

REPORT TO:		Cabinet	
DATE:		12 October 2016	
PORTFOLIO:		Cllr Gareth Molineux - Resources	
REPORT AUTHOR:		Stephen Brindle – Head of Accountancy	
TITLE OF REPORT:		100% Business Rates Retention	
EXEMPT REPORT (Local Government Act 1972, Schedule 12A)	No	Not applicable	
KEY DECISION:	No	If yes, date of publication:	

1. Purpose of Report

- 1.1 To describe the proposed government changes and possible effects of the alteration in local government funding i.e. the 100% retention of business rates by local government.

2. Recommendations

- 2.1 To note the contents of the report which describes the current business rates system and then describes the issues surrounding the government's proposals.

3. Reasons for Recommendations and Background

- 3.1 The purpose of the policy is to stimulate economic growth at a local level.

- 3.2 Moving towards the new system the government has already announced:

- Local government will keep 100% of business rate revenue by the end of the current Parliament which from a financial perspective is assumed to mean 1st April 2020.
- By the start of the financial year, 1st April 2020, revenue support grant (RSG) will be phased out.
- In return for the extra revenue it receives local government will be expected to take on new responsibilities.
- The uniform business rate will be abolished.
- Directly elected mayors will be given the power to increase business rates for spending on local infrastructure projects provided they have the support of the Local Enterprise Partnership (LEP).

3.3 The Current System

The present system was introduced in April 2013. The rateable value of a business property is multiplied by the uniform business rate (the multiplier) and the resulting figure is the annual charge. The business rate income collected by the Council is split 50:50 the central share and the local share. The central share goes to government and is redistributed to local government in the form of RSG and other grants.

- 3.4 The local share, in the case of Hyndburn BC, is split: 80% stays with the Council, 18% goes to the County Council and 2% to the Fire and Rescue Service. The 80% is the Council's business rates baseline which is fixed subject to annual uprating in line with the retail prices index (RPI).
- 3.5 The funding needs of the Council are assessed centrally and a baseline funding level is calculated. It is a proxy for local need and its aim is to provide some fairness in the system. If the business rates baseline is greater than its baseline funding level, an authority pays a tariff which is what happens at Hyndburn Council. In the reverse position, an authority receives a top-up payment which is the case at the County Council.
- 3.6 Councils keep 50% of growth in their business rate receipts which arise from new or expanding businesses. Local authorities which pay tariffs are also liable to pay a levy of up to 50% on this type of growth.

Factors Affecting the Reformed System

3.7 Needs Assessment

As part of the 2016/17 Local Government Finance Settlement the government announced a Fair Funding Review of councils' relative needs and resources. The last needs assessment was done in 2013/14 and concentrated on updating the data rather than considering the method used.

- 3.8 At present the main idea is authorities with higher needs will receive a larger allocation of funds. The important question is how to measure relative need. The government consultation paper on business rates retention says,

There is good reason to believe that the demographic pressures affecting particular areas, such as the growth in elderly population, have affected different areas in different ways, as has the cost of providing services.

- 3.9 That is, relative needs have changed so how to account for the shift under a new funding regime? If money is to be reallocated through the system, the government does not want the redistribution to deinceivise authorities from pursuing effective growth policies. There is a maximum of 50% levy on growth at present which is to be

scrapped but there is a conflict between allowing all growth to be kept and to protect authorities which cannot grow as quickly as others.

3.10 Growth and Redistribution

To strike a balance in the new system between providing a growth incentive and the fair distribution of funding amongst authorities, the government expects to 'reset' the system on a fixed basis. It will reconsider relative need and recalculate the amounts to be redistributed. The method will probably be similar to the current top-up and tariff method which already exists.

- 3.11 The question is how often to reset the system? If the growth that local authorities achieve is included in the reset amount i.e. it is distributed away from the authority, then the incentive to growth is weakened. If, on the other hand, redistribution occurs infrequently, then there is the possibility that services would not be delivered when relative need grew faster than tax revenue. The government is consulting whether to reset infrequently e.g. every twenty years, frequently e.g. every five years or to have a partial reset of the system on a frequent basis. The trade-off is between allowing authorities to keep their growth and supporting authorities which have seen economic decline or a needs increase.

3.12 Business Rates in Two Tier Authorities

Para 3.4 mentions the business rate split between county and district authorities. Both groups would like a larger share. Counties argue they provide the infrastructure to support growth as well as the continuing costs of growth e.g. social care. Districts say that their council expenditure is linked geographically to the businesses that deliver growth.

- 3.13 The current straight percentage split may not properly reflect the responsibilities of counties and districts and if the shares are adjusted a needs based assessment might be fairer.
- 3.14 The other component of the split is the Fire and Rescue Service and given its possible separation, similar to the Police and Crime Commissioner, it might be better taken out of the system altogether.

3.15 Revaluations

General revaluations of all properties are currently scheduled to occur every five years; the next one takes effect from 1st April 2017. The revaluation is when economic changes in property values are reflected in rateable values. In the meantime, rateable values only change through appeals and physical changes to property or location.

- 3.16 Nationally the government resets the multiplier at the time of revaluation to ensure no more is raised in business rates, therefore, if rateable values increase overall at the revaluation the multiplier will fall. At a local level individual authorities will see their rates rise or fall at revaluation. It depends on whether the economic growth or decline in the individual local authority is above or below the national average. Consequently

some authorities can see their rates income fall at revaluation despite having seen increases in their rateable values. To compensate for this the government adjusts each authority's tariff or top-up to ensure their retained income is the same after revaluation as it was before.

3.17 If this adjustment continued after 100% business rates retention, then economic growth caused by a change to the multiplier will be cancelled out.

3.18 Appeals

The authority stands the cost of a successful appeal by a business over its rateable value. It is judged an unfair arrangement because the Valuation Office (VoA) sets the rateable value and also decides whether the appeal is allowed or not. To meet the cost of successful appeals local authorities have set up individual appeals provisions. They have in some cases been large because it is difficult to estimate the amount needed and because the larger the provision the easier it is to ride out volatility in the system.

3.19 With 100% rate retention all volatility will be borne by the local authorities and so they may increase their provisions, which are cash backed, in effect, funding is moved from services to provisions.

3.20 To combat the instability, the government has suggested more regular valuations of business property so there will not be large variations in the amount to pay and that claims will be settled more quickly. It is a solution which implies employing more staff and therefore increasing the cost; the payment would presumably be borne, to some extent, by the 100% rate retention scheme. There is no discussion about transferring responsibility from the VoA.

3.21 Encouraging Growth

As mentioned at the beginning of the report, the policy objective is to generate economic growth. However, growth resulting from improvements to existing buildings is, by and large, removed in the revaluation process i.e. it is not kept locally. The current system works by counting growth as the construction of new buildings or increasing net floor space; and they are determined by the availability of development land and whether there is finance to support viable economic development.

3.22 Such an arrangement works against a city centre with limited opportunity to increase space and so there is an argument that the incentive should focus on rateable value growth as well i.e. the improvements to existing buildings.

3.23 According to The New Local Government Network, linking business rates growth to floor space '*incentivises large developments in low wage sectors such as retail*' i.e. out of town development and does not encourage those businesses which '*occupy less floor space but create higher wage jobs and contribute to a dynamic and resilient local economy.*'

3.24 In effect, the current system simply encourages economic growth which increases floor space. It is a limited approach which may form only part of an authority's regeneration strategy.

3.25 Varying the Multiplier

The government announced it would abolish the uniform business rate and allow authorities to cut business rates in order to stimulate economic growth. It did not say it would allow authorities to raise rates.

3.26 It seems unlikely authorities would want to reduce the multiplier and reduce their income if they were already struggling to balance their books. Also it is not necessarily the amount of the business rate which is the main driver for encouraging economic growth. For example, infrastructure and suitable housing for people working in the new enterprises are factors.

3.27 There is the possibility of councils competing with one another by offering lower rates; it would create volatility rather than medium or long term growth. On the other hand, is it feasible that all the districts within Greater Manchester would be allowed to set their own level of multiplier? It may be that the rate was set at a geographical level or it could it could be set at different levels for different types of business.

3.28 The Central List

Rates for properties on the central ratings list are collected directly by government. The list contains the ratings assessments of networked properties including major transport, utility and telecommunications undertakings and cross country pipelines. The statutory obligation under the Local Government Finance Act 2012 is that an equivalent amount to that collected be redistributed to local government through grants.

3.29 How would the list and its income be treated under 100% rates retention and is the list large enough, that is, should it include infrastructure like nuclear power stations? A power station can contribute disproportionately to an authority's income and if it is successful in an appeal, there is significant volatility in the council's cash flow.

3.30 The Tax Base

The tax base can be affected by government policy, maybe unintentionally. Academies are encouraged by government but pay no business rates and, if made, the award of mandatory charitable relief to NHS trusts would mean they paid nothing too. With a 100% retention scheme authorities would have to accommodate the reduction in income.

3.31 The Small Business Rate Relief

The government announced that from 2020-21 the multiplier would be uprated by the consumer price index (CPI) which is on average lower than the retail prices index (RPI) which is currently used. The Treasury figure for the change in the use of index, for a single year, is £370 million. Over ten years it amounts to £3.7bn less collected by local

government in business rates. Does it mean with such a reduction that fewer responsibilities would be devolved to authorities?

Additional Responsibilities

- 3.32 Local government will retain 100% of business rates and to ensure it is fiscally neutral it will take on new responsibilities. The government has said the increase is £13bn. however, that is the amount which will be devolved. In 2019-20, it is estimated that £2.5bn of RSG will be paid so in 2020, the new amount of funding will be £13bn less £2.5bn or approximately £10.5bn.
- 3.33 In its Spending Review the government also said that the new responsibilities should be linked to '*empowering local authorities to drive local economic growth and support their local community*' e.g. administration of Housing Benefit for Pensioners, Public Health Grant and Attendance Allowance.
- 3.34 In future, will councils be expected to take on further responsibilities without additional funding and if another round of cuts is required centrally will they be taken from the business rates? Local authority opinion is new responsibilities should be linked to economic growth, be aligned with any proposed devolution agreement and not be demand led.
- 3.35 The report has described the main aspects of the proposed reforms and their possible effects on Hyndburn BC. DCLG is carrying out a national consultation on the proposed reforms.

4. Alternative Options considered and Reasons for Rejection

4.1 None

5. Consultations

5.1 None

6. Implications

Financial implications (including any future financial commitments for the Council)	Not quantifiable until the details of the proposed change are known.
Legal and human rights implications	None
Assessment of risk	As for financial implications.

Equality and diversity implications <i>A Customer First Analysis should be completed in relation to policy decisions and should be attached as an appendix to the report.</i>	None
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7. **Local Government (Access to Information) Act 1985:**
List of Background Papers

7.1 **Self-sufficient local government: 100% Business Rates Retention**

Fair Funding Review: Call for evidence on Needs and Redistribution

8. **Freedom of Information**

8.1 The report does not contain exempt information under the Local Government Act 1972, Schedule 12A and all information can be disclosed under the Freedom of Information Act 2000.