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

7 September 2016

Dear Sir

Response to Consultation on 100% Business Rates Retention

As a Council that supports economic growth we welcome the principle that local services are funded from local taxes. We have worked hard in this Borough to attract inward investment and grow our Business Rates base and collect annually over £35m. However in 2016/17 only 4% of this is retained by us to fund local services and indeed this will reduce to just over 1.5% in 2019/20 if the autumn statement proposals remain in place. This is a long way short of the 100% localisation promised.

Whilst we accept that there does need to be some redistribution to take account of differing levels of need and ability to raise income this does need to be balanced against the fact that we cannot continue to deliver the economic growth that generates the business rates that the country needs without greater investment within the borough and more money being provided for local services. Even if we could retain just 5% of the Business Rates we collect this would enable us to provide certainty in terms of services and investment in our communities.

Surrey Heath is prepared to borrow to deliver growth and hence deliver increases in taxation generated but we need to be confident that any benefits this delivers in terms of increased business rates will be retained locally to fund that investment. Any new scheme must take account of the fact that unless there are sufficient incentives for growth to be retained locally Councils will be less likely to invest as the risks will simply be too high.

With these points in mind our responses to your questions are as follows:

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

At the moment Surrey Heath do not receive any of these grants with the exception of Revenue Support Grant, which disappears in 2017/18, and Local Council Tax Support/ Benefits Admin Grant. We also receive money from the Better Care Fund to pay for Community Services via Surrey County Council.

We have no specific objection to these grants being funded from retained business rates. However we are concerned as to how future growth in demand for these services would be funded through business rates. Many, such as attendance allowance, are demand lead, and hence we would want to see a mechanism in place where the government would top up funding where the increase is greater than the percentage increase in business rates.

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

We would prefer that the responsibilities devolved were those for which Local Government could make a real difference and has the ability to manage demand. Transferring responsibilities upon which we can have no impact as they are dictated by Government Policy only transfers financial risk.

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

Whilst the principle of a Combined Authority works in some areas we do not agree that this as a “one size fits all” approach. Our concern is what would happen to these funds in non-devolved areas? How would it be ensured that, for example, access to the Local Growth Fund was retained in non-devolved areas?

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?

These could be funded through retained business rates provided that this did not lead to a reduction in the financial resources available to Councils.

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

The “New Burdens” doctrine should be retained. However greater clarity is needed as to what constitutes a “new burden” how it is assessed and how any growth is paid for. For example the Council received a grant for the Localisation of Council tax however this has been reduced each year and in fact disappears next year even though the “new burden” still remains in place.

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

Given the variation in needs and resources across the country we believe that there should be a reset of Business rates periodically. In our view though 5 years is far too short – it can take that time just to get a scheme off the ground. A more reasonable period would be 10 years. However there does need to be a mechanism where gains can be ring-fenced for a longer period of time, say 20 years, where the growth has been funded by local authority borrowing. This would then give certainty to Councils to invest in their communities in the knowledge that the funding can be repaid out of future business rates generated.

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

Growth needs to be retained for long enough so that communities can see the benefits of economic growth. There also needs to be a protection for growth generated as a result of local authority investment. Redistribution should be based on a regional rather than national basis so that at least money is retained relatively locally.

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 could work by allowing only a percentage of growth generated to be redistributed, say 50%, or by permitting growth generated from local authority investment funded through borrowing to be ring fenced.

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

As a District our ability to managed large financial shocks is limited. The current system of fixed tariff and top ups effectively transfers 40% of the risk in movements in Business Rates to Districts, although there is a safety net in place to mitigate this. Were this system to remain in place for the 100% Localisation then Districts could carry 80% of the risk and there would be no safety net. We would therefore prefer that the tariffs and top ups were based on percentages so that the risks (and rewards) are more evenly spread.

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

Yes this should be done. However this will only work if the reset and rebalancing is done on a national basis. In addition whilst the national take on business rates would remain the same, as is the case now, it could result in some areas paying more for being successful and therefore losing an even greater proportion of their business rates to pass to those that had not been successful. Hence growth generated would effectively be lost locally.

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

Yes but it should not be a condition to have an elected Mayor in place. Where an elected Mayor is in place the decision as to how growth is shared out should sit with local elected councils as it is they in effect which will be delivering the growth and are more closely answerable to local communities than the elected mayor – unless of course they decide otherwise. It should be allowed for Councils to group together if they so wish to pool growth for wide strategic issues

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 should be more closely aligned to the proportionate costs of delivering services in each tier and the tariff/top up reduced. This would ensure that risk is more evenly spread across all tiers of Local Government.

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?

No comment

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?

The ability to ring fence growth should be extended to all schemes, subject to approval and conditions, which are funded by local authority borrowing. This would truly mean that Tax Incremental Financing could be really transformational and deliver economic growth that communities need.

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?

This could be helpful but there would need to be a clear definition of "riskier". How would authorities be compensated for the loss of income for assets transferred to this list? More detail is also required as to how income from the current national list would be shared out and whether it forms part of the 100% localisation

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?

This should be for individual groups of authorities to determine amongst themselves if they so wish.

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?

Given that the overall local authority funding risk is managed at a national level through resetting there would appear to be an argument for some sort of national safety net to remain in place for variation in valuations

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

Local authorities should have the ability to challenge appeals – at the moment they are not even part of the process – and the valuation office needs to be more robust in its defence of appeals. The risks should be managed at a national level through a safety net to which all councils contribute through top slice

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

Yes. We would also be interested in the ability to manage risk regionally

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

It should be based on a %age of you baseline funding

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

In two tier areas both Councils should agree to the reduction and bear the cost. If only one agrees then it should indemnify the other. This power should not sit with the Combined Authority since in the current system it would not actually suffer any financial loss whereas the other Councils would and this could then adversely impact on core services. However it could be possible for the Elected Mayor to make a proposal for consideration by Councils in their area

All Council should be given flexibility to grant and vary all types of discounts and reliefs both for business rates and council tax i.e. single persons discount. This would enable them to tailor local taxation to local requirements.

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

The local discount power should remain

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

Councils should be able to reinstate the multipler provided that ratepayers have been given notice that this is going to happen.

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

The decision to reduce a multiplier should sit with local Councils and not with an Elected Mayor since the combined authority would not be impacted by the loss in funding. The elected mayor could be given the power to make a proposal which would have to be considered by the individual Councils. There also needs to be safeguards in place to prevent a “race to the bottom” where successful councils reduce their business rates to draw in businesses from neighbouring areas thereby enabling them to reduce their rates even further. Hence there should be parameters set as to the level of reduction than can be offered and the length of time.

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

The levy should apply equally to all properties and be subject to reliefs already in place such as small business relief.

The ability to raise a levy should not just sit with elected mayors. It should be available to all Councils. Councils may decide to join together to pool levy income for larger projects but that would be for local agreement.

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

This should remain. There is however a democratic mismatch in that in non-mayoral areas businesses that pay the levy must approve it and yet in mayoral areas no individual business approval (apart from the LEP board) is required?

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

In Mayoral areas the combined authority should take on the responsibilities of the LEP. This would remove that conflict. In non-mayoral areas there should be a local ballot of businesses similar to that used for a BRS scheme.

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

Councils should have the flexibility to decide on this

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

The existing definition used for CIL should be used.

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

Councils should have flexibility to decide on this

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

The power should be available to any groups of Councils that wish to fund infrastructure not just an elected mayor. There should be an exemption from the levy for BID and BRS areas.

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

Maintaining local services is a priority for most Councils. This will become increasing difficult due to the inherent risks in income from business rates. This risk will need to be managed through larger reserves, as Councils cannot borrow for revenue shortfalls, and greater cuts to services. It is difficult to see how local accountability can be strengthened unless Councils have complete discretion in setting all aspects of Business Rates and Council Tax and are able to influence the amount of income raised that is retained locally.

We would also want the flexibility to be able to set up mechanisms where in exchange for a fixed income guarantee we all pool our risks and share in the gains/losses that arise.

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?

The Government needs to continue its program of guaranteed multiyear settlements and to ensure that the system for redistribution is not reset too frequently

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

Yes

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?

Unable to comment without seeing the proposals. However the requirement to deliver a balanced budget should remain in place

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, efficient and transparent manner?

Anything to reduce the burden on local authorities in respect of statutory reporting is to be welcomed

As was mentioned at the start of this letter Surrey Heath is keen to see local services funded from local taxes. We want to continue deliver economic growth through investment in our community which not only benefits our residents locally but also the national economy but we do need support from Government to do this. Councils have shown repeatedly that they can deliver but they must be trusted by Government and given the tools to do it. Only then will the vision of a “Self Sufficient Local Government” driven by economic growth become a reality.

This letter was tabled and approved by the Executive of Surrey Heath Borough Council on the 6th September 2016

Yours faithfully,

Councillor Richard Brooks
Portfolio Member for Finance
Surrey Heath Borough Council