Local Government Association

DON'T BE LEFT IN THE DARK

What localised business rates mean for your council

A guide to business rates retention

What are business rates?

Much like residents pay council tax, businesses pay business rates.

These rates are a tax on non-domestic properties, such as shops, offices, factories and pubs.

In 2014/15 £22.9 billion was collected in business rates[1].

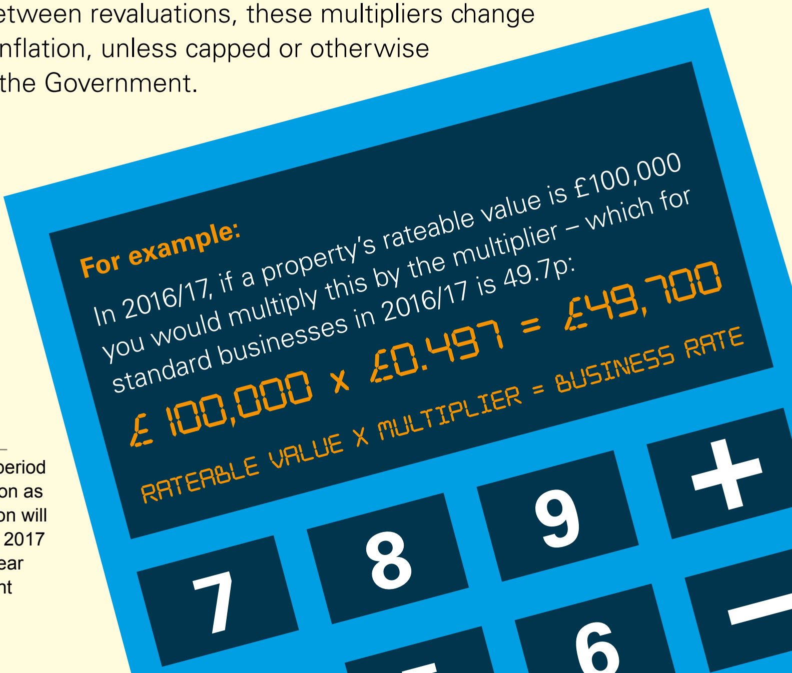
1 Collection rates and receipts of council tax and non-domestic rates in England 2014-15 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/440177/Collection_Rate_Statistics_Release_July_2015.pdf

How are they currently calculated?

Business rates are based on a property's **Rateable Value** – that is, the estimated open market rental value given to a property by the Valuation Office Agency (VOA). This is based on factors such as the size of a property and how it's used. There are different ways of working out the Rateable Value when the property does not get rented on the open market; for example the cost of construction.

In England, business properties have historically been revalued every five years[2].

Each year, the Government sets a **Multiplier** amount, which is the number of pence in every pound by which the Rateable Value is multiplied, to give the business rates owed for the year. Each year between revaluations, these multipliers change in line with inflation, unless capped or otherwise changed by the Government.



2 The current period is an exception as the revaluation will take place in 2017 after a two-year postponement

Where do business rates go?

Before 2013

- Local businesses paid business rates to councils.
- Councils paid these in to one single national pool.
- This money was distributed back to local authorities by government in the form of grants.

From 1 April 2013

- Local businesses pay business rates to councils.
- Councils keep 50 per cent of the business rates collected as a 'local' share[3].
- The central share is paid to government and is used to pay grants to councils including revenue support grant – the main government grant to support local authority services.
- Local government as a whole keeps the local share of business rates. The Government put a system in place to re-distribute this between councils so that councils with higher needs or less capacity to raise their own business rates are compensated.
- Individual local authorities keep 50 per cent of any growth in rates collected in their area above those projected. This is subject to a levy from government which is used to fund a safety net for local authorities who experience significant falls in business rate income.

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3 This is limited to revenue from properties on the 'local list', a register of business rate payers where revenue can be directly connected to a specific local authority area. Another £1 billion of business rates revenue in England is from properties on the 'central list' which normally contains national infrastructure assets such as the rail and utilities networks.

By 2020

In 2015, the Chancellor announced that local government as a whole would be able to keep 100 per cent of business rates by 2020.

Using Office for Budget Responsibility (OBR) forecasts,[4] the Government has estimated that the additional business rates kept by councils could be as much as £13 billion in 2020/21.

The Government's aim is to phase out revenue support grant and potentially some other specific grants, and transfer new responsibilities to local government at the same time as it receives additional income from business rates. This is so that the reform does not result in previously unplanned spending by the public sector as a whole and local government does not benefit financially at the point of transfer.

An example is the consideration of whether other grants, such as the public health grant, should in the future be funded from retained business rates.

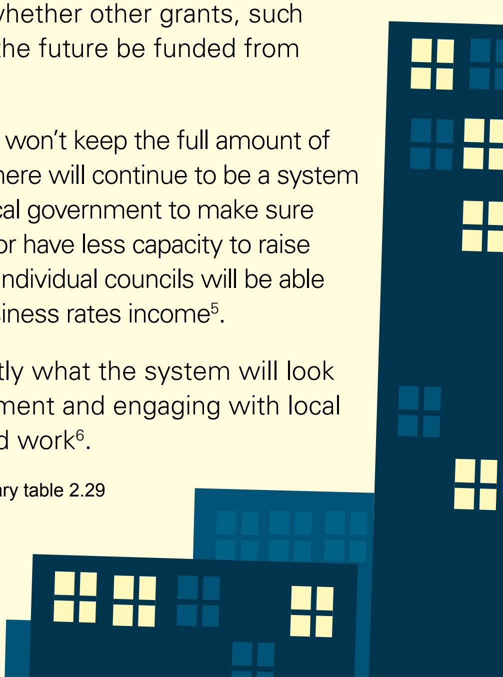
As in previous years, individual councils won't keep the full amount of business rates collected in their area. There will continue to be a system of redistribution across the whole of local government to make sure that councils which have higher needs or have less capacity to raise business rates do not suffer. However, individual councils will be able to keep subsequent growth in their business rates income[5].

Whilst we don't currently know exactly what the system will look like, the LGA is working with government and engaging with local authorities to consider how this could work[6].

4 OBR Economic and Fiscal Outlook supplementary table 2.29 March 2016 http://budgetresponsibility.org.uk/download/economic-and-fiscal-outlook-supplementary-fiscal-tables-march-2016/

5 Until a point of reset

6 http://www.local.gov.uk/business-rates



What issues need to be addressed before the reform?

New responsibilities

The Government intends the reform of business rates to be 'cost neutral'. This means that the level of public spending after the reform should remain the same as planned before the reform through phasing out revenue support grant, other specific grants and transferring new responsibilities to match the remainder of additional business rates.

The Government has stated that it wants to consult with the sector on what specific funding and responsibilities will be funded from the retention of business rates. So far, the only confirmed decisions are the phasing out of revenue support grant and the additional Transport for London capital grant. This leaves a significant sum yet to be decided upon[7].

Equalisation

When introducing the system of 50 per cent business rate retention, the Government put in place a system that ensures councils with relatively higher needs but with relatively lower income from business rates receive a 'top-up'.

Equally a council whose relative income from business rates was deemed to be greater than relative need pays a 'tariff' to government.

These top-ups and tariffs balance each other out nationally and rise in line with inflation between revaluations.

In 2016, the Secretary of State for Communities and Local Government announced a full review of needs and redistribution. This will be used as the starting point for the new system when it comes into force.

Reducing and increasing the multiplier

The Government announced that all councils will have the flexibility to reduce the business rates multiplier in their area and combined authorities with directly elected mayors will also have the power to increase the multiplier by up to two pence in the pound. Such an increase must be agreed by the Local Enterprise Partnership (LEP) and if used, must be spent on infrastructure.

7 Correct at the time of writing

Appeals

If a business disagrees with the VOA's assessment of a property's rateable value, they can propose changes to the VOA. They can also appeal the valuation which will be considered by an independent Valuation Tribunal. There are currently 300,000 outstanding appeals.

The number and scale of appeals are a concern for many councils. The uncertainty created by appeals means that instead of spending money on local services, they have to hold it back to ensure they can pay half of the costs of successful challenges in the future or backdated appeals.

The Government is implementing a new system for appeals from 2017 which will require business ratepayers to state their case at an earlier stage and they could be fined for incorrect or misleading information.

Reliefs

Some properties are eligible to apply for a discount on their business rates. In addition to smaller scale reliefs, the following types of businesses are eligible:

- small businesses – in the 2016 Budget the Government announced that businesses with a rateable value up to £51,000 would pay lower business rates and that those below £12,000 would get 100 per cent relief
- businesses in rural areas
- charities – which are eligible for 80 per cent mandatory relief
- businesses in enterprise zones – designated areas across England that provide tax breaks and government support to help an area in need of growth or regeneration.

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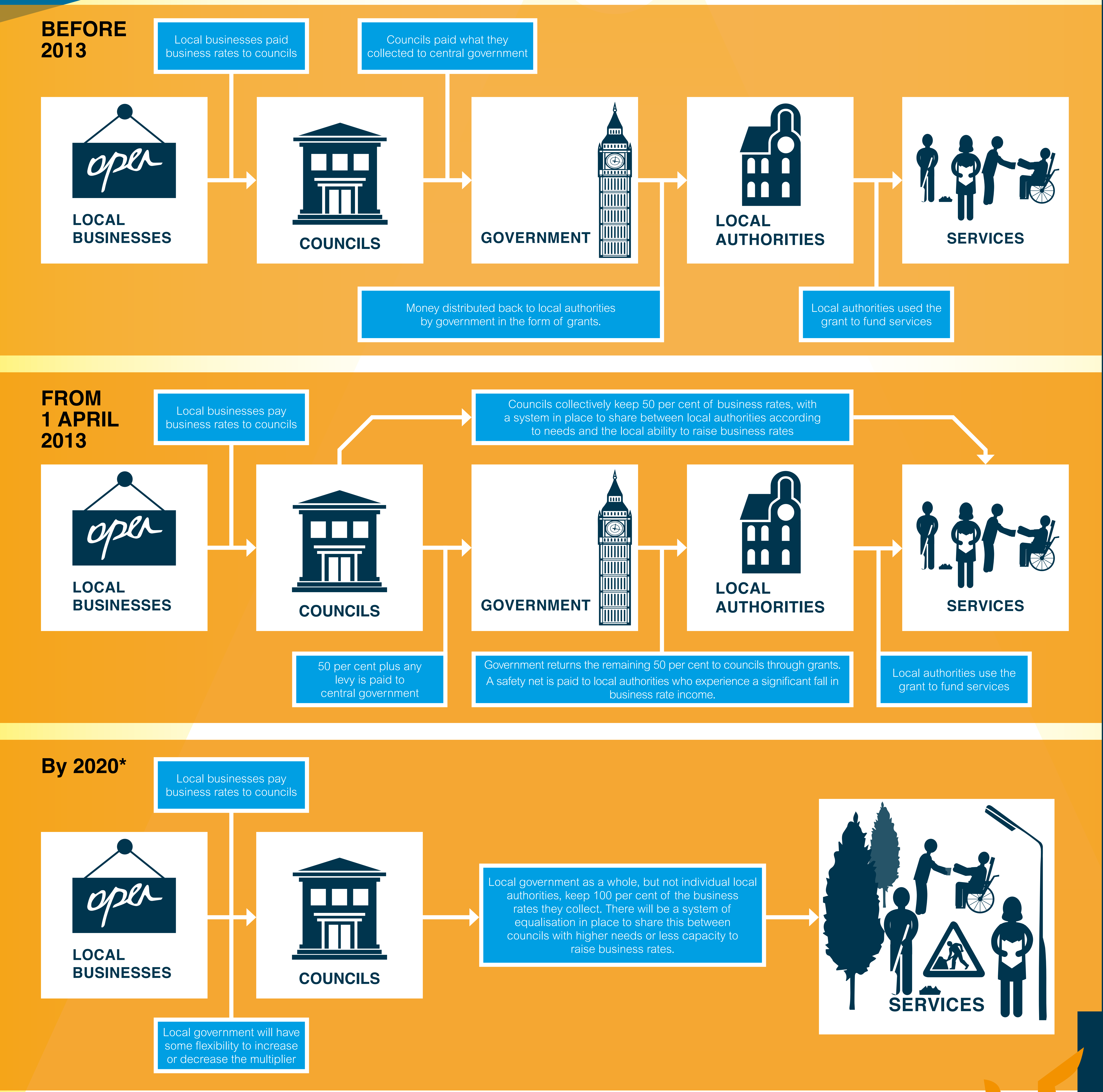

*proposed system

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