Pendle Borough Council

Response to DCLG Consultation on 100% Business Rates Retention

September 2016

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

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

Response

As a general principle, it is considered that grants and responsibilities funded from retained business rates should be those where there is a good fit with existing local authority areas of experience and competence and where there is a relationship with business rates and those matters it funds.

To the extent that any of these responsibilities and grants are to be funded from retained business rates the principle of how they are rolled in is considered more important. The need for transparency regarding the amounts rolled in and future years' assumptions regarding these amounts will be critical.

As an example in 2013/14, the grant for localised support for council tax was rolled in to the Settlement Funding Assessment. However, in subsequent years, the reductions in local government funding reduced the SFA amount, and with it, elements of the council tax support grant. Over time the link between council tax support costs and grant funding has become far less transparent.

In relation to question 2 a key requirement for the Council is that the associated funding is both adequate and sustained to match whichever of the responsibilities the Department ultimately devolves to local government. Concerns exist generally with the suggestion of Attendance Allowance being rolled in and funded from business rates. This is demand led with associated risks that any growth in business rates would not meet increased demand for services that are driven by demographic factors rather than economic performance locally. The allowance is also not linked in any way to business rates income.

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

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

In March 2016 the Council resolved unanimously to become a constituent member of a Lancashire Combined Authority and work is progressing to form the combined authority and related devolution deal with government. As this remains work in progress it is felt that these matters would best be determined by the combined authority in the course of any submission to government on the devolution deal taking account of local needs and circumstances.

Question 4 is difficult to answer as many devolution deals have yet to come forward. Fundamentally, it will be important to ensure that there is adequate funding in the system for devolved responsibilities. This could require the Government to supplement business rates with other central should new responsibilities be devolved.

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

Response

Yes.

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

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. Although, 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 an open, inclusive and 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?

Response

There is a difficult balance to strike between risk and reward recognising that the specific circumstances of authorities will vary with differing impacts also dependant on the system and frequency of resets.

As business rates income becomes the main source of funding by 2020 any system needs to allow sufficient incentive for councils to benefit and lock in some growth whilst also ensuring protection for councils whose business rates income declines (often due to factors outside their control e.g. major appeals, conversion to academies, central v local list changes).

Any growth must be retained for the benefit of the sector and not used to allow additional services/responsibilities to be rolled in to the baseline.

Given the volatility and uncertainty in the business rates system fixed resets would be preferred; 5 yearly periods would be reasonable

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

Response

The Council would favour more of an emphasis on redistribution to meet changing need rather than a focus solely on rewarding growth. There should be some benefit for councils that generate growth in their locality but this cannot be at the expense of those councils that, often through a quirk of geography and for reasons beyond their control, find themselves unable to do so.

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

The extent to which authorities have created "growth" (if defined by amounts 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, an 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 position of needing safety net support over a prolonged period.

"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. A partial reset would provide a measure of protection for local authorities depending on frequency.

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

Response

Yes. The current system of tariffs and tops ups allows for the required redistribution of business rates income across the country. This requires a frequent objective measurement of the relative needs of authorities and hence the importance of the Fair Funding Review establishing a robust and fair baseline.

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

Response

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?

Response

This is not currently an issue for the Council given the early stages of work currently underway to form a Combined Authority – at this time it is not clear whether this will include an elected Mayor. In general, it is considered there is a role for the Combined Authority in generating economic growth via investment in skills, infrastructure and housing but this will also require consideration of how the benefits of such growth are distributed across the Authority area.

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

Assuming the current system of tariffs and top ups remain as per the response to question 9 above then redistribution is achieved via these elements enabling the current split of retained rates to be maintained. That said, presumably any change in the tier split would also lead to changes in the top-up / tariff mechanism (i.e. zero sum gain).

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

On purely practical grounds it is felt that Fire funding should be removed from the current scheme. The sums involved are not material and the inclusion of Fire Authority funding adds unnecessary complexity and additional administrative work.

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

In order to allow authorities the incentive to invest for growth, the scheme should provide a mechanism to safeguard some increased business rate revenues for specified areas (in the same way as Enterprise Zones currently). This would protect some of the additional resources forecast from being taken at a partial reset, enabling authorities to take a longer term view on investment whilst facilitating the system resets to ensure protection for those councils that don't benefit from growth or have declining rates income.

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

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, hereditaments of this nature should be removed from authorities' lists.

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

On one level the sharing of risks at a regional level would mitigate an individual council's exposure to 'riskier' hereditaments. However, the governance arrangements linked to this would be important to ensure consensus, transparency and accountability.

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

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.

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

Response

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 at which appeals are dealt with is not acceptable. This results in funding being tied up in the Collection Fund, pending the outcome of appeals and masks the true underlying position of the Council's base level of rates income

Other considerations would include greater scope for LA's to input views on appeals, and greater transparency of the decision-making process and resultant outcomes.

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

Response

As per Q17, any pooling at a higher level could increase the need for information flows between authorities and also mean events elsewhere impact directly local resources. This will create delays and also reduce the extent to which an authority can forecast (and account) for its own resources. It also raises considerations regarding governance and local democratic accountability.

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

Response

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).

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

Response

Local authorities should have the ability to reduce (and ideally increase) the multiplier, the costs of which should be shared (based on the relevant proportions) between billing and precepting authorities. 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?

Response

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?

Response

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?

Response

There are potential concerns regarding consistency of approach and ensuring it does not become a ‘race to the bottom’.

Questions 25 to 31: Group of questions relating to Infrastructure Levy and the additional power of Combined Authority Mayors to raise the multiplier by up to 2p to fund infrastructure projects.

Response - These matters are not directly relevant to the Council at this time.

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

Response

In establishing the new system, the process for resetting the baseline and timelines involved should be clearly set out. This was not the case when the system was set up in 2013/14.

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

The Council feels local government should have greater responsibility and accountability for local services, provided this is supported by flexibility and control over locally raised taxes and other income streams.

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

Response

The Collection Fund account is important to 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).

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

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 important 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.

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 current mechanisms (NNDR1 and NNDR3 forms) appear to work reasonably well although the timing of their release is sometimes delayed whilst the forms are revised for national policy changes or other new information. The timing of the NNDR 3 in particular will be important as councils move to earlier closedown by 2017/18.