Brent	**Resources & Public Realm Scrutiny Committee** 6 September 2016 **Report from Director of Performance, Policy and Partnerships**
For Information	
Proposed Scope for Scrutiny Task Group on The Devolution of Business Rates in Brent	

1.0 Summary

1.1 This report sets out the proposed scope for the Scrutiny task group on the Devolution of Business Rates in Brent. This task group has been requested by the Scrutiny members to ensure Brent council has good understanding of the policy and is clear on the choices and decision it may need to make.

1.2 The task group will look at both Brent and the government's current business rates policies and processes with a view to ensuring Brent council is in the best possible place to respond to the government's changes to the Devolution of Business rates policy.

1.3 The purpose of the task group will be to analyse four key areas:

Central Government Policy

- What is the current status? What has been proposed to date?
- What will the pilot schemes look like?
- How can the council engage in the current work?

Financial Risk

- What is the biggest risk to the councils planned finances
- What Safety net mechanism are in place
- Will we still want to be part of a Business Rates Pool?

Possible impact to Brent

- What will be in impact on current arrangements?
- Will Brent be better or worse off?
- How do we prepare for the devolution of business rates?

Growth in Business rate income

- How do we grow our business rates locally?
- How do we encouraging local economic growth?
- How do we improving collection rates?

1.4 The task group will review the local arrangements of the council which include Capita, national policy and guidelines and the views and opinions from local residents and businesses. The task group will also consult with experts in this field and other London boroughs which have been identified as leaders in this area.

1.5 The task group will review the four key areas; which it will seek to examine in the context of Brent, these are:

- There is transparency and understanding of the local and national policies and processes regarding the devolution of business rates.
- Clarity on how that policy is going to be implemented in Brent and make recommendation to support the best possible implementation outcome for the council and its residents.
- Through the recommendations of the review the council is able to further stabilise its financial position and has clear strategic direction.
- There is a link between council expenditure and business growth.
- The council develops links for engaging with local businesses that generates discussion on how to grow our local business rates and economy.
- The council is in an informed position to make good financial choices.

1.6 There is clear alignment with the priorities of the council as set out within the Borough Plan and the Brent 2020 Vision; with specific focus on:

- Business growth
- Business development
- Improving the Business offer
- Attracting new business in to Brent

2.0 Recommendations

2.1 Members of the Resources & Public Realm Scrutiny Committee are asked to agree the scope, terms of reference and time scale for the task group on the Devolution of Business Rates in Brent, attached as Appendices A and B.

3.0 Detail

3.1 With member consensus on ensuring that the council is informed and can respond effectively to the government policy changes, members of the Resources & Public Realm Scrutiny Committee requested a time-limited task group undertake a focused piece of work to improve understanding and to prepare the council for the government's business rate policy change. The proposed scope and terms of reference for this work are attached as Appendices A and B.

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Appendix A

Devolution of Business Rates
Proposed scope for Scrutiny Task Group
September 2016

Task Group Chair: Cllr Joel Davidson
Task Group Members: Cllr Helen Carr, Cllr Bernard Collier, Cllr John Duffy, Cllr Michael Maurice, Cllr Tom Miller, Cllr Neil Nerva
Time frame: To be presented to the Scrutiny Committee on Tuesday 8 November 2016

1. What are we looking at?

<u>Devolution of Business Rates (DBR)</u>
On the 5th October 2015 the then chancellor George Osborne set out plans for local government to gain new powers and retain local taxes. The chancellor set out major plans to devolve new powers from Whitehall to local areas to promote growth and prosperity. The Chancellor announced that local government as a whole would be able to keep 100 per cent of business rates by 2020.

Using Office for Budget Responsibility (OBR) forecasts, the Government has estimated that the additional business rates kept by councils could be as much as £13 billion in 2020/21. The Government feel that changing the current system of financing local government will be a huge boost to local growth, help attract business and create jobs.

The Government's aim is to phase out revenue support grant and potentially some other specific grants, and transfer new responsibilities to local government at the same time as it receives additional income from business rates. This is so that the reform does not result in previously unplanned spending by the public sector as a whole and local government does not benefit financially at the point of transfer.

An example is the consideration of whether other grants, such as the public health grant, should in the future be funded from retained business rates.

As in previous years, individual councils would not keep the full amount of business rates collected in their area. There will continue to be a system of redistribution across the whole of local government to make sure that councils which have higher needs or have less capacity to raise business rates do not suffer. However, individual councils will be able to keep subsequent growth in their business rates income.

Whilst we don't currently know exactly what the system will look like, the LGA is working with government and engaging with local authorities to consider how this could work.

Those areas which choose to have city-wide elected mayors will get even greater flexibilities, also being given the power to increase rates for spending on local infrastructure projects, as long as they win the support of local business.

The reform will mean local government retaining all revenue from business rates for the first time since 1990. These new powers will come with new responsibilities, as well as phasing out the main grant from Whitehall, to ensure the reforms are fiscally neutral. Local government will of course also need to contribute to fiscal consolidation over this Parliament, and the government is due to set out further details in the Spending Review.

2. Why are we looking at this area?

Impact on local government finances
Local government is currently financed by a combination of centrally-administered funding (Revenue Support Grant (RSG) and locally-administered charges and taxes.

Since 1990, local business rates have been set by central government at a uniform national rate. Rates are collected locally, but then transferred to central government to be distributed back to local areas in the form of grant. Since 2013, local councils have been enabled to retain 50 per cent of the proceeds of rates, to ensure that when local areas take steps to boost business growth in their area, they should see the benefit.

The reforms go much further, moving to 100 per cent retention of the full stock of business rates by 2020. It will mean that all income from local taxes will go on funding local services. Local authorities will be able to cut business rates as much as they like. Directly elected mayors – once they have support of local business leaders through a majority vote of the business members of the Local Enterprise Partnership – will be able to add a premium to business rates to pay for new infrastructure. This power will be limited by a cap, likely to be set at 2p on the rate.

Impact on current systems
Currently business rates are paid by occupiers and owners of commercial and industrial property to the local authority, but at a rate set by central Government. The Government sets the rate in order to prevent wide disparities in charges stemming from widely differing rate bases between local authorities.

The multiplier - also known as the Uniform Business Rate (UBR) - is then used by the local authority to calculate what percentage of the rateable value of a property has to be paid as business rates. The multiplier is set annually by the Government.

A small business rate relief scheme has been in operation in England since April 2005 and there are other reductions available, for example if the premises are empty.

The impact on the current system will be significant and the Government is expected to publish further details as to how the new devolved system will operate in broad terms following the Comprehensive Spending Review on 25 November. Negotiations will presumably then start in earnest with local government to develop the local and national frameworks for the system within the funding envelopes set in the CSR. The new system is likely to require primary legislation and the changes are unlikely to be introduced in full before 2018-19 at the earliest.

Local Context – Brent
There are currently, four (principal) sources of local government (revenue) finance, plus two others:

1. Revenue support grant
    - Based on central government assessment of need
    - In 2014/15 provided 30% of funding
    - Will be 10% by 2018/19 and falling to nil after 2020
2. Council tax
    - Locally determined with significant restrictions

- Six year freeze strongly encouraged by central government
- Now can increase by 4% each year
    - – Of this, half ring-fenced for adult social care
    - – For planning purposes, 1% raises approximately £1m
    - – Current technical financial model doesn't assume any increases

3. Business rates
    - Retain 30% of business rates paid in Brent
    - 20% paid to GLA and 50% paid to Treasury
    - Rate (multiplier) and exemptions <u>set centrally</u>
    - Amount raised capable of being <u>influenced locally</u>
4. Top up grant
    - Required to make any system fair (Westminster effect)
    - Amount set on transition to new system (2011/12)
    - Then inflated annually at CPI
5. Fees and charges
    - Discretion varies significantly
        - – E.g. Parking, PCNs set regionally, P&D set locally
    - Usually some restrictions on ability to create surpluses
    - Can be for services to residents or businesses
    - Traditional (swimming pool); creative (filming)
    - Can link to policy goals; civic enterprise in more detail
6. Specific grants
    - Government makes specific grants to achieve policy goals
    - Nice to have, but can't choose what to spend on

Table 1 shows that in 2014/15 RSG still provided nearly 30% of our funding; more than council tax (26%) and more than business rates (24%).

Table 1

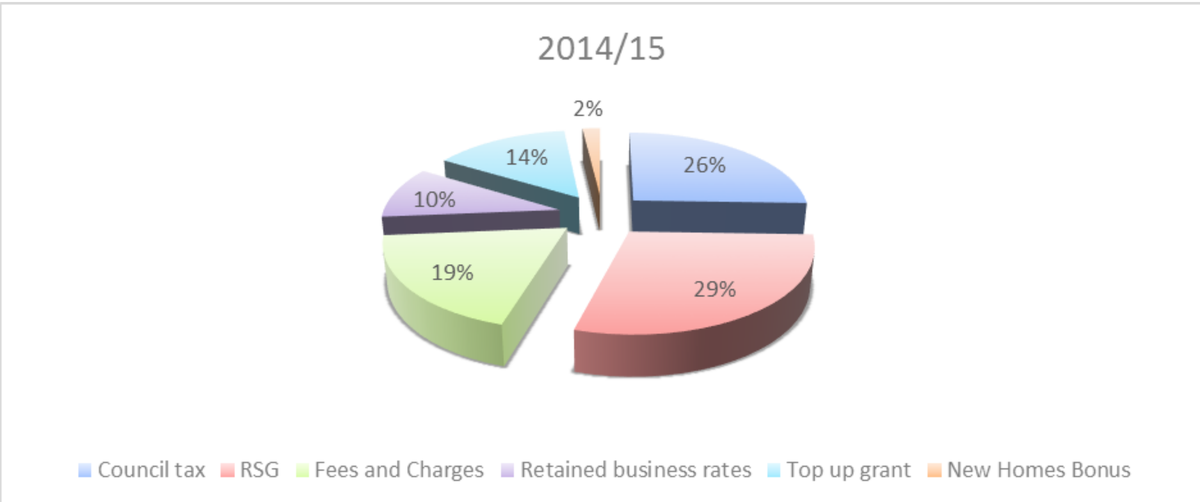
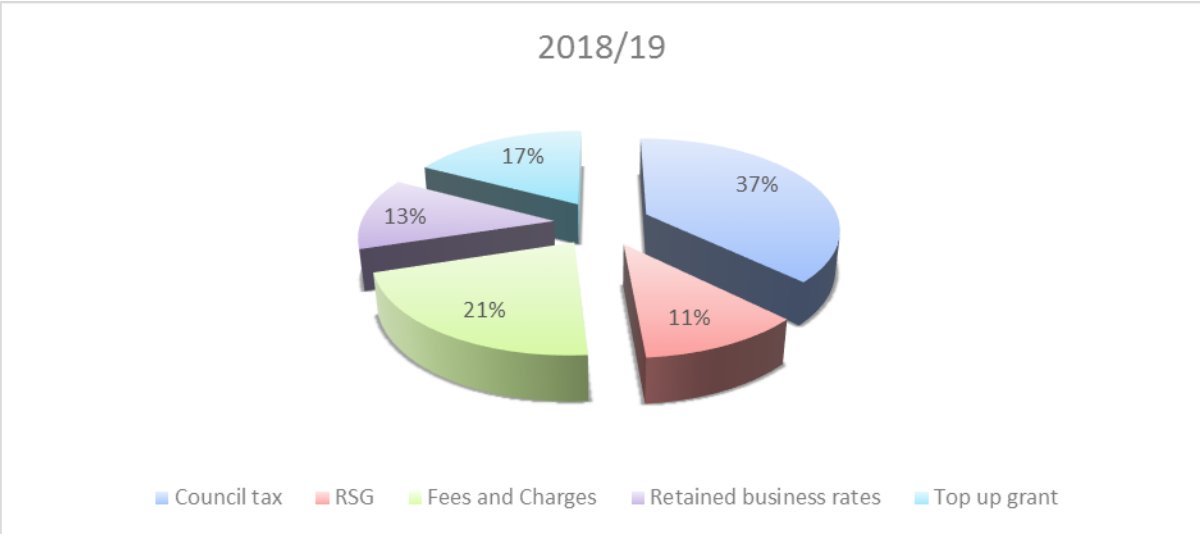


Table 2 shows that by 2018/19 RSG will barely provide 10% of our funding, less than half the amount we raise through fees and charges and a fraction of the amounts from local taxes.

Table 2



3. Legislation and Government Policy

Business rates were introduced in 1990, along with the community charge or 'poll tax' (now Council Tax) as a replacement for the old system of domestic and non-domestic rates. The Valuation Office Agency, an executive agency of HM Revenue & Customs, has a statutory duty to prepare local rating lists containing rateable values for all non-domestic properties in England and Wales every five years.

On 1 April 2013 a new system of business rates retention began in England. Before April 2013 all business rate income collected by councils formed a single, national pot, which was then distributed by government in the form of formula grant. Through the Local Government Finance Act 2012, and regulations that followed, the Government gave local authorities the power to keep up to half of business rate growth in their area by splitting business rate revenue into the 'local share' and the 'central share'. The central share is redistributed to councils in the form of revenue support grant in the same way as formula grant. Local share taxbase growth is retained within local government.

However, this was done in a way that was consistent with the Government's deficit reduction plans. The change gave financial incentives to councils to grow their local economies. At the same time, it has resulted in more risk and uncertainty. By far and away the primary challenge was the level of financial risk that councils face due to appeals and business rate avoidance.

Councils keep up to 50 per cent of growth in their business rate receipts arising from taxbase growth, which may arise from new or expanding businesses. Local authorities which were deemed to have a 'disproportionate potential to grow' by the Government (for example most councils in Central London) pay a growth levy of up to half of this retained growth. This is then used to partly fund the 'safety net' system to protect those councils which see their year-on-year business rate income fall by more than 7.5 per cent.

The introduction of business rate retention meant that from April 2013 a significant part of a council's budget became dependent on the amount of business rates collected from its area. This required new, previously uncollected information and new methodology to ensure that financial planning and forecasting procedures remained as robust as before.

The business rate retention reform created a need for councils to receive new, previously uncollected, information to enable sufficiently robust financial planning, such as data about upcoming appeal decisions, the value of business rate income at stake and the impact of business rate avoidance. Most of this information had previously been collected by the Valuation Office Agency (VOA) and provided to central government, as councils had no direct stake in business rate collection.

Business rate retention resulted in the need for a major cultural change at the VOA as its importance as information provider has increased. This transition is still ongoing. The VOA has been working hard to provide information, for instance on the appeals and proposals sent to billing authorities in autumn 2013. However, 61 per cent of all respondent councils are not satisfied with the level and quality of data provided by the VOA to help financial planning.

Overall, respondents tend to agree that the retention scheme created a strong incentive to grow the business rate tax base. More than two thirds agreed, and 58 per cent said that this was the single best outcome of the reform. In last year's survey, 29 per cent of respondents said the reform provided sufficient incentives.

The LGA has been working with the councils and the Department for Communities and Local Government (DCLG) to ensure that local government is vocal in shaping the way that this new system will work. A technical steering group and a number of sub-groups have been established to provide information and expert advice to support the LGA and DCLG in advising Ministers on the setting up and implementation of this new system. The Steering Group will meet regularly and papers are available on the LGA website.

4. What are the main issues?

New responsibilities

The Government intends the reform of business rates to be 'cost neutral'. This means that the level of public spending after the reform should remain the same as planned before the reform through phasing out revenue support grant, other specific grants and transferring new responsibilities to match the remainder of additional business rates.

The Government has stated that it wants to consult with the sector on what specific funding and responsibilities will be funded from the retention of business rates. So far, the only confirmed decisions are the phasing out of revenue support grant and the additional Transport for London capital grant. This leaves a significant sum yet to be decided upon.

Equalisation

When introducing the system of 50 per cent business rate retention, the Government put in place a system that ensures councils with relatively higher needs but with relatively lower income from business rates receive a 'top-up'. Equally a council whose relative income from business rates was deemed to be greater than relative need pays a 'tariff' to government.

These top-ups and tariffs balance each other out nationally and rise in line with inflation between revaluations. In 2016, the Secretary of State for Communities and Local Government announced a full review of needs and redistribution. This will be used as the starting point for the new system when it comes into force.

Reducing and increasing the multiplier

The Government announced that all councils will have the flexibility to reduce the business rates multiplier in their area and combined authorities with directly elected mayors will also have the power to increase the multiplier by up to two pence in the pound. Such an increase must be agreed by the Local Enterprise Partnership (LEP) and if used, must be spent on infrastructure.

Appeals
If a business disagrees with the VOA's assessment of a property's rateable value, they can propose changes to the VOA. They can also appeal the valuation which will be considered by an independent Valuation Tribunal. There are currently 300,000 outstanding appeals. The number and scale of appeals are a concern for many councils.

The uncertainty created by appeals means that instead of spending money on local services, they have to hold it back to ensure they can pay half of the costs of successful challenges in the future or backdated appeals.

The Government is implementing a new system for appeals from 2017 which will require business ratepayers to state their case at an earlier stage and they could be fined for incorrect or misleading information.

Reliefs
Some properties are eligible to apply for a discount on their business rates. In addition to smaller scale reliefs, the following types of businesses are eligible:

- small businesses – in the 2016 Budget the Government announced that businesses with a rateable value up to £51,000 would pay lower business rates and that those below £12,000 would get 100 per cent relief
- businesses in rural areas
- charities – which are eligible for 80 per cent mandatory relief
- Businesses in enterprise zones – designated areas across England that provide tax breaks and government support to help an area in need of growth or regeneration.

5. What should the Review cover?

There are three key areas that the review will focus on:

Central Government Policy
What is the current status? What has been proposed to date?
What will the pilot schemes look like?
How can the council engage in the current work?

Financial Risk
What is the biggest risk to the councils planned finances
What Safety net mechanism are in place
Will we still want to be part of a Business Rates Pool?

Possible impact to Brent
What will be in impact on current arrangements?
Will Brent be better or worse off?
How do we prepare for the devolution of business rates?

Growth in Business rate income
How do we grow our business rates locally?
How do we encouraging local economic growth?
How do we improving collection rates?

6. How do we engage with the community and our internal and external partners?

As part of this review the task group will invite relevant partners to get involved; though workshops, public group discussions and one-to-one interviews.

Partners: Group 1

- Relevant Council Departments:
    - Finance Team
    - Planning and Development Team
    - Business Development Board
    - Customer Services
      -The Revenue Client Team
      - Capita
- Brent partners:
    - Local Business Groups
    - North West London Chamber of Commerce
    - West London Business Group

Partners: Group 2

- House of Commons (HoC)
- Local Government Association (LGA)
- Department for Communities and Local Government (DCLG)
- Best Practice Local Authorities:
    - LB Westminster

7. What could the review achieve?

The review will strive to ensure that:

- There is transparency and understanding of the local and national policies and processes regarding the devolution of business rates.
- Clarity on how that policy is going to be implemented in Brent and make recommendation to support the best possible implementation outcome for the council and its residents.
- Through the recommendations of the review the council is able to further stabilise its financial position and has clear strategic direction.
- There is a link between council expenditure and business growth.
- The council develops links for engaging with local businesses that generates discussion on how to grow our local business rates and economy.
- The council is in an informed position to make good financial choices.

Appendix B

Section 106 (s106) and Community Infrastructure Levy (CIL)
MEMBERS TASK GROUP
TERMS OF REFERENCE

A CONTEXT

Devolution of Business Rates (DBR)

On the 5th October 2015 the then chancellor George Osborne set out plans for local government to gain new powers and retain local taxes. The chancellor set out major plans to devolve new powers from Whitehall to local areas to promote growth and prosperity. The Chancellor announced that local government as a whole would be able to keep 100 per cent of business rates by 2020.

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An example is the consideration of whether other grants, such as the public health grant, should in the future be funded from retained business rates.

As in previous years, individual councils would not keep the full amount of business rates collected in their area. There will continue to be a system of redistribution across the whole of local government to make sure that councils which have higher needs or have less capacity to raise business rates do not suffer. However, individual councils will be able to keep subsequent growth in their business rates income.

Whilst we don’t currently know exactly what the system will look like, the LGA is working with government and engaging with local authorities to consider how this could work.

Those areas which choose to have city-wide elected mayors will get even greater flexibilities, also being given the power to increase rates for spending on local infrastructure projects, as long as they win the support of local business.

The reform will mean local government retaining all revenue from business rates for the first time since 1990. These new powers will come with new responsibilities, as well as phasing out the main grant from Whitehall, to ensure the reforms are fiscally neutral. Local government will of course also need to contribute to fiscal consolidation over this Parliament, and the government is due to set out further details in the Spending Review.

B. PURPOSE OF GROUP

A Council Members’ task group chaired by an elected member and coordinated by a council Scrutiny officer was set up in September 2016. Sponsored by the Resources & Public

Realm Scrutiny Committee, the aim of task group is to collate, review and evaluate evidence gathered from various sources; which include Brent's Finance, Customer Services and Planning & Regeneration Teams; and Brent partners such as Capita. The task group will also engage with local Business groups and central government organisations which include visit to Parliament and the House of Commons, Local Government Association (LGA) the Department for Communities and Local Government (DCLG).

It will also be vital for the task group to consult with other local authorities, specifically the London boroughs of Westminster, who have been singled out for their good work.

The objectives at the time were:

1. Liaise with stakeholders to gather evidence.

2. Use reviewed evidence to inform findings and recommendations for better understanding of the government policy and prepare the council to respond.

C. AIM & OBJECTIVES

Aim of the task group is gain a better understanding of both Brent and the government's current business rates policies and processes with a view to ensuring Brent council is in the best possible place to respond to the government's changes to the Devolution of Business rates policy.

AIMS

The aims of the task group form four main themes

Central Government Policy
- What is the current status? What has been proposed to date?
- What will the pilot schemes look like?
- How can the council engage in the current work?

Financial Risk
- What is the biggest risk to the councils planned finances
- What Safety net mechanism are in place
- Will we still want to be part of a Business Rates Pool?

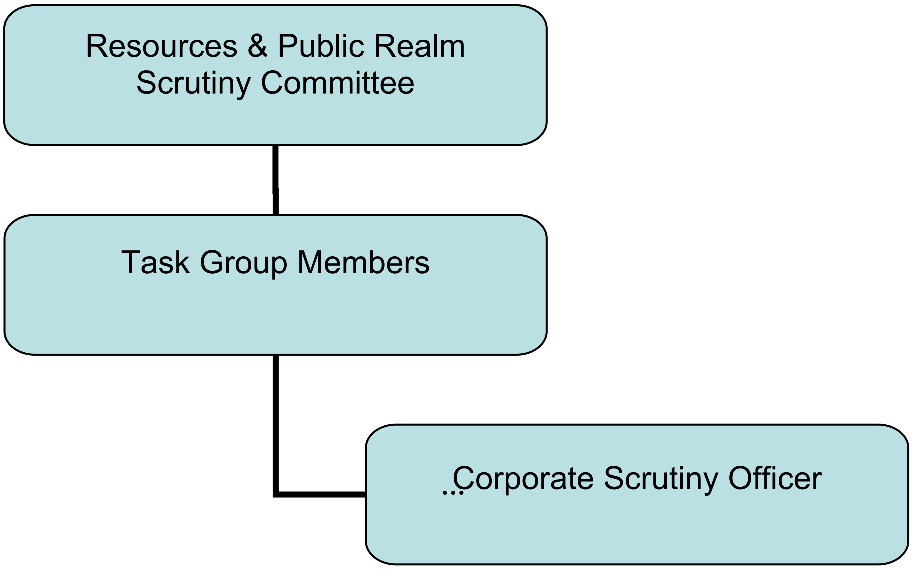
Possible impact to Brent
- What will be in impact on current arrangements?
- Will Brent be better or worse off?
- How do we prepare for the devolution of business rates?

Growth in Business rate income
- How do we grow our business rates locally?
- How do we encouraging local economic growth?
- How do we improving collection rates?

OBJECTIVES

- There is transparency and understanding of the local and national policies and processes regarding the devolution of business rates.
- Clarity on how that policy is going to be implemented in Brent and make recommendation to support the best possible implementation outcome for the council and its residents.
- Through the recommendations of the review the council is able to further stabilise its financial position and has clear strategic direction.
- There is a link between council expenditure and business growth.
- The council develops links for engaging with local businesses that generates discussion on how to grow our local business rates and economy.
- The council is in an informed position to make good financial choices.

D. GOVERNANCE & ACCOUNTABILITY



E. MEMBERSHIP

1. Cllr Joel Davidson (Chair)
2. Cllr Cllr Helen Carr
3. Cllr Cllr Bernard Collier
4. Cllr Cllr John Duffy
5. Cllr Michael Maurice
6. Cllr Tom Miller
7. Cllr Neil Nerva

Kisi Smith-Charlemagne – Scrutiny Officer

Other key stakeholders would be invited as appropriate.

F. QUORUM & FREQUENCY OF MEETINGS

There should be at least 2 members present at each meeting. A minimum would be the Chair, and another member of the task group. The task group will meet twice per month or approximately every two weeks with sub meetings held between the chair and the Scrutiny Officer as required.

G. DATE OF REVIEW

Start: September 2016
End: Scheduled for presentation to the Scrutiny Committee on 8 November 2016.