COUNCIL – 29 SEPTEMBER 2016

AGENDA ITEM 11

CONSULTATION ON BUSINESS RATES RETENTION AND THE FAIR FUNDING REVIEW

APPENDIX 1: Response to Business Rates Consultation Paper

APPENDIX 2: Response to The Fair Funding Review

Business Rates Retention Consultation
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26th September 2016

Dear Sir,

Self-sufficient local government: 100%Business Rates Retention

I refer to the Consultation Paper in respect of Self-sufficient local government: 100% Business Rates Retention.

This response represents the views of Derbyshire Dales District Council.

Derbyshire Dales District Council is a member of SPARSE Rural and, without wishing to repeat all the points made by SPARSE, the District Council fully endorses their submission in response to the Consultation Paper.

In respect of the questions raised in the Consultation Paper, the District Council wishes to comment as follows:

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?

The most important concern for the Council will be that the new transfers increase cost pressures and risk. We would not therefore agree with any transfers where local government is required to take on any additional risk or demand led pressures which could exceed the growth in available resources. Ideally, transfers should be of existing funding streams where the quantum is known wherever possible. The additional costs of providing the services in the rural context must be reflected in the calculation of overall quantum being transferred.

A strong candidate for transfer is Rural Services Delivery Grant (RSDG). In principle the Council can support this transfer: it is a grant allocation that is known in advance and can be built into local authorities' Funding Baselines. We would strongly argue that it is the pre-damping amount reflected in the DCLG Summer 2012 consultation (and the authorities shown in that consultation) that should be the quantum of such a transfer. We would want to be assured that there is no diminution of spending power as a result of the transfer. Furthermore, if RSDG does transfer to local government, this should not preclude further increases in funding for rural authorities, or indeed a change in the way that funding is distributed between rural authorities.

The Council can support the transfer of Revenue Support Grant. We would not support the devolution of any national benefits unless there are absolute guarantees that funding will be made available to keep pace with demand.

We would want to ensure that it would still be possible to review and change the distribution of any funding streams that are transferred to local government. In principle this would be the same as for existing Funding Baseline. In particular, our support for the transfer of any funding streams should not be taken as an acknowledgement that the current distribution for these funding streams is "fair" to rural authorities.

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?

Devolution will not apply to all areas of local government. Therefore, there needs to be some recognition that these funding streams will be allocated to all local government, not just those areas where devolution deals exist. The Council shares the Rural Services Network's concern that future funding arrangements that affect all authorities are being built to suit urban authorities, where most of the current devolution deals are based. There is a danger that rural areas are left behind and that the benefit of the increase to 100% retention would be concentrated in urban areas. We do not support bespoke arrangements for devolution areas unless it can be shown that there are similar opportunities for rural areas.

Local Government will still expect specific funding to support Government priorities such as additional one-off funding received in recent years in respect of severe weather conditions.

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

The Council strongly supports the use of the new burdens doctrine for any transfers or changes in function after 2020. We feel that it is the cost of new burdens at the individual authority level which should be met by central government and not just funded at the national level.

Recent changes in small business rate relief reflecting a change in government policy could not be borne by small District Councils without compensation from extra Section 31 Grant. The Section 31 grant for 2015/16 for Derbyshire Dales was £790,000 compared to RSG of £1,370,000.

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

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

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?

Growth in business rates is less strong in rural areas than urban areas, particularly the larger city centres. Rateable values per head are much lower (50% on average) in rural areas, economies can often be less dynamic, and new business units or premises tend to be much smaller. Much economic growth in rural areas does not lead to an increase in Business Rates. Furthermore, a large proportion of the business rates payable is reduced by a range of reliefs, most of which are determined by central government through legislation and only some of which is actually funded by central government. It is much more difficult for rural authorities to convert support for the business sector into actual growth in business rates. The growth in Derbyshire Dales from 2010-11 to 2015-16 was 0%, compared with an average of 1.6% for English Authorities.

As a result of these characteristics, the Council is wary about the Government's policy objectives of rewarding and incentivising growth. Or at least, we could support incentives if they can be shown to have an equal, in spending power terms, incentive-effect in rural areas as they would do in urban areas.

The Government has already announced (without any consultation) that the levy will be abolished under 100% retention. This change will have a significant impact on the operation of the system. It will allow some authorities with large and growing rate-bases to retain a potentially very large share of future growth. And although many rural authorities do pay a levy (because they are tariff authorities), we would like to see more evidence of the effect of abolishing the levy, in particularly to see where there would be disproportionate windfall gains on future business rates growth for some local authorities.

In principle, the Council would support partial and more frequent resets of the baselines. This would ensure that some authorities did not retain disproportionate growth, whilst allowing there to be some ongoing incentive for growth.

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

The Council cannot see a better way of ensuring fair distribution amongst authorities than the current system of tariffs and top-ups. This methodology provides certainty for local authorities by ensuring that the tariffs and top-ups are fixed for the periods between resets.

In principle we would support changes in the system that minimised top-ups and tariffs, but it would be preferable that the most appropriate functions or funding were transferred, even if this does result in an increase in the top-ups and tariffs.

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

Under the current rates retention scheme there has not yet been a revaluation, so local government has not yet witnessed the impact of a revaluation and its implication on the local government funding system. Therefore the Council cannot support the proposal without first seeing exemplifications. No authority should gain or lose directly from revaluation.

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

The Council is not directly affected by the creation and operation of Mayoral Combined Authorities. As such, we are not in a position to comment on the powers and responsibilities of elected mayors and combined authorities.

We do have a number of concerns about how devolved areas and combined authorities will work. Firstly, devolved areas are making agreements with central government that is shaping local government funding for the whole country, and ultimately this will impact on rural areas. The whole of local government should be given much more direct say in how these arrangements are being shaped. The Council would not support the development of separate funding formulae for combined authorities or devolved areas: there should be a common funding formula for all local authorities, and this formula should have proper recognition of the needs of rural authorities, including the costs of meeting those needs.

Secondly, devolved areas are receiving financial benefits that are not available in rural areas, where there are few devolution deals. There are special arrangements that allow devolved areas to retain more of their business rates growth at the expense of rural areas (e.g. 100% Business Rates Pilots, City Deals), and specific additional funding through the substantial Investment Funds. We assume all of these funding schemes top-slice the funding that is available for the rest of local government and are therefore at the expense of the rest of the Sector.

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?

Generally, local government has accepted the way the two-tier split operates. However, there is an opportunity to review the splits and the Council would welcome exemplifications illustrating the outcomes as part of the planned further consultation expected in the autumn.

Our view is that future tier splits should be driven by transfers of funding and responsibility.

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 Council considers that fire funding should be removed from the BRRS given the potential for Police and Crime Commissioners (PCC) to take on responsibility for fire services.

The Council does not feel that the fire authority responsibilities fit the four criteria for devolution of responsibilities as set out in the consultation document, nor do fire authority responsibilities provide a clear link with economic growth in an area.

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?

Enterprise zones are not evenly spread across the country, and are focussed to a greater degree in urban areas. We would support an approach whereby rural areas are offered much more opportunity to set up enterprise zones and to benefit from the protection of baselines.

Our concern about enterprise zones is that they give some local authorities and LEPs the opportunity to keep potentially significant amounts of growth at the expense of the rest of the country. There has been remarkably little scrutiny of how baselines have been agreed and whether this represents good value for money for the sector as a whole. We would want the benefits from enterprise zones to be shared more equitably around the country, particularly between urban and rural areas.

Currently, the Council is part of a 'Derbyshire' business rates pool, this being the second year of operating such a scheme. Whilst it is recognised that pooling may cease under proposals of the BRRS as a result of removing the levy, the Council is of the opinion that if a 'Derbyshire' pool is allowed to continue it will help to share the risks and rewards. It would be in the interest of all members of the pool to generate growth.

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?

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?

The Council would refer to the previous question, in that we would prefer the option of pooling in order to mitigate the risk at local level.

As part of formulating our response we have been involved in discussions with the other Derbyshire authorities who are Members of the current Derbyshire Business Rates Pool. There is an in principle understanding amongst the authorities concerned that on the basis the Government decides that risk is more appropriately managed locally that we would wish as our first option to manage such risk on a Derbyshire wide basis. Such a view would of course be dependent upon the financial exemplifications demonstrating that a Derbyshire based pool was a financially sustainable option.

Question 17: At what level should risk associated with successful business rates appeals be managed? Do you have a preference for local, area level (including Combined Authority), or across all local authorities as set out in the options above?

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

Appeals have been the single biggest risk for authorities in managing the retained-rates system.

However, a large part of the problem when the retained rates system was introduced in 2013-14, was that local authorities inherited the risk for appeals part-way through a rating list period, without a provision for the potential cost of previous year's appeals. Managing this risk put many authorities under considerable financial pressure. This phase is now coming to an end, and the next phase – providing for appeals following the 2017 revaluation – will be very different. Although authorities will still be exposed to risk, they will be able to provide for appeals losses in a more managed and smoother way.

The Council is concerned that there should be sufficient adjustment to the Business Rates Baseline to reflect the cost of appeals over the lifetime of the rating list. When new baselines are issued in 2017 following revaluation, we would expect an adjustment to the Estimated Business Rates Aggregate (EBRA) that reflects the full cost of appeals based on the losses on the 2010 list.

We have also experienced a large backlog of appeals waiting to be resolved by the VOA. This means that the provision is larger than it might have been and requires greater administrative effort in managing appeals. We are concerned that the impact of the 2017 revaluation will exacerbate these effects.

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

See Question 14 above.

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

The Council considers that this is difficult to comment on without being able to examine the potential implications, however we would support the continuation of the safety net to protect authorities from large reductions in business rates.

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

Question 22: What are your views on how decisions are taken to reduce the multiplier and the local discount powers?

The Council's view is that there should be the same multiplier across an area so that it is consistent for businesses. This area could be based on the current county council areas, and could potentially cover contiguous unitary councils. We would support local authorities being given the powers to both reduce and increase in these areas. These powers should be available even if there is not an elected mayor. There could be alternative governance arrangements for proposals to increase the multiplier in county areas where there is no mayor.

In our experience, targeted business rate reliefs are a more effective, affordable and flexible way of attracting new businesses. These are currently under the control of the billing authority. We would support extending this power to all local authorities (i.e. to include the county council). The cost of the reliefs would be met by the authority making the decision.

We would support arrangements that encouraged joint decision making on reliefs (and on the multiplier). This would allow district councils, county councils and unitaries to agree a joint approach and strategy for an areas, to agree joint funding for any reductions in multiplier/ relief, and to agree investment objectives.

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

Allowing authorities to catch up as they see fit could mean that businesses are potentially faced with significant increases. Capping the rate of the increase may dissuade authorities decision to reduce the multiplier in the first place.

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

No comment on this question.

Question 25: What are your views on the 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?

The Council's view is that this power should be extended to areas without elected mayors. Rural areas have significant infrastructure needs and it would be invidious to deprive them from the additional revenues to fund the infrastructure that is required in their areas because they did not have elected mayors. Often rural areas receive less funding from central government for infrastructure, and having access to the infrastructure levy would at least give rural areas some ability to redress this balance.

We recognise that additional governance arrangements would have to be put in place, and that local businesses, including the LEP, would have to be satisfied that they had a role in the decision making.

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

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?

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

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?

Question 36: Do you have views on how the business rates data collection activities could be altered to collect and record information in a more timely, efficient and transparent manner?

The Council strongly supports RSN's view that local authorities should continue to have to set a balanced budget every year. This is an important element in the financial strength of local government as a sector and for individual local authorities. It would be helpful if central government had a more sophisticated understanding of the role that reserves play in the financial resilience and financial management of local authorities. For example, Derbyshire Dales has established a Business Rates Volatility Reserve to help it manage its risks associated with business rates.

We also agree that there would be no benefit in removing the requirement to prepare a collection fund account, at least for those billing authorities with preceptors. In our opinion the disclosures required for the collection fund are not onerous.

An element of the collection fund that does not work is that any surplus or deficit is recognised in the year after it occurs. Changes to make this system work better will be welcomed.

<u>Additional point: funding for mandatory reliefs</u>

The Council would like draw the DCLG's attention to the operation of mandatory reliefs, including charitable relief and rural relief. Mandatory reliefs represent a much larger share of gross rates in rural authorities than in urban authorities. This is because rural areas tend to have a higher proportion of charitable and non-profit organisations, as well as businesses that are more marginal. These businesses include local shops, public houses and garages.

The 2013-14 baseline reflected the cost of these reliefs, but since then the cost of any increase has been shared 50:50 between local authorities and central government. Mandatory reliefs are also increasing more quickly in rural areas, in addition to them representing a higher share of gross rates. As a result, rural authorities have been shouldering an unfair burden of the cost of national reliefs.

A further issue is the way that reliefs are applied. Many rural businesses and organisations will be eligible for a range of reliefs, including mandatory charitable relief, rural relief and Small Business Rate Relief. However, the two reliefs for which local authorities pay 50% (charitable and rural relief) are applied first, and SBRR where the "doubling up" is funded nationally through a section 31 grant, is applied last. As result, this increases the cost of the reliefs to rural authorities. At Derbyshire Dales District Council it is estimated that this affects over 100 properties.

The Council supports the reliefs that are available to local businesses because they provide welcome financial support to businesses operating in rural areas. But we believe that central government should review the way that reliefs are applied and the way they are handled in the retained rates system so that the burden is more equitably shared between local authorities and central government.

Yours sincerely,

Karen Henriksen
Head of Resources
(Section 151 Officer)

DERBYSHIRE DALES DISTRICT COUNCIL

INVESTORS IN PEOPLE

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26th September 2016

Dear Sir,

FAIR FUNDING REVIEW

I refer to the Consultation Paper in respect of Fair Funding Review.

This response represents the views of Derbyshire Dales District Council.

Derbyshire Dales District Council is a member of SPARSE Rural and, without wishing to repeat all the points made by SPARSE, the District Council fully endorses their submission in response to the Consultation Paper.

In respect of the questions raised in the Consultation Paper, the District Council wishes to comment as follows:

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

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

On balance, the Council would support the introduction of simpler, less complex formulae. As suggested by the RSN we would support the introduction of flat per-head funding. The starting point for the development of funding formulae should be that there is a standard amount of funding available per head across the country. Any additions to this flat per-head funding would have to be justified on the basis of evidence. The uplift in funding for any of these reasons would therefore be clear and transparent.

The RSN has made a very strong case for the additional costs associated with sparsity and rurality, and these additional costs have been evidenced in numerous reports. Their case has received ministerial support and has received additional funding (both in the 2013-14 funding formulae) and in the Rural Services Delivery Grant (which began in 2013-14 and has been increased significantly since then). The case for additional funding for rurality and sparsity has been made convincingly and we would expect this (at the DCLG exemplified level – pre damping) to be one of the add-ons to any flat per-head funding.

The services where rurality and sparsity are factors are well known: the report commissioned jointly by DEFRA and DCLG identified these services and the evidence that was available.

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

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

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

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

The Council supports an approach where allocations would be determined based on a combination of evidence and judgement. A set of need indicators could be developed based on judgement and an assessment of a range of factors, including client numbers, performance and other evidence. The current EPCS formulae were developed in this way (and it has stood the test of time).

We are opposed to using regression against past spending because this only serves to continue past, urban-biased, funding decisions and local spending patterns. Funding per head is 50% higher in urban areas than rural areas, yet residents in rural areas pay higher council tax and receive fewer services. In our view, this is clear evidence that rural authorities have been systematically under-funded for many years. Over time, higher levels of funding in urban areas has driven higher levels of spending. Basing future funding on past spending would simply continue the gross unfairness.

The consultation paper did not mention how the DCLG would examine unmet need. Residents in rural areas often receive lower levels of service and facilities because of historic underfunding. The Council would support a funding formula that ensures that rural authorities can provide relatively the same range and level of service and facilities to their residents as urban authorities can provide to theirs. Using flat per-head funding would help to achieve this.

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

In resetting the Resources block (which reflects the assessment of local council tax), it is important that the Government is aware of the overall funding levels across urban and rural areas. Increasing the size of the Resources block – and thereby increasing the deduction from authorities' funding allocations – will transfer resources away from rural areas and in to urban areas. The effect will be to further increase the gap in funding per head between rural and urban authorities, which currently stands at 50%.

The Council would also welcome greater predictability about how council tax will be taken into account in future funding allocations.

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

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

The Council agrees that there should be a period of transition, however we do not feel that damping has been handled in a particularly rational way over the past 15 years. Although some rural authorities have been recipients of damping, most have been contributors. Furthermore the additional funding that was put into the Relative Needs Formulae (RNF) in 2013-14 to reflect the Government's acceptance that the formula did not adequately reflect rural service delivery costs was largely eroded by an increase in damping.

The Council supports the unwinding of the current damping arrangements, and for authorities to move towards their underlying RNF positions as quickly as possible.

At the very least, the Government should set out the principles on which it will operate a transitional funding system in future years. The Council would prefer transition to be unwound within a fixed number of years (5 years at most). We accept that DCLG might have to set a maximum annual change in funding for those authorities who are most reliant on damping. However, the Government should be clear in stating that damping is a transitional over a fixed period and not a permanent form of funding.

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?

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

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

The Council agrees with the RSN's views and could potentially support the creation of area-based funding formulae. However, our conditions would be:

(a) There should be a consistent funding formulae used across the entire county. The same funding formulae should be used for devolved and non-devolved areas.

(b) There should be a clear add-on that adequately reflects the cost incurred in rural areas. This should be at least as great as in the current RNFs.

(c) In combined authorities/ areas that included rural areas, the same level of additional funding should be available for residents in those rural areas. There is danger in area-based funding formulae that funding for sparsity or rurality is based on average sparsity across a whole area. In an area that included both rural and urban areas, this could potentially significantly understate the effects of sparsity.

The Council supports the idea that there should be regular periodic resets of need. Resetting every 5 years would appear to be a reasonable period, although there is no reason why needs and business rates cannot be reset independently and at different times.

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

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

Local authorities want a finance system that is fair, simple and transparent and reflects the needs of an authority in order to deliver services to local people.

The Council's view is that, if there are going to be incentives in the funding system, then they need to be able to provide equal levels of financial benefit in rural and urban areas. Any incentive system that is proposed should show that it is capable of delivering similar levels of benefits in rural and urban areas.

Yours sincerely,

Karen Henriksen
Head of Resources
(Section 151 Officer)