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Business Rates Localisation – Opportunities, Risks and Challenges

Pete Moore, SCT President

Background

- 100% business rates retention by the end of this Parliament (April 2019 or April 2020)
- Equalisation between local authorities will still be needed
- No levy on the proceeds of growth
- New responsibilities to be devolved – “fiscally neutral”
- Powers for all to reduce multiplier
- Authorities with elected mayors will be able to increase the multiplier (for infrastructure projects, by agreement with LEP)
- Includes a wide review of the needs formula
- Review is jointly led by the LGA and DCLG
- Inputs from CCN, ACCE, SCT and links to other interested groups such as the RSN
- Complex
- Work in progress

- **Summer 2016** - Consultation on the approach to 100% business rates retention. Responses will help shape specific proposals across all aspects of the reforms.
- **Autumn 2016** - Government will undertake a more technical consultation on specific workings of the reformed system
- **Early 2017** - the Government will introduce legislation in this Parliamentary session to provide the framework for these reforms in relation to transferring functions.
- **April 2017** - Piloting of the approach to 100% business rates retention to begin.
- By end of the Parliament - Implementation of 100% business rates retention across local government.

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Steering Group

Meets monthly to provide direction to working groups

Systems Design Working Group

Examining the mechanics of 100% retention.

Needs and Redistribution Working Group

Working on the new need distribution.

New Responsibilities Working Group

Working to identify suitable services to be devolved.

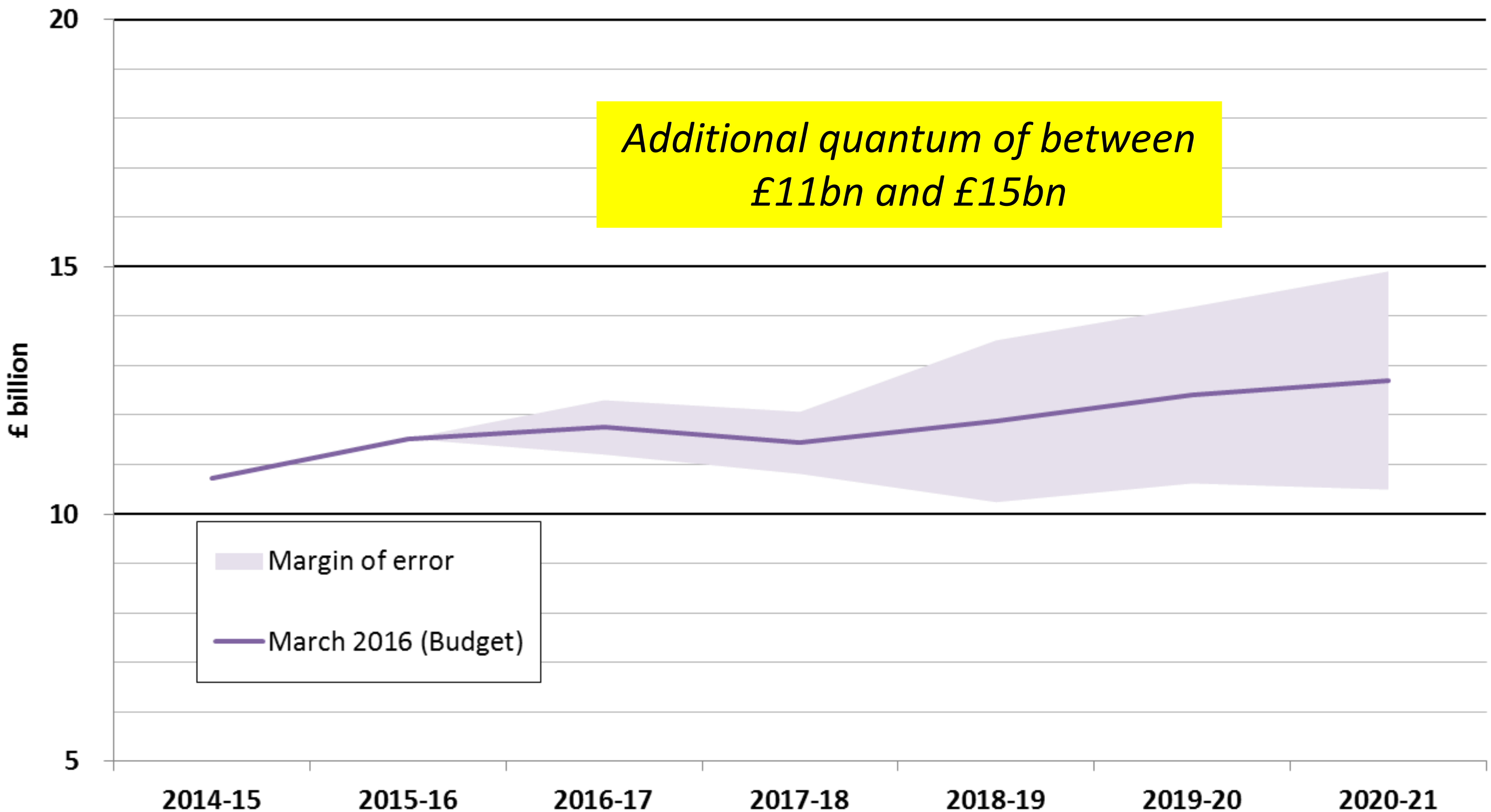
Accounting and Accountability Working Group

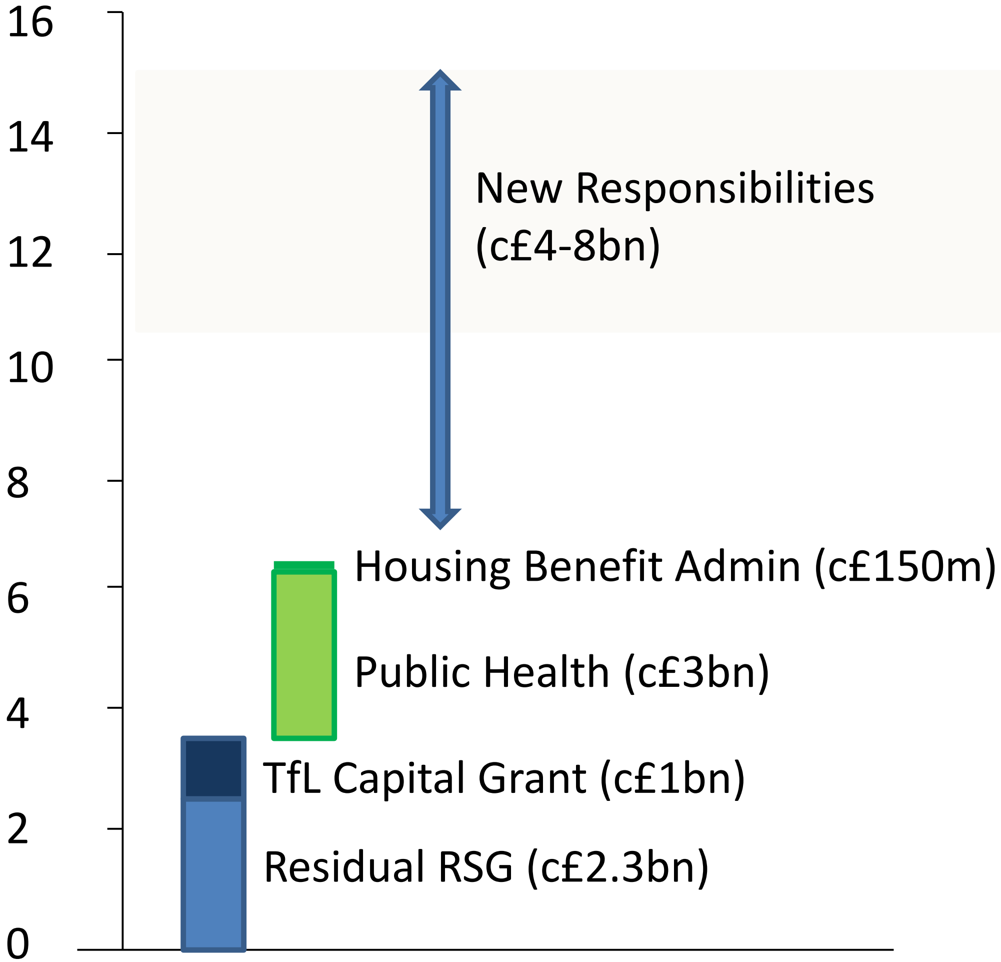
Consultation on Partial Reset @ Revaluation

New Burdens Doctrine

Risks and Opportunities

- **Appeals** – can they be funded from the amount collected before it's paid to the Government for redistribution?
- **Safety net** – Will there be a safety net and if so at what level?
- **Revaluations** – Are the VOA resourced to undertake more frequent valuations? What will be the impact of changes to the frequency and even methodology?
- **Multiplier** The Government will continue to set the multiplier.
- **Quantum** collected will not change and any additional distribution will be matched by new burdens that are demand led.
- **Incentives to work together** – how will the Government pay incentives when the total to be allocated is finite?
- **Perverse impact of new businesses** – A new store could lead to reductions in RVs for other stores or put them out of business. Businesses that are predominantly internet based.
- **Full Reset / Partial reset** – The Government may decide upon too long or too short a period between resets.
- **Uncertainty / risks –** Reserves!


Additional quantum of between £11bn and £15bn
£ billion
20
15
10
5
2014-15
2015-16
2016-17
2017-18
2018-19
2019-20
2020-21
Margin of error
March 2016 (Budget)



Other calls on quantum?

- Devolution deals
- Implications of pilots
- Any further changes to business rates

The quantum & potential other transfers

- Attendance allowance
- Youth Justice Grant
- Independent Living Fund
- Improved better care fund
- Adult Education
- Transport including bus operator grants
- Local growth funds
- Skills / training

Consultation to date – some key messages on needs / resources

- First call on the quantum should be unfunded pressures given the extent of the financial pressures on local govt
- Authorities without mayors should be able to increase business rates – it is inherently unfair that they should not be able to do this
- Current and future cost driver of needs versus historical spend
- The needs and distribution workstream / Fairer funding review should consider per capita funding differences (shire county areas get considerably less per capita than other areas of the country, although they cover the largest population grouping (46%) and geographical areas (83%))
  - In 2016-17 residents of all ages in shire areas received £741.70 per head of Core Spending Power funding; this is 6% less than the national average; 5% less than metropolitan districts and a massive 24% less than residents in London.
  - Shire areas receive 7% less than the national average per dwelling; 6% less than metropolitan districts and a huge 31% less than London.

Needs & Redistribution

- Range of statistical methodologies or approaches
- Key tension between regression based on past spend versus a model based on key cost drivers of need both now and in the future
- Need for resource equalisation
- Need for transition – winners and losers
- Divergence?

Needs & Redistribution

A Cost Driver / Trends in demand model

Potential Key First Order Cost Drivers

(a) Whole population or aged based client number bandings

- Children social care / education
- Children's social care
- Children services
- Adult physical and learning disabilities receiving care
- Older people social care
- Fire

(b) Households – Waste

(c) Road length – Highways Maintenance, street scene

Needs & Redistribution

A Cost Driver / Trends in demand model

Potential Key Second Order Cost Drivers

- Deprivation
- Density / sparsity & accessibility
- Children / Adults with disabilities
- Housing / homelessness
- Area cost differentials

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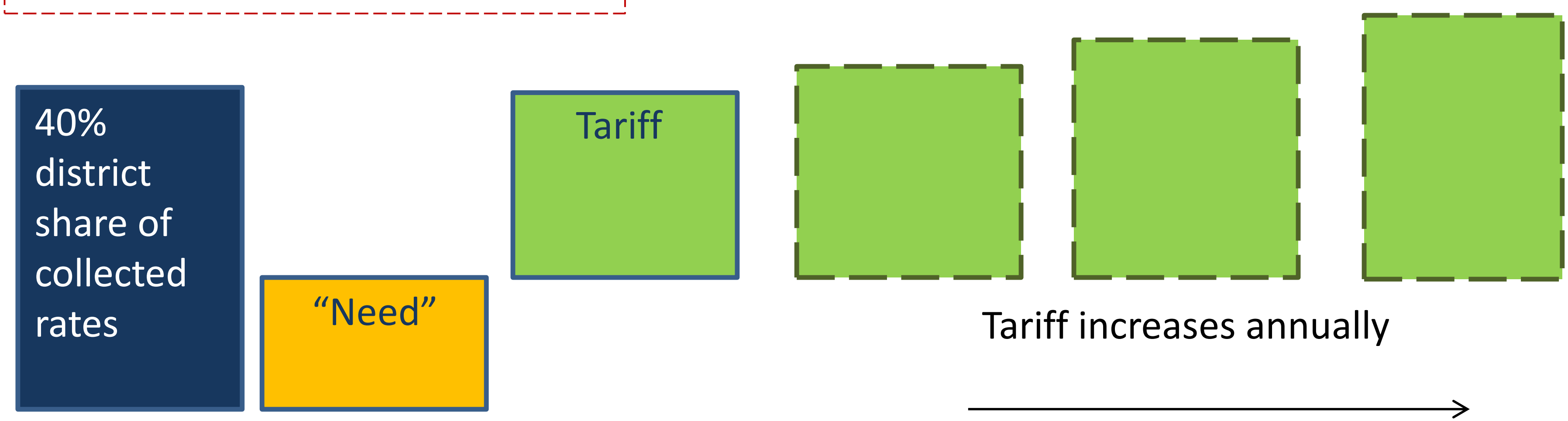
Scenario A: Tariff Authority (a shire district)

Big incentives to grow – as collected rates are large compared to “need”.

The larger the tariff the larger the reward for growth

Growth in business rates must keep pace with increases in tariff … otherwise the increasing tariff will start to cut into the rates needed to meet “need”.

The larger the tariff in relation to the collected rates the larger the risk of not keeping pace or declining.



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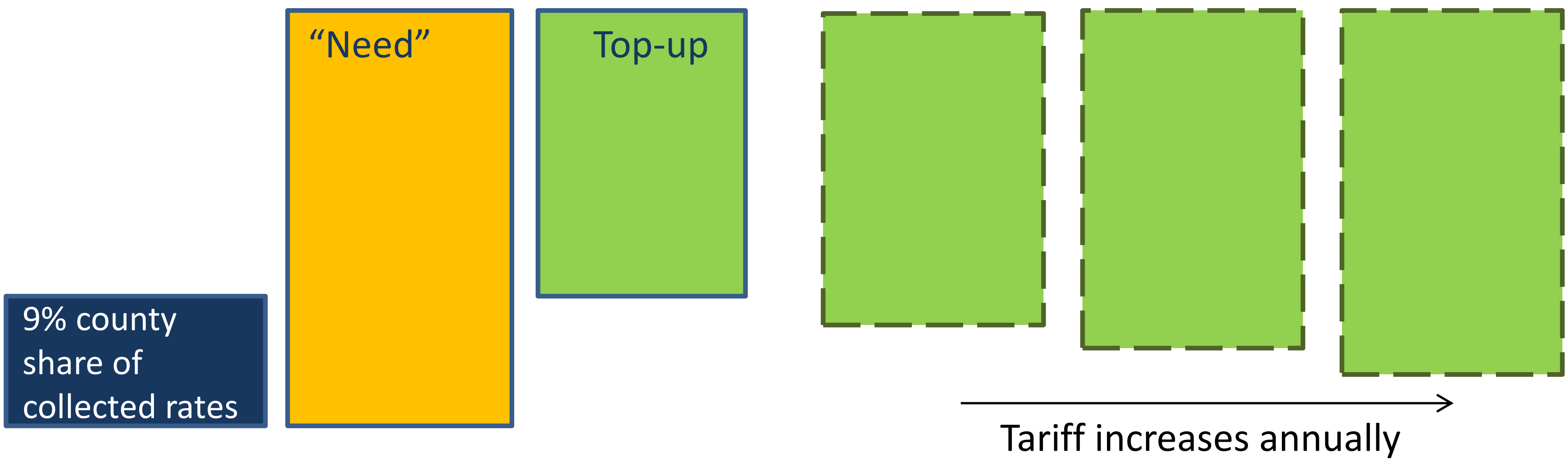
Scenario B: Top-up Authority (a shire county)

Small incentives to grow – rates are tiny compared to “need”.

The larger the top-up the smaller the incentive for growth

As the top-up increases annually and as it makes up a significant proportion of income there is less incentive to grow.

The larger the top-up in relation to the collected rates the smaller the risk of not keeping pace or declining.



Two Tier Split – issues

- Share of baseline because of top up versus share of BR growth
- What goes into the quantum – county or district related activity, influencers of growth or uncorrelated spend driven by need?
- Modelling of risks and rewards on different growth rates, different multipliers and different needs growth
- Modelling of different splits in terms of split of growth – existing 80/20 versus 70/30, 60/40 and 50/50
- A 50/50 split on the existing 50% BR and assuming 2% growth would transfer just £21m between districts and counties
- New Homes Bonus shares?

Other research support & work

(a) CCN – support from Pixel

(b) Institute of Fiscal Studies report – A time of revolution: British local government finance in the 2010s

Feedback / Discussion Questions

(a) Are the priorities and needs we have highlighted the right ones?

(b) What are the most effective strategies and timetables for pressing our case?