Chorley Council

Report of	Meeting	Date
Chief Executive (Introduced by the Executive Member for Resources, Policy and Performance)	Executive Cabinet	13 December 2013

BUSINESS RATES RETENTION

PURPOSE OF REPORT

1. To provide members with an update in respect of the new Business Rates Retention funding regime that will form a significant part of the council's core funding total with effect from 1 April 2013. This is another fundamental change to the way in which Local Authorities receive one of their main funding streams. Therefore it will have a significantly impact on the Council's budget and Medium Term Financial Strategy (MTFS) going forward. The key issues with regard to this new system are twofold and of equal relevance, the scheme:

   (a) has the potential to significantly alter the monetary value of this major source of income, and
   (b) it also transforms the council's role in the collection process in terms of managing the local business tax base.

RECOMMENDATION(S)

2. Members note the content of the report.

EXECUTIVE SUMMARY OF REPORT

3. The new system is a fundamental change to a major funding stream that will have a significant effect on the council's core funding. It has been introduced as part of the recent Local Government Finance Act and transforms the way in which Business Rates are collected and distributed between different public sector organisations. In effect it transfers the risk of collection from Central Government to the local area.

4. Currently all Business Rates (also known as National Non Domestic Rates – NNDR) are collected by the billing authority and passed in their entirety to Central Government. The council is in affect merely a collection agent. On receipt of the collected Business Rates Central Government distributes it back out across the public sector via the Local Government Finance Settlement and in accordance with complex funding formulae.

5. In terms of financial risk, that is any under achievement of collection rates resulting in a deficit (e.g. due to arrears or reduction in tax base), this is currently borne by Central Government.

6. The new regime, referred to Business Rates Retention, involves the billing authority retaining 50% of the income locally and distributing it amongst local public sectors, being Lancashire County (18%) and Lancashire Fire Authority (2%). The remaining 50% being paid over to Central Government.

7. A key feature of the new process is that the risk of decline is transferred to the Council. Conversely should the total amount increase through growing the tax base the council is allowed to benefit from the additional income generated.

8. The rationale for changing the current system is to incentivise councils to grow their business community.

9. In practice there are mechanisms in place that limit the level of financial benefit that can be realised by local authorities. These are in the form of additional requirements to hand over more than the 50% of the income collected (as referred to in paragraph 6 above). These are referred to as Tariffs and Levies.

10. There is also a mechanism in place to provide additional income to local authorities who are adversely affected by the new regime whereby a safety net payment is received to top up the funding total. The method of calculating funding levels is complicated and involves new processes such as forecasting future business rates levels.

11. It would appear from the information that can be extracted and modelled at present that:
    - the impact of £1 of decline is greater than the financial 'rewards' realised by £1 worth of growth;
    - a tax base that stands still is likely to also result in a reduction in funding;
    - the level of tax base growth required to increase actual income may well be very substantial

12. The forthcoming milestones are as follows:-

5 December 2012	Autumn Statement
19 December 2012	**Expected** date for Local Government Funding Settlement announcement
8 January 2013	Approval of NNDR1 return – subject to clarification of DCLG terminology
17 January 2013	Additional Executive Cabinet
31 January 2013	Submission of NNDR1

Confidential report Please bold as appropriate	Yes	**No**

Key Decision? Please bold as appropriate	Yes	**No**

REASONS FOR RECOMMENDATION(S)

13. This change is fundamental to the way Local Authorities are funded and will have a significant impact on the council's core funding, budget and Medium Term Financial Strategy.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

14. No alternative options have been considered.

CORPORATE PRIORITIES

15. This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	x
Clean, safe and healthy communities		An ambitious council that does more to meet the needs of residents and the local area	

BACKGROUND

16. On 17 July 2012 the Department for Communities and Local Government (DCLG) published the paper, “Business Rates Retention – Technical Consultation” the consultation period ended on 24 September 2012. This document proposed the introduction of a new scheme in relation to Business Rates (currently known as National Non Domestic Rates – NNDR).

17. Within the current system the Council is the billing authority and simply acts as a collection agency. NNDR bills are issued and the income generated is paid, in its entirety, to Central Government and the national pool. It is then redistributed across the whole public sector as core funding. The vehicle for this allocation and redistribution is the Local Government Finance Settlement and Revenue Support Grant (RSG) using a complex formulae methodology. This clearly results in the income being received by Councils having no relationship to what is actually happening with regard to their local business and commercial tax base.

18. The proposed regime has been turned into legislation as part of the recent Local Government Finance Act and is applicable with effect from 1 April 2013.

19. On 21 November 2012 the DCLG published a policy statement following on from the Business Retention Technical Consultation. The policy statement confirms the government’s policy decisions on the technical framework that will determine how the scheme will work with their formal response being made within the forthcoming provisional Local Government Finance Settlement (speculative due date: 19 December 2012).

BUSINESS RATES RETENTION – RATIONALE FOR CHANGE

20. As above, the current NNDR system involves the billing authority collecting all Business Rates. The total amount collected is handed over to Central Government and put into the national treasury pot for distribution across the whole public sector. It could be claimed that this provides no benefits or rewards for growing the area’s business tax base which may in turn land the council with additional costs in respect of providing additional services to new companies.

21. The DCLG have set out that the purpose of the new scheme is to give councils more freedom and flexibilities with stronger incentives to increase new business in its area. It is intended that the scheme rewards councils by allowing them to keep, and benefit from, increased rates collection by retaining the additional income resulting from tax base growth.

22. The above rationale presents the overall principles on which the change has been introduced. The practical application and the detailed system to be introduced is, however, more complex and has a number of adjustments along its course. These adjustments place restrictions and limits on the financial swings, both upwards and downwards, that such a fundamental change in policy can bring about for individual organisations.

BUSINESS RATES RETENTION – HOW THE NEW SCHEME WORKS

23. The new system is set out below to illustrate the stages of calculating the revised level of income the council can expect in a two tier county.

- As in the current system the council bills businesses for the Business Rate Income due within the local area.
- 50% of the whole amount due is paid over to Central Government to be incorporated into the Revenue Support Grant (RSG) funding regime.
- The remaining 50% retained by the council is then split 80%/18%/2% with the 80% share being retained by the council, 18% going to the county council and the 2% being the fire authority's share.
- From here on in, a mechanism of adjustments are applied to (1) protect councils who are disproportionately financially worse off, and (2), reduce the income of councils who are significantly better off as a result of this fundamental change in methodology.
- The cash value of the council's share is compared to an amount that Central Government has pre-determined is required by the council.
- If the council's retained amount exceeds this predetermined level the excess has to be paid over to Central Government in the form of a **Tariff**.
- Conversely if the amount is less, the council will receive a **Top Up** payment.
- From immediate effect the predetermined level of income contains an assumed level of growth in year one. If the council grows its tax base in excess of this assumed level and receives a greater amount of income, a **levy** will be placed on the additional income gained. This, in effect, places a cash limit on the amount the council is able to benefit from as a result of tax base growth.
- If the council, however, suffers a loss of income due to large scale business decline there is a level of loss that triggers a **safety net** payment.
- Central Government will use the current business rates data submission forms returned by councils to administrate the system. Namely, NNDR1 (forward looking and forecasting income to be collected and movements in tax base) and NNDR3 (year-end backward looking return of actual income due and collected audited by the external auditor.)

24. The above stages have been simplistically listed in comparison to the detailed technical mechanics of the new process. This hopefully provides some perspective to the complexities and new variables of the regime and thereby gives a flavour of the degree of risk the council's MTFS will be exposed to.

25. Estimating future funding levels has so far proved to be impossible as there is no accurate data available to calculate future growth or decline in the commercial tax base and also the impact this will have on the councils retained share *plus* the additional impact due to the subsequent application of a Tariff and thereafter Levy and Safety Net adjustments.

26. The role, and therefore profile of NNDR1, has now become increasingly more important as the council needs to submit a forecasted level of growth or decline in business rate income. This will invariably impact directly on the amount of income retained to fund the council's total budget.

BUSINESS RATES RETENTION – HOW THIS WILL IMPACT ON COUNCILS AND KEY RISKS

27. The new regime clearly has significant implications for councils in terms of both funding levels and also medium term financial strategies. Councils will need to get to grips with new ways of working in managing the business tax base within their local areas with issues such as:-

- Processes to forecast future growth or decline in the business tax base.

- Understanding the impact of not achieving forecasted growth on future core funding.
- Assessing the cost/benefit of managing and supporting existing business thus maintaining the existing tax base.
- Understanding the impact of decision making in this new arena where policies may influence business rate income levels.

28. Councils will now be significantly exposed to a much greater level of risk from business and commercial stagnation, decline and possibly even a slow rate of growth.

BUSINESS RATES RETENTION – HOW THIS WILL IMPACT ON CHORLEY

29. Despite the lack of clarity on the detailed figures to be published in the settlement later in December, some modelling has been undertaken in order to understand the future financial implications if the tax base: (i) matches the assumptions and forecasts made by Central Government to date; (ii) declines by -1%; (iii) remains static; (iv) grows by +1%. These scenarios have been worked through the calculations set out in the DCLG policy statement and indicate the following:-

Scenarios	**Reduced Funding In 2014/15 £m**
Central Government's forecast matched	(0.536)
Decline in business rate income by -1%	(0.587)
Static business rate income	(0.531)
Growth in business rate income by +1%	(0.155)

30. It would appear from this high level of modelling that:
    - the impact a unit of decline is greater than the financial 'rewards' realised the same value unit of growth.
    - it seems likely, therefore, to minimise loss of total income the first priority will be to maintain the tax base to prevent decline rather than to seek growth;
    - the % increase in tax base growth required to achieve an actual increase in cash terms may well have to be substantial.
    - a tax base that stands still is also likely to result in a reduction in funding;

31. It is very important to note, however, that the above results are based on a number of speculative projections and do contain assumptions on sizeable issues, for example: (a) the total public sector funding pot (in the region of £26 billion) to be allocated which has not yet been announced and, (b) rate of inflation (Retail Price Index - RPI).

BUSINESS RATES RETENTION – RELATED ISSUES AND FORTHCOMING MILESTONES

32. It should also be noted that this new regime is not a stand-alone change and is linked to the following key issues that have been raised in previous budget related reports, namely:

- The total amount being set aside by Central Government to fund New Homes Bonus (NHB) is being deducted from the total pot available to fund Business Rates Retention. NHB is a relatively new funding stream which is also generating winners and losers and year on year variations in overall core funding levels.
- A number of other grants received are being rolled up into this funding methodology and therefore the financial risk this system exposes the council to is extended to also include these income streams.

33. As stated in the above section, the numbers included in this report are only illustrative and are based on a speculative modelling on the indicative data available. This has resulted in the council not being able to calculate its potential budget deficit with any accuracy whilst considering key decisions impacting on the MTFS.

34. Details and accurate funding levels will only be published as part of the Local Government Finance Settlement due to be published sometime after the 5 December Autumn Statement. No formal notification has been received yet but it is believed that the most likely date for disclosure is 19 December 2012. This delayed announcement also means that an additional Executive Cabinet meeting has had to be arranged for 17 January 2013 to consider the council's Budget Principles.

35. The data submission form NNDR1 has already been received and is currently being completed. The deadline for the provisional submission is 21 December 2012. The final version has to be submitted by 31 January 2013 which the DCLG says has to be "signed off" to certify council approval. In accordance with the constitution this may require the form to be approved on 8 January 2013 as a single item outwith the budget setting and approval process.

IMPLICATIONS OF REPORT

36. This report has implications in the following areas and the relevant Directors' comments are included:

Finance	X	Customer Services	
Human Resources		Equality and Diversity	
Legal	X	Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

COMMENTS OF THE STATUTORY FINANCE OFFICER

37. The financial implications of the new Business Rates Retention scheme, as far as they are presently known, are contained within the report. Further updates will be provided as a matter of urgency when further information is received. Please note that the modelling contained within the report is based on a number of forecasts and assumptions that may well be subject to considerable change in the funding settlement due to be announced in December 2012.

COMMENTS OF THE MONITORING OFFICER

38. None.

GARY HALL
CHIEF EXECUTIVE

There are no background papers to this report.

Report Author	Ext	Date	Doc ID
Susan Guinness	5101	28/11/12	