

Thriving in uncertain times

Our offer to become a self-sufficient local authority

Bath & North East Somerset Council submission to UK Government Ministers

December 2018

About this document

The paper sets out the unprecedented financial burdens facing Bath & North East Somerset Council and the policy options that Government is requested to consider to help alleviate them.

It forms a submission to the Ministry of Housing, Communities and Local Government (MHCLG) and HM Treasury, addressed to Ministers and copied to key special advisers and civil servants. It will also form the basis for wider discussions with our local partners and communities as we engage with them on the future of our area and our requests to central government.

In short, it is about central government helping us to help ourselves. The most significant ways in which Government can help us do this is by enabling us to introduce:

- **A levy on short-term lettings**
- **A local tourism levy.**

It can also help us by introducing a series of **technical changes** including:

- **Amending the current Business Rates retention systems**
- Engaging on how best to compensate Bath & North East Somerset for the costs of **listed building applications.**

This paper sets out our local context and explains how these key proposals will help us become more self-sustaining.

1. Introducing Bath & North East Somerset – a distinctive local authority

The Government has accepted and understands the increasing financial strain that local authorities are facing up and down the country. This is affecting different local authorities in different ways. This paper sets out the position of Bath & North East Somerset Council (B&NES) and describes the unique and distinctive circumstances that B&NES faces. It is also designed to be a constructive contribution to the debate around local government finance. We support the Fair Funding Review that MHCLG are undertaking, and have contributed to it. We particularly welcome the recognition from the Minister in the foreword to the consultation document that:

“The world in which we live is changing. The demographics of our population are shifting, public services are being transformed by new thinking and new technology, even the way we work and travel is not the same as it once was. All of that has an impact on local government, with changes in the demand for and delivery of the many different services it provides. And that, in turn, has an impact on the funding required by different councils. The current system for allocating that funding has been in place for over a decade, and it has served the country well. But the world has changed almost beyond recognition since it was introduced, and now it’s time for the system to change too. I want local government funding to be decided in a fair, robust and evidence-based way, one that reflects the most up-to-date picture of councils’ relative needs and resources.”

This document sets out our thinking about how local authorities such as B&NES can be granted new powers to raise revenues in order to alleviate some of the pressure that has resulted from demographic changes and significant reductions in our Revenue Support Grant. These proposals reflect developments that have taken place in recent years such as the growth of Universities and changes to the retail sector, including the growth of e-commerce. We want to be a constructive voice in the debate around the future funding of local authorities, and this document outlines some ways that we could raise revenues through new powers and technical changes, rather than increased grant funding. However, we will also press central Government to restore money directly to us through the Revenue Support Grant, as this is the only way that we will be able to continue to deliver for our residents.

This paper therefore builds on the Fair Funding Review and the recent LGA document “Local Government Funding: Moving the Conversation On” and sets out:

- what makes B&NES distinctive
- why we therefore require tailored funding arrangements
- the range of ways in which central Government can help local authorities such as B&NES raise more funds locally to make ourselves financially sustainable for future generations.

2. What makes our position so challenging and distinctive?

As with many local authorities, meeting the needs of the most vulnerable takes up an increasing proportion of the Council’s resources. Adult Social Care and Children’s Services will make up 80% of our net budget for 2018/19 compared to 66% in 2015/16. We will continue to prioritise help for the most vulnerable. However, our ability to continue to do this and to provide high quality services on behalf of our residents is facing an unprecedented mix of challenges, including:

- In the City of Bath **World Heritage Site** (WHS), B&NES Council has a destination of international quality and distinctiveness. The WHS is a centre of international significance, inscribed by UNESCO in 1987 as a living city set within a beautiful and dramatic landscape and exceptional in that the inscription covers the entire city, not just the centre or individual monuments. This is a situation paralleled in very few other sites world-wide and means that all of the needs of a thriving modern city must be balanced with conservation of our outstanding heritage. Our UNESCO designation is part of our local “DNA” but it also represents a key element of the nation’s cultural, visitor and tourism offer.
- These assets are accompanied by our **obligations** as custodian of the WHS to conserve our heritage for future generations, requiring constant vigilance, maintenance and investment. Bath is a complex and challenging site, where modern life (including two thriving Universities) co-exists alongside historic cultural and natural assets of global significance. For example, traffic volumes and the specific impact of heavy vehicles inevitably have an effect on the approximately 8000 vaults and cellars beneath Bath. Managing these risks and achieving balance between conservation and community needs is a constant challenge. We welcome 5.8 million visitors a year, who in turn spend £375 million, helping underpin 8,700 local jobs. But the number of tourists and visitors themselves creates large and significant pressures and risks, particularly given that there is no direct levy on tourism in the way that is commonplace in Europe.
- We continue to support, invest in - and depend on - **our local High Streets and other centres**, including in our market towns of Keynsham and Midsomer Norton. Our ability to continue this support - despite the challenges from out of town retail and online shopping - is central to delivering the national agenda of promoting resilient town centres. Through the £11.5 million in rents received from retailers in 2018/19, our “bricks and mortar” High Streets and local shopping facilities contribute directly to local taxpayers and promote both self-sufficiency and local distinctiveness. Our local businesses pay Business Rates and other taxes, employ staff and promote both local and national economies. However, as is well known, the retail environment is changing rapidly. Given this, we would be pleased to explore new options for “levelling the playing field” with regard to online contributions to revenue, which is currently borne disproportionately by “bricks and mortar” retailers, particularly in city and town centres. Some form of “turnover” or similar levy which ensured fair contributions against online revenues generated, and which would be used to help support local businesses and high streets, would be a potential option.
- This vibrant mix of **different types of community and settlements in our area**, including green belt and Areas of Outstanding Natural Beauty, means that we must balance the service priorities and needs of very distinct communities within one relatively small local authority. In addition to our World Heritage Site and our market towns, a wide range of smaller towns, villages and rural communities- including areas of rural isolation- encompass more than 50 parishes. The diversity of local need is exemplified by a life expectancy gap of over 8 years for men living along just one bus route in our area.
- The **pressures of two successful Universities** and a large (and growing) student population present big challenges for a small city. An estimated 18,000 students live in the city who now account for around 20% of its total population. This places pressure on housing supply, with family homes being converted to multiple occupancy. Similar cities

such as Canterbury, York and Norwich face related challenges: as campus, “plate glass” universities, founded in the 1960s, they have grown significantly beyond their original “footprints”. The implications for funding of these changes are clear. For example:

- Student households are exempt, rightly, from council tax but we have calculated that this has created a loss of revenue of approximately £5m for 2017/18 – a stark increase over the last 5 years as student numbers have increased.
- Both the University of Bath and Bath Spa University are entitled to significant exemptions from business rates.
- The large student population has started to alter the housing market within the city – in terms of accommodation that is available but also the type of accommodation that is being planned and built out. Purpose Built Student Accommodation (PBSA) does not provide full business rate contributions.

3. How Government can help us help ourselves

B&NES supports proposals for local authorities to retain a greater percentage of business rates.

However, our request is for Government to go further and recognise the specific issues facing our area (and those facing similar challenges), particularly the cumulative impacts of the requirements to:

- maintain and invest in our World Heritage Site, including the large number of short-term holiday lets attracted by this
- manage large visitor and student populations.

These challenges exist without Council access to the ability to generate revenue streams from linked economic activities. Despite many years of careful budgeting and financial efficiencies, these pressures- combined with the demands of Adult Social care and Children’s Services- are now outweighing the financial tools we have at our disposal to cover these additional costs. **This burden is only likely to increase in the future.**

We have therefore identified a series of specific policy changes which we believe would begin to ease these burdens. However, rather than simply requesting additional funding, we are also seeking opportunities that will allow us to raise additional funding ourselves. These will require policy support from central government, and, in some cases, legislative change.

These are set out below in two sections;

- i) **Policies which would require new legislation**, particularly relating to generating new revenue funding streams from local economic activities including tourism and short-term holiday lettings
- ii) **Technical changes** which we believe would correct unintended or unfair consequences of existing policies. We believe these changes would, in the short-term, provide much-needed breathing space for the Council to move to a more self-sufficient approach to be supported by new revenue-raising powers. These include specific proposals with regard to Business Rates retention and office to residential conversions.

i) Policies which would require new legislation

a) Power to introduce a levy on short-term lettings

The most recent Visitor Accommodation Study (2016) indicated that there were around 880 properties registered as being available on various booking websites in the Bath & North East Somerset area (this includes individual rooms and whole properties). We are aware that the government has previously explored the possibility of introducing levies on short-term holiday lettings (sometimes referred to as “Airbnb” properties). The use of these has increased substantially over the last five years and will continue to do so. This is particularly an issue in Bath and the surrounding areas. The majority of owners of such properties are exempt from taxation, unless their income exceeds a certain threshold. However, in many cases, these owners are undertaking business activities and profiting from these. In effect, the local taxpayer is picking-up the tab for this “market disruption” whilst central government considers its approach to regulating this market.

Policy request: The Council has considered this matter and resolved at its meeting of 12th July to request the leader to request a series of changes including limiting the short-term letting of whole residential properties to 90 days in a calendar year, a change to the use classes order so short-term holiday lets differentiated from dwelling houses and a licensing scheme. The Council also agreed that any future Tourism Levy (see below) should also apply to short-term lettings.

b) Ability to introduce a local tourism levy.

B&NES has approximately 5.8 million visitors annually and, although they bring real benefits to our economy, the impact of related activities is a challenge to council resources. We estimate that a tourism levy in B&NES could raise over £2million per annum, based on hotel occupancy rates drawn from 2016 and applying a £1 per night per bed rate. This would be reinvested into the local area to help maintain the assets identified in this paper and develop the infrastructure necessary to support our World Heritage status.

Policy request: we ask the government to consider and review this suggestion. As we appreciate that a tourism levy is a substantial policy consideration, we propose that the government reviews the possible mechanisms by which it might be introduced, and consults local authorities. It is important that any funds raised from a tourism levy are retained by local authorities. We are however also interested in consideration as to whether such a fiscal power could sit with Metro Mayors, and in considering this proposal alongside that related to short-term holiday lettings set out in a) above.

As was highlighted earlier, there are also challenges in addressing the way in which Universities (and purpose-built student accommodation) are dealt with through Business Rates and the impact of the loss of subsidy to reflect students’ exemption from Council Tax. We are currently working with the LGA to identify potential options for redressing these imbalances, including (for example) creating a new class for student HMOs and seeking the power to charge business rates for purpose built student accommodation. However, we would welcome dialogue and discussion on how best to address these issues.

ii) **Technical Changes that can be achieved in the shorter term.**

a) **Amending Business Rates Retention Systems to ensure that office to residential conversions are subject to business rates until converted.**

Since 2011/2012, around 18,000 m² of B1 space in Bath has been approved for conversion to other uses under the national Permitted Development scheme. Of this space, only around 7,000m² had actually been converted by April 2016.

Under the Business Rates Retention system this has impacted on the Council's income. Between 2012/13 and 2016/17 the gross reduction of business rates in Bath due to the loss of office space has been estimated at £0.92m. This has reduced our income by approximately £0.5million between 2013/14 and 2016/17. By 2016/17, this represents an annual net loss of £178,000 B&NES. This also only reflects the net loss of office space to date but takes no account of the remaining 11,000 m² of relevant accommodation that has consent. We believe this is an unexpected and unintended consequence of the current business rates policy regime.

Policy request: we ask the government to consider amending the Business Rates Retention System to ensure that national policy concerning office to residential conversions is not used incorrectly and in a manner that has an adverse financial impact on B&NES.

b) **Engagement on listed building applications.**

B&NES receives around 800-900 such applications per year, which rightly require time and resources from the council to deal with. We strongly support the need to maintain and safeguard listed buildings for the future, and indeed are very proud of our approach to listed buildings in our area. However, we believe it is unreasonable to expect a small authority to pick up the disproportionate cost of having such a high concentration of listed buildings and we will be engaging further on how best to compensate Bath & North East Somerset for these costs.

4. Next Steps

We would like to enter into constructive dialogue with MHCLG and, where necessary HM Treasury, to discuss how the policies above could be implemented as soon as possible. Where legislative change is required, we request that consideration is given to whether there is a suitable legislative vehicle in the current Parliament to insert some or all of the requested changes

B&NES is already in conversation with like-minded local authorities who face similar challenges created by the impact of Universities. We would be happy to co-ordinate this activity through the LGA and create formal mechanisms for MHCLG engage with us. The Civic University Commission is examining the economic impact that universities and higher education institutions play in their local areas. We welcome this work and will contribute towards it.

We hope that Ministers will recognise the issues set out in this paper and the constructive approach we are determined to follow. We look forward to discussing these issues in more detail and in doing so we are focused on the importance of securing the long term financial position of Bath & North East Somerset – for the benefit of our residents and businesses.