

Business Rates Retention Reform

Sharing risk and reward, managing volatility and setting up the reformed system

20 February 2019

1. The Local Government Association (LGA) is here to support, promote and improve local government. We will fight local government's corner and support councils through challenging times by making the case for greater devolution, helping councils tackle their challenges and assisting them to deliver better value for money services.
2. This response has been agreed by LGA's Leadership Board and Executive.
3. The LGA is pleased to submit a response to this consultation. We recognise that it comes after almost three years of joint work by MHCLG officials together with officers and members from the LGA and local authorities. We look forward to further work in developing these proposals before the introduction of 75 per cent Business Rates Retention in April 2020 and, when Parliamentary time permits, to the introduction of 100 per cent Business Rates Retention.
4. The remaining 25 per cent of business rates should be retained by local government to fund the funding gap in 2019/20 which we estimate to be over £3 billion in 2019/20, and £7.8 billion in 2024/25, and to ensure that no authority loses out as part of the Fair Funding Review. Ultimately further business rates retention will not be successful or lead to a sustainable outcome if it is not introduced alongside additional and adequate resources.
5. Income from business rates also needs to keep pace with the demand for, and costs of, local authority services on an ongoing basis not just at the implementation of the reformed system. Income from business rates, like other taxes, will be affected by what is going on in the wider economy, including changes in the high street, and this will need to be monitored to make sure that local authorities are protected from such wider economic shocks and have sufficient resources on an ongoing basis to deliver services to their residents.
6. The LGA is concerned about the amount of business rates avoidance, which a 2014 survey estimated to be £230 million per annum. The LGA considers that measures should be taken to tackle business rates avoidance along the lines of those to be introduced in Wales in 2021 including new legal powers for local authorities to request information from ratepayers and effective measures to tackle abuse of mandatory reliefs relating to empty properties, charitable occupation and voluntary liquidation.

Submission

Resets

Question 1: Do you prefer a partial, a phased reset or a combination of the two?

Question 2: Please comment on why you think a partial/ phased reset is more desirable.

7. The LGA's position, based on its response to the 2017 consultation was to support partial resets as opposed to either frequent or infrequent full resets but to retain the option for a full reset in case it is needed.
8. At that time, phased resets had not been considered as an option. The LGA can see the merits of phased resets as they would allow local authorities to keep the benefits of growth for a defined period, they would avoid cliff-edges and allow for planning. However, we would like to see more modelling of the impact of phased resets, including how they could work with partial and full resets, before a final decision is made.
9. The LGA also notes the Government's view that 2020 should be a full business rates baseline reset. Some LGA members have expressed concern that this reset could lead to a substantial shift in income and believe that they should be protected from a sudden fall in funding due to the business rates reset in April 2020.

Question 3: What is the optimal time period for your preferred reset type?

10. There should be consideration of the effects of more frequent revaluations of non-domestic hereditaments on the timing of resets. Government policy is to move to a revaluation once every three years after 2021; if partial resets were aligned with revaluations the option would be to have resets either once every three or once every six years.
11. A phased reset is in effect an annual reset although there still may need to be full resets after certain period and it may make sense to make sure these align with a revaluation.

Safety Net

Question 4: Do you have any comment on the proposed approach to the safety net?

12. The LGA would take the same position as in our 2017 response where we supported the continuation of a safety net based on the current method. We also agree that other elements of the system should be set before deciding the level of the safety net. We believe that the safety net should be funded by proceeds from the central list rather than by a levy or a top-slice from local authorities.

Levy

Question 5: Do you agree with this approach to the reform of the levy?

Question 6: If so, what do you consider to be an appropriate level at which

to classify growth as 'extraordinary'?

13. The LGA notes that this was not consulted on previously as Government policy was to abolish the levy and this is not currently possible without legislation.
14. There is no consensus on the approach to or level of the levy among LGA member authorities. Some would like it to be abolished completely and others have different views on the levels considered in the consultation paper. As a result we do not express a view on a particular threshold level.

Tier Splits

Question 7: What should the fall-back position be for the national tier split between counties and districts, should these authorities be unable to reach an agreement?

Question 8: Should pools be able to set tier splits locally?

15. We welcome the continued discussions between shire districts and shire counties on tier splits and other elements of the system. We understand their need to have decisions on other elements of the system before hoping to reach an agreement on tier splits.
16. We note that areas have set a variety of tier splits during the pilots for 100 per cent and 75 per cent Business Rates Retention. However we understand the view expressed by some of these areas that it might be harder to reach agreement on a tier split that is for a longer period. Therefore, we consider that a national fall-back position is likely to be necessary and consider that this should be decided once all options have been explored with authorities.
17. We believe that authorities in London wish to continue to set tier splits by agreement between the Boroughs and the GLA. We support their view.

Pooling

Question 9: What fiscally neutral measures could be used to incentivise pooling within the reformed system?

18. The LGA can see the wider benefits of pooling in encouraging authorities to share risk and work together but does not have any suggestions of fiscally neutral measures to incentivise pooling. Some consider that should not be any incentives for pooling as councils who are excluded from pooling should not be penalised.

Central and Local Lists

Question 10: On applying the criteria outlined in Annex A, are there any hereditaments which you believe should be listed in the central list? Please identify these hereditaments by name and location.

Question 11: On applying the criteria outlined in Annex A, are there any listed in the central list which you believe should be listed in a local list? Please identify these hereditaments by name and location.

The criteria are:

- (i) the nature and spread of the property**
- (ii) its size and geographical spread**
- (iii) the suitability or otherwise for it to be on local lists**

19. The LGA supports the review of the central and local list. We agree that only 'non-local' properties should be on the central list. We therefore agree that the criteria as proposed are appropriate.
20. We are not in a position to propose any hereditaments that should move from one list to the other and would expect member authorities to bring forward their own proposals for list transfers.

Valuation Change

Question 12: Do you agree that the use of a proxy provides an appropriate mechanism to calculate the compensation due to local authorities in relation to losses resulting from valuation change?

21. The LGA has previously expressed strong support for removing the risk of appeals on local authorities by using a centrally managed appeal system, funded by resources from the central list. This view has also been strongly supported by the sector.
22. It is disappointing that there is not a direct measure of losses due to appeal. We agree that, in the absence of a more direct measure, that a proxy (which assumes that valuation changes not backdated to the start of the list are classified as physical changes) may be the only viable option.
23. We note with disappointment that MHCLG, and experts in the sector, have not been able to find a workable method to mitigate the impact of provisions on authority's day to day ability to spend. We also note the Government's view that the alternative administration model is the only current feasible approach which offers a way of dealing with appeals volatility.
24. As stated in paragraph 6, we are concerned about business rates avoidance and considers that measures should be taken to tackle business rates avoidance along the lines of those to be introduced in Wales in 2021.

Alternative administration model

Question 13: Do you believe that the Government should implement the proposed reform to the administration of the business rates retention system?

25. The alternative administration model is a proposal that has been suggested relatively recently in the further Business Rates Retention work programme and therefore it is fair to say that it is not well understood. Although it has been discussed at a number of System Design and Implementation Working Group meetings, there has only been one high level discussion of the model at the Business Rates Retention Steering Group.

26. The LGA notes that this appears to be the only method that can deal with the impact of appeals on local authorities under business rates retention. We are minded to support the alternative model but believe this requires continued exploration in the Steering Group and more widely. We also believe that it would be necessary to:

- (i) Explain the model more simply;
- (ii) Operate the system in a transparent way so that it is evident how it compensates for appeals;
- (iii) Be transparent about the level of business rates and growth kept locally and nationally;
- (iv) Provide modelling to demonstrate it can achieve the original aims of further business rates retention, and compensate for appeals, without unintended consequences.

Resetting business rates baselines

Question 14: What are your views on the approach to resetting Business Rates Baselines?

27. The detailed discussion in the consultation paper highlights that baselines are complicated to set. The LGA notes the different options that have been considered by the Implementation Working Group. The MHCLG needs to make them as accurate and objective as possible, although they may not be needed if the alternative administration model is adopted.

Equalities

Question 15: Do you have any comments at this stage on the potential impact of the proposals outlined in this consultation document on persons who share a protected characteristic? Please provide evidence to support your comments.

28. The LGA refers MHCLG to the replies of individual member authorities.