Policy and Resources Committee
05 June 2017

100% Business Rates Retention - DCLG Further Consultation on Design of Reformed System

Purpose of report

This report is to inform members of the response to the Department of Communities and Local Government's latest consultation paper on 100% Business Rates Retention.

Attachments:
Appendix 1: DCLG Consultation Paper
Appendix 2: ENC Response

1.0 Background

1.1 In the Autumn Statement 2015, the Chancellor of the Exchequer announced that during this parliament a consultation would be launched that would allow local authorities to retain 100% of the business rates they raise locally by 2020 which is a fundamental change in the way local government is financed.

1.2 In July 2016 the Department of Communities and Local Government (DCLG) launched two consultation papers which sought views on the implementation of business rates and a fair funding review. The council formally responded to these consultations following approval by Finance Sub Committee in September 2016.

1.3 In February 2017 DCLG launched a further consultation entitled '100% Business Rates Retention: Further consultation on the design of the reformed system' with a deadline for response by 3 May 2017. The consultation paper can be seen at **Appendix 1.**

2.0 Further consultation on the design of the reformed system

2.1 The DCLG consultation seeks views on some of the detailed aspects of the design of the reformed system. Topics covered by the DCLG consultation are as follows:

- Resetting the system – the timing and operation of resetting the business rates system
- Business rates pooling – how pools are set up and the incentives open to them
- Local growth zones – a new power to designate local growth zones
- Managing the impact of successful appeals – proposal to introduce "loss payments"
- Tier splits – distribution of funding between tiers in two tier areas
- Safety net – proposals for safety net in the new system
- Central list – proposals for improved powers to make changes to the central list

2.2 The council's Constitution allows submission of responses to government consultations where the time frame is too short to permit consideration by an appropriate council committee by the Chief Executive and Executive Director in consultation with the Leader of the council and/or the Deputy Leader and the Chairman or Vice Chairman of the relevant Committee as appropriate. The responses were approved in accordance with the delegation and submitted by the deadline. The responses can be seen at **Appendix 2**.

3.0 Business rates pooling

3.1 The current 50% Business Rate Retention Scheme was first introduced in April 2013 with a key aim to incentivise local business growth. The council currently works with other councils across Northamptonshire to maximise the benefits from business rates as part of a pooling arrangement.

3.2 The purpose of the current pooling of business rates is to ensure levy payments are retained for investment within the pool. Business rates collected are shared whereby 50% is paid to central government, 10% is paid to the County Council with District and Borough Councils retaining the remaining 40%.

3.3 For pooling to be financially worthwhile, its members need to be a mixture of tariff and top up authorities that are able to grow business rates. The levy they would have paid individually to central government is instead retained through the pooling arrangement and invested locally.

3.4 This consultation paper includes proposals for incentivising and rewarding pooling authorities under the new 100% business rates retention system. The Government recognises that removal of the levy will mean rewards for pooling are reduced and are therefore exploring other ways to reward economic growth across a pooled area and is inviting all councils to apply to participate in piloting aspects of 100% Business Rates Retention from April 2018.

3.5 The process for selecting and agreeing to 2018-19 100% Business Rate Pilots is currently delayed due to the General Election taking place in June. If new ministers were minded to continue with the pilots, the process could still take place but the timescale for responding would inevitably be shorter.

3.6 By having a delegation in place, the council will be able to respond appropriately and in accordance with reduced timescales to take advantage of this opportunity if it proves to be financially advantageous to do so. Consequently, a report with details of the arrangements and benefits would be brought back to Finance Sub Committee at a future date.

4.0 Equality and Diversity Implications

4.1 An impact assessment will be developed by DCLG in due course as proposals are finalised.

5.0 Legal Implications

5.1 This report relates to a Government consultation which is seeking views on the proposed approach to the 100% business rates retention scheme. Any implications arising will depend on the final changes implemented when the scheme is approved.

6.0 Risk Management

6.1 The risks from the proposals are outlined in the responses to the consultation paper. Final outcomes from the consultation will need further assessment when announced.

7.0 Resource and Financial Implications

7.1 Whilst there are no immediate implications arising from making a response, the potential impact of changes to the business rates retention scheme will need to be reviewed once the outcome of the proposals are known.

8.0 Constitutional Implications

8.1 There is no direct impact on the Council's constitution from responding to the proposals in the consultation paper.

9.0 Customer Service Implications

9.1 There is no direct impact to customer services from responding to the proposals in the consultation paper.

10.0 Corporate Outcomes

10.1 This report links to the following Corporate Outcomes:

- Effective Management – The council effectively manages its available resources and seeks to minimise implications arising from consultation proposals
- Good Value for Money – The council seeks to maintain financial stability so that services can continue to provide good value for money

11.0 Recommendation

11.1 Members are asked to:

a) note the contents of the report and the response to DCLG's '100% Business Rates Retention: Further consultation on the design of the reformed system'

(Reason – To raise awareness of current proposals on 100% business rates retention scheme and the potential implications to the council).

b) Delegate responsibility to the Chief Finance Officer in consultation with the Leader and Chairman of Policy and Resources Committee to enter into a pilot for 100% business rates retention as set out in section 3 of the report subject to the arrangements being financially advantageous to the council

(Reason – To ensure that the council can respond quickly to proposals that will ensure financially stability from income streams in future years).

Legal	Power: Local Government Finance Act 1992 Other considerations:				
Background Papers: DCLG					
Person Originating Report: Michelle Drewery, Finance Manager ☎ 01832 742267 ✉ mdrewery@east-northamptonshire.gov.uk					
Date: 22/05/2017					
CFO		**MO**		**CX**	

Department for Communities and Local Government

100% Business Rates Retention

Further consultation on the design of the reformed system

February 2017
Department for Communities and Local Government

This document/publication is also available on our website at www.gov.uk/dclg

If you have any enquiries regarding this document/publication, complete the form at http://forms.communities.gov.uk/ or write to us at:

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Contents

Scope of the consultation

Topic of this consultation:	This consultation seeks further views on the implementation of the Government's commitment to allow local government to retain 100% of business rates raised locally.
Scope of this consultation:	Specifically this consultation seeks views on some of the detailed aspects of the design of the reformed system
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 to Wednesday 3 May 2017.
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.

Ministeral Foreword

The move to 100% Business Rates Retention is a reform that councils have long campaigned for. As well as moving councils away from dependency on central government, the reforms will provide councils with strengthened incentives and flexibilities to boost growth in their areas. This change in the relationship between central and local government has been long overdue.

From the outset, we have been determined to collaborate closely with local government and business on the design of these reforms – to make sure the process reflects the needs of areas up and down the country, and to help ensure that the new system works in the way authorities expect it to. This is why we published an open consultation last summer on the design of the reforms. That is also why we are continuing to engage direct with councils, businesses and their representatives on detailed aspects of the reforms.

I would like to thank the many in local government and business organisations who have made substantial contributions to the development of these reforms so far. This valuable work has helped underpin the framework of the new system, as contained in the Local Government Finance Bill which we introduced into Parliament on 13 January 2017.

But the Bill is only part of the story, and we want to continue to work with local authorities and businesses to shape and develop the detail of the reforms right up to the implementation of the new system. We know that councils in particular welcome this continued opportunity to influence the process. This consultation is part of this, and seeks views on many of the important aspects of the new system – for example, how growth in business rates can best be rewarded, including the opportunities available for authorities working together as part of a business rates pool.

We also want views on how the system can help authorities to manage and share risk, including in those parts of the country where there is more than one tier of local government. We want councils to lead the way and to help us understand how the system can best work in those areas. This is why we have also confirmed that we are interested in building on the existing pilot scheme and will be inviting all councils to apply to participate in piloting aspects of 100% Business Rates Retention from April 2018. We will be publishing more information about this process shortly.

I hope that councils, businesses and those that represent them will take the opportunity respond to this consultation.

Marcus Jones MP
Minister for Local Government

1. Introduction and overview

1.1. In October 2015 the Government committed that local government should 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. To ensure that the reforms to business rates are fiscally neutral some existing central Government grants will be replaced by additional retained business rates. Local government will continue to deliver these existing responsibilities through such retained business rates and/or they will take on new responsibilities to reflect additional tax income. Subject to Parliamentary approval, we aim to introduce the new system for the financial year 2019/20.

1.2. Over the last year, we have been working closely with local authorities, their representatives and representatives of business to shape the design of the reforms.

1.3. This has included a jointly chaired Local Government Association (LGA) and DCLG Steering Group and a set of Technical Working Groups to look at every aspect of how the new system should work, and which responsibilities should be devolved. In addition, a joint LGA-DCLG chaired Business Interests Group has been established. Copies of papers taken to each of these groups and records of the discussion are available on the LGA's website: http://www.local.gov.uk/business-rates.

1.4. In addition, the Government undertook an open call for evidence on the key issues across the reforms, which closed at the end of September 2016. A summary of responses to that call for evidence and the Government response is published alongside this consultation.

1.5. The Government has now published and introduced into Parliament primary legislation which is intended to provide a framework for the reformed 100% Business Rates Retention system. The Local Government Finance Bill builds on similar legislation that underpinned the current 50% rates retention system. A copy of the Bill and relevant supporting documents are available here: http://services.parliament.uk/bills/2016-17/localgovernmentfinance.html

1.6. The approach taken in the Bill was informed by the significant engagement we have had with authorities and businesses so far, and takes account of views expressed in the recent call for evidence exercise. For example, councils have expressed strongly that, under the reformed system, there needs to be changes to help authorities manage the risk and income volatility associated with business rates appeals. In line with this, the Bill provides for these issues to be managed centrally and for available resources to be better directed to where losses are experienced.

1.7. Importantly, we want to continue to work with authorities to consider how this – and other aspects of the reformed system – would best work in practice and can be effectively implemented. To allow for this, and in line with the approach taken for other local government finance legislation, the Bill provides for detailed aspects of the system to be set out in secondary legislation. We know that many in the local government sector welcome this approach; it allows for further consultation and discussion, as well as the opportunity to continue to test approaches ahead of the introduction of a new system.

Fair Funding Review

1.8. For the services currently provided by local government, 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 devolved as part of these reforms on a case by case basis; they are likely to have bespoke distributions.

1.9. Alongside the consultation on the approach to the Business Rates Retention reforms in 2016, the Government also published a call for evidence on the Fair Funding Review. We will publish shortly on gov.uk a summary of the responses to the call for evidence and consultation paper, seeking views on the broad approach and cost drivers that could form part of a new relative needs formula.

1.10. The Government will continue to engage with local government as part of the Fair Funding Review. This includes via the joint DCLG / LGA chaired Needs and Redistribution Working Group. Copies of papers taken to this group and records of the discussions are available on the LGA's website: http://www.local.gov.uk/business-rates.

Devolution of responsibilities

1.11. The Government has announced that Revenue Support Grant, Rural Services Delivery Grant, the Public Health Grant and the Greater London Authority Transport Grant are to be funded through retained business rates. The Government has also confirmed that the devolution of Attendance Allowance funding is no longer being considered as a part of the Business Rates Retention reforms.

1.12. Taken together, these announcements account for around half of the additional retained business rates that we estimate will be available to local government at the point at which the reformed system is introduced. The Government will continue to explore with local government the issues raised by respondents in relation to the remaining responsibilities identified within the summer consultation and as well as other options identified by local government in their response to that consultation.

1.13. The Government will continue to work with the local government sector through the Responsibilities Working Group, and if there is a need to consult further, will do so in due course. Our aim would be to decide on the package of responsibilities to be devolved for the commencement of the new Business Rates Retention system in spring 2018 for potential implementation in April 2019.

Assessing the value of business rates income

1.14. In considering the design of the new system, authorities will inevitably be interested in estimates of the value of additional funding from business rates - known as 'the quantum'.

1.15. The July 2016 consultation on Business Rates Retention set out the estimated additional business rates revenue available to local government in 2019/20 and committed to keep this quantum under review. We have updated our estimate, based on the latest available forecasts from the Office for Budget Responsibility (OBR). Our current estimate is that the value of additional business rates revenue available to local government from locally collected rates in 2019/20 will continue to be around £12.5 billion. We will continue to keep this quantum under review and update it based on the latest OBR forecasts.

1.16. 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. Our updated estimate is that the value of central list income in 2019/20 will be £1.8 billion. We will continue to keep this estimate under review, especially in light of the proposed review of the central list set out later in this consultation document.

Timetable

January 2017	Introduction of Local Government Finance Bill, which will put in place the legislative framework for the reforms.
February 2017	Publication of further consultations on design of the 100% Business Rates Retention system and on Fair Funding Review.
April 2017	Piloting of the approach to 100% Business Rates Retention begins in Cornwall and the combined authority areas of Greater Manchester, Liverpool City Region, West Midlands, and West of England. In addition, GLA will take on responsibility for TfL capital funding and so will begin to receive a higher share of business rates.
Autumn 2017	Planned publication of further detail on secondary legislation including draft regulations where possible.
April 2018	Further piloting of the approach to 100% Business Rates Retention begins in areas not covered by devolution deals, including two tier areas.

Spring 2018	Aim to decide on package of responsibilities to be devolved for the commencement of new 100% Business Rates Retention system.
Summer 2018	Planned consultation on new relative needs baseline for new system.
April 2019	Expected implementation of 100% Business Rates Retention cross local government.

2. Rewarding growth

Resetting the system

2.1. In the 100% Business Rates Retention system, we need to find the right balance between redistributing business rates to meet changing relative need, and using the system to provide an incentive for longer term growth.

2.2. How the system is reset, and how frequently it is reset, does not require legislation. Therefore the Local Government Finance Bill does not make reference to resets. However, the timing and operation of resets is critical to the way the scheme deals with risk and reward. We have included further detail below on the issues that need to be addressed in designing the reset system. How resets work is essential in finding the right balance between growth and need in the 100% Business Rates Retention system.

2.3. For some local services, 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.

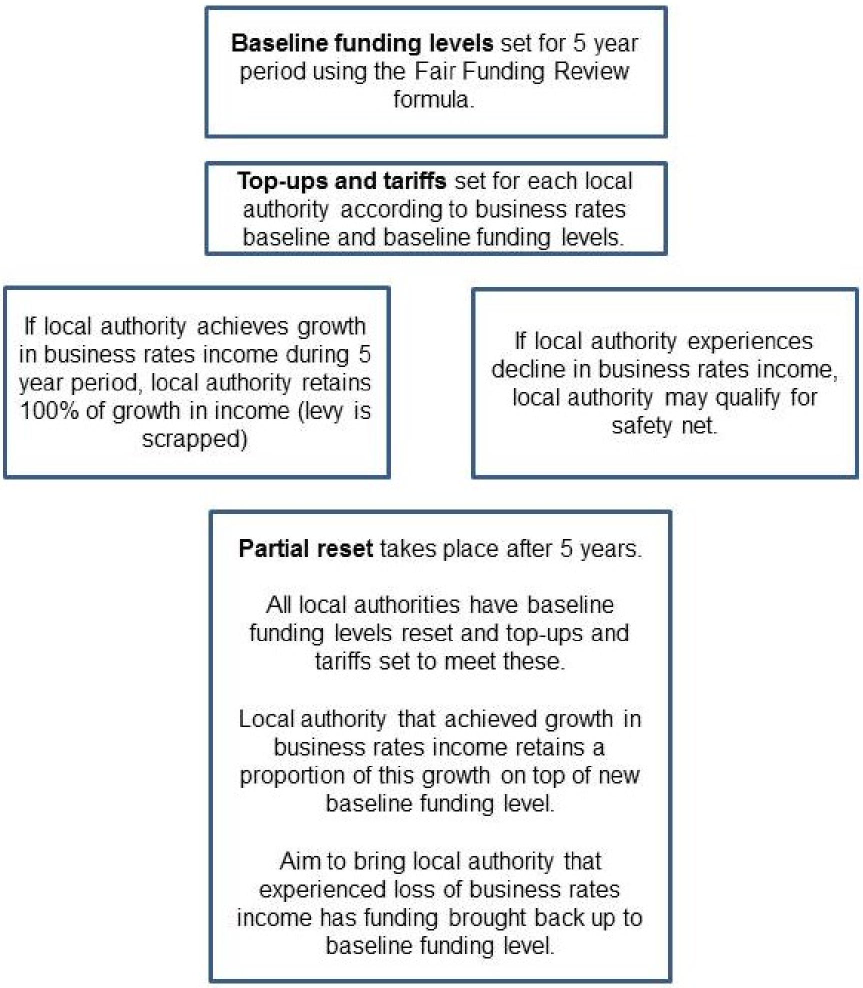
2.4. Building on feedback received through the first Business Rates Retention consultation, and ongoing engagement with the local government sector, we believe that partial resets will help provide this balance.

2.5. Responses to the first Business Rates Retention consultation supported the idea of fixed reset periods, in order to provide stability to the sector about funding allocations. The largest group of responses suggested that five year reset periods would find the right balance between allowing for local authorities to benefit from growth in business rates income (especially as part of partial resets), and updating and redistributing according to changing relative need. The joint LGA and DCLG Steering Group on 100% Business Rates Retention, and the associated System Design Working Group and Needs and Resources Working Group, have been exploring how a five year partial reset might work.

2.6. We are therefore consulting now on a possible five year partial reset under 100% Business Rates Retention , and would like further feedback about how this could work in practice. This is only a proposition at this point, and is still open to change as we further develop the system design for 100% Business Rates Retention, and continue to engage with the local government sector.

2.7. Under this proposition, business rates baselines will be set for every local authority for a period of five years, with top-ups and tariffs set to that level. Any growth in business rates income that a local authority achieves during this five year period will be retained by the local authority, over and above their business rates baseline in the years up to the point of reset.

2.8. At the point of a reset, business rates baselines will be recalculated, allowing a proportion of growth achieved by an authority to be retained. The other portion of growth will go back into the pot to be redistributed as required. Baseline funding levels (along with top ups and tariffs) will then be set for the next five year period to take account of an updated assessment of relative need. If a local authority has seen a decline in business rates income over the five year period, the partial reset will be the opportunity to reset the authority's baseline, and aim to bring funding back to baseline levels. In other words, whilst at a reset, authorities will be allowed to retain a proportion of growth achieved in the previous period, they will not be expected to continue to bear a proportion of any loss.



2.9. This proposed partial reset includes an update of the relative needs and resources formula every five years. Local government has been clear that they feel the balance of needs between authorities is changing quickly, and that there should be a reassessment of needs relatively frequently to respond to these changes.

2.10. We recognise that resetting the needs formula every five years could result in significant changes of income for some local authorities, so intend to explore the introduction of transitional arrangements after a reset. Where these are needed, as part of this proposition, we would expect that transitional arrangements should unwind over time, ideally within a reset period (e.g. a maximum of four years). This aims to ensure that every authority reaches their needs based funding baseline ahead of the next partial reset.

2.11. This partial reset would aim to bring the amount available for redistribution (the ‘redistributable pot’) back to the same amount as at year one plus inflation (i.e. keeping the pot at a ‘flat real’ level). We are continuing to model what this would mean in terms of the proportion of growth that authorities could retain at a partial reset. This is dependent on how much growth in business rates income is achieved, as well as how we measure growth over the five year period.

2.12. There is a relationship between the amount of growth authorities are able to retain at a reset and the amount available to bring all authorities back to baseline funding levels. For example, ensuring that authorities that have seen a decline in business rates income do not have to bear a proportion of that loss over a reset will impact on the ability to set a fixed proportion of growth that can be retained at a reset.

2.13. We will continue to explore and exemplify this relationship with local government, in particular through the Steering Group and associated Working Groups. We will also explore the interaction of resets and revaluations of business rates.

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

2.14. Partial resets will require the Government to measure growth over a reset period; in order to calculate how much growth has been achieved, and the proportion to be retained by a local authority at a partial reset.

2.15. Decisions on how to measure the growth in business rates income that is accounted for at a partial reset will be important in ensuring the system:

- Provides an appropriate incentive for growth – by making sure that growth leads to greater retention of business rates income;
- Is simple and transparent to understand – by aiming to ensure the system is predictable and responsive; and
- Avoids perverse incentives – i.e. prevents ‘gaming’ of the system – by aiming to ensure that growth is rewarded across all years of a reset period, and that we avoid rewarding annual volatility in income.

2.16. There are a number of factors to consider when calculating ‘growth’ at a reset, including:

- The baseline against which growth is to be measured;
- Whether to measure growth in real or nominal terms;
- Whether to measure growth at a single point in time, or whether to measure growth as an average over several years (and if so, how many);
- What proportion of growth to allow to be retained by authorities that have achieved growth over the reset period.

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

Business rates pooling

2.17. The Government believes that local authorities can achieve greater impact when working together, especially when working over wider areas to achieve economic growth. For this reason, the Government wants to continue to encourage and reward pooling under the 100% Business Rates Retention system. Pooling (for example across a Combined Authority area, or a functional economic area) could achieve greater rewards in terms of economic growth for the area as a whole.

2.18. The current approach to pooling, under the 50% Business Rates Retention scheme, allows local authorities to voluntarily come together and propose their own business rate pools. These pools are then treated as one entity in terms of payment of the levy and receiving safety net payments if required.

2.19. We think the current approach to pools does not work as well as it could, and does not help to achieve the potential benefits that more ambitious pooling arrangements could bring. The current voluntary approach can incentivise the wrong behaviours – leading in some areas to local authorities being excluded from pools due to their being perceived as ‘high risk’. In addition, the removal of the levy from the new 100% Business Rates Retention system means that the rewards for pooling are reduced.

2.20. This means we now have the opportunity to take a fresh approach to pooling under the 100% Business Rates Retention system. We are therefore proposing through the Local Government Finance Bill to update the way that pools are set up, and strengthen the incentives open to pools. Through the current Local Government Finance Bill, the Government is broadening the ability of the Secretary of State to designate pools of authorities. The Bill removes the requirement for local authority consent, but introduces a requirement to consult with affected local authorities.

2.21. We still expect to discuss with local authorities the size, shape and geography of any pools, and will continue to expect authorities to approach Government with pooling proposals.

2.22. By removing the requirement that all authorities must agree to being designated as a pool, we enable the Secretary of State to ensure that pools are created across functional economic areas that maximise the opportunities for growth. We have introduced a statutory duty to consult with areas on their pooling arrangements. However the ultimate decision will rest with the Secretary of State, helping to ensure that all authorities in a functional economic area will have to take those discussions seriously.

2.23. A pool of authorities will in effect be treated as one authority under this approach. The pool will be treated as one entity for setting top-ups and tariffs, as well as safety net payments. Pooling may lead to greater self-sufficiency across a pool area, more closely aligning the business rates collected across a pool area with the pool's funding requirement. This should help to equalise growth incentives across the pooled area.

2.24. We want to reward local authorities for being ambitious in their plans and being part of a pool under the 100% Business Rates Retention system. Some of the rewards that we intend to explore for pools of authorities include:

- Offering up additional growth incentives – including the ability for the pool to set their own local growth zone, as set out below;
- The option of retaining additional growth in business rates income through a reset of the wider system;
- A different level of safety net, to provide additional support to those authorities willing to be ambitious in their plans for growth;
- Different or additional responsibilities to be funded through Business Rates Retention that would be better exercised at a larger geographical area.

Local Growth Zones

2.25. The Government is proposing to introduce a new reward for local authorities that are cooperating and working together as a business rates pool. We are introducing a new power through the Local Government Finance Bill, which will allow local authorities themselves to establish growth areas (within parameters to be set by government, to help manage the impact on the system as a whole). Local authorities will then be able to keep a proportion of growth in business rates income from that area outside the rates retention system for a specified number of years – i.e. this growth would remain outside the 'reset' system.

2.26. The new power to designate local growth zones adds an additional growth incentive to the 100% Business Rates Retention system, along with a real opportunity to give greater responsibility to local government for their own growth-related financial decisions, and to move away from having to approach central government for investment.

2.27. The Government believes that business rate pools under 100% Business Rates Retention will be the right geographies to maximise the opportunities for growth. The ability to set their own local growth zones will allow pooled authorities to benefit from growth in income from that area, enabling them to receive shared rewards from shared investment in economic growth.

2.28. Local authorities have reiterated that it is important to maintain the balance between rewarding councils for growing their local economies and making the system work as a whole. To ensure that our policies on pooling and local growth zones support this, we expect to set some parameters around the size and operation of local growth zones.

2.29. Once the parameters around the size and operation of a local growth zone have been set, it will be for pools of local authorities to set up and define the relevant area.

2.30. Specific parameters will be part of the discussions for each pool, with further detail on these to be set out in secondary legislation. These could include some or all of:

- The proportion of growth retained in the local growth areas;
- The rateable value of hereditaments in the geographical areas to be designated and/or the proportion of the total business rates income that could be covered by the local growth areas;
- The number of years for which the local growth areas would exist;
- Definitions about the geographical areas;
- A connection to investment from the local authority/ies in the local growth areas;
- The purposes for which growth in business rates income from the local growth areas could be used.

2.31. The introduction of this new power is likely to have a small impact on the total amount of growth in business rates to be redistributed at a partial reset. The parameters that will be discussed and set for each local growth zone will help to manage this impact. The Government believes that this will help maintain the right balance between redistributing business rates income in the system and rewarding growth.

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

3. Managing and sharing risk

Managing the impact of successful appeals

3.1. Our work with local authorities so far and responses to the recent consultation have highlighted how important it is that the reformed system helps authorities be comfortable with the risk they manage. Managing the impact of successful business rates appeals is particularly important given the impact that this can have on an authority's available resources. We are taking steps to change the way this is managed, to move the impact away from individual authorities.

3.2. Under the current 50% Business Rates Retention scheme, local authorities bear the risk for business rate appeals, and are required to set aside funds ("provisions") to be held in reserve in case of successful appeals. Calculating provisions is inherently difficult, and the impact of 'getting it wrong' and not setting aside enough in provisions, could see local authorities experiencing even greater volatility year-on-year.

3.3. The Government recognises the challenges that local authorities have faced under the current approach to managing appeals. The management of risk is essential to support local authorities towards self-sufficiency and economic growth. The Government's intention under the 100% Business Rates Retention system is therefore to continue to help local authorities manage the risk and income volatility associated with appeals, but to better direct this support to where losses are experienced.

3.4. To do this, the Local Government Finance Bill includes a new provision for "loss payments". This has been welcomed by local government, and by the LGA in their feedback on the Local Government Finance Bill. This provision will allow the Government to make a payment in connection with a reduction in a local authority's income that results from an alteration of the authority's local rating list.

3.5. The Government's intention is that loss payments will be direct payments to local authorities, to more directly provide remuneration for loss of income resulting from changes to rating lists relating to 'valuation errors' in the compiled local ratings list. We do not intend for this payment approach to be made for other changes to ratings lists, such as those resulting from later physical changes to a property. Further work will consider when loss payments should commence, including how this relates to the business rates revaluation timetable.

3.6. Currently, under the 50% Business Rates Retention scheme, a 'top slice' for managing appeals is made to the total England-wide amount of business rates income before baseline funding levels are set. We expect to continue funding 'loss payments' through a 'top slice'. In a change to the approach we currently use under the 50% Business Rates Retention scheme, the top slice will be held and distributed centrally rather than a share being held by each local authority. This change will allow us to focus reimbursements where they are experienced, rather than assuming equal loss due to appeals across every local authority.

3.7. The detail about how loss payments are calculated and made will be set out in further proposals later in the year. We are working with local government and CIPFA representatives to better understand how this will need to work in practice, and intend to provide further information where possible later in the year. We encourage all local authorities to continue to engage with their representatives on the joint LGA-DCLG Steering Group and Systems Design Working Group.[1]

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

Tier splits

3.8. As set out in the July 2016 consultation on 100% Business Rates Retention, the Government intends to continue to set ‘tier splits’ between different tiers of authority – i.e. the percentage of business rates income that each tier of authority would get – to ensure that risk and reward is shared amongst billing and precepting authorities.

3.9. The level at which we set tier splits can affect the ‘gearing’ of two tier authorities. Gearing refers to the amount of local business rates that a council is able to raise, compared to the amount it is assessed to ‘need’ as its baseline funding level. The closer that local tax resource is to baseline funding level, the better the balance of risk and reward from growth for a local council. Where there is 1:1 gearing between a council’s tax base and their baseline funding level, any increase in business rates income results in the same proportional increase to the business rates income they retain for local spending.

3.10. Through analysis of gearing in the current system,[2] we know that the vast majority of highly geared authorities are districts. The distribution of funding between tiers in two tier areas (80% of the local share of business rates collected are retained by districts) means that district councils always collect a greater amount in business rates than they require to meet their baseline funding levels. This means in practice that all districts are required to pay a tariff (i.e. will have a part of their business rates income redistributed). At the other end of the scale, and for the same reason, shire counties are inevitably top up authorities and therefore lowly geared.

[1] Details can be found at www.local.gov.uk/business-rates
[2] See paper titled ‘Gearing and Tier Splits’, published with other papers from the System Design Working Group of 14 October 2015: www.local.gov.uk/business-rates

3.11. The more highly geared an authority, the greater level of reward they can achieve from changes in their business rates income, but the authority would also carry a greater level of risk. The lower geared an authority, the more difficult it is to achieve significant reward in their business rates income, but they also carry a much lower level of risk.

3.12. The Government's intention is therefore to use tier splits to help manage the level of risk and reward open to councils in multi-tier areas, recognising in particular:

- The importance of providing stability of funding for adult social care services;
- The ability of different tiers to influence growth;
- The services devolved to different tiers.

3.13. The 'tier split' can already be amended through secondary legislation, and we are therefore not making any changes through the Local Government Finance Bill.

3.14. How we set tier splits will affect district councils, county councils, combined authorities, London boroughs, and the Greater London Authority, and possibly fire authorities subject to decisions about whether they are remain within the Business Rates Retention system.

3.15. The organisations representing district and county authorities are considering the question of tier splits and aim to come up with proposal supported by both groups of authorities. London organisations are also considering the question of tier splits for London. The Government continues to explore options for future tier splits with the local government sector.

3.16. Some responses to the July 2016 consultation on Business Rates Retention suggested that two tier areas should be able to determine their own tier splits for the area. This would mean, for example, the relevant county council and district councils across the county area working together to agree the right tier splits for their area. The Government is interested to hear views on this approach.

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

3.17. The Government has announced pilots of 100% Business Rates Retention in several local authorities in England to start in April 2017. We are interested in testing aspects of the system in areas not covered by devolution deals, including two-tier areas from April 2018 and will continue to explore this through ongoing engagement with the local government sector. All councils will be free to apply to participate in these pilots, and the Government invites them to do so. The Department for Communities and Local Government has already held discussions about the 2018/19 pilots with several councils and will be publishing more information shortly.

Safety net

3.18. The Government continues to recognise the ongoing need for a safety net under the 100% Business Rates Retention system. The primary legislation around safety net calculations and payments remains broadly the same, allowing us to define in regulations how the safety net will work under 100% Business Rates Retention.

3.19. The Government is using the Local Government Finance Bill to make a minor change to correct an anomaly in the timing of safety net calculations and payments, in response to concerns raised by the local government sector. This will allow us to define the detail about the timing of calculations and payments in secondary legislation, and we intend to consult later this year to ensure the changes support local government accounting practices.

3.20. We anticipate that the demand for safety net payments should reduce under 100% Business Rates Retention with the move to partial resets every five years, and introduction of a new approach for appeals losses (as set out at the start of this chapter). However we still require a safety net to support those local authorities that experience shocks to the system, such as the closure of a major ratepayer, that reduce their income and affect their ability to deliver appropriate services.

3.21. The current safety net under the 50% Business Rates Retention scheme is predominantly funded via the levy on growth. The levy is to be abolished under the 100% Business Rates Retention system, and so we expect to fund a future safety net through a top slice to the overall quantum, using the same approach as for loss payments. This means that the safety net will continue to be funded through the overall Business Rates Retention system.

3.22. The current view that we have received through the summer consultation document, and other engagement with the local government sector, is that the safety net should continue to function as a ‘simple’ safety net whereby local authorities bear some of the risk but will receive help when business rates income reduces below a certain level. This is the safety net that currently operates for the 50% Business Rates Retention scheme, which has a threshold of 92.5% of baseline funding levels. The Government expects to raise this threshold for the 100% Business Rates Retention system, to reflect the increased proportion of local government funding at stake. The 100% business rate retention pilots for 2017-18 will be trialling a safety net set at 97% of baseline funding level.

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

Central list

3.23. The Government believes that it is right to provide stability and certainty for local government in terms of whether hereditaments should be assessed on the central list or local ratings lists. Ahead of the introduction of the 100% Business Rates Retention system, the Government intends to set out a clear statement of policy for which properties and ratepayers should be assessed to the central list.

3.24. In order to do this, and to refresh the central list, the Government is taking powers through the Local Government Finance Bill to improve the operation of the central rating list and make it more responsive to changes. This will ensure the central rating list is fit for purpose for 100% Business Rates Retention.

3.25. Specifically we will move the operation of the central list from regulations to direction making powers including retrospective powers to update the list to reflect changes to ratepayers and properties. This will ensure we can keep properties on the central list following changes. We will also introduce charitable relief and empty property relief to the central list to ensure any central list properties entitled to these reliefs are treated fairly.

3.26. Following feedback from local government, the Government does not intend at this point to introduce area lists.

3.27. Government intends to use the improved powers taken through the Local Government Finance Bill to:

- Review the contents of the central list to ensure it (and local lists) are consistent with this policy and make any changes between central and local lists in time for the introduction of 100% Business Rates Retention; and
- Consistently maintain the central list and ensure it reflects the central list policy over time.

3.28. This will provide more stability and certainty for both local government and ratepayers in respect of large network properties.

3.29. The Government believes that the core purpose of the central list will be, as now, to provide a home for hereditaments which by their nature are not suitable for being assessing on a local rating list. Such hereditaments are likely to be those spanning several local rating list areas and not primarily located in one list.

3.30. Ahead of the introduction of 100% Business Rates Retention, the Government will consult with ratepayers and local government upon:

- The details of the central list policy;
- How it will undertake a review of the central list ahead of 100% Business Rates Retention in a way which supports the set-up of the reformed system

whilst continuing to support the existing 50% Business Rates Retention system; and
- How it will then maintain the practical application of the central list policy.

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

Summary of questions

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

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

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

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

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

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

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

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 us via the complaints procedure.

Summary of questions

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

The proposed approach appears to be reasonable in balancing needs alongside a system of rewarding growth which this council welcomes. The proposal for introducing transitional arrangements after a reset would also need further consideration as to how this would work and what the financial implications would be. We welcome the opportunity to retain our growth income where possible. However, following a reset, we could be faced with a downturn in our business rates income on which some level of certainty and protection can be placed with transitional arrangements over the four year period suggested in the paper. This would help to balance disproportionate growth or losses in the system.

This council supports the view that growth in the new system should be retained by local authorities and not used to fund new responsibilities. We also believe that growth from renewable energy schemes (currently 100% retention by the planning authority) should be retained in full by that authority both at the point of resets and at the start of the new 100% retention scheme in 2019.

It would be useful to see some financial models/examples on how the proposals would work in practice before any decision is made.

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

The council¶s view is that growth should be measured on a fair and transparent basis. Measuring at a single point in time could be unfair if a council has during that year faced a significant reduction in business rates due to appeals or a disproportionate increase in growth following a one-off large development being brought into rating. It is recognised that accounting adjustments can impact on underlying growth levels. Whilst an average over a number of years seems more reasonable it is unclear what impact this will have, whether it is 3 or 5 years, without seeing any financial modelling of the scenarios so that the implications can be highlighted more realistically.

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

Allowing the Secretary of State to determine who should be in a local pool could have a detrimental impact on the pool which members of the pool may not be willing to accept and goes against local decision making. Whilst this would serve to benefit those authorities that DUHµULVNHU¶WRMRLQVDDSRRO WKHSRRO WKHUHWKHUHLVDHSENMWKHULVNQ
possibly the cost of carrying those authorities not joining the pool, which may outweigh any benefit they could achieve from being in the pool. If introduced (which this council does not support), careful consideration should be given on how this could work without having a negative impact on the other authorities that this will be imposed on. This way, pools would EHDOORZWRDFFHSWµULVNHU¶ authorities without going down the route of having it forced upon them.

We would also need further clarification on how the treatment of the top ups and tariffs will operate in a pool post 100% retention when the levy payment will be removed, in order to fully understand the benefit of being in a pool.

We would also want the local growth zone system to be fair for all pools. It would be unfair if one pool could retain a higher proportion of business rates in comparison to another, especially if it is to be deducted from the overall business rates available for redistribution. Therefore, parameters that support this would be welcome. However, we feel that locally, pools should be able to agree how the retained growth from these zones should be used or distributed within the pool. Further consultation and clarification on proposals around how this could work would be welcome.

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

We would welcome more certainty around appeals. However, it is difficult to make a judgement on how this will impact local authorities without understanding how the current outstanding appeals list will be dealt with. We currently have a significant amount of outstanding appeals dating back to March 2015 which are not yet dealt with due to revaluation taking priority. This needs addressing.

This council also recognises that if revaluation is to take place more frequently (every 3 years) then appropriate resources will need to be put in place to ensure that appeals can still be dealt with in an acceptable timeframe. It is not acceptable for us, and even more so, for a local business, to have to wait for their appeal to be dealt with for 2 or 3 years. Assuming that VOA will now be in a position to focus on appeals means that local authorities will inevitably suffer a disproportionate impact on the ratings list. More information is needed before we can consider a reasonable response to this.

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

We would welcome examples of financial modelling on this in order to assess the impact of a change to the tier split. It is difficult to make any judgement without understanding the impact from changes to topslice levels, changes to tariffs and top ups and transfer of responsibilities. However, in the absence of this information, we would support a higher % going to lower tier authorities. We do not see that moving from 50% retention to 100% retention should put lower tier authorities in a worse financial position.

Upper tier authorities are being given additional support for social care from a range of funding streams being made available to them (some of which have already had a detrimental impact to lower tier authorities such as New Homes Bonus) and it is certain they will also benefit from a change to the needs and distribution formula. As the local planning and billing authority, we carry out all the work and invest our time and effort into growing our local economy. Moving to a 100% rates retention scheme should rightly bring some of that benefit to lower tier authorities from the outset and not be used as another way of passporting even more funding to upper tier authorities at the expense of the lower tiers.

The suggestion of setting our own local tier split sounds positive, although we would envisage this would be difficult to implement on the basis that a collective agreement would be required by all parties. Further proposals on how this might work would be welcome.

We also believe that it is an appropriate time to consider excluding fire and rescue authorities from being funded by business rates. Fire and police both fall under the Home Office and with recent changes to permit police and crime commissioners to take over fire and rescue authorities it seems sensible to align the funding arrangements for police and fire. This would help to simplify tier splits.

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

We feel the proposed level of safety net is acceptable and is reflective of the move from 50% to 100% retention.

Funding the safety net from a top-slice is a sensible proposal although we have concerns of how much topslice is being committed to other proposed changes in the system.

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

The key issue with the central list is the impact of movements between the local and central list which can be significant. If proposals for changes to the central list mean that this impact will be minimised going forward then this council would support it.

We agree that the central list should only include property which is genuinely non-local. It is important that moves between central and local lists should be done at the start of the system when the baseline is set so they do not have an impact on authorities either before or after further rates retention has been introduced. The scheme must ensure that adverse impacts are compensated elsewhere in the scheme post 2019-20. Where properties are moving from local lists to central lists, local authorities will need their baselines adjusted to reflect this (rather than the protection of the safety net).