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# 2017 Non-Domestic Rating Revaluation Consultation on Possible Transitional Arrangements: Analysis of responses

ECONOMY AND LABOUR MARKET

social research

# 2017 Non-Domestic Rating Revaluation Consultation on Possible Transitional Arrangements: Analysis of responses

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# Executive summary

## Introduction

1. Between 16 August and 12 October 2016, the Scottish Government undertook a public consultation on possible transitional arrangements relating to the 2017 non-domestic rating revaluation.

2. Non-domestic rates (often referred to as business rates) are a property tax paid by occupiers, tenants or proprietors of most non-domestic properties. The tax is devolved to the Scottish Government. Local authorities administer the system and the funds raised are used to help pay for local services.

3. The rateable values of properties are determined by the independent Scottish Assessors, and are based on the rent a property would achieve on the open market at a fixed point in time (the 'tone date'). To ensure that rates bills remain up to date, the rateable values of properties are reassessed (usually every five years) as part of a process known as revaluation. The last revaluation in Scotland was in 2010 with a tone date of 1 April 2008. The revaluation scheduled for 2015 was postponed by two years, and will now take effect from 1 April 2017. This will be based on property values assessed as at 1 April 2015. As rates are linked to the demand for property, revaluation may result in individual businesses seeing either a rise, or a fall, in their business rates.

4. The Scottish Government has the option to put in place transitional relief arrangements to help those businesses facing large increases in their rates bills as a result of the 2017 revaluation. Transitional relief enables adjustments to rates bills to be phased in over a number of years. Transitional relief is funded entirely by businesses and is not a government subsidy. Thus, the relief can be paid for by businesses whose property values have decreased over a certain level. These businesses still see a decrease in their rates bills, but may not see their full savings until the transitional period is finished. Alternatively, the relief can be funded by a general supplement on all ratepayers. The transitional scheme may run for any number of years during the revaluation cycle.

5. Legislation is required to put transitional relief in place, and the current consultation sought views about whether transitional relief is needed for the forthcoming 2017 revaluation, and if so, how it might operate. The consultation contained three closed questions which asked: (i) whether the Scottish Government should introduce a transitional scheme for the 2017 revaluation; (ii) how long any transitional relief should be in place; and (iii) how transitional relief should be funded (i.e. either through a cap on bill reductions or through a supplement on ratepayers). A fourth and final question invited other comments.

6. The consultation received **52 submissions**, mostly from organisations. Respondents comprised: private sector organisations (24), public sector organisations (21), and other organisations such as professional bodies (4). Three individual respondents also took part in the consultation.

## Views on whether a transitional relief scheme should be introduced

7. **Nearly two-thirds (63%) of respondents were in favour of some form of transitional arrangements** for the 2017 revaluation; 37% were not. Companies in the energy and renewables sector and NHS respondents were unanimously in favour of introducing a transitional relief scheme. There were more mixed views among local authorities and other private sector respondents, although a majority of local authorities were opposed, and companies responsible for managing large property portfolios were unanimously opposed to the introduction of a transitional scheme.

8. The main arguments given in favour of a transitional relief scheme were that it would give businesses time to plan for, and manage, their increased rates bills, and that the current challenging economic conditions made it difficult for businesses to absorb unexpected large increases in their costs. Respondents in this group highlighted: a) the length of time since the last revaluation (seven years, rather than the usual five), and b) the 'unprecedented economic fluctuations' seen during this period. Private sector respondents stated that any sharp, substantial increase in rates could lead to reductions in future investment, increased costs being passed on to customers and / or job losses. They also suggested that without a transitional relief scheme, Scottish businesses could be put at a competitive disadvantage compared to businesses in England and Wales which would have the benefit of a transitional relief scheme. Businesses in the energy and renewables sectors were concerned about the potential for large increases in rates bills at a time when a range of other revenue support mechanisms were being reduced or withdrawn entirely.

9. The main arguments given by those opposed to transitional relief were related to the principle of fairness: transitional relief was seen to be unfair and 'contrary to natural justice'. Respondents in this group commented that the purpose of a revaluation exercise is to re-distribute the tax base fairly. Transitional relief was seen to undermine the relationship between a property valuation and the amount payable as rates – since those businesses assessed as being on too high a rateable value are denied the benefit of a reduction in their rateable value in order to pay for a delayed increase in rateable value for businesses that have been assessed as more profitable. Respondents repeatedly emphasised that transitional relief 'distorts the tax system' and is detrimental to businesses. Respondents also emphasised that, given the challenging economic climate, and the length of time since the last revaluation, it was crucial that those businesses and properties which are due a reduction in their rates should have the full benefit of that reduction immediately.

10. Among respondents expressing support for a transitional relief scheme, some commented that, in principle, they were not in favour of transitional relief for non-domestic rates. However, given the current economic climate and the two-year delay in revaluation, they felt a transitional scheme was necessary at this time. This group advocated more frequent revaluations, or a mechanism for monitoring and adjusting rateable values in sectors where costs and revenues change dramatically between revaluations to avoid the need for transitional relief in future.

## Length of transitional period

11. Among the respondents who were in favour of a transitional relief scheme, **a slight majority were in favour of a three-year transition period (or less)**. NHS organisations comprised a large proportion of the respondents who wanted a longer scheme (four or five

years). Those who supported a three-year transition period believed that this timescale would be long enough to allow companies to plan for their eventual rate, but short enough to deliver rate reductions swiftly to those who are entitled to them. This group thought that a longer transition period (of four or five years) would undermine the purpose of revaluation.

12. Those who wanted a 4- or 5-year transition period believed that a longer period was necessary to give protection to customers from increased charges. This group also thought that any transition scheme in Scotland should have the same duration as schemes in England (5 years) in order to maintain Scotland's competitiveness with the rest of the UK.

## Method of funding transitional relief

13. **A small majority of respondents favoured a supplement on all ratepayers** as the means of funding transitional relief. Companies in the energy and renewables sector were divided on this question while other private sector respondents preferred a supplement on other ratepayers. Among public sector respondents, local authorities generally favoured a cap on bill reductions, while NHS organisations preferred a supplement on other ratepayers.

14. Among those favouring a cap on bill reductions, the main reason given was that a cap on reductions would enable the impact on those ratepayers most disadvantaged through the revaluation to be mitigated by those ratepayers who would be receiving the greatest benefit through revaluation.

15. Those who supported a supplement on other ratepayers generally argued that this was a fairer mechanism for funding transitional relief. In particular, it would allow the cost of funding the scheme to be spread across all ratepayers, rather than only those whose rates bills are reducing, and it would allow those businesses assessed at a lower value to benefit from their lower rates immediately.

16. Respondents who were opposed to transitional relief often stated that they supported neither a cap on bill reductions nor a supplement on other ratepayers. This group considered that a cap on bill reductions 'penalises those businesses who need assistance most', and that the imposition of a supplement was an 'indiscriminate' additional cost and therefore also unacceptable. However, nearly all of the private sector respondents who held these views went on to state that if transitional relief was nevertheless introduced, a supplement on the rate poundage would be preferable to a cap on bill reductions as it 'would dilute the impact across all properties'.

## Other comments

17. There was a recurring view among respondents that any transitional relief scheme, if introduced, should not prevent necessary wider reforms to the non-domestic rates system currently being considered by the Barclay Review. Some of the reforms respondents wanted to see were: (i) more frequent revaluations with a tone date set no earlier than one year preceding revaluation; (ii) draft Valuation Rolls published at least six months before revaluation to allow businesses sufficient time to take action to mitigate large increases in their rates bills; (iii) better alignment with the non-domestic rates system in England to avoid putting Scottish businesses at a competitive disadvantage; and (iv) greater simplification of the system.

# 1 Introduction

1.1 This report presents the findings of an analysis of written responses to a Scottish Government consultation on possible transitional arrangements relating to the 2017 non-domestic rating revaluation. The consultation was published on 16 August 2016 and ran until 12 October.[1]

## Non-domestic rates

1.2 Non-domestic rates (often referred to as business rates) are a property tax paid by occupiers, tenants or proprietors of most non-domestic properties. This tax is fully devolved to the Scottish Government. Local authorities administer the system, issue bills and collect payments, and the funds raised are used to help pay for local services.

1.3 The pence in the pound tax rate, known as the 'poundage', is set annually by legislation laid by Scottish Ministers. The rateable values of properties are determined by the independent Scottish Assessors, and are based on the rent a property would achieve on the open market at a fixed point in time (the 'tone date').

1.4 To ensure that rates bills remain up to date, the rateable values of properties are reassessed at regular intervals as part of a process known as revaluation. In general, revaluations in Scotland take place every five years. The last revaluation was in 2010 with a tone date of 1 April 2008. The revaluation scheduled for 2015 was postponed by two years, and will now take effect from 1 April 2017. This will be based on property values assessed as at 1 April 2015.

1.5 The revaluation of non-domestic rates is not intended to raise extra revenue but redistributes the tax burden by adjusting rateable values to reflect current rental values. Where certain kinds of properties, or properties in certain locations become more in demand, rental values for those properties may rise relative to the national average, while demand may fall in other locations or for other kinds of property. Thus, business rates are linked to the demand for property, and on this basis, revaluation may result in individual businesses seeing either a rise, or a fall, in their business rates.

### Transitional relief

1.6 The Scottish Government has the option to put in place transitional relief arrangements to help those businesses facing large increases in their rates bills as a result of the 2017 revaluation. Transitional relief caps significant bill increases that would otherwise occur for premises where the rateable value has risen, and enables adjustments to rates bills to be phased in over a number of years. Unlike other reliefs, transitional relief is funded entirely by businesses and is not a government subsidy. This relief can be paid for by those businesses whose property values have decreased over a certain level. These businesses still see a decrease but may not see their full savings until the transitional period is finished. Alternatively, the relief can be funded by a general supplement on all ratepayers. The transitional scheme may run for any number of years during the revaluation cycle. The longer

[1] https://consult.scotland.gov.uk/lgas/2017-non-domestic-rating-revaluation

the scheme, the more gradually increases in bills can be phased in. However, a longer scheme also results in other ratepayers having to wait a longer period of time before receiving the full savings they are entitled to.

1.7 Legislation is required to put transitional relief in place, and the current consultation sought views about whether transitional relief is needed for the forthcoming 2017 revaluation, and if so, how a scheme might operate.

1.8 This consultation was undertaken at the same time that a wider review of business rates in Scotland (the Barclay Review) was being carried out. The remit of the Barclay Review is to make recommendations that seek to enhance and reform the business rates system in Scotland to better support business growth and long term investment and reflect changing marketplaces. This Review will report in July 2017.

## About the current consultation

1.9 The consultation contained four questions, three closed (tick-box) questions and one open question which invited any other comments. Question 1 asked whether the Scottish Government should introduce a transitional scheme for the 2017 revaluation (yes or no). Question 2 asked how long any transitional relief should be in place (offering four choices: no scheme / 3 years / 4 years / 5 years). Question 3 asked how transitional relief should be funded (offering two choices: through a cap on bill reductions, or through a supplement on other ratepayers). Question 4 invited other comments.

## About the analysis

1.10 Both quantitative and qualitative analysis was undertaken in relation to the responses received, with the emphasis on exploring the views of respondents as presented in the comments submitted to the consultation.

1.11 A proportion of the respondents to this consultation submitted ‘non-standard’ responses. These respondents did not use the consultation questionnaire provided, but rather submitted their views in the form of a letter or short report. Where it was clear from the respondents’ comments what their views were in relation to the tick-box questions (Questions 1, 2 and 3), the responses to these questions were imputed during the analysis. Where the respondents’ views on any of the first three questions were **not** clear, the relevant questions were left blank.

1.12 Results of the frequency analysis of responses to the tick-box questions are presented in tables in Chapters 3 and 4 of this report. These tables thus include a small number of imputed responses (i.e. responses derived from the comments provided by respondents who did not submit a completed consultation questionnaire).

1.13 Responses to the tick-box questions provided the framework for the qualitative analysis of the comments submitted at Question 4. Where respondents’ additional comments were not related to any of the first three questions, the analysis of this material has been discussed in Chapter 5 of this report.

1.14 The analysis in this report is based on the responses submitted to the consultation. It is important to note that, given the self-selected nature of the respondents, the views presented here should not be seen as representative of the views of the wider population.

# 2 About the respondents

2.1 This section provides information about the respondents to the consultation.

## Number of responses received

2.2 The consultation received **52 submissions**. Over half (56%; 29 out of 52 responses) were submitted through the Scottish Government's online consultation hub. The remaining responses were submitted by email or post.

2.3 Most of the responses (49) were submitted by organisational respondents; however, three were submitted by individuals. Organisational respondents comprised both private sector and public sector organisations. See Table 2.1 below.

**Table 2.1: Number of responses**

| Respondent type | n | % |
|---|---|---|
| Private sector organisations | 24 | 46% |
| Public sector -- Local government and NHS organisations | 21 | 40% |
| Other organisations* | 4 | 8% |
| Individuals | 3 | 6% |
| **Total** | **52** | **100%** |

* 'Other' organisational respondents included professional bodies.

2.4 Private sector respondents included individual companies, as well as associations or umbrella groups representing a range of private companies in a variety of sectors. Eight of the private sector respondents were companies or organisations representing the energy and renewables industry, and eight were organisations responsible for managing large retail property portfolios. Few of the private sector respondents were small to medium size companies, although a response was received from FSB Scotland (Federation of Small Businesses), a membership body representing the interests of small businesses. A complete list of the respondents to the consultation is included at Annex 1.

## Response rates for individual questions

2.5 As noted in Chapter 1, the consultation contained four questions – three closed (tick-box) questions and one open question inviting further comment.

2.6 All but one respondent answered the first question, which asked whether the Scottish Government should introduce a transitional scheme for the 2017 Revaluation. Depending on their answers to this first question, some respondents did not answer the second or third questions. All but one of the respondents provided further comments (at Question 4) to explain their answers. The response rates for individual questions are shown in Annex 2.

# 3 Should a transitional scheme be introduced?

3.1 The consultation document set out the pros and cons of introducing a possible transitional relief scheme for non-domestic ratepayers. The pros were described as:

- Ratepayers in areas where property values have increased over a certain level will see bill rises phased in over several years.
- There will be no impact on those who otherwise receive 100% relief.

3.2 The cons were described as:

- Ratepayers in areas where property values have decreased over a certain level, who would otherwise see bills fall, do not see the full savings for several years.
- Rates bills become significantly more complex and difficult for ratepayers to understand.
- Schemes are difficult to model and may require adjustments to ensure they are cost neutral.
- Where a ratepayer wins a valuation appeal, they may not see the full benefit for several years.
- Because of a recent legal judgment,[2] at the 2017 revaluation, there may be more properties split into different liabilities than would otherwise be expected and special rules need to apply when premises are split or merged.

3.3 Question 1 asked respondents for their views on whether the Scottish Government should introduce a transitional scheme for the 2017 revaluation.

**Question 1:** Should the Scottish Government introduce a transitional scheme for the 2017 revaluation? [Yes / No]

3.4 Out of the total 52 respondents to the consultation, 51 answered this question. The remaining respondent chose not to reply directly to the yes / no question, but instead provided more general comments, expanding on the pros and cons of introducing a transitional scheme.

3.5 Table 3.1 below shows that nearly two-thirds (63%) of those who replied to the yes / no question, were in favour of some form of transitional arrangements for the 2017 revaluation; 37% were not in favour.

[2] UK Supreme Court Judgment, Woolway v Mazars: https://www.supremecourt.uk/cases/docs/uksc-2013-0117-judgment.pdf

**Table 3.1: Should the Scottish Government introduce a transitional scheme for the 2017 revaluation?**

| | Yes | | No | | Total | |
|---|---|---|---|---|---|---|
| | **n** | **%** | **n** | **%** | **n** | **%** |
| Private sector – energy and renewables | 8 | 100% | – | 0% | 8 | 100% |
| Other private sector | 8 | 50% | 8 | 50% | 16 | 100% |
| Local authorities | 5 | 36% | 9 | 64% | 14 | 100% |
| NHS organisations | 7 | 100% | – | 0% | 7 | 100% |
| Other respondents (incl individual respondents) | 4 | 67% | 2 | 33% | 6 | 100% |
| **Total** | **32** | **63%** | **19** | **37%** | **51** | **100%** |

3.6 Companies in the energy and renewables sector and NHS respondents were unanimously in favour of introducing a transitional relief scheme. There were more mixed views among local authorities and other private sector respondents, although a majority of local authorities were opposed, and companies responsible for managing large property portfolios were unanimously opposed to the introduction of a transitional scheme.

3.7 Most respondents provided comments at Question 4 which explained their reasons for either supporting or not supporting the introduction of a transitional scheme for the 2017 revaluation.

3.8 Among those respondents who indicated support for a transitional scheme, around a third favoured transitional relief for those whose rates bills would be increasing, but they also wanted those businesses whose rates bills would be decreasing to receive the full reductions due to them as soon as possible. These views are discussed below, together with other views in support of a transitional relief scheme.

## Views in support of a transitional scheme

3.9 Respondents who supported a transitional relief scheme included businesses or other organisations anticipating a substantial increase in their rates liability following the 2017 revaluation. These respondents noted that revised valuations had not yet been published. It was argued that a transitional scheme was vital to allow adequate time for businesses to plan for, and manage, their increased rates bills, and that the current challenging economic conditions made it difficult for businesses to absorb unexpected large increases in their costs. Some respondents went further and stated that it was ‘manifestly unfair’ to impose significant increases in rates without allowing those businesses time to plan.

3.10 Respondents in this group also highlighted the length of time since the last revaluation (seven years, rather than the usual five), and the ‘unprecedented economic fluctuations’ seen during this period. Uncertainty arising from BREXIT (the result of the EU Referendum held in June 2016) was also highlighted as an important factor for respondents in advocating transitional relief. Some noted that transitional relief had previously been available in Scotland prior to the 2010 revaluation.

3.11 Private sector respondents argued that any sharp, substantial increase in rates could lead to reductions in future investment, increased costs being passed on to customers and / or job losses. In sectors such as telecoms and energy, increased non-domestic rates therefore would have the potential to impact negatively on the wider population in Scotland (i.e. beyond the business community). Private sector respondents also suggested that without a transitional relief scheme, Scottish businesses could be put at a competitive disadvantage compared to businesses in England and Wales which would have the benefit of a transitional relief scheme.

3.12 One respondent pointed out that, for hotels and other businesses in the hospitality sector (including licensed on-trade businesses), rates are calculated on the basis of business turnover rather than property values. This respondent suggested that, because of this method in calculating rates, businesses in this sector may see a substantial increase in rates (between 30-50% was estimated).

3.13 NHS respondents stated that they were anticipating a substantial increase in their rates bills. (Different respondents thought these increases could range from 10-20%.) This group argued that such significant increases would add to the financial pressures already on front-line services. However, the introduction of a transitional relief scheme would allow these increases to be managed more easily.

3.14 Businesses in the energy and renewables sectors were unanimously in favour of a transitional relief scheme. This particular group of respondents were concerned about the potential for large increases in rates bills at a time when a range of other revenue support mechanisms were being reduced or withdrawn entirely. These changes also coincide with falling profits resulting from (for example) reductions in the cost of installing solar panels, etc. It was suggested that the renewable energy sector was unique among business sectors in Scotland in relation to the dramatic changes there have been in both costs and revenues since the last revaluation.

3.15 As seen in Table 3.1 above, most local authorities were not in favour of transitional relief. However, those who did indicate support for a transitional scheme were concerned that some businesses might be faced with substantial increases in their rates bills and, were these increases to ‘exceed certain thresholds’, it may be necessary to introduce transitional relief to protect a fragile economic recovery.

## Views opposed to a transitional scheme

3.16 Respondents who expressed opposition to transitional relief generally based their arguments on the principle of fairness: transitional relief was seen to be unfair and ‘contrary to natural justice’. Respondents argued that such schemes ‘interfered with market forces’, introduced a system which lacked transparency, and took no account of ability to pay. One private sector respondent thought that such a scheme would be seen as ‘democratically unacceptable’ in relation to any other form of taxation, including Council Tax, Income Tax or Corporation Tax, and suggested that it was unjustified to discriminate against business ratepayers by introducing transitional relief. This same respondent noted that transitional relief relied on one ratepayer subsidising another by means of an arbitrary adjustment to their rates bill and could, in effect, result in one commercial business subsidising a direct competitor.

3.17 Respondents in this group commented that the purpose of a revaluation exercise is to re-distribute the tax base fairly. They argued that transitional relief undermines the relationship between a property valuation and the amount payable as rates – since those businesses assessed as being on too high a rateable value are denied the benefit of a reduction in their rateable value in order to pay for a delayed increase in rateable value for businesses that have been assessed as more profitable. Respondents repeatedly emphasised that transitional relief 'distorts the tax system' and is detrimental to businesses. Several private sector respondents (particularly those engaged in managing large retail property portfolios) also commented that the Scottish Government recognised this, quoting a statement made by the Scottish Government at the time of 2010 revaluation: *'Transitional Relief works by taking money off business who should see savings to subsidise those who see a rise. This is unfair and we want to pass on full savings to businesses*.'[3] One private sector respondent also commented that if the non-domestic properties seeing the greatest increase in valuations are public sector-owned properties (such as schools, hospitals, etc.), that transitional relief might be viewed as the private sector 'subsidising' the public sector.

3.18 Respondents emphasised that, given the challenging economic climate, and the length of time since the last revaluation, it was crucial that those businesses and properties which are due a reduction in their rates should have the full benefit of that reduction immediately. This was seen to be especially important for the retail sector and 'struggling town centres'. It was suggested that some retail businesses have been paying significantly higher rates for longer than they should have (based on values assessed in 2008) and this had caused major distress among these business owners; respondents argued that, depending on the phasing arrangements, these businesses would have to wait a further three years (minimum) to see the full reduction in their rates bills. This was thought to be unfair and 'wrong'. One local authority respondent also noted that many business sectors currently paid no rates at all; therefore, the burden of supporting a transitional scheme would fall on a relatively small number of non-domestic ratepayers. Again, the view was expressed that this was not fair.

3.19 Some respondents also argued that properties which have been revalued at a higher level have already benefited from the two-year delay in revaluation. Moreover, they suggested that, if these properties have seen a significant increase in their valuation, the owners of these properties are more likely to be in a position to sustain an increase in their rates.

3.20 Some respondents suggested that there was little evidence to indicate that transitional relief would benefit ratepayers across all sectors in Scotland; rather it would simply introduce a 'more complex property tax system that is extremely difficult to understand'. Some private sector respondents pointed to evidence from Northern Ireland where there is no transitional

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[3] Respondents referred to a statement which previously appeared on the Scottish Government's website.

relief (unlike in England and Wales), which suggested that the absence of transitional relief would lead to higher levels of occupancy of retail premises.[4]

3.21 While the principle of fairness (as discussed above) was the main reason given by respondents for not supporting transitional relief, other reasons, given less frequently, echoed some of the disadvantages (or 'cons') of the scheme set out in the consultation document. These were that:

- The administration of transitional relief schemes was seen to be complex, onerous and potentially costly for local authorities (in changing / developing IT systems)
- There was the potential for confusion with ratepayers, particularly among those who must pay additional rates to fund the scheme. Confusion may also result from rates bills changing between revaluations, and in situations where subdivision of existing entries in valuation rolls will generate several bills in place of the one currently paid.

3.22 Local authority respondents highlighted a range of issues in their comments. One emphasised that, if a transitional relief scheme was introduced, 'it must be as simple to understand as possible for all concerned, and should be for as short a time as possible'. Another suggested that if a scheme is introduced, transitional arrangements should take into account other forms of rates relief, including the Small Business Bonus, Mandatory and Discretionary Relief, and Disabled and Empty Property Exemptions that some businesses and sectors are already receiving. As discussed above, there was concern that the burden of paying for the scheme should not fall on a relatively small number of businesses. A third local authority argued against transitional relief, but suggested that it may be possible for local Councils to allow ratepayers more time to pay their rates if they need it. In general, local authorities felt that more information was needed before decisions about transitional relief were finalised.

## Other views

3.23 Among respondents expressing support for a transitional relief scheme, some commented that, in principle, they were not in favour of transitional relief for non-domestic rates. However, given the current economic climate and the two-year delay in revaluation, they felt a transitional scheme was necessary at this time. This group advocated more frequent revaluations, or a mechanism for monitoring and adjusting rateable values in sectors where costs and revenues change dramatically between revaluations to avoid the need for transitional relief in future. One private sector umbrella organisation highlighted a specific example in relation to Aberdeen: it was suggested that property values assessed in spring 2015 (the tone date for the 2017 revaluation) were likely to be no longer valid given the recent dramatic changes in the economy of Aberdeen. This respondent suggested that, even if transitional relief is introduced, it may not entirely mitigate the adverse impact on Aberdeen businesses of substantial rates increases.

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[4] These respondents attached several reports including: Savills World Research, Belfast Report, dated February 2016; CBRE Northern Ireland Real Estate Market Outlook, Review of 2016; Lisney Northern Ireland Retail Update 2015 (4th Quarter 2015); and an article by J Cole, in the Estates Gazette, *Northern Ireland leads on revaluation*, dated 24 September 2016.

3.24 Some respondents in both groups (i.e. those in favour of transitional relief and those opposing it) expressed support for the idea of 'upward phasing' for those ratepayers facing particularly large increases to their rates bill (i.e. increases 'beyond the norm') but, crucially, they did not think this should be subsidised by ratepayers whose properties had been revalued at a lower level. Alternative options for funding transitional relief were suggested:

- Large increases in rates should be dealt with on a case-by-case basis using existing relief schemes (including hardship and discretionary powers available under the Community Empowerment (Scotland) Act 2015)
- Rates relief should be funded by the Scottish Government (not other businesses) as a practical way to support economic growth, and because of the increased liability which has resulted from the postponement of the 2015 revaluation.

3.25 It was suggested that any reliefs or exemptions relating to non-domestic rates should be underpinned by a clear and co-ordinated government policy, and should be thoroughly costed and risk assessed before implementation. It was further suggested that any relief or exemption should adhere to European 'State Aid' rules.

3.26 NHS respondents were unanimously in favour of a transitional relief scheme, and said that, should it be introduced, the following issues should also be addressed:

- Transitional relief should be applied to the property, not the occupier. An example would be if a health centre is occupied by a primary care practice, which subsequently vacates the property. If the NHS Board takes over the running of the centre, any transitional relief received by the former occupier should continue to be received by the NHS Board.
- New NHS properties are currently being constructed. If transitional relief only applies to **existing** properties (those in place as of 1 April 2017), then properties under construction and completed after this date could be paying substantially more in rates compared to similar properties. There was concern that these new properties could be faced with the requirement to fund a transitional relief scheme while receiving no relief themselves, due to the timing of their completion.[5]

## General comments

3.27 Respondents made a range of more general comments.

- As noted above, some respondents stated that they found it difficult to assess the impact of options set out in the consultation document without knowledge of the draft rateable values. It was also noted that announcements about the rates poundage, the large business supplement and other reliefs are unlikely to be made until the autumn budget in December. There were frequent calls for any decisions about transitional arrangements to be delayed until further information is available on all these issues.

[5] This issue was also raised by one of the private sector respondents, and it applies equally to other newly constructed properties.

- It was noted that rates reliefs and exemptions can have unintended consequences. For example, it was suggested that where rates are low, rents are often high as a result. Thus, it can be the landlord of the property rather than the occupier who receives the benefit of rating reliefs as they are able to take advantage of the situation by increasing rents.

# 4 Length of transitional period and method of funding

4.1 The consultation document discussed different options for how transitional relief might be implemented and funded.

4.2 It noted that the longer the scheme runs, the more gradually the increases in rates can be phased in. However, an extended scheme would also result in other ratepayers having to wait longer before receiving their full savings. If two schemes run consecutively for the entire revaluation period, a small number of ratepayers may never see the full increase or savings that are due to them.

4.3 The consultation document made it clear that transitional relief – unlike other reliefs – is funded entirely by businesses and is not a government subsidy. The consultation set out two options for funding transitional relief. These were:

- Through phasing in reductions in rate bills arising from the revaluation (i.e. through caps on annual reductions)
- By levying a supplement on ratepayers not receiving transitional relief.

4.4 The consultation gave examples of how both these options might work in practice, and set out the 'pros' and 'cons'.

4.5 Question 2 of the consultation asked respondents for their views on how long any transitional relief should be in place, and Question 3 asked for views about how any transitional relief should be funded.

**Question 2:** Do you have any views on how long any transitional relief should be in place? [No scheme / 3 years / 4 years / 5 years]

**Question 3:** Do you have any views on how transitional relief should be funded? [Cap on bill reductions / Supplement on other ratepayers]

## Length of transitional relief

4.6 Fifty respondents replied to Question 2, with 46 indicating a preference for one of the options offered (See Table 4.1). Two respondents did not tick any of the options, but offered general comments only. Two others suggested a range of years as a timescale: i.e. 3 to 4 years in one case and, in the other, 3 to 5 years 'depending on the level of rates increase'.

4.7 Table 4.1 shows that 19 respondents (all of whom were opposed to a transitional relief scheme (i.e. they answered 'no' to Question 1) selected 'No Scheme' in response to Question 2. Altogether, 27 respondents selected one of the other options provided. The table shows that, among this group, views were divided – although a slight majority (16 out of 27) were in favour of a three-year transition period.

**Table 4.1: Do you have any views on how long any transitional relief should be in place? (Number of respondents)**

| | 3 years | 4 years | 5 years | Total | No scheme |
|---|---|---|---|---|---|
| Private sector – energy and renewables | 5 | – | 2 | 7 | – |
| Other private sector | 3 | – | 2 | 5 | 8 |
| Local authorities | 5 | – | – | 5 | 9 |
| NHS | – | 1 | 5 | 6 | – |
| Other respondents (incl individual respondents) | 3 | – | 1 | 4 | 2 |
| **Total** | **16** | **1** | **10** | **27** | **19** |

4.8 All of the local authorities supporting a transitional relief scheme, and most of the organisations from the energy and renewables sector were in favour of a 3-year scheme (or shorter). All of the NHS organisations wanted a longer (4- or 5-year) scheme.

## Views on the length of transitional relief

4.9 Among those who indicated support for a three-year transition period, 14 offered further comments, giving the following reasons for wanting a relatively short timeframe:

- A short transition period would allow the transition to expire, and for ratepayers to adjust to their revised costs for a few years well in advance of the next revaluation.
- The timescale would be long enough to allow companies to plan for their eventual rate, but short enough to deliver rate reductions swiftly to those who are entitled to them.
- A longer period (of 4 to 5 years) would undermine the purpose of revaluation.
- A shorter transition period would allow for flexibility in revaluation timescales in the future. This comment was made in the context of a call for reducing the period between revaluations. Some respondents specifically stated that the transition period should align with the findings of the Barclay Review regarding (future) revaluation cycles.

4.10 It should be noted that a few of those who selected '3 years' in response to this question explicitly stated that they would prefer a shorter timescale – of 1 to 2 years.

4.11 Among those who indicated support for a 4- or 5-year transition period, four respondents offered further comments to explain their preference:

- Given the likely substantial increase in the rateable value of some businesses, a longer timescale would allow for a period of adjustment, and give protection to customers from increased charges.

- Any transitional scheme in Scotland should have the same duration as the scheme in England (i.e. 5 years) to maintain Scotland's competitiveness with the rest of the UK.
- Regulatory price reviews for many utilities occur every five years, so a 5-year transitional rates relief scheme would ensure the greatest stability in prices and help maintain investment plans.

4.12 One respondent, who indicated support for a 5-year timescale, made the point that this choice was based on assumptions about rate increases, and once the details had been published, it would be easier to comment on whether a scheme was needed and how long it should run.

4.13 Among those who indicated that they opposed a transitional relief scheme (i.e. the 19 shown as 'No scheme' in Table 4.1 above), ten (two local authorities and eight private sector respondents) went on to provide further comments. The local authorities expressed the view that if a transitional relief scheme was introduced, it should not extend beyond three years. The private sector respondents stated simply that it 'should be for as short a period as possible'. This latter group expressed concern that any downward phasing could, in effect, result in rates bills continuing to be linked to the 2010 rateable values until 2020 or beyond. In the views of these respondents, this was not acceptable.

4.14 A more general view, expressed by one respondent, was that the scheme should be run over a sufficient period to support those who will have significant increases in their rates, while also allowing those who should be receiving a rate decrease to benefit from this immediately.

## Method of funding the scheme

4.15 Respondents were asked for their views about how transitional relief should be funded: through a cap on bill reductions or a supplement on all other ratepayers.

4.16 Forty-one respondents answered this question. Table 4.2 shows that there were mixed views among the 31 respondents who expressed support for one of the two options offered, although a small majority (19 out of 31) favoured a supplement on other ratepayers. Ten respondents explicitly stated that they either did not want a transitional scheme (and so were not in favour of either option), or they suggested that the scheme should be funded differently and they suggested a third option. Nine of the respondents in this latter group were private sector companies who had previously indicated they were not in favour of transitional relief. The remaining (one) respondent in this group argued that the Scottish Government should fund transitional relief as a subsidy on this occasion. This would reduce uncertainty and complexity for ratepayers whose bills would be reducing, and it would contribute to business and economic growth by supporting those ratepayers facing the greatest increases in their rates liabilities.

**Table 4.2: Do you have any views on how transitional relief should be funded?**

| | Cap on bill reductions | Supplement on other ratepayers | Total | Neither |
|---|---|---|---|---|
| Private sector – energy and renewables | 3 | 4 | 7 | – |
| Other private sector | – | 4 | 4 | 9 |
| Local authorities | 7 | 1 | 8 | – |
| NHS organisations | – | 7 | 7 | – |
| Other respondents (incl individual respondents) | 2 | 3 | 5 | 1 |
| **Total** | **12** | **19** | **31** | **10** |

4.17 Companies in the energy and renewables sector were divided on this question while other private sector respondents preferred a supplement on other ratepayers. Among public sector respondents, local authorities generally favoured a cap on bill reductions, while NHS organisations preferred a supplement on other ratepayers.

4.18 Respondents who advocated a 3-year transitional relief period were equally divided in relation to whether the scheme should be funded by a cap on bill reductions or a supplement on other rate payers. By contrast, those who advocated a five-year scheme largely supported a supplement on other ratepayers as the fairest way to fund the scheme.

## Views in support of a cap on bill reductions

4.19 Of those who favoured a cap on bill reductions, very few gave a reason for this preference. Those who did thought that, although a supplement would be easier to administer, a cap on reductions would enable the impact on those ratepayers most disadvantaged through the revaluation to be mitigated by those ratepayers who would be receiving the greatest benefit through revaluation. However, one respondent said that further detail was necessary to be able to respond to this question on an informed basis.

4.20 Another respondent favoured a cap on bill reductions as ‘the fairest way to implement transition’. However, this respondent also proposed an alternative to the mechanism discussed in the consultation document as follows: for small businesses (for example, those with a rateable value of less than £20,000), there should be an upwards cap on transition, but no downwards cap. This respondent proposed that the ‘relatively minor cost’ of such a mechanism should be funded by the Scottish Government as a subsidy as a sign of support for small businesses. For businesses above this size, both the upwards and downwards caps should be cost neutral.

## Views in support of a supplement on other ratepayers

4.21 Those who supported a supplement on other ratepayers generally argued that this was a fairer mechanism for funding transitional relief than a cap on bill reductions. Respondents considered that a supplement would enable:

- The cost of funding the scheme to be spread across **all** ratepayers, rather than only those whose rates bills are reducing.
- Those businesses assessed at a lower valuation to benefit from their lower rates immediately.

### Views of those not in support of either option

4.22 As noted in paragraph 4.16 above, 10 respondents who were opposed to transitional relief specifically said that they supported neither a cap on bill reductions nor a supplement on other ratepayers. This group considered that a cap on bill reductions 'penalises those businesses who need assistance most', and that the imposition of a supplement was an 'indiscriminate' additional cost and therefore also unacceptable.

4.23 However, nearly all of the private sector respondents who held these views then went on to state that if transitional relief was nevertheless introduced, a supplement on the rate poundage would be preferable to a cap on bill reductions as it 'would dilute the impact across all properties'.

## Other issues raised by respondents

4.24 Occasionally, respondents in favour of transitional relief offered specific comments about the phasing of increases. One suggestion was that phasing arrangements should run for five years and align with those in England.

# 5 Other comments

5.1 There was a recurring view among respondents that any transitional relief scheme, if introduced, should not prevent necessary wider reforms to the non-domestic rates system currently being considered by the Barclay Review. Some respondents – in addition to their comments regarding the first three questions in the consultation – also made a range of other comments at Question 4 which were related to this wider review. Most, though not all, of these comments were made by private sector companies or umbrella groups.

5.2 This chapter provides a brief summary of the main points raised. Respondents often stated that they had submitted these same comments directly to the Barclay Review. The most common themes were that:

- A lack of flexibility in the non-domestic rates system was seen to be a significant problem in a time of great economic uncertainty. There were calls for more frequent (3-yearly) revaluations, with a tone date set no earlier than one year preceding the revaluation. Respondents repeatedly stated that this would enable the business rates system to respond more effectively to changes in local markets, and would benefit businesses by avoiding large fluctuations in rates at each revaluation. Respondents did not see high levels of rates as a problem if these accurately reflected property values. However, sudden increases, or prolonged billing at an inappropriately high level was seen to be damaging for businesses.
- Following on from the previous point, draft Valuation Rolls should be published at least six months before revaluation to allow businesses sufficient time to consider the impact and take action to mitigate any large increases in their rates bills.
- There were concerns about the differences in the administration of non-domestic rates in England and Scotland. These differences related not only to the availability of transitional relief, but also in the decapitalisation rate and the Large Business Supplement. Because of these differences, respondents believed that the non-domestic rating system in Scotland was becoming increasingly uncompetitive for businesses compared to England.
- There was too much complexity in the non-domestic rates system and there were calls for the system to be simplified. Various respondents commented that legislation governing rates is spread over many different Acts and Regulations, and was considered to be ‘virtually indecipherable’. Respondents also often referred to the legal case, Mazars v Woolway, and – while they were unclear about the precise nature of the impact of this case in Scotland – they nevertheless anticipated that it would introduce further complexity into the system.

5.3 Other comments, usually made by just one or two respondents, included that:

- Non-domestic rates should be returned to local government control to ensure a more democratic link between local spending decisions regarding services and the businesses that pay for those services.
- In future revaluations, new investments in plant and machinery should be exempt from rates to encourage productive investment.

- There was also a more general point made that the rates system, like other taxation, should encourage investment and economic growth to benefit the wider Scottish economy.

# Annex 1: Consultation respondents

## Private sector respondents (24 total)

### *Private sector – energy and renewables companies and representative bodies*

- British Hydropower Association Limited
- EDF Energy
- Energy UK
- Scottish Renewables
- Solar Trade Association
- SSE plc
- UK Petroleum Industry Association
- One response submitted as not for publication

### *Private sector – other representative bodies*

- British Holiday & Home Parks Association
- British Hospitality Association, Scotland (BHA)
- Federation of Small Businesses (FSB) Scotland
- Scottish Business Ratepayers Group (SBRG)
- Scottish Property Federation

### *Other private sector companies*

- BT Group Plc
- CBRE Ltd
- Crosslands Properties Limited
- GL Hearn Limited
- M&M Property Asset Management LLP
- Orion IV European 16 SARL
- Scoop Asset Management Limited
- Sovereign Centros
- Three responses submitted as not for publication

## Public sector respondents (21 total)

### *Local government*

- Argyll and Bute Council
- City of Edinburgh Council
- COSLA
- East Ayrshire Council
- East Dunbartonshire Council - Rates Administration Team
- Falkirk Council
- Fife Council
- Glasgow City Council
- Highland Council
- North Ayrshire Council
- Renfrewshire Council
- West Dunbartonshire Council
- Two responses submitted as not for publication

### *NHS*

- NHS Ayrshire & Arran
- NHS Forth Valley
- NHS Grampian
- NHS Greater Glasgow and Clyde
- NHS National Services Scotland
- NHS Shetland
- A response on behalf of all 22 NHS Boards in Scotland

## Other respondents (7 total)

- Rating Surveyors' Association (RSA)
- Royal Institution of Chartered Surveyors (RICS)
- Scottish Assessors Association
- The Scottish Association of Universities Director of Estates (SAUDE) and The Scottish Universities Advisory Group on General Practice, Valuation and Rating (SUAGGPVR)
- Three individual respondents

# Annex 2: Response rates to individual questions

| Consultation question | | Number | % of total responses (52) |
|---|---|---|---|
| Q1 | Should the Scottish Government introduce a transitional scheme for the 2017 Revaluation? [Yes / No] | 51* | 98% |
| Q2 | Do you have any views on how long any transitional relief should be in place? [No scheme / 3 years / 4 years / 5 years] | 50* | 96% |
| Q3 | Do you have any views on how transitional relief should be funded? [Cap on bill reductions / Supplement on other ratepayers] | 41* | 79% |
| Q4 | Do you have any other comments about transitional relief?] | 51 | 98% |

* Note that the response rates shown above for Questions 1-3 include imputed responses. This is where the respondent did not complete a copy of the consultation questionnaire, but rather their responses to the first three consultation questions have been inferred from their comments.

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