

REPORT TO: Executive Board

DATE: 16 June 2016

REPORTING OFFICER: Operational Director – Finance

PORTFOLIO: Resources

SUBJECT: Liverpool City Region – 100% Business Rates Retention Pilot Area

WARDS: Boroughwide

1.0 PURPOSE OF REPORT

1.1 To outline the Government's offer for the Liverpool City Region to be a pilot area for 100% business rates retention and to report an urgent decision taken by the Chief Executive to accept the Government's offer.

2.0 RECOMMENDED: That

- 1) the proposal for the Liverpool City Region to be a pilot area for 100% business rates retention, as presented in the report be noted; and**
- 2) the decision taken by the Chief Executive under urgency powers, to agree to Halton's inclusion within the LCR pilot arrangement, be noted.**

3.0 SUPPORTING INFORMATION

Background

3.1 On 25th November 2015, as part of the 2015 Spending Review, the Chancellor of the Exchequer announced plans to reform the funding of Local Government by the end of the current Parliament in 2020. This would involve councils retaining 100% of the business rates they collect, rather than the current 50%.

3.2 The Government's stated aims in making this change to the funding regime are;

- (i) to provide councils with a greater incentive to grow local taxes by ensuring they receive the long term benefits of such growth;
- (ii) to maintain a predictable income stream against which councils can take long term investment decisions; and
- (iii) to ensure councils can continue to provide a full range of local services, whilst recognising that decisions about spending priorities should be made locally.

- 3.3 Whilst it is proposed under the new system that councils will retain 100% of their business rates, the Government's revenue support grant (RSG) and other specific grant funding for councils, will cease to be provided. This will ensure that at the national level the change in the Local Government funding regime is fiscally neutral.
- 3.4 As part of this change in the funding regime, Local Government will also be given additional responsibilities for funding services which are currently funded from either RSG or specific grants, for example Public Health and administration of housing benefits for pensioners.
- 3.5 In addition, new responsibilities may be given to councils for both the provision and funding of services which are currently funded and delivered by central government. For example support for older people through attendance allowance.
- 3.6 At this stage only limited details of the new arrangements have been announced, as the proposals have still to be fully developed by the Department for Communities and Local Government (DCLG) and will be subject to consultation over the coming months.

Business Rates Retention Pilot Areas

- 3.7 In March 2016 DCLG approached the Liverpool City Region (LCR) councils, to ask whether the six councils would be willing to act as a pilot area for development of the new 100% business rates retention system. The pilot area would require the six councils to operate 100% business rates retention individually, but following a standard system approach. It would not involve any form of pooling of business rates across the City Region.
- 3.8 The LCR Chief Finance Officers (CFOs) subsequently met with a representative from DCLG to explore the pilot area proposal.
- 3.9 It was made clear that DCLG do not have a blueprint for the new system, but they wish to work in partnership with two or three pilot areas and the local government representative bodies, including the LGA and Sigoma, to develop the system. In particular, they are keen to have pilot areas who have also agreed devolution deals. Therefore, Greater Manchester and the Greater London Authority have also agreed to become pilot areas.
- 3.10 The development of the pilot areas will include discussions regarding which additional service and funding responsibilities the councils might adopt and the timescales for doing so. It is anticipated that each pilot area may agree to adopt different responsibilities and may operate slightly differently, in order to establish the best form of arrangement to be rolled-out nationally.
- 3.11 DCLG recognise that councils will have concerns regarding the potential financial risks associated with implementation of the new business rates system. They will therefore ensure that appropriate measures are

developed to mitigate such risks and ensure that the new system is sustainable. The Secretary of State has acknowledged that the new system cannot operate without the continuation of some form of financial equalisation measures between councils and this was reiterated to the LCR CFOs by DCLG.

- 3.12 Under the current arrangements, the Council receives a Top-Up grant of £7.5m per annum year to reflect the fact that the business rates income generated is not sufficient to meet the Borough's needs. This is funded nationally by top-slicing the business rates generated and retained by more affluent councils. The continuation of such equalisation measures will therefore be critical for Halton with implementation of the new funding system.
- 3.13 As part of the development of the 100% retention system, DCLG will undertake a review of the Needs-Led Formula which currently provides the basis for the national equalisation measures. The pilot areas will also be asked to provide input to this review, which will be highly beneficial for the LCR councils as they all currently receive significant Top-Up grants and would therefore want to influence the development of that Formula.
- 3.14 The design of the new system will also be considered by DCLG, including the treatment of rating appeals, the safety net mechanism in case of significant loss of income, rate revaluation periods, arrangements for setting the multiplier (rate in the pound) and any specific arrangements such as for enterprise zones.
- 3.15 The pilot areas will be asked to provide input to the review of the system design, which will be important for the LCR councils particularly in terms of the safety net mechanism and the treatment of rating appeals (which currently has a significant cost).
- 3.16 During the pilot period, the arrangements may result in more resources being available to one or more of the LCR councils than would otherwise have been the case. In such circumstances, DCLG would use the additional resources to make good any losses suffered by other LCR councils. Any remaining excess resources will then be invested in projects designed to secure further economic growth for the benefit of the Liverpool City Region.

Four Year Grant Settlement Offer

- 3.17 On 10th March 2016 the Secretary of State for Communities and Local Government wrote to councils offering the option of a four year grant settlement, coupled with a requirement to publish an efficiency plan. This would cover the period 2016/17 to 2019/20, with 2016/17 (for which the final grant settlement has already been announced) acting as the base year.
- 3.18 The Government's commitment through the four year offer is to provide "minimum" grant allocations for each year up to 2019/20, based upon the indicative grant figures already provided for the coming three years. The

intention is therefore to provide councils with some degree of financial certainty. Should the national economic position deteriorate and the Government need to make additional austerity measures, they are providing some assurance (although not an absolute guarantee) that they will not reduce each council's grant allocations below this minimum level.

- 3.19 The grants to be included in the offer will be the Revenue Support Grant, Transitional Grant and the Rural Services Delivery Grant (Halton does not receive either of the latter). The proposal will not therefore include the Public Health Grant or other specific grants. In order to secure this offer, councils must also agree to publish an annual efficiency plan, but there will not be any prescriptive requirements regarding the format or content of the efficiency plan.
- 3.20 The indicative grant figures for Halton show grant reductions of £5.5m (17/18), £3.7m (18/19) and £3.7m (19/20). These would therefore become the maximum reduction under the four year offer. However, the Secretary of State's letter also gave a clear message that whilst this offer is optional he "cannot guarantee future levels of funding to those who prefer not to have a four year settlement." Councils have until 14th October 2016 to confirm if they wish to take-up this offer.
- 3.21 As part of the discussions regarding the LCR rates retention pilot area proposal, DCLG have guaranteed that during the pilot period each of the six councils will be financially no worse off than if they had taken-up the four year grant settlement offer. Therefore, there is no need for each of the LCR councils to take-up the four year grant settlement offer.

Conclusions

- 3.22 By the end of the current Parliament in 2020, the Local Government funding regime will change significantly, with councils retaining 100% of the business rates they collect and general RSG and specific grant funding ceasing.
- 3.23 During the period of the LCR pilot of 100% business rates retention, Halton's funding will be guaranteed by DCLG to be no worse than that which would have been received under the four year grant settlement offer. There is therefore no requirement for Halton to accept the Government's offer of a four year grant settlement, as it will not apply to the Council directly.
- 3.24 The LCR Chief Finance Officers concluded that there was nothing to be lost by agreeing to be a pilot area and a lot to be gained in terms of influencing the development of the new national system and in particular the review of the Needs-Led Formula relating to the national equalisation measures.
- 3.25 The DCLG proposal was considered by the LCR Leaders and Chief Executives on 1st April 2016 and an agreement signed by the Chief Executives with DCLG to establish a pilot area.

Timescales

- 3.26 The initial development of the pilot area will be undertaken between the LCR councils and DCLG during 2016/17 and begin operation from 1st April 2017. Further developments will follow during 2018/19 and 2019/2020, such as the adoption of new service and funding responsibilities.
- 3.27 It is still unclear whether the new system will be rolled-out nationally from 2019/20 or from 2020/21. However, DCLG have given an assurance that should the LCR pilot version of the system be considered more beneficial by the councils than the final national scheme, then the LCR pilot can continue for a further financial year following the roll-out of the national scheme.

4.0 POLICY IMPLICATIONS

- 4.1 None.

5.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

- 5.1 There are no direct implications however, the funding for the Council's budget supports the delivery and achievement of all of the Council's priorities.

6.0 RISK ANALYSIS

- 6.1 As part of the LCR pilot area for 100% business rates retention, Halton's funding will be guaranteed by DCLG to be no worse than that which would have been received under the four year grant settlement offer.

7.0 EQUALITY AND DIVERSITY ISSUES

- 7.1 None.

8.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1072

Document	Place of Inspection	Contact Officer
DCLG Documents: "Piloting Early Implementation of 100% Rates Retention"	Municipal Building Widnes	Ed Dawson
"Multi-Year Settlements and Efficiency Plans"		