SIGOMA Submission to the CLG Committee enquiry on 100% Business Rates

About SIGOMA

SIGOMA is a special interest group of 45 authorities in the northern, midland and south-coast regions of England consisting of 32 metropolitan districts and 13 major unitary authorities covering key urban areas.

Our membership includes authorities in the North East, Yorkshire and Humberside, the North West, Merseyside, the Midlands and the Southern Ports.

Around 23% of all service expenditure by English local authorities is accounted for within SIGOMA authorities who also accommodate around 23% of the country's population; but SIGOMA authorities shared only 18.5% of the £20.8 billion of Business rates retained by local authorities in 2014-15[1].

6 out of the 10 most deprived authorities in the country[2] are SIGOMA members including the country's most deprived authority , Blackpool. The average deprivation score of SIGOMA authorities is 29.7 compared to the national average of 23.0[3] with only 5 of our members having a score below that average

All SIGOMA authorities are billing authorities for Business rates.

Business rates in context of a local authority financial Settlement

Incentives are sustained by reducing needs allocations

In 2013, formula grant (which was funded from the business rate pot and a government RSG top up) was replaced by the current system, which comprises:

- Retention of a percentage of local rates,
- a top up or tariff and
- Revenue Support grant.

Baseline funding allocations of settlement and of Revenue Support Grant were needs based, using a "four block model" whilst Top up and Tariff were a fiscally neutral payment or charge that adjusted each authority's estimated local share of rates to a needs-based share of the overall total. Needs formula have not been re-assessed since 2012.

Since 2012, the full impact of settlement reductions has been borne in Revenue Support Grant whilst rate share has been preserved, as the following table shows.

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[1] Non domestic rating income for 2014-15 from DCLG drop down table data.

[2] Index of Multiple Deprivation 2015. Department for Communities and Local Government upper tier local authority summaries- rank of average score

[3] Average of IMD average scores, where highest score = most deprived

Changes in Rate share and RSG 2013-14 to 2016-17

Share of settlement	2013-14	2014-15	2015-16	2016-17	% reduction
	£ million	£ million	£ million	£ million	%
Revenue Support grant	15,175	13,008	9,509	7,182	-52.7%
Rate share	10,899	11,111	11,323	11,416	4.7%
Adjusted settlement	26,074	24,119	20,833	18,598	-28.7%

It can be seen that Revenue Support grant, which is an allocation based on 2012 baseline needs, has carried the full impact, not only of government cuts to funding but also of amounts topsliced by DCLG such as:

- Topslice to fund New Homes Bonus, in 2016-17 £1,275 million.
- The inflationary growth in local share of business rates, £517 million by 2016-17.
- Estimated Safety Net costs for authorities whose retained income falls below 92.5% of their individual baseline needs.

Needs are not being re-evaluated

The original rate retention model was designed to have a re-set of needs at 2020. We submitted at the time that this was too long a period. In the years between the 2010 and the 2015 Index of Deprivation publications, the poorer authorities who we represent have moved further down the deprivation rankings with no re-assessment of the change this has made in relative needs .

We would ask the committee to ensure that the introduction of 100% retention is accompanied by an assessment of current needs, not only in relation to the additional burdens taken on under the move to 100% retention but in relation to the needs bases allocations established at 2013.

We further suggest the cessation of the practice of tops-slices for specific grants such as New Homes Bonus, inflation on business rates and Safety net.

Spending Power does not include up to date rate estimates

The Governments preferred headline measurement of local authority finance is Core Spending Power[4].

Authorities and the LGA have in the past expressed views about the flaws in this measure, some of which have been addressed in the 2015 Settlement.

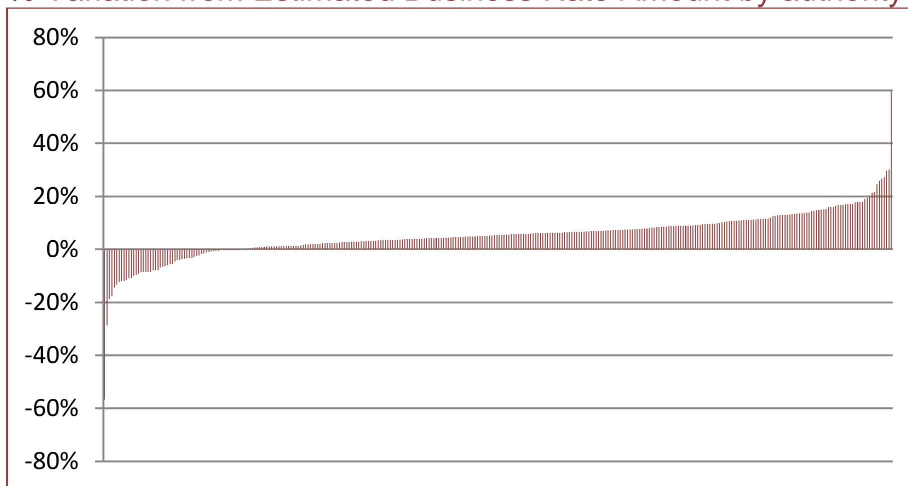
One of the criticisms is that the measure excludes certain information due to the lack of availability of that information at the time of settlement. This is a particular problem with the Settlement Funding Allocation which includes business rate retention.

Government have, since 2013, included in their estimates of Spending Power a notional rate income rather than the actual rate income to which the authority has access.

[4] Main elements are Settlement Funding, Council Tax, New Homes Bonus and in later years the improved better care fund.

The following table illustrates for each billing authority, the percentage by which its own estimated rate income varied from DCLG estimates for 2014-15.

% Variation from Estimated Business Rate Amount by authority - low to high



This difference is never reflected in Spending Power totals, even though an authority may be susceptible to safety net in that year and though others may earn significantly in excess of that.

We ask the committee to encourage the publication of retrospective Spending Power totals illustrating the actual Spending Power of authorities, including January business rate estimates[5] .

The system is resulting in inter departmental transfers of funding

There is recent evidence that one of the unintended consequences of rate retention is redistribution of funds away from local government to other Departments. This can be seen in a recent successful appeal against rate valuations by health centres and a pending submission on behalf of NHS Health Trusts for 80% charitable relief.

Similarly, as schools convert to academy status they obtain charitable relief from business rates making savings for the education Department at the cost of local government.

These events have highlighted one of the weaknesses of making authorities wholly reliable on locally raised business rates which will be amplified by increasing authority local shares.

Whatever the legal outcome of these and future similar rate appeal issues, local government needs assurances built into the rates retention mechanism that rate savings accruing wholly or partly to other government Departments will be repatriated via treasury adjustments back to local government.

Treatment of rates paid on the central list is unclear

[5] We suggest estimate rather than outturn since it is upon estimates that the revenue financing of authorities is fixed.

The list to which rate retention applies excludes the Central Rating list which at 2010 had value of £2.7 billion[6]. Though Government assert that the rates raised are used for local government benefit the accounting is opaque. Moreover the threat hangs over authorities that further items could be transferred to the central list, reducing future income.

Authorities need clarity on how central list funding is applied to local government and assurances that there will be no future transfers onto the list without compensation.

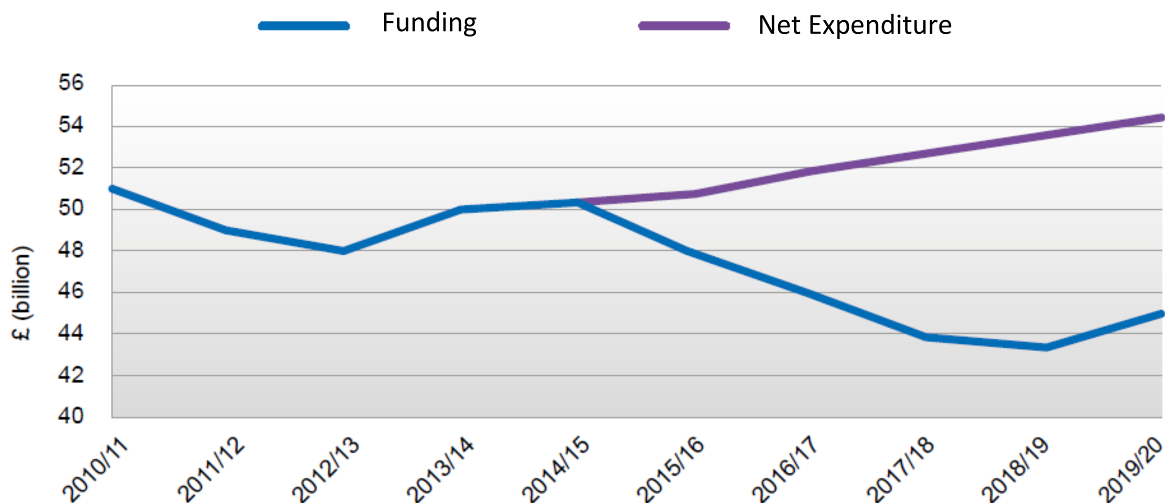
Differences of Outcome

To evaluate the differential impact of rate retention requires consideration of the two main aspects that influence outcomes:

- The ability to increase locally raised finances, in this case business rates
- The cost of services, which are in turn dependent on:
  - Statutory duties placed on authorities
  - The baseline cost of those services
  - The demographics that determine local demand; the "cost drivers"

The potential combined impact of these factors was illustrated by the LGA in their report on future funding to 2019-20, from which the following graph is reproduced:

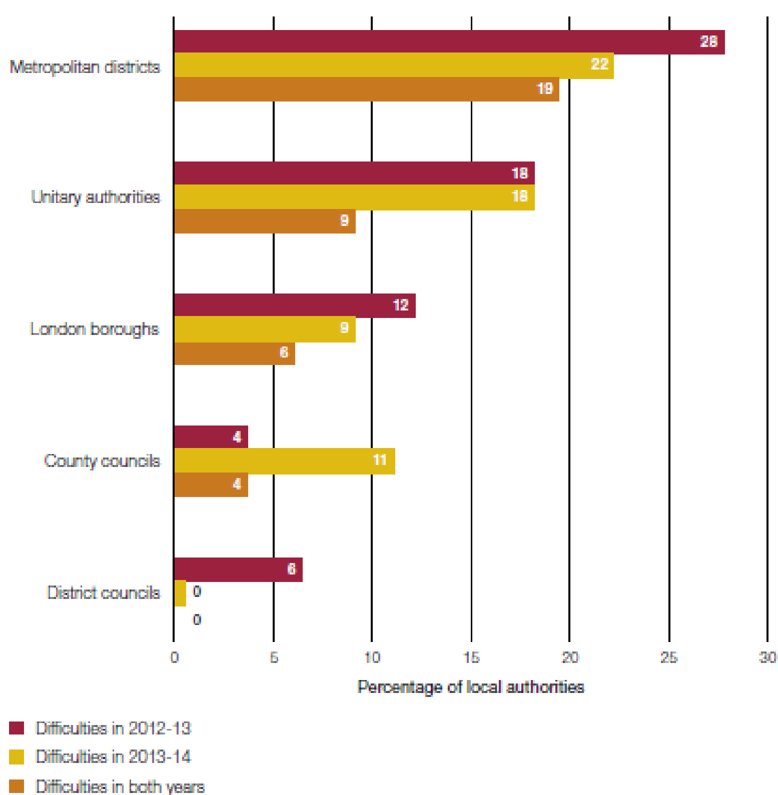
Income against expenditure 2010/11 to 2019/20[7]



[6] Data prepared by Sarah Sawyer of the Valuation Office Agency.
[7] Future Funding Outlook for councils 2019/20 LGA June 2015 (chart key corrected from the original)

Impact of varied settlements to date

Without equalisation, it is not difficult to appreciate that authorities with the lowest increases in rate income and the highest increases in service demand will face the greatest gap of the sort illustrated above. Evidence of this was already emerging in 2014 when the National Audit Office reported[8] that local auditors had found that metropolitan authorities outside London and unitary authorities faced the greatest difficulties in delivering budgets.



Disturbingly, the same report commented that "[DCLG] has a limited understanding of the financial sustainability of local authorities and the extent to which they may be at risk of financial failure".

We ask the Committee to examine the extent to which the Department has addressed this criticism and what measures will be taken, in the move to 100% rate retention, to monitor and ensure the future financial sustainability of authorities, at individual authority level.

[8] Financial Sustainability of Local Authorities 2014 November 2014 the NAA

The 2015 Settlement – future implications for poorer authorities

The move to 100% rate retention is proposed as a fiscally neutral option, with future increased income offset by additional financial burdens. From the recent settlement "offer" to 2019-20 we know that the core Spending Power of authorities will decline on average by 0.5 % in cash terms over the next four years. For our members, the poorest metropolitan and unitary authorities, the average decline is 1.5% [9].

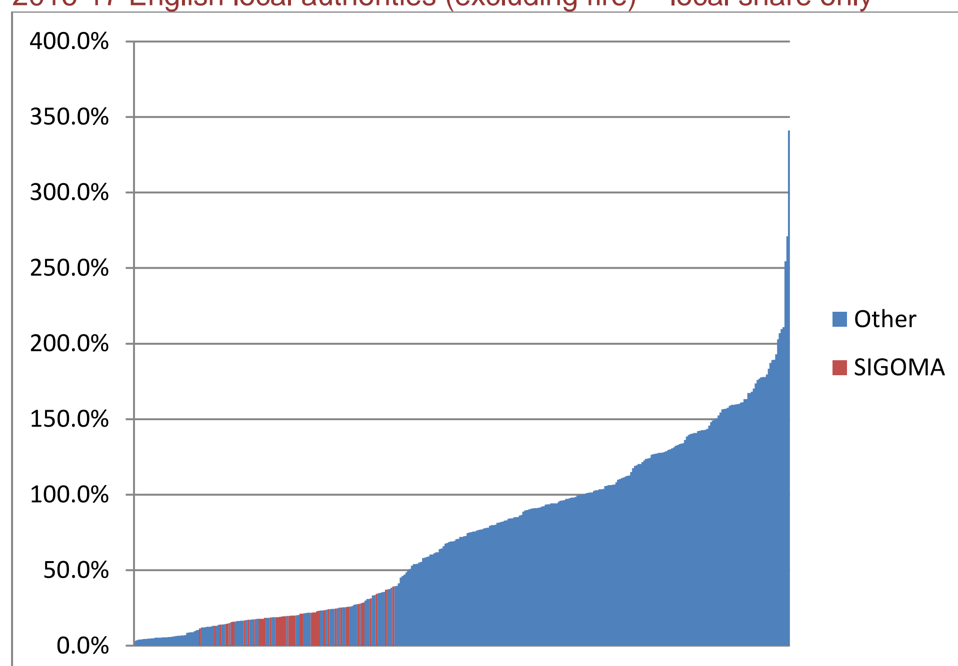
A rebalancing of needs with demand that takes into account local resource is therefore essential to us.

This equalisation could, at its simplest, update the data within the four block model but we suggest this is **an opportunity for government to undertake or commission research to establish what are the baseline services that every authority is required to deliver, what the local demand is for those services and what is the cost of delivering them.**

Varying sizes of business rate base

The widely varying proportions of locally raised rates to overall funding also re-enforces the need for a redistribution mechanism at set up.

Business rates as a proportion of Core Spending Power
2016-17 English local authorities (excluding fire) – local share only



Without redistribution on a fair and open basis the inequality between poor and wealthy authorities would grow.

[9] Calculated by SIGOMA using DCLG Core Spending Power Supporting Information Tables 2016/17-2019/20

This variation highlights a further issue. It will be understood that proportionate growth in business rates in a large rate base authority will earn that authority higher growth, in terms of overall funding needs, than that of a small rate base authority.

As an extreme example, a 3% growth in business rates in Westminster earns that authority an 8% growth in Core Spending Power whilst the same 3% growth in business rates in Knowsley earns that council a 0.4% growth in Core Spending Power.

This issue was meant to be addressed in the current rate retention mechanism by the Levy and Safety net mechanism.

The principles were that an authority would be supported by Safety net if its income (comprising retained rates and Top up/Tariff) fell below 92.5% of its baseline income, whilst authorities would pay a Levy where their percentage growth in income was greater than their percentage growth in rates as a result of higher rate income.

The intention was that, over time, Levy and Safety Net would be self financing. Since the calculation of the two adjustments meant they would essentially be paid to and financed by high rate base authorities this was an important aspect of rate retention for poorer authorities, that should have left their settlements un-affected.

In practice this mechanism has failed since Safety net demand has exceeded Levy, leaving all authorities to bear yet further reductions in RSG to shore up the Safety net mechanism.

DCLG have announced that they are minded to abandon the Levy mechanism but without any statement about Safety net. We invite the Committee to examine what mechanism the Department has in mind that will ensure the poorest authorities are taken out of this process in the way that was originally proposed.

The committee may also wish to explore why one of the largest Safety net payments was made to the country's largest and most buoyant rating authorities, the City of Westminster.

This may be an opportunity to adjust the amount of rate retention for relative tax base sizes with lower rate bases retaining more and higher rate bases retaining less of their overall tax base.

It is essential for the committee to ascertain what the DCLGs plan is for these potentially huge distortions in the system under 100% rate retention, to avoid an ever widening gap between low and high rate base authorities.

Pressures created in collection funds by fluctuating rate income

In a manner similar to Council Tax, the business rate system operates through a Collection Fund. Briefly, a billing authority forecasts in January how much business rates it will collect in the following financial year, draws funds from the collection fund into revenue based on that estimate during that following year and pays into the collection fund the amount of rates actually raised in that year.

On the anniversary of that estimate, the authority makes a fresh estimate for the year after that. In this second year estimate the authority incorporates any over or under estimate in the first year forecast. In this way, under or over estimates of business rates each year are rolled into the following year

The outcome of the estimates therefore directly affect the revenue income available to an authority in the year to come. We understand it may be possible that future revenue issues may be accruing in collection fund balances, both of over optimistic and over pessimistic future rate incomes, largely traceable to assumptions around appeals.

Business rate incomes are much less stable and predictable than Council Tax and the forecasts are accounting estimates bringing judgement and opinions into play. The table shows how forecasts and outurns have varied in the last two years.

Business rate estimate v outturn

Year	Initial Rate estimate	Authority forecasts (NNDR1)	Outurn (NNDR3)
	£ million	£ million	£ million
2013-14	10,899	10,872	10,369
2014-15		11,610	11,224
2015-16		12,077	

Figures include the revenue impact of collection fund deficits and of grant payments related to rate reliefs.

The issues around collection fund balances and possibly allowing extended adjustment periods in the collection fund need considering in the move to 100% rate retention.

Revaluations and appeals

The committee will hear from many sources, including DCLG about the problems encountered with valuations and appeals in relation to business rates. The committee will no doubt be aware of the proposed “Check Challenge Appeals” method of dealing with appeals which is proposed to be introduced in 2017-18.

There are also provisions contained in the Enterprise Bill that will permit (but not compel) the Valuation Office Agency to share information with local authorities.

Our authorities generally feel they are hostage to a principle in respect of this accountability for valuation changes and appeals which was, and is as yet, unworkable in practice.

We ask, what other agent of government stands to be the sole target of individual taxpayer refunds which can go back over ten years and for which they have had no responsibility in assessment and often no knowledge until long after the tax has been accounted for in budgets.

At an early stage in developing rate retention it was pointed out by authority representatives that the aggregate of appeal provisions of individual authorities would greatly exceed a central provision made by central government who could balance out claim experience across the UK.

The Committee are encouraged to press DCLG as to the real benefit of exposing authorities to local appeal risks and to explain this in the context of recent cases that are causing authorities concern:

-Virgin Media request to have national hereditaments assessed in one authority
-Appeals by Health Centres

The large and varying impact of appeals and particularly retrospective appeals can be seen in the table that follows. A more stable and predictable system of alterations to rating assessments is needed to allow authorities to subsist under 100% retention.

Impact of appeals by authority type 2013-14 actual results[10]

2013-14 Appeal provisions by authorities	England	Inner London boroughs	Outer London boroughs	Metropolitan districts	Unitary authorities*	Shire districts	SIGOMA
In £ millions							
Net rates payable	22,685	4,654	2,006	4,093	4,604	7,328	4,345
Provision for appeals	479	115	29	115	89	131	114
Provision for back dated appeals	1,266	342	76	286	231	331	279
Combined provisions	1,745	457	105	401	320	462	393
As a percentage of Net rates							
Provision for appeals	2.1%	2.5%	1.4%	2.8%	1.9%	1.8%	2.6%
Provision for back dated appeals	5.6%	7.4%	3.8%	7.0%	5.0%	4.5%	6.4%
Combined provisions	7.7%	9.8%	5.2%	9.8%	7.0%	6.3%	9.1%

Source National non domestic rate returns NNDR3 2013-14

** Some SIGOMA unitary authorities had very high appeal percentages eg Portsmouth overall 17.1% of which backdated was 13.8%%*

The Committee are also requested to challenge Ministers as to their confidence in the ability and willingness of the Valuation Office Agency as currently configured within HMRC to deliver valuation decisions and information to their clients, local government, in a timely and reliable manner.

Freedom to set local reliefs and discounts

The business rate on which authorities are to be increasingly reliant remains a tool of central Governments wider policy aims. Ongoing examples are:

[10] Source: Calculated by SIGOMA using 2013 NNDR3 drop down lists published by DCLG

- Charitable relief which cost authorities £750 million in 2015-16
- Small Business relief which cost authorities £110 million in 2015-16

There are other examples of reliefs which were reimbursed by Government but administered by authorities, such as small retailer relief.

Of course it is Governments prerogative to support small enterprises and charities to the extent the Treasury can afford , but rate retention and especially 100% rate retention means that local government alone bears the total impact of this central government policy.

These policies were the subject of a review of HM Treasury of Business rates due to announce in the March Budget and we hope to hear of changes in policy that will spread the impact of support to charities and small business over the wider economy.

The Committee are request to identify and monitor DCLGs and Treasury's policy in respect of reliefs as they currently affect business rates and to support wherever possible a complete localisation of reliefs.

Should charitable relief in particular remain, the Committee are encouraged to challenge the Minister as to action to mitigate the widespread abuse of this relief.

In addition councils would be interested in Ministers views on introducing specific premiums at local discretion, in a similar vein to recent changes in Council Tax. This could include for example:

- Premium on undeveloped sites that have planning permission for business use.
- Deterrent premiums for anti-social developments that discourage other businesses or cost more in authority services.