REPORT TO:	Executive Board
DATE:	15 September 2016
REPORTING OFFICER:	Operational Director – Finance
PORTFOLIO:	Resources
SUBJECT:	100% Business Rate Retention - Consultation
WARD(S):	Borough-wide

1.0 PURPOSE OF REPORT

1.1 To outline the consultations on business rates reform recently published by Government covering 100% business rates retention and a call for evidence on relative needs and redistribution. To provide details on the calculation of 'No Detriment' of funding to council members of the Liverpool City Region Area during the piloting of 100% business rate retention.

2.0 RECOMMENDED: That

1) **the Operational Director, Finance, in consultation with the Portfolio Holder Resources, take the necessary steps to accept the four-year funding settlement offer by 14 October 2016; and**

2) **the Operational Director, Finance, in liaison with the Portfolio Holder Resources contribute and agree to the Liverpool City Region response on the consultation titled "Self-Sufficient Local Government: 100% Business Rate Retention" and the call for evidence titled "Fair Funding Review: Call for Evidence on Needs and Distribution.**

3.0 BACKGROUND

3.1 Since April 2013 councils have retained 50% of the business rates they collect. The remaining 50%, or central share, is paid over to Government and is then redistributed to councils in the form of revenue support grant and other specific grants.

3.2 The 50% which is retained by councils, or local share, is partly redistributed between councils through a system of tariffs and top-ups. This redistribution is intended to ensure that areas do not lose out just because their retained business rates are low compared to their assessed needs. Halton currently receives a top-up grant of approximately £7.6m pa.

3.3 The current system also includes a safety net mechanism, which protects councils who see their annual business rates income fall by more than 7.5% below a baseline level. This is funded by a levy charged against those councils who see excess growth in their business rates.

3.4 On 5 July 2016 the Department for Communities and Local Government (DCLG) published a consultation paper regarding the implementation of a new system of 100% business rates retention for local government by the end of this Parliament in 2020. The consultation paper asks questions about the principles underlying the system and requires responses by 26 September 2016. A more detailed technical consultation is planned during Autumn 2016.

3.5 Halton is working with the other LCR councils to prepare a combined LCR response to the 100% Business Rates Retention consultation, as the implications for each of the six councils are very similar.

3.6 Alongside the consultation on 100% Business Rates Retention, the Government also announced a Fair Funding Review of councils' relative needs and resources, with responses due by 26 September 2016.

3.7 The outcome of the Fair Funding Review will establish the funding baseline for each council, which reflects their specific needs and the business rates income required to meet these. It will also determine the level of top-up grant to be received, where a council's retained business rates are less than the baseline level. This is a vital feature of the system for Halton and all of the LCR councils, therefore a combined LCR response will be provided to the Fair Funding Review.

3.8 The Liverpool City Region has already agreed to be a pilot area for 100% Business Rates Retention. Following this consultation and the technical consultation during Autumn 2016, legislation will be introduced in early 2017 to provide the framework for the business rates reforms. The piloting of 100% Business Rates Retention will begin from April 2017.

4.0 Business Rate Retention Pilot Area

4.1 On 16 June 2016 the proposal for Liverpool City Region including Halton to be a pilot area for 100% Business Rate Retention was presented to the Executive Board. Included within the report was information on the option for councils to take up the option of a four year grant settlement providing councils produced and published an efficiency plan. The intention being 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 assurances (although not an absolute guarantee) that they will not reduce each council's grant allocations below this minimum level.

4.2 It was considered at this time, following discussions with DCLG, that as a result of being a member of a pilot area the Council would not be required to sign up to the four year grant settlement offer as during the pilot period DCLG guaranteed that no council would be financially no worse off.

4.3 DCLG have now issued a paper titled "Calculating No Detriment" outlining the principles of each council of the pilot areas being without detriment to the resources that would have been available to individual councils in the pilot areas under the current local government finance regime. The principle calculation is to compare the difference between A and B where:

A is the sum of the councils retained business rates under the 50% scheme plus the sum of any grants/payments that would have been paid to the council if they had not rolled-into the 100% pilot; and

B is the retained business rates income actually retained under the pilot, including grants and other payments.

4.4 Whilst the above guarantees the council will be no worse off as a result of being within the pilot area it doesn't provide absolute certainty of the council being no worse off if it had signed up to the 4 year settlement offer or if it hadn't. Therefore it is considered prudent for the Council to sign up to the 4 year offer and publish an efficiency report by 14 October 2016.

5.0 KEY PROPOSALS FROM THE CONSULTATION / FAIR FUNDING REVIEW

5.1 The consultation paper stresses that the Government expects the new system to have strong similarities to the existing system and in particular will include mechanisms for the redistribution of business rates between councils, in a similar way to the existing tariffs and top-ups.

5.2 There will however also be some significant changes. The levy on growth referred to in para 3.3 will cease, which currently funds the safety net mechanism. It is suggested Councils will have scope to reduce the business rates multiplier (rate in the pound) and the potential for combined authorities to charge an Infrastructure Levy of up to 2p in the £ supplement on business rates growth with the approval of the Local Enterprise Partnership (LEP) and the new system will reflect the roles of Combined Authorities and Devolution Deals.

5.3 In advance of the consultation the Government has set up technical working groups which have considered in the following themes:

- Devolution of Responsibilities
- Operation of the system, including how growth is rewarded and risk is shared.
- Local Tax Flexibilities
- Accountability and accounting in a reformed system.
- Assessment of council's needs and redistribution of resources.

Devolution of Responsibilities

5.4 Government identify with the introduction of 100% business rate retention it will give councils an additional £12.5bn of revenue from business rates to spend on local services. The reforms will be fiscally neutral and to ensure this, councils will gain new responsibilities and some existing government grants will be phased out.

5.5 The consultation identifies a number of responsibilities, currently funded from government grant which are considered as a possible fit for being funded through retained business rates. The list includes:

- Revenue Support Grant (RSG)
- Public Health Grant
- Independent Living Fund
- Early Years (currently funded from Dedicated Schools Grant)
- Youth Justice
- Local Council Tax/Housing Benefit Pension Administration Subsidy
- Attendance Allowance

5.6 The consultation also considers responsibilities which have been, or will be devolved at a combined authority level and seeks views on these being funded by retained business rates.

5.7 There are a number of risks to funding these responsibilities from retained business rates, a future decrease in local business rates (to any safety net level) will result in less funding being available than would have been under the grant being provided from Whitehall departments. In addition, the extent to which a responsibility is suitable to be financed by retained business rates is subjective. For example, Localised Support for Council Tax Funding was introduced in April 2013 and funded from 50% business rate retention but this was closely linked to the economic prosperity of the national and local economy. A downturn in the economy could lead to an increased demand in services whilst at the same time reduction in business rates income.

Operation of the System – Rewarding Growth and Sharing Risk

5.8 The consultation seeks views on how a reformed system provides stronger incentives to boost growth and reward councils that take bold decisions to further increase growth. In addition the system design also needs to ensure that councils are adequately protected from business rates volatility and shocks in business rates income. Working alongside these aims is to have a system which is simple to understand and operate.

5.9 In order to help manage growth and risk Government have shared the view that there must be fixed reset periods within the system to reconsider relative need and the value of tariff and top-ups. The fixed period could be frequently (approx. every 5 years) or infrequently (approx. every 20 years),the more regular the reset will minimise the risk in the system and provide more certainty whilst an infrequent reset will reward any growth over a longer period.

5.10 To balance revenue with relative needs, Government are of the view there needs to continue to be a form of redistribution within the system. In order to achieve this, the proposal is for the system of tariffs and top/ups to remain, fixed for the period between resets. Under the current 50% retention system, the Council are in receipt of a top-up of approximately £7.6m per financial year.

5.11 Responses to the consultation are also being sought on the view that a directly elected Mayor should have the opportunity for an enhanced role in achieving growth under the 100% rate retention system. This could be achieved by the mayoral area deciding how any growth is distributed across the area, or further still by each mayoral area having an area-wide baseline and single tariff/top-up and developing governance arrangements on how resources are distributed.

5.12 Increasing the retained element of business rates from 50% to 100% will increase the risk inherent within the system. Income from business rates is at risk for broadly two reasons:

- Changes to rateable values of hereditaments following successful appeals by ratepayers.
- Physical changes to property, including building closures as a result of business failure.

5.13 To protect against the risk in the current system the Council makes an annual provision within the accounts for outstanding appeals by ratepayers, as at 31 March 2016 the provision stood at £10.2m, the share attributable to the Council of £5m. Additionally, the current system provides a safety net against significant losses, calculated to be more than 7.5% loss to retained rates as measured against the baseline funding level.

5.14 To help manage the risks within the system further there are a number of suggestions proposed in the consultation with the aim of providing more certainty to the medium term finances for councils. These include accounting for appeals at a regional or national level, which would help share the risk. This could be achieved by moving some of the higher risk hereditaments from a local list to a central risk managed by Combined Authorities or Central Government; these could include hereditaments such as power stations, oil refineries and national airports.

5.15 The consultation makes clear that the new system will continue to need to help insulate authorities from shocks. Currently this works at a national levy with the safety net being funded from a levy on excessive growth in business rates retained. Prior to the consultation Government confirmed the levy will be scrapped and all growth will remain with the local authority. There are two alternatives proposed to funding the continued operation of the safety net, the first being to manage it on a geographical level and working together to manage risk and reward or for it to continue on a national level with all councils collectively contributing.

Local Tax Flexibilities

5.16 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. Under the new system, councils will have the ability to tailor their own business rates to fit the local economic environment. New powers include:

- The ability to reduce the business rates tax rate (the multiplier)
- The ability for Combined Authority Mayors to levy a supplement on business rate bills to fund new infrastructure projects, provided they have the support of the business community through the Local Enterprise Partnership.

5.17 The decision to reduce the multiplier is down to each relevant council to exercise such a power. The costs of reducing the multiplier would also be the responsibility of each relevant Council. There would be no impact on the rate of tariffs and top-us paid and received as a result of such a decision. The view of Government is councils should continue to use their existing local discount powers for targeted relief and that the new power should be used as a structural power across their area.

5.18 The consultation document is seeking views on the power of Combined Authority Mayors to levy a 2p in the pound supplement on business rate bills to fund new infrastructure projects. The approval of a majority of the business members of the LEP Board will be required in order for an infrastructure levy to be raised.

Accountability and Accounting

5.19 The Accountability and Accounting working group is considering how reforms may change the balance of local and central accountability, including in relation to the additional responsibilities that Councils will take on. It seeks views on the current method of accounting for business rates and depending on the design of the scheme, whether this may need to change.

Assessment of Council's Needs and Redistribution of Resources

5.20 In April 2013 at the commencement of 50% business rate retention Government carried out an assessment of the relative level of needs and resources of councils across England. It is argued by many that too much time has passed since the last fundamental review of the approach to assessing a council's relative needs, and the costs it can be expected to incur in delivering services. This is especially relevant to Halton given the additional service pressures and costs as a result of the aging population and increase in number of children in care.

5.21 The consultation asks for views on the methods Government should undertake in collecting and measuring data required to develop a formulae to assess and compare needs and resources. Going further it also requests views on whether need should continue to be measured at individual local authority level or at larger geographical areas.

6.0 POLICY IMPLICATIONS

6.1 None.

7.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

7.1 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.

8.0 RISK ANALYSIS

8.1 The introduction of 100% business rate retention will bring additional risks to Local Government in that councils will have full responsibility in the resources it generates to fund existing and future services.

8.2 Throughout the document a number of risks have been identified as a result of the proposals included both within the running of the business rate retention pilot and consultation/review documents. The Council together with the Liverpool City Region will aim to mitigate these risks through responses to the proposals and dialogue with Central Government. Being a member of a pilot area will provide an advantage in that during the period of the pilot the Council will be given the opportunity to comment on issues as they arise. Government have also given the guarantee that during the period of the pilot Halton's funding will be no worse than that which would have been received, the position will be strengthened further by agreeing to the four year settlement offer.

9.0 EQUALITY AND DIVERSITY ISSUES

9.1 None.

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

Document	Place of Inspection	Contact Officer
Business Rate Reform Consultations and Fair Funding Review Paper	Kingsway House	Steve Baker