

Business rates – delivering more frequent revaluations

Comments from the British Beer & Pub Association

Key points:

- **The BBPA supports a move towards more frequent revaluations through a self-assessment model**
- **There is some support for continuing with the current methodology provided there is no additional cost to the ratepayer**
- **Exceptional operators should not be penalised for over-performance**
- **There should be no obligation on ratepayers to employ professionals for advice at revaluations**
- **The uniqueness of the current pub valuation methodology should be maintained**
- **A light-touch approach should be taken to compliance and enforcement in any new scheme**

INTRODUCTION

The British Beer & Pub Association (BBPA) is the leading trade association representing brewers and pub-owning companies. Our members own around 20,000 pubs and produce about 90 per cent of the beer produced and sold in the UK. Business rates is an important area for the pub sector in particular, making up approximately 10 per cent of operating costs.

The BBPA welcomes the opportunity to feed into the discussion around the future revaluation process and was grateful for the opportunity to discuss this in more detail with Treasury, DCLG and VOA officials, which has helped to shape the view of the industry.

THE BBPA VIEW

The BBPA supports the Government's aim to move to at least three-yearly revaluations, although there are some within the membership that are content with the current system if the alternative involves additional cost, administrative burden and the risk of penalties.

At present public houses are valued using a specific method not common to other commercial premises (which tend to be based on a straight rental value), as set out in the

VOA's [Approved Guide](#) developed in partnership with the industry. The specific methodology used is due to the fact that pubs do not tend to be let on a purely commercial basis, often with more complex, complementary partnerships between landlord and tenant (e.g. supply agreements, support from the landlord and other arrangements) and factors such as geographical location and type of operation are taken into account.

The BBPA sees much of this methodology being replicated in a future revaluation regime, but with the significant change that the final valuation would be derived by the ratepayer (with potential assistance from an accountant, ratings expert or landlord). Essentially this would be along the lines of self-assessment as outlined in the discussion document but would also offer an element of continuity with the current regime but also involve an element of a formula. A potential model of how this might operate is set out in Annex A.

The proposed model would continue to need some Government involvement in terms of working with industry to deliver a model for revaluations and enforcement of the rules established. It would also need safeguards, potentially in the form of penalties, to ensure that the system operated fairly. However, it would be important that genuine errors or misunderstandings were not unduly penalised.

The current system is based on an outlet's 'Fair Maintainable Turnover' (FMT), the level of revenue that a reasonably efficient operator would be able to generate in the premises. This is a relatively subjective assessment and in practice valuations are largely based on actual turnover. There are concerns where businesses are over-trading and are therefore being penalised for their success. It is therefore critical that a self-assessment can be adjusted from a respondent's turnover to a level that reflects FMT. There needs to be a level of flexibility incorporated into any new system to allow for this.

It would be incumbent on those developing the Approved Guide (VOA and industry) to ensure there is a robust guide for ratepayers to use the system that has been developed.

CHALLENGES OF DELIVERING MORE FREQUENT REVALUATIONS UNDER THE CURRENT SYSTEM

As previously stated the BBPA believes that a self-assessment option for the pub sector would work effectively, but that in practice this is not vastly different to the current revaluation process. Essentially the main difference would be that the licensee rather than an agent of the VOA would carry out the assessment against a pre-decided framework. As such the Association would be content with a continuation of the current regime, provided that there was no additional cost from the move to revaluations at least every three years. It would not be fair for Government to charge businesses a fee to decide how much tax they will be paying, for example.

The key difference in bringing around a more frequent revaluation would be the need to collect data from ratepayers on a more regular basis, both to inform the approved guide and the individual valuations (however it should be noted that this would still be required under the proposed self-assessment model). It is already difficult to attain the necessary information from many ratepayers, even with the threat of financial penalties, so this does provide a real challenge.

In particular, it may be necessary to reduce the time between the valuation period (year to April 2015) and the new valuation coming into force (April 2017).

Additionally, there might need to be a shorter period between the publication of draft RVs and the new RV coming into force – however, this in turn could lead to a greater number of appeals due to errors not being identified in time.

Based on historical precedent it is likely that there will be a greater number of appeals under a three-yearly system as changes tend to cause ratepayers to challenge their new rate (if unfavourable). A counter-argument to this is that the ratepayer may see less need to challenge the new RV if it is only in place for three, rather than five, years. Additionally, a shorter revaluation period will mean that RVs should become more closely aligned with the trading period on which they are based. It is therefore difficult to accurately estimate what the impact on appeals is likely to be.

The reform of the appeals process is critical in mitigating the impact of any potential increase in appeals. This process needs to be as streamlined as possible, with as much information being made available to ratepayers as is legally possible.

Providing a greater deal of transparency about how the RV is arrived at will additionally help to counter the number of appeals that do take place. This has been advocated by Government and the BBPA welcomes such a move. The new regime should ensure that there is appropriate guidance on appeals and how that works in the new system of revaluations.

The delivery of more frequent revaluations will clearly place a burden on the VOA, in terms of financial and human resources, and may also impact on the ability of the agency to deal with appeals. Different ways of working could be looked at, potentially including giving ratepayers the option of proposing their own valuations and the VOA assessing the case made (similar to self-assessment).

Working more closely with private-sector ratings professionals is certainly an option worth considering.

VIEWS ON A SELF-ASSESSMENT SYSTEM FOR BUSINESS RATES IN ENGLAND

The BBPA's preferred view is for a self-assessment model, but based broadly on the current methodology. We believe this can provide more frequent revaluations without significant additional cost to either Government or business. It also gives ratepayers greater transparency in relation to their RV. However, it is not without its challenges.

Clearly, self-assessment is reliant on the ratepayer providing data on their business in an accurate and honest manner. Assuming that the current methodology for valuing public houses is continued in the new regime, but with a change of assessor from the VOA to the licensee, there will be a number of points that need to be conveyed, some of these will be actual figures and some will be subjective judgments. As at present it is likely that turnover data will be requested as well as the location of the property. These are (largely) without contention. However further judgments will also need to be made.

As previously discussed the valuation should be based on FMT rather than actual turnover. The licensee should be able to provide, in addition to their actual turnover, what they believe

their FMT should be. This would need to be supported by evidence where possible. To allow a more individual valuation there would also need to be additional questions that would help to derive the type of assessment that is made under the current regime. These questions would need to be developed between industry and the VOA to ensure an accurate valuation is made that is fair for all.

The BBPA therefore supports a compliance regime that prevents dishonesty and penalises those that are trying to cheat the system. However, it is also important to be as flexible as possible with such a system, where subjective opinions can be given, provided there is a solid basis for those decisions.

Our suggestion would be that a compliance system is risk-based and focusing on monitoring a fixed percentage of valuations in each year, i.e. 10 per cent each year, on a desk-based basis. There should also be automatic safeguards that flag up significant variations from previous valuations to the ratepayer carrying out the self-assessment. The VOA should carry out this role.

We believe there is a need for transparency in the ratings system and that individual rateable values should continue to be published. There is a concern that this could give away confidential information, and this would naturally be a concern. However, we believe that if the valuation process is carried out correctly then this would not need to be the case, particularly for the pub sector. Other sectors may need to consider alternative arrangements. As the pub sector valuations do not tend to be carried out on the basis of rental information this is not a necessary condition for valuations in the sector, though it could provide a useful barometer for how appropriate the Approved Guide is for converting FMT to rental value.

In the pub sector the role of ratepayers would involve two levels. The development of the Approved Guide is dependent on the collection of turnover and rental data from 'clean' leases, i.e. those that are operating on a purely commercial basis. This information would need to be collected from ratepayers, as it is now.

The second phase would involve the actual self-assessment itself. In our view the Approved Guide would be translated into a proforma that the licensee (or their representative) would complete. The questions asked are in line with those discussed above, e.g. turnover, pub details. Upon completing the questionnaire, the licensee will be presented with a proposed new RV. This would then be submitted to the VOA. The ratepayer may want to take professional advice from a ratings expert or work in partnership with their landlord to ensure the accuracy of their valuation. There would be the option to provide additional information, potentially flagging up where an appeal might be forthcoming to provide the VOA with additional insight. Guidance on the new appeals regime should be available when the self-assessment is made so ratepayers are aware of what the process will entail.

There is a concern that a self-assessment scenario would provide a greater burden on smaller businesses compared to larger companies that may employ a business rates or taxation expert. It is imperative therefore that the process is kept as simple as possible and robust guidance is made available. In addition, any compliance scheme must be light-touch and sympathetic to the type of business that is making a submission. There is clearly a role for industry and Government to make the process as straightforward as possible. The ambition is to make the self-assessment not too different from the current form of return that

small businesses already need to complete. Explaining the process and allowing small businesses to have a greater input and understanding of the system may also reduce the need for further costly appeals further down the line.

VIEWS ON A FORMULA APPROACH TO BUSINESS RATES IN ENGLAND

The BBPA supports the self-assessment approach with an element of a formula-based approach. However, the self-assessment model allows far greater flexibility to give individual businesses a valuation appropriate to their property. For this reason, we have major concerns about a move to a fully formulaic approach. The main point being that this would remove individual valuations and move away from actual market values. We do not believe that this would be suitable for the pub sector but may work for others, though that is for them to decide.

The BBPA does understand that this could provide for a more straightforward valuation method, therefore reducing costs, however we do not believe this is an adequate trade-off. It could result in significant 'cliff-edges' rather than a smoother transition between bands that is delivered through the current methodology or the self-assessment option. Consequently, businesses of varying sizes and trading potential could end up being grouped together – a property with a nominally higher RV could end up being valued the same as one with a much lower RV. The risks of this approach outweigh the benefits in our view.

Annex A: Theoretical schedule for self-assessment revaluation

Date	Action	Responsibility
1 st July 2018	VOA requests 'clean' rent and turnover data from relevant properties	VOA
July-September	Statutory responsibility to provide data where appropriate (would HMRC or other Government agencies already hold this data?)	Pub operators
October-December	Data is chased and analysed to create a model for discussion	VOA and pub ratings surveyors
January-March 2019	Negotiations between VOA and pub representatives on a final approved guide based on the analysis of rent and turnover	VOA and pub representatives (trade associations and surveyors)
1 st April 2019	New approved guide published with self-assessment tool	VOA
April-June	Licensees to self-assess properties. This involves inputting turnover (or adjusted) data and answering a number of questions about the individual circumstances of the pub. This will all be information that is available to the licensee. The licensee should keep records and evidence of the information provided for the self-assessment.	Pub operators (potentially with support from pub company or expert surveyors)
By end of June	Assessment submitted to VOA	Pub operators
July-September	Verification of self-assessments by VOA	VOA