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## **BUSINESS RATES RETENTION STEERING GROUP: SUMMARY OF CONSULTATION RESPONSES**

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1. On 5 July 2016, the Government published its consultation 'Self-sufficient local government: 100% business rates retention' and a call for evidence on the Fair Funding Review. Both closed on 26 September and analysis is currently underway. These documents were very open and sought views on a range of issues across the reforms. This was deliberate and was intended to facilitate continuing discussion and debate with authorities, the public, and business, to feed into our policy development. There were over 450 responses to the consultation, of which 279 were from individual local authorities, 13 joint local authority responses and 18 from associated representative. Additionally, we received over 200 responses to the call for evidence on needs and redistribution. A detailed paper on the Fair Funding Review will be discussed at the December meeting of the Steering Group.

### Devolution of responsibilities

2. The consultation document asked a series of questions which aimed to identify which responsibilities would be best suited to be funded through retained business rates to ensure that the reforms are fiscally neutral. There are some clear themes arising on a number of issues from respondents, most notably these are;
  - Before additional responsibilities are devolved, existing 'unfunded' pressures should be taken into account;
  - Existing non-ringfenced grants paid to local authorities already were suitable;
  - Growth and skills related responsibilities would be preferred, but there should be a universal approach not just in deal areas;
  - Attendance Allowance should not be devolved to authorities as a part of these reforms;
  - Businesses did not indicate a preference in regard to any individual grants proposed for devolution in the consultation,
  - While there was not a clear consensus from business there were a number of individual responses which favoured devolving functions to local authorities which promoted growth or skills type functions.

### The business rates system: Rewarding growth and sharing risk

3. The consultation considered how a new system should operate in a world where local government retains 100% of taxes collected locally. Issues considered included the balance between rewarding growth and funding for need, how risk should be managed and whether some elements of the system could be handled at different geographic levels. Respondents were keen to understand further detail about how the system would work, and so further consultation with greater detail in the future will be important.
4. Some issues raised in the consultation document found general consensus from respondents:
  - Fixed reset periods (providing they remained fixed) would be important in providing some certainty in the system;
  - The idea of a 'partial reset' was generally supported, with the caveat that we should revisit what this means in practice in the future;
  - Top ups and tariffs work as a mechanism to redistribute business rates income around the system, and should continue to be used;

## POLICY DEVELOPMENT: NOT A STATEMENT OF GOVERNMENT POLICY

- Business groups tended to be more concerned with the way in which reliefs work than other respondents, though were less interested in there being increased control of reliefs at a local level. Additionally, businesses tended to be more concerned with promotion of growth, though a few identified redistributing funding for need as a priority.
5. The consultation questions on system design asked for ideas from respondents about how best to make some elements of the system work. Some detailed responses were received, and we will continue explore these with the sector, especially ideas submitted on:
- How a partial reset should work;
  - How to distribute funding between different tiers of government.
6. Finally, there were some areas of the consultation where further detail is likely to be required before a clear view can emerge. This is especially the case around managing risk, particularly how a future safety net should work.

### Local Tax Flexibilities

7. The consultation considered a number of the key issues in providing councils with the new local tax flexibilities, specifically: the ability to reduce the business rates tax rate (the multiplier), and in areas which have Combined Authority Mayors, the power to levy a supplement on business rates bills to fund new infrastructure projects, provided they have the support of the business community through the Local Enterprise Partnership. From our initial analysis many respondents raised the following points:
- A number of respondents highlighted that they did not believe that councils would use the power to reduce the multiplier, however if they were to do so it may stimulate a 'race to the bottom';
  - The power to raise an infrastructure levy should be extended to all authorities;
  - Business groups were particularly interested in the way in which business representation on LEPs act to indicate business support for the infrastructure levy. Generally respondents thought that this process should be considered further.

### Accounting and Accountability

8. Implementing a new local government finance system will have a number of consequences particularly on issues related to accounting and accountability. This chapter considered: how the reforms may change the balance of local and central accountability, including in relation to the additional responsibilities that they will take on; the current method of accounting for business rates and - depending on the design of the scheme - whether this may need to change; and how the information that government needs to collect from councils to help the system function might have to change. Generally there were fewer comments from respondents on these issues. This was particularly the case in responses from business interests. However those that did respond raised points including;
- Accountability should be more closely aligned to local government when it has direct control over spending decisions. On such areas sufficient governance arrangements are already provided through the local elections and auditors;
  - The Collection Fund Account is a crucial tool and should continue in a new system;
  - Section 31 grants paid for compensation due to temporary changes in reliefs should be able to be paid into the Collection Fund;

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- The balanced budget requirement should continue, however if a system can be introduced that aligns its calculation more in line with business need, it would be desirable. A small number did raise the possibility of moving to a system where budgets could be balanced over longer time periods, say, 3 years;
- There was very little comment on the content of data submitted to central government (the NNDR forms) and mixed views on whether the timing of the current annual cycle for submitting was appropriate or should be changed.

### Needs and Redistribution: the Fair Funding Review

9. The local retention of all business rates will incentivise authorities to grow their local economies, benefiting fully from growth in business rates and thereby increasing their local revenue streams. However, we have been clear from the start that there will still be redistribution between councils so that baseline funding needs are met: the Fair Funding Review will conduct a thorough evaluation of the relative needs of different areas. It will set new baseline funding allocations under 100% business rates retention.
10. The Review's recent Call for Evidence asked a number of questions such as whether the methodology for a needs assessment should be simple or complex; what are the most important considerations which should be incorporated; how should local income growth be factored in; how should we transition to the new baseline allocations. We received 209 responses to the Call for Evidence, predominantly from local government:
  - There are different views on whether we should simplify the current approach; many responses strongly supported simpler formulas but many also thought a complex formula may be necessary to reflect a nuanced distribution of need;
  - The majority of those who wanted a simpler approach also stated that simplicity should not come at the cost of 'fairness';
  - The need for transparency was also often an overriding issue for most authorities;
  - Many authorities responded that adult social care and children's services should have a more detailed approach taken;
  - The new approach should take future pressures due to demographic changes into account;
  - The varying ability of councils to generate income should be taken into account;
  - The vast majority felt that transitional arrangements should be introduced to help authorities adjust to the new allocations but this support should be time limited.