

RIBBLE VALLEY BOROUGH COUNCIL

REPORT TO POLICY AND FINANCE COMMITTEE

Agenda Item No 20

meeting date: 25 OCTOER 2016
title: 100% BUSINESS RATE RETENTION CONSULTATION
submitted by: DIRECTOR OF RESOURCES
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1 PURPOSE

- 1.1 To inform members of our recent response to the 100% business rate retention consultation paper

2 BACKGROUND

- 2.1 This consultation seeks views on the government's commitment to allow local government to retain 100% of the business rates that they raise locally.
- 2.2 The consultation period ran for 12 weeks from Tuesday 5 July 2016 to Monday 26 September 2016.
- 2.3 It is important to bear in mind that the Government has announced that the move to 100% business rates retention will be fiscally neutral. To ensure this, the main local government grants will be phased out and additional responsibilities will be devolved to local authorities in order to match the additional funding from business rates
- 2.4 The Government has been working with the LGA and other representatives of local government to develop the principles that the reform package will be based upon. This has included a joint LGA-DCLG chaired Steering Group and set of Technical Working Groups to look at every aspect of how the new system should work, alongside which responsibilities should be devolved.

3 THE CURRENT SYSTEM

- 3.1 The move to 100% business rates retention builds on the current system, in which local government as a whole retains 50% of locally collected business rates. This system was introduced in April 2013. Before then, all business rate income collected by councils formed a single, national pot, which was then distributed by government to councils 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 half of business rate income in their area by splitting business rate revenue into the 'local share' and the 'central share'.
- 3.2 .The central share is redistributed to councils in the form of revenue support grant and in other grants. The local share is kept by local government, but is partly redistributed between local authorities through a system of tariffs and top-ups. This redistribution ensures that areas do not lose out just because their local business rates are low compared to their assessed needs.
- 3.3 Within the current system, councils keep up to 50% of growth in their business rate receipts arising from new or expanding businesses. Local authorities that pay tariffs are also liable to pay a levy of up to half of this type of growth. The money raised from this

levy is then used to fund a safety net system. This system protects those councils which see their annual business rate income fall by more than 7.5% below their 'baseline funding level'.

4 TIMETABLE

4.1 The Government's timetable for the move to 100% business rates retention is as follows

Summer 2016	Consultation on the approach to 100% business rates retention. The Government are inviting responses to this consultation by 26 September 2016. Those responses will help shape specific proposals across all aspects of the reforms.
Autumn 2016	We expect that Government will undertake a more technical consultation on specific workings of the reformed system
Early 2017	As announced in the Queen's Speech, the Government will introduce legislation in this Parliamentary session to provide the framework for these reforms. We expect the legislation to be introduced later in the Parliamentary session.
April 2017	Piloting of the approach to 100% business rates retention to begin
By end of the Parliament	Implementation of 100% business rates retention across local government.

4.2 The 100% Business Rate Retention Consultation paper considers the following themes:

- ❖ the devolution of responsibilities.
- ❖ the operation of the system, including how growth is rewarded and risk is shared.
- ❖ local tax flexibilities.
- ❖ assessment of councils' needs and redistribution of resources.
- ❖ accountability and accounting in a reformed system.
- ❖ how, and what, local government behaviours should be incentivised through the assessment of councils' relative needs?

5 BUDGET WORKING GROUP MEETING ON 14 SEPTEMBER 2016

5.1 The Budget Working Group considered the consultation paper and agreed the answers set out in Annex 1 as the basis for our response.

6 CONCLUSION

6.1 Note the issues raised in the recent consultation paper and the response submitted.

DIRECTOR OF RESOURCES

PF69-16/JP/AC
13 October 2016

RESPONSE ON BEHALF OF RIBBLE VALLEY BOROUGH COUNCIL TO 100% BUSINESS RATE RETENTION CONSULTATION

CONSULTATION QUESTIONS

Question 1: Which of these identified grants / responsibilities do you think are the best candidates to be funded from retained business rates?

Response –

Attendance Allowance – We do not agree that Attendance Allowance should be funded from retained business rates. We feel this would be extremely unfair and impossible to fund in this way without other increases in funding to meet this.

Background: Attendance Allowance is currently administered by the DWP and is paid to those aged over 65, whose ability to keep safe or look after their own personal care is affected by physical or mental illness or disability.

Attendance Allowance has 2 weekly rates, and the rate paid depends on the help needed:

£55.10 for those who need help in the day or at night

£82.30 for those who need help both in the day and at night.

For Ribble Valley we estimate the current cost of Attendance Allowance is (average amount paid) £73.00 x (caseload) 1,600 x 52 weeks = £6.073m. Clearly this is a very significant amount of funding which would have to be met from the extra retained business rates

In addition we are concerned we would need extra staffing resources to be able to administer attendance allowances.

Local Council Tax Support Administration and Housing Benefit Pensioner Administration Subsidy – We feel that welfare payments should be dealt with at a national level with administration carried out locally.

However the Council feels strongly that if this administration funding were to be rolled in to business rates (instead of receiving admin subsidy as a specific grant) it should be at a level that reflects true costs of carrying out this function.

Background: Local Council Tax Support was introduced in 2013 as part of welfare reform measures. Council Tax Benefit was abolished and replaced with locally determined schemes of council tax support. At the same time the Government reduced the funding available from 100% subsidy to a grant of only 90%. Instead of a benefit, support for council tax became a discount within the council tax system.

Admin Funding for Councils is received partly from the DCLG (for sole LCTS claims) and from DWP (for joint Housing Benefit and LCTS claims). In 2016 we will receive a total of £143,000 for LCTS and all Housing Benefit Claims (not just pensioner claims). Therefore the most such a new responsibility would cost us would be this amount.

Rural Services Delivery Grant – We disagree that this grant should be transferred in and funded as part of 100% business rate retention. It is essential in our view that Central Government continue to fund the cost pressures of supporting services in rural areas.

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Background: In the final grant settlement for 2016/17 the Secretary of State announced a review of the needs formula and pending this announced a fivefold increase in the newly announced Rural Services Grant for 2016/17 in recognition of the particular costs of providing services in sparse rural areas.

For Ribble Valley the increase resulted in us receiving £107,254 16/17; £86,603 in 17/18; £66,618 in 18/19 and £86,603 in 19/20

Clearly we welcomed this late announcement and have supported the work of SPARSE and the select group of MP's who argued strongly for fairer funding in rural areas.

Revenue Support Grant – We agree that this grant should be funded from the extra business rate income councils will receive. However we feel strongly that the proposed Tariff Adjustment should be scrapped.

Background: Revenue Support Grant is currently planned to be phased out by 2020. For Ribble Valley we received £623,087 16/17 and estimate we will receive £304,319 in 17/18, £109,149 in 18/19 and lose -£108,866 in 2019/20.

Question 2: Are there other grants / responsibilities that you consider should be devolved instead of or alongside those identified above?

Response –

Economic Growth and Skills – New responsibilities that work sensibly with the promotion of economic and housing growth seem to be the most sensible ones to consider at the present time. Any new responsibilities that help local authorities become more directly involved in skills development and delivery would be welcomed – matching skills to local need has long been an important issue.

The transfer of any new responsibilities must not only be fiscally neutral to each local authority at the point of transfer, it must remain fiscally neutral in the medium to long term.

It is also important that the funding for new responsibilities over the medium to long term is not confused with any growth incentive and the retention of business rates growth proceeds.

Question 3: Do you have any views on the range of associated budgets that could be pooled at the Combined Authority level?

Response –

The current New Homes Bonus and Business Rate Retention scheme reward councils who actively promote growth in their locality. This provides a powerful incentive for growth to happen. We would not want to see this incentive diluted by pooling NHB and retained business rates on a wider footprint.

**RESPONSE ON BEHALF OF RIBBLE VALLEY BOROUGH COUNCIL TO
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Question 4: Do you have views on whether some or all of the commitments in existing and future deals could be funded through retained business rates?

Response –

Any deals either in the past or future should not be funded via retained business rates. These should be met from new government funding.

Question 5: Do you agree that we should continue with the new burdens doctrine post-2020?

Response –

We definitely agree new burdens funding should continue where applicable at a local level

Question 6: Do you agree that we should fix reset periods for the system?

Response – It is difficult to see how a system could work without resets at pre-determined points. The key question that needs to be answered is in relation to the frequency of any reset, whether it is a full or partial reset and probably more importantly – what is the primary purpose of any reset (i.e., needs v ongoing incentive).

Question 7: What is the right balance in the system between rewarding growth and redistributing to meet changing need?

Response –

It is very important that the balance between needs is determined properly. If the baselines are determined properly at the onset of the system then the system must be developed to adequately reward local authorities that generate business growth - it must also ensure that those local authorities continue to benefit from an adequate proportion of the increase in business rates income into the medium term (ie, beyond resets) whilst facilitating the redistribution of some income to re-dress need. In many ways, the Government needs to be careful not to confuse the two issues of 'need' and 'incentive' – whereas there will obviously be a trade-off in funding, the principle of having a system that properly incentivises economic growth should do just that.

If the Government is serious about having a 'powerful' incentive element for growth in the system, then the system really does need to have some kind of ongoing incentive built-in that deals with the issue of resets – if it doesn't then the incentive will be ineffective and could run the risk of distorting economic growth at a local level.

**RESPONSE ON BEHALF OF RIBBLE VALLEY BOROUGH COUNCIL TO
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Question 8: Having regard to the balance between rewarding growth and protecting authorities with declining resources, how would you like to see a partial reset work?

Response –

A partial reset would provide a medium to long term incentive to reward growth where as a full reset is only a short term solution. We would like to see some options presented which explore local authorities retaining a fixed or reducing percentage of their previous earned growth.

Question 9: Is the current system of tariffs and top-ups the right one for redistribution between local authorities?

Response –

The current system works well and should be retained.

Question 10: Should we continue to adjust retained incomes for individual local authorities to cancel out the effect of future revaluations?

Response –

Any future revaluation is outside the control of local authorities and as such the impact on income should be adjusted to neutralise the effect.

Question 11: Should Mayoral Combined Authority areas have the opportunity to be given additional powers and incentives, as set out above?

Response –

We do not agree that such powers and incentives should be exclusively for mayoral combined authorities – they should be available to others. They should be properly funded as new burdens.

Question 12: What has your experience been of the tier splits under the current 50% rates retention scheme? What changes would you want to see under 100% rates retention system?

Response –

In two tier areas the system is more complicated than in unitary areas. The 80:20 tier splits work well, are simple to understand and correctly rewards the authority primarily responsible for ensuring businesses grow in their locality. I.e the local planning authority.

The tier splits should not be looked at in isolation from the tariff and top calculations.

Question 13: Do you consider that fire funding should be removed from the business rates retention scheme and what might be the advantages and disadvantages of this approach?

Response –

This is not an issue we wish to comment on, however the fire authority has little direct involvement in economic growth.

**RESPONSE ON BEHALF OF RIBBLE VALLEY BOROUGH COUNCIL TO
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Question 14: What are your views on how we could further incentivise growth under a 100% retention scheme? Are there additional incentives for growth that we should consider?

Response –

This may be worth considering. We think that it is fair to say that what matters here is that the base incentive system is appropriate and effective before thinking about other issues – the things that have previously been covered in this consultation re: resets, tier splits obviously have a direct impact on this.

Question 15: Would it be helpful to move some of the ‘riskier’ hereditaments off local lists? If so, what type of hereditaments should be moved?

Response –

We support this. It is currently unfair for local authorities to bear the impact of the results of national appeals on local lists. E.g. motorway service stations.

Question 16: Would you support the idea of introducing area level lists in Combined Authority areas? If so, what type of properties could sit on these lists, and how should income be used? Could this approach work for other authorities?

Response –

We do not support this, however if local authorities wish to do this they should be allowed to make their own arrangements.

Question 17: At what level should risk associated with successful business rates appeals be managed? Do you have a preference for local, area (including Combined Authority), or national level (across all local authorities) management as set out in the options above?

Response –

Similar response to Q16. We believe that local authorities should manage the risks in their areas that they can be aware of, however if local authorities wish to do this they should be allowed to make their own arrangements.

Question 18: What would help your local authority better manage risks associated with successful business rates appeals?

Response –

We are extremely frustrated with the time taken by the Valuation Office to consider appeals. The Government’s recent changes to the appeals system should improve this situation

**RESPONSE ON BEHALF OF RIBBLE VALLEY BOROUGH COUNCIL TO
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Question 19: Would pooling risk, including a pool-area safety net, be attractive to local authorities?

Response –

The problem with pooling risk is that it would be a disincentive for other members of the pool who see economic growth as a priority. Therefore we feel such a decision should be left to each pool to make.

Question 20: What level of income protection should a system aim to provide? Should this be nationally set, or defined at area levels?

Response –

The current nationally set safety net system is fully transparent and seems fair. It also provides certainty.

Local Tax Flexibilities

Question 21: What are your views on which authority should be able to reduce the multiplier and how the costs should be met?

Response –

All local authorities should be allowed to adjust the multiplier both upwards and downwards providing the additional income or expenditure is met locally.

Question 22: What are your views on the interaction between the power to reduce the multiplier and the local discount powers?

Response –

Local authorities should have the freedom to do either of these. Local authorities are democratically elected bodies and should be trusted to make informed decisions for their local area.

Question 23: What are your views on increasing the multiplier after a reduction?

Response –

It is important that local authorities are not unfairly penalised if they did decide to reduce the multiplier and then in subsequent years decide to revert back. In theory this is fairly simple to oversee, in practice it probably isn't and could be perceived negatively by local business or national government..

Question 24: Do you have views on the above issues or on any other aspects of the power to reduce the multiplier?

Response –

No.

**RESPONSE ON BEHALF OF RIBBLE VALLEY BOROUGH COUNCIL TO
100% BUSINESS RATE RETENTION CONSULTATION****Question 25: What are your views on what flexibility levying authorities should have to set a rateable value threshold for the levy?**

Response –

The flexibility to do this should be determined locally. In practice, many of the smaller businesses already have access to full or some form of business rate relief in any event that will no doubt apply to the supplement also.

Question 26: What are your views on how the infrastructure levy should interact with existing BRS powers?

Response –

The infrastructure levy and the BRS should both be available to operate separately in local areas. It is not clear from the consultation documents how much of any issue this would pose in practice – presumably most applicable situations would use one mechanism or the other?

Question 27: What are your views on the process for obtaining approval for a levy from the LEP?

Response -

The Government have been clear for some time that they see the LEP as a legitimate route for making such decisions. The point has been made in the past that most other funding decisions that involve raising additional income need to have a democratically backed mandate (either Council meeting or Referendum) it continues to be interesting therefore that a non-democratically elected body (which may or may not be representative of the local community and business) will have the power to make such decisions.

Question 28: What are your views on arrangements for the duration and review of levies?

Response -

This should be a matter of local determination.

Question 29: What are your views on how infrastructure should be defined for the purposes of the levy?

Response -

Using something similar to the CIL definition seems to make sense. It should however be capable to being 'flexed' to meet local circumstance – after all, if everybody in the LEP agree that they consider it to be infrastructure that should be enough. This should be a matter of local determination.

Question 30: What are your views on charging multiple levies, or using a single levy to fund multiple infrastructure projects?

Response -

A single levy would make the most sense and be easily understood

RESPONSE ON BEHALF OF RIBBLE VALLEY BOROUGH COUNCIL TO 100% BUSINESS RATE RETENTION CONSULTATION

Question 31: Do you have views on the above issues or on any other aspects of the power to introduce an infrastructure levy?

Response -

No

Question 32: Do you have any views on how to increase certainty and strengthen local accountability for councils in setting their budgets?

Response –

The key issues here include;

- Baseline Position – the new baseline figures need to be fair, robust and transparent. These need to be made available well in advance of the new system starting not just a few weeks before Councils set their budgets.
- Needs Formula – this needs to be clear and easily capable to interpretation.
- Growth Incentive – the earlier that the Government can be clear about how this will work the better.
- Resets – determining the ‘type’ and ‘frequency’ of resets will help local authorities plan their medium term budgets. In addition, some early thoughts about how the revised quantum would be distributed (needs v growth) would be very useful.
- Appeals – clarity over who will be responsible for appeals is needed – especially backdated appeals.
- Multi-year – There would seem to be no reason why multi-year settlements can’t be used between resets, depending upon the reset period length of course!

The process for setting local authority budgets must be one of the most accountable processes in the public sector, the issue isn’t really about how it can be made more accountable it is about how the key elements that make up the budget can be known with more certainty over the medium term – including the risk associated with them.

Question 33: Do you have views on where the balance between national and local accountability should fall, and how best to minimise any overlaps in accountability?

Response –

Wherever possible, local accountability should follow local decision making and situations where national decisions are accounted for at a local level should be minimised.

Question 34: Do you have views on whether the requirement to prepare a Collection Fund Account should remain in the new system?

Response –

It is difficult to see how the system could be operated without one.

**RESPONSE ON BEHALF OF RIBBLE VALLEY BOROUGH COUNCIL TO
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Question 35: Do you have views on how the calculation of a balanced budget may be altered to be better aligned with the way local authorities run their business?

Response –

The regulations about the requirements to set a balanced budget are already robust and well adhered to. No further regulation is required, setting a budget should be a local issue.

Question 36: Do you have views on how the Business Rates data collection activities may be altered to collect and record information in a more timely and transparent manner?

Response –

The main issue that impacts upon the local government is the amount of appeals that are outstanding with the Valuation Office and their lack of capacity to deal effectively with them. This needs resolving in any new system.

The Government should work with practitioners to amend NNDR1 and NNDR3 to collect information that is necessary and valuable to both central and local government. For example NNDR3 should in a transparent manner tie in with the figures reported in local authority accounts. We also feel an in year data collection should take place in order to assist the revising of budgets (similar to NNDR2 previously)