

Business Rates Consultation – Response of South Hams District Council

Question 1: What are your views on the proposed approach to partial resets?

The Council supports regular five year resets and agrees that partial resets will be effective at balancing growth incentives with financial risks and authority funding levels.

In supporting the proposal for partial resets, the Council makes the following observations:

There should be adequate safeguards for Authorities which fall below the baseline between resets. At the very least, all Authorities should be returned to the baseline at each five year reset.

The system should be sufficiently predictable to allow Authorities to forecast over the longer term. At the current time, the reset is two years away and there is no clear picture of how these changes will impact on Authorities. Going forward the system needs to be more stable and predictable to enable long term financial planning.

The Government should be able to show how the system will be balanced given that the levy is being abolished. It should be able to demonstrate there are adequate protections built into the system without having to resort to further top-slices which may impact on all Authorities.

Question 2: What are your views on how we should measure growth in business rates income over a reset period?

The Council makes the following observations in respect of this question:

- Growth should be measured in real terms – this seems to make much more sense as baselines are inflated each year meaning that growth above baseline is therefore necessarily ‘real terms’ growth
- Practically, the Council recognises the issues with measuring growth over a number of years given that there is likely to only be one year’s worth of figures available following the 2017 revaluation. If the Government seeks to use growth over a number of years, then it must be able to clearly separate genuine growth from both the impact of the 2017 revaluation and from technical accounting adjustments associated with appeals.

The Council agrees with the Government's assertion that the system should avoid 'perverse incentives' and as such the reset needs to fairly reflect genuine growth and recognise accounting adjustments.

As an authority which has a Power Station within its business rates base, the Council would want to ensure that the base is not set artificially high as a consequence of accounting adjustments that were necessary to reflect the appeals uncertainty associated with these sorts of hereditaments.

Question 3: What are your views on the Government's plans for pooling and local growth zones under the 100% Business Rates Retention system?

The Council agrees with some of the rewards that the Government intends to explore for pools of Authorities which include:

- Offering up additional growth incentives – including the ability for the pool to set their own local growth zone;
- The option of retaining additional growth in business rates income through a reset of the wider system;
- A different level of safety net, to provide additional support to those Authorities willing to be ambitious in their plans for growth;
- Different or additional responsibilities to be funded through Business Rates Retention that would be better exercised at a larger geographical area.

However the Council still believes that pooling arrangements should be decided by Members at a local area, rather than the ultimate decision being made by the Secretary of State, with consultation at a local level. The Council does not agree with removing the requirement that all Authorities must agree to being designated as a Pool.

The success of Local Growth Areas will depend on the specific incentives provided and whilst the Council understands that the Government will need to understand the level of resources available in the system to be more specific, the Council nevertheless urges the need for the incentives for Local Growth Areas to be clear and easily understood. Furthermore, it is important that Local Growth Area incentives are seen to benefit the whole of a geographic area, particularly where individual Authorities within that area have characteristics that see them excluded from pooling arrangements currently.

Whilst the Council agrees with the principle of Local Growth Areas, the Council would want to see the balance between incentivising growth and protecting more vulnerable areas maintained. This would require strong controls to ensure that Local Growth Areas are not used in a way that damages the health of the national system.

Question 4: How can we best approach moving to a centrally managed appeals risk system?

The Council welcomes proposals to introduce loss payments and in so doing, reducing the risk that arises from appeals as this is, by far, the single most significant risk factor in the current system.

However, the Council would call on the Government to be very clear about the exact terminology relating to 'valuation errors'. Additionally, we note that the Government intends to fund loss payments from a top-slice. As there is no nationally published data on appeals loss by type of appeal, we would want any top-slice to be fair and transparent and reflect published information on losses and for those calculations to be published.

Finally, we would make the point that much of the appeals risk arises from delays by the Valuation Office in considering and settling appeals and that uncertainty would undoubtedly be reduced if appeals were managed in a more timely manner.

Question 5: What should our approach be to tier splits?

The Council recognises that the current system provides a mis-balance between risk and rewards in two tier areas where District Authorities receive the majority of growth (but also accept a greater proportion of the risk) with the opposite being the case for County Councils.

The Council would be content if the tier splits were amended to provide a system which balances risk and rewards more fairly across the District and County split and balances the requirement of relative need.

The Council awaits the work being carried out by the organisations representing District and County authorities that are considering the question of tier splits and who aim to come up with proposal supported by both groups of Authorities.

Question 6: What are your views on proposals for a future safety net under the 100% Business Rates Retention system?

The Council welcomes the proposals with respect to the safety net, particularly, if implemented, the proposal to increase the safety net to 97%.

However, the Council would make the following points:

- As the Government has indicated, there should be safety net incentives for pooled arrangements that will provide a more generous safety net for pools which accept the risk of admitting all authorities within an area.
- The Safety Net will be funded from a top-slice and as such that top-slice calculation should be properly evidenced and published.

Question 7: What are your views on our proposals for the central list?

The Council supports a review of the central list.

South Hams is one of a small number of local authorities that has a power station and therefore is well placed to have an informed view on whether power stations should be moved to the Central List.

Since the inception of business rates retention in 2013/14, forecasting the impact on the Council's resources of our power station has required a large amount of work locally (compared to other authorities of equivalent size). This has placed an unnecessary burden locally. Effectively, the position of the District against its NNDR Baseline is entirely subject to power station issues e.g. its appeal, downtime and power outtages, thereby removing any prospect of actual growth from the rest of our taxbase being material to the amount of resources received.

Whilst the nationalisation of appeals for the 2017 list will reduce part of this volatility, the prospect of reduced business rates income remains with the Council, due to power outtages, downtime etc.

These events would not be covered by the scheme and therefore the residents of South Hams would continue to be penalised for events that are beyond our influence locally.

Our view is that power stations should be moved to the central list, where the risks of income volatility can be more adequately managed. We believe this approach would also fit with the Government's wish that Authorities are subject to lower gearing, in terms of NNDR Baseline to Baseline Need, thereby reducing the chance of increased probability of hitting the safety net.

If the Government wants to create a scheme that increases local independence and encourages growth, power stations must be moved to the central list. This will reduce the potential for losses and gains experienced by the power station Authorities to date and allow all Councils (including those with power stations in their area) an opportunity to begin to influence the level of resources that are received locally, without large hereditaments skewing the direct relationship between the two.