Hospitals (Parking Charges and Business Rates) Bill
House of Commons, Second Reading
11 September 2020

Key Messages

- The Hospitals (Parking Charges and Business Rates) Bill seeks to prohibit charging for car parking at NHS Hospitals for patients and visitors and ensure NHS Hospitals are exempt from business rates. Whilst we recognise that people visiting hospital for regular treatment often face significant additional expenditure due to parking charges, the LGA does not support the Bill as business rates form a vital source of revenue for councils. The Bill's provisions, if enacted, could significantly impact on local government funding.

- Business rates account for around a quarter of all council spending power.[1] Money raised is used to pay for vital local services, such as caring for older and disabled people, protecting children, fixing potholes and collecting bins.

- In December 2019, the High Court ruled that NHS Trusts and Foundation Trusts are not eligible for business rates relief. In our view this was a welcome decision as it meant that councils would not have to pay NHS Trusts and Foundation Trusts the compensation claimed, plus interest backdated six years, nor see them eligible for 80 per cent relief. The decision is now being appealed.

- Councils are facing significant extra costs from the extra demands created by COVID-19, and they are also facing a significant drop in income. Whilst the Government stepped in and provided some support, significant challenges remain. These will have a lasting impact for communities, and it is vital that any review of the business rates system bears in mind the need to provide long term funding certainty and sustainability to local government.

- At the Budget, the Chancellor announced a comprehensive review of business rates. The terms of reference for this were published in March 2020 and a call for evidence was published on 21 July 2020 and the LGA will be feeding into the review. We have urged the Government to ensure it works closely with the LGA and councils to ensure that the sustainability of funding for local services is one of its central considerations of the review.

- Councils want to see a reformed business rates system which commands confidence. The system does need to be modernised and improved by, for example, ensuring that all sectors make a fair contribution. This is of added importance in the current context where the COVID-19 crisis means that collecting business rates is exceptionally challenging. The risk of appeals on councils need to be reduced and tougher powers are also needed for them to tackle business rates avoidance.

Local Government Association

Briefing

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Background information

Business rates

Alongside Council Tax, business rates (non-domestic rates) represent the largest source of income for councils. Retained business rates contribute around a quarter of local authority core spending power. Councils were expecting to collect £26.5 billion in business rates this year. Due to business rates relief, mainly for retail, hospitality and leisure premises, around £11 billion of this will be covered by government grant in 2020/21.

All non-domestic premises pay business rates, including council premises and schools, unless specifically exempted by legislation. NHS Hospitals pay around £400 million in business rates per year for which they are funded by the NHS. This represents around 1.5 per cent of all business rates paid.

Councils have little discretion over business rates although councils which are billing authorities collect the tax and business rates income goes towards financing local government. The rateable value is set by the Valuation Office Agency, a government agency. Values are based on market rentals and are revalued regularly. The next revaluation, which would have used April 2019 values, was due to have come into effect in 2021 but will now use April 2021 values and will come into effect in 2023. The multiplier (pence in the pound) is set by the Government and its annual rise cannot go above the rate of inflation. Most reliefs are mandatory or, if discretionary, are funded by the Government.

Collectively, councils currently keep half of the business rates collected in England, and this is shared to help councils that are less able to generate business rates. The amount of business rates income kept by local government nationally was proposed to increase to 75 per cent from April 2021 but this has now been deferred along with the review of relative needs and resources ('Fair Funding Review').

Business rates appeals are still a major concern. Over 50,000 appeals are unresolved from 2010 and councils have had to make provision for over £3 billion for these and expected appeals against the 2017 valuation list, through the Check, Challenge and Appeal system, money which is not available to spend on services. Most of the 2010 appeals relate to ATMs and are only now being dealt with following a Supreme Court decision, so the amount held in provisions is expected to go down.

The Government is currently conducting a fundamental review of business rates. The terms of reference were published by the Government in March 2020 and the call for evidence[2] was published on 21 July, with responses on reliefs and the multiplier requested by 18 September and other aspects by 31 October. The LGA will be submitting evidence.

The LGA would like to see a system which is fair to all and which promotes growth through incentives, commands confidence and provides sufficient income to keep up with demand, given the pressures on local government. Sectors such as online businesses should make a fair contribution either through a change to business rates valuation or through some form of taxation of online business activity where the proceeds go to local government.

We have called for councils to be given maximum flexibility to target reliefs to suit local circumstances, particularly for reliefs which are currently mandatory like charitable, empty property and small business rate relief. If local authorities had more discretion in this area, they would be able to help local and independent businesses in order to stimulate the local economy.

On business rates avoidance, we published a refresh of our 2014 survey in January 2020. We estimate avoidance at an average 1 per cent of total net business rates income (an estimated £250 million in England in 2017/18). We have pressed the Government to give a commitment to working with local government to tackle business rates avoidance, along the lines of those being introduced in Wales and Scotland.

The financial impact of COVID-19

Councils have responded positively and innovatively to the challenges posed by COVID-19. Working in collaboration with national government, councils have protected lives, livelihoods and the most vulnerable residents and have ensured that our most important public services have kept running successfully. This work has had a significant impact on council budgets. Councils have faced increased costs and demand pressures, at the same time they have experienced a significant reduction in the income that they rely on to fund services.

Certainty over sufficiency of funding and liquidity is vital to ensure that councils can successfully deliver the best possible response to COVID-19, but many councils are already finding themselves in a very challenging financial environment. Every council is seeing a huge drop in council tax, business rates and income they receive from fees and charges such as leisure services, commercial estate and parking. In addition, councils face increased costs to meet additional social care demand as well as to support those in increased financial hardship.

Councils' have been submitting monthly returns to the Ministry of Housing, Communities and Local Government (MHCLG) on the financial challenges they face as a result of the pandemic. LGA analysis of councils' July returns shows that extra COVID-19 costs and losses of income incurred by councils from March to July, amounted to £6.1 billion.

The Institute for Fiscal Studies (IFS) published a report, co-funded by the LGA and the Economic and Social Research Council, which further highlights the financial strain councils will be under due to the COVID-19 pandemic into the next year "and beyond".[3] The IFS states that, for 2020/21 alone and without considering losses due to uncollected local taxation, there is still a gap of £2 billion that needs to be met once financial measures announced so far are taken into account. The 2020 Comprehensive Spending Review and Autumn Budget will be key opportunities for sustainable funding solutions and movement towards greater service and fiscal devolution, allowing councils to deliver for local communities.

The loss of business rates (£953 million) and council tax income (£867 million) combined in the period from March to July 2020 accounts for around half of all income losses for councils over the same period. This highlights the impact of the virus on local economies as some businesses close or people who are struggling to pay bills as a result of loss of earnings.

In the context of the current COVID-19 pandemic, the returns to the MHCLG monthly financial information survey for the months of April to July suggest that collection of council tax, in recent years over 97 per cent, could be reduced by 5 per cent to around 92 percent. It is welcome that the Government has already confirmed that councils will be able to spread the impact of local taxation losses over three years. We are calling on the Government to use the 2020 Spending Review to commit to covering the impact of all lost income, including local taxation, in full.

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[1] LGA Budget 2020 briefing, https://www.local.gov.uk/sites/default/files/documents/LGA%20On-the-Day%20Briefing%20-%20Budget%202020.pdf

[2] https://www.gov.uk/government/consultations/hm-treasury-fundamental-review-of-business-rates-call-for-evidence

[3] https://www.ifs.org.uk/publications/14977