RESPONSE TO THE CONSULTATION ON BUSINESS RATES RETENTION REFORM

February 2019

About the District Councils' Network

The District Councils' Network (DCN) is a cross-party member led network of 200 district councils. We are a Special Interest Group of the Local Government Association (LGA), and provide a single voice for district councils within the Local Government Association.

District councils in England deliver 86 of 137 essential local government services to over 22 million people (40% of the population) and cover 68% of the country by area.

District councils have a proven track record of building better lives and stronger economies in the areas that they serve. Districts protect and enhance quality of life by safeguarding our environment, promoting public health and leisure, whilst creating attractive places to live, raise families and build a stronger economy. By tackling homelessness and promoting wellbeing, district councils ensure no one gets left behind by addressing the complex needs of today whilst attempting to prevent the social problems of tomorrow. Districts' role as housing authorities is fundamental to the determination of health and wellbeing.

In relation to the current spending review period, as the NAO have recently confirmed "district councils will see a 13.9% real-terms reduction during this period. The majority of district councils… will stop receiving the revenue support grant by 2019-20". Districts are continuing to see reductions in their core spending power for the whole period, compared to other councils who are all seeing an increase. Overall since 2010/11 the median reduction for district councils has been just over 30%. This will need to be addressed in the next spending review period.

Districts play a critical role in growing local businesses and generating economic growth. ONS data shows that non-metropolitan areas contribute 56% of England's Gross Value Added (GVA). Between 2010 and 2015, these areas increased their GVA per head by 13%, which was double the growth rate for London. In 2017/18 Districts were responsible for 44% of the net additional dwellings built in England and 45% of completions of affordable housing. Districts therefore represent a sound investment when trying to increase national economic performance. The increase in business rates income under 50% retention reflects Districts' success in generating economic growth.

It always takes time for our hard work and investments to translate into economic growth and the business rates system needs to be sufficiently long term to reflect this.

Districts operate at a scale which enables us to deliver on economic growth but at the same time to manage business rate risk and volatility more effectively than those authorities that have to face ever rising demand for social care. The need for social care authorities to have lower risk and volatility was a key reason in fixing tier splits under 50% retention to produce lower gearing for County Councils. This is even more essential given the extent of funding reductions since 2013.

Incentives to grow must remain under the new system. This means that business rates cannot be used as a sticking plaster to deal with the unrelated issue of the funding of social care, which requires additional funding of its own and radical financial reform.

At a time when, due to the demands on the social care system in particular, many County Councils are struggling financially, it is crucial that the system is not further destabilised by more reductions in funding to District Councils that would undermine their ability to do work on prevention that saves money for both social care and the NHS. Now is actually the time to give Districts more financial flexibilities that will help them to deliver on their prevention role.

Key points:

- The DCN is extremely concerned that the government wants to push ahead with a full reset in 2020/21. The complexity of the changes being made to the local government finance system introduces a real risk of destabilising the system if all the planned changes are introduced in the same year. We therefore call for a one-year delay in the introduction of all changes to business rates, to allow the changes from fair funding and the spending review to bed in successfully.

- The DCN broadly supports a phased reset to increase certainty and remove cliff edges in funding

- We support the continuation of a safety net.

- The DCN will discuss tier splits with CCN with a view to agreeing national tier split. However, the DCN is clear that no council should be financially worse off as a result of changes to tier splits in the move to 75% retention unless that is agreed locally. Any future tier split agreement should therefore confine itself to splitting the additional 25% that emerges from moving to 75% retention and the existing 40:10 split on the first 50% should remain unchanged.

- The DCN view is that there should be a shift of emphasis to a presumption that there will be local agreement on tier splits, backed up by national guidance on the remaining 25% in the absence of agreement. This will ensure that individual localities are able to determine how best business rates should be shared in their areas.

- We agree with the government implementing the proposed reform to the administration of the business rate retention system, on the basis that there will be phased resets in future. However, in order to ensure a smooth transition to this new way of working, we advocate a one-year delay in its implementation, to 2021/22. The reform should be piloted with a range of councils in 2020/21.

Question 1: Do you prefer a partial reset, a phased reset or a combination of the two?

District Councils play a crucial role in growing local businesses which is reflected in over £400 million generated in growth since the introduction of business rates retention. The DCN broadly supports the phased reset approach, on the basis that it provides more stability and certainty for councils than a partial reset. However, this must be done in a way which continues to incentivise growth. However, we are extremely concerned that the government wants to push ahead with a full reset in 2020/21. The complexity of the changes being made to the local government finance system introduces a real risk of destabilising the system if all the planned changes are introduced in the same year. We therefore call for a one-year delay in the introduction of all changes to business rates, to allow the changes from fair funding and the spending review to bed in successfully. This would give MHCLG more time to work through the details of its business rates reforms, in particular the “alternative reform” which has emerged only recently.

The consultation states that “As previously announced at the provisional local government finance settlement 2018 to 2019, the Government intends to carry out a full reset of Business Rates Baselines in 2020-21.” We can find no clear statement of this intention in the provisional local government finance settlement 2018 to 2019 and would be grateful for clarification of where it can be found. Furthermore, the government’s 2017 consultation on business rates retention focused on partial resets and made no reference to a full reset at any point. The previous consultation in 2016 made 2 brief passing references to a full reset as one option but again focused more on partial resets. The government’s official response to the consultation outcome in 2016 made no reference to full resets.

We note the government’s own comments in this consultation that a full reset “creates ‘cliff-edges’ at the end of each reset period and creates a perverse incentive for authorities to control when growth comes ‘on stream.’” The government gives these as reasons why it has ruled out full resets in future, but they apply equally in 2020/21. Our preference would be for a phased reset commencing in 2020/21.

If the government chooses to go ahead with a full reset, the accumulated growth that is lost to District Councils should be retained within the control total for lower tier services. Transition arrangements will need to ensure that, after considering all changes together, no authority is worse off in the first full year of the new system than in 2019/20.

Question 2: Please comment on why you think a partial/ phased reset is more desirable.

DCN members would broadly prefer greater security and the avoidance of cliff edges when it comes to resets. The phased reset approach appears to deliver this and therefore it is our preferred approach. The DCN would emphasise that the wider system needs to continue to incentivise business rate growth and to reflect the time it takes for investment to deliver economic benefits.

Question 3: What is the optimal time period for your preferred reset type?

Our preference is for a longer time period for phased resets which increases the incentive effect on Councils and our ability to drive further economic activity for the benefit of the whole sector. District Councils are engaged in long term economic development schemes that require greater certainty of funding. For example, the Oxfordshire Housing and Growth Deal is aiming to build an additional 100,000 new homes over the next 20 years, but this will also support additional economic development within the area to ensure that growth is sustainable. Councils within the area need to be certain that funding they need to support the wider growth agenda will not disappear through resets happening too frequently. We would support phasing over no less than a 6-year period that coincides where possible with periodic revaluations, but if this could be extended to 12 or 15 years then this would be welcome, as it would more fully represent the borrowing periods and investment timescales for councils driving economic growth.

Question 4: Do you have any comment on the proposed approach to the safety net?

We support the continuation of a safety net based on the current method. We also agree that other elements of the system should be set before deciding the level of the safety net. The safety net should be funded by proceeds from the central list and any levy rather than by a top-slice from local authorities.

Question 5: Do you agree with this approach to the reform of the levy?

Yes, we agree as it enables more Councils to keep more of the growth in their local areas, which improves incentive effects.
We also support continuation of the current arrangements whereby 100% business rates income is retained for renewable energy schemes, as this maintains an existing valuable incentive for Councils to promote renewable energy.

Question 6: If so, what do you consider to be an appropriate level at which to classify growth as 'extraordinary'?

We would consider an appropriate level to be 150% in any one year, which means that some authorities can contribute to the safety net.

Question 7: What should the fall-back position be for the national tier split between counties and districts, should these authorities be unable to reach an agreement?

Districts play a critical role in growing local businesses and generating economic growth. ONS data shows that non-metropolitan areas contribute 56% of England's Gross Value Added (GVA). Between 2010 and 2015, these areas increased their GVA per head by 13%, which was double the growth rate for London. In 2017/18 Districts were responsible for 44% of the net additional dwellings built in England and 45% of completions of affordable housing. Districts therefore represent a sound investment when trying to increase national economic performance. The increase in business rates income under 50% retention reflects Districts' success in generating economic growth.

The current system and tier splits reflect Districts' central role in delivering economic growth, as evidenced by Districts being 65% above their business rates baselines since the start of the scheme.

The DCN will be looking to agree a way forward on tier splits with CCN with a view to reaching a final position shortly. However, we have identified two key principles that underpin our position on tier splits as follows.

1) In the move to 75% retention of business rates no council should be worse off as a result of any changes to tier splits unless this is agreed locally. Any future tier split agreement should therefore confine itself to splitting the additional 25% that emerges from moving to 75% retention and the existing 40:10 split on the first 50% should remain unchanged.

2) A national tier split should be seen as a fall back with a presumption of locally agreed tier splits.

Question 8: Should a two-tier area be able to set their tier splits locally?

Yes, we agree. Moreover, the DCN view is that there should be a shift of emphasis to a presumption that there will be local agreement on tier splits, backed up by national guidance in the absence of agreement. We believe that this is in line with the true spirit of localism and would build on the successful negotiations in many areas in relation to business rates pilots.

Question 9: What fiscally neutral measures could be used to incentivise pooling within the reformed system?

We would suggest that Councils which pool their business rates and are therefore demonstrating a clear commitment to partnership working and economic development should receive preferential access to other funding schemes for economic development when bidding criteria are set and access to preferential rates of interest where they are borrowing to finance economic development.

Question 10: On applying the criteria outlined in Annex A, are there any hereditaments which you believe should be listed in the central list? Please identify these hereditaments by name and location.

We would refer to individual local authorities' responses to this question.

Question 11: On applying the criteria outlined in Annex A, are there any listed in the central list which you believe should be listed in a local list? Please identify these hereditaments by name and location.

We would refer to individual local authorities' responses to this question.

Question 12: Do you agree that the use of a proxy provides an appropriate mechanism to calculate the compensation due to local authorities to losses resulting from valuation change?

We agree that, in the absence of a more direct measure, a proxy (which assumes that valuation changes not backdated to the start of the list are classified as physical changes) is the only viable option.

Question 13: Do you believe that the Government should implement the proposed reform to the administration of the business rates retention system?

Yes, we agree, on the basis that there will be phased resets in future using 2017/18 data. However, in order to ensure a smooth transition to this new way of working, we advocate a one-year delay in its implementation, to 2021/22. This would also align it with the next planned revaluation. The proposed reform is currently untested and 2020/21 should be used to pilot this change with a range of local authorities.

Currently, there is a “perfect storm” of uncertainty for Councils in 2020/21 with changes to the funding formula and potentially to New Homes Bonus, so a delay would help to mitigate this risk.

We believe that, in order to ensure successful implementation, it is still necessary to explain the model more simply, operate the system in a transparent way so that it is evident how it compensates for appeals, be transparent about the level of business rates and growth kept locally and nationally and provide modelling to demonstrate it can achieve the original aims of further business rates retention, and compensate for appeals, without unintended consequences. We would like to see a worked example of how the alternative reform would work in a district/county area with real numbers that we can review.

Further modelling of the impact of using gross rates or net rates to calculate growth is needed and we would ask for further consultation with the sector on the measurement of growth.

Question 14: What are your views on the approach to resetting Business Rates Baselines?

The proposal to effectively reset baselines based on a single year’s data, being the 2018/19 NNDR3s and uprated for changes in the small business rating multiplier, would not be equitable and furthermore is very damaging to the “incentive effect” of business rates. This is because the level of retained business rates growth in 2018/19 is significantly greater than in preceding years and is not representative of business rates growth since the business rates retention was introduced. If the government were intent on having a full reset, which DCN strongly disagrees with, then we would strongly advocate that the baseline should be based on at least two years, being 2017/18 and 2018/19. We support basing resets on authorities’ own estimates of business rates provisions, as evidenced by NNDR3s.

Question 15: Do you have any comments at this stage on the potential impact of the proposals outlined in this consultation document on persons who share a protected characteristic? Please provide evidence to support your comments.

No comments.