**Systems Design Working Group Discussion Paper**

**Mandatory Reliefs and their Implications for Local Government**

**1. Introduction**

1.1 This paper intends to consider the impact of mandatory reliefs on local government and its funding within 100% business rates retention. A number of issues are considered:

* How should the costs of funding mandatory reliefs be met in general?
* How should the costs of specific Government policy be met?
* What should happen when a relief is granted that transfers funding from one public sector body to another?
* Should there be a net cost to the public sector of rating agents?

**2. The cost of mandatory reliefs in general**

2.1 Local government has no discretion over whether to grant a mandatory relief. These are reliefs that must be granted to qualifying organisations and reduce the level of business rates income retained locally by local government. This impact will be felt twice as much under 100% retention.

2.2 On setting the business rates baselines it is expected that mandatory reliefs currently in the system will be considered and so the tariffs and top ups will reflect this. However, the extent that the size of mandatory reliefs grows in real terms will be a net loss in resources to local government due to central government policies and criteria.

2.3 The table below shows how mandatory reliefs have grown at a faster rate than inflation over the period 2013/14 – 2017/18. If local government had retained 100% of business rates over this period it would have reduced total resources by over £300m per annum. 

 The table below shows how mandatory reliefs have grown at a faster rate than inflation over the period 2013/14 – 2017/18 in Birmingham including a forecast for 2018/19. Figures are based on NNDR returns.

 

**2.4 How does the group consider mandatory reliefs should be funded within 100% business rates retention?**

**3. The cost of specific government policy**

3.1 In general when the Government introduces a new policy that will place a cost on local government, an attempt is made to provide local government with funding to implement the policy. This is carried out through the New Burdens Policy and the Government has already consulted and agreed that the New Burdens Policy should be retained when 100% business rates retention is introduced.

3.2 There are some Government policies that result in a loss in business rates income but local government is not compensated for this. When schools convert to Academy status they transfer from paying full business to qualifying for charitable relief at an 80% discount. This loss of income to local government is entirely as a result of Government policy; there is a transfer of resources from local government to schools.

3.3 If all maintained schools converted to academy status it is estimated that this would reduce annual business rates income by around £630m (this is an estimate from the 2010 list). Currently local government would bear half of this, or £315m. Budgets could, instead, be adjusted for the amount of relief that schools receive on conversion thus re-diverting the funds back to the local authority.

**3.4 How does the group consider that losses in business rates income as a result of specific Government policy should be funded?**

**4. Reliefs granted transferring funding from local government to another public sector body**

4.1 When the Government considers its allocation of resources it implicitly provides funding to all public sector organisations to pay for business rates. This is factored into overall funding levels leaving each public body with the net resources the Government considers necessary to function to the levels it desires.

4.2 If a public sector body appeals against its rateable value or makes a case to qualify for charitable relief and it is successful then the outcome transfers resources from local government to other parts of the public sector. This is outside of the financial intentions and policies of the Government.

4.3 A specific example of this is the ongoing legal action by the NHS where it claims that it should be eligible for charitable relief backdated to the start of the list. This could lead to a significant transfer of resources from local government to the NHS which is outside the Government’s policy intentions when making resource allocations. As a very rough estimate this could lead to a total backdated liability of over £1.5 billion and an annual impact of over £200 million. Currently this would be split 50% between central and local; with 100% business rates local government would potentially have to bear the full amount.

 In Birmingham for example it is estimated that the cost to the authority of NHS Trusts successfully claiming relief backdated to 01/04/2010 would be approximately £21.5 million representing its 49% share. A further 51% would be suffered by Central Government and the West Midlands Fire Authority. Under the 100% Pilot the potential cost to the Council is estimated to be approximately £6 million per annum.

**4.4 How does the group consider that transfers of resources between local government and other public sector bodies should be treated in the future?**

**5. Net cost to the Public Sector of Rating Agents and Legal Action etc.**

5.1 Across the public sector when appeals are made, this is regularly as a result of rating agents being involved. Furthermore, legal advice can be sought from both the public sector body appealing or asking for a relief as well as by local government.

5.2 The outcome of the appeal or decision on a relief being awarded makes no impact on the overall resources within the public sector. However, the cost of the rating agent and legal advice result in a transfer of funding from the public sector to the private sector.

**5.3 Does the group think that the current practice is in the best interests of the taxpayer?**

**5.4 If not, what options can the group propose to address the situation?**