



# **The transitional arrangements for the non-domestic rating revaluation 2010 in England**

**Department for Communities and Local Government  
Consultation Document**

## Executive Summary

BT welcomes the opportunity to respond to the Department for Communities and Local Government's (DCLG's) consultation issued on 8 July 2009. This response gives answers to the four questions raised and presents BT's preferred option.

BT understands the need for some form of transition to smooth the costs for those whose bills have increased significantly. But transition introduces unfairness into the rating system: it provides support for one set of ratepayers at the expense of others.

BT believes that the provision of such relief is in the wider public interest and, therefore, that it should be funded by general taxation and not from other ratepayers, though current legislation prevents this. BT urges DCLG to revisit this issue and consider widening the consultation accordingly.

Within the limited scope of this consultation, BT's answers to DCLG's questions can be summarised as follows:-

- **Questions 1 and 2:** BT can see merit in continuing to provide transition relief to ratepayers whose bills increase significantly. However the current scheme of differentiating by reference to rateable value (RV) is flawed and should be radically overhauled:-
  - there is no evidence that lower caps for properties with lower RVs assist the occupiers of those properties in terms of overall long run occupation cost;
  - RV thresholds are a poor proxy for identifying small businesses, which these provisions purport to assist.

In the absence of any such radical overhaul, BT believes that the caps should be the same for all properties.

- **Question 3:** BT believes that a period of four years is adequate for the provision of transitional relief. That allows sufficient time for businesses whose bills have increased to plan for the effects of those increases and bear the proper cost of their occupation. This removes the likelihood that transition arrangements would affect arrangements for the next list. It also reduces the duration of these unfair arrangements.
- **Question 4:** BT does not believe that ratepayers whose bills reduce are the beneficiaries of a revaluation. Making these ratepayers fund transition relief would add insult to historic injury and cannot be justified. It is those who bills qualify for relief who are the real beneficiaries of revaluation. In the absence of moves to fund relief through general taxation, BT believes the fairest way to proceed would be for all ratepayers not qualifying for relief to contribute. BT strongly believes that transition should be financed by a supplement payable by all other ratepayers, **not** by downward caps on reduction in bills.

BT's preferred option is, therefore, an adaptation of Option 2 where the caps are the same for all properties, regardless of rateable value, with transition relief funded by a levy on all ratepayers not qualifying for relief. This would be the least unfair option for what is an inherently unfair set of arrangements.

# Main Response

## 1. Introduction

DCLG's consultation paper seeks views on options for transition arrangements over the life of the next rating list, from 1.4.2010, in England. The paper raises 4 questions and presents 4 main options for consideration.

This response is structured as follows:-

- Section 2 covers BT's general comments on transition schemes and in particular questions some of the implicit and explicit assumptions within the consultation.
- Section 3 provides answers to the 4 questions that DCLG raise.
- Section 4 gives BT's preferred option based on the arguments made in Sections 2 and 3.

## 2. General Comments

### 2.1 Who benefits from revaluation?

Some form of transition has been in place since 1990. BT understands the rationale for providing transition relief for ratepayers whose bills would otherwise show a marked increase following a revaluation. Businesses need time to react and plan for these changes and challenge where appropriate.

The consultation makes several references to ratepayers whose bills reduce and who, in DCLG's words "benefit from the 2010 revaluation". DCLG argues that it is these ratepayers who should be asked to fund the costs of transition. BT disagrees.

DCLG observe in paragraph 3 of the consultation that "...the purpose of revaluation is to redistribute the rates burden having regard to the new values." The inherent logic of the rating system in England is that ratepayers contribute to the rates pool by reference to the net *annual* value (NAV) of the hereditaments that they occupy. However, rateable values are rebased only every *five* years so it is only at that stage that ratepayers are paying based on the NAV of their properties.

Between revaluations NAVs will change - and by varying amounts. A ratepayer whose NAV has gone up by less than the average will be contributing at a level higher than if revaluations took place more frequently than every five years. A ratepayer whose NAV has gone up by more than the average will be paying less. It is only every five years, at revaluation, that bills are reassessed and the relative movement of NAVs is taken into account.

DCLG's view that ratepayers whose bills decrease are the beneficiaries of revaluation is therefore inappropriate and misleading. In fact, the constraints of the rating system have led to these ratepayers being disadvantaged prior to revaluation. Revaluation does not give these ratepayers a benefit but rather it removes that disadvantage. Requiring these ratepayers to meet the cost of the relief **perpetuates the disadvantage suffered** by those ratepayers. Ironically, it is those who receive the relief that have been benefiting up to the point of the revaluation. The granting of relief perpetuates that benefit. BT, therefore, believes that the cost of transitional relief should not be met from ratepayers whose bills decrease.

### 2.2 Should transition schemes be self financing?

Consistent with current legislation, the consultation is limited to discussing options that preserve the self-financing requirements of transition. BT would have preferred DCLG to have considered the wider legislative framework and looked at options beyond self financing. BT's response, therefore, is not an endorsement of that policy.

The provision of relief to one set of ratepayers is at odds with the inherent logic of the rating system and creates unfairness between ratepayers. This is exacerbated by putting the cost of relief onto other ratepayers. It is even worse in this instance because, as argued in Section 2.1, DCLG's preferred option loads the funding of relief onto ratepayers who have been disadvantaged prior to the revaluation.

The rationale for providing support to businesses whose bills would otherwise increase significantly is that it is in the wider public interest. Or, to put it another way, it is not in the wider public interest for businesses to fail as a result of a significant increase to their rates bill. However, it is not clear why any relief should be funded by other ratepayers. It is definitely not in the interests of those other ratepayers and the increased costs will affect their relative competitive position.

Since it is the economy as a whole that benefits from the provision of support to businesses whose rates bills are increasing, this cost should be met from the exchequer, i.e. through general taxation. BT urges DCLG to widen the consultation in order to revisit this issue.

### **2.3 Should transition be different for small and large businesses?**

Government policy has, for some time, been to reduce the impact of rates on small businesses. It has attempted to achieve this by applying more favourable arrangements to properties with small RVs. Other businesses fund these arrangements in various ways, for example through the small business rate relief supplement that funds the small business rate relief scheme.

BT does not agree with this policy for two main reasons:-

- it is not clear that, in the long run, reducing rates bills has the effect intended by the policy. BT believes that the introduction of rate relief within Enterprise Zones led to landlords being able to extract higher rents with the net result that ratepayers' overall costs of occupation were not reduced;
- much of the relief does not go to small businesses. The current approach gives favourable treatment to properties with small rateable values. But the correlation between small RVs and small business units is weak. For example, some shops and retail outlets have low rateable values but will be part of large chains. Branches of banks and building societies will also have small RVs. There are many other similar examples.

"True" small businesses may have less flexibility than larger businesses "to accommodate changing costs" (paragraph 14 of the consultation), but this does not support a differential approach to upwards transition, or justify a differential approach to downward caps. But whatever DCLG finally decides, BT believes that there should be a radical overhaul of the current indiscriminate approach based on rateable values.

### **2.4 Should administrative convenience be an issue?**

Paragraph 33 of the consultation suggests that the administrative costs and the complexity of introducing a supplement (Options 2 and 4) should be factors taken into consideration. Paragraphs 38 and 39 then acknowledge, with respect to any incremental administrative costs, that "*it is not expected that they will be significant*". But there remain suggestions that changes to the rating system should be avoided largely on the grounds of administrative convenience.

This line of argument has appeared in previous consultations, but it is our very strong view that administrative changes are one of the least important issues and should only be considered if their incremental costs are excessive. That is not the case here. In BT's view, the primary objectives of any change should be to maintain and strengthen the integrity of the system and to ensure fairness amongst all ratepayers. Options that do not have those as objectives but, instead, are aimed primarily at achieving administrative convenience, should be rejected.

### 3. BT's Responses to the Four Questions

**Question 1:** *having regard to the cost of the transitional relief, do you think the caps on increases for small properties adopted at the 2005 revaluation should be repeated for the 2010 revaluation?*

**Question 2:** *having regard to the cost of the transitional relief, do you think the caps on increases for large properties adopted at the 2005 revaluation should be repeated for the 2010 revaluation?*

**Answer:**

There is some merit in continuing to provide transitional relief to those ratepayers whose rates bill increase significantly. However, as Section 2.3 of this response argues, the current differential approach to small and large businesses is flawed. Radical overhaul is required to achieve the desired policy objectives.

In the absence of such action, BT proposes that the caps should be the same for all properties regardless of rateable value. Furthermore, the caps should be set at the same level as those which applied for "large properties" for the 2005 revaluation.

**BT does not support the continuation of the current two-tier approach to cap setting.**

**Question 3:** *do you think that transitional relief should be provided over four years (options 1 and 2) or 5 years (options 3 and 4)?*

**Answer:**

If relief is given over five years some ratepayers (albeit a small minority) will never pay their full rates bill. If relief is given over a period of four years (Options 1 and 2) all ratepayers will pay their full rates bill for at least one year. Under the four year option no ratepayers will still be subject to transition at the start of the next rating list: the same is not true of the 5 year option.

As noted elsewhere in this response, arrangements of this nature interfere with the inherent logic of the rating system and create unfairness between ratepayers. As such, they are at best a "necessary evil" and should only be tolerated to the extent that they have significant benefits.

DCLG observes that there are likely to be very few ratepayers entitled to relief in the fifth year. It estimates that only 2.2% of hereditaments would be in some form of transition in 2014/15. Given that it also observes that the ratio of those seeing reductions to those seeing increases is 60 to 40, it can be estimated that those receiving relief in the fifth year would be less than 1%. This 'benefit' is insufficient to warrant maintaining this distortion to the inherent logic and fairness of the system.

**BT urges DCLG to limit transitional relief arrangements to four years only.**

**Question 4:** *do you think the transitional relief should be funded by downward caps on reductions in bills (options 1 and 3) or by a supplement levied on other ratepayers (options 2 and 4)?*

**Answer:**

BT believes that requiring some ratepayers to finance the cost of relief for other ratepayers is inherently unfair.

Section 2.1 of this response has argued that DCLG is wrong to assert that ratepayers whose bills reduce are the beneficiaries of revaluation. The opposite is true: the beneficiaries are those who obtain relief. Requiring ratepayers whose bills reduce to finance any relief compounds the unfairness.

In Section 2.2 BT argued that transition relief should be funded through general taxation. In the absence of any changes to primary legislation, BT believes that the fairest way to proceed would be to share the burden across all ratepayers not benefiting from relief.

**BT strongly believes that transitional relief should be financed by a supplement payable by all other ratepayers not benefiting from relief. It should not be financed by downward caps on reductions in bills.**

#### **4. BT's Preferred Option**

Paragraph 9 of DCLG's consultation paper offers four options:

- *Option 1: annual caps on both increases and reductions over four years with different caps for small and large properties.*
- *Option 2: the same caps on increases as option 1 but funded from a supplement on all other rate bills.*
- *Option 3: annual caps on both increases and reductions over five years with different caps for small and large properties.*
- *Option 4: the same caps on increases as option 3 but funded from a supplement on all other rate bills*

Paragraph 35 notes that DCLG's preferred option is Option 3 and gives its rationale. BT disagrees strongly for the reasons given in the answers above. In particular:-

- those whose rates bills have reduced are not those who have benefited most from the revaluation. Option 3 would add insult to historic injury by loading extra cost on these ratepayers;
- transitional relief introduces unfairness into the rating system. The duration of this unfairness should be minimised. Relief should apply over a four year period, not five.

BT also believes that:-

- there is no case for a tiered relief scheme dependent on the rateable value of the property; and
- relief should be financed through general taxation, not from other ratepayers. Since the latter is outside the scope of this consultation, the next best alternative is to apply a levy on all ratepayers.

**BT's preferred option therefore would be an adaptation of Option 2:-**

- **an annual cap on increases, which is the same for all properties**
- **over four years**
- **funded from a supplement on all other rate bills.**

BT believes this would be the least unfair option for what is an inherently unfair set of arrangements.

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