APPENDIX A

South Hams District Council – Consultation response to “Self-sufficient Local Government: 100% Business Rates Retention

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?

The principle of how grants 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 (SFA), 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 Council would not agree with any transfers where local government is required to take on any additional risk or demand led pressures which could exceed the growth in available resources. Ideally, transfers should be of existing funding streams where the quantum is known wherever possible. The additional costs of providing the services in the rural context must be reflected in the calculation of overall quantum being transferred.

The idea of transferring in Rural Services Delivery Grant (RSDG) has been suggested. The Council would have concerns that it would lose funding if this is transferred, as currently the Council receives £405,000 in funding. If RSDG does transfer, this should not preclude further increases in funding for rural authorities and rural authorities should not be worse off as a result.

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?

Answer to Questions 3 to 4:

The Council is concerned that future funding arrangements that affect all authorities are being built to suit urban authorities, where a large part of the current devolution deals are based. There is a danger that rural areas are left behind and that the benefit of the increase to 100% retention would be concentrated in urban areas.

See comments above on RSDG.

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

Whilst 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 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 to 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?

Growth in business rates is less strong in rural areas than urban areas, particularly the larger city centres. Rateable values per head are much lower (50% on average) in rural areas, economies can often be less dynamic, and new business units or premises tend to be much smaller. Furthermore, a large proportion of the business rates payable is reduced by a range of reliefs, most of which are determined by central government through legislation and only some of which is actually funded by central government. So, despite the considerable efforts of Councils, it is much more difficult in rural areas to convert support for the business sector into actual growth in business rates.

As a result of these characteristics, the Council is wary about the Government's policy objectives of rewarding and incentivising growth. Or at least, the Council could support incentives if they can be shown to have an equal, in spending power terms, incentive-effect in rural areas as they would do in urban areas.

The Government has already announced (without any consultation) that the levy will be abolished under 100% retention. This change will have a significant impact on the operation of the system. It will allow some authorities with large and growing rate-bases to retain a potentially very large share of future growth. We would like to see more evidence of the effect of abolishing the levy, in particularly to see where there would be disproportionate windfall gains on future business rates growth for some local authorities.

The Council would like to see more done to effectively charge a fair rate to businesses which are run from the home and which do not occupy separate business premises, but whom could be making a significant amount of profit.

The Council could potentially support a reformed levy. As a first principle, the levy should make sure that no authority can receive "disproportionate" gains from business rates growth. For example, an authority should be able to keep all its gains from growth up to a threshold based on its Funding Baseline, and further growth above this threshold should be subject to a tapering levy (i.e. one where the levy rate increases for higher rates of growth). In this way, all authorities would get to keep the same amount of levy-free growth (relative to Funding Baseline), whilst getting a proportionate share of growth above this threshold.

Another way of checking the imbalance of growth between authorities is to reset the Business Rates Baselines. Three options have been suggested:

- Full reset of the system, including all achieved growth, frequently (e.g. every 5 years).
- Reset the system, including all achieved growth, infrequently (e.g. every 20 years), or never.
- A partial reset of the system on a frequent basis.

In principle, the Council would support partial and more frequent resets of the baselines. This would ensure that some authorities did not retain disproportionate growth, whilst allowing there to be some ongoing incentive for growth.

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 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 (see Question 8).

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?

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.

The partial reset 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 that would be exempt from Resets. Whilst this would increase complexity, it provide 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?

Yes – No authority should gain or lose directly from revaluation. The Council agrees with the proposal to use the same approach planned for 2017 in future revaluations i.e. adjust top up / tariff amounts to make revaluation revenue neutral.

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

There should be a common funding formula for all local authorities and this formula should have proper recognition of the needs of rural authorities, including the costs of meeting those needs.

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?

Further consideration is required on the final splits for 100%, with these being in part subject to which responsibilities are rolled in.

The District's view is that the Council's share of business rates income retained should not be a worse position than it is now (after accounting for the grants rolled in).

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?

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. This would protect the additional resources forecast from being taken away 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 (as per Q8 above).

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?

Yes - Income volatility occurs both due to i) appeals and ii) businesses entering or leaving the taxbase. The increased variability of large hereditaments, such as power stations, has meant that some authorities lose whilst others gain; depending on factors such as when power stations are 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 Council's view is that 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?

Larger hereditaments may be more appropriate to sit at a Combined Authority level – for instance airports. 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) ?

Appeals have been the single biggest risk for authorities in managing the retained-rates system. A large part of the problem when the retained rates system was introduced in 2013-14, was that local authorities inherited the risk for appeals part way through a rating list period, without a provision for the potential cost of previous year's appeals. When new baselines are issued in 2017 following revaluation, there should be an adjustment to the Estimated Business Rates Aggregate (EBRA) that reflects the full cost of appeals based on the losses on the 2010 list.

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?

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.

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).

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

Local authorities should have the ability to reduce 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.

From past experience, targeted business rates reliefs are a more effective, affordable and flexible way of attracting new businesses. This power could be extended to all local authorities (e.g. to include the county council). The cost of reliefs could then be met by the authority making the decision.

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 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, with an adequate amount of notice being given.

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

No – this is covered in previous questions.

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

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

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

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

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

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

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

Answer for questions 25 – 31.

The Council's view is that this power (to charge an infrastructure levy) should be extended to areas without elected mayors. Rural areas have significant infrastructure needs and should not be deprived from the additional revenues to fund the infrastructure that is required in rural areas. Often rural areas receive less funding from central government for infrastructure, and having access to the infrastructure levy would at least give rural areas some ability to redress this balance,

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

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?

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

Answer for Questions 32 to 34:

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.

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).

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?

There are a number of factors that now mean increased freedoms around budgeting could become 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?

The Council has no suggestion as to how to alter the NNDR1/ NNDR3 forms. An element of the Collection Fund that does not work is that any surplus or deficit is recognised in the year after it occurs. Changes to make this system work better would be welcomed.

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