



District Councils' Network
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The Rt Hon Eric Pickles MP
Secretary of State for Communities
and Local Government
Eland House
Bressenden Place
London SW1E 5DU

21 October 2011

Dear Secretary of State

DCN response to Local Government Resource Review - Proposals for Business Rates Retention - Consultation

The District Councils' Network is a member led network of 182 district councils. We are a Special Interest Group of the Local Government Association (LGA), and provide a single voice for district councils within the LGA.

We also act as an informed and representative advocate for districts to government and other national bodies, based on our unique position to deliver for 'local' people.

The District Councils' Network (DCN) welcomes the consultation on this important issue and, in particular, the extended timescale over which we have been able to consider what is a complex issue. The level of detail helpfully made available in the consultation papers outlines the complexity of the issue and the need to ensure adherence to the Government's commitment to ensure that: *'fairness must be at the heart of any new system'*.

In addition to fairness the key issue of risk needs to be considered, for districts with modest overall resources the implications of minor changes in methodology or minor changes in business rate base can be very significant. Much further work will be needed in this area in addition to the specific suggestions which are set out in the following sections.

Before closing on points of principle it is worth reminding ourselves that whilst business rates are a proxy for growth in economic output, care must be taken to avoid the unintended consequence of incentivising premise heavy, GDP light, types of business. If we have particular ambitions for particular types of business then we need to consider their relative business rate values. Green energies and high tech cerebral businesses are areas where their value to the UK economy is not necessarily reflected in the business rates valuations.

A full response to the questions posed in the consultation, both in the overarching paper and in the eight subsequent technical papers, is contained both in this letter and the attachment to it. The points below are the broader issues. The specific questions are dealt with in the enclosure.

In summary, therefore:

- **Broadly welcomed** - the consultation is broadly welcomed, along with the opportunities given by CLG Officials for direct discussion on a number of critical points.
- **New Homes Bonus Scheme** - the DCN welcomes the clarification and confirmation regarding the longer-term future funding for the New Homes Bonus Scheme (NHBS).
- **Treasury set-aside / forecasting** - we are concerned that the Treasury, in setting various baselines and estimates, will “set-aside” a significant pool of resources whilst making a risk transfer from central to local government, such resources should be immediately available to local authorities who have the risk and responsibility transferred to them. The calculation of 'forecast' business rate yield at national level must be done fairly, transparently and objectively and it must be clearly demonstrated that all monies gained from this source are returned to local government in their entirety; not withheld by the Treasury. We are concerned that the forecasts will be based on calculations that will not be carried out until autumn 2012 and would urge the Government to be prudent with the estimates used in these calculations.
- **Baselines / Incentive Funding** - we suggest that the methodology for calculating an individual local authority's business rate baseline, and the methodology for calculating how much a local authority 'keeps' of any increase in its business base, need not (and should not) be the same. We should not confuse the baseline proportionate shares with the shares of the increments for growth. The increment for growth should be apportioned to those who have had the most to do with stimulating it. It follows, therefore, that Police and Fire Authorities, despite the vital services they provide, are not instrumental in attracting or developing new business in an area and should not receive 'incentives' from this scheme. The primary reward should go to the planning authority.
- **Rewarding Business Growth** - for an incentive to operate effectively, it must adequately reward local authorities whose decisions have resulted in the growth happening. We are concerned that there is a genuine danger of a 'double dilution' occurring at any level of local government in that the proceeds of growth are effectively damped firstly by the set-aside and secondly by the operation of a levy. At District level there is a danger of 'triple dilution' when the issue of the tier split is also considered. We feel that it is important that a fair and adequate proportion of any 'growth' ends up with the local authority responsible for stimulating / delivering it. We also feel very strongly that the incentive should not be removed at

some future point through a full re-set of the system, if re-sets are deemed necessary they should still allow local authorities to benefit from the decisions that they have already made.

- **Renewable Energy** - we welcome the special treatment for Green Energy Proposals, but, because of the significant planning and political difficulties associated with such proposals, the incentive currently on offer is inadequate to justify taking on such difficult activity. As a consequence, we propose that green energy should be rewarded per kilowatt generated. If it is not considered possible to use the energy generated as a reward lever and rateable values (RVs) are preferred then a multiplier needs to be applied to those RVs. Whilst that will need adjustment in the overall scheme the incidence and quantity of green energy proposals is unlikely (even with a multiplier) to be material in terms of the national total.
- **Town Centre and other regeneration projects** - we suggest that the scheme gives priority to incentives for “intervention growth”, but recognises the need to provide a level of “safety net” in areas where growth will be more difficult and/or where business rates income reduces as a temporary result of longer term regeneration initiatives (for example – town centre regeneration). Town centre and other regeneration schemes need to be able to be isolated from local authority RV totals and then “repaid” as new higher RVs are realised – perhaps a form of exclusion such as that proposed for Enterprise Zones could be considered.
- **Pooling** - such decisions should take place at local level and there is no logic for legislating that District Councils need the permission of their respective County Council in relation to this. We should only have regulation when it is proven to be needed. The evidence shows that many many services and issues in the 'shares', have spill-over into the other tier (in both directions!) Housing is one, Economic Development is another. No regulation has been necessary thus far, none is needed now. If Councils decide to pool to reduce risks, then this is a local choice and should not attract incentive funding.
- **Volatility** – to help reduce volatility, individual baselines should not be calculated at a given point in time, they should be calculated as an average over a period of time. This will not only help in relation to volatility but will also help local authorities plan ahead with greater certainty in their medium term financial projections and will help ‘smooth’ changes that do occur – this averaging should be at both the baseline setting and growth measuring level. Such an approach will also reduce the need for safety nets and help manage the natural oscillations that exist in business rates bases.

An averaging strategy would also provide for greater predictability and stability in the system which, in turn will allow authorities to be more bold in relation to its investment strategies. If authorities need to provide

for unpredictable savings of even up to 10% in their funding, considerably more resource will go into balances and less into stimulating the economy.

- **Other Issues** – the following are other issues that are not specifically covered in the consultation paper but which DCN wanted to comment upon;
- **Losses on Collection** - The consultation document states that "*the Government does not propose to make an allowable deduction for losses in collection*". Currently the billing authorities reduce their contribution to the pool to cover losses for collection. In 2010/11 losses in collection nationally amounted to £230,000,000 (from a collectable debit of £19bn) – all of which were funded from the pool. However under the new proposals this cost would have to be met by each local authority rather than by the pool. The concept of requiring authorities to fund this must be an unintended consequence of the system – indeed, reference to statistical returns highlights that some local authorities may cease being a 'going concern' if they are required to fund this. For example, one authority with formula grant of £8.5m had business rates write-offs of £15m in the same year!
- **Multiplier** - The consultation papers do not discuss how (or indeed if) the Government will neutralise the impact of changes in the multiplier in future years. The impact of the multiplier can adversely affect "real" business growth, for example an authority may experience an increase in business growth but if central government reduce the multiplier this could result in a lower income yield, therefore the multiplier can dampen "real" growth. Any decisions by government to adversely impact the business rates yield must be met by central government resources not from local government. For the avoidance of doubt, we do not consider "set-aside" to be central government resource.
- **Retrospective Awards** - The consultation does not make allowances for retrospective changes that could impact on the baseline, for example a downward or upward revaluation can go back a number of years and can also be significant in value. To ensure authorities have the correct baseline position a mechanism is required to ensure where such changes occur the baseline is adjusted this approach will ensure any changes in business growth are accurately measured.
- **Interest** – under the current system this is recovered in its entirety. The proposals in the consultation paper suggest that an allowance will be paid – we ask that the full costs are covered rather than an allowance being used.
- **The timetable and how to meet it** – The timeline for these proposals is particularly ambitious. All of the issues above (and in the attachment) need to be properly worked through in time for rigorous parliamentary

scrutiny. To that end the DCN suggests an implementation steering group be established with representatives of the following:

- DCN
- LGA
- CCN
- IRRV
- AMA
- London Authorities

We hope that this summary and the detailed responses to the individual consultation questions assist the department in reaching sound, logical and sustainable conclusions and solutions to what we recognise is a complex and important issue. As always, the District Councils' Network, Members and Officers, will be available to discuss any items which merit further exploration, in order to achieve positive outcomes and prevent any unintended consequences.

If you do require further discussion, please contact Emma Tucker, the DCN Manager, on emma.tucker@local.gov.uk 0207 664 3049, who will make the necessary arrangements.

Yours sincerely



Cllr Sharon Taylor
DCN Vice-Chairman
Lead member for Finance



Cllr Neil Clarke
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