INFORMATION NOTE

Update on 100% Business Rates Retention

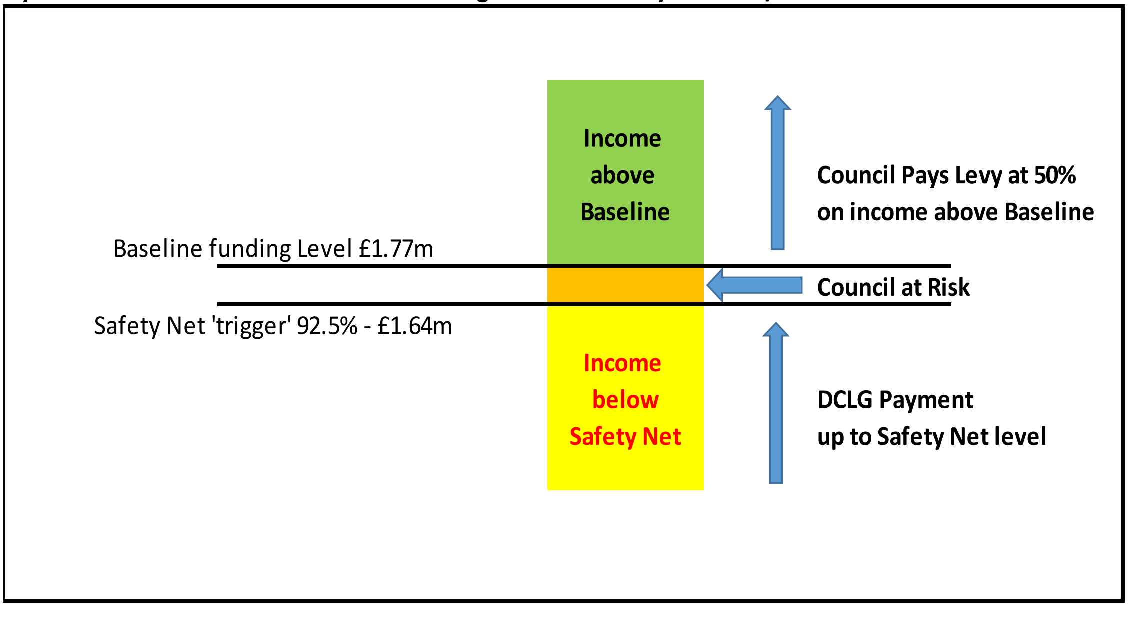
1. INFORMATION AND BACKGROUND

Business rates are a key source of funding for local authorities. From 2013/14 new arrangements replaced the former ‘National Rates Pool’ and under this revised regime each billing authority retains a share of the business rates for its area based on prescribed proportions. For Fylde, this is 40% retained with the remainder shared between Central Government, County Council and Fire Authority (50%, 9% and 1% respectively).

All district Councils in two-tier areas, like Fylde, are classed as ‘tariff’ authorities; this means the Council’s individual rates baseline is greater than its baseline funding level (as calculated by central government) which results in the Council paying a tariff to the Government from its share of ‘retained’ business rates.

The business rates retention system also provides for councils to benefit from a share of growth in their business rates base and exposes them to the risk of reduced income where changes are adverse (e.g. business closures, rating appeals). The system, as currently designed, includes mechanisms for both a **levy** and a **safety net** to moderate such variances. A **levy** applies where an authority’s retained share of rates income exceeds its baseline funding level, whereas a **safety net** operates when the retained share of rates income falls below 92.5% of the baseline funding level. The diagram below illustrates this and shows the values for Fylde for 2016/17.

Fylde Council Business Rate Baseline Funding Level and Safety Net 2016/17



The diagram shows that under the current system if the Council’s share of retained business rate income exceeds the value of the Baseline Funding Level (which for 2016/17 is £1.77m as calculated by DCLG) the Council would pay to the Government a levy on this additional amount at a rate of 50%, whilst retaining 50% of the growth.

Conversely the current system provides a degree of protection in that if the Council's share of retained income drops below the Baseline Funding Level the extent of this drop is 'capped' at a level equivalent to 92.5% of the Baseline Funding Level (the 'Safety Net' level - which for 2016/17 is £1.64m). If the Council's share of retained income drops below this level the Council receives a grant to bring the income up to the safety net level.

2. BUSINESS RATE POOLING

A feature of the business rates arrangements allows councils to group together to form a 'business rates pool'. Under such an arrangements councils in a pool combine all of their funding calculations under the business rate scheme, effectively adding their numbers together for all elements of the funding calculation, including the calculation of the tariff and top-up amounts.

For 2017/18 Fylde Council joined a Lancashire-wide Business Rate pool for the first time. Combining with other local authorities within Lancashire (comprising a number of the district councils which are 'tariff' authorities and Lancashire County Council which is a 'top-up' authority) has the effect of producing a position whereby no levy to central government is payable by any of the pooling authorities. It is estimated that participating Councils within the Lancashire pool will retail 95% of their Business Rate growth compared to the 50% that is retained where a Council is not within a Business Rate pool as described within Section 1, above.

The beneficial impact on the total amount of Business Rate income that is retained by Fylde Council as a consequence of joining the Lancashire-wide pool for 2017/18 onwards is shown within the latest update to the Financial Forecast as detailed in the table below:

	2016/17 £000	**2017/18 £000**	**2018/19 £000**	**2019/20 £000**	**2020/21 £000**
Business Rates Funding:					
Retained Rates Income	1,771	3,879	2,819	2,611	2,633
Approved Contribution to Funding Volatility Reserve		- 2,000			
Sub Total - Business Rates net of reserve transfers	**1,771**	**1,879**	**2,819**	**2,611**	**2,633**

3. FURTHER PROPOSED CHANGES TO THE BUSINESS RATE RETENTION SCHEME – 100% RETENTION

As part of the Local Government Finance Settlement 2016-2017 the Government announced that it intended to introduce changes to the Business Rate Retention Scheme and would consult on the introduction of '100 per cent business rates retention', including what it described as the right model of devolution and level of flexibility. **The scheme would allow for retention of business rates by local government at the macro level, not for individual authorities to retain all of their own rates collected locally.** The settlement stated that: "By the end of the Parliament local government will retain 100% of business rate revenues to fund local services, giving them control of £13 billion of additional local tax revenues, and £26 billion in total business rate revenues".

Fair Funding Review

The review of the Business Rate Retention Scheme is to be accompanied by a 'Fair Funding Review' – i.e. a reassessment of the 'spending needs' of each local authority. A **Fair Funding Review consultation** issued by in July 2016 included the comments:

"Since the introduction of the business rates retention system in 2013-14, the incentive for councils to grow their council tax and business rates tax bases has been a key feature of the local government finance system.

This incentive will be strengthened with the introduction of 100% business rates retention. These reforms provide an opportunity to consider whether new incentives should be introduced into the system, such as for efficiency or collaboration across authority boundaries or other organisations."

Business Rate Reform

An initial consultation document on Business Rate Reform entitled '**Self-sufficient local government: 100% Business Rates Retention',** issued in July 2016 included the following key messages:

- By the end of this Parliament, local government will retain 100 per cent of taxes raised locally. In order to ensure that the reforms are fiscally neutral, councils will gain new responsibilities, and some Whitehall grants will be phased out;

- The reformed system is to recognise the diversity of different areas and the changing pattern of local governance arrangements;

- The consultation considered how the design of the new system might provide the right level of incentive and reward to those councils (particularly those working closely with local businesses and together as Combined Authorities) that pursue policies that drive additional growth in their areas;

- The consultation sought views on 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 document emphasised that the reformed system should ensure that authorities are able to manage and share risk to an acceptable level, ensuring that councils are insulated from undue shocks or significant reductions in their income.

Fylde Council supported a response to the consultation by the District Councils Network expressing a number of areas of concern.

Current Position

Over the last year, the government have been working closely with local authorities, their representatives and representatives of business to shape the design of the reforms. This has included a jointly chaired Local Government Association (LGA) and DCLG Steering Group and a set of Technical Working Groups to look at every aspect of how the new system should work, and which responsibilities should be devolved. In addition, a joint LGA-DCLG chaired Business Interests Group has been established. Copies of papers taken to each of these groups and records of the discussion are available on the LGA's website: http://www.local.gov.uk/business-rates.

The Government has now published and introduced into Parliament primary legislation which is intended to provide a framework for the reformed 100% Business Rates Retention system. The Local Government Finance Bill builds on similar legislation that underpinned the current 50% rates retention system. A copy of the Bill and relevant supporting documents are available here: http://services.parliament.uk/bills/2016-17/localgovernmentfinance.html.

The approach taken in the Bill was informed by the significant engagement that DCLG have had with authorities and businesses so far, and takes account of views expressed in the recent call for evidence exercise. For example, councils have expressed strongly that, under the reformed system, there needs to be changes to help authorities manage the risk and income volatility associated with business rates appeals. In line with this, the Bill provides for these issues to be managed centrally and for available resources to be better directed to where losses are experienced.

A second consultation '**100% Business Rates Retention – further consultation on the design of the reformed system'** was published in February 2017. This document proposed a number of specific changes to the present arrangements and set the implementation date for this new scheme as April 2019 i.e. for the financial year 2019/20.

Fair Funding Review

For the services currently provided by local government, the Fair Funding Review will establish the funding baselines for the introduction of 100% Business Rates Retention. The Fair Funding Review will consider the distribution of funding for new responsibilities devolved as part of these reforms on a case by case basis; they are likely to have bespoke distributions.

Alongside the consultation on the approach to the Business Rates Retention reforms in 2016, the Government also published a call for evidence on the Fair Funding Review. DCLG will publish shortly on gov.uk a summary of the responses to the call for evidence and consultation paper, seeking views on the broad approach and cost drivers that could form part of a new relative needs formula.

Devolution of responsibilities

The Government has announced that Revenue Support Grant, Rural Services Delivery Grant, the Public Health Grant and the Greater London Authority Transport Grant are to be funded through retained business rates. The Government has also confirmed that the devolution of Attendance Allowance funding is no longer being considered as a part of the Business Rates Retention reforms.

Taken together, these announcements account for around half of the additional retained business rates that DCLG estimate will be available to local government at the point at which the reformed system is introduced. The Government will continue to explore with local government the issues raised by respondents in relation to the remaining responsibilities identified within the summer consultation and as well as other options identified by local government in their response to that consultation.

The Government will continue to work with the local government sector through the Responsibilities Working Group, and if there is a need to consult further, DCLG will do so in due course. The aim is to decide on the package of responsibilities to be devolved for the commencement of the new Business Rates Retention system in spring 2018 for **potential** implementation in April 2019.

Business Rate Pooling and Local Growth Zones

The most recent government consultation on 100% Business Rate Retention includes proposals to update the way that business rate pools are set up, and strengthen the incentives open to pools. The government believes that the current approach to pools does not work as well as it could, and does not help to achieve the potential benefits that more ambitious pooling arrangements could bring. They believe that the current voluntary approach can incentivise the wrong behaviours – leading in some areas to local authorities being excluded from pools due to their being perceived as 'high risk'. In addition, the removal of the levy from the new 100% Business Rates Retention system means that the rewards for pooling are reduced. Through the current Local Government Finance Bill, the Government is therefore broadening the ability of the Secretary of State to designate pools of authorities. The Bill removes the requirement for local authority consent, but introduces a requirement to consult with affected local authorities.

By removing the requirement that all authorities must agree to being designated as a pool, the Secretary of State is enabled to ensure that pools are created across functional economic areas that maximise the opportunities for growth. DCLG have introduced a statutory duty to consult with areas on their pooling arrangements. However the ultimate decision will rest with the Secretary of State, helping to ensure that all authorities in a functional economic area will have to take those discussions seriously.

The Government is also proposing to introduce a new reward for local authorities that are cooperating and working together as a business rates pool. They are introducing a new power through the Local Government Finance Bill, which will allow local authorities themselves to establish growth areas (within parameters to be set by government, to help manage the impact on the system as a whole). Local authorities will then be able to keep a proportion of growth in business rates income from that area outside the rates retention system for a specified number of years – i.e. this growth would remain outside the ‘reset’ system.

The new power to designate **local growth zones** adds an additional growth incentive to the 100% Business Rates Retention system, along with a real opportunity to give greater responsibility to local government for their own growth-related financial decisions, and to move away from having to approach central government for investment. Unlike at present however, participation in a Local Growth Zones would not be optional but the complexion of the grouping would be determined by central government.

Such a change, if imposed, would mean that the arrangements for the Lancashire-wide Business Rate pool may cease to be appropriate and relevant for 2019/20 and beyond. It is unclear at this stage, given that no further details beyond the consultation proposal have been announced, what the impact on the level of Business Rate income that might be retained by Fylde Council would be under the revised arrangements.

The consultation documents are accessible at the link below:

https://www.gov.uk/government/consultations/self-sufficient-local-government-100-business-rates-retention

https://www.gov.uk/government/consultations/100-business-rates-retention-further-consultation-on-the-design-of-the-reformed-system

4. CONCLUSION

Retained Business Rate income is a key element within the Councils Financial Forecast, making a significant contribution to the total income of the Council. The latest forecast approved at Budget Council in March 2017 reflects anticipated income from the Lancashire-wide Business Rate pool (of which Fylde Council became a member for 2017/18) not only for 2017/18 but for all subsequent years in the forecast.

A response to the consultation, expressing particular concern regarding the compulsory nature of revised pooling arrangements within Local Growth Zones, has been submitted. To date no government response to the consultation feedback has been published.

The revised Business Rate retention arrangements, assuming that the proposed changes come into effect as proposed from 2019/20, may result in changes to the amounts of Business Rate income that is retained by Fylde Council which are, as yet, unquantifiable.

However it may be necessary to amend the level of estimated Business Rate income that is contained within the Financial Forecast in due course, as and when the new arrangements are confirmed and the impact of such becomes clearer.