
Business Rates Retention Local Government ‘Away Day’: Summary of Comments

Introduction

1. On 6 September the Local Government Association coordinated an ‘away day’ at Local Government House for local government members of the Steering Group and four working groups. Over 40 members of the groups attended.
2. The day began with a presentation from Nick Burkitt providing an overview of the reforms and the latest from DCLG’s perspective, followed by a presentation from Sarah Pickup outlining the objectives for the day and the LGA’s emerging responses to the consultation and call for evidence. This was followed by three parallel sessions on: responsibilities and asymmetric devolution; the balance between risk, incentive and need; and needs and redistribution. These parallel sessions ran twice, giving delegates the opportunity to attend two of the three sessions. The final session brought all delegates together to provide feedback from the sessions and identify areas of consensus, wherever possible.
3. A summary of the conclusions reached at each of the workshops is outlined below.

Responsibilities and Asymmetric Devolution

4. There was general agreement from workshop attendees that the following existing grants should be funded through business rates income in the new system: Revenue Support Grant, GLA Transport Grant, Rural Services Delivery Grant, Public Health, and Local Council Tax Support and Housing Benefit Administration Subsidy. Delegates were undecided on Early Years funding, although the proposed reforms currently being consulted on are likely to result in the funding being ringfenced. Whilst there was a general consensus against the improved Better Care Fund being funded through business rates retention, some argued it should be included. Most supported the Independent Living Fund being included, but a minority were against.
5. It was emphasised by delegates that the ‘terms and conditions’ of any transfer will be key, and the Government must attach the minimum of conditions to any transfer. However, it was also recognised that there may be accountability issues related to some grants, which need to be considered carefully as part of the transfer. This could be discussed as part of a ‘national devolution deal’ for the whole of local government.
6. In terms of new responsibilities, there was a consensus that the priority should be services linked to economic growth. The proposal to fund Youth Justice, as outlined in the consultation paper, was also generally supported. However, it was emphasised that the pressures facing councils, including those additional pressures from 2020, must be funded as the first priority from the additional income. There was no support for the funding of Attendance Allowance through business rates retention.
7. The substantive discussion focussed on asymmetric devolution. The ‘national devolution deal’ should be sufficiently large to cover all of the quantum; this would avoid the need to use business rates income to fund some responsibilities only applicable to devolution

deals areas. No consensus was reached on the approach to take if a national deal was not achievable.

8. From the list of responsibilities in devo deal areas outlined in the consultation, only those relating to adult education and highways and transport were thought to be suitable for funding from business rates. As mentioned above, the view was that these responsibilities should be funded through business rates for all local authorities. The discussion was therefore more about additional services devolved through deals that were not mentioned in the consultation (e.g. housing investment in London). There were also concerns that including additional investment funds allocated to devo deals could cause presentational problems if presented as 'new money'.

Balance between Risk, Incentive and Need

9. There was agreement that tariffs and top-ups should continue to operate in the new system based on new and updated baselines. At this stage, the split between business rates income in two-tier areas requires more work and will depend on decisions made in the parallel work on responsibilities and needs and redistribution. Similarly, more information is needed on the impact of revaluation on top-ups and tariffs before consensus can be achieved.
10. Delegates supported an approach where provision for business rates appeals was made at a national level. However, the way in which this could operate is not yet clear and could involve significant complexity. The multiplier should also be set at level sufficient to cover a proportion of the loss of income through appeals.
11. It was agreed that properties on the central list should be limited to those which are inherently 'non-local'. There is a need for greater clarity on adjustments to top-ups and tariffs, as a result of transfers between lists. Apart from in London, there was no appetite for a regional list approach.
12. It was agreed that the safety net should be funded by a top-slice; again more work is necessary on determining the mechanism and baselines for a safety net.
13. On resets, there was agreement that partial resets could work, however there was not clear agreement about whether the needs and business rates baselines would need to be reset according to the same timetable. There would also have to be protection against 'cliff edges' at a reset.

Needs and Redistribution

14. There was agreement that consideration of simplicity and 'fairness' might be better thought of as an analysis of whether additional complexity adds value to the formula mechanism. As a consequence, there was support for a fundamental review of the basket of key cost indicators that could be used for statistical analysis.
15. Whilst there was not a uniform view on whether past expenditure-based regression is a suitable methodology, there was support for exploration of a more normative analysis and principle component analysis, to break the link with past spending trends. It was also agreed that the approach to, and results of, statistical modelling should be exemplified early and often to avoid the issues that arose in the recent police funding formula review.

16. Finally, there was a recognition that some form of transition mechanism should continue, but a consensus view on the details of such an approach was not reached. There was also support for exploring partial resets further.