Coventry City Council

Briefing Note

To **Scrutiny Co-ordination Committee**

Date **22nd September 2016**

Subject **Business Rates Reform and Consultation**

1 Purpose of the Note

This note follows up the Scrutiny Co-ordination Committee's Business Rates system briefing and discussion on 7th September. This was in the context of two consultation papers published by the Government on 5th July regarding proposals for 100% localisation of Business Rates. At the initial Scrutiny Co-ordination Committee meeting, members requested the opportunity to consider the consultation questions posed by Government and the relevant draft responses. Members also requested further information on the potential for the pooling of business rates within the Combined Authority and the Council's strategy for maximising business rates income. These matters are considered in this attached note. Draft responses to the consultation questions are attached at Appendices 1 and 2.

2. Recommendations

2.1 Scrutiny Co-ordination Committee is recommended to:

1) Consider the content of the note and the proposed consultation responses

2) Identify any substantive amendments to the consultation responses to be proposed to the Leader, the Cabinet Member for Strategic Finance and Resources and the Executive Director of Resources.

3 Background

3.1 As part of the Government's plans for the reform of the local government finance system, two consultation papers on 100% business rates retention and on how the new system might affect different authorities' funding needs were published on 5 July 2016: a consultation entitled "Self-sufficient local government: 100% Business Rates Retention" and a call for evidence entitled "Business Rates Reform, Fair Funding Review: Call for evidence on Needs and Redistribution". The deadline for responses to both is 26 September 2016. The documents are available at the following links:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/535022/Business_Rates_Retention_Consultation_5_July_2016.pdf

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/534956/Discussion_document_-_Needs_and_Redistribution.pdf

A more detailed technical consultation on the proposals is expected in the autumn and the new scheme will be implemented across local government by the end of the Parliament.

3.2 The Council's Medium Term Financial Strategy considered by Scrutiny Board 1 on 7th September recognises the importance of Business Rates growth to the Council and this is reinforced by the move to 100% localisation of Business Rates. Therefore it is important to ensure that the Council continues to make the case for its interests to be put forward through the responses made to the consultation questions. Given the timing of the consultation documents and the Council's meeting dates it has not been possible to prepare the consultation responses in time to receive approval by full Council. The alternative route is for the consultation to be approved by the Leader, the relevant Cabinet Member (the Cabinet Member for Strategic Finance and Resources) and the Executive Director of Resources in consultation with the shadow Cabinet Member.

3.3 In addition to responses from individual authorities, officers from WMCA member authorities are working together to agree a joint WMCA response to the consultations. However, given the differing starting points of each of the authorities, it is not clear the extent to which this will be achievable. The proposed responses attached at Appendices 1 and 2 represent the latest WMCA draft position and these are likely to reflect in large part the position that is recommended for submission by Coventry.

3.4 In addition this note includes the current position regarding the pooling of Business Rates within the WMCA and the steps that the Council is taking to ensure that it maximises its Business Rates.

4. Draft Responses to Consultations

4.1 Appendices 1 and 2 include individual draft responses to the consultation questions, of which the most significant aspects of the move to 100% business rates retention are:

- the assessment of need and calculation of the baseline position;
- the grants identified to be replaced by retained business rates;
- the impact/timeliness of reset periods and the effect this will have on how much growth local authorities are able to retain;
- the incentives that need to be provided to areas of growth;
- the impact if authorities are able to reduce the business rates multiplier in their area;
- the increased exposure to risks from both appeals and business failure/relocation;
- the impact of the business rates assumptions in the WMCA devolution deal.

These matters are considered below and are reflected in the appendices.

4.2 Under the current system, which was introduced in April 2013, central government retains 50% of the business rates collected by local authorities in what is known as the "central share". This funding is then redistributed to local government through various funding streams, including revenue support grant and other specific grants. The remaining 50% is known as the "local share". In single tier areas like Coventry, 49% is attributable to the billing authority and 1% is transferred to the fire authority. In order to equalise resources between authorities with different starting points, authorities with relatively high Business Rates tax bases in relation to their spending needs pay a tariff to central government. Other authorities with a relatively low Business Rates tax base (including Coventry) receive a top-up payment from central government.

4.3 Under the proposals for the revised system, the local government sector will retain the "central share". This is expected to be around £12.5 billion nationally by 2019/20 and is more funding than local government would receive under current government spending plans. Full rates retention is intended to be fiscally neutral so the government is consulting on various funding streams and responsibilities that could be transferred to local government and funded from this additional business rates income, so that the sector as a whole receives no net additional funding in the first year.

4.5 In addition to revenue support grant and public health grant, other significant grants that the consultation suggests could be rolled in include the Better Care Fund, funding for Early Years and Youth Justice and Attendance Allowance. The proposed response argues for the transfer of only those funding streams with relatively stable and predictable levels of demand, or those which are closely linked to economic growth, such as business and innovation grants and funding for skills and adult education programmes. The response argues in particular against the inclusion of Attendance Allowance which, as a demand-led service, has the potential to create significant cost pressures for budgets which are already under considerable strain, and which has no links to economic growth. The response also emphasises the importance of ensuring that any transfers into local government responsibility will be fully funded.

4.6 The Government has recognised that there will need to be an element of resource equalisation across local authorities within the new scheme which has been recognised by Government and which is reinforced in the draft response. The assessment of need and the calculation of individual authority baselines will be determined by a new set of funding formulae, the design of which will be informed by the Fair Funding Review as outlined below.

4.9 Individual authorities will continue to either pay a tariff or receive a top up payment to help equalise resources across the sector. Tariffs and top-ups will be periodically reset to reflect changes in relative need, and the draft response argues for five yearly partial resets, which allow authorities to retain at least 50% of their growth, in order to provide an incentive to local authorities to grow their business rates tax base. The alternative of a full reset would redistribute all business rates income within the system at set periods which would reduce this incentive.

4.10 The levy that exists in the current system will be abolished, which will have implications for the continued existence of the current business rates pools. The attraction of the new scheme therefore, particularly for authorities which expect to see growth in their business rates yield, is the opportunity to retain part of the growth above the baseline set in the first year.

4.11 As part of these arrangements local authorities will be expected to meet any increase in the costs of the newly transferred responsibilities from their retained business rates income. There may also be a requirement to top-slice business rates growth in order to fund the safety net and/or an element of appeals, depending on the final design of the scheme. Also, there will need to be some consideration as to how the terms of the existing devolution deal which the WMCA has already agreed with central government (that it will retain an element of growth on the central share), will be honoured.

4.12 The increased exposure to risk, from both appeals and business failure/relocation, under a full rates retention system is a significant concern for local authorities. The intention is that the safety net, which protects individual authorities from significant reductions in their business rates income, will continue under the new system. The paper asks for views on whether the safety net should continue to operate at a national level or whether authorities would welcome new area-level arrangements to managing risk. The draft response argues for these risks to be managed at a national level.

4.13 The final section of the paper seeks views on the levy raising powers which the government intends to give to combined authority mayors, including how the use of these powers should be approved and what kinds of infrastructure the levy could be spent on.

The draft response agrees with the suggestion that the LEP Boards of all the areas affected by any proposed levy should be consulted.

4.14 The government also proposes to allow councils and combined authorities to provide an across the board reduction in the business rates multiplier in their area. There is concern that this could lead to a “race to the bottom” in terms of neighbouring authorities reducing their multiplier in order to attract relocating businesses and the draft response opposes the introduction of such a power, proposing that in two-tier or combined authority areas the agreement of affected authorities should be sought prior to any decision to reduce the multiplier.

4.15 The consultation on needs and redistribution is a more technical discussion paper which will inform the Fair Funding Review of the needs assessment formula. For the services currently supported by the local government finance system, the outcome of the review will establish the funding baselines for the introduction of 100% business rates retention. It is anticipated that the new formula will then be updated periodically when the system is reset, to take account of changes in relative need. In addition to technical points on statistical methods for measuring need, the key issues raised in the paper are around how the transition to a new funding distribution is managed, the geographical level at which need is measured and whether the funding system should incentivise particular behaviours.

4.16 Previous changes to the funding formula have resulted in substantial movement in how the funding is distributed between authorities which has then been minimised through damping mechanisms. Authorities including Coventry have argued that such damping weakens the purpose of the needs assessment and means that those authorities with greater needs do not receive the full value of the funding they require. As an example, Coventry’s 2016/17 settlement continues to contain a damping adjustment that means that the c£5m of resources continue to be with-held from the Council. The response proposes that damping is not maintained as a semi-permanent feature of the new system whilst acknowledging that transitional funding will need to be made available to support those authorities particularly affected by significant step changes in their funding as a result of distributional change.

4.17 The existing funding system assesses funding needs at local authority level but the paper asks for views on an alternative approach which would see funding distributed to larger geographical areas (such as combined authorities), to be allocated based on local decisions. The risks of this approach are that the funding received by an authority might then depend on its negotiating power rather than its need, and that devising local distribution mechanisms would add complexity and inefficiency to the system. The response argues against this approach.

4.18 The consultation suggests that the new funding system could be designed so as to incentivise particular behaviour, such as efficiency or collaboration with other local authorities. The response argues that the focus of the funding system should be on ensuring a fair, needs-based distribution, and that any attempts to introduce additional elements into the system risk undermining and weakening this primary objective.

5. Business Rates Pooling

5.1 Coventry is currently part of the Coventry and Warwickshire Business Rates Pool incorporating Warwickshire County Council (like Coventry, a top-up authority) and the 5 Warwickshire district councils (which are all tariff authorities). For tariff authorities any growth in business rates base above a certain level (known as the baseline level) is subject to a levy. Within the Coventry and Warwickshire Pool part of the levy due from the

5 districts is available for distribution amongst the pool members rather than being returned to Government. Coventry received £367,000 as its share of pooling benefit in 2015/16.

5.2 Before the design of the 100% Business Rates localisation scheme is finalised, various elements of the proposals will be tested by local area pilots, and a working group of officers from the members of the West Midlands Combined Authority (WMCA) has been set up to explore options for setting up a WMCA business rates pilot scheme.

5.3 If the Council through the WMCA, chooses to take part in a pilot then this would involve mirroring part of the principles of 100% localisation. This might mean that Business Rate growth above an initial baseline position and agreed protections would be retained by WMCA members. It has already been established that any agreement would be underpinned by a "no detriment" principle. This would protect the financial position of the WMCA authorities as a whole and would, subject to local agreement on redistribution mechanisms, means that overall there should be no net negative effect on the Council's finances of taking part in any pilot. If agreed, piloting will begin in April 2017. It would not be possible for the Council to remain within the Coventry and Warwickshire Business Rate pool and join the WMCA Business Rate pilot.

6. Maximising Business Rates

6.1 Attracting inward investment and business growth is central to Coventry's ambition to become a top 10 City as detailed in the Coventry Council Plan. Providing leadership and bringing forward land for development such as the Friargate Business District, Lyons Park, Gateway North and Whitley South will stimulate demand, leading to new end user businesses. Through the draft Coventry Local Plan, 101 hectares of land has been allocated for employment use within the city's administrative area. Bringing this land forward and actively promoting the business locations to ensure successful occupation is an essential component to increasing the capacity for business rate generation in the City.

6.2 The Council's Inward Investment and International Team, promote the benefits of Coventry's economy as a place for investment. This team work to bring new investors and expanding businesses to the city providing a tailored investment support service. This creates wealth, jobs and crucially going forward for the council, generates additional business rates. In addition, the team work closely with commercial developers and agents to ensure that vacant premises and new private sector developments are suitably marketed to potential investors as and when they become available. The inward investment team focuses its resources and efforts on those sectors where the city has a competitive advantage, which will bring growth. These include:

- Advanced Manufacturing (incl Automotive, Aerospace and Rail)
- Low Carbon Vehicles & Intelligent mobility
- Digital and Creative
- Business, Financial and Professional Services

6.3 In addition to promoting inward investment the City Council is delivering a comprehensive package that is stimulating investment and growth of existing companies through business and financial support. Supporting the expansion of business premises either at existing, or new facilities, is an important element to increased business rate development for the City.

6.4 The inward investment team comprises just under 4 full time equivalent staff.

Performance in 15/16 (as reported to Cabinet and SB3):

- 398 businesses have been supported to help them grow and develop. This work has contributed to over £323 million of business investment and the creation of 1694 jobs.
- Companies we have welcomed to the City include Formula One Autocentres, ice hockey equipment supplier Contact Sports UK, automotive consultants Landar Ltd and over-50s travel specialists Staysure Travel, whose offices were officially opened by the Lord Mayor in September 2015.
- The City has benefited from significant Chinese investment with notable examples being the London Taxi Company (Geely) and Covpress Assembly (Shandong Yongtai). These investments alone have resulted in £280 million of investment, safeguarded over 500 jobs and created 1,100 new jobs.
- Chinese success is just one output of the International Strategy. Work to link investment and economic development with the civic function of the Lord Mayor's office has resulted in strengthened links to markets in China and India. Highlights include an inward delegation of ICT companies from India who visited the area to investigate trade and investment opportunities and forge on-going relationships with our local companies. In addition, delegations from Dalian in China and Olofstrom in Sweden have been hosted with a view to developing successful relationships that will result in future investment in to Coventry.
- Business events aimed at supporting local companies to trade in overseas markets have been held covering China, India and Poland. These have been delivered in collaboration with key partners such as Santander Bank, State Bank of India, China Britain Business Council and UK Trade and Investment.

Paul Jennings
14th September 2016

Appendix 1 – Consultation Questions and Draft Responses Self-sufficient local government: 100% Business Rates Retention

Draft Responses

Q1 Which of the identified grants/responsibilities do you think are the best candidates to be funded from retained business rates?

It is important that the newly localised Business Rates are used to fund services that best fit local government and are compatible with the concept of local choice and control. Public Health would appear to be a good fit.

Attendance Allowance is not a good candidate to be funded from retained business rates – specifically in relation to the criteria set out in the consultation paper, there are no links to economic growth and, as a demand led service, it has the potential to create significant cost pressures for budgets which are already under considerable strain.

Whilst individual authorities may have their own view on the suitability of certain funding streams, the principle of how they are rolled in is more important. The need for transparency regarding the amounts rolled in and future years' assumptions regarding these amounts will be critical. For example, in 2013/14 a number of grants were rolled into the Settlement Funding Assessment including localised support for council tax. However, in subsequent years, the reductions in local government funding reduced the SFA amount, and with it, elements of the grants rolled in.

Q2 Are there any other grants/responsibilities that you consider should be devolved instead of or alongside those identified above?

In relation to grant funding we would be more supportive of those funding streams that are most clearly relevant to business such as small business rate relief, business start-up and innovation grants and funding of the devolution deal to bring in major transport and other infrastructure projects.

Q3 Do you have any views on the range of associated budgets that could be pooled at the Combined Authority level?

It is not necessary to attempt to shape this at a national level. Combined authorities already have the power and ability to pool budgets without further government regulation and this should be a localised decision.

Q4 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 would support the funding of the commitments in existing and future devolution deals through retained business rates, alongside the other funding streams which will be transferred into local authority control.

This would need to be reflected in the calculation of tariffs and top ups, and local authorities would need the government to sign up to the long term allocation of these resources so that there is the funding certainty available to deliver change.

Q5 Do you agree that we should continue with the new burdens doctrine post 2020?

Yes. This is an important part of greater devolution to local government, to ensure that any new responsibilities placed on local government outside of 100% business rates retention are fully funded by section 31 grants. The determination of initial and future funding levels as part of the new burdens doctrine is key and the calculation of these costs should be transparent and as objective as possible.

Where central government policy is seeking to change the nature of these responsibilities, the problem of how the changes are implemented should not be the problem of local government. For example, the transfer of the localised support for council tax required local government to make changes to the existing scheme in order to make up the shortfall in funding that was passed from central to local government.

Q6 Do you agree that we should fix reset periods for the system?

Our view is that fixed reset periods provide the greatest certainty for local authorities in planning, although we acknowledge that this may have unintended consequences in terms of authorities deliberately delaying growth projects until after a reset had been carried out, in order to retain the benefits of growth for the maximum possible period. The alternative of allowing the government to determine when resets should be carried out would be too uncertain and unpredictable.

We recognise that long periods between resets, while allowing authorities to maximise the benefits of growth, could lead to substantial divergence between resources and needs which could cause problems, particularly for authorities which experience significant reductions in their business rates base or disproportionate increases in service demand. It is essential that there are timely resets to align baselines to resourcing needs – in line with revaluations would make sense. We would support resets at maximum intervals of five years.

Q7 What is the right balance in the system between rewarding growth and redistributing to meet changing need?

The disadvantage to full resets is that, while providing maximum protection to authorities experiencing reduced income, by only allowing local authorities to retain the benefits of growth for a maximum of five years they undermine the objective of incentivising growth.

In order for local communities to feel the benefits of economic growth, authorities must be able to build the majority of the resulting income into their base budgets. It should be possible to manage the impact of relative changes in need largely through the redistribution of funding already in the baseline, so that any loss in income experienced by individual authorities is limited to a maximum of five years.

On balance, then, our preferred option would be for partial resets at intervals aligned with revaluations, as long as any authority which had experienced a reduction in income was not required to retain any losses after a reset had taken place.

Q8 Having regard to the balance between rewarding growth and protecting authorities with declining resources, how would you like to see a partial reset work?

See Q7 above. There needs to be recognition of the growth made by authorities since the last reset, otherwise there would be a disincentive to maintain / promote future growth and a significant impact on the current funding position of those authorities which have made growth possible

Retaining around 50% of growth at individual local authority level to act as an incentive for growth feels reasonable. However, we would welcome CLG modelling to better understand the implications of this and would want representative organisations, including the LGA and SIGOMA, to be involved in this.

Q9 Is the current system of tariffs and top ups the right one for redistribution between local authorities?

Yes, and they should be fixed in real terms. This system provides some protection to the vulnerable, as long as need is recognised. It is therefore vitally important that we get right the equalisation formula based on historic spend/needs assessment.

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Q10 Should we continue to adjust retained incomes for individual local authorities to cancel out the effect of future revaluations?

Yes. Individual local authorities should not be disadvantaged as a result of national revaluations. Otherwise many authorities would be penalised where they had generated physical growth in their area between the revaluations but, had lagged behind on relative economic growth. The tariff or top up system ensures that their retained income is the same after revaluation as immediately before.

Q11 Should Mayoral Combined Authorities have the opportunity to be given additional powers and incentives, as set out above?

Combined Authorities are newly established organisations in the infancy of creating their agendas; this is a sensitive matter vis-á-vis local authority responsibilities. It might not help with the approval and establishment of new combined authorities to broaden their roles and responsibilities in this way at this time.

Q12 What was your experience of two-tier splits under the current 50% rates retention scheme? What changes would you want to see under 100% rates retention?

Coventry does not operate under a two –tier system so the question is not applicable.

Q13 Do you consider that fire funding should be removed from the business rates retention scheme and what might be the advantages/disadvantages of this approach?

At this stage detailed information on the likely implications is limited, but it is felt that the operational links between the West Midlands Combined Authority and the Fire and Rescue Authority would be supported by the continued funding of fire services through the business rates system.

There are a number of indirect links between the fire service and economic growth. The fire service has a key role (both preventative and reactive) in protecting the business community from the effects of fire and as such helps to maintain the conditions for economic stability and growth. In addition, through responding quickly and effectively to road traffic collisions, the fire service contributes to the efficient operation of the road network, which is vital to the regional economy.

National resilience related activities should continue to be funded through direct government grant.

Q14 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 allow authorities the incentive to invest for growth the scheme should provide some mechanism to safeguard increased business rate revenues for specified areas (in the same way as Enterprise Zones currently). This would protect the additional resources forecast from being taken at a partial reset, thereby allowing authorities to take a longer term view on investments.

Q15 Would it be helpful to move some of the "riskier" hereditaments off local lists? If so, what types of hereditaments should be moved?

Q16 Would you support the idea of introducing area-level lists in CA areas? If so, what type of properties could sit on these list, and how should income be used? Could this approach work for other authorities?

It is more important to get the principles of what is and isn't on the central list right (and transparent) and to design an appropriate safety net/reset scheme.

Q17 At what level should risk associated with successful business rates appeals be managed? Do you have a preference for local, area level (including CA), or across all local authorities as set out in the options above?

The increased exposure to the risk of appeals inherent in a system of 100% business rates retention is a significant concern to many authorities. It is difficult to imagine any kind of "increased support" to local authorities being sufficient to substantially mitigate this, given the difficulties of predicting the outcome of appeals. We would want to see appeals risk managed at a national level. Every effort should be made to get the valuation as accurate as possible, therefore ensuring appeals are less of a risk.

It should be recognised that any management at a higher level will increase the need for information flows either at a sub-regional, regional or national level and also mean events elsewhere impact directly local resources. This will create delays and also reduce the extent to which an authority can forecast its own resources.

Q18 What would help your local authority better manage risks associated with successful business rates appeals?

Central Government grants to compensate for errors in the Valuation List created by the VOA would be welcome. These grants could be funded through a top slice of business rates income equal to the headroom for appeals built into the multiplier. The government would need to agree to take the risk on this headroom being sufficient, otherwise local authorities will struggle to be able to value the debtor payable to it. This would create a worse financial situation.

The changes being planned around the appeals process, and potentially the valuation process, should (hopefully) increase the speed of appeals and reduce their number. At present the speed of appeals being dealt with is not acceptable. This results in funding being tied up in the Collection Fund, pending the outcome of appeals.

Anything that could be done to support the VOA in making accurate assessments at the outset would be helpful. Resources need to be made available to the VOA to enable them to resolve outstanding appeals in a timely manner (i.e. less than three months).

If the authority could have a say in the appeal process, perhaps in providing evidence to counter argue a reduction, or if the authority could be provided with greater clarity on the valuation.

Q19 Would pooling risk, including a pool-area safety net, be attractive to local authorities?

A pool area is too small to manage the risk from. The current pool approach balances risk and reward by being able to retain levy payments that would otherwise be payable to the government. A pool or local area safety net would only increase the risk for local authorities, with no possibility of additional resources.

Q20 What level of income protection should a system aim to provide? Should this be nationally set, or defined at area levels?

The protection should be set nationally at a level that will allow local authorities to continue to provide the functions they are required to deliver. This should be no greater than the current cash levels to qualify for safety net. A 7.5% reduction based on a 100% scheme would be unmanageable. An incentive to move out of safety net should also be built into the scheme.

Q21 What are your views on which authority should be able to reduce the multiplier and how the costs should be met?

If this power is introduced, then any authority in a two tier or combined authority area should be required to seek the agreement of the other affected authorities before they are able to implement a reduction. Assuming the purpose of reducing the multiplier is to increase overall business rate income then all affected authorities should share the cost as they would all benefit from any gain.

Q22 What are your views on how decisions are taken to reduce the multiplier and the local discount powers?

As the consultation paper points out, local discounts under existing powers are applied to bills after transitional and mandatory reliefs. It would be more helpful if authorities were able to target the multiplier reduction, for example to specific areas, industries or above/below a specific RV threshold.

We are supportive of the LGA view that councils should be given more flexibility on mandatory rate relief, particularly for charities and empty properties, which would help target incentives and tackle avoidance. There are serious issues around avoidance arrangements where, for example, putting an answerphone facility in an empty property retriggers the mandatory rate relief after 42 days or renting storage space to a national charity gains mandatory relief.

Q23 What are your views on increasing the multiplier after a reduction?

We recognise that allowing authorities to rapidly increase the multiplier after a reduction would increase uncertainty for businesses and potentially undermine the attractiveness of any reduction in the first place. However, we would be opposed to any cap on increases in principle. In any year the multiplier should be able to be set at any level up to and including the maximum level, regardless of reductions applied the previous year. This is localism.

Q24 Do you have views on the above issues or on any other aspects of the power to reduce the multiplier?

We have concerns that the power to reduce the multiplier could result in a race to the bottom as neighbouring authorities compete with each other to encourage businesses to locate in their areas. Smaller authorities might also be vulnerable to pressure from significant local businesses to reduce the multiplier.

Q25 What are your views on the flexibility levying authorities should have to set a rateable value threshold for the levy?

Levying authorities should retain the flexibility to determine a locally appropriate rateable value threshold, subject to the approval of the relevant LEP Board(s).

Q26 What are your views on how the infrastructure levy should interact with existing BRS powers?

We do not see any issues with operating both powers side by side, if a suitable case can be made to business.

Q27 What are your views on the process for obtaining approval for a levy from the LEP?

If this requirement is introduced, business members of the LEP Board would have a responsibility to ensure their decisions on a levy were reflective of the views of the wider business community. If a combined authority area covers more than one LEP area it would then be appropriate to require the mayor to consult the LEPs that represented all of the affected areas on levy proposals. This proposal does raise some concerns around the need for the mayor to retain democratic accountability for the levy decision, the risk of conflict between the mayor and the LEP and the fact that the LEP Board is not designed to be representative of every part of the private sector. Further work is required to address these issues before these proposals are finalised.

Q28 What are your views on arrangements for the duration and review of levies?

Agree. However, the parameters should be adjustable so that there is at least no reduction in revenue following a revaluation. This may mean that the levy rate needs to increase beyond 2p.

Q29 What are your views on how infrastructure should be defined for the purposes of the levy?

It makes sense that the definition would be consistent with the definition used for the Community Infrastructure Levy, with the addition of housing.

It must be clear that the levy can fund revenue costs of borrowing (interest and MRP) to fund "infrastructure" as well as directly funding the infrastructure capital expenditure if needs be. As well as capital expenditure on infrastructure being allowable, related revenue expenditure should also be permissible e.g. demolition costs, programme management.

The definition should also include investment in training and skills rather than just educational facilities.

Q30 What are your views on charging multiple levies, or using a single levy to fund multiple infrastructure projects?

We would support charging a single levy for a programme of work and make the allocation of resources through this as flexible as possible to minimise administration. This would be much simpler, not least because multiple levies may require separate itemisation on the bill which would be more complicated from the perspectives of both billing authorities and businesses.

Q31 Do you have views on any of the above issues or on any other aspects of the power to introduce an infrastructure levy?

Requiring mayors to consult beyond the LEPs would add complexity and delay to the process. The LEP Boards will be able represent the views of the local business community.

Providing a discount on the levy for businesses within a BID could arguably undermine the levy by equating it and potentially confusing it with the business rates supplement. Furthermore, depending on the composition of an authority’s business rates tax base, it could significantly reduce the value of the levy.

Q32 Do you have any views on how to increase certainty and strengthen local accountability for councils in setting their budget?

We recognise all the issues with the current annual funding process that are highlighted in the consultation paper. Certainly multi year settlements provide some certainty which is critical for effective budget planning.

There will still be a need for a local government finance settlement to confirm tariffs/top ups and section 31 grants, to confirm the outcome of resets and to allocate additional resources in future years when “new burdens” are transferred. Government still needs to be involved in local government funding and to take overall responsibility for the quantum of resources available nationally from which to deliver services.

Q33 Do you have views on where the balance between national and local accountability should fall, and how best to minimise any overlaps in accountability?

Government needs to accept that localism means that resources will be focused on delivering local priorities.

Clearly, local government should be held locally accountable for the decisions it takes but central government should be prepared to accept its share of responsibility for those national funding decisions which inevitably have an impact locally.

Q34 Do you have any views on whether the requirement to prepare a Collection Fund Account should remain in the new system?

There is no need to remove the requirement to prepare a Collection Fund account.

Q35 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?

No.

Q36 Do you have any 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?

We would welcome the redesign of the forms to remove those elements which are no longer relevant and to streamline the information requirements wherever possible. The main concern is the lateness of the forms and the number of versions issued. It would also be helpful if the forms could be issued in a more timely manner, which would require them to be prepared and robustly tested well in advance of deadlines.

Appendix 2 – Business Rates Reform, Fair Funding Review: Call for evidence on Needs and Redistribution

Draft Responses

Q1 What is your view on the balance between simple and complex funding formulae?

The formula should distribute resources to where they are most needed, although it should also take into account an authority's ability to generate funding locally to deliver services. There should also be a mechanism to protect councils from significant reductions in funding arising from the review.

Simplicity is welcome where appropriate, but as there is no significant need to "explain" the formula it should not be a major driver. Objectivity is also important, so the use of subjective weightings should be avoided wherever possible, and if they are used then the rationale for doing so should be explicit and transparent.

Q2 Are there particular services for which a more detailed formula approach is needed, and – if so – what are these services?

There are a number of demand-led services for which the cost drivers are particularly complex, such as adult social care and children's services, and we would suggest the continued use of a more detailed formula approach to those areas.

Q3 Should expenditure based regression continue to be used to assess council's funding?
Q4 What other measures besides councils' spending on services should we consider as a measure of their need to spend?

We believe that the most important aspect of the formula is to ensure that it delivers the fairness of funding that is expected of it. Therefore the right amount of complexity should be included within the formula, without adding considerably more indicators where they no longer create a material difference.

We would support the use of multi-level modelling or non expenditure-based regression methods in preference to expenditure based regression wherever possible. As highlighted in the paper, historic spending patterns do not necessarily reflect spending need and the technique can lead to a self-fulfilling outcome.

However, we acknowledge that the necessary data may not always be readily available and where this is the case agreement may need to be reached on the most appropriate approach.

Q5 What other statistical techniques besides those mentioned above should be considered for arriving at the formulae for distributing funding?

The techniques mentioned above are well tested.

Q6 What other considerations should we keep in mind when measuring the relative need of authorities?

It is important that authorities' ability to raise their own resources through council tax is taken into account, both in setting he initial baseline and as part of periodic partial resets, but this must be subject to the acknowledgement that this ability is limited by government regulations and that different authorities have different starting points. Authorities which have historically set relatively low council tax levels should not be penalised through the funding formula.

Q7 What is your view on how we should take into account the growth in local taxes since 2013/14?

Councils will have already built any income from growth in business rates and council tax bases into their budgets so to remove this growth for redistribution within the new system could cause significant funding shortfalls for those authorities. The quantum of funding required for the new finance system should inform the decision on which new responsibilities will be transferred to local government, in order to ensure that the system is fully funded at the outset.

The baseline needs to be assessed properly with appropriate funding adjustments made at a local level for losses in income due to business rate appeals. Consideration should be given to funding appeals relating to previous ratings lists centrally at the outset.

However, it is essential that partial resets should take into account changes in council tax income as part of the assessment of relative need, as outlined in the response to question 6 above, in order to accurately reflect all resources available to local government in determining resource redistribution.

Q8 Should we allow significant step changes in local authorities' funding following the new needs assessment?
Q9 If not, what are your views on how we should transition to a new distribution of funding?

The current system has locked in damping on a semi-permanent basis which has undermined the value of the funding formula. There are a number of local authorities operating with fewer resources than needed due to the method of applying funding reductions prior to 2016/17.

It is not unreasonable to expect that any distributional change experienced as a result of the new needs assessment will be reflected in the funding received by individual councils. However, those councils which are particularly badly affected as a result of changes to the distribution mechanism do need to be protected in the short term from significant step changes in their funding through the provision of transitional grant for at least three years. This would be necessary in order to allow them time to adjust to the changes and to protect their communities from the impact of any reactive response to significant reductions. It would be reasonable to expect the new funding distribution to be fully in place before the next reset.

Q10 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?

It is difficult to see the benefit of this approach. In addition to the difficulties in reaching agreement over the local allocation of resources, which would add inefficiency and complexity into the system, there would be a risk that individual authorities, particularly smaller ones, might not receive the resources they need.

Q11 How should we arrive at the composition of these areas if we were to introduce such a system?

If local authorities wish to do this then they can already through a pooling arrangement. Moving into one of these arrangements should not be made mandatory. This would still ensure individual authority sovereignty

Q12 What other considerations would we need to keep in mind if we were to introduce such a system?

The Government must retain overall responsibility for the quantum and allocation of resources across local government; ensuring resources are appropriately allocated both on needs and ability to fund.

Q13 What behaviours should the reformed local government finance system incentivise?

We would caution against the use of the finance system, as a fairly blunt instrument, in order to incentivise particular behaviours, and arguably such an approach would run counter to the spirit of devolution.

Q14 How can we build these incentives into the assessment of councils' funding needs?

We do not think it is appropriate or necessary to build any such incentives into the assessment of funding needs.