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Board Meeting

Date	12 May 2017
Report title	Joint response – Government Consultation Business Rates Retention
Cabinet Member Portfolio Lead	Councillor Izzi Seccombe – Finance & Investment
Accountable Chief Executive	Keith Ireland Managing Director Wolverhampton City Council Email: keith.ireland@wolverhampton.gov.uk Tel: 01902 554500
Accountable Employee	Mark Taylor Section 151 Officer Email: mark.taylor@wmca.org.uk Tel: 0121 214 7600
Report to be/has been considered by	WMCA Management Board 27 April 2017 WMCA Programme Board 28 April 2017

Recommendation for decision:

WMCA Board is recommended to:

1. Endorse the proposed joint response of the West Midlands Combined Authority and seven Metropolitan District Councils to the government consultation on 100% business rates retention.

1.0 Purpose

1.1 To seek approval for the proposed joint response of the West Midlands Combined Authority and seven Metropolitan District Councils to the Government's consultation on behalf of the region.

2.0 Background

2.1 The Department for Communities and Local Government (DCLG) issued a consultation paper on the design of a reformed business rates retention system on 15 February 2017, following an earlier paper published in July 2016. The Government is continuing to work with the Local Government Association and other representatives of the sector on the design of the scheme and further consultation papers will be issued as the proposals are refined.

2.2 The original timetable for the design of a new system of local government funding is shown below:

April 2017	Business rates pilots begin, with a further tranche in April 2018.
3 May 2017	Deadline for responses to the further consultation on the design of the new business rates retention system.
Spring 2017	A further consultation on the progress of the Fair Funding Review.
Spring 2017	Local Government Finance Bill passes through the House of Commons and moves to the House of Lords. Royal Assent expected in late 2017.
Summer 2018	Engagement on Fair Funding Review and system design outcomes and impacts on individual local authorities.
April 2019	The new system is implemented.

2.3 On 20 April 2017 the government announced that the Local Government Finance Bill which provides the legislative framework will not complete its parliamentary progress in advance of the General Election and it will be for the new Government to look at how to progress the business rates pilots originally planned for 2018/19.

2.4 Therefore when the legislation is put in place is subject to determination of priorities of the next Government and would appear likely that the introduction could be delayed until April 2029.

3.0 Next Steps

3.1 Officers from the West Midlands Combined Authority and seven Metropolitan District Councils have been working together to agree a joint combined authority response to the latest consultation paper, which is attached at Appendix 1. This builds on the joint response to the previous consultation paper which was submitted to DCLG in September 2016.

3.2 The Government is committed to fundamental elements of the new system, including the continuation of resource equalisation between authorities through tariff and top-up payments, the removal of the levy on growth above a baseline level and periodic "resets" to reflect changes in relative needs and resources. However, at this stage no firm proposals for the detail have been developed and the paper asks a number of open questions on some technical aspects of the design of the new system, as summarised below.

3.3 DCLG proposes to "partially reset" the system every 5 years, at which point the baselines for business rates income and relative needs which underpin the system will be recalculated. Part of the growth achieved by individual authorities up to that point will then be redistributed, with the remainder retained locally. This proposal is welcomed in the joint response, as is the assurance that no authority would be required to retain any losses after a reset had taken place.

3.4 Feeding into this element of the scheme design, there are a number of different ways in which "growth" could be measured over a reset period and the attached response is open to proposals which reflect underlying trends whilst retaining a degree of transparency.

3.5 The Government is considering different options for incentivising the creation of business rates pools under the new system, such as allowing pools to establish local growth zones or retain a greater proportion of growth at a reset. The attached response recognises that such flexibilities would be attractive, whilst cautioning against the Government's intention to replace the requirement for all affected authorities to consent to membership of a pool with a requirement to merely consult with them.

3.6 The impact of appeals in the current system of business rates retention continues to be a significant concern for local authorities, which have experienced substantial volatility in income as a result, and the joint response welcomes the Government's proposal to compensate local authorities for the impact of appeals resulting from "valuation errors" through loss payments. However more detail on how this system would work has yet to be confirmed.

3.7 The joint response agrees with the proposal that local authorities should continue to be protected from significant shocks to their business rates income through a safety net, set at a threshold of baseline funding levels. The West Midlands pilot is trialling a safety net set which protects individual authorities from losses of more than 3%.

3.8 Finally, the consultation paper sets out some proposals which are designed to review the central ratings list ahead of the introduction of the new scheme and keep it up to date. Further more detailed consultation papers will be published before the changes are made but broadly the joint response welcomes the proposals and looks forward to greater detail and clarity.

3.9 The Board is asked to consider and approve the submission of the attached response on behalf of the Combined Authority and its constituent members. The Combined Authority Main Board will be asked to note the submission at their next meeting on 12 May, which follows the deadline for submission of 3 May.

4.0 Financial Implications

4.1 Retention of Business Rates is fundamental to the longer term investment in and economic growth of the region.

5.0 Legal Implications

There are no immediate legal implications arising from this report, any revisions to the business rates retention system will however have potentially significant legal implications.

6.0 Equalities Implications

6.1 There are no implications arising from this report.

Appendix

Q1 What are your views on the proposed approach to partial resets?

The authority supports the introduction of a partial reset every 5 years. Fixed reset periods provide the greatest certainty for local authorities in planning and a cycle of 5 years would provide a balance between allowing authorities which are growing to benefit from that growth, and protecting authorities which are not. This would also allow for adjustments to reflect significant changes in demographics and demand for local services.

We welcome the assurance given in the consultation paper that any authority which had experienced a reduction in income would not be required to retain any losses after a reset had taken place. We would also support the introduction of transitional arrangements after a reset, on the basis that they would unwind after a maximum of 4 years as suggested in the consultation paper.

Whatever the design of any revised business rates retention system, there must always be a strong safety net that prevents individual areas (and the key services being delivered to their residents) suffering from significant resource reductions arising from sudden losses in rateable value. Such losses may arise from economic factors that are far beyond the direct influence of individual local authorities.

Q2 What are your views on how we should measure growth in business rates income over a reset period?

The proportion of growth that local authorities will be able to retain after a reset remains a critical element of the design of the new system in order to ensure that it provides an incentive to maintain/promote future growth. A balance will have to be struck between resetting authorities which lose business rates income back to 100% at reset and retaining a reasonable proportion of growth at individual local authority level to act as an incentive.

There is a balance to be struck between a methodology which is simple and transparent and one which reflects real underlying growth trends without being distorted by one-off events or adjustments. It is important that growth should be real growth after stripping out inflation and any growth over and above inflation as a consequence of revaluation. Real growth should incorporate new assessments, business expansions and RV increases from redevelopment only.

Measuring against an authority's actual yield at the start of the period or against the business rates baseline determined by the Government is crucial to the exercise and should be part of future consultation. It will be determined by the overall quantum or control total, the final shape of the appeals provision arrangements and the number of years that will be used for the baseline.

It would seem to be sensible to measure growth in real terms using the same multiplier as is used for top-ups and tariffs. Averages should be used to smooth out peaks and troughs in business rates income and to counteract perverse incentives. It should be noted that if revaluation and rest periods do not coincide then a methodology to adjust for revaluation will also need to be developed. However, we also need to ensure that if an authority has an unusual pattern of growth that the averaging does not create a false average.

We would urge DCLG to involve representative organisations such as the LGA and SIGOMA in the modelling that is undertaken to explore this.

Q3 What are your views on the Government's plans for pooling and local growth zones under the 100% business rates retention system?

We acknowledge the Government's concerns around the operation of business rates pools under the 50% system but would caution against removing the requirement for all authorities to agree to being designated as a pool. Replacing the requirement for consent with a requirement for consultation risks undermining local accountability and is inconsistent with greater moves towards devolution.

Offering pools the ability to establish local growth zones or retain a greater proportion of growth at a reset would be attractive incentives to pooling in a system without levy payments, but without any detail on the proposed parameters it is difficult to understand the implications at both the local level and for the total amount of business rates growth available for redistribution at a reset.

Clarity is required to understand whether there will be a clear distinction between growth zones and enterprise zones, who will manage local growth zones and whether growth will remain with local authorities rather than LEPs. In addition, it is important for adjustments to be made to take account of the impact of revaluation adjustments within growth zones.

Q4 How can we best approach moving to a centrally managed appeals risk system?

We welcome the proposal to introduce loss payments to mitigate the impact on changes to local ratings lists relating to valuation errors, to be funded from a top slice of the total collectible business rates quantum, before baseline funding levels are set.

We would want the government to take the risk on the level of the top slice being sufficient and to ensure that any excess top slice will be returned to local government.

We look forward to more detail on how loss payments will work and, in particular, how valuation errors will be defined and calculated and what level of compensation is available to local authorities. Further work is needed in order to define those circumstances where the Government funds the impact.

Q5 What should our approach be to tier splits?

The Government should explore the potential for using tier splits as a way of meeting the obligations arising from Devo deals and growth in Central Share in the new system.

Q6 What are your views on proposals for a future safety net under the 100% business rates retention system?

We agree that safety net protection should be set nationally at a level that will allow local authorities to continue to provide the functions they are required to deliver. Through the West Midlands business rates retention pilot we will be trialling a 97% safety net which we anticipate would be appropriate under 100% business rates retention.

Q7 What are your views on our proposals for the central list?

The proposals outlined leave local authorities at greater risk if clarity as to what can be included in the central list is lost and if reliefs are introduced for central list properties which make the central list more attractive to large nationwide businesses and government departments. Therefore, it is essential that a clear statement of policy for the ratepayers and properties which should be assessed on the central list is set out and that the principles are transparent and uniformly applied

to ensure consistency across the business rates system and greater certainty for local government and ratepayers.

It is also vital that any growth in central list items within a local authority's area should result in a compensating adjustment to the individual local authority. As well as the need for fairness, this should help to avoid the likelihood of perverse incentives - local authorities are less likely to pursue developments which are of benefit to the overall economy if there is a risk that they will be on the central list without such compensation.

It is important that any moves between central and local lists should be done at the start of the system when the baseline is set so they do not have an impact on authorities either before or after further rates retention has been introduced. Any subsequent transfers between lists should be compensated in full to ensure financial neutrality through appropriate adjustments to tariffs and top ups.

Finally, we would welcome clarity about how the revenue raised from the central list is spent.