



Department for
Communities and
Local Government

100% Business Rates Retention: Further consultation on the design of the reformed system

A Summary of Responses to the Business Rates Retention
Further Consultation



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December 2017

ISBN: 978-1-4098-5167-7

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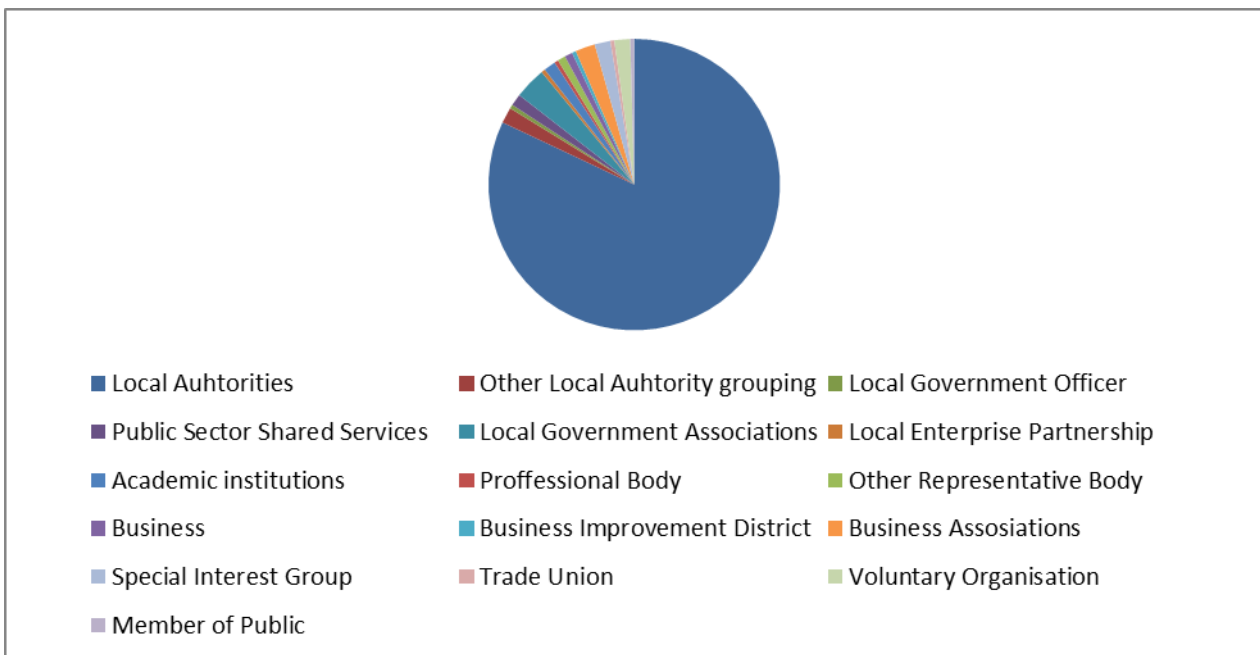
Introduction and background

1. On 15 February 2017 the Department for Communities and Local Government (DCLG) published a consultation paper entitled “100% Business Rates Retention: Further consultation on the design of the reformed system”.
2. This consultation followed the “Self-sufficient local government: 100% Business Rates Retention” consultation, which ran from 5 July 2016 to 26 September 2016, covering a number of broad areas relating to allowing local authorities to retain 100% of the business rates they collect locally.
3. The “100% business Rates Retention: further consultation on the design of the reformed system” sought further views on the implementation of the government’s commitment to allow local government to retain 100% of business rates raised locally. Specifically this consultation sought views on some of the detailed aspects of the design of the reformed system.
4. This consultation was open to responses during the previous Parliament before the fall of the Local Government Finance Bill and so some of the measures described and reported on below should be seen in this context.
5. The fall of the Local Government Finance Bill, when Parliament was dissolved in the run up to the General Election 2017, and the decision not to introduce a new Local Government Finance Bill has provided an opportunity to take stock of the best way to proceed with local government finance reform; working with the Sector to secure the best overall solution.
6. Ministers remain committed to further business rates retention and continuing to give local authorities more control of the taxes they raise locally. That is why the government’s response to the further consultation on business rates is being published alongside the Provisional Local Government Settlement, as the reforms taking shape here play a key role in reshaping the financial landscape for local government.
7. The responses received to the further consultation will inform this reform programme, as will piloting of 100% business rates retention. A more detailed proposal for business rates retention policy is currently in development; DCLG will be working closely with the Local Government Association (LGA) through joint Steering and Working Groups to identify:

- The optimal way to deliver reform without primary legislation, both to deliver further business rates retention and to improve the current system as soon as possible;
- A longer-term reform programme, including items which might require primary legislation.

Business Rates Retention Further Consultation feedback

8. The majority of responses to this consultation came from local government and its associated bodies. However a range of other institutions and individuals have also contributed their unique perspectives.

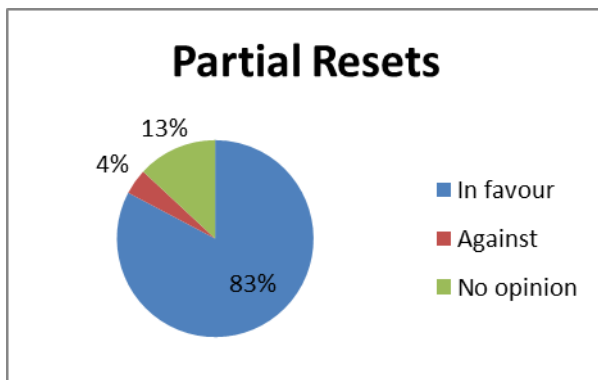


9. There were 228 responses in total to the consultation, however not all responses addressed every question. Consequently, the response rate to each question reflects 100% of respondents to that individual question. Where the differing views do not add up to 100% this is because the remaining percentages did not express a firm position.

Question 1: What are your views on the proposed approach to partial resets?

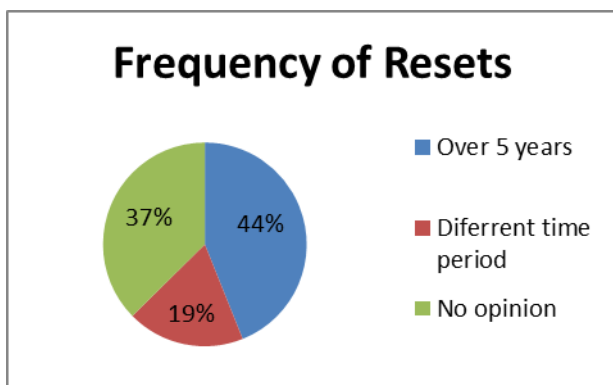
10. Under the business rates retention system, local authorities will have the opportunity to grow their business rates as a means of attaining additional income. At the same time this will have to be balanced with growing needs. In order to maintain this balance across the sector we proposed a periodic partial reset to the system. This will rebalance local authorities' baseline funding needs whilst also allowing those authorities who grew their business rates during the reset period to retain an element of their growth beyond the reset.

94% of respondents expressed an opinion on this question.

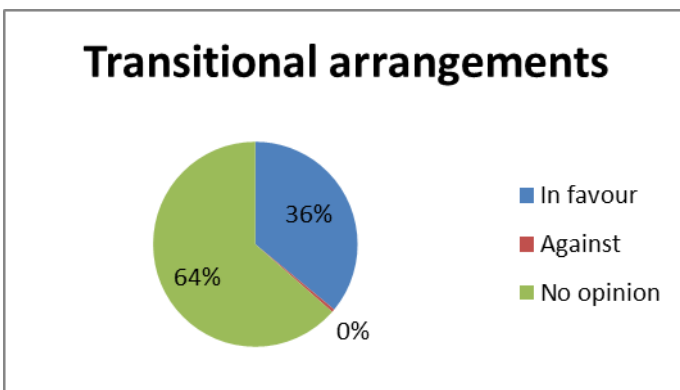


11. 83% of responses were in favour of a partial reset. Some respondents argued that a partial reset facilitated an increased incentive for local authorities to focus on driving growth, as opposed to a full reset, while still taking into account relative needs.

12. 4% of responses were opposed to partial resets. Concerns were raised that fixed resets would provide a perverse incentive to delay growth until just after reset to maximise the length of time an authority can benefit from the growth. This is a concern that relates to fixed reset periods in general, whether partial or full. A particular concern in relation to partial resets is whether enough achieved growth is redistributed in the system after a partial reset to meet need.



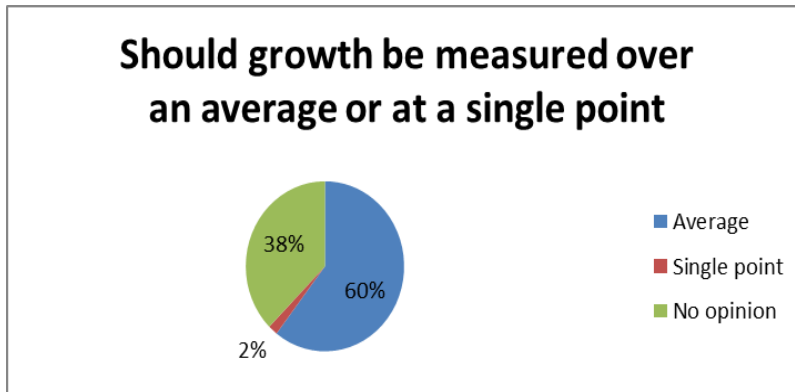
- 13.** It was also argued that having fixed periodic resets will provide more certainty in the system.
- 14.** There was less consensus amongst respondents on the frequency of resets. 44% of responses broadly accepted the proposed 5 years as an appropriate time period for the reset. The period provides time for authorities to enjoy growth while limiting disproportionate gains or losses.
- 15.** 19% felt different time periods would be more appropriate. Some respondents felt the five year reset is not long enough for local authorities to make investment decisions. An idea proposed by local authorities was that resets should align with the future cycle of business rates revaluations.
- 16.** The government has now set out its intention to move to three yearly revaluations after the next revaluation currently scheduled in 2022. On that basis this could be achieved by making periods between resets a multiple of three (3, 6 or 9 years). Some argued this would minimise the turbulence caused by fluctuating ratios of ‘top-ups and tariffs’ as well as transitional relief schemes.



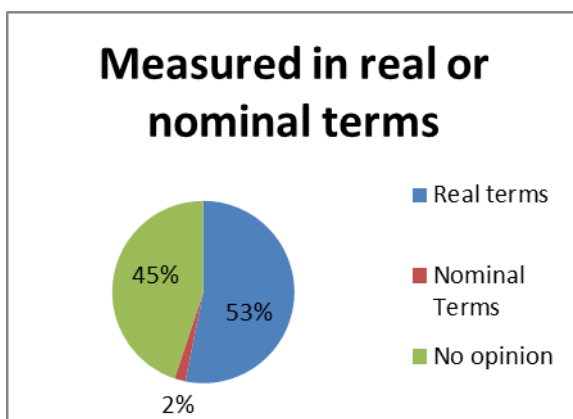
- 17.** The consultation stated that the government intends to explore the introduction of transitional arrangements after a reset to help local authorities manage significant changes in income.
- 18.** 36% of responses were in favour of transitional arrangements. However a frequent suggestion from the respondents with this view was that any transitional arrangements should wind down before the next partial reset.
- 19.** 1 respondent felt changes in need should be reflected in revised baseline calculations for top-ups and tariffs in the first year following a reset as opposed to being phased in over four years.
- 20.** Some respondents requested consideration of the link between the safety net and transitional arrangements, arguing a higher safety net level would reduce the need for transitional support, leading to a simpler scheme (see question 6).

Question 2: What are your views on how we should measure growth in business rates income over a reset period?

90% of respondents expressed an opinion on this question.



- 21.** 60% of responses were in favour of measuring the growth over an average of the reset period. Responses argued that by doing this, any annual volatility in business rates income is partially mitigated. Respondents also argued that using averages would also help to mitigate any 'perverse incentive' to defer known growth in business rates to a certain point in a reset period.
- 22.** A few responses felt growth should be measured at a single point. This should be at the point of reset or as close to it as possible, as it would provide a more up to date account of what the council was earning. It would also be a simpler process, especially as there may be situations where the government introduces changes during the reset period making it more difficult to compare growth at different points. For example if the government were to adjust the local and central list within the reset period then the growth before and after this change would not be comparable for averaging purposes.



- 23.** 53% of responses felt it would be logical to measure growth in real terms, as with the current National non-domestic rates NNDR system. Conversely a few responses

stated a preference for using nominal terms, stating it would be easier to remove the impact of any local decisions to move away from nationally set multipliers. (The power to reduce the national multiplier for business rates was a measure of the former Local Government Finance Bill, and cannot be achieved without primary legislation.)

Baseline calculation

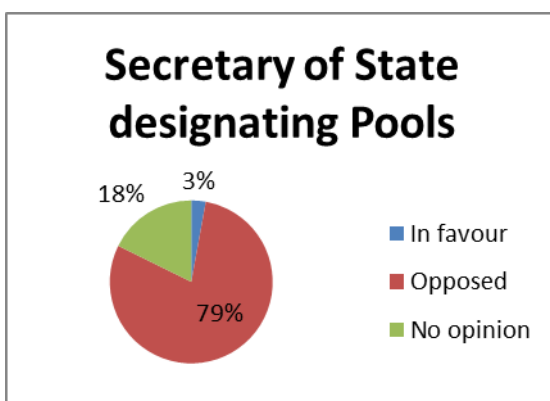
24. There was a broad range of views as to how the baseline should be determined.

Respondents largely felt more modelling was needed in this area. Suggestions included using NNDR3 returns for the year prior to implementation. In this circumstance the business rates an authority collects that year would constitute the baseline by which the authorities' growth is measured by. Other suggestions included:

- Using the New Homes Bonus model which has a baseline for growth of 0.4% and housing growth above this baseline is rewarded.
- Using a local authority's control total that is taking into account other funds not just their business rates income.

Question 3: What are your views on the Government's plans for pooling and local growth zones under the 100% Business Rates Retention system?

92% of respondents expressed an opinion on this question.

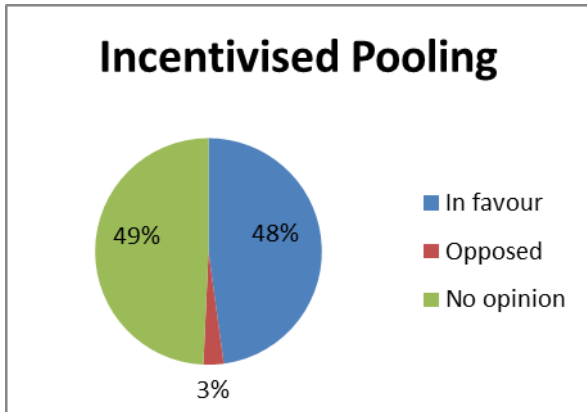


25. One of the measures in the former Local Government Finance Bill afforded the Secretary of State for Communities the power to designate pools.

26. 79% of responses were opposed to the Secretary of State for Communities having this designating power, as it was considered at odds with the principles of localism. There were also concerns over the potential uncertainty raised by this power and the

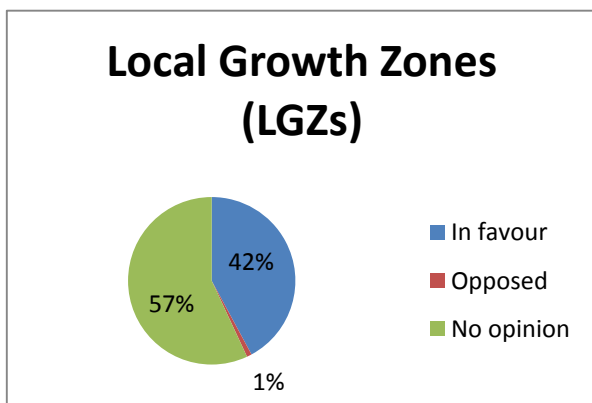
position it places current pools in. There was also a call for more clarity on how these powers would be used.

27. 3% of responses were in favour of the power as it could prevent the exclusion of local authorities perceived to be high risk from pools.



28. 48% of responses were in favour of greater incentives for local authorities to form pools, however, the vast majority of these still felt more detail would be needed. This view was shared by the responses yet to form a position and those broadly against the incentivising of pools. A number of responses also commented that removing the levy would take away the main incentive to pooling.

29. A number of authorities were concerned that incentives for pooling would be funded from the overall business rates quantum which would in effect mean areas outside pools would be subsidising the pool. 3% of responses were opposed to incentivised pooling.



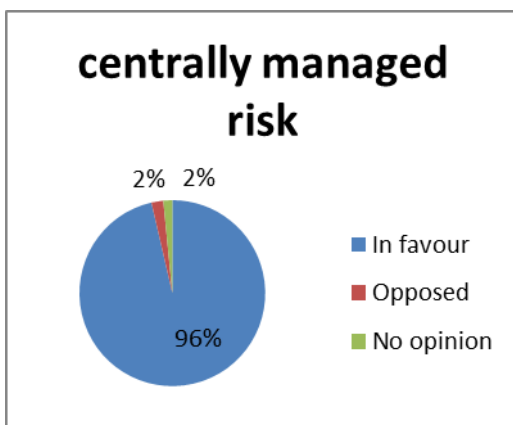
30. The majority of responses stated there needed to be more information before they could commit to a firm response of support. However 42% felt Local Growth Zones (LGZs), in principle, could incentivise investment. A couple of responses did not think LGZs would facilitate investment. One of the respondents with this view was concerned that incentives for LGZs may displace growth/investment from other areas.

31. In line with the concerns relating to the sector subsidising the incentives for pools as above, concerns were again expressed that the incentives offered by LGZs would remove money from the overall quantum of the local government sector. Some respondents also felt there was no reason to restrict LGZs to pools, while others felt the restriction offered a good incentive to pool.

Question 4: How can we best approach moving to a centrally managed appeals risk system?

32. Managing the impact of successful business rates appeals is particularly important given the impact that this can have on an authority's available resources. A system of centrally managed risk would seek to move the impact of successful appeals away from individual authorities and to some form of national provision where the impact may be more manageable.

92% of respondents expressed an opinion on this question.



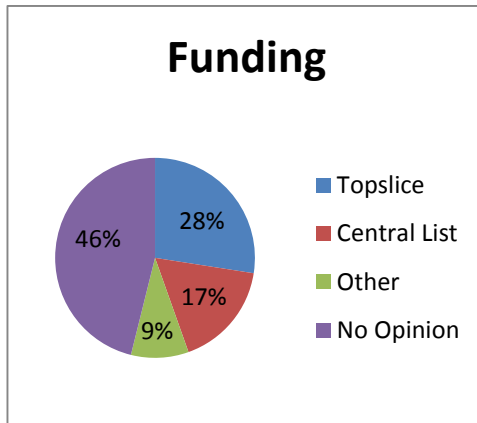
33. 96% of responses agreed to the broad principles of centrally managed risk. However many said they required more information before they could give a more detailed response.

34. 2% of responses were opposed to a centrally managed appeals risk system. It was felt by these respondents that the removal of individual risk would serve as a disincentive to resist appeals.

35. Respondents sought a precise definition of "valuation errors" to minimise future ambiguity or disputes. Respondents also highlighted a need to address the root cause of "valuation errors" and try to minimise the occurrence of these in the first instance. They felt the Valuation Office Agency's (VOA) performance should be accountable to local government in terms of correct/ erroneous valuations. Many responses

suggested that the VOA should receive a short term increase in resourcing to deal with the backlog of appeals.

Funding of centrally managed risk

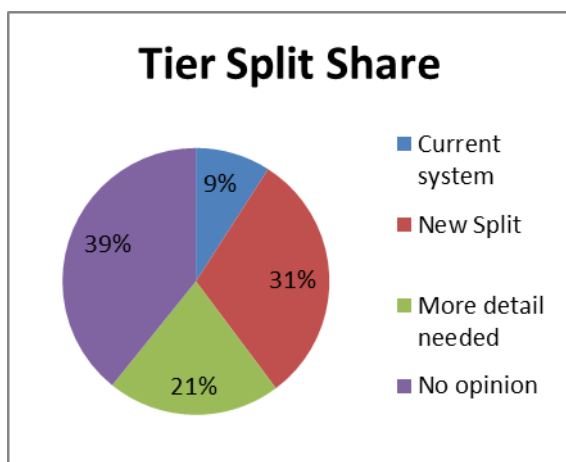


- 36.** 28% of responses felt this could be done through topslicing. Topslicing would take a proportion from the overall business rates quantum and use it to fund the appeals without placing the financial pressure on an individual local authority.
- 37.** Clarity was sought on how the government would estimate the size of the topslice and what would happen if it were too large or too small. Most commented that their preference would be for local government to be reimbursed if too great a topslice was taken but that central government should bear the cost of an insufficient topslice.
- 38.** A number of authorities stated that if a topslice is the chosen method, it should be done as a proportion of each individual local authority's business rates baseline rather than done at a national level.
- 39.** 17% of responses felt funding could come from the business rates income collected by the government from the central list. Some suggested that the central list should be expanded to include "riskier" hereditaments in order to reduce the provisions that local authorities are required to make to manage the risk of business rates appeals.
- 40.** 9% of response felt other means of funding was necessary, with some specifying direct funding by central government.
- 41.** Many respondents also argued that the cost of appeals which occurred before the start of the 100% system, and which would have been funded from the central share, should be treated separately and not funded through the proposed top-slice. These respondents stated that they would expect the current appeals to be dealt with using current provisions.

Question 5: What should our approach be to tier splits?

42. The 50% Business Rates Retention system splits business rates between the central and local share 50/50. In two tier areas with an upper and lower tier, the local share would then be divided between the different tiers which is commonly referred to as the tier split. For example with a county and its districts, the district retains a 40% share with the county retaining the remainder or a further 1% going to the fire authority if it is distinct from the county, leaving a 9% tier split for the county. Moving to a 100% retention system raises the question of what the appropriate tier split is.

77% of respondents expressed an opinion on this question.



43. 21% of respondents expressed that more detail was needed on the final design of the scheme before they could express a definitive view. This was contingent on what responsibilities will be devolved and to which tiers of local government. A number of respondents expressed the view that that the tier splits used in any pilots of 100% business rates retention should not automatically become the basis for the new scheme.

Current Split

44. 9% of respondents were happy with the current split as they felt districts were in a better position to drive growth.

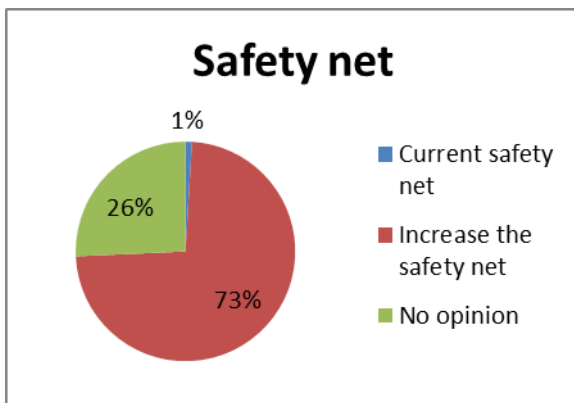
New Split, universal or local agreement

45. 31% of responses favoured a new arrangement. Of these 12% wanted a new universal approach, with clear allocations, expressing concerns about the difficulties of agreeing a split between the tiers, as well as the power imbalance in these negotiations. However, a number of respondents with this view were happy for this universal split to be a contingency for where local agreements cannot be reached.

- 46. 19% of responses called for the opportunity to make local agreements. They felt a flexible system would enable areas to come to agreements that best fit their needs and potentially incentivise two tier areas to work together.
- 47. London was held up by some as a good example on an effective local agreement. When 50% Business Rates Retention was introduced both the London Boroughs and the Greater London Authority (GLA) jointly agreed the initial 30/20 tier split. Again in 2017 with the rolling in of Transport for London grants the GLA's share was raised to 37%, of the local 67% share of business rates (30/37 tier split).

Question 6: What are your views on proposals for a future safety net under the 100% Business Rates Retention system?

92% of respondents expressed an opinion on this question.



- 48. 73% of responses were in favour of increasing the safety net threshold to a figure between 95 and 100 percent. However, some felt the current threshold was sufficient. They, as well as other respondents, noted that the need for the safety-net would be greatly reduced with centrally managed appeals. A review of the outcome of pilots was welcome.
- 49. Other suggestions included requests for more information about devolved responsibilities before agreeing to a level. Requests were also made for modelling and further analysis of the impact of a lower threshold in the rates retention system, which could be discussed with technical working groups.
- 50. A safety net level based on total core spending power available to an authority was also suggested on the basis that council tax income is more stable and predictable than business rates income. Respondents theorised that areas with high council tax

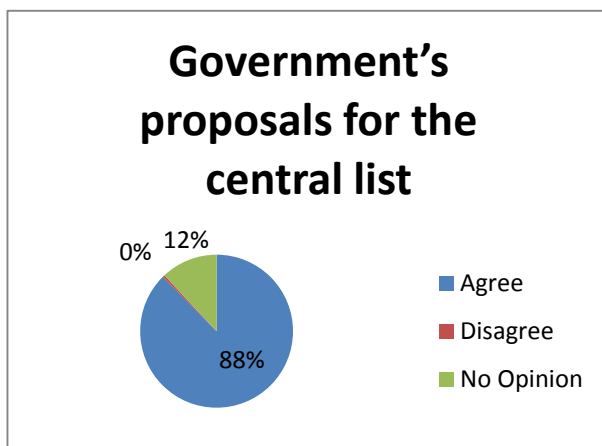
income will be able to use this to (partially) mitigate the effect of fluctuations in rates income. Another proposal was using collectable business rates instead of the baseline funding level.

51. Concerns were also raised over the additional risk associated with the safety net for pools, which may require a higher threshold to reflect the increased risk (see question 3).

Question 7: What are your views on our proposals for the central list?

92% of respondents expressed an opinion on this question.

52. The central list comprises of properties which by their nature are not suitable for assessing on the local ratings lists. In many cases this will be networks that span across multiple areas, such as broadband infrastructure; gas and electricity networks; and some rail networks.



53. 88% were broadly in favour of the government's proposals for the central list and its contents. One respondent strongly expressed the view that there was not enough clarity on what could be included in the central list to support the proposal at this time.

Content of Central List

54. A number of responses noted that the central list should only include those hereditaments which are genuinely non-local; agreeing that it was sensible for those hereditaments spanning several local rating list areas to be attributed to the central list, although some respondents did think that it would be possible to distribute the relevant business rates across several local authorities in such circumstances.

- 55.** There were mixed views as to whether large sites such as national infrastructure or power stations should be transferred on to the central list. Some respondents suggested that, as such hereditaments could be volatile due to changes in national policy, they may be better suited to the central list, reducing the element of local risk. However, other respondents noted that local authority areas which contain newly built properties such as power stations may wish to retain these on their local list so that they have an opportunity to benefit from any growth which may occur.
- 56.** There were suggestions that individual local authorities should be able to nominate those hereditaments in their areas which they believe should be placed on local/ central lists, whilst other respondents called for hereditaments of the same type e.g. power stations and telecommunications companies to be treated in a consistent manner.
- 57.** Another common suggestion was for national rail stations to be split and placed on to local lists, whilst London authorities noted that they would like to see a London area list created to include hereditaments run by London Underground and Docklands Light Railway and also possibly Transport for London rail and London Overground.

Flexibility of movement between the central and local list

- 58.** There was support for the review of the central list and for regular maintenance/ updates to the list to be made. However, the majority of respondents were keen to emphasise that any move between lists should take place at resets or the government should commit to adjusting business rates baselines if moves between lists happen during a reset period, through adjusting local authorities' top-ups and tariffs. Respondents also argued that the introduction of any payments for appeals losses' would be important to compensate those local authorities who may see a reduction in their income as result of movement of hereditaments between local lists and the central list.
- 59.** The majority of respondents also called for there to be more transparency over how income from the central list is spent and distributed. Some common suggestions for how the central list income could be spent included using the income to fund provisions such as the safety net, appeals losses and loss payments.

Conclusion

60. The responses to the “100% Business Rates Retention: further consultation on the design of the reformed system” are being used to inform the development of policy. In particular the government and LGA have re-launched their joint Steering and Working Groups. The issues highlighted in this consultation will inform the agenda of the System Design Working Group who will do a deep dive on the highlighted issues with the purpose of making robust recommendations to, the Steering Group.

61. Additionally, responses have highlighted some elements of business rates retention we are evaluating in the next round of 100% Business Rates Retention pilots. The 2018-19 pilots will provide local authorities a platform to test a number of ideas for a financially sustainable system that promotes growth. This includes giving local authorities the autonomy to set their own tier splits as well as the overall distribution of money. The selected applications for the 2018/19 pilots will be announced alongside the Provisional Local Government Settlement. With the continuation of the 5 existing pilots; 100% Business Rates Retention pilots; and the London pilot; there will be a diverse range of local authorities, with different structures, dealing with different quantum in a wide array of geographies to inform our policy going forward.