

Business Rate Retention

Policy Context

1. The proposals in this report are consistent with Council priorities. In particular, it supports the priority to ensure that effective use is made of Council resources to support the framework for making Gateshead a place where everyone thrives by ensuring a sustainable financial position for the long term.

Background

2. There have been two previous consultations on business rates retention and the design of the system. The Council's response to these consultations was reported to Cabinet on 11 October 2016 and 25 April 2017.
3. These previous consultations were intended to culminate in the implementation of measures in the Local Government Finance Bill, which fell in 2017 when the General Election was called. Without the short-term opportunities to bring forward primary legislation, the Government has been considering options for reform in 2020 within the existing legislative framework.
4. The reform of the business rates retention system will sit alongside wider changes to the local government finance system which the Government aims to introduce in 2020; notably the review of relative needs and resources (fair funding) which is reported elsewhere on this agenda, and the upcoming Spending Review, which will set the overall quantum of funding for local government.
5. The consultation contains the Government's initial proposals about how to set up the new business rates retention system in 2020, specifically the steps that may be necessary to set accurate Business Rates Baselines.
6. How local authorities transition from the current system to a reformed system and how reforms are operationalised are not being consulted on at this stage; the Government states that it will consult on these in 2019.
7. The quantum of funding available to local authorities is a matter for the Spending Review and is outside the scope of this consultation.
8. The consultation broadly covers three areas; the balance of risk and reward, proposals for simplifying the system and reducing volatility, and setting up the system. The deadline for response to this phase of consultation is 21 February 2019. The Council's proposed response is shown in the attached annex. The full consultation document is available at:

<https://www.gov.uk/government/consultations/business-rates-retention-reform>

9. Alongside this consultation, the Government has published a consultation on a review of local authorities' relative needs and resources (fair funding). The links between the two reviews are important as a fair funding assessment will be the primary determinant of retained funding. The Council's response to the consultation on a review of local authorities' relative needs and resources is attached at appendix 4.

10. It is the Government's stated intention to introduce reform of the business rates retention system in 2020/201. The table below sets out the key dates:

December 2018	This consultation opens and the Government invites responses by 21 February 2019. These responses will help shape specific proposals across all aspects of how the reformed system is designed and implemented
Winter 2019	Whilst this consultation is open, MHCLG will continue to engage with the sector and a series of regional events will take place
Spring 2019	Responses analysed
Summer / Autumn 2019	A further consultation will be published including details of implementation and transition. Decisions will be taken, following this consultation, outlining the reforms to be implemented in 2020/21
Winter / Spring 2020	MHCLG will work with local authorities in helping them implement reforms, ready for 2020/21

Consultation

11. The Council is supportive of the SIGOMA and ANEC responses to this consultation.

Alternative Options

12. There are no alternative options.

Implications of Recommended Option

13. **Resources:**

a) **Financial Implications** - The Strategic Director, Corporate Resources confirms that any financial implications are subject to the outcome of the consultation and will be the subject of future reports. The Council is clear that fairness in funding should be given precedence within the new framework and that "fair funding" must be reflective of need and be transparent.

b) **Human Resources Implications** – None.

c) **Property Implications** – None.

14. **Risk Management Implications** – Whilst the Government has outlined that the move to 100% business rates retention will be fiscally neutral on local government financing, there is a significant risk facing individual authorities in particular concerning the fairness of the needs assessment and the eventual baseline funding level at day one of the system.

15. **Equality and Diversity Implications** – None.

16. **Crime and Disorder Implications** - None.

17. **Health Implications** – None.

18. **Sustainability Implications** – None.

19. **Human Rights Implications** - None.

20. **Area and Ward Implications** – None.

21. **Background Information** – Government publications - Self-sufficient Local Government: 100% Business Rates Retention Consultation Document, Business Rates Reform Fair Funding Review: Call for evidence on Needs and Redistribution and 100% Business Rates Retention – Further consultation on the design of the reformed system, and Business Rates Retention Reform: Sharing risk and reward, managing volatility and setting up the reformed system.

Business Rates Retention Reform – Sharing risk and reward, managing volatility and setting up the reformed system

The Council welcomes the opportunity to respond to the further consultation on Business Rates Retention Reform.

The reform of business rates is an important step towards achieving fiscal devolution, but it is essential that it be underpinned by a fair funding framework which takes into account local needs and demographics, recognising different areas capacity for growth and the ability to raise income locally. Poor economic performance is intrinsically linked with higher incidence of health and social issues that directly drive the demand for local authority services. Growth depends far more on location, transport links and wider economic circumstances which are usually outside of local authority control and so it is even more important that the system not only rewards growth but also adequately protects authorities whose tax bases are declining through no fault of their own.

From the outset of the new system, only genuine fair funding that meets the needs of the Borough of Gateshead and the wider region will enable the concept of fiscal devolution to succeed. The outcome of the review of relative needs and resources (fair funding) will be the primary determinant of retained funding and the importance of the review should not, therefore be underestimated. The sector needs additional investment over and above the current funding commitments to allow local government to deliver the vital services that our residents need. It is vital that the Government uses the opportunity of the 2019 Spending Review to deliver truly sustainable funding for the sector. The Council reiterates its view that the move to 75% retention must be adequate to allow it to fund existing pressures on services, particularly social care, before any consideration of new areas of responsibility is undertaken.

Question 1: Do you prefer a partial reset, a phased reset or a combination of the two?

The Council considers a phased reset to be the fairest.

Question 2: Please comment on why you think a partial/phased reset is more desirable

The impact of demographic or other socio-economic changes within local authority areas can change significantly over time so reset periods need to be frequent enough to ensure councils always have sufficient funding to carry out their functions. The reset period should include updates to relative needs and resources to maintain fair funding and be aligned to valuations.

Question 3: What is the optimal time period for your preferred reset type?

The Council considers that the period should be a maximum of 5 years.

As outlined in the Council's response to previous consultations, resets need to include updates to relative needs and resources equalisation and should be aligned to revaluations.

Question 4: Do you have any comment on the proposed approach to the safety net?

The safety net system is intended to support councils that experience shocks to the system, such as the closure of a major ratepayer. The Council reiterates its view that the current system continues to lose income due to avoidance techniques and companies using insolvency to avoid payment of rate liabilities. The tackling of these issues would further reduce need for safety net in some areas.

The safety net needs to incorporate an element of change in relative needs and resources. Whilst it is designed to support councils that experience shocks to the system due to the closure of a major employer and the sudden loss of business rates income, it takes no account of the potential sudden increase in demand for council services from those residents who become unemployed.

The Council is generally opposed to top slicing of funding and considers that the Government should fund the safety net separately. Any top-slice will need to be proportionate and should be returned to Councils if it is not being fully utilised.

Question 5: Do you agree with this approach to the reform of the levy?

Question 6: If so, what do you consider to be an appropriate level at which to classify growth as 'extraordinary'?

The Council agrees that extraordinary growth outside of local authority control should be capped and redistributed to maintain fairness in the system, but this has to be closely aligned to relative needs and resources to ensure the baseline level of funding used in the calculation is still appropriate to need. The Council believes that extraordinary growth should be anything in excess of that which an authority estimates, up to a maximum of 125%. The more growth that authorities are allowed to retain means less funding available to support those authorities with less ability to grow their business rates as rapidly.

Question 7: What should be the fall-back position be for the national tier split between counties and districts, should these authorities be unable to reach an agreement?

Not applicable.

Question 8: Should a two-tier area be able to set their tier splits locally?

Not applicable.

Question 9: What fiscally neutral measures could be used to incentivise pooling within the reformed system?

The Council considers that fairness in funding needs to take precedence over incentives.

Question 10: On applying the criteria outlined in Annex A, are there any hereditaments which you believe should be listed in the central list? Please identify these hereditaments by name and location.

Question 11: On applying the criteria outlined in Annex A, are there any listed in the central list which you believe should be listed in a local list? Please identify these hereditaments by name and location.

The Council has no strong views on this area, as long as the starting principle in the central list criteria applies i.e. authorities and ratepayers will see no loss and no gain as a result of movement between lists. Further advice would be required from the VOA in relation to specific hereditaments.

Question 12: Do you agree that the use of a proxy provides an appropriate mechanism to calculate the compensation due to local authorities to losses resulting from valuation change?

The Council welcomes measures to address volatility caused by valuation changes but remains opposed to top slicing of income and considers that compensation should be funded separately.

Question 13: Do you believe that the Government should implement the proposed reform to the administration of the business rates retention system?

The Council welcomes the proposals for any reform to the administration of the system that provides greater certainty and incentive to local authorities.

Question 14: What are your views on the approach to resetting Business Rates Baselines?

The Council has the view that the best approach to calculating Business Rates Baselines would be to use authority's own estimates from the NNDR3 returns, instead of using estimates based on past performance, as past performance is not a good indicator of future appeal losses.

Question 15: Do you have any comments at this stage on the potential impact of the proposals outlined in this consultation document on persons who share a protected characteristic? Please provide evidence to support your comments.

The Council's strategic approach Making Gateshead a Place where Everyone Thrives has been developed as a result of the inequalities faced by Gateshead residents every day. Whilst the Council will fulfil its responsibilities regarding duties set out in the Equality Act, there remains a risk that protected groups may not be sufficiently protected due to the disproportionate cuts imposed on areas with high levels of deprivation. However, until the proposals become clear and exemplifications are available it is not possible to assess fully the implications for persons who share a protected characteristic.