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**SOCIETY OF DISTRICT COUNCIL TREASURERS**

President: Norma Atlay, CPFA

Date: 23 September 2016

Dear Sir/Madam,

**Self Sufficient Local Government: 100% Business Rates Retention**

This letter is in response to the consultation document published by the DCLG on 5th July in respect of the 100% Business Rates Retention. The Society of District Council Treasurers welcomes the opportunity to respond. By way of background, the Society currently has a membership of 163 Chief Financial Officers from the 201 district councils nationally. The response to this consultation is representative of the membership of the Society and as such reflects the potential for differing views dependent on individual circumstances.

The Society welcomes the manner in which the Department for Communities and Local Government (DCLG) and the Local Government Association are working together (and with the wider local government sector) through the working groups that have been established to discuss the salient issues. Through our participation on the Steering Group and various working groups, representatives from the SDCT have consistently sought to represent the District Council case and work with colleagues to find an equitable solution.

The Society recognises that much detailed work is and will be required through the working groups which will feed into the more detailed technical consultation that is expected later in the year. We are committed to continued work with the Society of County Treasurers to ensure that Shire area concerns are taken on board and note that the joint letter sent by the two society presidents on 5th August is being included in the consultation responses.

The Society has encouraged all individual districts to respond to ensure that there is the widest possible coverage of the differing views that exist on some of the issues. We have set out our position on some of the key themes coming out of discussions and trust our comments will be considered helpful in moving forward.

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

The first use of the 100% retained business rates should be to fund existing pressures that have arisen from:

* unfunded (or not sufficiently funded) new burdens
* inflation
* demographic pressures.

Once these have been funded, any other grants or responsibilities should reflect the approach set out in the consultation document. The key ones of these are:

* Building on the strength of local government e.g. able to influence or control how the service is delivered and shape to local needs
* Improved outcomes for service users or local people
* Should not create unfunded pressures in the short, medium or long-term

It is crucial that there is full transparency and consultation on how any grant or responsibility area meets all of the above, especially longer-term financial projections.

Whilst individual authorities may have their own view on the suitability of certain funding streams, the principle of how they are rolled in is more important. The need for transparency regarding the amounts rolled in and future years’ assumptions regarding these amounts will be critical. For example, in 2013/14 a number of grants were rolled into the Settlement Funding Assessment, including localised support for council tax. However, in subsequent years, the reductions in local government funding reduced the SFA amount, and with it, elements of the grants rolled in.

The drive for economic growth is a good aspiration, but seems to add too many requirements. Business rates could simply be seen as a tax on business to fund local services in much the same way that Council tax is a tax on those living in the area. It is not a hypothecated fund that should solely be spent on business needs or aspirations and given the future funding pressures, local authorities need to have the flexibility to spend on the services needed in their area.

There seems to be growing certainty as to the level of RSG that each authority will receive, and therefore this seems to be a reasonable candidate for inclusion. The model used should avoid local authorities having increased tariffs (negative RSG).

The other candidates listed do not seem to match the criteria listed above and we would be opposed to their inclusion. Some of them create future funding pressures that have no link to any potential growth in business rates (e.g. ILF, BCF and Attendance Allowance). Any transferred responsibilities must be adequately funded in the short, medium and longer term.

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

There are no obvious services that have expenditure that is linked to the level of business rates. The best candidates are therefore services that have a stable cost base, and which fulfil:

* Building on the strength of local government e.g. able to influence or control how the service is delivered and shape to local needs
* Improved outcomes for service users or local people

Subject to further review of costs, adult training and job centres could be reasonable candidates. These could provide opportunities for co-location and co-delivery.

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

With the different deals and local arrangements in place / being negotiated, this is an area that will vary across districts / areas.We would, however, urge DCLG to recognise that there may be other ways for local authorities to come together to benefit the locality. If there are groups or clusters of District Councils that wish to come together for common purpose then they should also be allowed a similar mechanism in relation to pooled budgets. The opportunities that may exist for combined authorities should not be at the expense of funding or opportunities for areas that don’t have combined authorities.

**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?**

It is difficult to give an informed answer to this question without looking at the specifics of existing or future deals. In effect, it is difficult to see how the system could work if some of the commitments are funded from retained business rates as this would start to eat into the quantum of funding that exists for everybody else. The issue is very closely linked to the new responsibilities and the comments made elsewhere in this response about ensuring that such responsibilities are adequately funded into the medium and long term.

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

Yes. The New Burdens Doctrine is essential in ensuring services transferring to local government are accompanied by sufficient funding. The determination of the initial and future funding levels is a key component of this.

To date, the Section 31 Grant issued to compensate for changes affecting business rates income (e.g. 100% Small Business Rate Relief and the cap on the multiplier) has been fair and the objective way in which the amounts could be calculated has been a contributory factor in allowing the grant to be determined with little dispute.

Where new responsibilities are passed over the local government, the nature of these responsibilities and the costs associated need to be fully funded and calculated in a transparent manner.

Where central government policy is seeking to change the nature of these responsibilities, the problem of how the changes are implemented should not be the problem of local government. For example, the transfer of the localised support for council tax required local government to make changes to the existing scheme in order to make up the shortfall in funding that was passed from central to local government.

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

It is difficult to see how a system could work without some sort of reset at pre-determined points. The key question is the frequency of any reset, whether it is a full or partial reset and most importantly what the primary purpose of any reset is in relation to needs and ongoing incentives. On balance fixed reset periods seem to make most sense. This helps with planning as it is then known when the current position will come to an end. Whilst it might be argued that it would be logical for the reset points to be based on changes in economic conditions, this could be subjective and could vary across the country.

Details of the frequency and process for resets should be set out in advance.

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

Pre 2013/14, there was a fixed amount of resources available to local authorities (i.e. Formula Grant) and therefore for an authority to gain resources others had to lose. So when a shift in Relative Need occurred, resources were moved between authorities. However, since 2013/14 there is now an added dimension i.e. the amount of resources created locally through business rates growth.

Whilst it is acknowledged that Relative Need does need to be recalculated (how often is subject to debate), it does not follow that growth achieved above the national Settlement Funding Amount (SFA) needs to be included in any reassessment of Relative Need. Instead, the amounts with the SFA figure could be re-assessed and growth could be retained outside of the relative need calculation.

Furthermore, whilst for 2020 there is to be a simultaneous “Reset” and reassessment of Local Need, this does not need to be the case in the future. For example, Need (and therefore the Baseline Need amount) could be updated annually, bi-annually or 5 yearly to reflect data change whilst business rates (and the NDR Baseline figure) could be Reset on a different timeline i.e. 5, 10 or 20 years.

**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?**

Whilst recognising that an individual district’s view on a Reset may vary across authorities and potentially over time i.e. depending on where they are compared to their NDR Baseline at an given point (with those below wanting a new lower target and those above wanting no Reset), the Society considers the points raised below will be accepted by all districts as necessary in creating a system that does not create a funding lottery over the longer term, based on the methodology for NDR Baseline

The purpose of business rates retention is to create an incentive for authorities to promote economic growth. Therefore, by only allowing authorities to retain growth for a limited period limits the incentive and potentially the resources required to allow authorities to finance material sums locally to promote growth.

This argument would suggest that growth should be retained on a permanent basis (or over a sufficiently long period). However, the extent to which authorities have created “growth” (if defined by amount collected above NDR Baseline) and the extent to which it is merely a consequence of a particular methodology for setting the NDR Baseline should be recognised. Therefore, the most appropriate course of action may be to include a partial reset into the system to ensure:

(i) Windfall gains (from favourable baselines) are restricted to a limited number of years

(ii) Authorities with unfavourable baselines (due to the timing of appeals being settled for example) are not left in the positon of needing safety net support over a prolonged period.

This is opposed to what would be could be considered a “Full Reset” and “No Reset” i.e.

No Reset - NDR Baselines continue to be increase by the increase to the multiplier only and NDR growth is retained indefinitely (with only Baseline Need being updated).

Full Reset – the NDR Baseline (and therefore Baseline Need) increases at the reset to reflect the growth achieved between resets. This would either (i) allow central government to roll in more responsibilities into the SFA or (ii) the growth would be redistributed based on Relative Need.

A “Partial Reset” could mean that local government is to keep the gains made above the Baseline (albeit distributed across local government via the NDR Baseline), thereby creating the incentive for the sector. However, the incentive for individual authorities may be significantly weaker if they know that longer term growth elsewhere is a more important factor that local growth.

A partial reset of this nature would also not differentiate between an authority that has invested significantly (and needs the proceeds of growth to pay for the investment) and those that have merely gained from the Reset methodology.

The partial reset therefore needs to:

* Retain growth in local government
* Allow authorities to retain “real growth” (in order to create the right incentive for investment)
* Stop longer term windfall gains or unrealistic Baselines that leave authorities below their NDR Baseline / at the safety net, due to the methodology for the Reset only.

In effect, it needs to allow local authorities to retain the rewards / resources due from actual growth, whilst at the same time ensure funding disparities (through the methodology in determining the NDR Baseline) are kept to a minimum. Potential ways of addressing this could be to allow authorities to ring fence growth in specific sites (as with Enterprise Zones) that would be exempt from Resets.

Whilst this would increase complexity, it provides authorities with confidence that investment would be affordable / worthwhile.

If this ring fencing was in place it would allow Resets to be more frequent, thereby reducing the impact of large gains or losses from the Reset methodology. It would also mean there would be less of a need for any damping / transitional funding, as baseline should not shift by that great an amount.

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

Yes. The current system of tariffs and tops ups allows for the required redistribution of business rates income across the country.

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

*Our response below recognises that whilst there may be certain districts that could gain from this (i.e. those where growth in RV will be higher than the national average), the majority will not (based on the assumption that growth in London’s RV will be significantly higher). Also, for those that are above the national average, the complexity that allowing growth to be kept form revaluations would bring, may be unwanted*.

Yes. The scheme already allows authorities to gain from business rates growth. If revaluation is to remain revenue neutral nationally (through the current practice of adjusting the multiplier value) then gains made by authorities will be at the expense of losses elsewhere. This will mean business rates income becomes a relative amount, with gains dependent on whether local changes in RV are above or below the national average. This will increase the complexity of the system and reduce the incentive to authorities, as local taxbase growth (and the gains that could be expected) may be undermined by changes in RV elsewhere in the country.

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

The same powers should be made available to all areas, irrespective of the level of devolution.

**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?**

The tier splits issue is contentious and the Society was unable to reach a consensus view for all members. For districts that feel that they will gain from business rates post Reset (and these may not be the same as those that are gaining now), they would want their share to increase from 40% (or at worst stay the same). Whereas those that feel they would rather have less risk / reward may want to suggest a lower percentage would be better (to align better with Baseline Need).

**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?**

From a purely practical point of view, the exclusion of fire funding from the business rates retention scheme would assist in reducing the complexity of the scheme. For the small amounts involved, it creates unnecessary work for billing and precepting authorities in (i) making payments, (ii) communicating budget monitoring and (iii) final accounts.

Having one less preceptor on business rates would reduce this workload.

**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?**

In order to allow authorities the incentive to invest for growth, the scheme should provide some mechanism to safeguard increased business rate revenues for specified areas (in the same was as Enterprise Zones currently). This would protect the additional resources forecast from being taken at a partial reset, thereby allowing authorities to take a longer term view on investments. It would also allow Resets to continue to address windfall gains / authorities at the safety net.

**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?**

The increased variability of large hereditaments, such as power stations, has led to some authorities losing and others gaining; depending on factors such as when the power stations were turned off, when the baseline was set and subsequent appeals. These gains and losses are not the result of local actions. For this reason, the principle seems to be fair that authorities should not suffer (or significantly gain) from factors that are outside of their control. This would suggest that hereditaments of this nature should be removed from authorities’ lists. The Society recognises, however, that dependent on local circumstances to include them on regional lists or at a combined authority level may be appropriate, given the role the combined authority may play in securing growth / attracting such developments.

The type of hereditaments will depend on the risk of moving and the risk impact on the individual authority..

**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?**

As per the response to question 15 above, larger hereditaments may be more appropriate to sit at a Combined Authority level. It also may be appropriate for any developments funded across a number of authorities to be included at a Combined Authority level. This would allow greater transparency in terms of the associated resource flows from pan authority schemes.

**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?**

The issue of concern experienced by local authorities is the delay in appeals being assessed and concluded. This is not necessarily a structural issue but a resource and standards of performance issue within the valuation service. Business rate appeals are a key issue to resolve. The key is to make the process less susceptible to appeals and they are more quickly resolved when they do occur.

The management of appeals at a higher level (sub-regional, regional or even at a national level) would reduce the exposure to this risk for individual authorities. However, it could potentially increase the reliance on others for information thereby reducing the ability to forecast local resources and also create delays in the monitoring / accounting process.

If appeals were to be dealt with at a higher level, a national system is perhaps the most appropriate, as this would not lead to regional variations in appeals (compared to the allowance given) leading to shifts in resources. It would also increase the transparency between the allowance made by central government and the actual level of appeals.

However, as per Q18 below, the potential forthcoming changes to the appeals and revaluation processes may reduce the number or value of appeals going forward, thereby not requiring a change in how they are managed.

There would still be a need for each individual authority to know the situation with the appeal, as they would still need to incorporate the ongoing impact in to Business Rate income forecasts.

It is assumed that any national pooling of business rate risk would require a top-slice of the funding that is available to local authorities. The final view will therefore depend on what is being offered in terms of the value of the top-slice versus the extent of the risk.

Back-dated appeals would need to be resolved beforehand as otherwise it would create a future variable that would then need to be resolved.

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

The changes being planned around the appeals process, and potentially the valuation process, should (hopefully) increase the speed of appeals and reduce their number. At present the speed of appeals being dealt with is not acceptable. This results in funding being tied up in the Collection Fund, pending the outcome of appeals.

The government should devote resources to ensuring that the Valuation Office Agency (VOA) can resolve all outstanding appeals within 12 months so that there is not a backlog when the new system is introduced.

**Question 19: Would pooling risk, including a pool-area safety net, be attractive to local authorities?**

This should be available on a voluntary basis.

Any pooling at a higher level will increase the need for information flows between authorities and also mean events elsewhere impact on local resources. This will create delays and also reduce the extent to which an authority can forecast (and account) for its own resources.

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

Protection, in the form of a safety net, should be set at a national level and applied at an individual authority level. Where authorities act together, as under the current pooling arrangements, they should be allowed to set their own internal safety net levels (whilst also qualifying for the national safety net at the standard rate).

As well as safety nets / transition mechanisms in Business Rates Retention, there needs to be some protection against shocks arising from changes in needs assessment.

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

We do not agree that the debate should just be about the power to ‘reduce’ the multiplier. Whilst this does create a governance issue in terms of one authority setting a rate that others have to abide by, it needs to be recognised that the authority will be lowering the rate in order to achieve increased business rate revenues in the future.

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

Where reductions / discounts are offered, they will be based on financial and economic reasons that have gone through Officer and Member scrutiny to ensure they are appropriate for the area. Local authorities should therefore have sufficient scope across the two powers to determine the nature of reductions/ discounts given i.e. whether by geography, business type, duration and magnitude.

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

How the multiplier is increased, after a reduction, should be set out clearly in the terms when a multiplier is reduced initially. Whether this be in a single year or over a number of years and the amount of notice given.

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

It would seem to defeat the purpose of the power if there was an option for neighbouring authorities to veto it. Although any aggressive use of this power to overly encourage business displacement may need to be reviewed, given the pressures on funding we would query how often such a power might be used.

**Question 25: What are your views on what flexibility levying authorities should have to set a rateable value threshold for the levy?**

The same powers should be made available to all areas, irrespective of the level of devolution.

Any thresholds should be a local decision and not set nationally.

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

Not likely to be applicable.

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

Given the geographical scope of LEPs it is likely that the LEP business members would not be sufficiently representative of the business community within a particular sub-area (i.e. at District level).

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

They should be set for a period agreed at the start and then subject to regular review. Should be a local agreement, with no statutory prescriptions.

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

Should be a wide definition, for example it could include housing. It should beset locally,for example if everybody in the LEP agreed on a definition of infrastructure that should suffice.

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

Agree that multiple levies (up to the agreed limit) should be allowed.

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

We believe the power should be open to all authorities.

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

In establishing the new system, the process for resetting the baseline and timelines involved should be clearly set out.

Multi-year funding settlements are useful, and do allow better budget planning. Top-up/ tariff payments should be provided for the multi-year period up to any reset. These should only be changed to reflect revaluations and assessed need (if relevant). Such changes should be notified well in advance of the start of the next year on a date that is statutorily defined.

The system should be designed so that there is no need for negative adjustments to tariffs and new burdens funding must continue.

**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?**

The balance between national and local accountability must be clear from the outset of the scheme.

Accountability for maintaining the system should remain with national government; accountability for decisions on how business rates income is spent should rest with local authorities.

Grants for responsibilities which transfer to funding from business rates should no longer be identified by central government within the quantum as ‘pots’ for funding specific services.

Authorities should have freedom to use the income from business rates to meet their responsibilities and to fund services in the way they see as most appropriate.

Although central government is likely to continue to play a role in redistribution of business rates income, business rates will be collected locally and should be treated as local income; as such Parliamentary approval and scrutiny of spending funded by business rates should be more limited than at present. Business rates should be seen as a business tax, and there should not be a requirement for its use to be linked to business services or outcomes.

Accountability mechanisms for local government will continue to operate through democratically elected councillors, as well as the accounts and audit process, and regular reporting of financial information to DCLG.

A clear statement of accountability for both central and local government, at the introduction of the new system, will enable overlaps in accountability to be minimised.

The new system does not currently address the disparities in Council Tax, and should be extended to do so. Despite many shire residents working in cities and metropolitan areas, according to the Annual Survey of Hours and Earnings (ASHE), wages for residents in shire areas are generally 11% lower than the national average. Yet the average adult living in a shire area will pay over 5.6% more towards the costs of services through their council tax.

When compared to London, residents living in shire areas earn, on average, 20% less. However, residents in London pay 4% less in council tax than those in the less affluent shires. Despite wages in shire areas being, on average, 11% higher than metropolitan authorities, the shire residents pay almost 30% more in council tax.

Although less easily quantifiable, it is generally accepted that residents in shire, and often rural, areas will tend to receive less services (either through removal of service or reduced hours) as well as travel further to reach them. This is not because shire areas are less efficient, but because the proportion of central funding is less, and therefore a larger element of funding has to be met locally. This is inequitable in terms of affordability for the population who live in shire areas and contribute to the economy.

Government should remove the mandatory discounts applied to both the council tax (i.e. single person discount) and business rates. It will be necessary for local authorities to be able to exercise genuine flexibility on their income streams.

In some services the rigid legislation means that local authorities are not able to tailor the services provided to meet the needs of their populations. Being able to vary the eligibility or statutory requirement for services would increase control over budgets too.

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

The Collection Fund account is vital to the local authorities in damping the impact of income variability in year (for both Council Tax and Business Rates). Whilst income levels do need to be monitored, the Collection Fund account provides a buffer that (i) allows authorities to plan for any changes to its resource levels and (ii) allows preceptors to know their resource levels for the year (and therefore reduces the burden on billing authority and preceptor regarding updates).

TheCollection Fund arrangements should, however, be simplified as much as possible, to aid transparency. There are several important issues that need to be considered, including:

* The way in which risks associated with appeals are dealt with in the Collection Fund.
* Differences between the accounting and timing of safety net and levy payments in the General Fund and the Collection Fund.
* Accounting for section 31 grants (paid in compensation for temporary changes to reliefs) in the Collection Fund, rather than the General Fund.

**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?**

Local authorities are constrained by the need to set an annual balanced budget. Whilst it is possible the vast majority of authorities would not move away from this practice, even if flexibilities were increased, having the ability to do so may be critical for the limited number with a specific set of circumstances.

There are a number of factors that now mean increased freedoms around budgeting are now more appropriate, including the variability of local authority income and its increasing sensitivity to the economic cycle; alongside the policies such as Business Rate Retention and New Homes Bonus that provide incentives linked to investment

Altering the way in which the balanced budget calculation is built up, to simplify the process, would improve transparency and accountability. It needs to be based on the way in which local authorities actually set their budgets. The key building blocks of the altered calculation should be council tax, business rates, income from other sources (including government grants), and transfers to or from reserves. Consideration could be given to an approach where authorities are able to set a balanced budget over a rolling period, either two or three consecutive years, instead of one year at a time. Uncertainty over business rates income relating to new premises, whilst having a limited impact on overall funding levels, could make a significant difference to the actions an authority needed to take to balance the budget in a single financial year. This approach would enable greater flexibility for councils in a system where they are likely to be almost wholly dependent on income from local sources for their core funding.

**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?**

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

The existing NNDR 1 and NNDR 3 forms have become complex and unwieldy. A new approach to data collection must be implemented as part of the introduction of the scheme. The new data collection approach should link to accounting arrangements, rather than requiring two different systems; any changes must not impose additional burdens on councils. Forms should be made available to local authorities well in advance of the deadline for completing them.

The Society trusts you will find our responses helpful and should you have any queries, please contact me.

Yours faithfully,

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