AGENDA ITEM 7

HIGH PEAK BOROUGH COUNCIL

Report to the Corporate Select Committee

19th September 2016

TITLE:	**Business Rates Retention – Consultation on Proposed New System**
EXECUTIVE COUNCILLOR:	**Cllr Emily Thrane – Executive Councillor for Finance & Resources**
CONTACT OFFICERS:	**Claire Hazeldene - Finance & Procurement Manager** **Emily Bennetts – Finance Business Partner**
WARDS INVOLVED:	**Non-Specific**

Appendices Attached:

- **Appendix A - Self-sufficient Local Government: 100% Business Rates Retention - Summary of Questions**
- **Appendix B - Business Rates Reform - Fair Funding Review: Call for evidence on Needs and Redistribution - Summary of Questions**

1. Reason for the Report

1.1 The purpose of this report is to outline the contents of recent government consultation documents on the reform of the business rates retention system and to consider the Council's response.

2. Recommendations

2.1 That the Corporate Select Committee requests that the Executive:

- Note the details of the progress with the Government's reform of the business rates retention system as detailed in section 9
- Note the contents of the recent consultation papers as detailed in sections 10 and 11
- Agree that the issues highlighted in section 12.1 form the basis of the Council's response to the consultation

3. Executive Summary

3.1 In October 2015 Government announced a forthcoming package of reforms to the business rates retention system including a move to local government retaining 100% of the rates that they received with an end to Revenue Support Grant (RSG).

3.2 Under the existing system, local government retains 50% of the business rates yield it collects (net of reliefs). In two tier areas the local share is split between the borough council (40%), the county council (9%) and the fire and rescue authority (1%). The other 50%, the “central share”, is paid to the Government, which redistributes it as part of a system of grants, in particular Revenue Support Grant (RSG).

3.3 There is redistribution between local authorities through a system of tariffs and top-ups. There is also a levy on “disproportionate” growth in BR income, which part funds a safety net to support authorities with a steep decline in BR income.

3.4 From 2015/16, HPBC has been part of a Business Rates Pool with other Derbyshire Authorities. As part of a pool, the levy rate calculation becomes zero, therefore instead of paying any levy to Central Government, the Billing Authorities pay the equivalent of the levy they would have paid to Central Government into the pool and retain a proportion of this levy locally.

3.5 In outline the proposals for reform are as follows:

- Local authorities will retain 100% of business rates to fund local spending on services;
- Local authorities with be able to retain income from growth – i.e. there will be no levy;
- The reform will be fiscally neutral and local authorities will have new responsibilities and / or central government grants will be phased out;
- Local authorities will have the ability to reduce rates – there will be the ability to increase for combined authority mayors; and
- The new system will retain a system of tariffs and top ups subject to a fundamental review of needs.

3.6 The reform is being developed in four work streams, which are supported by working groups involving range of stakeholders:

- New responsibilities and the phase out of grants
- System redesign
- Local Tax Flexibilities
- Accounting and Accountability

3.7 In July 2016 the Department for Communities and Local Government (DCLG) published two consultation papers:

- Self-sufficient local government: 100% Business Rates Retention; and
- Business Rates Reform - Fair Funding Review: Call for evidence on Needs and Redistribution.

3.8 A summary of the specific questions contained within the consultation documents are detailed in Appendix A and B.

3.9 In August 2016, the Department for Communities and Local Government consulted on proposals for a new approach to business rates appeals. The aim of the system overall is to provide a more streamlined and efficient system.

3.10 There are a number of issues that it is important for the Council to highlight in response to these consultation documents. A number of these have been highlighted in section 12.1 of the report. It is proposed that any issues highlighted at the meeting of the Corporate Select Committee are added to these to form the basis of the Council's response.

4. How this Report Links to Corporate Priorities

4.1 Business rates funding reforms will have an impact on the overall level of resources that are available to the Council which in turn will affect the level of services provided.

5. Options and Analysis

5.1 There are no options to consider.

6. Implications

6.1 Community Safety - (Crime and Disorder Act 1998)
None

6.2 Workforce
None

6.3 Equality and Diversity/Equality Impact Assessment
This report has been prepared in accordance with the Council's Equality and Diversity policies.

6.4 Financial Considerations
The Council receives some £3.2 million annually in retained business rates.

The removal of Revenue Support Grant has already been included in the Council's Medium Term Financial Plan. This results in a deficit of £1.2 million by 2019/20. Any additional business rates retained (net of the cost of any devolved services / specific grant losses) will reduce this deficit. However should the reforms result in the Council receiving less than the current level of retained income, the deficit will increase.

6.5 Legal
None

6.6 Sustainability
None

6.7 External Consultation
None

6.8 Risk Assessment
The reform of the business rates system is one of the strategic key risks which is included on the Council's risk register.

ANDREW P STOKES
Executive Director (Transformation) & Chief Finance Officer

Web Links and Background Papers	Location	Contact details
Self-sufficient local government: 100% Business Rates Retention - DCLG (July 2016) https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/535022/Business_Rates_Retention_Consultation_5_July_2016.pdf	Buxton Town Hall	Claire Hazeldene Finance & Procurement Manager Emily Bennetts – Finance Business Partner
Business Rates Reform - Fair Funding Review: Call for evidence on Needs and Redistribution - DCLG (July 2016) https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/534956/Discussion_document_-_Needs_and_Redistribution.pdf		
Check, challenge, appeal: Reforming business rates appeals - consultation on statutory implementation – DCLG (August 2016) https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/546100/Business_rates_appeals_reforms_consulation_draft_regs.pdf		

7 Introduction and Background

7.1 Non-Domestic Rates, or business rates, collected by local authorities are the way that those who occupy non-domestic property contribute towards the cost of local services. Under the existing business rates retention arrangements introduced from 1st April 2013, local authorities keep a proportion of the business rates paid locally. Prior to this date councils collected business rates on behalf of central government and received a proportion back annually via a nationally determined formula grant.

7.2 In October 2015, the Chancellor of the Exchequer announced a forthcoming package of reforms to the system including a move to local government retaining 100% of business rates with an end to Revenue Support Grant (RSG).

7.3 In July 2016 the Department for Communities and Local Government (DCLG) published two papers – *Self-sufficient local government: 100% Business Rates Retention;* and *Business Rates Reform - Fair Funding Review: Call for evidence on Needs and Redistribution*. On the 16th August 2016 the Department for Communities and Local Government published a further consultation document on the proposals for reforming the business rates appeals process.

7.4 The purpose of this report is to outline the contents of the consultation documents and to consider the Council's response.

8 Current System of Business Rates Retention

8.1 Under the existing system, local government retains 50% of the business rates yield it collects (net of reliefs), known as the "local share". In two tier areas the local share is split between the borough council (40%), the county council (9%) and the fire and rescue authority (1%).

8.2 The other 50%, the "central share", is paid to the Government, which redistributes it as part of a system of grants, in particular Revenue Support Grant (RSG).

8.3 There is redistribution between local authorities through a system of tariffs and top-ups. There is also a levy on "disproportionate" growth in BR income, which part funds a safety net to support authorities with a steep decline in BR income.

8.4 Every billing authority is different in make up and therefore will have a vastly different business rates base. The system of top-ups and tariffs is designed to smooth the variations in income. The safety net mechanism protects against drastic reductions in business rates income and caps the maximum drop in business rates income at 7.5% in any one year.

8.5 A levy is charged on growth above inflation to ensure locally retained business rates do not increase by more than the equivalent percentage growth above inflation. This levy pays for the safety net payments required for other local authorities. The levy is calculated using the funding and business rates baselines, but is capped at 0.5 to retain incentive for growth among local councils.

8.6 From 2015/16, HPBC has been part of a Business Rates Pool with other Derbyshire Authorities. As part of a pool, the levy rate calculation becomes zero, therefore instead of paying any levy to Central Government, the Billing Authorities pay the equivalent of the levy they would have paid to Central Government into the pool, either receiving back or netting off a proportion of this, depending on the agreement. In the Derbyshire Business Rates Pool, HPBC pay the full equivalent of the levy into the pool; the amount which will be received back depends on the total amount of levy savings paid to the pool by all authorities involved and also the amount of growth HPBC has achieved during the year.

8.7 The table below illustrates the financial impact of the system:

Local Government Finance Settlement	
Baseline Funding Level	£2,149,000
Less NDR Baseline	(£9,338,000)
Tariff payable	**(£7,189,000)**
Levy Rate	Capped at 0.5
HPBC Growth/ Levy Calculation	
Business Rates Income	£23,456,000
Add S31 Grants for Autumn Statement Reliefs	£2,051,000
Total Income	**£25,507,000**
Local Authority Share (40%)	£10,203,000
Less Tariff	(£7,189,000)
Retained Income	**£3,014,000**
Compared to Baseline Funding	(£2,149,000)
Business Rates Growth	**£865,000**
Multiplied by Levy Rate	0.50
Levy payable to Pool Lead	£433,000
Levy savings received from Pool	(£253,000)
Net Levy Payable	**£180,000**
Business Rates Retention Outturn	
HPBC NDR Precept set in the Budget	£9,706,000
Add Net S31 Grants	£864,000
Less Tariff	(£7,189,000)
Less Net Levy	(£180,000)
Total Retained Business Rates	**£3,201,000**

9 Proposed Reform of the System

9.1 In launching the 100% Business Rates Retention the Government has said that the crucial reform will make councils the drivers of economic growth in their communities, while also helping to transform the key services that their residents value.

9.2 It is the Government's intention to:

- Ensure that the system is designed to encourage and reward councils that promote and support economic growth in their areas;
- Ensure that there is a system of redistribution of funding that recognises the needs and demands of different councils, including in cases where there are combined authorities and mayoral areas;
- Introduce measures to manage risk within the system, including the improved management of appeals; and
- Give the ability to reduce the business rates tax rate (the multiplier) and the ability for Combined Authority Mayors to levy a supplement on business rates bills to fund new infrastructure projects, provided they have the support of the business community through the Local Enterprise Partnership.

9.3 In outline the proposals are as follows:

- Local authorities will retain 100% of business rates to fund local spending on services;
- Local authorities with be able to retain income from growth – i.e. there will be no levy;
- The reform will be fiscally neutral and local authorities will have new responsibilities and / or central government grants will be phased out;
- Local authorities will have the ability to reduce rates – there will be the ability to increase for combined authority mayors; and
- The new system will retain a system of tariffs and top ups subject to a fundamental review of needs.

9.4 The reform is being developed in four work streams, which are supported by working groups involving range of stakeholders:

- New responsibilities and the phase out of grants
- System redesign
- Local Tax Flexibilities
- Accounting and Accountability

9.5 There is also a stream of work that is ensuring that there is appropriate consultation with business throughout the reform process.

New Responsibilities and the Phase Out of Grants

9.6 There is a £12.5 billion target for new responsibilities to be devolved and it is intended that the outcomes for this will:

- Build on the strengths of local government
- Support the drive for growth
- Support improved outcomes

- Take into account the medium term financial position of local authorities

9.7 Some grants are already being phased out e.g. Revenue Support Grant. However there could be some type of grant funding retained if devolved responsibilities exceed the £12.5 billion target.

9.8 It is intended that the transfer of responsibilities will take into account existing and future devolution deals. It may be that these may be wide-ranging i.e. including skills / health integration etc.

Rates Retention System Design

9.9 In determining the future system redesign the following issues are been considered:

- The balance of risk & reward;
- The tier splits & local flexibilities;
- The outcomes from the fair funding review; and
- Accounting and accountability

9.10 The general aim is to ensure that the system is simple to operate and understand. The key issue is balancing between the retention of growth with supporting need.

9.11 It has already been stated that the system of top ups and tariffs will continue. The split between districts and counties has not been determined at this stage. There is also the consideration of a direct grant for fire and rescue authorities, which would remove them from the system. Government has also stated that the principle and timing of resets is to be revisited.

9.12 There will be the new power to reduce the multiplier. Government will need to determine how this will work in two-tier area and combined authorities. The working group is also looking at flexibility for local application in granting business rate reliefs – currently 95% are these are mandatory – consideration is being given for more local flexibility.

Fair Funding Review

9.13 There is a commitment to a fundamental review of relative needs and distribution and it is proposed that this will set baseline for new system. There is a longer timescale for the completion of this element of the review as there is no requirement for primary legislation and it is recognised that it is technical and complicated.

9.14 It is accepted that making a system fair brings complexity because of the wide range of variable circumstances.

Accounting and Accountability

9.15 It is recognised that this area of reform cannot be developed fully until the other issues have been resolved. This stream of work is important however as the Government wants to avoiding unintended consequences in the system redesign

9.16 It is likely that business rates income will still need to be accounted for in a separate collection fund but there may be a number of changes. Business rates will probably be still classified as a central government tax – central government will therefore still need to produce accounts and there will still be returns for local authorities to complete.

9.17 The timescales for the reform are as follows:

- Closing date for responses on current consultation papers (28th September 2016)
- New consultation paper containing technical details (Autumn 2016)
- 2 pilots implemented in Liverpool City Region & Greater Manchester (April 2017)
- Full implementation by the end of the current Parliament (2019/20 or 2020/21 – not determined at this stage)

10 The July Consultation Papers

10.1 The consultation document *Self-sufficient local government: 100% Business Rates Retention* seeks to identify some of the issues that the Government considers should be kept in mind in designing of the reforms. These include:

- How the reformed system recognises the diversity of local areas and the changing pattern of local governance arrangements;
- The responsibilities that could be transferred to local authorities;
- How the design of the new system can provide the right level of incentive and reward to local authorities – particularly those working closely with local businesses and together as Combined Authorities – that pursue policies that drive additional growth in their areas;.
- How business rates income might be shared across different tiers of local government, including how the system should recognise areas which have moved to reformed models of governance;
- The extent to which the design of the system should seek to enable places to retain the rates they collect;
- How councils might be able to work together to manage risk to an acceptable level; and
- The offer to pilot the approach to business rates retention to any area that has ratified a devolution deal.

10.2 A summary of the specific questions contained within the consultation document are detailed in Appendix A.

10.3 The consultation document *Business Rates Reform - Fair Funding Review: Call for evidence on Needs and Redistribution* seeks to consult local authorities on the assessment of the relative needs of local councils, which is to be a fundamental part of the reforms to business rates.

10.4 Alongside the 2016/17 Local Government Finance Settlement, the Government announced the Fair Funding Review that will determine what the needs assessment formula should be in a world in which local government spending is funded by local resources not central grant.

10.5 Based on the feedback from the working group that is helping to co-ordinate this stream of work, Government has developed this initial call for evidence on needs and redistribution.

10.6 The call for evidence covers the following areas:

- Approach to measuring need
- Treatment of growth
- Transition to a new system
- Geographic level of measurement
- Resetting the system
- Incentivising the system

10.7 The document highlights that the needs assessment does not require legislative changes to implement. It is stated in the document that decisions do not have to be made now and that work we be able to progress with local government to a different timetable than the other elements of the reform.

10.8 The Government is aiming to consult on the principles for the needs assessment in the autumn 2016, and expects to have a final consultation on the formulae in the summer of 2018.

10.9 Details of the specific questions contained within the consultation document are detailed in Appendix B.

11 Reforming the Business Rates Appeals Process

11.1 The Government is committed to delivering an improved business rates appeals system. There is widespread agreement that the current system is not working. Too many appeals are held up for too long, creating costs and uncertainty for businesses and local authorities.

11.2 In August 2016, the Department for Communities and Local Government consulted on proposals for a new approach to business rates appeals. The reforms would see the introduction of a three-stage approach: check, challenge, appeal.

11.3 The guiding principles for reform are that ratepayers should set out their issues fully and clearly at the start of each stage, so that the Valuation Office Agency can respond quickly and ratepayers can make an informed decision about whether they need to proceed to the next stage. There should be a structured and transparent approach with clear expectations on all sides about timescales, requirements and action.

11.4 The aim of the system overall is to provide a streamlined and efficient system in which the key issues are identified by the ratepayer early, and are resolved as quickly as possible as the case proceeds.

11.5 The next steps are to make amendments to the existing regulations to reflect the agreed policy and to finalise a number of outstanding policy issues. The latest consultation document deals with these matters.

11.6 The intention is that the reformed system will apply when the new rating list comes into effect in April 2017. The return date for responses to the consultation is 11th October 2016.

12 Potential Issues to be included in the Council's Response to the Consultation Papers

12.1 The potential issues that should be included in the Council's response include the following:

New responsibilities and phase out of grants

- There needs to be a link between the services provided by local government and the bill payable by local businesses i.e. growth, skills etc.
- There is a need to be more specific about functions that will be transferred e.g. not just skills
- There are limitations of devolving functions / grants with ring fencing in place
- Uniformity will be difficult in a system that seeks to be local
- There are complications associated with two tier areas with overlaps with combined authorities

System Redesign

- Need to determine how changes in income are managed between tiers – whether it could be different in different areas
- Need to include the benefits of current pooling arrangements in baseline
- Need to take account of Section 31 grants in the baseline
- Resets should be longer term – allow growth to result in reward – link to local authorities funding growth – five years is not a long time to receive the rewards from growth
- Issues about authorities where growth is limited e.g. High Peak and its location in the Peak National Park
- Potential for the ring fencing gains to pay for borrowing to support growth
- Impact on smaller authorities – large swings have proportional impacts – looking tier splits to minimise risks and provide more incentive to county councils
- Administration funding

Appeals

- Could / should local authorities be involved in appeals in order to where possible protect their income?

Flexibilities

- Highlight the dangers of the competition between authorities to reduce the multiplier - safeguards for neighbouring authorities to avoid “race to the bottom”
- What about increase after reductions?
- Varying the multiplier and how this interacts with Transitional Reliefs
- Important to ensure that any variable elements will need to be deliverable by IT systems

Consultation

- Extent of the consultation with business

12.2 Any issues flagged up by members at the Corporate Select Committee can be added to the above issues and form the basis of the Council’s response.

APPENDIX A

Self-sufficient local government: 100% Business Rates Retention

Summary of Questions

Question 1: Which of these identified grants / responsibilities do you think are the best candidates to be funded from retained business rates?
Question 2: Are there other grants / responsibilities that you consider should be devolved instead of or alongside those identified above?
Question 3: Do you have any views on the range of associated budgets that could be pooled at the Combined Authority level?
Question 4: Do you have views on whether some or all of the commitments in existing and future deals could be funded through retained business rates?
Question 5: Do you agree that we should continue with the new burdens doctrine post- 2020?
Question 6: Do you agree that we should fix reset periods for the system?
Question 7: What is the right balance in the system between rewarding growth and redistributing to meet changing need?
Question 8: Having regard to the balance between rewarding growth and protecting authorities with declining resources, how would you like to see a partial reset work?
Question 9: Is the current system of tariffs and top-ups the right one for redistribution between local authorities?
Question 10: Should we continue to adjust retained incomes for individual local authorities to cancel out the effect of future revaluations?
Question 11: Should Mayoral Combined Authority areas have the opportunity to be given additional powers and incentives, as set out above?
Question 12: What has your experience been of the tier splits under the current 50% rates retention scheme? What changes would you want to see under 100% rates retention system?
Question 13: Do you consider that fire funding should be removed from the business rates retention scheme and what might be the advantages and disadvantages of this approach?
Question 14: What are your views on how we could further incentivise growth under a 100% retention scheme? Are there additional incentives for growth that we should consider?
Question 15: Would it be helpful to move some of the 'riskier' hereditaments off local lists? If so, what type of hereditaments should be moved?
Question 16: Would you support the idea of introducing area level lists in Combined Authority areas? If so, what type of properties could sit on these lists, and how should income be used? Could this approach work for other authorities?
Question 17: At what level should risk associated with successful business rates appeals be managed? Do you have a preference for local, area (including Combined Authority), or national level (across all local authorities) management as set out in the options above?
Question 18: What would help your local authority better manage risks associated with successful business rates appeals?
Question 19: Would pooling risk, including a pool-area safety net, be attractive to local authorities?
Question 20: What level of income protection should a system aim to provide? Should this be nationally set, or defined at area levels?

Question 21: What are your views on which authority should be able to reduce the multiplier and how the costs should be met?
Question 22: What are your views on the interaction between the power to reduce the multiplier and the local discount powers?
Question 23: What are your views on increasing the multiplier after a reduction?
Question 24: Do you have views on the above issues or on any other aspects of the power to reduce the multiplier?
Question 25: What are your views on what flexibility levying authorities should have to set a rateable value threshold for the levy?
Question 26: What are your views on how the infrastructure levy should interact with existing BRS powers?
Question 27: What are your views on the process for obtaining approval for a levy from the LEP?
Question 28: What are your views on arrangements for the duration and review of levies?
Question 29: What are your views on how infrastructure should be defined for the purposes of the levy?
Question 30: What are your views on charging multiple levies, or using a single levy to fund multiple infrastructure projects?
Question 31: Do you have views on the above issues or on any other aspects of the power to introduce an infrastructure levy?
Question 32: Do you have any views on how to increase certainty and strengthen local accountability for councils in setting their budgets?
Question 33: Do you have views on where the balance between national and local accountability should fall, and how best to minimise any overlaps in accountability?
Question 34: Do you have views on whether the requirement to prepare a Collection Fund Account should remain in the new system?
Question 35: Do you have views on how the calculation of a balanced budget may be altered to be better aligned with the way local authorities run their business?
Question 36: Do you have views on how the Business Rates data collection activities may be altered to collect and record information in a more timely and transparent manner?

APPENDIX B

Business Rates Reform - Fair Funding Review: Call for evidence on Needs and Redistribution

Summary of Questions

Question 1: What is your view on the balance between simple and complex funding formulae?
Question 2: Are there particular services for which a more detailed formula approach is needed, and – if so – what are these services?
Question 3: Should expenditure based regression continue to be used to assess councils' funding needs?
Question 4: What other measures besides councils' spending on services should we consider as a measure of their need to spend?
Question 5: What other statistical techniques besides those mentioned above should be considered for arriving at the formulae for distributing funding?
Question 6: What other considerations should we keep in mind when measuring the relative need of authorities?
Question 7: What is your view on how we should take into account the growth in local taxes since 2013-14?
Question 8: Should we allow step-changes in local authorities' funding following the new needs assessment?
Question 9: If not, what are your views on how we should transition to the new distribution of funding?
Question 10: What are your views on a local government finance system that assessed need and distributed funding at a larger geographical area than the current system – for example, at the Combined Authority level?
Question 11: How should we decide the composition of these areas if we were to introduce such a system?
Question 12: What other considerations would we need to keep in mind if we were to introduce such a system?
Question 13: What behaviours should the reformed local government finance system incentivise?
Question 14: How can we build these incentives in to the assessment of councils' funding needs?