Coventry City Council

Briefing Note

To: **Scrutiny Co-ordination Committee**

Date: **26th April 2017**

Subject : **Business Rates Consultations and the West Midlands 100% Business Rates Pilot**

1 Purpose of the Note

This note follows up the Scrutiny Co-ordination Committee's (Scruco) Business Rates system briefing and discussion on 22nd September. Since the September meeting the Government has published a response to its July 2016 Business Rates consultations and has issued two further Business Rates consultations. In addition the Council has joined a West Midlands 100% Business Rates Retention Pilot scheme, the estimated projected impact of which has been incorporated into the Council's budget plans. The current position relating to all these matters is the subject of this note.

2. Recommendations

2.1 Scrutiny Co-ordination Committee is recommended to:

1) Consider the content of the note and the agreed/proposed consultation responses.

2) Identify any substantive amendments to the outstanding consultation response for the consideration of the Leader, the Cabinet Member for Strategic Finance and Resources and the Executive Director of Resources.

3) Continue to receive updates on developments in Business Rates as they become available.

3 Information/Background

3.1 At its meeting of 22nd September Scruco considered the Council's responses to two Government consultations regarding proposals for the 100% localisation of Business Rates and received information on the potential for the pooling of business rates within the Combined Authority. It also considered the Council's strategy for maximising business rates income and explored other issues relating to Business Rates. It was resolved that officers be requested to submit further consultation documents in relation to Business Rates Reform as and when they become available.

3.2 This note considers the latest position regarding the two 2016 consultations in section 4. In section 5, the Council's responses to the March 2017 consultations are considered. Section 6 deals with the position regarding the West Midlands 100% Business Rates Retention Pilot.

4, Latest Position on July 2016 Consultations

<u>Consultation - Self-sufficient local government: 100% business rates retention</u>

4.1 On 15th February 2017 the Government published its response to the outcomes of consultation. The response is available in full at the following link:

Government Response to 100% Business Rates Retention Consultation

The web address for the report is below:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/591908/Government_response_to_Self-sufficient_local_government-_100__Business_Rates_Retention_consultation.pdf

The key elements of the government's response which were broadly aligned to the Council's own included:

- Support in favour of rolling in Revenue Support Grant and Public Health Grant into the retained business rates system but not Attendance Allowance.
- Continuation of the new burdens doctrine after 2020 meaning that transfers of responsibilities from central government to local government are funded at the appropriate level.
- Agreement to fixed reset periods with further exploration of partial resets to achieve a balance between rewarding growth and meeting changing needs.
- Agreement to the continuation of tariffs and top-ups as a means or redistribution.
- A proposal to allow local growth zones for specific areas.
- Management of any Business Rates appeals that are due to Valuation Office errors at a national level.
- No intention to prevent the issuing of an infrastructure levy and running this side by side with existing Business Rates Supplement powers.
- Concern over the need to obtain approval for a Business Rate Levy from Local Enterprise Partnerships – instead the government is proposing consultation (not approval powers) of the wider business community
- Agreement that infrastructure levies should be set for a defined period.

The key elements of the government's response which were non-committal or less well aligned to the Council's own response included:

- The Council's response questioned whether it was helpful at this stage to broaden the powers of Combined Authorities. The Government's response was neutral on this.
- No clear statement of how Business Rates appeals would be managed (other than those due to Valuation Office errors referenced above).
- No commitment on an appropriate level of safety net (currently 7.5%).

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

4.2 The Council's response to this call for evidence considered by Scruco included the following headline points:

- That the Local Government funding formula should distribute resources to where they are most needed, taking into account an authority's ability to generate funding locally to deliver services and incorporating a mechanism to protect councils from significant reductions in funding.
- That demand-led services for which the cost drivers are particularly complex, such as adult social care and children's services, indicate the need for continued use of a more detailed formula approach to those areas.

- Therefore, that an appropriate amount of complexity should be included within the formula, without adding considerably more indicators where they no longer create a material difference.
- That authorities' ability to raise their own resources through Council Tax is taken into account
- Any distributional change experienced as a result of the new needs assessment should be reflected in the funding received by individual councils.

4.3 The Government has not at this stage published a response to this call for evidence but has set up a Needs and Distribution Working Group to work through the issues and inform the debate. Future developments are likely to include an upcoming government technical consultation on the Fair Funding Review which will incorporate amongst other things discussion around the potential list of key cost drivers within local government, measurement of the overall relative resource capacity and the principles of transition from the current funding baselines to the ones resulting from the review. Issues that have been highlighted from the initial consultation and feeding into technical consultation include the need for a simpler and more transparent formula - improving the link between allocations and local circumstances, a modern formula (it is nearly 10 years since current formula last looked at thoroughly), a sustainable formula - incorporating best estimates of how those factors that affect the cost of services will change over time; redistribution to reflect different sized tax bases and a system with transitional arrangements that will be unwound as swiftly as possible while ensuring that any funding changes proposed are manageable for councils.

5. March 2017 Consultation Responses

Consultation on proposals on the design and implementation of the locally administered Business Rates Relief Scheme

5.1 This consultation arose out of the Spring Budget 2017 which included proposals for additional discretionary Business Rates funded by Government but administered through a series of local schemes in 2017/18. The consultation was published with a very short consultation period and has been submitted on behalf of the Council under the alternative approval mechanism provided for within the constitution.

5.2 The Council's response is attached in full at Appendix 1. In brief the response covers the key points below.

- Agreement that individual local authorities should be given responsibility for design of their own scheme.
- Agreement with the suggestions that relief be awarded only to businesses experiencing an increase in rateable value as a result of the revaluation, and generally provided to ratepayers or localities facing the most significant increases and occupying lower value properties.
- That there may be sense in applying the transitional relief scheme to these resources instead of designing a new scheme.
- That new burden funding should be provided to take account of the administrative burden created.
- That some flexibility be provided to allow authorities to switch resources between years.
- That major preceptors and combined authorities should not need to be consulted on authorities' individual schemes.

5.3 £300m of resources has been identified at a national level to fund the various discretionary schemes of which the Council will receive c£0.7m from the Government, with £0.4m of this available in 2017/18.

<u>100% Business Rates Retention: Further consultation on the design of the reformed system</u>

5.4 This consultation followed on from the initial related consultation reported on in section 4.1 above. The consultation is open until May 3rd and officers are attempting to coordinate a broadly common response across WMCA constituent authorities. Given that the final Cabinet of the year reports on April 11th the alternative approval mechanism provided for within the constitution will be utilised. It is proposed that the views of Scruco are fed into this process.

5.5 The Council's draft response is attached at Appendix 2. In brief, the response covers the following key points:

- Support for proposals to introduce partial resets on a five yearly cycle
- A welcome for the assurance that any authority experiencing a reduction in income would not be required to retain any losses after a reset had taken place.
- Support for the introduction of transitional arrangements after a reset, favouring transition that would unwind after a maximum of four years.
- Support for a strong safety net that prevents individual areas suffering from significant resource reductions arising from sudden losses in rateable value
- A system that allows authorities to retain around 50% of growth at individual local authority level after a reset to act as an incentive for growth
- A welcome for the proposal to top-slice business rates to cover "valuation errors" and a call for more detail on whether reimbursement will cover the full cost of successful appeals.
- Agreement with a nationally set safety net and reference to the 3% safety net being trialled under the West Midlands business rates retention pilot being appropriate under 100% Business Rates retention.
- Support for central list proposals that are clear, transparent and uniformly applied.

6. West Midlands 100% Business Rates Retention Plot

6.1 On 1st November 2016 Cabinet approved the Council's participation in the West Midlands 100% Business Rates Retention Pilot scheme. This provides the opportunity to shape national thinking about the anticipated future national 100% Business Rates retention scheme, and to take forward further devolution.

6.2 There are some core elements that feature in the pilot that has been in operation since 1 April 2017:

a. 99% local business rates retention,
b. Removal of Revenue Support Grant,
c. Appropriate adjustment to Top-ups/Tariffs, to reflect the net effect of the above two changes,
d. Participation will be on a "no detriment" basis. In other words, the area will be no worse off financially than it would otherwise have been had it not participated in the pilot.

Following initial scrutiny of the way in which a pilot will operate, it became clear that there may be a windfall benefit to authorities as a result of being part of a pilot. Coventry built

£3.6m additional income into its budget for 2017/18 as a result of the Pilot approval and this formed part of the briefing to all members as a result of the final Budget proposals.

6.3 The Pilot also represents the mechanism through which part of the West Midlands Combined Authority Devolution Deal will be funded. This is predicated on 0.3% growth in Business Rates income each year and officers across the West Midlands are currently working through the fine detail of the financial arrangements to identify an appropriate distribution methodology.

Paul Jennings
Finance Manager Corporate Finance
Place Directorate
paul.jennings:@coventry.gov.uk ext 3753

<u>Appendix 1</u>

<u>Consultation on proposals on the design and implementation of the locally administered Business Rates Relief Scheme</u>

Question 1: Do you agree that individual local authorities should be responsible for designing and implementing their own discretionary relief schemes, having regard to local circumstances and reflecting local economies?

Yes, we agree that individual local authorities should be given this responsibility.

Question 2: Are the Government's assumptions about the design of local discretionary relief schemes reasonable?

The consultation suggests that a condition of the grant is that relief is awarded only to businesses experiencing an increase in rateable value as a result of the revaluation. This is a reasonable mandatory requirement.

The consultation outlines two further non-mandatory assumptions:

- That, generally, relief will be provided to ratepayers or localities facing the most significant increases;
- That relief will, generally, be provided to ratepayers occupying lower value properties.

Again, these assumptions are not unreasonable. In many respects these assumptions replicate the parameter driven approach of the wider transitional relief scheme. In this respect it seems to be more sensible to amend the transitional relief scheme to take account of these more nuanced assumptions. This would make the allocation of additional funds more administratively efficient.

In theory Councils could replicate such a parameter driven system at a local level but given that the grant is cash limited there is some additional risk to be borne by the Council in setting a rigid policy.

The introduction of discretion will require the Council to introduce or extend administrative processes for determining eligibility and consistency with state aid requirements. To this end the funding represents a discretionary relief scheme ringfenced to those affected adversely by revaluation. Assuming this replicates the Council's current DRR scheme, this will involve a resource intensive financial assessment of companies. The Council would expect some level of new burdens funding in response to this increased administrative burden.

Question 3: Is the allocation methodology reasonable?

In section 2.4 the consultation states that: 'The proposed funding allocations set out in this consultation paper are for the total amount of relief to be provided to ratepayers.' However, in section 5.3, it states that 'payments will be based on estimates of the relief to be provided to ratepayers, capped at the maximum of that year's allocation'

Our view is that there could be a question mark over whether the £300m discretionary relief pot (and the individual authority allocations) reflects the total level of <u>grant or relief</u>?

If it reflects the level of grant then there appears to be a fundamental problem with the logic used to determine the allocations. Authorities operating under the 50% local retention model appear to have the potential of receiving compensation for twice as much discretionary relief compared to if they were now part of a 100% pilot.

We would request that this issue should be clarified so as to leave no room for doubt in the report from this consultation.

Question 4: Do you think that authorities should have some flexibility to switch resources between years to ensure relief provided meets local need and provides maximum value for money?

We agree that authorities should have this flexibility.

Question 5: Do you agree with the proposal that s.31 grant should be paid to compensate authorities for their loss of income under the rates retention scheme up to the maximum of that year's "total pot"?

Yes, although this response should be considered in light of our concerns (see question 3 above) regarding the potential unfairness of the general allocations.

Question 6: Do you agree with the proposals for administering payments, including in-year payments based on estimates, end-year reconciliations and payments quarterly in arrears?

We would suggest that it would be administratively simpler if, instead of being paid quarterly, the grant payments were made using the same profile as the other Business Rates Retention s.31 compensation grants.

Question 7: Do you agree the grant conditions are appropriate?

On the basis that major preceptors and combined authorities will be fully compensated, through s.31 grant payments, for the impact of any discretionary reliefs introduced under the scheme, the requirement to consult seems administratively cumbersome. We would suggest that billing authorities are only required to inform major preceptors and combined authorities of the impact of any proposed scheme.

Appendix 2

100% Business Rates Retention – further consultation on the design of the reformed system

Q1 What are your views on the proposed approach to partial resets?

We are supportive of the proposal to introduce partial resets on a five yearly cycle. Fixed reset periods provide the greatest certainty for local authorities in planning and a cycle of five years would provide a balance between allowing authorities which are growing to benefit from that growth, and protecting authorities which are not from significant reductions in their business rates base or disproportionate increases in service demand.

We welcome the assurance given in the consultation paper that any authority which had experienced a reduction in income would not be required to retain any losses after a reset had taken place. We would also support the introduction of transitional arrangements after a reset, on the basis that they would unwind after a maximum of four years as suggested in the consultation paper.

Whatever the design of any revised business rates retention system, there must always be a strong safety net that prevents individual areas (and the key services being delivered to their residents) suffering from significant resource reductions arising from sudden losses in rateable value. Such losses may arise from economic factors that are far beyond the direct influence of individual local authorities.

Q2 What are your views on how we should measure growth in business rates income over a reset period?

The proportion of growth that local authorities will be able to retain after a reset remains a critical element of the design of the new system in order to ensure the new system provides an incentive to maintain / promote future growth. Retaining around 50% of growth at individual local authority level to act as an incentive for growth feels reasonable and we would urge DCLG to involve representative organisations such as the LGA and SIGOMA in the modelling that is undertaken to explore this.

There is a balance to be struck between a methodology which is simple and transparent and one which reflects real underlying growth trends without being distorted by one-off events or adjustments.

Q3 What are your views on the government's plans for pooling and local growth zones under the 100% business rates retention system?

We acknowledge the government's concerns around the operation of business rates pools under the 50% system but would caution against removing the requirement for all authorities to agree to being designated as a pool. Replacing the requirement for consent with a requirement for consultation risks undermining local accountability and is inconsistent with greater moves towards devolution.

Offering pools the ability to establish local growth zones would be an attractive incentive to pooling in a system without levy payments, but without any detail on the proposed parameters it is difficult to understand the implications at both the local level and for the total amount of business rates growth available for redistribution at a reset.

Q4 How can we best approach moving to a centrally managed appeals risk system?

We welcome the proposal to introduce loss payments to mitigate the impact on changes to local ratings lists relating to “valuation errors”, to be funded from a top slice of the total collectible business rates quantum, before baseline funding levels are set.

We would want the government to take the risk on the level of the top slice being sufficient and to ensure that any excess top slice will be returned to local government.

We look forward to more detail on how loss payments will work and, in particular, how “valuation errors” will be defined, whether loss payments will reimburse local authorities for the full cost of the successful appeal and how the cost of loss payments is to be estimated.

Q5 What should our approach be to tier splits?

N/A

Q6 What are your views on proposals for a future safety net under the 100% business rates retention system?

We agree that safety net protection should be set nationally at a level that will allow local authorities to continue to provide the functions they are required to deliver. Through the West Midlands business rates retention pilot we will be trialling a 3% safety net which we anticipate would be appropriate under 100% business rates retention.

Q7 What are your views on our proposals for the central list?

We welcome the proposal to set out a clear statement of policy for the ratepayers and properties which should be assessed on the central list. It is important that these principles are transparent and uniformly applied to ensure consistency across the business rates system and greater certainty for local government and ratepayers. We would also welcome clarity about how the revenue raised from the central list is spent.