20%	25%	25%
Large hereditaments – TR phased up	42%	32%	49%	16%	6%
Small hereditaments – TR phased down	-20%	-30%	-35%	-55%	-55%
Medium hereditaments – TR phased down	-10%	-15%	-20%	-25%	-25%
Large hereditaments – TR phased down	-4.1%	-4.6%	-5.9%	-5.8%	4.8%

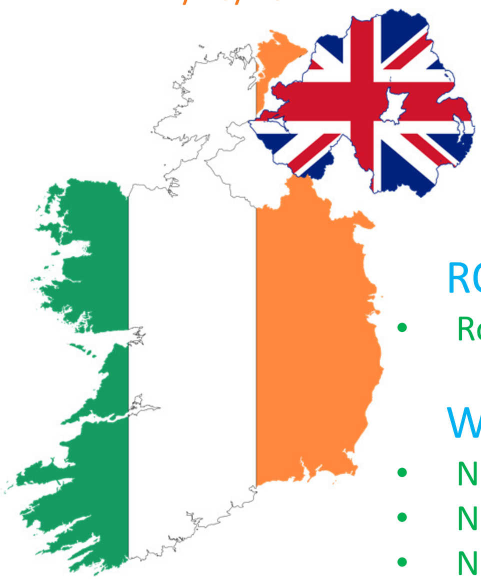
- Above adjustments before inflation – Large upwards = +44%, Downwards – 2.1%
- If Retail RV's fall by 30% the above scheme would repeat the ills of 2017
- Lobbying on TR could be the single most important objective for 2023
- Govt will Consult in 2022 and publish in October 2022. The Draft List will not be published until 31/12/2022…………………………

All eyes turn to 2023

Summary of Revaluations – UK & ROI

N Ireland:

- No CCA
- No TR
- Revaluation 1/4/2020 with AVD 1/4/2018
- New Revaluation announced 1/4/2023 with AVD 1/10/2021

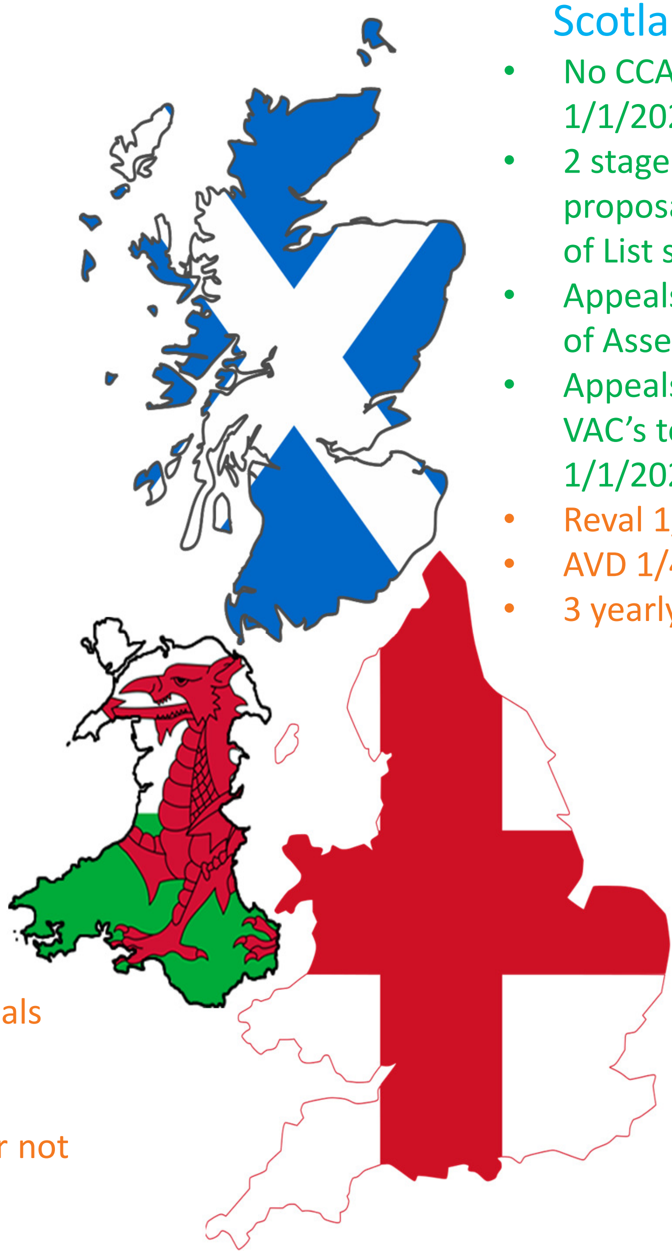


ROI:

- Rolling Revaluation

Wales:

- No CCA yet
- No 2017 deadlines
- No TR (bar limited scheme)
- Reval with new appeals system 1/4/2023
- AVD 1/4/2021
- Frequency thereafter not confirmed



Scotland:

- No CCA but new rules coming in wef 1/1/2023
- 2 stage appeal process with proposals needed within 4 months of List start/Assessor Notice
- Appeals then needed within 14 days of Assessor response
- Appeals resolution – transfer of VAC's to Scottish Tribunals wef 1/1/2023
- Reval 1/4/2023
- AVD 1/4/2022
- 3 yearly cycle thereafter

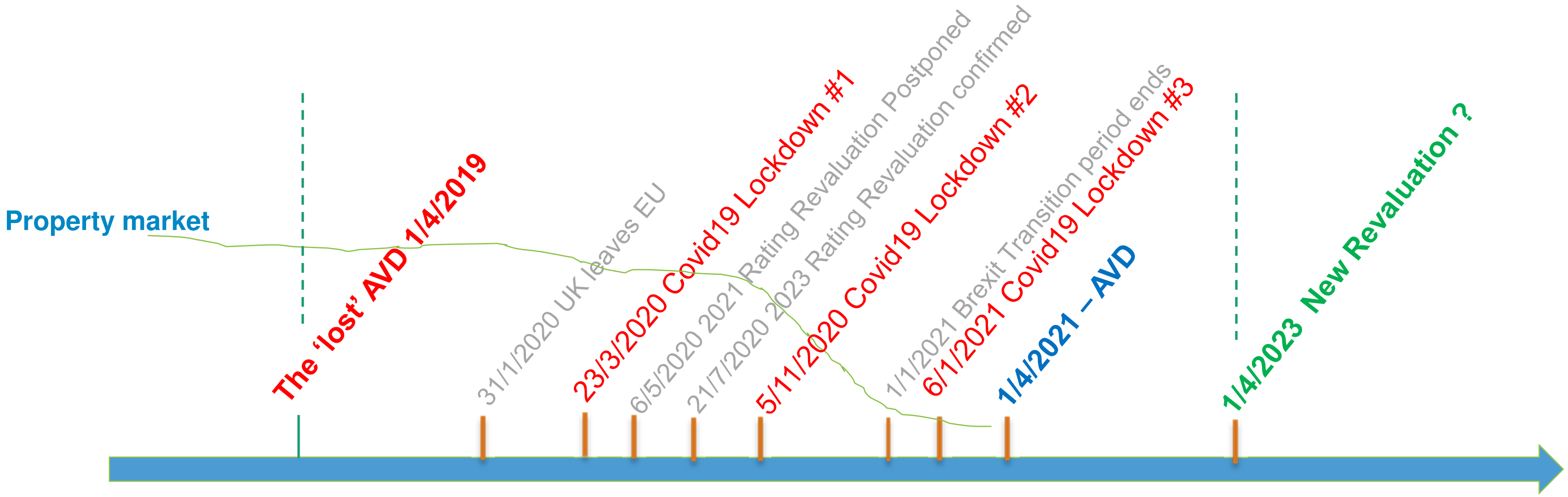
England:

- CCA remains
- Deadlines for 2017 List Checks TBC (31/3/2023 expected)
- No TR after 21/22
- Reval 1/4/2023
- AVD 1/4/2021
- Check to be removed wef 1/4/2026

So just how will the VOA approach 2023?

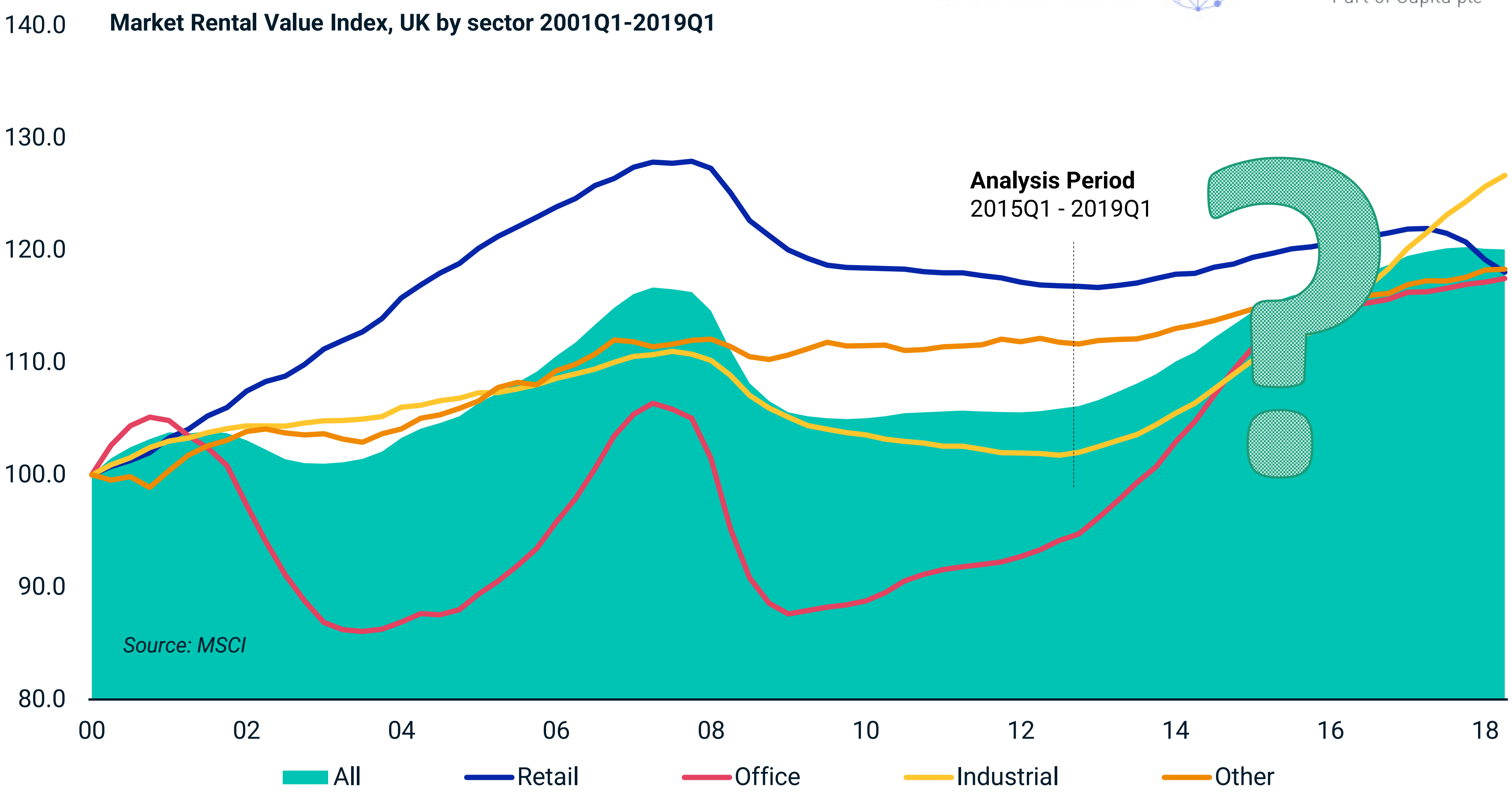
- In a severely distressed market place with continuing Brexit issues, little reliable evidence in “bricks and mortar” retail. Do the current rents really reflect a “tenancy from year to year”? Govt has confirmed it will not change the “basis of valuation” going forwards

- Are current valuation methodologies up to the job where “conventional” evidence is few and far between – what is the alternative? Turnover rents, TOC leases, CVA’s?



- Secondary evidence may be key – but bench-marked against what? What will be the relevance of CVA’s and other “distressed” mechanisms around rent payments? Evidence, yes but good evidence?

Understanding VOA s thinking at 1 April 2019(21)



Predicting 2023 RV's

% change to rates bills, by sector and region

	Retail	Office	Industrial	Warehouses	Other	Total
West End	22.6%	17.7%	2.4%	2.4%	13.2%	17.5%
City of London	30.2%	17.4%	3.2%		16.6%	16.1%
Inner London	11.1%	18.3%	2.4%	18.9%	11.2%	14.2%
Eastern	-0.3%	22.4%	27.1%	12.7%	9.2%	13.5%
Mid Town	17.5%	12.2%	2.4%		12.7%	12.9%
Outer London	4.3%	15.1%	31.6%	21.3%	8.0%	12.2%
South East	0.9%	12.4%	25.4%	13.7%	5.9%	10.2%
South West	-1.0%	19.8%	21.5%	3.5%	5.6%	9.0%
North West	-0.3%	12.6%	12.4%	8.2%	7.8%	7.5%
East Midlands	-6.0%	10.5%	13.3%	6.9%	10.9%	7.1%
Yorks & Humber	0.4%	7.1%	14.6%	3.7%	5.4%	6.7%
West Midlands	-2.6%	10.2%	13.5%	5.1%	6.6%	6.5%
North East	-3.0%	8.5%	16.9%	2.0%	1.9%	4.7%
England	1.6%	14.9%	20.0%	9.0%	7.6%	**11.3%**

Source: MSCI

Overall snapshot: Retail down – up to 30%, Distribution/Industrials Up by 25%, Offices up by 5%? GLH/MSCI view to be published in Q1 2022. Watch this space…………………………

Covid Legislation

Government to amend MCC rules

- **Proposed Legislation announced at March 2021 Budget:**
- "The government is making clear that market-wide economic changes to property values, such as from COVID-19, can only be properly considered at general rates revaluations, and will therefore be legislating to rule out COVID-19 related MCC appeals.
- Allowing Covid19 related MCC *"could have led to significant amounts of taxpayer support going to businesses who have been able to operate normally throughout the pandemic and disproportionately benefitting particular regions like London."*

- SI was introduced immediately to rule out CoVid19 related grounds wef 25/03/2021 but the draft Bill, once enacted, will revoke the SI and become the law both retrospectively and going forwards.
- The Bill has since been extended to include Wales whilst the Scottish government has announced that it too will follow suit – retrospective primary legislation awaited but Regs introduced wef 1/4/2021

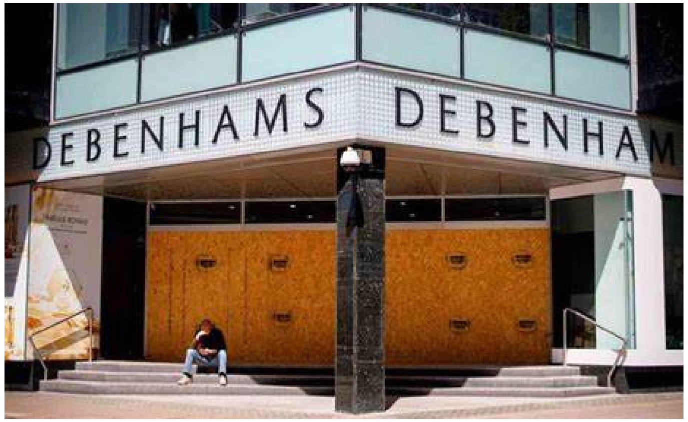
Government to amend MCC rules

- **Proposed Legislation:**
- Draft Bill now proceeding through Parliament: Rating (Coronavirus) and Directors Disqualification (Dissolved Companies) Bill 2021
- Will amend the law:
- *"1 (4) In making a relevant determination, no account is to be taken of any matter (whether arising before or after the passing of this Act) that is directly or indirectly attributable to coronavirus"*
- There are some stated exceptions to this, including:

- *"5 (a) the physical state of the hereditament in respect of which the determination is made, including whether that state affects the mode or category of occupation of the hereditament."*
- Applies to 2017 Rating Lists only but Fundamental review proposes to continue the concept into future revaluations – how will that affect values at 1/4/2023?

MCC or Covid MCC……….?

- **How "hard line" will the VOA be in judging what matters are directly or indirectly attributable to Covid"?**
- Publicly the VOA have said they won't thwart genuine MCC's unrelated to CoVid but where will the line be drawn? Will consistency apply on the ground?
- GLH launching major initiative on closure of S/C & In-town department stores to test the waters.
- MCC events need to be specific and any material day may need to be post restrictions to avoid "muddying the waters" with CoVid. Blanket challenges on general grounds need to be avoided.
- GLH have identified 138 towns… where anchor store closure dates being tracked – repurposing schemes also need to be reflected.
- But the AVD market will need to be reflected Eg: Arcadia closed but at the AVD they were in the market……….



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Government compensation?

- **“Compensation” for ruling out MCC’s?**
- The government announced a £1.5 Billion pot across the country that will be distributed *“according to which sectors have suffered most economically, rather than on the basis of falls in property values, ensuring the support is provided to businesses in England in the fastest and fairest way possible.”*
- No details provided yet as to how the money will be distributed, what are the qualifying criteria nor when will it be made available. Budget very quiet on this.
- £1.5Bn will not go far – works out at circa £4.6M per billing authority (326 in England)
- Likely to be administered at a local level but will it be discretionary at a local authority level or subject to national guidelines?
- Worked examples given show the direction of travel – no relief in the City of London for an office of RV £12.5M, whereas a *“food wholesaler operating from a warehouse outside London”* gets 15% relief - £7,300.

Questions

GL Hearn
Part of Capita plc