100% Business Rates Retention Consultation

Draft responses following YNYER Workshops

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

In determining the transfer of responsibilities to Councils, we would welcome the opportunity to take responsibility for functions which build on the strengths of local government; which support the drive for economic growth and which support improved outcomes for service users or local people. Whilst the transfer of grant funding helps to make the move to 100% business rates retention fiscally neutral, transfer of the grants listed would not impact on the responsibilities of local government.

We would therefore support transfer of transport and skills related grants for example as they are a good fit and have clear links to supporting economic growth and providing improved outcomes for local residents.

We do not support transfer of responsibility for administering the Attendance Allowance benefit for older people. This has the potential to create significant cost pressure as it is demand led. Costs pressures for such demand led services can go up very quickly whereas it can take much longer to generate additional business rates income.

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

We wish to see a stronger link between business rates funding and the services and infrastructure that facilitate a vibrant economy and support businesses to succeed. Examples include: regional/sub-regional infrastructure/transport; communications networks, skills, job centres.

Freedom from mandatory rate reliefs (for example Small Business Rate Relief and Charitable relief) would also be welcomed to enable councils to have discretion to prioritise the relief to meet local circumstances.

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

At this stage a combined authority is not in place in North Yorkshire. That said we believe the types of budgets that could facilitate greater efficiency and improved outcomes from the perspective of growth are strategic housing enabling, economic development, waste collection and disposal, highways and transportation, and communications networks.

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?

We believe that the services to be devolved should not be dictated by the Business Rates quantum.

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

Yes – additional burdens placed upon local government must be properly funded. Additional grants provide a mechanism at least until the system is reset and even then resets should only take account of new responsibilities that are directly linked to economic growth in order to maintain the strong link referred to in Q2. New burdens not funded through business rates should continue to attract separate grant funding.

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

Yes but there needs to be a careful balance between frequent resets to ensure funding is aligned to need and sufficient time to allow Council's to benefit from the investments they make to drive economic growth – a minimum of 10 years is suggested.

Fixed reset periods are needed to give certainty and confidence to investors but should go hand in hand with needs assessment.

However there does need to be an interim mechanism to deal with significant disparity between funding and need – the SCT suggest exploration of some sort of trigger – a funding safety net (as now) would help to manage funding risk but situations where need changes significantly also require consideration.

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

Funding to meet need must be the first priority in any new system although there must be some headroom to incentivise investment in growth, with a % of growth being retained locally. Both the SCT and SDCT (in their joint letter) agree that the new funding system must be focussed on the needs of residents. However, the SCT highlight a number of factors over which clarity is needed in order for councils to form a considered opinion.

The interplay between urban and rural areas also needs consideration as there is concern that rural areas could be disadvantaged as their capacity for business growth will generally be lower than urban areas although they are likely to see pressure from housing growth and therefore increasing service demand.

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?

A partial reset should seek to equalise significant gains and losses within the system and therefore must consider both changes in funding and importantly, need.

Furthermore business rates should not be looked at in isolation – Council Tax is a significant income source for councils and changes in tax base should also be considered.

It is also important that any partial reset system is fair and transparent.

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

A system of tariffs and top-ups is required to ensure services are properly funded but the system should align to needs.

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

In principle yes given the potential impacts on individual councils although clarity over how this proposal would work is needed to be able to form a considered opinion.

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

A fair and transparent business rates retention system should apply to all areas regardless of a Mayoral Combined Authority.

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?

Tier splits should be used to share appropriate risk and reward and incentivise behaviours across the tiers. Successful and sustainable economic growth requires all parts of local government to work together.

Also is there opportunity to consider the role that National Parks play in economic growth? With two national parks in the North Yorkshire these play an important role in local economies – could ways to incentivise the National Parks to support growth be considered?

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?

Proposals for the merger of blue light services would be aided by removing fire funding from the business rates scheme. However transparency would still be required over fire funding.

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 enable local authorities and Local Enterprise partnerships to fund larger scale projects over the longer term there could be increased flexibility over borrowing to finance growth.

Local flexibility and control over mandatory rate reliefs (and/or eligibility criteria).

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?

We would welcome assistance to manage risk and volatility within the system but there needs to be appropriate sharing of risk and reward particularly where national policies can impact on business profitability or the business rates quantum.

Particularly ‘risky’ hereditaments cannot be managed on a small scale business rates footprint without some form of safety net but equally it is important that there is a direct link to the benefit of growth in such sectors and the local communities that live with these businesses every day.

If such businesses are moved to a central list, for example to fund a national safety net, there needs to be clarity over the purpose of this funding and how it is used to support local government funding and how growth is shared by those communities most closely affected.

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?

Local lists would enable riskier hereditaments to be managed more effectively although there is a danger that this would add further complexity to the system.

Ultimately if this degree of flexibility is built into the system then such matters should be for local areas to determine.

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?

The preference would be for appropriate sharing of appeals risk – with appeals associated with matters of local control being managed locally and those that cannot be controlled locally managed at a national level.

There should also be a system of redress where appeals are the result of Valuation Office Agency error.

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

Improved communication and data sharing between the Valuation Office Agency and Councils and a standardised approach, along with the national co-ordination of managing/challenging appeals – local councils do not have the resources or expertise to challenge ratings experts with large specialist teams.

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

Yes generally speaking pooling risk is attractive particularly if there is no national safety net. However the preference would be for the continuation of some form of national risk pooling to cope with extreme volatility.

Voluntary pooling on an area basis is likely to leave some councils that have risker business rates profiles outside of pools, which does not incentivise working across boundaries for the benefit of wider economic growth.

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

It is difficult to form a considered view without understanding how the new system will operate, however the current level of safety net seems reasonable to cope with modest local volatility with more extreme shocks being managed nationally.

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

We do not support the ability for local councils to reduce the multiplier – this is seen as a blunt instrument and the preference is for more local discretion over discounts and reliefs which can be used more effectively to meet local circumstances.

If the ability to reduce the multiplier is a feature of the new system then such decisions would need to be made jointly by those councils impacted and costs should fall proportionately. There are concerns however that this would add further complexity to the system for little benefit.

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

See Q21 above – it is expected that a blanket reduction would be too costly – the preference is for local flexibility over discounts and reliefs.

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

Notwithstanding the points made above – local discretion should apply equally to increases as to reductions.

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

We do not support blanket reduction of the multiplier – local discretion over discounts and reliefs provides a more responsive system and can be used more effectively to meet local circumstances.

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

This should be decided locally.

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

How can virtual/on-line businesses operating in an area with no or minimal physical footprint, be captured within the system?

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

Concerns over complexity with overlapping LEP boundaries and cost of administration - LEPs should be consultees rather than approvers.

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

Agree that duration should be contained in the initial prospectus.

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

It is preferable that the definition of infrastructure is consistent with CIL to avoid added complexity and confusion.

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

Transparency is required whether a single or multiple levies are applied. A single levy would be simpler to administer and provide a degree of flexibility between projects although transparency through the initial prospectus will be important.

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

There is concern that the suggestions within the consultation will add further complexity and will bring greater risk and less transparency within the system. We are also mindful of the added burden on businesses.

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

Increased certainty for local government would be assisted by multi-year settlements although the risk and volatility inherent within the business rates system means a system of smoothing peaks and troughs is needed alongside a robust assessment of need. However, further clarity is required over how a potential multi-year settlement would work, including the on-going use of S31 grants.

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?

This very much depends on the services ultimately devolved but as set out previously local accountability requires local decision making.

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

The Collection Fund should remain – it should provide an overview of the funding system to aid transparency.

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?

We would be interested in seeing alternative examples.

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?

Without knowledge of the new system, there are a number of potential opportunities based on our knowledge of the current system, including: simplification, improvement and consistency of the NNDR data collection/forms; online completion via Logasnet; and closer working between the VOA and councils to share data and intelligence (on appeals for example).

Fair Funding Review

Question 1: What is your view on the balance between simple and complex funding formulae?

Whilst a simple formula is preferable to aid transparency a level of complexity, (for example allowing for suitably weighted key factors such demographics, sparsity and deprivation), is inevitable in order to adequately quantify need – ultimately it is important that the funding is as closely aligned to need as practicable. We would welcome independent research in this field.

Question 2: Are there particular services for which a more detailed formula approach is needed, and – if so – what are these services?

Adult Social Care
Children's Services (including care for those with more complex needs)
Services with higher costs as a result of rurality – for example transport (including home to school transport and concessionary fares), and waste collection

Question 3: Should expenditure based regression continue to be used to assess councils' funding needs?

Funding based on historic cost does not match future need it simply perpetuates previous decisions based on past funding allocations – potentially rewarding past inefficiency and penalising those that have delivered efficiencies.

Funding needs should be forecast for the period for which the formula is expected to apply.

Question 4: What other measures besides councils' spending on services should we consider as a measure of their need to spend?

See Q3 - we do not support spending on services as a measure of Councils' funding needs. Funding based on forecasted key cost drivers as suggested by the SCT would provide a more accurate assessment.

Question 5: What other statistical techniques besides those mentioned above should be considered for arriving at the formulae for distributing funding?

See Q3 - we would support the comments made by the SCT – a reliable measure of need is required.

Question 6: What other considerations should we keep in mind when measuring the relative need of authorities?

See Q3/4 – future forecasting of key cost drivers such as a growing and aging population.

Question 7: What is your view on how we should take into account the growth in local taxes since 2013-14?

The SCT highlight some interesting statistics concerning local taxes and average earnings in shire areas compared to London and metropolitan areas. We agree that using 1991 house prices is not a valid proxy for wealth and as such should be reconsidered as part of this fair funding review.

Question 8: Should we allow step-changes in local authorities' funding following the new needs assessment?

It is important that changes in need are reflected in funding allocations but a period of transition is needed to help councils manage both decreases and increase in funding. However transitional periods should be relatively short balancing the need to move to new allocations as quickly as possible whilst giving councils reasonable time to plan for and implement change.

Question 9: If not, what are your views on how we should transition to the new distribution of funding?

See Q8

Question 10: What are your views on a local government finance system that assessed need and distributed funding at a larger geographical area than the current system – for example, at the Combined Authority level?

The needs formula should consider issues at local authority boundary level to ensure adequate assessment - we are concerned that distributing funding at a larger geographical area would add unnecessary complexity and bureaucracy to the finance system. Decisions on partnering, collaboration and pooling of budgets should be a matter for local choice.

Question 11: How should we decide the composition of these areas if we were to introduce such a system?

See Q10.

Question 12: What other considerations would we need to keep in mind if we were to introduce such a system?

See Q10.

Question 13: What behaviours should the reformed local government finance system incentivise?

The consultations and responses on Business Rates and Fair Funding articulate a strong desire for local councils to incentivise growth whilst delivering efficient services that meet communities' needs.

Question 14: How can we build these incentives in to the assessment of councils' funding needs?

A system which sees funding based on need and which appropriately shares risk and reward