APPENDIX B

GOVERNMENT CONSULTATION - BUSINESS RATES REVIEW
DRAFT KBC RESPONSE

Over the past couple of years, the Government has introduced a revised system of business rates (called the 'localisation of business rates') and has also undertaken a review of the administration of business rates. The current review, for which a terms of reference and a discussion paper has been issued, needs to be considered in the light of previous KBC responses – the majority of the main points of which are still valid – before considering any relevant specifics from the current discussion paper.

The main points that the Council has previously made (which are still of relevance) include the following;

1. Golden Rules

When considering what the future options may be, we would strongly urge the Government to consider setting some high level 'golden rules' that can act as a useful reference point. When establishing the successful New Homes Bonus, a number of golden rules were established, these included a commitment that the new system would be;

Powerful (*Stimulate Growth – 'significant, predictable and permanent')*

To help stimulate growth, funding mechanisms such as business rates need to be significant in materiality, predictable in nature, and be a permanent feature of the finance system.

Currently, only a proportion of the growth in business rates is retained until the next reset in 2020. The cash amount will vary depending upon when in the time line the growth happens and can therefore vary between a factor of 1 and 7 times – this does not provide for a predictable incentive for facilitating growth.

The recent commitment of the then Secretary of State to allow local authorities to retain more of business rates growth is welcomed – this however needs to move to local authorities retaining 100% at the earliest opportunity and also having greater power to levy their own business rates levels.

The issue of long term business planning and the artificial business rates 're-set' needs to be given more thought to avoid unintended consequences – for example, planning and investment decisions should not be influenced by how close the decision date is to the next re-set, nor should the incentive 'reward' be greatly impacted. There needs to be decisions with the local government sector about how this issue can be overcome so that economic activity is not artificially stifled.

The Government needs to reconsider the 'fairness' of some of the more volatile elements of the scheme. For example, local authorities that have a power station in their area are consistently seeing their business rates income fluctuate (depending on the operation of the plant) which is very difficult to deal with in terms of financial planning.

Simple

The Business rates system needs to be as simple as possible to understand, administer and explain – if it is to be effective.

Transparent

The mechanics of how the system operates should, broadly speaking, be transparent and understandable.

A good example of this currently is the New Homes Bonus scheme where a local authority can easily predict what amount of funding it will receive over a six year time scale. A not so good example is the current business rates retention scheme where 'who receives what' from growth in the business base is not easy to understand.

Predictable

The LGA made great strides in the recent past encouraging the Government to issue multi-year financial settlements. Instead of the annual announcement for the year ahead only, indicative allocations were also provided for the following two years. Recent announcements have effectively moved back to single year allocations – where an indication of future years have been provided they have often been subject to significant alteration.

The ability to plan properly and have robust, credible medium term financial strategies can only be met if there is more predictability in the funding system – more recent changes in the way that business rates appeals are funded has added to this uncertainty.

Flexible

Any credible system must have enough flexibility in-built to allow it to respond to current issues and demands. Such 'tweaks' should not however be at the cost of questioning the overall creditability of the system.

2. Redistribution

The Council recognises that the local government finance system must have some level of redistribution within it to ensure there is some process of resource equalisation in place. It is important that this feature is present within any future system.

3. Minimise Unintended Consequences

Any changes that are being considered should be fully thought through to minimise the impact of any unintended consequences. In the past, the successful changes to the system have been a result of a mature dialogue between government and local authorities about the practicality and impact of suggested alterations.

Nothing in the review should impede, frustrate or discourage public sector service providers working in partnership or coming up with innovative ways of jointly reducing the pressure on the public purse. There are a number of ways in which local authority spending can reduce the impact that would otherwise be felt on other public sector providers (eg, police, fire, health) and it would be unwise to remove the flexibility that currently exists through the provisions of the 1972 local Government Act.

4. Maximum Local Discretion

Unless there is good reason not to, there should be maximum local discretion provided for in any new system. The ability to set business rates should be determined at a local level and should not be managed centrally for the perceived benefit of certain industries.

5. Other Comments (submitted as part of the business rates admin consultation)

Revaluations

- The findings about retaining individual valuations, which were previously published, are sensible.
- The theory behind more regular revaluations is understood, however the practicalities of doing this need to be better understood in terms of process, capacity, and ultimately who pays if it results in increased costs (if applicable - the new burdens principle must apply, without exception).
- The impact on the 'predictability' of local government funding also needs to be fully considered.

Appeals

- The points previously made by the Council in relation to the cost of appeals pre April 2013 remains an important issue to resolve. The cost of these should be met centrally given that the income was collected that way at that time.

- Future discussions about the funding of appeals falls hand-in-glove with discussions about the share of business rates that local government can retain.

- To discourage bogus or chance appeals being submitted – it may be sensible to consider introducing a fee – refundable if the appeal is successful?

- The appeals process should also make it easier for local authorities to request an appeal / revaluation when it believes that a property has undergone changes.

Standard Documentation

- In theory, a move to standard documentation makes sense.

- In practice, it is questionable whether the cost of doing so is worth the stated benefits and also whether this is really a major issue that requires addressing?

- Most of the content of bills and documentation is prescribed, even if the exact format isn't.

- Again, any additional costs of doing this must be met through the new burdens principle, backed up by central government funding.

Insufficient Incentive for Growth

- The rewards for growth are still not strong enough.
- There is additional flexibility available in both the Business Rates Retention system and New Homes Bonus System to provide greater incentives.

6. Current Business Rates Review

The current Business Rates review asks a number of specific questions to local authorities. Before addressing these, the Council would like to make a number of general points at this stage of the process;

Source of Funding

Business Rate income was always intended to be 100% returned to local government to fund local services. This principle must be honoured – something which has proved more difficult to track given the increasing lack of transparency of the current system.

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Links to Property Values

In previous consultation responses, the Council commented that maintaining the link to property values was a sensible way to proceed. Given the scope of the current review, it may be sensible for the Government to consider whether there needs to be some form of 'tax transfer' taking place between the treasury and local government to compensate for the change in the dynamics in the business environment where we increasingly see very profitable businesses paying very low business rates but presumably paying more corporation tax as a result? If income is leaking out of the business rates system due to the change in business set-up / logistics then some form of re-distribution of tax income may be appropriate? In simple terms, the public sector provides a significant amount of the infrastructure that allows business to take place – it is not unreasonable for all business to contribute for this through the tax system (in its broadest sense) irrespective of the size of business premise they have.

Incentives

Before any dialogue takes place on how the system can incentivise growth, we would stress once more that the current system simply does not incentivise business growth to any material level re: local authority behaviour. Before considering further changes, the Government need to deliver previous commitments to return 100% of any business rates growth income to local authorities. Any ideas that may be circulated in the future about allowing local authorities to retain more of the growth dividend if there are more local incentives should be considered carefully until the overarching principle is delivered.

Local v National Choice

If local government retained all of the business rates growth (and base income) they can then decide what local discretions they may wish to provide to assist business growth. Such decisions should be taken at a local level.

Any nationally prescribed schemes for business rates incentives should be funded nationally and not from local business rate income.

Local Retention

To supplement the previous points, local government should retain 100% of all business rate income (both base income and growth). As part of this point, the issue of the fixed 're-set' periods needs to be given seriously thought – currently any incentive that might exist (or be strengthened through subsequent changes) is significantly diluted due to the uncertainty about what happens at the next re-set in 2020.

Fair Contributions

Businesses should make fair and proportionate contributions through the business rate system. Clearly, the change in the business environment needs to be understood and considered further as part of any review. The current property based system should be capable of amendment to facilitate this.

7. Offer of Assistance

As in previous reviews, Kettering Borough Council would value an early and significant input into any working groups that are established. We would also welcome an ongoing dialogue with officials – something that have proved invaluable to both government and local government in the past when considering any ‘un-intended consequences’.