

## **BARNSLEY METROPOLITAN BOROUGH COUNCIL**

This matter is not a Key Decision within the Council's definition and has not been included in the relevant Forward Plan

Report of the Director of Finance, Assets and Information Services

### **PILOTING EARLY IMPLEMENTATION OF 100% BUSINESS RATES RETENTION**

#### **1. Purpose of Report**

- 1.1 To seek Members agreement to join the Sheffield City Region Combined Authority pilot of the implementation of 100% Business Rates Retention with Government ahead of the full national roll out in 2020/21.

#### **2. Recommendations**

- 2.1 **To agree to be part of the Sheffield City Region Combined Authority pilot of the implementation of 100% Business Rates Retention with Government ahead of the full national roll out in 2020/21 under the terms set out at Appendix A;**
- 2.2 **Agreement to the pilot being subject to working internally within the SCR to develop a mechanism to ensure that there is no detriment at an individual authority level in terms of the resources that would have been available to each authority under the current local government finance regime, over the four year settlement period;**
- 2.3 **Note that 100% Business Rate Localisation is taking place within a wider reform of the Local Government Finance system, including a commitment to review the 'relative needs' of individual authorities to 'reset' the distribution of resources for existing services by 2019/20;**
- 2.4 **That further reports be brought back to Cabinet updating the potential financial implications and shape of the additional service responsibilities arising from the pilot.**

### **3. Introduction**

- 3.1 The Chancellor announced in the 2015 Autumn Statement that it was the Governments' intention to allow local authorities 100% Business Rate Retention (BRR) from 2020/21 and invited approaches from devolution areas to pilot this proposed approach in the lead up period. SCR is proposing to be part of such a pilot.
- 3.2 The changes will lead to the phasing out of RSG and potentially other Government grants. There will also be a period of transformation over the next 4-5 years as City Regions pilot the new approach and others maintain existing funding arrangements. Clearly this is a further fundamental change to how local authorities will be financed in future and along with the move to City Regions, will create opportunities and uncertainties for the way Barnsley services are delivered and funded going forward.
- 3.3 The following short paper provides background to what this might mean to Barnsley as an individual authority and also as a member authority of the Sheffield City Region and the next steps it might need to consider to prepare for the changes.

### **4. Current Position**

#### *What is Business Rates Retention (BRR)?*

- 4.1 BRR was introduced in April 2013 as part of a fundamental review of local government funding. Prior to 2013, business rates were pooled nationally and distributed back to local authorities on the basis of need. The new system allows local authorities to retain 50% of business rates (known as the local share) with the remaining 50% paid over to the DCLG (nb 2% of this overall total is distributed to fire authorities).
- 4.2 The new system was introduced to incentivise local authorities to boost economic growth in their areas by allowing authorities to keep part of the business rate income they raise and collect locally. Previously there was no real incentive for local authorities to take actions to increase business rates because of the national pooling mechanism in place.

#### *Impact of 100% Business Rates Retention*

- 4.3 Barnsley's 2016/17 budget for its local share is £25.3m. It is anticipated that this will rise over the next 3 years to £26.3m. The following table compares the currently forecast 2020/21 position for Barnsley with the position expected after full BRR retention:-

	<b>2020/21 Current Forecast £m</b>	<b>2020/21 100% BRR Retention £m</b>	<b>Difference  £m</b>
Business Rates*	26.3	52.6	+26.3
RSG	6.5	-	-6.5
<b>Total</b>	<b>32.8</b>	<b>52.6</b>	<b>19.8</b>

\*excluding section 31 grant

- 4.4 This shows that on current projections there will be potential additional resources of just short of £20m compared to the current forecast. However, this **does not** represent 'spare' resource to fund existing services or cuts because:-
- Whilst it assumes that RSG will finish, we do not know the position on other grants which may also discontinue e.g. Public Health grant at £14m;
  - Full BRR will incorporate a number of enhanced financial risks that local authorities may have to 'soak up' without Government assistance;
  - The Chancellor has already stated that he expects 100% BRR to cover '**additional responsibilities**' at a regional (SCR) level with the possibility that the cost of providing for the additional responsibilities exceeds available business rate resources; and
  - The Government are not only going to carry out a full scale property revaluation in 2017 but are also intending 'resetting' the needs based formulae for distributing resources to local authorities over the next 2-3 years. This will likely change the position outlined above.
- 4.5 The following paper provides context for the issues outlined above in order to allow early debate on how Barnsley may be able to influence the agenda as part of the SCR.

*Business Rates Retention – Balancing the Risks and Rewards*

- 4.6 Whilst retention of business rates will provide Barnsley with more control over future funding for planning purposes (compared to waiting for the latest round of Government cuts to RSG) there is an underlying volatility with business rates income that make future projections uncertain. These financial risks are outlined below:-

## **Government policy**

- 4.7 The collection of business rates is impacted by Government policy which allows for a number of reliefs. The majority of these are mandatory (i.e. outside the control of the local authority) and include reliefs for charities, empty premises and small businesses. In addition, the Government has made a number of recent policy changes that have affected business rate income locally (and hence the resources available to fund services in Barnsley) including:-
- an announcement that small businesses with Rateable Values up to £50k will pay reduced or nil business rates from 1<sup>st</sup> April 2017;
  - that any inflation be capped at 2% and linked to CPI from 2020/21 (currently RPI);
  - that empty premises are exempt from rates for stated periods;
  - that charitable relief be extended to academies (maintained schools pay business rates) – a clear risk bearing in mind the Government’s stated objective to have full academisation by 2022.
- 4.8 Local authorities have been compensated by Government for some of these changes to date (via section 31 grant). Clearly we would want to clarify that this will continue under 100% BRR especially for any other changes that are introduced post 2020/21.

## **Valuation**

- 4.9 Valuation of premises for business rate purposes is carried out by the Valuation Office Agency (VOA). The experience of local authorities recently is that there have been delays in valuations prompting disagreements and appeals. This in turn has led to a backlog of appeals. This has a major impact on business rate income since any appeals can be backdated for a number of years and local authority losses can be extensive if appeals are successful.
- 4.10 An example of this is a consortium of NHS trusts, including Barnsley, that recently submitted an application to be exempt from business rate income. If approved, this will potentially cost the Council £0.5m p.a. in lost business rate income plus £3m in backdated costs.
- 4.11 These applications are adjudicated by the VOA nationally with no local authority input and yet the full impact under 100% BRR will fall entirely on local authorities.
- 4.12 In addition, a national revaluation of all properties is planned for 2017 which will have a widespread impact on business rate income for all local authorities including Barnsley.

## Competition

- 4.13 BRR has introduced an element of competition between local authorities to attract businesses into their areas. A move to 100% retention is likely to exacerbate this with the potential for local authorities to offer inducements to attract businesses to their area especially in light of the Chancellor's statement to allow councils powers to cut business rates. This is an obvious advantage for the more 'cash rich' authorities. The move towards devolution deals has resulted in a number of business rate pooling proposals which may help in relation to competition. Pooling is an approach currently being explored by SCR, the details of which will be reported to a subsequent Cabinet meeting.

## Enterprise Zones

- 4.14 An additional issue relates to Enterprise Zone income. Business rate growth realised within an EZ is 'passported' through to SCR to support core service delivery. However, EZ's offer inducements for businesses (e.g. reduced business rates/ capital grant support) that are not available in non-EZ areas and thereby could lead to more businesses relocating to EZ sites resulting in a corresponding reduction in business rate income for Barnsley.

## Additional Responsibilities

- 4.15 As mentioned, the Chancellor in announcing 100% retention has made it clear that he expects 100% BRR will also cover '**additional responsibilities**'. He has not outlined what these additional responsibilities are as yet although there has been some indication that new responsibilities will be announced this summer 2016.
- 4.16 The Government have indicated that the period up to 2020/21 will be a transitional period where 'pilot' devolution areas receive additional responsibilities not available to local authorities in non-devolution areas. The Government have described this period as 'asymmetry' where a standard block of functions will be delivered in all areas but delivery of some functions will differ from region to region. They have also indicated that this might become a permanent feature of the new system in 2020/21.
- 4.17 Although it is not clear how any additional responsibilities will be determined, it is likely that they be decided in the following ways:-
- imposed by Central Government nationally eg Public Health & administration of the local Council Tax Subsidy scheme; and / or
  - proposed by 'pilot' city regions and agreed by Government on a case by case basis.

- 4.18 There are already some significant examples of where city regions have made proposals to bring together a number of complementary public services that the Government have approved or are currently considering.
- 4.19 The best example of this appears to be the Greater Manchester City Region. In addition to devolving health and social care arrangements, the Chancellor's recent budget announced that criminal justice powers along with the responsibility for administering and paying Attendance Allowance will be transferred to Greater Manchester.
- 4.20 In addition Greater Manchester City Region has also put further proposals forward for Government consideration including:-
- a complete rethink of the role relating to the whole social housing sector;
  - playing a lead / commissioning role for the school sector;
  - devolving further funding streams to support local 'economic growth' building.
- 4.21 To the extent that individual City Regions are able to influence the 'additional responsibilities' that come with full BRR, the SCR is proposing that three key principles are used as a guide to negotiating with Government on those additional responsibilities that we would ultimately like to see coming into our region:

**1. The reform principle: elements of spend that can be used to prevent demand**

Additional responsibilities should include those areas of spend which will enable the development of comprehensive prevention pathways at the local level, enabling places to either better manage demand for services or influence and positively impact on the causes of that demand upstream.

*For example, this could be elements of spend associated with early years (i.e. aiming to improve educational performance and child wellbeing); or adult social care (preventative interventions to support independent living and reducing higher cost care demands). The implied potential for the Public Health grant to be aligned to Business Rate retention therefore would meet this principle.*

**2. The productivity principle: elements of spend which tackle productivity and prosperity challenges**

Additional responsibilities have the potential to straddle growth and reform policy areas at the local level, giving places control over elements of spend which could address the socioeconomic causes of low productivity and dependency. This could include elements of spend that are associated with up-skilling the current or potential labour force (i.e. getting those out of work the training they need to find local jobs; or enabling employees to enhance their skills, progress their careers and potentially increase their incomes).

*For example:*

- *Supporting people with disabilities and mental health challenges to find employment, improving their wellbeing and incomes while reducing demand on services<sup>1</sup>. There is an*

*opportunity to build on established progress through local pilots to co-design better solutions with DWP, local Clinical Commissioners and Department for Health, particularly ahead of the new Work and Health Programme.*

- *Responsibility for careers advice, supporting the development of a coherent pathway from education and training into local employment.*
- *Pioneering a public sector approach to delivering our new apprenticeship targets as part of Apprenticeship Levy proposals, getting young people into new apprenticeships and driving up the level of high level apprenticeships.*

**3. The decision-making principle: the ability to vary local offers and entitlements**

Additional responsibilities bring the potential for defining those responsibilities with a greater focus on local opportunities, local needs and accountability to local people. Government should seek to enable places to make accountable decisions about how new responsibilities are delivered in order to maximise the benefits for economic growth, outcomes for local people, and local and national financial sustainability.

4.22 All of these principles seek to integrate complementary services and introduce new ways of working to provide sustainable public service delivery. Although this may mean the double running of existing services for a transitional period, by bringing services together it will help address some of the service demand issues at source and hopefully ensure more effective and efficient processes are in place. This could drive down costs and achieve greater affordability by 2020/21.

4.23 Clearly, whilst this is a period of uncertainty it does give Barnsley an opportunity to help shape the debate via the SCR, for example:

- to put forward its own proposals where it thinks service delivery by different public agencies can be brought together in a more effective and complementary manner; and
- to help 'shape' resource distribution at regional level. Going forward, significant resources will go to the SCR either directly (e.g. Gain Share/ Growing Places Fund) or indirectly (eg transfer of business rates income the Council to SCR) and will no longer be under the direct control of the Council.

**Financial Arrangements**

4.24 The terms of the pilot deal are outlined in the attached Appendix A. Whilst the details of the pilot are to be worked up over the coming months this will be on the basis that there will be no financial detriment in terms of the resources that

would have otherwise been available to the SCR under the existing local government finance regime.

- 4.25 Whilst this is welcome the Council needs to work internally with SCR colleagues to develop an internal distribution mechanism to ensure that this is extended so that no individual authority (including Barnsley Council) is detrimentally impacted.
- 4.26 In addition, the Government has recognised that it will need to review funding for the new arrangements on an ongoing basis once the pilots have concluded. It has committed to review the formulae/ system for determining relative needs in relation to existing local authority services and establish new formulae for new services that will be devolved. The process to date has been reflected in a system of top up/ tariffs that set the amounts that each authority receive or pay depending upon their relative need. Barnsley is a top up authority and thereby receives additional grant to reflect its needs.
- 4.27 It is unclear at this time whether the pilot arrangements that are currently being developed could potentially remain in place at the conclusion of the pilot or whether they would be replaced by these new arrangements in part or in whole when they have been fully worked up.