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| COMMITTEE | CORPORATE SCRUTINY COMMITTEE |
| DATE | 14 APRIL 2016 |
| TITLE | THE BENEFITS TO GWYNEDD FROM RETAINING BUSINESS RATES |
| PURPOSE OF THE REPORT | TO GIVE THE COMMITTEE AN OPPORTUNITY TO SCRUTINISE AND CONSIDER THE BENEFITS AND RISKS OF LOCAL RETENTION OF BUSINESS RATES |
| RELEVANT CABINET MEMBERS | COUNCILLOR PEREDUR JENKINS, CABINET MEMBER FOR RESOURCES AND COUNCILLOR MANDY WILLIAMS-DAVIES, CABINET MEMBER FOR THE ECONOMY |
| CONTACT OFFICERS / AUTHORS | DEWI MORGAN, SENIOR MANAGER REVENUES AND RISK AND DAFYDD L EDWARDS, HEAD OF FINANCE |

1. WHAT IS THE MATTER THAT NEEDS TO BE CONSIDERED AS A SCRUTINY ITEM?

- 1.1 In a discussion relating to business rates in the full Council in October 2015, Councillor Owain Williams drew to the attention of the Council that central Government in England has decided that English local councils are to keep all business rates to invest locally. It was explained that this is not the situation in Wales.
- 1.2 In response to a motion by the Councillor to make contact with the Welsh Government to ask for the same conditions in Wales, the Chief Executive suggested that it would be wise to undertake detailed scrutiny before then, to ensure whether the same regime in Wales would be likely to lead to benefits, losses, opportunities, or hazards for Gwynedd. Following that work, the Council could decide if it wanted to contact the Welsh Government.

2. WHAT CAN THE SCRUTINY COMMITTEE CONSIDER?

- 2.1 It was agreed that the Scrutiny Committee could consider:
 - What the contents of the Chancellor's statement were when he suggested that local authorities in England would retain the business rates collected locally, and when does it come into force?
 - Do we know what the impact is/will be on local authorities in England? Will some authorities be winners and others losers? Why?
 - Of understanding the situation in England, if the same conditions were available in Wales, do we understand what the implications would be for Gwynedd?
 - What would be the probability of Gwynedd benefitting, losing out, having opportunities, or dangers of keeping the business rates collected locally?

Parts 3 to 6 of this report deliberates the above matters in turn as a basis for the scrutiny / consideration.

3. WHAT WERE THE CONTENTS OF THE CHANCELLOR'S STATEMENT WHEN HE SUGGESTED THAT LOCAL AUTHORITIES IN ENGLAND WOULD RETAIN THE BUSINESS RATES COLLECTED LOCALLY, AND WHEN DOES IT COMES INTO FORCE?

3.1 In the Conservative Party Conference in October 2015, the Chancellor announced that English local authorities would be entitled to retain 100% of business rates collected locally from 2020. This would be an amendment to the arrangements introduced in April 2013; since then, English local authorities retain 50% of their business rates.

3.2 The Chancellor confirmed this intention in his Autumn Statement in November 2015, but the statement did not go into great detail about how this would be implemented. However, the following can be noted from the statement:

- Local authorities in England will retain 100% of local business rates by 2020.
- The "top-up and tariff" system that redistributes revenues between local authorities will continue.
- At present business rates follow the "Uniform Business Rate" regime. That means that the approach to calculating business rates are consistent across the country and across all businesses, using the formula:

| |
|---|
| $\text{Rates Payable} = \text{Rateable value of the property} \times \text{Multiplier provided annually by the Government}$ |
|---|

Under the new regime these arrangements will come to an end since individual local authorities will be able to **reduce** the multiplier.

- Local authorities will not be allowed to **increase** the multiplier, unless they establish elected "City-wide metro mayors", and use the increase to fund infrastructure improvements, on the condition that they receive the support of a majority of the members of the Local Enterprise Partnership.
- The Government will consult on the changes to the system of funding local government in preparation for the change of retaining 100% of business rates.
- Among the issues that will be addressed in the consultation will be the gradual dissolution of the local government grant, along with the additional responsibilities that could be devolved to local government to allow economic growth in their areas. The graph below from the Local Government Association shows how this gradual abolished will happen.

How it might look – start in 2020

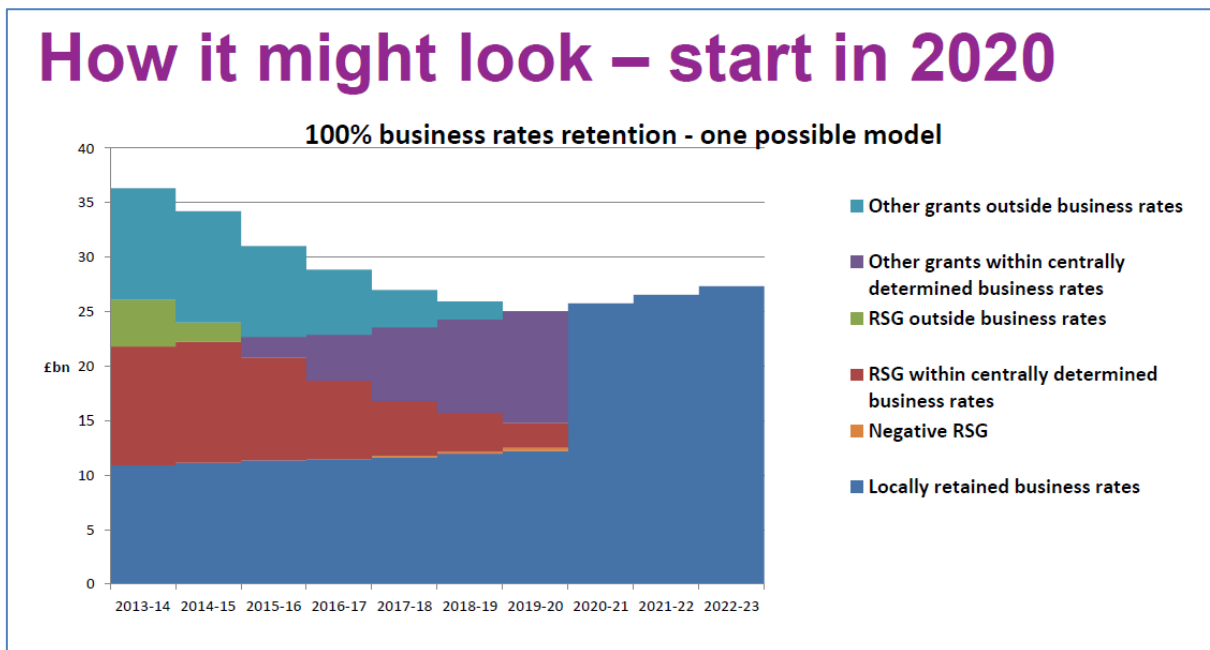


Figure 1: The LGA graph showing the gradual reduction in Local Government Grant

[For more information, follow this hyperlink to the Local Government Association presentation following the Chancellor's Autumn Statement.](#)

- 4. DO WE KNOW WHAT THE IMPACT IS/WILL BE ON LOCAL AUTHORITIES IN ENGLAND? WILL SOME AUTHORITIES BE WINNERS AND OTHERS LOSERS? WHY?**
 - 4.1 Because the arrangements for local retention of 100% of business rates have not yet come into force in England, it is difficult to know exactly what the impact on English local authorities will be. However, we can look at what has happened in England since local authorities have had the right since April 2013 to keep 50%.
 - 4.2 A paper published by the Department for Communities and Local Government of the UK Government in April 2013 explained the changes that came into force at that time. Among other things, the paper explains how the regime will deal with the situation.
 - 4.3 In reality, some richer authorities receive more in business rates than they used to get from the grant formula, while other authorities earn significantly less. Therefore, the Government use a method known as "top-ups and tariffs" to ensure consistency.
 - 4.4 In the first place, for the regime which came into force on 1 April 2013, the Government calculated the "funding level" (i.e. spending needs) for each local authority for 2013/14. Where a local authority receives more business taxes than its funding level, then the Government keeps the difference (the "tariff"). This is used as a "top up" for local authorities who receive less than their funding level. The Government's intention was that this would be fixed for seven years. That is, until 1 April 2020.
 - 4.5 Once underway, the scheme allows councils to keep 50% of the additional funds they generate. However, should there be no adjustment, the Government acknowledges that the scheme would favour richer authorities. This is because councils with a large number of business properties can gain large increases in their revenue with little effort to ensure that economic growth, whereas councils who are

already under financial strain could put in a lot of effort and still get comparatively little benefit out.

The Government's paper (see 4.2 above) uses an example to highlight this.

Authority 'A' has business rates income of £100 million and a funding level of £50 million.

A 5% increase in the business rates income of Authority 'A' would be an increase of £5 million, which is 10% of £50 million, the funding level.

On the other hand, Authority 'B' only has business rates income of £10 million but has the same spending needs (i.e. funding level) as authority 'A', i.e. £50 million.

If Authority 'B' also increased its business rates income by 5%, this would only be an increase of £500,000, which is 1% of £50 million, the funding level.

[Here is a hyperlink to the Department of Communities and Local Government presentation.](#)

- 4.6 Councils can also retain up to 50% of the increase in their business rates receipts resulting from new businesses or from expanding businesses (but not increases due to inflation). Local authorities that are the subject of the "tariff" will also pay a levy of up to half this type of increase. This levy is used to fund a "safety net" system that protects Councils which see a reduction of more than 7.5% in their business rates from one year to the next (e.g. the loss of a major employer).
- 4.7 The Local Government Association (LGA) in England have done research since 2013 and has published two papers that look at the effects of retaining 50% of business rates on local authorities.
- 4.8 The main findings of these reports are:
- The LGA estimates that approximately 59% of the authorities have received a surplus and approximately 41% had a loss during 2013/14.
 - A major weakness in the new system is risk relating to appeals. Individual authorities do not have any control over the appeals process, therefore it is difficult to create a sound budget. According to one survey in 2013, 17.5% of all business rate income in England is subject to appeal.
 - Local authorities have had to bear half of the costs of all successful appeals after April 2013, including appeals have been backdated to the previous regime. These amounts can be significant. In a survey in 2015, 74% of English local authorities answered that appeals were their greatest risk. If a similar procedure is introduced in Wales, the way with which appeals are dealt will be a key consideration.
 - It was observed that the Valuation Office Agency has struggled to cope with the new requirements.
 - Some authorities are dependent on a small number of large businesses, e.g. power stations.
 - Some authorities have pooled together to create a "Fund" in order to share some of the risks and share the benefits from economic growth, but this is not always an option for some authorities because of their individual circumstances.
 - The opportunity to use discretionary rates reductions will enable authorities to tailor their system to match the requirements of their local area.

- However, business rates avoidance is a risk which has received the attention of local councils for a number of years and by now the authorities themselves are feeling the outcomes of the efforts to avoid paying.

4.9 More details are in the Local Government Association, publications which are to be found along the links below:

[Rewiring Public Services: Business Rate Retention \(December 2013\)](#)

[Business Rate Retention: the story continues \(March 2015\)](#)

5. OF UNDERSTANDING THE SITUATION IN ENGLAND, IF THE SAME CONDITIONS WERE AVAILABLE IN WALES, DO WE UNDERSTAND WHAT THE IMPLICATIONS WOULD BE FOR GWYNEDD?

5.1 The situation in England after 2020 is not totally clear yet. As noted above, the Government will maintain a system where wealth continues to be distributed from the richest authorities to the poorest even under the new regime, by continuing the "tariff and top-ups" process. As explained above, the principle behind this is that the areas with the highest number of businesses will also be in a better position to increase the number of businesses further.

5.2 It is also timely to note that the Independent Commission on Local Government Finance Wales has recommended that business rates be retained in full by local authorities. Further, the Commission's report notes that local agreements to pool receipts at a city regional or sub-regional level could be put in place to smooth any significant fluctuations

5.3 Under the current regime, there are 22 local "billing" authorities collecting business rates for the Wales central pool. This pool is then shared out by the Welsh Government, using a formula.

5.4 The picture below shows the amount of the business rates that of Gwynedd has collected for the central Welsh pool since 2010-11, and the amount received from the pool in the same period.

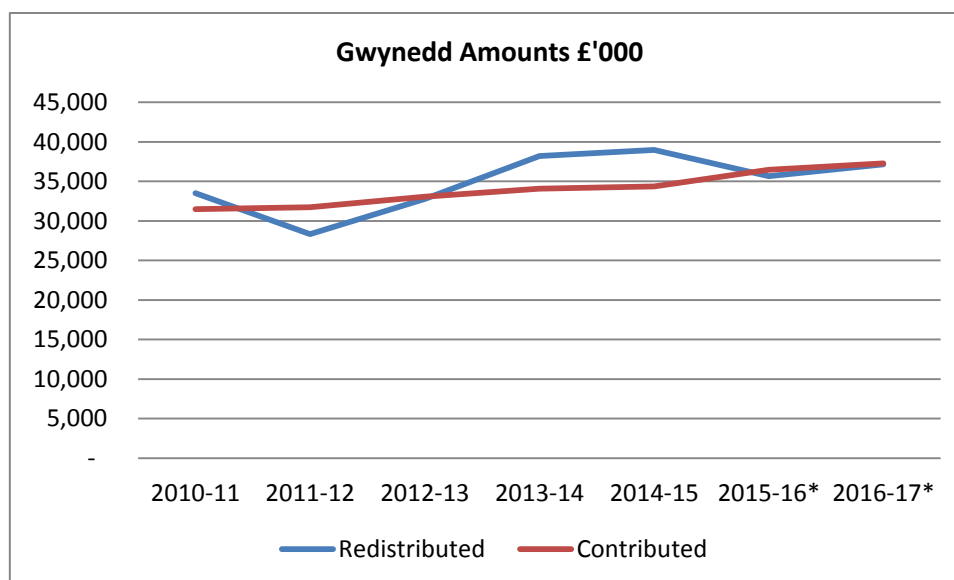


Figure 2: The difference between the amount that Gwynedd has contributed and received back from the centre since 2010

Source: Council Tax Collection data (CTC), Welsh Government

5.5 Generally, the amount that Gwynedd collected and received back was fairly close. On the other hand, some other local authorities put more in than they receive each year, while others are annual net winners; the graph below highlights this. In this example, if a Council gets out of the pool the same as it pays in, it would have a ratio of 1.00, whilst a Council taking twice as much out of the pool as it is paid in would have a ratio of 2.00.

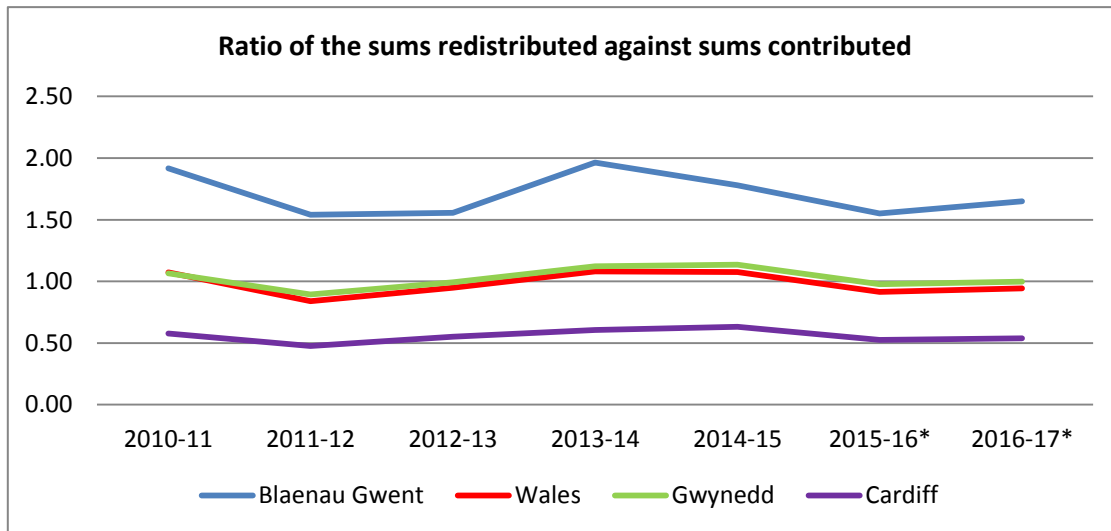


Figure 3: Ratio of amount collected and received, selected authorities

Source: Council Tax Collection data (CTC), Welsh Government

The Basis Of Gwynedd Business Rates

5.6 Two factors are used to calculate the business rates of any property:

- **the rateable value** of the property as determined by the valuation Office Agency (VOA). This is a professional assessment of the annual rent a property would fetch at a set valuation date.
- a **multiplier** set annually by the Welsh Government. The multiplier is constant for each business and for each local authority – this is what is meant with the phrase "Uniform Business Rate".

5.7 The current valuation list (i.e. after the last revaluation) was introduced on 1 April 2010. The table below shows the increase in the rateable value of Gwynedd businesses year by year:

| | 01/04/2010 | 31/03/2011 | 31/03/2012 | 31/03/2013 | 31/03/2014 | 31/03/2015 | 19/02/2016 |
|-----------------------|------------|------------|------------|------------|------------|------------|-------------|
| Total Rateable Values | 99,001,971 | 99,321,672 | 98,615,617 | 98,779,891 | 99,178,095 | 99,364,057 | 100,526,457 |
| Properties | 6,952 | 6,993 | 6,983 | 7,068 | 7,158 | 7,339 | 7,450 |
| % growth in tax base | | 0.32% | -0.71% | 0.17% | 0.40% | 0.19% | 1.17% |

Table 1: Changes in Gwynedd's tax base, and number of properties, since 2010

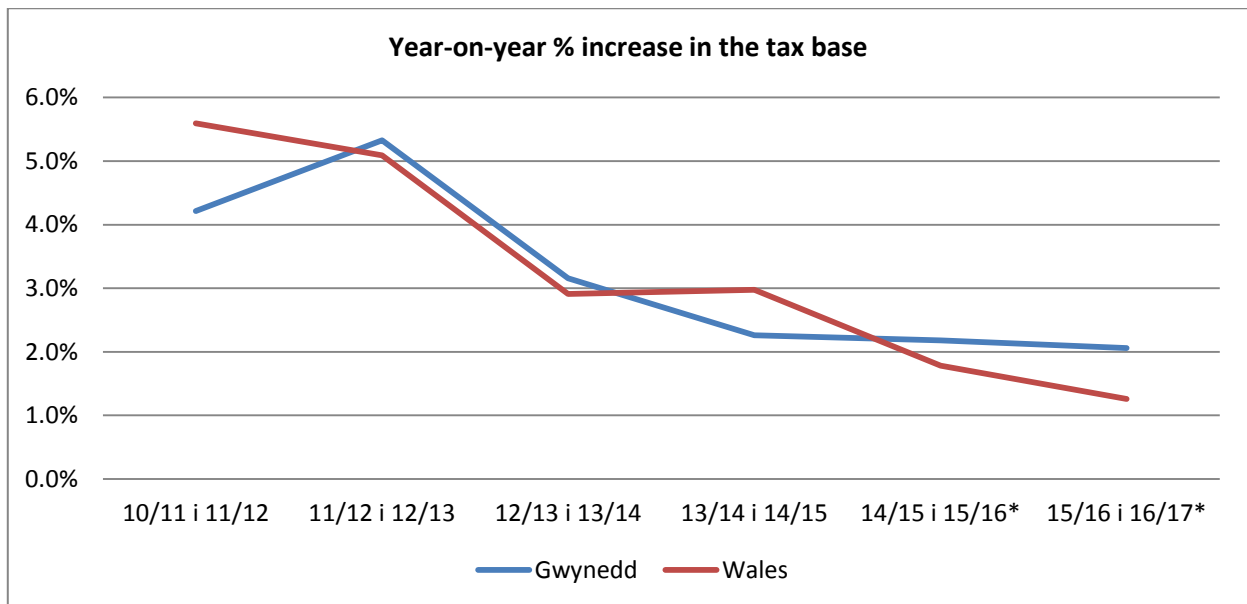


Figure 4: Annual increase in the tax base since 2010

Source: CIPFA Stats - Revenue Collection Statistics

5.8 The graph below shows how the Gwynedd Council business rates base has changed since 2010, compared with the rest of Wales and two other councils. The values for 2010/11 are used as a basis in each case, and the relative change since then is shown. It is seen that Gwynedd happens to follow the pattern for Wales very closely over this period. However the pattern in two other counties – Isle of Anglesey and Pembrokeshire – has been very different to this (Pembrokeshire’s tax base has increased by much more than the rest of Wales, and Anglesey’s has increased much less). This type of variation between counties with quite similar characteristics shows the variety and uncertainty that exists in terms of how growth in tax receipts can be expected to vary between one county and another.

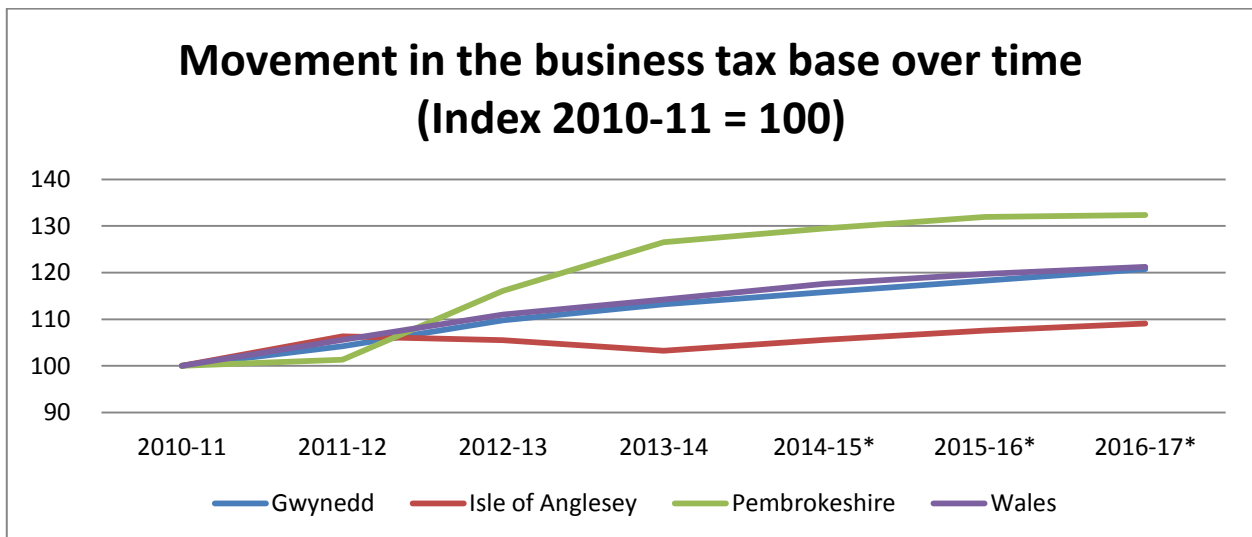


Figure 5: Comparing changes in the tax base with 3 other authorities and the Wales average

Small Businesses

5.9 Table 1 above shows that 7,450 properties in Gwynedd on 19 February 2016 were paying business rates. Of these units, over 4,000 (i.e. over half) are small businesses which attracts small businesses relief at present and therefore pay no or very little business rates. Gwynedd's profile is of a number of small businesses with a very low rateable value, with a few large businesses.

5.10 The profile of the rateable value of business units within Gwynedd is as follows:

| Rateable value range | Number |
|-----------------------------|---------------|
| 0 - £6,000 | 4,903 |
| £6,001 - £12,000 | 1,251 |
| £12,001 - £100,000 | 1,172 |
| £100,000 + | 124 |
| Total | 7,450 |

Table 2: The Profile of the Rateable Values of Gwynedd Businesses

5.11 The contribution of these properties (in terms of their total taxable value) is as follows:

| Rateable value range | Total Rateable value (£) |
|-----------------------------|---------------------------------|
| 0 - £6,000 | 12,568,207 |
| £6,001 - £12,000 | 10,604,650 |
| £12,001 - £100,000 | 34,410,050 |
| £100,000 + | 42,943,550 |
| Total | 100,526,457 |

Table 3: Business Tax Base

5.12 This suggests that Gwynedd would depend on a small number of "large" units for its income. Further, when analysing the statistics, it can be seen that a significantly higher proportion of businesses receive small business rate relief in Gwynedd (13.8%) than in Wales on average (8.2%):

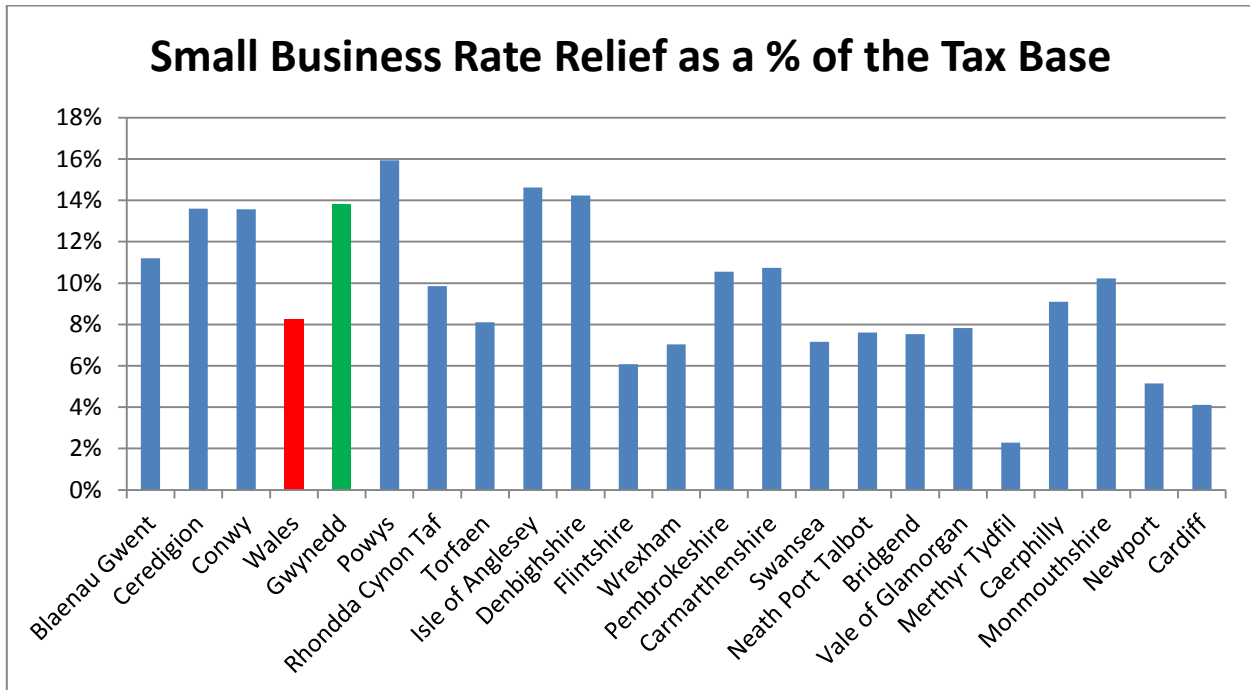


Figure 6: Small Business Relief as a % of the Tax Base per Council

- 5.13 Only Powys, Anglesey and Denbighshire have a higher proportion than Gwynedd of their businesses classified as being "small" businesses.
- 5.14 The Chancellor announced in the Budget Statement in March 2016 that the threshold for "small businesses" in the context of business rate relief in England will increase. From 2017, businesses with property with a rateable value of £12,000 or lower (rather than £6,000) will receive 100% relief. Businesses with property with a rateable value between £12,000 and £15,000 from 2017 will receive tapered relief.
- 5.15 If this were happening in Wales, 6,154 businesses in Gwynedd, which is 82.6%, would pay no business rates at all. Currently, 4,903 business – 65.8% – are exempt from paying any business rates.
- 5.16 This confirms that the treatment of small business rate relief is a key factor if we as a Council were to win or lose under a devolved system. If the Council must bear the cost of the scheme, then the above strongly suggests that it would lose out.

6. WHAT WOULD BE THE PROBABILITY OF GWYNEDD BENEFITTING, LOSING OUT, HAVING OPPORTUNITIES, OR DANGERS OF KEEPING THE BUSINESS RATES COLLECTED LOCALLY?

6.1 Benefits and Opportunities

- 6.1.1 The Council would benefit directly from its financial investment in the field of economic development, because the Council would receive the increase in business rates that would be produced in the County.
- 6.1.2 One major development (e.g. "spaceport" at Llanbedr) may make a significant difference to the income of the authority.
- 6.1.3 Local businesses will have more interest in the way the Council is using their money. Currently, councils can declare that they are only collecting the tax on behalf of the Government.
- 6.1.4 The amount that the Council is collecting is close to the amount it is receiving from the central pool, so there is less probability of a "shock" when moving from one system to another.
- 6.1.5 If the business rates were to be devolved and implemented at regional level, there would be an opportunity to benefit from significant developments (e.g. power stations) in neighbouring authorities, as well as an opportunity to share the risks.
- 6.1.6 Greater freedom for the Council to make decisions on how to use the resources it collects locally.
- 6.1.7 Clarity regarding the accountability line for locally collected business rates.

6.2 Risks

- 6.2.1 It can be argued that all that business rate retention has introduced in England is compensation for reductions in Government grant. There is no link between them and the increase in demand for services.
- 6.2.2 English authorities only have powers to reduce the business rates, by lowering the multiplier. They do not have the power to increase the multiplier (unless a "City wide mayor" model is adopted and for spending on infrastructure only), so it could be argued that this is not real devolution.
- 6.2.3 We will continue to see appeals against the values in the list, in particular following a national revaluation. While this is a general risk for each Council, significant financial risks are involved for authorities with a small number of properties with a high rateable value.
- 6.2.4 The two properties with the highest rateable value in Gwynedd are the Llanberis and Ffestiniog hydro power stations. Applications are made by them for a rate reduction when a turbine goes "offline". This means a temporary reduction in the rateable value from the Valuation Office Agency in the form of a certificate, rather than an adjustment to the valuation list. The result is that these cases are not reflected in any analysis made of total values.
- 6.2.5 There is a similar risk is if the Health Board were to be transferred to being a charitable trust, leading to loss of business rates from Ysbyty Gwynedd.
- 6.2.6 Gwynedd Council would face a loss (comparatively higher than other authorities) of discontinuing various rate relief schemes that are in the form of a central Government grant, such as retail relief over the last 2 years.
- 6.2.7 An element of discretion exists in the relief permitted to mandatory/not-for-profit bodies. Gwynedd Council's current policy is relatively generous, but because of the way this is funded at the moment – with most of the relief coming from the Government – the Council would face a likely loss if it continues along the same lines.
- 6.2.8 At present the Council attracts the administration cost from the Government – around £360,000 annually. There is a risk that this will be lost if the regime were to be devolved.
- 6.2.9 There are numerous cases of steps being taken by taxpayers to avoid paying the rates. This avoidance may be worse in some councils than others, but dealing with this matter – which is not illegal – is heavy on resource and leads to a volatile fund. There is currently accountability to the centre, but with devolution there would be uncertainty with regards to the local budget
- 6.2.10 The writing-off of unrecoverable debts will impact directly on the Council's income under a devolved system, rather than on the national pool.
- 6.2.11 The Government will continue to have the power to control the business rates system. The Chancellor, or Welsh Government Minister, could change the system in the future (e.g. changing size of "small business"), impacting significantly on local authorities.