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Dear Sir / Madam,

Business Rates Retention Reform

Manchester City Council (MCC) welcomes the opportunity afforded by the Ministry of Housing, Communities and Local Government (MHCLG) to set out the authority's views in relation to Business Rates Retention Reform consultation.

GM 100% Pilot and devolution

Greater Manchester District Councils and the GMCA are one of the original pilots for 100% business rates retention. This was part of the Devolution Deal and the original business rates retention agreement between Government and Greater Manchester authorities with the stated intentions of:

- Giving the GM authorities and incentive to grow local tax bases by ensuring they see long term rewards from growth;
- Maintaining a predictable income stream against which authorities can take long term investment; and
- Ensuring that GM authorities can continue to provide a full range of local services, whilst recognising that decisions about spending priorities should be made locally by locally elected representative accountable to local taxpayers.

The proceeds from the pilot have been used to the benefit of the region as follows:

- In 2017/18 the GMCA share of business rates income was used to fund costs incurred from the Mayoral election, the business growth hub, GM spatial framework and Health and Social Care partnership.
- In 2018/19 the GMCA budget utilised part of their share of business rates income to meet additional priority costs, including the *GM Business Productivity and Inclusive Growth Programme* which

addresses GM's need to close its productivity gap with the rest of the UK and ensure that all parts of the city region can contribute to, and benefit from, economic growth.

- Additional rates fund have supported the activity of *MIDAS and Marketing Manchester* which are central to the delivery of the Greater Manchester Internationalisation Strategy. Other supported projects include continuation of the *GM Health and Social Care partnership* to promote and deliver benefits from greater Health and Social Care integration across GM, *GM Cultural and Social Impact Fund* to supplement the programme which provides funding organisations who are committed to providing excellent cultural experiences or work that has significant social impact across the 10 boroughs in Greater Manchester, delivery of the *Digital Strategy* to develop and harness digital technology to drive improvements across all areas of the economy and society, support for 'Age Friendly' activity and the Youth Combined Authority.
- In 2019/20 the GMCA share of the proceeds will meet future commitments for the Productivity Programme and Mayoral election costs in 2020. It will also support delivery of the industrial strategy, digital agenda and extension of full fibre network and employment charter. GM authorities are progressing well with developing pipeline of schemes in the proposed industrial strategy. The continuation of the 100% pilot will have an important role to play in enabling their delivery.

Manchester suggests that the full proceeds of the 100% business rates pilot should be captured to support transitional arrangements once the new system is implemented.

In addition, the 100% pilot has provided increased flexibility around transport funding, specifically enabling transport capital funds to be utilised as a revenue resource. This had aided funding revenue scheme development costs and switching Local Growth Fund capital to enable revenue projects funded from Local Growth Fund to proceed.

The ten councils, the first statutory "Combined Authority" in the UK outside London and the GM Mayor work closely together to coordinate key issues such as economic development, regeneration and transport. This governance structure has enabled the region to secure greater powers from central government to shape its own future and success. Greater Manchester districts have a strong track record of collaborative working for the benefit of the city region and the work on business rates pooling is an extension of this. The benefits serving to provide a greater impetus for joint working and economic development across the region. Manchester City Council welcomes the potential for further collaboration with government in this area.

<u>The consultation and response:</u>
We are disappointed with the late releases of the Business Rates Retention reform consultation along with the Fairer Funding Consultation. It has left minimal time for Central Government to collate the feedback and implement

any changes required before 2020/21 and has made budget planning increasingly challenging.

We also believe that the inclusion of a working budget model for both the phased and partial resets would have enabled more informed responses to the questions presented. This is particularly pertinent when the percentage of rates that local authorities retain under a partial reset is yet to be determined.

We are concerned that a number of the ideas proposed are earmarked to be funded by a top slice of business rates revenue across all local authorities. Alternative options need to be explored rather than top slicing the amount for local authorities. Transparency is needed on what the Central List funds and why this is not being considered instead.

Manchester welcomes the proposed review and rationalisation of Section 31 (S31) grants. S31 grants were introduced to reimburse local authorities for Government policy decisions that reduced rates yield. For example small business rates relief where small businesses receive reductions to their bill. In 2019/20 there are nine separate S31 grants, totalling £1.95bn nationally and £34.5m for Manchester. Although this funding represents business rates income foregone it means that the business rates baseline is a notional figure and not achievable without government grant support. S31 grants are now more important than RSG as a funding source.

Manchester has a particularly high student population which not only inhibits the authority's ability to raise council tax as students are exempt from billing but also reduces business rates collection as university facilities attract upto 80% discount. Manchester has therefore suggested greater freedom of reliefs be given to authorities who chose to pool.

Within GM authorities part of the rail infrastructure will be funded locally and the impact of the construction period with revised valuations for the businesses affected will reduce the level of business rates income collected locally. However, the benefits of the increased valuation for the stations and associated herediments will form part of the national pool or central list. This cannot be right and it needs to be realigned so the full benefits of the investment are retained.

Manchester's formal response to the consultation is set out in the attached. As always we would welcome the opportunity to discuss our responses further.

Yours Sincerely.

Carol Culley
Manchester City Treasurer

Question 1: Do you prefer a partial reset, a phased reset or a combination of the two?

Overall the phased reset provides more stability with less of a cliff edge drop in funding between years so this is Manchester's favoured choice.

The partial reset would present a cliff edge drop in funding every 5 years which could make future budgeting more challenging. Further details of the components of the partial reset, ie percentage retained, would enable authorities to make an informed decision and so Manchester requests a full working model.

We would appreciate working models for both options presented so that we can analyse the difference between the two in more depth.

Greater Manchester District Councils and the GMCA are one of the original pilots for 100% business rates retention. We would strongly support the retention of the 100% pilot beyond 2019/20 until national roll out is achieved. Continuation of the 100% pilot would enable the GMCA to maintain a source of income to cover its investment priorities to promote growth in the GM economic area. In addition, the continuation of the pilot will give Government the opportunity to fully test and review the scheme with the maximum insight from 100% pilots over a longer timeframe and through a reset process.

It would also offer some certainty for Greater Manchester post 2019/20 to support longer term planning and strategy development and implementation.

Question 2: Please comment on why you think a partial / phased reset is more desirable.

A phased reset would be more desirable as it would incentivise growth whilst avoiding any cliff-edge reductions in funding. This will provide a stronger incentive for local authorities to invest in growth and increase their business rates base. It would also allow authorities to see the benefit of locally raised income whilst incentivising local authorities to take strategic, long term views and align their policies and practices around maximising growth in business rates.

The phased reset has similarities to the New Homes Bonus system which is familiar to authorities and reduces some of the volatility by guaranteeing authorities growth income for a set period of time.

The phased system also discourages perverse incentive or holding back growth in later stages of the retention period (also known as gaming the system), as all growth is retained for an equal and set amount of time.

The phased system reduces the unnecessary volatility of the current system and provides more certainty around income levels for longer periods of time.

This supports authorities with more effective longer term planning and budgeting.

Question 3: What is the optimal time period for your preferred reset type?

Manchester supports a six year reset period on the phased system. This will better align with the revaluation periods (every 3 years), with one revaluation occurring half way through the reset period; minimising disruption within that period.

Six years growth retention allows sufficient time to provide an incentive to authorities to grow their local economy.

Whilst the revaluation impact is supposed to be fiscally neutral at the national level, at the local level this is not necessarily the case. In the 2017 revaluation the national increase on RV was c10% and so the multiplier was adjusted down by 10% to counteract this increase. However, where an authority sees large increases in sectors that attract significant relief the increase in income is not realised. This was the case in Manchester where the educational sector saw its RV increase by 27.1% but this was not reflected in collectible rates income as many educational properties attract 80% discount through charitable relief.

Manchester welcomes a review of revaluation impact at local level and look to exclude heavily discounted sectors from the national measure that informs the multiplier change.

Question 4: Do you have any comment on the proposed approach to the safety net?

The Safety Net must be set at a level which allows a non growth authority to deliver its services and protect vulnerable residents, therefore we agree with the proposal of 95%.

We do not agree that the funding the safety net should be made through a top slice of business rates across all authorities, but be provided from the proceeds of the central list. If funding the safety net through the central list is not a viable option, then the levy should be used, as it will be made up from excessive business rates growth and in the 2013 scheme was expected to be self funding. We oppose any use of a top slice system.

Question 5: Do you agree with this approach to the reform of the levy?

No
The levy should remain to stop local authorities maintaining excess amounts of growth. If the levy is reformed to lower the amount of authorities that fall into it, then more funding will stay with authorities who have surplus funds instead of being redistributed on the basis of need.

The Levy was intended to limit the amount of disproportionate growth an authority could retain. This is still a requirement of the system and Manchester recommend the Levy remains in its current form.

According to the 2018/19 NNDR1 a small number of local authorities have a disproportionately high business rates base.

Westminster is expecting to generate £2.170bn in rates income, which represents 8.8% of national rates income. A small percentage growth here translates to a significant amount of income. Other high generating authorities are City of London at £1.137bn (4.6% of nation rates income) and Camden at £642m (2.6% of national rates income).

Manchester therefore recommends that the Levy system remains a function of Baseline Funding Level as the current system.

Question 6: If so, what do you consider to be an appropriate level at which to classify growth as 'extraordinary'?

Manchester does not support any fixed percentage Levy. As illustrated in Question 5 a 150% growth cap, the lowest offered in the consultation, would allow Westminster to grow £44.467m before any levy is applied (under the current system Westminster would be liable for 50% of growth above the Baseline Funding Level of £88.933m). Should local authorities with a higher business rates income achieve significant growth the levy system proposed would be inadequate in ensuring an effective redistribution of business rates growth.

Should the top slice proposed be met from the 'local authority pot' a tighter Levy system would also create more funds to support the safety net and potentially enable a redistribution of any surplus based on need (as in the 2019/20 settlement).

The formula that supports the levy calculation will need to be reviewed. As authorities move to the 75% retention scheme the Business Rates Baseline will increase as a proportion of local authority funding. The Baseline Funding Level will only adjust for changes to assessed relative need. This is likely to lead to an increased denominator or Business Rates baseline which in turn will lead to an erroneously increased Levy rate.

Question 7: What should be the fall-back position be for the national tier split between counties and districts, should these authorities be unable to reach an agreement?

The distribution of Business Rates income between tiers in two tier areas is currently 80% district to 20% county.

Manchester would prefer to allow tiered authorities to provide answers to this apportionment.

If the 100% retention pilot is not continued into 2020/21 for GM authorities (See Q1) consideration should be given to the Greater Manchester Combined Authority retaining an element of the 25% share that will return to central government to continue to fund its investment priorities and costs.

Question 8: Should a two-tier area be able to set their tier splits locally?

Manchester would prefer to allow tiered authorities to provide answers to this question.

Question 9: What fiscally neutral measures could be used to incentivise pooling within the reformed system?

The ten Greater Manchester and two Cheshire authorities have been pool members since 2014. This has given the authorities the opportunity to meet regularly and share knowledge and procedures, particularly in setting appeal provisions. Business Rates Pooling encourages authority collaboration, joined up service delivery and drives regional economic goals.

If the levy is removed MHCLG will need to consider other options to encourage pooling, some suggestions for consideration include:

***Offering up additional growth incentives – including the ability for the pool to set their own local growth zone**.* Designated areas have proved an effective economic tool and have attracted significant investment into cities such as Manchester, where, for example, the Manchester Airport City EZ has attracted some big named clients including Amazon and DHL and bring broader benefits to the local economy.

Other growth schemes may attract similar investment and we recommend the associated growth is retained in full, outside the reset and redistributable pot. This would support continued revinestment and leverage a greater return from those investment funds. Greater Manchester has two such schemes – Evergreen and Growing Places, although these are still in their early years and many buildings are under construction meaning benefit will not be seen for several years.

***The option of retaining additional growth in Business Rates income through a reset of the wider system*.** This would involve treating the pool as a single entity and allowing the pool to retain a proportion of ‘pool growth’. This would have to be agreed by all authorities in the pool and the necessary governance arrangements put in place to ensure a fair distribution of growth within the pool.

Greater discretion over reliefs. Allow pooled authorities to exercise greater discretion over mandatory reliefs. Under the current system charities attract 80% charity relief and this includes educational facilities. There are two major universities in Manchester who continue to expand and are in prime locations but there is limited increased business rates income in return for the collaborative working with the local authority.

Greater fiscal freedoms and flexibilities - for example removing ringfences on specific grants and increasing flexibility in deployment of capital receipts.

Question 10: On applying the criteria outlines in Annex A, are there any hereditaments which you believe should be listed in the central list? Please identify these hereditaments by name and location. P21

Technical paper 1: The Central and Local Rating Lists released on the 7th of February stated that the Central list was expected to generate £1.6bn which is used to "benefit of local government". In line with many other commentators we would appreciate clarity on what this income funds and the implications for local government of any significant increase or decrease. In the absence of this information we would prefer the central list to be as small as possible with funds retained locally and baselines adjusted as appropriate which would be significantly more transparent.

A more detailed to list of hereditaments at boundary level that make up the Central list would also be helpful to reach a more informed view of what should be on there.

In principle Manchester agrees with the three criteria for the Central List.

a. The nature and size
Networks of utility, gas and electricity should remain on the central list however this should exclude sub stations and housing buildings.

b. The size and geographical spread
Manchester agrees standard rules are not appropriate to commit network to the central list and review how it fits within the local list system. For example the Virgin Media who appealed to the VOA to merge all business rates payments for its broadband fibre optic network, payable across 68 councils, including Manchester, into one central list payment. However, this appeal was rejected in May 2017 as there were obvious boundaries to networks which contributed to local lists.

c. The suitability, or otherwise, for assessment of the property on local lists
Manchester agrees that if a hereditament can be assessed on the local list it should remain on the local list and that it is recorded on the authority's list who holds the greatest proportion of rateable value.

Question 11: On applying the criteria outline in Annex A, are there any listed in the central list which you believe should be listed in a local list? Please identify these hereditaments by name and location.

As a principle, assets which are invested in locally or regionally should be on the local list so the benefits of the investment are retained. This should include airports, stations and certain power stations.

The obvious assets for transfer within Greater Manchester are railway stations including Piccadilly and Victoria. There has been significant investment in these, linked to devolution and the need to drive the regeneration of the surrounding areas.

With the proposed HS2 link to Manchester, and associated new stations in the city centre and at the airport, it is important that this is on the local list so all return on business rates can be captured to support further investment.

Manchester would also like see any renewable power investment, linked to delivery of the zero carbon agenda retained on local lists.

Question 12: Do you agree with the use of a proxy provides an appropriate mechanism to calculate the compensation due to local authorities to losses resulting from valuation change?

The Business Rates Retention system was introduced in April 2013 with the aim of incentivising local authorities to grow their local economies. A fundamental part of this is the concept of risk and reward. However, the significant volume of appeals has led to high levels of risk and volatility and authorities have had to introduce significant appeal provisions. This has meant that many of the intended benefits of the system have not been realised.

Manchester welcomes a review of appeal risk and Government’s proposal to provide direct support to authorities who experience appeal losses.

Manchester agrees the business rates losses due to valuation changes can be measured by a proxy of those appeals backdated to year one of the rating list. Over 80% of Manchester’s successful appeals back date to the first year of the rating list and this strongly indicates the VOA’s rating list was incorrect in the first place.

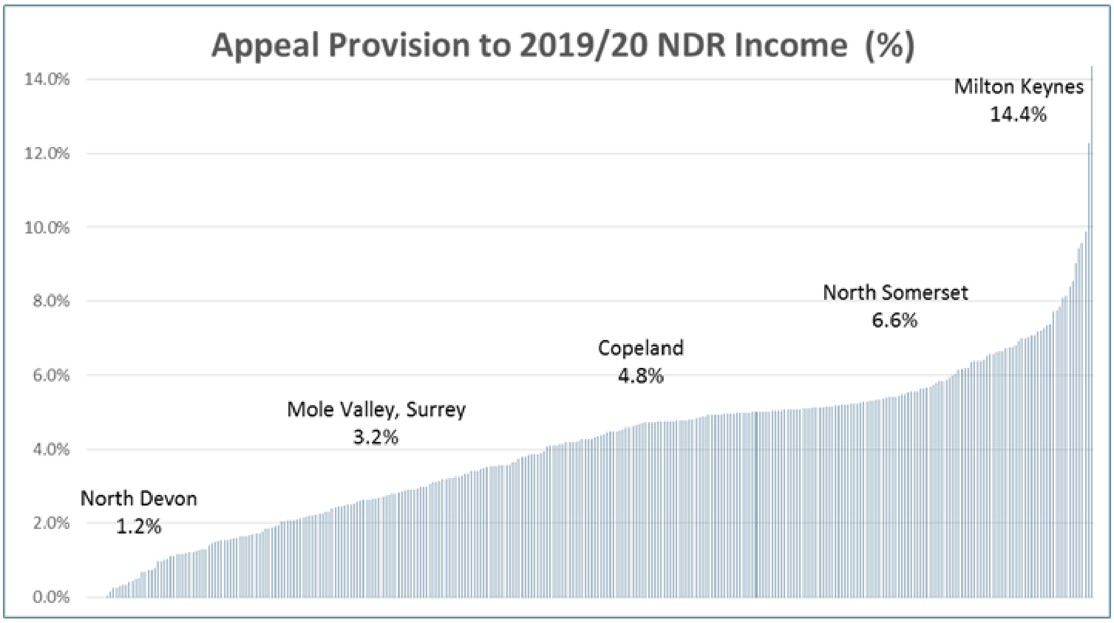
However, the Check, Challenge, Appeal system, introduced in April 2017, has led to a shift in volume of appeals to checks. To date Manchester has received no appeals through the new system yet has seen £12.9m refunded against the 2017 list due to check queries. Manchester requests that all Checks, Challenges and Appeals backdating to year one are included in the measure of the proxy.

The consultation suggests the appeal provision will be funded from a top slice and held centrally by Government.   The Council disagrees with funding this from a top slice and believes that proceeds from the Central list or Levy would be a more appropriate mechanism.

Local appeal provisions vary significantly from council to council depending on levels of risk exposure and tax base profile.

2019/20 appeal provisions vary from as little as 1.2% in North Devon whose list contains small rural hereditaments, to 14.4% in Milton Keynes whose list contains a large energy station (Thamesway) where a single successful appeal can have a huge impact on rating income.

The graph below plots authority appeal provisions, as per 2019/20 NNDR1, as a percentage of rating income for English billing authorities.



This illustrates that the 4.7% appeal allowance built into the multiplier is insufficient.

Rather than using a top slide to fund the appeal provision, Manchester suggests th Central List, which is forecast to raise £1.6bn income in 2019/20, would provide sufficient funding cover the estimated £1.053bn appeal volume, based on national 2019/20 NNDR1 estimates.

Question 13: Do you believe the Government should implement the proposed reform to the administration of the business rates retention system?

Reform of the business rates system is clearly required to ensure a workable system which incentivises local growth and gives certainty of funding to local authorities. Moves to do this including to minimise the risk from appeals is therefore welcomed. However, there are a number of issues which require further working through. These include:

Timing of growth receipt

The NNDR3 is returned in the year following the one to which it relates. i.e. the 2020/21 NNDR3 will be returned on 31 May 2021, but the growth will not be available 2022/23. This is a lag of **two years** and significantly reduces the incentive aspect of the retention system. Manchester suggests an adjustment be made to the tariff and top up be done in September of the following year once the previous year's NNDR3 has been certified.

Requirement to return NNDR1 In September
The movement of the NNDR1 form to September will mean it will no longer be linked to CPI as at September (annual mid point), which will not be available until mid October. This will sever the link to other index linked funding systems, the benefits system and pensions.

It is also likely that the Autumn Statement will fall after the NNDR1 is returned so the return will exclude any new reliefs. Although the consultation states these will be funded in-year via Section 31 grants (S31), an estimate would be required adding more returns and complexity.

Previous Autumn Statements have announced additional Small Business Rates Relief, Pub Relief, Revaluation Relief and last year Retail Relief.

How to deal with announcements in year
In year S31 grant will remain for policy decisions post NNDR1 ie. in the Autumn Statement and ad hoc announcements. It is likely that MHCLG will need to continue to capture data to ensure an accurate picture of their impact and the level of S31 grant to be reimbursed. As stated above this will add more complexity to the system.

System issues and New Burdens funding
To measure in year growth and to ensure authorities retain any provisions and liabilities prior to the system introduction, business rates systems will need to capture and disregard data relating to previous years. This will require significant system changes and Manchester requests that new burdens funding is made available.

Tariff / Top Up calculations
The new flexible reactive top up / tariff levels would be welcomed as it would provide allocations with up to date figures rather than being fixed between reset periods.

The consultation proposes numerous adjustments to each year's base tariff or top up making it a complex formula. Adjustments include: in year S31 grants, transitional relief, the Government's share of previous years' surplus / deficits, previous year's growth / decline and previous year's safety net / levy payment.

Question 14: What are your views on the approach to resetting Business Rates Baselines?

The 2013 baseline was set using 2 years contribution to the central pool to establish the proportionate share of the Estimated Business Rates Aggregate (EBRA). This led to many inconsistencies where authorities who experienced declining or growth years had baselines set at too low or too high a level. If a single year is used to set the baseline (i.e. 2018/19 uprated) then this issue will be exaggerated. Setting the baseline is of fundamental importance as this will be used to measure growth.

Manchester suggests an average of previous five years would provide a more accurate baseline. Although this will need to be reviewed if there is a downturn in the economic climate which may result in a reduction in business rates income following closures.

Central government have stated they wish to avoid “cliff edges” which a single year’s measure may deliver particularly if an authority experiences unprecedented growth or loss immediately before the assessment. This was seen by some authorities when setting the 2013 baselines.

We agree that the net rates payable is used instead of gross rates payable as Manchester experiences a high level of discretionary and mandatory reliefs. If gross rates payable was used it would leave us with an unachievable high business rates baseline being set and receive a lower allocation than local authorities with a low level of reliefs.

Non collection / Bad Debt
As stated in the consultation, non-collection figures can change considerably year to year so we would recommend using an average of a minimum of 3 years’ worth of data. This again would smooth out funding allocations and prevent the “cliff-edge” effect.

Appeals
Option A: This option is the most favourable of the 3 options as the deduction is based on a local authority’s own estimate of provisions.

A local authority is best placed to make this assessment and will have a better understanding of local business rates and allow them to include the most up to date information eg. In relation to recent judgements such as ATMs and Mazars.

Option B: Manchester do not agree with option B as it does not take into account the variation in successful appeals between different areas across the country. Across England the average for successful appeals is 4.7% based on the appeal adjustment embedded in the multiplier. As illustrated in Q12 appeals provisions vary significantly and the use of an average percentage would not be appropriate.

Option C: This option looks at making a one off estimate of the appeal provision and is not as responsive as Option A, e.g. the ATM ruling adds a further £4m to the Manchester’s appeal provision.

Question 15: Do you have any comments at this stage on the potential impact of the proposals outlined in this consultation document on persons who share a protected characteristic? Please provide evidence to support your comment.

Analysis clearly shows that the reductions in local government funding that have been required since 2010 have been distributed at significantly different levels around the country, and that this distribution prior to 2016/17 failed to take into consideration the level of local resource available to individual local authorities. Cumulatively, more of the cuts required since 2010 have come from the most deprived authorities, compounding the impact on the protected groups.