ANNEX G

# Review of Revaluation of National Non-Domestic Rates (NNDR) – Summary of Conclusions

## i) Recommendations for improving the existing system

The review considered the scope for improving the existing system, without the need for legislative changes and built on the lessons of revaluation 2000 – what worked well and what could have been done better. This focused on further improvements in the exchange of information between ratepayers and the Valuation Office Agency (VOA), and the earlier delivery of revaluation outcomes, to provide greater certainty as soon as possible, by:

- Establishing national and local ratepayer panels as part of the revaluation procedure, for discussions with the VOA on information exchange, leading to more acceptable valuations.
- Subject to available resources, VOA should complete the valuation process 10 months before the next revaluation is due, by 31 May 2004, to inform decisions on the multiplier and transitional relief. This should allow the draft lists to be published by 30 September 2004.
- Aiming to publish provisional decisions on transitional relief (TR) and multiplier by 30 June 2004. This will provide business with a nine-month lead in to plan resource needs from 1 April 2005; however, as the multiplier is based on September RPI, it would not be possible to confirm these calculations any earlier than mid-October 2004.
- Producing an information leaflet in summer 2004 for distribution by local authorities. This should be fully financed through additions to the Cost of Collection allowance.

Further consideration should also be given to:

- Announcing or discussing with ratepayers some high-level, broad provisional indications of the likely outcome of the revaluation during the process, so they can better prepare for it in advance of any subsequent announcement.
- Publishing a compiled list on 1 January 2005, on which basis authorities can issue bills during February and March, coming into force on 1 April 2005.

- The VOA providing individual valuations to ratepayers (both the RV and the basis of the assessment) by 31 December 2004, in the context of wider information about the effect on rate bills.

- Encouraging negotiations between the VOA and individual ratepayers to agree assessments as far as possible before the new lists come into force.

## ii) Revaluation cycles

The review considered whether the current 5-year revaluation cycle best met the objectives of providing stability and certainty, while maintaining fairness, or whether a shorter or longer cycle would be better. The review found that:

- the shorter the valuation cycle the fairer the system is, because the values on which liability is based are more up to date, BUT the system is less stable and certain for ratepayers as values change more often;

- the longer the cycle the less fair it is for ratepayers, as values becomes less accurate over time and may reach a point where they are no longer acceptable, BUT there is greater certainty and stability over the amounts they will have to pay for a longer period;

- more frequent revaluations will cost more than less frequent revaluations over the same period; and

- more frequent revaluations may reduce the number of appeals at each revaluation, but may increase the total over time.

Any decision on revaluation cycles, whether to make them shorter, longer or leave them unchanged at five years, depends on the relative importance given to these factors. It is also interdependent with decisions on other matters considered in this report, in particular whether there is a transitional relief scheme.

## iii) Transitional relief

The review considered whether there was a case for continuing with a transitional relief (TR) scheme and, if so, the form that it should take, and how it should be financed.
It concluded that:

- TR will need to be retained in some form, as there are always likely to be large changes in bills for some even if the length of the revaluation cycle is changed.

- A scheme based on a proportion of the full rate liability, as employed elsewhere in the UK, provides an alternative to the current English scheme based on the previous year's rate bill. This would mean higher annual increases for some ratepayers, but would be fairer overall, as all would be out of TR by the end of the scheme, which could be well before the next revaluation.

- A permanent scheme could be laid down in statute, perhaps ensuring that all ratepayers are paying their full liability before each subsequent revaluation. This has firm attractions in terms of certainty for business. On the other hand, it would remove the Government's ability to be flexible if the circumstances at the time of a revaluation demanded it.

- The overall cost of transition is of concern to the Government. The scheme could be made entirely self-financing by applying a supplement to the multiplier. Again, this requirement could be set in statute. However, this could add significantly to liability levels depending on the results of the revaluation and it would restrict the Government's ability at least to partially fund the transitional scheme.

- If more flexibility is allowed on the scope or funding of a TR scheme, perhaps within a statutory framework for a minimum scheme, there will be less certainty.

# iv) Banding

The review also considered whether a system of banding for NNDR would improve certainty, stability and simplicity, while maintaining fairness. It concluded that:

- A banding system appears to have advantages, particularly in terms of simplicity and, subject to further analysis, perhaps also stability.

- But there are significant concerns about its fairness, particularly because of the difference between bills in adjacent bands. Depending on where the lines are drawn, the step changes in rate liability as properties move from one band to another could be significant.

- It would be impossible to avoid such step changes between bands, without having so many bands that the system is virtually the same as one of individual valuations. For practical reasons, it would probably be necessary to leave out of banding the highest value properties, which account for a small number but a large proportion of total rateable value.

- It was not clear to the Review Group that any obvious advantages would accrue from the introduction of banding for non-domestic properties at this stage.

# v) Other valuation methods

The review also considered alternative approaches, including blunting, where properties would continue to be valued individually but changes on appeal would only be granted if the value moved outside a certain threshold, perhaps 5 or 10 per cent of the original value. Greater use of indices, so that all properties in a locality were valued on the same basis was also considered. The review group felt that blunting and local indices should not be pursued. While blunting would help to maintain yield by limiting the effect of appeals it raises similar concerns about fairness raised by a banding system. There were no great advantages to moving to a system with more indices.

## vi) Maintaining the yield – mitigating losses on appeal

The review considered whether the current approach to maintaining the yield in response to losses on appeal could be improved, as it only gives one opportunity to estimate in advance what the size of that loss might be.

- If the initial estimate of losses is too low the Government runs the risk of a permanent loss of yield, as happened on the 1990 lists.
- Allowing more flexibility in the system would eliminate that uncertainty for Government, by ensuring that the full amount of losses can be recovered as they arise.
- On the other hand, there is some concern that allowing annual adjustments to the multiplier, however modest, would reduce certainty for ratepayers.
- The alternative of delaying any adjustment until the next revaluation would increase certainty for ratepayers, with one, larger change. The Government would still risk losing some yield in the intervening years, although could restore the position in the long term.

## vii) Maintaining the yield – quality of valuations

The review also looked at minimising losses on appeal by delivering initial valuations that are more acceptable to ratepayers. This would be facilitated by a better flow of information between the VOA and ratepayers during and before the revaluation process, including the establishment of ratepayer panels mentioned above. Information is already provided to the VOA in Forms of Return, which are sent to selected ratepayers, but the rate of return is low, diminishing the quality of information. Non-return is a criminal offence, but enforcement is cumbersome and there is little incentive for ratepayers to return the forms.

- The review group concluded that a move to civil penalties for non-return of Forms of Return provided a much more practical and effective enforcement mechanism and should be adopted.
- However, it should be seen as very much a last resort and placed in the context of improved co-operation and flow of information between ratepayers and valuation officers, as part of the valuation process.

# Review of Revaluation of National Non-Domestic Rates (NNDR) – Final Report

## I. Introduction

G1. In November 1999, the Government, announced that there would be a review of the revaluation of NNDR in England early in 2000. A review group was established comprised of representatives of DETR, HM Treasury, DTI, the Valuation Office Agency (VOA), the National Assembly for Wales, the Local Government Association, the CBI and the Federation of Small Businesses. A full list of participants is at appendix 1.

G2. Ministers set the following terms of reference for the review:

- To consider how better to provide for the revaluation of properties for NNDR to improve certainty, stability and simplicity for ratepayers, local authorities and central government, while maintaining an appropriate level of fairness in the relative valuations of properties.

- In particular, to examine the case for changing the current five-year revaluation cycle and for introducing valuation bands, taking account of the costs to business of uncertainty and instability and to central government of transitional relief schemes.

- And to consider how best to maintain the aggregate tax yield in real terms.

G3. Ministers made it clear they were satisfied that the fundamental basis of the NNDR system in England is working well. NNDR will remain a tax based on the rental value of an individual property, the level of tax set nationally for England and collected by local authorities. Central pooling of the revenue raised and its redistribution to local authorities would also remain unchanged. The review considered only the revaluation process. It did not have as part of its remit current systems of reliefs and exemptions (other than transitional relief), nor the treatment of specific groups of ratepayers.

G4. Local government is a devolved matter and is the responsibility of the National Assembly for Wales (NAW) and Scottish Executive in their territories. Although this review is concerned with England only, the legislation (principally the Local Government Finance Act 1988) covers both England and Wales. The VOA carries out the valuations in both England and Wales. Any changes that the Assembly wishes to make to rating in Wales may need primary legislation in the UK Parliament. However, the Assembly has powers to make its own secondary legislation, such as for the transitional relief scheme that came into effect on 1 April 2000. Rating in Scotland comes under separate legislation, which can be amended by the Scottish Parliament, although the current system is similar and has the same revaluation cycle as in England and Wales. The Scottish Executive has been kept informed of progress in the course of this review.

## The consultation process

G5. A consultation paper setting out the main issues to be considered by the review was published on 28 February 2000. It was sent to a wide range of bodies and individuals with an interest, covering ratepayers and their representative bodies, rating professionals and local authority groups. It was also made available on the internet (www.detr.gov.uk). The consultation period closed on 31 March, with 114 responses having been received. An analysis of responses received is at appendix 2.

## Main issues considered

G6. The review concentrated on the lessons to be learned from Revaluation 2000, including what worked well and what could be done better within the existing revaluation system; different revaluation cycles; the future of transitional relief; a possible banding scheme; alternative valuation methods; maintaining the gross yield from NNDR by mitigating losses on appeal; and improving the quality of valuations, especially by improving the flow of information between ratepayers and the VOA.

G7. A key aspect of delivering better revaluations in future is to develop a greater partnership between ratepayers and the VOA. This can build on the good work already done for Revaluation 2000.

# II. Revaluation 2000 – lessons to be learned

G8. The review considered what lessons could be learned from the Revaluation 2000 process in England and what could be done differently and better for the next revaluation to reflect the Modernising Government White Paper, but within the existing legislative framework. The main areas for potential change are to bring forward announcements of the outcome of a revaluation, and to give ratepayers, through representative panels, the opportunity to be closely involved in the process. Both would meet the objective of providing greater certainty for ratepayers.

## Discussion

G9. In general, Revaluation 2000 was well received:

- The business community broadly welcomed the TR scheme, once announced, as fair and reasonable.
- The VOA website, giving access to individual valuations in the draft 2000 rating list, was a considerable success, with 700,000 hits in its first four weeks and has now exceeded 2 million (there are 1,700,000 entries for England and Wales).
- Comments received on the information leaflets sent to all ratepayers suggest they are clear and helpful. This has been confirmed by the further work commissioned by DETR to evaluate its usefulness.
- Useful links with the business community were established by the VOA, as acknowledged by the House of Commons Treasury Sub Committee.

G10. The number of enquiries from ratepayers to local authority, VOA and DETR offices is significantly less than at the 1995 revaluation, suggesting that most ratepayers are getting the information they want, either from the leaflets or the VOA website. It may also be that, at the third revaluation in ten years, ratepayers are getting more used to the process.

G11. The identified areas for improvement are in the main about making the process more business friendly and recognising the importance to businesses of being able to anticipate changes in rates liability in their budgets. The principal concerns were:-

- Could the production of draft rating lists be advanced.
- Was the timetable for consulting and announcing decisions on transitional relief and the multiplier reasonable? Could it be advanced?

G12. Consultation responses were understandably critical of the delays in the system and the difficulties this caused for planning in both businesses and local authorities. First, there was widespread concern that the details of the transitional relief scheme and the 2000/01 multiplier were not announced until November 1999. There were in some quarters criticisms of the lateness of some of the regulations required to give effect to Revaluation

2000 and the changes that accompanied it. Local authorities have also suggested that they should not be required to issue bills on the basis of draft rating lists.

G13. All of these areas might be addressed through improvements to the timetable. Of course, the key to this is the production by the VOA of the draft rating lists. The VOA believes that given sufficient resources for the next revaluation, it will be in a position to produce draft lists 6 months ahead of the revaluation date, compared with 3 months in previous revaluations. There is a statutory requirement to send the draft rating lists to billing authorities by 31 December before a revaluation and the VOA has worked to this deadline in the 2000 and previous revaluations. But there is nothing in the current legislation to prevent earlier publication. Whilst this would be welcome, businesses and local authorities would only benefit if decisions on TR and the multiplier were available around the same time, or earlier.

G14. Assuming that the next revaluation goes ahead as at present provided in statute, in April 2005, based on an antecedent valuation date of April 2003, the VOA could aim to complete valuation work by the end of May 2004. This would facilitate the announcement of a provisional multiplier and transitional relief scheme (if any) shortly thereafter and publication of the draft rating lists in September 2004, six months before they came into effect. This would in turn facilitate earlier publication of the compiled rating lists and the issuing of bills to ratepayers.

G15. There is an awareness emerging among ratepayers that there are advantages in contributing positively to the revaluation process to help ensure valuations that they can accept from day one. The VOA would like to build on the work begun during the 2000 revaluation by establishing ratepayer panels at both national and local levels. These would enable a greater degree of consultation during the revaluation process, which should lead to greater acceptance of the new values and less need for appeals. Building up consultation mechanisms with ratepayers and ratepayer groups will require care and involve education of ratepayers of all sizes. It will be important that ratepayers both see the value of the exercise and trust the process.

G16. Better electronic communication should also allow the VOA to provide much fuller information to individual ratepayers about their valuations. Ideally, in addition to the summary of the valuation, this should include information about the new multiplier and any TR scheme, to avoid any confusion between rateable value and the amount payable. The earlier in the process that the package of information can be made available, the greater the certainty that would be introduced.

G17. However, early announcements about TR and the multiplier would need to be provisional. Individual values may change as a result of further (and better) information becoming available which will in turn affect the level of the multiplier and possibly the detailed terms of any TR scheme. In any case, the level of the multiplier depends also on RPI the previous September, which is not announced until October. So the provisional multiplier and TR scheme announced in the summer would remain uncertain until the autumn. This may be preferable to saying nothing until a firm announcement is possible in the autumn.

G18. Many rating professionals and ratepayers continue to argue for an antecedent valuation date (AVD) closer to the revaluation date. This is seen as fairer to ratepayers, so that the valuation better reflects the true market level by the time it takes effect. The RICS's Bayliss report in 1996[1] suggested an AVD 18 months in advance of revaluation, compared with 2 years at present.

G19. However, this is unlikely to be possible in addition to delivering an earlier announcement of the revaluation outcome. While it should be possible to reduce the length of the revaluation process, the extra time gained is unlikely to be sufficient to allow shortening both ends of the process. A very short valuation period would also not allow sufficient opportunity for the work of the proposed ratepayer panels. There must be a choice between a later AVD, or an earlier announcement of the outcome. It is the earlier announcement that provides the greater practical benefits to ratepayers, in terms of certainty about future rate bills.

G20. Ratepayers and rating professionals have also said it would be helpful to have a broad indication of the likely outcome of the revaluation in the course of the process. This would be on the basis that any figures were provisional and subject to change and could not be applied to any individual valuation. Ratepayers have said that such provisional information at an early stage is preferable to getting no information at all until firm announcements have been made. They suggest this would reduce the scope for unscrupulous rating advisers (commonly known as 'cowboys') to act on the basis of widespread uncertainty. However, there are also risks attached to releasing provisional data, which can be misleading if it later turns out to be different from the final position.

## Conclusions

G21. Early discussions with the proposed ratepayer panels will help the VOA to tailor its requests for information in a way that ratepayers will find easier to answer and also to explore the opportunities for facilitating the provision of information by electronic means.

G22. Assuming no other changes are made to the revaluation system, it should be possible to produce the draft lists much earlier in the process for the next revaluation. Below is an indication of an advanced timetable that could be achievable. However, the question of whether the timetable should be or needs to be accelerated to this extent must take account of the benefits that might be realised against the additional costs that are likely to be involved. Final decisions on the details of timing will need to be taken closer to the time of the next revaluation. Main recommendations on the basis of no other changes to the current system are:

- Establishing national and local ratepayer panels as part of the revaluation procedure, for discussions with the VOA on information exchange, leading to more acceptable valuations.

- Subject to available resources, VOA should complete the valuation process 10 months before the next revaluation, by 31 May 2004, to inform decisions on the multiplier and TR; this should allow the draft lists to be published by 30 September 2004.

1 RICS Bayliss Report – Improving the Rating System, Royal Institution of Chartered Surveyors, 1996.

- Aim to publish provisional decisions on TR and multiplier by 30 June 2004. This will provide business with a nine-month lead in to plan resource needs from 1 April 2005; however, as the multiplier is based on September RPI, it would not be possible to confirm these calculations any earlier than mid-October 2004.

- Produce information leaflet in summer 2004 for distribution by local authorities. This should be fully financed through additions to the Cost of Collection allowance.

G23. Further consideration should also be given to:

- Announcing or discussing with ratepayers some high-level, broad provisional indications of the likely outcome of the revaluation during the process, so they can better prepare for the outcome, in advance of any subsequent announcement.

- Publishing a compiled list on 1 January 2005, on which basis authorities can issue bills during February and March, coming into force on 1 April 2005.

- The VOA providing individual valuations to ratepayers (both the RV and the basis of the assessment) by 31 December 2004, in the context of wider information about the effect on rate bills.

- Encouraging negotiations between the VOA and individual ratepayers to agree assessments as far as possible before the new lists come into force.

# III. Revaluation cycles

G24. The review considered whether there was justification for a move away from the current five yearly cycle for revaluations. The main options were:

- annual rolling revaluations;
- full annual revaluations;
- three-yearly revaluations;
- no change, retaining the current five-year cycle;
- less frequent revaluations, canvassing views on a ten-yearly cycle. Some consultation respondents also suggested a seven-year cycle.

G25. It became clear that there are tensions between the objectives of stability and certainty on the one hand, and fairness on the other. The revaluation process itself inevitably causes instability in rate bills. Its purpose is to redistribute the rate burden in line with the property market, to reflect changes since the last revaluation, and those changes will be reflected in individual rate bills. There will also be uncertainty about the effect of any revaluation on bills generally and individually. So the more frequently revaluations are held, the more often that instability and uncertainty occurs, while less frequent revaluations mean a greater period of stability and certainty between revaluations.

G26. On the other hand, revaluations enhance fairness by ensuring that rateable values and the distribution of rate bills based on them remain in line with trends in the property market. More frequent revaluations are fairer, because they keep rateable values closer to actual market values. Similarly, the longer the period between revaluation, the less fair become the rateable values on which rate bills are based. Under the current system, the 1995 revaluation gave rateable values as at 1 April 1993, which were the basis of bills from 1995/96 until 1999/2000.

G27. Views on whether a shorter or longer revaluation cycle would be better than the current five-year cycle depends on the relative weight given to stability and certainty, as opposed to fairness.

G28. The length of the cycle does not affect the objective of simplicity in the system. However, a move to rolling revaluations was also considered, which would be a more complex and less transparent method.

## Discussion

G29. It is not the absolute level of rents in any one year that drives changes in rate bills at a revaluation. If all rateable values rise or fall by broadly the same level, however great, then the multiplier falls or rises accordingly, to keep total yield constant, and rate bills will not change significantly for most ratepayers. However, that does not happen, because the property market across England is not homogenous. Values for different localities and types of property move at different rates and even at times in different directions. So rateable

values change by different amounts for different properties, with significant variances between sectors and between – and within – regions. It is these variances which lead to changes in most individual rate bills, within a constant total tax yield.

G30. The tables in appendix 3 give an analysis of annual changes in rental value and the resulting effect of different revaluation cycles. The first table is based on data produced by Investment Property Databank (IPD). It provides an index of annual rental values for each year from 1980 to 1999, for the UK as a whole, broken down by retail, office and industrial property of investment quality (data for England only is not readily available). This enables a comparison over different time intervals – 1, 3, 5, 8 and 10 years. For each of these the table compares changes in rental values in any year compared with a given number of years previously. This shows the variances that would occur between the valuations of properties in different sectors, though it does not show variances between regions.

G31. The second table is based on data from the VOA's property market report, from 1988 to 1999. It shows rental levels for shops, offices and industrial property in four English locations – Manchester, Birmingham, Bristol and Camden. Again, it compares changes in rental levels over 1, 3, 5, 8 and 10 year periods. This snapshot of four locations illustrates the variations between them that would occur at any given revaluation on any given cycle.

G32. Both the IPD and VOA data concentrate on good quality property, where the market is most active. However, NNDR is payable on all properties, including those that the property market considers to be of secondary quality. Market trends for these secondary properties, which account for a large proportion of the total, are likely to be different from those shown in the IPD and VOA data, further adding to the variances in revaluation effects for any given revaluation cycle.

G33. The case for shorter revaluation cycles is based on the assumption that there will be less turbulence at revaluation because there is less fluctuation in the property market over a shorter period. The tables in appendix 3 confirm that changes in value are less over a shorter period and more over a longer period. However, they also show that there can still be significant variances in value changes and resulting turbulence in rate bills on a three-year or one-year revaluation cycle.

G34. More frequent revaluations will of course be more resource-intensive than less frequent revaluations. Shorter cycles may require more effort to complete the revaluation process in a shorter timescale, for example a two-year revaluation period would not be practical for a one-year cycle and may be too long for a three-year cycle. Even if the same resources were employed at each revaluation, costs would be greater over time simply as a result of there being more revaluations. Conversely, less frequent revaluations would lead to lower costs.

G35. Revaluation cycles may also have an effect on the level of appeals. This in turn affects both loss of yield as a result of appeals, and the cost of running the appeals system. The presumption is that more frequent revaluations lead to less turbulence in rateable values, and so to fewer appeals, while those that go forward result in a smaller loss of yield. Even if this is the case, this may be offset by the increased frequency of revaluations meaning that the appeals cycle also occurs more often. So, over a ten-year period, three three-year revaluations may lead to fewer appeals each time, but more in total, than two five-year revaluations or one ten-year revaluation.

G36. In any case, there is no firm evidence on which to base any assumptions about the effect of revaluation cycles on appeal rates. There is currently an appeals culture, so many ratepayers, or their agents, appeal whatever their valuation. On the 1995 lists, over 1 million appeals have been made against 1.6 million assessments in England. Some of these are multiple appeals and for properties with rateable value over £15,000 there have been more appeals than there are hereditaments. Unless this appeal culture can be changed, different revaluation cycles are unlikely to affect appeal rates. The changes to appeal procedures introduced on 1 April 2000 aim to address this, by establishing a published programme for dealing with appeals. A better exchange of information between ratepayers and the VOA in the course of revaluation, whenever it takes place, would also help and this is considered elsewhere in this annex.

## Annual revaluation

G37. Three types of annual revaluation were considered by the review:

- a full annual revaluation of all properties;
- a "rolling" system whereby one-fifth of all properties would be revalued each year and used as an index by which to update all other values annually;
- a staggered revaluation where properties of different types would be valued each year.

G38. Only 5 consultation respondents out of 114 supported annual or rolling revaluations. The RICS also showed some interest in annual revaluations, but in view of the practical constraints favoured three-year cycles.

G39. As noted above, annual revaluations would deliver purity in the system and the fairest revaluation cycle, as each year every property would be given a new rateable value which reflected an up to date current market rental level. With a five-year cycle, properties have to wait five years for any changes in their actual value to be reflected in their rate bills. While this benefits those whose values are rising over this period, it is unfair on those whose values are falling and have to wait to see the benefit.

G40. However, most rent reviews are on a five-year cycle and are not reviewed annually, even though annual rent reviews would better reflect actual market values and so be fairer. Most commercial tenants are prepared to forego the purity of an annual rent review in exchange for a period of stability and certainty in their rents.

G41. Support for annual revaluations, whether done on a full or rolling method, is also based on the presumption that they would smooth out changes in rateable values. The data in appendix 3 suggests that there would be less change than with longer revaluation cycles. However, changes in value can still be significant in some years. More significantly, there can also be substantial variations between regions and sectors in some years, which will lead to large increases and decreases in rate bills.

G42. The IPD data show that on an annual cycle, changes in value are relatively small in most years, usually less than 10%, though in some years this is a decrease rather than an increase. However, there are increases of up to 25% (in 1987 and 1988) and decreases of up to 20% (in 1992). Variances between sectors are between 3% and 7% in most years, but reach 13% in 1987 and 1991 and 17% in 1992.

G43. The VOA data show that there is more turbulence when comparing regional variations on an annual cycle. While in many years there is no or very little change, in others it can be substantial. For example, the value of shops increased by 43% in Birmingham in spring 1997 and by 35% in Manchester in spring 1998. The variance between regions and sectors is never less than 16% and is 35% or more in 12 of the 22 time periods, reaching 81% in autumn 1990. While these variances are less than for longer cycles, this data suggests that a move to annual revaluations will not guarantee stability in rate bills.

G44. Annual or rolling revaluations would expose ratepayers more fully to the ups and downs of the property cycle, with each annual shift feeding directly into rateable values, giving ratepayers much less predictability and stability than at present. While the effect across England as a whole would be smoothed by annual changes in the multiplier, there would be no certainty from year to year as to the extent or even direction of changes in individual rate bills, which could go down one year and up the next. Transitional relief would not be available to cushion the effects of any substantial increases or decreases in bills, as it would not be practical to devise a scheme that applied within a single year.

G45. Over a period of five years, rateable values and the multiplier should be broadly the same whether there had been annual revaluations or a single revaluation in the fifth year. But the steps in between would be very different. Annual revaluations would leave ratepayers open to unpredictable and perhaps volatile changes in RV, the multiplier and their bills in every year. The current five year cycle would deliver stable RVs and real terms multiplier throughout the five years, with any large changes phased in by TR in fixed steps which would all be known in advance from the start of the scheme.

G46. The current revaluation process takes more than one year to complete. Even with the changes to the timetable outlined above, a full revaluation would be implemented two years after the valuation date. This may be further reduced if more resources were employed, but there are limits to what is possible within a year. So a full annual revaluation of all properties would probably need a more mathematical process than the current system, which has developed to reflect quite small variances between the values of similar properties. A move to annual revaluations, with less time for such finessing, might require the acceptance of a broader brush approach.

G47. Ratepayers may wish to appeal against their new rateable values every year under an annual system, which would also have considerable resource implications in terms of handling those appeals. At present, it often takes more than a year to deal with an appeal case, though the reforms to the appeal system introduced on 1 April 2000 should help with the management of the current level of appeals. On the assumption that annual revaluations deliver lesser fluctuations in bills and in values, there may be fewer appeals in total, though there is no evidence to support this view.

## Rolling revaluations

G48. An alternative suggestion is for a rolling revaluation. As with a full annual revaluation, rateable values would still be revalued every year for all properties. However, only one fifth of all properties would be subject to a full revaluation each year, with the rateable values of the remaining four-fifths adjusted by an indexation factor based on similar properties which had been valued that year. Each year a different group would be valued, so that all would be fully revalued over a five-year period.

G49. It is suggested that this would allow valuation resources to be applied more evenly. Similarly, only those properties that received a full valuation would be allowed to appeal against it. So, as at present, they could appeal once every five years, smoothing out the current workload, though not necessarily reducing it.

G50. However, the process of identifying a representative sample of properties of each type in each location throughout England, updating this each year and then calculating values for the 80% of properties not fully valued each year, may not be significantly less resource intensive than a full annual revaluation. There would still need to be an annual analysis of market rental levels in each sector and location, to value a representative 20% of properties under a rolling revaluation, as there would for all properties under a full annual revaluation.

G51. A rolling revaluation would have a similar effect on rate bills as a full annual revaluation. Assuming that a representative sample of properties could be found in each locality and for each type of property, the same variances in values would occur across England. So it would have the same advantages and disadvantages in terms of stability and certainty.

G52. However, a rolling revaluation would not have the advantages of a full annual revaluation in terms of fairness. For 4 out of every 5 years, values of any one property would be based on the values of other properties. There would be no right of appeal against those values. While they may be based on similar properties in terms of type and location, it is more arbitrary than the current system of individual valuations, which reflect all the individual characteristics of any property. Any aspects of the valuation not fully reflected by this system would be corrected every five years when a full revaluation is carried out for that property. So, as at present, a valuation reflecting the actual market value of an individual property would be given every five years.

G53. Rolling revaluations would make it harder for ratepayers to understand their bills, conflicting with another objective of the review – simplicity. Both the current five-year cycle and a full annual revaluation would give every property a value based on actual market rental levels at the time of revaluation. Rolling revaluations would break that clear and simple link. Instead, in four out of five years, ratepayers would be expected to accept a value based on properties other than their own.

## Staggered revaluation

G54. The House of Commons Treasury Sub Committee, in its report on the VOA of 28 October 1999, recommended “that consideration be given to staggering the revaluation of properties according to their classification (e.g. shops, factories) in order to smooth the workload of the VOA”. In its response of 26 January 1999, the Government undertook to consider this recommendation as part of this review.

G55. This is, in effect, a kind of rolling revaluation, but based simply on class of property, rather than finding a representative sample of all property types to value in each year. It shares many of the advantages and disadvantages of a rolling revaluation. It would be a more complex system than a one-off revaluation, which would undermine simplicity and transparency for ratepayers. It would also undermine stability, as it would require annual changes to the multiplier to maintain **total** yield, which would directly affect the bills of those classes not being revalued in a given year. This could lead to frequent and unpredictable ups and downs in bills for all ratepayers and would be unfair on those not being revalued.

# Three-yearly revaluations

G56. A three-year revaluation cycle is supported by some in the rating profession and was recommended by the RICS's Bayliss Report in 1996. 29 consultation respondents out of 114 favoured a three year cycle, including 10 ratepayers and 8 rating professionals. Many of these linked a shorter revaluation cycle with reducing the need for transitional relief, though others wanted to keep TR with a three-year cycle.

G57. A three-year revaluation cycle would share some of the advantages of annual revaluations in terms of fairness, ensuring that RVs were always reasonably close to the valuation date. It is also suggested that three-year revaluations would lead to greater stability compared with a five-year cycle, because there would probably be fewer significant changes in rateable value over the shorter period.

G58. However, the IPD data in appendix 3 show that there can still be considerable turbulence in rental levels over a three-year period. There were increases of over 60% in 1988 and 1989 and 45% in 1990, compared with three years earlier, and falls of 17% in 1992, 26% in 1993 and 20% in 1994. These are the extremes and in some other years a three-year cycle could produce a more stable outcome, but there is no guarantee that it will do so at every revaluation.

G59. In the worst case, a three-year cycle could have produced an increase of 39% in 1987, followed by a 45% rise in 1990, then a fall of 26% in 1993. This hardly provides stability. No three-year cycle could have avoided the four successive years of big increases in 1987-90 and the four successive years of big falls in 1992-95. There are also significant variances between sectors, with nothing less than 15% in any year between 1985 and 1995 and closer to 30% in most of those years. Only in 1996 and 1997 was there a variance as low as 10%.

G60. The VOA data in appendix 3 show that there are also significant variances across the English regions on a three year cycle. While there are periods of relative stability in any one region and sector, there are also periods of great change. And the periods of stability are not concurrent in all locations and sectors. As a result, the lowest variance is 44% in autumn 1995. In most periods the variance exceeds 60%, reaching 160% in autumn 1991.

G61. This suggests that three-year cycles will not prevent significant changes in rate bills. Even if changes in bills may be less overall than with longer cycles, they would still cause the same kinds of problems for those ratepayers affected by them. It is therefore unlikely that three-year cycles would eliminate the need for transitional relief.

G62. Both the IPD and VOA data show that there is generally less turbulence with a three-year cycle than with a five-year cycle. However, there is not significantly less, as the changes and variances in several three-year periods exceed those in some other five-year periods. So there is no guarantee that a three-year revaluation will always produce less turbulence than a five-year revaluation.

G63. Reducing the period between revaluations will in itself reduce stability and certainty, whatever their outcome. There will only be two years of relative stability before the next revaluation comes along, creating the next round of uncertainty and changes in rate bills.

# Five-yearly revaluations

G64. The terms of reference for this review state its aim to improve certainty and stability, while maintaining fairness. The current five-year cycle is clearly not ideal in attaining these objectives. The 1995 and 2000 revaluations have produced many big shifts in rate bills. The revaluation process itself has caused considerable uncertainty for ratepayers. By the end of a five-year rating list values are almost seven years out of date. However, 52 responses to the consultation favoured retaining the current cycle.

G65. While a five-year cycle may not be ideal, there is no certainty that reducing it would deliver greater stability, in terms of significantly less turbulence in rate bills. Without that, more frequent revaluations would simply increase the frequency of the uncertainty and instability caused by any revaluation. The only advantage of more frequent revaluations would be the increased fairness of rateable values more in line with actual rental levels.

G66. Five-year cycles have two unique advantages. The first is that most commercial rents are negotiated on the basis of a five-year review period. The second is familiarity. Ratepayers are becoming more accustomed to the five year cycle with each revaluation following the 17 year gap that preceded the introduction of NNDR in 1990. It may be that the level of anticipation of the revaluation is now somewhat higher than previously and that this has helped provide such a good reception for Revaluation 2000.

G67. The IPD data for a five-year cycle in 1998 shows an increase of 19% for the UK as a whole, compared with 1993 values. –This period is directly comparable with the valuations for Revaluation 2000 in England, Wales and Scotland. The IPD UK figure of 19% compares reasonably closely with the actual revaluation effects of 25% in England, 13% in Wales and 13% in Scotland over the same period. There was no revaluation in Northern Ireland in 2000. The variance between sectors on IPD data was 16%, the lowest of any period. The VOA data shows a regional variance of 91% in spring 1998, again one of the lowest.

G68. As noted above, both the IPD and VOA data show that, while there are generally more changes than for a three-year cycle, there can be periods where there is less change on a five-year cycle. For example, on the IPD data, the five-year value changes for 1998 quoted above would have been exceeded on a three year cycle in 1998, 1999 and every year from 1986 to 1990, while the variances would have been greater every year from 1986 to 1994. On the VOA data, the five-year variance for spring 1998 would have been exceeded on a three-year cycle in every period from spring 1991 to spring 1993, as well as in spring 1994 and spring 1999.

# Ten-yearly revaluations

G69. One way to reduce the uncertainty and instability caused by any revaluation is to hold revaluations less frequently. This would give a greater period of certainty and stability. It would also allow more time for any transitional relief to unwind. If there were a ten-year revaluation cycle, there could be a TR scheme that unwound over ten years, rather than three or five, allowing smaller steps towards the full liability, which may be more manageable for those facing the biggest increases. Alternatively, if TR unwound over say three years, there would then be seven years of complete certainty and stability, with everyone paying their full liability, before the next revaluation.

G70. However, there was little support amongst respondents to the consultation paper for a longer revaluation cycle. Only 7 out of 114 favoured a seven or ten year cycle. The review group did not give explicit consideration to a seven year cycle, as the same arguments about balancing stability and certainty against fairness apply as for other cycles. As with three-year cycles, there is unlikely to be a significant difference compared with a five-year cycle.

G71. There was significant concern that a ten-year cycle would allow rateable values to become very much out of step with market rents and lead to significant step changes in value come revaluation. This could cause misgivings amongst the public about the fairness of the tax, particularly if ratepayers have to wait for a decade before benefiting from any correction in rateable values to reflect the rents they are paying for their properties.

G72. For example, the IPD data shows a 5% change in values in 1998 compared with 1988 – the valuation dates for the 1990 and 2000 revaluations. Had a 10-year cycle been employed the turbulence of the 1995 revaluation would have been avoided and that of the 2000 revaluation may have been reduced. We know that, in some parts of the country, values fell at the 1995 revaluation and have risen again at the 2000 revaluation and are now closer to their 1990 values. While not having the 1995 revaluation would have reduced instability in rate bills, it would have been unfair on those whose values were lower on the 1995 rating lists, reflecting their reduced values at the time.

G73. The 5% increase on a ten-year cycle compares with a 19% increase in the five years before 1998. In most other years a ten-year cycle produces bigger changes – as much as 142% in 1990. Even so, the biggest changes in value on a five-year cycle, in 1988, 1989 and 1990, are only exceeded by those on a ten-year cycle in 1990 and 1991. So a ten-year cycle does not necessarily produce higher changes in values than a five-year cycle.

G74. The variances between sectors are generally greater for a ten-year cycle. In 1998 there was a 55% variance, as opposed to 16% for a five-year cycle. This suggests that a ten-year cycle may have produced greater increases and decreases in bills than a five-year cycle – retail rental values rose by 36% but those for offices fell by 19% – even though the overall change in values was less on a ten-year cycle. The variance for a ten-year cycle is around 50% to 60% in every year back to 1992 (rising to 67% in 1993). A five-year cycle produced sectoral variances of up to 44%. This suggests that a ten-year cycle would probably lead to more changes in rate bills, though in many years these may not be significantly more than those produced by a five-year cycle.

G75. The VOA data only shows four ten year periods, ending between spring 1998 and autumn 1999. Again, these show substantial variances, but are exceeded by the greatest variances on a five-year cycle. The five-year figures for 1993 show greater variance than the ten-year figures for 1998. Both are compared with a base year of 1988. Again, this suggests that the effect of a ten-year cycle on bills is likely to be more volatile than a five-year cycle in most years, though it may not be much more volatile. This effect may be offset by the decreased frequency of revaluations. In some years a ten-year cycle could have less of an effect on bills than a five-year cycle. This reflects the interaction of any revaluation cycle with the peaks and troughs of the property cycle.

G76. The advantages of a ten-year cycle in terms of a longer period of stability and certainty between revaluations must be considered against the greater turbulence likely to be caused when revaluation comes, causing more instability and uncertainty. There would be a bigger hit, less often, but it need not be much bigger than with a five year cycle – in some years it might even be less. The effect on bills could be mitigated in both cases by transitional relief.

G77. However, a ten-year cycle would be comparatively less fair than a shorter cycle, as by the end of it rates bills could be based on twelve-year old valuations. How unfair this would be depends on how much the relativities between values across the country had changed over that time. It would still be significantly less than the 17 years between the 1973 and 1990 revaluations. But it is a major concern for ratepayers.

## Conclusions

G78. There was no clear consensus on any benefits from moving from the current five-yearly revaluation cycle. Revaluations are necessary to maintain a reasonable degree of accuracy in valuations, to provide fairness and acceptability, given the system of precise individual valuations, but when they happen they cause instability and uncertainty. In essence the arguments were clear:

- the shorter the valuation cycle the fairer the system is, because the values on which liability is based are more up to date, BUT the system is less stable and certain for ratepayers as values change more often;
- the longer the cycle the less fair it is for ratepayers, as values becomes less accurate over time and may reach a point where they are no longer acceptable, BUT there is greater certainty and stability over the amounts they will have to pay for a longer period;
- more frequent revaluations will cost more than less frequent revaluations;
- more frequent revaluations may reduce the number of appeals at each revaluation, but may increase the total over time.

G79. Any decision on revaluation cycles, whether to make them shorter, longer or leave them unchanged at five years, depends on the relative importance given to these factors. It is also interdependent with decisions on other matters considered in this report, in particular whether there is a transitional relief scheme.

# IV. Transitional relief

G80. The review considered whether there was a case for continuing with a transitional relief (TR) scheme and, if so, the form that it should take, and how it should be financed. The main questions considered were:

- Should there be a TR scheme at all;
- How should changes be phased in; should this be achieved within the life of the lists;
- Should schemes be self-financing; if so, how should they be financed.

## Should there be a TR scheme at all?

G81. If there were no TR then NNDR would be a clear, simple and fair system. Everyone would pay a bill based on their rateable value and the national multiplier. TR complicates this, leading to lack of clarity for ratepayers, more work for billing authorities and creating some inconsistencies in the treatment of similar properties that reduce the fairness of the system. The 1990 and 1995 TR schemes also entailed considerable costs to the exchequer. The 2000 scheme will be self-financing over five years, but requires exchequer support in the early years. So why have TR?

G82. Transitional relief was introduced in 1990, as a transitional measure, to ease the large changes which then occurred as a result of the move from locally set rates to the national non-domestic rate. It was also the first revaluation for 17 years and large changes in bills were expected. Successive Governments have also decided to reintroduce TR schemes for the 1995 and 2000 revaluations, in recognition of the concerns of ratepayers about large shifts in rate bills as a result of revaluations. TR schemes have been introduced to provide stability and certainty, to allow those facing large increases time to adjust to their new liability.

G83. During consultation on the current TR scheme in 1999, there was a strong view from ratepayers, large and small, that the benefits of stability and certainty were more important to them than clarity and simplicity. Most ratepayers are interested in the bottom line and would rather have a bill that was lower, even if it was less clear how that sum was calculated. There was general acceptance at the time that it was fair and reasonable to expect the gainers from revaluation to contribute by way of smaller reductions in their bills. The main objections to having TR came from the rating profession, rather than ratepayers.

G84. In response to the consultation paper on this review, 37 respondents out of 114 called for TR to be continued and 19 called for it to be abolished. 30 respondents favoured a system that ensured all ratepayers were out of transition before the next revaluation.

G85. Despite this support for TR, it does have its drawbacks. The 1990 and 1995 schemes have operated so that many have never fully adjusted by the time of the next revaluation – around a third of all properties in England were still in TR at the end of the 1995 lists. Most were paying less than their full bill, but some were still paying more. Many will carry this forward into the 2000 TR scheme. This in turn is expected to leave around 200,000 ratepayers still in transition by 2005. Some have not paid the full amount since 1990. This calls into question the fairness and transparency of the TR schemes.

G86. Some ratepayers are unhappy about facing annual increases in their bills of 10% or more, at a time of low inflation, as a result of TR phasing. They do not realise that they are still benefiting from TR and paying less than their full amount. That is not to say that there is no criticism of the TR scheme amongst those whose bills are in downward transition, who are delayed in getting the full benefit of a reduction in bills as a result of the revaluation.

G87. Others are unhappy that they are paying significantly more than their neighbours in similar properties. This can occur where there was a change of occupation in 1990/1 or 1991/2, which led to loss of TR under the 1990 scheme. (Since 1992 TR is given to the property rather than the occupier). Even where both get TR under the 1995 and 2000 schemes, there can still be significant differences in rate bills. Similar inconsistencies occur where new or substantially refurbished properties enter a rating list early in its life and so do not get TR, while others that entered the old lists weeks or months before do get TR and substantially lower bills. To some extent this is offset by adjustments in rents.

## How should changes be phased in?

G88. One of the major drawbacks of the current and previous schemes is that it does not get everyone out of TR by the end of the scheme, adding to the complexity of NNDR and perpetuating some unfair discrepancies, as described above. This is because the transitional limits are expressed in terms of the previous year’s bill and bear no relation to the full liability that they would be paying if there were no TR scheme.

G89. The TR scheme adopted for England for the 2000 revaluation imposes fixed limits on both increases and decreases in bills. These are expressed in terms of the previous year’s bill and are applied in addition to the annual RPI increase. Larger increases are allowed in later years, as businesses will have more time to plan for them. As a result, larger decreases can also be allowed in later years. The limits are more generous to small properties (smaller increases, bigger decreases in bills) in recognition of the greater burden of rates on small firms. Small properties are defined as those with rateable values of less than £12,000, or £18,000 in Greater London. The limits on increases and decreases are as follows:-

**Maximum increases in real terms**

| Year | Small Property | Large Property |
|---|---|---|
| 2000/01 | 5% | 12.5% |
| 2001/02 | 7.5% | 15% |
| 2002/03 | 7.5% | 17.5% |
| 2003/04 | 7.5% | 17.5% |
| 2004/05 | 7.5% | 17.5% |

**Maximum decreases in real terms**

| Year | Small Property | Large Property |
|---|---|---|
| 2000/01 | 5% | 2.5% |
| 2001/02 | 5% | 2.5% |
| 2002/03 | 10% | 5% |
| 2003/04 | 12.5% | 7.5% |
| 2004/05 | 25% | 15% |

G90. An alternative approach has been adopted in Northern Ireland in 1997 and in Wales and Scotland in 2000. These ensure that all ratepayers are out of transition by the end of the scheme, basing the amount of relief on a proportion of the full liability, rather than on the previous year's bill. This provides some stability and certainty while ratepayers adjust over time to higher liabilities, and helps fairness by getting everyone out of TR by the time the next revaluation takes effect.

G91. The Welsh TR scheme for 2000 applies only to properties with rateable values of less than £25,000. Larger properties receive no transitional relief. For those below this threshold, it limits increases in 2000-01 to 10% of the previous year's bill. The relief is then reduced by one third in each of the two following years. After that, all ratepayers will have to pay their full liability from 2003/4. Reductions in bills are limited in the first year of the scheme to 15% of the current rates bill. In the second and third years the limits increase to 30% and 45%. All properties with falling rates bills will see the full benefit by April 2003, and some will see it even sooner.

G92. The Scottish TR scheme for 2000 is similar in form, but the details are different. It applies to all properties. In the first year increases are limited to 5% of the previous year's bill in real terms for properties with rateable values below £10,000 and 7.5% in real terms for larger properties. Decreases are limited to 5% in real terms for all properties. The relief, for both increases and decreases, is then reduced by one quarter in each of the three following years. After that, all ratepayers will have to pay their full liability from 2004/5.

G93. If we were in future to adopt in England a system based on the full liability, it would mean higher annual increases in rate bills for those ratepayers facing the biggest rises than the current system. With a five-year revaluation cycle, ratepayers could for example be expected to pay in each year 20% of the difference between their pre-revaluation bill and their new liability. This would ensure that all ratepayers were out of TR by the end of the lists. In principle it would be a clear and simple system, though the calculation of bills would be no less complex than at present, including the interaction with changes to RV on appeal.

G94. This approach would place unequal burdens on ratepayers. Those facing the largest changes in full liability would face much bigger annual increases. If a bill increased by 25% overall, it would be phased in at 5% of the bill (20% of the change) in each year. If a bill increased by 100% it would be phased in at 20% of the bill in each year (also 20% of the change). So some would face smaller annual increases than under the present scheme, while others would face larger steps. However, as all would eventually move to their full liability it would be fairer than at present.

G95. Those facing smaller increases than under the current scheme would see them phased in over a longer period – either way they reach their full liability eventually. On the other hand, those facing larger increases include those who would otherwise never reach their full liability. A move to a system based on full liability would keep all of those affected in transition to the end of the scheme when all leave it, whereas the current system allows some to leave the scheme each year, while others never leave transition.

G96. It should not be necessary to apply any phasing to relatively small increases. To include them in a TR scheme would add unnecessary complexity to many rate bills with little effect, though to exclude them would add to the complexity of the scheme overall. A threshold can be set in terms of a percentage increase in the bill, below which TR is not applied. Only increases above this level would be phased, as was done, at different levels, in the Wales, Scotland and Northern Ireland schemes.

## Should the scheme be permanent?

G97. One of the main criticisms of revaluation 2000 was the relatively late announcement of the TR scheme. Before the scheme was finally announced on 25 November 1999, there was much uncertainty for ratepayers. We have considered above the scope for advancing the whole revaluation process, so that such announcements can be made earlier.

G98. Certainty would be further enhanced if a permanent TR scheme were to be established. There are three ways to do this, firstly to announce well in advance, or set in statute, that there will be a scheme, but leave its details to be established in the light of the outcome of any revaluation. The second is to set out in full a permanent TR scheme in statute that will apply at any future revaluation. This has the advantage for ratepayers of providing certainty that there will be a scheme at each revaluation and what its terms will be. It would also limit the need for discussions before each revaluation about the need for and the terms of the scheme. The third is to set out a minimum scheme in statute, but allowing changes to it if the Government felt the need to do so in the circumstances of any given revaluation. This would give a minimum level of protection to ratepayers, but would provide no certainty about what the eventual level of bills would be.

G99. One of the concerns expressed by ratepayers during discussions on the current scheme was that the relatively short timescale meant that, at least in the first year, any increases in bills should be relatively low, as ratepayers had little time to adjust. This is recognised in the fact that the limits on increases are lower in the first year, increasing in the second and third years. So if a scheme was set out in detail perhaps several years in advance of a revaluation, it would give ratepayers longer to prepare for the higher increases required by a scheme which fully unwound within the life of the lists.

G100. On the other hand, a permanent scheme with no option to change it would remove the Government's ability to be flexible if the circumstances at the time of a revaluation demanded it. And it would be unlikely to remove completely the possibility of a lobby from business if they felt that the scheme should be changed and the Government should be more generous for any revaluation exercise.

## Should schemes be self-financing? If so, how should they be financed?

G101. The 1990 and 1995 schemes were supported by the Exchequer, as is the 2000 scheme in the early years (although it is self financing over five years). These schemes, including the Exchequer contribution, were all devised in the light of the outcome of each revaluation and tailored to the detailed circumstances each time.

G102. If, as considered above, there is to be some form of permanent TR scheme, announced before the outcome of the revaluation is known, a scheme of the current type would open up the Government to unknown and potentially substantial costs. The Government cannot risk such blank cheques. So if there is to be a permanent TR scheme, some other way of paying for it must be found, to give Government certainty over future costs.

G103. The most effective way of providing the Government with certainty over the cost, is to ensure that any future TR scheme is self-financing. One way to ensure that any TR scheme could be fully self-financing, in advance of any revaluation, is to apply a supplement on the multiplier. This is clear, simple and fair, spreading the costs of the TR scheme across all ratepayers who do not need protection from big increases. However, depending on the outcome of any revaluation, this supplement could add significantly to rate bills.

G104. Appendix 4 illustrates the level of multiplier supplement needed to fully fund a scheme based on the full liability which unwound in five years, compared with the level of supplement needed to fully fund the percentage caps on increases which have been implemented as part of the 2000 TR scheme. There would be no limits on decreases in bills, which unlike the current system would apply in full from the start, though this would be partially offset by the multiplier supplement.

G105. The tables in appendix 4 show, for each of the two example schemes, what the multiplier would be if there was no supplement, but assuming increases for inflation in each year. It then shows the total multiplier and the level of the supplement if it applied to all properties. It then shows the total multiplier and the level of the supplement if it were imposed only on large properties, in which case small properties' bills would then be based on the multiplier with no supplement. The definition of small properties is that used in the 2000 TR scheme.

G106. Scheme A assumes that all increases up to the full liability are phased in over five years, with increases up to 20% of the old bill being taken in full in the first year. Any increases above this level would be taken in equal steps over the five years of the scheme, so that all were paying the full liability thereafter. This upward phasing would be paid for by a supplement on the multiplier applied to all properties, including those in transition. A variant would be to exclude small properties from the supplement, to preserve the preferential treatment they get under the existing scheme.

G107. The table in appendix 4 shows that, if the supplement applied to all properties, it would be 4.0p in the first year, adding 9.6% to all ratepayers' bills. However, the supplement falls in subsequent years, to 2.8p in the second year, increasing bills by 6.5% and 1.1p in the third year, worth 2.5% on bills. The supplement is 0 in year 4 and is negative in the final year.

G108. Assumptions for inflation have been made for the purposes of illustration, but their effect, taken together with the supplement falling over time, is that the net multiplier is very stable in cash terms over the five years, ranging from 45.3p to 45.8p.

G109. The supplement is, of course, greater if applied only to large properties, with small properties paying the base multiplier with no supplement. But it is not that much greater. Large properties account for around 30% of the total number. In the first year large properties would pay a supplement of 4.9p, adding 11.8% to bills, falling to 3.4p in the second year, increasing bills by 7.9%, and 1.4p in the third year, worth 3.2% on bills. As with the first option, the supplement falls to 0 in year 4 and is negative in the final year. Again, the multiplier is relatively stable in cash terms, ranging from 45.5p to 46.5p – all still lower than the 48.9p which applied in 1999/2000.

G110. Scheme B in appendix 4 models the effect of retaining the limits on bill increases which have formed part of the 2000 TR scheme as implemented. Unlike the 2000 scheme, there would be no limits on bill decreases, which are intended to part-fund the scheme. Instead it would be fully funded by the multiplier supplement.

G111. Under this scheme, the supplement would have been very large in the first year, amounting to 11.6p (27.9%) if applied to all properties and 22.0p (52.3%) if applied to large properties only. However, it falls very rapidly in the second year, to 3.6p for all properties or 4.0p for large properties only, and is less than a penny in all subsequent years. This reflects the fact that under this scheme some properties come out of transition in each of the second and subsequent years as the fixed caps allow them to reach their full liability, whereas the other method ensures all reach their full liability after the full five years.

G112. An alternative approach would be to phase in decreases in bills following revaluation, as well as increases, to offset the costs of the scheme. This means that those gaining from the revaluation see some of their gains deferred, but still see their bills go down each year until they reach their new, lower liability. This is done in the current and previous TR schemes in England, by reference to the previous year's bill. Such downward phasing could also be implemented as a proportion of full liability.

G113. However, the amount saved by such downward phasing cannot be know until the results of the revaluation itself are known, so cannot guarantee that a scheme would be self financing. A supplementary multiplier would therefore probably still be necessary in addition to any downward phasing, though it would be lower than if there were no downward phasing. Such a mixed system would inevitably be more complex. It would shift the costs of financing the limits on increases towards those facing the biggest decreases, while reducing the costs for those facing more modest increases or decreases. This may be seen as less fair to those who have to wait to see all their gains, but on the other hand those are the ratepayers most able to afford to contribute.

G114. The schemes illustrated in appendix 4 are fully self-financing and require no Exchequer contribution. The Government cannot make an open ended commitment to future costs the level of which cannot be predicted until the outcome of a revaluation is known. However, as also discussed above, the Government could retain the flexibility to go beyond the minimum level of a permanent statutory self-financing scheme. This would allow it the option of contributing to the costs of such a scheme to reduce the level of the multiplier supplement in the first year or two, when it is greatest. Such decisions may need to be taken in the wider context of competitiveness and the state of the economy at the time. The Government may wish to consider whether part-funding a more generous transitional relief scheme is a good use of exchequer funds, in comparison with other forms of support for business.

G115. It should also be noted that these examples are based on the effect of Revaluation 2000. The amounts would be different in any future revaluation. One factor driving the costs of transition is the number of properties still in transition on the old lists and paying less than their full liability at the start of the new scheme. In 2000 over 500,000 properties are in that position, increasing the costs of any TR scheme, including those modelled here. We anticipate that by 2005 that number will in fact be reduced to around 200,000, so reducing the costs of any future TR scheme.

G116. Alternative schemes could unwind in a shorter period, as in Wales, Scotland and Northern Ireland. This would mean bigger annual increases in bills for those in TR, but a lower multiplier supplement for all. Depending on the length of the revaluation cycle, it could also mean a longer period when no one was in transitional relief.

# Conclusions

G117. There will always be difficulties in business accepting large step increases in rates bills following a revaluation. TR provides time to adjust to new liabilities. The previous section showed that there are always likely to be large changes in bills for some, even if the length of the revaluation cycle is changed. It is therefore likely that TR will need to be retained.

G118. However, there is no clear view on the form that it should take. A scheme based on the full liability, as employed elsewhere in the UK, would mean higher annual increases for some ratepayers, but would be fairer overall, as all would be out of TR by the end of the scheme, which could be well before the next revaluation. A permanent scheme could be laid down in statute, perhaps ensuring that all ratepayers are paying their full liability before each subsequent revaluation. This has firm attractions in terms of certainty for business. On the other hand, it would remove the Government's ability to be flexible if the circumstances at the time of a revaluation demanded it.

G119. Similar arguments apply on the question of funding. The overall cost of transition is of concern to the Government. The scheme could be made entirely self-financing by applying a supplement to the multiplier. Again, this requirement could be set in statute. However, this could add significantly to liability levels depending on the results of the revaluation and it would restrict the Government's ability at least to partially fund the transitional scheme. If more flexibility is allowed on the scope or funding of a TR scheme, perhaps within a statutory framework for a minimum scheme, there will be less certainty.

# V. Banding

G120. Its terms of reference asked the review to look specifically at a system of banding for NNDR, as a means of improving the certainty, stability and simplicity of revaluation for ratepayers, while maintaining an appropriate level of fairness in the relative valuations of properties. The main areas considered were:

- Would banding improve the simplicity and fairness of the rating system;
- What number and width of bands would be required;
- What would the effect of a revaluation be on banding and rate bills.

G121. The consultation responses were overwhelmingly opposed to banding, mainly on grounds of fairness. 93 out of 114 were against banding, while just 7 were in favour.

## Would banding improve the simplicity and fairness of the rating system?

G122. Banding would appear to have considerable advantages in terms of certainty, stability and simplicity. A change of value within a band would not affect a ratepayer's bill, only a movement between bands. As a result, there would be less need to undertake revaluations in order to keep the lists up to date, so there would be greater stability and certainty. With fewer revaluations and changes in bills resulting only from movements between bands, there may be less need for transitional relief and therefore greater simplicity. Only ratepayers who thought their values were in the bottom margin of a band would have an incentive to appeal, thus improving certainty for ratepayers and for central government. However, a closer analysis suggests certain reservations on all these points.

G123. Having fewer, broader bands would increase the extent to which these objectives were achieved, compared with more, narrower bands. However, the cruder the system the more difficult it would be to operate it in a way that maintained an appropriate level of fairness. There would be gainers and losers under any banding system and there would be more of these within a system of broad banding. Broader bands would also mean higher rises in bills between bands.

G124. In considering the fairness of a banding system, the limitations of the existing system also need to be borne in mind. Valuation is not a precise science. Under the present system, many – if not most – of the rateable values are arrived at by a process of negotiation between the valuation officer and the ratepayer, with valuations being settled following an appeal. The appeal is either decided by a valuation tribunal or settled by the parties before it reaches the tribunal. A system of banding would recognise explicitly that the valuations are not precise. To that extent it need be no less fair.

G125. Council tax provides a model of simplicity and stability in a banding system. But the position is different for non-domestic property. There are just 8 council tax bands, but this is unlikely to be sufficient for non-domestic property. A significant difference is that council tax is based on capital values, whereas rates are based on annual rental levels, with

a very different distribution of values, ranging from £1 to hundreds of millions. There is also a fairly narrow range of tax levels for council tax, with a band H bill being three times a band A bill. It would be impossible to keep such a short range to cover the widely differing values of non-domestic property, while maintaining the same level of total yield.

G126. As a result, even a marginal increase in value that moved a non-domestic ratepayer from one band to the next could lead to a significant increase in bills, probably much more so than under council tax. It would be unfair for near neighbours or competitors in similar properties to find themselves paying markedly different rate bills as a result of banding, when they pay similar amounts under the present system. The example bands below show that a difference of one band could mean substantial increases in the bill paid.

G127. It has also been suggested that banding provided a way of simplifying the system by reducing the scope for appeal, if there was little likelihood of a successful appeal resulting in band movement. However, responses to consultation from the rating profession suggest that there may be greater incentive to appeal because of the implications of a large reduction in liability following a band reduction. There may also be a disincentive to settle an appeal.

## What number and width of bands would be required?

G128. An example of possible bands is shown below. This is just one option, based on a reasonably even distribution of the number of properties and of the proportion of total rateable value between each band. There are 13 bands, few enough for the system to be simple, but sufficient to cover the range of values. It would of course be possible to set the band boundaries differently and to have a different number of bands.

| Band | Value (£ RV) | % of all Properties | % of Total RV | Possible bill |
|---|---|---|---|---|
| A | Under 1,000 | 7.6 | 0.2 | £208 |
| B | 1,000 to 2,499 | 15.8 | 1.2 | £728 |
| C | 2,500 to 3,999 | 13.8 | 1.9 | £1,352 |
| D | 4,000 to 5,999 | 13.3 | 2.9 | £2,080 |
| E | 6,000 to 7,999 | 9.1 | 2.8 | £2,912 |
| F | 8,000 to 10,999 | 8.8 | 3.6 | £3,952 |
| G | 11,000 to 14,999 | 7.1 | 4.1 | £5,408 |
| H | 15,000 to 19,999 | 5.6 | 4.2 | £7,280 |
| I | 20,000 to 29,999 | 6.0 | 6.5 | £10,400 |
| J | 30,000 to 49,999 | 5.2 | 8.7 | £16,640 |
| K | 50,000 to 74,999 | 2.6 | 7.2 | £26,000 |
| L | 75,000 to 99,999 | 1.4 | 5.3 | £36,400 |
| M | 100,000 to 199,999 | 2.1 | 12.9 | £62,400 |

G129. Properties with very large rateable values (£200,000 and above in this option) would still probably need to be valued individually. This group covers 1.5 per cent of properties and is worth 38.5 per cent of total rateable value. There is a wide spread of values for this relatively small number of properties, so it would be hard to devise meaningful bands, while maintaining an equitable contribution to a fair share of total yield.

G130. The level of bill shown in the table assumes that the multiplier of 41.6p for 2000/01 is applied to the value at the mid-point of the band, for the purposes of illustration only. Alternatively, the multiplier could be applied to the top or the bottom of the band. Whichever approach was taken, this example makes clear that a difference of one band makes a very substantial difference to rate bills. This reflects on the concerns about the fairness of the system to similar properties on either side of a band boundary.

G131. An alternative approach would be to define a fixed ratio of the bill for each band, as is done for council tax. But this would probably not eliminate the steep step changes between bands, given the wide range of values that are covered, if total yield is to be maintained. The only way to reduce the large steps between bands would be to have a much larger number of narrow bands. But as noted above, this would result in a banding system very little different from the current system of individual valuations.

G132. There would also be winners and losers in each band, compared with the current system. Those whose current value is towards the bottom of each band would pay more than they do at present, while those towards the top would pay less. The proportion of winners and losers would depend on exactly how billing was calculated in a banding system.

G133. In practice, a different multiplier would be needed to maintain constant yield, depending on which point of the band it was applied. The multiplier would need to be lower if it applied to the top of the band and higher if it applied to the bottom, in order to produce constant yield. The amount paid in any band would be different, but is unlikely to be significantly so, if total yield is to be maintained.

# Banding and Revaluation

G134. A further issue is what would happen at revaluation under a banding system. This raises questions about whether or not the bands themselves should be amended in line with the revaluation effect. If, for the purposes of illustration, we assume that a banding system had been employed at Revaluation 2000 and those illustrated above were the result of a 25% increase across the board, reflecting the total increase in rateable value in England, then the pre-revaluation bands would have been as follows:-

| Band | Value (£ RV) |
|---|---|
| A | Under 800 |
| B | 800 to 1,999 |
| C | 2,000 to 3,199 |
| D | 3,200 to 4,799 |
| E | 4,800 to 6,399 |
| F | 6,400 to 8,799 |
| G | 8,800 to 11,999 |
| H | 12,000 to 15,999 |
| I | 16,000 to 23,999 |
| J | 24,000 to 39,999 |
| K | 40,000 to 59,999 |
| L | 60,000 to 79,999 |
| M | 80,000 to 159,999 |

G135. Had these bands applied before the revaluation, and the bands above which are 25% higher applied afterwards, the following results would have been seen:-

- 52% of properties would have stayed in the same band;
- 9% of properties would have moved up one or more bands;
- 38% of properties would have moved down one or more bands;
- 81% of those moving would have moved by just one band
- The upper and lower bands are more stable, with 89% of band A properties and 61% of band M properties not changing bands;
- The middle bands are less stable, with 32% of band H and 35% of band G and L properties not changing bands.
- A very small number of properties would have moved a large number of bands.

G136. These figures reflect the fact that at the Revaluation 2000, there was a significant number of properties with changes in rateable value at the lower end of the spectrum and a smaller number of high value properties seeing large changes in rateable value.

G137. An alternative approach would have been to apply the same bands before and after revaluation. On this assumption the results would have been similar, with the following effects:

- 61% of properties would have stayed in the same property band;
- 27% would have moved up at least one band;
- 12% would have moved down at least one band;
- 82% of properties that moved a band only did so by one band;
- The upper and lower bands would be more stable, 80% of properties would have remained in band A and 68% in band M;
- The centre bands appear less stable with, 47% of properties remaining in band H and 41% in band L;
- A very small number of properties would have moved a large number of bands.

G138. Appendix 5 contains more detailed data on these two scenarios. Whichever approach is taken to setting bands, a sizeable number of properties would move bands during a five yearly revaluation, particularly in the middle of the range, but for the vast majority of these properties it would have been restricted to a movement of one band. However, as noted above, movements of one band can result in significant changes in the amount paid in rates.

G139. The main difference between the two approaches taken is in the numbers moving up or down the bands. If the bands were constant, 27% would have moved up and 12% would have moved down, a total of 39%. If the bands had been uprated, 9% would have moved up and 38% would have moved down, a total of 47%.

G140. It may be that, with an uprating of bands, a banding system would produce more manageable stability at revaluation. Most would face a modest increase in their bill, as they stayed in the same, uprated band. This assumes that any multiplier was reduced to reflect the increase in values and bands, but the effect was not complete because of the allowance for inflation and losses on appeal that are included in the multiplier (see below). 38% would face lower bills as they would be in a lower band, while only 9% would face the substantially higher bills resulting from an increased banding. This compares with the 40% of ratepayers in upward transition in 2000/01 under the current system. But this is just one example and further analysis would be required to be sure that this one example could be relied upon to draw conclusions about the effects of a banding system at future revaluations.

G141. The analysis above of the effect of a longer revaluation cycle on rateable values suggests that there would usually be more movement than with the five-year cycle illustrated here. This suggests that under a banding system, there would also be some more turbulence with a longer cycle.

# Conclusions

G142. A banding system appears to have advantages, particularly in terms of simplicity and, subject to further analysis, perhaps also stability. But there are significant concerns about its fairness, particularly because of the difference between bills in adjacent bands. This was a particular concern of business respondents to the consultation. Depending on where the lines are drawn, the step changes in rate liability as properties move from one band to another could be significant. Ratepayers are likely to regard it as unfair that a small movement in value could affect their bills to such a significant extent. It could also have an adverse impact on investment decisions, and act as a real disincentive to the improvement or expansion of business premises.

G143. There are significant differences from the council tax model, which mean that it would be impossible to avoid such step changes between bands, without having so many bands that the system is virtually the same as one of individual valuations. For practical reasons, it would probably be necessary to leave out of banding the highest value properties, which account for a small number but a large proportion of total rateable value. It was not clear to the Review Group that any obvious advantages would accrue from the introduction of banding for non-domestic properties at this stage.

# VI. Other valuation methods

G144. The review consultation paper canvassed views on whether any other method of approach to valuation should be considered. It offered two alternatives as a starting point for discussion:

- Blunting, where properties would continue to be valued individually as at present, but changes to value on appeal would only be granted if the value moved outside a certain threshold, perhaps 5% or 10% of the original value;
- Greater use of indices, so that all properties in a locality were valued on the same basis.

## Discussion

G145. By fixing values within a range of their starting point, blunting produces what is in effect a floating band system – each ratepayer has their own band, which is 5% or 10% either side of their valuation. This raises similar concerns over fairness as for banding. The use of ratepayer panels and a more co-operative valuation process, with more prior agreement of values, discussed above, should in any case reduce the scope for appeals following future valuations. This would reduce the need for a mechanism such as blunting, which only comes into effect when appeals are made.

G146. Consultation respondents largely saw blunting as a means of limiting ratepayers' rights to appeal, although in practice it would limit the effect of any appeals, rather than the right to make them. Wherever the blunting threshold was struck, it would mean that a ratepayer could be denied a potential refund of rates, if on appeal the rateable value was found to be too high, but within the blunting limit. It was considered unfair by virtually all those who commented – 70 respondents out of 114 opposed blunting, while 4 supported it.

G147. Blunting would not necessarily reduce the amount of rateable value lost on appeal in all cases. It may be that cases that would otherwise have been settled below the blunting threshold would instead be settled at that threshold, leading to a lower rateable value. That would be to the advantage of such properties, where it occurred.

G148. The use of local indices to produce valuations also lacked support from respondents, some commenting that this did not actually appear to differ very much from the current system whereby the VOA set the tone of the lists. Again, only 4 though it worth further consideration.

## Conclusions

G149. The review group felt that blunting and local indices should not be pursued. While blunting would help to maintain yield by limiting the effect of appeals (see below) it raises similar concerns about fairness raised by a banding system.

# VII. Maintaining the yield – mitigating losses on appeal

G150. The review considered how best to maintain the aggregate tax yield in real terms during the life of the lists, as required by its terms of reference. The principal concern was how to ensure that erosion of the lists through appeals and other losses could be reconciled with the desire to achieve a constant tax yield. The Environment, Transport and Regional Affairs Select Committee and the Treasury Sub Committee have both expressed concern about the level of losses and the ability of the current system to recover them and maintain yield.

G151. The main options considered were:

- Continue as now, with an initial adjustment on revaluation to take account of estimated losses on appeal over the life of the lists (5% in 1995 and 4.7% in 2000);
- No "up-front" adjustment, but with annual adjustments (in addition to RPI increases) to reflect losses from successful appeals;
- A mixed system, with an initial adjustment together with the possibility of further adjustments if necessary, either annually or retrospectively at the next revaluation.

G152. The rules governing the setting of the non-domestic rating multiplier are set out in Schedule 7 of the Local Government Finance Act 1988. This effectively means that in a non-revaluation year the multiplier must be adjusted in line with the retail price index (RPI) in the previous September. The Treasury can provide by Order that a figure lower than RPI can be used. This would amount to a real terms cut in the level of the tax and has never been done. As there is no provision for any increases to recover such cuts, it would lead to an irrevocable reduction in the yield.

G153. Schedule 7 specifies that in a revaluation year the calculation of the multiplier also takes into account the total rateable value of all hereditaments in England on the last day of the old lists and the first day of the new lists. This is to ensure that the total yield remains constant, whatever happens to total rateable value as a result of the revaluation.

G154. This requires the Secretary of State to estimate what the values to be shown in the lists would be, after taking into account future changes to the lists as a result of successful appeals and other similar changes. The multiplier set at each of the three revaluations has therefore included an element to allow for future losses from the lists, to ensure that yield remains constant over the life of the lists. However, if the estimate made at the time of revaluation is wrong, there is no provision for any other adjustments. Any difference between the estimate and the outturn of losses on appeal leads to a permanent change in gross yield and any loss of yield cannot be regained.

## Discussion

G156. The consultation paper prompted a mixed response. 19 responses out of 114 favoured maintaining the current system, while 16 favoured annual adjustments and 17 a mixed system.

G157. The current system provides ratepayers with certainty to plan resource needs over the five-year cycle, on the basis that the multiplier, and hence their rate bills, will only rise annually in line with inflation. It does this on the basis of an estimate made even before any appeals are received. Whilst it provides ratepayers with certainty, this is at the cost of an adjustment at the outset for losses which may not occur for several years, so ratepayers are paying in advance.

G158. There is also a risk to the Government of a permanent loss of yield, as occurred in 1990 where the original estimate was 1.5% but actual losses reached 9%. The difference amounts to a significant and permanent reduction in gross rate yield, at the expense of central and local Government, to the benefit of ratepayers, particularly those who appealed successfully. But all ratepayers have benefited in every year since 1990, by having a lower starting point for the multiplier than would have been the case if it had allowed for the full 9%.

G159. The options for change would all ensure that gross yield was fully maintained. This is no different from the intended position under the current system, assuming that the current adjustment turns out to be an accurate estimate of future losses. In 1990 that estimate was too low, but that made in 1995 appears to have been more accurate. The multiplier in 1995 allowed for losses of 5% from the rating lists. Appeals can be made against the 1995 lists up to 31 March 2001, but those settled to date suggest that the initial estimate was accurate.

G160. In terms of fairness, any system which adjusts the multiplier to maintain yield shifts the burden of the tax from those properties whose values are reduced on appeal to those which are not. In so far as the appeals system is itself fair in assigning reasonable values to properties, this system of redistribution is also fair. Those who appeal successfully would otherwise be paying more than their fair share of the total yield, while those who do not have their values reduced on appeal would otherwise be paying less than their fare share of that total. This applies to properties where appeals are unsuccessful and to those where there is no appeal. Given the high volume of appeals and the information given to all ratepayers on their appeal rights, it is reasonable to assume that most of those who make no appeal have an acceptable valuation.

G161. If adjustments were made to take account of appeal losses during the life of the lists, ratepayers would be faced with annual adjustments to the multiplier other than for inflation. As with RPI, the exact amount of the annual adjustment to the multiplier would not be known from year to year, reducing certainty for ratepayers. These annual adjustments may be relatively modest in any one year, probably increasing over the life of the lists as more appeals are settled. With a mixed system, combining an up-front estimate of losses with annual adjustments if those proved to be inaccurate, the level of those annual adjustments would be less. Either way, the total amount collected would be the same over the life of the lists as under the current system, when it works.

G162. An alternative suggestion is that, rather than making annual adjustments, the multiplier is only changed, other than for inflation, at the time of revaluation, but that more flexibility is allowed. In particular, the new multiplier should take account of any loss or gain in yield from previous lists, as a result of difference in outturn from previous adjustments, as well as an estimate of future losses for the new lists, and any adjustment for revaluation effects. This would provide greater certainty for ratepayers between revaluations, although the size of this single adjustment would be greater than any annual adjustments.

G163. While this approach would protect Government from long term loss of total yield, there may still be short-term losses in the period before a multiplier adjustment is made. The Government cannot legally impose retrospective taxation, so any losses that occur in the life of the lists could not be recovered for the years until the next revaluation. Any adjustments made at that time could restore total yield to what it would have been without appeals losses, but may not be able to increase total yield to recover earlier losses.

## Conclusions

G164. The current system is intended to ensure that there is no loss of total yield as a result of appeals and similar changes to rateable values. However, there is only one opportunity to estimate in advance what the size of that loss might be. If that estimate is too low the Government runs the risk of a permanent loss of yield, as happened on the 1990 lists. Greater experience of the NNDR system, both in terms of the values set and the estimate of losses, should reduce that risk at future revaluations, as seems to have occurred with the 1995 lists. But the uncertainty remains.

G165. Allowing more flexibility in the system would eliminate that uncertainty for Government, by ensuring that the full amount of losses can be recovered as they arise. On the other hand, there is some concern that allowing annual adjustments to the multiplier, however modest, would reduce certainty for ratepayers. The alternative of delaying any adjustment until the next revaluation would increase certainty for ratepayers, with one, larger change. The Government would still risk losing some yield in the intervening years, although could restore the position in the long term.

# VIII. Maintaining the yield – quality of valuations

G166. Maintaining the yield is not just about recovering any losses that occur. It is also about minimising the level of those losses. This is principally achieved by ensuring that valuations are, as far as possible, acceptable to ratepayers in the first place. Obtaining the relevant information is also essential to minimising losses during the appeal process. This would ensure that valuation officers and valuation tribunals would be able to base assessments on comprehensive data on rents paid or other value-significant information such as accounts and building costs.

G167. The VOA already endeavours to achieve this and the evidence so far suggests that the quality of valuations has been improving over the three successive revaluations since 1990. During Revaluation 2000 the VOA did much work to improve the collection of information, working with ratepayer groups. However, there is scope for further improvement.

G168. This would be facilitated by a better flow of information between the VOA and ratepayers during and before the revaluation process. The section above on lessons to be learned from Revaluation 2000 considered the establishment of ratepayer panels, to improve the flow of information as part of the revaluation process. By leading to valuations which were more acceptable to ratepayers, this process should also help to maintain the yield by reducing the scope for and extent of appeals.

G169. Forms of return (FORs) are currently the main source of rental evidence that Valuation Officers require to compile and maintain valuations. They are sent to selected ratepayers, generally in advance of each revaluation, in order to gain information on actual rents set around the valuation date, on which to base valuations. However, many of the FORs are not returned, so the VOA is not getting as much information as it would like. The rate of return for Revaluation 2000 was around 50%.

G170. The House of Commons Treasury Sub Committee, in its report on the VOA of 28 October 1999, recommended “that the full and accurate completion of ‘forms of return’, which is required of all non-domestic ratepayers so requested, should be enforced more stringently and that the fine payable on conviction of failure to comply be raised significantly”.

G171. This review therefore considered whether the rate of return of FORs could be improved, in order to improve the quality of valuations carried out by the VOA. The main suggestions canvassed were the introduction of incentives, to encourage submission; and the replacement of a criminal sanction with a civil fixed penalty system. This was seen in the wider context of an improved dialogue and exchange of information between ratepayers and valuation officers, as part of the revaluation process.

G172. The VOA currently has difficulties in ensuring that FORs are completed and returned to them. The only sanction they have available at present is a criminal prosecution, which is impractical to pursue and heavy handed. A more practical and effective alternative may be a civil penalty for a failure to return, which might be £100, £1000 or some other amount. Such a system is already in use for income tax returns, although such returns are directly related to the amount of tax paid, whereas FORs are only for the VOA’s information. An extension of the reply period, perhaps to 56 days, would also help ratepayers and their agents complete the forms and may mean more are returned.

G173. The use of incentives for return of FORs has also been suggested, though not any particular incentives. It is hard to see what would induce a commercial ratepayer or, more likely their professional rating agent, to return a FOR when they do not do so already.

G174. 15 respondents to the consultation paper supported the use of fixed penalties, 7 supported incentives and 5 favoured the current system. 5, mainly from the rating profession, suggested that the maximum period for submission of a FOR should be increased from the current 21 days. This was to reflect the fact that information may not be readily available in the form requested by the VOA and forms will often be passed to agents for completion. 9 respondents also called for the VOA to review its information requirements and simplify the forms. Some respondents felt that fines should only be used if FORs were sent to all ratepayers.

G175. The VOA intends to work in a more collaborative way with ratepayers on future revaluations, building on the work already done for Revaluation 2000. A major innovation would be to establish ratepayer panels for different classes of property, at national and local levels. These panels would provide a conduit for the flow of information needed to undertake valuations and will help the VOA to get across the message that it is in ratepayer's interests to complete and return FORs, as that will in turn lead to more acceptable valuations. In the other direction, it will help the VOA to tailor its requests for information in a way that ratepayers will find easier to answer. For example, it may be possible to make more use of information available for other purposes or in other formats.

G176. One suggestion has been the use of 'boomerang' forms, which are sent out to ratepayers part completed by the VOA with the information they already have, asking the ratepayer to update it or add missing information. This may be more likely to encourage ratepayers to complete and return the form, but raises confidentiality concerns if, for example, the VOA is not aware of a recent change of occupation and inadvertently sends information to the wrong person.

## Conclusions

G177. The review group concluded that a move to civil penalties for non-return of FORs provided a much more practical and effective enforcement mechanism and should be adopted. However, it should still be seen as very much a last resort and placed in the context of improved co-operation and flow of information between ratepayers and valuation officers, as part of the valuation process.

G178. Further work will be done to ensure this takes place in the run up to the next revaluation. Detailed application will depend on decisions taken on the issues considered elsewhere in this paper on revaluation cycles and in the timetable for the revaluation process itself.

G179. The review also concluded that work should be undertaken to consider the potential for developing the existing Particulars Delivered (PD) system, where details of most capital and rental transactions come to the attention of the VOA, to provide some of the information at present collected separately as part of the NNDR valuation process. Research should be done into whether this would be practical and its potential for improving the provision of information and reducing the burden on business.