Manchester City Council
Report for Information

Report to: Resources and Governance Scrutiny Committee – 4 January 2018

Subject: Business Rates Retention

Report of: The City Treasurer

Summary

To provide Members with an update on the Greater Manchester Pilot for 100% Business Rates Retention.

Recommendation

Members are asked to note the report.

Wards Affected

All

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Background Papers

Report to Resources and Governance Scrutiny, 8 September 2016

Introduction

1. Business rates are a form of tax charged to occupiers of most types of non-domestic property. Rates are payable on shops, offices, pubs, warehouses, factories, holiday rental homes and guest houses. The amount charged to occupiers of non-domestic premises is calculated by multiplying the Rateable Value (RV) of the property (determined by the Valuation Office Agency) by the multiplier (set by the Department for Communities and Local Government).

2. Broadly speaking, the RV of most non-domestic property is the same as the market rent at each premises in April 2015 (two years before the last revaluation). However, for public houses and other licensed premises their expected 'fair maintainable trade' is used to determine their rental value and in turn their RV. Fair maintainable trade is the annual level of trade (excluding VAT) that a public house can be expected to achieve assuming a reasonably efficient operator.

3. The multiplier is reset at each revaluation and typically changes each year in line with inflation (previously RPI, amended to CPI from April 2018 in Chancellor's Autumn Budget). This loss of income is compensated by a Section 31 grant. At a revaluation the multiplier is reset to ensure that the overall national revenue from business rates only rises in line with inflation. In addition to the standard multiplier there is a slightly lower small business rates multiplier which is currently used to calculate the bill of premises with an RV of less than £51k (unless part of a wider group).

Background

4. Recent changes to the business rates regime are summarised below and detailed in the following paragraphs.

Pre-2013	All rates revenue sent to Central Government and re-distributed
April 2013	50% rates revenue retained locally
April 2015	Pilot areas (incl.GM and Cheshire East) retain 100% rates 'growth'
April 2017	Pilot areas (incl. GM) retain 100% rates revenue

5. From 2013/14 the Local Government Resource Review (LGRR) introduced the partial re-localisation of business rates which brought a lot more volatility to the local government funding system. The risk of any reduction in local business rate yield due to the closure of businesses or appeals against rateable values previously lay with Central Government, and similarly they benefitted from any increase in local yield. From 1 April 2013 those risks and benefits were shared between Councils and Central Government. Councils retain an element of the business rates collected, for districts like Manchester this was 49%.

6. The central share was redistributed to councils in the form of revenue support grant and other grants. The local share was kept by local government and partly redistributed between local authorities through a system of tariffs and top-ups. This redistribution was to ensure that areas do not lose out just because their local business rates are low compared to their assessed needs. Local authorities are either tariff authorities, who collect more than their assessed level of need, or top up authorities who collect less and receive a government top up grant to make up the difference. Tariff authorities pay their excess business rates back via a levy of to fund the top ups that other authorities receive.

Greater Manchester and Cheshire East 100% Growth Retention Pilot

7. In the 2015 Budget the Chancellor of the Exchequer announced a pilot to retain 100% of additional business rate growth in Greater Manchester and Cheshire East. The scheme set a growth baseline above which named authorities would retain 100% of growth.

8. The scheme started on 1 April 2015, as a pilot and allows local authorities to retain 100% of “additional growth” in business rates.

9. The amount retained as a result of this pilot for GM in 2015/16 was £6m (£2.7m of this related to Manchester) which funded costs incurred by the Greater Manchester Combined Authority (GMCA) including the Mayoral election.

10. The proceeds of the 2016/17 100% growth retention pilot have yet to be confirmed by DCLG but have been calculated by GM districts at £10.5m (MCC £2m). A report to the Association of Greater Manchester Authorities has recommended that is shared 42% to the individual district and 58% to the GMCA. Manchester’s share was accounted for in 2016/17 and is currently held in the Business Rates reserve.

100% Business Rates Retention

11. The move to 100% business rates retention has been piloted from 1 April 2017 in a number of areas including Greater Manchester. Further pilots commencing on 1 April 2018 have been announced as part of the Local Government Provisional Finance Settlement 2017. The original intention was for all Local Authorities to move to 100% retention by 2020. However, the Queen’s Speech in 2017 excluded the Local Government Finance Bill which would enable the necessary statutory changes to go before Parliament. Recent announcements, as part of the December 2017 Provisional Finance Settlement, have signalled a move to 75% retention for those not approved as 100% pilots. Formal confirmation is awaited on the extension of the 100% pilots beyond 2018/19 but there is an expectation, following the Provisional Settlement, that it will now include 2019/20.

12. Full business rates retention would provide local councils in England with control of around an additional £12.5 billion of revenue from business rates. However, in order to ensure that the reforms are fiscally neutral, councils will gain new responsibilities, and some specific grants which that are funded through the business rates ‘central’ share will be funded through the ‘local’ share instead.

13. The business rates baseline (‘tariffs and top-ups’) will be reworked to ensure that authorities are not adversely affected at the start of the new arrangements. The move to 100% retention would not represent additional funding for local government

14. There has been assurance that Authorities will be no worse off as a result of taking part in the pilot than they would have been under the 50% scheme.

15. As part of the pilot the Council no longer receives Revenue Support Grant or Public Health Grant. The Council’s tariff / top up has been reworked to ensure fiscal neutrality. Whilst the Council’s budget includes 100% business rates retention, for prudence when setting the budget from 2017/18 the total resources are unchanged from those forecasted under 50% rates retention.

16. A report to the Association of Greater Manchester Authorities (AGMA) has recommended that any benefit from the 100% pilot be shared, with a minimum of 50% of any benefit being retained by Districts and the balance to be retained by GMCA/AGMA. This will be subject to annual review as part of the budget setting process. The final position for 2017/18 has not yet been determined and will form part of the NNDR1[1] return to be submitted to DCLG in January 2018. This will then be taken in to account as part of the formal budget setting process.

17. The largest area of uncertainty in relation to business rates is the volume and scale of appeals. For prudence the Council’s budget assumes that the reduction in the 2017 valuation list follows the same pattern as the 2010 list. Further uncertainty has been created as a result of the new appeals process that commenced with the 2017 list – check, challenge, appeal.

<u>Check, challenge, appeal</u>

18. Following consultation the check, challenge, appeal was introduced for all appeals against the 2017 valuation list. This will place more responsibility on ratepayers to provide information about why they are appealing and will also have cost implications for the appellant, which may reduce the volume of appeals within the system.

19. The **check** stage will ensure that relevant facts are validated by the ratepayer and agreed as far as possible with the Valuation Office Agency (VOA). If necessary the rating list will be corrected to reflect the facts. Where the facts cannot be agreed, the differences will be clearly established.

[1] The NNDR1 is a statutory return to government which includes the estimated net business rates income for the coming year as well as an estimated outturn position for the current financial year.

20. Information provided by the VOA to the City Council shows that nationally, as at 30 September 2017[2], there had been 5,650 registered checks of which 2,260 remain outstanding.

21. The **challenge** stage allows a ratepayer to challenge the rating list entry. They will set out their reason for the challenge, and put forward an alternative rating list entry backed by supporting evidence. If necessary, there will be an opportunity for further discussion between parties. The VOA will issue a decision on whether the rating list will be altered and the level of any revised valuation. Nationally, at 30 September, there have been 390 challenges of which 100 have been resolved. Of the challenges received only three relate to the City Council.

22. The **appeal** stage allows a ratepayer to appeal to the independent Valuation Tribunal for England. The Tribunal will consider whether the VOA has made the correct decision in respect of the challenge based on the evidence put forward. If the Tribunal disagrees with the VOA's decision it may conclude the ratepayer's proposed rating list entry is correct, or alternatively it may substitute its own.

<u>DCLG Select Committee: 100% Business Rates Retention Evidence Request</u>

23. The DCLG Select Committee has recently asked local authorities to provide evidence in relation to the delay in the implementation of 100% business rates retention. The Committee asked for responses to the following questions:

- What are the consequences for councils of the longer implementation period for 100% retention in the context of the four-year settlement?
- What are the consequences for councils of implementing the outcome of the Fair Funding Review in 2020/21?
- How are these changes to the original implementation schedule affecting councils' financial planning from 2020 onwards?

24. The Council has submitted a response to these questions and the main points made were:

- The ability to retain 100% of business rates growth above the baseline would help longer term budget planning.
- With greater reliance on business rates income, there are very real concerns that the planned reset of business rates in 2020 may bring further pressure on Local Authorities, as the continuation of such funding has been taken in to account when setting the Council's budget.
- The Council would like to see the Safety Net, which protects an Authority from losses above a certain percentage, funded from Business Rates income generated by the Central List (i.e. business rates income received against properties which are held on a central Government rating list)

[2] Information available from VOA to 30 September 2017 only

rather than from a combination of top slice and levy payments as happens at present.

- There have been a number of concerns raised by businesses and Local Authorities relating to the operation of the new check, challenge, appeal system; these include the complexity of the application process for businesses and the paucity of information available to Local Authorities from the VOA. The Council requests that DCLG raise such issues with Cabinet and Treasury to seek a viable solution.
- The Council believes it is vital that the Government assesses the sustainability of local government and that the Fair Funding Review of resource needs is the best opportunity to make such an assessment.
- The design of “transition” funding is crucial, as well as the amount and timing of the transition funding allowed.
- The delay of both the Fair Funding Review to 2020/21 (originally intended for 2019/20) and the uncertainty surrounding the 100% Business Rates Retention roll out has restricted longer term financial and strategic planning.

Conclusion and Next Steps

25. This report provides an overview of the business rates system, the pilots that are in place for Greater Manchester, the check, challenge and appeal process and the issues that are covered in the consultation document.

26. The business rates pilot provides an opportunity to influence the arrangements that will be in place under the new system including the functions that will, in future, be funded by retained business rates.

Recommendations

27. The recommendations appear at the front of this report.