

RETAIL PROPERTY BRIEFING PAPER 5

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RATING OF COMMERCIAL PROPERTY: UPDATE 1998

On 18 February 1998 the Statutory Instrument came into force to set the wheels in motion for the next Rating Revaluation of Non-Domestic property in England and Wales.

This will take effect as at 1 April 2000 with the effective date for Valuation purposes being 1 April 1998.

As with previous re-valuations, the implications for occupiers, owners and other interested parties can be significant and the hidden pitfalls financially damaging.

This paper will help identify the process involved in the Revaluation, the potential affect and the action which should be taken now.

Basic Principles Re-Visited

In order to have any understanding of the existing position and the direction in which the rating system is going, it is necessary to re-acquaint ourselves as to the basic principles upon which this particular property tax is founded.

We make no apology for taking this brief step backwards; for without doing so the ensuing contents of this Briefing Paper will probably be less comprehensible.

The aim of all methods of assessing property for rating purposes is to find the annual rental value.

The making of assessments for rating purposes has, since 1950, been the responsibility of the Valuation Office (Inland Revenue).

Prior to the 1990 Rating Re-valuation, commercial properties were valued either to Gross Value (GV) or Net Annual Value (NAV). Properties valued to GV required this to be adjusted into terms of Rateable Value (RV) in order to provide a basis almost consistent with NAV, the figure upon which rate liability was ultimately calculated.

In their most simplistic forms, Gross Value was an annual value expressed in terms whereby the hypothetical landlord was assumed to undertake the liability for internal and external repairs, while Net Annual Value assumed that the onus of all outgoings fell on the shoulders of the hypothetical tenant.

Statute, by way of the General Rate Act 1967, defined which properties were to be valued to either Gross Value or Net Annual Value.

Except in very rare cases, it is the occupier of a property who is rated.

***The 1973 Rating Re-valuation
(1 April 1973 to 31 March 1990)***

Up to 31 March 1990, rate liability was determined locally, by each individual Rating Authority fixing its own rate poundage and multiplying this by the “rateable value” appearing in the then Valuation List.

What could be more straightforward???!!!

It had been Central Government’s intention to conform to a five yearly revaluation pattern but sadly this was not adhered to. The drastic changes that were subsequently introduced unquestionably created the many difficulties and problems which exist today.

Is the 1973 Rating Re-valuation assessment still of significance? - The answer is positively YES.

But why? - The answer is that it is the Rateable Value as at 31 March 1990 (the end of the old 1973 list) that essentially provides the base for all subsequent Transitional Calculations and as such the impact of ongoing liability.

***The 1990 Rating Re-valuation
(1 April 1990 to 31 March 1995)***

This was a major watershed in the Rating System, not only because of the manner in which commercial property was valued, but also the way in which liability was calculated.

All commercial properties were re-assessed in terms of Rateable Value; effectively a Full Repairing and Insuring basis.

A fixed Antecedent Valuation Date (AVD) was introduced as 1 April 1988. The significance of this was to define by Statute the date at which rental levels for valuation purposes was to be crystallised.

Strict time limits were imposed on rights of appeal, although these were latterly relaxed in part.

Central Government introduced a “National Rate Poundage” for business properties replacing the independence of individual Local Authorities in determining their own rate. The official name for this poundage is the “Non-Domestic Rating Multiplier”. It is better known, however, as the Uniform Business Rate (UBR).

Transitional Relief introduced.

The introduction of the Uniform Business Rate, combined with the first Re-valuation of business properties for 17 years, would have resulted in enormous changes in rate liabilities if left unadjusted. To mitigate the impact, Government announced that both increases and decreases would be phased in the first instance; the rationale being that the revenue lost from limits on increases were recouped from ratepayers who should benefit from the revaluation and UBR.

It follows, therefore, that the rating assessment appearing in the 1990 Rating List multiplied by the Uniform Business Rate did not always calculate in the first instance ultimate liability.

As a result, the previous straightforward mathematics for determining liability was now a minefield to the ill-advised ratepayer.

Even a well-intentioned reduction in Rateable Value could lead to an increase in rates payable if not carefully thought through prior to an appeal being submitted.

***The 1995 Rating Re-valuation
(1 April 1995 to 31 March 2000)***

The most significant changes from the ratepayer and his professional adviser's point of view were twofold.

Firstly, the adoption of 1 April 1993 as the Antecedent Valuation Date;

And

Secondly, the abolition of the time limits on rights of appeal.

There are no significant changes to transitional arrangements.

The Uniform Business Rate from 1 April 1998 is to be 0.474 pence in the £.

The 2000 Rating Re-valuation

The Rating Lists (Valuation Date) Order 1998 confirmed on 18 February 1998 that there will be a further Non-Domestic rating revaluation coming into force with effect from 1 April 2000.

The Antecedent Valuation Date to be adopted will be 1 April 1998.

It is anticipated that from 1 March 1998 that "Notices requesting supply of information for Non-Domestic Rating" will be served selectively by the Valuation Officer to those ratepayers identified as occupying properties with key rents. It is understood that consideration is still being given to the final format of these forms of return but it is believed that their contents will not depart greatly from those used previously for the 1990 and 1995 rating re-valuations.

It must be stressed that the way in which these forms are completed will affect the Valuation Officer's judgement of levels of rent; before answering any questions therefore,

their implication should be fully considered, not only in respect of valuation impact on your own property but also of

those adjoining.

The increased use of computers to carry out bulk valuations by the Valuation Office, combined with their ongoing reductions in staffing levels may, in our view, lead to errors being made in preparation of valuations.

It is strongly recommended that the new rating assessments, when known, be analysed and valuations for rating purposes be undertaken as a precaution prior to any appeal being submitted. Needless to say, an indiscriminate appeal on an under-assessed property may lead to a direct increase in rate liability.

Material circumstances at the relevant valuation date can become clouded with the passage of time. In the circumstances you will benefit from instructing a Rating Surveyor at an early date.

Rights of Appeal

The sensitivity of the impact of rate liability has led to much public debate and discussion as to the manner in which the system can be streamlined, whilst preserving the ratepayers democratic right of appeal.

The Bayliss Report by the Royal Institution of Chartered Surveyors (RICS) on "Improving the Rating System", highlighted 70 recommendations for review, including the Appeals procedure. Subsequently, in early 1997, the Department of the Environment, Transport & The Regions, produced a Policy Review of the Valuation Tribunal. This document is extensive and has provided the basis for further consultations, details of which are awaited with interest.

What Will Happen on Rates Liability?

We are of the opinion that speculation, and the ongoing commentary, (which has been seemingly conflicting) concerning the limitation of Rights of Appeal available to ratepayers should be currently treated with utmost caution until a Government statement is made.

We would like to be in a position to provide definitive detail as to the impact of the "bottom line".

Like all other Rating Advisers we are anxious to hear the outcome of discussions generated by virtue of the latest Local Government Finance consultation document.

We understand that all interested parties are now considering this paper in depth and further details are expected to be known by mid-April.

In addition, it is recognised that there is overall concern to reform the Uniform Business Rate, and the RICS expect consultation papers to provide the basis for a white paper next year.

We do hope that the various criteria recommended by the Committee reviewing the future of the rating system in the Bayliss report are heeded.

What Action Should Be Taken Now?

Early instructions to your Rating Surveyor are essential.

- These will enable him to supervise, to your best advantage, the completion of "notices of Return for Rating" which will be sent to occupiers of key properties with effect from 1 April 1998.
- Survey details and all material circumstances, as they could affect the property at the relevant valuation date, can be clearly recorded. Such evidence is critical in sustaining successful appeals and reducing rate liability.

Conclusion

The system as it presently exists is unquestionably a minefield for the un-represented ratepayer or even the Estate Surveyor not having hands on day to day experience of rating for as we stated at the beginning of this Paper, the system is full of pitfalls to the unwary.

We recommend that any ratepayer in doubt about their current and future position and the extent of ongoing liability take immediate professional advice from Chartered Surveyors experienced in this field.

Occupiers and owners of commercial property and their advisers must be pro-active.

A change in circumstances affecting your property may give rise to the opportunity to make further savings in rates payable.

These can range from the impact in changes of shopping patterns to stockrooms becoming vacant!

Use your professional adviser's services to the full.

Further Information

Further copies of this briefing paper may be obtained from the authors, as may additional information or assistance on planning and development issues.

Chase & Partners provide comprehensive retail and leisure property and planning services to owners occupiers, developers and investors in both the private and public sectors,

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