The Association of Directors of Public Health

Members Briefing: Initial Briefing on Business Rates

Current arrangements

In England and Wales, local authorities receive funding from three main sources: grants from central government, council tax, and other locally generated income (fees and charges for services, for example). The central government grants can either be specific grants, which are allocated with restrictions on how and what they are spent on, or formula grants, which can be used by a council without restriction.

Business rates are the largest element of formula grant funding for local authorities. Business rates are collected by local authorities from owners and occupiers of commercial and industrial properties. The business rates are then redistributed via central government on a per capita basis, with an additional top up grant to supplement the payments, according to the needs of each local authority.

To set business rates, local authorities multiply the rateable value of an individual property, which is set by the Valuation Office Agency, by a 'multiplier', also known as the Uniform Business Rate (UBR). The UBR is set by central government, and this is reviewed on an annual basis to reflect changes in inflation.

As a result of the Local Government Finance Act 2012, local authorities were given the power to keep up to fifty percent of the business rate growth in their area, by splitting business rate revenue into 'central share' and 'local share', with the 'local share' retained within the local authority, and the 'central share' redistributed to councils via a revenue support grant.

Proposal

In October 2015, the Chancellor of the Exchequer, George Osborne, announced proposals for local councils to be 100% funded by locally raised revenue by 2020, an estimated annual income of £26bn. The full devolution of business rates will be piloted in Manchester, Liverpool, and the Greater London Authority as early as April 2017. Her Majesty's Treasury (HMT) expect PH to be excluded from the pilots, the local authorities involved will receive their full grants.

Under these proposals, top-up grants from central government will be phased out by 2020. Instead, local authorities will be expected to use their business rates to fund a number of services and grants.

Grants and services that may be transferred to being funded by business rates, as suggested in the 2015 Spending Review and the 2016-17 Local Government Finance Settlement, include:

- Public Health grant (ring-fence to be maintained until 2018)
- Transport for London capital grant
- Housing benefit administration grant

HMT have confirmed the principle that no LA should be worse off in the first year of the new regime as a result of the reforms and that it applies to individual local authorities, not just the national total. Therefore, it is possible that local authorities PH 'need' in 2018/19 and 2019/20 will be defined simply as their 2017/18 baseline minus the reductions required by the 2015 Spending Review, but this has not yet been confirmed. From 2020, PH need would be informed by an Advisory Committee on Resource Allocation (ACRA) formula (revised as necessary), DCLG's general needs reset, policy decisions on pace of change and the next Strategic Review.

The uniform national business rate that currently stands will be abolished. Local authorities will have limited powers to set business rates. They will have the power to reduce business rates in order to incentivise the start-up and development of local business, but they will not be able to increase business rates.

Cities that move to systems of combined authorities with elected city wide mayors will be able to increase rates for specific infrastructure projects. It is likely that this will be capped at an additional two pence on the rate.

The system of tariffs and top-ups designed to support areas with lower levels of business activity will be maintained in its present state, and the government is looking at ways to extend protection for those authorities with lower levels of business rate income, with plans for a "safety net" for any area where business rate receipts fall by 7.5%.

A two-year transitional grant of £150m was announced in February 2016 to support local authorities to transition to the new funding arrangements.

The government is expected to announce the conclusions of its business rates review in the near future.

The Department for Communities and Local Government (DCLG) and the LGA have launched a Steering Group, made up of representatives from across local government, to oversee the development of these reforms, which will provide a route for local authorities to provide their views on the reforms.

Implications to be considered by ADPH

The ring-fenced public health grant to local authorities continues until 2018. However, there will be annual cuts as presented in the Comprehensive Spending Review. It is expected that public health funding will become part of the business rate settlement by 2020. Therefore, the impact of the above proposal to how local authorities are funded does need to be considered by ADPH members.

Business rates are only payable on the occupation of certain commercial properties. Retailers or online businesses which do not maintain a high-street presence are not liable for business rates. These organisations are likely to have properties that act as storage, i.e. warehouses, which are liable for business rates, but the rateable value of such properties is likely to be lower than a similar-sized property in a high street. There are currently no plans to alter business rates arrangements for online retailers, and with the continuing decline in high street shopping and growth in on-line shopping this has implications for the available income local authorities can generate via business rates.

Since 1929, agricultural lands have been exempt from business rates, subject to certain conditions. Rural local authorities with high numbers of agricultural businesses are therefore less able to generate income from business rates, in comparison to metropolitan councils with a high density of businesses.

Non-domestic properties are generally revalued every five years. This was last conducted on 1st April 2008, with the revaluation coming into effect on 1st April 2010. The 2015 revaluation, which would have been based on the property values in 2013, was delayed until 2017, meaning that properties are currently still taxed business rates based on their pre-recession 2008 value. The 2017 revaluation may mean a reduction in the total rateable value pool and therefore a reduction in local authority income, unless supplemented from central government.

Finally, there are continued concerns as to whether the increased income individual councils will get from retaining one hundred per cent of business rates will compensate for other grant cuts due to be implemented by central government. There are also issues around major commercial closures creating a sudden reduction in business rate income.

There is a significant risk that the new system will deprive poorer areas of crucial support, whilst allowing wealthier regions to flourish. There is therefore a considerable issue around potential increases in inequality between relatively wealthy and poorer local authorities and between urban and rural areas.

It is expected that a redistributive mechanism will be retained and revised to consider current individual LA needs. The imperative for Public Health is that this revised mechanism takes the public health funding needs into account i.e. a formula is used that includes health as a significant factor.

This briefing for ADPH members is the first in a series of briefings on business rates retention, and it is expected that additional briefings will be made available as the scheme progresses, and at key events such as the conclusion of the business rates review. If you have any suggestions regarding future briefings on business rates, please email enquiries@adph.org.uk.