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## **Appendix A: Regional Events on Business Rates Retention Consultation: Summary of Comments**

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### **Introduction**

In late August and early September, six joint LGA/DCLG regional events on the business rates retention consultation and call for evidence on needs and redistribution took place across England. Around 250 officers and members from local authorities attended the events, providing feedback on the consultation proposals.

Each event covered five broad themes: devolution of responsibilities, systems design, multiplier flexibility, needs and redistribution, and accounting and accountability. This paper summarises the main points made at the events on each of these themes.

### **1. Devolution of Responsibilities**

**Devolution Deals** - The proposal to provide funding for certain services through business rates only to those areas with agreed devolution deal was seen by some as disadvantaging areas without combined authorities/elected mayors and where LEP boundaries are not coterminous. Clarity from central government on the future direction of policy for devolution deals and elected mayors is urgently required.

**Existing Pressures** - It will be important to ensure existing pressures on local government are funded through the additional quantum, before new responsibilities are considered. Councils are facing particular pressures on adult social care services; in the lead-up to implementation, an ongoing dialogue between local and central government will be essential, to ensure in the new system councils are able to fund the pressures they face.

**Service Responsibilities** - There was a strong preference for additional responsibilities linked to economic growth, rather than health and social care. In particular, Attendance Allowance (AA) being devolved to local government in its current form would not be welcome by councils.

**Employment and Skills** - Although there was support for responsibilities linked to employment and skills support (not welfare payments), the funding and arrangements for existing programmes in this area lack transparency. At present, it is difficult for local government to identify how the funding is currently spent and allocated between areas. There was not consensus about whether such programmes would be delivered at a county or district level in two-tier areas.

### **2. Systems Design**

**Resets** – There were differing views on the frequency of resets. A reset period of twenty years may be too long, given authorities' need to spend is based on statutory requirements; a five-year reset period might recognise this better. It may also be possible to have 'rolling resets' to ensure authorities did not lose growth generated close to a reset point.

**Valuation Changes** – Councils provided examples of government policies which are likely to reduce the valuation of particular types of properties. The effects of policy changes need to be taken into account both at the time the business rates baseline is set and once operational.

**Avoidance** – More powers need to be given to councils to tackle avoidance of business rates payments. There are examples of ‘legitimate’ avoidance of business rates by using exemptions and reliefs which need to be tackled by Government.

**Appeals in the current system** - The ability of the Valuation Office Agency (VOA) to deal with the existing backlog of appeals continues to concern councils. Local government should be protected from losses of income which are solely the result of VOA valuation errors. This should include appeals relating to the 2005 and 2010 valuation lists.

**Central List** - Movements of hereditaments between the central and local list causes difficulties for local government; this needs to be addressed before the new system is operational. However, views on whether properties such as power stations should be on the central list were mixed; some saw the advantages of reducing risk, whereas others noted there would be no incentive for local authorities to permit new power stations.

**Changes to Reliefs** – There was concern that any future changes to reliefs made by central government would reduce councils’ income, without an ability to influence the decision. Several authorities said the recent changes to small business rates relief would make it very difficult to grow their business rates income in the future.

**Pooling** – The apparent lack of incentive to pool in the new system was raised. Some argued for a mechanism to incentivise collective growth in a wider area, such as a combined authority.

### **3. Multiplier Flexibilities**

**Reducing the Multiplier** - There is unlikely to be a significant appetite from local government to reduce the multiplier. It was noted that it would probably be unaffordable for most councils and, considered amongst many other factors, it is unlikely to make a material impact on businesses’ decisions to expand/relocate etc.

**Targeted Multiplier Reductions** - There is potentially a greater appetite for reducing the multiplier in specific localities within an authority area or for particular business sectors. However, there are risks, such as the potential for developers and businesses to hold councils ‘to ransom’ in order to secure a reduction in the multiplier in negotiations over developments.

**LEP Approval of Infrastructure Multiplier** - The proposals for a majority of LEP business representatives to endorse an infrastructure supplement in mayoral areas is widely opposed. It could lead to a rejection of proposals made by a democratically accountable leader, by a small number of unelected and potentially unrepresentative individuals.

**Alternatives to the LEP Requirements** - The existing arrangements for Business Improvement Districts (BIDs) may provide an alternative approach. However, a binding vote of all business would be expensive and time-consuming, as well as potentially undermining

the mayor's democratic accountability. Others proposed as an alternative a requirement to consult effectively with local businesses.

#### **4. Needs and Redistribution**

**Simplicity** - In general, simplicity was not widely viewed as an end in itself and, on balance, fairness was preferred over simplicity for the design of the needs redistribution system. However, there was recognition that it ought to be possible to design a simpler redistribution methodology than currently exists.

**Changes in Local Government** - The formula design should take account of the changes in local government since 2010, recognising that the main cost drivers for councils are associated with adults and children care. Delegates noted that in recent years councils had inevitably prioritised spending on acute, rather than preventative services

**Council Tax** - Differences in council taxbases between authorities must be reflected in the needs assessment. Some noted that the existing system effectively 'locks in' historic decisions and raised the question of whether equalisation should be based on council tax levels, but this was not a shared position.

**Geographical Level for Distribution** – An imposed approach where local authorities within a larger area would collectively determine allocations for each authority within the area is not supported by councils.

**Approaches to Assessing Need** - A number of different approaches to designing the needs assessment were suggested. These included taking account of the differing ability of authorities to raise income from fees and charges, in a similar way to which the Area Cost Adjustment recognises differing pay costs, and using methods adopted by local authorities for determining budget allocations, such as contracts for children's services provision. There was not much support for past-expenditure based regression and, on balance, the delegates were not opposed to an exploration of other methodological approaches provided the results were exemplified early and often.

**Transition** – Authorities recognised the importance of transitional damping arrangements and it was suggested by some delegates that they could be funded from the central list, rather than a top-slice from the total for local list income.

#### **5. Accounting and Accountability**

**Collection Fund** - Views on the current Collection Fund arrangements differ, however, there is support for simplification where possible. In particular, the way in section 31 grants, which compensate for discounts, are accounted for should be reviewed.

**Settlement Process** - The annual settlement and consultation process should continue, to reflect any change in circumstances or new burdens and enable local government to comment.

**Accountability** - Whilst DCLG has a good understanding of the accountability system in local government, other government departments work in silos and it can be difficult to achieve genuine devolution of responsibility. A review of accountability between local government and central government, across all departments, should be undertaken ahead of implementation.

**Accounting for Provisions at a National Level** - An approach where DCLG determined the level of provision made for business rates appeals, relating to VOA errors, and funded these provisions, would be welcomed. However, it is noted that there are likely to be significant complexities for accounting.