Appendix 2

worcestershire county council

Business Rates Retention Consultation
Local Government Finance
Department for Communities and Local Government
2nd Floor, Fry Building
2 Marsham Street
LONDON
SW1P 4DF

26 September 2016

Dear Sir

Worcestershire County Council response – Self-sufficient local government: 100% Business Rates Retention

Worcestershire County Council (the Council) welcomes the opportunity to respond to the Self-sufficient local government: 100% Business Rates Retention consultation.

This is a significant and fundamental change to local government finance, and offers a real opportunity for Central Government to ensure there is fairness across the Country to achieve local accountability with locally retained business rates income streams.

Worcestershire has the third fastest growing economy in recent years (Office for National Statistics) and this consultation offers a great prospect for Central Government to consider devolving further responsibilities such as Adult Education Budgets and infrastructure funding to enable us to go one step further towards true self-sufficiency.

We strongly believe that if we have the ability to shape how newly devolved responsibilities are managed locally in the County area this will go a long way to supporting the ambition in our Strategic Economic Plan to create 25,000 jobs and achieve GVA of £2.9billion by 2025.

The Council's three key principles that Central Government should bear in mind when designing the new system are:-

- **Fairness**. All local authorities should be given the same powers and their funding should take account of need as a first call against growth in business rates income
- **The Right Responsibilities**. Local Government should have the ability to manage services that contribute to economic growth. This should include new responsibilities around adult education, skills and infrastructure investment
- **Ability to shape eligibility criteria to support local need**. All new responsibilities devolved to local government should come with the ability to shape the criteria which will form part of existing robust local accountability through annual approval of budgets

The Council fully understands and accepts the need for beginning formal consultation now, however there are many factors that are still unclear as the existing 50% Business Rates Retention System is still relatively new and events such as a system reset have yet to happen.

Cllr Simon Geraghty
Leader of the Council
Worcestershire County Council

Electoral Division
Riverside

County Hall
Spetchley Road
Worcester
WR5 2NP

We welcome the opportunity to be further involved in the future as the DCLG thinking evolves and the County Council looks forward to responding to the next stage of the process where the more technical consultation on the specific workings of the reformed system will be issued.

This covering letter outlines a number of 6 key considerations by way of a covering letter and then provides more detailed responses to each of the consultation questions.

The County Council fully supports the responses by the County Council Network, the Society of County Treasurers and Worcestershire Leaders Board and this response should be read alongside those

1. Worcestershire County Council suffers from a £0.75 million 'negative Revenue Support Grant in 2019/20' – e.g. it has to pass back to Government local business rates collected. The previous Secretary of State corrected this for Councils as part of the final Settlement where this occurred in the 2017/18 and 2018/19 but instead said that this would be resolved in the redesign of the Business Rates System (now underway). There is no clear evidence from officials at this point that this is being taken account of

   The starting point for the County Council's funding in 2019/20 should exclude this negative RSG

2. We are currently considering an acceptance of the previous Secretary of State's 4 Year offer on RSG. This covers the period 2016/17 to 2019/20 inclusive. It is unclear how the current work on Business Rates reform, due for implementation we think in 2019/20 will impact on these deals – e.g. if the Needs Assessment reduces RSG.

   It would be helpful if clarification could be provided on this from DCLG with regard to the interaction between the Business Rate 100% system implementation, the Fairer Funding Review and the commitment to honour minimum allocations under the 4 year deal for Revenue Support Grant.

3. There will be a great deal of opportunity in attracting new levels of Business Rate in the new system and to enjoy that benefit locally. However, DCLG MP's will be aware that valuation changes, on which Councils have no influence and control, can create shocks locally. Last Year for example, the Doctor's Surgery appeal cost Worcestershire Councils £6 million and will cost £1 million a year in lost Business Rate.

   Government need to achieve the right balance between allowing Councils to enjoy the benefit of Business Rate Growth but Government must also provide protection or a mechanism for sharing risk across the Country where changes in valuations for business rates are not in the control of the Council.

   We ask Government to ensure that Local Government are able to enjoy the reward and take risk on areas of Business Rate income that it can control locally and then consider a national scheme for dealing with valuation appeals that are more about 1) public sector bodies appeals and 2) the VOA valuation process than about physical change.

4. Worcestershire has a good track record of achieving economic growth under the existing regime but much more could be achieved with devolvement of the right powers and responsibilities to support economic growth and therefore self-sufficiency.

   Local areas have strategic economic plans, but they do not have all the resources or powers to implement them in full. Whilst it is accepted that for the very large infrastructure projects there will continue to be funding considerations needed at a national level, **local areas through LEPs and local government are perfectly placed to manage greater autonomy to deliver economic growth whilst keeping full local accountability.**

5. **The Council would welcome greater transparency with regard to how the Government calculates the quantum** (the estimated amount of business rates at the time of the implementation of the new business rates retention system).

   Greater knowledge on financial allocations and redistribution methodology will enable local authorities to calculate funding with greater certainty over the medium term.

Kind Regards

Simon Geraghty
Leader of the Council

Sean Pearce
Chief Financial Officer

Self-sufficient local government: 100% Business Rates Retention – Consultation

Questions

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

To date, the overarching theme from Central Government has been around transferring new responsibilities to Local Government to support local economic development and growth in the economy. The proposals illustrated in the consultation do not continue this theme however we have provided a response based on the question asked.

The key principles should be that any transfer of new grants and responsibilities must take account of future changes in need up to the date of the reset in 2020, and be transferred with the appropriate ability to decide locally how best to use the funding to support local priorities.

All the examples included are good candidates for being funded from business rates with the exception of Independent Living Fund and Attendance Allowance.

There needs to be due consideration at the point of transfer to ensure unfair burdens are not placed on local finances.

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

Yes.

In addition to the grants/responsibilities mentioned in the consultation document with regard to Question 1, the following other grants / responsibilities should be transferred to local government, together with the ability to decide locally how the funding can deliver the best outcomes in particular as they relate to Strategic Economic Plans:-

- Adult Education Budgets
- Support for Adult Education
- Integrated Transport Block
- Bus Services Operators Grant
- Housing Benefit Admin Subsidy
- Localising Council Tax Admin Subsidy
- Discretionary Housing Payments
- Dedicated Schools Grant Early Years Block
- Residual RSG budgets

These examples account for more than half of the quantum and therefore are viable for consideration of devolvement to meet the 100% localisation of business rates income objective.

Fundamentally, any service responsibilities devolved to local government should represent new opportunities for the local management of services and not just represent a simple transfer of funding.

New responsibilities should increase the Council's ability to drive economic, skills and infrastructure improvements across the local area.

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

No.

This consultation response is based Worcestershire Council Council's status of not being part of a Combined Authority.

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 strongly disagree with the proposal to fund Devolution Deals from the retained business rates system.

The Business Rates system should support universal services available to all Local Government stakeholders. Devolution Deals are unique and should be funded directly by Central Government and they should not have a detrimental impact on the rest of Local Government sector.

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

Yes, with improvements to the process.

Central Government should review the process and application of the new burdens doctrine to ensure objective are being met. Worcestershire County Council is concerned by examples such as Deprivation of Liberty Safeguards, Care Act, National Living Wage and Concessionary Fares where there is a strong case that these services are not funded fairly.

The new burdens doctrine should ensure services are fully funded not just at point of transfer but also will reflect future needs.

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

Yes.

This will achieve greater financial planning certainty.

Reset periods should be set for 5 years and be dependent on:-

1- Taking full account of need to reflect local demands

2- Needs must be the first call on any growth of income arising from business rates nationally

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

We believe a partial reset system provides the right balance, taking account of need first before rewarding growth.

Need must be considered first and be fully funded before rewarding growth. This is important in two tier areas considering the upper tier's exposure to demographic increases in vulnerable service users in receipt of social care and other safeguarding services.

Whilst excessive growth ought to be tempered to support changing need across local authorities the impact of resets means local authorities are not able to rely recurrently on any growth above their baseline. A balance needs to be found enabling local authorities to keep a guaranteed minimum percentage of their growth that is not subject to redistribution or resets, once needs have been funded.

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?

We would like to see a partial reset every 5 years. This would provide an incentive to authorities which can be built into business cases with a degree of certainty.

Where there is redistribution, this should be implemented on a sliding scale, similar to how New Homes Bonus funding works, to minimise any cliff edges in funding reductions to enable local authorities sufficient time to implement change. This would be the case for both decreases and increases in funding.

The current proposal to remove the levy would disproportionally affect authorities with a high level of business rates income in their area (such as London authorities) and this would unfairly influence the system to reward growth at the expense of supporting need.

There needs to be an additional safety net mechanism that would support authorities that might suffer any unintended or exceptional negative consequences as a result of a partial reset.

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

Yes.

The existing regime offers upper tier authorities a top up grant plus inflation. The last local government finance settlement introduced a new concept of 'negative RSG' – a technical aberration that was intended to be solved by the design of the new business rates retention system.

We would remind Central Government of the need to remove negative RSG, by adding it back to the local authorities who were notionally allocated it, and that this should not adversely impact the business rates retention system.

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

Yes.

Funding levels should be protected when the system is reset from volatility following national business rate revaluations and consequential changes to the multiplier.

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

All local authorities should be given the same additional powers and incentives.

Worcestershire has proved that it can significantly influence economic growth which benefits both the local and national economy.

The most recent statistics are showing Worcestershire as having the third fastest growing economy in recent years (Office for National Statistics, GVA for Local Enterprise Partnerships, 1997-2013) with business productivity growing by 2.7%, the fastest rate in England (Office for National Statistics, Regional Economic Analysis, Sub-regional productivity, March 2014).

Q12 - 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?

We are unable to give an informed view at this time until there is more certainty with regard to which new responsibilities are being proposed for transfer to local government.

However, experience to date from a two tier area under the existing system suggests that it would be beneficial to challenge whether the relative size and impact of responsibilities such as infrastructure investment and social care is represented fairly in the existing 80:20 lower/upper tier ratio

Q13 - 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?

Yes.

The Council considers that fire funding should be removed from the business rates retention scheme as retained business rates represent a very small part of fire authorities' total funding and fire authorities have limited real influence on local business.

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?

No.

We do not consider that further incentivising growth is necessary, as long as the system design is right and it fairly recognises existing and future need in the first instance, and that a fair balance is struck between rewarding growth and covering risk.

We would welcome the opportunity to influence through eligibility criteria discretionary and mandatory business rates reliefs taking account of how they support and are right for the local area.

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

We would see it as a positive move for local government to accept risk where it can influence business rates such as changes in physical build and growth. Local Government should not be impacted by risks it cannot manage, two of which we have set out below which should be borne by Central Government or otherwise on a national basis:-

1- Valuation Office Agency - valuation list errors

2- Valuation changes to the Public Sector Estate. We believe all public sector estate business rates should be transferred to the Central List. National risks, such as the impact of successful GP surgeries appeals which simply moves funding from local government to the NHS but in an unplanned way, should be managed by Central Government

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

This should be decided by Combined Authority areas.

Risk sharing arrangements should be available for all local authority areas. In Worcestershire local risk has been successfully managed by pooling across upper tier and local tier.

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

We have a preference for this to be managed on an area level. Subject to the answer to Question 15, the Worcestershire Business Rates Pool has been an effective tool for managing risk with local partners over the last few years, with the exception of the unfairness of having to fund backdated successful appeals which benefit other parts of the public sector.

See answer to Q15 which regard to managing risk of successful business rates appeals.

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

The following areas would improve the ability for local authorities to manage risk of business rates appeals:

- Formalisation of Valuation Office Agency Terms of Reference / Duty of Care to local government to support close working relationship and formalised data sharing protocols
- Greater visibility of individual appeal cases and likely impact of appeal decision.

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

Yes, this process replicates the current working in the Worcestershire Business Rates Pool and it would be advantageous for the national system to continue. To enhance these principles our preference would be for a national safety net to minimise risks for individual authorities.

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

This would depend on the mix of new responsibilities that will be devolved to local government.

If the emphasis of new responsibilities is on service provision, then to protect changing demographics income protection should be high.

If the emphasis is more around the ability to influence economic growth, then a lower level of income protection is more relevant.

The 100% local retention of business rate income is likely to increase the risk of falls in income for local authorities; therefore the existing safety net threshold of 7.5% should be significantly reduced to compensate for increased risk of excessive falls in business rate income.

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

The ability to change the multiplier should be backed up by appropriate governance that directly links decision making to financial accountability.

There are two primary ways of doing this.

1- By Precept. The well-established Council Tax precept system could be used for changes to the business rate multiplier. This process already works and enables each precepting organisation take decisions that are right for its area and bear the costs accordingly.

2- By Approving the Decision. Where a billing authority has full responsibility to take a decision that would impact significantly on a precepting authority's income, that there is a requirement for the precepting authority to formally approve the proposal before it can be implemented.

In shire county areas, we believe that decisions on changes to the multiplier should be taken by billing authorities alongside a mechanism for billing authorities to reimburse major preceptors where their resources are impacted negatively by that decision.

Q22 - What are your views on the interaction between the power to reduce the multiplier and the local discount powers?

Local Government should be given full power to both reduce the multiplier and use local discounts.

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

The increase should be phased in over a period determined by local authorities without any capping constraints.

The system should allow maximum flexibility to local authorities which would include catching up with the non-discounted position at any time, reflecting local business need and circumstances.

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

Powers to change the multiplier and / or to use local discount measures should be available to all local authorities.

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

Levying authorities should have flexibility to decide locally any levy thresholds.

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

See answer to Q14. There should be due regard made to any Existing Business Rates Supplements when infrastructure levies are considered.

Existing Business Rates Supplement powers should be amended to cover wider Economic Development benefits across a local authority area.

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

LEPS should be a statutory consultee of a levy under governance arrangements.

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

The extent and duration should be based on a business case outlined in any Mayoral prospectus. The duration of the levy should be commensurate with period over which the investment is made.

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

The suggestion outlined in the consultation paper should be enhanced to cover where a local authority is satisfied that it will promote economic growth in its area.

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

This should be left to local discretion to determine the transparency and governance arrangements for levies.

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

The power to introduce an infrastructure levy should be available to all local government organisations.

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

It is vitally important to establish a suite of key cost drivers that can demonstrate need over existing and future years. These cost drives must be embedded in the outcomes of the Fair Funding Review: Call for Evidence on Needs and Redistribution.

The current arrangements for local accountability are already robust and transparent. The move to 100% rates retention will remove much uncertainty associated with the annual process of distribution from central government.

Local authorities already have a budget setting process that includes multi-year forward looking Medium Term Financial Plans. This is reinforced by having statutory consultees with key stakeholders, partners, citizens and service users, and Full Council debate and approval of budgets.

Financial accountability is further delivered through reporting the annual Statement of Accounts including the period of public inspection and Freedom of Information regulations.

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?

The Council believes that as much accountability as possible should sit with local government to align with the needs of local residents and businesses to encourage economic growth.

Local Government should be given the powers to directly influence key adult education, skills and infrastructure investment to support economic growth and therefore will be able to utilise the existing robust and transparent financial governance regime to be accountable to local stakeholders. Throughout this process local government can continue to work with central government departments to support national policy objectives.

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

In order to ensure transparency and accountability to the government and preceptors, we strongly support retaining the requirement to prepare a Collection Fund Account in the new system.

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?

See Q32. Local government already has a strong transparent process for local financial accountability.

The consideration of a balanced budget should also take into account the financial positon over the medium term, not just the forthcoming year.

The scale of transformational change across local government is unprecedented and many of the significant changes needed to align to a lower funding base can take more than one year to achieve.

Q36 - Do you have views on how the Business Rates data collection activities may be altered to collect and record information in a more timely and transparent manner?

This is an important question that should be addressed at a later stage in the system design work when more features of the system are known.

At this stage we would request that the process for collecting data should be as simple as possible and only data that is absolutely essential for the operation of the system should be collected thereby minimising administration costs for councils.