House of Commons Library

Research Briefing

17 June 2024

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Reviewing and reforming local government finance

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Summary

This note explains the significant changes in local government finance in England during the 2010s. It also sets out some issues that are the subject of debate, and proposals for reform, in the early 2020s. Section 1 explains the workings of the Business Rates Retention Scheme, introduced in 2013. Section 2 sets out various Government proposals for changes to business rates retention during the late 2010s. Section 3 describes the Fair Funding Review, a consultation process which took place between 2016 and 2018 and has been paused, but not abandoned, since then. Section 4 presents details of debate around changes to local grant funding from the early 2020s. Section 5 describes the 2020-21 'fundamental review' of business rates.

The policies covered in this note have effect in England only. Responsibility for business rates, and for local government generally, is devolved to Scotland, Wales and Northern Ireland. For a more general explanation of the business rates system in England, see the Library briefing paper Business rates. For more details on the 2023 revaluation of business rates in England, Wales and Scotland, see the Library briefing paper Business rates: the 2023 revaluation.

1 The Business Rate Retention Scheme

The Business Rate Retention Scheme (BRRS) governs a substantial proportion of local authority funding in England. This section explains the workings of the scheme at present.

Since 2013, local government has retained 50% of business rates revenue (the 'local share') and passed 50% to central government (the 'central share'). Individual billing authorities (district and unitary councils) collect rate revenue from ratepayers (see the Library briefing Business rates). The Government then applies a 'tariff' or 'top-up' to each authority's 50% 'local share'. A tariff reduces a local authority's revenue, and a top-up increases it.

The tariffs and top-ups are redistributive: they ensure that local authorities do not have access to disproportionately low or high business rate revenue, as levels of rate revenues vary widely between local authorities across England.

Local authorities retain up to 50% of additional business rate revenue that they raise in the period from 2013 to the next reset (the 'retention period'). 'Additional revenue' is revenue above the 'business rates baseline', based on the local authority's average business rate revenue in 2011-12 and 2012-13. The additional business rate revenue that the local authority retains is subject to a 'levy' of between 0% and 50% on the retained growth (see section 1.2 below).

The effect of the system is to enable local authorities to gain additional funding when business rate revenue increases: but the tariff and top-up system prevents areas that already have high business rate revenue from benefiting disproportionately. The intention of the system is to encourage local authorities to use local policy – such as housing, planning and economic development policies – to grow their local economies and to be rewarded for doing so by extra business rate revenue.

1.1 Tariffs and top-ups

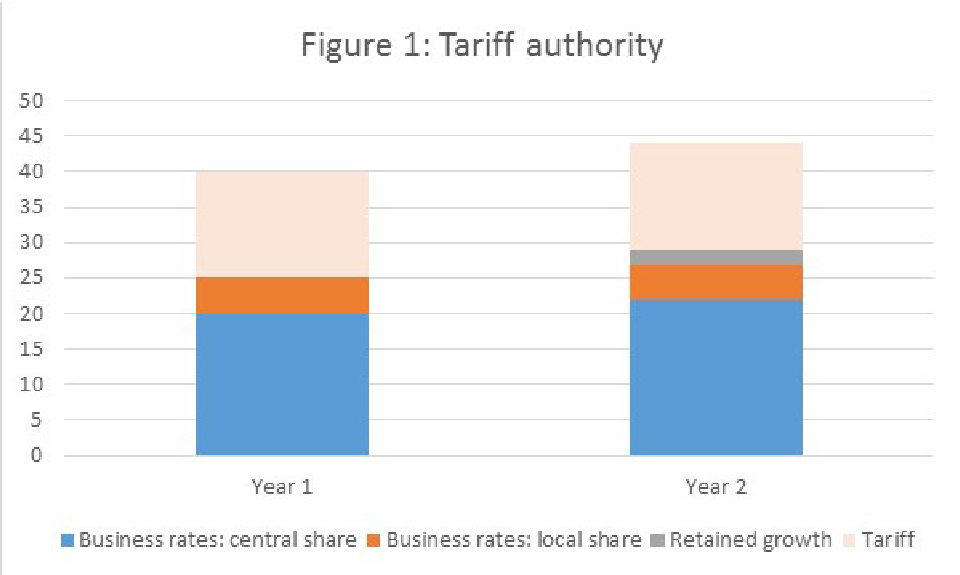
Each local authority's tariff or top-up level is based on the difference between the rate revenue it receives (the 'business rates baseline') and the **baseline funding level**. The baseline funding level is the amount of funding Government determines that an individual local authority needs from business rates to deliver local services. It is based upon individual authorities' allocations of Revenue Support Grant in the 2012/13 financial year. These had previously been determined annually via the Relative Needs Formula (see section 3.3 below).

The tariff or top-up is fixed in real terms for the duration of a retention period (it is uprated annually to take account of inflation).[1] Fixing the tariff or top-up means that individual local authorities automatically retain any growth in their 50% share of revenue (subject to a levy rate on that growth – see below).

Fixing the tariff and top-up levels has two effects. First, growth is retained against the baseline, meaning that authorities benefit from **growth**, not revenue levels per se. This prevents authorities with strong local economies from 'coasting' by relying on rate revenues that are already high. Second, fixing the tariff and top-up levels makes local authorities' revenue levels predictable. Changing the tariff or top-up regularly would mean that local authorities could not be certain that they would benefit financially from their policies.

Figures 1 and 2 show examples of the outcomes for a tariff and top-up local authority respectively. In Figure 1, a 'tariff authority' collects £40 million in rate revenue in year 1. The 'central share' is 50% (£20 million). A £15 million tariff (the pale block at the top of each bar) is then applied. Thus this local authority has access to £5 million in rate revenue in year 1.

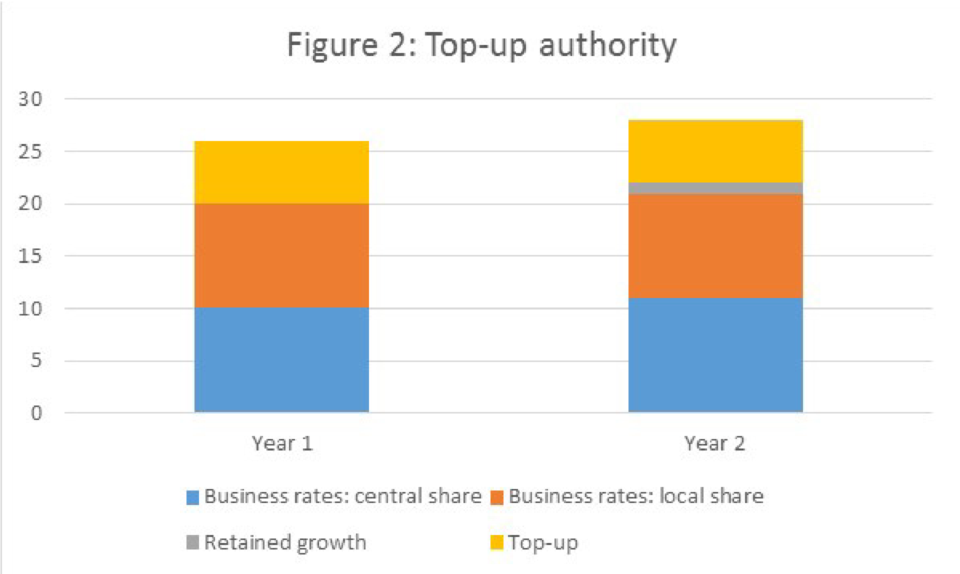
In year 2, the tariff authority collects £44 million in rate revenue. The central share is therefore £22 million. The tariff remains at £15 million. The local authority retains the remaining £7 million (the two middle parts of the bar). This is £2 million more revenue than it had access to in year 1. That extra £2 million would then be subject to a levy (see section 1.2 below).



[1] Tariffs and top-ups were adjusted in 2017/18, and 2023/24, to take account of the effects of the business rate revaluations that came into effect in those years. This was done to neutralise any individual authorities gaining or losing revenue purely as a result of the revaluation. Tariffs and top-ups have also been adjusted for 'pilot' authorities (see section 2.3 below).

Figure 2 shows the effects on a 'top-up authority'. This local authority collects £20 million in rate revenue in year 1. £10 million, or 50%, goes to the central share. A top-up of £6 million is added, meaning that the top-up authority has £16 million in rate revenue in year 1.

In year 2, the top-up authority collects £22 million in rate revenue. Therefore, £11 million goes to the central share. The top-up remains at £6 million. The authority retains an additional £1 million compared to year 2, and has access to a total of £17 million in rate revenue (£10m + £6m + £1m).



These figures only show changes to business rate revenue. Local authorities also receive revenue from council tax, central grants, and local fees and charges. Revenue from the BRRS only makes up a minority of a local authority's total income.

Other things being equal, tariff authorities are more exposed than top-up authorities both to gains and losses from rate retention. This is because top-ups represent guaranteed income: they are not affected by a local authority's own rate revenue. In a tariff authority, rate revenue is likely to form a larger proportion of the authority's overall funds, and thus changes to it have a sharper effect on the local authority's total funding than in a top-up authority.

Tier splits

In practice, in most areas of England more than one local authority will share the 50% of local revenue. The allocation of revenue between authorities is known as the 'tier split'. In most two-tier areas, 40% of revenue goes to district councils, 9% to the county council, and 1% to the fire and rescue authority.[2] In London, 37% of the total revenue goes to the GLA and 30% to

2 Where county councils handle fire and rescue services, they retain 10% (9% + 1%) of rate revenues.

the boroughs. Alternative tier splits have operated in many areas as part of the various rate retention pilots (see section 2.3 below).

The normal tier split, combined with county councils' larger spending commitments, means that all county councils are top-up authorities, whilst many district councils are tariff authorities. The tariff may be substantial, leading to some such authorities retaining only some 10%-20% of the rate revenue they collect. Authorities in that situation would still retain up to 50% of additional rate revenue, but subject to a levy.

1.2 The 'safety net' and the 'levy'

Retention of 50% of revenue growth may be subject to a further levy on authorities with very high revenue growth. Each tariff authority has a 'levy rate', varying between 0% and 50%.[3] An authority which has a 0% levy rate will keep all of its growth in revenue. An authority with a levy rate must pay that percentage of their growth in revenue to the Government.

The purpose of the levy is to ensure that authorities with very high potential to increase their rates do not benefit disproportionately from the system. Most authorities that pay a tariff also have a levy rate that is greater than zero. This would mean that some of their baseline revenue and some of their growth in revenue is redistributed elsewhere.

Authorities are also guaranteed that their business rates revenue will not fall more than 7.5% below their 'business rates baseline'. This is known as the 'safety net'. Where a local authority's revenue falls below that level, it will be topped up to reach that level.

The initial intention of the BRRS was for the levy to pay for the safety net. However, in some financial years, the safety net has been paid for via a 'top-slice'. That is, a set amount has been taken out of the local share of rate revenue and then redistributed to local authorities that are entitled to safety net payments.

1.3 Resets

When it was introduced, the BRRS was to be subject to a 'reset' in 2020 (seven years after it began). At a reset, tariff and top-up levels would be recalculated, based on a new needs assessment. This would ensure that authorities did not gain or lose disproportionately over time.

3 Authorities' levy rates can be found in the Core spending power: supporting information spreadsheet within the 2016-17 local government finance settlement. The levy rates were set at the outset of the BRRS in 2013-14 and remain the same from year to year.

As of May 2024, no reset has taken place. The outgoing Government said that the earliest point at which a reset would take effect would be the 2026-27 financial year.

The longer the system operates without a reset, the more revenue will be retained by individual local authorities, and the more the influence of the 2013 needs assessment will wane. In 2018, the Institute for Fiscal Studies said:

> ...it will therefore be important to have broader resets of the redistributive tariffs and top-ups to prevent divergences in relative funding ratios from growing indefinitely, and to stop certain authorities becoming trapped on the disincentivising safety net. The frequency with which tariffs and top-ups are reset, and the extent to which any divergences in the intervening period are offset at resets, are key policy choices for the government as it develops its BRRS policy.[4]

A Government consultation in 2016, Business rates reform: call for evidence on needs and redistribution, invited views on how often the reset should be applied.[5] This consultation formed part of the Fair Funding Review (see section 2). It suggested examples of a short period (5 years) or a long period (20 years). It also floated the idea of a 'partial reset':

> Under a partial reset we would still adjust for changes in relative need and business rates income but to a lesser extent that under a full reset.[6]

This would mean that individual authorities would retain a proportion of growth permanently. Put another way, a certain amount of growth in the current 'retention period' (2013-22) would be insulated from the needs assessment when the 'reset' takes place. David Phillips, of the Institute for Fiscal Studies, said:

> A partial reset can be seen as an attempt to trade-off the objectives of "equalisation" on the one hand and "incentives" on the other: councils can retain some (but not all) of the growth beyond the end of the period...The appropriate length of time between reset and % reset to adopt should depend on:
>
> - How large divergences in revenues may grow to be in the medium and long term (i.e. do revenue divergences grow between councils or do revenues revert to mean);
> - The extent to which one believes divergence in revenues (and spending needs) reflects impact of council decision making versus wider economic trends. If latter, the "incentive" is not particularly relevant: it is just risk;

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4 Neil Amin-Smith, David Phillips, and Polly Simpson, Spending needs, tax revenue capacity and the business rates retention scheme, Institute for Fiscal Studies, February 2018, p40

5 This was a consultation document related to proposals for 100% business rate retention (see section 2).

6 DCLG, Self-sufficient local government: 100% business rate retention, July 2016, p.25

- The tolerance for divergence in revenues (and resulting impacts on service provision) by policymakers and the public.[7]

The Government's 2016 consultation also floated the possibility of a transitional period following the reset (see section 3.3 below). This would aim to avoid individual authorities struggling to manage substantial falls in their funding resulting from the reset.

A further consultation published in December 2018 introduced the concept of a 'phased reset'.[8] This would mean that local authorities would retain each year's growth or loss in rates for a fixed number of years: the consultation suggested five.

A full reset potentially provides local authorities with an incentive to hold back development of new property, or the grant of planning permission, until after the reset takes place. This is because a full reset would likely take into account additional revenue that appears late in the retention period when calculating new business rate baselines.[9] This could mean that authorities would lose the benefit of that growth in revenue as soon as a reset had taken effect. This disincentive would be reduced by a partial reset along the lines outlined above.

Also, a phased reset and a partial reset could in principle operate alongside one another. For instance, a phased approach could permit local authorities to retain any growth in rates for a period of five years; growth that had been achieved more than five years earlier would then be disregarded (and thus be redistributed). A partial reset might provide that a local authority should be able to retain permanently some of the growth that the local authority achieved more than five years previously.

1.4 Pools

Local authorities are permitted to join together to form 'pools' for the purposes of the retention scheme. A business rates pool has a single tariff and top-up level applying to the entire pool. The pool members themselves decide on how rate revenue should be divided within the pool.

Pooling could lead to a group of local authorities benefiting more, collectively, from the system than they would separately. For instance, a pool may attract a higher top-up than the total top-up payments that the local authorities would receive individually.

In formal terms, pools must be re-established for each financial year. A list of pools can be found in the documentation of each year's local government

[7] David Phillips, "Response to government consultation on business rate retention", 17 June 2017

[8] MHCLG, Business rate retention reform, December 2018, p26

[9] MHCLG, Business Rates Retention Reform, December 2018

finance settlement.[10] Though most pools so far have consisted of authorities that are geographically close – e.g. a county and its districts, or groups of metropolitan boroughs within a city-region – there is no requirement for the members of a pool to be geographically contiguous.

The Centre for Cities' 2015 report Beyond Business Rates proposed that a more comprehensive approach should be taken to the pooling of business rates across functional economic areas. It states that, in city regions, centre-city authorities often have far higher business rates revenue than authorities in their hinterland, which in turn are more residential in character and rely more on council tax for local revenues:

> …it would not make sense for a predominantly residential local authority with a strong council tax base to chase the business rates revenue of the local authority in which most of its residents work, or to compete with the city centre of the city-region by building out of town shopping centres or business parks.[11]

The final report of the 2014 Independent Commission on Local Government Finance made a similar suggestion:

> If local areas are aggregated into groupings of sufficient size and economic coherence (what we describe as sub-national areas) we find that the variation in need between the areas is far less than the variation within them. The proposition is therefore that the national grant settlement is on the basis of the larger geographical area and remains largely stable (perhaps adjusted for changes in population). It would then become the role of the governance within the area to manage equalisation between component parts.[12]

The Local Government Finance Bill 2016-17 included a provision that would have allowed the Secretary of State to impose pools on areas, provided at least one participating authority agreed. However, the Bill fell at the 2017 general election, and this proposal has not reappeared.

10 See DLUHC, Key information table for business rates pools: final local government finance settlement 2024 to 2025, 2024

11 Centre for Cities, Beyond Business Rates, 2015, p. 19

12 LGA / CIPFA, *Financing English Devolution*, 2014, p.26

2 Extending business rates retention

2.1 Increasing the local share

Between 2015 and 2020, the then Governments made various proposals to increase the local share of business rates from its current level, within the retention scheme, of 50%.

- In a speech at the Conservative Party conference on 5 October 2015, the then Chancellor, George Osborne, committed to allowing local government to retain 100% of business rates revenue 'by the end of the Parliament'.[13]
- In November 2021, the then Secretary of State for Levelling Up, Housing and Communities, Michael Gove, indicated that the Government would 'proceed with caution' on the issue.[14] A document published in December 2022 then said that the Government would not make any further changes in the current Spending Review period (running through to 2025).[15]
- In December 2017, the then secretary of state, Sajid Javid, announced that the Government would seek to move to 75% rate retention from the 2020-21 financial year.[16] This aim was reiterated in the Government's response to the Housing, Communities and Local Government Committee's 2018 report on business rate retention.[17] However, this commitment was postponed further in April 2020 due to the coronavirus pandemic.[18]

2.2 Consultations on additional rate retention

Increasing the local share would require all local authorities' tariffs and top-ups to be altered. The Government consulted on how to approach this between 2016 and 2018.

The Government published two consultation papers on 5 July 2016, on the introduction of full retention of business rates by local government and on

13 HCDeb 17 Jul 2017 c539

14 This remark was made at a hearing of the Levelling-Up, Housing and Communities Committee on 8 November 2021

15 DLUHC, Local government finance policy statement 2023-24 to 2024-25, 12 Dec 2022

16 HCDeb 19 Dec 2017 c917

17 HCLG Committee, Government response to the Housing, Communities and Local Government Committee's Fifth Report of Session 2017-19 on Business Rate Retention, Cm 9686, August 2018

18 HC WS220 2019-21, 29 April 2020

how to review the assessment of needs that would form the basis of a reset. The Government published a response to these consultations, and a further consultation paper, on 15 February 2017.[19]

These consultations appeared alongside the launch of the Fair Funding Review (see section 3). The Fair Funding Review sought to apply a new needs assessment at the first reset of the Business Rates Retention Scheme. That too would have been implemented by changing all local authorities' tariffs and top-ups.

A fourth consultation paper was published in December 2018, entitled Business rates retention reform. This made various additional proposals, including:

- Funding the 'safety net' through a top-slice of total business rate revenue, instead of through the 'levy';
- Changing the operation of the 'levy'. Instead of applying to all additional revenue, the Government proposes to operate it as a 'cap' on the additional revenue that can be retained locally;[20]
- Whether areas should be able to set their own 'tier splits' (see section 1.1 above);
- How to further incentivise pooling.

Appeals

The 2018 consultation paper also addressed the issue of appeal provisions and losses. Local authorities must set aside funds to take account of ratepayer appeals, as these can lead to reductions in rate revenue. When an appeal is complete, the ratepayer may receive a refund from the local authority. Any remaining funding that has been set aside can then be returned to the local authority's general fund and spent as the local authority chooses.

Managing the effects of appeals has been a substantial challenge for certain authorities since 2013, as such changes can strip out substantial sums from a local authority's budget. The sums can be enough to wipe out all previous revenue growth, or even to move a local authority that had increased its rate revenue into the safety net.

The consultation paper proposed to adjust tariffs and top-ups annually on the basis of authorities' forecast revenue.[21] This was based on a previous paper produced by an MHCLG-LGA working group. That proposal was more extensive: it proposed that tariffs and top-ups should be adjusted to take

19 See DCLG, Self-sufficient local government: 100% business rates retention - summary of responses and government response, 15 February 2017; DCLG, 100% business rates retention: further consultation on the design of the reformed system, 15 February 2017

20 Neil Amin-Smith and David Phillips, Business Rates Retention Reform: Response to the Ministry of Housing, Communities and Local Government's consultation, February 2019, pp7-9

21 MHCLG, Business rate retention reform, December 2018, p24-27

account of all fluctuations in local revenue, not just those caused by appeals.[22]

2.3 Phasing out grants

The Government's 2016-18 proposals to increase the local share also sought to end some central grants, to offset the additional revenue that would arise from increasing the 'local share':

> ...the core grant [i.e. Revenue Support Grant] from Whitehall will be phased out, and local government will take on new responsibilities. ... These new powers must come with new responsibilities, as well as phasing out the main grant from Whitehall, to ensure the reforms are fiscally neutral.[23]

The consultation published in July 2016 included an extensive discussion of which grants were likely to be ended under 100% retention, and the principles used to select those grants.[24] In a paper published in July 2018, the Government confirmed that:

> As part of the move towards a reformed business rates retention system in 2020/21, the government intends to devolve Revenue Support Grant (RSG), Rural Services Delivery Grant (RSDG), the Greater London Authority (GLA) Transport Grant and the Public Health Grant (PHG) to local government when the new system commences.[25]

2.4 Pilot schemes

The March 2016 Budget announced the piloting of 100% retention of business rates revenue in Greater Manchester and Liverpool City Region.[26] On 15 December 2016 Sajid Javid, then Secretary of State for communities and local government, announced that pilots would also take place in the West of England, Cornwall and the West Midlands.[27] As of July 2024, these five areas still retain 100% of business rates revenue.

22 Systems Design Working Group, Simplification of the Business Rates Retention System, 31 July 2018. See also a note of initial discussions with Government: Note following BRR Technical Papers, 16 October 2018

23 HM Treasury, "Chancellor unveils devolution revolution", 5 October 2015

24 See DCLG, Self-sufficient local government: 100% business rates retention - summary of responses and government response, 2017, pp7-10; see also the discussion on pages 16-21 of the original consultation.

25 MHCLG, Invitation to Local Authorities in England to pilot 75% Business Rates Retention in 2019/20, July 2018, p4

26 HM Treasury, Budget 2016, 2016, p70

27 HCDeb 15 Dec 2016 c976

Greater London operated a 75% pilot in 2019-20 and a 100% pilot in 2018-19. Since 2020-21, London boroughs have retained 30% of business rates revenue, and the GLA has retained 37%.[28]

In September 2017, the Government invited applications for a second round of pilots to begin in April 2018.[29] Ten applications were successful: Berkshire, Derbyshire, Devon, Gloucestershire, Kent, Leeds, Lincolnshire, Solent, Suffolk and Surrey.

Some of the 2018-19 pilots operated alternative 'tier splits'.[30] In some pilots, a proportion of any additional retained revenue was retained in a pilot-wide 'single pot' for future economic growth-related activities.[31]

In July 2018, the Government launched a further invitation document to pilot 75% rate retention for the 2019-20 financial year.[32] The successful areas were Berkshire; Buckinghamshire; East Sussex; Hertfordshire; Lancashire; Leicestershire; Norfolk; Northamptonshire; North and West Yorkshire; North of Tyne; Solent; Somerset; Staffordshire and Stoke; West Sussex; and Worcestershire.[33]

The pilots: technical explanation

In technical terms, both rounds of pilots work in the same way: this is set out in a Government document.[34] The participating authorities form a business rates 'pool' and agree to forego their allocations of certain central government grants. As the Government document sets out, which grants are foregone differs from place to place.

The grants foregone are, in almost all cases, less than the additional revenue that each authority could expect to receive by participating in the pilot. The single tariff for the pool is therefore reset so as to take account of the gap between the grants foregone and the additional percentage of rate revenue. This ensures that participating in the pilot does not in itself lead to a financial windfall for the authorities.

The 2019-20 pilots had a 'safety net' of 95% of baseline funding level, compared to the 97% safety net available in the 100% retention pilots. The 2018-19 pilots included a 'no detriment' clause, which guaranteed that pilot

28 MHCLG, Draft local government finance report 2020-21, 20 December 2019

29 DCLG, Invitation to Local Authorities in England to pilot 100% Business Rates Retention in 2018/19 and to pioneer new pooling and tier-split models, 2017, p6

30 A full list of the participating authorities, and the 'tier splits' being operated, can be found in MHCLG, Local Government Finance Report 2018-19, 2018, pp60-63.

31 Details can be found in LGA-DCLG Steering Group, 'Pilots paper for Business Rates Steering Group January 2018', 2018.

32 MHCLG, Invitation to Local Authorities in England to pilot 75% Business Rates Retention in 2019/20, July 2018

33 A full list of the participating authorities, and the tier splits operating in each locality, can be found in Annex G of the Draft local government finance report 2019-20.

34 See MHCLG, Explanatory note for authorities with increased business rates retention arrangements: final local government finance settlement 2024 to 2025, February 2024

authorities would not lose out financially as a result of the pilot. However, no such clause was included for the 2019-20 pilots.[35]

[35] MHCLG, Invitation to Local Authorities in England to pilot 75% Business Rates Retention in 2019/20, July 2018, p7

3 The Fair Funding Review and needs assessment

3.1 Consulting on needs assessment

In February 2016, the then Secretary of State, Greg Clark, committed to revising the 'underlying assessment of needs' contributing to the allocation of local authority funding:

> It is too long since the underlying assessment of needs was updated—it is more than 10 years—and that is why I have proposed to go back to the drawing board and look at the needs and the resources available to each county.[36]

The Government's 2016 consultation Business rates reform: call for evidence on needs and redistribution launched the 'Fair Funding Review'. A response to this consultation was published on 19 December 2017. A second consultation (see section 3.2) was launched at the same time. A third consultation was published in December 2018 (see section 3.3).

The Review was to have been implemented from 2020-21, but in September 2019 it was postponed by a year.[37] Then, the Government postponed the implementation of the Fair Funding Review again in April 2020 due to the coronavirus pandemic.[38]

The Government convened a series of joint working groups with the Local Government Association (LGA) from mid-2016. Minutes of the meetings of these groups can be found on the LGA's website.

3.2 Fair Funding Review and rate retention

The outcome of the Fair Funding Review would have been implemented by a reset of the Business Rates Retention Scheme. All local authorities' tariffs and top-ups would have been altered to reflect the needs assessment. From that point, individual authorities would then, once again, begin to retain additional revenue. This would mean that, as the new retention period progressed, the additional business rates revenue would cause local

36 HCDeb 10 Feb 2016 c1642

37 See Dominic Brady, "Shake-up of local government funding delayed by a year", *Public Finance*, 5 September 2019

38 HCWS220 2019-21, 29 April 2020

authorities' overall funding to diverge from the needs-related levels set out in the Fair Funding Review.

A reset period that allows local authorities to retain revenues for longer (whether via a 'full reset' or a 'phased reset') would lead to more revenue divergence between authorities. Conversely, the more frequently a needs assessment is applied and a reset takes place, the less opportunity each individual local authority has to benefit from the revenue growth that it generates.

3.3 Needs assessment

The pre-2013 local government finance system included a complex annual assessment of local authority need. This formed the basis of the allocation of Revenue Support Grant and business rate revenue to local authorities. This comprised the majority of local government funding, and thus the annual needs assessment had great influence on the funding available to local authorities. A brief history can be found on pages 15-17 of the December 2017 consultation, Fair funding review: a review of relative needs and resources - technical consultation on relative need.

The pre-2013 system used over 120 social and economic indicators to assess local authority spending need. The system also assessed locally available resources (such as the capacity to raise council tax revenue); applied an 'area costs adjustment' to take account of variations in the costs of providing services; and applied a 'damping' formula to minimise the change to individual budgets from one year to the next. The system was critiqued as being opaque and hard to understand, and for the limited connection between needs and funding outcomes.[39]

This annual needs assessment was discontinued when the BRRS was introduced. This is because an annual needs assessment would remove any extra revenue arising from growth in business rate revenue, meaning that the incentive element of the BRRS would not work. Authorities' current baseline funding levels are therefore closely linked to the most recent needs assessments, in 2011 and 2012. No account is taken in the current system of changes in needs, or matters such as changes in population, since 2012.

The Government's December 2017 consultation stated that the new funding formula would seek to measure need by identifying 'cost drivers' – factors that most strongly influenced the cost of providing local services. It intended to use population, deprivation and rurality as the three main cost drivers.

39 Alex Gibson and Sheena Asthana, "A Tangled Web; Complexity and Inequality in the English Local Government Finance Settlement", Local Government Studies 38:3, 2012, pp.301-320; see also LG Futures, Reforming Local Authority Needs Assessment: Simplifying the Funding Model, Communities and Local Government Committee, October 2017

The new formula would use a 'foundation formula', based on cost drivers common to all services, to allocate as much of the available funding as possible. Alongside this, the consultation proposed a series of service-specific cost drivers, that underlie the costs of spending on local government services such as transport, social care, fire and rescue, waste, and children's services. The formula would also include a resource assessment and an area costs adjustment.[40]

The Institute for Fiscal Studies published a paper in August 2018 entitled The Fair Funding Review: is a fair assessment of councils' spending needs feasible? The paper stated that the Government's proposed approach, of using regression analysis to estimate the relationship between selected social indicators and council spending, had much to commend it. However, the IFS noted that the approach's effectiveness was dependent on selecting social indicators accurately and on the weighting given to them:

> Judgement inevitably plays a part in deciding what year of data to use, what indicators to include, and what (if any) adjustments to make to formulas estimated by regression analysis if there is a concern that they are being biased by non-needs factors.[41]

3.4 Fair Funding Review: 2018 consultation

The Government's third consultation was published on 11 December 2018.[42] It proposed that the foundation formula should be allocated purely on the basis of population. It stated that its analysis showed that "…population alone explained 88.1% of all variation in past expenditure. Adding deprivation as an additional cost driver increased the proportion of all variation explained by 4.0 percentage points".[43] These figures have been critiqued (see below).

MHCLG arrived at these figures by conducting a regression analysis using local authorities' actual spending figures between 2014-15 and 2016-17 and population data by local authority. Regression analyses are used to determine the strength of relationship between two data sets. This approach is based on treating local authorities' spending decisions in prior years as a reliable guide (in statistical terms, a 'proxy') to the level of need for local authority services. This is an accepted approach to measuring need where detailed individual data is unavailable: however, it cannot take 'unmet need' into account. More sophisticated measures of need are sometimes used in

40 DCLG, Fair funding review: a review of relative needs and resources - technical consultation on relative need, 2017, p9

41 David Phillips and Tom Harris, The Fair Funding Review: is a fair assessment of councils' spending needs feasible?, Institute for Fiscal Studies, Aug 2018, p10

42 MHCLG, A review of local authorities' relative needs and resources, December 2018

43 MHCLG, A review of local authorities' relative needs and resources, December 2018, p19-20.

funding formulae for education or health services (for instance), based on extensive data on the past behaviour of individuals.[44]

The third consultation did not say how much weight would be given to the different elements of the proposed formula.

Taking account of deprivation

MHCLG faced criticism for not proposing to include deprivation in the foundation formula. An analysis from the University of Liverpool challenged the MHCLG claim that only 4% of variation in local authority spending was related to deprivation. The MHCLG figures are based on comparing the variation in total spend between authorities on the services to be covered by the foundation formula. The University of Liverpool analysis used per capita spending figures for the foundation formula services, and stated that, using this approach, 16% of variation in local authority spending was explained by deprivation.[45]

In similar terms, the IFS stated that the close relationship between population and spending was a product of the large variations in local authority population size.[46]

The IFS also note that, whilst the use of past spending patterns as a proxy for need is a recognised approach, the results obtained may be very different according to which years of past spending patterns are used. Local authority spending has fallen considerably since 2009-10, and this fall has been most acute in local authorities experiencing the highest levels of deprivation.[47] This suggests that, if a regression were carried out using spending figures from 2009-10 or earlier, it might show a larger proportion of spending being linked to deprivation than was linked in 2014-17. The University of Liverpool reran their analysis described above using 2009-10 figures and found that, using that approach, 40% of local authority spending variation could be explained by deprivation. As the IFS note, the decision over which spending figures to use is a matter of "expert and political judgment".[48]

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44 For instance, see NHS England, Technical guide to allocation formulae and pace of change, 2016

45 See Benjamin Barr, "Local government funding review: how can we better help the areas that need it the most?" Better Health for All, 18 February 2019

46 Neil Amin-Smith, Tom Harris and David Phillips, Needs and Resources: Response to the Ministry of Housing, Communities and Local Government's Consultation, February 2019, p6

47 See David Innes and Gemma Tetlow, Central cuts, local decision-making: changes in local government spending and revenues in England, 2009-10 to 2014-15, Institute for Fiscal Studies, 2015; Mia Gray and Anna Barford, "The depths of the cuts: the uneven geography of local government austerity", Cambridge Journal of Regions, Economy and Society, 11, 541-563, 2018; Adam Tinson, Carla Ayrton, and Issy Petrie, A quiet crisis: local government spending on disadvantage in England, New Policy Institute, September 2018

48 Neil Amin-Smith, Tom Harris and David Phillips, Needs and Resources: Response to the Ministry of Housing, Communities and Local Government's Consultation, February 2019, p6

The December 2018 consultation indicated that other elements of the needs formula would take deprivation into account.[49]

Sector views

The plan to exclude deprivation from the foundation formula led to disputes within the local government sector. The County Councils Network was reported as stating that the proposals "rightly recognised that current weightings for deprivation were disproportionate... and rightly put rurality and [population] density on a more equal footing".[50] Other sector experts disagreed with this perspective. Tony Kirkham, director of resources at Newcastle-upon-Tyne City Council, said:

> The Foundation Formula is probably going to be around 30% of the local government need and to suggest, when you look at the factors in there, that it will not be driven by deprivation I find very difficult to comprehend....You are looking at a pool of services covered by the Foundation Formula which are less statutory in nature, which means ... that when we've been taking money out of the system, we've been taking it out of there rather than taking it out of the social care side....If you say deprivation doesn't impact homelessness, deprivation doesn't impact benefit claims, deprivation doesn't impact concessionary fares, then I think you're not being honest in your analysis.[51]

Relative resources

The overall funding formula would also take account of the resources available locally to individual authorities. This principally consists of the 'council tax base' – each local authority's capacity to raise revenue from council tax. The formula would express the resource element as a negative number. In basic terms, this would mean that authorities with higher local resources will lose more funding, and authorities with fewer local resources would lose less.[52]

The Government intends that the formula will take into account the effects of mandatory exemptions and discounts from council tax. This will ensure that, for example, a local authority that collects less council tax revenue because it has a higher proportion of properties attracting single-person discounts does not lose out as a result.

The consultation proposed that the formula will use a single notional level of council tax, rather than actual local rates. This would ensure that the formula takes into account the capacity to raise council tax rather than local decisions about how much to raise. In other words, the formula should not

49 MHCLG, A review of local authorities' relative needs and resources, December 2018, p21

50 Ann McGauran, "Mets feeling deprived over funding formula", Municipal Journal, 7 February 2019

51 See Ian McDiarmid, Q&A: Newcastle's Tony Kirkham on the Fair Funding and Spending Reviews, business rates retention, and the way government money is shared out among local authorities, Room 151, 28 February 2019

52 MHCLG, A review of local authorities' relative needs and resources, December 2018, p49-50

penalise authorities which have chosen to set either higher or lower council tax rates than the average.

The consultation discussed the possibility of taking local revenue from sales, fees and charges into account, but broadly ruled this out, with the possible exception of income from parking charges.[53]

53 As above, p.62-3

4 Simplifying local funding

4.1 Competitive funding

Core local authority funding is provided through the annual Local Government Finance Settlement. This process allocates funding from retained business rates, Revenue Support Grant, and several smaller named grants to all local authorities in England. The funds from these grants are not ring-fenced and they may be spent as local authorities wish. More information can be found in the Library research briefing Local Government Finance Settlement 2024/25.

The Government also operates a number of allocation-based grant schemes. Funding from these is distributed to all parts of England according to a formula, and local authorities must spend the funding from these sources according to criteria specified by the grant scheme. Examples include the UK Shared Prosperity Fund, the Levelling Up Fund, the Future High Streets Fund and the Towns Fund. Additional information on these can be found in the Library research briefing Local growth funds.

In addition, Government departments operate a large number of competitive grant schemes. Local authorities may choose to bid to competitive grant schemes, provided that they are eligible. Competitive schemes provide funding that is ring-fenced to the terms of the grant scheme, and local authorities are normally required to report to the Government on how the funding has been spent.

The LGA published a report in 2020 entitled Fragmented Funding [PDF]. This identified 448 separate grant schemes operated by Government departments between 2015 and 2018.[54] The report included interviews with local government officials who stated that writing bids for grants took up considerable time and staff resources:

> ....we identified 117 grants which were allocated through competition over the period we were considering – amounting to around a third of those for which we identified allocation methods. This took up a lot of staff time – either for existing staff, or in some cases, for new staff hired solely for writing bids. Furthermore, we heard concerns that this meant that funding was not always provided to authorities with the greatest need. Councils with the most limited existing budgets might not have the capacity to submit bids or may feel that

54 LGA, Fragmented Funding [PDF], 2020

> committing to bidding was too high a risk. Instead, funding was dependent on the skills of the bid writers.[55]

External commentators have also critiqued the increase in competitive bidding programmes. The think-tank the Centre for Progressive Policy said:

> ...the significant rise of bid-based funding as a way of financing particular local projects [has not] had any positive effect on local areas' ability to develop cohesive economic plans. Instead, the rise in prominence of the so-called 'begging bowl' culture has contributed only to a major fragmentation of local government budgets that makes economic planning more difficult.[56]

The Levelling Up, Housing and Communities Committee stated in 2023:

> It was made clear by our witnesses that competitive bidding is a resource intensive and costly activity. This can create barriers for stakeholders and communities in need of funding. Whilst limited funding was provided for some local authorities in the Levelling Up Fund round one to assist with bidding costs, challenges remain. These include, but are not limited to, additional costs associated with planning, hiring consultants and costs associated with diverting employee time away from core tasks to put together bids.[57]

The Committee also received evidence that competition-based funds could favour authorities with experience of bid-writing and greater spare capacity to prepare good quality bids, but that these resources would not necessarily be available to authorities with high needs. An analysis from the think-tank Localis in 2014 estimated the average cost for a funding bid at between £20,000 and £30,000.[58] A local authority cannot recoup the money spent on an unsuccessful bid. Additionally, sometimes new funds were launched with very tight timescales to bid, receive and spend the money. Local authorities might have little spare capacity to make use of funds in these circumstances.

The then Secretary of State, Michael Gove, suggested to the Committee that competitive bids brought benefits:

> ...we would like to move to a situation where there are fewer funding streams. I think it is still the case that having some competitive bidding for some funding is a good thing. I think the argument .... about the encouragement of innovation and people learning from the most dynamic and innovative holds, but while competitive funding for individual pots is a good thing, we have too much of a good thing at the moment and we do need a rationalisation.[59]

The Institute for Government published a report on local growth funding in May 2024. This too critiqued the proliferation of competitive funds, and recommended that:

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55 As above, p89

56 Centre for Progressive Policy, Funding fair growth, 2023, p80

57 Levelling Up, Housing and Communities Committee, Funding for levelling up, HC-744 2022/23, 26 May 2023, paragraph 26

58 Localis, To bid or not to bid: calculating the costs of competitive funding processes, 2014

59 Levelling Up, Housing and Communities Committee, The work of the Department for Levelling Up, Housing and Communities in 2021/22 [PDF], HC-808 2021/22, 21 Nov 2022, Q55

> Most funding for local growth should be streamlined into a small set of larger funds. Each should run for multiple years, covering spending review periods, and have a set of objectives, specified in the government's regional policy strategy, that the money should look to achieve – for example, to improve transport links or adult skills.[60]

The IfG's report suggested that multiple short-term grants disincentivised localities from developing a longer-term economic strategy – which in turn hampered Government's aspirations to boost growth and productivity. The IfG also noted examples of multiple funds being made available by different Government departments focusing on similar policies:

> Many of these ring-fenced funds also have similar objectives, operating in overlapping areas, but are administered entirely separately and on different timelines. For example, both the Getting Building Fund and the Capital Regeneration Projects were designed to fund infrastructure projects to boost economic growth, funding projects that deliver jobs, skills and infrastructure; the Levelling Up Parks Fund and the Community Green Spaces Fund both aimed to regenerate public and community green spaces, and were both for relatively small amounts.[61]

4.2 Government plans to simplify local authority funding

The Government acknowledged a number of the issues with short-term and competitive funding sources in the Levelling Up White Paper, published in February 2022:

> To deliver a more transparent, simple and accountable approach, the UK Government will set out a plan for streamlining the funding landscape this year which will include a commitment to help local stakeholders navigate funding opportunities. This review will be guided by the following principles:
>
> a. reducing the unnecessary proliferation of individual funding pots with varied delivery approaches;
>
> b. streamlining bidding, and supporting greater alignment between revenue and capital sources;
>
> c. ensuring places have robust ongoing monitoring and evaluation plans for the impact and delivery of investments and spending; and
>
> d. tailoring investment and delivery to the local institutional landscape of each nation of the UK.[62]

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60 Thomas Pope and Rebecca McKee, Funding local growth in England, Institute for Government, 31 May 2024, p6

61 As above, p8

62 DLUHC, Levelling Up the United Kingdom, 2022, p128

The Government committed to "engage with local government and key stakeholders on the simplification of the local growth funding landscape with respect to the publication of further plans later this year".[63] The Government reiterated this in a response to the Levelling Up, Housing and Communities Committee in August 2023.[64]

This was followed by a paper in July 2023 entitled Simplifying the funding landscape for local authorities. This committed to explore simplifying existing funding streams. A 'funding simplification doctrine' was introduced, specifying that wherever possible, future funding would be delivered through existing programmes.

In the first phase, ten authorities will participate in a 'Simplification Pathfinder Pilot', which will provide more flexibility over growth funding allocations – that is, from sources including the Levelling Up Fund, the UK Shared Prosperity Fund, Town Deals, and the Future High Streets Fund. Recipients of growth funding will also be subject to a new monitoring and evaluation framework, which was published in July 2023.[65] Adjustments to existing projects of up to 30% of the available funding will no longer require approval from DLUHC.[66] A register of local growth and place funding sources was published in July 2023, to assist local authorities in applying for funding.

DLUHC also rolled three individual grants into the Revenue Support Grant, and one into the Social Care Grant, in the 2023/24 Local Government Finance Settlement.[67]

4.3 Total Place

Previous Governments have tackled issues of multiple, overlapping funding sources for local authorities that hindered local leaders' ability to deliver effective services.

One example was the 'Total Place' programme, announced in the 2009 Budget. It was to look at "…public spending and local leadership in 13 areas to identify how collaboration and prioritisation can lead to greater efficiency and value for money".[68]

63 DLUHC, Levelling Up the United Kingdom, 2022, p247
64 DLUHC, Government response to the Levelling Up, Housing and Communities Select Committee report on Funding for Levelling Up, 4 Aug 2023
65 See DLUHC, UK Shared Prosperity Fund: reporting, monitoring and performance management (3), May 2023
66 See also DLUHC, Project Adjustment Request (PAR) changes: Town Deals, Levelling Up, and Future High Street Funds, July 2023
67 See DLUHC, Provisional local government finance settlement 2023 to 2024: consultation, December 2022, paragraph 2.4
68 HM Treasury, Budget 2009: Economic and fiscal strategy report, Chapter 6: "Improving public services", paragraph 6.35

The programme selected a number of local areas in England which mapped all public spending flows into their area, within one or more thematic areas. The mapping exercise was intended to uncover waste and duplication, and to "deliver better services at less cost, through effective collaboration between local organisations and leadership".[69] The spending themes included children's services, drugs and alcohol misuse, housing, worklessness, services for older people and offender management. The 13 pilot areas in England covered 63 local authorities, 34 primary care trusts, 13 police authorities and other public sector partners.

The Government published a white paper, Putting the frontline first: smarter government, in December 2009. This set out further aims for the Total Place pilots:

- Quantifying burdens across all agencies in an area arising from inspection, assessment and reporting requirements;[70]
- Aiming to "weave local services together into a seamless web of support, so that childcare, children's health, adult learning, schools and after-work care are provided in a joined-up way";[71]
- Investigating "how to unlock value within an area, for example by reducing duplication and overlaps, and by focusing services more squarely on the needs of users".[72]

The then Government published a response to the Total Place pilots alongside the March 2010 Budget.[73] It said:

> The 13 pilots have taken a fresh look at what money is coming into their area, explored what obstacles there are to making funding go further, examined the complexities within the system and how best to strip out the inefficiencies and wastage they discovered.... What this means in practice is letting local areas decide what to spend their money on in order to meet specific local priorities.[74]

The response proposed establishing 'standardised partnership agreements', developed by the Government, NAO and Audit Commission, to assist local areas in developing pooled budgets and integrated services. The intention was "both devolving more centrally held funding, as well as de-ring-fencing funding which has already been devolved, where this is possible without impacting on the delivery of national priorities or limiting wider flexibility".[75]

The then Government proposed a 'single offer' for high-performing local authorities, to have been implemented from 2011/12, to reward plans for additional savings with reduced reporting burdens and targets, and reduced

69 HM Treasury, Putting the frontline first: smarter government, 2009, p34
70 HM Treasury, Putting the frontline first: smarter government, 2009, p10
71 As above, p15
72 As above, p34
73 HM Treasury, Total Place: a whole area approach to public services, March 2010
74 As above, p3-4
75 As above, p37

earmarking of spending.[76] These plans were not implemented following the change of government at the May 2010 election.

Place-based budgets were one of a number of themes of the Total Place programme. Some of the other themes found expression under the 2010-15 Coalition government, such as:

- promotion of shared services and public service transformation – see the Library research briefing Local government: alternative models of service delivery.
- improving the public sector response to individuals with complex needs. This later found expression in the Supporting Families programme – see the Library research briefing Supporting Families Programme.[77]
- strategic estate management through the One Public Estate programme – see section 4.5 of the Library research briefing Assets of community value.

The Local Government Association published a paper in July 2010 advocating the adoption of place-based budgets, subsuming a number of existing public bodies and funding streams, with accountability to local decision-makers.[78]

Whole Place Community Budgets / Our Place!

The Coalition Government launched a pilot 'whole place community budgets' policy in 2011, which had some affinities with Total Place.[79] The policy was piloted in four 'whole place' areas covering groups of local authorities:

- Greater Manchester
- Cheshire West and Chester
- West London - Hammersmith & Fulham, Kensington & Chelsea, and Westminster (the 'Tri-Borough partnership')
- Essex

The Government also selected ten 'neighbourhood community budget' pilots at ward or community level:

- White City (Hammersmith & Fulham)
- Poplar Housing and Regeneration Community Association (Tower Hamlets)
- Trident (Bradford)
- Sherwood (Tunbridge Wells)
- Norbiton (Kingston-upon-Thames)
- Haverhill (Essex)
- Balsall Heath, Shard End, Castle Vale (Birmingham)

76 HM Treasury, Putting the frontline first: smarter government, 2009, p6
77 As above, p28-29
78 LGA, Place-based budgets: the future governance of local public services, July 2010
79 DCLG, Community Budgets, 2011

- Queen's Park (Westminster)
- Ilfracombe (North Devon)
- Cowgate, Kenton Bar, and Montague (Newcastle-upon-Tyne)

The launch of the scheme suggested that public sector agencies in the relevant areas would all work together to use a 'single pot' of funding, to better effect than was possible through 'silo-based' interventions.

The National Audit Office reported on the four 'whole place' pilots in March 2013.[80] DCLG produced an evaluation of the programme, entitled Neighbourhood Community Budget pilot programme, in July 2013.

4.4 Partnerships for People and Place

The Partnerships for People and Place programme ran between February 2021 and March 2023. This selected 11 pilot local authorities: Birmingham, Bradford, Cornwall, Durham, East Sussex, Hackney, Liverpool, Luton, Newcastle, Northumberland, Southwark, Sunderland and Wakefield. Each of these was required to analyse the public sector funding available from all sources in their area; test a small number of approaches to improve outcomes; improve co-ordination between central and local government; and propose new methods of joint working.

> Join-up within and between government departments and local partners remains a significant cross-cutting challenge. Collaboration within central government and between central government and local partners is required to better support improved outcomes.[81]

Pilot authorities were offered funding (£150-350,000 per area), regular contact with officials from DLUHC and other government departments, and access to senior officials and an expert support group. Similarly to Total Place, the funding mapping exercise was intended to identify "duplication and potential efficiency improvements".[82]

A guidance note published in April 2024 identified five lessons arising from the programme:

1. Structure. Departmental structures can be complex and difficult to navigate.
2. Priorities. National and local priorities are often misaligned.
3. Funding. Labour intensive, complex and competitive funding programmes.
4. Data-sharing. Real and perceived data sharing restrictions.

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80 National Audit Office, Case study on integration: measuring the costs and benefits of Whole-Place Community Budgets, HC 1040 2012-13, March 2013

81 DLUHC, Partnerships for People and Place: guidance for local expressions of interest, July 2021

82 As above

5. Culture. Open and collaborative place-based working is not the norm.[83]

These conclusions were derived from a full evaluation of the programme.[84] The evaluation noted that regular engagement between localities and civil servants, particularly lead officials within DLUHC, enabled effective partnership working. Personal commitment from officials, and close alignment between central and local goals, were also important. Barriers to effective joint working included staff turnover within central government, a focus on national priorities, and the time and resources required to remove structural barriers.[85]

83 DLUHC, Partnerships for People and Place: Guidance and advice for officials working on place-based policymaking, April 2024

84 DLUHC, Partnerships for People and Place: learning and evaluation report, April 2024

85 As above, p7-8

5 Fundamental Review of business rates

5.1 The Review

The Conservative Party's 2019 General Election manifesto committed to a 'fundamental review' of the business rates system:

> We will cut the burden of tax on business by reducing business rates. This will be done via a fundamental review of the system. As a first step, we will further reduce business rates for retail businesses, as well as extending the discount to grassroots music venues, small cinemas and pubs.[86]

The Government reiterated this commitment in the Budget of 11 March 2020. They also published terms of reference for the review.[87] They then published a call for evidence on 21 July 2020.[88] This covered the following subjects:

- The operation of reliefs and exemptions, in particular where properties are eligible for multiple or overlapping reliefs; reliefs being offset by landlords raising rents on properties; narrowing of the taxbase owing to large numbers of reliefs; and the potential for abuse;
- The operation of the business rate multipliers: how to set them "to ensure the sustainability of public finances and support growth and productivity".[89] Possible changes noted include introducing different multipliers for different sectors and/or regions; ending the system whereby the multiplier is adjusted to balance the effects of revaluation;[90]
- The valuation process. This included:

    – A discussion of frequency of valuations. This was addressed in the 2014-16 business rate reviews (see below). That debate led to the Government's decision, in 2017, to move from five-yearly to three-yearly valuations from 2021 onwards. That decision has now been overtaken, as the effect of the next revaluation has been postponed to 2023 in the light of the Covid-19 outbreak in 2020;

    – The possibility of moving to using geographical zones, or council tax-style bands, to value properties. These options were also discussed in the 2014-16 reviews;

86 Conservative Party, Get Brexit Done, Unleash Britain's Potential, 2019, p32
87 See HM Treasury, Business Rates Review: terms of reference, March 2020
88 HM Treasury, Fundamental review of business rates: call for evidence, 21 July 2020
89 As above, p14. See section 1 of the Library briefing Business rates for an explanation of the multipliers
90 See section 4 of the Library briefing Business rates for an explanation of this system.

- Regionalising the revaluation process;
- Requiring ratepayers to provide rental information more frequently, to ensure rateable values are based on up to date information. This included the suggestion that a legal duty should be introduced on ratepayers to provide lease details, or details of changes that could affect their property's rateable value, to the Valuation Office Agency (VOA);
- How to treat plant and machinery within the valuation process.
- Standardising and automating the process of billing for business rates.

The call for evidence also invited responses on alternatives to business rates. This reflects the findings of the Treasury Select Committee's 2019 report The impact of business rates on business. This report anticipated many of the concerns in the fundamental review's call for evidence. It discussed five alternatives to business rates: a land value tax; an online sales levy; a sales or turnover tax; a profits tax (essentially corporation tax); and a 'single consolidated tax'. The Committee recommended "that the Government prepares a consultation in time for the next Spring Statement to identify potential alternatives to the current system of business rates and form the basis for a subsequent detailed evaluation of viable options".[91]

The document invited representations on two alternative systems to business rates:

- A capital values tax. This would seek to assign values to properties on the basis of their capital value rather than their rental value. In other jurisdictions, property owners rather than occupiers are often liable for such taxes;
- An online sales tax. This concept is intended to address an issue often raised by critiques of business rates: that high value businesses with minimal property needs – which conduct much of their business or add much of their value via the Internet – may pay less than businesses with high property needs but lower profit margins. Retail is often given as an example of the latter.

Business rates generate some £25 billion of revenue annually. This revenue forms a major element of local government funding. The call for evidence says that "the impact on the local government funding system will be an important consideration in reviewing the tax".[92]

91 Treasury Select Committee, The impact of business rates on business, HC-222 2019-21, 31 Oct 2019, p47

92 HM Treasury, Fundamental review of business rates: call for evidence, 21 July 2020, p4

5.2 Final report of the Review

The final report of the Review was published alongside the Autumn 2021 budget. It included a number of immediate policy announcements alongside longer-term plans to adjust the business rates system:

- Freezing the multiplier, and introducing a 50% relief for retail, hospitality and leisure properties for 2022-23, with a cap on funds received by individual businesses of £110,000;
- Moving to three-yearly valuations (2023, 2026 and so on);
- A new duty on ratepayers, which is to be phased in between 2023 and 2026:

> Ratepayers will be required to notify the VOA of changes to the occupier or physical property characteristics, and to provide rent and lease information to the VOA, as well as trade information used for valuation.[93]

- Removing the 'Check' stage from the appeal process, and introducing a three-month window for Challenges, from 2026;[94]
- From 2026 the VOA will be required by law to resolve Challenges within the lifetime of the list (in that instance, from 2026 to 2029);
- A further consultation on introducing an online sales tax. This was presented as a means of reducing business rates for "retailers with properties in England".[95] Following this consultation, the Government decided not to pursue an online sales tax.[96]
- 50% relief for eligible retail, hospitality and leisure properties, with each business receiving a maximum of £110,000, in 2022/23. This was later increased to 75% relief from 2023 to 2025;
- 100% "improvement relief". This will provide 12 months relief from higher bills for occupiers where eligible improvements to an existing property increase the rateable value. This will run from 2023 to 2028 in the first instance. The Government is to consult on the exact terms of the scheme, though the concept has affinities with Scotland's Business Growth Accelerator;
- Exempting renewable energy plant and machinery.[97] 100% relief will also be provided for eligible low-carbon heat networks that have their own rates bill. These provisions will be introduced in the 2023-24 financial year and will run through to 2034-35;
- Extending the transitional relief scheme, and the Supporting Small Business scheme, introduced alongside the 2023 revaluation.

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93 HM Treasury, Business Rates Review: final report, October 2021, p11
94 As above., p12
95 HM Treasury, Business Rates Review: final report, October 2021, p7
96 HM Treasury, Online Sales Tax: Policy Consultation, 9 Feb 2023
97 HM Treasury, Business Rates Review: final report, October 2021, p8

5.3 Business rates reviews, 2014-16

A previous 'business rates review' took place in the mid-2010s. In the 2013 Autumn Statement, the Government stated that it would review the business rates system.[98] Terms of reference for this review were published in February 2014.[99]

A discussion paper was published on 10 April 2014. A summary of responses to the paper, and an interim response from the Government, were published on 10 December 2014.[100] The interim response addressed the following points, which had arisen during consultation:

- A majority of respondents wanted more frequent revaluations (than the standard five year period), but a significant minority did not. The interim response included an analysis of the costs and benefits of more frequent revaluation. This led to a Government commitment to introduce three-yearly revaluations from 2021;[101]
- The consensus was that individual valuations of properties should continue. The Government had raised the possibility of introducing a 'banding' system, similar to that used for council tax, but this found little favour;
- Proposals to reform the process of appealing to the Valuation Office Agency (VOA) against a property's rateable value.[102] This led to the introduction of the Check, Challenge, Appeal system (see section 7 of the Library briefing paper Business rates).

98 HM Treasury, Autumn Statement 2013, 2013, p. 93-4

99 HM Treasury, Business Rates Administration Review: terms of reference, February 2014

100 See also the published responses to the interim response, from July 2015.

101 DCLG, How might we expect more frequent revaluations to affect business rates bills?, Annex A to the Administration of Business Rates Review: Interim Findings, December 2014

102 DCLG, Administration of Business Rates Review: Interim Findings, December 2014, p. 19

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