Business Rates – A Rural Perspective

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“Business Rates Retention: Analysis for Rural Authorities and Proposals for Future Lobbying”

- How does the retained rates system work? How will it change for 100% retention?

- How does the retained rates system work in rural authorities?

- Which elements work to the advantage/ disadvantage of rural authorities? What should rural authorities be lobbying for?

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Operation of current system

- Introduced 2013-14; replaced nationalised business rates system
- LG retains 50%; central government 50%.
- Districts 40%; upper tier 9%; fire 1%

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Equalisation

- Where the business rates target is greater than the needs target, then the authority pays over a **tariff** into the national pool; and
- Where the needs target is greater than the business rates target, then the authority receives a **top-up** from the national pool.

- Top-ups and tariffs balance nationally

Levies and safety nets

- Levy payable on rates above target
- Max levy 50%; no levy payable by top-up authorities
- Safety net 92.% of baseline funding
- Levies should pay for safety net

- Targets frozen until 2019-20

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100% retention

- Fiscally neutral
- Transfer another £9bn of new burdens

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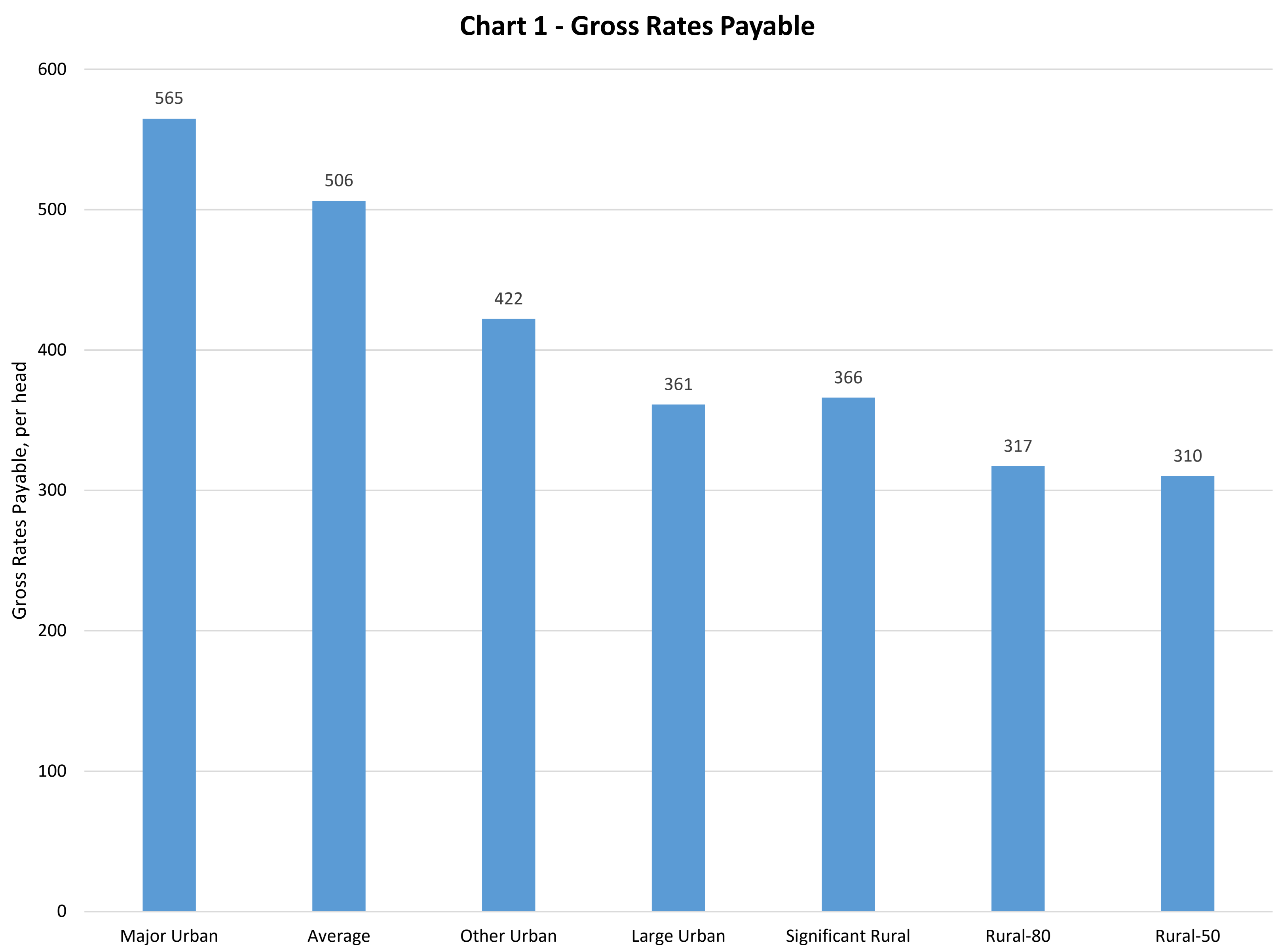
Chart 1 - Gross Rates Payable
Gross Rates Payable, per head
600
500
400
300
200
100
0
565
506
422
361
366
317
310
Major Urban
Average
Other Urban
Large Urban
Significant Rural
Rural-80
Rural-50

Gross Rates Payable

- GRP much lower in rural than urban areas; amount per head in R50 is only 55% of MU
- Significant outliers: Westminster £8,669, London £777; LU lower per head than SR
- 1% increase in GRP for MU will generate c.£123m; only £20m for R80 authorities and £27m for R50 authorities
- Growth in GRP is highest in rural areas (percentage not cash terms)

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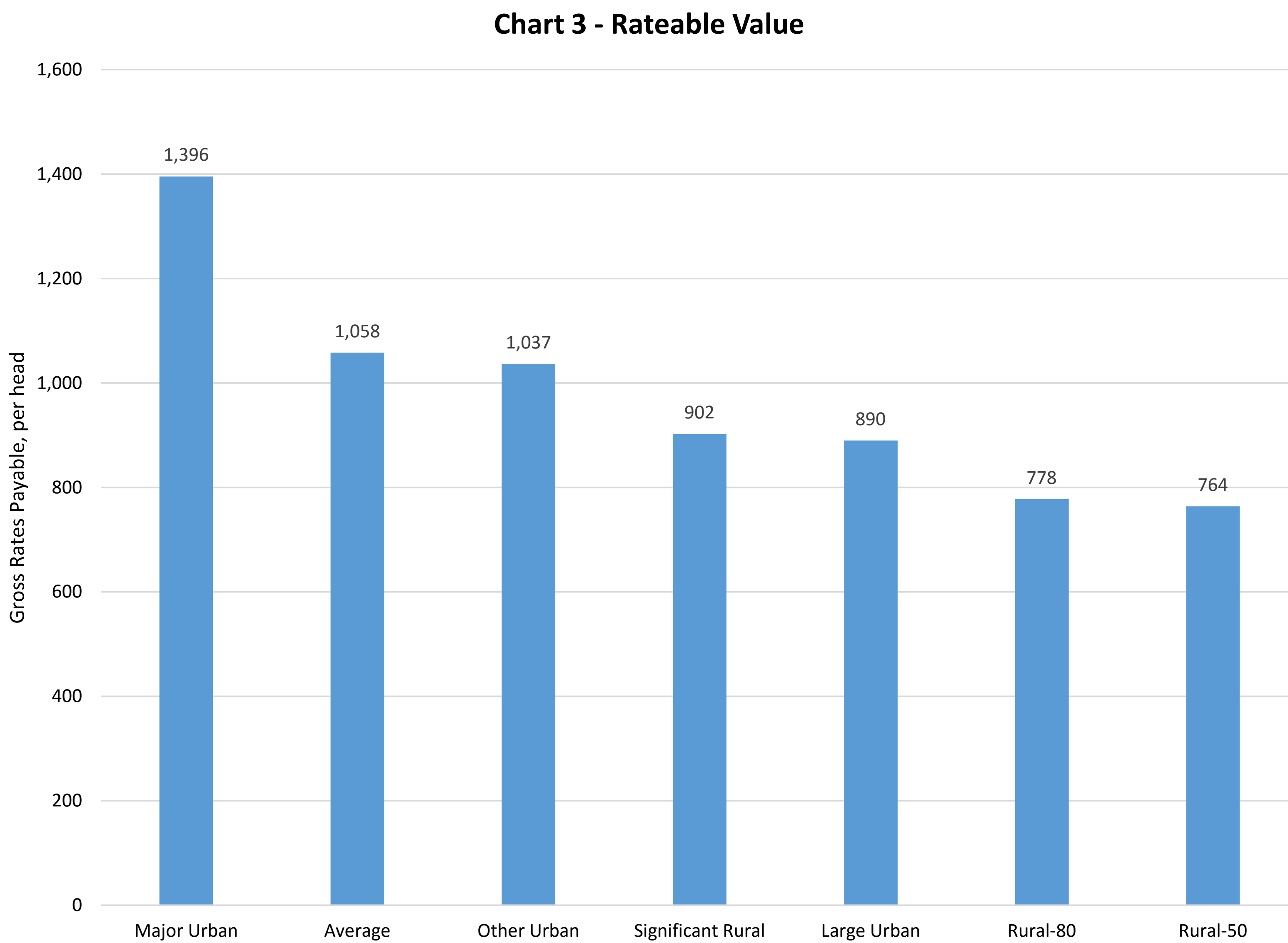
Chart 3 - Rateable Value
Gross Rates Payable, per head
1,600
1,400
1,200
1,000
800
600
400
200
0
1,396
1,058
1,037
902
890
778
764
Major Urban
Average
Other Urban
Significant Rural
Large Urban
Rural-80
Rural-50

Composition of Rateable Value

- New businesses will attract more RV in urban than rural area
- More businesses in urban than rural areas (850,000 compared to 487,000)
- Average size of business heriditament is smallest in the most urban and the most rural authorities
- Rateable value per sqm is highest in Major Urban areas, and gets progressively lower in more rural areas. Average RV per sqm was £44 in Rural 80 authorities and £88 in Major Urban authorities.
- Average RV per hereditament is much lower in rural areas than rural areas. Average RV per hereditament is less than half that of a business in Major Urban authorities.

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RV – implications for rural authorities

- **Takes double the physical growth to generate same RV as in urban authorities**
- Higher percentage not cash growth in rural areas
- Distinguish between Large/ Other Urban and Major Urban
- Take into account in equalisation, setting target and levy

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Mandatory reliefs

- Includes: SBRR, charitable/ CASC, Rural Rate Relief
- Mixed picture – but represent much higher proportion of GRP in rural areas
- Fully funding in opening baseline – but not for subsequent changes
- Evidence mandatory reliefs falling more quickly in urban than rural areas (24% in MU; 9% in R80 and 13% in R50 – real terms)

Gross Rates Payable and Mandatory Reliefs

	Cash figures. 2015-16		
	GRP (excl City)	**Mandatory Relief**	**%**
Major Urban	11,537,246,463	701,439,640	6.1%
Large Urban	3,076,301,401	255,960,070	8.3%
Other Urban	4,075,651,719	301,620,216	7.4%
Significant Rural	3,113,915,704	247,343,297	7.9%
Rural-50	2,721,193,561	265,046,873	9.7%
Rural-80	2,049,823,311	244,524,347	11.9%

Discretionary Reliefs

- Charitable relief and rural relief
- Higher in rural areas – but not clear why R50 so much higher than R80
- Much greater proportion of GRP (ranging from 0.5-0.7% in rural areas; 0.3-0.4% in urban areas)

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Gross Rates Payable and Discretionary Relief

	Cash figures. 2015-16		
	GRP (incl City)	**Discretionary Relief**	**%**
Major Urban	12,341,599,542	32,441,759	0.3%
Large Urban	3,076,301,401	13,066,945	0.4%
Other Urban	4,075,651,719	17,062,848	0.4%
Significant Rural	3,113,915,704	14,024,619	0.5%
Rural-50	2,049,823,311	10,903,945	0.5%
Rural-80	2,721,193,561	18,016,177	0.7%

Discretionary reliefs – arguments

- Urban case – discretionary relief is a choice; reduce it and get the benefit. Works in favour of rural authorities

- Rural case – rural businesses more likely to be marginal; need more support.

Rural relief

- Funded through combination of mandatory and discretionary reliefs

- With 100% retention, rural authorities will fully fund any increase in rural relief

- Options: central government to make direct funding available; central government continues to pay 50% contribution to increases

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Net rates payable

	Net Rates Payable	Gross Rates Payable	NRP as % of GRP
Major Urban	594	666	89.2%
Large Urban	371	426	87.2%
Other Urban	438	498	88.0%
Average	445	506	87.8%
Significant Rural	377	432	87.3%
Rural-50	313	366	85.6%
Rural-80	313	374	83.8%

Appeals

- Local authorities fund 50% of losses – even backdated element prior to 2013-14
- Judgement and tactics play a part
- Largest losses in MU authorities

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Retained rates

- Share of local rates (plus adding back a share of SBRR, section 31 grants, and some other discretionary reliefs)
- Deduct tariff or add top-up
- If more than 9.25% below target: add safety net
- If above target: deduct levy (for tariff authorities)
- Different arrangements for pools

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Safety net

- Safety net payment in 2014-15 : total payment of £134.9m, £82.9m to MU, and £65.3m to Westminster
- 23 R50 and R80 authorities received safety net payments (many did not actually receive a payment because of pools)
- Urban authorities will tend to be biggest recipients because of volatility – but a sensible feature

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Levies

- Levies higher in rural areas because more likely to be tariff authorities
- Average levy per head is £2.90 in rural and £0.40 in MU
- Can reduce levy rate by setting up pools
- Analysis of rural authorities:
  - 47 rural authorities have 50% levy and are not in a pool
  - Of those, only 13 were below the safety net threshold, and 31 paid a levy
  - These 31 authorities paid levies worth £10.4m
  - Only 8 of the Rural 50/Rural 80 authorities are top-up authorities (these are all unitaries, including Cornwall, Northumberland, East Riding of Yorkshire, Durham, North Somerset) (excludes precepting authorities).

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Rates target

- Rural authorities more above target than urban authorities

- Possibilities: growth in retained rates higher in rural authorities; or rural authorities benefitted from way the original 2013-14 baseline was set

- The latter because DCLG over-funded losses on appeals and did not link to potential losses on appeals

- More of same in future!

100% retention

- Is growth in business rates going to be greater or less than future Government funding would have been?

- Will growth in new burdens transferred in to local government be greater than the growth in business rates?

- What will be the relative impact on rural authorities?

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Conclusions

- Levels of GRP and RV lower in rural areas but percentage growth has been higher
- Reliefs in rural areas offset much of growth in GRP/ RV
- MU areas very different from rest of country
- Reliefs important in rural authorities because support local economy (more marginal)
- Levy system disadvantages rural areas
- Needs element of the system needs to be updated

Recommendations

- To ensure Major Urban authorities with the greatest opportunities to grow do not take home too high a share of “national growth”. Including consideration of the following:
  - Levy on growth
  - Banded targets (deadweight?)

- To provide additional or alternative incentives for authorities with the least opportunity to grow

- More frequent review of needs and equalisation of resources

- To preserve the arrangements for the reliefs that are already included in the baseline, and to ask Government to continue to contribute to growth in reliefs above the baseline level once 100% retention is introduced

- For Government to continue to fund a share of any growth in reliefs in rural areas

- To increase the support for rural businesses through increased central support for Rural Reliefs

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100% retention

- 100% retention for local government by end of parliament (from 2020-21)
- Top-ups and tariffs likely to remain (quasi-grant still in place)
- Sector as a whole not individual authorities
- Fiscally neutral – new burdens to be transferred (c.£9bn):
  - Childcare offer
  - Public health
  - Housing benefit
  - Attendance allowance

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100% retention – questions

- Will all growth in yield be retained?
- Are LG services and business rates income compatible?
- Can new burdens be revenue or capital?
- How much transfer of resources across the country (tariffs/ top-ups; levies/ safety nets)?
- Frequency of equalisation (needs and resources)?
- Flexibility on local reliefs?

Changes to business rates

- Small business rate relief
- Multiplier to increase with CPI not RPI
- To be funded by Section 31 grant
- Other changes in reliefs before/ after 100% retention?

Review of retained rates system

- Review process within DCLG (including CIPFA and LGA)
- Practical and structural issues – not clear how far review will go
- Four-year settlements rules out significant changes
- Potential angles: nationalising appeal losses; operation of levies/ safety net; preparing for reset (in 2020-21)
- Likely to have hands full with revaluation and 100% retention

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Review of “needs”

- RSG disappearing but “needs” still matter – they drive the top-ups and tariffs
- Another internal DCLG review (including CIPFA and LGA)
- Scope not clear – and four-year settlement appears to have ruled-out changes within system before 2020-21
- Issues for Government before then – repeat of 2016-17 final settlement

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LGR

- Min and max population thresholds (300k and 700K) – what does this mean?
- Process – not announced yet
- Criteria – similar to previous rounds: council tax convergence, 5-year payback, risk-adjusted savings/ costs

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Section 114 – the process

- Authority holds a meeting within 21 days
- Executive must respond and tell CFO what action it proposed to take (or if it is not taking action)
- Auditor could issue public interest report or seek judicial review

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Future Funding – the Rural "Ask"

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100% retention – new burdens

- Consider services/ new burdens that could be included:
  - Grow with demand/ clients (attendance allowance, social care)
  - Ability to cut (albeit with political pressure)
  - Reduce with economic growth (HB, other benefits)
  - Lower share (deprivation-linked services)
- Number of variables to take into account; difficult to predict future changes in circumstances
- Objective: risk averse? max relative position against urban?

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100% retention – rates

- To preserve the arrangements for the reliefs that are already included in the baseline, and to ask Government to continue to contribute to growth in reliefs above the baseline level once 100% retention is introduced

- For Government to continue to fund a share of any growth in reliefs in rural areas

- To increase the support for rural businesses through increased central support for Rural Reliefs

- To ensure growth in MU areas (especially in London) is shared – levies on growth in London to be used to fund national safety net

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Changes to business rates

- Targets that reflect (a) ability to grow ratebase and (b) proportion offset by reliefs
- To provide additional or alternative incentives for authorities with the least opportunity to grow
- More frequent review of needs and equalisation of resources
- Levies for top-up authorities - £1 raised above target should be treated in same way anywhere in the country
- Continue safety net use (sensible feature of the system)

Business rates revaluation

- Repeat of methodology for allocating appeals allowance (i.e. applied equally across country)

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Review of “needs”

- Rural objective: increase or protect the weighting for sparsity in needs formulae
- Super-sparsity most at-risk – funded in formula and in RSDG
- Strong technical case required for additional and higher costs in rural areas
- Much of groundwork already in place

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Additional and higher costs

- Waste collection and disposal. Activity data suggests additional costs but not sufficient financial data to draw robust conclusions.
- Domiciliary care and residential care.
- Parking and other income generating services.
- Regulatory services, including trading standards, environmental protection and licensing.
- Fire and rescue operations.

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Scope for further work

- Increased sample sizes in future research, including more participation from urban authorities. More opportunity with independent or government-led needs assessment. Will take time.
- Detailed work at individual authorities, particularly case studies with specific costing and "time and motion"-type studies.
- Activity levels at sub-authority level. E.g. lower-super output layer – comparing costs and activities for small areas. The idea is to eliminate the authority-level policy choices and see how resources are consumed within an authority area. Used to create the current personal social services formulae.

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Dispersal and peripherality

- Dispersal = distribution of population within an area, for instance whether the population is located in numerous small settlements.

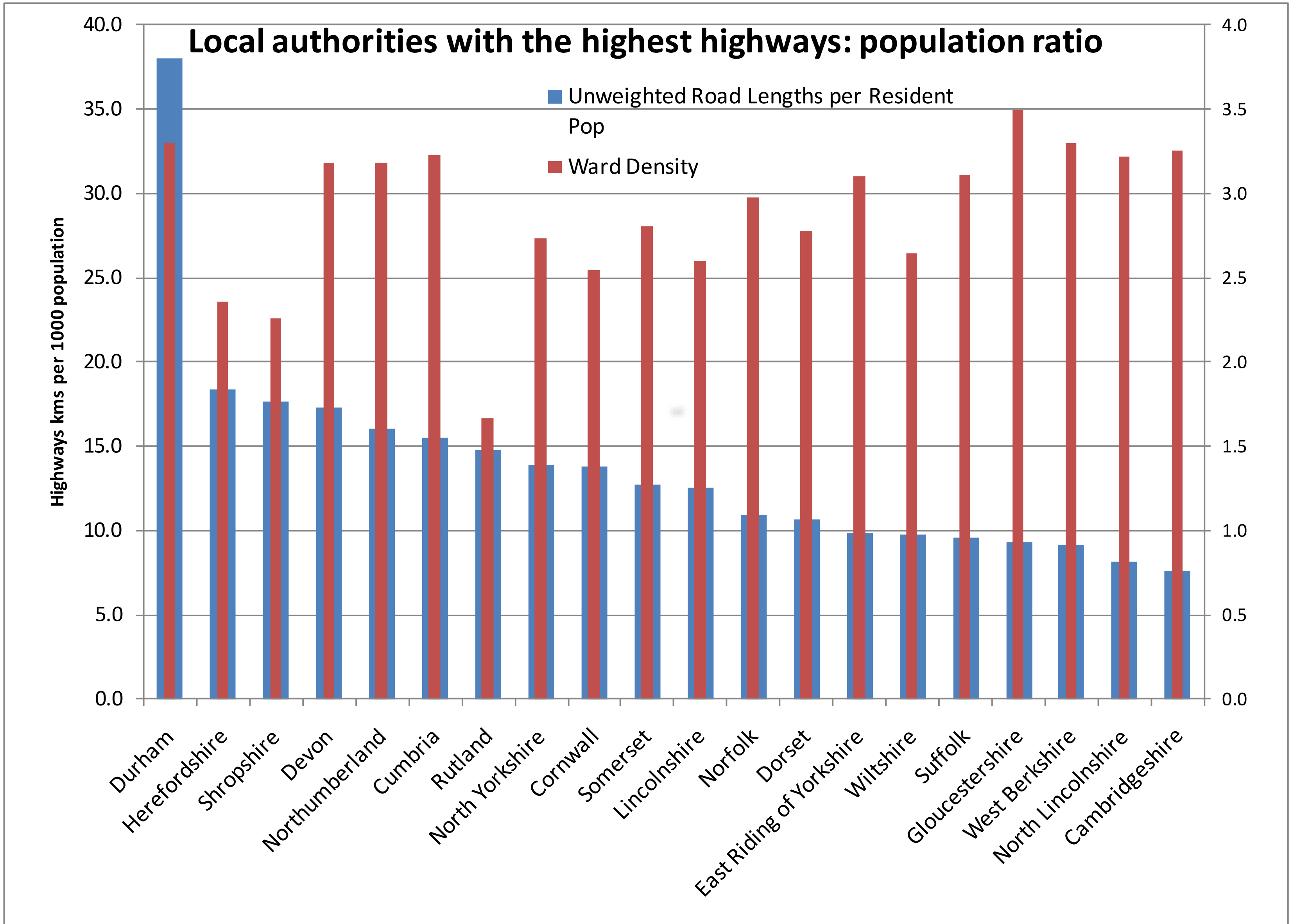
- Peripherality = distance that people are from population centres (local or national)

Scottish Executive's "Fair Shares for All"

- Proposed dispersal measure based on road length, resulted in:
  - 25% to the Island authorities
  - Borders, Dumfries & Galloway and Highland – ranges between 8% and 14%.
  - Areas similar to the most-sparse English local authorities: Argyle & Clyde receives an uplift of less than 1%, Grampian receives an uplift of 3% and Tayside receives less than 1%.
- Suggests sparsity is an important factor in the cost of providing public services, it is only material in areas that are much more sparsely populated than even the most-sparse parts of England.
- Generalised uplift of funding of 1-3% would still be welcome.

Road length per 1000 population

	Scotland	**England**
> 40kms per 1,000 population	Islands Health Board	
30-40 kms per 1,000 population	Borders, Dumfries & Galloway, Highland	Durham
20-30 kms per 1,000 population		
10-20 kms per 1,000 population	Argyle & Clyde, Grampian, Tayside	Herefordshire, Shropshire, Devon, Northumberland, Cumbria, Rutland, North Yorkshire, Cornwall, Somerset, Lincolnshire, Norfolk, Dorset


Local authorities with the highest highways: population ratio
Unweighted Road Lengths per Resident Pop
Ward Density
Highways kms per 1000 population
40.0
35.0
30.0
25.0
20.0
15.0
10.0
5.0
0.0
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
Durham
Herefordshire
Shropshire
Devon
Northumberland
Cumbria
Rutland
North Yorkshire
Cornwall
Somerset
Lincolnshire
Norfolk
Dorset
East Riding of Yorkshire
Wiltshire
Suffolk
Gloucestershire
West Berkshire
North Lincolnshire
Cambridgeshire

Four-year settlements

- Potential for full needs assessments to be implemented ruled out until 2020-21
- Implies damping locked-in until then
- No prospect of implementing changes in needs formulae (in favour of rural authorities?)

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Devolution and LGR

- LGR – focussed in rural areas because two-tier

- Devolution – elected mayors in shire areas – potential to unlock gain-share funding

Financial standing

- No particular “rural angle”
- County councils have greater exposure to social care cuts
- District councils in rural areas with growth in taxbase spared worst of the cuts in funding

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http://www.cipfa.org/services/networks/funding-advisory-service

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