CIPFA The Chartered Institute of Public Finance & Accountancy

Business Rates Retention Reform

Sharing Risk and reward, managing volatility and setting up the reformed system

A Submission by:

The Chartered Institute of Public Finance and Accountancy

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the people in public finance

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

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1. Executive Summary

1.1 In this submission, CIPFA has made comments and recommendations across two areas;

- The management of incentives
- Reforming the appeals system

1.2 The current method of funding local government is through a combination of council tax and business rates and reducing grants. CIPFA considers these funding mechanism to be insufficient for the long term funding of local government services and is working with other senior stakeholders to influence long term funding solutions, greater fiscal devolution[1] and improved financial resilience.[2]

1.3 In 2020 Local Authorities will retain 75% of business rates and this will give Local Government greater control over the money it raises. However, it is necessary for all parties to acknowledge that this brings with it additional risk. Through a financial management lens it is essential that councils prepare equally well for both good and bad years and are able to manage this long term volatility.

1.4 CIPFA has commented on this consultation within the context of the current legal framework and the current quantum. However, CIPFA does not believe that the current funding levels are sufficient for Local Authorities to meet growing demand and are concerned with the sustainability of a small number of Local Authorities.[3]

1.5 CIPFA recognises the work done by the Department around appeals which has long been an area of concern and have worked closely to ensure changes confirm to proper accounting practice. Within this submission we have identified a possible technical accounting issue that MHCLG may wish to consider.

[1] Independent Commission on Local Government Finance 2015

[2] Draft CIPFA Financial Management Code

[3] Measured Resilience in English Authorities CIPFA 2018

2. The management of incentives

2.1 With the growing importance of business rates to local authority funding it is essential that the system encourages every organisation to support economic growth. Economic growth brings with it many benefits[4] and this will include a greater sustainability in public finances as they move towards greater reliance on business rates.

2.2 Within the complex business rate system there is an important balance that must be maintained between incentive and risk if the scheme is to reach its full potential. CIPFA recognises that this balance is a delicate one and is influenced by many factors.

2.3 CIPFA agrees that the existence of any cliff edge within a system is unhelpful and supports the work that the Department has done in order to remove this impediment to economic growth.

2.4 We acknowledge that this consultation seeks views on resets after 2020-21 and not what happens at the transition to the reformed system, but we wish to take this opportunity to make clear that the management of transition is of significance and will have an influence on the schemes long term success.

2.5 CIPFA would like to see more evidence and fully worked exemplars to see the interaction of the phased and partial reset with a combination of time periods. This would also allow local authorities to reflect on the possible impact these options would have. It is important that authorities with little growth are not disadvantaged by the lack of a full reset as well as those benefitting from doing well.

2.6 CIPFA supports the concept of simplifying the levy but more information and detail would be needed to make any recommendation on the appropriate level at which this should be set. In principle the level must be set to continue to encourage authorities to invest in economic development. However, to ensure the financial sustainability of those areas without strong growth, the retention of some form of levy to support the propose safety net top slice is favoured.

2.7 The consultation discusses the option for the safety net to be funded from a top slice or a levy. CIPFA are conscious that this would have an impact elsewhere in the system and would want to be clear about any impact of this. CIPFA would again reiterate that the government explores the option of central list funding and takes this opportunity to clarify the central list to ensure that no movement adversely impacts upon local authorities.

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[4] Centre for Cities Briefing December 2017

2.8 CIPFA has not restricted its discussion on incentives to resets and acknowledges that with the removal of the levy there is a change in the approach that may be taken towards pooling. Initially the incentive for pooling was a fiscal one but the benefits of collaborative working may have been wider than this narrow focus. CIPFA recommends that the department carry out further work to identify any additional benefits to this approach and how those who currently pool would see the new scheme operating in a fiscally neutral future.

3. Reforming the appeals system

3.1 CIPFA has supported the technical working group by providing commentary on its consideration surrounding appeals and supports the Governments alternative suggestion. However, the technical nature of the paper is not easy to understand. We would like it to be simple to explain and transparent in terms of growth and would support additional modelling around this approach. This would also fit with the principle to make the system simpler and more transparent.

3.2 CIPFA welcome the Department's acknowledgement of the need to comply with accounting standards (3.3.3). In order to address volatility caused by valuation change and associated provision, CIPFA would support the recommendation for the alternative approach. However, there are areas where additional consideration should be given and modelling would be needed. These may include:

- Timing – clarity is need to fully understand the timing of payments and the relationship between certain activities within the new scheme
- Resources – the completion of the CTB1 and the NNDR1 may have resources implications within smaller organisations
- Consistency – data may not be collected consistently across all organisations.

3.4 CIPFA would like to point out that additional consideration may need to be given to para 3.4.11. The amount of reward for growth needs to be reflected in the accounts in the year it relates to, not the year in which it will be paid, and we need to ensure that double counting is not an issue. So the system will need some way of being able to calculate this figure in order that authorities can make the accrual. CIPFA has voluntarily provided technical support on this issue and is happy to continue to work with the department to seek to identify a solution.

3.3 CIPFA would agree that certainty of funding has to be the biggest benefit to the simplified system as certainty of funding can improve medium term financial planning within the organisation.

4. **Financial Resilience**

4.1 CIPFA does not believe that the current funding levels are sufficient for local authorities to meet growing demand and are concerned with the sustainability of a small number of local authorities.[5] The current method of funding local government is through a combination of council tax and business rates and reducing grants, but with ever increasing demands it is unlikely that funding will keep pace.

4.2 In our response to the fair funding review March 2018 we called for a review of the statutory services having to be delivered within the current funding envelope and are disappointed that this has not been taken forward.

4.3 CIPFA is working with other stakeholder to generate a conversation that looks at the challenges faced by the sector and the long term funding options for local government and highlight these issues. Our work with The Institute for Government on the publication "Performance Tracker" [6] is an example of this thought leadership.

4.4 In 2020 local authorities will retain 75% of business rates and this will give local government greater control over the money it raises. However, it is necessary for all parties to acknowledge that this brings with it additional risk.

4.5 CIPFA considers that strong financial management plays an important part in the reduction of risk, improved transparency and greater financial understanding. It is current developing with the sector a new Financial Management Code.

[5] Measured Resilience in English Authorities CIPFA 2018
[6] Institute for Government Performance Tracker October 2018

5. Observations

5.1 While it may be obvious, CIPFA would like to take this opportunity to mention the need to be aware of the time scale for implementation. There is a need to give full consideration of budgetary implications and CIPFA would request that Local authorities be provided with substantial support and the maximum possible time with which to implement the new changes.

5.2 Recognising the time constraints we would ask that the department explores with the sector practical approaches that would support improved implementation.

5.3 With the importance of economic regeneration it would be useful to clarify the position of Enterprise zones and other disregards e.g. renewable energy and the impact they may have on this reform which does not appear to have been reflected in this consultation.