



Department for
Communities and
Local Government

Self-sufficient local government: 100% Business Rates Retention

Consultation: Summary of responses and Government
response



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February 2017

ISBN: 978-1-4098-5008-3

Contents

Introduction	4
Summary of Responses	7
1. Devolution of responsibilities	7
2. The business rates system: Rewarding growth and sharing risk	13
3. Local Tax Flexibilities	24
4. Accountability and accounting	30

Introduction

1. On 5 July 2016 the Department for Communities and Local Government (DCLG) published a consultation paper entitled “Self-sufficient local government: 100% business rates retention”.
2. The consultation covered a number of broad areas relating to allowing local authorities to retain 100% of the business rates they collect locally. The themes covered were: issues connected with the devolution of responsibilities to local government to ensure fiscally neutrality; the design and operation of the new business rates retention system; the design and operation of new flexibilities over business rates tax; and, the consequences of a reformed local government finance system, particularly in terms of accounting and accountability.
3. The consultation was deliberately very open, seeking views from local authorities, businesses, the public and other interested parties on a range of issues to feed into our policy development. The consultation closed on 26 September 2016.
4. Throughout the policy development and consultation process, the Government has engaged closely with the Local Government Association (LGA) and other sector representatives in the development of the reforms, particularly through the joint LGA / DCLG chaired Steering Group and the Technical Working Groups considering the main aspects of the reforms (the responsibilities to be devolved; the overall design of the system; needs and redistribution; and the accounting and accountability implications of the reforms).
5. Alongside this we have also discussed the reforms with a joint LGA / DCLG chaired Business Interests Group. This has helped to ensure that the views of the business community are taken in to account when designing the system.
6. Over the consultation period the LGA and DCLG also co-hosted six regional events to discuss the contents of the consultation. These were primarily aimed at local government officers and Councillors.
7. A total of 454 responses to the consultation were received from 447 different organisations. For the purposes of our analysis we have treated multiple representations from a single organisation as one response. A breakdown of responses is shown at Figures 1 and 2.

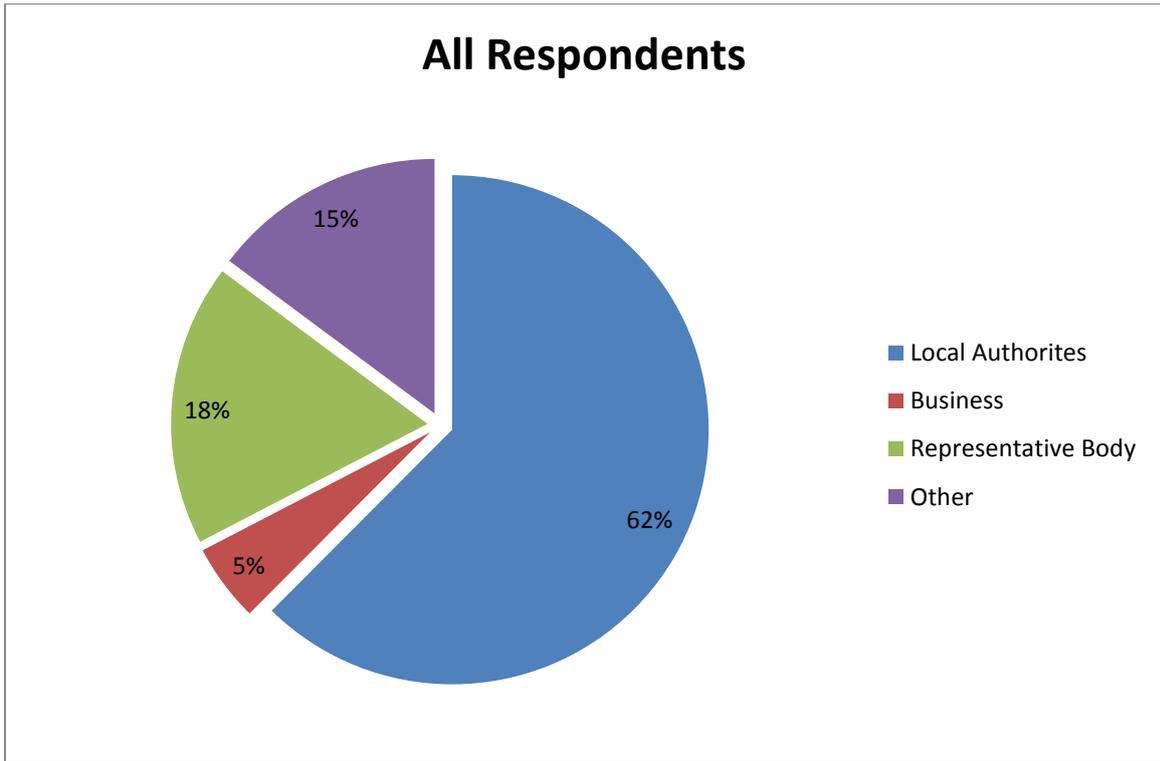


Figure 1. Breakdown of respondents by category

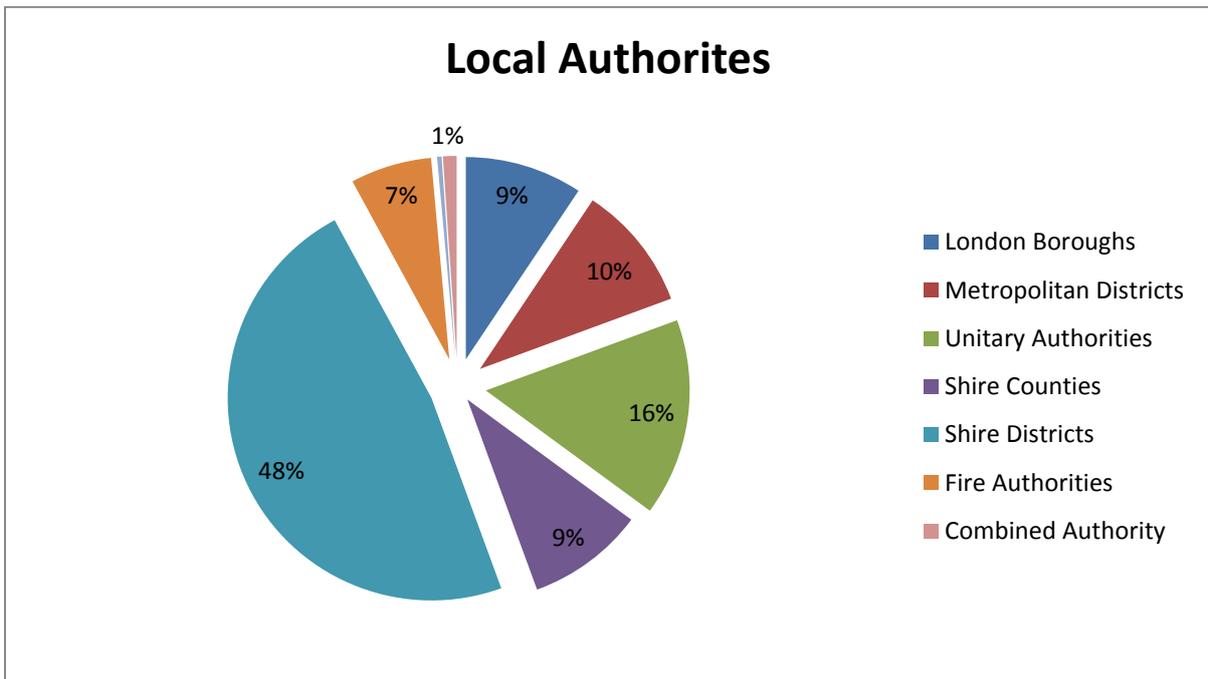


Figure 2. Breakdown of local authority respondents

8. This document sets out a summary of the responses received and outlines, where appropriate, the Government response. As a summary, this paper does not attempt to capture every point made during the consultation process.

9. The Government is grateful for the views shared during this consultation process and has considered these when continuing its policy development. Further consultation on some of the detail of the new business rates retention system can be found here: <https://www.gov.uk/government/consultations/self-sufficient-local-government-100-business-rates-retention>.

Summary of Responses

1. Devolution of responsibilities

10. To ensure these reforms are fiscally neutral some existing central government grants will be phased out, with local government continuing to deliver existing responsibilities through retained business rates, or it will take on new responsibilities to match the additional £12.5 billion income. Chapter 3 of the consultation considered a number of issues relating to the devolution of responsibilities.

Question 1.

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

11. 381 respondents commented on Q1, 260 of which were local authorities. Respondents often linked their answers to at least one of the following two themes:

- A request for the funding of existing pressures on local government to be taken into consideration before new responsibilities are devolved (68%); and
- A preference for any new responsibilities to be funded through retained business rates to be linked to responsibilities for economic growth and skills (54%).

12. In this chapter we presented a non-exhaustive list of candidates that could be funded through retained business rates. We asked respondents for comments on their suitability based on a set of 4 criteria. Below we address each grant / responsibility in turn.

Revenue Support Grant (RSG)

13. Of the 131 respondents that commented on RSG, 92% were in favour of it being funded through retained business rates, with a common theme being that as RSG is a non-ringfenced grant, it would be a logical fit to be funded through retained business rates.

14. Those who raised concerns highlighted potential issues with the business rates system as a whole, an example being the potential volatility of business rates at a local level which could impact upon local authority funding levels.

Rural Services Delivery Grant (RSDG)

15. Of the 94 respondents that commented on RSDG, 81% were in favour of it being funded through retained business rates, with respondents providing similar reasons to those provided in favour of the devolution of RSG.

16. Respondents who felt that RSDG was not a suitable candidate generally believed that grants aimed at specific local authority locations should continue to be funded by a separate grant.

GLA Transport Grant

17. Of the 63 responses that commented on GLA Transport Grant, 59% of respondents were in favour of the grant being devolved due to the clear link between the GLA Transport Grant and economic growth. It was also suggested that if transport funding were to be devolved to London, then this may create future opportunities for funding to be devolved to other transport authorities. Those who raised concerns felt that grants which are not nationally applicable should not be funded from business rates.

Public Health Grant

18. Of the 122 responses that commented on Public Health Grant, 78% of respondents thought it was a good candidate for devolution, as it was considered a good fit with the four criteria outlined within the consultation document. This was often caveated with the request for the ringfence on the Public Health grant to be removed.

19. Issues raised by respondents who were against the devolution of the Public Health Grant included a concern on how funds will be distributed under the new business rates retention system and whether the funding distribution mechanism will take into account the varying needs of different local authorities. However it should be recognised that the new system will be designed so that local government as a whole retains 100% of business rates with funding being redistributed to ensure that an individual authority's baseline funding requirements are met.

Improved Better Care Fund (iBCF)

20. Of the 95 responses that commented on iBCF, 53% of respondents identified it as being a suitable candidate to be devolved as without a ringfence this would allow local authorities to have greater flexibility in delivering health and social care services, and could also encourage more joint working between these service areas. There was also recognition that some elements of adult social care funding are already partly funded through retained business rates and council tax, and therefore a move to funding the iBCF through retained business rates would not necessarily present a significant change.

21. Of the respondents who thought iBCF is an unsuitable candidate for devolution, a common concern was that currently there is too much uncertainty over the grant's distribution. Additionally, some worried that if the iBCF were devolved there would be conditions attached to the grant. There were also concerns over future demand pressures.

Former Recipients of Independent Living Fund (FRILF) Grant

22. Of the 87 responses that commented on the FRILF, 62% believed the grant to be a suitable candidate for devolution, with respondents providing similar reasons to those mentioned in favour of the devolution of RSG.
23. Of the respondents that felt the grant was unsuitable, a common objection was that the fund may be subject to high demand pressures. However, it seems that these concerns have been driven by confusion that the now closed Independent Living Fund would be devolved, rather than the grant paid to local authorities compensating for cost pressures caused by the Fund's closure.

Grant funding for Early Years from DfE

24. Of the 74 responses that commented on grant funding for Early Years from DfE, 57% of respondents felt that it was not suitable to be funded through retained business rates. The main concern from respondents was that due to the recent Department for Education consultation on the funding formula for this grant there was too much uncertainty over the grant's distribution.
25. Those respondents which expressed their support for this grant to be funded through retained business rates, often highlighted the potential opportunity it presented for local government to take greater control over the delivery of this service.

Youth Justice

26. Of the 69 responses that commented on the Youth Justice Grant, 78% believed it to be a good candidate for funding through retained business rates, with many respondents identifying that greater flexibility may inspire new methods of service delivery.
27. Where respondents were against the devolution of the Youth Justice Grant, often there were concerns that there was no clear link with the guiding principles for devolution outlined within the consultation document.

Local Council Tax Support (LCTS) Administration Subsidy

28. Of the 123 responses that commented on LCTS administration subsidy, 74% believed it would be a good candidate for devolution. Many thought that funding the subsidy through retained business rates would be a good way to establish a stable funding baseline and therefore protect against any further reductions in its value.
29. A common theme amongst the respondents who were against this subsidy being devolved was the concern that funding a grant which is partly demand led through retained business rates may not be appropriate.

Attendance Allowance

30. Of the 225 responses that commented on Attendance Allowance, 98% were against its devolution. The majority of these respondents stated that Attendance Allowance does not fit with any of the four guiding principles for devolution outlined within the consultation document. Respondents' key concern was that the number of claimants of Attendance Allowance is predicted to increase far quicker than the rate at which business rates will grow. Respondents stated that this could potentially expose local authorities to a significant financial risk and also place an unnecessary risk upon current and future claimants of Attendance Allowance.

Question 2.

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

31. 119 respondents commented on Q2, 104 of which were local authorities. A total of 118 respondents to question 2 provided examples of other responsibilities which they considered to be suitable candidates for devolution. As outlined in the response to question 1, 54% of respondents stated that new responsibilities which are funded through retained business rates should predominately be linked to the areas of economic growth and skills, and this view was very much reflected in respondents' answers to question 2.

32. Whilst a wide variety of responsibilities were suggested by respondents, suggested responsibilities were primarily split into three key themes, these being: skills and careers services; transport infrastructure; and housing.

Government response

33. The Government has carefully considered responses to question 1 and 2. Given the strong support in favour of rolling in Revenue Support Grant, Rural Services Delivery Grant and the Public Health Grant, the Government can confirm that these responsibilities will be funded through retained business rates upon introduction of the new system. In addition the GLA Transport Grant will also be funded through retained business rates. The Government will further consider whether any transitional measures for devolving these grants are required.

34. The Government can also confirm that the devolution of Attendance Allowance funding is no longer being considered as part of the business rates reforms.

35. The Government will continue to explore with local government the issues raised by respondents in relation to the remaining responsibilities listed within the consultation document and their responses to question 2. We expect a decision on the range of grants and responsibilities to be funded from retained business rates will need to be made in spring 2018 for potential implementation in April 2019.

Question 3.

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

Question 4.

Do you have views on whether some or all of the commitments in existing and future deals could be funded through retained business rates?

36. 265 respondents commented on Q3, 224 of which were local authorities. The vast majority of respondents (74%) were against funding budgets associated with devolution deals through retained business rates. Many of these respondents felt that it should be left to the discretion of individual local authorities to decide this locally, with many also raising the point that such an approach could reduce the funding available for those local authorities in non- devolution deal areas.

37. This discussion continued in the 239 responses to question 4 where respondents were asked for their views on whether some or all of the commitments in existing and future devolution deals could be funded through retained business rates. Many responses highlighted that those responsibilities unique to devolution deal areas should continue to be funded separately through central government grants.

38. However, as in question 2, many respondents recognised that with their strong links to economic growth and skills, both the Adult Education Budget and Transport Capital grants would be strong candidates to be universally devolved to local government.

Government response

39. The Government has taken into account the views of respondents as to whether the budgets associated with devolution deals, once deals are agreed, could be resourced through retained business rates.

40. Devolution deals are a key part of the Government's plan to support growth up and down the country as we build an economy that works for everyone. The Government remains open to the possibility that some grants devolved through devolution deals could be funded from retained business rates in future. In order to explore the practicalities of this option the Government has agreed to test this through the early implementation pilots, where Greater Manchester, West of England, and Cornwall will have Transport grants funded from retained business rates.

41. Greater Manchester, West of England, West Midlands, Liverpool City Region and Cornwall will also have RSG devolved. Other grants that will be variously devolved to the pilots including Public Health Grant, improved Better Care Fund and Rural Service Delivery Grant.

Question 5.

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

42. 310 respondents commented on Q5, 262 of which were local authorities. Of the responses received there was overwhelming consensus from respondents (98%) in support of the continuation of the new burdens doctrine post-2020. The majority of respondents stated that the doctrine was key to ensuring that transfers of responsibilities from central government to local government are funded at the appropriate level. Some respondents commented that in future any calculations of costs associated with new burdens should be transparent, and that both initial and future funding pressures should be taken into account in those calculations.

Government response

43. Given the overwhelming support, the Government can confirm that the new burdens doctrine will continue post- 2020. A link to the recently updated New Burdens Doctrine can be found here:
<https://www.gov.uk/government/publications/new-burdens-doctrine-guidance-for-government-departments>

2. The business rates system: Rewarding growth and sharing risk

44. The consultation considered how a new local government finance system should operate in a world where local government retains 100% of locally collected business rates. Issues considered included: the balance between rewarding growth and funding for need; how risk should be managed; and whether some elements of the system could be handled at different geographic levels.

Question 6.

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

Question 7.

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

45. 316 respondents commented on Q6, 257 of which were local authorities. The majority of respondents were supportive of the idea of fixed reset periods, primarily because of the certainty this would provide in the system.
46. A small number of local authorities suggested a more flexible approach to resets. These authorities proposed that resets could be triggered if certain criteria were met, for example if a predefined number of authorities requiring safety net payments is reached.
47. The point was made by some local authorities that if reset periods are not to be fixed, then Government should ensure that sufficient advanced warning is provided prior to a reset to allow for medium and longer term financial planning.
48. A number of respondents suggested that resets and revaluations should take place on the same timeframes, to ensure that only one adjustment to tariffs and top-ups is made.
49. There was a wide range of views on the length of time between resets. Many of those responding felt that this was dependent on what constitutes a reset. Concerns were raised that having resets too frequently could act as a disincentive on growth, but respondents also recognised that redistribution may need to happen more frequently to address changing needs, or support those local authorities who had lost income.
50. The largest group of respondents (32%) proposed 5 years as a suitable time between resets. Additionally this time period was seen as especially favourable if combined with a partial reset, as it would help in achieving the balance between redistributing for need and allowing for a continuing growth incentive.

51. A number of responses also covered the question about what a reset should include, with some suggesting that the needs formula should be reset more often than a reset for any growth in resources.
52. 305 respondents commented on Q7, 239 of which were local authorities. Many responses noted that there was a clear need to reward growth while also redistributing to meet changing need. A significant proportion of responses however felt that they were unable to identify where the balance between these objectives should lie at this stage because there was not currently enough information to do so.
53. There was no clear preference from respondents about whether the system should prioritise rewarding growth, or redistributing business rates income to meet changing need. There was recognition that both aims needed to be achieved, and that partial resets may be a way to achieve this.
54. A small number of respondents suggested that there was a need to ensure that the proportionate financial advantage arising through achieved growth should be equalised. The rationale here was that top up authorities should be able to see greater rewards from achieved growth than they do in the current 50% system.
55. It was clear that different types of authority tended to favour different approaches. For example, shire district councils tended to lean towards a system which favoured rewarding growth, whilst metropolitan districts were more in favour of redistributing to meet changing need. Additionally, London area responses highlighted that London should be afforded the opportunity to determine this balance for itself.
56. In addition a small number of respondents suggested that the Government should retain the levy on growth, or instead introduce a cap, but perhaps changed to ensure that growth is still sufficiently rewarded.

Government response

57. As most authorities saw the certainty provided by fixed reset periods as a positive, the Government will look to build fixed reset periods into the future 100% business rates retention system.
58. In addition the Government is exploring how a 'partial' reset could help to establish a reasonable balance between rewarding growth and redistributing for changing need and will continue to work with local authorities on this. The Government will address this further in the consultation published alongside this document.

Question 8.

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

59. 282 respondents commented on Q8, 238 of which were local authorities. It is clear from responses that opinion is divided. While many (38%) were in favour of local authorities retaining a high proportion of growth at a reset, others thought that the need to redistribute any growth to those who had lost income was more important. Many across both sides of this debate felt that further data and modelling would be required to better understand the impact of these choices – 100 responses (35%) felt unable to express a clear view on this question.
60. Furthermore, responses highlighted that only if a significant amount of growth (i.e. over 50%) were to be retained at a reset it would represent a genuine incentive for local authorities to grow their business rates base. Other respondents felt that the proportion retained could only be established when greater detail was provided on how much will be needed to support authorities which lose income.
61. There were calls from respondents for Government to ensure that the system adequately takes account of the impact of growth across a reset period. Such an approach would safeguard against local authorities delaying approval of planning applications, by making sure that growth in later years is not worth more than in earlier years.
62. A number of respondents made the point that all growth gains should remain within the local government finance system, even if they are redistributed between authorities.
63. There were some calls to establish more 'Enterprise Zone' type areas within local authorities, where authorities could keep all growth, which would ensure that councils would see reward from promoting growth in these areas.
64. A small number of responses suggested that there was a need to take account of council tax income as well as business rates income in setting any redistribution due to variations in Council Tax bases across England.

Government response

65. It is clear that there are a range of views about how a partial reset could work, and that this consultation was only the start of a discussion with the local government sector about how resets of the system should work, including the interaction with changes to local need, under 100% business rates retention. The Government is seeking further views on how resets should work through the business rates retention consultation paper published alongside this document. The work exploring the resets will also continue to be part of the considerations of the Fair Funding Review.

Question 9.

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

66. 300 respondents commented on Q9, 253 of which were local authorities. 81% of respondents agreed that the current system of top ups and tariffs is an appropriate method of redistribution. Views from a broad range of respondents stressed that the current system is a mechanism that is well understood, and works effectively.

Government response

67. The Government intends for redistribution of resources to continue through a system of tariffs and top-ups in the new system. Feedback received on the current tariff and top-up system is welcome and will be important when the Government revisits the mechanics of how these work, as part of later work to operationalise the system.

Question 10.

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

68. 276 respondents commented on Q10, 239 of which were local authorities. A significant majority of respondents recognised that the revaluation should remain to be a revenue neutral exercise (72%) and that allowing the effects of the revaluation to be reflected in retained rates income would penalise many authorities who whilst delivering growth in the rateable values in their area would still see their rates income fall at the revaluation.

Government response

69. The Government will continue to work with local government to improve the rates retention scheme so that it incentivises and rewards economic growth.

Question 11.

Should Mayoral Combined Authority areas have the opportunity to be given additional powers and incentives?

70. 276 respondents commented on Q11, 226 of which were local authorities. While many (67%) could see benefit in making decisions and distributing funding over a wider area, the majority of respondents indicated that this option should be open to all, not just Mayoral Combined Authorities. In addition, the majority of responses highlighted that additional powers and incentives used across a wider area should be open to all on a voluntary basis.

71. A number of respondents suggested that such an approach could replace the pooling arrangements that exist under the current 50% business rates retention scheme.
72. London area responses suggested that any additional powers and incentives should also be provided to London, which has a Mayor but is not a Mayoral Combined Authority.
73. There was clear support for ensuring that strong governance arrangements are in place before any areas are provided with additional powers and incentives. In light of this a number of responses made the point that Combined Authorities may not have been established for a sufficient length of time to take up this opportunity. However, some saw this as an opportunity for the future, perhaps once Combined Authorities governance structures were sufficiently developed.

Government response

74. The Government will continue to explore the options for additional opportunities for local authorities working together over wider geographic areas, with appropriate governance arrangements in place. The Government has introduced changes to pooling under 100% business rates retention through the Local Government Finance Bill, including providing for the opportunity to designate Local Growth Zones for those areas in pools. Further views are sought in the business rates retention consultation paper published alongside this document.

Question 12.

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?

75. 211 respondents commented on Q12, 181 of which were from local authorities. Responses to this question were discursive in style rather than choosing from particular options. Respondents generally understood that tier splits had been set to provide some element of risk and reward across all types of local authority, and that they would need to continue in the 100% business rates retention system. A fairly large group of respondents (37%) generally thought that it would be appropriate to keep tier splits the same in the new system.
76. A significant number of respondents suggested that upper tier authorities should receive a higher percentage of business rates than current level of 20%. The main justification provided was the likelihood that new responsibilities devolved as a part of these reforms would be to the upper tier. The Government will also want to take into account the level of risk to which councils are exposed, giving due consideration to the services they are responsible for.
77. In addition some respondents (11%), the majority of which being authorities in areas where high levels of growth are seen, thought that a greater proportion of business rates should be retained by the upper tier to ensure that upper tier

authorities could see greater benefits from local growth. This would also expose those councils to greater levels of risk.

78. A smaller group (4%) called for lower tier authorities to take on a larger percentage than the current 80% share. The rationale being that lower tier authorities are able to do more to promote growth in business rates in their areas (e.g. through the planning system), and therefore should see an even greater reward for doing so.

79. There were issues raised from a broad range of respondents about whether establishing uniform tier splits for the 100% business rates retention system at this stage was appropriate. These tended to be on two main themes:

- **Universality:** some felt that universal tier splits were no longer workable. Instead tier splits should be decided by local areas;
- **Timing:** a number of respondents highlighted that tier splits should be decided after it is determined what responsibilities will be devolved.

Government response

80. It is clear that there is not yet a clear consensus on the future of tier splits under 100% business rates retention. The Government recognises the points made through this consultation, and is keen to explore how they can be incorporated into the design. In light of this, the Government will continue to work with local government on this issue, including through the Systems Design Working Group over the coming months. To help facilitate this continued dialogue, the Government has asked further questions on tier splits in the business rates consultation paper published alongside this document. Furthermore, we intend to launch further pilots of 100% Business Rates Retention in April 2018 including in two tier areas. All councils will be free to apply to participate in these pilots, and the Government invites them to do so. The Department for Communities and Local Government has already held discussions about the 2018/19 pilots with several councils and will be publishing more information shortly.

Question 13.

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?

81. The Government received 241 responses to the question asking whether fire funding should be removed from the business rates retention scheme. Responses were received from fire and rescue authorities and representative bodies. The responses indicated a mixed view with some bodies in favour, others against and a number (including Chief Fire Officers Association, Local Government Association and Fire Brigades Union) of the opinion that further detailed information would be required before they would be able to form a view on this matter.

Government response

82. Given the mixed responses, the Government considers that the proposal requires further consideration which we will take forward in conjunction with stakeholders.

Question 14.

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?

83. 299 respondents commented on Q14, 233 of which were local authorities. A significant group of responses (54%) highlighted their support for continuing to treat Enterprise Zones outside of the calculations for the rates retention system.

84. Respondents provided a large number of suggestions for additional incentives for growth. Some of the more common recommendations to be built into the new system included:

- The ability for all local authorities to ring-fence the growth in small areas within their authority, to be retained and spent on local growth initiatives;
- Localising some or all of the current mandatory business rates reliefs, to allow these to be better targeted according to local need;
- Localising control of the business rates multiplier, to enable all areas to consider the best level to set the multiplier according to local circumstances;
- Considering whether there should be a greater role for parishes in incentivising growth;
- Reforming the way the business rates tax deals with online businesses.

85. A number of authorities however felt that the introduction of 100% business rates retention was in its own right a significant change. These respondents felt Government's priority should be on setting up the new system and only after implementation should it consider further incentives.

Government response

86. The Government is grateful for all suggestions received and will consider a number of options to further incentivise growth through ongoing design of the system. The Government is currently legislating through the Local Government Finance Bill to allow pools of authorities to designate their own local growth zones. This is explored further in the business rates retention consultation paper published alongside this document. We will continue to work with local government on the design of the system, including through the Systems Design

Working Group, and will be exploring suggestions further when finalising the design of the 100% rates retention system.

87. The Government does not intend to explore at this time localising mandatory business rate reliefs. We have already announced our intention to allow all local authorities to reduce the business rates multiplier in their local area, to take account of local circumstances and decisions.

Question 15.

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

Question 16.

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?

88. 275 respondents commented on Q15, 234 of which were local authorities. There was support from respondents (65%) to move hereditaments deemed to be 'riskier' on to the central list, particularly power stations and airports. However, there was caution from others in taking this approach. In cases where there has been local input to bringing a business to an area, or in circumstances where a business has a considerable local impact, respondents felt that local communities should receive any benefit as a result of increased business rates income.

89. A number of respondents argued against using the central list as a risk management tool, due to the potential difficulty in agreeing which hereditaments are classed as 'risky'. Responses in this group argued that Government should instead seek to be clear and transparent about the types of property that sit on each list, and revise these before the introduction of the new 100% rates retention system. Some respondents also highlighted that it was more important to develop a working safety net mechanism to support losses, and a new approach to managing successful appeals.

90. 241 respondents commented on Q16, 211 of which were local authorities. While a significant group of respondents (51%) agreed in principle to sharing risk and reward via area level lists there was little support for setting up and defining area level lists to cover the whole country. However, a significant number of respondents did show some support for area lists if entered into voluntarily, where all affected local authorities could reach agreement. Some considered that, as a starting point, this could work in the Greater London area, and could be linked to pooling under the new system.

Government response

91. The Government recognises the need for greater transparency and it will continue to work with local government representatives to consider how to

refresh the central list and how to provide greater clarity about the businesses that sit on each list.

92. The Government has proposed take a number of powers in the Local Government Finance Bill to address some of the issues raised by respondents on the central list. Specifically the Government will move the operation of the central list from regulations to direction making powers including retrospective powers to update the list to reflect changes to ratepayers and properties. Greater detail can be found in the business rates retention consultation paper published alongside this document.
93. Taking into account the feedback received as a part of this consultation, the Government does not intend at this time to introduce area lists. However, the Government is taking steps to refresh the central list. In addition, there will continue to be opportunities for authorities to share business rates income and risk through pooling arrangements.

Question 17.

At what level should risk associated with successful business rates appeals be managed? Do you have a preference for local, area level (including Combined Authority), or across all local authorities?

Question 18.

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

94. 276 respondents commented on Q17, 237 of which were local authorities. A clear majority of responses (60%) gave a preference for managing appeals at an England-wide level.
95. Some responses that did not express a clear preference noted that in their opinion only 'valuation errors' should be handled at a national level, with other appeal changes e.g. physical changes to property, still managed locally.
96. Many respondents welcomed forthcoming improvements to the appeals system (e.g. Check, Challenge, Appeal), with a subset of these highlighting that it may be worthwhile giving these changes a chance to be firmly established before moving forward with additional proposals.
97. A number of respondents identified the need to test whether such a national system could work in practice – e.g. timings of refunding for appeals, managing budgets, communication between different organisations etc.
98. 265 respondents commented on Q18, 230 of which were local authorities. The most frequent response (83%) highlighted issues with the performance of the VOA. Specific responses noted the speed with which appeals are processed and the availability of detailed and timely information for local authorities.

99. A number of respondents suggested that the introduction of the new 'Check, Challenge, Appeal' approach is a positive step.

100. Additionally there were widespread calls for Government to seek to do more to close existing loopholes to better manage business rate avoidance.

Government response

101. The Government recognises the challenges that local authorities face as a result of 'errors in valuation' appeals. Therefore through the Local Government Finance Bill the Government has introduced legislation that intends to take powers that will continue to allow it to help local authorities manage the risk and income volatility associated with appeals, but to better direct this support to where losses are experienced. The Government seeks views on the intended approach in the business rates retention consultation paper published alongside this document.

Question 19.

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

102. 265 respondents commented on Q19, 229 of which were local authorities. Overall, marginally more local authorities (46%) were supportive of the idea of pooling risk than those who were against (35%). However, a significant subset of this group highlighted that such an approach would need to be voluntary and that, alongside the pooling of risk, there should be positive benefit e.g. the sharing of reward. Many respondents in this group noted that even if risk were to be pooled, there would still be a need for an England-wide safety net in place.

103. Of those who did not favour pooling risk, the most significant concern was that such an approach may add an unnecessary level of complexity to the system and therefore require considerably more information sharing between authorities and shared governance structures.

Government response

104. The Government is grateful for the responses received and has taken these into consideration when determining the role of pooling in the 100% business rates retention system, and the continued need for a safety net. Further discussion on these topics and the safety-net is addressed in the accompanying business rates retention consultation paper.

Question 20.

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

105. 258 respondents commented on Q20, of which 220 were from local authorities. Responses on what the level of income protection should be in the new system ranged from 90% up to 100%, with many saying the level should at

least match the current 92.5%. The largest group of respondents (50%) also felt that this any income protection should be set nationally to provide the same level of protection for all.

106. Many respondents felt that the current level of 92.5% would be too low in the new system. A number of responses suggested that it would make sense to halve the safety net to 96.75% given the proportion of business rates retained in the new system will be doubled.
107. Some respondents also suggested that the new system should seek to provide an incentive to help local authorities move off the safety net.
108. Of those that responded to this question a significant number highlighted that until further information is provided on the design of the new system it would be difficult to make an informed response.

Government response

109. The Government recognises that there is a need to set out further information on the operation of the safety net. The business rates retention consultation paper published alongside this document seeks further views.
110. In addition, the Government is looking at how to manage appeals more effectively which should help lower the call on the safety net. This is also addressed in the consultation paper.

3. Local Tax Flexibilities

111. The consultation considered a number of the key issues in providing councils with new local tax flexibilities, specifically: the ability to reduce the business rates tax rate (the multiplier), and in areas which have Combined Authority Mayors, the power to levy a supplement on business rates bills to fund new infrastructure projects, provided they have the support of the business community through the Local Enterprise Partnership.

Question 21.

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

Question 22.

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

Question 23.

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

Question 24.

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

112. 273 respondents commented on Q21, of which 237 were local authorities. A large proportion of local authority respondents (25%) thought that any authority should be able to reduce the multiplier. A much smaller number, mainly from Shire Districts, thought the power should only be afforded to the billing authority (8%). Additionally, there was widespread recognition that the cost of any reduction should be borne by the authority deciding to reduce the multiplier.

113. A large group of local authorities thought that, in two-tier areas, any reduction should be agreed between all tiers before it could be implemented. Businesses and non-local authority respondents were broadly in favour of all local authorities having this power.

114. 262 respondents commented on Q22, of which 228 were from local authorities. The largest group of respondents (37%) considered that local authorities should be able to exercise a power to reduce the multiplier alongside their existing discount powers.

115. 255 respondents commented on Q23, of which 219 were from local authorities. Whilst there were a number of different responses about the way in which local authorities brought any reduction back in line with the national multiplier, the most common response favoured by 45% of local authorities was there should be no restriction (i.e. that they should be able to do so in a single

move). Whereas business respondents broadly favoured a staggered return to the national multiplier over a set period of time.

116. 195 respondents commented on Q24, of which 165 were from local authorities. Many local authority respondents raised questions about whether this power was necessary, and suggested they would not use it. Many authorities also raised concerns about the impact on neighbouring authorities if one council decide to reduce its multiplier. Others called for a power for local authorities to increase the multiplier rather than decrease, and for greater flexibility over the application of exemptions and nationally-set reliefs.

Government response

117. The Government recognises the clear steer from respondents that this power should be provided to all local authorities, subject to the principle that the authority taking the decision to reduce the multiplier should bear the costs of doing so.

118. Additionally, while local authority respondents were unsure as to whether the power to reduce the multiplier would be widely used, the Government believes that affording all authorities the option to do so, if they wish, is an important step towards greater financial independence. The Local Government Finance Bill therefore incorporates provision enabling all billing authorities and major precepting authorities to reduce the multiplier in their areas, whilst ensuring that the costs of doing so, including the impacts on other tiers in the area, are met by the reducing authority.

Question 25.

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

119. 229 respondents answered Q25, of which 194 were local authorities. A majority of respondents (54%) thought that the levying authority should have total discretion to set the rateable value threshold for an Infrastructure Levy (now called the Infrastructure Supplement) in their area. 80% of business respondents said that the rateable value threshold should be in line with the threshold for the Business Rates Supplement (set down in regulations at £50,000).

120. Local authority respondents generally felt that flexibility would be needed to ensure a threshold reflected rateable values in the area concerned in order to ensure a sufficient amount could be raised from an Infrastructure Supplement to fund infrastructure projects. Other points made included the need to protect small businesses from paying levy charges.

121. A small number of respondents felt that the Government should set a rateable value threshold centrally (although they did not specify what this threshold should be).

Government response

122. The Government wants to ensure that levying authorities have an appropriate degree of flexibility in how they operate an Infrastructure Supplement. However, the Government recognises the importance of providing protection to small businesses in particular. It will ensure that a minimum threshold is put in place below which businesses will not be liable for the Infrastructure Supplement. In addition, levying authorities will also have the opportunity to increase that threshold, taking account of local circumstances.

Question 26.

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

123. 209 respondents answered Q26, of which 174 were local authorities. Views varied greatly, but the largest group of local authority respondents (11%) felt that, given the similarities between the proposal for an Infrastructure Supplement and the existing Business Rates Supplement (BRS) power, Government should review the two arrangements to bring the Infrastructure Supplement proposal in line with the BRS power. In addition, some local authority respondents suggested that the power to implement an Infrastructure Supplement should be extended to all local authorities, or that the approval mechanism in the BRS should be amended so that the requirement to hold a ballot of local businesses is removed.

124. A majority of business respondents expressed concern that an authority levying an Infrastructure Supplement should not also be able to raise a BRS.

Government response

125. The Government has carefully considered the responses received. Although it recognises the desire from some local authority respondents to effectively combine the proposal with the Business Rate Supplement, the Government considers that the Infrastructure Supplement should be considered a separate supplement that is available to the democratically elected Mayors of Combined Authority areas. The Government does not consider that the measure should be extended to all areas. Existing upper tier and unitary authorities, and the Greater London Authority, will continue to have the power to raise a business rates supplement. Given that these will be two separate and distinct powers, the Government does not propose to prevent the use of both at the same time in order to deliver infrastructure that will benefit businesses in the areas of the levying authorities.

Question 27.

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

126. 252 respondents commented on Q27, of which 152 were local authorities. The majority of respondents voiced some concern about a prospectus for an Infrastructure Supplement requiring approval from a majority of the business members of the relevant Local Enterprise Partnership (LEP). The largest single group of respondents (40%) said that LEPs should be consultees to a levy proposal, rather than approvers.
127. Some respondents raised concerns that, since LEPs are not elected bodies, they are not necessarily fully representative of business interests and, in particular, may not reflect the views of small businesses. Others, particularly local authority respondents, argued that it may not be appropriate for approval of a tax-raising measure to be carried out by un-constituted bodies that did not have democratic accountability. A significant number of the LEP respondents also confirmed that they did not feel they had the capacity or the mandate to discharge this responsibility.
128. A small number of local authorities (4%) and the majority of business respondents (54%) wanted any proposed Infrastructure Supplement to be subject to a ballot of local businesses.

Government response

129. The Government notes the concerns expressed about the proposed role of LEPs in the approval process for an Infrastructure Supplement, and that these concerns have been expressed by respondents from across sectors. The Government therefore has set out, in the Local Government Finance Bill that proposals for a supplement should instead be subject to a statutory consultation process of all affected businesses that this process should be transparent, including the publication of the results of the consultation, and that if necessary, a revised prospectus should be produced and subject to further consultation. The Government will also prepare guidance on the development of an Infrastructure Supplement and this will consider the important role of the LEPs, as well as other business groups, in the process.

Question 28.

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

130. 223 respondents answered Q28, of which 191 were local authorities. 53% of respondents agreed that levies should be for a defined period, established at the start, possibly through the prospectus.
131. There was broad support for a Mayor being required to publish a detailed prospectus at the outset, which should set out the full detail of the project to be funded. The majority of respondents also agreed that, should a Mayor need to

extend, or otherwise change the terms of an Infrastructure Supplement, they should be required to produce a revised prospectus.

Government response

132. The Government has, through the Local Government Finance Bill, proposed legislation that requires Combined Authority Mayors to set out a wide range of information about a proposed Infrastructure Supplement within a prospectus that will be published and be subject to full consultation. .

Question 29.

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

133. 253 respondents answered Q29, of which 202 were local authorities. There was a wide range of views expressed in response. The greatest support, particularly amongst local authorities, was for “infrastructure” to be defined as broadly as possible thereby providing maximum flexibility. In terms of a specific definition, 8080 respondents supported the use of the Community Infrastructure Levy (CIL)¹ definition of infrastructure.

134. A small proportion of respondents (2%) suggested using the Business Rates Supplement definition² (which explicitly excludes infrastructure for housing or educational or health facilities). Others argued the case for a definition that includes digital and broadband services.

Government response

135. The Government has considered the points made in responses and recognises that there are different approaches that could be followed. In determining how to take this forward, the Government has placed weight on the importance of delivering both an arrangement that is additional to any infrastructure that would have occurred without a supplement, and secondly that it is absolutely focused on delivering direct benefits for local businesses and the local economy. Having carefully reflected on those points, the Government has proposed, through the Local Government Finance Bill, that infrastructure that is brought forward to be funded by the Supplement must promote economic development in the area. This reflects the definition that already exists in the current BRS legislation

¹ CIL definition - <https://www.gov.uk/guidance/community-infrastructure-levy#spending-the-levy>

² Business Rates Supplement guidance - https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/8306/business_rate_supplements_localauthority_guidance.pdf

Question 30.

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

136. 230 respondents answered Q30, of which 192 were local authorities. The largest single group of respondents (25%), consisting both of business and local authority respondents, thought that it should be possible for a levying authority to operate multiple infrastructure Supplements simultaneously. However a significant subset of this group thought that multiple levies, while possible, should be subject to a specified total cap (e.g. 2p) on the amount charged.

Government response

137. The Government has proposed legislation in the Local Government Finance Bill to ensure that levying authorities have the flexibility to operate multiple Infrastructure Supplements in accordance with the infrastructure needs of the area, and also give local ratepayers certainty through a cap of no more than two pence. This cap will apply either to a single supplement, or to the total cost of multiple supplements.

Question 31.

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

138. 207 respondents answered Q31, of which 173 were local authorities. There were strong calls from across respondents (50%) for the power to raise an Infrastructure Supplement to be extended from Mayoral Combined Authorities to all local authorities. These respondents felt that other areas would benefit from this power, and as such it shouldn't be reserved just for elected Mayors.

Government response

139. The Government recognises that many local authorities are keen for further options to address local infrastructure demand. The existing BRS power provides such areas the opportunity to raise a levy on business rates to deliver infrastructure for the local area. The proposed powers for an Infrastructure Supplement in the Local Government Finance Bill recognise the direct democratic accountability of Mayors of Combined Authority areas, and the broader strategic basis on which these areas operate, enabling them to deliver infrastructure on a strategic scale across a larger functioning economic area.

4. Accountability and accounting

140. By 2020, councils will raise the vast majority of their funding locally for the services which they provide. This move towards self-sufficiency therefore must be accompanied by a shift towards greater local accountability over funding and the way these services are delivered. In addition, there will also be implications for how this income is accounted for. The consultation paper considered the implications of this in a reformed local government finance system.

Question 32.

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

141. 279 respondents commented on Q32, of which 237 were local authorities. A majority of respondents (58%) highlighted that multi-year settlements were a positive development in helping to increase certainty for councils when setting their budgets. A number of these respondents commented that greater certainty could be provided if Government were in future to align multi-year settlements, reset periods and Spending Review periods.

142. Some respondents stressed the importance of maintaining in legislation the power for Government to pay Section 31 grants to local authorities. The primary argument for this was that if a scenario were to arise where demand pressures significantly outstripped available resource for local government to deliver services, if such a power were to be abolished, there would not be a simple and effective mechanism available to Government to provide additional funding. It is worth noting that the Government did not suggest removing Section 31 or any of the other specific powers to provide grant funding to local authorities.

143. There were also calls from some (10%) respondents for the VOA to provide better information on appeals and for these to be processed in a timelier manner. This would enable local authorities to assess the impact of potential appeals more effectively and reduce the risk of large fluctuations in business rate income.

144. Additionally respondents also noted that uncertainty around changes to mandatory reliefs in-year not only weakened certainty of funding but also restricted local decision making. A number of respondents highlighted that one option would be to fix such reliefs for the duration of a reset period. The Government will continue to fund any mandatory reliefs in full.

Government response

145. The Government has considered responses and through the Local Government Finance Bill has proposed legislation that seeks to remove the current requirement for an annual local government finance Report approved by the House of Commons, and make amendments to provide for calculations to be made over a number of years based on a set of principles of allocation. The principles of allocation must be consulted upon. There will no longer be a local

government finance settlement that distributes central grant to support local services, as local authorities will become more financially self-sufficient, funding local services from local resources.

146. These changes provide a clear framework in law for multi-year settlements, increasing funding certainty and ensuring that accountability for funding local services with local resources sits with local councillors.

Question 33.

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

147. 262 respondents commented on Q33, of which 222 were local authorities. Although a significant number commented, there was no clear consensus of views in the responses provided. However, it is important to note that 30% of respondents called for decision making over spending to be devolved alongside the new responsibilities which are to be funded from retained business rates. Similarly, a small number of respondents also mentioned that Government should seek to avoid any ringfencing measures, soft or otherwise, being placed on responsibilities funded through the retention system.

Government response

148. The Government will continue to work with colleagues across the local government sector to explore these issues and how accountability for any new responsibilities should work.

Question 34.

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

149. 268 respondents commented of Q34, of which 244 were local authorities. An overwhelming majority (93%) supported keeping the requirement to prepare the Collection Fund account.
150. A number of respondents suggested reviewing the accounting treatment so that the timing of accounting for risk is aligned to any mitigating measures. This would minimise timing differences in expense and mitigations that have the potential to impact on the budget setting process. In addition, some respondents suggested that moving tariffs, top-ups and business rates related Section 31 Grants out of the General Fund and into the Collection Fund would be a helpful way of eliminating some of the timing issues and would be a more sensible approach in any case.

Government response

151. Given the overwhelming consensus, the Government agrees that the requirement to prepare a Collection Fund Account will remain under the new system. Detailed proposals on how the accounting requirements can be modified to make the Collection Fund Account more useful will be considered by the Systems Design and Accounting and Accountability working groups over the following months.

Question 35.

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?

152. 252 respondents commented on Q35, of which 223 were local authorities. Generally there was a range of views on whether the current balanced budget calculation should be changed to reflect business practices.

153. Those who were inclined to keep the calculation as it is currently (31%), pointed towards the calculation being a key element of the local authority fiscal control framework and therefore adjusting this may in some way disrupt this. Those that felt the presentation of the calculation should be changed (36%), highlighted that in the new 100% system, Council Tax would be only one of a number of 'balancing items' in the budget and therefore the calculation could be adjusted to recognise this in some way.

154. There were some calls to move away from an annual system to a more long term approach, with local authorities being able to balance their budget over a longer period. A number of respondents thought that it would be reasonable to only afford this flexibility if an authority met certain conditions. Others however suggested that there should be no conditions whatsoever.

Government response

155. The Government does not intend to remove the annual balanced budget requirement. Work will continue to identify whether an updated calculation that maintains the financial control elements of the current system can be designed.

Question 36.

Do you have 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?

156. 241 respondents commented on Q36, of which 220 were local authorities. 52% of respondents mentioned adjustments to the timing of data returns. The vast majority of these commented that the timing of the NNDR3 return should be aligned to the statutory accounts and audit timetable. There were more mixed views on the timing of the NNDR1 returns, with some authorities suggesting that

the deadline for submission should be brought forward and others asking for the time allowed for preparation and submission to be extended.

157. A number of respondents commented that more information on the design of the new system would be necessary before any detailed answer could be provided on the content of data collection returns. Where specific suggestions were made, these focused on taking the opportunity to simplify the forms or to request the information in the same format as would be required for Collection Fund Accounting.

Government response

158. The Government is aware of the need to align the timing of data collection activities with the local authority budgeting and accounting cycle and will consider any changes over the coming months. In addition to this we will consider whether changes should be made to the information requested in relation to the final design of the new local government finance system.