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Your ref:
Our ref: LT/TH02
Date: 20/02/2019

Croydon Council's response to the Business Rates Retention Reform

Croydon Council welcomes the opportunity to respond to the consultation on the Business Rates Retention reform.

We will start our response as always with some general points and then answer the specific questions from the consultation document.

We believe that there is a fundamental issue regarding the level of funding for local government following the years of substantial cuts and rising demand for services and welcome any opportunities to ensure local government is properly funded.

We continue to believe that funding for local government is complex and lacks transparency and we welcome the move towards greater devolution. We see this move to greater retention as a good step towards establishing a more devolved and sustainable local government finance system.

We welcome the opportunity to continue to build on London's current Business Rates Pilot but are disappointed that the 100% business rates retention will no longer be implemented in 2020 and seek clarity on when this will be implemented. Without this it is incredibly difficult to plan budgets beyond 2019/20.

We are concerned about the lack of certainty about the potential scale of the reset, and the lack of information on the potential impact for individual local authorities and urge the government to provide clarity as soon as possible.

Question 1: Do you prefer a partial reset, a phased reset or a combination of the two?

Question 2: Please comment on why you think a phased / partial reset is more desirable

Croydon Council supports the objective of preventing “cliff edges” in the system and the move away from full resets. In an ideal system, the level of reward an authority receives for business rates growth would be fully independent of timing. In principle, phased resets would be more effective than partial resets at smoothing the reward incentive over time. However, we believe that MHCLG should publish detailed modelling and worked examples to illustrate the impact of each option on different authority types under a range of different growth scenarios.

We believe that further clarity is needed over the merits of a combined phased and partial reset option. Under a ‘full’ phased reset, the length of the lag can already be adjusted to increase or decrease the scale of the risk and reward element, so a combined partial phased reset could risk adding unnecessary complexity to the system.

We have significant concerns about the potential volatility created by the full business rates reset in 2020/21, which could lead to unmanageable reductions in income for authorities that have experienced high levels of growth in the existing system. A full reset in the first year of the system does not fit with the overall objective of reducing volatility and avoiding “cliff edges” in the system. We believe that transitional arrangements should take the impact of the business rates reset into account, alongside the impact of the Fair Funding Review.

Given the scale of the potential impact on many local authorities, we believe that clarity over the 2020/21 business rates reset and associated transitional arrangements is required as soon as possible.

Question 3: What is the optimal time period for your preferred reset type?

We would want to see detailed modelling showing the level and distribution of retained growth under different length of lags before suggesting an optimal time period. Growth should be retained for a period of time that is sufficient to provide a genuine growth incentive, so anything less than a five-year lag would not appear sensible for any modelling.

We do not see a compelling technical reason to align the time period of business rates resets with the three-year revaluation interval; whichever reset option is chosen, resets and revaluations are effectively able to operate independently of each other.

Question 4: Do you have any comment on the proposed approach to the safety net?

We continue to support the inclusion of a safety net to manage volatility in the system. We agree that the exact level should depend on the wider parameters in the system. The 75% pilot pool safety net levels are a sensible starting point.

Question 5: Do you agree with this approach to the reform of the levy?

Question 6: If so, what do you consider to be an appropriate level at which to classify growth as 'extraordinary'?

We are disappointed that the Government is unable to abolish the levy on growth completely, as originally set out in the 2016 consultation. This would have ensured that all authorities receive the full local share of any business rates growth or decline in their area. We believe that the Government should still aim to abolish the levy as soon as parliamentary time allows.

In the short-term, we believe that the impact of the levy should be reduced to the lowest level permitted under the existing legislative framework. We support the proposal to raise the levy threshold beyond 100% of baseline funding and bring as many authorities out of the levy as possible.

We do not support a 100% levy on growth beyond the new levy threshold, which would be a blunt approach to redistributing "extraordinary growth". The "cliff edge" created by an absolute cap could have a particularly distortionary impact on a local authority's incentive to support and facilitate major, large-scale projects that would have a transformative impact on the tax base and local economy. We believe that local authorities should always have some incentive to grow their local tax base further, regardless of the level of growth they have already achieved.

Question 7: What should the fall-back position be for the national tier split between counties and districts, should these authorities be unable to reach an agreement?

Question 8: Should a two-tier area be able to set their tier splits locally?

We do not have a view on the appropriate tier split or fall-back position between counties and districts. We welcome the proposal to set the Greater London Authority and London borough tier split locally, which has been the case since the start of the current scheme.

Question 9: What fiscally neutral measures could be used to incentivise pooling within the reformed system?

Croydon Council strongly supports the continuation of voluntary pooling under the new system. The London business rates pilot pool demonstrates what is possible through collective governance and local decision making: it has delivered a range of financial and non-financial benefits. As a result of the London business rates pilot pool, the new pan-London Strategic Investment Pot funds strategic projects that aim to boost economic growth and ultimately grow London's business rates tax base further. Individual projects are selected through new collective decision-making processes and governance arrangements that bring together the Mayor of London, London boroughs and the City of London for the first time. The pool has provided a platform for greater openness and sharing of information around NNDR1 and NNDR3 processes, including the implementation of a new in-year NNDR2 budget monitoring process. A more permanent pooling arrangement under the new system is likely to bring a wide range of further financial and non-financial benefits.

We believe the Government must provide a strong direct financial incentive to pool under the new system, recognising the complexity of larger pools that are inevitably harder to negotiate and operate. We are keen to continue with the success rate of London in its successful track record of close collaboration as a result of business rates pooling. We believe that the two existing financial incentives to pool should be retained under the new system: pools should be able to retain a higher, 100% local share; and pools should not pay a levy on any growth. Depending on the scale and distribution of growth in pool areas, further incentives are likely to be required to create viable pools. This could include allowing pools to retain growth for a longer period of time under a phased reset, tying virtual area lists to pools or giving pools greater flexibility over mandatory reliefs.

Question 10: On applying the criteria outlined in Annex A, are there any hereditaments which you believe should be listed in the Central List? Please identify these hereditaments by name and location.

Question 11: On applying the criteria outlined in Annex A, are there any listed in the Central List which you believe should be listed in a local list? Please identify these hereditaments by name and location.

Croydon Council broadly supports the review of Central / Local list based on existing criteria**.** We agree that the scope of the Central List should not be expanded to include other high-risk hereditaments.

Question 12: Do you agree that the use of a proxy provides an appropriate mechanism to calculate the compensation due to local authorities to losses resulting from valuation change?

Business rates appeals are the most significant flaw in the existing business rates retention system. The uncertainty created by appeals has fundamentally distorted the link between the policy levers available to local government, changes in the tax base, and the impact on wider economic growth. London is disproportionately affected by the appeals issue, receiving a greater number of appeals than other regions and typically dealing with appeals of a higher value. Any funding set aside for appeals provision would otherwise have been available to fund frontline services.

Given the significance of this issue, we are disappointed that suitable accounting arrangements could not be found to deliver centralised appeals compensation, even if a suitable proxy were available. As outlined, we continue to have significant concerns about the performance, accountability and resourcing of the VOA. The introduction of a new system is an ideal opportunity to review how the performance of the VOA can be improved and how it can be made more accountable to local government.

Question 13: Do you believe that the Government should implement the proposed reform to the administration of the business rates retention system?

We recognise the benefits of the proposed 'alternative model' and would broadly support this approach in principle. However, we believe that much more detailed modelling and worked examples are required before taking a firmer view. Specifically, this should show the impact on individual authorities, timing and cash flow issues, and how the system would link back to national control totals.

Question 14: What are your views on the approach to setting business rates baselines?

We note that this question would no longer be relevant if the 'alternative model' is implemented. A "bottom up" methodology seems broadly sensible, but we would welcome more detailed modelling showing the impact of the proposed methodology on individual authorities.

Yours sincerely

Lisa Taylor
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