

REPORT REFERENCE NO.	DSFRA/19/6
MEETING	DEVON & SOMERSET FIRE & RESCUE AUTHORITY (Budget Meeting)
DATE OF MEETING	19 FEBRUARY 2019
SUBJECT OF REPORT	BUSINESS RATES RETENTION REFORM: CONSULTATION
LEAD OFFICER	Director of Finance (Treasurer)
RECOMMENDATIONS	<i>That the proposed Consultation response as outlined in this report be considered with a view to approving its submission to the Ministry of Housing, Communities and Local Government.</i>
EXECUTIVE SUMMARY	<p>The Ministry of Housing, Communities and Local Government has issued a consultation on their proposals to reform the Business Rates Retention Scheme (the Consultation) which asks for responses to be submitted by 21 February 2019.</p> <p>The Consultation covers several questions which are addressed in the paper below. The Authority is asked to review the questions and proposed responses and form a view on the draft response. The Authority can then agree a response to be submitted.</p>
RESOURCE IMPLICATIONS	As indicated in the report.
EQUALITY IMPACT ASSESSMENT	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	Nil.
LIST OF BACKGROUND PAPERS	<p>Business Rates Retention Reform: Sharing risk and reward, managing volatility and setting up the reformed system (Consultation Document)</p> <p>NOTE: a copy of this consultation document may be found by following the link below:</p> <p>https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/764485/Business_Rates_Reform_consultation_document.pdf</p>

1. INTRODUCTION

- 1.1. The Ministry of Housing, Communities and Local Government (MHCLG) has issued a consultation on Business Rates Retention Reform (the Consultation) which asks for responses to be submitted by 21 February 2019. A copy of the full consultation document can be found by following the link below:
- https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/764485/Business_Rates_Reform_consultation_document.pdf
- 1.2. Each of the topics in the consultation document will be addressed in turn below with a suggested response. The Authority is asked to review the questions and proposed responses prior to submission.
- 1.3. The current Business Rates Retention Scheme (the Scheme) was introduced in 2013-14:
- The Scheme allows for 50% local retention of business rates
 - The Authority is classed as a major preceptor and is entitled to 1% of the business rates collected from billing authorities.
 - A baseline funding amount is established with a tariff or top up in place for authorities whose actual business rates varies from the baseline
 - The Authority receives a top-up grant which effectively means that the business rates raised in the area are lower than the assessed funding needs of the Authority.
- 1.4. The Consultation document states that “The Government’s ambition for business rates retention remains two-fold: to give local government greater control over the money it raises, recognising that local authorities are best placed to decide local priorities, and to incentivise local authorities to support local economic growth”.
- 1.5. When consulted on Business Rates reform previously, this Authority has expressed a preference that, due to its minimal ability to influence business rates growth, the Fire Sector be removed from the business rates retention scheme and that funding should be distributed via a Fire Grant. A Fire Grant would align Fire funding with Police Funding. The current Consultation does not cover which bodies should be funded via the Business Rates Scheme.

2. BASELINE RESET

- 2.1. Pages 11-15 of of the Consultation document discuss methods of resetting the funding baseline and makes various proposals. The benefit of a reset is to more closely align the baseline with actual receipts, the dis-benefit is that a reset could result in a significant swing in funding. The questions and suggested responses to this aspect of the Consultation document are set out below:

Question 1: Do you prefer a partial reset, a phased reset or a combination of the two?

Suggested response: *Partial reset*

Question 2: Please comment on why you think a partial/phased reset is more desirable?

Suggested response: *A partial reset, at pre-determined periods, will improve certainty over funding in the medium term whilst providing a balanced approach to reset*

Question 3: What is the optimal time period for your preferred reset type?

Suggested response: *A five year reset period would allow authorities to align their medium term financial plans with the baseline funding period*

3. THE SAFETY NET AND THE LEVY

- 3.1. Pages 15 and 17 of the Consultation document outline the proposal for establishing the safety net (the minimum amount of business rates income an authority will receive) and the levy (the threshold at which, if income exceeds it, an authority must pay a levy to Government).
- 3.2. Since entering the Scheme, the Authority has breached neither top up or levy thresholds (which is only paid by Tariff Authorities). The safety net under the current scheme is set at 92.5% and is proposed to be 95% under a 75% retention scheme and 97.5% under a 100% retention scheme. The Consultation question and proposed response to the safety net issue is set out below:

Question 4: Do you have any comment on the proposed approach to the safety net?

Suggested response: *We support the proposed increases to the safety net in line with the increased risks of local retention*

- 3.3. The consultation suggests that the current levy system, where all income above the baseline level for Tariff Authorities is subject to it, be replaced by a system where all income above an “extraordinary” level be returned to the Government. The intention is to further incentivise growth. The consultation seeks views on the level at which the levy should fall due (150%, 200%, 250%, another level). The consultation questions on the levy and suggested responses are set out below:

Question 5: Do you agree with this approach to the reform of the levy?

Suggested response: *Yes, a cap would result in a simpler administration process*

Question 6: If so, what do you consider to be an appropriate level at which to classify growth as ‘extraordinary’?

Suggested response: *150% would represent a good benchmark to incentivise Authorities to raise further business rates income whilst acknowledging that 50% + growth would be considered extraordinary.*

4. TIER SPLITS AND POOLING

- 4.1. Pages 17- 19 of the Consultation document outline the proposed Tier splits between district and county councils and is therefore not relevant to the Fire Authority.

- 4.2. Business Rates pools are formed across Tier authorities and have the benefits of reducing administration whilst sharing risks and rewards of rates growth across the pool. The Devon areas, including Plymouth unitary, participate in a pool. Given that the Fire Authority is not a direct participant in the pool it is difficult to form a view on what measures could be used to incentivise pooling. The consultation questions on these issues, together with the suggested response, are set out below:

Question 7: What should the fall-back position be for the national tier split between counties and districts, should these authorities be unable to reach an agreement?

Question 8: Should a two-tier area be able to set their tier splits locally

Question 9: What Fiscally Neutral measures could be used to incentivise pooling within the reformed system?

Suggested responses to questions 7-9: *No Comment*

5. SIMPLIFYING THE SYSTEM AND REDUCING VOLATILITY

- 5.1. Pages 20-23 of the Consultation document outline the proposals for the treatment of Hereditaments (a property which can be inherited) and the use of a proxy measure to calculate losses to the Authority due to valuation changes. Given that the Authority holds no responsibility for or influence over these elements of the Scheme it is recommended that no comment is made on these measures. For clarity, the questions and suggested response are set out below:

Question 10: On applying the criteria outlined in Annex A, are there any hereditaments which you believe should be listed in the central list? Please identify these hereditaments by name and location.

Question 11: On applying the criteria outlined in Annex A, are there any listed in the central list which you believe should be listed in a local list? Please identify these hereditaments by name and location.

Question 12: Do you agree that the use of a proxy provides an appropriate mechanism to calculate the compensation due to local authorities to losses resulting from valuation change?

Suggested responses to questions 10-12: *No Comment*

- 5.2. Pages 23-27 discuss proposed changes to the administration of the Scheme and particularly the impact of valuations and provisions for appeals. The current process, which includes a requirement to create a provision in the year the appeal arises, can impact upon the general fund of billing authorities. 1% of the provision is passed on to the Authority but this is offset by an opposing entry with the relevant billing authority.
- 5.3. The proposals for reform include bringing forward the deadlines for returns so that estimates of future income can be used to pay additional grant within the baseline to offset the provision. This is anticipated to have a neutral impact on the Authority in terms of funding but may improve the timeliness of information which informs the budget setting process each year. Any simplification of the process would be welcome in terms of transparency of calculation and an efficiency benefit for Billing Authority partners. The relevant consultation question and proposed response are set out below:

Question 13: Do you believe that the Government should implement the proposed reform to the administration of the business rates retention system?

Suggested response: Yes, any simplification of the system is welcome. As a major preceptor this Authority would welcome an understanding of the proposed timescales for information processing to inform the annual budget setting process.

6. SETTING UP THE SYSTEM

- 6.1. The consultation (pages 27-30) outlines several approaches to resetting the business rate baseline in 2020-21 if the reform proposals are not progressed.
- 6.2. The baseline calculation will use 2018-19 returns to inform a “bottom-up” approach to setting baselines for each billing authority which will then be apportioned to tier and major precepting authorities. A deduction will then continue to be made to account for non-collection and provisions for appeals.
- 6.3. The Consultation outlines three approaches to calculating the deduction, namely:
- (a). Based on billing authorities own estimate of deductions in their annual returns;
 - (b). the Government will base the deduction on their own estimate of future appeals and then apportion this to authorities;
 - (c). Authorities would be asked to make a one off estimate of their provision to cover the baseline in future years.

The Consultation question and proposed response is:

Question 14: What are your views on the approach to resetting Business Rates Baselines?

Suggested response: Option a) would result in the most accurate business rate baseline, reflecting up to date information on appeals

7. EQUALITIES IMPACT

- 7.1 The Consultation document poses the following question, the proposed response to which is also indicated:

Question 15: Do you have any comments at this stage on the potential impact of the proposals outlined in this consultation document on persons who share a protected characteristic? Please provide evidence to support your comment

Suggested response: No Comment

**AMY WEBB
Director of Finance (Treasurer)**