

TONBRIDGE & MALLING BOROUGH COUNCIL
FINANCE, INNOVATION and PROPERTY ADVISORY BOARD

03 June 2015

Report of the Director of Finance & Transformation

Part 1- Public

Matters for Recommendation to Cabinet - Non-Key Decision (Decision may be taken by the Cabinet Member)

1 BUSINESS RATES REVIEW: DISCUSSION PAPER FROM HM TREASURY

This report sets out detail of a discussion paper from HM Treasury seeking views on the business rates system. It also provides information regarding the Council's recent deputation to the Minister for Local Government regarding the impact of the loss of a significant business within the borough. The report recommends that delegated authority is given to the Director of Finance & Transformation in liaison with the Cabinet Member for Finance, Innovation and Property and the Leader (as the portfolio holder for Economic Regeneration) to formulate a final response by the deadline of 12 June.

1.1 Introduction

- 1.1.1 In 2013, the government announced that it was opening up discussions about the administrative reform of business rates, and an initial paper was issued in April 2014 with interim findings being published in December 2014.
- 1.1.2 As a result of the interim findings, the government advised that it would conduct a review on the future structure of business rates to report back in time for the Budget in 2016.
- 1.1.3 A discussion paper was published on 16 March 2015 and comments are invited by 12 June 2015. The paper can be found at <https://www.gov.uk/government/consultations/business-rates-review-terms-of-reference-and-discussion-paper>
- 1.1.4 The primary aim of the review, based on the terms of reference, is to establish whether the "business rates system remains fit for purpose in the 21st century". This is in light of the 'trends' in the use of property (e.g. the increase in online shopping having an impact on the need for physical floor-space) and, of course, the reforms that have already taken place regarding business rates.

1.2 Background Matters

- 1.2.1 In respect of reforms, Members are aware that the Business Rate Retention Scheme (*a risk and reward model*) was introduced in April 2013 whereby local authorities take a share (*the reward*) of any business rate growth above a set baseline. The converse is that if there is a reduction in business rate yield, local authorities must take a share of that loss (*the risk*).
- 1.2.2 Baselines were set at the start of the scheme and are not currently due to be reset until 2020. Therefore, if a local authority is fortunate to have grown its business rate base above baseline without suffering any reductions to negate it, then that authority should benefit from financial “rewards” until 2020, all other things being equal. On the other hand, authorities that have suffered significant losses in business rate base - through, for example, businesses going into administration or successful appeals against rateable values - are likely to face financial “risks” until 2020.
- 1.2.3 There are some Councils within Kent that are currently enjoying the “reward” element of this model, but for TMBC, regrettably we are facing the “risk” element. The major contributor to this situation was the sudden demise of Aylesford Newsprint (ANP) on 23 February 2015. ANP was the joint highest ratepayer in the borough with a rateable value for its main site of some £3m, ordinarily generating business rate income of £1.479m. Quite apart from the devastating impact on the community as a result of the many redundancies, the business rate income is now lost and the Council must take a share of the loss, cushioned in part by the safety net (which is an integral part of the Scheme).
- 1.2.4 As Members will be aware, the Leader orchestrated a meeting with the (then) Minister for Local Government, Kris Hopkins, in March to discuss the impact of the loss of this business rate stream to the Council within the context of the Business Rate Retention Scheme. Following the meeting, we assisted Tracey Crouch MP in writing to Kris Hopkins summarising the points we had made. A copy is attached at **[Annex 1]** for information. One of the key messages within the letter was that the underlying mechanics of the Scheme mean that the Council will be treated as though the potential business rate income from the ANP site is still collectable (when clearly it is not) until the baseline is reset (presently programmed for 2020). On a cumulative basis, allowing for the cushioning effect of the safety net, the cost to the Council over the next 5 years would be £816,000. Our request was that in this exceptional circumstances could the baseline and tariff be reset outside of the normal timescale?
- 1.2.5 Tracey Crouch MP received a response to the above letter on 26 March, which sadly was not the news we were looking for. A copy of the reply is attached at **[Annex 2]** for information. Members will, however, note that the (then) Minister acknowledged that the circumstances we had outlined were relevant to the Treasury’s review of business rates. The Minister went on to say that “*my officials have already brought this case to the attention of the Treasury*”.

1.3 Comments

- 1.3.1 The detailed questions posed within the discussion paper are summarised at **[Annex 3]** for information. As Members will note, the questions straddle a number of areas including evidence of trends in occupation; financial risks and rewards for local authorities; impact on SMEs and the competitiveness of UK businesses; and the general sustainability of this tax.
- 1.3.2 Clearly the Council's own experience regarding the 'risk and reward' model will be a key aspect to reinforce in our reply (as already acknowledged by the then Minister), but views from an economic regeneration point of view would also be very pertinent. Unfortunately, due to the timing of meetings, it is not possible to submit this paper to the Economic Regeneration Advisory Board prior to the closing date for this consultation (12 June).
- 1.3.3 Accordingly, what I suggest is that delegated authority is given to me in liaison with the Cabinet Member for Finance, Innovation and Property and the Leader (as the portfolio holder for Economic Regeneration) to formulate a response, on behalf of the Council, by the 12 June. In doing so, I recommend that we consult the Chairmen and Vice Chairmen of both this Advisory Board and the Economic Regeneration Advisory Board to seek their views and input to the response.
- 1.3.4 If Members have any particular thoughts that they wish to put forward for inclusion, might I ask that they be articulated at the meeting or alternatively via email to myself or the Cabinet Member for Finance, Innovation and Property.

1.4 Legal Implications

- 1.4.1 This is a discussion paper and therefore there are currently no legal implications.

1.5 Financial and Value for Money Considerations

- 1.5.1 This is a discussion paper and therefore there are currently no financial implications.

1.6 Risk Assessment

- 1.6.1 The Council is already affected by the volatility of business rate yield within the borough as outlined in the report.

1.7 Equality Impact Assessment

- 1.7.1 The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

1.8 Policy Considerations

- 1.8.1 Community

1.9 Recommendations

1.9.1 It is **RECOMMENDED** that

- 1) Members are invited to offer any views for inclusion within a response to this discussion paper;
- 2) Delegated authority is given to the Director of Finance & Transformation in liaison with the Cabinet Member for Finance, Innovation and Property and the Leader (as the portfolio holder for Economic Regeneration) to formulate a final response, on behalf of the Council, by the deadline of 12 June;

and
- 3) The views of the Chairmen and Vice Chairmen of both the Finance, Innovation and Property and Economic Regeneration Advisory Boards are sought in drafting the response.

The Director of Finance & Transformation confirms that the proposals contained in the recommendation(s), if approved, will fall within the Council's Budget and Policy Framework.

Background papers:

contact: Sharon Shelton

Nil

Sharon Shelton
Director of Finance & Transformation