Lee Geraghty
Deputy Director

E. lee.geraghty@lgfutures.co.uk

Briefing Note:

100% Business Rates Retention Consultation:

SDCT Draft Response

August 2016

Contents

1. Introduction

1.1. On the 5 July 2016, DCLG published the consultation paper *"Self-sufficient local government: 100% Business Rates Retention".* The paper seeks views regarding the implementation of 100% Business Rates Retention for local government. The consultation paper can be accessed by clicking here.

1.2. This briefing note provides a draft response to the consultation on behalf of the Society of District Council Treasurers (SDCT).

Background

1.3. It is the intention of government to introduce 100% Business Rates Retention to local government by the end of the parliament. It is expected that at the same time the government will update the relative need formulae (i.e. that determine the amount of resources that an authority will have if it collects at its business rates target). A discussion paper on the review of the Baseline Need figure was also published on 5 July 2016 and a separate draft response to this paper is also being prepared for the SDCT.

Structure of this note

1.4. The consultation paper has 4 sections that include 36 questions it is seeking responses on. This note provides an overview of the four sections, the relevant questions within and a suggested view of the SDCT. It will identify where the SDCT may want to advise members to respond in a similar manner and others where local priorities could be of greater consequence.

1.5. LG Futures is able to offer further support to individual districts in assessing the potential implications of the issues locally and in responding to the consultation. It will also be holding regional events in the first half of September to assist local authorities in understanding the main issues, challenges and risks arising from the consultation to assist them in effectively making a response.

Responding to the consultation

1.6. The deadline for responses is Monday 26 September 2016. Responses can be sent by email to:

BRRconsultation@communities.gsi.gov.uk

1.7. Or by post to:

Business Rates Retention Consultation
Local Government Finance
Department for Communities and Local Government
2nd floor, Fry Building
2 Marsham Street
London SW1P 4DF

2. Background & context

2.1. The paper includes a Ministerial foreword from Greg Clark, the Secretary of State for Communities and Local Government. Within the foreword he reaffirms the Government's commitment to 100% business rates. The government emphasises that it is not looking for "a one size fits all solution" with the Minister encouraging authorities "to consider how the system can be tailored to local needs and opportunities".

2.2. This potential for local tailoring also increases the importance of the role of stakeholders in being aware of what would be best locally and contributing to the debate. The consultation paper offers them an opportunity to do this and therefore authorities and their respective groups will need to consider carefully how they respond to the questions asked.

Current 50% BRR system

2.3. The current BRR scheme was introduced in April 2013. It allowed local government to retain 50% of business rate revenues, with the remaining 50% retained by central government. In order to equalise between areas with different business rate taxbases there is a system of top ups and tariff in place.

2.4. The system allows 50% of business rates growth to be retained by local government. Within that individual authorities that pay tariffs pay a levy on growth of up to 50% which is used to fund a safety net system, protecting authorities with a reduction in retained income of more than 7.5% of their assessed need level.

2.5. The government expects the new system will retain the top up / tariff approach and include a safety net, but there will not be a levy.

2.6. The paper also confirms that the move from 50% to 100% Business Rates Retention (BRR) will see a new responsibilities given to local government, with certain central government grants phased out.

2.7. The paper sets out the following timetable for 100% BRR.

Consultation ending 26 September 2016	Consultation on the approach to 100% business rates retention.
Autumn 2016	There will be a further, more technical, consultation on specific workings of the reformed system.
Early 2017	As per the Queen's Speech, the Government will introduce legislation in this Parliamentary session to provide the framework for the reforms; with the expectation that the legislation to be introduced later in the Parliamentary session.
April 2017	Piloting of the approach to 100% business rates retention to begin.
By end of the Parliament	Implementation of 100%

3. Devolution of responsibilities

3.1. This chapter of the paper considers the additional responsibilities that local government will take on alongside the additional 50% business rates income.

3.2. The paper seeks views regarding which responsibilities should be transferred and how the system may differ in areas with combined authorities and devolution deals. It sets out the criteria that have been developed in assessing the suitability for transferring responsibilities; these being that the devolution of a responsibility should:

- Build on the strengths of local government.
- Support the drive for economic growth.
- Support improved outcomes for service users or local people.
- Be made with consideration for the medium-term financial impact on local government.

3.3. The paper indicates that these criteria are meant as a guide only and it is not necessary for the transfer of a responsibility to meet each of the criteria outlined.

3.4. Each criteria has a number of sub headings and those of particular importance include:

- There should be an appetite from local government for the responsibility to be delivered at a local level. Hopefully this could mean an unwanted responsibility could not be forced on.
- The national cost and demand for any new responsibility should be relatively predictable and stable over time, relative to the business rates funding stream.
- The distribution of funding between local authorities should be relatively stable over time.

3.5. These last two sub criteria are important in ensuring 100% BRR would be fiscally neutral to local government. However the extent to which a funding stream is suitable to be financed by 100% BRR, based on these criteria, is subjective. For example, within the current 50% BRR is Localised Support for Council tax funding which has costs closely linked to the economic prosperity of the national and local economy.

3.6. A list of responsibilities have been identified as a possible fit against the criteria; these are set out below. This list is not meant to be exhaustive, but rather the starting point for debate.

- Revenue Support Grant
- Rural Services Delivery Grant
- Greater London Authority Transport Grant
- Public Health Grant
- Improved Better Care Fund
- Independent Living Fund
- Early Years
- Youth Justice
- Local Council Tax Support Administration Subsidy

- Housing Benefit Pensioner Administration Subsidy
- Attendance Allowance

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?

Potential view of SDCT

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.

3.7. In addition to the funding streams above there are further funding streams that may be suitable which form part of agreed devolution deals. The paper lists these functions and which are pooled at a Combined Authority level, these being:

- Investment funds for devolution deals
- Adult Education Budgets
- Transport Capital Grants
- Local Growth Fund

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?

Potential view of SDCT

With the different deals and local arrangements in place / being negotiated, this is an area that will vary across districts / areas.

3.8. Under the new burdens doctrine additional responsibilities given to local government are funded either through Revenue Support Grant or Section 31 grant. Government propose to continue with the use of Section 31 grant for any further new burdens post 100% BRR.

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

Potential view of SDCT

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 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.

4. The business rates system

4.1. This chapter of the paper considers: resets, the treatment of Combined Authorities and Mayoral areas, how risk is to be managed and the operation of the safety net.

Resets

4.2. It is the view of the government that a fixed period for resetting the system (i.e. adjusting local Business Rates Baselines in line with actual business rate proceeds) would be preferable to a system based on a subjective decision by government.

4.3. In the paper the decision regarding the period of the reset of the Business Rates Baseline is coupled with that of relative need. The paper suggests that too short a period between resets and the incentive for growth is weakened (and by this we are assuming that some or all of the growth will be taken from individual authorities and potentially even local government overall) and too long a period and relative need no longer reflects the Baseline Need amounts.

4.4. Of course, not all areas achieve growth and the paper quite rightly points out that more frequent resets would prevent authorities with a decline in business rates from having a prolonged period where funding levels are lower than calculated of Baseline Need.

4.5. The paper identifies the following potential methods for the reset:

a) A full reset including all achieved growth *frequently* (e.g. every five years) – the paper believes this would provide a growth incentive (i.e. keeping any growth for five years) whilst not allowing too great a period between relative need assessments.

b) A full reset including all achieved growth *infrequently* (e.g. every 20 years) – this approach would allow authorities to keep the benefits of business rates growth over a much longer period, but could also leave authorities on the safety net for a similar period of time. This approach would provide local authorities with a greater incentive for growth (and stability over the use its proceeds). However there is also of course the risk that after such a period, removing the higher level of income from authorities who have achieved growth may be problematic i.e. require too big of a reduction and therefore disincentives a reset taking place (in a similar way that council tax revaluation was eventually scrapped).

c) A partial rest of the system on a frequent basis – this option would see a reset of relative need, but not a redistribution of all growth (i.e. still allowing relative need differences to be built in to the system, but providing an element of a longer term incentive to promote local growth).

4.6. What is not discussed is the separation of these two, which would be possible. i.e. the Business Rates Baseline could be reset every 10 years whilst need could be determined every year based on an update of key data such as population levels and the council taxbase. Authorities could still retain local growth whilst the Need figure could still capture key net expenditure drivers such as population change, deprivation and council taxbase.

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

Individual authorities may want to respond to this question by suggesting there should not be a Reset (see Question 8 below). The para below is drafted on the basis that if Resets are to happen, a fixed period is perhaps preferable for financial planning purposes. The length of the period is also discussed in Question 8 below.

Potential view of SDCT

Having a fixed period does allow an authority to know when their current position against the NDR baseline is due to end and therefore allows some degree of financial planning (compared to waiting for a subjective decision from central government). However, it is also important that the process for a Reset is set out in advance on not open to manipulation in future years. For example, changing the number of years the Baseline is calculated on.

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

The view below assumes that districts would favour keeping resources away from the relative need formulae. This assumption is based upon (i) local share for districts remains a higher proportion that its relative need share and (ii) districts have a relatively lower level of need than other authorities (based on the tier split) plus relative need data.

Potential view of SDCT

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 (see Question 8).

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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?

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). However, hopefully 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

Potential view of SDCT

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 (i.e. as per the issue in Question 6 above).

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 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.

4.7. The responses of local authorities may be linked to their belief that they can achieve longer terms growth and / or their desire to have greater local control / responsibility to create the right incentive for local growth in the future.

Top ups and Tariffs

4.8. It is the intention of government to maintain the current top up and tariff system, although the papers does state that there is a desire to set up a system that minimises the redistribution of rates (whilst not disadvantaging areas with small business rate taxbases. It also states that top ups and tariffs will be fixed between resets (you would imagine this would be with similar adjustments to the current system for multiplier increases and revaluation – see below) to promote growth.

4.9. The approach set out in the paper would suggest the government is ruling out changes to the top up / tariffs for external reasons e.g. population changes, damping or funding reductions, that would not alter the incentive for growth.

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

Potential view of SDCT

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

Impact of revaluations

4.10. The government propose to use the same approach planned for 2017 in future revaluations i.e. adjust top up / tariff amounts to make revaluation revenue neutral.

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

There may be certain districts that could gain from this (i.e. those where growth in RV will be higher than the national average). However, the response below is written for the majority that 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.

Potential view of SDCT

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.

Combined Authorities and directly elected Mayors

4.11. The paper discusses the following options to provide an enhanced role for Combined Authorities and directly elected Mayors in achieving growth under 100% BRR:

- How "growth" should be redistributed.
- Whether a single area wide Baseline Need figure should be given, with local governance arrangements for allocating all resources.
- A role in determining the Baseline Need figure.

4.12. The second of these options would mean Combined Authorities having certain area wide responsibilities and receiving a Baseline Need amount to reflect the need to fund the responsibilities. The authority would then receive a local share of business rates income (e.g. 10%) with a top up or tariff amount used to adjust the figure. This would be similar to the current arrangement for the GLA, county and fire services.

4.13. This would then give the Combined Authority a link to business rates income (and therefore growth / decline) and potentially a co-ordinating role on area wide issues such as economic development.

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

Tier Splits

4.14. The paper states that further consideration is required on the final splits for 100%, with these being in part subject to which responsibilities are rolled in. This reference to new responsibilities rolled in coupled with the desire to minimise top ups and tariffs may be indicative of an approach where splits are more aligned with expenditure. This is not the case under the current system in two tier areas i.e. districts received 80% of the local share and counties only 20%, whereas expenditure is typically more than a 4 to 1 ratio the other way.

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. 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).

4.15. With the future potential for the responsibilities for fire to be taken on by Police and Crime Commissioners driven by new legislation the paper asks whether fire authorities should remain part of the business rates retention scheme (as police funding is not part of the scheme). The paper does not discuss the potential for police funding to become part of the scheme.

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 response below is made from a practical perspective, rather than from any gain or loss in funding that may result (which would be minimal anyway).

Potential view of SDCT

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.

4.16. The paper reaffirms the previous announced commitment that Enterprise Zones will remain in place and with the original funding guarantee (100% growth guaranteed for 25 years).

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?

Potential view of SDCT

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 (as per Q8 above).

Sharing Risk

4.17. The government is seeking views as to how best manage the risk of income volatility under 100% BRR.

4.18. It identifies that income volatility occurs both due to i) appeals and ii) businesses entering or leaving the taxbase. Under 50% BRR, risk is managed via appeals provisions and the safety net. The potential to manage the risk arising from appeals and the operation of a safety net at a sub national level could be potentially be introduced under 100% BRR. The paper includes suggestions that have been made to government as to how this could be achieved i.e.

- Removing higher risk items (e.g. power stations) from local lists;
- Placing higher risk items at a regional level (so that risks are spread, but the incentive for growth is still retained within a region).

4.19. The second of these options would create a three tier list as opposed to the current two tiers i.e. central and local, these being:

Local List – as now (with riskier items transferred to an Area list)

Central List – as now

Area List – for Combined authorities that would include the riskier items transferred from local lists. This would be different to the current arrangements for multi-tier areas (where a percentage of all rates is paid upwards), with income from specific lines paid upwards instead. How this would work in terms of which body would determine an appeal provision for example would need to be determined e.g. the cash flow implications on district councils of power station appeals can be significant.

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?

Certain districts (that believe they will benefit from Power stations etc) may have the opposite view from below. However, for the majority of districts I believe the response is sensible.

Potential view of SDCT

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.

>>> depending on the view locally . . .

However, 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.

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?

Potential view of SDCT

>>> depending on the view locally . . .

As per 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.

4.20. The paper highlights current issues local authorities face regarding appeals risk i.e. the time taken to forecast levels, the difficulties in acutely predicting outcomes. It also suggests that since 2013/14 authorities "have been budgeting to spend less than they might otherwise have spent as a result of provisions associated with appeals uncertainty".

4.21. Whilst it is the case that some authorities have been prudent (and perhaps some have been overly so) with their appeals provision, this may not have been reflected in budgets i.e. appeals provisions are determined at NNDR3 and the net accumulated deficits (based on NNDR1 forecasts) would suggest budgeted expenditure may not necessarily be in line with business rates income after taking into account provisions.

4.22. Possible solutions discussed in the paper to the problem of appeals are:

- To provide more help locally to set aside the right amount.
- Pool provision risk at an area level.
- Pool appeal risk at a national level.

4.23. The paper does not mention the two consultations that relate to the appeal mechanism and revaluation (see paragraph 3.14) which also may help address this issue i.e. the potential for quicker resolution of appeals and less of them (if for example, self-assessment went ahead).

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?

Potential view of SDCT

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 of value of appeals going forward, thereby not requiring a change in how they are managed.

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

Potential view of SDCT

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 Safety Net

4.24. The government would still want a safety net within 100% BRR. However, it is interested in views as to what geographic level it is applied and how the level is set.

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

Potential view of SDCT

As per Q17, any pooling at a higher level will 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.

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

Potential view of SDCT

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).

5. Local tax flexibilities

5.1. This chapter covers the design and operation of the new tax flexibilities that authorities will have under the new system. Authorities will be able to reduce the multiplier and Combined Authority Mayors will be able to levy a supplement on business rates.

Ability to reduce the business rates multiplier

5.2. For single tier areas the decision to reduce the multiplier is already aligned with the authority that would meet the cost. However, for multi-tier areas a decision needs to be made as to:

- How the decision would be made (e.g. by the billing authority).
- Which authorities would meet the cost (e.g. is it split across all billing and precepting authorities).
- If the decision should be similar to the council tax system (i.e. each responsible for their own element of the bill) with the billing and precepting authorities each having the ability to reduce the rate (and if so do they meet the costs of their own decisions only?).
- The role of Combined authorities.
- How the system should work for Combined Authorities, Fire Authorities and in London.

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

Potential view of SDCT

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.

5.3. At present local authorities have the power to target business rate reliefs. The Government see the new power as having the ability to change the overall multiplier. They are therefore seeking views as to how the two powers would interact.

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

Potential view of SDCT

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.

5.4. Once given the issue of how a multiplier could be increased back to the national level needs to be determined i.e. should it be done it one step, or does it need to be phased to avoid large one-off increases.

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

Potential view of SDCT

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.

5.5. Further issues included in the paper are the role of Mayoral Combined Authorities and the need for safeguards in neighbouring authorities; although the paper suggests the latter is not needed. The paper seeks views on these issues and any wider aspects of the power.

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

Infrastructure Levy

5.6. Views are sought on the additional power of Combined Authority Mayors to raise the multiplier by up to 2 pence to fund infrastructure projects. The paper asks for views on:

- Whether a minimum rateable value needs to be set for the application of the levy? and if so, whether its value needs to be set nationally or regionally? (so as not to restrict certain areas tax raising powers)
- How the power should interact with the existing Business Rates Supplement Powers?
- What approval is needed when LEPs have different boundaries to Combined Authority Mayors?
- How the duration of a levy would be set and how would it be reviewed?
- What is classified as infrastructure expenditure?
- Should there be a single levy to fund multiple projects or multiplier levies funding individual projects?

5.7. The paper identifies a number of further suggestions that have been made regarding the levy, these being:

- Extending the power beyond Combined Authority Mayors – but the paper states that the Government is clear that this new power will be for Combined Authority Mayors only.
- Extending consultation beyond LEPs.
- Including a discount power for Business Improvement Districts.
- Extend the use of the levy to fund other types of expenditure e.g. economic development and housing.

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?

6. Accountability and accounting

6.1. This chapter focuses on the accountability and accounting of the reformed funding system.

6.2. The government would like to move away from what it perceives to be central government controlled funding decisions (through the Local Government Finance Report) and the uncertainty of annual funding announcements. It also seeks views as to where the balance between national and local accountability should fall.

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

Potential view of SDCT

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?

6.3. Whilst there would be no central government payment required from Collection Fund accounts under 100% BRR, the government believe they are still a necessary feature of local government finance i.e. billing and precepting authorities will continue for both council tax and business rates and a number of disclosures in the Collection fund Account are required by statute. The paper seeks views as to whether this should be the case.

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

Potential view of SDCT

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).

6.4. The requirement to produce a balanced budget is part of the local authority financial control framework. Government do not want to see this requirement removed, but believe that the way that local authorities calculate a balanced budget no longer aligns with the way they actually manage their finances. The paper therefore seeks views on how this could be improved.

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?

Potential view of SDCT

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

6.5. The paper highlights the role of the current NNDR1 and NNDR3 forms, suggesting what whilst still necessary in some form, some elements may no longer apply. It therefore seeks views on how these forms could be improved

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?

>>> Officers responsible for the collection of business rates / submission of data to answer.