

Local Government Association Briefing

Debate on the review of the business rates system

House of Commons
Wednesday 13 June



Key messages

The business rates system

- Alongside Council Tax, business rates represent the largest source of income for councils. It is crucial that the business rates system is responsive to local needs, fair, buoyant and incentivises local growth.
- The review of business rates should reward councils for growing their local economies, whilst protecting those areas less able to generate business rates income.
- The Government needs to empower councils to better plan their finances. Clarifying the future of business rates retention and the Fair Funding Review will go some way to achieving this ahead of the 2019 Spending Review.
- It is important that a solution is reached to help deal with the financial risk from business rates appeals, as the need to make provision for these is currently having a major impact on councils' finances. We would welcome proposals that provision should be made for this centrally.
- We would also like to work with the Government on the other issues relating to the business rates base. This should include:
 - Considering the impact of business rates on councils with a small number of large ratepayers in an area.
 - Modernising the way business rates affect different ratepayers, to ensure that sectors such as online businesses make a fair contribution and that councils are given maximum flexibility on reliefs.
 - Reinforcing the stability of the tax.
 - Tackling the issue of business rates avoidance. Our estimates suggest that at least £230 million is lost each year due to business rates avoidance.¹
 - Reviewing the process for appeals and clearing the backlog.

The funding gap

- In the period from 2010 to 2020, councils will have had to deal with £16 billion of reductions to central government grant funding. Councils in England face an overall funding gap that will exceed £5 billion by 2020. The Government must therefore urgently secure the financial sustainability of local government and the 1,300 different statutory duties and responsibilities councils provide.

Briefing

Background information

Business rates

Alongside Council Tax, business rates represent the largest source of income for councils.² In 2018/19 business rates are forecast to raise a total of £24.8 billion, of which about £12 billion is expected to be retained by councils under the current 50 per cent scheme. Councils therefore have a strong interest in seeing a reformed business rates system that commands confidence across the public and private sectors. In particular, it is crucial that the business rates system is responsive to local needs, fair, buoyant and incentivises local growth.

Business rates retention

Business rates is a local tax, raised from local businesses. The tax should be spent on supporting the delivery of local services. Further retention of business rates is something which has long been called for by the LGA and local government. Currently the retention scheme is that 50 per cent of business rates are retained locally, and there are proposals to increase this to 75 per cent after 2020 while phasing out equivalent central government funding. In addition some areas are currently piloting 100 per cent retention.

The value of business rates available for further local retention is estimated to be about £13 billion in 2020. We would like to continue working with the Government on further retention of business rates, and the extra income should go towards meeting the funding gap facing local government. Further business rates retention may not, however, be sufficient as the only measure to achieve sustainable funding for local services. Growth in business rates is unlikely to be enough to meet future inflation and demand pressures. This will continue to need to be addressed going forward.

Appeals

The delay in resolving business rates appeals which date back to 2010 is creating further financial uncertainty. Councils have had to put £2.6 billion into provisions to deal with unsolved appeals. Regardless of whether local government retains 50 per cent, more, or 100 per cent of their business rates income, it is imperative that a solution to the risk of appeals is reached. This will provide councils with greater certainty over the planning of their resources. We welcome proposals for appeals provision to be made centrally and look forward to seeing it implemented as soon as possible.

Negative revenue support grant (RSG)

Under current Government proposals 168 councils – almost half of all English councils – will be in a position where they receive no revenue support grant (RSG) by the end of the decade. On top of this, they will also have their tariffs adjusted upwards or top-ups adjusted downwards. This is so-called ‘negative RSG’. This situation needs to be clarified and the Government has promised a consultation on it.

The funding gap

Despite the funding measures announced in the Spring Budget 2017, Autumn Budget 2017 and the 2018/19 Local Government Finance Settlement, councils will still face a funding gap of £5.5 billion by 2019/20 plus £1.3 billion needed to stabilise the adult social care provider market today. This is based on an assessment of future demand and other cost pressures. Other than the stabilisation of the care market, this projection does not rectify funding reductions since 2010. The pressures facing adult social care, children’s

services and homelessness support are particularly acute, as highlighted in the table below.

The table below sets out the LGA analysis of the funding gap facing local government:

	2017/18	2018/19	2019/20
Children's services	£1.1 billion	£1.6 billion	£1.9 billion
Adult social care (including pre-existing pressure to stabilise the adult social care provider market)	£1.1 billion	£1.3 billion	£2.2 billion
Homelessness	£100 million	£100 million	£200 million
Apprenticeship levy	£200 million	£200 million	£200 million
All other services funded through core spending power	£1.2 billion	£1.8 billion	£2.3 billion
Total funding gap including the £1.3 billion pre-existing pressure to stabilise the adult social care provider market	£3.7 billion (£2.4 billion + £1.3 billion)	£5.1 billion (£3.8 billion + £1.3 billion)	£6.8 billion (£5.5 billion + £1.3 billion)

¹ [LGA response to Business Rates Avoidance - Discussion Paper](#)

² Further information available at:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/684793/NNDR1_2018-19_Stats_release_-_revised.pdf