Room 151
Local Government Treasury, Technical & Strategic Finance

Business rates reform raises uncertainty for council revenues

By Colin Marrs, 8 Oct, 2015

Uncertainty hangs over the fate of councils suffering from low economic growth in the wake of the announcement from the chancellor George Osborne that councils will be allowed to keep 100% of business rates.

In a speech to the Conservative Party conference on Monday, the chancellor announced the government would relinquish its half of business rates income and abolish the revenue support grant.

A spokesperson for the Department of Communities and Local Government committed to a redistribution mechanism to protect councils with low or negative business rate growth – but would not be more specific.

Guy Ware, interim director of finance, performance and procurement at London Councils, told Room151: "Individual councils won't keep all the rates they collect; there will be a redistribution system that limits the potential rewards from business growth.

"A host of detailed issues needs resolving – but we should seize the opportunity to help develop solutions that work."

Currently, a system of "top-ups" and "tariffs" caps the amount that councils can gain or lose from business rate growth retention.

Straight after the speech, a Conservative Party source told Room151 that this system would be retained in some form. However, despite repeated requests, the Department for Communities and Local Government was unable to confirm this, saying that it was just one idea under consideration for a redistribution mechanism.

Ed Cox, director of think tank IPPR North, called on the Treasury to be clearer about how low growth areas would be protected.

He said: "Unless we retain some redistributive mechanism, there is a significant risk it will starve poorer areas of crucial support and allow wealthier ones to collect all the riches."

Paul Martin, Solace spokesperson for local government finance and chief executive of the London Borough of Wandsworth, said: “Great care will need to be taken over the detail of the transition. In particular, during a period of sharp reductions in grant, it will be essential to ensure that no local authority finds itself in a more adverse financial situation as a consequence of this change. As with all policy, it will be as good as its implementation.”

What is known at this stage, however, is that the system will be phased in up to 2020, and that the Uniform Business Rate will be abolished. Councils outside combined authorities will be allowed to cut – but not raise – business rates, while city regions with elected mayors will be allowed to increase rates by 2p in the pound for specific infrastructure projects.

Melanie Leech, chief executive of the British Property Federation, warned that the reforms could even exacerbate inequality between richer and poorer areas.

She said: “It will be imperative for Treasury to engage with industry to ensure that this does not lead to a proliferation of different rates of tax across the country, which businesses will find difficult to negotiate and which could lead to uneven growth across the country.”

Osborne said that in return for being able to keep business rate income, councils would be expected to take on more duties, but again the details remain shrouded in mystery.

Cllr Gary Porter, chairman of the Local Government Association, welcomed Osborne’s announcement, but said that there was a flipside because councils would now be liable for 100% of business rate refunds.

“This makes reform of the appeals system even more urgent to protect councils from the growing and costly risk and appeals and ensure businesses are happy with what they pay,” he said.

Chris Shepherd, director at 31ten Consulting, is an expert on tax incremental finance (TIF) funding, which relies on funding infrastructure from borrowing against expected business rates income.

He said: “The impact on TIF is unclear. By councils having greater control over business rates one could argue that this has the impact of increased certainty, but on the other hand now investment through a TIF becomes a decision that has to be made in the context of wider funding and service investment decisions, for example children’s budgets and investment in adult care.

“TIFs were attractive because they sat outside these service level decisions, being essentially a growth tool.

“It would be a brave finance director who would reduce capital investment in core services whilst investing on the premise that this new investment would create growth.

“However, conversely this could have the impact of making the TIF tool a bit sharper, with the risk of a failing TIF reducing.”