

Local Government Business Rates Retention

Purpose

For discussion and direction

Summary

This report provides an update on the joint working between the LGA and the Department for Communities and Local Government (DCLG) on the proposals for local government business rates retention. Since the last Executive meeting, the Government has launched a summer consultation on issues that need to be resolved as part of the implementation of the reforms, as well as a separate call for evidence on needs and redistribution.

Recommendation

Members of the Executive asked to note this report, comment on its contents and agree any further action.

Action

LGA Officers to proceed as directed.

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Local Government Business Rates Retention

Background

1. In late 2015, the Government announced that:
 - 1.1. Local government, as a whole, will retain 100 per cent of business rates by the end of this Parliament.
 - 1.2. Individual local authorities will be able to retain the growth in income from business rates. The current levy system will be abolished.
 - 1.3. Local government will be given new responsibilities to ensure the reforms are 'fiscally neutral' and Revenue Support Grant will be phased out.
 - 1.4. All councils will be able to reduce the business rates multiplier. Directly elected mayors of combined authorities will be able to increase the multiplier with Local Enterprise Partnership agreement, to fund new infrastructure. This power will be limited by a cap.
 - 1.5. A review of needs assessment formulae will take place to establish a baseline level of funding for each local authority at the outset of the new system.
 - 1.6. The Government will consider how risk and business rates volatility can be better managed and how to protect authorities against significant falls in income.
2. At March Leadership Board, members agreed the LGA work jointly with the Department for Communities and Local Government (DCLG) on the development of proposals for the implementation of local government business rates retention by 2020.
3. At the last meeting in June, Executive received an update on this joint work. This paper sets out the main developments in the joint work programme since the June meeting.

Summer consultation on the reforms

4. As part of his speech at the LGA's Annual Conference, the Secretary of State for Communities and Local Government Greg Clark MP launched the Government's initial consultation on the reforms to local government retention of business rates. It sets out a number of questions about issues that need to be considered during implementation, with a focus on matters related to the forthcoming Local Growth and Jobs Bill. This is an open consultation which is expected to be followed by a more detailed technical consultation in Autumn 2016.
5. LGA officers prepared an on-the-day briefing, summarising the content of the consultation and providing early LGA views on some of the proposals and considerations.

6. The full briefing is attached as Appendix A. In summary, the consultation focuses on the following themes:
 - 6.1. **Devolution of responsibilities.** It sets out a list of various grants and responsibilities that could be transferred to be funded from business rates, as well as considering how bespoke devolution deals agreed with Combined Authorities could be reflected and funded within the new system. The majority of the list is related to functions already performed by local authorities, such as public health funding. Two main potential new responsibilities mentioned in the list are youth justice and responsibility for vulnerable people who would otherwise qualify for Attendance Allowance.
 - 6.2. **System design.** The consultation discusses various technical aspects of the reform, such as the frequency and extent of resets, operation of the safety net mechanism, potential for an enhanced role of Combined Authority Mayors in how the system functions in their area and whether fire authorities should continue to be funded through business rates.
 - 6.3. **Local tax flexibilities.** The consultation reiterates previously announced policies about all areas being able to reduce the multiplier and directly elected Combined Authority Mayors being able to increase it for infrastructure projects. It sets out various questions that need to be addressed, such as how the cost of multiplier reductions is shared in two-tier areas and how 'infrastructure' should be defined for the purposes of the mayoral powers.
 - 6.4. **Accounting and accountability.** The consultation considers how the business rates retention reform and the associated potential transfer of responsibilities has to be reflected in accountability mechanisms, both at local and national level.
7. The consultation sets out options for dealing with the funding of services included in devolution deals. There is a question about whether some or all services included in devo deals should be funded from business rates or not. There is also a need to consider whether some or all of the services included in devo deals could be devolved to all authorities to be funded from retained business rates. Following its meeting on 7 July 2016, the initial view of the LGA Task & Finish Group was that at this stage they would not want to rule out the devolution of some of these services to all areas, not just those with devolution deals.
8. The Government is also asking questions about giving Combined Authority Mayors powers over distributing business rates income in their areas.
9. The deadline for consultation responses is 26 September following a full 12 week consultation period. The LGA will respond to the consultation on behalf of the sector and is encouraging individual and groups of authorities to respond.
10. Members are invited to discuss the contents of the consultation paper and give a steer on the key issues the LGA should raise in a response.

Needs and redistribution

11. Alongside the consultation, the Government has launched an open call for evidence on needs and redistribution to help inform its Fair Funding Review. The outcomes of the Review will contribute towards forming the funding baselines at the start of the new system. The contents of the call for evidence are also briefly summarised in Appendix A.
12. The paper is focussing on a number of themes as follows:
 - 12.1. **Top-ups and tariffs.** The paper and the consultation confirm that a form of equalisation will continue in the new system and this will take the shape of a mechanism similar to the current system of top-ups and tariffs. The Fair Funding Review will influence the way they will be calculated and set up.
 - 12.2. **Measurement and definition of relative need.** One of the main question is how relative need to spend is defined and assessed. Historically, past expenditure patterns have been used as a proxy but this has attracted criticism – the review is looking at what other options are available.
 - 12.3. **Methodologies for specific services.** The Government is exploring whether there is a case for bespoke methodologies for estimating the need to spend for specific services.
 - 12.4. **Taking local taxation into account.** As in previous systems there is expected to be an adjustment for relative ability to raise income through council tax. The call for evidence focusses specifically on growth in local tax revenue since 2013.
 - 12.5. **Appropriate geographies.** The Government is seeking views on the geographical level at which the needs assessment could take place. For example, there have been some suggestions received by Government about Combined Authority Mayors having some influence over distribution within their area.
 - 12.6. **Transition.** It is inevitable that the results of the review will mean that relative shares of funding rise for some areas and reduce for others, and there are different options on how this transition should happen, from single step changes to a more phased introduction.
13. The deadline for responses to this call for evidence is 26 September. The LGA has a significant role to play in encouraging responses by all parts of the sector and could consider providing its own response.
14. Member views are invited on whether the LGA should produce a response to the call for evidence and, if so, what the themes of the response could be.

The impact on joint LGA/DCLG working and associated officer Level Groups

15. While these two documents have been published by the Government, officers from the LGA and DCLG continue to work closely on various issues. Indeed, some of the content of the consultation has been influenced by the discussions that have happened in various working groups.

16. The working groups continue to meet. The Steering Group and technical working groups will discuss the contents of the consultation as part of future meetings.
17. LGA officers are also working with DCLG officials to arrange a number of workshops on the consultation, to take place in venues across England.

Recommendations and next steps

18. Members of the Executive asked to note this update, comment on its contents and agree any further action.
19. The consultation and the issues it raises will be discussed in depth by the LGA's Member Task and finish group to inform and shape the response, which will be brought to Leadership Board and Executive.

Financial Implications

20. As noted previously, this is a major area of work for the LGA and consideration may need to be given to increasing the level of resource in the Local Government Finance team. Any changes will need to be agreed with the LGA's Senior Management Team.