Business Rates Retention and Fair Funding Review

Corporate Scrutiny Committee 28 May 2019

Purpose:

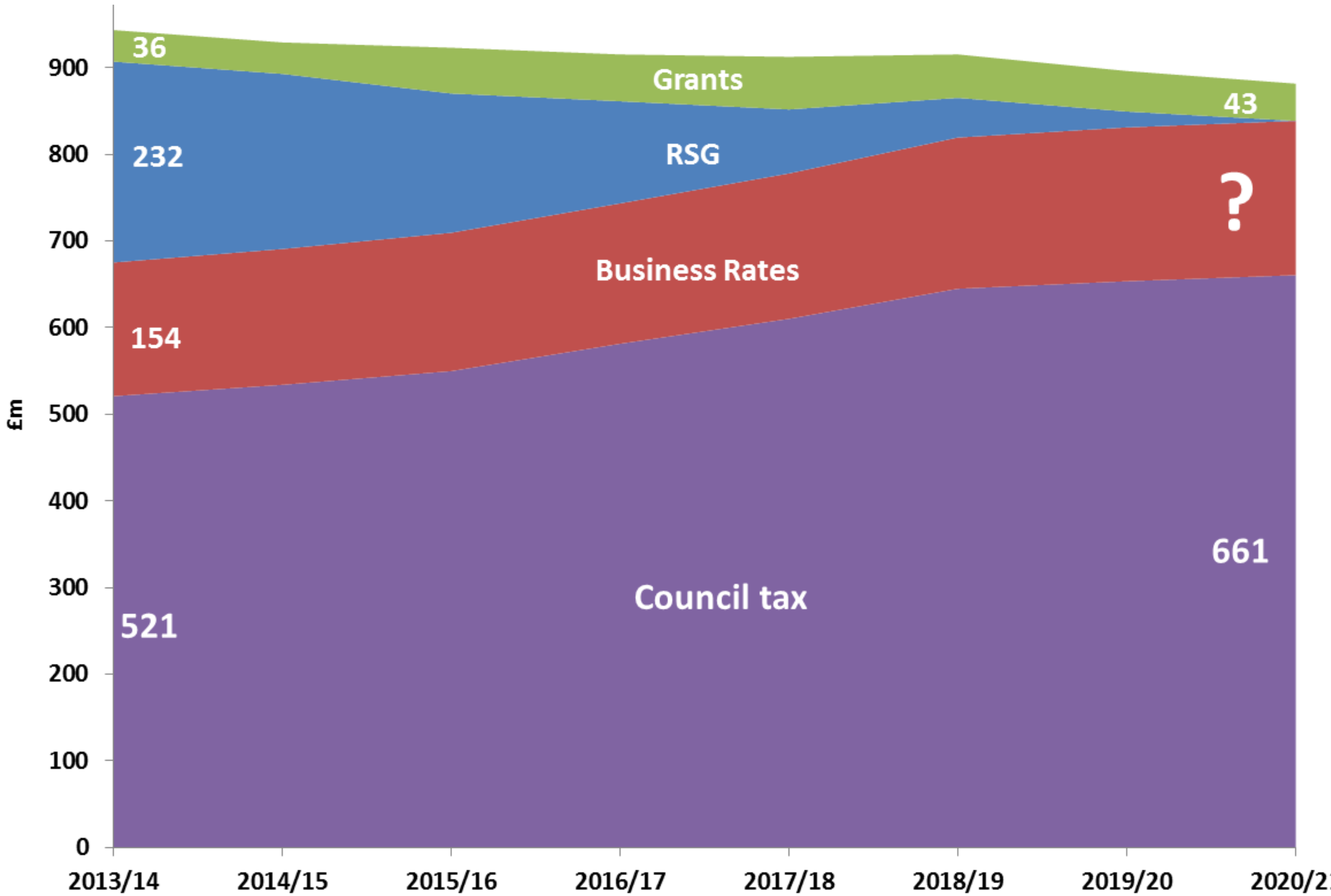
To provide an overview of changes to Local Government Finance

(Part 1: business rates retention and Part 2: fair funding)

Business Rates Reform

Funding – a local tax economy

This is how the net revenue is funded.* By 2020/21 **96%** of ECC funding will come from Local taxes



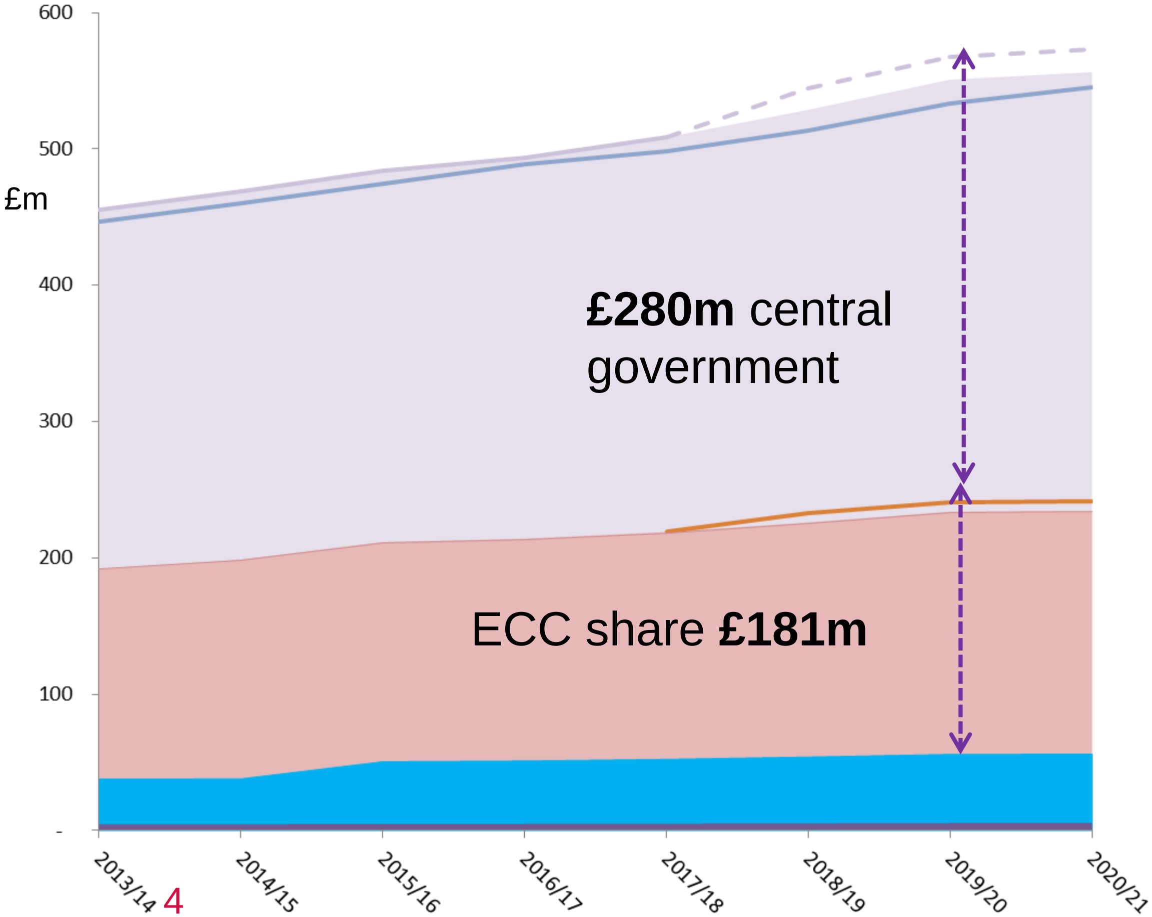
*Net revenue budget of £940m in 2019/20 is net of fees and charges of £142m which offset gross expenditure.

Essex County Council

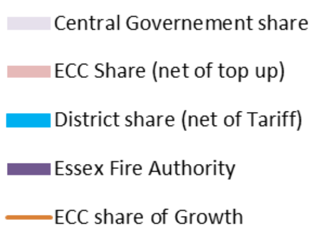
Business Rates across Essex

Rateable value for retail has seen a decrease from 2010 to 2017; however other sectors have seen increases (office, industrial, service, public sector)

Essex has an increasing proportion of SMEs exempt from paying business rates – this presents a risk if ‘localised’ and this trend continues beyond the reset



19,000 properties (10%) make up 68% of rateable value and pay full rates



125,000 properties (64%) are eligible for 100% SME relief and pay no rates

Business Rates Retention (BRR) overview

- Nationally Rates amount to £26bn and is split 50%:50% (local vs central)
- Under the proposed BRR scheme, government said that **75%** of business rates would be transferred to local government
- Benefit is negated by removal of grants (eg Public Health & Rural Services)
- **There is currently NO commitment to increase funding through BRR**
- It is possible Essex County Council could benefit through redistribution through Fair Funding Review, although this would be at cost to others

	Local Govt £bn	Central Govt £bn	Total £bn
Current 50/50 scheme	13	13	26
Proposed 75% scheme	6.5	-6.5	
Less adjustments so scheme if fiscally neutral to HM Treasury:			
Reduction in PH Grant	-4.5	4.5	
Reduction in Rural Services Grant			
Reduction in TfL capital cost	-1	1	
Other (TBD)	-1	1	
Total	**13**	**13**	

What could BRR mean for Essex?

Current system (50% retention)	£m	Proposed system (75% retention)	£m
ECC's 9% share of business rates collected across Essex	44	ECC's 15%[2] Share of business rates collected across Essex	73
Top up[1] to bring to funding to level of pre-determined need	128	Top up to bring to funding to level of pre-determined need	160
Total business rates retained by ECC	172	Total business rates retained by ECC	233
Ring-fenced Public Health Grant	61	Grant no longer received	0
Total	233	Total	233

[1] Top up's (or tariffs) are set based on the business rates baseline i.e. what is reasonable to be collected in an area based on the businesses at a point in time

[2] A 15% local share has been used in this example, this has not been agreed

- The transition to 75% results in a change in where funding is received from – so the Public Health is no longer a grant but instead part of business rates
- Under current policy of 'fiscally neutral' unlikely that there will be a significant pick-up from the introduction of the 75% BRR scheme
- Fair funding review will determine the distribution of BRR funds. **There are no additional funds involved – it is merely a different way of slicing the cake**

Where is the benefit?

Proposed system (75% retention)	£m
ECC's 15% Share of business rates collected across Essex	73
Top up to bring to funding to level of pre-determined need	160
Total business rates retained by ECC	233
Grant no longer received	0
Total	**233**

Proposed system (75% retention) - with growth	£m
ECC's 15% Share of business rates collected across Essex	81
Top up to bring to funding to level of pre-determined need	160
Total business rates retained by ECC	240
Grant no longer received	0
Total	**240**

The benefit (& risk) of retaining more rates locally is when there is growth against the baseline e.g. through higher collection rates or increases in number of businesses

Whilst we support localisation, BRR in its current guise will not materially change our funding outlook in the short to medium term & is not a solution to LG sustainability

Essex County Council

Business Rates Retention consultation

Consultation; key questions government asked:

- How should the system be reset going forward?
- What level should the safety net be set at?
- What should be the tier splits?
- How should pooling be incentivised?
- Who should own appeals risk?

Looking ahead

- HMT Select Committee Inquiry – Business Rates (2nd April)
- Plan was to implement 75% retention in 2020/21: ***This is now 'improbable' & would mean a 1 year settlement with 3 year CSR after 31st October/Brexit***

Our current funding outlook assumes no loss or gain from BRR reform

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Fair Funding Review

Fair Funding consultation

Fair funding formula determines how much a local authority needs to provide services

This is then compared to what local authorities receive through their local share – the difference is adjusted through a system of top ups and tariffs

Government are consulting on the fair funding formula (outcome in CSR):

Funding = (1) Relative needs share - (2) Relative resources adjustment +/- (3) Potential transitional arrangements + Actual resources income

Relative needs determined by cost drivers:

- Foundation formula (for universal services)
- Adult Social Care
- Children and Young People's Services
- Public Health
- Highways Maintenance
- Legacy Capital Finance

Fair Funding consultation

National Consultation questions:

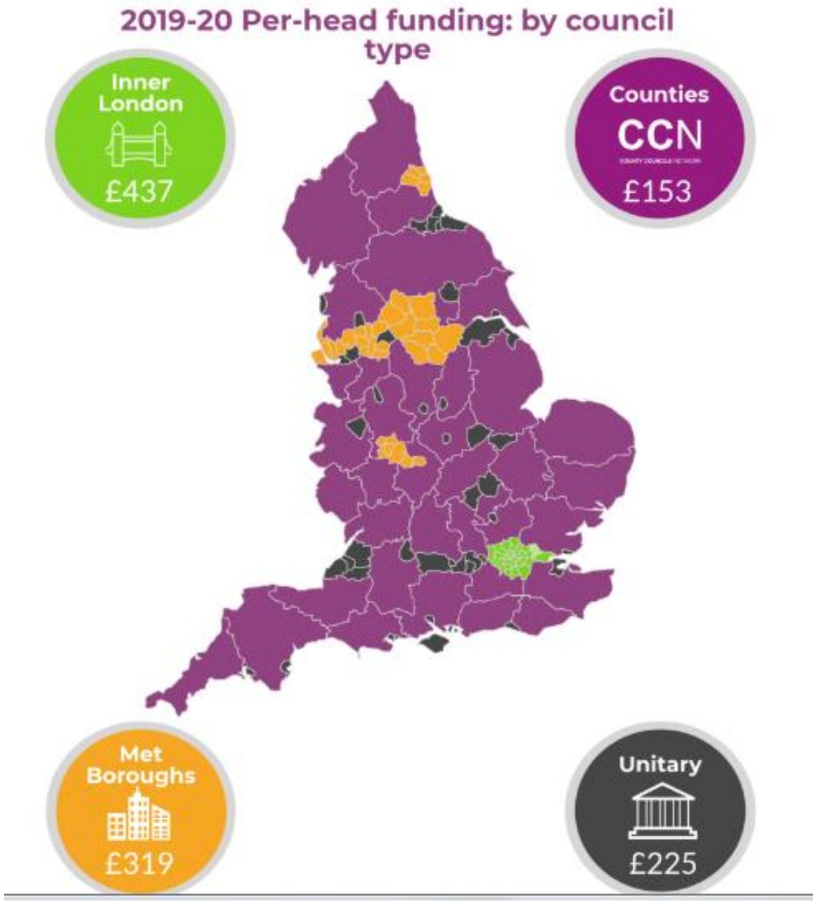
1. What are your views on the best approach to Home to School Transport and Concessionary Travel?
2. What are your views on the proposed approach to the Area Cost Adjustment? [Reflects different costs across the country]
3. Should council tax income foregone through discounts be taken into account?
4. Should we use a notional level of council tax in the resources adjustment? How should this be split in two tier areas?
5. What collection rate should be used?
6. Should parking surpluses be taken into account in the resources adjustment?
7. What should transitional arrangements look like?

What does this mean for ECC?

ECC believe the case is strong for redistribution: counties are underfunded and with a higher tax burden on citizens, <u>but</u>

1. At present, there are no additional funds identified by Government
2. Fair Funding will need to move at pace to impact CSR 2020/21; Brexit may put timescale in jeopardy
3. Cutting the cake differently, creates losers as well as winners, which leads to transitional arrangements

Therefore it is unlikely, given what we know, that BRR or Fair Funding will significantly help to address The budget gap in the medium term



Conclusion

1. Business Rates Retention – unlikely to deliver more money but we can positively impact growth
2. Fair Funding – no increase in overall funding for sector, indication it will be positive for counties in longer term