POLICY DEVELOPMENT: NOT A STATEMENT OF GOVERNMENT POLICY

SYSTEMS DESIGN WORKING GROUP: CENTRAL LIST

This paper captures views and ideas shared by local government.

The Central List

1. The Central List, as currently constituted, is an administrative tool for the collection of rates from hereditaments. The Department for Communities and Local Government (DCLG) is the billing authority and the Secretary of State for Communities and Local Government has powers to decide who should be listed. It has a relatively stable annual income of around £1.35 billion per year. This is surrendered into HM Treasury's consolidated fund, with the statutory obligation under the Local Government Finance Act 2012 that an equivalent amount of Central List income, as part of non-Domestic Rates income, be redistributed to local government through grants, such as Revenue Support Grant.

2. The Central List was designed and created under national business rates and was not revised for the introduction of 50% Rates Retention system. As a result, there are three main issues with the interaction of the Central List and local lists:

    i. The existing criteria for the Central List essentially limit the list to network utility properties. This leaves some very large properties on local lists, such as power stations, which carry significant risks to local income from appeals, national policy changes or closure.

    ii. Local authorities see no reward from growth in businesses currently assigned to the Central List. Whilst the Central List does contain some national properties, many are regionally based such as the electricity and water companies, London Underground, and Network Rail stations.

    iii. The current system can also increase volatility in local income through properties moving from a local list to the Central List. The criteria for judging these requests were developed prior to rates retention and are only applied by DCLG when a request from a ratepayer is received. As a result, there is an inconsistent picture of network properties on local lists and the Central List, and a continuing risk that some ratepayers will ask to be moved onto the Central List (often having a significant impact on a local authority's business rates income).

Looking afresh at the rating list system

3. The introduction of a 100% Business Rates Retention system is an opportunity to look afresh at the rating list system and whether changes could or should be

made. Any changes would require primary legislation, on which the Government might look to consult in summer 2016. As part of any changes to the system, we will need to consider how the list and income from the list is used.

4. Any changes should aim to address the issues identified in paragraph 2 (above), recognising the trade-offs that will need to be made between reducing risk and allowing local authorities to see the benefits of growth.

5. Additionally, any reform would present an opportunity to look afresh at the position of the current listing system. This might consider issues such as some network properties' current position on local lists, as well as clarification on the criteria and process for any movement between lists.

Are the issues outlined in paragraph 2 the appropriate issues to address for potential reforms to the rating list system?

What other potential aims could be considered?

6. Outlined below for discussion are some possible options for meeting these potential aims.

Option A: Enlarge the current Central List to form a new National List

7. The Central List could be expanded to form a new National List. This would include hereditaments that do not sit clearly within one local list (as at present), but could also include additional categories to take some of the riskier hereditaments out of local lists.

8. Local lists could retain local properties, which local areas have some input to managing, such as those that have local planning decisions, for example. This would provide a clearer link between local decisions and growth.

9. The income from the National List could be used to fund a safety net and/or handle appeal risk. Any additional funds could be redistributed to local government through tariffs/top-ups on the basis of the needs assessment formula, which might also be factored in as part of the quantum of services to be devolved.

10. Enlarging the current Central List would present a good opportunity to look again at the criteria that might be used to determine listing. Currently, the Secretary of State considers: the nature and use of the property, the size and geographical spread of the property, and the suitability of otherwise for assessment of the property on local rating lists.

11. In addition to determining whether these criteria are still appropriate, other criteria could be considered such as:

    - billable size of a hereditament relative to the size of a local list;
    - the extent to which national policy impacts upon a hereditament (a change in national energy policy, for example);
    - other national classifications: for example, The Planning Act 2008 lists the categories of projects that are defined for planning purposes as nationally significant, where planning decisions are made centrally;
    - hereditaments that are judged to be inherently volatile.

12. While Option A could help to reduce the volatility on local lists by reclassifying more volatile hereditaments onto the National List, it could perpetuate the current setup whereby local authorities would not have a share of any growth gains from those reclassified properties.

Could a larger National List help to reduce volatility in local lists and thus ensure the stability of business rates income?

How large might a new National List be, and what criteria might be used to determine listing?

How might National List income be redistributed to local authorities?

How would a larger National List affect the growth incentive for local authorities?

Option B: Introduction of Area Lists

13. One way to pool the risk of some of the larger hereditaments currently sitting on local lists, while also allowing areas to have a financial stake in the development of hereditaments that currently sit on the Central List, would be to introduce Area (Regional) Lists. This would, then, introduce a three tier set up:

    <u>Local Lists</u> – as currently constituted, though possibly with certain, more risky hereditaments removed (power stations, for example);

    <u>Area Lists</u> – properties that, according to new criteria, are deemed unsuitable for either a local list or the National list. These could be riskier single units, such as power stations, and regional networks such as Thames Water and TfL's infrastructure network in London. Area Lists would therefore attempt to find the right balance between riskier and solid hereditaments.

Area lists could be voluntary in nature, or the Secretary of State could have the power to create lists and appoint a billing authority. Lists could be congruent with Combined Authority boundaries, or could be developed in other areas to a suitable geography.

<u>National List</u> – national, networked properties.

14. This option would enable local authorities to pool risks and benefits and receive a share of growth gains from hereditaments on the Area List. Any income raised through the Area List could be redistributed directly to local authorities, perhaps in proportion to the size of their Local List relative to the Area List, or could potentially be used to fund Area Safety Nets. Similarly, the income from the National List could be used to fund a safety net and/or handle appeal risk.

15. However, through the introduction of an extra tier, Option B could require significant resource from both Central and Local Government to set up.

Could Area Lists help to reduce volatility in local lists and thus ensure the stability of business rates income?

How might Area Lists be formed? (Geographical, Industry type, others?)

How might billing arrangements work for Area Lists?

How large might new Area Lists be, and what criteria might be used to determine listing?

How might both Area and National List income be redistributed to local authorities?

Option C: Other suggestions

Are there any other options that should be considered for reforming the Central List to help to reduce the volatility of Local Lists?