Borough of Pendle

APPENDIX B

REPORT OF:	**FINANCIAL SERVICES MANAGER**
TO:	**BUDGET WORKING GROUP**
DATES:	**30th AUGUST 2016**

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Self-sufficient Local Government: 100% Business Rates Retention

PURPOSE OF REPORT

1. The purpose of this report is to inform the Budget Working Group of the current consultation being undertaken by the Department for Communities and Local Government on proposed reforms to the business rates retention system.

RECOMMENDATIONS

2. The Budget Working Group is recommended to:

   (a) comment on the current work being undertaken by the Department for Communities and Local Government in preparation for the reform of business rates with 100% local retention by 2020;

   (b) note the intention to report to the Executive in September on this activity and the Council's consultation response.

REASONS FOR RECOMMENDATIONS

3. To inform the Budget Working Group of significant reforms to the business rates retention system and to help inform the council's response to the consultation.

ISSUE

Background

4. The Working Group will be aware of the Government's intentions to reform the current system of local government finance, a key element of which is the move to 100% retention of business rates by local government by the end of this Parliament. Currently under business rates retention the central / local share is 50:50. The central share is redistributed to councils in the form of revenue support and other grants. The local share is retained by councils but is partly redistributed between councils through a system of tariffs and top-ups. These are set by reference to each council's share of local business rates income compared with its assessed needs.

5. In July, the Government launched a consultation on how the proposed reforms should work with a closing date for responses of the 26th September 2016. The introduction and overview section of the consultation document includes the following commentary:

By the end of this Parliament, local government will retain 100% of taxes raised locally. This will give local councils in England control of around an additional £12.5 billion of revenue from business rates to spend on local services. In order to ensure that the reforms are fiscally neutral, councils will gain new responsibilities, and some Whitehall grants will be phased out.

This amounts to a fundamental reform to the financing of local government. This move towards self-sufficiency and away from dependence on central government is something that councils have called for over a number of decades. The historic 2016/17 local government finance settlement was a first step along this road. It gave those local authorities who are committed to reform far greater certainty over their future funding.

The move to 100% business rates retention marks an important milestone in the devolution of power and resources from Whitehall and will help shape the role of local government for decades to come. To achieve such radical reform, the Government wants councils, business and local people to take the initiative and shape the design of the new system. This consultation is therefore deliberately open and seeks views and ideas across all aspects of the reforms.

This is a major opportunity for all those involved in local government - and those interested in the future of their local areas - to come forward with proposals for how the reforms should work for them and should recognise their circumstances. Ahead of this consultation, the Government has been working closely with the Local Government Association (LGA), as well as other representatives of local government and business sector holding early discussions on the reforms. This consultation has been informed by these discussions, and reflects many of the points and questions raised. We would like now to invite others to join the conversation and help shape the debate.

6. The consultation was launched following early work, particularly in conjunction with the LGA and local government sector led groups (e.g. Society of District Council Treasurers). A technical steering group and a number of sub-groups have been established to provide information and expert advice to support the LGA and DCLG in advising Ministers on the setting up and implementation of the new system. Under the Steering Group the following working groups have been established to consider the following aspects:

   - System design/operation – how growth is rewarded / risks shared
   - Responsibilities (i.e. those to be devolved and funded from business rates)
   - Needs and redistribution of resources (how to reflect in the new system)
   - Accounting and Accountabilities – implications of the new system

7. Papers and records of the discussions in the above Groups are available on the LGA website at: http://www.local.gov.uk/business-rates.

8. A copy of the consultation document is available here. Work is underway on developing the Council's response to the consultation and more detail on this will be reported to the Executive in September.

9. In parallel with the above, the government is also undertaking a Fair Funding Review of councils' relative needs and resources. This was announced as part of the Local Government Finance Settlement for the current year. The government believes that many councils feel too much time has passed since the last fundamental review of assessing relative need, with demographic pressures affecting areas differently. The assessment of the relative needs of local councils is a fundamental part of the reform of business rates and the government has issued a *'Call for evidence on Needs and Redistribution'*.

10. Under the current system of business rates the baseline *need* for Pendle in 2016/17 is assessed as £3.73m. Our assessed share of business rates *income* is £7.82m. As our assessed income exceeds our assessed needs the Council pays over a *tariff* to DCLG of £4.09m. This tariff is then redistributed within the local government finance system to help fund *top-up* payments to authorities whose baseline need is greater than their share of business rates income. These figures were initially set when the current system of business rates retention was implemented in 2013/14 and are updated annually by agreed indexation. These assessed figures can vary to the Council's actual share of business rates income as the latter reflects conditions on the ground rather than a formula derived figure. For example, in 2016/17 our budgeted share of rates income is £7.69m gross or £3.6m after deducting the fixed tariff of £4.09m.

11. Historically, the approach to determining relative need has been based on statistical analysis with complex formulae being designed in order to capture different aspects of need (e.g. deprivation, ethnicity and sparsity). The Fair Funding Review seeks views as to the basis of the new formulae particularly linked to attempts to capture the different elements of need versus a simpler approach.

12. The review is important as it will reset the assessment of the Council's needs on the implementation of 100% business rates retention. A copy of the DCLG paper can be viewed here. Responses are requested by 26th September and this will also form part of the work referred to in paragraph 8 above.

IMPLICATIONS

Policy

13. No policy implications arise at this time.

Financial

14. There are likely to be significant financial implications resulting from these two strands of work but at the present time it is too early to quantify these for Pendle. Further updates will follow in due course as this work develops.

Legal

15. No direct legal implications arise as a result of this report.

Risk Management

16. The financial sustainability of the Council's medium-term financial plan is already recognised as a strategic risk for the Council and is included on the Strategic Risk Register. Funding provided through business rates income represents a significant source of income to the Council meeting c30% of the budget requirement in the current year.

Health and Safety

17. There are no health and safety implications arising directly from this report.

Sustainability

18. There are no sustainability implications arising directly from this report.

Community Safety

19. There are no community safety issues arising directly from the contents of this report.

Equality and Diversity

20. There are no equality and diversity issues arising directly from the contents of this report.

APPENDICES – None