Department for
Communities and
Local Government

Self-sufficient local government: 100% Business Rates Retention

Consultation Document

July 2016
Department for Communities and Local Government

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Contents

Scope of the consultation

Topic of this consultation:	This consultation seeks views on the implementation of the Government's commitment to allow local government to retain 100% of the business rates that they raise locally. Specifically this consultation seeks to identify some of the issues that should be kept in mind when designing the reforms.
Scope of this consultation:	This consultation seeks to identify some of the issues that should be kept in mind when designing the 100% business rate retention system and associated reforms.
Geographical scope:	These proposals relate to England only.
Impact Assessment:	An impact assessment will be developed in due course as proposals are finalised.

Basic Information

To:	The consultation will be of interest to local authorities, businesses and the public.
Body/bodies responsible for the consultation:	Department for Communities and Local Government.
Duration:	This consultation will last for 12 weeks from Tuesday 5 July 2016 to Monday 26 September 2016.
Enquiries:	For any enquiries about the consultation please email: BRRconsultation@communities.gsi.gov.uk
How to respond:	By email to: BRRconsultation@communities.gsi.gov.uk Or by post to: Business Rates Retention Consultation Local Government Finance Department for Communities and Local Government 2nd floor, Fry Building 2 Marsham Street London SW1P 4DF Please state whether you are responding as an individual or representing the views of a local council or other organisation. If responding on behalf of an organisation, please include a summary of the people and any other organisations it represents and, where relevant, who else you have consulted in reaching your conclusions.

Ministerial Foreword

The 100% retention of business rates by local government is a reform that councils have long campaigned for – and which central government is now committed to. Implementing this vitally important change will mean that 100% of all taxes raised locally are retained by local government.

The purpose of fiscal devolution is to provide communities with the financial independence, stability and incentives to push for local growth and pioneer new models of public service delivery. We've already taken several important steps in that direction and full business rate retention will maintain that forward momentum. This a huge opportunity for local authorities of all kinds to take control as never before, which is why this is an open consultation – an invitation to councils, businesses and local people to have their say on how the new business rates system should operate.

We have already worked closely with the Local Government Association and others to identify the key issues and options. For instance, in a devolved system, which grants and functions should be transferred to local control? How should the distribution of revenues between local authorities be decided? What are the best mechanisms for managing and sharing risk? And how should the new powers for councils to reduce the tax rate, and for elected mayors to raise extra revenue for infrastructure investments be implemented?

We will not impose a one-size-fits-all solution across the country. In fact, I would encourage you to consider how the system can be tailored to local needs and opportunities – especially in areas where communities are pressing forward with Devolution Deals, combined authorities and elected mayors.

Progress towards 100% retention of business rates is part of wider reform package – such as the option for local authorities to agree multi-year financial settlements and the abolition of the levy on revenue growth in the current business rates system.

I announced in February that we will conduct a review of what the needs assessment formula should be in a world in which all local government spending is funded by local resources not central grant, and use it to determine the transition to 100% business rates retention. We want councils to help shape this work and are today inviting local government and others to have their say on the questions at the heart of the review. Together, these changes are building the fiscal foundation for a new era of devolution. There has never been a better time for communities to shape their own future.

Rt. Hon Greg Clark MP
Secretary of State for Communities and Local Government

1. Introduction and overview

1.1. By the end of this Parliament, local government will retain 100% of taxes raised locally. This will give local councils in England control of around an additional £12.5 billion of revenue from business rates to spend on local services. In order to ensure that the reforms are fiscally neutral, councils will gain new responsibilities, and some Whitehall grants will be phased out.

1.2. This amounts to a fundamental reform to the financing of local government. This move towards self-sufficiency and away from dependence on central government is something that councils have called for over a number of decades. The historic 2016/17 local government finance settlement was a first step along this road. It gave those local authorities who are committed to reform far greater certainty over their future funding.

1.3. The move to 100% business rates retention marks an important milestone in the devolution of power and resources from Whitehall and will help shape the role of local government for decades to come. To achieve such radical reform, the Government wants councils, business and local people to take the initiative and shape the design of the new system. This consultation is therefore deliberately open and seeks views and ideas across all aspects of the reforms.

1.4. This is a major opportunity for all those involved in local government - and those interested in the future of their local areas - to come forward with proposals for how the reforms should work for them and should recognise their circumstances. Ahead of this consultation, the Government has been working closely with the Local Government Association (LGA), as well as other representatives of local government and business sector holding early discussions on the reforms. This consultation has been informed by these discussions, and reflects many of the points and questions raised. We would like now to invite others to join the conversation and help shape the debate.

<u>Designing the system</u>

1.5. This consultation seeks to identify some of the issues that we think should be kept in mind in designing of the reforms. This includes how the reformed system recognises the diversity local areas and the changing pattern of local governance arrangements. The system may not have to work in the same way across the country. For example, as is explored in Chapter 3, there could be more ambitious devolution of responsibilities in areas which have already taken steps to reshape their governance and enter into Devolution Deals.

1.6. It is also important to consider how the design of the new system can provide the right level of incentive and reward to those councils – particularly those working closely with local businesses and together as Combined Authorities – that pursue policies that drive additional growth in their areas. For example, the Government has already announced that the levy on growth within the current 50% rates retention scheme will be abolished in the new system. In addition, councils will have new powers to shape the operation of the business rates tax in their area. These issues are considered in more detail in Chapters 4 and 5.

1.7. This consultation also welcomes views on how business rates income might be shared across different tiers of local government, including how the system should recognise areas which have moved to reformed models of governance. There is a balance to be struck between providing a strong incentive for growth in local areas and considering the distribution of funding between local authorities. For example, there will still need to be some system of redistribution between councils so that areas do not lose out just because they currently collect less in local business rates. This consultation seeks views on how this should work, including the extent to which the design of the system should seek to enable places to retain the rates they collect. These issues are considered in Chapter 4.

1.8. The Government is clear that the reformed system should ensure that authorities are able to manage and share risk to an acceptable level, and that they are insulated from undue shocks or significant reductions in their income. The discussion in Chapter 4 highlights different ways that these issues could be managed, including how councils might be able to work together to do so.

1.9. Finally, as announced in the Budget 2016, the Government is taking the opportunity to pilot the approach to 100% business rates retention in Greater Manchester and Liverpool City Region, and will increase the share of business rates retained in London. The offer to pilot the approach to business rates retention is open to any area that has ratified its devolution deal.

Timetable for reform

Summer 2016	Consultation on the approach to 100% business rates retention. We are inviting responses to this consultation by 26 September 2016. Those responses will help shape specific proposals across all aspects of the reforms.
Autumn 2016	We expect that Government will undertake a more technical consultation on specific workings of the reformed system
Early 2017	As announced in the Queen's Speech, the Government will introduce legislation in this Parliamentary session to provide the framework for these reforms. We expect the legislation to be introduced later in the Parliamentary session.
April 2017	Piloting of the approach to 100% business rates retention to begin.
By end of the Parliament	Implementation of 100% business rates retention across local government.

2. Background and context

Summary

2.1. This chapter provides some information which will help provide background and context to the discussion of the design of the new system:

- It describes the current system of 50% business rates retention.
- It sets out the approach to the reforms to date.
- It provides further information about progress of the Fair Funding Review.
- It discusses how the value of business rates revenue is estimated, including how such estimates may change.
- It provides more information about the arrangements for piloting the approach to 100% business rates retention.

Current system

2.2. The move to 100% business rates retention builds on the current system, in which local government as a whole retains 50% of locally collected business rates. That system was introduced in April 2013. Before then, all business rate income collected by councils formed a single, national pot, which was then distributed by government to councils in the form of formula grant. Through the Local Government Finance Act 2012, and regulations that followed, the Government gave local authorities the power to keep half of business rate income in their area by splitting business rate revenue into the ‘local share’ and the ‘central share’.

2.3. The central share is redistributed to councils in the form of revenue support grant and in other grants. The local share is kept by local government, but is partly redistributed between local authorities through a system of tariffs and top-ups. This redistribution ensures that areas do not lose out just because their local business rates are low compared to their assessed needs.

2.4. Within the current system, councils keep up to 50% of growth in their business rate receipts arising from new or expanding businesses. Local authorities that pay tariffs are also liable to pay a levy of up to half of this type of growth. The money raised from this levy is then used to fund a safety net system. This system protects those councils which see their annual business rate income fall by more than 7.5% below their ‘baseline funding level’.

2.5. The Government thinks that 100% business rates retention will have some strong similarities with the existing system. For example, there will continue to be a level of redistribution between authorities similar to the current system of tariffs and top-ups. In addition, there will continue to be protection in the system to insulate authorities from shocks or significant reductions in their income.

2.6. There will also be some important differences. The Government has already announced that the levy on growth will be scrapped under 100% business rates retention, and that authorities will have additional flexibilities around the operation of the multiplier. In addition, we expect that the design of the new system will take account of the changing shape of local government, including the role of Combined Authorities. These issues are considered in more detail in Chapters 4 and 5.

Devolution and local growth

2.7. The Government is committed to devolving greater powers away from Whitehall to drive local and national growth. This recognises that no two places are the same and that people who live, work and run businesses in an area know best what their area needs to prosper and grow.

2.8. Since 2010 this has seen the agreement of two rounds of City Deals providing cities and regions with new powers in return for strong and accountable leadership. Since 2014 the Government has gone further by agreeing multiple ground-breaking devolution deals with areas all across the country: from Liverpool City Region in the Northern Powerhouse, to Cornwall in the rural South.

2.9. Devolution deals include the devolution of power from central government to local areas in England and provide an opportunity to stimulate economic growth and reform public services. These deals will introduce directly elected mayors and enable areas to deliver real improvements to local people and businesses. They include a wide range of new responsibilities on adult education and transport as well as specific funds for housing investment and direct incentives to enable local areas to realise their growth aspirations through the provision of distinct long term investment funds to Mayoral Combined Authorities.

2.10. The Government has invested significantly in local growth by agreeing a £12 billion Local Growth Fund. This provides the basis for the 39 Local Enterprise Partnerships to invest in local infrastructure, skills, housing, business and innovation. At a specific geographical scale, the Government has worked with local areas to establish 48 Enterprise Zones across the country. These provide distinct advantages to businesses and the retention of business rate growth free from reset in local areas. The Government has also provided substantial help to ensure our high streets and town centres thrive through a £6 billion plus support package of investment. This includes reductions in corporation tax and national insurance contributions and significant reductions in business rates for small businesses as announced at the Budget.

Approach to reform

2.11. In advance of this consultation, the Government has been working closely with the LGA and other representatives of local government to develop the principles that the reform package will be based upon. This has included a joint LGA-DCLG chaired Steering Group and set of Technical Working Groups to look at every aspect of how the new system should work, alongside which responsibilities should be devolved.

2.12. To provide focus, the work has been considered in the following themes:

- the devolution of responsibilities.
- the operation of the system, including how growth is rewarded and risk is shared.
- local tax flexibilities.
- assessment of councils' needs and redistribution of resources.
- accountability and accounting in a reformed system.

2.13. Papers and records of the discussions in these Groups are available on the LGA's website: http://www.local.gov.uk/business-rates.

2.14. We have also been talking to representatives of business, via a Business Interests Group – again jointly chaired with LGA. This has helped ensure that business can contribute to the policy and technical debate from its early stages, ensuring that the views of the business community are taken into account when designing the system.

Fair Funding Review

2.15. As part of the 2016/17 Local Government Finance Settlement, the Government announced a Fair Funding Review of councils' relative needs and resources.

2.16. A needs assessment was last carried out in 2013/14. However, this was largely focussed on updating the data used in the assessment. The needs formulae have not been thoroughly reviewed for over a decade, which many councils feel is far too long. There is good reason to believe that the demographic pressures affecting particular areas, such as the growth in the elderly population, have affected different areas in different ways, as has the cost of providing services. It is therefore only right that the way we assess relative need is reviewed. The Fair Funding Review will also establish what the needs assessment formula should be in a world where all local government spending is financed from locally raised resources.

2.17. The Fair Funding Review will address the following issues;

- what do we mean by relative 'need' and how should we measure it?
- what are the key factors that drive relative need?

- what should the approach be for doing needs assessments for different services?
- at what geographical level should we do a needs assessment?
- how should 'resets' of the needs assessment be done?
- how, and what, local government behaviours should be incentivised through the assessment of councils' relative needs?

2.18. For the services currently supported by the local government finance system, the outcomes of the Fair Funding Review will establish the funding baselines for the introduction of 100% business rates retention. The Fair Funding Review will consider the distribution of funding for new responsibilities on a case by case basis once these responsibilities are confirmed; they are likely to have bespoke distributions. Chapter 3 provides more detail about the issues related to the devolution of new duties. A balance must be struck in the new system between providing a strong incentive for growth in local areas, and considering how funding should be distributed between local authorities. Chapter 4 discusses this question in more detail.

2.19. The Government recognised in 2012 that there may be additional costs associated with service delivery in rural areas, introducing weighted sparsity adjustments to the relative needs formula in setting the baseline for the current system of business rates retention in 2013-14. Additional funding has also been provided since 2013-14 as a separate grant or through a transfer of funding into the settlement, and is now a candidate to be devolved as part of 100% business rate retention (see Chapter 3).

2.20. The Fair Funding Review will consider carefully how the different needs and costs of delivering services in urban and rural areas has changed over time, and how best to recognise these differences in the funding baselines for the introduction of 100% business rates retention. To support this, the Government has ensured rural and urban areas are appropriately represented on both the Steering Group for the 100% Business Rate Retention Programme and on the technical group working on the Fair Funding Review.

2.21. We want to give councils every opportunity to consider the best approach to measuring their needs. The needs assessment does not require legislative changes to implement. This means that we do not have to make decisions now, and allows us to progress this work with local government to a different timetable. For example, we are aiming to consult on the principles for the needs assessment in autumn 2016. We expect to have a final consultation on the formulae in summer 2018 in time for the introduction of 100% business rates retention across local government by the end of the Parliament.

2.22. To help shape the Fair Funding Review, we have been engaging with representatives from across local government through a Technical Working Group. Based on feedback from this Group, we have developed an initial call for evidence on Needs and Redistribution which is published alongside this consultation and can be found at: https://www.gov.uk/government/consultations/self-sufficient-local-government-100-business-rates-retention.

Assessing the value of business rates income

2.23. The Government has announced that the move to 100% business rates retention will be fiscally neutral. To ensure this, the main local government grants will be phased out and additional responsibilities will be devolved to local authorities in order to match the additional funding from business rates. In considering the design of the new system, authorities will inevitably be interested in how the value of additional funding from business rates - known as 'the quantum' - will be estimated and how that will compare to estimates of the cost of additional responsibilities that may be devolved.

2.24. Overall, business rate receipts provide a stable source of tax revenue. Our current estimate – based on forecasts from the Office of Budget Responsibility – is that the value of additional business rates revenue available to local government from locally collected rates in 2019/20 will be around £12.5 billion. However, forecasts of business rates income can change and are subject to some sensitivity, which means that we will need to keep this quantum under review and make final decisions closer to the point of implementation.

2.25. While most business rates are collected locally, rates for properties on the 'central rating list' are collected directly by government. The central ratings list contains the rating assessments of networked properties including major transport, utility and telecommunications undertakings and cross-country pipelines. This income is paid into the Consolidated Fund, with the statutory obligation under the Local Government Finance Act 2012 that an equivalent amount be redistributed to local government through grants. Our current estimate is that the value of central list income in 2019/20 will be £1.5 billion.

2.26. We will continue to work with councils to refine estimates of the value of business rates income and are clear that the process for designing the new, reformed system has sufficient flexibility within it to allow for this. The timetable for implementing the reforms means that we are unlikely to need to reach final views on the quantum until 2018.

2.27. Importantly, as we move towards self-sufficiency for local government, we are clear that under 100% business rates retention all authorities will be funded for their existing responsibilities and for any new responsibilities devolved. Changes or refinements to the quantum will not undermine that.

Piloting the approach to 100% business rates retention

2.28. As announced in the Budget 2016, the Government is taking the opportunity to pilot the approach to 100% business rates retention in Greater Manchester and Liverpool City Region, and will increase the share of business rates retained in London.

2.29. The pilots will provide an opportunity both to test elements of 100% rates retention before it is rolled out more widely, and to see how the system can take account of the circumstances of different areas. They will enable us to learn from different approaches and to improve the design of the final scheme.

2.30. Discussions are underway with relevant authorities to determine what will be included in the pilots for 2017 and beyond. We expect that the pilots might look different in different places and in particular might help develop mechanisms that will be needed to manage risk and reward in a new system.

2.31. The offer to pilot the approach to business rates retention is open to any area that has ratified its devolution deal. Other groups of authorities, including those in Sheffield, have already come forward to explore what pilots could look like in their areas.

2.32. Piloting will allow places to benefit early from growth in their local tax base, and to see in full the impacts of local decisions that drive local business rates growth in their budgets from 2017 – up to three years ahead of schedule. Importantly, the pilots will not reduce the quantum of resource available for other parts of local government. They also do not impact on the assessment of relative needs which will be considered by the Fair Funding Review.

Business rates as a tax

2.33. This consultation considers the use of business rates income; it does not seek to cover issues related to the operation of business rates as a tax, outside of the additional flexibilities discussed in Chapter 5.

2.34. In Budget 2016, following the conclusion of the business rates review, the Government announced a range of measures to reduce the burden of business rates on ratepayers, and to modernise the system. These included;

- permanently doubling Small Business Rate Relief (SBRR) from 50% to 100% and increasing the thresholds to benefit a greater number of businesses
- increasing the threshold for the standard business rates multiplier to a rateable value of £51,000, taking 250,000 smaller properties out of the higher rate
- announcing that as of April 2020, taxes for all businesses paying rates will be cut through a switch in the annual indexation of business rates from RPI, to be consistent with the main measure of inflation, currently CPI.

2.35. In addition, the Government announced that it will modernise the administration of business rates, aiming to revalue properties more frequently and make it easier for businesses to pay the taxes that are due.

Appeals Reform

2.36. The Government is committed to delivering an efficient, modern and improved business rates appeals system. There is widespread agreement that the current system is in need of reform. Too many rating appeals are made with little supporting evidence and are held up for too long, creating costs and uncertainties for businesses and local authorities.

2.37. In October 2015 the Government published a consultation paper which set out proposals for a three-stage approach to resolving appeals: ‘Check, Challenge, Appeal’, and sought views from businesses, local authorities and other interested parties. The reforms will introduce a more structured, rigorous and transparent system which will be easier for ratepayers to navigate. It will ensure that businesses can be confident that their valuations are correct and that they are paying the right amount of business rates with quicker refunds where appropriate. The Government is grateful for the views shared during the consultation process and has carefully considered all views. The summary of responses and the Government statement, which will set out the decisions the Government has taken in response to the consultation document, will be published shortly.

3. Devolution of responsibilities

Summary

3.1. This chapter considers the issues related to the devolution of responsibilities to local government:

- It describes our approach and how we have identified the range of responsibilities that could be funded from retained business rates.
- It sets out the criteria and how we have assessed the proposed options.
- It sets out the indicative lists of responsibilities that could be funded through retained business rates.
- It discusses the interaction with devolution deals and pilot areas.
- It also considers the treatment of new burdens in the new system.

Overview

3.2. Chapter 3 sets out the rationale and benefits for devolving responsibilities to local government. Alongside those direct benefits, the devolution of funding for new responsibilities will help set the shape and form of local government for the future. We want to make sure that these reforms help ensure that councils have the responsibilities they need to enhance their role as local leaders. We also want to make sure that the new system recognises the changing landscape across local government.

3.3. To ensure that the proposal for 100% business rates retention is fiscally neutral, local government will need to take on new responsibilities to match this increased income, and existing central government grants will need to be phased out. If the value of new responsibilities exceeds the increased retained rates receipts, Government would continue to make grant payments to fund the difference, although our expectation would be any grant payments would not replicate the current Revenue Support Grant.

3.4. We therefore want to hear from local authorities and others about what they think should be devolved as part of the reforms, and how this might work differently in areas with Combined Authorities and devolution deals. In line with this, this consultation takes an open approach – identifying a list of possible candidates for devolution.

3.5. Following responses to the consultation, the Government will make decisions on the responsibilities that will be funded from retained business rates. Where primary legislation is required to devolve the responsibilities, we expect to legislate as soon as Parliamentary time allows.

Our approach

3.6. In reaching a view on a list of options for consultation, we have endeavoured to ensure that we produce a package of responsibilities for potential devolution that fits well with the local government system in England.

3.7. To inform the consultation the LGA and the DCLG have been working with representatives of local government. That work has informed the following criteria for possible candidates for devolution. It has not been assumed that each candidate or responsibility proposed for devolution must meet all of those criteria. Rather, they have been used by the Government as guiding principles to shape discussions on the range of responsibilities to be included in this consultation:

1) Devolution of a responsibility should build on the strengths of local government

a) It will provide opportunities for greater integration across local services, taking advantage of council expertise to provide user-centric, outcomes focussed approaches.

b) Devolution would remove barriers to other innovative service delivery models, for example the commissioning of new multi-agency services that offer better value for the tax payer.

c) There should be appetite from local government for the responsibility to be delivered at a local level.

d) There should be capacity at a local level to deliver services, taking into account other local pressures.

2) Devolution of a responsibility should support the drive for economic growth

a) The responsibility will support local authorities' role in driving local growth, for example through a clear link to local employment, skills or infrastructure policy, and build on the ambition councils have demonstrated through Local Enterprise Partnerships and City Deals.

3) Devolution of a responsibility should support improved outcomes for service users or local people

a) Local authorities should have as much flexibility as possible to tailor local services, for example allowing user-centric, outcomes focused delivery.

b) Service provision can reflect the distribution of need across the country. Consideration should be given to the effect of devolution on groups with protected characteristics under the Equality Act 2010

4) **Devolution of responsibilities should be made with consideration for the medium-term financial impact on local government.**

   a) The national cost and demand for any new responsibility should be relatively predictable and stable over time, relative to the business rates funding stream.

   b) The relative demand for funding between local authorities should be relatively stable over time.

   c) The timeline for devolution will allow sufficient time for preparations at a local level.

   d) The responsibility is a sensible fit with a business rates funding stream, i.e. from a forward planning, governance and technical perspective.

3.8. We recognise that authorities will want to give particular consideration to the final criterion - the medium-term financial impact on local government of each candidate for devolution. Detailed consideration will need to be given to the demand profile for services beyond 2019/20 before final decisions can be made and spending pressures will continue to be assessed as part of future spending reviews.

3.9. To assist in supporting local government medium term financial sustainability, it is important that local authorities should have as much flexibility as possible to tailor local services. At the same time, the Government may want to ensure that certain outcomes are delivered with the funding devolved – for example through new statutory duties. These will be considered through later consultation.

3.10. This consultation makes no comment on the future distribution of the grants considered in this chapter. The allocation of any new grants rolled in will be considered on a case by case basis and are likely to have bespoke distributions. Further consideration will also be needed on the appropriate funding distribution for responsibilities devolved under retained business rates.

<u>The range of responsibilities</u>

3.11. This list of responsibilities or policies contains grants that have been identified as a possible fit against the criteria for being funded though retained business rates.

3.12. This list is not exhaustive and each option will not necessarily feature in the final package. The aim of the list is to enable a debate on the responsibilities to be devolved and funded from retained business rates. It remains open for respondents to come forward with their ideas for devolution of other responsibilities and budgets.

3.13. This could involve devolving functions and responsibilities to be delivered differently than now. However, to be fiscally neutral, central government functions and associated budgets would need to cease and respondents are therefore invited to be clear where they would expect the funding to come from.

Revenue Support Grant	Revenue Support Grant is a central government grant given to local authorities which can be used to finance revenue expenditure on any service and is established through the local government finance settlement.
Rural Services Delivery Grant	This grant is distributed through the local government finance settlement to the top-quartile of authorities ranked by super-sparsity, based on the distributional methodology for the Rural Services Delivery Grant in 2015-16.
Greater London Authority Transport Grant	This grant is used for capital improvements to relieve congestion, improve reliability on key routes and provide a good fit with UK transport policies. The Chancellor announced in the Spending Review that the Greater London Authority Transport Grant would be devolved to be funded from retained business rates.
Public Health Grant	Public Health Grant provides funding for the discharge of public health functions defined in section 73(B)(2) of the National Health Service Act 2006. The ring-fence on the public health grant will be maintained in 2016-17 and 2017-18. Further consideration will be needed on how best to promote stability and improvements in public health from the proposed new funding arrangements.
Improved Better Care Fund	The funding for the Improved Better Care Fund goes directly to local government to ensure that health and social care services work together to support older and vulnerable people. It is our intention that any change to current funding arrangements ensures that the Improved Better Care Fund is used by local government to fund adult social care services.
Independent Living Fund	The grant for former recipients of the Independent Living Fund (ILF) compensates for the cost pressures caused by the closure of the ILF. This followed the introduction of the Care Act 2014 which ensures that the key features of ILF support, namely personalisation, choice and control, are now part of mainstream adult social care system.
Early Years	The grant is provided to English local authorities to fulfil their duties under sections 6, 7, 7A, 9A, 12 and 13 of the Childcare Act 2006 and under regulations that will be made pursuant to section 2(1) of the Childcare Act 2016.

	It is currently part of the Dedicated Schools Grant. Consideration of this grant for devolution would take place after successful delivery and establishment of the Manifesto commitment to 30 hours free childcare from September 2017.
Youth Justice	The funding provided by the Ministry of Justice to the Youth Justice Board is distributed as a grant to local authorities for the operation of the youth justice system and the provision of non-custodial youth justice services. The Ministry of Justice funding does not include funding from police, probation and health authorities who contribute at a local level to the costs incurred by local authorities in the provision of youth justice services.
Local Council Tax Support Administration Subsidy and Housing Benefit Pensioner Administration Subsidy	Local Council Tax Support Administration Subsidy provides funding towards the administration of local council tax support claims where there is not also a housing benefit application. Housing Benefit Administration Subsidy contributes towards the cost of administering housing benefit on behalf of the DWP. A portion of this subsidy contributes to the administration costs of joint housing benefit and local council tax support claims. Housing Benefit will cease to be paid to working age customers, as Universal Credit, which includes housing costs is rolled out. Housing Benefit for pensioners will remain with Local Authorities for now, and the Government will consult ahead of any proposed changes to that position. Nonetheless, at that point increased support for the higher level of non-joint local council tax support claims will continue to be required and so Local Council Tax Support grant, including the element of Housing Benefit administrative grant for what are currently joint claims, could be considered for devolution.
Attendance Allowance	As announced in December, the Government will also consider giving more responsibility to councils in England to support older people with care needs – including people who, under the current system, would be supported through Attendance Allowance. This will protect existing claimants, so there will be no cash losers, and new responsibilities will be matched by the transfer of equivalent spending power.

Question 1: Which of these identified grants / responsibilities do you think are the best candidates to be funded from retained business rates?

Question 2: Are there other grants / responsibilities that you consider should be devolved instead of or alongside those identified above?

Devolution Deals

3.14. The Government has agreed multiple devolution deals with areas across the country. These deals include the devolution of power from central government to local areas in England and provide an opportunity to stimulate economic growth and reform public services.

3.15. These deals include the devolution of a range of functions and associated budgets, many of which are pooled at Combined Authority level within single investment funds.

Grant funding for devolution deals

Investment funds for devolution deals	All mayoral devolution deal areas have an agreed Investment Fund, which is a grant-based fund specific to each deal, which is paid in annual instalments for 30 years. However, only the first five years' funding is confirmed with the remainder subject to five-year reviews.
Adult Education Budgets	At present, nine devolution deal areas have agreed the devolution of the Adult Education Budget from 2018/19. The devolution of this budget is subject to the satisfaction of a number of 'readiness' conditions set out in the deals. The Adult Education Budget provides grant funding for learning up to Level 2 (up to Level 3 for young people aged 19-23 who do not yet have the equivalent of 2 A-levels).
Transport Capital Grants	All devolution deal areas receive consolidated funding for Transport which is made up of a number of grant streams, for example highways maintenance funding and, in some areas where bus franchising is implemented, the associated commercial bus service operators grant.
Local Growth Fund	All devolution deal areas have the flexibility to incorporate the Local Growth Fund awarded to Local Enterprise Partnerships in their area into their Combined Authority single investment funds. The Local Growth Fund is awarded competitively to Local Enterprise Partnerships to spend on investment designed to drive and unlock economic growth in their local areas in line with local priorities.

3.16. There are a number of connections between devolution deals and the proposal for 100% retained business rates. The Government considers that the move to self-sufficiency under business rates retention could take account of the different governance arrangements across local government. The new pattern of Combined Authorities, Mayors, as well as the Greater London Authority provides an opportunity for specific devolution that may not be appropriate in other areas.

3.17. There is therefore an opportunity to consider funding some or all of the commitments in existing and future deals through retained business rates, i.e. transferring them from grant commitments to being paid for through retained rates. This would give these areas, Combined Authorities, Mayors and the Greater London Authority, the advantage of fiscal autonomy for these functions.

3.18. Doing so would establish different funding arrangements for Mayoral Combined Authorities and the Greater London Authority than in non-devolution areas, reflecting their different governance arrangements, alongside universal devolution to every local authority.

3.19. Funding devolution deals in this way would allow them to continue to be agreed on a bespoke basis. Future deals may contain different functions than those in the list above and we make no assumption that limits the scope of future deals or therefore what, in future deals, could be funded from retained business rates.

3.20. An important consideration for the funding of devolution deals through retained business rates will be the impact that increased funding to devolution deal areas would have upon the system design for 100% retained business rates, in particular, on the Government's interest in implementing a system that minimises the redistribution of business rates, as described in Chapter 4.

3.21. Finally, some commitments may be more suitable than others to fund through business rates. For example, the Investment Fund is subject to 5-year review points and the Local Growth Fund is subject to a competitive bidding process. Devolving these funds into retained business rates would effectively permanently embed that level of funding to those authorities in the retained business rates system.

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?

Devolution in pilot areas

3.22. As announced in the Budget[1], the Government is taking the opportunity to pilot the approach to 100% business rates retention in Greater Manchester and Liverpool City Region and will increase the share of business rates retained in London.

3.23. Discussions are underway with Manchester, Liverpool and London to determine what will be included in the pilots for 2017 and beyond. Pilots might look different in different places and they provide an opportunity both to test elements of 100% rates retention before it is rolled out more widely and to reflect the different needs of different areas. This will include discussions on how the transfer of certain functions can complement the devolution arrangements in place and contribute to growing the economic base of the different places. This is seen by the areas as an opportunity to drive growth both through investment and the transfer of functions.

3.24. We are in discussion with pilot areas on approaches to data collection to allow monitoring, and how this data will inform the long term 100% business rates retention system.

Assessing New Burdens costs post-2020

3.25. Successive Governments have sought to keep the pressure on local taxpayers to a minimum through a 'new burdens doctrine[2]'. This requires all Government departments to justify why new duties, powers, targets, responsibilities and other bureaucratic burdens are being placed on local authorities, how much these will cost and that they will allocate commensurate resources to pay for them.

3.26. In the current system, new burdens funding is either paid by incorporating funding into the Local Government Finance Settlement or by payment of section 31 grants. Our starting point is that the New Burdens doctrine should continue to apply after the introduction of the 100% retained business rates system, with funding to be paid through section 31 grants.

Question 5: Do you agree that we should continue with the new burdens doctrine post- 2020?

[1] 'Budget 2016'
[2] https://www.gov.uk/government/publications/new-burdens-doctrine-guidance-for-government-departments

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

Summary

4.1. This chapter considers the operation of the new system:

- It considers how the system should treat growth, including how and how often the system should be reset.

- It seeks views on the system of redistribution, including the treatment of Combined Authority and Mayoral areas.

- It discusses how risk within the system is managed, including whether there is opportunity to share risk at different levels.

- It seeks views on the operation of the safety net within the reformed system.

Overview

4.2. The Government has been working closely with local government on the design of the 100% rates retention system. The System Design Technical Working Group – made up of representatives from across local government – has played a key role in helping to develop the design options set out here.

4.3. The Government wants to ensure that the reformed system provides stronger incentives to boost growth and rewards those authorities and areas that take bold decisions to further increase growth. This is why, in the reformed system, the levy on income from business rates growth will be abolished.

4.4. We also need to decide how business rates income is shared across different tiers of local government, recognising the new models and arrangements that exist and how the system rewards areas which have moved to reformed models of governance through devolution deals.

4.5. To ensure that authorities can make longer term plans, including plans that will support investment in growth, we need to look at how risk is shared across the system. In doing so, the system also needs to ensure that authorities are adequately protected from business rates volatility and shocks in business rates income.

4.6. Alongside all of these considerations, we should aim to make the system simple to operate and understand. A system that is too complicated may struggle to work in practice.

Growth and redistribution

4.7. We want to make sure that local authorities have the right incentives to grow their income from business rates and that they can keep all the growth they generate. For this reason, the Government announced that the levy on growth that exists under the 50% scheme will be scrapped, to allow local authorities to keep 100% of growth.

4.8. We understand that there is a balance to be struck in the new system between providing a strong incentive for growth in local areas, and considering the distribution of funding between local authorities. We expect to find this balance is by ‘resetting’ the system on a fixed basis, to allow us to reconsider relative need and to recalculate the redistributable amounts (through a system similar to the current top-ups and tariffs arrangement).

4.9. The alternative to having fixed reset periods would be for Government to choose when to reset the system, possibly based on indicators such as the number of authorities requiring safety net payments. Our view is that this would be too uncertain for local authorities, who would not have the clarity of timings to utilise growth in the system on long term projects.

4.10. On the one hand, depending on the services devolved to local government as part of the new system, adjustments to redistributable amounts may need to be made frequently to reflect changes in relative needs. There is a risk that redistributing too infrequently could result in authorities not being able to deliver services where relative need grows faster than local tax resource. On the other hand, changes made too frequently weaken the incentive for growth, and may reduce the confidence of local authorities to build achieved growth into their base budgets, or use that growth for long-term investment. This is exacerbated if the growth that local authorities do achieve is included in the quantum of funding that is to be redistributed when the system is reset.

4.11. At the same time, as well as any growth, the system of resets must be able to take account of local authorities whose business rates income declines within a reset period. As local authorities under the new system will be heavily dependent on business rates income for delivery of core services, we think it is right to set fixed reset periods to give authorities certainty of income. But there is a wide spectrum of options for how frequently resets are carried out:

a) Full reset of the system, including all achieved growth, frequently (e.g. every 5 years).	This would ensure that business rates income was frequently redistributed to meet changes in relative need, and that local authorities would retain a ‘growth incentive’ for the five years between resets.
b) Reset the system, including all achieved growth, infrequently (e.g. every 20 years), or never.	This would set a single baseline for local authorities based on their relative need at a fixed point in time. Any growth local authorities saw after this baseline was

	set could then be incorporated into budgets. However, any reduction in income would also need to be managed by a local authority, which could see reduced income affecting the delivery of local services. This approach could mean that some local authorities are heavily dependent on the safety net (see below) for an extended period.
c) A partial reset of the system on a frequent basis.	We could operate a partial reset of the system every 5 years. Under a partial reset we would still adjust for changes in relative need and business rates income but to a lesser extent that under a full reset. This option could give authorities a greater incentive for growth than (a) but give greater protection for services than (b). This option would allow local government to carry some growth over the reset, but might also require them to retain some losses.

4.12. Under a partial reset a proportion of growth could be included as part of a regular reset, and a proportion would remain with the local authority on a longer term basis. As such it may be possible, under a partial reset, to allow authorities which have seen growth to retain some of that growth with the remaining part being available to support those authorities that have seen their income decline (or their needs increase). Any growth (or decline) at the partial reset could be shared based on overall baseline funding levels or by more precisely reflecting different types of services provided by the authorities. But how much growth is retained (and how much loss is carried) by individual authorities at a partial reset is a key question.

4.13. Therefore, in considering options for a partial reset, local government need to consider the degree of trade-off between allowing authorities to retain growth and supporting authorities which have seen decline (and/or seen needs increase).

4.14. Mechanisms for incentivising growth are being tested by the pilot areas. This may include abolishing the levy on growth in pilot areas before the new system is introduced across local government. This will help demonstrate the impact that this change will have.

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?

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?

Redistribution between local authorities

4.15. The Government is clear that there will still need to be some system of redistribution between local authorities to balance revenue with relative needs. The Fair Funding Review will identify relative need for each local authority and we will need to find a way to redistribute business rates income according to that.

4.16. Under the 50% scheme, we have used a system of top-ups and tariffs to redistribute funding from those local authorities that collect more in business rates than their identified need, to those who do not collect enough for their needs.

4.17. We expect to continue to need a redistribution system of top-ups and tariffs, based on the current one. The top-ups and tariffs that each local authority could expect to see will be calculated before the new system is introduced, based on the Fair Funding Review and an assessment on their expected business rates income. More generally the Government is interested in exploring how we could set up a system that minimises the redistribution of rates, while ensuring that areas are not put at a significant disadvantage through collecting less business rates income.

4.18. Top-up and tariff payments will be fixed for the period between resets to give local authorities certainty about their baseline funding level. Having these baseline levels fixed provides a growth incentive for authorities, who will be able to retain growth gains within that reset period.

Question 9: Is the current system of tariffs and top-ups the right one for redistribution between local authorities?

Impact of revaluations

4.19. General revaluations of all properties are currently scheduled to take place every 5 years (although the Government aims to reduce this period). The next revaluation takes effect from 1 April 2017. The revaluation is the point in the system at which economic changes in property values are reflected in rateable values. Between revaluations, rateable values only change through appeals and physical changes to the property or location.

4.20. However, the Government is required at the revaluation to reset the multiplier to ensure no more is raised in business rates. So if rateable values increase overall at the revaluation the multiplier will fall (and vice-versa). As a result, at the national level, any increase in the economic value of the tax base does not lead to any additional business rates income.

4.21. Within this national picture, individual local authorities will see their rates income rise or fall at revaluation. This will depend upon whether the economic growth (or decline) in the individual local authority area is above or below the national average. This means that many authorities are likely to see their rates income fall at revaluation despite having seen increases in their rateable values. For the current rates retention system, the Government concluded it would be unfair to allow this to feed through into retained incomes. To do so would penalise many authorities who had generated physical growth in their area between the revaluations but, had lagged behind on relative economic growth. Therefore, the Government currently adjusts each authority's tariff, or top-up, following a revaluation, to ensure that their retained income is the same after revaluation as immediately before.

4.22. We propose the same system of revenue neutral revaluations with economic growth cancelled out through a change to the multiplier will continue to apply for the 100% business rates retention scheme. Therefore, it may again be necessary to adjust retained incomes for individual local authorities to cancel out the effect of future revaluations.

Question 10: Should we continue to adjust retained incomes for individual local authorities to cancel out the effect of future revaluations?

4.23. We believe that Combined Authorities with a directly elected Mayor should have the opportunity for an enhanced role in achieving growth under the 100% rates retention system.

4.24. Directly elected Mayors have democratic accountability to their area, and we know that some have expressed a wish to be given greater responsibility for the distribution of resources within the Combined Authority area.

4.25. In some places, we know that there have been discussions about whether a Mayoral area (which covers multiple local authority areas) could be given a greater role in deciding how 'growth' is redistributed across the area. Other places have discussed whether the Mayor and local authorities could be given a single area-wide 'baseline' of relative need, and therefore a single tariff or top-up; and could develop appropriate governance arrangements for deciding how resources are distributed; or even whether they could assume greater responsibility for determining the relative needs baseline itself.

4.26. These, or similar ideas, could increase the autonomy of Mayoral areas and might help stimulate coherent decision making across local authority boundaries, with growth gains being owned and used at a strategic level.

Question 11: Should Mayoral Combined Authority areas have the opportunity to be given additional powers and incentives, as set out above?

4.27. In non-Mayoral areas, we would have to continue to set 'tier splits' – i.e. the percentage of business rates income that each tier of authority would get. There are a wide range of options for how these tier splits could be set.

4.28. Setting tier splits for the future 100% rates retention system will take some further consideration, and will need to take into account the services that are expected to be delivered at each tier of government. Further work on tier splits will need to consider the impact of different options on a local authority's exposure to risk and incentive to grow their business rates base.

4.29. At this point, the Government would welcome views from respondents on their experience of tier splits under the current 50% rates retention system, including any points for consideration in developing the system for the future.

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?

4.30. Through the Policing and Crime Bill, the Government is legislating to enable Police and Crime Commissioners (PCCs) to take on responsibility for fire where a local case is made. Whilst fire and rescue authorities are currently part of the business rates retention scheme, police funding is provided separately through the Police Funding Formula. In considering the future approach to business rates retention, it is therefore sensible to look at whether fire funding should remain part of the scheme and the local government finance system in future.

4.31. We could go further by removing fire from the business rates retention scheme, with fire funding provided through a separate grant administered by the Home Office.

4.32. In common with other local authorities, fire and rescue authorities have been offered firm four year funding allocations to 2019/20 in return for robust and transparent efficiency plans. If fire funding were to be removed from the business rates retention scheme, we would seek to replicate published allocations for 2019/20 through a separate fire grant for any authorities who take up that offer. The approach to allocating fire funding in future would be subject to consultation.

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?

<u>Enterprise Zones</u>

4.33. Under 100% rates retention, the Government intends that Enterprise Zones and other designated areas will continue to operate as now and, therefore, will be guaranteed 100% of business rates growth for 25 years.

4.34. This means that for the purposes of the scheme, the Government intends that any income above current baselines in Enterprise Zones and designated areas will be disregarded for the purposes of calculating “cost neutrality” when devolving new responsibilities to local government and for the purposes of working out tariffs and top-ups.

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?

Sharing risk

4.35. The current system can lead to volatility in income for local authorities, and we recognise that some authorities believe that their exposure to risk may be greater under 100% business rates retention.

4.36. Our aim is to balance risk sustainably within the system. We believe the system should support and reward authorities who make bolder choices, including working with others to look more creatively at how to promote and shape growth across their areas. At the same time as rewarding local authorities for their growth gains, the system might allow for local government to hold an appropriate risk at an area level, while systemic risk could be borne across all local authorities.

4.37. We would welcome your views on how risk is best managed within the new system.

4.38. Income from business rates is at risk for broadly two reasons:

- changes to rateable values of hereditaments following successful appeals by ratepayers, and
- physical changes to property, including building closures as a result of business failure.

4.39. Under the current 50% rates retention scheme, these risks are managed in two ways:

- local authorities have to make financial provision against known liabilities – broadly, the potential impact of ‘appeal losses’, and
- additionally, the system provides a safety net against ‘physical losses’, as well as against loss on appeals in excess of provisions. The safety net is currently set to operate where authorities incur more than 7.5% loss as measured against baseline funding level.

4.40. Experience of the 50% rates retention system shows that the risk profile of authorities varies enormously and that some local ratings lists are inherently more risky than others – either because a list is dominated by a single rateable property, or because certain types of property are inherently more difficult to value and therefore more liable to be reduced significantly on appeal.

4.41. Under 100% business rates retention, we could revisit how best to manage risk at different geographic levels using ratings lists, how we manage risk arising from successful business rate appeals, and the operation of a future safety net mechanism.

<u>Ratings lists</u>

4.42. The set-up of the 100% rates retention system provides an opportunity to look again at the rating list system.

4.43. Currently, business ratepayers appear on either a central rating list (administered by DCLG) or one of 320 local rating lists (administered by lower tier and unitary authorities). Only business rates income from local lists is taken into account in determining: top-ups and tariffs; the business rates income receivable by different tiers of authority; and eligibility for the safety net. Under the current system, local authorities therefore only benefit from any growth in income from ratepayers on local lists.

4.44. Some local authorities tell us that the highest risk hereditaments should be removed from local lists. These might include power stations, oil refineries and national airports, which could be moved onto a refreshed national level list (i.e. the current central list).

4.45. Alternatively, some authorities have told us that they would welcome the opportunity to manage some of the riskier properties at a broader 'area level' – sharing the risk that these properties bring, but also receiving an element of reward from any growth. The Government would expect any changes to ratings lists to remain fiscally neutral. Some authorities have suggested a system along the following lines:

Central list	The central list includes national network properties. The list would continue to be administered centrally.
Local list	Local lists would broadly comprise the same rateable properties as now, but we might remove 'riskier' classes of property and perhaps classes that were more in the nature of 'national infrastructure'. Local list income would continue to be collected and retained at the local authority level.
Area list	We could create new area lists for Combined Authorities which, could take risky or significant property from local lists, Area list income could be made available to the Combined Authority.

4.46. The Government might explore some of these options with the pilot areas, to test what changes to local lists would mean in practice.

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?

Helping to manage 'appeal risk'

4.47. Under the current 50% rates retention system, local authorities have had to deal with the impact of business rate appeals at a local level. Many local authorities tell us that the large volume of appeals, the time it takes to deal with them and the difficulties in predicting appeal outcomes has made it difficult for them to forecast their business rates income in any year.

4.48. This also makes it difficult for local authorities to forecast the appeal adjustment that they should make. As a result, local authorities are setting aside more for appeal 'provisions' than had been expected at the start of the 50% rates retention system. As a consequence, in each year since 2013-14, authorities have been budgeting to spend less than they might otherwise have spent as a result of provisions associated with appeals uncertainty. Under the 100% rates retention system, we are interested in exploring how we can help local authorities manage this risk.

4.49. As well as the options discussed in the previous section, we think that there are a number of ways to manage the remaining risk. One option would be for local authorities to continue managing the risk of successful business rate appeals as they do now, with increased support to improve local ability to set aside the right amount in provisions. This would be supported, as now, by a safety net to ensure no local authority is at risk of losing too much of their income (see below for further questions on the future safety net).

4.50. Alternatively, we could explore a system whereby local authorities pool their risk at a wider level, with other local authorities in the area, i.e. through a Combined Authority. Local authorities could be better off by pooling their risk, setting aside appropriate provisions at a wider geographical level to cover all authorities within the pool. This could be combined with 'area lists' for businesses as set out above, allowing a wider geographical area to share both risk and reward.

4.51. Alongside this, we continue to explore how some of the risk associated with successful appeals could be managed at a national level – i.e. funded by all authorities instead of being borne entirely by individual local authorities. Such an approach would necessitate identifying which losses were to be met by the system as a whole and how. Because of data limitations, and the timing of compensation and accounting rules, no approach is likely to be perfect, nor would it remove the need for authorities to make provision for losses.

4.52. Testing mechanisms to manage appeals could be a feature of the pilot areas. This may involve trialling options on a 'shadow' basis, and learning lessons to apply to the future system.

4.53. Any option to manage risk associated with successful appeals will need to be funded from within the overall business rates system, in line with the aim of increased local responsibility.

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 as set out in the options above?

Question 18: What would help your local authority better manage risks associated with successful business rates appeals?

Insulating against shocks

4.54. Under the current 50% rates retention system, a safety net exists to support those local authorities who see a reduction in income greater than 7.5% of their business rates baseline income. The safety net provides funding to those authorities to bring them back up to 92.5% of their 'business rates baseline' (the level of funding set in 2013 to meet their relative need), and is funded by the current levy on growth.

4.55. We are clear that the new system will continue to need to help insulate authorities from shocks. As with other areas of managing risk, we would be interested in views on the right geographical level for managing risk and providing protection.

4.56. For local authorities pooling risk via an area-level ratings list, and pooled provisions for appeals, their collective ratings income could provide an area-level safety net. Combined, this would work to make the geographical area more self-sufficient, working together to manage risk and reward over a wider area. Authorities within that area could decide what proportion of business rates baseline an area-level system would protect.

4.57. Others may prefer the idea of something much closer to our current national level safety net, to provide protection of baseline funding at a defined level. This would need to be funded from within the 100% rates retention system. This would require local government collectively to pay for a safety net fund from their retained rates income.

Question 19: Would pooling risk, including a pool-area safety net, be attractive to local authorities?

Question 20: What level of income protection should a system aim to provide? Should this be nationally set, or defined at area levels?

5. Local tax flexibilities

Summary

5.1. This chapter covers the design and operation of the new tax flexibilities that authorities will have under the new system:

- It considers the range of options for the design of the new power to reduce the business rates tax rate, including how decisions are made and at what level.

- It also seeks views on the design of the new ability for Combined Authority Mayors to raise an infrastructure levy.

Overview

5.2. A key part of the reforms to make local authorities more self-sufficient and better able to drive local growth is the devolving of tax-setting powers. Under the new system, authorities will be able to tailor their own business rates regime to fit the local economic environment. The new powers that the Government is providing are:

- the ability to reduce the business rates tax rate (the multiplier), and

- the ability for Combined Authority Mayors 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.

5.3. We would welcome views on a number of key policy design decisions on both measures which will help ensure that the policies operate efficiently and have maximum impact.

5.4. Our work with local government and business sectors thus far has also produced a number of suggestions for how the announced policy could be amended or developed further. These are also reflected below for comments.

Ability to reduce the business rates multiplier

5.5. Since the introduction of the existing business rates system in 1990, a uniform business rates tax rate – known as the multiplier – has applied across the country. Each business rates bill is calculated by multiplying the property's rateable value by the multiplier. Increases in the multiplier are capped by inflation. The Government has announced that authorities will have a new power to reduce the multiplier. We welcome views on all aspects of the design and operation of this new power.

Decision making and costs of reducing the multiplier

5.6. In single tier areas, it is clear that the relevant authority would take the decision about whether to exercise the power. It is also clear that the relevant authority would meet the costs of doing so. As such, other components of the system for that local authority such as tariffs, top-ups and revaluation would continue to be based on the national multiplier.

5.7. However, there are options around how the power should operate in two tier or in Combined Authority areas alongside the infrastructure levy. For example, which tier should have the power to reduce the multiplier and should that tier bear all the costs of doing so, or should the costs be automatically shared (probably in line with tier splits)? An option may be to give the power to both tiers and whichever tier uses the powers meets the costs. The authorities in question could also agree to share the costs.

5.8. We would be grateful for views on how the power should operate in two tier or Combined Authority areas. In addition, we would be grateful for views on how the power should operate in London, and in areas with fire authorities.

Question 21: What are your views on which authority should be able to reduce the multiplier and how the costs should be met?

Scope of the power to reduce the multiplier

5.9. We expect that this power will provide authorities with the ability to make structural changes to their tax regimes – i.e. to provide an across the board reduction in the multiplier.

5.10. Local authorities already have the power to provide targeted local discounts at their discretion. The key difference between local discount powers and the new power is that the new power could be used to make structural changes to the multiplier. Also, local discounts under existing powers are applied to bills after transitional and mandatory reliefs.

5.11. We think that authorities should continue to use their existing local discount powers for targeted relief and that the new power should be used as a structural power across their areas.

Question 22: What are your views on how decisions are taken to reduce the multiplier and the local discount powers?

Increasing the multiplier after a period of reduction

5.12. We need to consider how the multiplier could be increased after a period of reduction to catch-up with the 'normal' inflation-linked multiplier ("the national multiplier"). For example, an authority could be allowed to increase a previously reduced multiplier back up to the national multiplier in one step. Alternatively, the system could allow for a maximum permitted increase in any year (an adjustment would need to be made in revaluation years to take account of the change in the multiplier).

5.13. Capping the rate of increase after a reduction will limit an authority's ability to balance their finances in future years which could influence an authority's decision to reduce the multiplier in the first place.

Question 23: What are your views on increasing the multiplier after a reduction?

Further suggestions on reducing the multiplier

5.14. As mentioned above, a number of suggestions have also been made for how the announced policy could be amended or developed further.

- Role of Mayoral Combined Authorities – The appropriate scale for reducing the multiplier could be determined by Mayoral Combined Authorities, alongside decisions on an infrastructure levy.

- Providing safeguards for neighbouring authorities - The purpose of providing authorities with the power to reduce the multiplier is to provide opportunities to tailor tax regimes to the local trading environment. An authority or group of authorities may therefore decide to reduce the multiplier in order to encourage business in to the area. Some have asked whether arrangements should be put in place to limit the impact of such decisions on neighbouring areas. As all authorities would have similar powers to reduce their multiplier, the Government does not envisage introducing safeguards to mitigate against any potential impacts.

Question 24: Do you have views on the above issues or on any other aspects of the power to reduce the multiplier?

Ability to charge an infrastructure levy

5.15. We are seeking views on key policy decisions on the design of the power of Combined Authority Mayors to levy a 2p in the pound supplement on business rates bills to fund new infrastructure projects.

Rateable value thresholds

5.16. The system could set a minimum rateable value threshold for the application of the levy. This could guarantee protection for the occupiers of less expensive properties (as with the Business Rates Supplement Act 2009 which provides that no hereditament with a rateable value below £50,000 should pay a supplement).

5.17. On the other hand, a national threshold could mean that regional variations in property values may limit the amount that could be raised for infrastructure projects. Instead, the system could provide Combined Authority Mayors with the freedom to choose whether to set a minimum rateable value threshold above which to charge an Infrastructure Levy. Under that discretionary arrangement, a decision to apply a levy would still require the approval of the relevant Local Enterprise Partnership Board (LEP Board).

Question 25: What are your views on the flexibility levying authorities should have to set a rateable value threshold for the levy?

<u>Interaction with Business Rates Supplement powers</u>

5.18. The new levying powers will only be open to Combined Authority Mayors. The existing Business Rates Supplement powers, which allow authorities to levy a supplement on the national multiplier to fund additional investment aimed at promoting the economic development of local areas, approved by a ballot of ratepayers, will still be available outside of Combined Authority Mayoral Areas.

Question 26: What are your views on how the infrastructure levy should interact with existing BRS powers?

<u>Local Enterprise Partnership (LEP) approval</u>

5.19. The Government is clear that the approval of a majority of the business members of the LEP Board will be required in order for an Infrastructure Levy to be raised. This could be sought in the form of a prospectus from the Mayor, setting out the key parameters of the proposal.

5.20. One issue this presents is that whilst LEPs are often co-terminous with Combined Authority Mayoral Areas, this is not always the case. We should therefore consider whether the requirement for LEP approval should extend to all the LEPs within the proposed area of application of the levy.

5.21. We would also welcome views on how LEP approval should be sought, with a view to help ensure that the LEP role is clear, accountable, and representative of the business community.

Question 27: What are your views on the process for obtaining approval for a levy from the LEP?

<u>Duration of the levy</u>

5.22. Local ratepayers will of course be interested in the duration of a levy, and how decisions about its duration are made and reviewed.

5.23. We would expect that the proposed duration of a levy would be set out in an initial prospectus containing key parameters of the levy and plans for the project to be funded, submitted for approval from the LEP. We would expect the proposal to be for a period of whole years. Provision could also be made for the Mayor to submit a revised prospectus to the LEP for an extension of the levy for a period of whole years, or to adjust other parameters of a levy, for example following a revaluation.

Question 28: What are your views on arrangements for the duration and review of levies?

Using revenues raised from the levy

5.24. The Government is clear that levy revenues must be used to fund infrastructure projects. Infrastructure could be defined in a similar way to how it is defined for the Community Infrastructure Levy - roads and transport, flood defences, educational facilities, medical facilities, sporting/ recreational facilities, and open spaces – or a different definition could be used to capture different uses.

Question 29: What are your views on how infrastructure should be defined for the purposes of the levy?

Multiple levies/multiple projects

5.25. We wish to allow Mayors sufficient room for manoeuvre to fund the projects that would add most value. There is a further question of allowing authorities to charge a single levy for multiple infrastructure projects or multiple levies all at once. For instance, it could be provided that a single Combined Authority Mayoral Area may raise multiple levies all at once, providing that the sum of the infrastructure levies on any given ratepayer does not exceed 2p in the pound.

Question 30: What are your views on charging multiple levies, or using a single levy to fund multiple infrastructure projects?

Further suggestions on infrastructure levy

5.26. Our engagement with the local government business sectors thus far has raised some further suggestions for the operation and scope of the ability to charge an infrastructure levy.

- Extend the power to raise an infrastructure levy beyond Combined Authority Mayors – Some have suggested that other areas, including other Combined Authority areas, should have a similar power to raise an infrastructure levy or that the power should replace existing Business Rates Supplement powers. The Government is clear that this new power will be for Combined Authority Mayors only who are directly elected and can be held accountable. Any authorities not covered by the new power will retain the ability to fund infrastructure through existing Business Rates Supplement powers.

- <u>Extend the business consultation requirements more widely</u> – LEPs already play a strategic role in determining the priorities for infrastructure investment through the Strategic Economic Plan (SEP), and would act as representatives of local business communities to ensure that proposed infrastructure projects will benefit ratepayers. It has also been suggested though that there should be additional safeguards for ratepayers, for example consultation beyond the LEP.

- <u>Include a discount power for Business Improvement Districts (BIDs)</u> – The Business Rates Supplement Act 2009 makes provision for the levying authority to provide a discount to BIDs within the area of application of the supplement. It has been proposed that similar provision could be made for the levy, in view of the additional tax contributions which are made in BIDs.

- <u>Amend the definition of infrastructure</u> – These proposals differ from the existing Business Rates Supplement powers, which provide for a supplement to be raised for any project to promote economic development. It has been suggested the latter option may provide authorities with greater flexibility to use the power. Additionally, there is a question over whether the levy may be used for housing.

Question 31: Do you have views on the above issues or on any other aspects of the power to introduce an infrastructure levy?

6. Accountability and accounting

Summary

6.1. This chapter considers the consequences of a reformed local government finance system, particularly in terms of accountability and accounting:

- It considers how the reforms may change the balance of local and central accountability, including in relation to the additional responsibilities that councils will take on.
- It seeks views on the current method of accounting for business rates and - depending on the design of the scheme - whether this may need to change.
- It also considers how the information that Government needs to collect from councils to help the system function might change.

Overview

6.2. The move to 100% business rates retention marks an important milestone in the devolution of power and resources from Whitehall. By 2020, councils will raise the great majority of their funding locally for the local services they provide. In addition, as part of these reforms, a new set of responsibilities will be devolved to local government. This move towards a more self-sufficient local government must be accompanied by a shift towards greater local accountability over funding and the way devolved responsibilities are delivered. There will also be implications for how income from local taxes is accounted for.

6.3. The Government, working with the LGA, CIPFA and other local government representatives, has sought to consider these issues. This Chapter sets out some of the thoughts and ideas raised during that engagement.

6.4. As policy development around system design continues, and decisions about which new responsibilities are devolved are made, the Government will continue to work with councils and others to explore the implications and consequences of the new system. This includes accountability and accounting terms, but also the type of information that government needs to collect from councils as part of the system. These issues may be subject to further consultation at a later date, in the lead up to implementation.

The balance of local and central accountability

6.5. As local services are increasingly funded from locally raised resources, it will be important to ensure councils are accountable for deciding how to fund local services.

6.6. The current process for determining allocations of funds to authorities through a Local Government Finance Report and resolution by Parliament encourages accountability for funding decisions to remain with central government. The requirement for an annual process of distribution from central government also has the potential to undermine the funding certainty offered through multi-year settlements, and the announcement of final decisions relatively late in the year can make it difficult for local authorities to manage the process of local consultation in setting their budgets.

6.7. The Government is interested in exploring how to change the process for allocating funding to increase funding certainty for local government, providing councils with the flexibility to set budgets in good time and strengthening local accountability.

Question 32: Do you have any views on how to increase certainty and strengthen local accountability for councils in setting their budgets?

6.8. Where responsibilities are devolved from central to local government, it is important to consider how the balance of accountability between central and local government to Parliament for delivery of those services may change - for example, the relative roles and responsibilities of central government Accounting Officers and local government. The position may be different for different areas - for example, Mayoral Combined Authority areas may have more responsibilities, and we will therefore need to consider the implications for accountability for each of the candidates, and overall for devolution under these reforms on a case by case basis. The Government will continue to engage with local government on these issues, particularly as decisions are taken about what new responsibilities will be devolved as part of the reforms.

6.9. In setting out clearer accountability at the local level, the Government will need to continue to respect the rights of the UK Parliament to hold to account both Ministers and officials for the way that they use funding provided through the Parliamentary Vote. It is important that funding decisions made at the national level continue to be scrutinised by the national Parliament, while local decision making is scrutinised by local accountability structures.

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?

<u>Accounting for income from local taxes</u>

6.10. Local authorities are required by statute to account for Council Tax income and Business Rates income in what is known as the 'Collection Fund Account'. In effect this is an agent's statement, which shows the amount of council tax and business rates that each billing authority forecast it would collect and how that has been distributed between billing authorities, precepting authorities and central government. It is included in each council's annual accounts and is subject to audit.

6.11. Councils recognise in accounting and budgetary terms the amount of income that they forecast they would collect. Any surplus or deficit on collection is carried forward as an adjusting item to the following year's forecast Council Tax or Business Rates income.

6.12. The Government has been working with the LGA, CIPFA and other representatives of local government to consider how local authorities might be required to account for business rate collection in an updated reformed system, in a way that continues to comply with best practice for transparency and accountability.

6.13. In a reformed system, the central government share of local business rates income will no longer exist so will not need to be disclosed in the Collection Fund Account. However, billing and precepting authorities will continue, both for Business Rates and Council Tax. Therefore, both the Government and the Accountability and Accounting Technical Working Group consider that there would be no benefit in removing the requirement to prepare a Collection Fund Account. A number of the disclosures in the Collection Fund Account are required by statute and may need to be revised depending on detailed design choices made in the retained business rates system.

Question 34: Do you have views on whether the requirement to prepare a Collection Fund Account should remain in the new system?

Balanced Budget Requirement

6.14. A requirement to produce a balanced budget is a key element of the local authority financial control framework. This requirement applies only to revenue and was introduced by section 32A of the Local Government Finance Act 1992.[3] The Act sets out a number of detailed items that must be included in the balanced budget calculation, but in summary, local authorities are required to perform the following sum:

Net service expenditure	**(x)**
Other expenditure	(x)
RSG and other centrally held grants	x
Forecast business rates income	x
Transfer to/from reserves	x/(x)
Council tax requirement	x

6.15. Since this statutory requirement was introduced the way that local authorities manage their business has changed and the introduction of retained rates will give them further flexibilities in relation to setting their expected level of income.

[3] For councils – different statute applies to the GLA, PCCs, FRAs etc. but the format of the calculation is the same in each case.

6.16. Both the Government and the Accountability and Accounting Technical Working Group agree that there is no benefit in removing the requirement to prepare a balanced budget. However, the way that local authorities are required to calculate their balanced budget no longer aligns with the way they actually manage their finances. It is possible that if the way that councils are required to calculate their balanced budget was adjusted to better align with the way they run their business, both efficiency and transparency gains may be achieved.

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?

Other Reporting to Central Government

6.17. In addition to the statutory accounts local authorities are required to prepare and submit financial data returns to DCLG. These are the NNDR1 and NNDR3 forms. These forms serve a dual purpose.

6.18. For local government, the NNDR1 form allows authorities to estimate the amount to be retained by Billing Authorities, and the amount to be paid to central government and Major Precepting Authorities. This is fixed at the start of the financial year on the basis of the Billing Authority's estimate of its Non-Domestic Rating income for the year and is reflected in each authority's balanced budget calculation. The NNDR3 form provides authorities with a tool by which they can calculate their certified non-domestic rating income and calculate the final sums due by way of section 31 grants for certain government-funded rates relief measures.

6.19. The consolidated results of these forms feed into official statistics and the financial statements setting out the amount of business rates income collected in England. Under the current system, they allow central government to put sufficient budget aside to fund mandatory and discretionary reliefs and form the basis of the calculation of the safety net and the levy.

6.20. The Government has announced that following business rates reform, the levy will no longer exist. In addition the way that the safety net is funded may change. This means that some elements of the current NNDR1 and NNDR3 forms will no longer be relevant. Other data currently collected by central government may no longer be required, depending on detailed system design choices made.

6.21. The Government is clear that some form of reporting will still be required, both to allow local authorities to provide information to feed into the safety net and levy calculations and to allow central government to provide information to Parliament on the quantum of business rates collected. However, it may be possible to revise data collection activities to make the data more transparent.

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?

Summary of Questions

Question 1: Which of these identified grants / responsibilities do you think are the best candidates to be funded from retained business rates?

Question 2: Are there other grants / responsibilities that you consider should be devolved instead of or alongside those identified above?

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?

Question 5: Do you agree that we should continue with the new burdens doctrine post- 2020?
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?

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?

Question 9: Is the current system of tariffs and top-ups the right one for redistribution between local authorities?

Question 10: Should we continue to adjust retained incomes for individual local authorities to cancel out the effect of future revaluations?

Question 11: Should Mayoral Combined Authority areas have the opportunity to be given additional powers and incentives, as set out above?

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?

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?

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?

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?

Question 17: At what level should risk associated with successful business rates appeals be managed? Do you have a preference for local, area (including Combined Authority), or national level (across all local authorities) management as set out in the options above?

Question 18: What would help your local authority better manage risks associated with successful business rates appeals?

Question 19: Would pooling risk, including a pool-area safety net, be attractive to local authorities?

Question 20: What level of income protection should a system aim to provide? Should this be nationally set, or defined at area levels?

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 the interaction between the power 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?

Question 25: What are your views on what flexibility levying authorities should have to set a rateable value threshold for the levy?

Question 26: What are your views on how the infrastructure levy should interact with existing BRS powers?

Question 27: What are your views on the process for obtaining approval for a levy from the LEP?

Question 28: What are your views on arrangements for the duration and review of levies?

Question 29: What are your views on how infrastructure should be defined for the purposes of the levy?

Question 30: What are your views on charging multiple levies, or using a single levy to fund multiple infrastructure projects?

Question 31: Do you have views on the above issues or on any other aspects of the power to introduce an infrastructure levy?

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Question 34: Do you have views on whether the requirement to prepare a Collection Fund Account should remain in the new system?

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?

Question 36: Do you have views on how the Business Rates data collection activities may be altered to collect and record information in a more timely and transparent manner?

About this consultation

This consultation document and consultation process have been planned to adhere to the Consultation Principles issued by the Cabinet Office.

Representative groups are asked to give a summary of the people and organisations they represent, and where relevant who else they have consulted in reaching their conclusions when they respond.

Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004.

If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

The Department for Communities and Local Government will process your personal data in accordance with DPA and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.
Individual responses will not be acknowledged unless specifically requested.

Your opinions are valuable to us. Thank you for taking the time to read this document and respond.

Are you satisfied that this consultation has followed the Consultation Principles? If not or you have any other observations about how we can improve the process please contact DCLG Consultation Co-ordinator.

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