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

26th September 2016

Consultation Response – 100% Business Rates Retention

Dear Sir/Madam

I am responding on behalf of Lincolnshire County Council to the above consultation. The County Council welcomes the opportunity to put its views forward and, in so doing, would point out that it also supports the separate submissions on this matter made by the County Councils Network, the Society of County Treasurers and the Rural Services Network.

The response is structured to make a few general comments and to then address the thirty six specific questions posed in the consultation document itself. The questions posed do, on occasion, tend to go into some of the detail without first allowing an opportunity to consider principles. This response suggests some general principles that ought to be considered for adoption.

The Council has responded separately to the related consultation on the Fair Funding Review which deals with funding needs and redistribution.

As a broad principle the Council welcomes the devolution of funding to local government which underpins this initiative. There are, however, a wide range of caveats associated with that stance and these are detailed in the rest of this response.

As mentioned, this Council believes there should be a range of fundamental principles on which the 100% retention of business rates system should be based. These comprise the following:

- Existing unfunded cost pressures should be the first call on the additional 50% of business rates now proposed for direct allocation to local government. This is particularly the case for adult and children's care authorities such as Lincolnshire where demographic growth combined with direct cost pressures are continually adding to the financial consequences of delivering sustainable, good quality services.

- The new system should focus on the actual needs of local residents based upon an objective assessment of need and not, for example, premised on what has been spent historically.

- Population should be a key factor in funding distribution as should all existing available funding streams.

- Transitional arrangements will inevitably be required in moving from the old funding regime to the new one but these should be based on clear objectively set timescales to allow proper long term planning for all authorities impacted. Specifically, the opaqueness that characterised the 'damping' regime in operation prior to the part localisation of business rates must be avoided.

- New burdens must be adequately funded post implementation of the new regime.

A number of key services provided by this Council are demand led (eg. adult and children's social care, public health) but that demand has little or no correlation with changes in business rate. The present partial business rate funding system attempts to address this feature through the system of top-ups and tariffs whereby those authorities delivering those types of services are invariably in receipt of top-up payments. Similar mechanisms are required under the 100% business rate funded regime.

In the last decade the DCLG has undertaken work to look at the specific additional costs of providing services in rural authorities. However, the outcome of that work was never implemented in a satisfactory manner. For many rural authorities the potential increase in funding derived from that work was removed almost entirely by the damping mechanism then in force. Whilst additional grant has been forthcoming in recent years to recognise the cost of delivering services in rural areas, this funding stream does not compensate fully for the additional costs identified by early work by the Department. Additional rural services costs need hard wiring into the revised distribution mechanism at the outset.

Responses are given below to the specific questions asked in the consultation document itself. The questions are in bold type below. In some cases a response will relate to a group of questions as per the consultation document itself. Where that is the case these questions are grouped together.

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

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

This Council believes that business rates can sensibly be used to fund services where there is a clear correlation between a rise or fall in business rate income and demand for the service in question. Cleary, as already mentioned, this is not the case for many care related and some aspects of public health services. Of particular concern are services which are demand led and underpinned by clear statutory obligations of the level and standard of service to be delivered. Such services would not be suitable for complete funding via business rates. Funding transfers in respect of services that have a clear link to economic growth, such as those relating to skills and training, would be welcome.

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

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?**

Under present devolution deals detailed discussions take place between the constituent authorities that comprise combined authority and relevant Government Departments. This tends to produce outcomes that suit all parties, albeit with a level of compromise reached through those discussions. Imposing a national solution may not produce the optimal outcome for each area and may lead to an enhanced level of tension within the workings of each combined authority. There will be pressure to continue to produce funding allocations at current individual local authority level even if they are primarily intended for publication at combined authority level.

As far as funding future commitments under existing and any new responsibilities are concerned then a fair and objective application of the current new burdens doctrine is essential.

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

Yes, and it should be done so objectively with potentially some form of independent assessment as to whether it is or is not applicable to a particular situation. Funding should be modelled forward until the next full or partial reset of the allocation mechanism.

6. **Do you agree that we should fix reset periods for the system?**

There should not be fixed periods between resets which are as long as the 10 year period within the current system. Whilst long periods between resets clearly allow for those authorities exhibiting above average growth in business rates to benefit from that trend, this can penalise those authorities who suffer below average growth or even decline in business rates which could lead to significant service reductions and threaten basic service provision. If fixed periods are to be adopted then 5 years should be a maximum. See comments below on a partial reset option.

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

The use of partial resets should allow for an element of benefit and burden sharing between the winners and losers under the new regime. A more informed view can only be given once all key parameters surrounding the 100% local retention regime have been established.

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?

When business rate income growth exceeded a particular parameter in, say, a two or three year period, a predetermined portion of that base growth, say 50%, would be subject to a levy in future years and be available to those authorities having growth below another particular parameter.

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

A form of top-ups and tariffs is essential for the smooth operation of the 100% business rate retention mechanism and will be a key aspect of facilitating redistribution irrespective of whether fixed term or a partial reset mechanism is put in place. As there has yet been no reset of the current 50% retention based scheme there is little in the way of practical experience on which to judge its effectiveness.

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

There seems little in the way of an alternative to current practise if the intention remains to ensure that a periodic revaluation of the rateable values is to be neutral in overall financial terms.

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

The option of distributing baseline funding and/or funding arising from growth should be available at the level of a Mayoral Combined Authority but it should not be imposed on such an authority. The MCA should have to resolve to accept funding on that basis.

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?

Clearly this is a complex issue and will need to take into consideration the extent to which a regime of tariffs and top ups will operate under the 100% retention model. The existence of a significant top-up payment under the 50% regime has been beneficial to this Council in partly protecting funding for the demand led care services. Something similar in the future regime would be most welcome.

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?

Given a range of initiatives designed to foster closer collaboration between blue light services the rationale for this suggestion is well understood. Whilst such a change may be relatively straightforward for stand-alone fire authorities, that would not be the case in Lincolnshire where the service is completely embedded within the wider corporate operations of the Council. Further detail on the extraction mechanism for separately funding the fire service from its host local authority is essential prior to giving any rational view on the merits or otherwise of such a change.

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?**

The current range of incentives, such as Enterprise Zones, has been in place for a considerable period of time and their continued operation under a favourable business rate environment is supported.

15. **Would it be helpful to move some of the 'riskier' hereditaments off local lists? If so, what type of hereditaments should be moved?**

There would be merit in this approach to reduce the risk of front line service reductions being required as a consequence of unrelated changes in the business rate base. The nature and role of any safety net arrangements need to be factored into this issue. A potential parameter would be where particular properties (eg. large industrial facility) exceed a pre-set portion of the total rateable value for an area.

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?**

There is logic in a Combined Authority area being the equivalent to what is now a business rate pool. Voluntary pooling could still be available to other non-Combined Authority council as is the case now.

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?**

To spread the risk this should be at the highest level possible – nationally would be the fairest albeit accepting the need to set aside funding to cover the outcome of successful appeals.

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

For an upper tier authority improved information from billing authorities on the nature and potential quantum appeals in the system would be very useful.

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

Yes, it is essential that a safety net mechanism is provided and an element of pooling as part of that mechanism is very sensible but ultimately this should be a local discretion.

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

There should be a nationally set minimum and it should be at a materially lower trigger level than the current 7.5% of annual lost business rate income. The rationale here is that if exposure to dependency on business rate income is to increase from 50% to 100% retention an improved safety net is required to mitigate the impact on direct service provision. A prudent local authority is likely to have to set up a reserve to cover its risk exposure up until the safety net kicks in. If the safety net does not apply until significant amounts of business rates are lost that reserve will have to be high thus diverting funding from service provision in the short term. Local areas should have the discretion to establish safety nets at levels better than the national minimum provided they self-fund such provision, perhaps via a pooling arrangement.

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

The authority taking the decision to reduce the multiplier should bear the cost. In two tier areas the ideal situation is that both tiers reach agreement on the action. Indeed, there is likely to be merit in making that a precondition to any reduction.

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

The use of local discount powers by the billing authority should be the subject of consultation with the upper tier council in two tier areas. However, the ability to have local discretion over the eligibility for other reliefs and local discounts would be preferred over reducing the multiplier.

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

Generally this should be a local discretion but if they felt it necessary Government could set a parameter each year to define the maximum annual permitted 'catch-up' percentage increase in the multiplier following a period of reduction.

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

There would be logic in areas covered by a Mayoral Combined Authority for the power to reduce the multiplier to rest with the mayor. That is consistent with the power of the mayor to increase the multiplier in their area subject to appropriate consultation. As the power is available to all authorities there is not a strong case for safeguards to protect neighbouring authorities.

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

The Mayor should have the power to locally set any parameters relating to a minimum rateable value below which any locally agreed increase to the national multiplier should not apply. In other words there should be local discretion in not applying a locally agreement multiplier increase to certain low rateable value premises. This would be of assistance in supporting small businesses, for example.

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

If all authorities had the same power as Combined Authority Mayors to increase the multiplier then, arguably, there would be no need for the business rate supplemental (BRS) powers to exist.

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

It should be a requirement that in areas covered by more than one LEP, approval from, or simple consultation with, all LEP's should be required prior to introducing a local business rate supplement.

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

The authority wishing to set an increased multiplier should set out the duration of the increase and any potential review dates in its consultation proposal. Should a need to extend the period over which the increase applies then this should be separately consulted upon with the relevant LEP(s).

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

Infrastructure should be defined widely to facilitate any expenditure that would improve the economic wellbeing of the area - for example, housing development should be included in the definition.

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

This is acceptable provided the individual levies do not exceed the 2p limit in total.

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

This Council would support the extension of the power to raise an infrastructure levy to all authorities and not just those in a Combined Authority arrangement with a mayor. It is not considered practical to extend beyond the relevant LEP(s) the consultation arrangements required prior to introducing an infrastructure levy. A power to allow a discount (or not impose the levy) on the multiplier in Business Improvement Districts is supported.

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

The main issue arising from the 100% business rate retention regime in terms of budget setting is certainty over funding streams in the medium to longer term. Whilst there will no longer be uncertainty over the extent of grant funding such as RSG (because it will no longer exist) this will be substituted by uncertainty related to the inherent volatility of the business rate tax base. This will naturally lead to authorities setting aside reserves to mitigate this risk of a volatile income base.

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?

It is for central government to determine what information it requires from local authorities in terms of meeting their accountability to Parliament. The majority of local authorities already have well developed and robust mechanisms for demonstrating accountability to their local residents.

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

Yes, this provides transparency in two tier areas where the billing authority collects the income with a sizeable proportion then being transferred to the upper tier authority.

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?

The need for local authorities to continue to be required to set a balanced budget is strongly supported. It may well be that there is scope for improving the efficiency and effectiveness of the budget setting process once the move to 100% business rates retention is complete. However, at present, there are too many unknowns and potential variables for any meaningful comment to be made. This aspect should be kept under review as we move forward.

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?

This is a matter more appropriately addressable by the billing authorities. As with the answer to Q.35 it may be better answered once the detail of the scheme to be operated in practice is known.

I trust these comments will be of value.

Yours faithfully

Director of Finance & Public Protection

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