

## **Frequency of Valuations – Technical Annex**

### *Introduction*

1. This paper provides an overview of some of the issues associated with adopting more frequent revaluations.
2. Revaluations do not raise more revenue, as the multipliers or poundage rates (expressed in pence per pound of rateable value) adjust accordingly. It merely redistributes the overall amount of revenue or yield that is required in a different way. There are, therefore, always winners and losers from the process although the bills of many ratepayers will not change much.
3. A revaluation is a re-assessment of annual value (known as net annual value or NAV) of every property entered in the Valuation List. These are the values used to calculate individual rate liability. The assessments are derived from evidence of available open market rents. The rental evidence is analysed, broken down and applied with appropriate adjustments to all 73,800 properties (whether rented or owned) to ensure everyone is valued on a consistent basis, to a common valuation date. This consistency is essential given the nature of the rating valuation system which, in essence, merely operates as a distribution mechanism for calculating individual rate bills - in order to raise whatever level of rate revenue the Assembly and local councils have already budgeted for to help pay for public services in the year ahead.
4. It is not the absolute level of rents in any one year that drives changes in rate bills at a revaluation. If all market rents rise or fall by broadly the same level, however great, then there would be no point in revaluing as bills for everyone would stay the same. This is because the multipliers or poundage rates would be increased or decreased accordingly, to keep the total required yield constant. However, the property market does not behave in this way in the real world. Values for different localities and types of property move at different rates and even at times in different directions. So values change by different amounts for different properties, with significant variances between sectors and between and within regions. These variances are picked up at a revaluation which leads to changes in most individual rate bills, even though the total tax yield remains constant in real terms. This snapshot of rateable values or NAVs at a fixed valuation date, the Valuation List, is maintained as the basis of calculating individual bills until the next revaluation occurs, when a new Valuation List is drawn up.
5. Having more frequent revaluations will result in rateable values maintaining a closer relationship with open market rental values, thus better reflecting prevailing economic circumstances and market conditions. Clearly this does not translate into reflecting the financial standing of individual businesses but

what it does is better represent the relative success or decline of particular sectors or trading locations over time.

6. One of the difficulties associated with the recent revaluation was the gap of 12 years since the last revaluation in 2003. In the intervening period market rents became increasingly out of line with rental values and therefore the realignment required in some circumstances was considerable. The shops in Donegall Place, Belfast are a good illustration of the effect this had.
7. Revaluation, however, has a cost associated with it. The **2015 revaluation cost DFP around £7m**, of which over 90% was attributable to LPS staff costs. The administrative cost to business is mainly around the completion of forms of return, which many ratepayers have the option to submit on-line to LPS with rental details. Some specialist sectors have to provide trading information. This excludes the costs of handling appeals, which currently represent about 3% of rateable properties against their new assessments from the 2015 revaluation.
8. In practical terms, a revaluation could not be completed before 2019 in any case, so the issue is one for **longer term consideration**. To the Department's knowledge, no one considers the current irregular revaluation pattern to be acceptable. The options range from having revaluations every 10 years down to every year. Realistically speaking, any more than 5 years is too infrequent, every year is probably too frequent. The Department current view is that every 3 or 4 years is best but this consultation will better inform any decisions made on this issue.
9. Furthermore, **change can be incremental or gradual**. For example there could be another revaluation undertaken for 2019, which is a 4 year gap, followed by another one 3 years later in 2022, which is the likely date of a revaluation in the rest of the UK. **Harmonising with the rest of the UK** is not essential but it is something favoured by business organisations representing 'national multiples', particularly retail, as this allows them to manage the processes of providing information and appealing assessments, as well as allowing a direct comparison to be made between levels of business rates here and in the rest of the UK. There are also economies for LPS.
10. Whatever pattern is decided in the light of this consultation, the Department favours this being **written into legislation** (as is the case in the rest of the UK) to ensure it is regarded as and becomes part of the normal rating activity cycle, rather than the current uncertain situation where it needs full Executive approval to proceed. This would not inhibit the Executive and Assembly taking through legislation to delay a revaluation should any circumstances arise that merit postponement. Views on this proposal are also welcome.

## *Main considerations*

11. More frequent revaluations will of course be more **resource-intensive** than less frequent revaluations, simply as a result of there being more revaluations. However, the more frequent revaluations become, the less expensive each one is, due to system improvements and efficiencies, which may include a lower level of enquiries and challenges.
12. 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.
13. However, analysis undertaken by the Valuation Office Agency (VOA)<sup>[1]</sup> in GB concluded that more frequent revaluations would increase the responsiveness of bills but only to relative changes in rental values. The analysis found that more frequent revaluation would only increase the stability of bills when the property values across the market follow a steady trend. However, the evidence suggested that significant parts of the commercial market have rents that follow a cyclical pattern and that these cycles do not necessarily repeat with the same frequency. This analysis was not extended to Northern Ireland and it is doubtful whether the same results would be applicable here. Aside from the near collapse of the NI property market in 2008/09, NI has tended not to experience the spectacular highs and lows found in many parts of GB over the past 30 years or so. Therefore, hitting different phases of the property cycle is potentially less of an issue.
14. Another issue concerns changes that occur in a town or city between revaluations, such as the building of a new shopping centre, as this affects positively or negatively the rental patterns. Some have suggested in the past we should amend rating law in line with rest of the UK so that such changes could be considered to be **material change in circumstances** and taken into account, making the Valuation List more flexible between general revaluations. This is an issue of equity and fairness but is not a feature of the GB business rates system that can be readily imported to Northern Ireland. Flexibility for ratepayers means instability for government finances, particularly local councils. Unlike local authorities in the rest of the UK which are largely grant funded, councils here receive most of their financing directly from rates. It is appreciated, however, that greater localisation of business rates in GB will be happening in the future and this is an issue that will have to be reconsidered. Its relevance in the context of

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[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/387232/business\\_rates\\_administration\\_annex\\_a\\_12122014.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/387232/business_rates_administration_annex_a_12122014.pdf)

frequency of revaluations is that it is another point in favour of much more frequent revaluations.

15. There is also an issue of the time difference between the **valuation date** and the first billing date under a new Valuation List. Traditionally the valuation date is 2 years prior to billing, to allow for all the market analysis and valuation work to be undertaken. This time difference does mean, however, that the Valuation List is a little out of date by the time the bills issue. There are some practical reasons why the gap cannot be shortened significantly, not least the lag in obtaining evidence of rents and rent reviews and the desire to release draft values as early as possible, however, there may be scope to reduce it by a few months if there were to be more frequent Revaluations.
16. Finally, it is also worth noting that business organisations, such as CBI (NI) and the Northern Ireland Independent Traders Association favour revaluations every 3 or 4 years, if it can be undertaken cost effectively.

### *Conclusion*

17. The case for regular revaluations is not the issue, as no one has ever expressed the view that revaluations every few years are unnecessary. **The issue is their frequency.** 5 years has been the norm in the rest of the UK for many years - except for their forthcoming Revaluation in 2017 which was delayed for 2 further years, on 'national interest' grounds due to exceptional changes in the commercial property market (notably the collapse in London Office rents which would have created many more losers than winners had the planned 2015 Revaluation in England gone ahead), circumstances that are unlikely to repeat themselves.
18. If the current system of business rates continues, the case for having revaluations much more frequently in NI is a strong one but there is a cost and it does reduce stability and certainty for non domestic ratepayers. The outcome of this consultation will be particularly important in deciding the matter.