BUSINESS RATES

2022 Rating List

RICS

LEEDS LONDON MANCHESTER NEWCASTLE BELFAST

DUNLOP HEYWOOD

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BUSINESS RATES

TIMELINE OF EVENTS

Preparations for the 2022 rating revaluation are well under way.

Here is an illustration of the stages from commencement to publication of a new rating list on 1st April 2022.

Statutory questionnaires seeking rental, cost and income data to assist the valuation of 1.8 million properties are already in circulation.

These documents are critical to determining the levels of assessment to be applied and should be completed with care. The VOA is approaching some ratepayers direct particularly where they hold building cost information for specialist property such as airports.

1 April - 31 December 2019

The Valuation Office Agency have devised schemes to adopt in valuing all categories of properties.

Representations can be made to the VOA in order to influence their approach, especially for non-bulk properties, up to the publication of the new list.

May 2020

The government announce postponement of the 2021 Revaluation.

See Dunlop Heywood's published advice.

March 2021

New 2021/22 rate bills arrive.

The last bills for the 2017 Rating List. The liabilities set will form the basis of any transitional rates relief scheme.

January 2020 - June 2020

The VOA may review their completed 2022 rating list.

30 September 2021

Draft 2022 rateable values are published. These need to be checked for clear factual errors and provide the basis for budgeting and decisions on appeal.

Representations can be made to the VOA in order to influence their approach.

Autumn/Winter 2020

Announcement on the UBR multiplier for 2021/22 and any transitional adjustment arrangements.

At this stage accurate budget estimates for financial year 2021/22 can be provided.

Autumn/Winter 2020

The VOA will seek to clear outstanding 2017 Rating List appeals.

1 April 2022

The new rating list is published.

Appeals can be submitted after 1st April 2022.

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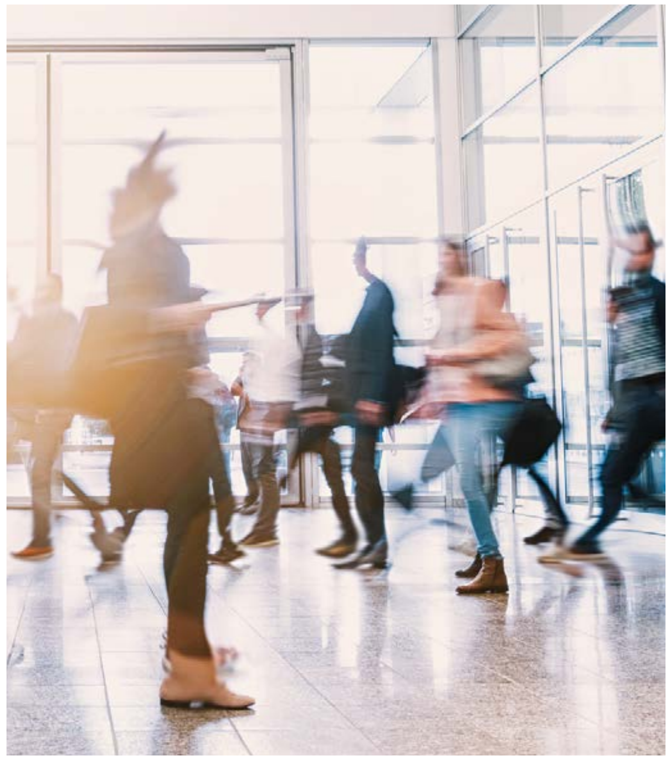

NON-DOMESTIC RATES - ENGLAND AND WALES

The 2021 Rating Revaluation has been postponed and unless things change the current legislative date for the Revaluation is now 1st April 2022. This is because the Local Government Finance Act 1988 s.41(2) requires 5-yearly revaluations and the current rating list was compiled on 1st April 2017.

The valuation date for the Revaluation has already been set in law as 1 April 2019 (see The Rating Lists (Valuation Date) (England) Order 2018) so that is the date the Valuation Office Agency has been working to for the new rating list.

The non-domestic rating revaluation is underway with new Rateable Values to be implemented on 1st April 2022 in England & Wales. These will be based on rental values at 1st April 2019.

- The Revaluation is postponed not cancelled.
- The Valuation Office Agency has largely completed the Revaluation and the date for the Revaluation has been passed in law as 1.4.2019.
- Postponing the Revaluation potentially leaves many assessments artificially high.
- The current law means sticking to a quinquennial Revaluation meaning England & Wales will fall into line with Scotland with the Revaluation being introduced from 1.4.2022.
- **Successful Covid-19 appeals will impact Revaluation assessments making them even more important despite the rates holiday many are enjoying in 2020/21.**

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After four years of the 2017 Rating List, from 1st April 2022 rateable values will be based on rents as at 1st April 2019.

As with previous rating revaluations there will be winners and losers with the introduction of the 2022 Rating List but this time around we believe more businesses will benefit than lose.

Current legislation is actually designed to ensure constant revenue in real terms when new rating lists are introduced, regardless of what is happening in the economy.

So, despite a collapse in demand and market rents in some parts of the country, to date there has not been a new rating list to re-balance the tax base. Over recent years many have called for a major overhaul of the rating system.

We have seen some rental incomes bounce back from the recession-hit years to the valuation date (1 April 2019) but the Covid-19 pandemic has caused a very significant economic crisis. Despite best efforts by Government, rental values are likely to crash. As a result, unless the Valuation Office Agency take action to reflect the effects of Covid-19, assessments will be artificially high.

Currently, business rates increase each year in line with the CPI. In the long term this system would be fairer if the annual increase truly reflected economic growth.

Whilst in many areas rents have stagnated or dropped, overall the CPI has continued to rise, albeit slowly.

There will undoubtedly be some transitional arrangements introduced in England with the new rating list to soften the blow for businesses facing large increases in business rates liability. Usually this takes the form of phased increases but as the system has to stay 'fiscally neutral', in the Chancellor's own words, then those phased increases in liability are usually paid for by those who would otherwise enjoy business rates liability reductions; the very same who have arguably been over paying in recent years!

Boris Johnson has pledged to reduce the burden of business rates and so some anticipate a reduction in the rating multiplier (UBR) following the rating revaluation may occur.

Put simply, a ratepayer's liability arises by multiplying their rateable value (RV) by the appropriate rate in the pound, currently the Uniform Business Rate (UBR). The change at each revaluation is the re-basing of rateable values forming the rating list based on the new valuation date.

RETAILERS – LIMITED RELIEF

The retail sector in particular has been very vocal in its calls for a rebalancing of the business rates burden.

Some of the heat was removed from the issue, with the Government's announcement in 2020 a rates holiday for 2020/21 for small businesses and those in the retail and hospitality sectors.

Whilst broadly welcomed as a step in the right direction, the problems on the high street are real and visibly affecting large retailers as the structural change in retailing continues where we all continue to purchase goods online. These issues have developed into a severe crisis with the effects of Covid-19.

Regionally, we have also seen some polarisation of areas that sit almost side-by-side. The delay of the 2021 Revaluation will postpone those corrections.

Other areas were set to benefit from substantial decreases in Rateable Value.

Birmingham, for example, has seen its High Street become more marginal since the successful re-development of the Bullring and the Grand Central scheme above its New Street Station.

INDUSTRIAL AND LOGISTICS

The industrial sector overall had not been affected as badly as retail and the market had weathered the storm rather well since 2015 to 2019.

As a result, any transitional phasing will not hit the sector as hard, with upwards phasing much more limited.

Should the Government take action to reduce the UBR to give some recognition to the effects of Covid-19, industrial and logistics properties could expect to see business rate liabilities stabilise in 2021.

Those specialised industries whose Rateable Values are set using the Contractors' Basis of valuation will generally see increases as costs of construction have generally increased by 1st April 2019. This will be seen as unrealistic and unfair in industries that have declined, such as the steel industry, where large amounts of plant and machinery are rateable – i.e. being valued by reference to cost and then amortised to find Rateable Value using a statutorily prescribed single percentage. Overall, an unjust system?

OFFICES

Parts of London are forecast to see dramatic rises in business rate liability based on a 1st April 2019 valuation date, this will be no surprise.

Outside of London, the position of the regions is very different with some areas only recently returning to growth and many others still years away from returning to pre-2008 levels – good news as far as new Rateable Values are concerned.

The picture illustrated by Grade A stock do not reflect a wider, catch-all picture. Older or less well-placed properties could easily have been in the falling rents category since 2015 and Grade B premises will not have necessarily seen the same double digit percentage rises seen by Grade A stock.

The effects of Covid-19 has caused a dramatic change in working practices. These changes are likely to have a dramatic change in the demand for offices and in the end, rental values. Action must therefore be taken by landlords and occupiers to challenge assessments.

TRANSITIONAL RATES RELIEF

The rebalancing of the business rates' burden in England will not occur if the transitional provisions that applied for the 2017 Rating List are simply re-applied when the 2022 Rating List is introduced.

The rating revaluation does not solve a lot of the problems still facing retailers and other businesses. Any change in liability as a result of the 2022 Rating List are likely to be gradual rather than a seismic shift. Some areas facing potentially large increases in liability are much better equipped to weather the oncoming rises. International luxury brands that have a global presence and liquidity can move around territories to cushion any immediate hit on just one of its many flagship stores.

The 2021 List will exaggerate the cost differential between regions making some centres more attractive in the short term when compared to London or the South East.

London has never been a cheap retail option but it has been used successfully to establish and then springboard new international brands into the UK market. It remains to be seen if it will continue to attract new market entrants or if we will see retail flight to our European neighbours following Covid-19 and Brexit.

DEVOLUTION – THE DEVIL OR THE DEEP BLUE SEA

The 2016 Budget changes to business rates had serious implications for the devolution of this tax to Local Authorities.

With the removal of an estimated 600,000 properties from liability for business rates, a significant amount of revenue has been taken out of Local Authority budgets.

Business rates are devilishly difficult to understand and there will be even more uncertainty in the markets as we work our way through the likely transitionary minefield.

Changes likely to be announced in future Budgets are also unlikely to result in a significantly reduced UBR.

Local discounts to the UBR will only occur when the Local Authorities have sufficient revenue buoyancy from additional Rateable Value after 2022. Until then, Local Authorities are unlikely to forego this revenue.

Devolution may help to cut the need for larger Local Authorities to go cap in hand to Whitehall, but smaller less wealthy areas will still need assistance.

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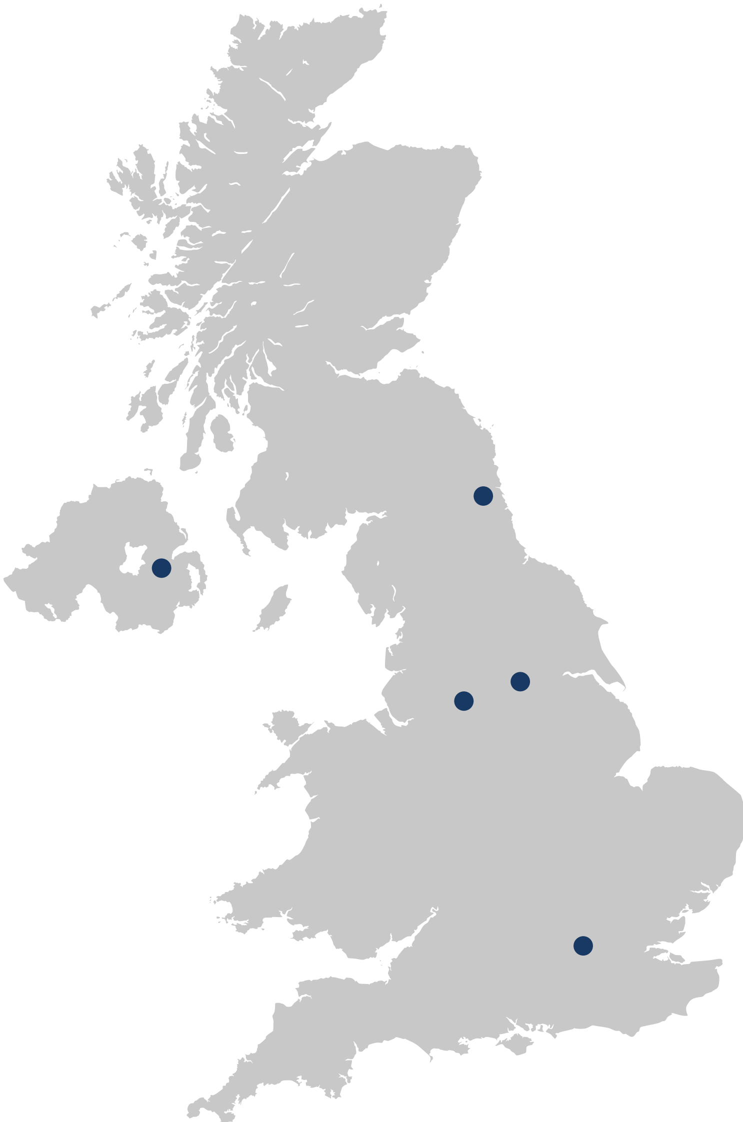

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