Appendix B

Business Rate Retention Reform
Response to Consultation

Question 1): Do you prefer a partial reset, a phased reset or a combination of the two?

The Council has responded to previous consultations by the Department on this and expressed a preference for a partial reset. However, at the time the choice appeared to be either a full reset or a partial reset. It is noted that a phased reset or combination of this and a partial reset are now the Department's desired outcome. The Council favours a mechanism which provides sufficient incentive for authorities to take a strategic and long-term view to promote and retain the benefit of local growth in business rates. For this reason it was not supportive of full resets. However, subject to the response below to question 2 the Council acknowledges that under both a partial or phased reset, a proportion of local growth would be retained.

Question 2): Please comment on why you think a partial/ phased reset is more desirable.

Whilst the Council favours a mechanism which provides sufficient incentive for authorities to take a strategic and long-term view to promote local growth in business rates this needs to be tempered within a system which also builds in a redistributive element so that the distribution of local government resources remains aligned with relative needs over time.

Question 3): What is the optimal time period for your preferred reset type?

The Council has previously expressed the view that five years seems a reasonable period for the reset.

Key to this is the level of baseline established for each authority when the system is reset. This needs to accurately reflect the relative 'need' of each authority otherwise any resulting inequalities will be locked in to the system between resets. Hence, the Council considers the concurrent review of relative need and resources by the Department to be important in support of these arrangements.

The consultation document makes reference to the potential alignment of resets with the intended three-yearly business rates revaluation cycle. If this is confirmed the Department would have to make adjustments to authorities tariffs and top-ups each year including retrospective adjustments. This adds further complexity and uncertainty to an already opaque system. Given the tendency to postpone/delay revaluations this approach may not be practicable.

Question 4): Do you have any comment on the proposed approach to the safety net?

As NNDR becomes the main source of funding other than Council Tax, the Council considers it essential that the safety net mechanism continues and notes the Government's current application of an increased safety net percentage of between 97% and 95% for the existing and forthcoming 100% and 75% business rate pilots respectively.

The safety net mechanism should provide greater protection around fluctuations bearing in mind that NNDR will be the main Government funding stream, incorporating areas such as RSG. In addition, as baselines are likely to be higher under the new scheme (as a result of the centrally managed appeals), it becomes easier for authorities to fall below the baseline.

As the move to a 75% rates retention system provides a further shift in risk of funding to local authorities the safety net needs to reflect this risk and therefore the level needs to be increased above the current position and as a minimum to that used in the pilots to between 95% - 97%.

If other reforms as proposed by the Government do have the effect of reducing volatility in the business rates system then the cost of safety net payments should reduce over time leading to a lower level of top-slicing from business rates income to fund the safety net.

The Government will also need to consider what mechanism needs to be put in place to allow any redistribution should the top slicing exceed the cost of the safety net. In the same way, if there is an under provision, the system should have a mechanism to adjust for this.

Question 5): Do you agree with this approach to the reform of the levy?

The rationale provided for reform of the levy as outlined in the consultation is accepted and as stated previously the Council considers the provision of a credible growth incentive to be important whilst retaining a redistributive element in aid of resource equalisation.

However, the approach set out in the consultation is for the levy to be applied only where the growth is considered extraordinary. Under this arrangement authorities would be able to retain all growth that could reasonably be attributed to their management of their local economy.

The use of wording shown in italics builds additional subjectivity in to the system and may be difficult to measure/attribute in practice. Given a levy rate of 200% or 250% would have applied to only 7 and 4 authorities in practice based on 2016/17 data is there a case for simply scrapping the levy. For many authorities the formation of business rate pools has negated the levy. Its original purpose was to fund safety net payments but under the current proposals these would be funded via a top-slice on national rates income.

Question 6): If so, what do you consider to be an appropriate level at which to classify growth as 'extraordinary'?

This appears problematic as it may well be difficult to attribute growth explicitly to the authority's management of their local economy. Many factors influence growth including simply windfall income. Rather than retain a levy it would be preferable to achieve redistribution via the proposed system of resets and tier splits.

Question 7): What should the fall-back position be for the national tier split between counties and districts, should these authorities be unable to reach an agreement?

It is difficult to provide an answer to this question. Ideally this would be sector led as touched on in the consultation response. Other elements of the system also have a bearing on this aspect in terms of the volatility and sharing of risk/reward in the system relative to the respective scale of County and District councils in two-tier areas, accepting that Fire Authorities will continue to retain what they get now.

Question 8): Should a two-tier area be able to set their tier splits locally?

Yes, ideally, but the Government may want to retain some degree of control or safety mechanism otherwise there is a risk is that two similar councils in comparable areas could receive very different shares of business rates for an equivalent standard of service. However, where pools have been established and are working well one would hope that there is greater scope for enhanced collaboration leading to an increased likelihood of local agreement on the tier splits.

Question 9): What fiscally neutral measures could be used to incentivise pooling within the reformed system?

This should be a matter for local determination with authorities making their own decisions on pooling rather than this being prescribed centrally.

Question 10): On applying the criteria outlined in Annex A, are there any hereditaments which you believe should be listed in the central list? Please identify these hereditaments by name and location.

None within Pendle.

Question 11): On applying the criteria outlined in Annex A, are there any listed in the central list which you believe should be listed in a local list? Please identify these hereditaments by name and location.

None within Pendle.

Question 12): Do you agree that the use of a proxy provides an appropriate mechanism to calculate the compensation due to local authorities to losses resulting from valuation change?

The principle of compensating authorities for losses arising from valuation changes is welcomed and supported. The difficulties of establishing a mechanism which does this effectively are also acknowledged as evidenced by the paper produced for the Department by the System Design Working Group. Whatever mechanism is proposed, it is important that it has wide support within the sector and that it is credible, transparent and one which compensates authorities at an appropriate level.

Question 13): Do you believe that the Government should implement the proposed reform to the administration of the business rates retention system?

The consultation document outlines a number of detailed and technical reforms to the system of business rates retention. Rather than focus on the individual components, the Council is broadly supportive of changes which:

- Reduce volatility in business rates income, notably in relation to appeals and valuation change
- Aid effective financial planning and longer-term decision making
- Retain the benefit of growth for local authorities
- Avoid any perverse incentives or unintended consequences
- Can be readily supported and administered within current operating systems and software.

Question 14): What are your views on the approach to resetting Business Rates Baselines?

Unless the system is reformed as outlined in the consultation the Government is proposing to set baselines according to authorities retained business rates income as at 2019-20. However, due to time-lags this will rely on the NNDR3 data for 2018-19 adjusted by the change in business rates multiplier. The Council has reservations that the use of only one year's data will lock in anomalies accepting that this could be favourable or adverse for local authorities. This approach is at odds with the approach suggested in the consultation for deriving the level of deductions to be made to an authority's income for losses on collection and provisions for appeals. With these it appears the Government is proposing to set the deduction using an average of more than one year's data. The consultation acknowledges that the resulting baselines set will be imperfect. In view of this consideration may need to be given to transitional measures to mitigate significant changes.

Question 15): Do you have any comments at this stage on the potential impact of the proposals outlined in this consultation document on persons who share a protected characteristic? Please provide evidence to support your comments.

Not at this stage. The Council will expect the Department to comply with its obligations under the Equalities legislation and undertake the appropriate impact assessments.