

Local Government Association Briefing

Local Government Finance Bill

House of Commons, Second Reading

23 January 2017



KEY MESSAGES

- **Local retention of 100 per cent business rates (Clause 1):** This Bill provides the framework for local government keeping more of its business rates income, something which has long been called for by councils. We will continue to work alongside government and councils on how the new system can work effectively and maximise the potential it offers to our local communities and businesses.
- The devolution of responsibilities is subject to further consultation and is not included in this Bill. It is important for the new system to be implemented in a way which balances rewarding councils for growing their local economies but avoids areas less able to generate business rates income suffering as a result.
- **Loss payments/appeals (Clause 2):** The provision in the Bill to allow for government to pay local authorities for the cost of business rates appeals is positive. This, together with wider reforms to the business rates appeals system, is essential to protect councils from the growing and costly risk of appeals. This has to happen before local government keeps all of its business rates income as this could mean it is liable for 100 per cent of refunds. Councils have been forced to divert £2.5 billion from local services to cover the risk of paying half of appeals and refunds over the past five years.
- **Reducing the business rates multiplier (Clause 6):** We welcome measures to allow councils the flexibility to reduce the multiplier. The Bill should be amended to allow authorities to target this within their areas. This could include specific areas, industries or businesses categorised above or below a particular rateable value threshold.
- **Reliefs (Clauses 7 and 8):** Councils need more flexibility on reliefs and there need to be improvements to the system to help local authorities reduce avoidance of business rates. The current system of reliefs does not incentivise growth as it does not allow councils to target discounts to specific businesses or industries. Local government would welcome further discretion on reliefs and we are calling on the Government to review the system, including mandatory rate relief for charities and empty properties. This would allow authorities to target reliefs in way that would incentivise growth and reduce avoidance.
- **Infrastructure supplements (Clauses 15-36):** The power for the Greater London Authority and mayoral combined authorities to raise a supplement on business rates to help deliver infrastructure is a positive development. This provision will be welcomed by these authorities as a measure to promote economic development in their areas. All councils should be given the option to use a supplement to support the funding of infrastructure

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improvements and we would welcome discussions for a clear and transparent process for all authorities to acquire such power. We welcome the fact that the Government has dropped the requirement, on which it consulted, for business members of Local Enterprise Partnerships to have a veto on the introduction of the supplement.

BACKGROUND INFORMATION

The LGA has produced a guide to business rates retention. 'Don't be left in the dark: what localised business rates mean for your council' provides background information on the current system and the impact the reforms could have on local government.

In October 2015 the Government announced that, by the end of this Parliament, local authorities in England, as a whole, will be able to keep 100 per cent of the business rates they raise locally. This Bill provides the framework to allow those changes to take place. Other key announcements included:

- Individual local authorities will keep business rates growth in their area, at least until a 'reset' (which may be every five years), when some or all of this will be redistributed.
- Councils will be given new responsibilities intended to ensure reforms are 'fiscally neutral' and Revenue Support Grant (RSG) will be phased out.¹
- All councils will be able to reduce the multiplier. Directly elected combined authority mayors will be able to increase multiplier to fund new infrastructure.²

The Government's initial consultation on these reforms opened in July 2016 and closed in September. We expect the Government to respond to this consultation shortly. Key points from our response include:

- The new system should be implemented in a way which balances rewarding councils for growing their local economies but avoids areas less able to generate business rates income suffering as a result.
- With local government facing an overall £5.8 billion funding gap by 2020, it must be able to use its extra business rates income to plug this growing gap. This could allow local authorities to use additionally retained business rates to tackle the challenges facing local services including social care, which we estimate will require an additional £2.6 billion by the end of the decade. The Government should undertake a full needs assessment of local government finances before the new system is implemented. Once existing funding gaps are addressed, councils should then be able to invest the rest into services which support local economies and drive local growth, such as closing skills gaps and improving public transport.
- Councils do not want responsibility for administering the Attendance Allowance benefit for older people. This could create a significant long term burden that would grow at a rate well in excess of any growth in business rates. Responsibility for administering it would create additional cost pressures for councils whose budgets are already under significant strain.

¹ RSG is a grant paid to local authorities which can be used to fund revenue expenditure on any service.

² The business rates multiplier, when multiplied by the rateable value of a property, determines a ratepayer's business rate bill. There are two multipliers – one for small businesses and one for larger businesses. These are set nationally.

On 19 January the Secretary of State confirmed that Attendance Allowance would not be localised under the new system.³

- All areas, not just those with directly elected mayors, should have the power to increase the business rates multiplier.
- Councils need to be protected from the cost of successful business rates appeals.

The devolution of responsibilities is subject to further consultation and is not included in this Bill. We will continue to work alongside government and councils on how the new system can work effectively and maximise the potential it offers to our local communities and businesses. We would also like to see the current new burdens doctrine enshrined in law. This would ensure any new functions required of local government are appropriately resourced.

BILL ANALYSIS

Part 1: Local Government Finance Settlement - England

Clause 1 and Schedule 1: Local retention of 100 per cent of non-domestic rates, multi-year settlements and council tax referendum principles

Clause 1 provides the framework for local government, as a whole, to retain 100 per cent of locally collected business rates. Alongside this, the payment of Revenue Support Grant will be removed along with the requirement for councils to pay 50 per cent of business rates income to the government through a central share. The details are set out in Schedule 1. To ensure that authorities that currently raise less in business rates do not lose out, there will continue to be a mechanism for redistribution between authorities, similar to the current system of tariffs and top ups.⁴

This Bill is an important step on the road towards local government keeping more of its business rates income, something which has long been called for by councils. We will continue to work alongside government and councils on how the new system can work effectively and maximise the potential it offers to our local communities and businesses.

Schedule 1 abolishes the levy on business rates growth. It is important for the new system to be implemented in a way which balances rewarding councils for growing their local economies but avoids areas less able to generate business rates income suffering as a result.

The devolution of responsibilities is subject to further consultation and is not included in this Bill. We will continue to work alongside government and councils on how the new system can work effectively and maximise the potential it offers to our local communities and businesses.

Schedule 1 amends the current local government finance settlement process from annual statements to multi-year settlements.⁵ The related approach to the setting

³ MJ article, '[Javid: Attendance Allowance will not be part of rates reform](#)', 19 January 2017

⁴ Top-ups and tariffs are the difference between an authority's business rates baseline (the amount expected to be collected through the local share of business rates) and its baseline funding level (the share of the local government spending control total). Tariff authorities make a payment and top-up authorities receive a payment.

⁵ The annual local government finance settlement (LGFS) would be replaced by alternative forms of reporting, known as a 'principles of allocation statement'. This would set out how tariff and top-up levels are to be calculated and could be produced for a

of council tax referendum principles is covered in Clause 4. Multi-year finance settlements give councils more predictability and the ability to better plan their budgets. Currently 97 per cent of local authorities have accepted the four year budget deal.

Schedule 1 also allows for regulations to change the way that safety net payments (for councils where income falls below a certain threshold due, for example, to a large business on which they are heavily reliant on business rates income collapsing or moving out of the area) are accounted for. We welcome the Bill's measures to tidy up the arrangements for accounting for the safety net.

Clause 2: Loss payments

Clause 2 is intended to provide the framework to help authorities manage risk. The Bill's explanatory notes outline that the Government are seeking to ensure that councils are insulated from "undue shocks or significant reductions" in their income as a result of alterations to rating lists. Under the current system, this is largely through appeals against the Valuation Office Agency's (VOA) assessment of a property's rateable value.⁶

The provision in the Bill to allow for government to pay local authorities for the cost of business rates appeals to the VOA is positive. This, together with wider reform of the business rates appeals system, is essential to protect councils from the growing and costly risk of appeals. This has to happen before local government keeps all of its business rates income as this could mean it is liable for 100 per cent of refunds. Under the current system, the uncertainty created by appeals means that instead of spending money on local services, local authorities have to hold funds back to ensure they can pay half of the costs of successful challenges to the VOA's assessment in the future or backdated appeals. Councils have been forced to divert £2.5 billion from local services to cover the risk of paying half of appeals and refunds over the past five years.

The reforms under the new 'Check Challenge Appeal' system, including charges for lodging appeals, are a step in the right direction. We will monitor these changes and will press for further reforms if they do not have the effect of solving appeals faster.

We would welcome further information on how any reformed appeals system will operate, including how it will be funded.

Clause 3 and Schedule 1: Designation of areas by pools of authorities

Provisions in Clause 3 and Schedule 1 would allow pools of authorities to designate areas where growth in business rates could be retained for a specified number of years, along the lines of enterprise zones or new development deals. The Secretary of State will have a power to designate pools where not all authorities agree.⁷

number of years in place of the current LGFS. These statements, and reports on council tax referendums, would not require the approval of the House of Commons annually.

⁶ If a business disagrees with the Valuation Office Agency's (VOA) assessment of a property's rateable value, they can appeal the valuation which will be considered by an independent Valuation Tribunal. There are currently around 300,000 outstanding appeals.

⁷ Currently, two or more local authorities may pool their business rate revenue. Pools are assigned a single tariff or top-up, and it is for the pool itself to decide how to distribute revenue amongst its members. Pools are voluntary under the current system and can reduce local authorities' exposure to risk, for example from appeals and liability to pay the levy on business rates growth. They normally consist of geographically aligned authorities, though there is no statutory requirement for this.

The power of the Secretary of State to intervene in designating pools against the wishes of some individual councils is an unnecessary intervention and should be withdrawn. Authorities should be given the option of voluntarily pooling risk and rewards as long as it does reduce income going to authorities outside of the pool-area.

Clause 4: Determination of principles for determining whether council tax is excessive

Clause 4 would allow the Secretary of State to determine whether council tax is excessive covering a number of years, rather than just one as is currently possible in existing legislation.⁸

The power of the Secretary of State to intervene in the ability of councils to set their council tax rates is an unnecessary burden. Residents have the opportunity to hold their local politicians to account on issues such as this at local elections. Our general position on this aside, if the Government is committed to impose council tax rate decisions on local government, the ability for these to be set on a multi-year basis is a step in the right direction.

Part 2: Non-domestic rating in England

Chapter 1 (Clause 5 and 6 and Schedule 2): Business rate multiplier discounts

Clause 5 includes a power to set the indexation rate for the business rate multiplier. This allows the Government to meet the commitment made at the Budget 2016 to index business rates from RPI to CPI. Clause 6 and Schedule 2 propose a new flexibility to allow local authorities to reduce the national business rate multiplier. The explanatory notes to this Bill outline that the Government aim is that these reforms will help councils attract business to invest in their area. This power will apply to both counties and districts in two tier areas, provided that that the authority which decides on the power should bear the cost. There will be no limit on the power of councils to increase the multiplier to the national level after a decision to reduce.

We welcome measures to allow councils the flexibility to reduce the multiplier. The Bill should be amended to allow authorities to target this within their areas. This could include specific areas, industries or above or below a particular rateable value threshold.

The Government's decision not to constrain increases in business rates beyond the national multiplier, following a reduction, is a positive measure.

Chapter 2 (Clauses 7, 8 and Schedule 3): Reliefs

Councils need more flexibility on reliefs and there need to be improvements to the system to help local authorities reduce avoidance of business rates. The current system of reliefs does not incentivise growth as it does not allow councils to target discounts to specific businesses or industries. Local government would welcome further discretion on reliefs and we are calling on the Government to review the system, including mandatory rate relief for charities and empty properties. This would allow authorities to target reliefs in way that would incentivise growth and reduce avoidance. There should also be a better system of dealing with public

⁸ Any local authority seeking to raise its council tax by the threshold, currently 2 per cent or more with additional flexibility for social care authorities of up to 3 per cent, must hold and win a local referendum. At present these thresholds are set annually by the Secretary of State.

sector business rates, without reducing incentives for attracting large public sector organisations to locate in an area.

Clause 7: Relief for small business in rural areas

Clause 7 provides for a change to rural rate relief to ensure small businesses in rural areas access the same level of business rate reliefs as those in urban areas following the announcement at the Budget 2016.

We welcomed measures in the Provisional Local Government Finance Settlement that councils will continue to be fully compensated for the loss of income from the centrally imposed reliefs. The change to rural rate relief will be particularly welcome to small businesses in rural areas. However, this reduces the buoyancy of the tax base by impacting upon the amount of business rates income and future growth in business rates. This is one of the issues to discuss with the Government as we move to further business rates retention.

Clause 8: Telecommunications infrastructure relief

Clause 8 seeks to implement 100 per cent business rates relief for five years for the installation of new optical fibre. This follows the announcement at the Autumn Statement 2016.

Access to fast and reliable digital connectivity is a necessity for households and businesses across the UK. Local government has already committed over £700 million through the Superfast Broadband Programme to help suppliers connect hard to reach residents. While the announcement of new investment for digital infrastructure is good news, Government must not lose sight of the needs of rural communities already struggling to receive a basic broadband service.

We understand that the business rates relief measures will be fully funded by central government. Measures such as this reduce the allocation of funding available for business rates retention and impact on future growth in business rates income.

Clause 9: Public toilet relief

Clause 9 provides a new discretionary relief for public toilets to reduce the costs on local authorities of maintaining these facilities. We welcome this flexibility as it will mean that local authorities can give relief to their own premises.

Clauses 10 and 11: Central ratings

On local rating lists, properties occupied by a charity and used wholly or mainly for charitable purposes receive 80 per cent mandatory relief, and unoccupied properties may, in some circumstances through regulations, pay no business rates. Clause 10 provides for these reliefs to be introduced onto the central ratings list.⁹

Clause 11 makes further provisions relating to the maintenance of the central ratings list. The Government would have new powers to amend the central list without requiring a regulation approved by Parliament for each change.

Reforms that seek to streamline the process for the central ratings list are welcome. Only genuine non-local property should go on the central list and we support the

⁹ The central ratings list is a centrally-held list of non-domestic properties. Most properties on the central list are related to the utilities and/or to property belonging to formerly nationalised industries. Each company on the central list is given a single rateable value, whereas local ratings lists include values for each individual property.

Government's policy intention to review the system, in consultation with local government, before the introduction of the new system.

Clause 12: Electronic billing

Clause 12 would enable the Secretary of State to make regulations that require billing authorities to offer ratepayers the option to receive their business rate bills electronically. This would enshrine in legislation best practice from local government, as almost all councils allow for this to happen.

Clause 13: Rating notices

Clause 13 would enable the Secretary of State to issue guidance to billing authorities on the form and content of business rate demand notices.

The LGA is in favour of streamlined billing but it should not remove councils' discretion to communicate with their ratepayers in the most appropriate manner. We are seeking clarification from the Government that any new burdens for councils arising from this measure will be addressed prior to implementation.

Clause 14: Provision of digital services by HMRC

Clause 14 provides HMRC with the ability to incur expenditure in order to work on the design of a new digital service that will link local authority business rates systems with HMRC's digital tax accounts.

We support this Clause but would welcome clarification from the Government that councils which are billing authorities will continue to have responsibility for the collection of business rates.

Part 3 (Clauses 15-36): Infrastructure Supplements

Part 3 would allow the Greater London Authority and mayoral combined authorities to raise a supplement on business rates to help deliver infrastructure. This power will enable up to two pence in the pound to be raised for this purpose. The relevant authorities will have to issue and consult on a prospectus but will otherwise be free to raise the supplement without requiring a vote of businesses.

The power for the Greater London Authority and mayoral combined authorities to raise a supplement on business rates to help deliver infrastructure will be welcomed by these authorities as a measure to promote economic development in their areas. All councils should be given the option to use a supplement to support the funding of infrastructure improvements and we would welcome discussions for a clear and transparent process for all authorities to acquire such power.

We welcome the fact that the Government has dropped the requirement, on which it consulted, for business members of Local Enterprise Partnerships to have a veto on the introduction of the supplement.

Part 4: Other business rate supplements

Chapter 1 and Schedule 5: Business improvement districts and business rate supplements

Clause 37 and Schedule 5 contains measures to allow billing authorities in England to make property owner arrangements and implement property owner levies in

Business Improvement Districts (BIDs¹⁰), regardless of whether a Business Rate Supplement is in force in that district.¹¹

Clause 38 extends the current Business Rates Supplement powers to Mayoral Combined Authorities.

Property owner BIDs allow property owners who may not be ratepayers to contribute towards improvements in commercial areas. We welcome the extension of the property owner BID provisions, which currently only apply in London where there is Business Rates Supplement, as this contributes towards local economic growth.

¹⁰ Local businesses may create a BID covering a geographical area of their choice (normally smaller than a local authority, e.g. a town centre). These have to be approved by a ballot of ratepayers and are time limited.

¹¹ The only Business Rate Supplement in existence so far is a 2 per cent supplement on larger businesses in the area of the Crossrail development in London, to help pay for Crossrail.