Nottinghamshire County Council

Report to Finance & Property Committee

20 June 2016

Agenda Item: 7

REPORT OF THE SERVICE DIRECTOR - FINANCE, PROCUREMENT & IMPROVEMENT

BUSINESS RATES RETENTION

Purpose of the Report

1. The purpose of this report is to inform the Committee on progress with the Government's proposals on 100% Business Rates Retention.

Information and Advice

2. In October 2015, the Government announced that, by the end of this Parliament, local authorities will be able to keep 100% of the business rates they raise locally. In order to ensure that the reforms are fiscally neutral, the main local government grants will be phased out and additional responsibilities will be devolved to local authorities.

3. Achieving these reforms will require a radical overhaul of the local government finance system. To implement this, government wants to work closely and in full collaboration with the sector, in particular the Local Government Association (LGA), as well as other representatives of local government, local councils and interested bodies.

4. The Business Rates Retention Steering Group is a forum through which local government representatives and other interested bodies will provide information and expert advice to support the LGA and Department of Communities and Local Government (DCLG) in advising Ministers on the implementation of the reforms, with whom the final decision on the design and operation of the scheme will rest.

5. The process will be overseen by this Steering Group which will consider and provide information and advice on the mechanisms needed to set up and run the 100% rates retention system, and the timing and implementation of the reforms. The Steering Group will also oversee the work of three technical working groups that will look specifically at key aspects of the reforms. These will be:
    - The design of the retention system
    - Needs and distribution
    - New service responsibilities.

6. The Steering Group will be co-chaired by Sarah Pickup, Deputy Chief Executive of the LGA and Stuart Hoggan, Deputy Director for Local Government Finance Reform and Settlement, DCLG.

7. Anthony May, the Council's Chief Executive, represents the County Council Network (CCN) on the service responsibilities technical working group and Nigel Stevenson, the Council's Section 151 Officer, is a substitute on a number of the technical groups on behalf of the Society of County Treasurers (SCT). Regular meetings are held between all CCN & SCT officers who are on the groups to ensure coordination and crossover areas are covered and debated in the correct forum.

8. Phasing of the proposals is still unknown: all that has been promised is that 100% of business rates will be retained locally by the end of the parliament. A period of engagement with local government has commenced, and there will be a consultation paper in summer 2016 followed (possibly) by primary legislation. With such a timetable it is possible that the transition to 100% retention could start in 2018/19.

9. The DCLG have already indicated that for those local authorities pursuing devolution deals earlier delegation of responsibilities and retention of business rates could be discussed and potentially trailed prior to full implementation across the country.

100% Business Rates Retention System

10. In delivering 100% rates retention, there will be a need to look again at the critical issues and decisions taken in setting up the 50% rates retention system. It may be that the answers that were appropriate when local government retained 50% of the business rates and still received significant sums of Revenue Support Grant (RSG), are no longer the same.

11. Moreover, the move to 100% rates retention provides an opportunity to look again at the existing design parameters in the light of the experience of the operation of the scheme in the three years since 2013-14.

12. Currently, all principal tiers of local government (county councils, district councils, metropolitan district councils and London Boroughs), stand-alone Fire and Rescue Authorities and the Greater London Authority (GLA) are funded, in part, by retained business rates income. In designing the 100% rates retention scheme, there will be a need to consider whether other tiers of local government – e.g. combined authorities – should be funded directly from retained business rates income.

13. Determining the assigned business rates shares due to authorities under the 100% rates retention system will be critical to the reward that authorities earn from growth in business rates, the incentive they have to grow their economies (and with them, their business rates bases) and the risk to which they will be exposed if business rates fall.

14. It will also be a key component of the needs and redistribution system, and will determine how much of a council's funding is independent of changes to local tax bases; and whether and to what extent that funding grows over time.

15. Consequently there will be a need to consider which authorities should receive an assigned share of business rates; the considerations to be taken into account in determining assigned shares; and how business rates could be shared between authorities.

16. Business rates income is variable in nature. Local business rates vary over time because of changes in the occupation of property and because of the construction of new business properties, renovations and demolitions. But, they are also affected by changes to the rateable value of property following appeals by ratepayers against the rating assessments made by the Valuation Office Agency (VOA). Such appeals can take several years to be resolved and can result not only in reductions to a council's tax base, but also in the council having to refund the ratepayer for payments in earlier years.

17. This suggests that in designing the 100% rates retention system there may be the need to consider whether there are ways of ensuring that councils are not unduly exposed to volatility in business rates income. In essence, this will mean either:

    a) Reducing or eliminating the extent to which the risk of volatility falls on individual councils (which in turn will eliminate or reduce councils' need to hold provisions); or
    b) Finding ways to better estimate the provisions that individual councils need to make and ensuring that the 100% scheme provides them with the funds they need, over and above the resource they need for service delivery.

18. Other matters that also need to be considered include;

    a) The effect of revaluations upon economic growth;
    b) Proposals on how the yield from those properties that are on the Central List (e.g. telecoms networks) should be distributed to local councils;
    c) The implications of Enterprise Zones (EZ), where growth is retained within the EZ, is reflected in the system;
    d) Should the pooling of risk be better achieved at regional, sub-regional or combined authority level; and,
    e) The accounting requirements on the measurement of income, provision for appeals etc.

Devolution of Responsibilities

19. The functions and responsibilities devolved to local government as part of the reforms will set the shape and form of local government for the future. This reform presents an opportunity to enhance authorities' role in promoting growth and service provision. The aim should be to produce a package of devolved responsibilities that fit well with the local government system in England.

20. Key to the discussion about which services should be devolved is the question for the quantum of resources available once other pre-existing commitments have been taken into account. At the time of the Local Government Settlement the quantum was envisaged at £13bn.

21. Several responsibilities and funding streams have already been put forward as candidates for transfer to local government, to be funded from retained business rates. These include the administration of housing benefit for pensioners (c. £150m), responsibility for funding for attendance allowances (£5.5bn) and responsibility for funding public health (c. £3.1bn).

22. In addition, a number of local authorities have expressed an interest in the devolution of skills, employment and wider transport funding, to give local government the flexibility to respond to local needs and drive local growth. This funding is currently provided through a number of channels, including by the Department for Business, Innovation and Skills, Department for Transport, Department for Work and Pensions and Department for Education.

23. The Government has also announced that it intends 100% retention of business rates to be cost neutral. Therefore analysis will need to be undertaken to identify the cost of any new functions and the future pressures they could create for local government, alongside existing pressures within the system.

24. Some local authorities have also asked to go further and faster. In order to do this the Government is considering whether certain responsibilities should be devolved in some areas but not others, for example by using an opt-in approach or by targeting some devolution of certain responsibilities at particular classes of authority and how this would operate within a national system of 100% rates retention.

25. This would give the new system greater flexibility to accommodate individual circumstances and complement the deals processes already underway. However flexibility would come at the expense of simplicity and transparency, and is only likely to be technically feasible in some cases. Any proposal for bespoke devolution will therefore require a strong supporting case.

26. A number of criteria will guide decisions on whether to devolve particular new responsibilities to local government. A proposed set of criteria suggested is listed below, grouped into four high-level themes;

    - Devolution of a responsibility should build on the strengths of local government
    - Devolution of a responsibility should support the drive for economic growth
    - Devolution of a responsibility should support improved outcomes for service users
    - or local people

    Devolution of responsibilities should be made with consideration for the medium-term financial impact on local government.

Local Tax Flexibilities

27. A key part of the reforms to make local authorities more self-sufficient and better able to drive local growth is the devolving of tax-setting powers. Authorities will therefore be able to tailor their own tax regime to fit the local economic environment. The new powers that the government is providing are:
    - 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.

28. Under the old local rates system authorities had the ability to set a local tax rate. Since the introduction of the business rates system in 1990 a uniform business rate – also known as the multiplier - has applied across the country. It is known as the multiplier as a bill is calculated by multiplying the property's rateable value by the "multiplier". The multiplier for 2016-17 is 48.4p and, therefore, a property with a £15,000 rateable value would pay a bill, subject to reliefs, of £7,260. Increases in the multiplier are capped by inflation (a higher multiplier which includes a supplement to pay for Small Business Rate Relief is paid by higher value properties).

29. To allow authorities to reduce the multiplier a number of policy decisions need to be taken. The LGA and the Government would like local authorities and other interested parties to help identify and resolve the issues raised by allowing local authorities to set a local multiplier.

30. These main issues comprise:
    - This reform has been envisaged as a power to reduce the multiplier across the board. However, the power could allow authorities to apply the reduction selectively, such as for specific areas or sectors. This targeted approach would though begin to overlap with the local discount powers.
    - While the decision to reduce the multiplier would obviously be one for the relevant authority in single tier areas, there is a question about who should be able to take the decision in two tier areas. So the District, County or a combination of both could be the decision taker. There are similar issues to be considered in respect of London and combined authority areas. The position of fire authorities will also need to be taken in to account. Appropriate financial arrangements will also need to be put in place in respect of the costs.
    - Any decision to reduce the multiplier could simply be one for the relevant authority or authorities. However, other interested parties, in particular business, could be involved in the decision making process, such as through Local Enterprise Partnerships or a period of consultation could be required.
    - An authority may reduce the multiplier in order to encourage business in to the area. That could potentially have an impact on neighbouring authorities. That could be regarded as healthy competition or instead something for which safeguards should be introduced.
    - If an authority reduces the multiplier there is a question of whether that should be considered permanent; reversible on an annual basis; or fixed for a period of time. However, if reductions were not permanent, where an authority did reduce the multiplier there is a question about how the multiplier could subsequently be increased to catch-up with the "normal" inflation linked multiplier.

31. In addition, the Business Rate Supplement Act 2009 provides a discretionary power for county councils, unitary district councils and, in London, the Greater London Authority to levy a supplement on business rates (an Infrastructure Levy), subject to a national upper limit of 2p per pound. Levying authorities can retain the proceeds to fund additional projects

to promote the economic development of their local area. Authorities cannot levy a Business Rate Supplement on properties with a rateable value below £50,000. All levies are subject to a ballot. The power has only been used once to date, in London, to fund the Crossrail project.

32. This new power will provide combined authority mayors with the ability to levy a 2p in the pound supplement to fund new infrastructure projects, provided they have the approval of the Local Enterprise Partnership. With this there are a number of issues that still need to be resolved;
    - Whether the new power should be extended wider than just combined authority mayors.
    - The meaning of infrastructure will therefore need to be defined (e.g. should it be a widened to fund economic development projects similar to the approach with Business Rates Supplements).
    - The levy could be restricted to one per area for one specific infrastructure project or, alternatively, the powers could allow for a single levy for multiple infrastructure projects.
    - As with the multiplier reduction, the levy could be across the board, place based or with exclusions or variable rates.
    - The levy will need to be in place long enough to support the funding of the infrastructure project. However, a limit on the duration could be agreed at the introduction of the levy, perhaps with a process for it being renewed.
    - The Government announced that it believes that any levy should have the support of local businesses through the Local Enterprise Partnership but is this consultation or approval.
    - Similarly with Business Rates Supplements should there be a minimum rateable value threshold to protect small businesses and how are these decisions taken.

Fair Funding Review (Funding Needs)

33. As part of the Final Local Government Finance Settlement for 2016-17, the Government announced that, as part of the transition to 100% business rates retention, there would be a ‘Fair Funding Review’ of authorities’ funding needs.

34. Work done during last fundamental review of needs in 2000 and analysis of councils’ responses to the consultation on the provisional settlement, there is obviously a number of issues that should be addressed with the Fair Funding Review, namely:
    - What do we mean by ‘need’?
    - What should the approach be for doing needs assessment for different services?
    - At what geographical level should we do a needs assessment?
    - How should ‘resets’ of the needs assessment be done?
    - How, and what, incentives should be built in to an assessment of councils’ need?

35. As these questions will inevitably cover a broad range of policy issues, one of the first tasks for the technical working group on the Fair Funding Review will be to unpack the range of issues that sit under the questions above.

36. It is anticipated that this review to work to a longer timescale than some of the other work on 100% business rates retention. This is because, unlike other aspects of the work on 100% business rates retention, the outcome of the review will not necessarily require primary legislation. In addition, the process of collecting data (if it is required) and doing the detailed statistical analysis to produce needs formulae will inevitably take considerable time.

Monitoring Progress

37. As indicated earlier, a period of engagement with local government has commenced through the work of the steering and technical working groups. At present it is envisaged there will be a consultation paper in summer 2016 followed (possibly) by primary legislation. These working groups began to meet through May 2016.

38. The terms of reference and exploration of areas for discussion has begun for these groups. Over the coming months data gathering and further exploration of ideas will be discussed in time for the expected consultation in the summer.

39. The County Council has good representation on the working groups and officers will continue to feedback on progress. A report will be presented to a future meeting of Policy Committee after the consultation documents are published later in the year.

Other Options considered

40. This report is for information only.

Reason/s for Recommendation/s

41. This report is for information only.

Statutory and Policy Implications

42. This report has been compiled after consideration of implications in respect of finance, equal opportunities, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION

1) That the information set out in this report be noted.

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Constitutional Comments (KK 21/8/16)

This report is for noting only

Financial Comments (NS 13/05/16)

There are no financial implications arising directly from the report.

Background Papers

Electoral Division(s) and Member(s) Affected
N/A