

## **APPENDIX 2**

### **DRAFT RESPONSE TO CONSULTATION**

# **SELF-SUFFICIENT LOCAL GOVERNMENT: 100% BUSINESS RATES RETENTION CONSULTATION**

## **DRAFT CONSULTATION RESPONSE**

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

As a general principle, we believe that the grants and responsibilities funded from retained business rates should be those where there is a good fit with existing local authority areas of experience and competence. So, for example:

- Attendance Allowance expenditure is demand led. It is not linked in any way to business rates income and should not come to local authorities.
- Council Tax and Housing Benefit Administration Subsidies relate to functions carried out by local authorities and legitimately could 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?***

Expenditure from national agencies, such as the Environment Agency and the Homes and Communities Agency, should be channeled through local authorities, which are best placed to ensure that it is invested effectively to meet local needs. Existing funding in these areas should not, however, be cut and replaced with funding from business rates.

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

There should be a bespoke approach to this according to local needs and circumstances. Generally, we are content with the choice of budgets that have already been devolved in other areas, such as Transport, Capital, Local Growth funds.

### ***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?***

Business rates must not be not used to fund devolved responsibilities which have not hitherto been funded this way. Generally, it is important to ensure that there is adequate funding in the system for devolved responsibilities. This may mean topping up business rates from elsewhere.

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

We agree with this.

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

There may be pressure from some local authorities for a flexible system, driven by changes in spending pressures they may be experiencing. However, we believe that it is more appropriate to have resets only infrequently, as this increases the incentive value for local authorities of being able to retain the growth in business rates. It would be sensible to align the resets with business rates revaluations in order to minimise turbulence. For example, if business rates revaluations took place every three years, perhaps resets could take place every twelve years, to coincide with a triennial revaluation.

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

We are strongly in favour of rewarding growth.

***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?***

We do not believe that partial resets are appropriate. The cost of administration and the time spent on them would outweigh any benefits. Provided that there is a 'safety net' or similar mechanism within the new system, authorities will be protected against exceptional circumstances eg closure of a large business rates payer.

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

The current system is too inflexible. We would argue for maximum flexibility. There are benefits in having a system with an element of certainty but having a high tariff means local authorities don't see much from the business rates, which defeats the point of business rates retention. It is accepted that there will need to be some form of top-up for those authorities with lower business rates income. This may be achieved on a regional basis. For example, the current Kent-wide pooling arrangement works well.

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

No.

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

We would support the principle of combined authorities having additional powers and incentives, but we do not think this should be linked to those

with elected Mayors – this places too much power in the hands of one individual.

The general principle of devolving additional powers and incentives should not be limited to combined authorities. In some cases these could create an unnecessary extra layer of local government.

Any additional responsibilities would need to be adequately funded.

***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?***

Headline tier splits do not represent the true situation. For example, Maidstone Borough Council notionally receives 40% of business rates versus Kent County Council's 9% share, but in practice it only receives around 7% of business rates income owing to the working of the tariff system and the levy on business rates growth. We nevertheless suffer 40% of the losses from bad debts and appeals.

In extending the scope of business rates retention:

- it is important that tier splits should be more transparent (for example, 40% should mean 40%)
- the 80:20 weighting in favour of lower tier authorities should be maintained.
- the distribution of cost and risk on appeals should be aligned with the distribution of the benefit of business rates income.

***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?***

Fire funding should be removed. Linking fire authority funding to other local authority funding adds unnecessary complexity to the system. We believe that fire authorities would also prefer this approach. Care would need to be taken to ensure that business rates income for local authorities was not unfairly top-sliced to maintain fire authorities' income.

***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?***

We support the existing arrangements for recycling local business rates within an Enterprise Zone. Current arrangements should be guaranteed and similar arrangements offered for new EZs.

***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 is not something we believe is necessary. Most local authorities would be able to manage their own risks.

***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?***

Properties should remain on local lists, such that the authority that has the closest link to the ratepayer manages collection and business risk.

***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?***

Risk is something which should be managed locally, as local authorities have the power to influence outcomes. We are not able to manage risk across a wider area.

As a more general point, it should be noted that appeals tend to sit in the system for years with nothing being done – there must be prompter resolution of appeals. This would help to mitigate the level of risk and uncertainty in the system.

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

The process of resolving appeals is currently very opaque. More transparency and better local liaison with the Valuation Office is needed. There are too many frivolous appeals and a better filter system to deter these is needed.

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

Kent councils already operate a pooling system that provides a safety net for member authorities that lose business rates income. To the extent that there are strong links between authorities within a pool area and a willingness to share risks, we would support pooling.

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

A wide-ranging, across-the-board safety net goes against the principle of business rates retention. Any income protection system which is introduced should be set at the local level (subject to the comments made in question 19 above about pooling).

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

This should be the responsibility of lower tier authorities, which in Maidstone is the Borough Council. Borough/District councils are collection authorities and are closest to the businesses affected.

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

Local authorities should be given both powers and should be constrained as little as possible.

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

There should be no constraint on increasing the multiplier after a reduction.

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

Local authorities should have the power to increase the multiplier, subject to appropriate safeguards, as well as to reduce it.

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

Maidstone Borough Council is not a levying authority. However, we believe that levying authorities should be given the flexibility to protect small businesses. By the same token, we ourselves would like to have the power to set a rateable value threshold, without seeking approval from the LEP or the levying authority.

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

Maidstone Borough Council does not charge any supplements. It is important to keep the system simple, protect business ratepayers and not impose unnecessary burdens on businesses.

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

This is something which we are strongly against. It is preferable for this power to remain with democratically accountable authorities, not with LEPs. The LEP that is responsible for Kent covers a very wide and varied geographical area, including three very populous counties, so is not particularly close to local businesses and their concerns.

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

This is something which should not be rigid. It is important that maximum flexibility is built into the arrangements.

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

To the extent that infrastructure is defined, it should be limited to measures that benefit the local economy and hence business ratepayers. We would want to see a process by which an infrastructure plan is developed, consulted on and tested to enable a robust and transparently prioritised infrastructure schedule to be adopted, similar to the system used for the Community Infrastructure Levy.

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

The defining principle should be to keep this as simple as possible; preferably a single levy.

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

It is important to protect the interests of local business ratepayers and to have a system that all parties perceive as a transparent, accountable and democratic process. It should be noted that the power to raise an infrastructure levy, as currently envisaged, is not subject to the same level of procedural rigour as (for example) disbursement of Community Infrastructure Levy. Given the potential scale and longevity of infrastructure levy payments, business ratepayers will rightly expect tight controls over the power to raise a levy, and will expect to see the benefits demonstrated clearly.

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

In general we would argue for a process that is transparent and simple. We would also like to see the funding arrangements fixed over the period of our Medium Term Financial Strategy, ie five years.

***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?***

We are strongly in favour of devolution and local accountability.

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

The new system should continue to maintain the requirement for a Collection Fund Account.

***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?***

The current balanced budget calculation can be somewhat misleading in relation to business rates. It should be amended so that it can be demonstrated that both Council Tax and Business Rates are used by local authorities to balance their budgets.

***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?***

It is important that the data collection documents (NNDR1 and NNDR3) are retained but consistency is important and they need to be published in a timely manner.