Consultation on Business Rates

Summary

To advise Executive on a response to the Consultation on the Business Rates Retention Reforms

Portfolio - Finance Date signed off: 11 February 2019	
Wards Affected	Not applicable

RECOMMENDATION

The Executive is advised to RESOLVE to:

(i) NOTE and COMMENT on the proposed Consultation response;

(ii) DELEGATE to the Chief Executive in consultation with the Leader the completion and submission of the final consultation response

1. Resource Implications

1.1 Business Rates form a key part of the resources the Council has to provide services. The Council has been successful in maintaining business rates and this has grown in line with inflation since the baseline was set in 2013.

1.2 The Government has stated its intention to move to a new system in 2020/21 which will see 75% of business rates levied being retained by the Local Government Sector. This does not however mean that 75% of the £40m business rates collected in Surrey Heath will be retained by the borough. The share that Surrey Heath keeps will be determined by how the Council's "relative needs and resources" are determined – the consultation in respect of this is also on the agenda.

1.3 Currently the Council receives around £1.5m in baseline funding and in 2019/20 £1m of historic growth has been used to support the budget. In the current system locally generated growth is retained locally until a "reset" of the business rates system takes place. This "reset" effectively shares growth made in one area with areas that have suffered losses and everyone is effectively put back to the Baseline needs assessment. Hence the proposed full reset in 2020/21, as in the consultation paper, coupled with a recalculation of the baseline needs assessment could have a major impact on Surrey Heath's resources going forward.

1.4 The Government is also consulting on a number of other changes in respect of Business rates such as appeals, treatment of future growth, split in 2 tier areas, treatment of the central list and simplification of business rates accounting. These are all covered in the attached consultation paper and response.

2. Key Issues

2.1 The Government has asked for comments on its proposals through a number of consultation questions. A recommended response is attached to this paper.

2.2 The consultation commenced on the 13th December 2018 and ends on the 21st February 2019 with the new system coming in 2020/21.

3. Risk Management

3.1 No issues from this paper although the Government's proposals do increase funding risk to the Council.

4. Equalities Implications

None from this paper but loss of funding for the Council could result in loss of services and impact disproportionately those people with protected characteristics, such as the elderly, since they are the greatest users of services.

5. Options

5.1 The Executive can decide to amend the consultation or not respond

6. Proposals

6.1 It is proposed that the Executive:

(i) NOTE and COMMENT on the proposed Consultation response;

(ii) DELEGATE to the Chief Executive in consultation with the Leader the completion and submission of the final consultation response

ANNEXES	**Annex A – Draft Consultation response**
BACKGROUND PAPERS	**DCLG – Business Rates Retention Reform – sharing the risk and reward, managing volatility and setting up the reformed system**
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22nd February 2019

Dear Sir or Madam

RESPONSE TO CONSULATION ON BUSINESS RATES RETENTION REFORM

Please find below the responses of Surrey Heath Borough council to the above consultation.

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

Our initial position is that in an ideal world there should be no reset of the system. Councils are encouraged to develop their local economies. In Surrey Heath we work closely with businesses that wish to expand as well as encouraging other businesses to move here. However we accept that we are in a fortunate position in being in one of the more economically active areas of the country however it needs to be recognised that this growth does not come without a cost be it in terms of pressure on infrastructure, lack of housing or over-development, some of which could be mitigated through investment funded by business rates growth. The presence of a reset, however structured, makes it difficult to fund this type of infrastructure investment since there is no long term certainty of an income stream to fund it. After all the Council can borrow on the back of increased Council tax for housing developments as that income is guaranteed so why should not the same principle apply to business developments?

Coming from this position it is difficult to say which mechanism is the most appropriate. However we would urge the Government to consider these two things when designing the reset mechanism as follows:

- Councils need to be protected from large movements in funding arising out of resets. This is particularly the case with the full reset proposed for 2020/21. Services simply cannot be turned on and off as funding comes and goes and any large changes de need to be phased in;

- There needs to be a mechanism where some growth can be retained if it is being used to fund investment to deliver future growth. For example money borrowed to fund road improvements to deliver more business rates. Without this the business case for Councils borrowing to drive economic growth will be a lot more difficult to deliver.

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

There needs to be a mechanism where some growth is retained to encourage investment hence a phased reset if probably prefereable

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

Please see the answer above. The time period should be as long as possible. It should be noted that borrowing for infrastructure is at least 25 years and can be up to 50.

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

It is difficult for Councils to deal with sudden financial resource changes as services simply cannot be turned on and off. Hence there does need to be a safety net in place to manage this. This safety net should also cover changes as a result of the reset. The most equitable way to fund this would be through a top slice on total national business rates income and it should be set at 95%.

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

The whole purpose of the localisation of Business rates is to provide an incentive to councils to deliver economic growth which then benefits the country as a whole through increased in Corporation and employment taxes as well as VAT. Fundamentally any redistribution of gains acts as a disincentive to deliver growth and therefore everyone is the poorer. However if the Government is minded to take this course of action then if the levy rate is set too high then it becomes a disincentive for growth particularly as gains are likely to be lost as a result of the reset anyway within a fixed time period. If the Government only wishes to apply the levy to “Extraordinary” growth i.e. that resulting from a movement in provisions then this could be achieved by only applying it to those movements. Setting a threshold at 100% or 200% of baseline funding is somewhat arbitrary since the baseline funding itself is only an arbitrary calculated figure. A better comparison would be to compare growth in business rates with a Councils total funding, say as used in the Core Spending Power figures, and then to apply a levy if growth exceeds a fixed %age of that funding. Alternatively a fixed sum could be used – say the first £1m etc be exempt.

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

This should have a clear definition as set out i.e. movements in items for which are not related to the management of the local economy by Councils. I.e. Provisions etc

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

The current split assumes that business rates growth is primarily down to districts and is driven by the planning process. However counties have a role to play as they are responsible for major infrastructure such as highways as well as the skills of the local workforce.

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

Yes there should be a process in place to enable two tier areas to come to a local agreement as to the split.

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

Incentives by their very nature would need to have financial incentive and so this inevitably will mean they are not cost neutral. Councils within a pool could be offered greater flexibilities around rates reliefs etc. which need not impact on the whole business rates system. They could also be given the opportunity to designate local enterprise zones to enable gains to be used to support investment being protected.

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.

No

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.

No

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?

Yes but there does need to be a mechanism to take account of significant one off appeals which arise as a result of legal action. This could be based on a percentage of total appeals compared with the baseline in that year. The current NHS claim is a good example of a potential claim which would not be in the normal course of business, is backdated for a long period and represents a substantial proportion of a council's business rates baseline

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

Yes this would reduce complexity and volatility and therefore should be implemented. However the issue of growth being retained locally as a result of Councils regenerating their place needs to be addressed.

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

Whatever system is used there must be adequate protections built in to ensure that changes to Council's resources are damped in some way so as to ensure that there are no cliff edges. This is because it is difficult for Councils to manage large swings in the level of resources available from one year to another.

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.

Business Rates form an important part of the resources councils have to deliver services. If the amount an individual authority receives is suddenly reduced significantly this will impact on the Council's ability to provide, in particular, discretionary services which by their very nature (meals on wheels etc.) would impact residents with protected characteristics. Hence any changes made to the way resources are shared needs to be done in such a way that the changes can be managed by individual Councils thereby mitigating potential impacts on services.

Finally as a Council we work very hard to maintain and grow our local economy. We work closely with businesses to understand their issues and to help them develop and grow within the borough. As a Council we have taken a proactive approach to halting the economic decline of our major shopping centre by taking control of it and investing in its refurbishment to attract new tenants. We are also in advanced talks with developers on a redevelopment of the northern end of Camberley which will bring a significant amount of new housing and retail development. It is anticipated that these initiatives will stabilise if not grow our business rates but they do not happen without a cost. Investment is needed on improving public realm and the assets we own and these needs to be paid for in some way. If the Government redistributes the financial gains from this investment then there is no incentive to borrow money to deliver economic growth since it cannot be effectively funded. Any new Business Rates scheme should allow growth generated as a result of the Council taking a proactive approach to investment to be retained locally rather than shared out. After all increased taxes from VAT, stamp duty, employment taxes, corporation tax and benefit savings as a result of this growth already go straight to the Government for sharing out. Unless this happens Councils such as ourselves will be less likely to invest to grow their local economy and as a result the whole country will be that much the poorer and there will be less business rates available overall.

This paper was agreed at the Council's Executive Meeting on the 19th February 2019

Yours faithfully

Karen Whelan
On behalf of Surrey Heath Borough Council