

# Leaders' Committee

## Business Rates Review discussion paper: response

Item no: 3

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### Summary

The purpose of this paper is to seek approval for the London Councils response to the Government's discussion paper on business rates.

The discussion paper seeks views on the functioning of the business rates system as both a taxation system and a way to fund local services.

The key messages from the draft response include:

- Business rates are an important element of the local government funding system.
- London government should be able to retain a greater share of its business rates income.
- The Government should seek to strengthen the incentive effect within the current business rates retention scheme.
- Local government needs a funding system that is stable, certain and predictable and the Government should be mindful that any changes do not undermine these principles.
- An inclusive approach, that involves local government working with local business, should be at the heart of any future changes to the business rates system.

### Recommendations

Leaders Committee is asked to consider and approve the formal London Councils response to the discussion paper.

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# Business Rates Review discussion paper: response

## Introduction

1. At Autumn Statement 2014, the Government announced a long-term review of business rates. The then Chief Secretary to the Treasury launched this review shortly before Budget 2015 when the Government published a discussion paper setting out the terms of reference.
2. This is the third undertaking associated with business rates reform. It follows on from reviews of the administration of business rates (Summer 2014) and business rates avoidance (February 2015).
3. The deadline for responses is 12 June 2015 with the review scheduled to report its findings by Budget 2016. Between June 2015 and Budget 2016, it is unclear what further formal engagement and consultation will take place. London Councils officers have been in on-going discussions with HMT officials on this issue.

## The discussion paper

4. The introduction to the discussion paper outlines the terms of reference (attached at Annex A to this paper), which clearly state the Government's "preference for business rates to remain a tax based on property values, collected by local authorities". It does, however, welcome suggestions of alternative ways of raising business rates and how they could work in practice.
5. Importantly, the review will be "fiscally-neutral and consistent with the Government's agreed financing of local authorities".
6. The discussion paper includes four main sections covering:
  - **business rates as a tax on property values;** The Government's preference is for business rates to remain a property tax, administered and collected by local authorities. Though, it recognises the concern of some that the use of non-domestic property may change as more business is conducted online.
  - **how business rates revenues are used;** HM Treasury recognises that local authorities hold several key levers to drive economic growth at a local level – including planning, transport and local infrastructure. There is a focus on how the use of business rates can be used as a way to improve the incentive for local authorities to drive local growth;
  - **how business rates raise revenue:** there is a question over how business rates could be made more responsive to wider economic conditions and the frequency of revaluations; and
  - **who pays business rates:** this addresses how business rates could take into account the individual circumstances of businesses such as their size or ability to pay.

## Proposed Response

7. While the proposals appear broad in scope, the Government has expressed a clear preference in a number of areas. As such, it is felt that the scope for reform is relatively narrow. London Councils officers have prepared a draft response for consideration and approval by Leaders Committee. It is proposed that the submission will include a number of key messages, including:

- **Business rates are an important element of the local government funding system:** In 2015-16, the Government expects London's local authorities to collect over £6.8 billion, which represents almost a third of the national yield of £21 billion. Business rates will fund around half of all local government revenue expenditure, and retained business rates will fund around a quarter of local government spending in London (almost £2 billion).
  - **London government should be able to retain a greater share of its business rates income:** London Councils has a long standing position where it is felt that London government should retain 100 per cent of business rates (as well as the full suite of other property taxes). This would include control over setting the tax rates as well as issues such as revaluation, banding, reliefs and discounts (currently worth around £663 million in London). It is felt that greater control over the system could be used more constructively by local areas to shape their local economies, than under the current rigid and centralised system.
  - **The Government should seek to strengthen the incentive effect within the current business rates retention scheme:** The direct financial incentive for local authorities to grow their local business rates remains weak with low levels of retention and a narrow definition of growth. Analysis of the impact of business rates retention in London so far suggests that the reforms have had a limited financial impact despite the fact that GVA has increased by around 5 per cent per annum since 2010.
  - **Local government needs a funding system that is stable, certain and predictable:** The impact of business rates appeals means that there is a high level of instability and uncertainty in the current system and the Government should be mindful that any changes to the business rates system can have knock-on effects local authority funding.
  - An inclusive approach, that involves local government working with local business, should be at the heart of any future changes to the business rates system.
8. The draft response also includes a number of technical comments on the discussion paper.

## Recommendations

Leaders Committee is asked to consider and approve the formal London Councils response to the review.

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### Financial Implications for London Councils

None

### Legal Implications for London Councils

None

### Equalities Implications for London Councils

None



## **Annex A - Terms of reference for the review of business rates**

1. The review will consider changes to business rates in view of trends in the use of non-domestic property and in response to concerns raised by ratepayers that the business rates system is in need of modernisation to make it fit for a 21st century economy. In order to ensure that business rates continue to raise sustainable revenues to fund public services, the outcomes of the review will be fiscally neutral and aligned with the government's wider fiscal plans. The review will report its findings by Budget 2016.
2. The government's preference is for business rates to remain a tax based on property values, collected by local authorities. However, the government welcomes suggestions of alternative ways of raising local business taxes and how they could work in practice.
3. To inform its recommendations, the review will assess a broad range of options for reform and:
  - conduct a robust analysis of trends in the use of non-domestic property and property values
  - review alternative and international examples of local property and business tax systems and draw lessons from them
  - consider the impact of the current system of business rates on businesses' decisions to invest, grow and create jobs – this will include evaluating the effectiveness of existing reliefs and exemptions that are designed to support particular types of ratepayers
  - consider the role of business rates within the wider tax system, including its responsiveness to economic conditions
  - assess the impacts of any potential changes on the ability of the business rates system to deliver fairness, simplicity and stability to ratepayers
  - encourage a wide-ranging debate among stakeholders of potential options for reform and their impacts
4. When considering possible alternatives or changes to the business rates system, the government will bear in mind:
  - the advantages of predictability and economic efficiency presented by the existing business rates system
  - the suitability of a tax base as a local tax used to fund local public services
  - the practicalities of making a transition to a new system
  - any 'trade-offs' or other changes that would be required to implement successfully any reforms.