WIRRAL

Business Overview and Scrutiny Committee
Wednesday, 4 March 2020

REPORT TITLE:	**NNDR and Business Rates Retention**
REPORT OF:	**Director of Finance and Investment**

REPORT SUMMARY

This report provides an update on the Business Rates Retention scheme for the Business Overview and Scrutiny Committee and the impact of 100% retention for Wirral, as well as an update on the proposed changes including 75% rates retention.

RECOMMENDATION/S

That Members of the Business Overview and Scrutiny Committee note the report and give their views.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

1.1 Business Rates, also known as National Non-Domestic Rates (NNDR), form a large proportion of the authority's income, and therefore the income raised affects the council's ability to spend and deliver services. This update therefore allows Committee to understand the impact on the council's finances of changes to the Business Rates scheme.

2.0 OTHER OPTIONS CONSIDERED

2.1 This report is for information only, therefore no other options have been considered.

3.0 BACKGROUND INFORMATION

3.1 From 1993 local authorities were partly funded by a formula-based grant, which included an element of Business Rates. These rates were collected locally, paid into a national pool, and reallocated back to councils from the national pool based on a formula which bore no relation to the business rates they collected.

3.2 The funding system was significantly changed from 1st April 2013, following two consultations, with the introduction of the Business Rates Retention scheme to replace formula grant, resulting in billing authorities retaining 50% of their business rates income. Wirral Council retained 49% with 1% going to precepting authority Merseyside Fire and Rescue.

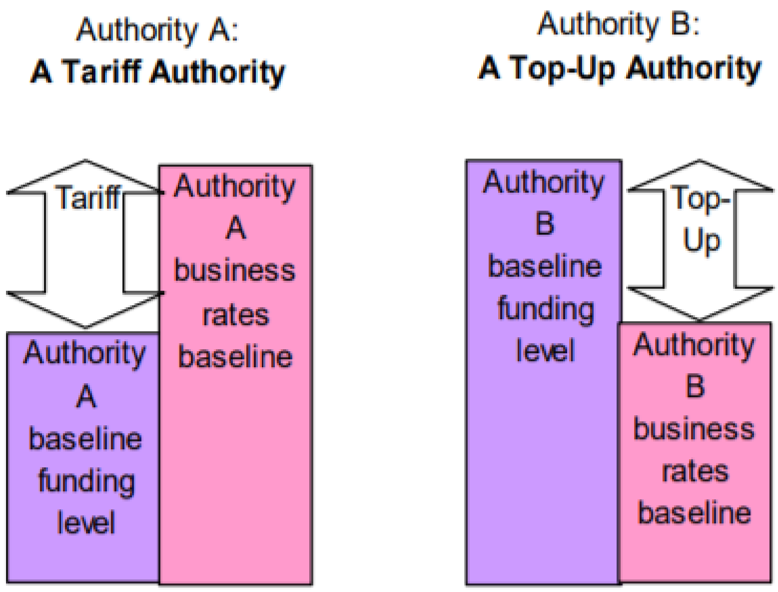
4.0 BUSINESS RATES RETENTION (50%)

4.1 The Business Rates Retention scheme is intended to remove Whitehall interference and give councils more freedom and flexibility, and more power to local people. It is also intended to create and support local jobs and local firms, as under the old scheme although councils collected the bills it didn't keep any of the money as it went into a Treasury pot and was redistributed back to local authorities via a complex formula, and councils were therefore not rewarded for increasing new business in their area.

4.2 In reality, some wealthier authorities earn more in business rates than they used to receive from the old formula grant, while there are other authorities who earn much less. Government therefore introduced a mixture of "top-ups" and "tariffs".

4.3 At the introduction of Business Rates Retention, the government calculated a funding level for every local authority – "baseline funding level" - which is the funding it believed the council needed to meet its 'needs'.

4.4 A "business rates baseline" was also calculated based on the average business rates contributed to the national pool over the two years from 2010/11. Where a local authority's business rates baseline was higher than its baseline funding level, central Government will take the difference via a "tariff". The tariffs collected are used to "top-up" local authorities whose business rates baseline was less than their baseline funding level.



With its business rates baseline being lower than its baseline funding level, Wirral is a top-up authority.

4.5 The government's intention was that the baselines would be fixed for 7 years, although a re-set of the business rates baselines has been postponed until at least 1st April 2021.

4.6 The business rates retention scheme allows councils to keep 50 per cent of the additional funds they generate. But without adjustment the scheme would be weighted towards richer authorities. This is because, for a comparatively small investment in growth, councils with a large amount of business property can gain large increases in their revenue. Whereas hard-pressed councils who put a lot in would get comparatively little out.

4.7 The following table demonstrates this for two authorities with different baselines who both increase their business rates income by 5%:

	Authority A	**Authority B**
Baseline funding level (a)	£50m	£50m
Business rates income (b)	£100m	£10m
5% business rates increase (c = bx5%)	£5m	£0.5m
New income (a+c)	£55m	£50.5m
% increase in funding level (c/a)	10%	1%

4.8 So while both authorities have grown their business rates income by 5%, this results in a 10% increase in overall funding for authority A due to their large amount of business rates, while authority B only increases their overall funding by 1%, and could be seen as a disincentive to grow the business rates income.

4.9 So to encourage growth and enterprise in councils irrespective of their resources, a levy and safety net system was introduced. Where a council's increase in revenue outstrips the increase in its funding level Government take the difference through a "levy". So, if an authority grows its rates by 2 per cent and its funding level growth is 4 percent, it will get to keep 2 per cent of that growth.

4.10 However, those levies collected are still reinvested in local authorities by way of a "safety net" which are used as a cushion to protect other authorities that see their income drop to a particular level, for example, as a result of a big business going under.

4.11 Concerns remained over the complexity of the scheme and lack of local control over the multiplier, a reliance on business growth and the economy which councils are not able to control, the baseline funding level being formed using a system recognised to be flawed, and that the link to any needs calculations was frozen until the baseline was reset.

4.12 The Business Rates Retention scheme also passed on an element of risk to Local Authorities. Under the old scheme central government fully bore the risk of rates income reducing due to businesses closing or successfully appealing their rateable value. However, under Business Rates Retention the Local Authority bears 50% of the risk.

5.0 100% BUSINESS RATES RETENTION

5.1 In 2015 the Government announced its intention to legislate to allow local authorities to retain 100% of growth in business rates in their areas and since 2017/18 Wirral, along with our Liverpool City Region (LCR) counterparts, has taken part in a Ministry of Housing, Communities and Local Government (MHCLG) pilot to retain 100% of business rates.

5.2 In all pilots, authorities agree to forgo the Revenue Support Grant (RSG) as well as other funding streams, such as the Better Care Fund (IBCF) in the LCR. Each LA keeps 99% of the Business Rates it collects in comparison to the 49% it would otherwise retain (the remaining 1% in each case goes to Merseyside Fire and Rescue as a precepting authority).

5.3 As part of the pilot agreement, MHCLG guarantee that LAs would not be worse off (or 'in detriment') by participating in the pilot compared to their position if they had remained on the standard national 50% retention scheme.

5.4 However, this guarantee is with LCR, as opposed to any individual LA. If one or more LRC authority is worse off as a result of the pilot, the gaining LCR authorities are responsible for passing on part of their gain to the LA(s) in a detriment position to bring them back to balance. The MHCLG would only contribute if the LCR authorities combined were in a detriment position.

5.5 There is therefore a risk that Wirral would have to pay over part of its gain to a neighbouring authority who was adversely affected by the pilot, and a Business Rates reserve is held that could be used for this purpose. However, to date no LCR authority has forecast or incurred a detriment position since the pilot began.

5.6 Wirral has been in a positive position of around £7m per year in the pilot as demonstrated in the following tables, which compare Wirral's funding position under the 100% retention pilot compared with how it would have been funded under the standard national 50% retention:

	2019-20		
	100% retention pilot * £m	50% retention ^ £m	Difference £m
Retained Business Rates (forecast)	69.48	34.39	35.09
Section 31 grants	11.28	5.58	5.70
	80.76	39.97	40.79
General Grants:			
- Multiplier Cap - Top-Up (S31 Grant)	0.49	1.56	-1.07
- RSG	0.00	18.57	-18.57
- Top-Up	50.70	48.00	2.70
- IBCF	0.00	16.87	-16.87
	51.19	85.00	-33.81
Total	**131.95**	**124.97**	**6.98**

	2020-21		
	100% retention pilot * £m	50% retention ^ £m	Difference £m
Retained Business Rates (forecast)	71.73	35.50	36.23
Section 31 grants	12.73	6.30	6.43
	84.47	41.81	42.66
General Grants:			
- Multiplier Cap - Top-Up (S31 Grant)	0.62	1.96	-1.34
- RSG	0.00	18.90	-18.90
- Top-Up	53.03	48.80	4.23
- IBCF	0.00	18.70	-18.70
	53.65	88.36	-34.71
Total	**138.11**	**130.16**	**7.95**

* figures are 99% of total, as 1% relates to precepting authority (Merseyside Fire)
^ figures are 49% of total, as 1% relates to precepting authority (Merseyside Fire)

5.7 As described above the ‘betterment’ position results from a growth in Business Rates income due to additional properties in the borough over the assumed Business Rates receipts set by MHCLG in 2012-13, and Wirral therefore retains 99% of the growth over that assumption as opposed to 49%.

5.8 Although Wirral has benefitted from taking part in the 100% retention pilot, it means that Wirral also bears all the risk of any reduction in business rates from Businesses closing, moving from the area, or successfully appealing against their rateable value.

5.9 Following the one-year spending review announced on 4th September 2019, MHCLG confirmed that existing 100% business rates retention pilots would continue in 2020/21.

6.0 75% BUSINESS RATES RETENTION

6.1 In line with a commitment to introduce 75% retention from April 2020, local authorities were invited to pilot 75% retention in 2019/20 with 15 authorities subsequently taking part. The 2020-21 provisional Local Government Finance Settlement confirmed that national implementation of 75% retention has been deferred to at least April 2021.

6.2 It is unclear at this point what the impact the revised retention level would have on Wirral. As demonstrated above Wirral benefits from the 100% retention pilot and it is likely that Wirral would also benefit from 75% retention compared with 50% retention, although not as favourably as 100%. However, due to several potential changes proposed for April 2021 it is impossible at this stage to calculate the impact.

6.3 A reset of the Business Rates Retention baseline is planned for 1st April 2021, as confirmed in the provisional Local Government Finance Settlement. This means that any growth since the assumed Business Rates receipts set by MHCLG in 2012-13 will be built into the new baseline as an estimate of local share of business rates, and future income will be measured against this revised baseline for growth.

6.4 The next Business Rates Revaluation also comes into effect on 1st April 2021 and may result in large changes in rates payable across the borough and the country. Triennial revaluations are planned thereafter.

6.5 Finally the new Fair Funding Formula replaces the 2013 needs formula from 1st April 2021 and the make up of this and its impact are not yet known.

6.6 Although there are likely to be transition arrangements introduced to dampen the impact of these changes, it is not yet known if or how MHCLG would guarantee an individual LA’s income under a 75% retention scheme.

7.0 FINANCIAL IMPLICATIONS

7.1 The financial implications are considered throughout the report.

8.0 LEGAL IMPLICATIONS

8.1 Local Authorities have a legal duty to collect Business Rates from businesses in their area.

9.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

9.1 There are no implications arising directly from this report. However, Business Rates income retained by the authority influences the capacity to employ staff and deliver services.

10.0 RELEVANT RISKS

10.1 Relevant risks are considered throughout the report, specifically the risk of Wirral having to pay over part of its gain resulting from participating in the 100% Business Rates Retention pilot to a Liverpool City Region counterpart who was adversely affected by the pilot, and the risk of being adversely affected by changes to the Business Rates Retention scheme and Fair Funding Formula.

11.0 ENGAGEMENT/CONSULTATION

11.1 No consultation has been carried out in relation to this report.

12.0 EQUALITY IMPLICATIONS

12.1 There are no equality implications arising from this report.

13.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

13.1 The content and/or recommendations contained within this report are not expected to have an impact on emissions of GHG.

REPORT AUTHOR: **Shaun Allen**
Senior Finance Business Partner
telephone: (0151) 666 4644
email: shaunallen@wirral.gov.uk

BACKGROUND PAPERS

Provisional Local Government Finance Settlement

Business Rates Retention A step-by-step guide, July 2012 (Department for Communities and Local Government)

Business Rates Retention System – TIS Online.

SUBJECT HISTORY (last 3 years)

Council Meeting	Date