Committee:	Date:
Finance Committee	2 May 2017
Subject: Locally Administered Business Rates Relief Scheme Consultation Response	**Public**
Report of: The Chamberlain	**For Information**
Report author: Caroline Al-Beyerty, Deputy Chamberlain	

Summary

This report provides members of the Finance Committee with a copy of the response to the consultation on proposals made by the Department of Communities and Local Government on their proposed Locally Administered Business Rates Relief scheme.

The full consultation response is appended to this report. The response indicates that the Corporation is disappointed with the size and form of the assistance on offer. In addition, the Corporation's response commented that the discretionary powers used to administer the relief create an unnecessary administrative burden.

Recommendation

Members are asked to note the report.

Main Report

Background

1. At the Budget on 8 March 2017, the Chancellor announced that the Government would make available a discretionary fund of £300m over four years from 2017/18 to support those businesses that face the steepest increases in their business rates bills as a result of the revaluation.

2. The intention is that every billing authority in England will be provided with a share of the £300m to support their local businesses. This will be administered through billing authorities' discretionary relief powers under section 47 of the Local Government Act 1988.

3. A consultation was opened on the proposals and the methodology for allocating funds under the scheme.

Current Position

4. The proposed distribution would allocate a total of £9.5m to the City of London Corporation over four years from the £300m fund. This allocation represents around 3% of the 2017/18 increase in business rates as a result of the revaluation.

5. A consultation response on behalf of the City of London Corporation was prepared by the Chamberlain's and Remembrancer's offices and submitted on 7 April 2017, attached at Appendix 1.

6. A consultation response was also prepared by London Councils, attached at Appendix 2.

Conclusion

7. We are disappointed with the size and form of the assistance on offer and this is made plain in our consultation response. In addition the discretionary powers used to administer the relief create an unnecessary administrative burden.

Appendices

- Appendix 1 – Locally Administered Business Rates Relief scheme consultation response on behalf of the City of London Corporation.
- Appendix 2 – Locally Administered Business Rates Relief scheme consultation response on behalf of London Councils.

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Appendix 1

CONSULTATION ON THE LOCALLY ADMINISTERED BUSINESS RATES RELIEF SCHEME

RESPONSE BY THE CITY OF LONDON CORPORATION

The City Corporation welcomes the Government's recognition that businesses need more help to deal with the adverse effects of the revaluation. It is, however, disappointed with both the size and the form of the additional assistance on offer. The City's proposed total allocation of the additional relief over 4 years will amount only to around 3% of the more than £200million additional demands expected to the made on City ratepayers in the next year alone. Furthermore, the decision to channel the assistance through section 47 discretionary relief, rather than automatic transitional relief, will place additional administrative burdens on billing authorities and leave businesses facing uncertainty about their bills in the interim. It will also mean that state aid rules apply, which would not be the case if the additional relief were part of a statutory transition scheme.

In sum, the measures proposed fall far short of what is needed to address the impact on competitiveness from failing to provide adequate transitional relief, as identified in the City Corporation's response to the September consultation. This competitiveness impact is by no means confined to smaller businesses, as the Government's proposals seem to assume. A 43% year-on-year increase in an important business tax will be noted by businesses of all sizes, and will detract accordingly from London's reputation as an attractive and stable business environment.

The City Corporation's responses to the specific questions posed in the latest consultation are set out below.

Question 1: Do you agree that individual local authorities should be responsible for designing and implementing their own discretionary relief schemes, having regard to local circumstances and reflecting local economies?

As noted above, the City Corporation considers that the best approach would have been to bring the automatic transitional relief closer into line with the transitional schemes put in place at previous revaluations. This would bring immediate certainty to businesses and spare billing authorities the time and cost of formulating their own schemes, as well as avoiding the application of state aid rules. If, however, the section 47 channel is to be pursued, it is right that authorities are given the maximum freedom to determine how their individual shares are deployed.

Question 2: Are the Government's assumptions about the design of local discretionary relief schemes reasonable?

The Government assumes that only businesses occupying property with a rateable value of below £200,000 will have a legitimate call on relief. This assumption is unwarranted. Such a blanket threshold takes no account of different circumstances throughout the country. The size of business typically meeting this threshold in the

City may be considerably different from the size of business typically meeting it in a part of the country at the opposite end of the property market.

The allocation formula should therefore take account of the fact that the need for relief may be felt higher up the value scale in high-value areas such as the City. The City Corporation envisages offering relief to businesses occupying property with a rateable value of up to at least £300,000.

It is a reasonable assumption that relief will be targeted at businesses facing increased bills of more than 12.5%. This is a similar figure to that at which year-on-year increases have been capped under previous transitional schemes.

Question 3: Is the allocation methodology reasonable?

Insofar as the allocation is determined by the assumptions referred to in question 2, the same comments apply as above. There are no further comments on the methodology.

Question 4: Do you think that authorities should have some flexibility to switch resources between years to ensure relief provided meets local need and provides maximum value for money?

Yes; this is a sensible proposal. With potential changes to rateable values, it could be easy to over- or underspend in any one year

Question 5: Do you agree with the proposal that s.31 grant should be paid to compensate authorities for their loss of income under the rates retention scheme up to the maximum of that year's "total pot"?

Yes.

Question 6: Do you agree with the proposals for administering payments, including in-year payments based on estimates, end-year reconciliations and payments quarterly in arrears?

Yes.

Question 7: Do you agree the grant conditions are appropriate?

Yes.

Guildhall

April 2017

Appendix 2

Friday 07 April 2017

Consultation Response

Business Rates: consultation on the proposals on the design and implementation of the locally administered Business Rates Relief Scheme

London Councils represents London's 32 borough councils and the City of London. It is a cross party organisation that works on behalf of all its member authorities regardless of political persuasion.

Introduction

London Councils welcomes the opportunity to respond to the Government's consultation on the discretionary relief fund of £300 million over four years from 2017-18, announced at Spring Budget 2017.

We agree that a discretionary relief scheme is necessary to help with the disproportionate changes to rates bills as a result of the 2017 business rates revaluation and welcome this funding, which provides further support in addition to Transitional Relief. However, this response sets out a number of concerns regarding the scheme including:

- the amount of funding London boroughs will receive;
- the lateness of the announcement and consequent impact on billing processes;
- uncertainty over exactly how much discretion local authorities will have in reality; and
- the fact that the relief is intended to alleviate a symptom of a much more fundamental problem which is not being addressed with the business rates valuation system.

This response firstly sets out London Council general comments in response to the new relief, which is followed by answers to the specific questions in the consultation.

General comments

Underfunding

London's continued economic growth is vital to the country as a whole and London delivers a net surplus in taxation to the rest of the country of around £45 billion per annum. Maintaining that growth during a period of uncertainty in which the UK will leave the EU is important. The disproportionate rises in bills for ratepayers in London as a result of the 2017 Revaluation represents a further risk to London's economy during this uncertain period, which is in the national economic interest to mitigate.

It is clear from analysis of the VOA's draft 2017 rating list that there will be a disproportionate impact in London from the revaluation:

- London will see its Gross Rates increase by £1.5 billion (99% of the national total) and the rest of England only £19 million[1].
- London will see its rateable values increase by £3.9 billion (70% of the national total) and the rest of England £1.6 billon.

We are, therefore, concerned that the funding available in the new discretionary relief does not reflect the relative pressures London is facing as a result of the 2017 Revaluation. One of reasons is that the proportion of businesses in London that are classified as "small" is much lower in relative terms than the rest of England. With London's proposed share of the £300 million fund standing at £124 million (41%), but with London seeing 70% of the national increase in RV, we would strongly urge that the methodology should be reviewed to reflect the higher average rateable values in London compared to the rest of the country.

With the funding allocations declining over the four years of the scheme, but transitional arrangements seeing the upwards caps 'loosening' over time, there is a mismatch between likely demand for support and available resources to meet it. Flexibility to move funding between years is welcome, but is unlikely to be sufficient to fully address these pressures, leaving ratepayers with unrealistic expectations about the level of support that will be available to them.

If the allocation methodology does not adequately provide funding for London to address the impacts of the revaluation and support ratepayers then there are real risks to both London local government and London's continued economic growth.

Timing

While additional funding is welcome, the last minute nature of these changes is also disappointing. The government has known the distributional impact of the revaluation since September - but has only decided to take any significant remedial action to address this very late in the day.

London Councils – together with the Mayor of London and the business community - clearly set out our concerns with the disproportionate impact of the Revaluation on London's businesses and economy back in October[2], and voiced concerns around the narrow options presented in the consultation on the Transitional Relief scheme around the same time.

Together with the last minute changes to rate bills as a result of the new transitional support for small businesses announced at the Budget, local government is now being asked to administer a discretionary scheme for support that will effectively start on 1 April this year but before this consultation even closes. This provides local government with no time to properly plan and design local schemes. Local authorities will now be under significant pressure from businesses to issue correct bills and design a discretionary relief scheme as soon as possible in the 2017-18 financial year, and will have to undergo the further administrative burden of

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[1] By applying the 2016-17 SBR Multiplier (0.484) and 2017-18 SBR Multiplier (0.466) to 2010 and 2017 total rateable values respectively.

[2] http://newwestend.com/wp-content/uploads/2016/10/26.10.16-Bis-rates-press-release-FINAL-002.pdf

agreeing changes with software providers – for which we would expect a new burdens assessment.

Local government is again being asked to deliver a solution for central government at very short notice to an issue that has easily been foreseen and forewarned. The chaotic way the government has dealt with the 2017 Revaluation is a an example of short term thinking that evident in a number of policy areas that is significantly increasing uncertainty for local authorities and undermining any ability to plan over the medium term. It shows a general lack of understanding by central government of local government planning and budgeting processes.

Level of true discretion

London Councils has some concerns with the true scope for discretion local authorities will have in designing their own schemes, given the national parameters proposed to allocate funding are clearly set out and will create a level of expectation for ratepayers in an area.

At the very least, the high profile announcement of the relief will raise unrealistic expectations amongst local businesses about the scale of the funding they can expect to receive and London Councils' members are concerned that some ratepayers may challenge councils' schemes if they differ from the funding allocation methodology. Clarity is therefore urgently needed on the legal position and how vulnerable councils may be to such challenges. Were local authorities required to consult businesses to justify a local scheme varying significantly from national parameters, this would be a significant burden and add further delay. We ask that the conditions of the s31 grant are therefore as simple and light touch as possible.

The fundamental problem with the valuation system

Finally, the discretionary funding, whilst welcome, is merely treating a symptom of a much more fundamental problem that London Councils and the GLA have repeatedly highlighted in recent consultation responses: the fixed yield valuation system which is making the tax ever more concentrated on – and sensitive to – the central London property market. The continuation of this principle will mean London accounting for ever more of the national business rates tax take (we estimate that, if current trends continue, it will be more than 50% by 2040). The impact of this is that a larger proportion of funding for the rest of the sector is being generated by London's tariff – i.e. its surplus in business rates.

This fundamental issue is clearly exemplified by the 2017 Revaluation which shows that average values in London will rise by around 24%, compared with just 4% across the rest of England. The figures published by DCLG suggest this will mean an 11% rise in rates bills on average in London (before inflation and the adjustment to the multiplier for future appeals) – equating to £909 million - compared with reductions on average for every other region. The impact on the retention system is that London's tariff will increase considerably from around £350 million to almost £1 billion,

Making other parts of the country more reliant on top-up grant undermines the growth incentive and, in a system that is supposed to incentivise councils to promote growth, while the sector as a whole is encouraged to become "self-sufficient", this makes no economic sense.

We believe the solution is to end the fixed yield system and allow true local devolution of the tax enabling London government to be accountable for London's business rates by decoupling its tax base from that of the rest of the country, as part of the devolution of a wider suite of taxes and revenue raising powers that would make London government more accountable to local taxpayers and – we believe - more effective.

Responses to the consultation questions

Q1. Do you agree that individual local authorities should be responsible for designing and implementing their own discretionary relief schemes, having regard to local circumstances and reflecting local economies?

London Councils agrees with the principle that individual local authorities should be responsible for designing and implementing their own discretionary relief schemes. By necessity, they will need to have regard to local circumstances and local economies in designing schemes including the make-up of the local tax base.

Q2. Are the Government's assumptions about the design of local discretionary relief schemes reasonable?

London Councils broadly agrees with the assumptions that support will be provided to ratepayers or localities facing the most significant increases in bills and ratepayers occupying lower value properties.

However, we believe the higher average rateable values in London compared with the rest of the country must be more accurately reflected:

- London's average 2017 rateable value is £67,000; almost twice that of the national average £34,000.[3]
- Around 11% of London's total properties have a rateable value above £100,000 compared with 4% for the rest of England.[4]
- Around 52% of London's properties have a rateable value below £15,000 compared with 72% for the rest of England.

This clearly has implications for the design of local schemes but also about the types of support that London local government may choose to provide to its ratepayers seeing significant increases in bills.

Q3. Is the allocation methodology reasonable?

London Councils appreciates the simplicity and transparency of the proposed allocation methodology but would question its fairness in achieving an allocation of funding that meets the Government's assumptions about where more support will be provided. The use of bills (excluding the impact of transitional relief and other reliefs) in the allocation methodology results in many hereditaments being used to allocate funding which in practice with rateable values below £12,000 would receive 100% discount on their bill. The effect of allocating the funding before small business rate relief, and/or transitional relief, potentially results in insufficient funding going to areas facing the most significant increases in bills. It also runs the risk of misaligning funding with cost pressures for different areas through allocating funding on a theoretical basis against actual cost pressures faced by local authorities from ratepayers being determined after reliefs are applied.

It also has implications for the allocation methodology, as a uniform rateable value threshold does not reflect the higher average values in London and will exclude many of the ratepayers that are seeing significant increases in their bills. As such, we believe a regional threshold would be appropriate as is the case in both the Small Business Rates Relief and Transitional Relief thresholds which reflect London's different tax base to the rest of the country. For example, a

[3] VOA data release on rateable values: 6 October 2016.
[4] Analysis of the September 2016 Draft 2017 Revaluation list for Rateable Values

medium sized property is classed as above £28,000 in London and £20,000 rateable value elsewhere for Transitional Relief purposes.

There is also arguably a contradiction between the practical reality of providing support through the proposed allocation methodology parameters and the government's stated assumptions of where more support will be provided, particularly for the first year of the scheme. In addition to the Small Business Rate Relief threshold accounting for many hereditaments, Transitional Relief will see protection of 5% for small businesses and 12.5% for medium sized businesses – leaving only large businesses (rateable values above £100,000) but below the proposed threshold of £200,000 as potentially eligible for a scheme designed along the national funding methodology principles.

Q4. Do you think that authorities should have some flexibility to switch resources between years to ensure relief provided meets local need and provides maximum value for money?

London Councils agrees fully that authorities should have flexibility to switch resources between years. Local authorities are best placed to understand their areas and the pressures on local ratepayers as a result of the revaluation. However, whilst this principle is readily agreeable there is a more significant issue of funding being misaligned with cost pressures locally. For example, the 'unwinding' of the transitional relief caps over time means that more hereditaments are likely to be eligible for support with increases above 12.5% over the four years. However, in contrast, the funding profile is tapered down meaning that funding available is reducing as the cost pressures and need for support local schemes face will be increasing.

Q5. Do you agree with the proposal that s.31 grant should be paid to compensate authorities for their loss of income under the rates retention scheme up to the maximum of that year's 'total pot'?

London Councils agrees that local authorities should not be worse off by switching funding from an earlier year to a later year due to any increase in locally retained business rates and agrees with the proposed extra funding from government through s.31 grant to ensure full compensation for the relief given. This may be particularly relevant to London in the context of a 2018-19 100% retention pilot, which would increase exposure to the granting of relief and seeing income reduced by the entire value of the relief if retention is at 100%.

Q6. Do you agree with the proposals for administering payments, including in-year payments based on estimates, end-year reconciliations and payments quarterly in arrears?

London Councils agrees. This seems sensible based on how existing reliefs and the business rates retention system operate.

Q7. Do you agree that the grant conditions are appropriate?

One of the conditions of the grant is for billing authorities to consult with their major precepting authorities. Further clarity is sought regarding the scope and format of these consultations.

Given London's higher average rateable values, higher growth in rateable values and therefore greater demand for support as a result of the revaluation, there is a disproportionate impact on London local government from the requirement of State Aid law around a maximum of €200,000 over a three year period being paid that will impact on providing discretionary relief to ratepayers in the capital that need support. It is not clear how the limitation created by the State Aid law has been accounted for within the funding allocation formula. London Councils believes the government should have provided some indication of the potential impact alongside the consultation.